CBSE Class 12 Accountancy Question Paper 2022 with Solution PDF-Set 67-5-2

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 contains 12 questions. All questions are compulsory.

(ii) This question paper is divided into two Parts, **Part-A** and **B**.

(iii) **Part-A** is compulsory for all candidates.

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

(v) Question nos. 1 to 3 and 10 are short-answer type-I questions carrying 2 marks each.

(vi) Question nos. 4 to 6 and 11 are short-answer type-II questions carrying 3 marks each.

(vii) Question nos. 7 to 9 and 12 are long-answer type questions carrying 5 marks each.

(viii) 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. How will the following items be presented in the Balance Sheet of 'Miso Club'?

Particulars	Amount (Rs.)
Tournament fund on 1st April, 2020	3,00,000
Sale of Tournament Tickets during the year	75,000
Tournament prizes awarded during the year	60,000

[2 marks]

Solution:

Concept:

- A tournament fund is a specific-purpose fund. Its unspent balance appears separately on the liabilities side of the club's Balance Sheet.
- Receipts relating to the tournament increase this fund, while tournament expenses reduce it. They are adjusted against the fund rather than taken to the general Income and Expenditure Account when the fund is sufficient.

Step 1: Calculate the closing tournament fund The sale of tournament tickets relates to the purpose for which the fund exists, so add Rs 75,000 to the opening fund. The prizes awarded use the same fund, so deduct Rs 60,000.

$$\begin{aligned}\text{Closing fund} &= \text{Opening fund} + \text{Ticket sales} - \text{Prizes}\\ &= 3,00,000 + 75,000 - 60,000\\ &= \text{Rs } 3,15,000.\end{aligned}$$

The fund remains positive; therefore, no excess tournament expenditure is transferred to the Income and Expenditure Account.

Step 2: Present the fund in the Balance Sheet **Balance Sheet of Miso Club (Extract)**

Liabilities side, at the end of the year

Liabilities	Amount (Rs)
Tournament Fund: opening balance	3,00,000
Add: Sale of tournament tickets	75,000
Subtotal	3,75,000
Less: Tournament prizes awarded	(60,000)
Closing Tournament Fund	**3,15,000**

Step 3: Conclusion Show the closing Tournament Fund of Rs $3,15,000$ on the liabilities side of Miso Club's Balance Sheet as a specific-purpose fund.

Quick Tip to Solve: Group all tournament receipts and expenses with the Tournament Fund: add ticket sales and deduct prizes before showing the net fund balance.

2. Distinguish between 'Dissolution of Partnership' and 'Dissolution of Partnership Firm' on the basis of:

(i) Court's intervention

(ii) Economic relationship [2 marks]

Solution:

Concept:

- Dissolution of partnership means a change in the existing agreement among partners. The firm can continue its business under a reconstituted partnership.
- Dissolution of a partnership firm ends the partnership between all its partners. The business is closed and its affairs are wound up, so the economic relationship as partners ends.

Step 1: Distinguish on the basis of court's intervention **Dissolution of partnership:** It takes place without the intervention of the court, for example, when the relationship among partners changes on admission or retirement and the firm continues.

Dissolution of partnership firm: It may take place either without the intervention of the court, such as by agreement, or by an order of the court. Thus, intervention of the court is possible but is not essential for dissolution of the firm.

Step 2: Distinguish on the basis of economic relationship **Dissolution of partnership:** The economic relationship among the partners changes, but business continues; the economic relationship of the continuing partners does not come to an end.

Dissolution of partnership firm: The economic relationship among all partners comes to an end. The firm's business is wound up, assets are realised and liabilities are settled as part of closing its affairs.

Step 3: Conclusion Dissolution of partnership changes the economic relationship without court intervention, while dissolution of the firm ends the economic relationship among all partners and may occur with or without court intervention.

Quick Tip to Solve: First ask whether the business continues: continuation points to a changed partnership; closure of the firm ends all partners' economic relationship.

3. Mahi, Mamta and Monika are partners in a firm, sharing profits in the ratio of 4:3:2. Monika retired and her capital after making adjustments for reserves and revaluation of assets and reassessment of liabilities was Rs. 95,000. Mahi and Mamta agreed to pay Rs. 1,09,000 in full settlement of her claim. Pass necessary journal entries for treatment of goodwill without opening goodwill account and making payment to Monika on her retirement. [2 marks]

Solution:

Concept:

- The excess of the amount payable to a retiring partner over her adjusted capital represents her share of hidden goodwill.
- Without opening a Goodwill Account, debit the gaining partners' Capital Accounts in their gaining

ratio and credit the retiring partner's Capital Account. Payment is then debited to the retiring partner and credited to Bank.

Step 1: Calculate Monika's goodwill and the gaining partners' shares **Working Notes**

Monika's capital of Rs 95,000 already includes reserve and revaluation adjustments; these need not be repeated. Her agreed settlement exceeds that capital by:

$$\text{Monika's share of goodwill} = 1,09,000 - 95,000 = \text{Rs } 14,000.$$

Since no new ratio is given, Mahi and Mamta continue in their old relative ratio of $4:3$. Their gains are:

$$\text{Mahi's gain} = \frac{4}{7} - \frac{4}{9} = \frac{8}{63},$$
$$\text{Mamta's gain} = \frac{3}{7} - \frac{3}{9} = \frac{6}{63}.$$

Thus, the gaining ratio is $8:6 = 4:3$. Mahi bears $14,000 \times 4/7 = \text{Rs } 8,000$, and Mamta bears $14,000 \times 3/7 = \text{Rs } 6,000$.

