CBSE Class 12 Accountancy Question Paper 2022 with Solution PDF-Set 67-4-3

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

Time Allowed: 3 Hours **Maximum Marks: 40**

General Instructions

(i) This question paper contains 12 questions. All questions are compulsory.

(ii) There is no overall choice. An internal choice is provided in 4 questions (Q4, Q5, Q9, Q11); attempt only one of the alternatives in such questions.

(iii) Questions 10 to 12 are given in two options, Option I and Option II; attempt only one of the options.

(iv) Marks for each question are indicated against it.

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

(a) Nature

(b) Period [2 marks]

Solution:

Concept:

- The Income and Expenditure Account measures the surplus or deficit of a not-for-profit organisation on the accrual basis.
- The Receipts and Payments Account summarises actual cash and bank receipts and payments during an accounting period on the cash basis.

Step 1: Distinguish on the basis of nature The Income and Expenditure Account is a **nominal account**, similar to a Profit and Loss Account. It records revenue incomes and revenue expenses, and its balance is a surplus or deficit. The Receipts and Payments Account is a **real account**, being a summary of the Cash Book. It records both capital and revenue cash transactions, and normally ends with a cash and bank balance.

Step 2: Distinguish on the basis of period The Income and Expenditure Account includes only income earned and expenses incurred for the **current accounting period**, whether or not cash has been received or paid. The Receipts and Payments Account includes all amounts actually received and paid **during the current period**, even when they relate to the previous, current or future accounting periods. For example, subscription received this year for next year appears in this year's Receipts and Payments Account but is excluded from this year's Income and Expenditure Account.

Step 3: Conclusion Nature: Income and Expenditure is a nominal account; Receipts and Payments is a real account. Period: the former relates only to the current accounting period, while the latter includes current-period cash movements relating to past, present or future periods.

Quick Tip to Solve: For period, ask whether the amount belongs to this year or was merely received or paid this year: the first tests accrual accounting, the second cash accounting.

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2. Aman, Naman and Neel were partners in a firm sharing profits in the ratio of 1 : 2 : 1. Neel retires and he surrenders 2/3rd of his share in favour of Aman and the remaining share in favour of Naman. Calculate the new profit sharing ratio of Aman and Naman. [2 marks]

Solution:

Concept:

- A continuing partner's new profit share equals the old share plus the share acquired from the retiring partner.
- A fraction surrendered by Neel means that fraction of Neel's own share, not the same fraction of the firm's entire profit.

Step 1: Calculate the old shares and gains The total of the old ratio is $1 + 2 + 1 = 4$. Hence Aman's old share is $1/4$, Naman's is $2/4$, and Neel's is $1/4$. Neel gives two-thirds of his share to Aman and the

remaining one-third to Naman:

$$\text{Aman's gain} = \frac{2}{3} \times \frac{1}{4} = \frac{1}{6},$$
$$\text{Naman's gain} = \frac{1}{3} \times \frac{1}{4} = \frac{1}{12}.$$

Together these gains equal $1/6 + 1/12 = 1/4$, exactly Neel's retiring share.

Step 2: Add each gain to the corresponding old share Convert the fractions to the common denominator 12:

$$\text{Aman's new share} = \frac{1}{4} + \frac{1}{6} = \frac{3+2}{12} = \frac{5}{12},$$
$$\text{Naman's new share} = \frac{2}{4} + \frac{1}{12} = \frac{6+1}{12} = \frac{7}{12}.$$

The new shares total $5/12 + 7/12 = 1$, so the whole profit is allocated to the continuing partners. The gaining ratio describes only the transferred share and must not be confused with the new profit sharing ratio.

Step 3: Conclusion The new profit sharing ratio of Aman and Naman is $\frac{5}{12} : \frac{7}{12} = \boxed{5:7}$.

Quick Tip to Solve: First multiply Neel's one-fourth share by two-thirds and one-third; then add the results to Aman and Naman's old shares respectively.

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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 profit up to a partner's death is estimated from the previous year's profit, apply the fraction of the current year elapsed and then the deceased partner's profit share.
- Estimated share of profit equals previous annual profit multiplied by the time fraction and the deceased partner's old profit sharing fraction.

Step 1: Determine the period and A's share The books close on 31st March, so the current accounting year starts on 1st April, 2022. A died on 30th June, 2022. The relevant period is therefore April, May and June, or 3 months. The time fraction is $3/12$. Under the ratio $7 : 2 : 1$, A's share of the firm's profit is

$$\frac{7}{7+2+1} = \frac{7}{10}.$$

Only the profit from the beginning of this accounting year to the date of death is to be estimated; the previous full year's profit is the basis of calculation.

Step 2: Estimate the firm's profit and allocate A's share Applying the previous annual profit propor-

tionately to the three-month period:

$$\begin{aligned}\text{Firm's estimated profit} &= \text{Rs } 16,00,000 \times \frac{3}{12}\\ &= \text{Rs } 4,00,000,\\ \text{A's share} &= \text{Rs } 4,00,000 \times \frac{7}{10}\\ &= \text{Rs } 2,80,000.\end{aligned}$$

This time-based estimate uses the previous year's rate of profit, as required by the question. No profit after 30th June is included in A's entitlement.

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: Count months from the last closing date: April to June is three months, then multiply the annual profit by 3/12 and 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 credited to the Income and Expenditure Account on the accrual basis: only income relating to the year ended 31st March, 2022 is recognised, irrespective of when the cash is received.
- Outstanding subscriptions are an asset and subscriptions received in advance are a liability. Opening outstanding subscriptions collected this year are excluded from this year's income, while opening advances relating to this year are included.

