CBSE Class 12 Accountancy Question Paper 2022 with Solution PDF-Set 67-4-2

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

(i) This question paper comprises of **two** parts – **Part A** and **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) Nature of Items

(b) Closing Balance [2 marks]

Solution:

Concept:

- Income and Expenditure Account is prepared on the accrual basis to measure the surplus or deficit of the current accounting year.
- Receipts and Payments Account summarises actual cash and bank transactions, irrespective of their nature or the period to which they relate.

Step 1: (a) Nature of items Income and Expenditure Account records only revenue incomes and revenue expenses relating to the current accounting year. Outstanding and prepaid adjustments are considered; capital receipts and capital payments are excluded.

Receipts and Payments Account records both capital and revenue receipts and payments made in cash or through bank during the year. These may relate to the previous, current or next accounting year; non-cash items are excluded.

Step 2: (b) Closing balance In Income and Expenditure Account, the balancing figure is surplus (excess of income over expenditure) or deficit (excess of expenditure over income), which is transferred to the Capital Fund.

In Receipts and Payments Account, the closing balance represents cash in hand and cash at bank; a credit bank balance represents a bank overdraft. It does not measure the year's surplus or deficit.

Step 3: Conclusion Income and Expenditure Account concerns current-year revenue items and closes with surplus or deficit. Receipts and Payments Account concerns actual capital and revenue cash flows and closes with cash/bank balance or bank overdraft.

Quick Tip to Solve: Use two tests: whether the item belongs to current-year revenue, and whether cash actually moved during the year.

2. 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:

- The deceased partner is entitled to his share of the firm's profit from the beginning of the accounting year up to the date of death.

- When the previous year's profit is the agreed basis, estimated profit equals annual profit multiplied by the fraction of the year elapsed; the partner's share is then applied.

Step 1: Determine the period and A's fraction The firm closes its books on 31st March, so the current accounting year begins on 1st April, 2022. A died on 30th June, 2022. Hence the period for which profit is due is April, May and June, i.e. three months. From the ratio $7 : 2 : 1$, A's share is $7/(7+2+1) = 7/10$.

Step 2: Estimate profit and calculate A's entitlement The previous year's profit is Rs 16,00,000. Applying the agreed time basis gives

$$\text{Firm's estimated profit for three months} = 16,00,000 \times \frac{3}{12} = \text{Rs } 4,00,000,$$
$$\text{A's share up to death} = 4,00,000 \times \frac{7}{10} = \text{Rs } 2,80,000.$$

The remaining partners' shares are excluded because only A's entitlement up to his death is required.

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: First take three months of the annual profit, then multiply by A's old profit share of 7/10.

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3. Anisha, Divya and Lata are partners sharing profits in the ratio of 2 : 2 : 1. Divya retires and her share is taken up by Anisha and Lata in the ratio of 3 : 2. Calculate the new profit sharing ratio of Anisha and Lata. [2 marks]

Solution:

Concept:

- A continuing partner's new profit share equals her old share plus the share acquired from the retiring partner.
- The ratio in which the retiring partner's share is acquired is the gaining ratio; it must be applied to that retiring share before adding it to the continuing partners' old shares.

Step 1: Find old shares and gains from Divya The old ratio of Anisha, Divya and Lata is $2 : 2 : 1$. Thus their old shares are $2/5$, $2/5$ and $1/5$, respectively. Divya's entire share of $2/5$ is acquired by Anisha and Lata in the ratio $3 : 2$.

$$\text{Anisha's gain} = \frac{2}{5} \times \frac{3}{5} = \frac{6}{25},$$
$$\text{Lata's gain} = \frac{2}{5} \times \frac{2}{5} = \frac{4}{25}.$$

Step 2: Add the gains to the old shares

$$\text{Anisha's new share} = \frac{2}{5} + \frac{6}{25} = \frac{16}{25},$$
$$\text{Lata's new share} = \frac{1}{5} + \frac{4}{25} = \frac{9}{25}.$$

As a check, $16/25 + 9/25 = 1$, so the whole future profit is distributed between the two continuing

partners. Their new ratio is obtained by cancelling the common denominator 25.

Step 3: Conclusion The new profit-sharing ratio of Anisha and Lata is $\boxed{16 : 9}$.

Quick Tip to Solve: Apply 3:2 only to Divya's 2/5 share; add each gain to the continuing partner's own old share.

4. 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:

- When a retiring partner receives more than the adjusted capital balance, the excess represents that partner's share of hidden goodwill, after all other adjustments have been made.
- The firm's goodwill equals the retiring partner's goodwill share divided by the retiring partner's old profit share. Continuing partners compensate the retiring partner in their gaining ratio without opening a Goodwill Account.

