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

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

(i) This question paper comprises of **two** Parts – 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. List any four items that are considered as Capital items while preparing financial statements of a Not-for-Profit Organisation. [2 marks]

Solution:

Concept:

- Capital receipts add to the capital fund or a specified fund; they are not income earned from the ordinary activities of the current year.
- Capital expenditure acquires or improves a fixed asset whose benefit extends beyond the current accounting period. It is shown as an asset rather than charged in full to the Income and Expenditure Account.

Step 1: Identify capital receipts Three examples are (i) life membership fees, (ii) an endowment fund received, and (iii) donations received specifically for constructing a building. Life membership fees relate to membership benefits over many years, while the other two receipts establish funds for specified long-term purposes. These receipts are reflected in the Balance Sheet through the appropriate capital or specific fund.

Step 2: Identify capital expenditure A fourth example is the purchase of furniture for use by the organisation. Furniture provides services for more than one accounting year and is therefore recorded as a fixed asset. Only the applicable depreciation, rather than its entire purchase price, is a revenue expense of the year.

Step 3: Conclusion Any four capital items are: life membership fees; endowment fund receipts; donations specifically for a building fund; and purchase of furniture.

Quick Tip to Solve: For four clear examples, use three named capital receipts and one purchase of a fixed asset; do not list ordinary subscriptions.

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

Solution:

Concept:

- A continuing partner's new share equals the old share plus the portion acquired from the retiring partner.
- If only specified partners acquire the retiring partner's share, the share of every other continuing partner remains unchanged. Convert all shares to a common denominator before forming the new ratio.

Step 1: Calculate the share acquired by B and D The total of the old ratio is $4+3+2+1=10$. Hence

C's retiring share is $2/10$. B and D acquire this share equally, so each gains

$$\frac{2}{10} \times \frac{1}{2} = \frac{1}{10}.$$

A does not acquire any part of C's share. Therefore, A's share stays at $4/10$; it must not be increased merely because C retires.

Step 2: Add the gains to the continuing partners' old shares

$$\begin{aligned} \text{A's new share} &= \frac{4}{10}, \\ \text{B's new share} &= \frac{3}{10} + \frac{1}{10} = \frac{4}{10}, \\ \text{D's new share} &= \frac{1}{10} + \frac{1}{10} = \frac{2}{10}. \end{aligned}$$

The shares add to $(4 + 4 + 2)/10 = 1$, confirming that the entire future profit is allocated. Cancel the common denominator and divide the resulting numbers by their common factor of 2.

Step 3: Conclusion The new profit-sharing ratio of A, B and D is $4 : 4 : 2 = \boxed{2 : 2 : 1}$.

Quick Tip to Solve: Add one ratio unit each to B and D because C's two units are divided equally; keep A's four units unchanged.

3. Ravi, Mohan and Sohan were partners in a firm. On 31.3.2022 Mohan retired from the firm. On Mohan's retirement the balance sheet of the firm showed debtors at Rs. 1,95,000. It was decided to record unrecorded debtors of Rs. 5,000 and create a provision of 5% on debtors for bad and doubtful debts.

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

[2 marks]

Solution:

Concept:

- An unrecorded asset brought into the books is debited to its asset account and credited to Revaluation Account, since its recognition increases the firm's net assets.
- A newly created provision for doubtful debts is a revaluation loss. Debit Revaluation Account and credit Provision for Doubtful Debts Account; calculate the provision on the revised gross debtors.

Step 1: Calculate revised debtors and the provision First add the unrecorded debtors to the existing balance:

$$\text{Revised debtors} = \text{Rs } 1,95,000 + \text{Rs } 5,000 = \text{Rs } 2,00,000.$$

The required provision is therefore

$$\text{Rs } 2,00,000 \times \frac{5}{100} = \text{Rs } 10,000.$$

Computing 5% on the original balance alone would omit the newly recognised debtors from the

provision base.

Step 2: Record the journal entries on Mohan's retirement Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31.3.2022	Debtors A/c Dr. To Revaluation A/c (Being unrecorded debtors brought into the books)		5,000	5,000
31.3.2022	Revaluation A/c Dr. To Provision for Doubtful Debts A/c (Being provision created at 5% on revised debtors of Rs 2,00,000)		10,000	10,000

Step 3: Conclusion Credit Revaluation Account with Rs 5,000 for the unrecorded debtors and debit it with Rs 10,000 for the provision. The net revaluation loss from these two adjustments is Rs 5,000, and net debtors are Rs 1,90,000.

Quick Tip to Solve: Bring unrecorded debtors into the books before applying the provision percentage to the revised total.

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 the cost of medicines consumed during the year, on the accrual basis, rather than merely the cash paid for medicines.
- Credit purchases = payments to creditors + closing creditors - opening creditors. Medicines consumed = opening stock + total purchases - closing stock.

Step 1: Calculate credit purchases of medicines The payment of Rs 11,49,000 includes settlement of the opening creditors. Deduct opening creditors and add the amount still payable at the end of the year to find purchases made on credit during the current year:

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

The increase in creditors of Rs 2,85,000 means that credit purchases exceed the cash paid to creditors

by this amount.

Step 2: Add the emergency cash purchases Medicines bought for cash are also purchases of the hospital. They are not included in payments to creditors, so they must be added separately:

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

Step 3: Adjust for opening and closing stock Opening stock is available for use during the year, while closing stock is still unused and must be excluded from the year's expense. Thus,

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

The unused closing stock of Rs 3,75,000 remains an asset and the closing creditors of Rs 8,25,000 remain a liability in the Balance Sheet; neither is a separate additional expense after these adjustments.