Step 1: Adjust receipts to find the current year's subscription income Of the Rs 48,000 received, Rs 8,000 relates to 2020–21 and Rs 6,000 relates to 2022–23. Thus receipts relating to 2021–22 are

$$48,000 - 8,000 - 6,000 = \text{Rs } 34,000.$$

Add the Rs 16,000 received in advance in the previous year, which becomes income of the current year, and the Rs 12,000 still outstanding at the end of this year:

$$\text{Current year's income} = 34,000 + 16,000 + 12,000 = \text{Rs } 62,000.$$

Step 2: Prepare the Subscriptions Account **Young Cricket Club: Subscriptions Account**
For the year ended 31st March, 2022

Dr. Particulars	Rs	Particulars Cr.	Rs
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 opening outstanding balance of Rs 8,000 represents last year's subscriptions collected this year. The closing outstanding amount is carried down on the credit side to leave an asset balance; the closing advance is carried down on the debit side to leave a liability balance. The transfer to the Income and Expenditure Account balances the account at Rs 76,000 on each side.

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

Quick Tip to Solve: Start with cash receipts: subtract the Rs 8,000 arrears and Rs 6,000 next-year advance, then add the Rs 16,000 opening advance and Rs 12,000 closing outstanding.

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:

- Payment to stationery creditors is a cash outflow, whereas stationery consumed is the expense charged to the Income and Expenditure Account. First adjust the payment for opening and closing creditors to obtain purchases for the year.
- Stationery consumed equals opening stock plus purchases less closing stock. Closing stock remains available for future use and is an asset, so it is excluded from the current year's expense.

Step 1: Calculate stationery purchased during the year The opening creditors of Rs 9,000 relate to purchases made before 1st April, 2021. The closing creditors of Rs 6,000 relate to purchases unpaid

on 31st March, 2022. Using the creditors reconciliation,

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

Thus the payment exceeds current-year purchases by Rs 3,000, which is the reduction in the creditors balance. Treating all Rs 37,000 paid as purchases would include settlement of this part of the opening liability.

Step 2: Adjust purchases for stationery stocks **Alfa Club: Calculation of Stationery Consumed**
For the year ended 31st March, 2022

Particulars	**Amount (Rs)**
Opening stock of stationery	7,000
Add: Purchases during the year	34,000
Stationery available for use	41,000
Less: Closing stock of stationery	(11,000)
Stationery consumed	**30,000**

Opening stock is included because it was available for consumption in this year. Closing stock is deducted because it remains unused at the year-end. As a check, stock increased by Rs 4,000, so consumption is Rs 4,000 below purchases: $34,000 - 4,000 = \text{Rs } 30,000$.

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

Quick Tip to Solve: Make two adjustments in sequence: convert Rs 37,000 paid into Rs 34,000 purchased using creditors, then deduct the Rs 4,000 increase in stock to obtain consumption.

5(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 on rejected applications is refunded. For pro-rata allotment, excess application money of successful applicants is transferred to the Debenture Allotment Account.
- Debentures issued at par are credited at face value. The allotment amount due is the face value less

the application amount per debenture; any excess application money reduces the cash subsequently collected.

Step 1: Calculate the application adjustment and allotment collection Applications accepted for consideration are $30,000 - 5,000 = 25,000$ debentures, against which $15,000$ are allotted. Thus, the application-to-allotment ratio is $25,000 : 15,000 = 5 : 3$.

$$\begin{aligned}\text{Application money received} &= 30,000 \times 20 = \text{Rs } 6,00,000,\\ \text{Refund on rejected applications} &= 5,000 \times 20 = \text{Rs } 1,00,000,\\ \text{Application money required} &= 15,000 \times 20 = \text{Rs } 3,00,000,\\ \text{Excess adjusted on allotment} &= 25,000 \times 20 - 3,00,000\\ &= \text{Rs } 2,00,000.\end{aligned}$$

Allotment is payable at $100 - 20 = \text{Rs } 80$ per debenture. Therefore, allotment due is $15,000 \times 80 = \text{Rs } 12,00,000$, and cash collected on allotment is $12,00,000 - 2,00,000 = \text{Rs } 10,00,000$.

Step 2: Record receipt and refund of application money **Journal of X Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To 8% Debenture Application A/c (Being application money received on 30,000 debentures at Rs 20 each)		6,00,000	6,00,000
	8% Debenture Application A/c Dr. To Bank A/c (Being application money on 5,000 rejected applications refunded)		1,00,000	1,00,000

Step 3: Record application transfer, allotment due and collection **Journal of X Ltd. (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	8% Debenture Application A/c Dr. To 8% Debentures A/c To 8% Debenture Allotment A/c (Being application money transferred and excess adjusted towards allotment)		5,00,000	 3,00,000 2,00,000
	8% 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 8% Debenture Allotment A/c (Being remaining allotment money received after adjusting excess application money)		10,00,000	10,00,000

The Debentures Account is credited by Rs 15,00,000 in total, and both Application and Allotment Accounts close. Net bank receipts are also $6,00,000 - 1,00,000 + 10,00,000 = \text{Rs } 15,00,000$, agreeing with the issue at par.

Step 4: Conclusion X Ltd. issues 15,000 8% debentures for Rs 15,00,000. Application money of Rs 1,00,000 is refunded, Rs 2,00,000 is adjusted towards allotment, and the balance allotment collection is Rs 10,00,000, as recorded above.

Quick Tip to Solve: Deduct rejected applications before computing the pro-rata excess: here use 25,000 applications against 15,000 allotments, then subtract the excess from allotment due.

OR

5(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:

- On issue, the Debentures Account is credited with the face value, while Bank is debited with the actual issue proceeds. A discount on issue reduces the cash received.
- Premium payable on redemption is recognised as a liability at the date of issue. Loss on Issue of Debentures includes both discount on issue and premium on redemption.

