CBSE Class 12 Accountancy Question Paper 2022 with Solution PDF-Set 67-4-1

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

(i) This question paper comprises of **two** parts – **Part A** and **Part B**. There are **12** questions in the question paper. **All** questions are compulsory.

(ii) **Part A** is **compulsory** for all candidates.

(iii) **Part B** has two options i.e. (1) Analysis of Financial Statements and (2) Computerised Accounting. Students must attempt only **one** of the given options.

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

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

(vi) Questions no. **7** to **9** and **12** are Long Answer Type Questions carrying **5** marks each.

(vii) There is no overall choice. However, an internal choice has been provided in **3** questions of **three** marks and **1** question of **five** marks.

Part A (30 marks)

(Accounting for Not-for-Profit Organisations, Partnership Firms and Companies)

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

(a) Depreciation

(b) Opening Balance [2 marks]

Solution:

Concept:

- Income and Expenditure Account is a nominal account prepared on the accrual basis to determine the current year's surplus or deficit.
- Receipts and Payments Account is a summary of cash and bank transactions. It records actual receipts and payments regardless of the period to which they relate.

Step 1: Distinguish the treatment of depreciation **Income and Expenditure Account:** Depreciation is charged on the expenditure (debit) side, because the use of fixed assets is an expense of the current accounting period.

Receipts and Payments Account: Depreciation is not recorded, because it does not involve any cash or bank payment.

Step 2: Distinguish the opening balance **Income and Expenditure Account:** It has no opening balance. Only revenue income and expenditure relating to the current year are considered, and the resulting surplus or deficit is transferred to the capital fund.

Receipts and Payments Account: It starts with the opening balances of cash in hand and cash at bank on the receipts (debit) side. An opening bank overdraft, if any, appears on the payments (credit) side.

Step 3: Conclusion Income and Expenditure Account records depreciation and has no opening balance. Receipts and Payments Account excludes depreciation and opens with cash/bank balances, including any bank overdraft on the credit side.

Quick Tip to Solve: Ask whether cash actually moves: depreciation fails that test, while an opening cash/bank balance belongs to the Receipts and Payments Account.

2. P, Q and R were partners in a firm sharing profits and losses in the ratio of 3 : 4 : 1. On 31st March, 2022, R retired. R surrendered 1/3rd of his share in favour of P and the remaining share in favour of Q. Calculate the new profit sharing ratio of P and Q. [2 marks]

Solution:

Concept:

- On retirement, each continuing partner's new share equals the old share plus the share acquired from the retiring partner.

- A stated fraction of the retiring partner's share must first be multiplied by that partner's share in the firm's total profits; it is not itself a share of total profits.

Step 1: Calculate the shares acquired from R **Working Notes:** The old ratio is $P : Q : R = 3 : 4 : 1$, so their shares are $3/8$, $4/8$ and $1/8$, respectively. P acquires one-third of R's share and Q acquires the remaining two-thirds:

$$\text{P's gain} = \frac{1}{3} \times \frac{1}{8} = \frac{1}{24},$$
$$\text{Q's gain} = \frac{2}{3} \times \frac{1}{8} = \frac{2}{24}.$$

The gains add to $3/24 = 1/8$, exactly the share surrendered by R.

Step 2: Add each gain to the corresponding old share Using a common denominator of 24:

$$\text{P's new share} = \frac{3}{8} + \frac{1}{24} = \frac{10}{24},$$
$$\text{Q's new share} = \frac{4}{8} + \frac{2}{24} = \frac{14}{24}.$$

The two new shares sum to $24/24 = 1$, confirming that the whole profit is allocated between the continuing partners.

Step 3: Conclusion The new profit-sharing ratio is $P : Q = 10 : 14 = \boxed{5 : 7}$.

Quick Tip to Solve: Use 24 as the denominator: the old shares become 9 and 12 parts, and R's 3 parts pass to P and Q as 1 and 2 parts.

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3. A, B and C were partners in a firm sharing profits and losses in the ratio of 7 : 2 : 1. The firm closes its books on 31st March every year. On 30th June, 2022, A died. A's share of profit in the year of his death was to be calculated on the basis of the profit of the previous year. The profit of the firm for the year ended 31st March, 2022 was Rs. 16,00,000. Calculate A's share of profit in the year of his death. [2 marks]

Solution:

Concept:

- When a deceased partner's profit is estimated from the previous year's profit, first calculate the firm's estimated profit from the start of the current financial year to the date of death.
- The deceased partner's share equals previous annual profit multiplied by the fraction of the year elapsed and by the partner's old profit-sharing fraction. The time-based estimate uses an even rate of profit over the year.

Step 1: Determine the period and A's profit-sharing fraction **Working Notes:** The previous accounts closed on 31st March, 2022, so the current financial year began on 1st April, 2022. A died on 30th June, 2022. Hence, the relevant period is April, May and June, or three months:

$$\text{Fraction of year} = \frac{3}{12}, \qquad \text{A's share} = \frac{7}{7+2+1} = \frac{7}{10}.$$

Only profits up to A's death are attributable to A; a full year's profit must not be allocated to him.

Step 2: Estimate profit up to the date of death and allocate A's share The previous year's annual profit was Rs 16,00,000. Therefore,

$$\text{Estimated three-month profit} = \text{Rs } 16,00,000 \times \frac{3}{12} = \text{Rs } 4,00,000.$$

A is entitled to seven-tenths of this estimated profit:

$$\text{A's share} = \text{Rs } 4,00,000 \times \frac{7}{10} = \text{Rs } 2,80,000.$$

Step 3: Conclusion A's share of profit for the period 1st April, 2022 to 30th June, 2022 is $\boxed{\text{Rs } 2,80,000}$.

Quick Tip to Solve: Start counting from the day after the last balance sheet date: April to June gives three months, then apply A's share of 7/10.

4(a). Young Cricket Club received Rs. 48,000 as subscriptions during the year ended 31st March, 2022. Out of these subscriptions received, Rs. 8,000 belonged to the year 2020 - 21 and Rs. 6,000 belonged to the year 2022 - 23. On 31st March, 2022 subscriptions of Rs. 12,000 were still outstanding. During the previous year subscriptions of Rs. 16,000 were received in advance.

Prepare Subscriptions Account showing the amount of subscriptions to be credited to Income and Expenditure Account for the year ended 31st March, 2022. [3 marks]

Solution:

Concept:

- Subscriptions are recognised as income in the year to which they relate, irrespective of when cash is received. Outstanding subscriptions are assets and subscriptions received in advance are liabilities.
- Current-year income equals cash subscriptions received, less opening arrears collected and closing advances received, plus opening advances relating to this year and closing outstanding subscriptions.

Step 1: Identify the subscriptions belonging to the current year The cash receipts of Rs 48,000 include Rs 8,000 for 2020–21 and Rs 6,000 for 2022–23. Both are excluded from the current year's income. The Rs 16,000 received in advance during the previous year now belongs to 2021–22, so it is included. The Rs 12,000 outstanding on 31st March, 2022 is also earned during the current year and is included even though it has not yet been collected.

$$\begin{aligned}\text{Subscriptions income} &= 48,000 - 8,000 - 6,000 + 16,000 + 12,000 \\ &= \text{Rs } 62,000.\end{aligned}$$

Step 2: Prepare the Subscriptions Account Opening outstanding subscriptions appear on the debit side and opening advances on the credit side. Closing outstanding subscriptions are carried down on the credit side, while closing advances are carried down on the debit side. The balancing transfer is

made to the Income and Expenditure Account.