Step 1: Determine Girdhari's share of goodwill Girdhari's adjusted capital is Rs 5,00,000, but the amount agreed in full settlement is Rs 5,90,000. Therefore the additional amount relates to goodwill:

$$\text{Girdhari's goodwill share} = 5,90,000 - 5,00,000 = \text{Rs } 90,000.$$

His old profit share is $3/9$. Thus the value of the firm's entire goodwill is

$$\text{Goodwill} = 90,000 \times \frac{9}{3} = \text{Rs } 2,70,000.$$

Step 2: Calculate the gaining ratio and record the adjustment No new profit-sharing ratio is stated. Mohan and Shyam therefore continue in their old relative ratio, $4 : 2 = 2 : 1$. Their new shares are $2/3$ and $1/3$, respectively. Mohan's gain is $2/3 - 4/9 = 2/9$, while Shyam's gain is $1/3 - 2/9 = 1/9$. The gaining ratio is consequently $2 : 1$. Mohan bears $90,000 \times 2/3 = \text{Rs } 60,000$, and Shyam bears $90,000 \times 1/3 = \text{Rs } 30,000$.

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 2:1)			

Step 3: Conclusion The firm's goodwill is Rs 2,70,000. Debit Mohan's Capital Account by Rs 60,000

and Shyam's Capital Account by Rs 30,000, and credit Girdhari's Capital Account by Rs 90,000. His capital balance then becomes Rs 5,90,000, equal to the agreed settlement.

Quick Tip to Solve: First subtract adjusted capital from settlement; this excess is only the retiring partner's goodwill share, not the firm's entire goodwill.

5(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:

- Income and Expenditure Account recognises subscriptions earned for the current accounting year on the accrual basis, irrespective of when cash is received.
- Outstanding subscriptions are debit balances, while subscriptions received in advance are credit balances in the Subscriptions Account. Opening and closing balances must be distinguished from current-year income.

Step 1: Adjust cash receipts to obtain current-year income The Rs 48,000 cash receipts include Rs 8,000 belonging to 2020-21 and Rs 6,000 belonging to 2022-23. Neither is income of 2021-22. Deduct both amounts. Add the Rs 12,000 still outstanding for the current year, and the Rs 16,000 received during the previous year in advance for this year.

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

Thus current-year cash collections alone are Rs 34,000; the opening advance and closing receivable together add Rs 28,000 to current-year subscription income.

Step 2: Prepare the Subscriptions Account The Rs 8,000 received for the previous year represents the opening outstanding balance. The opening advance of Rs 16,000 appears on the credit side. On closing, the current year's outstanding income appears as a credit-side balance c/d, while next year's advance appears as a debit-side balance c/d.

Subscriptions Account for the year ended 31st March, 2022

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

The transfer is debited to Subscriptions Account and credited to Income and Expenditure Account. At 31st March, 2022, Rs 12,000 is an outstanding subscription asset and Rs 6,000 is an advance subscription liability.

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

Quick Tip to Solve: Exclude receipts for both other years, then add this year's closing outstanding and the opening advance relating to this year.

OR

5(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:

- Income and Expenditure Account records stationery consumed during the accounting year on the accrual basis, rather than 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 into purchases for the year The payment of Rs 37,000 includes settlement of the opening liability of Rs 9,000. That opening liability relates to purchases of the previous year and is deducted. Closing creditors of Rs 6,000 represent current purchases still unpaid and are added. Thus,

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

Check: opening creditors of Rs 9,000 plus purchases of Rs 34,000, less payments of Rs 37,000, leave closing creditors of Rs 6,000.

Step 2: Adjust purchases for stationery stock Opening stock of Rs 7,000 is available for use during the year, so it is added to purchases. Closing stock of Rs 11,000 remains unused and is excluded from the year's expense.

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

The increase in stock reduces consumption below purchases by Rs 4,000. Therefore the accrual expense is lower than both purchases and the cash payment; neither cash paid nor purchases alone is the amount chargeable to the Income and Expenditure Account.

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

Quick Tip to Solve: First adjust creditors to obtain purchases; only then adjust opening and closing stock to obtain stationery consumed.

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 received is first credited to Debenture Application Account. It is then allocated between debenture capital, refunds and adjustment against allotment.
- Debentures issued at par are credited at face value. Excess application money from accepted applicants reduces cash subsequently receivable on allotment.

Step 1: Calculate application money and its allocation Total application money received is $30,000 \times$ Rs $20 =$ Rs $6,00,000$. Rejected applicants receive $5,000 \times$ Rs $20 =$ Rs $1,00,000$ as refund. The remaining applicants applied for 25,000 debentures and receive 15,000, giving an allotment ratio of $15,000 : 25,000 = 3 : 5$. Accepted application money is Rs 5,00,000, of which $15,000 \times$ Rs $20 =$ Rs $3,00,000$ relates to capital on application. The excess of Rs 2,00,000 is transferred to Debenture Allotment Account.

Step 2: Calculate allotment due and cash received Allotment is payable at Rs $100 -$ Rs $20 =$ Rs 80 per debenture. Thus allotment due is $15,000 \times$ Rs $80 =$ Rs $12,00,000$. After adjustment of excess application money of Rs 2,00,000, cash received on allotment is Rs 10,00,000. The 8% rate specifies interest; no interest entry is required for these issue transactions.