Step 1: Calculate the issue proceeds and redemption premium for Y Ltd. Y Ltd. issues Rs 5,00,000 nominal value at par, so the entire face value is received in cash. The 9% rate specifies annual interest; it does not determine the issue proceeds or redemption premium.

$$\begin{aligned} \text{Bank receipt} &= \text{Rs } 5,00,000, \\ \text{Premium on redemption} &= 5,00,000 \times \frac{10}{100} \\ &= \text{Rs } 50,000, \\ \text{Loss on issue} &= \text{Rs } 50,000. \end{aligned}$$

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 after three years at a premium of 10%)			

The total debit and total credit are each Rs 5,50,000. The redemption premium is recognised now even though its payment will occur after three years.

Step 2: Calculate and record Z Ltd.'s issue at discount Z Ltd. issues 4,500 debentures of Rs 100 each, giving a nominal value of $4,500 \times 100 = \text{Rs } 4,50,000$. The discount and redemption premium are both calculated on this nominal value.

$$\begin{aligned} \text{Discount on issue} &= 4,50,000 \times \frac{10}{100} = \text{Rs } 45,000, \\ \text{Bank receipt} &= 4,50,000 - 45,000 = \text{Rs } 4,05,000, \\ \text{Premium on redemption} &= 4,50,000 \times \frac{5}{100} = \text{Rs } 22,500, \\ \text{Loss on issue} &= 45,000 + 22,500 = \text{Rs } 67,500. \end{aligned}$$

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

Debits total $4,05,000 + 67,500 =$ Rs $4,72,500$, equal to credits of $4,50,000 + 22,500 =$ Rs $4,72,500$. Only issue entries are required; payment on redemption and interest entries are separate transactions.

Step 3: Conclusion Y Ltd. debits Bank by Rs 5,00,000 and Loss on Issue by Rs 50,000. Z Ltd. debits Bank by Rs 4,05,000 and Loss on Issue by Rs 67,500. Each credits debentures at face value and separately credits its premium on redemption, as shown in the journals.

Quick Tip to Solve: For an issue at discount redeemable at premium, add both percentages of face value to find the loss; the coupon rate of 9% is not used in the issue entry.

6. 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 from the excess of the amount agreed to be paid to the retiring partner over his adjusted capital balance. This excess represents the retiring partner's share of the firm's goodwill.
- The firm's goodwill equals the retiring partner's goodwill share divided by his old profit-sharing fraction. When goodwill is not raised, the gaining partners' capital accounts are debited and the retiring partner's capital account is credited.
- When no new profit-sharing ratio is specified, the continuing partners retain their relative old shares. Their gaining ratio is therefore their old ratio.

Step 1: Calculate Girdhari's share of hidden goodwill **Working Notes**

The adjusted capital of Rs 5,00,000 already includes all reserves and revaluation adjustments. Consequently, the additional amount agreed in full settlement is attributable to goodwill:

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

His old share of profits was $3/(4+3+2) = 3/9$. Hence,

$$\text{Goodwill of the firm} = 90,000 \div \frac{3}{9} = \text{Rs } 2,70,000.$$

Step 2: Determine the goodwill adjustment borne by each continuing partner Mohan and Shyam continue in their relative old ratio $4:2 = 2:1$, since a different new ratio is not given. Their new shares are $2/3$ and $1/3$, respectively. The gains are

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

Thus the gaining ratio is $2:1$. Mohan bears $90,000 \times 2/3 = \text{Rs } 60,000$, and Shyam bears $90,000 \times 1/3 = \text{Rs } 30,000$. Their combined debit of Rs 90,000 equals Girdhari's goodwill entitlement.

Step 3: Record goodwill directly through the partners' capital accounts Journal of the Firm (31st March, 2022)

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 capital accounts of the continuing partners in their gaining ratio of $2:1$, without raising Goodwill A/c.)			

This entry raises Girdhari's capital balance from Rs 5,00,000 to the agreed settlement amount of Rs 5,90,000. No Goodwill Account is opened, since the adjustment is made directly between partners.

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

Quick Tip to Solve: First subtract adjusted capital from the agreed settlement; Rs 90,000 is only Girdhari's share. Divide it by his old share, $3/9$, to obtain the firm's total goodwill.

7. Following is the 'Receipts and Payments Account' of Manoranjan Club for the year ended 31st March, 2022:

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

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
Balance b/d Cash 10,000 Bank 15,700	25,700	Staff Salaries	1,71,000
Subscriptions: 2020 - 21 7,000 2021 - 22 3,00,000 2022 - 23 4,000	3,11,000	Musical Instruments Purchased	80,000
Sale of old furniture (Book value Rs. 25,000)	5,000	Repair of Musical Instruments	4,000
Sale of old magazines	3,000	Honorarium to trainers	2,48,000
Proceeds from music concerts	2,00,000	12% Fixed Deposit (On 1.1.2022)	1,00,000
Fee from learners	1,25,000	Balance c/d Cash 5,000 Bank 61,700	66,700
	6,69,700		6,69,700

Additional Information:

(i) The Club has 1500 members each paying an annual subscription of Rs. 200.

(ii) Prepare Income and Expenditure Account of Manoranjan Club for the year ended 31st March, 2022. [5 marks]

Solution:

Concept:

- The Income and Expenditure Account records revenue income and revenue expenses belonging to the current accounting year on the accrual basis, irrespective of the date of receipt or payment.
- Capital receipts and payments and opening and closing cash or bank balances are excluded. On disposal of a fixed asset, only the profit or loss on sale enters this account.
- Subscription income equals the number of members multiplied by the annual subscription. Interest earned on a fixed deposit is recognised for the period for which the deposit was held, even when it has not yet been received.