Young Cricket Club — Subscriptions Account

For the year ended 31st March, 2022

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Balance b/d (Opening outstanding)	8,000	By Balance b/d (Opening advance)	16,000	
	To Income and Expenditure A/c	62,000	By Bank A/c	48,000	
	To Balance c/d (Closing advance)	6,000	By Balance c/d (Closing outstanding)	12,000	
	Total	**76,000**	**Total**	**76,000**	

Step 3: Conclusion Subscriptions of $\boxed{\text{Rs } 62,000}$ are credited to the Income and Expenditure Account for the year ended 31st March, 2022. Both sides of the Subscriptions Account total Rs 76,000.

Quick Tip to Solve: First remove the Rs 8,000 arrears and Rs 6,000 future-year receipts from cash; then add Rs 16,000 opening advance and Rs 12,000 closing arrears.

OR

4(b). During the year ended 31st March, 2022 Alfa Club paid Rs. 37,000 to creditors for purchase of stationery. From the following additional information regarding stationery, calculate the amount of stationery to be debited to the Income and Expenditure Account for the year ended 31st March, 2022.

Additional Information:

Details	April 1, 2021 (Rs.)	March 31, 2022 (Rs.)
Stock of Stationery	**7,000**	**11,000**
Creditors for Stationery	**9,000**	**6,000**

[3 marks]

Solution:

Concept:

- The Income and Expenditure Account records the cost of stationery consumed during the accounting year, rather than the cash paid to suppliers.
- Purchases equal payments to stationery creditors plus closing creditors less opening creditors. Consumption equals opening stock plus purchases less closing stock.

Step 1: Convert payments to creditors into stationery purchases Alfa Club paid Rs 37,000 to stationery creditors during the year. This payment includes settlement of the opening liability of Rs 9,000, which relates to purchases of the previous period. It must therefore be deducted when determining this year's purchases. The closing liability of Rs 6,000 represents purchases made this year but not yet

paid for, so it is added.

$$\begin{aligned}\text{Stationery purchases} &= \text{Payments} + \text{Closing creditors} - \text{Opening creditors}\\ &= 37,000 + 6,000 - 9,000\\ &= \text{Rs } 34,000.\end{aligned}$$

As a check, opening creditors of Rs 9,000 plus purchases of Rs 34,000, less payments of Rs 37,000, leave the stated closing creditors of Rs 6,000.

Step 2: Adjust purchases for opening and closing stationery stock Opening stock of Rs 7,000 is available for use during this year and is added to purchases. Closing stock of Rs 11,000 remains unused on 31st March, 2022, so it is deducted. This separates stationery consumed from stationery still held as an asset.

$$\begin{aligned}\text{Stationery consumed} &= \text{Opening stock} + \text{Purchases} - \text{Closing stock}\\ &= 7,000 + 34,000 - 11,000\\ &= \text{Rs } 30,000.\end{aligned}$$

The total stationery available was Rs 41,000; its division into Rs 30,000 consumed and Rs 11,000 closing stock accounts for the full amount.

Step 3: Conclusion Stationery consumed of $\boxed{\text{Rs } 30,000}$ is debited to Alfa Club's Income and Expenditure Account for the year ended 31st March, 2022.

Quick Tip to Solve: Use two adjustments in order: creditors convert Rs 37,000 paid into purchases of Rs 34,000; stock then converts purchases into consumption of Rs 30,000.

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5. Mohan, Girdhari and Shyam were partners in a firm sharing profits and losses in the ratio of 4 : 3 : 2. On 31st March, 2022, Girdhari retired. After making all adjustments on account of reserves, revaluation of assets and reassessment of liabilities, the balance in Girdhari's Capital Account stood at Rs. 5,00,000. Mohan and Shyam agreed to pay Girdhari Rs. 5,90,000 in full settlement of his claim. Calculate the value of goodwill of the firm and pass the necessary journal entry for the treatment of goodwill on Girdhari's retirement without raising goodwill account. [3 marks]

Solution:

Concept:

- Hidden goodwill is inferred when the amount agreed to be paid to a retiring partner exceeds the capital balance after all other adjustments. This excess is the retiring partner's share of goodwill.
- Firm's goodwill equals the retiring partner's goodwill share divided by his old profit share. Without raising Goodwill Account, the gaining partners' Capital Accounts are debited in their gaining ratio and the retiring partner's Capital Account is credited.

Step 1: Calculate hidden goodwill **Working Notes**

Girdhari's adjusted capital already includes reserves and the results of revaluation and reassessment.

Therefore, the additional amount allowed in settlement represents his share of goodwill:

$$\begin{aligned}\text{Girdhari's goodwill share} &= 5,90,000 - 5,00,000\\ &= \text{Rs } 90,000.\\ \text{His old profit share} &= \frac{3}{4+3+2} = \frac{1}{3}.\\ \text{Goodwill of the firm} &= 90,000 \div \frac{1}{3}\\ &= \text{Rs } 2,70,000.\end{aligned}$$

Step 2: Determine the gaining ratio and compensation No new ratio is specified, so Mohan and Shyam continue in their relative old ratio, $4:2 = 2:1$. Their new shares are $2/3$ and $1/3$, respectively. Hence,

$$\text{Mohan's gain} = \frac{2}{3} - \frac{4}{9} = \frac{2}{9},$$
$$\text{Shyam's gain} = \frac{1}{3} - \frac{2}{9} = \frac{1}{9}.$$

The gaining ratio is $2:1$. Mohan bears $90,000 \times 2/3 = \text{Rs } 60,000$, and Shyam bears $90,000 \times 1/3 = \text{Rs } 30,000$. These amounts compensate Girdhari for the profit share acquired by the continuing partners.

Step 3: Record the goodwill adjustment **Journal of the Firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2022	Mohan's Capital A/c Dr.		60,000	
	Shyam's Capital A/c Dr.		30,000	
	To Girdhari's Capital A/c			90,000
	(Being Girdhari's share of goodwill adjusted through the gaining partners' Capital Accounts in the ratio of 2:1)			

The total debit equals the credit, Rs 90,000. This entry increases Girdhari's capital from Rs 5,00,000 to the agreed claim of Rs 5,90,000. No goodwill asset is created.

Step 4: Conclusion The firm's goodwill is $\boxed{\text{Rs } 2,70,000}$. Debit Mohan's Capital Account by Rs 60,000 and Shyam's Capital Account by Rs 30,000; credit Girdhari's Capital Account by Rs 90,000.

Quick Tip to Solve: First subtract adjusted capital from the agreed settlement. Divide only this excess by the retiring partner's old share to find the firm's goodwill.

6(a). X Ltd. invited applications for issuing 15,000 8% Debentures of Rs. 100 each. The amount was payable as follows:

On Application - Rs. 20 per Debenture

On Allotment - Balance

Applications for 30,000 Debentures were received. Applications for 5,000 Debentures were rejected and the application money was refunded to the applicants. Prorata allotment was made to the remaining applicants. Excess money received with applications was adjusted towards sums due on allotment. The remaining allotment money was duly received.

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

Solution:

Concept:

- Application money is first credited to Debenture Application Account. On allotment, money relating to allotted debentures becomes debenture capital; rejected applications are refunded and excess application money of successful applicants is transferred to Debenture Allotment Account.
- Allotment is due at the face value less the application amount per debenture. The cash received on allotment equals the gross allotment due less the excess application money already adjusted.