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

Quick Tip to Solve: First adjust payments for creditors, then add cash purchases; finally add opening stock and deduct closing stock to obtain medicines consumed.

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 ordinary activities are credited to the Income and Expenditure Account. Capital receipts are excluded from this account and shown in the Balance Sheet.
- A receipt earmarked for a specific capital purpose is kept in a separate fund; it is not available as unrestricted income for the year's activities.

Step 1: (a) Sale of used sports material The proceeds from the sale of used sports material are a revenue receipt. Used sports material is a consumable item used in the organisation's normal activities. Its sale proceeds are therefore credited to the Income and Expenditure Account under the head "Sale of used sports material".

No separate capital receipt or fund is shown for this item in the Balance Sheet. The amount credited contributes to the year's surplus or reduces its deficit, which ultimately affects the capital fund. Used sports material should not be confused with the sale of a fixed asset such as permanent sports equipment.

Step 2: (b) Life membership fees Life membership fees are received once for membership extending over the member's lifetime, rather than only for the current accounting year. They are treated as a capital receipt and are not credited to the current year's Income and Expenditure Account.

The amount is added to the capital fund on the liabilities side of the Balance Sheet. This prevents a receipt relating to membership over many years from being treated as the income of just one year.

Step 3: (c) Government grant for construction of a building The government grant is specifically for constructing a building, a capital asset. It is therefore a capital receipt and is not credited to the Income and Expenditure Account as ordinary grant income.

It is shown separately on the liabilities side of the Balance Sheet as a building fund or grant for building construction. Keeping it under its specified head identifies the restriction on its use. A general government grant for meeting routine expenses would have a different treatment, but this grant is expressly for construction.

Step 4: Conclusion Sale of used sports material is credited to the Income and Expenditure Account. Life membership fees are added to the capital fund, while the building grant is shown separately as a building fund on the liabilities side of the Balance Sheet; the latter two are capital receipts.

Quick Tip to Solve: Identify the purpose of each receipt: used consumables give revenue income, lifetime membership gives capital, and a building grant creates a specific fund.

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5. C, F and S were partners in a firm sharing profits and losses in the ratio of 5 : 4 : 1. F died on 30th June, 2021. The firm earned a net profit of Rs. 3,00,000 for the year ended 31.3.2021. The deceased partner's share in the year of his death was to be calculated on the basis of sales. The sales for the year ended 31.3.2021 were Rs. 24,00,000 whereas the sales from 1st April, 2021 to 30th June, 2021 were Rs. 4,00,000.

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

Solution:

Concept:

- When profit up to a partner's death is estimated on the basis of sales, apply the previous year's net-profit-to-sales ratio to sales up to the date of death.
- The deceased partner receives the estimated profit multiplied by the deceased partner's share in the old profit-sharing ratio. Credit the partner's capital account and debit Profit and Loss Suspense Account.

Step 1: Determine the historical net profit rate For the year ended 31st March, 2021, net profit was Rs 3,00,000 and sales were Rs 24,00,000. Therefore,

$$\text{Net profit rate} = \frac{3,00,000}{24,00,000} \times 100 = 12.5\%.$$

This percentage expresses profit as a proportion of sales, rather than as a proportion of cost.

Step 2: Estimate profit up to F's death and allocate F's share Sales from 1st April, 2021 to 30th June,

2021 were Rs 4,00,000. Apply the sales-based rate to this actual interim sales figure:

$$\text{Estimated interim profit} = 4,00,000 \times \frac{12.5}{100} = \text{Rs } 50,000,$$
$$\text{F's share} = 50,000 \times \frac{4}{5+4+1} = \text{Rs } 20,000.$$

The ratio gives F a share of $4/10$. No further multiplication by $3/12$ is required, because the sales of Rs 4,00,000 already relate only to the period up to F's death.

Step 3: Record the amount due to F **Journal of the firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
30-6-2021	Profit and Loss Suspense A/c Dr. To F's Capital A/c (Being F's share of estimated profit up to the date of death credited to his capital account)		20,000	 20,000

Profit and Loss Suspense Account is used because the current year's final profit has not yet been determined. F's capital account is credited to recognise the additional amount due to the deceased partner.

Step 4: Conclusion F's share of profit up to 30th June, 2021 is $\boxed{\text{Rs } 20,000}$. Debit Profit and Loss Suspense Account and credit F's Capital Account by Rs 20,000 each.

Quick Tip to Solve: Use interim sales times the old profit-to-sales ratio times F's share; do not apply a time fraction again to the interim sales-based profit.

6. 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:

- Net assets acquired equal assets taken over less liabilities assumed. If net assets exceed purchase consideration, the difference is credited to Capital Reserve Account.
- When debentures settle purchase consideration, divide the consideration by the issue price per debenture. Credit the face value to Debentures Account and the excess of issue price over face value to Securities Premium Reserve Account.

Step 1: Calculate net assets and capital reserve X Ltd. takes over assets of Rs 18,00,000 and liabilities of Rs 6,00,000. The resulting net assets are compared with the agreed amount payable to Y Ltd.:

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

Since the net assets exceed the purchase consideration, this is a capital reserve, not goodwill. The

vendor is credited only with the agreed consideration of Rs 10,00,000.

Step 2: Determine the number and value of debentures issued Each debenture with a face value of Rs 100 settles Rs 125 of the amount due to Y Ltd. Therefore,

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

The 9% rate is the annual interest rate on the debentures; it does not determine their number or the premium on issue.