Step 1: Determine subscription income for 2021–22 The club has 1,500 members, each paying Rs 200 annually. Hence, the subscription belonging to the current year is

$$1,500 \times 200 = \text{Rs } 3,00,000.$$

This agrees with the current-year subscription receipts. The total cash subscriptions of Rs 3,11,000 include Rs 7,000 relating to 2020–21 and Rs 4,000 relating to 2022–23. These two amounts do not constitute income of 2021–22. Thus, Rs 3,00,000 is credited to the Income and Expenditure Account.

Step 2: Calculate the loss on furniture and accrued interest The furniture had a book value of Rs 25,000 and was sold for Rs 5,000. The loss is therefore

$$\text{Loss on sale} = 25,000 - 5,000 = \text{Rs } 20,000.$$

Only this loss is debited as an expense; the sale proceeds themselves are a capital receipt. The fixed deposit was made on 1st January, 2022, so interest accrues for three months up to 31st March, 2022:

$$\text{Interest accrued} = 1,00,000 \times \frac{12}{100} \times \frac{3}{12} = \text{Rs } 3,000.$$

This interest is current-year income and also an accrued-interest asset. The deposit principal of Rs 1,00,000 and musical instruments purchased for Rs 80,000 are assets, so neither is an expense. Repairs of instruments, however, are revenue expenditure. No depreciation rate or amount is supplied, so no depreciation charge can be calculated from the given information.

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

Dr. Expenditure	Rs	Cr. Income	Rs
To Staff salaries	1,71,000	By Subscriptions	3,00,000
To Repairs of musical instruments	4,000	By Sale of old magazines	3,000
To Honorarium to trainers	2,48,000	By Proceeds from music concerts	2,00,000
To Loss on sale of furniture	20,000	By Fee from learners	1,25,000
To Surplus (transferred to Capital Fund)	1,88,000	By Interest on fixed deposit (accrued)	3,000
Total	**6,31,000**	**Total**	**6,31,000**

The revenue expenses total Rs 4,43,000 and revenue income totals Rs 6,31,000. The difference, Rs 1,88,000, balances the expenditure side and is transferred to the Capital Fund. Opening and closing cash and bank balances are omitted because they are balances of assets rather than income or expenditure.

Step 4: Conclusion Manoranjan Club has a **surplus of Rs 1,88,000** for the year ended 31st March, 2022, being income of Rs 6,31,000 less expenditure of Rs 4,43,000.

Quick Tip to Solve: Use 1,500 members times Rs 200 for subscriptions; charge only the furniture loss and add three months' accrued deposit interest before balancing the account.

8. 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:

- Record the assets acquired at their agreed values and credit the vendor with the purchase consideration. The excess of purchase consideration over net assets acquired is debited to Goodwill Account.
- The number of debentures issued equals purchase consideration divided by the issue price per debenture. Credit 9% Debentures Account with the total face value, irrespective of the issue price.
- Credit Securities Premium Reserve for an issue above face value; debit Discount on Issue of Debentures for an issue below face value. The 9% rate is the interest rate and does not determine the issue price.

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

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

No liabilities are taken over. Purchase consideration is Rs 6,30,000, so the excess is goodwill:

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

The following acquisition entry is the same in each independent case.

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. for Rs 6,30,000 and excess consideration recorded as goodwill)			

Step 2: (a) Discharge the vendor by issuing debentures at par At par, issue price equals face value, namely Rs 100 per debenture. Thus

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

The entire purchase consideration is transferred from the vendor's account to the debentures account; 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 the purchase consideration)		6,30,000	 6,30,000

Step 3: (b) Discharge the vendor at a premium of 25% The issue price is Rs $100 + 25 = 125$ per debenture. Calculate the number issued and split the consideration between face value and premium:

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

The two credits together equal Rs 6,30,000, the amount due to C Ltd.

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 Reserve A/c (Being 5,040 debentures of Rs 100 each issued at a premium of 25% to discharge the purchase consideration)		6,30,000	 5,04,000 1,26,000

Step 4: (c) Discharge the vendor at a discount of 10% The issue price is Rs $100 - 10 = 90$ per debenture. The vendor receives debentures having an issue value of Rs 6,30,000:

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

Debit the vendor with the consideration payable and debit the discount separately. Their total equals the face value credited to Debentures Account.

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 a discount of 10% to discharge the purchase consideration)		6,30,000 70,000	 7,00,000

Step 5: Conclusion Goodwill is Rs 30,000 in all cases. B Ltd. issues (a) 6,300 debentures at par, (b) 5,040 debentures with securities premium of Rs 1,26,000, or (c) 7,000 debentures with discount of Rs 70,000. Each alternative clears C Ltd.'s credit balance of Rs 6,30,000.

Quick Tip to Solve: Divide Rs 6,30,000 by Rs 100, Rs 125 or Rs 90 to find the respective numbers of debentures. Always credit Debentures Account at Rs 100 per debenture; calculate goodwill separately from the asset values.

9(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 asset values and a new provision for doubtful debts are debited to Revaluation Account; increases in asset values are credited to it.
- Revaluation profit or loss and an existing general reserve belong to all the old partners and are distributed in their old profit-sharing ratio, here $3 : 3 : 4$.
- The retiring partner's capital is adjusted for his share of reserves and revaluation. An unpaid amount due to him is transferred from his capital account to his loan account.