Step 1: Calculate application money and its allocation **Working Notes**

The issue is at par. The 8% specifies the annual interest rate, so it does not change the amounts payable on application or allotment.

$$\begin{aligned}\text{Application money received} &= 30,000 \times 20 = \text{Rs } 6,00,000,\\ \text{Refund on rejection} &= 5,000 \times 20 = \text{Rs } 1,00,000.\end{aligned}$$

The remaining applicants applied for $30,000 - 5,000 = 25,000$ debentures. The allotment ratio is $15,000 : 25,000 = 3 : 5$, i.e. three debentures allotted for every five applied for.

$$\begin{aligned}\text{Application money retained} &= 25,000 \times 20 = \text{Rs } 5,00,000,\\ \text{Application capital required} &= 15,000 \times 20 = \text{Rs } 3,00,000,\\ \text{Excess transferred to allotment} &= 5,00,000 - 3,00,000\\ &= \text{Rs } 2,00,000.\end{aligned}$$

Thus the full Rs 6,00,000 received is allocated between debenture capital, the allotment adjustment and the refund.

Step 2: Calculate the allotment due and cash receipt The balance payable on allotment is $100 - 20 =$ Rs 80 per debenture. The gross amount due must be recorded before allowing the adjustment of excess application money:

$$\begin{aligned}\text{Allotment due} &= 15,000 \times 80 = \text{Rs } 12,00,000,\\ \text{Allotment cash received} &= 12,00,000 - 2,00,000\\ &= \text{Rs } 10,00,000.\end{aligned}$$

Since the remaining allotment money was duly received, Debenture Allotment Account has no

outstanding balance.

Step 3: Pass the journal entries **Journal of X Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Debenture Application A/c (Being application money received for 30,000 debentures at Rs 20 each)		6,00,000	 6,00,000
	Debenture Application A/c Dr. To 8% Debentures A/c To Debenture Allotment A/c To Bank A/c (Being application money transferred to capital, excess adjusted towards allotment and money on rejected applications refunded)		6,00,000	 3,00,000 2,00,000 1,00,000
	Debenture Allotment A/c Dr. To 8% Debentures A/c (Being allotment money due on 15,000 debentures at Rs 80 each)		12,00,000	 12,00,000
	Bank A/c Dr. To Debenture Allotment A/c (Being the balance of allotment money received after adjusting excess application money)		10,00,000	 10,00,000

Net bank receipts are Rs $6,00,000 - 1,00,000 + 10,00,000 = 15,00,000$, equal to the face value of 15,000 debentures. The debenture capital credit is also Rs $3,00,000 + 12,00,000 = 15,00,000$.

Step 4: Conclusion Debentures issued total Rs 15,00,000. Refund Rs 1,00,000, transfer excess application money of Rs 2,00,000 to allotment, and receive the remaining allotment money of Rs 10,00,000, as recorded above.

Quick Tip to Solve: Exclude the 5,000 rejected applications before calculating pro-rata excess; subtract that excess from the gross allotment due to find the cash receipt.

OR

6(b). Pass necessary journal entries for the issue of Debentures in the following cases:

(i) Y Ltd. issued Rs. 5,00,000, 9% Debentures of Rs. 100 each at par redeemable at a premium of 10% after three years.

(ii) Z Ltd. issued 4500, 9% Debentures of Rs. 100 each at a discount of 10% redeemable at a premium of 5% after three years. [3 marks]

Solution:

Concept:

- The Debentures Account is credited with the nominal value of debentures issued. Bank Account is debited with the actual amount received, which equals nominal value less any discount on issue.
- A premium payable on redemption is a liability recognised at issue. The total Loss on Issue of

Debentures is the discount on issue plus the premium payable on redemption; the premium is credited to Premium on Redemption of Debentures Account.

Step 1: Record Y Ltd.'s issue at par, redeemable at a premium **Working Notes:** Y Ltd. receives the full nominal value of Rs 5,00,000 because the issue is at par. The premium due on redemption is

$$\text{Premium} = 5,00,000 \times \frac{10}{100} = \text{Rs } 50,000.$$

There is no issue discount. Therefore, the loss recognised on issue is Rs 50,000, representing the redemption premium. The 9% rate is the annual interest rate and does not determine the issue proceeds or the redemption premium.

Journal of Y Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		5,00,000	
	Loss on Issue of Debentures A/c Dr.		50,000	
	To 9% Debentures A/c			5,00,000
	To Premium on Redemption of Debentures A/c			50,000
	(Being 9% debentures issued at par, redeemable at a premium of 10% after three years)			

Total debit and total credit are each Rs 5,50,000.

Step 2: Record Z Ltd.'s discounted issue, redeemable at a premium **Working Notes:** The nominal value is based on the number of debentures and their face value. Both percentages are calculated on this nominal value:

$$\begin{aligned}
\text{Nominal value} &= 4,500 \times 100 = \text{Rs } 4,50,000,\\
\text{Issue discount} &= 4,50,000 \times 10\% = \text{Rs } 45,000,\\
\text{Bank proceeds} &= 4,50,000 - 45,000 = \text{Rs } 4,05,000,\\
\text{Redemption premium} &= 4,50,000 \times 5\% = \text{Rs } 22,500,\\
\text{Loss on issue} &= 45,000 + 22,500 = \text{Rs } 67,500.
\end{aligned}$$

The redemption premium does not reduce the cash received at issue; it is recorded as a separate liability payable at redemption.

Journal of Z Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		4,05,000	
	Loss on Issue of Debentures A/c Dr.		67,500	
	To 9% Debentures A/c			4,50,000
	To Premium on Redemption of Debentures A/c			22,500
	(Being 4,500 9% debentures of Rs 100 each issued at 10% discount, redeemable at 5% premium after three years)			

Total debit and total credit are each Rs 4,72,500. Since the question asks for entries at issue, no payment of the redemption amount is recorded now.

Step 3: Conclusion Y Ltd. records Bank debit Rs 5,00,000 and Loss on Issue debit Rs 50,000 against Debentures credit Rs 5,00,000 and Redemption Premium credit Rs 50,000. Z Ltd. records Bank debit Rs 4,05,000 and Loss on Issue debit Rs 67,500 against Debentures credit Rs 4,50,000 and Redemption Premium credit Rs 22,500.

Quick Tip to Solve: For Z Ltd., calculate both 10% discount and 5% redemption premium on Rs 4,50,000. Only the discount reduces Bank; both amounts increase Loss on Issue.

7. From the following Receipts and Payments Account of Adarsh Club for the year ended 31st March, 2022, prepare an Income and Expenditure Account for the year ended 31st March, 2022:

Receipts and Payments Account of Adarsh Club for the year ended 31st March, 2022

Receipts	Amount (Rs)	Payments	Amount (Rs)
Balance b/d		Salaries	49,000
Cash 20,000		Printing and Stationery	32,000
Bank 67,500	87,500	Secretary's Honorarium	25,000
Subscriptions:			
2020–21 15,000		6% Fixed Deposit on 1.1.2022	2,70,000
2021–22 2,00,000			
2022–23 30,000	2,45,000	Balance c/d	
Sale of old furniture (Book value Rs 10,000)	8,500	Cash 26,500	
Sale of old newspapers	2,500	Bank 50,000	76,500
Hire of ground	47,500		
Locker Rent	11,500		
Donations for Sports fund	50,000		
	4,52,500		4,52,500

The club has 1,500 members each paying an annual subscription of Rs 150. [5 marks]

Solution:

Concept:

- An Income and Expenditure Account records revenue income and revenue expenses belonging to the current accounting year on the accrual basis. Opening and closing cash or bank balances do not enter this account.
- Subscription income is the amount due from members for the year, whether received or outstanding. Specific-purpose donations are credited to the relevant fund, while investment purchases are capital payments.
- On sale of a fixed asset, only the difference between its book value and sale proceeds affects income or expenditure. Interest earned up to the closing date is recognised even if it has not yet been received.

