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

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

(i) This question paper comprises of **two** Parts – Part-A and 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. Distinguish between 'Income and Expenditure Account' and 'Receipts and Payments Account' on the following basis:

(1) Nature

(2) Depreciation [2 marks]

Solution:

Concept:

- An Income and Expenditure Account measures the surplus or deficit of a not-for-profit organisation on the accrual basis for an accounting period.
- A Receipts and Payments Account summarises actual cash and bank receipts and payments; a non-cash charge does not enter it.

Step 1: Distinguish on the basis of nature An Income and Expenditure Account is a nominal account. It records revenue income and revenue expenditure relating to the current period and determines its surplus or deficit. A Receipts and Payments Account is a real account, being a summary of the cash book. It records cash and bank transactions, whether capital or revenue and irrespective of the period to which they relate.

Step 2: Distinguish on the basis of depreciation Depreciation is debited to the expenditure side of the Income and Expenditure Account because it is an expense of the current period. It is not recorded in the Receipts and Payments Account because charging depreciation involves no receipt or payment of cash or bank money.

Step 3: Conclusion Thus, the two accounts differ in nature (nominal versus real) and in treatment of depreciation (charged versus excluded).

Quick Tip to Solve: First ask whether the entry involves cash: depreciation does not, so exclude it from Receipts and Payments.

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

Calculate the new profit sharing ratio of A, B and D. [2 marks]

Solution:

Concept:

- On retirement, each continuing partner's new profit share equals that partner's old share plus the share acquired from the retiring partner.
- The retiring partner C has share $2/10$; A and D acquire this share equally, while B acquires nothing.

Step 1: Calculate the gain of A and D The old ratio $3 : 4 : 2 : 1$ contains 10 total parts. Hence C's

share is $2/10$. As A and D take it over equally, the gain of each is

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

B's share remains $4/10$, since B does not acquire any of C's share.

Step 2: Calculate the new shares and simplify Add the gain only to the partners who acquire C's share:

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

The shares total $(4 + 4 + 2)/10 = 1$, so all the firm's future profits have been allocated. The new ratio is $4 : 4 : 2$, which reduces by dividing every term by 2.

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

Quick Tip to Solve: Divide C's two old ratio parts equally between A and D; keep B's four parts unchanged.

3. X, Y and Z were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. On 31.3.2022 X retired from the firm. On X's retirement the firm had a balance of Rs. 90,000 in the General Reserve Account. The revaluation of assets and reassement of liabilities resulted in a loss of Rs. 70,000.

Pass necessary journal entries for the above transactions on X's retirement. [2 marks]

Solution:

Concept:

- Accumulated General Reserve belongs to all partners, including the retiring partner, in their old profit-sharing ratio $5 : 3 : 2$.
- A revaluation loss arising on retirement is also borne by all old partners in $5 : 3 : 2$; debit their capital accounts and credit Revaluation Account.

Step 1: Allocate reserve and revaluation loss Total ratio parts are $5 + 3 + 2 = 10$. Allocate the General Reserve of Rs 90,000 to X, Y and Z as Rs 45,000, Rs 27,000 and Rs 18,000 respectively. Their shares of the revaluation loss of Rs 70,000 are Rs 35,000, Rs 21,000 and Rs 14,000 respectively. Both allocations use the old ratio because both relate to the period before X's retirement.

Step 2: Record the necessary journal entries Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31.3.2022	General Reserve A/c Dr. To X's Capital A/c To Y's Capital A/c To Z's Capital A/c (Being General Reserve distributed in the old ratio of 5:3:2)		90,000	 45,000 27,000 18,000
31.3.2022	X's Capital A/c Dr. Y's Capital A/c Dr. Z's Capital A/c Dr. To Revaluation A/c (Being revaluation loss transferred to partners in the old ratio of 5:3:2)		35,000 21,000 14,000	 70,000

The reserve entry credits the partners for their accumulated entitlement. The loss entry debits them for the reduction in net assets established on revaluation.

Step 3: Conclusion General Reserve is credited to X, Y and Z by Rs 45,000, Rs 27,000 and Rs 18,000; revaluation loss is debited by Rs 35,000, Rs 21,000 and Rs 14,000 respectively.

Quick Tip to Solve: Use the old ratio for both reserve and revaluation; retirement does not remove X from these allocations.

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 accounting year on the accrual basis, rather than merely the cash paid during the year.
- Credit purchases equal payments to 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 Payments to creditors include settlement of the opening liability, while the closing liability represents current purchases still unpaid. Therefore,

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

The increase in creditors of Rs 2,85,000 must be added to cash paid to determine purchases on credit.

Step 2: Add the cash purchases Medicines bought in cash for emergency use are also purchases of the hospital and must be included. Thus,

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

These cash purchases are separate from the payments made to creditors and are therefore added once.

Step 3: Adjust for opening and closing stock Opening stock was available for use during the year, whereas closing stock remains unused at the year end. Hence,

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

Closing stock is retained as an asset; only medicines consumed are charged as the year's revenue expenditure.

