# CBSE Class 12 Accountancy Question Paper 2022 with Solution PDF-Set 67-2-3

## 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 – **Part A** and **Part 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. (1) Analysis of Financial Statements and (2) Computerised Accounting. Students must attempt only **one** of the given options.

(iv) Questions no. **1** to **3** and **10** are Short Answer Type–I Questions carrying **2** marks each.

(v) Questions no. **4** to **6** and **11** are Short Answer Type–II Questions carrying **3** marks each.

(vi) Questions no. **7** to **9** and **12** are Long Answer Type 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 Organisations, Partnership Firms and Companies)*

**1. Distinguish between 'Receipts and Payments Account' and 'Income and Expenditure Account' on the basis of the following:**

**(a) Period**

**(b) Debit side** [2 marks]

**Solution:**

**Concept:**

- A Receipts and Payments Account is a summary of cash and bank transactions, prepared on the cash basis. It includes both capital and revenue items.
- An Income and Expenditure Account determines the surplus or deficit of the current accounting period on the accrual basis. It includes only revenue items relating to that period.

**Step 1:** Distinguish on the basis of period **Receipts and Payments Account:** It records amounts actually received and paid during the current accounting period, whether they relate to a previous period, the current period or a future period. For example, subscriptions received in advance are included because cash has been received.

**Income and Expenditure Account:** It records only income earned and expenditure incurred for the current accounting period, whether received or paid or not. Thus, income received in advance is excluded, while outstanding current-period income is included.

**Step 2:** Distinguish on the basis of the debit side **Receipts and Payments Account:** The debit side shows receipts of cash and bank, of both capital and revenue nature, together with the opening cash and favourable bank balances, if any.

**Income and Expenditure Account:** The debit side shows revenue expenditure and losses belonging to the current accounting period. It includes non-cash expenses such as depreciation and adjusts expenses for outstanding and prepaid amounts; capital payments are excluded.

**Step 3:** Conclusion Receipts and Payments records cash movements of all periods and shows receipts on its debit side. Income and Expenditure relates only to the current period and shows revenue expenses and losses on its debit side.

**Quick Tip to Solve:** For period, ask whether cash moved now or the item belongs to this year. For the debit side, remember: receipts in Receipts and Payments; expenses in Income and Expenditure.

**2. Pass the necessary journal entry on dissolution of a partnership firm if an unrecorded creditor of Rs. 40,000 was paid by a partner, Amar, at a discount of 10%.** [2 marks]

**Solution:**

**Concept:**

- An unrecorded liability has no existing book balance to transfer to Realisation Account. Its actual settlement is debited to Realisation Account.

- When a partner personally pays a firm's liability, that partner's Capital Account is credited for the amount paid on behalf of the firm. The firm's Bank Account is not involved.

**Step 1:** Calculate the actual settlement amount **Working Notes**

The creditor's claim is Rs 40,000. A discount of $10\%$ means that Amar pays only $90\%$ of the claim.

$$\text{Discount} = 40,000 \times \frac{10}{100} = \text{Rs } 4,000,$$
$$\text{Amount paid by Amar} = 40,000 - 4,000 = \text{Rs } 36,000.$$

Since the liability was unrecorded, the settlement is recorded at the amount actually paid; a separate entry for discount is not required.

**Step 2:** Record the payment made by Amar Debit Realisation Account for the cost of settling the unrecorded creditor and credit Amar's Capital Account because he has used his own funds to discharge the firm's liability.

**Journal of the Firm**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Realisation A/c Dr. | | 36,000 | |
| | To Amar's Capital A/c | | | 36,000 |
| | (Being unrecorded creditor of Rs 40,000 paid by Amar at a discount of $10\%$) | | | |

**Step 3:** Conclusion Realisation Account is debited and Amar's Capital Account is credited with Rs 36,000 each. This records the firm's settlement cost and the amount due to Amar.

**Quick Tip to Solve:** First reduce the unrecorded creditor by the discount; then credit the paying partner's Capital Account, since the firm has made no cash payment itself.

**3. A, B and C are partners in a firm sharing profits and losses equally. C retired and his share was acquired by A and B in the ratio of 3 : 2. Calculate the new profit sharing ratio of A and B.** [2 marks]

**Solution:**

**Concept:**

- Each partner's old share is $\frac{1}{3}$, because A, B and C share profits and losses equally.
- A continuing partner's new share equals the old share plus the share gained from the retiring partner. The ratio in which C's share is acquired is the gaining ratio, not automatically the new profit sharing ratio.

**Step 1:** Divide C's share between A and B **Working Notes**

C retires with an old share of $\frac{1}{3}$. A and B acquire this share in the ratio $3 : 2$, so the total number of parts is $3 + 2 = 5$.

$$\text{A's gain} = \frac{1}{3} \times \frac{3}{5} = \frac{3}{15},$$
$$\text{B's gain} = \frac{1}{3} \times \frac{2}{5} = \frac{2}{15}.$$

The gains total $\frac{3}{15} + \frac{2}{15} = \frac{1}{3}$, accounting for C's entire share.

**Step 2:** Add each gain to the corresponding old share Both continuing partners retain their original share of $\frac{1}{3} = \frac{5}{15}$, in addition to their respective gains.

$$\text{A's new share} = \frac{5}{15} + \frac{3}{15} = \frac{8}{15},$$
$$\text{B's new share} = \frac{5}{15} + \frac{2}{15} = \frac{7}{15}.$$

As a check, $\frac{8}{15} + \frac{7}{15} = 1$, so the whole future profit is allocated between A and B.

**Step 3:** Conclusion The new profit sharing ratio of A and B is

$$\frac{8}{15} : \frac{7}{15} = \boxed{8:7}.$$

**Quick Tip to Solve:** The given ratio $3:2$ divides only C's share. Add the resulting gains to A's and B's old shares before forming their new ratio.

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

| Details | Amount (Rs.) |
|---|---|
| Stock of sports material as on 1st April, 2020 | 40,000 |
| Creditors for sports material as on 1st April, 2020 | 8,000 |
| Stock of sports material as on 31st March, 2021 | 20,000 |
| Amount paid for sports material during the year 2020-21 | 90,000 |
| Creditors for sports material as on 31st March, 2021 | 10,000 |

[3 marks]

**Solution:**

**Concept:**

- The Income and Expenditure Account records the cost of sports material consumed during the accounting year, on the accrual basis. Cash paid is adjusted for creditors and inventories before recognising the expense.
- Purchases = amount paid + closing creditors - opening creditors. Consumption = opening stock + purchases - closing stock.

**Step 1:** Calculate purchases on the accrual basis The Rs 90,000 payment includes settlement of opening creditors of Rs 8,000, which relates to earlier purchases. Deduct this amount. Closing creditors of Rs 10,000 represent purchases made during 2020-21 but not yet paid for, so add them.

$$\begin{aligned}\text{Purchases} &= 90,000 + 10,000 - 8,000 \\ &= \text{Rs } 92,000.\end{aligned}$$

As a check, opening creditors plus purchases less payments gives closing creditors: Rs 8,000 + Rs 92,000 - Rs 90,000 = Rs 10,000.

**Step 2:** Adjust purchases for opening and closing stock Add the opening stock because it was available for use during the year. Deduct the closing stock because it remains unused on 31st March, 2021 and is carried forward as an asset.