Step 1: Calculate the revaluation adjustments and partners' shares **Working Notes** The provision is calculated on the full debtors balance because no existing provision appears in the Balance Sheet:

$$\text{New provision} = \text{Rs } 2,00,000 \times \frac{3}{100} = \text{Rs } 6,000.$$

The stock and furniture reductions are Rs 5,000 and Rs 2,000 respectively. Machinery decreases by Rs

20,000, whereas land and building increases by Rs 15,000:

$$\begin{aligned}\text{Machinery reduction} &= 2,00,000 - 1,80,000 = \text{Rs } 20,000,\\ \text{Land and building increase} &= 4,00,000 - 3,85,000 = \text{Rs } 15,000,\\ \text{Total revaluation debits} &= 6,000 + 5,000 + 2,000 + 20,000\\ &= \text{Rs } 33,000,\\ \text{Revaluation loss} &= 33,000 - 15,000 = \text{Rs } 18,000.\end{aligned}$$

The loss is borne in the old ratio. X and Y each bear $18,000 \times 3/10 = \text{Rs } 5,400$, and Z bears $18,000 \times 4/10 = \text{Rs } 7,200$. The general reserve is distributed separately; it is not a revaluation gain. Z's share of the reserve is $2,00,000 \times 4/10 = \text{Rs } 80,000$, while X and Y each receive Rs 60,000.

Step 2: Prepare the Revaluation Account Asset reductions and the provision appear on the debit side. The appreciation in land and building appears on the credit side. Since debits exceed the appreciation, transfer the loss to the old partners' capital accounts on the credit side of Revaluation Account.

Revaluation Account as at 31st March, 2022

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (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 X's Capital A/c	5,400
To Furniture A/c	2,000	By Y's Capital A/c	5,400
To Machinery A/c	20,000	By Z's Capital A/c	7,200
Total	33,000	Total	33,000

Step 3: Prepare Z's Capital Account and transfer the amount due Credit Z with his opening capital and share of general reserve. Debit his share of the revaluation loss. As payment is deferred, debit the remaining amount to Z's Capital Account and credit Z's Loan Account; no bank entry is required.

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

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (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 capital account closes after the transfer, so it has no balance carried down. The loan is the firm's liability to Z until it is paid.

Step 4: Conclusion The revaluation loss is $\boxed{\text{Rs } 18,000}$, of which Z's share is Rs 7,200. The amount transferred to Z's Loan Account is $\boxed{\text{Rs } 4,72,800}$, calculated as $4,00,000 + 80,000 - 7,200$.

Quick Tip to Solve: Credit Z with 4/10 of the general reserve, but debit him with 4/10 of the revaluation loss. Transfer the unpaid net capital to his loan account without reducing bank.

OR

9(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 records the disposal of non-cash assets and settlement of outside liabilities. Assets are transferred at their gross book values to its debit; the related provision and outside liabilities are transferred to its credit.
- Cash realised and assets taken over by partners are credited to Realisation Account. Payments to creditors and remuneration payable to a partner for undertaking realisation are debited to it.
- The balance of Realisation Account is transferred to the partners' Capital Accounts in their profit-sharing ratio of $5 : 3 : 2$. Bank, partners' capitals and General Reserve are not transferred to Realisation Account.

Step 1: Transfer assets and identify the gross debtors The debtors have a gross book value of Rs 20,000 and a provision for bad debts of Rs 2,000; their net Balance Sheet value is Rs 18,000. Therefore, debit Realisation Account with debtors of Rs 20,000 and credit it separately with the provision of Rs 2,000. The non-cash assets transferred are:

$$25,000 + 20,000 + 15,000 + 80,000 = \text{Rs } 1,40,000.$$

Creditors of Rs 35,000 are transferred to the credit side. The opening Bank balance of Rs 22,000 remains in Bank Account. General Reserve of Rs 25,000 is transferred directly to partners' Capital Accounts, so neither appears in Realisation Account.

Step 2: Work out realisations, settlement and remuneration Debtors realise their full gross amount of Rs 20,000. Consequently, cash received from assets is:

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

Stock taken over by Sonu is credited at Rs 25,000, and the unrecorded asset taken over by Ashu is credited at Rs 3,000. An unrecorded asset has no opening book value to transfer. Creditors are settled after a discount of $35,000 \times 2\% = \text{Rs } 700$, so the payment is $35,000 - 700 = \text{Rs } 34,300$. Monu's agreed remuneration of Rs 2,000 is debited to Realisation Account and credited to his Capital Account. Its subsequent payment is recorded through Bank and his Capital Account. Monu bears the actual expenses of Rs 2,200 personally; these are not an additional expense of the firm and require no entry in its books.

Step 3: Prepare and close the Realisation Account

Realisation Account of Sonu, Monu and Ashu

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	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: Land and Building	85,000	
	To Land and Building	80,000	By Bank: Furniture	6,000	
	To Bank (Creditors)	34,300	By Bank: Debtors	20,000	
	To Monu's Capital (remuneration)	2,000	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 loss, the debit total is Rs 1,76,300 and the credit total is Rs 1,76,000. The difference is distributed as follows:

$$\text{Sonu's share} = 300 \times \frac{5}{10} = \text{Rs } 150,$$
$$\text{Monu's share} = 300 \times \frac{3}{10} = \text{Rs } 90,$$
$$\text{Ashu's share} = 300 \times \frac{2}{10} = \text{Rs } 60.$$

These amounts are debited to the respective Capital Accounts and credited to Realisation Account, closing it with equal totals.

Step 4: Conclusion The realisation loss is $\boxed{\text{Rs } 300}$, borne by Sonu, Monu and Ashu as Rs 150, Rs 90 and Rs 60 respectively. The Realisation Account balances at Rs 1,76,300 on each side.

Quick Tip to Solve: Use gross debtors of Rs 20,000 and credit the Rs 2,000 provision separately. Charge only Monu's agreed Rs 2,000 remuneration; the Rs 2,200 expenses are borne by him personally.