Step 1: Calculate subscription income for the current year **Working Notes**

The club has 1,500 members, each paying Rs 150 annually. Therefore,

$$\text{Subscriptions due for 2021–22} = 1,500 \times 150 = \text{Rs } 2,25,000.$$

Current-year subscriptions received are Rs 2,00,000, so the balance due is

$$\text{Outstanding subscriptions} = 2,25,000 - 2,00,000 = \text{Rs } 25,000.$$

The Rs 15,000 collected for 2020–21 relates to the previous year, while Rs 30,000 collected for 2022–23 is income received in advance. Neither belongs to the current Income and Expenditure Account. Thus, the subscription income credited is Rs 2,25,000, including the amount outstanding.

Step 2: Adjust interest and the furniture disposal The fixed deposit of Rs 2,70,000 was made on 1st January, 2022. Interest at 6% per annum is earned for January, February and March, a period of three months:

$$\text{Accrued interest} = 2,70,000 \times \frac{6}{100} \times \frac{3}{12} = \text{Rs } 4,050.$$

Credit this earned interest to the account; the deposit principal is an investment and is excluded from expenditure. The furniture was sold below its book value:

$$\text{Loss on sale} = 10,000 - 8,500 = \text{Rs } 1,500.$$

Debit only this loss, rather than the sale proceeds or the full book value. The Rs 50,000 donation for the sports fund is a specific-purpose receipt credited to that fund, so it is excluded from general income.

Step 3: Prepare the Income and Expenditure Account Salaries, printing and stationery, and the secretary's honorarium are revenue expenses. No further adjustment to these amounts is given. Sale of old newspapers, hire of ground and locker rent are revenue income for the year.

Income and Expenditure Account of Adarsh Club
for the year ended 31st March, 2022

Dr. Expenditure	Rs	Cr. Income	Rs
To Salaries	49,000	By Subscriptions	2,25,000
To Printing and Stationery	32,000	By Sale of old newspapers	2,500
To Secretary's Honorarium	25,000	By Hire of ground	47,500
To Loss on sale of furniture	1,500	By Locker Rent	11,500
To Surplus (transferred to Capital Fund)	1,83,050	By Interest on fixed deposit (accrued)	4,050
Total	**2,90,550**	**Total**	**2,90,550**

The account balances because total income is Rs 2,90,550 and total expenses before the balancing surplus are

$$49,000 + 32,000 + 25,000 + 1,500 = \text{Rs } 1,07,500.$$

Step 4: Conclusion Adarsh Club's surplus for the year ended 31st March, 2022 is $2,90,550 - 1,07,500 = \text{Rs } 1,83,050$, transferred to the Capital Fund.

Quick Tip to Solve: Use members multiplied by the annual fee for subscription income, and count only three months of fixed-deposit interest. Exclude the deposit principal and sports-fund donation, but include the loss on furniture.

8(a). **X, Y and Z were partners in a firm sharing profits and losses in the ratio of 3 : 3 : 4. On 31st March, 2022 their Balance Sheet was as follows:**

Balance Sheet of X, Y and Z as at 31st March, 2022

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Sundry Creditors	34,000	Bank	1,74,000
Bills Payable	29,000	Sundry Debtors	2,00,000
General Reserve	2,00,000	Bills Receivable	26,000
Capitals: X 3,00,000 Y 3,00,000 Z 4,00,000	10,00,000	Stock	1,50,000
		Furniture	1,28,000
		Machinery	2,00,000
		Land and Building	3,85,000
	12,63,000		12,63,000

On the above date, Z retired on the following terms:

(i) A provision of 3% on debtors will be created for bad and doubtful debts.

(ii) Stock will be reduced by Rs. 5,000 and furniture by Rs. 2,000.

(iii) Land and building will be brought up to Rs. 4,00,000 and machinery will be brought down to Rs. 1,80,000.

Prepare Revaluation Account and Z's Capital Account, transferring the amount due to his loan account. [5 marks]

Solution:

Concept:

- On retirement, decreases in assets and the creation of a provision for doubtful debts are debited to Revaluation Account; increases in assets are credited to it.
- Revaluation profit or loss and accumulated reserves belong to all the old partners and are transferred in their old profit-sharing ratio, here $X : Y : Z = 3 : 3 : 4$.
- The amount due to the retiring partner equals opening capital plus the share of reserves, adjusted for revaluation. When it remains unpaid, transfer the balance from the retiring partner's Capital Account to that partner's Loan Account.

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

The provision is calculated on the debtors' balance of Rs 2,00,000. Stock and furniture are reduced by the amounts stated, whereas machinery and land and building are adjusted by comparing their old and revised values.

$$\text{Provision for doubtful debts} = 2,00,000 \times \frac{3}{100} = \text{Rs } 6,000,$$

$$\text{Decrease in machinery} = 2,00,000 - 1,80,000 = \text{Rs } 20,000,$$

$$\text{Increase in land and building} = 4,00,000 - 3,85,000 = \text{Rs } 15,000.$$

Total revaluation expenses are Rs $6,000 + 5,000 + 2,000 + 20,000 = 33,000$. Against these, the increase in land and building gives a revaluation gain of Rs 15,000. Therefore, the net loss is Rs $33,000 - 15,000 = 18,000$.

$$X\text{'s loss share} = 18,000 \times \frac{3}{10} = \text{Rs } 5,400,$$
$$Y\text{'s loss share} = 18,000 \times \frac{3}{10} = \text{Rs } 5,400,$$
$$Z\text{'s loss share} = 18,000 \times \frac{4}{10} = \text{Rs } 7,200,$$
$$Z\text{'s reserve share} = 2,00,000 \times \frac{4}{10} = \text{Rs } 80,000.$$

General Reserve is an accumulated profit, so its distribution is made directly through the partners' Capital Accounts, not through Revaluation Account.

Step 2: Prepare Revaluation Account **Revaluation Account as at 31st March, 2022**

Dr. Particulars	Rs	Cr. Particulars	Rs
To Provision for Doubtful Debts A/c	6,000	By Land and Building A/c	15,000
To Stock A/c	5,000	By Partners' Capital A/cs:	
To Furniture A/c	2,000	X	5,400
To Machinery A/c	20,000	Y	5,400
		Z	7,200
Total	**33,000**	**Total**	**33,000**

The loss is shown on the credit side to close Revaluation Account, with the corresponding debit made to the partners' Capital Accounts. Thus, both sides total Rs 33,000 and no revaluation balance is carried forward.

Step 3: Prepare Z's Capital Account and transfer the amount due Z's opening capital is Rs 4,00,000. Credit his share of General Reserve and debit his share of the revaluation loss. Since the question requires transfer to a loan account, there is no payment through Bank Account.

$$\text{Amount due to Z} = 4,00,000 + 80,000 - 7,200 = \text{Rs } 4,72,800.$$

Z's Capital Account as at 31st March, 2022

Dr. Particulars	Rs	Cr. Particulars	Rs
To Revaluation A/c	7,200	By Balance b/d	4,00,000
To Z's Loan A/c	4,72,800	By General Reserve A/c	80,000
Total	**4,80,000**	**Total**	**4,80,000**

The debit to Z's Capital Account transfers the entire amount payable to the credit of Z's Loan Account. Consequently, Z's Capital Account is closed, while the firm recognises a loan liability of the same amount.