Step 3: Journalise the acquisition and settlement **Journal of X Ltd.**

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

The first entry balances at Rs 18,00,000 and the second at Rs 10,00,000. Debiting Y Ltd. in the second entry clears the vendor's liability in full.

Step 4: Conclusion X Ltd. issues $\boxed{8,000 \text{ debentures}}$, with face value totalling Rs 8,00,000 and securities premium of Rs 2,00,000. The acquisition also creates capital reserve of Rs 2,00,000.

Quick Tip to Solve: Divide Rs 10,00,000 by the issue price Rs 125, not the face value Rs 100; keep the acquisition capital reserve separate from the issue premium.

OR

Pass necessary journal entries in the books of Z Ltd. for the following transactions:

6(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. [3 marks total]

Solution:

Concept:

- Debentures issued at a premium are credited to Debentures Account at face value; the excess over face value is credited to Securities Premium Reserve Account.
- When the entire issue price is payable on application, excess money from both rejected applications and pro-rata allotment must be refunded because no later instalment is due.

Step 1: Calculate application receipts and refunds for part (a) The issue price is Rs $100 + 10 = 110$ per debenture. The applicants pay the whole issue price in advance.

$$\text{Money received} = 15,000 \times 110 = \text{Rs } 16,50,000.$$

Rejected applicants receive $3,000 \times 110 = \text{Rs } 3,30,000$. The remaining 12,000 applications receive 10,000 debentures, so the allotment ratio is $10,000 : 12,000 = 5 : 6$. Their excess money is $(12,000 - 10,000) \times 110 = \text{Rs } 2,20,000$.

$$\text{Total refund} = 3,30,000 + 2,20,000 = \text{Rs } 5,50,000.$$

The company retains Rs 11,00,000, comprising Rs 10,00,000 face value and Rs 1,00,000 securities premium.

Step 2: Record receipt, refund and allotment for part (a) **Journal of Z Ltd. — Part (a)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Debenture Application and Allotment A/c (Being full application money received for 15,000 debentures at Rs 110 each)		16,50,000	 16,50,000
	Debenture Application and Allotment A/c Dr. To Bank A/c (Being Rs 3,30,000 refunded on rejected applications and Rs 2,20,000 refunded on pro-rata allotment)		5,50,000	 5,50,000
	Debenture Application and Allotment A/c Dr. To 9% Debentures A/c To Securities Premium Reserve A/c (Being 10,000 debentures allotted at Rs 100 face value and Rs 10 premium each)		11,00,000	 10,00,000 1,00,000

Step 3: Conclusion Z Ltd. allots 10,000 debentures, credits Rs 10,00,000 to 9% Debentures Account and Rs 1,00,000 to Securities Premium Reserve Account, and refunds Rs 5,50,000 in total.

Quick Tip to Solve: With the full issue price payable on application, refund the excess even to successful pro-rata applicants; there is no later call against which to adjust it.

6(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.

Solution:

Concept:

- Loss on issue of debentures is written off against the available Securities Premium Reserve; the remaining amount is charged to the Statement of Profit and Loss.
- The write-off reduces the deferred loss: debit the sources used and credit Loss on Issue of Debentures Account with the entire amount removed.

Step 1: Calculate the amounts to be written off The specified Securities Premium Reserve balance is Rs 60,000 and the loss on issue is Rs 1,00,000. Apply the available reserve first. The amount charged to the Statement of Profit and Loss is therefore

$$\text{Remaining loss} = 1,00,000 - 60,000 = \text{Rs } 40,000.$$

The reserve balance given in this transaction is the relevant available amount; the premium arising in part (a) is not added to this independently stated balance.

Step 2: Journalise the complete write-off Part (b) specifies an available Securities Premium Reserve balance of Rs 60,000. Use this stated balance for that transaction; do not add the premium from the separate transaction in part (a). The balance of the loss is $1,00,000 - 60,000 = \text{Rs } 40,000$.

Journal of Z Ltd. — Part (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 against securities premium and the Statement of Profit and Loss)			

Step 3: Conclusion The loss of Rs 1,00,000 is fully written off by debiting Securities Premium Reserve Account with Rs 60,000 and the Statement of Profit and Loss with Rs 40,000. Loss on Issue of Debentures Account is credited with Rs 1,00,000.

Quick Tip to Solve: Use the stated available premium balance of Rs 60,000 first; charge only the remaining Rs 40,000 to the Statement of Profit and Loss.

7. 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 year on the accrual basis. Opening and closing cash and bank balances are not income or expenditure.
- Current-year subscription income equals the number of members multiplied by the annual subscription per member. Cash subscriptions received can include amounts relating to other years.
- General donations and entrance fees are revenue receipts when no specific purpose or direction to capitalise them is given. Life membership fees, purchases of fixed assets and investments are capital items.
- On sale of a fixed asset, only the profit or loss enters the Income and Expenditure Account: loss equals book value less sale proceeds.

Step 1: Calculate subscription income and the loss on furniture **Working Notes**

The club has 1,750 members, each liable for the annual subscription of Rs 100. Therefore, the income earned for the year is:

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

Use this amount instead of the cash receipt of Rs 2,00,000. The difference of Rs 25,000 does not belong to this year's subscription income; the question does not give enough detail to split it between

receipts relating to earlier or later periods.

$$\text{Loss on furniture} = 10,000 - 4,000 = \text{Rs } 6,000.$$

The sale proceeds of Rs 4,000 are a capital receipt, so they are not separately credited as revenue income. The loss of Rs 6,000 is debited as an expense.

