CBSE Class 12 Accountancy Question Paper 2022 with Solution PDF-Set 67-3-1

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

(i) This question paper comprises of **two** Parts – Part-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. Candidates 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. What is meant by a 'Not-For-Profit Organisation'? [2 marks]

Solution:

Concept:

- A not-for-profit organisation is established to render services to its members or society, rather than to earn profit for distribution to owners.
- Its income and funds are used to carry out the service objectives for which it has been formed.

Step 1: Explain the purpose A not-for-profit organisation is formed for a charitable, educational, religious, cultural, sporting or other social-service purpose. Examples include schools run for service, charitable hospitals, clubs and societies. Its primary objective is the welfare of members or the public.

Step 2: Explain the treatment of surplus Such an organisation may earn a surplus of income over expenditure during a year. This does not change its service character: the surplus is retained and used to further its stated objectives, instead of being distributed to members as profit. Thus, absence of a profit motive does not mean that income must exactly equal expenditure every year.

Step 3: Conclusion A not-for-profit organisation is an organisation formed primarily to provide services to members or society; any surplus is applied towards its objectives and is not distributed among members as profit.

Quick Tip to Solve: Identify both features in the definition: service as the main aim and use of surplus for that service.

2. A, B, C and D were partners in a firm sharing profits and losses in the ratio of 1 : 2 : 3 : 4. On 31.3.2022, C retired from the firm and his share was acquired by A and B in the ratio of 3 : 2. Calculate the new profit sharing ratio of A, B and D. [2 marks]

Solution:

Concept:

- On retirement, each continuing partner's new share equals the old share plus the share acquired from the retiring partner.
- The ratio in which A and B acquire C's share is their gaining ratio, not their final profit-sharing ratio.

Step 1: Find the old shares and distribute C's share The total of the old ratio is $1+2+3+4=10$. Therefore,

$$A=\frac{1}{10},\quad B=\frac{2}{10},\quad C=\frac{3}{10},\quad D=\frac{4}{10}.$$

C's entire share of $3/10$ is acquired by A and B in the ratio $3:2$. Hence,

$$\text{A's gain} = \frac{3}{10} \times \frac{3}{5} = \frac{9}{50},$$
$$\text{B's gain} = \frac{3}{10} \times \frac{2}{5} = \frac{6}{50}.$$

D acquires no part of C's share, so D's old share remains unchanged.

Step 2: Add the gains to the old shares The new shares are

$$A = \frac{1}{10} + \frac{9}{50} = \frac{14}{50},$$
$$B = \frac{2}{10} + \frac{6}{50} = \frac{16}{50},$$
$$D = \frac{4}{10} = \frac{20}{50}.$$

As a check, $(14 + 16 + 20)/50 = 1$; thus the whole profit is allocated among the three continuing partners. Reducing the numerators by their common factor 2 gives the required ratio.

Step 3: Conclusion The new profit-sharing ratio of $A : B : D = 14 : 16 : 20 = \boxed{7 : 8 : 10}$.

Quick Tip to Solve: Distribute only the retiring partner's share in the gaining ratio, then add each gain to the old share.

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3. P, Q and R were partners in a firm sharing profits and losses in the ratio of 4 : 3 : 3. On 31.3.2022 R retired from the firm. On R's retirement the balance sheet of the firm showed sundry debtors at Rs. 3,75,000. It was decided to write off Rs. 5,000 as bad debts and create a provision of $2\frac{1}{2}$% on debtors for bad and doubtful debts.

Pass necessary journal entries for the above transactions in the books of the firm on R's retirement.

[2 marks]

Solution:

Concept:

- Bad debts written off reduce sundry debtors and are a revaluation loss on retirement.
- A new provision for doubtful debts is calculated on debtors remaining after the bad debts have been written off; its creation is also debited to Revaluation Account.

Step 1: Calculate the provision on adjusted debtors First reduce the sundry debtors by the specific bad debts:

$$\text{Adjusted debtors} = \text{Rs } 3,75,000 - \text{Rs } 5,000 = \text{Rs } 3,70,000.$$

The required provision is

$$\text{Rs } 3,70,000 \times \frac{2.5}{100} = \text{Rs } 9,250.$$

The provision is not calculated on the original debtors because the amount already written off is no longer recoverable or included in debtors.

Step 2: Record the retirement adjustments Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31.3.2022	Revaluation A/c Dr.		5,000	
	To Sundry Debtors A/c			5,000
	(Being bad debts written off on R's retirement)			
31.3.2022	Revaluation A/c Dr.		9,250	
	To Provision for Doubtful Debts A/c			9,250
	(Being provision created at 2.5% on remaining debtors)			

These entries recognise the loss through Revaluation Account and separately record the reduction of debtors and the provision. The total debit arising from these two adjustments is Rs 14,250.

Step 3: Conclusion Debit Revaluation Account by Rs 5,000 and credit Sundry Debtors Account by Rs 5,000; debit Revaluation Account by Rs 9,250 and credit Provision for Doubtful Debts Account by Rs 9,250.

Quick Tip to Solve: Always write off specific bad debts before applying the provision percentage to the remaining debtors.

4(a). From the following information obtained from the books of 'Murlidhar Charitable Hospital', calculate the amount of medicines to be debited to the Income and Expenditure Account of the hospital for the year ended 31.3.2022.

Particulars	31.03.2021 Amount (Rs.)	31.03.2022 Amount (Rs.)
Stock of medicines	1,70,000	3,75,000
Creditors for medicines	5,40,000	8,25,000

During the year Rs. 11,49,000 were paid to the Creditors for medicines. Medicines of Rs. 3,30,000 were purchased in cash for emergency use. [3 marks]

Solution:

Concept:

- The Income and Expenditure Account records medicines consumed during the accounting year on the accrual basis. Payments to creditors alone do not measure the expense.
- Credit purchases equal payments to medicine creditors plus closing creditors less opening creditors. Medicines consumed equal opening stock plus total purchases less closing stock.

Step 1: Calculate credit purchases of medicines Opening creditors of Rs 5,40,000 relate to earlier purchases, whereas closing creditors of Rs 8,25,000 represent purchases still unpaid at year end. Therefore adjust the cash paid to obtain current-year credit purchases:

$$\begin{aligned}\text{Credit purchases} &= 11,49,000 + 8,25,000 - 5,40,000 \\ &= \text{Rs } 14,34,000.\end{aligned}$$

The increase in creditors is added because purchases exceed payments by this amount.

Step 2: Add medicines purchased for cash The emergency medicines purchased for cash are also current-year purchases. They are additional to payments made to creditors and must be included once:

$$\text{Total purchases} = 14,34,000 + 3,30,000 = \text{Rs } 17,64,000.$$

The mode of payment does not change whether medicines are included in purchases.