Step 4: Conclusion Revaluation produces a loss of **Rs 18,000**, of which Z bears **Rs 7,200**. After adding Z's reserve share of **Rs 80,000**, transfer **Rs 4,72,800** to **Z's Loan Account**.

Quick Tip to Solve: Calculate revaluation changes as new value minus book value, distribute the net loss in 3:3:4, and add Z's reserve share separately before transferring his capital balance to loan.

OR

8(b). Sonu, Monu and Ashu were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. On 31st March, 2022 their Balance Sheet was as follows:

Balance Sheet of Sonu, Monu and Ashu as at 31st March, 2022

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Creditors	35,000	Bank	22,000
General Reserve	25,000	Stock	25,000
Capitals: Sonu 50,000 Monu 30,000 Ashu 20,000	1,00,000	Debtors 20,000 Less: Provision for bad debts 2,000	18,000
		Furniture	15,000
		Land and Building	80,000
	1,60,000		1,60,000

On the above date, the firm was dissolved on the following terms:

(i) Land and Building realised for Rs. 85,000, Furniture realised for Rs. 6,000 and Debtors realised full amount.

(ii) Stock was taken over by Sonu at book value. There was an unrecorded asset which was taken over by Ashu for Rs. 3,000.

(iii) Monu agreed to bear all realisation expenses. For his services Monu was paid Rs. 2,000. Actual expenses on realisation amounted to Rs. 2,200.

(iv) Creditors were paid at 2% less.

Prepare Realisation Account. [5 marks]

Solution:

Concept:

- On dissolution, transfer non-cash assets to the debit of Realisation Account at their gross book values. Transfer external liabilities and the provision for bad debts to its credit.
- Credit Realisation Account with sale proceeds and assets taken over by partners; debit it with payments to creditors and the remuneration payable to a partner for undertaking realisation work.
- A partner who agrees to bear realisation expenses bears the actual expenses personally. The firm's charge is the agreed remuneration. Transfer the resulting profit or loss to partners' capital accounts in their profit-sharing ratio of $5 : 3 : 2$.

Step 1: Compute the amounts transferred and realised **Working Notes**

Debtors must be transferred at their gross amount of Rs 20,000; the provision of Rs 2,000 is separately credited to Realisation Account. Since debtors realised the full amount, the receipt is Rs 20,000, not

their net balance-sheet value of Rs 18,000.

$$\begin{aligned}\text{Assets transferred} &= 25,000 + 20,000 + 15,000 + 80,000\\ &= \text{Rs } 1,40,000,\\ \text{Bank receipts} &= 85,000 + 6,000 + 20,000\\ &= \text{Rs } 1,11,000.\end{aligned}$$

Sonu's takeover of stock credits realisation by Rs 25,000 and debits his capital account. Ashu's takeover of the unrecorded asset similarly credits realisation by Rs 3,000; no opening book-value transfer is made for that asset.

Step 2: Determine creditors' payment and the firm's expense The discount on creditors is $35,000 \times 2\% = \text{Rs } 700$. Therefore, the payment entered on the debit side is

$$35,000 - 700 = \text{Rs } 34,300.$$

Monu is entitled to Rs 2,000 for bearing all realisation expenses. Debit Realisation Account and credit Monu's Capital Account with this agreed remuneration; its payment clears his capital account through Bank. The actual expenses of Rs 2,200 are borne by Monu and are not an additional charge to Realisation Account. Bank's opening balance, partners' opening capitals and General Reserve are not transferred to this account; General Reserve is distributed directly to partners' capitals.

Step 3: Prepare the Realisation Account **Realisation Account of Sonu, Monu and Ashu**
On dissolution, 31st March, 2022

Dr. Particulars	Rs	Cr. Particulars	Rs
To Stock	25,000	By Creditors	35,000
To Debtors	20,000	By Provision for bad debts	2,000
To Furniture	15,000	By Bank:	
To Land and Building	80,000	Land and Building	85,000
To Bank (creditors)	34,300	Furniture	6,000
To Monu's Capital (remuneration)	2,000	Debtors	20,000
		By Sonu's Capital (stock)	25,000
		By Ashu's Capital (unrecorded asset)	3,000
		By Partners' Capitals (loss):	
		Sonu	150
		Monu	90
		Ashu	60
Total	**1,76,300**	**Total**	**1,76,300**

Before transferring the balancing loss, the debit total is Rs 1,76,300 and the credit total is Rs 1,76,000. The excess debit is transferred by debiting partners' capital accounts and crediting Realisation Account. Consequently, the account closes with no balance carried forward.

Step 4: Conclusion Realisation loss is $1,76,300 - 1,76,000 = \boxed{\text{Rs } 300}$. It is borne by Sonu, Monu and Ashu in the ratio $5:3:2$, namely $\boxed{\text{Rs } 150,\ \text{Rs } 90,\ \text{Rs } 60}$, respectively. Both sides of the completed Realisation Account total Rs 1,76,300.

Quick Tip to Solve: Transfer debtors gross and the provision separately. Charge only Monu's agreed Rs 2,000 remuneration; adding his Rs 2,200 actual expenses again would overstate the firm's loss.

9. B Ltd. purchased Building worth Rs. 3,00,000, Plant worth Rs. 2,80,000 and Furniture worth Rs. 20,000 from C Ltd. for a purchase consideration of Rs. 6,30,000. B Ltd. paid the purchase consideration by issuing 9% debentures of Rs. 100 each.

Pass necessary journal entries in the books of B Ltd. for the acquisition of assets and issue of debentures when:

(a) Debentures were issued at par.

(b) Debentures were issued at a premium of 25%.

(c) Debentures were issued at a discount of 10%. [5 marks]

Solution:

Concept:

- Assets acquired are debited at their agreed values, and the vendor is credited with the purchase consideration. The excess of purchase consideration over net assets acquired is debited to Goodwill A/c.
- Number of debentures issued equals purchase consideration divided by the issue price per debenture. Debentures A/c is always credited with the face value of the debentures issued.
- Premium on issue is credited to Securities Premium A/c; discount on issue is debited to Discount on Issue of Debentures A/c. The 9% rate relates to interest and does not determine the number issued.

Step 1: Record acquisition of assets, common to all three cases **Working Notes** The total agreed value of assets acquired is

$$\text{Rs } 3,00,000 + \text{Rs } 2,80,000 + \text{Rs } 20,000 = \text{Rs } 6,00,000.$$

No liabilities are taken over. Therefore, the excess purchase consideration represents goodwill:

$$\text{Goodwill} = \text{Rs } 6,30,000 - \text{Rs } 6,00,000 = \text{Rs } 30,000.$$

The following acquisition entry is required in each of cases (a), (b) and (c).

Journal of B Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Building A/c Dr.		3,00,000	
	Plant A/c Dr.		2,80,000	
	Furniture A/c Dr.		20,000	
	Goodwill A/c Dr.		30,000	
	To C Ltd.			6,30,000
	(Being assets purchased from C Ltd. and excess consideration recorded as goodwill)			

Step 2: (a) Settle the vendor by issuing debentures at par **Working Notes** At par, the issue price equals the face value of Rs 100. Thus,

$$\text{Number issued} = \frac{6,30,000}{100} = 6,300.$$

The entire amount payable to C Ltd. is transferred to 9% Debentures A/c; no premium or discount

arises.