Step 4: Conclusion Medicines of $\boxed{\text{Rs } 15,59,000}$ will be debited to the Income and Expenditure Account of Murlidhar Charitable Hospital for the year ended 31.3.2022.

Quick Tip to Solve: First convert creditors' payments into credit purchases, then add cash purchases and adjust both stocks.

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 relating to the ordinary activities of a not-for-profit organisation are credited to its Income and Expenditure Account. Capital receipts are excluded from that account.
- A receipt restricted to a specific purpose is kept in a separate fund on the liabilities side of the Balance Sheet and is used only for that purpose.

Step 1: (a) Sale of used sports material The amount realised from sale of used sports material is credited to the Income and Expenditure Account as revenue income. Used sports material is a consumable item arising from the organisation's normal sporting activities; its sale is not treated as the disposal of a fixed asset. Therefore, the sale proceeds do not create a capital fund or a separate liability in the Balance Sheet. If any amount from the sale remains receivable at the year end, that outstanding amount is shown as an asset.

Step 2: (b) Life membership fees Life membership fees are a capital receipt, because they are received

once to grant membership for the member's lifetime instead of being the ordinary annual subscription of the current year. They are not credited to the Income and Expenditure Account. They are added to the Capital Fund, or shown separately as a Life Membership Fund, on the liabilities side of the Balance Sheet. The receipt thus supports membership benefits extending beyond the current accounting period.

Step 3: (c) Government grant for construction of building This is a specific-purpose capital grant. It is not credited to the Income and Expenditure Account as ordinary revenue, since the government has restricted its use to construction of a building. It is shown as a separate Building Fund or Building Grant on the liabilities side of the Balance Sheet. Any building construction expenditure met from this grant is adjusted against that fund; the unutilised balance continues to be shown separately. It must not be treated as unrestricted income available to meet routine expenses.

Step 4: Conclusion Sale of used sports material is revenue income credited to the Income and Expenditure Account; life membership fees are a capital receipt shown with the Capital Fund or separately; and the building grant is shown as a specific Building Fund on the liabilities side of the Balance Sheet.

Quick Tip to Solve: Identify whether each receipt is ordinary income, a lifetime capital receipt, or a grant restricted to a named purpose.

5. P, Q and R were partners in a firm sharing profits and losses in the ratio of 4 : 3 : 3. P died on 30th June, 2021. The partnership deed provided that on the death of a partner, his share in the profits of the firm till the date of his death will be calculated on the basis of the average profits of the last five years. The profits of the last five years were:

Year	Rs.
2016-2017	2,00,000
2017-2018	3,00,000
2018-2019	4,00,000
2019-2020	5,00,000
2020-2021	6,00,000

The firm closes its books on 31st March every year.

Calculate P's share in the profits of the firm and pass necessary journal entry for the same. [3 marks]

Solution:

Concept:

- The partnership deed requires the deceased partner's estimated profit to be based on the average annual profit of the preceding five years.
- Estimated share equals average annual profit multiplied by the fraction of the current accounting year elapsed and the partner's profit-sharing fraction. Debit Profit and Loss Suspense Account and credit the deceased partner's capital account.

Step 1: Find the average annual profit Use all five annual profits; the latest year's profit alone is not

the agreed basis.

$$\text{Total profit} = 2,00,000 + 3,00,000 + 4,00,000 + 5,00,000 + 6,00,000 = \text{Rs } 20,00,000,$$

$$\text{Average annual profit} = \frac{20,00,000}{5} = \text{Rs } 4,00,000.$$

Step 2: Calculate the profit due to P The books close on 31 March, so the current year began on 1 April 2021. From 1 April to 30 June there are three months. P's share in the ratio $4:3:3$ is $4/10$.

$$\text{Estimated firm profit} = 4,00,000 \times \frac{3}{12} = \text{Rs } 1,00,000,$$

$$\text{P's share} = 1,00,000 \times \frac{4}{10} = \text{Rs } 40,000.$$

Step 3: Record the estimated profit Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
30 June 2021	Profit and Loss Suspense A/c Dr. To P's Capital A/c (Being P's estimated profit up to the date of death credited to his capital account)		40,000	 40,000

Actual profit for the current year has not yet been determined, so the estimate is debited to Profit and Loss Suspense Account. The credit to P's capital recognises the amount due to him.

Step 4: Conclusion P's share of profit up to 30 June 2021 is $\boxed{\text{Rs } 40,000}$. Debit Profit and Loss Suspense Account and credit P's Capital Account with Rs 40,000.

Quick Tip to Solve: Count the period from the last closing date: April to June gives 3/12, and then apply P's 4/10 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:

- The number of debentures issued for purchase consideration equals the amount payable to the vendor divided by the issue price per debenture, including premium.
- Record assets and liabilities at their agreed values. The excess of net assets acquired over purchase consideration is Capital Reserve. Credit debentures with face value and Securities Premium Reserve with the premium.