Step 2: Record goodwill adjustment and payment **Journal of the Firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Mahi's Capital A/c Dr. Mamta's Capital A/c Dr. To Monika's Capital A/c (Being Monika's share of goodwill adjusted through gaining partners' capital accounts in the ratio of $4:3$)		8,000 6,000	 14,000
	Monika's Capital A/c Dr. To Bank A/c (Being the amount due to Monika paid in full settlement on her retirement)		1,09,000	 1,09,000

After crediting goodwill, Monika's capital is $95,000 + 14,000 = \text{Rs } 1,09,000$. The payment therefore clears her Capital Account completely.

Step 3: Conclusion Debit Mahi's Capital by Rs 8,000 and Mamta's Capital by Rs 6,000; credit Monika's Capital by Rs 14,000. Then debit Monika's Capital and credit Bank by Rs 1,09,000 to settle her claim.

Quick Tip to Solve: The Rs 14,000 excess is Monika's own goodwill share, not the firm's total goodwill; allocate it directly to Mahi and Mamta in their gaining ratio of 4:3.

4. Ram, Mohan and Sohan were partners in a firm sharing profits and losses in the ratio of 1:2:2. The firm closes its books on 31st March every year. Sohan died on 1st September, 2021. On Sohan's death, the goodwill of the firm was valued at Rs. 6,00,000. The partnership deed provided that the share of profit of the deceased partner in the year of his death will be calculated on the basis of last year's profit. The profit for the year ended 31.3.2021 was Rs. 3,00,000.

(i) Calculate Sohan's share in the profits till the date of his death.

(ii) Pass necessary journal entries for the treatment of goodwill without opening goodwill account and Sohan's share of profit at the time of his death. [3 marks]

Solution:

Concept:

- A deceased partner is entitled to the profit earned up to the date of death. Under this deed, estimate that profit from the preceding year's profit, the elapsed fraction of the year and the deceased partner's profit-sharing fraction.
- Without opening Goodwill Account, debit the gaining partners' Capital Accounts in their gaining ratio and credit the deceased partner's Capital Account with his share of goodwill.
- Credit the estimated share of current-year profit to the deceased partner's Capital Account and debit Profit and Loss Suspense Account, since the final annual profit has not yet been determined.

Step 1: (i) Calculate Sohan's profit up to his death **Working Notes.** The current accounting year begins on 1st April, 2021. Death on 1st September, 2021 gives five completed months, April to August. Sohan's old share is $2/5$.

$$\begin{aligned}\text{Estimated firm profit for five months} &= \text{Rs } 3,00,000 \times \frac{5}{12}\\ &= \text{Rs } 1,25,000,\\ \text{Sohan's share} &= \text{Rs } 1,25,000 \times \frac{2}{5}\\ &= \text{Rs } 50,000.\end{aligned}$$

Step 2: Determine Sohan's goodwill and the gaining ratio No new ratio is specified, so Ram and Mohan continue in their relative old ratio $1:2$. Their new shares are $1/3$ and $2/3$, respectively.

$$\begin{aligned}\text{Ram's gain} &= \frac{1}{3}-\frac{1}{5}=\frac{2}{15},\\ \text{Mohan's gain} &= \frac{2}{3}-\frac{2}{5}=\frac{4}{15}.\end{aligned}$$

The gaining ratio is therefore $1:2$. Sohan's goodwill entitlement is Rs $6,00,000 \times 2/5 =$ Rs $2,40,000$. Ram bears Rs $2,40,000 \times 1/3 =$ Rs $80,000$, and Mohan bears Rs $2,40,000 \times 2/3 =$ Rs $1,60,000$.

Step 3: (ii) Record the journal entries on death **Journal of the firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 Sept. 2021	Ram's Capital A/c Dr.		80,000	
	Mohan's Capital A/c Dr.		1,60,000	
	To Sohan's Capital A/c			2,40,000
	(Being Sohan's share of goodwill adjusted through the gaining partners' capitals in the ratio $1:2$)			
1 Sept. 2021	Profit and Loss Suspense A/c Dr.		50,000	
	To Sohan's Capital A/c			50,000
	(Being Sohan's share of profit for five months up to death credited on the basis of last year's profit)			

The goodwill entry transfers capital between partners without creating a goodwill asset. Both entries balance independently.

Step 4: Conclusion Sohan's share of profit is Rs $50,000$, and his goodwill entitlement is Rs $2,40,000$. Credit his Capital Account with both amounts; debit Ram and Mohan by Rs $80,000$ and Rs $1,60,000$ for goodwill and debit Profit and Loss Suspense Account by Rs $50,000$.

Quick Tip to Solve: Count April to August as five months before applying Sohan's $2/5$ share. For goodwill, use Ram and Mohan's gaining ratio, not the deceased partner's old share.

5(a). As per Receipts and Payments Account of Kala Club for the year ended 31st March, 2021, subscriptions received were Rs. 4,00,000.