Step 2: Classify the remaining receipts and payments Entrance fees of Rs 50,000 and donations of Rs 45,000 have no stated capitalisation condition or specific purpose, so credit them as revenue income. Sale of old newspapers, Rs 2,000, is also revenue income. Life membership fees of Rs 30,000 are capitalised and excluded from this account. Honorarium of Rs 75,000, stationery of Rs 15,000, electricity of Rs 35,000 and rent of Rs 1,20,000 are current revenue expenses. No outstanding, prepaid or stationery-stock adjustment is given. Furniture costing Rs 1,80,000 was purchased on 31.3.2022, the final day of the year; no depreciation charge is required on this purchase for the year. The fixed deposit of Rs 1,00,000 is an investment made on the same date, so no interest has accrued for the year. Neither capital payment is an expense. Opening cash and bank balances of Rs 2,70,000 and closing balances of Rs 76,000 are also excluded.

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

Dr. Expenditure	**Rs**	**Cr. Income**	**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 newspapers	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 total Rs 2,51,000. The balancing surplus is transferred to the Capital Fund, increasing the accumulated funds of the club.

Step 4: Conclusion Golden Club's income for the year is Rs 2,72,000 and expenditure is Rs 2,51,000. Hence, the **surplus for the year ended 31.3.2022 is Rs 21,000**.

Quick Tip to Solve: Start with 1,750 members times Rs 100 for subscriptions; exclude the year-end furniture purchase and fixed deposit, but include the Rs 6,000 loss on the old furniture.

8(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. Subsequent asset recoveries are credited to Realisation, while payments of these liabilities are debited to it.
- An asset taken by a partner debits that partner's Capital Account at the agreed value. When a creditor directly accepts a transferred asset in settlement, no further journal entry is required.
- The final realisation loss is debited to the partners' Capital Accounts in their profit-sharing ratio, here $2 : 1 : 2$.

Step 1: (i) Record stock taken by T and stock sold T takes half the stock at an agreed value of Rs 90,000, so his Capital Account is debited with this amount. The book value of this half is $90,000/0.90 = \text{Rs } 1,00,000$; hence total stock had a book value of Rs 2,00,000. Since stock has already been transferred, record only the agreed takeover value and the Rs 40,000 cash sale, not a second transfer of stock.

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 by T at its 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) Account for machinery accepted by creditors **No journal entry is required.** Machinery of Rs 80,000 and creditors of Rs 78,000 have both already been transferred to Realisation Account. Their direct settlement involves no bank transaction and no partner's capital. The difference of Rs 2,000 is already reflected through the original debit and credit in Realisation; recording it again would duplicate the effect.

Step 3: (iii) Record recovery of debtors previously written off These debtors have no remaining book balance. Their recovery is therefore credited directly to Realisation Account; no Debtors Account is reopened.

Journal of T, U and V (continued)

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 a third party, distinct from partner V. Her loan has already been transferred to Realisation Account with the other outside liabilities. Accordingly, debit Realisation on payment, rather than debiting V's Capital Account or recording the loan transfer again.

Journal of T, U and V (continued)

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) Distribute the loss on dissolution The given total loss is Rs 80,000. Allocate it in the ratio $2:1:2$:

$$\text{T's share} = 80,000 \times \frac{2}{5} = \text{Rs } 32,000,$$

$$\text{U's share} = 80,000 \times \frac{1}{5} = \text{Rs } 16,000,$$

$$\text{V's share} = 80,000 \times \frac{2}{5} = \text{Rs } 32,000.$$

Journal of T, U and V (continued)

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 realisation loss transferred to partners in the ratio 2:1:2)		32,000 16,000 32,000	80,000

Step 6: Conclusion The required entries record Rs 1,30,000 realised from stock, Rs 5,000 recovered from written-off debtors and Rs 72,000 paid for Mrs. V's loan. No further entry is passed for creditors taking machinery. The loss is charged to T, U and V at Rs 32,000, Rs 16,000 and Rs 32,000 respectively.

Quick Tip to Solve: Check whether liabilities are already transferred: Mrs. V's outside loan is paid through Realisation, while a creditor taking a transferred asset needs no further entry.

OR

8(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 Account records changes in asset and liability values on retirement. Decreases in asset values are debited and increases are credited; the resulting profit or loss belongs to all the old partners in their old profit-sharing ratio.
- General Reserve represents accumulated profit and is distributed to D, E and F in the old ratio $5 : 2 : 3$. D is also entitled to his old share of the firm's goodwill.
- The continuing partners compensate D for goodwill in their gaining ratio. The final credit balance of D's Capital Account is transferred to D's Loan Account as instructed, rather than paid in cash.

Step 1: Calculate revaluation adjustments and profit **Working Notes**

Investments fall from Rs 1,15,000 to Rs 85,000, so the decrease is Rs 30,000. Machinery falls from Rs 7,50,000 to Rs 7,00,000, so depreciation is Rs 50,000. Land and Building rises from Rs 10,00,000 to Rs 12,00,000, giving an appreciation of Rs 2,00,000.

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

This profit is credited to all three partners in their old ratio, including the retiring partner D:

$$\text{D's share} = 1,20,000 \times \frac{5}{10} = \text{Rs } 60,000,$$
$$\text{E's share} = 1,20,000 \times \frac{2}{10} = \text{Rs } 24,000,$$
$$\text{F's share} = 1,20,000 \times \frac{3}{10} = \text{Rs } 36,000.$$

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

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

The transfers to capital accounts distribute the revaluation profit and close this temporary account. Hence it has no balance carried forward.