Step 1: Compute net assets and capital reserve The assets taken over 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 vendor is owed only the agreed purchase consideration of Rs 10,00,000; the difference is a capital profit, not goodwill or revenue profit.

Step 2: Determine the number and issue components Each Rs 100 debenture settles Rs 125 of the vendor's claim. The premium is Rs 25 per debenture. Thus:

$$\text{Number issued} = \frac{10,00,000}{125} = 8,000,$$
$$\text{Debentures credited} = 8,000 \times 100 = \text{Rs } 8,00,000,$$
$$\text{Securities premium} = 8,000 \times 25 = \text{Rs } 2,00,000.$$

The 9% rate determines interest on face value; it does not determine the issue price or number issued.

Step 3: Pass entries in the books of X Ltd. 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. A/c			10,00,000
	To Capital Reserve A/c			2,00,000
	(Being assets and liabilities of Y Ltd. taken over for the agreed purchase consideration)			
	Y Ltd. A/c 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 to discharge the vendor's claim)			

The second entry clears Y Ltd.'s account: Rs 8,00,000 face value plus Rs 2,00,000 premium equals Rs 10,00,000 payable.

Step 4: Conclusion X Ltd. issues $\boxed{8,000}$ 9% debentures. Capital Reserve and Securities Premium Reserve are each Rs 2,00,000; debenture liability is Rs 8,00,000.

Quick Tip to Solve: Divide the vendor's claim by Rs 125, then split the resulting issue proceeds into Rs 100 face value and Rs 25 premium per debenture.

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:

- Debenture application money includes both face value and premium when the full issue price is payable on application. Here the issue price is Rs $100 +$ Rs $10 =$ Rs 110 per debenture.
- Pro-rata allotment distributes the available debentures proportionately among accepted applicants. Surplus application money is refunded when there is no further allotment or call amount against which it can be adjusted.
- Loss on issue of debentures is written off first against the available Securities Premium Reserve; the remaining loss is charged to the Statement of Profit and Loss.

Step 1: Calculate application money and the refund for transaction (a) Total application money received is $15,000 \times$ Rs $110 =$ Rs $16,50,000$. Rejected applications require a refund of $3,000 \times$ Rs $110 =$ Rs $3,30,000$. The remaining applicants applied for $15,000 - 3,000 = 12,000$ debentures and receive 10,000 debentures. The allotment ratio is therefore $10,000 : 12,000 = 5 : 6$. Their excess application money is $(12,000 - 10,000) \times$ Rs $110 =$ Rs $2,20,000$. Since the full price was payable on application, this excess must also be refunded. Thus total refunds are Rs $3,30,000 +$ Rs $2,20,000 =$ Rs $5,50,000$.

Step 2: Record the issue and refund in the journal Journal of Z Ltd. – Transaction (a)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Debenture Application and Allotment A/c (Being application money received on 15,000 debentures at Rs 110 each)		16,50,000	 16,50,000
	Debenture Application and Allotment A/c Dr. To 9% Debentures A/c To Securities Premium Reserve A/c To Bank A/c (Being 10,000 debentures allotted at a premium of Rs 10 each and surplus application money refunded)		16,50,000	 10,00,000 1,00,000 5,50,000

Step 3: Write off the loss in transaction (b) For this separate transaction, use the stated Securities Premium Reserve balance of Rs 60,000. The loss remaining after its utilisation is Rs $1,00,000 -$ Rs $60,000 =$ Rs $40,000$.

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 against Securities Premium Reserve and the Statement of Profit and Loss)			

Step 4: Conclusion Z Ltd. records debentures of Rs 10,00,000 and premium of Rs 1,00,000, refunding Rs 5,50,000 in (a). In (b), the loss of Rs 1,00,000 is written off using Rs 60,000 of Securities Premium Reserve and Rs 40,000 from the Statement of Profit and Loss.

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

7. 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 nominal value: number of debentures multiplied by face value. Bank Account is debited with the actual issue proceeds.
- Issue premium is credited to Securities Premium Reserve; issue discount is a loss. Premium payable on redemption is credited to Premium on Redemption of Debentures Account and recognised as a loss at the date of issue.
- The stated 8% or 9% is the interest rate. It does not determine the issue price or the amount of premium on redemption.

Step 1: (a) Issue at par, redemption at par The nominal value is $50,000 \times 100 = \text{Rs } 50,00,000$. Since both issue and redemption are at par, the bank receipt equals the face value and there is no premium or loss.

Journal (case shown above)

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

Step 2: (b) Issue at a premium, redemption at par The nominal value is $10,000 \times 100 = \text{Rs } 10,00,000$. Issue premium is $10,00,000 \times 7/100 = \text{Rs } 70,000$; hence the bank receives Rs 10,70,000. The premium belongs to Securities Premium Reserve and does not increase the debenture principal.

Journal (case shown above)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		10,70,000	
	To 8% Debentures A/c			10,00,000
	To Securities Premium Reserve A/c			70,000
	(Being 10,000 debentures issued at a premium of 7%, redeemable at par.)			