**Working Notes: Sports material consumed**

| Particulars | Amount (Rs) |
|---|---|
| Opening stock of sports material | 40,000 |
| Add: Purchases during 2020-21 | 92,000 |
| Sports material available for consumption | 1,32,000 |
| Less: Closing stock of sports material | (20,000) |
| Sports material consumed | 1,12,000 |

**Step 3:** Conclusion Sports material of $\boxed{\text{Rs } 1,12,000}$ is to be debited to the Income and Expenditure Account of Kapoor Sports Club for the year ended 31st March, 2021.

**Quick Tip to Solve:** First convert the Rs 90,000 cash payment into purchases by adding closing creditors and deducting opening creditors; then add opening stock and deduct closing stock to obtain consumption.

OR

**4(b). Show the following information in the Balance Sheet of 'Royal Sports Club' for the year ended 31st March, 2021:**

| Details | Amount (Rs.) |
|---|---|
| **Match expenses** | **10,000** |
| **Match fund** | **70,000** |
| **Donation for Match fund** | **20,000** |
| **Sale of match tickets** | **10,000** |

[3 marks]

**Solution:**

**Concept:**

- A specific fund is maintained for a stated purpose. Receipts relating to that purpose increase the fund, and the related expenses are charged against it.
- The closing specific fund is shown on the liabilities side of the Balance Sheet. Related receipts and expenses are adjusted against the fund, not general income.

**Step 1:** Identify the receipts and expenses belonging to the fund The donation of Rs 20,000 is earmarked for matches, and the ticket sales of Rs 10,000 arise from the same activity. Both receipts increase the existing Match Fund of Rs 70,000. Deduct match expenses of Rs 10,000 from the fund. As the fund covers these expenses fully, nothing is charged to the general Income and Expenditure Account.

**Step 2:** Prepare the fund working and Balance Sheet extract **Working Notes: Note 1 – Match Fund**

| Particulars | Amount (Rs) |
|---|---|
| Existing Match Fund | 70,000 |
| Add: Donation for Match Fund | 20,000 |
| Add: Sale of match tickets | 10,000 |
| Total fund available | 1,00,000 |
| Less: Match expenses | (10,000) |
| Closing Match Fund | 90,000 |

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

| Particulars | Note No. | Amount (Rs) |
|---|---|---|
| **Capital Fund and Liabilities** | | |
| Specific funds: | | |
| Match Fund | 1 | 90,000 |

The extract shows the unused balance of the specific fund.

**Step 3:** Conclusion The closing Match Fund of $\boxed{\text{Rs } 90,000}$ appears on the liabilities side of the Balance Sheet as at 31st March, 2021.

**Quick Tip to Solve:** Keep all match-related receipts and expenses together: start with Rs 70,000, add the donation and ticket sales, and deduct match expenses before showing the remaining fund as a liability.

**5. Ramesh, Rajesh and Raman are partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1. On 30th June, 2021, Ramesh died. Sales for the year ended 31st March, 2021 were Rs. 12,00,000 and profits were Rs. 1,20,000. The sales for the period from 1st April, 2021 to 30th June, 2021 amounted to Rs. 4,00,000. Accounts are closed on 31st March every year. Calculate Ramesh's share of profit till the date of his death and pass the necessary journal entry for the same in the books of the firm.** [3 marks]

**Solution:**

**Concept:**

- When profit up to a partner's death is estimated on the basis of sales, apply the previous year's profit-to-sales percentage to sales up to the date of death.
- The deceased partner receives his old profit-sharing fraction of this estimated profit. Credit his Capital Account and debit Profit and Loss Suspense Account, since final accounts for the current year have not yet been prepared.

**Step 1:** Calculate the profit percentage **Working Notes**

The previous year's profit was Rs 1,20,000 on sales of Rs 12,00,000. Therefore, the profit rate on sales is

$$\text{Profit rate} = \frac{1,20,000}{12,00,000} \times 100 = 10\%.$$

This is a percentage of sales, so it is applied directly to the current period's sales; it is not a percentage of cost.

**Step 2:** Estimate profit and Ramesh's share Sales between 1st April and 30th June, 2021 were Rs 4,00,000. Using the same profit rate,

$$\text{Estimated profit} = 4,00,000 \times \frac{10}{100} = \text{Rs } 40,000.$$

Ramesh's old share is $2/(2+2+1) = 2/5$. Hence,

$$\text{Ramesh's share} = 40,000 \times \frac{2}{5} = \text{Rs } 16,000.$$

No additional multiplication by $3/12$ is needed: Rs 4,00,000 already represents sales for the exact period up to his death.

**Step 3:** Record the profit due to Ramesh Journal of the Firm

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| 30 June 2021 | Profit and Loss Suspense A/c Dr.<br>To Ramesh's Capital A/c<br>(Being Ramesh's share of estimated profit up to the date of his death credited to his Capital Account) | | 16,000 | 16,000 |

The entry recognises the amount due to Ramesh without treating the estimate as an already determined annual profit. The debit and credit are equal.

**Step 4:** Conclusion Ramesh's share of profit till 30th June, 2021 is $\boxed{\text{Rs } 16,000}$. Debit Profit and Loss Suspense Account and credit Ramesh's Capital Account by this amount.

**Quick Tip to Solve:** Use current-period sales times the previous profit rate times Ramesh's old share; do not apply the three-month fraction again.

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**6(a). Khandelwal Ltd. took over assets of Sharma Ltd. of Rs. 25,00,000 and liabilities amounting to Rs. 7,80,000 for a purchase consideration of Rs. 27,00,000. The payment to Sharma Ltd. was made by issuing 10% Debentures of Rs. 100 each at a discount of 10%.**

**Pass the necessary journal entries for the above transactions in the books of Khandelwal Ltd.** [3 marks]

**Solution:**

**Concept:**

- Net assets acquired equal assets taken over less liabilities assumed. The excess of purchase consideration over net assets is debited to Goodwill Account.
- Debentures issued at a discount settle the vendor's claim at their issue price. The Debentures Account is credited with face value and Discount on Issue of Debentures Account is debited with the difference.

**Step 1:** Calculate goodwill on acquisition **Working Notes**

The purchase consideration is the agreed amount payable to Sharma Ltd.; the liabilities taken over

must first be deducted from the assets to find the net assets acquired.

$$\begin{aligned}\text{Net assets} &= 25,00,000 - 7,80,000\\ &= \text{Rs } 17,20,000,\\ \text{Goodwill} &= 27,00,000 - 17,20,000\\ &= \text{Rs } 9,80,000.\end{aligned}$$

Since the purchase consideration exceeds net assets, the balancing amount is goodwill, not a capital reserve.

**Step 2:** Calculate the debentures issued Each Rs 100 debenture is issued at a discount of 10%, so its issue price is $100 - 10 = \text{Rs } 90$. The vendor must receive securities having an issue value equal to Rs 27,00,000.

$$\begin{aligned}\text{Number of debentures} &= \frac{27,00,000}{90} = 30,000,\\ \text{Total face value} &= 30,000 \times 100\\ &= \text{Rs } 30,00,000,\\ \text{Discount on issue} &= 30,000 \times 10\\ &= \text{Rs } 3,00,000.\end{aligned}$$

The 10% in the name of the debentures is their interest rate. No interest entry is required for these acquisition and issue transactions.