Step 3: Work out D's reserve and goodwill entitlements D receives his old share of General Reserve and goodwill:

$$\text{D's reserve share} = 2,00,000 \times \frac{5}{10} = \text{Rs } 1,00,000,$$
$$\text{D's goodwill share} = 1,00,000 \times \frac{5}{10} = \text{Rs } 50,000.$$

No new profit-sharing ratio is specified, so E and F continue in their relative old ratio $2:3$. Their gains are $2/5 - 2/10 = 2/10$ and $3/5 - 3/10 = 3/10$; therefore their gaining ratio is also $2:3$. E's Capital Account is debited by $50,000 \times 2/5 = \text{Rs } 20,000$ and F's by $50,000 \times 3/5 = \text{Rs } 30,000$, with a total credit of Rs 50,000 to D's Capital Account. Goodwill is adjusted directly between the partners' capitals and is not included in Revaluation Account.

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

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

The amount due is verified as Rs $7,00,000 + 1,00,000 + 60,000 + 20,000 + 30,000 = 9,10,000$. The debit to D's Capital Account and matching credit to D's Loan Account close his capital account while retaining the firm's liability to him.

Step 5: Conclusion Revaluation profit is **Rs 1,20,000**, of which D receives **Rs 60,000**. D's final entitlement of **Rs 9,10,000** is transferred to his Loan Account. Both accounts balance as shown above.

Quick Tip to Solve: Use the old ratio for revaluation profit and reserves, but the gaining ratio for the continuing partners' goodwill debits. Transfer D's complete adjusted capital to his loan only after adding all three entitlements.

9. 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:

- Debentures Account is credited with the face value issued. Bank Account is debited with the issue proceeds: face value plus issue premium, or face value less issue discount.
- Premium received on issue is credited to Securities Premium Reserve. A discount on issue is debited to Discount on Issue of Debentures Account; where redemption is at a premium, the total discount and redemption premium are debited to Loss on Issue of Debentures Account.
- Premium on Redemption of Debentures Account is credited when the debentures are issued, recognising the additional amount payable at redemption. The stated interest rate identifies the debenture account; it does not determine the issue price.

Step 1: (a) Record issue at par, redeemable at par Face value and cash received are both $50,000 \times$ Rs $100 =$ Rs $50,00,000$. There is neither an issue discount nor a redemption premium.

Journal: Case (a)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To 9% Debentures A/c (Being 50,000 debentures of Rs 100 each issued at par, redeemable at par)		50,00,000	 50,00,000

Step 2: (b) Record issue at a premium, redeemable at par Face value is $10,000 \times$ Rs $100 =$ Rs $10,00,000$. Issue premium is $7\% \times$ Rs $10,00,000 =$ Rs $70,000$, so the bank receives Rs 10,70,000. Only the face value is payable on redemption.

Journal: Case (b)

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 of Rs 100 each issued at 7% premium, redeemable at par)		10,70,000	 10,00,000 70,000

Step 3: (c) Record issue at a discount, redeemable at par Face value is $750 \times$ Rs $100 =$ Rs $75,000$. Discount is $10\% \times$ Rs $75,000 =$ Rs $7,500$; cash received is Rs $75,000 -$ Rs $7,500 =$ Rs $67,500$. The full face value remains the debenture liability.

Journal: Case (c)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		67,500	
	Discount on Issue of Debentures A/c Dr.		7,500	
	To 8% Debentures A/c			75,000
	(Being 750 debentures of Rs 100 each issued at 10% discount, redeemable at par)			

Step 4: (d) Record issue and redemption premiums separately Face value is $1,000 \times$ Rs $100 =$ Rs $1,00,000$. Issue premium is Rs 5,000, making cash received Rs 1,05,000. Redemption premium is $8\% \times$ Rs $1,00,000 =$ Rs $8,000$, recognised as a loss on issue and a separate redemption liability. The two premiums are not netted in the issue entry.

Journal: Case (d)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		1,05,000	
	Loss on Issue of Debentures A/c Dr.		8,000	
	To 9% Debentures A/c			1,00,000
	To Securities Premium Reserve A/c			5,000
	To Premium on Redemption of Debentures A/c			8,000
	(Being 1,000 debentures of Rs 100 each issued at 5% premium, redeemable at 8% premium)			

Step 5: (e) Combine issue discount and redemption premium in the loss Face value is $500 \times$ Rs $100 =$ Rs $50,000$. Issue discount is Rs 5,000, so cash received is Rs 45,000. Redemption premium is also Rs 5,000. Thus, loss on issue is Rs $5,000 +$ Rs $5,000 =$ Rs $10,000$.

Journal: Case (e)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		45,000	
	Loss on Issue of Debentures A/c Dr.		10,000	
	To 9% Debentures A/c			50,000
	To Premium on Redemption of Debentures A/c			5,000
	(Being 500 debentures of Rs 100 each issued at 10% discount, redeemable at 10% premium)			

Step 6: Conclusion Bank is debited with Rs 50,00,000, Rs 10,70,000, Rs 67,500, Rs 1,05,000 and Rs 45,000 in cases (a)–(e), respectively. Each entry balances; in (d) and (e), the premium payable on redemption is recognised at issue.

Quick Tip to Solve: First credit debentures at face value. Calculate issue cash separately, then add any redemption premium to the loss debit and to a separate liability credit.