Step 3: Determine medicines actually consumed Add the opening stock available for use and deduct the stock remaining unused on 31 March 2022. The calculation is:

$$\begin{aligned}\text{Medicines consumed} &= 1,70,000 + 17,64,000 - 3,75,000 \\ &= \text{Rs } 15,59,000.\end{aligned}$$

Closing medicines remain an asset; their cost is excluded from this yearś expense. Thus neither the cash payments nor the total purchases by themselves are the amount charged to income.

Step 4: Conclusion Medicines of $\boxed{\text{Rs } 15,59,000}$ will be debited to the Income and Expenditure Account for the year ended 31 March 2022.

Quick Tip to Solve: First convert creditor payments into purchases; only then adjust opening and closing medicine stock.

OR

4(b). State with reason how the following items will be treated while preparing the 'Income and Expenditure Account' and 'Balance Sheet' of a Not-for-Profit Organisation:

(a) Sale of used sports material.

(b) Life membership fees.

(c) Government Grant for the construction of building. [3 marks]

Solution:

Concept:

- Revenue receipts arising from the ordinary activities of a not-for-profit organisation are credited to the Income and Expenditure Account.
- Capital receipts and receipts restricted to a specified purpose are shown in the Balance Sheet; they are not ordinary income available to meet the current yearś expenses.

Step 1: (a) Sale of used sports material The proceeds from the sale of used sports material are treated as a revenue receipt and credited to the Income and Expenditure Account. Used sports material is a consumable item associated with the organisationś sporting activities, so this receipt is incidental to its ordinary activities. It is not added to the capital fund or shown separately as a capital receipt in the Balance Sheet. Any resulting cash or bank balance is, of course, included in the relevant asset balance.

Step 2: (b) Life membership fees Life membership fees are capital receipts because the member makes a once-for-life payment in place of recurring subscriptions, obtaining membership benefits over future years. Consequently, they are not credited as the current yearś revenue in the Income and

Expenditure Account. They are added to the Capital Fund on the liabilities side of the Balance Sheet. In the absence of any stated policy for annual transfer, the full receipt is treated as capital.

Step 3: (c) Government grant for construction of a building This grant is received for a specified capital purpose, namely construction of a building. It is therefore not credited to the Income and Expenditure Account as general revenue. Show it as a separate Building Fund or specific-purpose grant on the liabilities side of the Balance Sheet. Expenditure on constructing the building is capitalised as Building or Building under Construction on the assets side, as appropriate; it is not a current operating expense. The grant remains identified with its restricted purpose rather than being treated as unrestricted annual income.

Step 4: Conclusion Credit sale of used sports material to the Income and Expenditure Account; add life membership fees to the Capital Fund; show the building grant separately as a specific-purpose fund in the Balance Sheet.

Quick Tip to Solve: Ask whether the receipt belongs to ordinary annual activities, buys lifelong membership, or is restricted to a named capital project.

5. X, Y and Z were partners in a firm. The firm closes its books on 31st March every year. On 31st December 2021, X died. The partnership deed provided that the share of deceased partner in the profits of the firm till the date of his death will be calculated on the basis of last year's profit. The profit for the year ended 31.3.2021 was Rs. 6,00,000.

Calculate X's share in the profits of the firm 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:

- A deceased partner is entitled to the profit earned from the beginning of the accounting year up to the date of death. When the deed specifies last year's profit as the basis, profit for this period is estimated proportionately with time.
- When no profit-sharing ratio is stated, partners share profits equally. Thus, X's share in a firm of three partners is $1/3$. Estimated profit is credited to the deceased partner's capital account through Profit and Loss Suspense Account.

Step 1: Determine the period and estimated profit The last completed accounting year ended on 31st March 2021. Therefore, the current accounting period begins on 1st April 2021. From 1st April 2021 to X's death on 31st December 2021, the elapsed period is nine months. Using the annual profit of Rs 6,00,000 as required by the deed:

$$\text{Estimated profit till death} = 6,00,000 \times \frac{9}{12} = \text{Rs } 4,50,000.$$

Step 2: Calculate X's entitlement No different ratio is given for X, Y and Z, so the profit is shared

equally among the three partners. Consequently,

$$\text{X's share} = 4,50,000 \times \frac{1}{3} = \text{Rs } 1,50,000.$$

The estimate relates only to the period preceding death; using the full annual profit would include the period after X ceased to be a partner.

Step 3: Record the adjustment in the firm's journal Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31.12.2021	Profit and Loss Suspense A/c Dr. To X's Capital A/c (Being X's share of estimated profit up to the date of death credited to his capital account)		1,50,000	 1,50,000

The suspense account is debited because actual profit for the current year has not yet been determined. The credit increases the amount payable in respect of X's capital.

Step 4: Conclusion X's share of profit up to 31st December 2021 is $\boxed{\text{Rs } 1,50,000}$. Debit Profit and Loss Suspense Account and credit X's Capital Account with Rs 1,50,000.

Quick Tip to Solve: Count months from the start of the current financial year, then apply the deceased partner's profit share.

6(a). X Ltd. purchased assets of Rs. 18,00,000 and took over liabilities of Rs. 6,00,000 of Y Ltd. for a purchase consideration of Rs. 10,00,000. The payment to Y Ltd. was made by issue of 9% debentures of Rs. 100 each at Rs. 125.

Calculate the number of 9% debentures issued in favour of Y Ltd. and pass the necessary journal entries for the above transactions in the books of X Ltd. [3 marks]

Solution:

Concept:

- When assets and liabilities are taken over, assets are debited at their agreed values and liabilities are credited. The vendor is credited with the purchase consideration. Excess of net assets acquired over consideration is credited to Capital Reserve Account.
- Debentures issued to a vendor settle the consideration at their issue price. The nominal value is credited to Debentures Account and the excess issue price over nominal value is credited to Securities Premium Reserve Account.

Step 1: Determine net assets and capital reserve The assets acquired are Rs 18,00,000 and the liabilities assumed are Rs 6,00,000. Hence,

$$\text{Net assets} = 18,00,000 - 6,00,000 = \text{Rs } 12,00,000,$$
$$\text{Capital reserve} = 12,00,000 - 10,00,000 = \text{Rs } 2,00,000.$$

The purchase consideration is lower than the net assets, so the difference is a capital reserve, rather than goodwill.

Step 2: Calculate debentures and premium The amount payable to Y Ltd. is discharged at Rs 125 per debenture, although each debenture has a face value of Rs 100. Thus,

$$\text{Number issued} = \frac{10,00,000}{125} = 8,000,$$
$$\text{Nominal value} = 8,000 \times 100 = \text{Rs } 8,00,000,$$
$$\text{Securities premium} = 8,000 \times (125 - 100) = \text{Rs } 2,00,000.$$

The 9% rate determines subsequent interest on the nominal amount; it does not change the number issued to settle this purchase consideration.