Additional Information:

Particulars	Amount (Rs.)
Subscriptions outstanding on 1.4.2020	**1,00,000**
Subscriptions outstanding on 31.3.2021	**70,000**
Subscriptions received in advance on 1.4.2020	**50,000**
Subscriptions received in advance on 31.3.2021	**80,000**

Calculate the amount of subscriptions to be shown in Income and Expenditure Account for the year ended 31st March, 2021 as income from subscription. [3 marks]

Solution:

Concept:

- Receipts and Payments Account records cash received during the year. Income and Expenditure Account recognises only the subscription income belonging to the current accounting year, whether received or still outstanding.
- Current-year subscription income equals cash subscriptions received, less opening outstanding subscriptions, plus closing outstanding subscriptions, plus opening advance subscriptions, less closing advance subscriptions.

Step 1: Identify the outstanding-subscription adjustments Begin with the cash subscriptions of Rs 4,00,000 received during the year ended 31st March, 2021. The Rs 1,00,000 outstanding on 1st April, 2020 belongs to the preceding year, so deduct it from the current year's receipts when calculating income. The Rs 70,000 outstanding on 31st March, 2021 belongs to the current year even though it has not yet been received, so add it.

$$\text{Rs } 4,00,000 - \text{Rs } 1,00,000 + \text{Rs } 70,000 = \text{Rs } 3,70,000.$$

Step 2: Adjust subscriptions received in advance The opening advance of Rs 50,000 was received before the current year but relates to the current year's income; add it. The closing advance of Rs 80,000 is included in current receipts but relates to the next year; deduct it. These adjustments convert cash receipts to income earned.

Working Note: Subscription income for 2020–21

Particulars	Amount (Rs)
Subscriptions received during the year	4,00,000
Less: Outstanding on 1st April, 2020	(1,00,000)
Add: Outstanding on 31st March, 2021	70,000
Add: Received in advance on 1st April, 2020	50,000
Less: Received in advance on 31st March, 2021	(80,000)
Subscription income for the year	3,40,000

The total adjustment is a reduction of Rs 60,000. This reconciles the cash receipt of Rs 4,00,000 with the income earned during the year.

Step 3: Conclusion Kala Club should show $\boxed{\text{Rs } 3,40,000}$ as income from subscriptions on the credit side of its Income and Expenditure Account for the year ended 31st March, 2021.

Quick Tip to Solve: For outstanding subscriptions, subtract opening and add closing balances. For advance subscriptions, reverse those signs: add opening and subtract closing balances.

OR

5(b). From the following information, calculate the amount of stationery to be shown in Income and Expenditure Account for the year ended 31st March, 2021:

Particulars	1st April, 2020 (Rs.)	31st March, 2021 (Rs.)
Creditors for Stationery	5,600	12,800
Stock of Stationery	25,000	35,000

During the year ended 31st March, 2021 payment made to Creditors amounted to Rs. 62,800. Stationery purchased during the year was Rs. 2,00,000. [3 marks]

Solution:

Concept:

- The Income and Expenditure Account records stationery consumed during the accounting year on the accrual basis. Payment to suppliers and consumption of stationery are different measures.

- Stationery consumed equals opening stock plus purchases during the year less closing stock. When total purchases are already given, creditors' adjustments must not be added to that total again.

Step 1: Identify purchases for the year The question gives stationery purchased during the year as Rs 2,00,000. This is the purchase figure used in calculating consumption. As a check, the credit purchases implied by the creditors' balances are:

$$\begin{aligned}\text{Credit purchases} &= \text{Payment} + \text{Closing creditors} - \text{Opening creditors}\\ &= 62,800 + 12,800 - 5,600 = \text{Rs } 70,000.\end{aligned}$$

Therefore, the remaining purchases are Rs $2,00,000 - 70,000 = 1,30,000$, purchased for cash. The creditors' information explains the composition of the stated purchases; it does not create additional purchases.

Step 2: Adjust purchases for the stock movement Opening stock was available for use this year, so add it. Closing stock remains unused at the year end, so deduct it:

$$\begin{aligned}\text{Stationery available} &= 25,000 + 2,00,000 = \text{Rs } 2,25,000,\\ \text{Stationery consumed} &= 2,25,000 - 35,000 = \text{Rs } 1,90,000.\end{aligned}$$

The stock has increased by Rs 10,000, so consumption is Rs 10,000 below purchases. Outstanding creditors are liabilities; they are not separately charged to expenditure after purchases have already been included on the accrual basis.

Step 3: Conclusion Stationery expense to be shown on the expenditure side of the Income and Expenditure Account for the year ended 31st March, 2021 is $\boxed{\text{Rs } 1,90,000}$.

Quick Tip to Solve: Use the explicitly stated total purchases of Rs 2,00,000; adding credit purchases of Rs 70,000 again would double-count them.

6(a). Radhey Ltd. took over assets of Rs. 14,00,000 and liabilities of Rs. 6,00,000 of Krishna Ltd. Radhey Ltd. paid the purchase consideration by issuing 10,000, 8% Debentures of Rs. 100 each at a premium of 10%.

Pass necessary journal entries in the books of Radhey Ltd. [3 marks]

Solution:

Concept:

- Purchase consideration discharged by debentures equals the number of debentures multiplied by their issue price. Debentures are credited with their face value and the premium is credited to Securities Premium Reserve.
- When purchase consideration exceeds the net assets acquired, the excess is debited to Goodwill. Net assets equal assets taken over less liabilities assumed.