**Step 3:** Journalise the acquisition and payment Journal of Khandelwal Ltd.

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Sundry Assets A/c Dr. | | 25,00,000 | |
| | Goodwill A/c Dr. | | 9,80,000 | |
| | To Sundry Liabilities A/c | | | 7,80,000 |
| | To Sharma Ltd. | | | 27,00,000 |
| | (Being assets and liabilities taken over from Sharma Ltd. for the agreed purchase consideration, with the excess recorded as goodwill) | | | |
| | Sharma Ltd. Dr. | | 27,00,000 | |
| | Discount on Issue of Debentures A/c Dr. | | 3,00,000 | |
| | To 10% Debentures A/c | | | 30,00,000 |
| | (Being 30,000 debentures of Rs 100 each issued at a 10% discount to discharge the purchase consideration) | | | |

The first entry balances at Rs 34,80,000 on each side and the second at Rs 30,00,000. Sharma Ltd.'s credit of Rs 27,00,000 is fully discharged by the debit in the second entry.

**Step 4:** Conclusion Goodwill is $\boxed{\text{Rs } 9,80,000}$. Khandelwal Ltd. issues $\boxed{30,000}$ debentures with total face value Rs 30,00,000 and records a discount of Rs 3,00,000 to settle the purchase consideration of Rs 27,00,000.

**Quick Tip to Solve:** Divide the purchase consideration by Rs 90, the issue price, to find the number of debentures; credit debentures at their Rs 100 face value.

OR

**6(b). Explain the meaning of issue of debentures as collateral security with the help of an example.**

[3 marks]

**Solution:**

**Concept:**

- Collateral security means an additional or secondary security given to a lender, besides the principal security for a loan.
- Debentures issued as collateral security secure an existing loan; the company receives no separate cash consideration for these debentures.

**Step 1:** Explain the purpose of collateral debentures When a company obtains a loan from a bank or another lender, it may provide its assets as the principal security. If the lender requires further protection, the company may issue its own debentures to the lender as additional security. These debentures are called debentures issued as collateral security. They support the loan transaction and do not represent a second, independent receipt of borrowed money.

**Step 2:** Illustrate the arrangement with an example Suppose ABC Ltd. borrows Rs 2,00,000 from a bank against the mortgage of its land. The bank also asks the company to lodge debentures of face value Rs 2,50,000 as additional security. The land is the principal security, while the debentures are the collateral security. ABC Ltd. receives only the loan amount of Rs 2,00,000; it does not receive another Rs 2,50,000 against the collateral debentures.

**Step 3:** Explain repayment and default The company pays interest on the bank loan and does not pay separate interest on the debentures lodged as collateral security. If it repays the loan with the interest due, the bank returns or releases these debentures. If the company defaults, the lender may realise the principal security and use the collateral debentures to recover any balance still due, subject to the terms of the security. The collateral therefore gives additional protection against non-payment.

**Step 4:** Conclusion Issue of debentures as collateral security means giving debentures as additional security for a loan. In the example, the Rs 2,50,000 debentures secure the Rs 2,00,000 bank loan without bringing in separate funds.

**Quick Tip to Solve:** In a collateral-security example, identify the loan, the principal security and the additional debentures separately; only the loan brings in cash.

**7. Pass the necessary journal entries in the books of Pankaj Limited for the issue of Debentures in the following cases:**

**(a) Issued 7500, 10% Debentures of Rs. 100 each at a discount of Rs. 10,000 redeemable at a premium of 5%.**

**(b) Issued 5000, 10% Debentures of Rs. 100 each at a premium of 10% redeemable at a premium of 10%.**

**(c) Issued 1000, 9% Debentures of Rs. 100 each at par redeemable at par.**

**(d) Issued Rs. 2,00,000, 9% Debentures of Rs. 100 each at a discount of 10% redeemable at par.**

**(e) Issued 5000, 9% Debentures of Rs. 100 each at 20% premium redeemable at par.** [5 marks]

**Solution:**

**Concept:**

- Debentures A/c is credited with the face value, calculated as the number of debentures multiplied by the face value per debenture. Bank A/c is debited with the actual issue proceeds.
- An issue discount reduces the cash received; an issue premium increases the cash received and is credited to Securities Premium Reserve A/c. The interest rate identifies the debenture account and does not determine its issue proceeds.
- Premium on redemption is recognised as a liability when the debentures are issued. Loss on Issue of Debentures equals the discount on issue plus the premium payable on redemption; the future redemption entry is separate from the issue entry.

**Step 1:** Record case (a): discount on issue and premium on redemption **Working Notes:** Face value $= 7,500 \times$ Rs $100 =$ Rs $7,50,000$. The stated discount is a total amount of Rs 10,000, so Bank receives Rs 7,40,000. Redemption premium $=$ Rs $7,50,000 \times 5\% =$ Rs $37,500$. Thus, loss on issue $=$ Rs $10,000 +$ Rs $37,500 =$ Rs $47,500$.

**Journal of Pankaj Limited: case (a)**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr. | | 7,40,000 | |
| | Loss on Issue of Debentures A/c Dr. | | 47,500 | |
| | To 10% Debentures A/c | | | 7,50,000 |
| | To Premium on Redemption of Debentures A/c | | | 37,500 |
| | (Being 7,500 debentures issued at a total discount of Rs 10,000, redeemable at a premium of 5%) | | | |

**Step 2:** Record case (b): premium on both issue and redemption **Working Notes:** Face value $= 5,000 \times$ Rs $100 =$ Rs $5,00,000$. The issue premium and the redemption premium are each Rs $5,00,000 \times 10\% =$ Rs $50,000$. Bank receives Rs 5,50,000. Record the issue premium separately from the loss and liability arising from the redemption premium.

**Journal of Pankaj Limited: case (b)**

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

**Step 3:** Record case (c): issue and redemption at par **Working Notes:** Face value $= 1,000 \times$ Rs $100 =$ Rs $1,00,000$. Cash received equals face value; there is no issue discount or redemption premium.

**Journal of Pankaj Limited: case (c)**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr. | | 1,00,000 | |
| | To 9% Debentures A/c | | | 1,00,000 |
| | (Being 1,000 debentures issued at par, redeemable at par) | | | |

**Step 4:** Record case (d): issue at discount and redemption at par **Working Notes:** The total face value is Rs 2,00,000, not the number of debentures. Discount on issue $=$ Rs $2,00,000 \times 10\% =$ Rs $20,000$. Therefore, Bank receives Rs $2,00,000 -$ Rs $20,000 =$ Rs $1,80,000$. As redemption is at par, the only loss is this issue discount.

**Journal of Pankaj Limited: case (d)**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr. | | 1,80,000 | |
| | Discount on Issue of Debentures A/c Dr. | | 20,000 | |
| | To 9% Debentures A/c | | | 2,00,000 |
| | (Being debentures of face value Rs 2,00,000 issued at a discount of 10%, redeemable at par) | | | |

**Step 5:** Record case (e): issue at premium and redemption at par **Working Notes:** Face value $= 5,000 \times$ Rs $100 =$ Rs $5,00,000$. Issue premium $=$ Rs $5,00,000 \times 20\% =$ Rs $1,00,000$, so Bank receives Rs 6,00,000. Credit the issue premium to Securities Premium Reserve; redemption at par creates no premium liability.