Step 3: Record acquisition and settlement Journal of X Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Sundry Assets A/c Dr. To Sundry Liabilities A/c To Y Ltd. To Capital Reserve A/c (Being assets and liabilities of Y Ltd. taken over for the agreed consideration)		18,00,000	 6,00,000 10,00,000 2,00,000
	Y Ltd. Dr. To 9% Debentures A/c To Securities Premium Reserve A/c (Being 8,000 debentures of Rs 100 each issued at Rs 125 to discharge the purchase consideration)		10,00,000	 8,00,000 2,00,000

In the first entry, credits total Rs 18,00,000, equal to the assets debited. In the second, nominal value plus premium equals the entire Rs 10,00,000 due to the vendor, closing Y Ltd.'s account.

Step 4: Conclusion X Ltd. issues $\boxed{8,000}$ 9% debentures. The acquisition creates capital reserve of Rs 2,00,000, while the issue creates securities premium of Rs 2,00,000.

Quick Tip to Solve: Divide purchase consideration by the issue price; use face value only for the Debentures Account credit.

OR

6(b). Pass necessary journal entries in the books of Z Ltd. for the following transactions:

(a) Z Ltd. invited applications for issuing 10,000, 9% debentures of Rs. 100 each at a premium of Rs. 10 per debenture. The full amount was payable on application. Applications were received for 15,000 debentures. Applications for 3,000 debentures were rejected and the applications money was refunded. Debentures were allotted to the remaining applicants on a pro-rata basis.

(b) The company has a balance of Rs. 60,000 in securities premium reserve account. Loss on issue of debentures Rs. 1,00,000 was written off as per the provisions of the Companies Act 2013. [3 marks]

Solution:

Concept:

- Debentures issued at a premium are credited to the Debentures Account at face value; the excess over face value is credited to Securities Premium Reserve. Application money received in excess of the issue price is refunded when the full issue price is payable on application.
- Under section 52 of the Companies Act, 2013, securities premium may be used to write off loss on issue of debentures. Any remaining loss is charged to the Statement of Profit and Loss.

Step 1: Calculate application receipts and refunds for transaction (a) The amount payable per debenture is $100 + 10 =$ Rs 110. Therefore, the bank receives $15,000 \times 110 =$ Rs $16,50,000$. Rejection of applications for 3,000 debentures requires a refund of $3,000 \times 110 =$ Rs $3,30,000$. The remaining 12,000 applications receive 10,000 debentures, so the allotment ratio is $10,000 : 12,000 = 5 : 6$. Their application money is Rs 13,20,000, whereas the amount required for the allotted debentures is $10,000 \times 110 =$ Rs $11,00,000$. Thus, the excess Rs 2,20,000 is also refunded. Since no further instalment is due, it cannot be carried forward to allotment or calls. The total refund is Rs 5,50,000.

Step 2: Record receipt, refunds and issue of debentures Journal of Z Ltd. — transaction (a)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		16,50,000	
	To Debenture Application A/c			16,50,000
	(Being full application money received for 15,000 debentures)			
	Debenture Application A/c Dr.		5,50,000	
	To Bank A/c			5,50,000
	(Being Rs 3,30,000 refunded to rejected applicants and Rs 2,20,000 excess refunded to pro-rata allottees)			
	Debenture Application A/c Dr.		11,00,000	
	To 9% Debentures A/c			10,00,000
	To Securities Premium Reserve A/c			1,00,000
	(Being 10,000 debentures of Rs 100 issued at a premium of Rs 10 each)			

The application account closes because its debit of Rs 16,50,000 equals the refunds of Rs 5,50,000 plus the transfer of Rs 11,00,000. The debenture liability is recorded at its face value of Rs 10,00,000.

Step 3: Write off the loss in transaction (b) Transaction (b) supplies its own securities premium balance of Rs 60,000. Apply that balance against the specified loss of Rs 1,00,000; the remaining $1,00,000 - 60,000 =$ Rs $40,000$ is charged to the Statement of Profit and Loss. These are separate transactions; the premium arising in (a) is not added to the balance explicitly given for (b).

Journal of Z Ltd. — transaction (b)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Securities Premium Reserve A/c Dr.		60,000	
	Statement of Profit and Loss Dr.		40,000	
	To Loss on Issue of Debentures A/c			1,00,000
	(Being loss on issue written off using securities premium and the balance charged to the Statement of Profit and Loss)			

Step 4: Conclusion In (a), the total refund is Rs 5,50,000, the 9% Debentures Account is credited with Rs 10,00,000 and Securities Premium Reserve with Rs 1,00,000. In (b), the loss of Rs 1,00,000 is written off against Securities Premium Reserve, Rs 60,000, and the Statement of Profit and Loss, Rs 40,000.

Quick Tip to Solve: When the whole issue price is payable on application, refund the excess of pro-rata applicants as well as the rejected applicants' money.

7(a). T, U and V were partners in a firm sharing profits and losses in the ratio of 2 : 1 : 2. Their firm was incurring huge losses thus it had to be closed. After transferring assets (other than cash in hand and bank) and third party liabilities to realization account the following transactions took place:

(i) T took away 50% of the stock at book value less 10% for Rs. 90,000, and the remaining stock was sold for Rs. 40,000.

(ii) Creditors of Rs. 78,000 took over machinery of Rs. 80,000 in full settlement of their claim.

(iii) Rs. 5,000 debtors previously written off were recovered.

(iv) Mrs. V's loan of Rs. 72,000 was paid by the firm.

(v) Loss on dissolution was Rs. 80,000.

Pass necessary journal entries for the above transactions in the books of T, U and V. [5 marks]

Solution:

Concept:

- Assets and third-party liabilities have already been transferred to Realisation Account. Therefore, subsequent proceeds from assets and payments of external liabilities are recorded through Realisation Account without repeating the original transfers.
- An asset taken over by a partner debits that partner's Capital Account and credits Realisation Account at the agreed takeover value. An asset accepted directly by an external creditor in full settlement requires no further journal entry after both balances have been transferred.
- Realisation loss is transferred to partners' Capital Accounts in their profit-sharing ratio, here $T : U : V = 2 : 1 : 2$.

Step 1: (i) Record stock taken by T and the cash sale T is charged the agreed takeover amount of Rs 90,000, not the stock's book value. For verification, the book value of the half-stock is $90,000/0.90 =$ Rs $1,00,000$, so total stock was Rs 2,00,000. The remaining half is realised for Rs 40,000. Both amounts credit Realisation Account because the stock has already been transferred there.