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 an 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: State the meaning A Cash Flow Statement is a statement showing the inflows and outflows of cash and cash equivalents of an enterprise during a particular period. It explains the change in the enterprise's cash and cash equivalents between the beginning and the end of that period.

Step 2: Identify the classification of cash flows Cash flows are classified into operating, investing and financing activities. Operating activities relate to the main revenue-producing operations; investing activities relate to acquiring and disposing of long-term assets and investments other than cash equivalents; financing activities change the owners' capital and borrowings. The net cash flow from these activities reconciles opening cash and cash equivalents with the closing balance.

Step 3: Conclusion A Cash Flow Statement reports period-wise receipts and payments 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, the period covered, and the three activity classifications.

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

Particulars	2021-22 Amount (Rs.)	2020-21 Amount (Rs.)
Revenue from operations	20,00,000	10,00,000
Other Income	5,00,000	5,00,000
Expenses	10,00,000	7,00,000
Tax Rate 50%		

[3 marks]

Solution:

Concept:

- In a Common Size Statement of Profit and Loss, revenue from operations of each year is the base, taken as 100%. Each item is expressed as a percentage of that same year's revenue from operations.
- Common size percentage $= \dfrac{\text{Item amount}}{\text{Revenue from operations}} \times 100$. Profit before tax equals total income less expenses; tax is calculated on profit before tax.

Step 1: Calculate profit and tax for both years For 2021-22, total income is Rs $20,00,000 + 5,00,000 = 25,00,000$. Profit before tax is Rs $25,00,000 - 10,00,000 = 15,00,000$. Tax at 50% is Rs $7,50,000$, leaving profit after tax of Rs $7,50,000$.

For 2020-21, total income is Rs $10,00,000 + 5,00,000 = 15,00,000$. Profit before tax is Rs $15,00,000 - 7,00,000 = 8,00,000$. Tax at 50% is Rs $4,00,000$, leaving profit after tax of Rs $4,00,000$.

Step 2: Express each item relative to revenue from operations Divide 2021-22 amounts by Rs 20,00,000 and 2020-21 amounts by Rs 10,00,000, then multiply by 100. For example, other income is $5,00,000/20,00,000 \times 100 = 25\%$ in 2021-22 and $5,00,000/10,00,000 \times 100 = 50\%$ in 2020-21. Use the revenue base even for the tax percentage, so the tax row is not shown as 50%.

Step 3: Prepare the common size statement **PP Ltd.**
Common Size Statement of Profit and Loss
For the years ended 31st March, 2022 and 31st March, 2021

Particulars	2021-22		2020-21	
	Amount (Rs)	%	Amount (Rs)	%
I. Revenue from operations	20,00,000	100.00	10,00,000	100.00
II. Other income	5,00,000	25.00	5,00,000	50.00
III. Total income (I + II)	25,00,000	125.00	15,00,000	150.00
IV. Expenses	10,00,000	50.00	7,00,000	70.00
V. Profit before tax (III - IV)	15,00,000	75.00	8,00,000	80.00
VI. Tax expense	7,50,000	37.50	4,00,000	40.00
VII. Profit after tax (V - VI)	7,50,000	37.50	4,00,000	40.00

Step 4: Conclusion Profit after tax is Rs 7,50,000 (37.50% of revenue from operations) for 2021-22 and Rs 4,00,000 (40.00%) for 2020-21. Thus, absolute profit increased while the profit-after-tax percentage decreased by 2.50 percentage points.

Quick Tip to Solve: Take each year's revenue from operations as 100%; calculate tax at 50% of profit before tax, then express that tax amount against the revenue base.

OR

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

Particulars	31.3.2022 (Rs.)	31.3.2021 (Rs.)
I. EQUITY AND LIABILITIES :		
1. Shareholders' Funds :		
Share Capital	2,00,00,000	1,00,00,000
2. Non-Current Liabilities :		
Long-term borrowings	50,00,000	25,00,000
3. Current Liabilities :		
Trade Payables	20,00,000	10,00,000
Total :	2,70,00,000	1,35,00,000
II. ASSETS :		
1. Non-Current Assets :		
Fixed Assets	1,70,00,000	85,00,000
2. Current Assets :		
Inventories	1,00,00,000	50,00,000
Total :	2,70,00,000	1,35,00,000

[3 marks]

Solution:

Concept:

- A comparative balance sheet presents each balance sheet item for two dates, its absolute change and its percentage change, while retaining the equity, liabilities and assets headings.
- Take 31.3.2021 as the base date. Absolute change equals the amount on 31.3.2022 minus the amount on 31.3.2021; percentage change equals absolute change divided by the base-date amount, multiplied by 100.

Step 1: Calculate changes using the earlier year as the base For share capital, the increase is Rs $2,00,00,000$ − Rs $1,00,00,000$ = Rs $1,00,00,000$. Its percentage increase is

$$\frac{1,00,00,000}{1,00,00,000} \times 100 = 100\%.$$

Similarly, long-term borrowings increase by Rs 25,00,000, trade payables by Rs 10,00,000, fixed assets by Rs 85,00,000 and inventories by Rs 50,00,000. Each increase equals that item's earlier-year balance, so each percentage increase is 100%. The percentages measure growth over the previous year; they are not percentages of total assets.