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

Solution:

Concept:

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

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

Step 2: Explain the classification of flows These cash flows are classified into operating, investing and financing activities. Operating activities relate to the main revenue-producing operations, investing activities to the acquisition and disposal of long-term assets and other investments, and financing activities to changes in owners' capital and borrowings. Non-cash transactions, such as depreciation charged on machinery, do not themselves constitute cash flows.

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

Quick Tip to Solve: For the definition, include the period, cash and cash equivalents, and the three activity headings; a statement of profit alone does not show cash flows.

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

Particulars	2021 - 22 (Rs.)	2020 - 21 (Rs.)
Revenue from Operations	18,00,000	15,00,000
Other Income	3,00,000	2,50,000
Expenses	15,00,000	7,50,000
Income Tax Rate 50%		

[3 marks]

Solution:

Concept:

- A comparative statement presents the previous and current year's figures together with their absolute and percentage changes. Here, 2020–21 is the base year.
- Absolute change equals current year minus previous year; percentage change equals absolute change divided by the previous year's corresponding figure, multiplied by 100.
- Total income equals revenue from operations plus other income. Profit before tax equals total income less expenses, and profit after tax equals profit before tax less income tax.

Step 1: Calculate income, profit and tax for both years **Working Notes (amounts in Rs)**

For 2020–21, total income is $15,00,000 + 2,50,000 = 17,50,000$. Deducting expenses of Rs 7,50,000 gives profit before tax of Rs 10,00,000. Tax at 50% is Rs 5,00,000, leaving profit after tax of Rs 5,00,000.

For 2021–22, total income is $18,00,000 + 3,00,000 = 21,00,000$. Deducting expenses of Rs 15,00,000 gives profit before tax of Rs 6,00,000. Tax at 50% is Rs 3,00,000, leaving profit after tax of Rs 3,00,000. The given expenses are deducted before calculating the separately specified income tax.

Step 2: Determine the comparative changes Revenue from operations increases by Rs 3,00,000, so its percentage increase is $3,00,000/15,00,000 \times 100 = 20\%$. Other income likewise rises by 20%. Expenses increase by Rs 7,50,000, which is 100% of their base-year amount. The change in profit before tax is Rs $-4,00,000$, giving $-4,00,000/10,00,000 \times 100 = -40\%$. Since the tax rate is the same for both years, tax and profit after tax also decrease by 40%. Negative changes indicate decreases.

Step 3: Prepare the comparative statement **Raja Ltd.**

Comparative Statement of Profit and Loss

For the year ended 31st March, 2022

Particulars	2020–21 (Rs)	2021–22 (Rs)	Change (Rs)	Change (%)
I. Revenue from operations	15,00,000	18,00,000	3,00,000	20
II. Other income	2,50,000	3,00,000	50,000	20
III. Total income (I + II)	17,50,000	21,00,000	3,50,000	20
IV. Expenses	7,50,000	15,00,000	7,50,000	100
V. Profit before tax (III - IV)	10,00,000	6,00,000	-4,00,000	-40
VI. Tax expense (50%)	5,00,000	3,00,000	-2,00,000	-40
VII. Profit after tax (V - VI)	5,00,000	3,00,000	-2,00,000	-40

Step 4: Conclusion Raja Ltd.'s total income increased by 20%, but expenses increased by 100%. Profit after tax therefore decreased from Rs 5,00,000 to Rs 3,00,000, a decrease of Rs 2,00,000 or 40%.

Quick Tip to Solve: Use 2020–21 as the denominator for every percentage change, even though the question lists 2021–22 first; apply tax after deducting expenses.

OR

11(b). From the following Balance Sheet of Sheetal Ltd. as at 31st March, 2022, prepare a 'Common Size Balance Sheet':

Balance Sheet of Sheetal 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		10,00,000	10,00,000
2. Non-Current Liabilities Long-term Borrowings		5,00,000	3,00,000
3. Current Liabilities Trade Payables		10,00,000	7,00,000
Total		25,00,000	20,00,000
II - Assets:			
1. Non-Current Assets Fixed Assets (a) Tangible Assets		15,00,000	12,00,000
(b) Intangible Assets		4,00,000	5,00,000
2. Current Assets Cash and Cash Equivalents		6,00,000	3,00,000
Total		25,00,000	20,00,000

[3 marks]

Solution:

Concept:

- A common size balance sheet expresses each asset as a percentage of total assets and each equity or liability item as a percentage of total equity and liabilities of the same year.
- The percentage of an item is $\dfrac{\text{Amount of the item}}{\text{Balance sheet total for that year}} \times 100$. Each side therefore totals 100%; the base changes from year to year.

Step 1: Identify the bases and calculate representative percentages The balance sheet total is Rs 25,00,000 for 2022 and Rs 20,00,000 for 2021. Use each year's own total, rather than using the earlier year's total for both columns. For example,

$$\text{Share capital, 2022} = \frac{10,00,000}{25,00,000} \times 100 = 40\%,$$

$$\text{Share capital, 2021} = \frac{10,00,000}{20,00,000} \times 100 = 50\%,$$

$$\text{Intangible assets, 2022} = \frac{4,00,000}{25,00,000} \times 100 = 16\%,$$

$$\text{Intangible assets, 2021} = \frac{5,00,000}{20,00,000} \times 100 = 25\%.$$

Apply the same calculation separately to the remaining items. Although share capital is unchanged in

rupees, its share falls because the balance sheet total increases.