Journal of T, U and V

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	T's Capital A/c Dr. To Realisation A/c (Being half the stock taken over by T at the agreed value)		90,000	90,000
	Bank A/c Dr. To Realisation A/c (Being the remaining stock sold)		40,000	40,000

Step 2: (ii) Treat the machinery accepted by creditors No journal entry is required for creditors of Rs 78,000 taking machinery of book value Rs 80,000 in full settlement. The machinery and creditors have already been transferred to Realisation Account. Their direct settlement involves neither cash nor a partner's account. Recording a further entry would duplicate the settlement effect already represented by those transferred balances; the difference of Rs 2,000 remains part of the overall realisation result.

Step 3: (iii) Record recovery of debtors previously written off These debtors no longer have a book balance, so no Debtors Account is credited. Their recovery is a realisation receipt and hence credits Realisation Account.

Journal of T, U and V

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Realisation A/c (Being recovery of debtors previously written off)		5,000	5,000

Step 4: (iv) Record payment of Mrs. V's loan Mrs. V is an outside lender, rather than the partner V. Her loan is therefore a third-party liability already transferred to Realisation Account. Its payment debits Realisation Account and credits Bank Account; Mrs. V's Loan Account is not debited again.

Journal of T, U and V

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Realisation A/c Dr. To Bank A/c (Being Mrs. V's loan paid by the firm)		72,000	72,000

Step 5: (v) Allocate the dissolution loss The stated loss is the final loss on dissolution, so it is allocated directly rather than recomputed from these selected transactions. The partners bear it in their agreed ratio:

$$T = 80,000 \times \frac{2}{5} = 32,000, \quad U = 80,000 \times \frac{1}{5} = 16,000, \quad V = 80,000 \times \frac{2}{5} = 32,000.$$

The capital debits total Rs 80,000 and close the loss in Realisation Account.

Journal of T, U and V

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	T's Capital A/c Dr. U's Capital A/c Dr. V's Capital A/c Dr. To Realisation A/c (Being loss on dissolution transferred in the ratio 2:1:2)		32,000 16,000 32,000	 80,000

Step 6: Conclusion T is debited Rs 90,000 for stock; stock-sale and debtor-recovery receipts are Rs 40,000 and Rs 5,000. Mrs. V's loan payment is Rs 72,000. No entry is passed for the direct creditor-machinery settlement. The loss is debited to T, U and V at Rs 32,000, Rs 16,000 and Rs 32,000 respectively.

Quick Tip to Solve: Once external liabilities are transferred, debit Realisation for their cash payment; a partner's relative is still an external lender.

OR

7(b). D, E and F were partners in a firm sharing profits in the ratio of 5 : 2 : 3. On 31.3.2022 their balance sheet was as follows:

Balance Sheet of D, E and F as on 31.3.2022

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Creditors	53,000	Cash	16,000
Bills Payable	62,000	Bank	17,000
General Reserve	2,00,000	Stock	18,000
Capitals :		Debtors	1,99,000
D 7,00,000		Investments	1,15,000
E 5,00,000		Machinery	7,50,000
F 6,00,000	18,00,000	Land and Building	10,00,000
	21,15,000		21,15,000

On the above date D retired from the firm and the following was agreed upon:

(i) Goodwill of the firm was valued at Rs. 1,00,000. D's share of goodwill was adjusted through the capital accounts of remaining partners.

(ii) Investments were to be brought to their market value which was Rs. 85,000.

(iii) Machinery was to be depreciated to Rs. 7,00,000.

(iv) Land and Building was to be appreciated to Rs. 12,00,000.

(v) The balance in D's capital account was transferred to his loan account.

Prepare Revaluation Account and D's Capital Account on his retirement. [5 marks]

Solution:

Concept:

- Revaluation records changes in existing assets and liabilities at retirement. An increase in an asset is credited and a decrease is debited to Revaluation Account; its net profit or loss belongs to all old partners in their old ratio, here $5 : 2 : 3$.
- Accumulated reserves are distributed among all old partners in the old profit-sharing ratio. The retiring partner is also credited with his share of the firm's goodwill, borne by the continuing partners in their gaining ratio.
- The amount finally due to D comprises his opening capital, reserve share, revaluation profit share and goodwill entitlement. Since the amount is not paid immediately, it is transferred to D's Loan Account.

Step 1: Calculate the revaluation adjustments Investments fall from Rs 1,15,000 to Rs 85,000, giving a loss of Rs 30,000. Machinery falls from Rs 7,50,000 to Rs 7,00,000, giving a loss of Rs 50,000. Land and Building rises from Rs 10,00,000 to Rs 12,00,000, giving a gain of Rs 2,00,000. Thus,

$$\text{Revaluation profit} = 2,00,000 - 30,000 - 50,000 = \text{Rs } 1,20,000.$$

Its distribution in the old ratio is D: $1,20,000 \times 5/10 = \text{Rs } 60,000$, E: $1,20,000 \times 2/10 = \text{Rs } 24,000$, and F: $1,20,000 \times 3/10 = \text{Rs } 36,000$.

Step 2: Prepare Revaluation Account **Revaluation Account as on 31.3.2022**

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Investments	30,000	By Land and Building	2,00,000	
	To Machinery	50,000			
	To D's Capital	60,000			
	To E's Capital	24,000			
	To F's Capital	36,000			
	Total	2,00,000	Total	2,00,000	

The three capital transfers close the revaluation profit; hence no balance is carried forward in this temporary account.

Step 3: Determine D's reserve and goodwill credits D's share of General Reserve is $2,00,000 \times 5/10 = \text{Rs } 1,00,000$. His goodwill entitlement is $1,00,000 \times 5/10 = \text{Rs } 50,000$. With no new ratio specified, E and F continue in their relative ratio $2 : 3$, which is also their gaining ratio. E therefore bears $50,000 \times 2/5 = \text{Rs } 20,000$ and F bears $50,000 \times 3/5 = \text{Rs } 30,000$. Their capital accounts are debited and D's capital is credited; goodwill is not raised as an asset.

Step 4: Prepare D's Capital Account and transfer the amount due **D's Capital Account as on 31.3.2022**

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To D's Loan	9,10,000	By Balance b/d	7,00,000	
			By General Reserve	1,00,000	
			By Revaluation	60,000	
			By E's Capital	20,000	
			By F's Capital	30,000	
	Total	9,10,000	Total	9,10,000	

The credit total is $7,00,000 + 1,00,000 + 60,000 + 20,000 + 30,000 =$ Rs $9,10,000$. Debiting D's capital and crediting his loan for this amount closes his capital account, as the retirement agreement requires.

Step 5: Conclusion Revaluation profit is Rs 1,20,000, of which D receives Rs 60,000. After reserve and goodwill adjustments, Rs 9,10,000 is transferred from D's Capital Account to D's Loan Account.