Step 1: Calculate consideration and goodwill **Working Notes** Each debenture is issued at Rs

$100 + 10\% \times 100 = 110$. Thus,

$$\text{Purchase consideration} = 10,000 \times 110 = \text{Rs } 11,00,000,$$
$$\text{Net assets acquired} = 14,00,000 - 6,00,000 = \text{Rs } 8,00,000,$$
$$\text{Goodwill} = 11,00,000 - 8,00,000 = \text{Rs } 3,00,000.$$

The 8% is the annual interest rate on the debentures; it does not determine the purchase consideration. The issue premium is Rs $10,000 \times 10 = 1,00,000$.

Step 2: Record the acquisition of the business Journal of Radhey Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Sundry Assets A/c Dr.		14,00,000	
	Goodwill A/c Dr.		3,00,000	
	To Sundry Liabilities A/c			6,00,000
	To Krishna Ltd. A/c			11,00,000
	(Being assets and liabilities taken over from Krishna Ltd. for Rs 11,00,000, with the excess over net assets recorded as goodwill)			

Each side totals Rs 17,00,000; Krishna Ltd. is credited as the vendor.

Step 3: Discharge the consideration through debentures Journal of Radhey Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Krishna Ltd. A/c Dr.		11,00,000	
	To 8% Debentures A/c			10,00,000
	To Securities Premium Reserve A/c			1,00,000
	(Being purchase consideration discharged by issuing 10,000, 8% debentures of Rs 100 each at a premium of 10%)			

The vendor balance is fully settled; both sides total Rs 11,00,000.

Step 4: Conclusion The purchase consideration is $\boxed{\text{Rs } 11,00,000}$, and goodwill arising on acquisition is $\boxed{\text{Rs } 3,00,000}$.

Quick Tip to Solve: Multiply 10,000 debentures by the issue price Rs 110 for consideration, but credit Debentures only at the face value Rs 100 each.

OR

6(b). Amay Ltd. invited applications for issuing 10,000, 8% debentures of Rs. 100 each. The amount was payable as follows:

Rs. 30 on application and Rs. 70 on allotment. The public applied for 12,000 debentures. Applications for 8,000 debentures were accepted in full; applications for 3,000 debentures were allotted 2,000 debentures and the remaining applications were rejected. All money was duly received.

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

Solution:

Concept:

- Application money on accepted debentures is transferred to the Debentures Account. Money received on rejected applications is refunded.
- In a pro-rata allotment, excess application money is adjusted against allotment money due. Debentures issued at par are credited with their face value.

Step 1: Calculate application receipts, refund and adjustment **Working Notes**

Application money received on all 12,000 applications is

$$12,000 \times \text{Rs } 30 = \text{Rs } 3,60,000.$$

Of these, applications for 8,000 debentures are accepted in full. The applicants for 3,000 debentures receive only 2,000 debentures, so their excess application money is

$$(3,000 - 2,000) \times \text{Rs } 30 = \text{Rs } 30,000.$$

This excess is adjusted towards allotment. Applications for the remaining $12,000 - 8,000 - 3,000 = 1,000$ debentures are rejected, requiring a refund of $1,000 \times \text{Rs } 30 = \text{Rs } 30,000$. Application money attributable to the 10,000 debentures actually allotted is $10,000 \times \text{Rs } 30 = \text{Rs } 3,00,000$.

$$\begin{aligned} \text{Allotment due} &= 10,000 \times \text{Rs } 70 = \text{Rs } 7,00,000, \\ \text{Allotment cash received} &= \text{Rs } 7,00,000 - \text{Rs } 30,000 \\ &= \text{Rs } 6,70,000. \end{aligned}$$

Step 2: Record application receipts and their disposal **Journal of Amay Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Debenture Application A/c (Being application money received on 12,000 debentures at Rs 30 each)		3,60,000	 3,60,000
	Debenture Application A/c Dr. To 8% Debentures A/c To Debenture Allotment A/c To Bank A/c (Being application money transferred on 10,000 debentures, excess adjusted against allotment and rejected applications refunded)		3,60,000	 3,00,000 30,000 30,000

Step 3: Record allotment due and the balance received **Journal of Amay Ltd. (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Debenture Allotment A/c Dr. To 8% Debentures A/c (Being allotment money due on 10,000 debentures at Rs 70 each)		7,00,000	 7,00,000
	Bank A/c Dr. To Debenture Allotment A/c (Being the balance of allotment money received after adjusting excess application money of Rs 30,000)		6,70,000	 6,70,000

The allotment account is cleared because its debit of Rs 7,00,000 equals the Rs 30,000 adjustment plus the Rs 6,70,000 cash receipt. The 8% rate specifies the interest rate; no interest entry is required for these issue transactions.

Step 4: Conclusion The company issues 10,000 debentures at par, crediting 8% Debentures Account with Rs 10,00,000 in total. It refunds Rs 30,000 and receives Rs 6,70,000 on allotment; net bank receipts are Rs 10,00,000.

Quick Tip to Solve: Keep the Rs 30,000 excess from pro-rata applicants separate from the Rs 30,000 refund to rejected applicants: only the former reduces allotment cash received.

7. Pass journal entries relating to issue of debentures for the following transactions:

(a) Issued 8,000, 10% debentures of Rs. 100 each at a discount of 10%, redeemable at 5% premium.

(b) Issued 4,000, 12% debentures of Rs. 100 each at 10% premium, redeemable at 6% premium.

(c) Issued Rs. 1,00,000, 9% debentures of Rs. 100 each at par redeemable at par.