Step 3: (c) Issue at a discount, redemption at par The nominal value is $750 \times 100 = \text{Rs } 75,000$. Discount is $75,000 \times 10/100 = \text{Rs } 7,500$, so cash received is $75,000 - 7,500 = \text{Rs } 67,500$. The discount is debited separately, while Debentures Account is credited with the full nominal value.

Journal (case shown above)

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 issued at a discount of 10%, redeemable at par.)			

Step 4: (d) Issue at a premium, redemption at a premium The nominal value is $1,000 \times 100 = \text{Rs } 1,00,000$. The 5% issue premium is Rs 5,000, making bank receipts Rs 1,05,000. The 8% redemption premium is Rs 8,000. Recognise this future premium as a liability at issue, with a corresponding debit to Loss on Issue of Debentures Account; retain the issue premium separately.

Journal (case shown above)

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 issued at a premium of 5%, redeemable at a premium of 8%.)			

Step 5: (e) Issue at a discount, redemption at a premium The nominal value is $500 \times 100 = \text{Rs } 50,000$. The 10% discount is Rs 5,000 and bank receipts are Rs 45,000. Redemption premium is also Rs 5,000. Therefore the total loss on issue is $5,000 + 5,000 = \text{Rs } 10,000$, covering both the issue discount and the redemption premium.

Journal (case shown above)

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 issued at a discount of 10%, redeemable at a premium of 10%.)			

Step 6: Conclusion The five issue entries above record the respective bank receipts of Rs 50,00,000, Rs 10,70,000, Rs 67,500, Rs 1,05,000 and Rs 45,000. In every case, total debits equal total credits. Redemption premiums are recognised at issue; no actual redemption or interest payment is due in these entries.

Quick Tip to Solve: First calculate face value, then cash received; keep issue premium separate from the premium payable on redemption.

8. 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 expenditure for the current accounting year on the accrual basis. Opening and closing cash or bank balances are not income or expenditure.
- Annual subscription income equals the number of members multiplied by the subscription per member. Capital receipts and payments are excluded; only the loss on sale of a fixed asset is charged as expenditure.
- General donations and entrance fees are revenue receipts here, as no specific purpose or instruction to capitalise them is given. Life membership fees are capital receipts and are added to the capital fund.

Step 1: Calculate subscription income for the year The club has 1,750 members, each liable to pay Rs 100 annually. Therefore the income earned during 2021–22 is

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

The cash receipt of Rs 2,00,000 is not substituted for the annual income. The difference of Rs 25,000 is excluded from current-year subscription income; the account is prepared using the members' annual liability.

Step 2: Separate revenue items from capital items Honorarium, stationery, electricity and rent are

revenue expenses. In the absence of further adjustments, their payments are taken as the current year's expenses. Entrance fees of Rs 50,000, sale of old newspaper of Rs 2,000 and general donations of Rs 45,000 are revenue incomes.

The purchase of furniture of Rs 1,80,000 and the fixed deposit of Rs 1,00,000 are capital payments. Life membership fees of Rs 30,000 are capital receipts. Opening cash and bank balances of Rs 2,70,000 and closing cash and bank balances of Rs 76,000 are also excluded.

Both the furniture purchase and the fixed deposit are dated 31.3.2022, the last day of the accounting year. Thus no depreciation on that purchase or interest on that deposit accrues for this year. No depreciation rate for any other furniture is supplied.

Step 3: Determine the loss on sale of old furniture The book value of the old furniture is Rs 10,000, whereas its sale proceeds are Rs 4,000. Hence,

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

Charge this loss to the Income and Expenditure Account. The sale proceeds themselves are a capital receipt and are not shown as revenue income.

Step 4: Prepare the Income and Expenditure Account **Golden Club**
Income and Expenditure Account 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 General 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**

Total revenue expenditure before the surplus is Rs 2,51,000. Total revenue income is Rs 2,72,000. The balancing surplus is transferred to the Capital Fund.

Step 5: Conclusion Golden Club's excess of income over expenditure for the year ended 31.3.2022 is $\boxed{\text{Rs } 21,000}$, which is added to the Capital Fund.

Quick Tip to Solve: Use 1,750 times Rs 100 for subscriptions; exclude life membership fees and the last-day investments, and charge only the Rs 6,000 furniture-sale loss.

9(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:

- After assets and outside liabilities have been transferred to Realisation Account, their realisation and settlement are recorded through that account. An asset taken by a partner is debited to that partner's Capital Account at the agreed value.
- A creditor accepting an already transferred asset in full settlement requires no further journal entry. Recovery of a previously written-off debtor is credited to Realisation Account, and payment of an outside liability already transferred is debited to Realisation Account.
- Realisation loss is transferred to partners' Capital Accounts in their profit-sharing ratio, here $2 : 1 : 2$.

Step 1: Record stock taken by T and stock sold T is charged the agreed takeover price of Rs 90,000, rather than the book value of the stock. The remaining stock brings cash of Rs 40,000. Since Stock Account has already been transferred, both credits go to Realisation Account. For checking, the book value of the half taken by T is $90,000/0.90 = \text{Rs } 1,00,000$, so total stock had a book value of Rs 2,00,000; no fresh transfer of that amount is needed.