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

Comparative Balance Sheet as at 31.3.2022

Particulars	31.3.2021 (Rs)	31.3.2022 (Rs)	Increase (Rs)	Change (%)
I. EQUITY AND LIABILITIES				
1. Shareholders' funds Share capital	1,00,00,000	2,00,00,000	1,00,00,000	100
2. Non-current liabilities Long-term borrowings	25,00,000	50,00,000	25,00,000	100
3. Current liabilities Trade payables	10,00,000	20,00,000	10,00,000	100
Total	**1,35,00,000**	**2,70,00,000**	**1,35,00,000**	**100**
II. ASSETS				
1. Non-current assets Fixed assets	85,00,000	1,70,00,000	85,00,000	100
2. Current assets Inventories	50,00,000	1,00,00,000	50,00,000	100
Total	**1,35,00,000**	**2,70,00,000**	**1,35,00,000**	**100**

Check the increases on both sides: Rs 1,00,00,000 + Rs 25,00,000 + Rs 10,00,000 = Rs 1,35,00,000, and Rs 85,00,000 + Rs 50,00,000 = Rs 1,35,00,000. Thus the statement balances for both dates and for the absolute changes.

Step 3: Conclusion Total assets and total equity and liabilities each increased from Rs 1,35,00,000 to Rs 2,70,00,000, an increase of Rs 1,35,00,000 or 100%. Every individual item also increased by 100%.

Quick Tip to Solve: When every current-year figure is twice its base-year figure, enter 100% in each growth column and copy the base-year amount into each absolute-increase column; still check both totals.

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, begin with profit before tax, add back financing expenses and non-cash expenses, and adjust changes in operating working capital to find cash generated from operations.
- An increase in inventory or a decrease in trade payables reduces operating cash. An increase in outstanding operating expenses increases operating cash. Cash and cash equivalents themselves are excluded from working-capital adjustments.
- Income tax paid is deducted separately. For a non-financial company, debenture interest is added back in operating activities because its payment is a financing cash flow.

Step 1: Calculate profit before tax and debenture interest **Working Notes**

The balance in the statement of profit and loss rises from Rs 6,00,000 to Rs 10,00,000. No dividend or transfer to reserves is given, so the increase represents profit after tax for the year:

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

In the absence of other tax information, the opening tax provision of Rs 1,00,000 is treated as tax paid during the year and the closing provision of Rs 1,50,000 as the current year's tax expense. Therefore,

$$\text{Profit before tax} = 4,00,000 + 1,50,000 = \text{Rs } 5,50,000.$$

The additional debentures of Rs 4,00,000 were issued on 31 March 2022, the last day of the year. Interest for the year is therefore calculated on the opening debentures of Rs 4,00,000 only:

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

Adding back this financing expense gives operating profit before working-capital changes of Rs 5,90,000. Land is not depreciated, and no amortisation or disposal of patents is stated, so no such adjustment is introduced.

Step 2: Identify operating working-capital changes Inventory increases from Rs 40,000 to Rs 7,00,000, absorbing Rs 6,60,000 of cash. Trade payables decrease from Rs 3,00,000 to Rs 2,00,000, reducing cash by Rs 1,00,000. Outstanding rent increases from Rs 1,00,000 to Rs 3,00,000; Rs 2,00,000 of expense has therefore not yet been paid and is added back.

$$\begin{aligned}\text{Cash generated from operations} &= 5,90,000 - 6,60,000 - 1,00,000 + 2,00,000 \\ &= \text{Rs } 30,000.\end{aligned}$$

Share capital, debentures and land belong to financing or investing activities, so their balance changes do not enter these operating adjustments. The tax provision is also excluded here because tax paid is deducted separately.

Step 3: Present cash flows from operating activities **Jay Ltd.**
Cash Flow Statement (Extract)
For the year ended 31 March 2022

Particulars	Amount (Rs)
A. Cash flows from operating activities	
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)**

Step 4: Conclusion Cash flows from operating activities are $\boxed{-\text{Rs } 70,000}$, i.e. net cash **used in operating activities is Rs 70,000**.

Quick Tip to Solve: Use Rs 40,000 as the opening inventory and charge interest only on the opening debentures: the additional issue is on the year's last day. Deduct the opening tax provision as tax paid separately from working-capital changes.

Option - II (Computerised Accounting)

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

Solution:

Concept:

- Data audit means examining data to assess its quality and its suitability for the purpose for which it is used.
- Reliable computerised accounting requires accurate, complete and consistent input data as well as correct processing.

Step 1: State what a data audit examines A data audit is a systematic check of the data maintained in a computerised system. It examines whether the records are correct and complete, whether their contents are consistent, and whether they conform to the requirements of the intended use. Merely storing data electronically does not establish its reliability.

Step 2: Explain its purpose in accounting The check helps identify errors, omissions, duplicate entries and inconsistent values that could produce misleading accounting information. For example, a repeated employee record or a missing salary value should be identified before payroll is computed. The discrepancies found can then be corrected so that the resulting reports are dependable.

Step 3: Conclusion Data audit is the examination of data to evaluate its quality, accuracy, completeness and usefulness for the intended purpose.

Quick Tip to Solve: Define data audit through two points: examination of data quality and assessment of its fitness for the intended use.

11. Explain the term 'Provident Fund' and 'Tax deduction at source' as used in payroll computation.

[3 marks]

Solution:

Concept:

- Payroll computation determines gross earnings, deductions and the net salary payable to each employee.
- Provident Fund is a retirement saving arrangement, whereas tax deduction at source is the collection of income tax by withholding it from salary.