Quick Tip to Solve: First distribute reserves and revaluation in the old ratio, then credit retiring goodwill separately before transferring the final capital balance to loan.

8. Pass necessary journal entries for the issue of debentures in the following cases:

(a) Issued 50,000, 9% debentures of Rs. 100 each at par redeemable at par.

(b) Issued 10,000, 8% debentures of Rs. 100 each at 7% premium redeemable at par.

(c) Issued 750, 8% debentures of Rs. 100 each at 10% discount redeemable at par.

(d) Issued 1,000, 9% debentures of Rs. 100 each at 5% premium redeemable at 8% premium.

(e) Issued 500, 9% debentures of Rs. 100 each at 10% discount redeemable at 10% premium.

[5 marks]

Solution:

Concept:

- The Debentures Account is credited with the face value issued: number of debentures multiplied by Rs 100. Bank Account is debited with the actual issue proceeds; the stated interest rate identifies the debentures and does not change these proceeds.
- An issue premium is credited to Securities Premium Reserve. A discount on issue is debited as a loss. A premium payable on redemption is recognised at issue by debiting Loss on Issue of Debentures and crediting Premium on Redemption of Debentures. When both discount and redemption premium arise, their sum is debited to Loss on Issue of Debentures.

Step 1: Record issue at par, redeemable at par For (a), face value and cash received are both $50,000 \times 100 =$ Rs $50,00,000$. No issue discount, issue premium or redemption premium arises. The 9% describes the interest rate; no interest entry is required at the date of issue.

Journal

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To 9% Debentures A/c (Being 50,000 debentures issued at par, redeemable at par)		50,00,000	 50,00,000

Step 2: Record issue at a premium, redeemable at par For (b), face value is $10,000 \times 100 =$ Rs $10,00,000$. Issue premium is $10,00,000 \times 7/100 =$ Rs $70,000$, so Bank receives Rs 10,70,000. Redemption at par creates no additional redemption liability.

Journal

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)

	Bank A/c Dr.
	  To 8% Debentures A/c
	  To Securities Premium Reserve A/c
	(Being 10,000 debentures issued at 7% premium, redeemable at par)
			10,70,000	
				10,00,000
				70,000

Step 3: Record issue at a discount, redeemable at par For (c), face value is $750 \times 100 =$ Rs $75,000$. Discount is $75,000 \times 10/100 =$ Rs $7,500$, leaving cash proceeds of Rs 67,500. The discount is debited separately, while the full face value is credited to the debenture liability.

Journal

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. Discount on Issue of Debentures A/c Dr. To 8% Debentures A/c (Being 750 debentures issued at 10% discount, redeemable at par)		67,500 7,500	 75,000

Step 4: Record premium on both issue and redemption For (d), face value is $1,000 \times 100 =$ Rs $1,00,000$. The issue premium of Rs 5,000 increases Bank to Rs 1,05,000. The redemption premium is $1,00,000 \times 8/100 =$ Rs $8,000$; it is recognised as a loss and a separate liability at issue.

Journal

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)

	Bank A/c Dr.
	Loss on Issue of Debentures A/c Dr.
	  To 9% Debentures A/c
	  To Securities Premium Reserve A/c
	  To Premium on Redemption of Debentures A/c
	(Being 1,000 debentures issued at 5% premium, redeemable at 8% premium)
			1,05,000
			8,000
				
				1,00,000
				5,000
				8,000

Step 5: Record discount on issue and premium on redemption For (e), face value is $500 \times 100 =$ Rs $50,000$. Issue discount is Rs 5,000, so Bank receives Rs 45,000. Redemption premium is also Rs 5,000. Thus Loss on Issue of Debentures is debited with $5,000 + 5,000 =$ Rs $10,000$, covering both components.

Journal

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. Loss on Issue of Debentures A/c Dr. To 9% Debentures A/c To Premium on Redemption of Debentures A/c (Being 500 debentures issued at 10% discount, redeemable at 10% premium)		45,000 10,000	 50,000 5,000

Step 6: Conclusion The five entries above record the cash received, the face-value liability and the respective issue premium, issue discount and redemption premium. In case (e), the total loss on issue is Rs 10,000.

Quick Tip to Solve: First calculate the face value; apply the issue percentage to find Bank, and the redemption premium percentage separately to find the extra liability.

9. From the following 'Receipts and Payments Account' of Golden Club for the year ended 31.3.2022, prepare Income and Expenditure Account:

Receipts and Payments Account of Golden Club for the year ended 31.3.2022

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
Bal. b/d		Honorarium	75,000
Cash 70,000		Stationery	15,000
Bank 2,00,000	2,70,000	Electricity Bill	35,000
Subscriptions	2,00,000	Rent	1,20,000
Entrance Fees	50,000	Furniture	1,80,000
Sale of old newspaper	2,000	Fixed Deposit @ 9% p.a. on 31.03.2022	1,00,000
Sale of old furniture (book value Rs. 10,000)	4,000	Balance c/d Cash 26,000 Bank 50,000	76,000
Donations	45,000		
Life membership fees	30,000		
	6,01,000		6,01,000

Additional Information:

(i) Club had 1750 members each paying an annual subscription of Rs. 100.

(ii) Furniture was purchased on 31.3.2022. [5 marks]

Solution:

Concept:

- The Income and Expenditure Account records revenue income and revenue expenses relating to the current accounting year on the accrual basis. Opening and closing cash or bank balances do not enter this account.

- Subscriptions for the year are determined from the number of members and the annual rate. Capital receipts and the purchase of assets are excluded, while a loss on sale of a fixed asset is an expense.

Step 1: Calculate subscriptions earned during the year There are 1,750 members, each paying an annual subscription of Rs 100. Therefore, the income attributable to the year ended 31.3.2022 is

$$\text{Subscriptions} = 1,750 \times 100 = \text{Rs } 1,75,000.$$

The cash received is Rs 2,00,000, but cash receipts are not the measure of subscription income. The excess of Rs 25,000 is excluded from current-year income. No further allocation of this difference is needed to prepare the Income and Expenditure Account.

Step 2: Separate capital items and calculate the loss on furniture Life membership fees of Rs 30,000 are a capital receipt and are added to the capital fund, rather than credited to revenue income. Furniture purchased for Rs 1,80,000 and the fixed deposit of Rs 1,00,000 are assets, so their purchase is not expenditure in this account. Both investments in assets were made on 31.3.2022; no interest has accrued on the fixed deposit during the year and no depreciation is charged on the furniture purchased on the last day. No other depreciation rate or amount is given.

$$\begin{aligned}\text{Loss on sale of old furniture} &= \text{Book value} - \text{Sale proceeds} \\ &= 10,000 - 4,000 = \text{Rs } 6,000.\end{aligned}$$

Only this loss is charged to the account; the sale proceeds themselves are not revenue income. Entrance fees and general donations are treated as revenue receipts because no restriction or direction to capitalise them is stated. Sale of old newspapers is also revenue income.