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 stock taken over by T at the agreed value)		90,000	90,000
	Cash/Bank A/c Dr. To Realisation A/c (Being remaining stock sold for cash)		40,000	40,000

Step 2: Account for machinery accepted by creditors and recovery of debtors No journal entry is passed for transaction (ii). Machinery of Rs 80,000 and creditors of Rs 78,000 have both already been transferred to Realisation Account. Their direct settlement involves neither cash nor a partner's Capital Account; the difference is automatically reflected in the balance of Realisation Account.

The previously written-off debtor no longer has a balance in Debtors Account. Therefore the recovery is a fresh receipt credited directly to Realisation Account.

Journal of T, U and V

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

Step 3: Record payment of Mrs. V's loan Mrs. V is an outside creditor, even though she is related to partner V. Her loan is a third-party liability and has already been transferred to Realisation Account under the opening instruction. Its payment is therefore debited to Realisation Account; it is not treated as V's own loan or charged to V's capital.

Journal of T, U and V

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

Step 4: Transfer dissolution loss to the partners The given final loss of Rs 80,000 is distributed in the ratio $2:1:2$. Thus T bears $80,000 \times 2/5 = \text{Rs } 32,000$, U bears $80,000 \times 1/5 = \text{Rs } 16,000$, and V bears $80,000 \times 2/5 = \text{Rs } 32,000$. These debits total Rs 80,000 and close the debit balance of 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 5: Conclusion T's capital is debited by Rs 90,000 for stock; cash receipts are Rs 40,000 and Rs 5,000; Mrs. V's loan payment is Rs 72,000. No entry is required for machinery accepted by creditors. The dissolution loss debits T, U and V by Rs 32,000, Rs 16,000 and Rs 32,000 respectively.

Quick Tip to Solve: First check whether assets and outside liabilities have already been transferred: this prevents repeating their transfer entries and explains why the creditor's direct takeover needs no entry.

OR

9(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 decreases in asset values on its debit side and increases on its credit side. Its profit or loss is shared by all old partners in their old profit-sharing ratio, here $5 : 2 : 3$.
- An accumulated general reserve belongs to the old partners. The retiring partner receives his old share of that reserve, revaluation profit and the firm's goodwill through his capital account.
- Where no revised ratio is specified, continuing partners retain their relative old shares. E and F therefore gain in the ratio $2 : 3$, and compensate D for his goodwill share through their capital accounts.

Step 1: Calculate the revaluation adjustments and profit Investments decrease by Rs $1,15,000 -$ Rs $85,000 =$ Rs $30,000$, and machinery decreases by Rs $7,50,000 -$ Rs $7,00,000 =$ Rs $50,000$. Both decreases are debited to Revaluation Account. Land and Building increases by Rs $12,00,000 -$ Rs $10,00,000 =$ Rs $2,00,000$, credited to that account. Consequently, revaluation profit is Rs $2,00,000 -$ Rs $80,000 =$ Rs $1,20,000$. D, E and F receive Rs 60,000, Rs 24,000 and Rs 36,000 respectively in their old ratio.

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

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

The entire profit is transferred to the partners; hence this temporary account closes without a balance carried down.

Step 3: Calculate D's reserve and goodwill entitlements D's share of General Reserve is Rs $2,00,000 \times 5/10 =$ Rs $1,00,000$. His share of goodwill is Rs $1,00,000 \times 5/10 =$ Rs $50,000$. E bears Rs $50,000 \times 2/5 =$ Rs $20,000$, and F bears Rs $50,000 \times 3/5 =$ Rs $30,000$. Their capital accounts are debited and D's capital account is credited with these amounts. No Goodwill Account is raised, since the question requires adjustment through the continuing partners' capital accounts.

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

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (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 opening capital and the three entitlements give Rs $7,00,000 +$ Rs $1,00,000 +$ Rs $60,000 +$ Rs $50,000 =$ Rs $9,10,000$. Transfer of this entire amount to D's Loan Account closes his capital account; no cash payment is recorded.

Step 5: Conclusion Revaluation profit is $\boxed{\text{Rs } 1,20,000}$. D's final capital balance of $\boxed{\text{Rs } 9,10,000}$ is transferred to D's Loan Account.

Quick Tip to Solve: Credit the retiring partner with reserve, revaluation profit and goodwill before transferring the final balance to his loan 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 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: Meaning of the statement A Cash Flow Statement is a financial statement showing the inflows and outflows of cash and cash equivalents of an enterprise during a specified accounting period. It explains the change between the opening and closing balances of cash and cash equivalents.

Step 2: Classification of cash flows The statement classifies cash flows under operating, investing and financing activities. Operating activities relate to the principal revenue-producing activities; investing activities involve acquisition and disposal of long-term assets and investments; financing activities change the owners' capital and borrowings. This classification shows the sources from which cash was generated and the purposes for which it was used.