(d) Issued Rs. 5,00,000, 9% debentures of Rs. 100 each at 10% premium redeemable at par.

(e) Issued 6,000, 9% debentures of Rs. 100 each at a discount of 10% redeemable at par. [5 marks]

Solution:

Concept:

- Credit the Debentures Account with the face value issued. Debit Bank with the actual issue proceeds; the stated interest rate names the debenture account and does not determine its issue price.
- An issue discount is debited as a capital loss. An issue premium is credited to Securities Premium Reserve. A premium payable on redemption is recognised at issue by crediting Premium on Redemption of Debentures and debiting Loss on Issue of Debentures.
- Where issue is at a discount and redemption is at a premium, Loss on Issue equals the issue discount plus the redemption premium. Each case is an independent transaction; no interest or actual redemption entry is requested.

Step 1: (a) Record issue at a discount and redemption at a premium **Working Notes:** Face value $= 8,000 \times$ Rs $100 =$ Rs $8,00,000$. Issue discount $= 10\% \times$ Rs $8,00,000 =$ Rs $80,000$, so Bank receives Rs 7,20,000. Redemption premium $= 5\% \times$ Rs $8,00,000 =$ Rs $40,000$. Thus, Loss on Issue is Rs 1,20,000. The future premium is a liability recognised at issue.

Journal – Case (a)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		7,20,000	
	Loss on Issue of Debentures A/c Dr.		1,20,000	
	To 10% Debentures A/c			8,00,000
	To Premium on Redemption of Debentures A/c			40,000
	(Being 8,000 debentures of Rs 100 each issued at 10% discount, redeemable at 5% premium)			

Step 2: (b) Record issue and redemption at a premium **Working Notes:** Face value $= 4,000 \times$ Rs $100 =$ Rs $4,00,000$. Issue premium $= 10\% \times$ Rs $4,00,000 =$ Rs $40,000$, giving Bank proceeds of Rs 4,40,000. Redemption premium $= 6\% \times$ Rs $4,00,000 =$ Rs $24,000$. Recognise the issue premium and redemption loss separately; the redemption premium does not reduce the proceeds received.

Journal – Case (b)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		4,40,000	
	Loss on Issue of Debentures A/c Dr.		24,000	
	To 12% Debentures A/c			4,00,000
	To Securities Premium Reserve A/c			40,000
	To Premium on Redemption of Debentures A/c			24,000
	(Being 4,000 debentures of Rs 100 each issued at 10% premium, redeemable at 6% premium)			

Step 3: (c) Record issue and redemption at par **Working Notes:** Rs 1,00,000 is the total face value, representing $1,00,000/100 = 1,000$ debentures. Since issue and redemption are both at par, Bank receives Rs 1,00,000 and no premium or discount arises.

Journal – Case (c)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		1,00,000	
	To 9% Debentures A/c			1,00,000
	(Being 1,000 debentures of Rs 100 each issued at par, redeemable at par)			

Step 4: (d) Record issue at a premium and redemption at par **Working Notes:** Total face value is Rs 5,00,000, representing 5,000 debentures of Rs 100 each. Issue premium $= 10\% \times$ Rs $5,00,000 =$ Rs $50,000$. Bank receives Rs 5,50,000. Redemption at par creates no redemption premium or loss on issue.

Journal – Case (d)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		5,50,000	
	To 9% Debentures A/c			5,00,000
	To Securities Premium Reserve A/c			50,000
	(Being 5,000 debentures of Rs 100 each issued at 10% premium, redeemable at par)			

Step 5: (e) Record issue at a discount and redemption at par **Working Notes:** Face value $=$ $6,000 \times$ Rs $100 =$ Rs $6,00,000$. Issue discount $= 10\% \times$ Rs $6,00,000 =$ Rs $60,000$. Bank receives Rs 5,40,000. Debit the discount separately; no redemption premium is payable.

Journal – Case (e)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		5,40,000	
	Discount on Issue of Debentures A/c Dr.		60,000	
	To 9% Debentures A/c			6,00,000
	(Being 6,000 debentures of Rs 100 each issued at 10% discount, redeemable at par)			

Step 6: Conclusion The entries above record all five issues. Bank receipts in (a)–(e) are respectively Rs 7,20,000, Rs 4,40,000, Rs 1,00,000, Rs 5,50,000 and Rs 5,40,000. Total debits equal total credits in each entry: Rs 8,40,000, Rs 4,64,000, Rs 1,00,000, Rs 5,50,000 and Rs 6,00,000 respectively.

Quick Tip to Solve: First credit face value, then calculate cash using the issue price. Treat the redemption premium separately: it increases both the loss debit and the redemption-premium liability, never the Bank debit.

8. Following is the Receipts and Payments Account of Indian Youth Club for the year ended 31st March, 2021:

'Receipts and Payments Account' of Indian Youth Club for the year ended 31st March, 2021

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
To Balance b/d: Cash 25,000 Bank 2,85,000	3,10,000	By Salaries	3,60,000
To Subscriptions (including Rs. 40,000 for year ending 31.3.2022)	4,00,000	By Printing & Stationery	19,000
To Interest on investments	1,000	By Printer	40,000
		By Investments	80,000
		By Balance c/d: Cash 12,000 Bank 2,00,000	2,12,000
	7,11,000		7,11,000

Additional Information:

(i) Investments were made on 1st October, 2020 @ 5% p.a.