Step 3: Prepare the Income and Expenditure Account Income and Expenditure Account of Golden Club for the year ended 31.3.2022

Expenditure (Dr.)	**Rs**	**Income (Cr.)**	**Rs**
To Honorarium	75,000	By Subscriptions	1,75,000
To Stationery	15,000	By Entrance fees	50,000
To Electricity bill	35,000	By Sale of old newspaper	2,000
To Rent	1,20,000	By Donations	45,000
To Loss on sale of furniture	6,000		
To Surplus (transferred to Capital Fund)	21,000		
Total	**2,72,000**	**Total**	**2,72,000**

Revenue expenses before the balancing surplus total Rs 2,51,000. The account excludes the opening balance of Rs 2,70,000 and closing balance of Rs 76,000 because these are balances of cash and bank, not income or expenditure.

Step 4: Conclusion Golden Club earns a surplus of Rs 21,000 for the year ended 31.3.2022, being revenue income of Rs 2,72,000 less revenue expenditure of Rs 2,51,000. This surplus is transferred to the Capital Fund.

Quick Tip to Solve: Compute subscriptions from members times the annual rate first; replace the furniture sale receipt with only its loss in the Income and Expenditure Account.

Part B (10 marks)

Option — I (Analysis of Financial Statements)

10. What is meant by 'Cash Flow Statement'? [2 marks]

Solution:

Concept:

- Cash flows are inflows and outflows of cash and cash equivalents during a particular accounting period.
- Cash equivalents are short-term, highly liquid investments readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

Step 1: Meaning of the statement A Cash Flow Statement is a statement showing the inflows and outflows of cash and cash equivalents of an enterprise during a specified period. It explains the change in the opening and closing balances of cash and cash equivalents by identifying their sources and uses; it does not merely state the profit earned during that period.

Step 2: Classification of the cash flows Cash flows are classified into operating, investing and financing activities. Operating activities relate to the principal revenue-producing activities; investing activities concern the acquisition and disposal of long-term assets and investments; financing activities change the owners' capital and borrowings. The net cash flow from these three activities reconciles opening cash and cash equivalents with the closing balance.

Step 3: Conclusion A Cash Flow Statement reports the period's inflows and outflows of cash and cash equivalents, classified into operating, investing and financing activities, and explains the change in their balance.

Quick Tip to Solve: In the definition, include both cash and cash equivalents, a specified period, and the three activity headings.

11(a). From the following information, prepare a 'Common Size Statement of Profit and Loss' of K K Ltd. for the year ended 31.3.2021 and 31.3.2022:

Particulars	2021–2022 Amount (Rs.)	2020–2021 Amount (Rs.)
Revenue from operations	20,00,000	15,00,000
Other Income	2,00,000	1,50,000
Expenses	4,00,000	3,00,000
Tax Rate 50%		

[3 marks]

Solution:

Concept:

- A common size Statement of Profit and Loss expresses every item as a percentage of revenue from operations for the same year; revenue from operations is taken as 100%.

- The percentage of an item is $\dfrac{\text{Amount of the item}}{\text{Revenue from operations}} \times 100$. Profit before tax equals total revenue less expenses; profit after tax equals profit before tax less tax.

Step 1: Compute the profits and tax for each year For 2021–2022, total revenue is Rs $20,00,000 + 2,00,000 = 22,00,000$. Deducting expenses of Rs $4,00,000$ gives profit before tax of Rs $18,00,000$. Tax at 50% is Rs $9,00,000$, leaving profit after tax of Rs $9,00,000$.

For 2020–2021, total revenue is Rs $15,00,000 + 1,50,000 = 16,50,000$. Profit before tax is Rs $16,50,000 - 3,00,000 = 13,50,000$. Tax at 50% is Rs $6,75,000$, so profit after tax is Rs $6,75,000$.

Step 2: Prepare the common size statement For example, other income for 2021–2022 is $\frac{2,00,000}{20,00,000} \times 100 = 10\%$, and profit after tax is $\frac{9,00,000}{20,00,000} \times 100 = 45\%$. Applying the same base separately to each year gives:

K K Ltd.

Common Size Statement of Profit and Loss
For the years ended 31 March 2022 and 31 March 2021

Particulars	2021–2022		2020–2021	
	Amount (Rs)	%	Amount (Rs)	%
I. Revenue from operations	20,00,000	100	15,00,000	100
II. Other income	2,00,000	10	1,50,000	10
III. Total revenue (I + II)	22,00,000	110	16,50,000	110
IV. Expenses	4,00,000	20	3,00,000	20
V. Profit before tax (III - IV)	18,00,000	90	13,50,000	90
VI. Tax expense (50%)	9,00,000	45	6,75,000	45
VII. Profit after tax (V - VI)	9,00,000	45	6,75,000	45

Step 3: Conclusion Profit after tax is Rs $9,00,000$ for 2021–2022 and Rs $6,75,000$ for 2020–2021. It is 45% of revenue from operations in both years; all corresponding common size percentages remain unchanged.

Quick Tip to Solve: Use revenue from operations as the 100% base in each year; total revenue here is 110%, not the base.

OR

11(b). From the following Balance Sheet of J.J. Ltd. prepare a Comparative Balance Sheet as at 31.3.2022:

J.J. Ltd.

Balance Sheet as at 31.3.2022

Particulars	Note No.	31.3.2022 (Rs.)	31.3.2021 (Rs.)
I. EQUITY AND LIABILITIES :			
1. Shareholders' Funds :			
(a) Equity Share Capital		25,00,000	20,00,000
(b) Reserves and Surplus		5,00,000	4,00,000
2. Non-Current Liabilities :			
Long-term borrowings		10,00,000	10,00,000
3. Current Liabilities :			
Trade Payables		2,00,000	1,00,000
Total :		42,00,000	35,00,000
II. ASSETS :			
1. Non-Current Assets :			
Fixed Assets		30,00,000	25,00,000
2. Current Assets :			
Inventories		12,00,000	10,00,000
Total :		42,00,000	35,00,000

[3 marks]

Solution:

Concept:

- A comparative balance sheet places the previous year's and current year's balances side by side and measures the absolute and percentage change in each item.
- Absolute change = Current year amount - Previous year amount. Percentage change = $\frac{\text{Absolute change}}{\text{Previous year amount}} \times 100$. Here 31.3.2021 is the base date, so its amounts form the denominators.