Step 3: Conclusion Thus, a Cash Flow Statement reports the period's cash and cash-equivalent receipts and payments, classified into operating, investing and financing activities, and reconciles their opening and closing balances.

Quick Tip to Solve: In a definition, mention both cash and cash equivalents, the accounting period, and the three activity classifications.

11(a). From the following Statement of Profit and Loss of GG Ltd., prepare a 'Common Size Statement of Profit and Loss' as on 31.3.2021 and 31.3.2022:

Particulars	2021-22 (Rs.)	2020-21 (Rs.)
Revenue from operation	20,00,000	10,00,000
Other Income	2,00,000	1,00,000
Expenses	15,00,000	8,00,000
Tax Rate 50%		

[3 marks]

Solution:

Concept:

- In a Common Size Statement of Profit and Loss, revenue from operations is the base and is taken as 100% for each year separately.
- Each percentage equals $\dfrac{\text{Amount of the item}}{\text{Revenue from operations of that year}} \times 100$. Profit before tax equals total revenue less expenses; tax equals 50% of profit before tax.

Step 1: Calculate revenue, profit and tax For 2021-22, total revenue is Rs $20,00,000 + 2,00,000 = 22,00,000$. Profit before tax is Rs $22,00,000 - 15,00,000 = 7,00,000$; tax at 50% is Rs $3,50,000$, leaving profit after tax of Rs $3,50,000$. For 2020-21, total revenue is Rs $10,00,000 + 1,00,000 = 11,00,000$. Profit before tax is Rs $11,00,000 - 8,00,000 = 3,00,000$; tax is Rs $1,50,000$, leaving profit after tax of Rs $1,50,000$.

Step 2: Prepare the Common Size Statement GG Ltd. — Common Size Statement of Profit and Loss for the years ended 31 March 2022 and 31 March 2021

Particulars	2021-22 (Rs)	2020-21 (Rs)	2021-22 (%)	2020-21 (%)
Revenue from operations	20,00,000	10,00,000	100	100
Other income	2,00,000	1,00,000	10	10
Total revenue	22,00,000	11,00,000	110	110
Less: Expenses	15,00,000	8,00,000	75	80
Profit before tax	7,00,000	3,00,000	35	30
Less: Tax	3,50,000	1,50,000	17.5	15
Profit after tax	3,50,000	1,50,000	17.5	15

For example, expenses in 2021-22 are $15,00,000/20,00,000 \times 100 = 75\%$, whereas in 2020-21 they are $8,00,000/10,00,000 \times 100 = 80\%$. Total revenue is 110% in both years because other income is added to the base revenue from operations.

Step 3: Conclusion The Common Size Statement shows profit after tax at 17.5% of revenue from operations in 2021-22 and 15% in 2020-21. The expenses ratio falls from 80% to 75%.

Quick Tip to Solve: Use revenue from operations as 100 percent in each year; do not use total revenue including other income as the denominator.

OR

11(b). From the following Balance Sheet of CC Ltd., prepare a 'Comparative Balance Sheet' as at 31 March, 2022:

Particulars	31.3.2022 (Rs.)	31.3.2021 (Rs.)
I. EQUITY AND LIABILITIES :		
1. Shareholders' Funds :		
(a) Share Capital	6,00,000	3,00,000
(b) Reserve and Surplus	2,00,000	1,00,000
2. Non-Current Liabilities :		
Long-term Borrowings	4,00,000	2,00,000
3. Current Liabilities	3,00,000	1,50,000
Total :	15,00,000	7,50,000
II. ASSETS :		
1. Non-Current Assets :		
Fixed Assets	8,00,000	4,00,000
2. Current Assets	7,00,000	3,50,000
Total :	15,00,000	7,50,000

[3 marks]

Solution:

Concept:

- A Comparative Balance Sheet presents the balances of two dates alongside the absolute and percentage changes in each item. The previous year's balance is the base for the percentage change.
- Absolute change equals current-year amount less previous-year amount. Percentage change equals $\frac{\text{Absolute change}}{\text{Previous-year amount}} \times 100$.

Step 1: Calculate changes using 31 March 2021 as the base Share capital increases by Rs $6,00,000 - 3,00,000 = 3,00,000$, giving $3,00,000/3,00,000 \times 100 = 100\%$. Similarly, reserves increase by Rs 1,00,000, long-term borrowings by Rs 2,00,000 and current liabilities by Rs 1,50,000. Each increase equals its respective opening balance, so each percentage increase is 100%. Fixed assets increase by Rs $8,00,000 - 4,00,000 = 4,00,000$, and current assets increase by Rs $7,00,000 - 3,50,000 = 3,50,000$. Both asset categories also double.