**Journal of Pankaj Limited: case (e)**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr. | | 6,00,000 | |
| | To 9% Debentures A/c | | | 5,00,000 |
| | To Securities Premium Reserve A/c | | | 1,00,000 |
| | (Being 5,000 debentures issued at a premium of 20%, redeemable at par) | | | |

**Step 6:** Conclusion The bank proceeds in (a)–(e) are Rs 7,40,000, Rs 5,50,000, Rs 1,00,000, Rs 1,80,000 and Rs 6,00,000 respectively. Every journal entry balances.

**Quick Tip to Solve:** First distinguish a total discount from a percentage: case (a) gives Rs 10,000 in total, while case (d) gives 10% of face value. Calculate cash using the issue terms and the redemption liability using the redemption terms separately.

**8(a). A and B are partners sharing profits and losses equally. On 31st March, 2021, they decided to dissolve their firm. On the date of dissolution, their Balance Sheet was as under:**

**Balance Sheet of A and B as at 31st March, 2021**

| Liabilities | Amount (Rs.) | Assets | Amount (Rs.) |
|---|---|---|---|
| Creditors | 3,00,000 | Bank | 3,00,000 |
| A's Loan | 60,000 | Stock | 2,40,000 |
| Mrs. A's Loan | 70,000 | Furniture | 2,00,000 |
| Capitals:<br>A 2,30,000<br>B 2,30,000 | 4,60,000 | Plant and Machinery | 1,00,000 |
| | | Profit and Loss A/c | 50,000 |
| Total | 8,90,000 | Total | 8,90,000 |

**The assets were realised and liabilities were paid as under:**

**(i) Creditors were paid at 20% less.**

**(ii) Furniture was taken over by A for Rs. 1,80,000 and Plant and Machinery was sold for Rs. 80,000.**

**(iii) B took over the stock at Rs. 1,80,000.**

**(iv) A promised to pay Mrs. A's loan.**

**(v) Realisation expenses of Rs. 20,000 were paid by B.**

**Prepare Realisation Account.** [5 marks]

**Solution:**

**Concept:**

- Realisation Account records the book values of non-cash assets on its debit side and outside liabilities on its credit side. It then records their disposal and settlement to determine the profit or loss on dissolution.
- An asset taken over by a partner is credited to Realisation Account at the agreed value. A liability assumed, or realisation expenses paid, by a partner is debited to Realisation Account and credited to that partner's Capital Account.
- Realisation profit or loss is transferred to the partners' Capital Accounts in their profit-sharing ratio. A and B share equally, so each bears one-half of any realisation loss.

**Step 1:** Identify the balances to transfer Transfer Stock, Furniture and Plant and Machinery to the debit of Realisation Account at their book values:

$$2,40,000 + 2,00,000 + 1,00,000 = \text{Rs } 5,40,000.$$

Creditors of Rs 3,00,000 and Mrs. A's Loan of Rs 70,000 are outside liabilities, so transfer both to the credit side. Mrs. A is a separate creditor even though she is related to A. Bank is retained in Bank Account. A's own Loan of Rs 60,000 is a partner's loan and is settled separately, so it does not enter Realisation Account. The debit balance of Profit and Loss Account, Rs 50,000, is an accumulated loss transferred directly to the partners' Capital Accounts equally; it is not a realisation expense.

**Step 2:** Calculate the settlement and takeover amounts **Working Notes**

Creditors accept 20% less than their book balance, so the actual bank payment is

$$3,00,000 \times \frac{80}{100} = \text{Rs } 2,40,000.$$

Credit Realisation Account with Rs 1,80,000 for Furniture taken over by A, Rs 1,80,000 for Stock taken over by B, and Rs 80,000 received through Bank for Plant and Machinery. The partners' takeovers create no bank receipts. A assumes Mrs. A's Loan at its full amount of Rs 70,000; therefore debit Realisation Account and credit A's Capital Account. Realisation expenses of Rs 20,000 paid by B are debited to Realisation Account and credited to B's Capital Account, since B has paid a firm expense personally.

**Step 3:** Prepare and close Realisation Account **Realisation Account of A and B**

| Dr. | | Cr. | |
|---|---|---|---|
| Particulars | Amount (Rs) | Particulars | Amount (Rs) |
| To Stock A/c | 2,40,000 | By Creditors A/c | 3,00,000 |
| To Furniture A/c | 2,00,000 | By Mrs. A's Loan A/c | 70,000 |
| To Plant and Machinery A/c | 1,00,000 | By A's Capital A/c (Furniture) | 1,80,000 |
| To Bank A/c (Creditors) | 2,40,000 | By Bank A/c (Plant and Machinery) | 80,000 |
| To A's Capital A/c (Mrs. A's Loan) | 70,000 | By B's Capital A/c (Stock) | 1,80,000 |
| To B's Capital A/c (Expenses) | 20,000 | By A's Capital A/c (Loss) | 30,000 |
| | | By B's Capital A/c (Loss) | 30,000 |
| Total | 8,70,000 | Total | 8,70,000 |

Before transferring the loss, the debit total is Rs 8,70,000 and the credit total is Rs 8,10,000. Thus the debit excess is

$$8,70,000 - 8,10,000 = \text{Rs } 60,000.$$

Debit A's and B's Capital Accounts with Rs 30,000 each and credit Realisation Account with these amounts. This closes the account with equal totals of Rs 8,70,000; no balance is carried forward after dissolution.

**Step 4:** Conclusion The realisation loss is **Rs 60,000**, borne equally by A and B at **Rs 30,000 each**. Realisation Account closes at a total of **Rs 8,70,000 on each side**.

**Quick Tip to Solve:** Keep A's own loan and the old Profit and Loss debit balance outside Realisation Account. Mrs. A's loan is an outside liability, while expenses paid by B are credited to B's Capital Account.

OR

**8(b). Vidit, Vinay and Siya were partners in a firm. On 31st March, 2021, their Balance Sheet was as follows:**

**Balance Sheet of Vidit, Vinay and Siya as at 31st March, 2021**

| Liabilities | Amount (Rs.) | Assets | Amount (Rs.) |
|---|---|---|---|
| Creditors | 72,000 | Cash | 28,000 |
| Bank Loan | 18,000 | Stock | 46,000 |
| General Reserve | 18,000 | Debtors | 34,000 |
| | | Building | 30,000 |
| Capitals:<br>Vidit 48,000<br>Vinay 16,000<br>Siya 32,000 | 96,000 | Plant and Machinery | 66,000 |
| Total | 2,04,000 | Total | 2,04,000 |

**On the above date, Vinay retired and it was agreed that:**

**(i) The value of stock will be reduced by Rs. 10,000.**

**(ii) Plant and Machinery will be valued at Rs. 80,000.**

**(iii) An amount of Rs. 4,500 included in creditors is not likely to be claimed.**

**(iv) Debtors to be valued at Rs. 30,000.**

**(v) Amount due to Vinay will be transferred to Vinay's Loan Account.**

**Prepare Revaluation Account and Vinay's Capital Account.** [5 marks]

**Solution:**

**Concept:**

- At retirement, decreases in asset values are debited to Revaluation Account, while increases in asset values and decreases in liabilities are credited to it.
- Revaluation profit and accumulated reserves belong to all partners in their old profit-sharing ratio. When no profit-sharing ratio is given, partners share profits and losses equally; capital balances do not determine that ratio.
- The retiring partner's capital is increased by his share of reserves and revaluation profit. The final amount due is transferred to his Loan Account when immediate payment is not required.