Step 1: Calculate the changes with 2021 as the base Share capital increases by Rs 5,00,000, giving $\frac{5,00,000}{20,00,000} \times 100 = 25\%$. Reserves increase by Rs 1,00,000, also 25%. Borrowings are unchanged, so their change is zero. Trade payables increase by Rs 1,00,000 on a base of Rs 1,00,000, giving 100%. Fixed assets increase by Rs 5,00,000 on Rs 25,00,000, giving 20%; inventories increase by Rs 2,00,000 on Rs 10,00,000, also 20%.

Step 2: Prepare the comparative balance sheet **J.J. Ltd.**

Comparative Balance Sheet as at 31.3.2022

Particulars	31.3.2021 (Rs)	31.3.2022 (Rs)	Change (Rs)	Change (%)
I. Equity and Liabilities				
1. Shareholders' Funds				
(a) Equity Share Capital	20,00,000	25,00,000	5,00,000	25
(b) Reserves and Surplus	4,00,000	5,00,000	1,00,000	25
2. Non-Current Liabilities				
Long-term borrowings	10,00,000	10,00,000	Nil	0
3. Current Liabilities				
Trade Payables	1,00,000	2,00,000	1,00,000	100
Total	**35,00,000**	**42,00,000**	**7,00,000**	**20**
II. Assets				
1. Non-Current Assets				
Fixed Assets	25,00,000	30,00,000	5,00,000	20
2. Current Assets				
Inventories	10,00,000	12,00,000	2,00,000	20
Total	**35,00,000**	**42,00,000**	**7,00,000**	**20**

The totals reconcile on both sides. Total increase is Rs 7,00,000 and its percentage is

$$\frac{7,00,000}{35,00,000} \times 100 = 20\%.$$

Step 3: Conclusion The comparative balance sheet shows total assets and total equity and liabilities increasing from Rs 35,00,000 to Rs 42,00,000, an increase of Rs 7,00,000 or 20%.

Quick Tip to Solve: Always divide each increase by that item's 2021 balance; trade payables double, so their percentage increase is 100, although the total grows by only 20 percent.

12. From the following Balance Sheet of Jay Ltd. as at 31.3.2022, calculate 'Cash Flows from Operating Activities':

Jay ltd.

Balance Sheet as at 31.3.2022

Particulars	Note No.	31.3.2022 (Rs.)	31.3.2021 (Rs.)
I. EQUITY AND LIABILITIES :			
1. Shareholders' Funds :			
(a) Share Capital	1	50,00,000	30,00,000
(b) Reserves and Surplus	2	10,00,000	6,00,000
2. Non-Current Liabilities :			
Long-term borrowings	3	8,00,000	4,00,000
3. Current Liabilities :			
(a) Trade Payables		2,00,000	3,00,000
(b) Other Current Liabilities	4	3,00,000	1,00,000
(c) Short-term provisions	5	1,50,000	1,00,000
Total :		74,50,000	45,00,000
II. ASSETS :			
1. Non-Current Assets :			
Fixed Assets			
(i) Tangible Assets	6	60,00,000	40,00,000
(ii) Intangible Assets	7	4,00,000	4,00,000
2. Current Assets :			
(a) Inventories		7,00,000	40,000
(b) Cash and Cash equivalents		3,50,000	60,000
Total :		74,50,000	45,00,000

Notes to Accounts :

Note No.	Particulars	31.3.2022 (Rs.)	31.3.2021 (Rs.)
1.	Share Capital : Equity Share Capital	50,00,000	30,00,000
2.	Reserves and Surplus : Surplus i.e. balance in the statement of profit and loss.	10,00,000	6,00,000
3.	Long-term borrowings : 10% debentures	8,00,000	4,00,000
4.	Other Current Liabilities : Outstanding rent	3,00,000	1,00,000
5.	Short-term provisions : Provision for tax	1,50,000	1,00,000
6.	Tangible Assets : Land	60,00,000	40,00,000
7.	Intangible Assets : Patents	4,00,000	4,00,000

Additional Information:

Rs. 4,00,000, 10% Debentures were issued on 31.3.2022. [5 marks]

Solution:

Concept:

- Under the indirect method, start with net profit before tax, add non-operating expenses, adjust operating current assets and liabilities, and deduct income tax paid.
- Interest on debentures is a financing cost. Cash and cash equivalents are excluded from working-capital adjustments; tax provision is dealt with separately from operating liabilities.

Step 1: Calculate profit before tax and debenture interest The increase in the balance of the statement of profit and loss gives profit after tax, as no other appropriation is given:

$$\text{Profit after tax} = 10,00,000 - 6,00,000 = \text{Rs } 4,00,000.$$

Add the current year's tax provision of Rs 1,50,000 to obtain profit before tax of Rs 5,50,000. The fresh debentures of Rs 4,00,000 were issued on 31.3.2022, the last day of the year. Therefore annual interest is calculated only on the opening debentures:

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

Add this financing expense back to profit before tax. Operating profit before working-capital changes is therefore Rs 5,90,000. Land is not depreciable, and the patents balance is unchanged; no depreciation or amortisation adjustment is supplied.

Step 2: Determine working-capital changes and tax paid Inventories increased by Rs 6,60,000, from Rs 40,000 to Rs 7,00,000, so deduct this increase. Trade payables decreased by Rs 1,00,000, so deduct that decrease. Outstanding rent increased by Rs 2,00,000, so add that increase, because the expense charged exceeds the cash paid by this amount.

In the absence of any other tax information, the opening tax provision of Rs 1,00,000 is treated as tax paid during the year; the closing Rs 1,50,000 is the provision made for the current year. Thus the provision reconciliation is Rs 1,00,000 plus Rs 1,50,000 less Rs 1,00,000 equals Rs 1,50,000. Do not include tax provision again in working capital.

Step 3: Prepare the operating activities section **Jay Ltd. — Cash Flow from Operating Activities For the year ended 31.3.2022**

Particulars	Amount (Rs)
Net profit before tax	5,50,000
Add: Interest on debentures	40,000
Operating profit before working-capital changes	5,90,000
Less: Increase in inventories	(6,60,000)
Less: Decrease in trade payables	(1,00,000)
Add: Increase in outstanding rent	2,00,000
Cash generated from operations	30,000
Less: Income tax paid	(1,00,000)
Net cash used in operating activities	(70,000)

Share capital and debenture proceeds are financing flows, while purchases of land are investing flows. They therefore do not enter this operating activities statement. The negative final amount indicates a cash outflow.

Step 4: Conclusion Net cash flow from operating activities is $\boxed{\text{Rs } (70,000)}$, i.e. net cash used in operating activities is Rs 70,000.

Quick Tip to Solve: Use the opening Rs 4,00,000 debentures for interest: the additional issue on 31 March earns no full-year interest. Keep tax provision out of working capital.