Step 2: Present the Comparative Balance Sheet **CC Ltd.: Comparative Balance Sheet as at 31 March 2022**

Particulars	31.3.2021 (Rs)	31.3.2022 (Rs)	Increase (Rs)	Change (%)
I. Equity and liabilities				
1. Shareholders' funds				
(a) Share capital	3,00,000	6,00,000	3,00,000	100
(b) Reserves and surplus	1,00,000	2,00,000	1,00,000	100
2. Non-current liabilities				
Long-term borrowings	2,00,000	4,00,000	2,00,000	100
3. Current liabilities	1,50,000	3,00,000	1,50,000	100
Total	7,50,000	15,00,000	7,50,000	100
II. Assets				
1. Non-current assets				
Fixed assets	4,00,000	8,00,000	4,00,000	100
2. Current assets	3,50,000	7,00,000	3,50,000	100
Total	7,50,000	15,00,000	7,50,000	100

The total increase in equity and liabilities is Rs $3,00,000 + 1,00,000 + 2,00,000 + 1,50,000 = 7,50,000$. This agrees with the total increase in assets of Rs $4,00,000 + 3,50,000 = 7,50,000$, confirming that both sides remain equal.

Step 3: Conclusion Every stated balance increases by 100%. Total assets and total equity and liabilities each increase by Rs 7,50,000, from Rs 7,50,000 to Rs 15,00,000.

Quick Tip to Solve: Divide the increase by the previous year's figure; when the current balance is twice the old balance, the increase is 100 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, begin with net profit before tax and add back financing expenses charged to profit. Then adjust changes in operating current assets and operating current liabilities.
- An increase in inventory and a decrease in trade payables reduce operating cash flow. An increase in outstanding rent increases it, because the expense charged exceeds the cash paid.
- Income tax paid is deducted separately after cash generated from operations. Share capital and debenture proceeds are financing flows; purchase of land is an investing flow.

Step 1: Determine profit before tax The increase in the surplus in the statement of profit and loss gives the profit after tax, since no dividend or transfer to reserves is stated:

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

Add the current year's tax provision of Rs 1,50,000 to obtain profit before tax:

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

The opening provision for tax of Rs 1,00,000 is taken as tax paid during the year. Thus opening provision plus current provision less payment equals the closing provision: Rs $1,00,000 + 1,50,000 - 1,00,000 = 1,50,000$.

Step 2: Add back debenture interest The additional Rs 4,00,000 debentures were issued on 31 March 2022, the last day of the accounting year. Therefore the year's interest is calculated on the opening debentures only:

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

This financing expense is added back to profit before tax. Operating profit before working capital changes is therefore Rs $5,50,000 + 40,000 = 5,90,000$. No depreciation on land or amortisation of patents is stated, so neither is added.

Step 3: Prepare cash flows from operating activities Inventory increases by Rs $7,00,000 - 40,000 = 6,60,000$; trade payables decrease by Rs $3,00,000 - 2,00,000 = 1,00,000$; outstanding rent increases by Rs $3,00,000 - 1,00,000 = 2,00,000$.

Jay Ltd.: Cash Flows from Operating Activities
for the year ended 31 March 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)

Cash and cash equivalents themselves are excluded from working capital adjustments. The increase

in share capital, the debenture issue and the increase in land do not enter this operating activities statement.

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

Quick Tip to Solve: Use interest on the opening Rs 4,00,000 debentures: the new issue on 31 March earns no interest for this year. Keep tax provision out of working capital and deduct tax paid separately.

Option - II (Computerised Accounting)

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

Solution:

Concept:

- Data audit is the examination of data in a computerised system to establish its accuracy, completeness and reliability.
- Accounting information is dependable only when the underlying data and its processing have been checked against suitable records and controls.

Step 1: Explain what is examined A data audit involves a systematic review of the data held and used by an organisation. In a computerised accounting system, the auditor checks that transactions have been recorded correctly, that required records are complete and that the data agrees with supporting documents. Errors such as omitted entries, duplicate records and incorrect amounts can thus be identified.

Step 2: State the purpose of the review The review also considers whether data has been properly processed and protected from unauthorised changes. Such checking helps locate inconsistencies and weaknesses in controls so that corrective action can be taken. Its purpose is to ensure that the accounting reports produced from the data are reliable for users and decision-making.

Step 3: Conclusion Data audit means the systematic examination and verification of computerised data to assess its accuracy, completeness, consistency and reliability.

Quick Tip to Solve: Define data audit through both its activity (checking data) and its purpose (ensuring reliable information).

11(a). Explain, how to calculate 'total earnings'. [3 marks]

Solution:

Concept:

- Total earnings are the gross remuneration earned by an employee during the pay period, before deductions such as provident fund and income tax.
- Gross earnings comprise basic pay and all applicable earnings components, such as dearness allowance (DA), house rent allowance (HRA), transport allowance and overtime pay.

Step 1: Calculate each component of earnings Enter the employee's basic pay and the applicable allowance details in the payroll worksheet. Calculate each percentage-based allowance by multiplying its prescribed rate by the relevant pay base. For example, if DA is calculated on basic pay, then DA $=$ Basic pay $\times$ DA rate$/100$. Similarly, calculate HRA on its stipulated base, and enter fixed allowances and any overtime earnings applicable for the period. Use the rates and bases specified by the employer.