Step 3: Record the transactions 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 on 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 against allotment and 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 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 balance allotment money received after adjustment of excess application money)		10,00,000	 10,00,000

Step 4: Conclusion Debenture capital credited totals Rs 15,00,000. Application refunds are Rs 1,00,000, excess application money adjusted is Rs 2,00,000, and the balance allotment receipt is $\boxed{\text{Rs } 10,00,000}$.

Quick Tip to Solve: Exclude rejected applications before computing excess money: only accepted applicants' excess can be adjusted against allotment.

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 face value issued, while Bank Account is debited with the actual issue proceeds. A discount on issue reduces the cash received; a premium payable on redemption does not reduce the issue proceeds.
- Loss on Issue of Debentures Account is debited with the discount on issue plus the premium payable on redemption. The latter is credited separately to Premium on Redemption of Debentures Account when the debentures are issued.

Step 1: (i) Calculate Y Ltd.'s proceeds and redemption premium The face value of the issue is Rs 5,00,000. Since the issue is at par, the company receives the entire face value in cash. The redemption premium is $5,00,000 \times 10/100 = \text{Rs } 50,000$. There is no discount on issue, so the loss on issue consists only of this premium. The premium liability is recognised now, although it will be paid after three years.

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 debentures issued at par, redeemable at a premium of 10% after three years)			

Step 2: (ii) Calculate Z Ltd.'s discount, proceeds and total loss The face value of the issue is $4,500 \times \text{Rs } 100 = \text{Rs } 4,50,000$. The issue discount is $4,50,000 \times 10/100 = \text{Rs } 45,000$, so cash received is $4,50,000 - 45,000 = \text{Rs } 4,05,000$. The premium payable on redemption is $4,50,000 \times 5/100 = \text{Rs } 22,500$. Thus total loss on issue is $45,000 + 22,500 = \text{Rs } 67,500$.

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 debentures issued at a discount of 10%, redeemable at a premium of 5% after three years)			

Step 3: Conclusion Y Ltd. records issue proceeds of Rs 5,00,000 and a loss of Rs 50,000; Z Ltd. records issue proceeds of Rs 4,05,000 and a loss of Rs 67,500. Both entries balance. The 9% coupon determines interest and does not affect these issue entries.

Quick Tip to Solve: Calculate both percentages on face value: deduct issue discount from Bank and add redemption premium to the loss on issue.

7(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 a newly created provision are debited to Revaluation Account; increases in assets are credited. Revaluation profit or loss belongs to all existing partners in their old profit-sharing ratio.
- General Reserve is accumulated profit and is distributed among X, Y and Z in their old ratio $3:3:4$. The retiring partner's adjusted capital is transferred to his Loan Account when it is not paid immediately.

Step 1: Calculate the revaluation adjustments The new provision for doubtful debts is $2,00,000 \times 3/100 = \text{Rs } 6,000$. Stock decreases by Rs 5,000 and furniture decreases by Rs 2,000. Machinery decreases by $2,00,000 - 1,80,000 = \text{Rs } 20,000$. These four decreases together produce a debit of $6,000 + 5,000 + 2,000 + 20,000 = \text{Rs } 33,000$. Land and building increases by $4,00,000 - 3,85,000 = \text{Rs } 15,000$, credited to Revaluation Account. Hence the revaluation loss is $33,000 - 15,000 = \text{Rs } 18,000$. It is borne by X, Y and Z in the old ratio: X, Rs 5,400; Y, Rs 5,400; and Z, Rs 7,200. No adjustment is needed for creditors, bills payable, bills receivable or bank because their values remain unchanged.

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

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Provision for doubtful debts	6,000	By Land and Building	15,000
To Stock	5,000	By X's Capital (loss)	5,400
To Furniture	2,000	By Y's Capital (loss)	5,400
To Machinery	20,000	By Z's Capital (loss)	7,200
Total	33,000	Total	33,000

The loss is credited to Revaluation Account to close it and is debited to the respective partners' Capital Accounts. Revaluation Account therefore has no closing balance to carry forward.

Step 3: Adjust Z's capital and transfer the amount due Z's share of General Reserve is $2,00,000 \times 4/10 =$ Rs $80,000$. His share of revaluation loss is $18,000 \times 4/10 =$ Rs $7,200$. Thus his claim is his opening capital plus reserve less loss:

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

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

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Revaluation (loss)	7,200	By Balance b/d	4,00,000
To Z's Loan Account	4,72,800	By General Reserve	80,000
Total	4,80,000	Total	4,80,000

The transfer debits Z's Capital Account and credits Z's Loan Account for Rs 4,72,800. His Capital Account closes, while the unpaid amount becomes the firm's liability to him. No capital balance is carried down after this complete transfer.

Step 4: Conclusion Revaluation loss is Rs 18,000, of which Z bears Rs 7,200. The amount transferred from Z's Capital Account to Z's Loan Account is Rs 4,72,800.

Quick Tip to Solve: Distribute both the reserve and revaluation result in the old ratio before calculating the retiring partner's loan; a loss reduces his claim.