**Step 1:** Calculate the adjustments and partners' shares **Working Notes**

No profit-sharing ratio is stated, so Vidit, Vinay and Siya share equally, in the ratio $1 : 1 : 1$. Their unequal capitals of Rs 48,000, Rs 16,000 and Rs 32,000 are not a profit-sharing agreement. Stock falls by Rs 10,000. Debtors fall from Rs 34,000 to Rs 30,000, giving a loss of Rs 4,000. Plant and Machinery increases from Rs 66,000 to Rs 80,000, giving a gain of Rs 14,000. Creditors not likely to

be claimed reduce the liability by Rs 4,500, which is another gain.

$$\begin{aligned}\text{Revaluation profit} &= (14,000 + 4,500) - (10,000 + 4,000)\\ &= \text{Rs } 4,500.\\ \text{Each partner's profit share} &= 4,500 \times \frac{1}{3} = \text{Rs } 1,500.\\ \text{Vinay's reserve share} &= 18,000 \times \frac{1}{3} = \text{Rs } 6,000.\end{aligned}$$

General Reserve is distributed directly to the partners' capital accounts; it is not a revaluation gain. Cash, Building and Bank Loan have no adjustment in the question.

**Step 2:** Prepare the Revaluation Account The gains total Rs 18,500 and the losses total Rs 14,000. Transfer the excess credit of Rs 4,500 to the three partners' capital accounts, Rs 1,500 each, to close this account.

**Revaluation Account as at 31st March, 2021**

| Dr. Particulars | Amount (Rs) | Particulars Cr. | Amount (Rs) |
|---|---|---|---|
| To Stock A/c | 10,000 | By Plant and Machinery A/c | 14,000 |
| To Debtors A/c | 4,000 | By Creditors A/c | 4,500 |
| To Vidit's Capital A/c | 1,500 | | |
| To Vinay's Capital A/c | 1,500 | | |
| To Siya's Capital A/c | 1,500 | | |
| **Total** | **18,500** | **Total** | **18,500** |

Revaluation Account has no closing balance because its profit has been fully transferred to the partners.

**Step 3:** Prepare Vinay's Capital Account Credit Vinay with his opening capital of Rs 16,000, his share of General Reserve of Rs 6,000 and his revaluation profit of Rs 1,500. The debit entry transferring the entire balance to Vinay's Loan Account closes his capital account; no cash payment is recorded.

**Vinay's Capital Account as at 31st March, 2021**

| Dr. Particulars | Amount (Rs) | Particulars Cr. | Amount (Rs) |
|---|---|---|---|
| To Vinay's Loan A/c | 23,500 | By Balance b/d | 16,000 |
| | | By General Reserve A/c | 6,000 |
| | | By Revaluation A/c | 1,500 |
| **Total** | **23,500** | **Total** | **23,500** |

Both sides agree at Rs 23,500. Vinay's Capital Account has no balance carried down after the loan transfer; the same amount becomes a credit balance in his Loan Account, representing the firm's liability to him.

**Step 4:** Conclusion Revaluation profit is $\boxed{\text{Rs } 4,500}$, shared equally at Rs 1,500 per partner. Vinay's total entitlement is $16,000 + 6,000 + 1,500 = \boxed{\text{Rs } 23,500}$, transferred to Vinay's Loan Account.

**Quick Tip to Solve:** Do not use the capital ratio as the profit-sharing ratio: here the omitted ratio means equal shares. Credit Vinay with one-third of both the reserve and revaluation profit before transferring his balance to loan.

**9. From the following Receipts and Payments Account and additional information of Truth Club for the year ended 31st March, 2021, prepare Income and Expenditure Account for the year ended 31st March, 2021:**

**Receipts and Payments Account of Truth Club for the year ended 31st March, 2021**

| Receipts | Amount (Rs.) | Payments | Amount (Rs.) |
|---|---|---|---|
| Balance b/d | 1,50,000 | Salaries | 1,80,000 |
| Donation for building | 88,000 | Rent | 50,000 |
| Locker rent | 80,000 | Postage | 2,000 |
| Sale of old newspapers | 200 | Books | 28,000 |
| Subscriptions:<br>2019-20 1,800<br>2020-21 70,000<br>2021-22 1,000 | 72,800 | Furniture | 80,000 |
| | | Balance c/d | 51,000 |
| Total | 3,91,000 | Total | 3,91,000 |

**Additional Information:**

**(i) The club had 80 members each paying an annual subscription of Rs. 1,000.**

**(ii) Furniture was purchased on 1st January, 2021.**

**(iii) Depreciation on furniture was charged @ 10% p.a.** [5 marks]

**Solution:**

**Concept:**

- The Income and Expenditure Account records revenue income and revenue expenditure relating to the current accounting year on the accrual basis, irrespective of when cash is received or paid.
- A donation for a specified building purpose is a capital receipt. Purchases of books and furniture create assets; only depreciation on the furniture is charged here as expenditure.
- Subscription income equals the subscription due from the current year's members. Depreciation for an asset acquired during the year is calculated for its period of use.

**Step 1:** Calculate subscription income and furniture depreciation **Working Notes**

The club has 80 members, each paying Rs 1,000 annually. Therefore, subscription income for 2020–21 is

$$80 \times \text{Rs } 1,000 = \text{Rs } 80,000.$$

Of the cash subscriptions of Rs 72,800, Rs 1,800 belongs to 2019–20 and Rs 1,000 is received in advance for 2021–22. Neither amount is income of 2020–21. The current-year collection is Rs 70,000, so the current-year subscription outstanding is

$$\text{Rs } 80,000 - \text{Rs } 70,000 = \text{Rs } 10,000.$$

Hence, Rs 80,000, including the outstanding Rs 10,000, is credited to the Income and Expenditure Account. Furniture costing Rs 80,000 was purchased on 1st January, 2021. Its depreciation is charged

for January to March, namely three months:

$$\text{Depreciation} = \text{Rs } 80,000 \times \frac{10}{100} \times \frac{3}{12} = \text{Rs } 2,000.$$

**Step 2:** Separate revenue items from capital and cash balances Salaries of Rs 1,80,000, rent of Rs 50,000 and postage of Rs 2,000 are revenue expenditure. As no outstanding or prepaid adjustments are given for them, their paid amounts are charged to this year's account. Locker rent of Rs 80,000 and sale of old newspapers of Rs 200 are revenue income. The building donation of Rs 88,000 is credited to the Building Fund, while books of Rs 28,000 and furniture of Rs 80,000 are assets. The opening cash balance of Rs 1,50,000 and closing cash balance of Rs 51,000 are excluded because cash balances are neither income nor expenditure. No depreciation on books is given.