Journal of B Ltd. — Case (a)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	C Ltd. Dr. To 9% Debentures A/c (Being 6,300 debentures of Rs 100 each issued at par to discharge purchase consideration)		6,30,000	 6,30,000

Step 3: (b) Settle the vendor by issuing debentures at a premium **Working Notes** The premium per debenture is $100 \times 25\% = \text{Rs } 25$, so the issue price is Rs 125.

$$\text{Number issued} = \frac{6,30,000}{125} = 5,040,$$
$$\text{Face value issued} = 5,040 \times 100 = \text{Rs } 5,04,000,$$
$$\text{Securities premium} = 5,040 \times 25 = \text{Rs } 1,26,000.$$

The two credits together equal the Rs 6,30,000 payable to the vendor.

Journal of B Ltd. — Case (b)

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

	C Ltd. Dr.
	  To 9% Debentures A/c
	  To Securities Premium A/c
	(Being 5,040 debentures of Rs 100 each issued at 25% premium to discharge purchase consideration)
			6,30,000	
				5,04,000
				1,26,000

Step 4: (c) Settle the vendor by issuing debentures at a discount **Working Notes** Discount per debenture is $100 \times 10\% = \text{Rs } 10$; the issue price is therefore Rs 90.

$$\text{Number issued} = \frac{6,30,000}{90} = 7,000,$$
$$\text{Face value issued} = 7,000 \times 100 = \text{Rs } 7,00,000,$$
$$\text{Discount on issue} = 7,000 \times 10 = \text{Rs } 70,000.$$

The vendor is debited only with the consideration payable. The additional debit for discount makes the total debits equal to the face value credited to debentures.

Journal of B Ltd. — Case (c)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	C Ltd. Dr. Discount on Issue of Debentures A/c Dr. To 9% Debentures A/c (Being 7,000 debentures of Rs 100 each issued at 10% discount to discharge purchase consideration)		6,30,000 70,000	 7,00,000

Step 5: Conclusion Goodwill of Rs 30,000 is recorded on acquisition in each case. B Ltd. issues (a) 6,300 debentures at par, (b) 5,040 debentures at a 25% premium, or (c) 7,000 debentures at a 10% discount. Each alternative fully settles C Ltd.'s Rs 6,30,000 balance.

Quick Tip to Solve: Divide Rs 6,30,000 by the issue price (Rs 100, Rs 125 or Rs 90), then multiply the resulting number by Rs 100 to find the credit to Debentures A/c. Do not divide by the 9% interest rate.

Part B (10 marks)

OPTION 1 (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.
- A Cash Flow Statement explains the change in cash and cash equivalents by classifying cash flows into operating, investing and financing activities.

Step 1: State the meaning A Cash Flow Statement is a statement showing the sources (inflows) and applications (outflows) of cash and cash equivalents of an enterprise during a particular period. Cash includes cash in hand and demand deposits with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

Step 2: Explain what the statement reveals The statement groups these movements under operating activities (the principal revenue-producing activities), investing activities (acquisition and disposal of long-term assets and other investments), and financing activities (changes in owners' capital and borrowings). Their net cash flows explain the difference between the opening and closing balances of cash and cash equivalents. Non-cash transactions do not constitute cash flows.

Step 3: Conclusion Thus, a Cash Flow Statement reports the cash and cash-equivalent inflows and outflows during a period, classified into operating, investing and financing activities.

Quick Tip to Solve: In the definition, include the period, cash and cash equivalents, inflows and outflows, and the three activity headings.

11(a). **Prepare a 'Common Size Balance Sheet' from the following Balance Sheet of Shree Ltd. as at 31st March, 2022:**

Balance Sheet of Shree Ltd. as at 31st March, 2022

Particulars	Note No.	31.3.2022 (Rs.)	31.3.2021 (Rs.)
I - Equity and Liabilities:			
1. Shareholders' Funds Share Capital		40,00,000	30,00,000
2. Non-Current Liabilities Long-term Borrowings		20,00,000	15,00,000
3. Current Liabilities Trade Payables		20,00,000	5,00,000
Total		80,00,000	50,00,000
II - Assets:			
1. Non-Current Assets Fixed Assets (a) Tangible Assets		20,00,000	15,00,000
(b) Intangible Assets		40,00,000	10,00,000
2. Current Assets Inventories		20,00,000	25,00,000
Total		80,00,000	50,00,000

[3 marks]

Solution:

Concept:

- A common size balance sheet expresses each equity and liability item as a percentage of total equity and liabilities, and each asset as a percentage of total assets, for the same year.
- The common size percentage is $\dfrac{\text{Item amount}}{\text{Total of the same year}} \times 100$. Each side's total is taken as 100%, allowing comparison of the composition of the two years' balance sheets.

Step 1: Determine the bases and calculate the percentages **Working Notes**

Use Rs 80,00,000 as the base for 2022 and Rs 50,00,000 as the base for 2021. For example, the share capital percentages are

$$2022: \quad \frac{40,00,000}{80,00,000} \times 100 = 50\%,$$

$$2021: \quad \frac{30,00,000}{50,00,000} \times 100 = 60\%.$$

Likewise, Rs 20,00,000 is 25% of the 2022 total, whereas Rs 15,00,000 is 30% of the 2021 total. Apply the respective year's base to every item, including assets. This gives intangible assets as 50% and 20%, and inventories as 25% and 50%, respectively.

Step 2: Prepare the common size statement **Common Size Balance Sheet of Shree Ltd. As at 31st March, 2022 and 31st March, 2021**

Particulars	Note No.	2022 (Rs)	2021 (Rs)	2022 (%)	2021 (%)
I. Equity and Liabilities					
1. Shareholders' Funds					
Share Capital		40,00,000	30,00,000	50	60
2. Non-Current Liabilities					
Long-term Borrowings		20,00,000	15,00,000	25	30
3. Current Liabilities					
Trade Payables		20,00,000	5,00,000	25	10
Total		**80,00,000**	**50,00,000**	**100**	**100**
II. Assets					
1. Non-Current Assets					
Fixed Assets					
(a) Tangible Assets		20,00,000	15,00,000	25	30
(b) Intangible Assets		40,00,000	10,00,000	50	20
2. Current Assets					
Inventories		20,00,000	25,00,000	25	50
Total		**80,00,000**	**50,00,000**	**100**	**100**

Step 3: Conclusion Each side of the common size balance sheet totals 100% for each year. Share capital, long-term borrowings and trade payables form 50%, 25% and 25% of the 2022 total, compared with 60%, 30% and 10% in 2021.

Quick Tip to Solve: Keep separate denominators: divide every 2022 amount by Rs 80,00,000 and every 2021 amount by Rs 50,00,000; check that each side totals 100%.

OR

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

Balance Sheet of Jeevan Ltd. as at 31st March, 2022

Particulars	**Note No.**	**31.3.2022 (Rs.)**	**31.3.2021 (Rs.)**
I - Equity and Liabilities:			
1. Shareholders' Funds			
Share Capital		**15,00,000**	**10,00,000**
2. Non-Current Liabilities			
Long-term Borrowings		**6,00,000**	**5,00,000**
3. Current Liabilities			
Trade Payables		**12,00,000**	**10,00,000**
Total		**33,00,000**	**25,00,000**
II - Assets:			
1. Non-Current Assets			
Fixed Assets			
(a) Tangible Assets		**18,00,000**	**12,00,000**
(b) Intangible Assets		**10,00,000**	**8,00,000**
2. Current Assets			
Cash and Cash Equivalents		**5,00,000**	**5,00,000**
Total		**33,00,000**	**25,00,000**

[3 marks]

Solution:

Concept:

- A comparative balance sheet presents the balances of two dates alongside the absolute and percentage changes. The earlier year, 31st March, 2021, is the base year here.
- Absolute change equals the current-year amount minus the previous-year amount. Percentage change equals $\frac{\text{Absolute change}}{\text{Previous-year amount}} \times 100$. A positive difference is an increase; unchanged balances have zero change.