OR

7(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:

- Realisation Account is debited with non-cash assets at gross book values and credited with outside liabilities and existing provisions related to those assets. Bank, partners' capitals and general reserve are not transferred to this account.
- Cash realised and assets taken over by partners are credited to Realisation Account. Payments to outside creditors and the agreed remuneration of the partner responsible for realisation expenses are debited. The resulting profit or loss is transferred to partners in their profit-sharing ratio.

Step 1: Transfer assets, creditors and the provision Transfer stock of Rs 25,000, gross debtors of Rs 20,000, furniture of Rs 15,000 and land and building of Rs 80,000 to the debit side. Their total is Rs 1,40,000. Transfer creditors of Rs 35,000 and the provision for bad debts of Rs 2,000 to the credit side. Debtors must be transferred at their gross amount, since the provision is transferred separately. General reserve of Rs 25,000 is distributed directly to partners' capital accounts and does not enter Realisation Account.

Step 2: Calculate realisations and settlement amounts Debtors realise their full gross amount of Rs 20,000. Therefore, cash receipts from assets are

$$85,000 + 6,000 + 20,000 = \text{Rs } 1,11,000.$$

Sonu's takeover of stock credits realisation with Rs 25,000; Ashu's takeover of the unrecorded asset credits it with Rs 3,000. The unrecorded asset has no book-value transfer on the debit side. Creditors receive

$$35,000 \times \frac{98}{100} = \text{Rs } 34,300.$$

Monu bears actual realisation expenses, so the Rs 2,200 paid by him is not charged to the firm. Only his agreed remuneration of Rs 2,000 is charged to Realisation Account and credited to his capital account; its subsequent payment is a separate capital-to-bank transaction.

Step 3: Prepare the Realisation Account **Realisation Account as at 31st March, 2022**

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (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 (assets realised)	1,11,000
To Land and Building	80,000	By Sonu's Capital	25,000
To Bank (creditors)	34,300	By Ashu's Capital	3,000
To Monu's Capital	2,000	By Loss transferred to:	
		Sonu's Capital	150
		Monu's Capital	90
		Ashu's Capital	60
Total	1,76,300	Total	1,76,300

Before transferring the loss, credits total Rs 1,76,000 against debits of Rs 1,76,300. The difference is a loss of Rs 300. It is borne by Sonu, Monu and Ashu in the ratio $5:3:2$: Rs 150, Rs 90 and Rs 60 respectively. As Realisation Account is closed by this transfer, no balance is carried down.

Step 4: Conclusion The realisation loss is $\boxed{\text{Rs } 300}$, transferred to Sonu, Monu and Ashu as Rs 150, Rs 90 and Rs 60 respectively. Both sides of Realisation Account total Rs 1,76,300.

Quick Tip to Solve: Transfer debtors at Rs 20,000 and credit their Rs 2,000 provision separately; charge only Monu's agreed Rs 2,000 remuneration because he bears the actual expenses himself.

8. 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 Cash 20,000 Bank 67,500	87,500	Salaries	49,000
Subscriptions: 2020 - 21 15,000 2021 - 22 2,00,000 2022 - 23 30,000	2,45,000	Printing and Stationery	32,000
Sale of old furniture (Book value Rs. 10,000)	8,500	Secretary's Honorarium	25,000
Sale of old newspapers	2,500	6% Fixed Deposit on 1.1.2022	2,70,000
Hire of ground	47,500	Balance c/d Cash 26,500 Bank 50,000	76,500
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:

- The Income and Expenditure Account records revenue income and revenue expenditure for the current accounting year on the accrual basis. Opening and closing cash and bank balances do not represent income or expenditure.
- Subscription income is the amount due from members for the current year, irrespective of when it is received. Specific-fund donations and investment purchases are capital transactions; only the related revenue income enters this account.

Step 1: Determine subscription income for 2021–22 All 1,500 members pay an annual subscription of Rs 150. Therefore, subscription income earned during the year is

$$1,500 \times 150 = \text{Rs } 2,25,000.$$

Current-year subscriptions actually received are Rs 2,00,000, so subscriptions outstanding at the year end are Rs 25,000. The Rs 15,000 received for 2020–21 belongs to the preceding year and the Rs 30,000 received for 2022–23 is an advance for the following year. Neither is income of 2021–22. Thus, the total cash receipt of Rs 2,45,000 must not be taken as the current year's subscription income.

Step 2: Calculate accrued interest and loss on furniture The fixed deposit was made on 1st January,

2022, so interest accrues for three months up to 31st March, 2022:

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

This interest is income of the year even though no interest receipt appears in the Receipts and Payments Account. The investment of Rs 2,70,000 itself is an asset, not an expense.

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

Only this loss is charged to expenditure. The sale proceeds of Rs 8,500 are a capital receipt and are not included as income. Donations of Rs 50,000 specifically for the Sports Fund are credited to that fund, not to general income.