Step 1: Explain Provident Fund Provident Fund (PF) is a fund created to provide financial security to employees after retirement or on leaving employment, subject to the applicable rules. A prescribed contribution is regularly deducted from the employee's salary, and the employer also contributes under the scheme. These contributions accumulate with interest in the fund for the employee's benefit. In payroll, the employee's PF contribution is shown as a deduction from gross salary; the employer's contribution is the employer's separate contribution and is not an additional deduction from the employee's salary.

Step 2: Explain tax deduction at source Tax deduction at source (TDS) is the income tax withheld by the employer from an employee's salary at the time of payment, according to the applicable income-tax provisions. The employer estimates the employee's taxable salary and tax liability after considering the relevant exemptions and deductions, and deducts the required tax through payroll. The amount withheld is deposited with the government on behalf of the employee and is credited against the employee's income-tax liability.

Step 3: Relate both deductions to net salary Both the employee's PF contribution and salary TDS reduce the cash salary paid to the employee. PF builds the employee's retirement savings, while TDS meets the employee's income-tax obligation. Thus, payroll deducts these amounts, together with any other authorised deductions, from gross earnings to arrive at net salary payable.

Step 4: Conclusion PF is a contributory retirement saving fund; TDS is income tax withheld from salary and deposited with the government. The employee's PF contribution and TDS are both payroll deductions.

Quick Tip to Solve: Distinguish the destination: PF goes towards retirement savings, while TDS goes to the government as the employee's income tax.

OR

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

Solution:

Concept:

- The future value of an investment is its accumulated value at a future date after allowing for interest earned over successive periods.
- The spreadsheet FV function uses a constant interest rate and constant periodic payments. Cash

paid out and cash received must carry opposite signs, and the rate and number of periods must use the same time unit.

Step 1: State the use and syntax The FV (Future Value) function calculates the future value of an investment based on periodic, constant payments and a constant interest rate. It can also calculate the future value of a single initial investment by setting periodic payments to zero.

Its syntax is:

`=FV(rate, nper, pmt, [pv], [type])`

Square brackets indicate optional arguments; they are not typed in the formula.

Step 2: Explain the arguments **rate:** Interest rate per payment period. For monthly payments at an annual rate of 12%, enter $12\%/12$, rather than the annual rate itself.

nper: Total number of payment periods. For monthly payments over five years, `nper` $= 5 \times 12 = 60$.

pmt: Constant payment made in each period; this amount remains unchanged throughout the investment. Enter zero when there are no periodic payments.

pv: Present value, or the initial lump-sum amount at the start. If omitted, it is taken as zero.

type: Timing of each payment: 0 means the end of the period and 1 means the beginning. If omitted, it is taken as 0.

Step 3: Apply the cash-flow sign convention Deposits made by the investor are cash outflows and are entered as negative amounts; the future amount received is then positive. For example, with an initial investment of Rs 1,000, annual interest of 10%, two years and no further deposits,

$$\texttt{=FV(10\%, 2, 0, -1000)} = \text{Rs } 1,210,$$

which agrees with $1,000(1.10)^2$. The omitted type argument defaults to end-of-period payments and has no effect here because the periodic payment is zero.

Step 4: Conclusion FV finds the accumulated future value at a constant rate. Its syntax is `=FV(rate, nper, pmt, [pv], [type])`, where the arguments specify the period rate, number of periods, periodic payment, initial value and payment timing respectively.

Quick Tip to Solve: Match rate with nper: for monthly deposits use annual rate divided by 12 and years multiplied by 12; enter deposits as negative cash flows.

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

Solution:

Concept:

- A Bank Reconciliation Statement explains the difference between the balance in the business's bank ledger and the balance shown by the bank statement on a specified date.
- In Tally, the voucher date records the transaction in the books, while the Bank Date records when it appears in the bank statement. A transaction awaiting clearance must remain unreconciled.

Step 1: Open the bank book Select the required company and open Gateway of Tally. Choose Display,

then Account Books, then Cash/Bank Books. Select the particular bank ledger for which the statement is to be prepared. Reconcile each bank account separately using its own bank statement.

Step 2: Select the reconciliation period Open the required month to display the bank's Ledger Vouchers. Use F2: Period, where required, to set the starting and ending dates. The closing date should agree with the date up to which the bank statement is being checked; otherwise a timing difference may be mistaken for an error.

Step 3: Enter reconciliation mode Press F5: Reconcile from the bank Ledger Vouchers screen. Tally displays the Bank Reconciliation screen with the transactions and the Bank Date column. Compare the entries with the bank statement, matching the amount and cheque or transaction reference rather than merely matching dates.

Step 4: Record the bank dates For each matching transaction, enter in the Bank Date column the date on which the bank actually debited or credited it. Leave the Bank Date blank for cheques not yet presented, deposits not yet credited and other entries which have not appeared in the bank statement. Do not replace the original voucher date with the clearance date.

Step 5: Save and review the statement Accept and save the reconciliation, using Ctrl+A. Review the balance as per the company's books, the unreconciled amounts and the resulting balance as per bank, and compare the latter with the bank statement. If bank charges, interest or a direct credit appear only in the bank statement, record the appropriate voucher in the books and then reconcile it. The saved report can be printed using Alt+P.

Step 6: Conclusion The procedure is to open the bank ledger, select the period, press F5: Reconcile, enter the actual Bank Dates for matched transactions, and save and review the Bank Reconciliation Statement. Pending transactions remain unreconciled until cleared by the bank.

Quick Tip to Solve: Enter the clearance date in Bank Date, not in the original voucher-date field; leave Bank Date blank for entries absent from the bank statement.