Step 1: Calculate the changes using the earlier year as the base **Working Notes**

Share capital increases by Rs $15,00,000 - 10,00,000 = 5,00,000$, giving $5,00,000/10,00,000 \times 100 = 50\%$. Long-term borrowings increase by Rs $6,00,000 - 5,00,000 = 1,00,000$, or 20%. Trade payables rise by Rs $12,00,000 - 10,00,000 = 2,00,000$, also 20%.

Tangible assets increase by Rs $18,00,000 - 12,00,000 = 6,00,000$, or 50%. Intangible assets increase by Rs $10,00,000 - 8,00,000 = 2,00,000$, or 25%. Cash and cash equivalents remain Rs 5,00,000; both their absolute and percentage changes are zero. The non-current assets subtotal rises from Rs 20,00,000 to Rs 28,00,000, so its increase is $8,00,000/20,00,000 \times 100 = 40\%$. Total assets and total equity and liabilities each increase by Rs $33,00,000 - 25,00,000 = 8,00,000$, or $8,00,000/25,00,000 \times 100 = 32\%$.

Step 2: Prepare the comparative statement **Comparative Balance Sheet of Jeevan Ltd.**

As at 31st March, 2021 and 31st March, 2022

All amounts are in Rs; percentage changes are rounded to two decimal places. Since every non-zero change is an increase, the change columns below show increases.

Particulars	Note No.	31.3.2021 (Rs)	31.3.2022 (Rs)	Increase (Rs)	Increase (%)
I. Equity and Liabilities					
1. Shareholders' Funds					
Share Capital		10,00,000	15,00,000	5,00,000	50.00
2. Non-Current Liabilities					
Long-term Borrowings		5,00,000	6,00,000	1,00,000	20.00
3. Current Liabilities					
Trade Payables		10,00,000	12,00,000	2,00,000	20.00
Total		**25,00,000**	**33,00,000**	**8,00,000**	**32.00**
II. Assets					
1. Non-Current Assets					
Fixed Assets:					
(a) Tangible Assets		12,00,000	18,00,000	6,00,000	50.00
(b) Intangible Assets		8,00,000	10,00,000	2,00,000	25.00
Total Non-Current Assets		20,00,000	28,00,000	8,00,000	40.00
2. Current Assets					
Cash and Cash Equivalents		5,00,000	5,00,000	0	0.00
Total		**25,00,000**	**33,00,000**	**8,00,000**	**32.00**

The increases on the equity and liabilities side add to Rs $5,00,000 + 1,00,000 + 2,00,000 = 8,00,000$. On the assets side, Rs $6,00,000 + 2,00,000 + 0 = 8,00,000$. Thus both the balances and their changes agree.

Step 3: Conclusion Jeevan Ltd.'s total assets and total equity and liabilities increase from Rs 25,00,000 to Rs 33,00,000, an increase of Rs 8,00,000 or 32%. Tangible assets and share capital each rise by 50%, while cash and cash equivalents remain unchanged.

Quick Tip to Solve: Use each item's 2021 balance as its percentage-change denominator. For the total change, divide Rs 8,00,000 by Rs 25,00,000; do not add the individual percentage changes.

12. From the following Balance Sheet of Anuradha Ltd. as at 31st March, 2022, calculate Cash from Operating Activities:

Balance Sheet of Anuradha Ltd. as at 31st March, 2022

Particulars	Note No.	31.3.2022 (Rs)	31.3.2021 (Rs)
I - Equity and Liabilities:			
1. Shareholders' Funds			
(a) Share Capital	1	3,00,000	2,50,000
(b) Reserves and Surplus	2	1,50,000	1,00,000
2. Non-Current Liabilities			
Long-term Borrowings	3	75,000	25,000
3. Current Liabilities			
(a) Trade Payables		25,000	50,000
(b) Other Current Liabilities	4	50,000	75,000
Total		6,00,000	5,00,000
II - Assets:			
1. Non-Current Assets			
Fixed Assets			
(a) Tangible Assets	5	4,50,000	2,74,000
(b) Intangible Assets	6	24,000	26,000
2. Current Assets			
(a) Inventories		76,000	1,00,000
(b) Trade Receivables		20,000	10,000
(c) Cash and Cash Equivalents		30,000	90,000
Total		6,00,000	5,00,000

Notes of Accounts:

Note No.	Particulars	31.3.2022 (Rs)	31.3.2021 (Rs)
1.	Share Capital		
	Equity Share Capital	3,00,000	2,50,000
2.	Reserves and Surplus		
	Surplus (Balance in the Statement of Profit and Loss)	1,50,000	1,00,000
3.	Long-term Borrowings		
	12% Debentures	75,000	25,000
4.	Other Current Liabilities		
	Outstanding Rent	50,000	75,000
5.	Tangible Assets		
	(a) Land and Building	4,00,000	2,00,000
	(b) Furniture	50,000	74,000
		4,50,000	2,74,000
6.	Intangible Assets		
	Patents	24,000	26,000

Additional Information:

(i) Rs. 50,000, 12% Debentures were issued on 31st March, 2022.

(ii) During the year Rs. 24,000 was charged as depreciation on furniture. [5 marks]

Solution:

Concept:

- Under the indirect method, cash from operating activities is found by adjusting net profit for non-cash expenses, non-operating items and changes in operating working capital.
- Depreciation and amortisation reduce accounting profit without a current cash outflow, so they are added back. For a non-financial company, debenture interest is added back because interest paid is a financing cash flow.
- A decrease in an operating current asset is added and an increase is deducted; the treatment is reversed for operating current liabilities. Cash and cash equivalents are excluded from working-capital adjustments.

Step 1: Determine the profit and the non-cash adjustments **Working Notes**

No dividend, transfer to reserves or income-tax adjustment is given. The increase in the balance of the Statement of Profit and Loss therefore gives the net profit for the year:

$$\text{Net profit} = \text{Rs } 1,50,000 - \text{Rs } 1,00,000 = \text{Rs } 50,000.$$

Depreciation on furniture is Rs 24,000. The decrease in patents, with no purchase or disposal stated, represents patents written off:

$$\text{Patents written off} = \text{Rs } 26,000 - \text{Rs } 24,000 = \text{Rs } 2,000.$$

Both expenses have already reduced profit, but neither is a cash payment for operating activities in the current year. Add both back.

Step 2: Calculate interest and analyse working-capital changes The additional Rs 50,000 debentures were issued on 31st March, 2022, the last day of the accounting year. Hence the year's interest is calculated on the opening debentures only:

$$\text{Interest on debentures} = \text{Rs } 25,000 \times \frac{12}{100} = \text{Rs } 3,000.$$

Add this interest back to profit in the operating section. The issue proceeds of shares and debentures belong to financing activities, while the purchase of land and building belongs to investing activities; they do not enter the operating calculation.

Inventories decrease by Rs 24,000, releasing funds, whereas trade receivables increase by Rs 10,000, tying up funds. Trade payables decrease by Rs 25,000 and outstanding rent decreases by Rs 25,000; both decreases in operating liabilities are deducted because cash payments exceed the amounts charged to the year's profit by these decreases. The fall in cash and cash equivalents itself is not a working-capital adjustment.