(ii) Salaries for March, 2021 Rs. 5,000 are unpaid.

(iii) Rs. 3,000 are payable for stationery.

Prepare Income and Expenditure Account of the Club for the year ended 31st March, 2021. [5 marks]

Solution:

Concept:

- An Income and Expenditure Account records revenue income and revenue expenses relating to the current accounting year on the accrual basis, whether received or paid or still outstanding.
- Income received in advance is excluded from current income; expenses outstanding are added to the corresponding expense. Accrued interest is included in income even when not yet received.
- Opening and closing cash and bank balances are assets. Purchase of a printer and purchase of investments are capital transactions, so they do not enter the Income and Expenditure Account.

Step 1: Determine subscription income for 2020–21 The subscriptions received include Rs 40,000 for the year ending 31st March, 2022. This is an advance for the next accounting year and is a liability at 31st March, 2021. Therefore,

$$\text{Current-year subscriptions} = 4,00,000 - 40,000 = \text{Rs } 3,60,000.$$

No other subscription adjustment is given.

Step 2: Calculate investment income on the accrual basis Investments of Rs 80,000 were made on 1st October, 2020. Interest belongs to the six months from October, 2020 to March, 2021:

$$\text{Interest earned} = 80,000 \times \frac{5}{100} \times \frac{6}{12} = \text{Rs } 2,000.$$

Since Rs 1,000 has been received, accrued interest is Rs 1,000. The Income and Expenditure Account credits the full Rs 2,000 earned, while the accrued portion is an asset.

Step 3: Adjust expenses for unpaid amounts Salaries for March relate to this accounting year although unpaid. Similarly, the stationery payable belongs to the current expense. Hence,

$$\text{Salaries} = 3,60,000 + 5,000 = \text{Rs } 3,65,000,$$
$$\text{Printing and stationery} = 19,000 + 3,000 = \text{Rs } 22,000.$$

The outstanding salary and stationery amounts are liabilities. The printer costing Rs 40,000 and investments costing Rs 80,000 are assets, not revenue expenses. No depreciation adjustment is specified.

Step 4: Prepare the Income and Expenditure Account **Indian Youth Club**
Income and Expenditure Account for the year ended 31st March, 2021

Dr. Expenditure	**Rs**	**Cr. Income**	**Rs**
To Salaries	3,65,000	By Subscriptions	3,60,000
To Printing and stationery	22,000	By Interest on investments	2,000
		By Deficit (excess of expenditure over income), transferred to Capital Fund	25,000
Total	**3,87,000**	**Total**	**3,87,000**

Step 5: Check the balancing amount Total revenue income is Rs 3,60,000 plus Rs 2,000, namely Rs 3,62,000. Total revenue expenditure is Rs 3,65,000 plus Rs 22,000, namely Rs 3,87,000. The difference of Rs 25,000 is entered on the credit side to balance the account and reduces the Capital Fund. Neither opening nor closing cash and bank balances affect this calculation.

Step 6: Conclusion Indian Youth Club has a **deficit of Rs 25,000** for the year ended 31st March, 2021. Both sides of the Income and Expenditure Account total **Rs 3,87,000**.

Quick Tip to Solve: Exclude next year's Rs 40,000 subscription, accrue six months' interest, and add both unpaid expenses before balancing the account.

9(a). Give the necessary journal entries for the following transactions on dissolution of the firm of Sonu and Monu on 31st March, 2021, after transfer of various assets (other than cash and bank balance) and the third party liabilities to Realisation Account. They shared profits and losses in the ratio of 2:1.

(i) Sonu agreed to take over the firm's goodwill (not recorded in the books of the firm) at a valuation of Rs. 40,000.

(ii) Bills payable of Rs. 30,000 falling due on 30th April, 2021 were discharged at Rs. 29,550.

(iii) Stock worth Rs. 8,00,000 was taken over by partner, Sonu at 10% discount.

(iv) Creditors of Rs. 2,00,000; accepted machinery valued at Rs. 2,20,000 in full settlement of their claim.

(v) Expenses of realisation Rs. 10,000 were paid by partner, Sonu. [5 marks]

Solution:

Concept:

- After recorded assets and outside liabilities have been transferred to Realisation Account, record their subsequent disposal or settlement through Realisation Account, without reopening those asset or liability accounts.
- An asset taken over by a partner, including unrecorded goodwill, is debited to that partner's Capital Account at the agreed value and credited to Realisation Account.
- Realisation expenses paid personally by a partner are debited to Realisation Account and credited to the partner's Capital Account. When a creditor accepts an already transferred asset in full settlement, no further journal entry is required.

Step 1: Record Sonu's takeover of unrecorded goodwill: (i) Sonu receives the firm's goodwill, so his capital is debited by its agreed value of Rs 40,000. Although goodwill was not recorded earlier, its realisation is credited to Realisation Account. There is no need to open a Goodwill Account first.

Journal of Sonu and Monu

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2021	Sonu's Capital A/c Dr. To Realisation A/c (Being unrecorded goodwill taken over by Sonu at the agreed value)		40,000	40,000

Step 2: Record the settlement of bills payable: (ii) The bills payable have already been transferred to Realisation Account. Therefore debit Realisation Account with the actual payment of Rs 29,550 and credit Bank Account. The saving of Rs 450 is automatically reflected in Realisation Account because the original liability of Rs 30,000 was credited there on transfer. No separate discount entry is needed.