Step 3: Prepare the Income and Expenditure Account Adarsh Club: Income and Expenditure Account for the year ended 31st March, 2022

Dr.	Expenditure	Amount (Rs)	Income	Amount (Rs)	Cr.
	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	

Revenue expenditure before surplus totals Rs 1,07,500, while revenue income totals Rs 2,90,550. No further adjustment to salaries, printing and stationery or honorarium is supplied, so their paid amounts are charged for this year. Opening balances of Rs 87,500 and closing balances of Rs 76,500 belong to the Balance Sheet and are excluded from this account.

Step 4: Conclusion Adarsh Club has a surplus of income over expenditure of Rs $2,90,550$ − Rs $1,07,500$ = $\boxed{\text{Rs } 1,83,050}$ for the year ended 31st March, 2022. This surplus is added to the Capital Fund.

Quick Tip to Solve: Start subscriptions with members multiplied by annual fee; then include three months' accrued fixed-deposit interest and only the furniture-sale loss, while keeping the Sports Fund donation outside general income.

9. Satnam Ltd. purchased Building worth Rs. 5,00,000, Plant worth Rs. 4,60,000 and Furniture worth Rs. 2,20,000 from Gurnam Ltd. for a purchase consideration of Rs. 12,60,000. Satnam Ltd. paid the purchase consideration by issuing 10% debentures of Rs. 100 each.

Pass the necessary journal entries in the books of Satnam Ltd. for the acquisition of assets and issue of 10% debentures when:

(a) Debentures were issued at par.

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

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

Solution:

Concept:

- Assets acquired are debited at their agreed values. The vendor is credited with purchase consideration. If consideration exceeds the total value of identified net assets, the excess is goodwill.
- The number of debentures equals purchase consideration divided by issue price per debenture. The Debentures Account is credited with face value; premium is credited to Securities Premium Reserve and discount is debited to Discount on Issue of Debentures Account.
- The 10% rate determines interest on the nominal value and does not determine the issue price. Each of the three cases below is an independent alternative for settling the same vendor balance.

Step 1: Record the acquisition of assets (common to all three cases) The assets total $5,00,000 + 4,60,000 + 2,20,000 =$ Rs $11,80,000$. Since the agreed consideration is Rs 12,60,000, goodwill is $12,60,000 - 11,80,000 =$ Rs $80,000$. The consideration, rather than the sum of asset values, is the amount payable to Gurnam Ltd.

Journal of Satnam Ltd. (common acquisition entry)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Building A/c Dr.		5,00,000	
	Plant A/c Dr.		4,60,000	
	Furniture A/c Dr.		2,20,000	
	Goodwill A/c Dr.		80,000	
	To Gurnam Ltd.			12,60,000
	(Being assets purchased and goodwill recognised for the excess consideration)			

Step 2: (a) Issue debentures at par At par, the issue price equals the face value of Rs 100. Thus $12,60,000/100 = 12,600$ debentures are issued. There is neither premium nor discount, and the entire vendor balance is settled by crediting nominal debenture capital.

Journal of Satnam Ltd. (case a)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Gurnam Ltd. Dr.		12,60,000	
	To 10% Debentures A/c			12,60,000
	(Being 12,600 debentures of Rs 100 each issued at par to settle purchase consideration)			

Step 3: (b) Issue debentures at a premium of 25% Issue price per debenture is $100 + 25 =$ Rs 125. Therefore, $12,60,000/125 = 10,080$ debentures are issued. Their nominal value is $10,080 \times 100 =$ Rs $10,08,000$, while premium is $10,080 \times 25 =$ Rs $2,52,000$. Together these credits equal the consideration.

Journal of Satnam Ltd. (case b)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Gurnam Ltd. Dr. To 10% Debentures A/c To Securities Premium Reserve A/c (Being 10,080 debentures of Rs 100 each issued at a premium of 25% to settle purchase consideration)		12,60,000	 10,08,000 2,52,000

Step 4: (c) Issue debentures at a discount of 10% Issue price per debenture is $100 - 10 = \text{Rs } 90$. Thus $12,60,000/90 = 14,000$ debentures are issued. Nominal value is $14,000 \times 100 = \text{Rs } 14,00,000$ and discount is $14,000 \times 10 = \text{Rs } 1,40,000$. The discount debit supplements the vendor debit so that total debits equal the face-value credit.

Journal of Satnam Ltd. (case c)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Gurnam Ltd. Dr. Discount on Issue of Debentures A/c Dr. To 10% Debentures A/c (Being 14,000 debentures of Rs 100 each issued at a discount of 10% to settle purchase consideration)		12,60,000 1,40,000	 14,00,000

Step 5: Conclusion Goodwill on acquisition is Rs 80,000. The debentures issued are (a) 12,600 at par, (b) 10,080 at a premium of 25%, and (c) 14,000 at a discount of 10%; each alternative settles Rs 12,60,000 due to Gurnam Ltd.

Quick Tip to Solve: Divide the vendor's consideration by the issue price, then credit debentures at face value; account for premium or discount separately.