Step 2: Prepare the common size balance sheet **Sheetal Ltd.**

Common Size Balance Sheet as at 31st March, 2022

Particulars	2022 (Rs)	2021 (Rs)	2022 (%)	2021 (%)
I. Equity and Liabilities				
1. Shareholders' funds				
Share capital	10,00,000	10,00,000	40	50
2. Non-current liabilities				
Long-term borrowings	5,00,000	3,00,000	20	15
3. Current liabilities				
Trade payables	10,00,000	7,00,000	40	35
Total	**25,00,000**	**20,00,000**	**100**	**100**
II. Assets				
1. Non-current assets				
Fixed assets:				
(a) Tangible assets	15,00,000	12,00,000	60	60
(b) Intangible assets	4,00,000	5,00,000	16	25
Total non-current assets	19,00,000	17,00,000	76	85
2. Current assets				
Cash and cash equivalents	6,00,000	3,00,000	24	15
Total	**25,00,000**	**20,00,000**	**100**	**100**

Step 3: Check the statement totals For equity and liabilities, $40 + 20 + 40 = 100\%$ in 2022 and $50 + 15 + 35 = 100\%$ in 2021. For assets, $60 + 16 + 24 = 100\%$ in 2022 and $60 + 25 + 15 = 100\%$ in 2021. The non-current asset subtotal is included only once when checking the totals; it is not an additional asset.

Step 4: Conclusion The common size balance sheet is shown above. In 2022, share capital, long-term borrowings and trade payables constitute $40\%, 20\%, 40\%$ respectively; tangible assets, intangible assets and cash constitute $60\%, 16\%, 24\%$ respectively. Both sides total 100% in each year.

Quick Tip to Solve: Divide 2022 amounts by Rs 25,00,000 and 2021 amounts by Rs 20,00,000; never use one year's total as the base for the other year.

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 net profit for non-cash expenses, non-operating items and changes in operating working capital.
- Depreciation and amortisation reduce accounting profit without using cash in the current year, so they are added back. Debenture interest is added back because its cash payment is classified as a financing activity for a non-financial company.
- A decrease in an operating current asset releases cash; an increase absorbs cash. A decrease in an operating current liability uses cash. Cash and cash equivalents are excluded from working-capital adjustments.

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

The surplus in the Statement of Profit and Loss rises from Rs 1,00,000 to Rs 1,50,000. Since no dividend, transfer to reserve or tax information is given, the increase represents the profit used as the starting point:

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

Furniture depreciation is Rs 24,000, as stated in the additional information. Patents fall from Rs 26,000 to Rs 24,000. With no purchase or disposal of patents given, the decrease is treated as amortisation:

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

Both expenses must be added back to profit because neither represents an operating cash payment during the year.

Step 2: Determine the interest adjustment The opening debentures are Rs 25,000. The additional Rs 50,000 debentures were issued on 31st March, 2022, the last day of the accounting year. Therefore, interest for this year is calculated on the opening debentures only:

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

Add this finance cost back while calculating operating profit before changes in working capital. The issue of shares and debentures itself is a financing transaction; neither receipt is included in operating cash flow. The increase in land and building relates to investing activities and is also excluded.

Step 3: Adjust operating working capital Inventories decrease by Rs 24,000, so add this amount. Trade receivables increase by Rs 10,000, so deduct it. Trade payables decrease by Rs 25,000, indicating a cash payment beyond the expense reflected in profit, so deduct it. Outstanding rent also decreases by Rs 25,000 and must be deducted for the same reason. The fall in cash and cash equivalents is the overall cash-flow result, not an operating working-capital adjustment.

Step 4: Prepare the operating activities statement **Anuradha Ltd.**
Cash Flow from Operating Activities
for the year ended 31st March, 2022

Particulars	**Amount (Rs)**
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**
Net cash from operating activities	**43,000**

No income-tax payment is supplied, so no separate tax deduction is made from cash generated from operations.

Step 5: Conclusion Cash from Operating Activities of Anuradha Ltd. for the year ended 31st March, 2022 is $\boxed{\text{Rs } 43,000}$, a net cash inflow.

Quick Tip to Solve: Charge this year's debenture interest only on Rs 25,000 because the new issue is on 31st March. Deduct both decreases in trade payables and outstanding rent, and exclude the cash balance from working capital.

Option - II

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

Solution:

Concept:

- Password security is an access-control measure used to protect a computer system, accounting software or its data from unauthorised users.
- A password is a confidential combination of characters which an authorised user supplies to establish permission to access the protected system or data.

Step 1: Explain how the password controls access In a computerised accounting system, an authorised user is assigned a user identification and a secret password. When the user attempts to enter the system, the password supplied is checked. Access is permitted only when the required credentials are valid; an incorrect password prevents entry through that login.

Step 2: State what this protects Restricting access helps prevent unauthorised persons from viewing confidential accounts or entering, altering and deleting accounting records. For example, a person who does not know the required password cannot normally open the protected company's accounts

through the login screen. The password should therefore be kept confidential and should not be easily guessed or shared with other users.

Step 3: Conclusion Password security means protecting accounting software and data against unauthorised access by requiring a confidential password before access is granted.

Quick Tip to Solve: Link the definition to three ideas: a secret password, access only to authorised users, and protection of accounting data.

11(a). How is Net Salary calculated? Explain. [3 marks]

Solution:

Concept:

- Gross salary is the total salary earned for the pay period before deductions. It consists of basic salary and the applicable allowances and other earnings.
- Net salary is the amount payable to the employee after subtracting all applicable deductions from gross salary: Net salary $=$ Gross salary $-$ Total deductions.

Step 1: Calculate gross salary First add basic salary and the earnings applicable to the employee, such as dearness allowance (DA), house rent allowance (HRA), transport allowance and any overtime pay. If an allowance is specified as a percentage of basic salary, calculate its amount before adding it. Thus,

$$\text{Gross salary} = \text{Basic salary} + \text{Allowances} + \text{Other earnings}.$$

Only earnings relating to that employee and pay period are included.