Option - II (Computerised Accounting)

10. What is the meaning of the term 'Data Audit'? [2 marks]

Solution:

Concept:

- Data audit is the examination and verification of data maintained in a computerised accounting system.
- Its purpose is to establish whether the recorded data are accurate, complete and consistent with the supporting records and prescribed controls.

Step 1: Meaning of data audit Data audit means a systematic scrutiny of the accounting data stored in a computer system to check their correctness, completeness and reliability. The auditor compares the recorded information with the underlying source documents and checks whether the data have been properly entered and processed.

Step 2: Explain the scope of the check The scrutiny can reveal missing entries, duplicate records, incorrect amounts and unauthorised alterations. For example, checking a recorded purchase against its invoice helps establish whether the amount and other particulars are correct. Thus, the focus is on the quality and integrity of the data on which the accounting reports depend.

Step 3: Conclusion Data audit is the systematic examination and verification of computerised accounting data to establish their accuracy, completeness and reliability.

Quick Tip to Solve: Link the word audit with checking: name the data being examined and the accuracy and completeness being verified.

11. State the three elements used in 'Payroll' calculation. [3 marks]

Solution:

Concept:

- Payroll calculates each employee's salary for the relevant pay period using earned pay, applicable allowances and deductions.
- Three elements used in the calculation are Basic Pay Earned (BPE), Dearness Allowance (DA) and House Rent Allowance (HRA).

Step 1: Basic Pay Earned (BPE) This is the basic salary payable for the effective days of attendance in the month. If BP is monthly basic pay, NOEDP is the number of effective days present and NODM is

the number of days in the month, then

$$\text{BPE} = \text{BP} \times \frac{\text{NOEDP}}{\text{NODM}}.$$

Effective attendance excludes leave without pay and unauthorised absence; hence a full month's basic pay is not automatically payable for a partly unpaid month.

Step 2: Dearness Allowance (DA) DA compensates for the reduction in purchasing power caused by rising prices. Using the applicable DA rate as a fraction,

$$\text{DA} = \text{BPE} \times \text{DA rate}.$$

Thus, a percentage rate must be divided by 100 before multiplication.

Step 3: House Rent Allowance (HRA) HRA is the allowance towards an employee's residential accommodation. At the applicable HRA rate expressed as a fraction,

$$\text{HRA} = \text{BPE} \times \text{HRA rate}.$$

Both allowances enter earnings; neither is a deduction from salary.

Step 4: Conclusion Three elements are Basic Pay Earned (BPE), Dearness Allowance (DA) and House Rent Allowance (HRA).

Quick Tip to Solve: State three named calculation elements and show how each is computed; use earned basic pay as the base for DA and HRA.

OR

11. What is the use of 'CUMIPMT' function? Write and explain its syntax. [3 marks]

Solution:

Concept:

- The CUMIPMT function calculates cumulative interest on a loan between two specified payment periods when the interest rate and periodic payments remain constant.
- Interest is distinct from principal repayment: CUMIPMT returns only the interest component for the selected period range, not the total instalments or the outstanding loan balance.

Step 1: State the use and syntax CUMIPMT is used to find the total interest paid on a loan from a chosen starting instalment to a chosen ending instalment, both inclusive. Its syntax is:

CUMIPMT(rate, nper, pv, start_period, end_period, type)

For example, it can determine the interest included in the first year's monthly loan instalments without adding the interest of each month separately.

Step 2: Explain the six arguments **rate**: the interest rate per payment period. For monthly instalments, divide the annual rate by 12.

nper: the total number of payment periods over the complete loan term. For a five-year loan with monthly instalments, this is $5 \times 12 = 60$.

pv: the present value, or the original principal amount of the loan.

start_period: the first payment period whose interest is to be included. Period numbering begins at 1.

end_period: the last payment period whose interest is to be included. It must not precede the starting period and must not exceed nper.

type: the timing of payment; 0 means payment at the end of each period and 1 means payment at the beginning of each period.

Step 3: Apply consistent periods and interpret the sign The rate and nper must use the same time unit. For a loan of Rs 1,00,000 at 12 percent per annum, repayable monthly over five years with payments at month-end, the first year's interest is obtained by:

$$\text{CUMIPMT}(12\%/12,\ 60,\ 100000,\ 1,\ 12,\ 0).$$

With a positive present value, the result is negative because interest paid is a cash outflow. Thus the function reports the direction of the payment as well as its amount.

Step 4: Conclusion CUMIPMT gives the cumulative interest paid over a specified range of loan payment periods, using the six arguments rate, nper, pv, start_period, end_period and type.

Quick Tip to Solve: For monthly repayments, divide the annual rate by 12 and multiply the loan term in years by 12; use type 0 for month-end payments.

12. State the steps to construct 'Bank Reconciliation statement' in Tally. [5 marks]

Solution:

Concept:

- A Bank Reconciliation Statement explains the difference between the bank balance in the books and the balance shown by the bank statement on a specified date.
- Tally matches bank-book transactions with their actual clearance dates. The voucher date records the entry in the books; the Bank Date records when the bank cleared it.

Step 1: Open the bank book Select the required company. From Gateway of Tally, select Display, then Account Books, and then Cash/Bank Book(s). This opens the available cash and bank ledgers.

Step 2: Select the bank and period Select the relevant Bank Account and press Enter. From its monthly summary select the month to be reconciled and press Enter to display the bank ledger vouchers. Use the period selection facility if a different reporting period is required. Keep the bank statement for the same account and period ready.

Step 3: Open the reconciliation screen In the bank ledger voucher screen, press F5: Reconcile. The reconciliation screen allows bank-clearance information to be entered against the recorded receipts and payments.

Step 4: Match the transactions and enter Bank Dates Compare each bank-book entry with the bank statement, checking the amount and cheque or transaction reference. For every matched transaction,

enter its actual clearance date from the bank statement in the Bank Date column. Leave the Bank Date blank for transactions that have not yet appeared in the bank statement. For example, a cheque issued and recorded in the books but not yet presented remains unreconciled; entering its voucher date as its clearance date would incorrectly hide this timing difference.

Step 5: Save and examine the reconciliation Accept and save the completed reconciliation details. Review the balance as per the company's books, the amounts not reflected in the bank, and the resulting balance as per the bank. Investigate any remaining difference. If the statement contains an unrecorded bank charge, interest or direct credit, first record the appropriate voucher in the books and then reconcile it. Outstanding cheques or deposits remain reconciling items until the bank clears them; they do not require duplicate accounting entries.

Step 6: Conclusion Thus, open the selected bank ledger, choose the period, press F5: Reconcile, enter the clearance dates of matched transactions, and save and review the Bank Reconciliation Statement.

Quick Tip to Solve: Enter the bank statement's clearance date in Bank Date, and leave uncleared entries blank so that timing differences remain visible.