Step 3: Prepare the operating activities statement **Anuradha Ltd.**
Cash Flow Statement (Operating Activities Extract)
for the year ended 31st March, 2022

Particulars	Amount (Rs)
A. Cash Flow from Operating Activities	
Net profit before tax	50,000
Adjustments for non-cash and non-operating items:	
Add: Depreciation on furniture	24,000
Add: Patents written off	2,000
Add: Interest on debentures	3,000
Operating profit before working-capital changes	**79,000**
Add: Decrease in inventories (1,00,000 – 76,000)	24,000
Less: Increase in trade receivables (20,000 – 10,000)	(10,000)
Less: Decrease in trade payables (50,000 – 25,000)	(25,000)
Less: Decrease in outstanding rent (75,000 – 50,000)	(25,000)
Cash generated from operations	**43,000**
Less: Income tax paid (no tax payment given)	–
Net cash from operating activities	**43,000**

Step 4: Conclusion Cash from Operating Activities for the year ended 31st March, 2022 is $\boxed{\text{Rs } 43,000}$, a net cash inflow.

Quick Tip to Solve: Check the debenture issue date before calculating interest: the Rs 50,000 issued on the year-end date does not earn a full year's interest. Deduct the decrease in outstanding rent along with the decrease in trade payables.

OPTION 2 (Computerised Accounting)

10. Give the meaning of the term 'Password Security'. [2 marks]

Solution:

Concept:

- Access control restricts the use of a computerised accounting system and its stored data to authorised users.
- A password is a secret combination of characters used to authenticate a user before access is granted.

Step 1: Meaning of password security Password security means protecting an accounting system, its files or its data by requiring a valid secret password before a user can access them. The user supplies the password, normally together with a user name, and the system checks these credentials before permitting entry.

Step 2: Purpose in computerised accounting This control helps prevent unauthorised persons from viewing or changing confidential accounting records. For example, a person who does not know the authorised password cannot simply open the protected accounts using that login. Keeping the password confidential is essential; if it is shared, another person may gain access using the same credentials.

Step 3: Conclusion Password security is the protection of a computerised accounting system and its data through a secret password that permits access only after successful authentication.

Quick Tip to Solve: Define the secret access credential first, then connect it to preventing unauthorised access to accounting data.

11(a). State any three components of payroll from sub-head 'Deduction'. [3 marks]

Solution:

Concept:

- Payroll records an employee's gross earnings, the deductions from those earnings and the net salary payable.
- Deductions are amounts withheld from the employee's gross salary. Thus, Net salary = Gross salary − Total deductions.

Step 1: Provident fund contribution The employee's contribution to the provident fund is a payroll deduction. It is withheld from the employee's salary and deposited in the provident fund for the employee's benefit. Only the employee's share is deducted from that employee's gross salary; the employer's own contribution is a separate employer obligation.

Step 2: Income tax deducted at source Income tax deducted at source, commonly called TDS, is another deduction. The employer withholds the applicable income tax from the employee's salary and deposits it with the tax authorities on the employee's behalf. The withheld amount reduces the salary paid directly to the employee.

Step 3: Recovery of loans or advances An instalment recovered against a loan or salary advance previously given to the employee is also a deduction. The payroll records this recovery and subtracts it from the current gross salary when calculating the amount payable. It represents repayment by the employee, rather than an additional earning.

Step 4: Conclusion Any three components under the payroll sub-head Deduction are: employee's provident fund contribution, income tax deducted at source, and recovery of loans or advances.

Quick Tip to Solve: Select items subtracted from gross pay: PF, TDS and loan recovery. Basic pay and allowances belong to earnings.

OR

11(b). Explain the three types of 'Vouchers'. [3 marks]

Solution:

Concept:

- A voucher contains transaction details entered into accounting software. Its type determines how the information is recorded and when it affects the accounts.
- The three types considered here are memo, post-dated and user-defined vouchers. They provide

for provisional records, future-dated transactions and business-specific requirements respectively.

Step 1: Explain the memo voucher A memo voucher is a non-accounting voucher. Its entries are kept in a separate memorandum register and do not form part of the ledger or affect the user's accounts. It can be used to retain provisional information whose details are not yet final. When the transaction is confirmed, the memo may be converted into an appropriate regular voucher for inclusion in the accounts.

Step 2: Explain the post-dated voucher A post-dated voucher allows a transaction to be entered in advance with a future date. It is useful for anticipated transactions, often similar to previous ones. The voucher is retained until its specified date and takes accounting effect on that date rather than on the earlier date of entry. For example, a future-dated instalment payment can be entered beforehand without treating it as a current payment.

Step 3: Explain the user-defined voucher Accounting software provides predefined accounting and inventory voucher types. A user-defined voucher is a new or customised voucher type created to meet a business's particular needs. For example, the business may create separate cash-sales and credit-sales voucher types based on the standard sales voucher, enabling these transactions to be identified and reported separately.

Step 4: Conclusion The three types are memo vouchers, post-dated vouchers and user-defined vouchers: they retain non-accounting records, record future-dated transactions and provide customised voucher types respectively.

Quick Tip to Solve: Remember the purpose of each: memo means a separate provisional record, post-dated means a future date, and user-defined means a voucher adapted to the business's needs.

12. Name and explain the accounts involved in Accounts Group 'Profit and Loss Account'. [5 marks]

Solution:

Concept:

- An account group collects ledger accounts of a similar nature so that accounting software can summarise their balances in financial reports.
- The Profit and Loss Account group contains revenue and expense groups. Its six main groups are Sales Accounts, Purchase Accounts, Direct Incomes, Direct Expenses, Indirect Incomes and Indirect Expenses.

Step 1: Explain Sales Accounts and Purchase Accounts **Sales Accounts:** This group records revenue from the sale of goods dealt in by the business. Separate sales ledgers may be maintained for different categories of goods. Sales returns reduce the sales revenue used in determining gross profit.

Purchase Accounts: This group records the cost of goods purchased for resale or for use in production. Purchase returns reduce purchases. Buying an office computer or machinery is recorded under fixed assets, rather than under Purchase Accounts, because it is not a purchase of trading goods.

Step 2: Explain Direct Incomes and Direct Expenses **Direct Incomes:** These are incomes directly connected with the principal revenue-earning activity of the business, apart from the separately

maintained sales group. For example, professional fees earned by a professional service firm may be grouped as direct income. The nature of the business determines whether a receipt is direct income.

Direct Expenses: These are expenses directly connected with manufacturing goods or purchasing and bringing goods to a saleable condition. Examples include production wages, carriage inwards and freight inwards. These costs are considered in arriving at gross profit.

Step 3: Explain Indirect Incomes and Indirect Expenses **Indirect Incomes:** These are incidental incomes other than income from the main business activity. Examples include discount received, interest received and rent received by an ordinary trading concern. They increase net profit after the gross result has been determined.

Indirect Expenses: These are expenses of administration, selling, distribution and finance that are not direct costs of producing or acquiring goods. Examples include office salaries, advertising, carriage outwards, office rent and interest on loans. They are deducted in determining net profit.

Step 4: Conclusion Thus, the Profit and Loss Account group comprises six groups: **Sales Accounts, Purchase Accounts, Direct Incomes, Direct Expenses, Indirect Incomes and Indirect Expenses**. Correct grouping enables the software to calculate and present the business's gross and net results.

Quick Tip to Solve: Recall three pairs: sales and purchases; direct income and direct expenses; indirect income and indirect expenses. Classify an item by its purpose in the business, not merely by whether cash is received or paid.