Part B (10 marks)

OPTION 1 (Analysis of Financial Statements)

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

Solution:

Concept:

- A cash flow statement explains changes in cash and cash equivalents during a specified accounting period.
- Cash flows are classified into operating, investing and financing activities according to their nature.

Step 1: State the meaning A Cash Flow Statement is a statement showing the inflows and outflows of cash and cash equivalents of an enterprise during a particular period. It summarises the sources from which cash was received and the purposes for which cash was paid, thereby explaining the change between the opening and closing balances of cash and cash equivalents.

Step 2: Explain its classification and reconciliation The statement groups cash flows into operating activities (the principal revenue-producing activities), investing activities (acquisition and disposal

of long-term assets and investments), and financing activities (changes in owners' capital and borrowings). The net effect of these flows reconciles the opening and closing cash and cash equivalents. Unlike the Statement of Profit and Loss, it reports movements of cash rather than merely accrued income and expenses.

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

Quick Tip to Solve: Include both the period covered and all three activity classifications when defining a Cash Flow Statement.

11(a). From the following Statement of Profit and Loss of Sharda Ltd. for the year ended 31st March, 2022, prepare a 'Comparative Statement of Profit and Loss'.

Statement of Profit and Loss of Sharda Ltd. for the year ended 31st March, 2022

Particulars	2021 - 22 (Rs.)	2020 - 21 (Rs.)
Revenue from Operations	15,00,000	10,00,000
Other Income	3,00,000	2,00,000
Expenses	8,00,000	8,00,000
Income Tax Rate 40%		

[3 marks]

Solution:

Concept:

- A comparative statement shows each item for two periods, its absolute change and its percentage change with reference to the previous year.
- Absolute change = current-year amount minus previous-year amount; percentage change = absolute change divided by previous-year amount, multiplied by 100.
- Profit before tax equals total income less expenses; tax is 40% of profit before tax, and profit after tax is the balance.

Step 1: Calculate total income and profit for each year For 2020–21, total income is Rs $10,00,000 + 2,00,000 = 12,00,000$. After deducting expenses of Rs 8,00,000, profit before tax is Rs 4,00,000. Tax at 40% is Rs 1,60,000, leaving profit after tax of Rs 2,40,000.

For 2021–22, total income is Rs $15,00,000 + 3,00,000 = 18,00,000$. Profit before tax is Rs $18,00,000 - 8,00,000 = 10,00,000$. Tax at 40% is Rs 4,00,000 and profit after tax is Rs 6,00,000.

Step 2: Prepare the comparative statement Sharda Ltd.

Comparative Statement of Profit and Loss for the years ended 31st March, 2021 and 2022

Particulars	2020–21 (Rs)	2021–22 (Rs)	Increase (Rs)	Change (%)
Revenue from operations	10,00,000	15,00,000	5,00,000	50
Other income	2,00,000	3,00,000	1,00,000	50
Total income	12,00,000	18,00,000	6,00,000	50
Less: Expenses	8,00,000	8,00,000	0	0
Profit before tax	4,00,000	10,00,000	6,00,000	150
Less: Tax at 40%	1,60,000	4,00,000	2,40,000	150
Profit after tax	2,40,000	6,00,000	3,60,000	150

For example, the percentage increase in profit after tax is

$$\frac{6,00,000 - 2,40,000}{2,40,000} \times 100 = 150\%.$$

The prior-year figure is the denominator for every percentage change; the unchanged expense therefore has zero increase.

Step 3: Conclusion Revenue from operations and total income rose by 50%, while expenses remained unchanged. Profit after tax increased by Rs 3,60,000, from Rs 2,40,000 to Rs 6,00,000, an increase of 150%.

Quick Tip to Solve: Always divide the increase by the previous year's amount; a current profit of 250% of the old profit means an increase of 150%.

OR

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

Statement of Profit and Loss of Alpha Ltd. for the year ended 31st March, 2022

Particulars	2021 - 22 (Rs.)	2020 - 21 (Rs.)
Revenue from Operations	20,00,000	25,00,000
Employee Benefit Expenses	15,00,000	18,00,000
Other Expenses	3,00,000	2,00,000
Income Tax Rate 40%		

[3 marks]

Solution:

Concept:

- In a common size statement of profit and loss, revenue from operations of each respective year is the base, taken as 100%. Every income, expense and profit is expressed as a percentage of that year's revenue.
- Common size percentage $= \dfrac{\text{Amount of the item}}{\text{Revenue from operations}} \times 100$. Profit before tax equals revenue less

expenses; income tax is 40% of profit before tax, and profit after tax is the balance.

Step 1: Calculate profit and income tax for both years For 2021–22, total expenses are Rs $15,00,000 + 3,00,000 = 18,00,000$. Thus profit before tax is Rs $20,00,000 - 18,00,000 = 2,00,000$, income tax is Rs $2,00,000 \times 40\% = 80,000$, and profit after tax is Rs $1,20,000$.