Journal of Sonu and Monu

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2021	Realisation A/c Dr. To Bank A/c (Being bills payable of Rs 30,000 discharged for Rs 29,550 before maturity)		29,550	29,550

Step 3: Calculate and record the stock taken over: (iii) **Working Notes**

Sonu takes over stock at its agreed value after deducting the discount:

$$\text{Discount} = \text{Rs } 8,00,000 \times \frac{10}{100} = \text{Rs } 80,000,$$
$$\text{Takeover value} = \text{Rs } 8,00,000 - \text{Rs } 80,000 = \text{Rs } 7,20,000.$$

Debit Sonu's Capital Account with Rs 7,20,000, since this amount reduces the amount payable to him. Credit Realisation Account, as Stock Account has already been closed by transfer.

Journal of Sonu and Monu

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2021	Sonu's Capital A/c Dr. To Realisation A/c (Being stock taken over by Sonu at a discount of 10%)		7,20,000	 7,20,000

Step 4: Examine the machinery accepted by creditors: (iv) **No journal entry is required.** Both machinery and creditors have already been transferred to Realisation Account. The creditors accept machinery valued at Rs 2,20,000 in full settlement of their Rs 2,00,000 claim, and no cash is paid or received. Thus neither Bank Account nor a partner's Capital Account is affected. Do not record a fresh entry between Creditors Account and Machinery Account, and do not record a separate Rs 20,000 loss: the effect of the transferred balances remains within Realisation Account.

Step 5: Record realisation expenses paid by Sonu: (v) These are the firm's realisation expenses, paid personally by Sonu. Debit Realisation Account for the expense and credit Sonu's Capital Account for the amount paid on the firm's behalf. The firm's Bank Account is unaffected by this personal payment.

Journal of Sonu and Monu

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2021	Realisation A/c Dr. To Sonu's Capital A/c (Being realisation expenses paid by Sonu on behalf of the firm)		10,000	 10,000

Step 6: Conclusion The journal amounts are: (i) Rs 40,000; (ii) Rs 29,550; (iii) Rs 7,20,000; (iv) no entry; and (v) Rs 10,000, in the accounts shown above. The 2:1 profit-sharing ratio would apply to the final realisation profit or loss; it is not needed for these individual transactions.

Quick Tip to Solve: First check whether the asset and liability accounts have already been transferred. For a creditor accepting an asset in full settlement, make no second entry; for a partner taking an asset, use the agreed takeover value in the partner's Capital Account.

OR

9(b). Anu, Bhanu and Charu were partners in a firm sharing profits in the ratio of 2:2:1. Anu decided to retire from the firm on 31st March, 2021. The balance sheet of the firm on that date was as follows:

Balance Sheet of Anu, Bhanu and Charu as on 31st March, 2021

Liabilities		Amount (Rs)	Assets		Amount (Rs)
Creditors		24,000	Bank		10,000
Profit & Loss A/c		5,000	Debtors	20,000	
			Less Provision – 400 for Doubtful Debts		19,600
Capitals:			Stock		27,000
Anu	31,000		Investments		10,000
Bhanu	30,000		Patents		2,400
Charu	22,000	83,000	Premises		43,000
		1,12,000			1,12,000

On retirement of Anu, following terms were agreed upon:

(i) Anu sold her share of premium for goodwill to Bhanu for Rs 6,000 and to Charu for Rs 3,000.

(ii) Provision for doubtful debts was to be raised to 5% on debtors.

(iii) Patents were considered as valueless.

(iv) Anu was paid Rs 9,600 through a cheque and balance was transferred to her loan A/c.

Prepare Revaluation Account and Anu's Capital Account on her retirement. [5 marks]

Solution:

Concept:

- Revaluation records changes in asset values and liabilities at retirement. Its profit or loss belongs to all existing partners in their old profit-sharing ratio, here $2:2:1$.
- Accumulated profit is credited to partners in the old ratio. The retiring partner's goodwill entitlement is credited to her capital and charged to the gaining partners in the agreed amounts.
- After all adjustments, debit the retiring partner's capital for the cheque paid and transfer the unpaid amount to her loan account.

Step 1: Calculate the revaluation loss **Working Notes**

The required provision is calculated on gross debtors of Rs 20,000, not on the net balance of Rs 19,600:

$$\text{Required provision} = 20,000 \times \frac{5}{100} = \text{Rs } 1,000.$$

The existing provision is Rs 400, so only the increase of Rs 600 is debited to Revaluation Account. Patents are valueless; their entire carrying amount of Rs 2,400 is written off. Thus:

$$\text{Revaluation loss} = 600 + 2,400 = \text{Rs } 3,000.$$

Allocate this loss in the old ratio $2:2:1$: Anu Rs 1,200, Bhanu Rs 1,200 and Charu Rs 600. There is no adjustment to the other assets or creditors because the question specifies none.

Step 2: Prepare Revaluation Account **Revaluation Account as on 31st March, 2021**

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Provision for Doubtful Debts A/c	600	By Anu's Capital A/c	1,200
To Patents A/c	2,400	By Bhanu's Capital A/c	1,200
		By Charu's Capital A/c	600
Total	3,000	Total	3,000

The loss is transferred to the partners' capital accounts, so Revaluation Account closes with equal totals and no balance carried forward.