Step 2: Add the earnings in the spreadsheet Add basic pay and all the calculated earnings components to obtain total earnings. For a payroll containing basic pay, DA, HRA, transport allowance and overtime pay, use

$$\text{Total earnings} = \text{Basic pay} + \text{DA} + \text{HRA} + \text{Transport allowance} + \text{Overtime pay}.$$

If these earnings components occupy cells C2:G2, enter `=SUM(C2:G2)` in the total-earnings cell for that employee. Copy the formula down for the remaining employees; the relative row references adjust automatically.

Step 3: Distinguish earnings from take-home pay Check that the SUM range includes only earnings columns and excludes deductions and the total cell itself. Provident fund, tax and other deductions are subtracted later from total earnings to calculate net pay; they are not added to earnings. Thus the total-earnings column shows gross pay for each employee.

Step 4: Conclusion Total earnings are calculated by summing basic pay and all applicable allowances and other earnings. In a payroll spreadsheet, the SUM function can perform this addition for each employee before deductions are made.

Quick Tip to Solve: Sum only the basic-pay and earnings columns; subtract PF and tax separately when calculating net pay.

OR

11(b). What is the use of 'NPV' function? Write and explain its syntax. [3 marks]

Solution:

Concept:

- Net present value (NPV) evaluates an investment by discounting its future cash flows to their present values using a specified rate of return.
- The spreadsheet NPV function assumes equally spaced periods and cash flows occurring at the end of each period. The discount rate must correspond to that period.

Step 1: State the use of the function The NPV function calculates the present value of a series of future receipts and payments at a given discount rate. In investment appraisal, this value is combined with the initial investment to find the project's net present value. A positive project NPV means that the expected receipts cover the investment and earn more than the required rate of return; a negative NPV indicates that this required return is not achieved.

Step 2: Write and explain the syntax The spreadsheet syntax is `=NPV(rate, value1, [value2], ...)`.

Here, `rate` is the discount rate for each period, entered as a percentage or decimal. `value1` is the first future cash-flow value or a range containing the cash flows; `value2` and later arguments are optional additional values or ranges. Cash receipts are positive and cash payments are negative. Enter the cash flows in chronological order because their positions determine their discount periods.

Step 3: Explain the timing of the initial investment For end-of-period cash flows $C_1, C_2, \ldots, C_n$ and periodic rate r, the function calculates

$$\text{NPV function result} = \sum_{t=1}^{n} \frac{C_t}{(1+r)^t}.$$

An initial investment paid immediately is outside this series. If the investment is Rs 10,000 and the next two annual receipts are in cells B2 and B3, use `=NPV(10%, B2:B3)-10000` at a discount rate of 10% per year. Subtracting the initial outlay separately prevents it from being incorrectly discounted for one period.

Step 4: Conclusion NPV is used to assess an investment by discounting periodic future cash flows. Its syntax is `=NPV(rate, value1, [value2], ...)`; add the signed cash flow at time zero separately to obtain the project's net present value.

Quick Tip to Solve: Match the rate to the cash-flow interval, and keep any immediate initial outlay outside the NPV function.

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 business's cash book and the balance shown by the bank statement on a specified date.
- In Tally, reconciliation uses the Bank Date: the actual date on which a receipt or payment appears in the bank statement. A transaction that has not yet cleared remains unreconciled.

Step 1: Open the bank book Open the required company in Tally. From Gateway of Tally, choose Display, then Account Books, and then Cash/Bank Books. Select the bank ledger whose balance is to be reconciled. This brings up the bank book summary for that account.

Step 2: Select the reconciliation period Select the required month from the bank book summary and press Enter to display the bank ledger vouchers. Check that the period corresponds to the bank statement being used; change the period with F2: Period where required. Reconciliation must compare the same bank account over the same period.

Step 3: Activate the reconciliation screen Press F5: Reconcile from the bank ledger screen. Tally displays the bank reconciliation screen with a Bank Date field against the relevant transactions. Keep the bank statement or pass book available for matching the entries.

Step 4: Match transactions and enter bank dates Compare each receipt and payment with the bank statement, checking the amount and cheque or other transaction details. For every transaction

appearing in the bank statement, enter its actual clearing date in the Bank Date column. Leave the Bank Date blank for cheques issued but not yet presented and cheques deposited but not yet collected; these are the outstanding items explaining timing differences.

Step 5: Save and review the statement Accept and save the bank dates after checking them. Tally uses the recorded clearing dates to show the reconciled balance and the outstanding transactions in the Bank Reconciliation Statement. Compare the resulting bank balance with the bank statement. If bank charges, interest or direct credits have not yet been recorded in the books, first record the appropriate vouchers and then complete their reconciliation. Display or print the statement as required.

Step 6: Conclusion Thus, select the bank ledger and period, press F5: Reconcile, enter the clearing dates from the bank statement in the Bank Date column, and save to obtain the Bank Reconciliation Statement.

Quick Tip to Solve: Enter the bank's clearing date, not merely the voucher date; leave uncleared transactions without a Bank Date.