**Step 3:** Prepare the Income and Expenditure Account **Truth Club**
**Income and Expenditure Account**
**for the year ended 31st March, 2021**

| **Dr. Expenditure** | **Rs** | **Cr. Income** | **Rs** |
|---|---|---|---|
| To Salaries | 1,80,000 | By Subscriptions | 80,000 |
| To Rent | 50,000 | By Locker rent | 80,000 |
| To Postage | 2,000 | By Sale of old newspapers | 200 |
| To Depreciation on furniture | 2,000 | By Deficit (excess of expenditure over income) | 73,800 |
| **Total** | **2,34,000** | **Total** | **2,34,000** |

Revenue expenditure totals Rs 2,34,000, while revenue income totals Rs 1,60,200. The balancing deficit is transferred to the Capital Fund, reducing that fund.

**Step 4:** Conclusion Truth Club has a deficit of Rs $2,34,000$ − Rs $1,60,200$ = $\boxed{\text{Rs } 73,800}$ for the year ended 31st March, 2021.

**Quick Tip to Solve:** Use 80 members multiplied by Rs 1,000 for subscription income; do not use the total cash collection. Charge furniture depreciation for only January to March and exclude the building donation and asset purchases.

## Part B (10 marks)

*OPTION 1 (Analysis of Financial Statements)*

**10. State with reason, whether 'Redemption of Debentures' would result in inflow, outflow or no flow of cash while preparing Cash Flow Statement.** [2 marks]

**Solution:**

**Concept:**

- A cash flow is an increase or decrease in cash and cash equivalents arising from a transaction. A payment reduces cash and is therefore an outflow.
- Financing activities change the size or composition of the owners' capital and borrowings. Debentures are borrowed funds, so repayment of their principal is a financing activity.

**Step 1:** Identify what happens on redemption Redemption means repayment of the amount due to debentureholders. The company pays cash or makes a bank payment to discharge its debenture liability. Consequently, both the amount of debentures outstanding and the cash or bank balance decrease. This is repayment of borrowed capital; it does not represent cash received from the company's customers.

**Step 2:** Classify the payment in the cash flow statement As cash leaves the company, the transaction gives an outflow of cash. Since the liability being repaid is a borrowing, show the amount paid for redemption as a deduction under Cash Flow from Financing Activities. It is neither an inflow nor a transaction having no cash effect, because payment to the debentureholders reduces available cash.

**Step 3:** Conclusion Redemption of Debentures results in an **outflow of cash from financing activities**, because cash is paid to debentureholders to repay the company's borrowing.

**Quick Tip to Solve:** For debenture principal, distinguish receipt from repayment: an issue for cash brings financing cash in, while redemption by payment takes financing cash out.

**11(a). From the following information, prepare a Common Size Statement of Profit and Loss of X Ltd., for the year ended 31st March, 2022:**

| Particulars | 2021-22 (Rs.) | 2020-21 (Rs.) |
|---|---|---|
| Revenue from Operations | 25,00,000 | 20,00,000 |
| Other Income | 3,00,000 | 2,00,000 |
| Expenses | 3,00,000 | 1,00,000 |
| Tax Rate 50% | | |

[3 marks]

**Solution:**

**Concept:**

- A common size statement expresses each item as a percentage of that year's Revenue from Operations, which is taken as $100\%$.
- Total Income equals Revenue from Operations plus Other Income. Profit before Tax equals Total Income less Expenses; Profit after Tax equals Profit before Tax less Tax Expense.

**Step 1:** Calculate income, profit and tax **Working Notes.** For 2021–22, Total Income is Rs 28,00,000 (Rs 25,00,000 + Rs 3,00,000). Deducting Expenses of Rs 3,00,000 gives Profit before Tax of Rs 25,00,000. Tax at $50\%$ is Rs 12,50,000, leaving Profit after Tax of Rs 12,50,000.

For 2020–21, Total Income is Rs 22,00,000. Deducting Expenses of Rs 1,00,000 gives Profit before Tax of Rs 21,00,000. Tax at $50\%$ is Rs 10,50,000, leaving Profit after Tax of Rs 10,50,000.

**Step 2:** Convert the amounts to common size percentages Common size percentage = (Item amount / Revenue from Operations) $\times 100$. For example, Other Income in 2021–22 is $3,00,000/25,00,000 \times 100 = 12\%$. Apply the formula to all items in each year. Calculate tax on Profit before Tax, but express tax as a percentage of Revenue from Operations in the statement.

**Step 3:** Prepare the common size statement

**X Ltd.**
**Common Size Statement of Profit and Loss**
for the year ended 31st March, 2022

| Particulars | 2021–22 (Rs) | 2020–21 (Rs) | 2021–22 (%) | 2020–21 (%) |
|---|---|---|---|---|
| I. Revenue from Operations | 25,00,000 | 20,00,000 | 100 | 100 |
| II. Other Income | 3,00,000 | 2,00,000 | 12 | 10 |
| III. Total Income (I + II) | 28,00,000 | 22,00,000 | 112 | 110 |
| IV. Expenses | 3,00,000 | 1,00,000 | 12 | 5 |
| V. Profit before Tax (III - IV) | 25,00,000 | 21,00,000 | 100 | 105 |
| VI. Tax Expense | 12,50,000 | 10,50,000 | 50 | 52.5 |
| VII. Profit after Tax (V - VI) | 12,50,000 | 10,50,000 | 50 | 52.5 |

**Step 4:** Conclusion Profit after Tax is Rs 12,50,000, or $50\%$ of Revenue from Operations, for 2021–22, compared with Rs 10,50,000, or $52.5\%$, for 2020–21. The common size statement above uses each year's own Revenue from Operations as the base.

**Quick Tip to Solve:** Put Revenue from Operations at $100\%$ in both years. Divide every item, including tax, by that year's revenue; do not use Total Income as the common size base.

OR

**11(b). From the following information, prepare a Comparative Statement of Profit and Loss of Y Ltd. for the year ended 31st March, 2022:**

| Particulars | 2021-22 (Rs.) | 2020-21 (Rs.) |
|---|---|---|
| **Revenue from Operations** | **40,00,000** | **30,00,000** |
| **Other Income** | **10,00,000** | **10,00,000** |
| **Employees Benefit Expenses** | **5,00,000** | **5,00,000** |
| **Other Expenses** | **35,00,000** | **20,00,000** |
| **Tax Rate 50%** | | |

[3 marks]

**Solution:**

**Concept:**

- A comparative statement shows the previous year's amount, the current year's amount, the absolute change and the percentage change for each item. Use 2020–21 as the base year.
- Absolute change equals current-year amount minus previous-year amount. Percentage change is $\frac{\text{Absolute change}}{\text{Previous-year amount}} \times 100$. A negative change represents a decrease.
- Profit before tax equals total revenue minus total expenses. Tax is 50% of profit before tax, and profit after tax equals profit before tax minus tax expense.

**Step 1:** Calculate the revenue, expenses and profits **Working Notes:** For 2020–21, total revenue is Rs

$30,00,000 + 10,00,000 = 40,00,000$, and total expenses are Rs $5,00,000 + 20,00,000 = 25,00,000$. Therefore, profit before tax is Rs $40,00,000 - 25,00,000 = 15,00,000$. Tax at 50% is Rs 7,50,000, leaving profit after tax of Rs 7,50,000.