For 2020–21, total expenses are Rs $18,00,000 + 2,00,000 = 20,00,000$. Profit before tax is Rs $25,00,000 - 20,00,000 = 5,00,000$, income tax is Rs $5,00,000 \times 40\% = 2,00,000$, and profit after tax is Rs $3,00,000$.

Step 2: Prepare the common size statement Common Size Statement of Profit and Loss of Alpha Ltd. For the years ended 31st March, 2022 and 31st March, 2021

Particulars	2021–22 Rs	2020–21 Rs	2021–22 %	2020–21 %
I. Revenue from operations	20,00,000	25,00,000	100	100
II. Expenses:				
Employee benefit expenses	15,00,000	18,00,000	75	72
Other expenses	3,00,000	2,00,000	15	8
Total expenses	18,00,000	20,00,000	90	80
III. Profit before tax (I–II)	2,00,000	5,00,000	10	20
IV. Income tax	80,000	2,00,000	4	8
V. Profit after tax (III–IV)	1,20,000	3,00,000	6	12

For example, employee benefit expenses in 2021–22 are $15,00,000/20,00,000 \times 100 = 75\%$, while those in 2020–21 are $18,00,000/25,00,000 \times 100 = 72\%$. Apply each year's own revenue as the denominator throughout; the given tax rate is applied to profit, not to revenue.

Step 3: Conclusion Alpha Ltd.'s profit before tax is 10% of revenue in 2021–22 and 20% in 2020–21. Profit after tax is respectively 6% and 12%, as shown in the common size statement above.

Quick Tip to Solve: First calculate profit and tax in rupees, then divide each item by that year's revenue; never enter the tax rate of 40 percent as the common size tax percentage.

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 (b) Furniture	4,00,000 50,000 4,50,000	2,00,000 74,000 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 obtained by adjusting the year's profit for non-cash expenses, financing expenses and changes in operating working capital.
- Depreciation and amortisation reduce accounting profit without reducing current cash, so they are added back. Debenture interest is added back to operating profit because, for a non-financial company, interest paid is a financing cash flow.
- A decrease in operating current assets increases operating cash; an increase reduces it. A decrease in operating current liabilities reduces operating cash. Cash and cash equivalents themselves are excluded from working-capital adjustments.

Step 1: Determine profit and the non-operating adjustments No dividend, tax provision or other appropriation is given. Therefore the increase in the surplus in the Statement of Profit and Loss is the year's net profit:

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

Furniture depreciation of Rs 24,000 is given. Patents fall from Rs 26,000 to Rs 24,000; with no purchase or disposal specified, the Rs 2,000 reduction represents amortisation and is added back.

Step 2: Calculate the year's debenture interest 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 on the opening debentures of Rs 25,000:

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

Add this financing expense back when computing operating profit. The issue proceeds of equity shares and debentures are financing receipts and do not enter cash from operating activities. The increase in land and building is an investing item and is also excluded.

Step 3: Prepare the operating activities section Cash Flow Statement of Anuradha Ltd. (extract) for the year ended 31st March, 2022

Particulars	Amount (Rs)
A. Cash flow from operating activities	
Net profit before tax	50,000
Add: Depreciation on furniture	24,000
Add: Patents amortised	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 (none given)	—
Net cash from operating activities	**43,000**

Inventories released Rs 24,000 of cash, whereas higher receivables absorbed Rs 10,000. The reductions in trade payables and outstanding rent each absorbed Rs 25,000, since payments exceeded the

corresponding expenses or purchases recognised during the year.

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 computing interest: a last-day issue does not attract a full year's interest. Exclude the cash balance itself from working-capital changes.

OPTION 2 (Computerised Accounting)

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

Solution:

Concept:

- Password security is an access-control measure that protects accounting data from unauthorised users.
- A password is a confidential combination of characters used to authenticate a user before access is granted.

Step 1: State the meaning Password security means protecting a computerised accounting system and its data by requiring a valid secret password before a person can enter or use the system. The software checks the password supplied by the user and permits access only when it matches the authorised credentials.

Step 2: Explain its purpose in accounting It prevents unauthorised persons from viewing, entering, altering or deleting accounting records. For example, an employee without the accountant's password cannot open the protected accounts. Passwords should be kept confidential and changed periodically; separate users can be given their own passwords and access rights according to their responsibilities.

Step 3: Conclusion Password security is the protection of accounting software and information through a secret password, allowing access only to authorised users.

Quick Tip to Solve: Define the secret-password check and connect it directly to preventing unauthorised access to accounting records.

11(a). Explain, how total earnings are calculated. [3 marks]

Solution:

Concept:

- Total earnings, also called gross earnings, are the employee's pay before deductions such as provident fund, tax or loan instalments.
- Earnings include basic pay and the allowances or other earning components applicable under the employer's payroll rules.

Step 1: Calculate basic pay for the pay period First obtain the employee's basic salary from the employee or payroll master. Where payment depends on attendance or time worked, calculate the

basic pay payable for the period using the relevant rate and payable days or hours. Use the actual payable basic salary, rather than the employee's take-home pay, as the starting point.