Step 2: Calculate total deductions Add the amounts to be deducted from the employee's salary, such as the employee's provident fund contribution, income tax deducted at source, insurance premium and recovery of a loan instalment or advance, wherever applicable. These deductions reduce the amount paid to the employee. The employer's own provident fund contribution is not deducted from the employee's gross salary.

Step 3: Subtract deductions from gross salary In the payroll spreadsheet, calculate each employee's gross salary and total deductions in separate columns, then subtract the latter from the former to obtain net salary. For illustration, suppose basic salary is Rs 20,000, DA is Rs 4,000 and HRA is Rs 3,000. If the employee's provident fund deduction is Rs 2,000 and tax deducted is Rs 1,000, then

$$\begin{aligned} \text{Gross salary} &= 20,000 + 4,000 + 3,000 = \text{Rs } 27,000, \\ \text{Total deductions} &= 2,000 + 1,000 = \text{Rs } 3,000, \\ \text{Net salary} &= 27,000 - 3,000 = \text{Rs } 24,000. \end{aligned}$$

The illustration shows the calculation procedure; the actual amounts depend on the employee's payroll details.

Step 4: Conclusion Net salary, or take-home salary, is calculated by adding basic salary and all applicable earnings to obtain gross salary, and then deducting the employee's total applicable deductions.

Quick Tip to Solve: Group payroll columns into earnings and deductions first; add the earnings and subtract deductions exactly once to obtain net salary.

OR

11(b). Explain the terms 'Contra Voucher' and 'Receipt Voucher' by giving examples. [3 marks]

Solution:

Concept:

- A voucher is the record used to enter a transaction in an accounting system. The voucher type is selected according to the nature of the transaction.
- A contra voucher records transfers within the business's own cash and bank accounts. A receipt voucher records money received into cash or bank from an outside source.

Step 1: Contra voucher: meaning and examples A contra voucher is used when a transaction affects only the business's cash and bank accounts, or transfers money between its own bank accounts. Examples include depositing cash into a bank, withdrawing cash from a bank for office use, and transferring money from one business bank account to another.

For example, depositing Rs 10,000 of cash into the business bank account increases the bank balance and decreases cash by Rs 10,000. This is an internal transfer: the combined cash and bank balance remains unchanged, and no income or expense arises. It is therefore entered through a contra voucher.

Step 2: Receipt voucher: meaning and examples A receipt voucher records money received by the business in cash or through its bank from another party or source. Examples include collection from a debtor, receipt of interest and commission received.

For example, when a debtor pays Rs 5,000 directly into the business bank account, the bank balance increases by Rs 5,000 and the amount due from the debtor decreases by Rs 5,000. The transaction is entered through a receipt voucher because it involves a receipt from an outside party, rather than a transfer between the business's own cash and bank accounts. A receipt need not be income: collection from a debtor settles an existing receivable.

Step 3: Conclusion A contra voucher records internal cash/bank transfers, such as cash deposited into the bank; a receipt voucher records money received from an outside source, such as collection from a debtor.

Quick Tip to Solve: Check the source of the money: own cash or own bank means contra; a debtor's payment into cash or bank means receipt.

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

Solution:

Concept:

- An account group brings together ledger accounts of a similar nature. The Profit and Loss Account group contains revenue and expense accounts used to determine the result of business operations for an accounting period.
- Sales, purchases, direct incomes and direct expenses determine the trading or gross result; indirect incomes and indirect expenses are then considered to determine net profit or net loss.

Step 1: Explain Sales Accounts **Sales Accounts** record revenue from the sale of goods dealt in by the business. Separate sales ledgers may be maintained for different products or categories, but they are brought together under this group. For example, a furniture dealer's sale of furniture is sales revenue. The sale of an old office machine is not ordinary sales of goods for that dealer.

Step 2: Explain Purchase Accounts **Purchase Accounts** record purchases of goods for resale and materials used in producing the goods sold. The group may contain separate ledgers for different types of purchases. For example, goods bought by a trader for resale belong here. A computer bought for the office is a fixed asset and is not included in Purchase Accounts.

Step 3: Explain Direct Incomes **Direct Incomes** comprise income directly connected with the principal business activity, other than amounts classified under Sales Accounts. For example, fees for professional services are direct operating income for a professional service concern. These incomes contribute to the gross operating result; their classification depends on the nature of the business.

Step 4: Explain Direct Expenses **Direct Expenses** are expenses directly associated with acquiring goods or bringing them to a saleable condition. Examples include carriage inward, freight on purchases and direct wages. They are considered with purchases while computing the cost of goods and the gross profit or gross loss.

Step 5: Explain Indirect Incomes **Indirect Incomes** are incidental incomes that do not arise directly from the principal trading or production activity. Examples for an ordinary trading business include interest received on investments, rent received from a surplus property and discount received. They are added to the gross result in determining net profit.

Step 6: Explain Indirect Expenses **Indirect Expenses** are expenses of administration, selling, distribution and financing that are not treated as direct costs of goods. Examples include office salaries, office rent, advertising, carriage outward and interest on a business loan. They are deducted from gross profit together with other relevant charges to arrive at net profit or net loss.

Step 7: Conclusion The Profit and Loss Account grouping covers **Sales Accounts, Purchase Accounts, Direct Incomes, Direct Expenses, Indirect Incomes and Indirect Expenses**. Grouping these ledgers correctly enables the accounting system to compile the trading result and the final net profit or net loss.

Quick Tip to Solve: Remember the six groups as three pairs: sales and purchases, direct incomes and expenses, and indirect incomes and expenses. Distinguish carriage inward (direct) from carriage outward (indirect).