For 2021–22, total revenue is Rs $40,00,000 + 10,00,000 = 50,00,000$, and total expenses are Rs $5,00,000 + 35,00,000 = 40,00,000$. Thus, profit before tax is Rs $50,00,000 - 40,00,000 = 10,00,000$. Tax at 50% is Rs 5,00,000, leaving profit after tax of Rs 5,00,000.

**Step 2:** Prepare the comparative statement **Y Ltd.**

**Comparative Statement of Profit and Loss**

**for the year ended 31st March, 2022**

| Particulars | 2020–21 (Rs) | 2021–22 (Rs) | Change (Rs) | Change (%) |
|---|---|---|---|---|
| I. Revenue from operations | 30,00,000 | 40,00,000 | 10,00,000 | 33.33 |
| II. Other income | 10,00,000 | 10,00,000 | 0 | 0.00 |
| III. Total revenue (I + II) | 40,00,000 | 50,00,000 | 10,00,000 | 25.00 |
| IV. Expenses: | | | | |
| Employees benefit expenses | 5,00,000 | 5,00,000 | 0 | 0.00 |
| Other expenses | 20,00,000 | 35,00,000 | 15,00,000 | 75.00 |
| Total expenses | 25,00,000 | 40,00,000 | 15,00,000 | 60.00 |
| V. Profit before tax (III – IV) | 15,00,000 | 10,00,000 | $-5,00,000$ | $-33.33$ |
| VI. Tax expense (50%) | 7,50,000 | 5,00,000 | $-2,50,000$ | $-33.33$ |
| VII. Profit after tax (V – VI) | 7,50,000 | 5,00,000 | $-2,50,000$ | $-33.33$ |

For example, revenue from operations increased by Rs 10,00,000, giving $\frac{10,00,000}{30,00,000} \times 100 = 33.33\%$. Profit before tax decreased by Rs 5,00,000, giving $\frac{-5,00,000}{15,00,000} \times 100 = -33.33\%$. Percentages are rounded to two decimal places.

**Step 3:** Conclusion Y Ltd.'s total revenue increased by 25%, but total expenses increased by 60%. Consequently, profit after tax fell from Rs 7,50,000 to Rs 5,00,000, a decrease of Rs 2,50,000 or 33.33%.

**Quick Tip to Solve:** Arrange the earlier year first and divide every change by that row's earlier-year amount. Here, the unchanged 50% tax rate makes the percentage decreases in profit before tax, tax and profit after tax identical.

**12. Calculate 'Cash Flows from Operating Activities' for the year ended 31st March, 2021 from the following Balance Sheet of Raman Ltd. as at 31st March, 2021:**

**Balance Sheet of Raman Ltd. as at 31st March, 2021**

| Particulars | Note No. | 31.3.2021 (Rs.) | 31.3.2020 (Rs.) |
|---|---|---|---|
| I - Equity and Liabilities: | | | |
| 1. Shareholders' Funds | | | |
| (a) Share Capital | | 7,50,000 | 7,00,000 |
| (b) Reserves and Surplus | 1 | 1,25,000 | 55,000 |
| 2. Non-Current Liabilities<br>Long-term Borrowings | | 1,00,000 | 62,500 |
| 3. Current Liabilities | | | |
| (a) Short-term Borrowings | 2 | 6,000 | 5,000 |
| (b) Trade Payables | | 7,500 | 41,500 |
| (c) Short-term Provisions | 3 | 9,000 | 5,500 |
| Total | | 9,97,500 | 8,69,500 |
| II - Assets: | | | |
| 1. Non-Current Assets<br>Fixed Assets | | | |
| (a) Tangible Assets | 4 | 9,30,000 | 8,05,000 |
| (b) Intangible Assets | 5 | 25,000 | 15,000 |
| 2. Current Assets | | | |
| (a) Current Investments | | 4,000 | 2,500 |
| (b) Inventories | | 18,500 | 29,500 |
| (c) Trade Receivables | | 13,000 | 11,500 |
| (d) Cash and Cash Equivalents | | 7,000 | 6,000 |
| Total | | 9,97,500 | 8,69,500 |

**Notes to Accounts:**

| Note No. | Particulars | 31.3.2021 (Rs.) | 31.3.2020 (Rs.) |
|---|---|---|---|
| 1 | Reserves and Surplus<br>(Balance in Statement of Profit and Loss) | 1,25,000 | 55,000 |
| 2 | Short-term Borrowings<br>Bank Overdraft | 6,000 | 5,000 |
| 3 | Short-term Provisions<br>Provision for Tax | 9,000 | 5,500 |
| 4 | Tangible Assets<br>Machinery<br>Accumulated Depreciation | 10,00,000<br>(70,000)<br>9,30,000 | 8,50,000<br>(45,000)<br>8,05,000 |
| 5 | Intangible Assets<br>Patents | 25,000 | 15,000 |

**Additional Information:**

**Tax paid during the year amounted to Rs. 6,500.** [5 marks]

**Solution:**

**Concept:**

- Under the indirect method, profit before tax is adjusted for non-cash expenses and changes in operating current assets and liabilities to find cash generated from operations.

- Tax expense for the year equals closing provision for tax plus tax paid minus opening provision. Tax paid is deducted separately from cash generated from operations.
- A decrease in inventories releases operating cash; increases in trade receivables and decreases in trade payables absorb operating cash. Depreciation is added back because it reduces profit without a current cash payment.

**Step 1:** Working Notes: Calculate profit before tax The balance in the Statement of Profit and Loss increased from Rs 55,000 to Rs 1,25,000. No dividend or transfer to reserves is given, so the increase represents the profit after tax for the year:

$$\text{Profit after tax} = 1,25,000 - 55,000 = \text{Rs } 70,000.$$

Reconcile the tax provision to identify the current year's tax expense. Opening provision plus expense, less tax paid, equals closing provision:

$$\begin{aligned} \text{Tax expense} &= 9,000 + 6,500 - 5,500 \\ &= \text{Rs } 10,000. \\ \text{Profit before tax} &= 70,000 + 10,000 \\ &= \text{Rs } 80,000. \end{aligned}$$

Use the tax expense to restore profit before tax; use the actual tax payment only at the end of the operating cash calculation.

**Step 2:** Working Notes: Identify non-cash and working-capital adjustments No sale of machinery or other adjustment to accumulated depreciation is stated. Therefore, the increase in accumulated depreciation is the depreciation charged during the year:

$$\text{Depreciation} = 70,000 - 45,000 = \text{Rs } 25,000.$$

Inventories decreased by Rs $29,500 - 18,500 = 11,000$, which is added. Trade receivables increased by Rs $13,000 - 11,500 = 1,500$, which is deducted. Trade payables decreased by Rs $41,500 - 7,500 = 34,000$, which is deducted because payments to suppliers exceeded the corresponding credit purchases. Bank overdraft is a borrowing, so its increase is not an operating trade-liability adjustment. Share capital and long-term borrowings also belong to financing activities. Changes in machinery, patents and investments are not operating working-capital adjustments. Cash and cash equivalents are the result of the cash flow statement, not an adjustment to operating profit. The tax provision has already been reconciled separately and must not be counted again as working capital.