Step 2: Work out allowances and additional earnings Calculate dearness allowance (DA), house rent allowance (HRA), transport allowance and any other admissible allowances according to the organisation's rules. For an allowance specified as a percentage of basic pay, multiply basic pay by that percentage. Include overtime, bonus or commission when payable for the period. For example, if basic pay is Rs 20,000, DA is 10 percent of basic pay and HRA is Rs 3,000, then DA is Rs 2,000.

Step 3: Add all earning components Add the basic pay and all applicable allowances and other earnings:

$$\text{Total earnings} = \text{Basic pay} + \text{DA} + \text{HRA} + \text{Other allowances} + \text{Other earnings}.$$

In the example, with no other earnings, total earnings are Rs 20,000 + Rs 2,000 + Rs 3,000 = Rs 25,000. In a payroll spreadsheet, the earning-component cells in the employee's row can be added using a SUM formula. Deductions are calculated separately and subtracted subsequently to obtain net salary.

Step 4: Conclusion Total earnings are calculated by adding basic pay, all admissible allowances and other earnings for the pay period, before subtracting any deductions.

Quick Tip to Solve: Add every earnings component first; subtract provident fund, tax and other deductions only when calculating net pay.

OR

11(b). How are numbers assigned to vouchers? Explain. [3 marks]

Solution:

Concept:

- A voucher records and authorises an accounting transaction. Its voucher number is a unique reference used to identify, trace and retrieve that entry.
- Voucher numbering can be automatic or manual. The numbering method is set for the relevant voucher type, such as payment, receipt, purchase or sales.

Step 1: Automatic assignment of numbers Under automatic numbering, the accounting software assigns the next number in a predefined sequence when a voucher is entered or saved. For example, payment vouchers may be numbered 1, 2, 3 and so on. The user defines the numbering arrangement for the voucher type; a prefix or suffix may be used to identify the series, such as PV/001 and PV/002 for payments. The sequence may restart at the beginning of a specified accounting period, according to the settings. Thus the operator need not type each successive voucher number.

Step 2: Manual assignment of numbers Under manual numbering, the operator enters the voucher number while recording the transaction. This method is useful when the organisation wants the computer entry to carry the same number as its pre-numbered source voucher. For example, a payment supported by paper voucher PV/047 can be entered with that reference. The operator must follow

the organisation's numbering sequence and avoid duplicate or omitted references. Separate voucher types can have separate series so that a receipt can be distinguished from a payment.

Step 3: Maintain identification and control Whichever method is selected, the number should identify the voucher unambiguously within its series and accounting period. A systematic sequence helps link the entry to its supporting document, locate it for checking and detect missing vouchers. The numbering method is therefore chosen in the voucher-type settings before routine transaction entry.

Step 4: Conclusion Voucher numbers are assigned either automatically by the software in a specified sequence or manually by the operator according to the organisation's numbering system. They provide a unique reference for tracing and checking transactions.

Quick Tip to Solve: Explain both automatic and manual numbering, and give one short voucher-number example for each method.

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 the accounting software can summarise them in the appropriate financial statement.
- The Profit and Loss Account group covers revenue incomes and revenue expenses. Their balances determine the profit or loss of the accounting period.

Step 1: Sales Accounts and Purchase Accounts **Sales Accounts:** This group contains the accounts for sales of goods in which the business deals. Separate sales ledgers may be maintained for different products or classes of sales, with sales returns adjusted against sales. These accounts supply the sales revenue used in finding gross profit.

Purchase Accounts: This group contains accounts for purchases of goods intended for resale or materials used in the business's trading or manufacturing activity. Purchase returns reduce purchases. Buying a fixed asset, such as office furniture, is recorded under the appropriate asset group rather than Purchase Accounts.

Step 2: Direct Expenses and Direct Incomes **Direct Expenses:** These are revenue expenses directly connected with purchasing or producing goods and bringing them to a saleable condition. Examples include carriage inwards and productive wages. They form part of the cost used to determine gross profit.

Direct Incomes: These are incomes directly related to the main operating activity, other than amounts classified under Sales Accounts. For example, a service concern may group its professional fees or service charges here. They enter the determination of gross operating profit.

Step 3: Indirect Expenses and Indirect Incomes **Indirect Expenses:** These are expenses of administration, selling, distribution or finance which are not treated as direct costs of goods. Examples are office salaries, office rent, advertising, carriage outwards and interest paid. They reduce net profit after gross profit has been determined.

Indirect Incomes: These are incidental incomes or gains outside the main trading activity. Examples

include interest received, rent received and discount received. They are added to gross profit in determining net profit.

Step 4: Conclusion The six groups are **Sales Accounts, Purchase Accounts, Direct Expenses, Direct Incomes, Indirect Expenses and Indirect Incomes**. Grouping the individual ledgers under these heads enables the software to prepare the trading and profit and loss report systematically.

Quick Tip to Solve: First distinguish income from expense; then ask whether it belongs to trading or production directly, or to incidental and administrative activities.