**Step 3:** Prepare the operating activities section **Raman Ltd.**
**Cash Flow Statement (Extract)**
**For the year ended 31st March, 2021**

| Particulars | Amount (Rs) | Amount (Rs) |
|---|---|---|
| **A. Cash flows from operating activities** | | |
| Net profit before tax | | 80,000 |
| Add: Depreciation on machinery | | 25,000 |
| Operating profit before working-capital changes | | 1,05,000 |
| Add: Decrease in inventories | 11,000 | |
| Less: Increase in trade receivables | (1,500) | |
| Less: Decrease in trade payables | (34,000) | |
| Net working-capital adjustment | | (24,500) |
| Cash generated from operations | | 80,500 |
| Less: Income tax paid | | (6,500) |
| **Net cash from operating activities** | | **74,000** |

**Step 4:** Conclusion Net cash inflow from operating activities for the year ended 31st March, 2021 is $\boxed{\text{Rs } 74,000}$.

**Quick Tip to Solve:** Reconcile provision for tax first: add Rs 10,000 to profit after tax, but deduct only the Rs 6,500 actually paid after adjusting operating working capital.

*OPTION 2 (Computerised Accounting)*

**10. State any two characteristics of Computerised Accounting System.** [2 marks]

**Solution:**

**Concept:**

- A Computerised Accounting System processes financial transactions with accounting software and produces accounting records and reports.
- Its characteristics describe how it processes data. Two important characteristics are speed and accuracy.

**Step 1:** Speed A computerised system processes a large number of transactions and performs calculations at high speed. Once a transaction is entered, the software can update related ledger accounts and generate reports quickly. For example, a trial balance can be obtained without manually adding and balancing every ledger account.

**Step 2:** Accuracy The system performs calculations and applies programmed accounting procedures accurately and consistently. It avoids arithmetic errors associated with manual calculation. However, this accuracy depends on correct input data and properly configured software: an incorrectly entered amount will still produce an incorrect record.

**Step 3:** Conclusion The two characteristics are **speed**, which enables rapid processing and reporting, and **accuracy**, which enables reliable calculations when the input and program are correct.

**Quick Tip to Solve:** Name each characteristic and explain it in one sentence; qualify accuracy by mentioning correct input and correct programming.

**11(a). Give the meaning of Database Management System.** [3 marks]

**Solution:**

**Concept:**

- A database is an organised collection of related data, such as employee details and salary records used in payroll accounting.
- A Database Management System (DBMS) is the software used to create, maintain and access that database. The stored data and the software that manages it are distinct.

**Step 1:** Define Database Management System A Database Management System is a collection of programs that enables users to define, create and maintain a database and provides controlled access to its data. It acts as an interface between the database and the users or application programs that require the data. Thus, users can work with organised records through the DBMS instead of managing the underlying data files directly.

**Step 2:** Explain the meaning through its functions Defining the database involves specifying its data fields, structure and relationships. Creating and maintaining it includes storing new records, updating existing records and deleting records when required. The DBMS also retrieves information in response to queries and controls authorised access. For example, a payroll application can use a DBMS to store employees' details, update salary information and retrieve the records needed to prepare a salary report.

**Step 3:** Conclusion A **DBMS is software for defining, creating, maintaining and accessing a database**; it provides the link through which users and applications store, update and retrieve organised data.

**Quick Tip to Solve:** Begin with "software" or "a collection of programs", then mention creation, maintenance and access; do not define DBMS as merely the stored data.

OR

**11(b). State the steps involved in preparing Payroll Accounting.** [3 marks]

**Solution:**

**Concept:**

- Payroll accounting determines each employee's earnings, deductions and net salary for a specified pay period, using employee records and attendance data.
- Gross salary is the total of basic pay and applicable allowances or other earnings. Net salary is gross salary less the employee's authorised deductions.

**Step 1:** Create the employee database Prepare an employee master containing employee code, name, designation, department, basic pay, applicable allowances and deduction particulars. In a spreadsheet, provide suitable column headings and enter one employee's particulars in each row, so that every salary calculation can be identified with the correct employee.

**Step 2:** Enter the pay-period data Record attendance, days worked, leave without pay, overtime and

any change in pay or allowances for the relevant period. Check these inputs against the supporting records before calculating salaries; fixed employee details and monthly variable data together form the basis of the payroll.

**Step 3:** Calculate gross earnings and deductions Use appropriate formulae to calculate basic earnings, allowances and overtime, where applicable, and add them to obtain gross salary. Calculate deductions such as provident fund contribution, income tax deducted at source and recovery of advances according to the applicable rules or authorisations. Total earnings and total deductions should be shown separately.

**Step 4:** Determine net pay and prepare payroll reports For each employee, calculate

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

Check the formulae and totals, then prepare the salary sheet and individual payslips showing earnings, deductions and net pay. Use the verified payroll to arrange salary payment and record the salary expense and related liabilities in the accounts.

**Step 5:** Conclusion The sequence is: prepare the employee database, enter attendance and other period data, calculate gross earnings and deductions, determine net salary, and generate the salary sheet and payslips for payment and accounting.

**Quick Tip to Solve:** Remember the flow: employee details, attendance, earnings, deductions, net pay and payslip. Keep gross salary and take-home salary distinct.

**12. Explain the steps involved in installation of Computerised Accounting System.** [5 marks]

**Solution:**

**Concept:**

- A Computerised Accounting System (CAS) combines hardware, accounting software, accounting procedures and trained users to record transactions and produce financial information.
- Installation includes selecting and configuring the system, establishing accounting records and controls, and testing it before regular use.

**Step 1:** Identify the organisation's accounting requirements Examine the nature and size of the business, the volume of transactions, the number of users and the reports required. Decide whether functions such as inventory, payroll and departmental reporting are needed. These requirements determine the capacity and features of the system to be installed.

**Step 2:** Select suitable hardware and accounting software Choose computers, storage, printers and networking facilities appropriate to the expected workload. Select a ready-to-use, customised or tailor-made accounting package according to the organisation's needs and budget. Check compatibility, ease of use, security, reliability and the availability of vendor support.

**Step 3:** Install and configure the system Install the hardware, operating environment and accounting package. Create the company's data file and enter its name, address, financial year and other basic particulars. Configure the accounting features, voucher types and report settings required by the

business. Set user accounts, passwords and access rights to restrict unauthorised changes.

**Step 4:** Establish the chart of accounts and enter opening data Create suitable account groups, ledger accounts and account codes so that transactions are classified consistently. Set up other necessary master records, such as customers, suppliers and inventory items. Transfer verified opening balances and relevant existing records into the system, and check that the opening trial balance agrees with the previous books.

**Step 5:** Train users and test the system Train staff to prepare and enter vouchers, correct errors and generate reports. Process sample transactions and compare the resulting ledger balances, trial balance and financial reports with independently checked results. A trial or parallel run with the existing system helps identify errors in configuration or data before full implementation.

**Step 6:** Put the system into regular operation and maintain it After satisfactory testing, begin routine transaction processing. Establish procedures for authorisation, data validation, regular backups and restoration of data. Maintain the hardware and software and review access controls so that the installed system continues to produce reliable accounting information.

**Step 7:** Conclusion Installation of a CAS proceeds from analysing requirements and selecting resources to configuration, creation of accounting records, training, testing and regular operation with suitable controls.

**Quick Tip to Solve:** Remember the sequence: assess needs, select, install, create accounts, train and test, then operate with backups. Explain what each stage achieves.