Step 3: Calculate Anu's capital adjustments Anu's share of accumulated profit is $5,000 \times 2/5 =$ Rs $2,000$. It is credited to her capital because the Profit and Loss Account balance appears on the liabilities side of the balance sheet. The agreed goodwill compensation is Rs 6,000 from Bhanu and Rs 3,000 from Charu, totalling Rs 9,000. Debit their respective capital accounts and credit Anu's capital for these amounts. This goodwill adjustment does not pass through Revaluation Account.

$$\begin{aligned} \text{Amount due to Anu} &= 31,000 + 2,000 + 9,000 - 1,200 \\ &= \text{Rs } 40,800, \\ \text{Unpaid amount} &= 40,800 - 9,600 = \text{Rs } 31,200. \end{aligned}$$

Step 4: Prepare Anu's Capital Account **Anu's Capital Account as on 31st March, 2021**

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Revaluation A/c	1,200	By Balance b/d	31,000
To Bank A/c	9,600	By Profit and Loss A/c	2,000
To Anu's Loan A/c	31,200	By Bhanu's Capital A/c (goodwill)	6,000
		By Charu's Capital A/c (goodwill)	3,000
Total	42,000	Total	42,000

The loan transfer settles the remaining credit in Anu's Capital Account; no capital balance is carried forward after her retirement. The firm's liability continues in Anu's Loan Account.

Step 5: Conclusion Revaluation loss is **Rs 3,000**, of which Anu bears **Rs 1,200**. Anu's total entitlement is **Rs 40,800**; after the cheque of Rs 9,600, **Rs 31,200 is transferred to Anu's Loan Account**.

Quick Tip to Solve: Charge only the increase in doubtful-debt provision to revaluation. Keep goodwill and accumulated profit as separate capital adjustments before deducting the retirement payment.

Part B (10 marks)

(Option-I) (Analysis of Financial Statements)

10. State whether the following transactions will result in inflow, outflow or no flow of cash while preparing cash flow statement:

(i) Issued bonus shares Rs. 5,00,000.

(ii) Interest received in cash from loans and advances Rs. 80,000. [2 marks]

Solution:

Concept:

- Cash flow means an actual receipt or payment of cash or cash equivalents. A cash receipt is an inflow, whereas a cash payment is an outflow.
- A transaction involving only a transfer between equity accounts has no cash flow, even when it changes the amount of share capital.

Step 1: Examine the issue of bonus shares Bonus shares of Rs 5,00,000 are issued to existing shareholders by capitalising reserves. The amount is transferred from eligible reserves to share capital; the shareholders do not pay cash for these shares. Thus neither cash nor bank balance changes on the issue. The increase in share capital must not be mistaken for a cash receipt from a fresh cash issue of shares.

Step 2: Examine the receipt of interest Interest of Rs 80,000 on loans and advances has actually been received in cash. It therefore increases cash or bank balance by Rs 80,000. It satisfies the test for an inflow because the transaction brings money into the enterprise; it is not merely interest accrued but still receivable.

Step 3: Conclusion (i) Issue of bonus shares of Rs 5,00,000: **No flow of cash**.

(ii) Interest received in cash of Rs 80,000: **Inflow of cash of Rs 80,000**.

Quick Tip to Solve: Check whether cash or bank changes: capitalisation of reserves does not bring cash, but interest explicitly received in cash does.

11(a). Prepare Common Size Income Statement for the year ended 31st March, 2021 from the following information:

Particulars	2020-21 (Rs.)	2019-20 (Rs.)
Revenue from operations	10,00,000	5,00,000
Other Income	1,00,000	50,000
Expenses	2,00,000	1,00,000
Income Tax @ 40%		

[3 marks]

Solution:

Concept:

- In a common size income statement, revenue from operations is the base and is taken as 100% separately for each year.
- Each percentage equals $\dfrac{\text{Item amount}}{\text{Revenue from operations}} \times 100$. Total income includes both revenue from operations and other income.
- Profit before tax equals total income less expenses. Income tax is calculated on profit before tax, and profit after tax is the balance after deducting that tax.

Step 1: Calculate profits and tax for both years **Working Notes**

For 2020–21, total income is Rs $10,00,000 + 1,00,000 = 11,00,000$. Deducting expenses of Rs 2,00,000 gives profit before tax of Rs 9,00,000. Hence tax is Rs $9,00,000 \times 40\% = 3,60,000$, and profit after tax is Rs $9,00,000 - 3,60,000 = 5,40,000$.

For 2019–20, total income is Rs $5,00,000 + 50,000 = 5,50,000$. Profit before tax is Rs $5,50,000 - 1,00,000 = 4,50,000$. Tax is Rs $4,50,000 \times 40\% = 1,80,000$, leaving profit after tax of Rs $4,50,000 - 1,80,000 = 2,70,000$.

Step 2: Express each amount as a percentage of revenue Use Rs 10,00,000 as the denominator for 2020–21 and Rs 5,00,000 for 2019–20. For example, the percentage of other income in 2020–21 is $1,00,000/10,00,000 \times 100 = 10\%$, and that of income tax is $3,60,000/10,00,000 \times 100 = 36\%$. The 40% tax rate applies to profit before tax; it is not the common size percentage of tax.

Common Size Income Statement

For the year ended 31st March, 2021

Particulars	Amount (Rs)		Percentage	
	2020–21	2019–20	2020–21	2019–20
I. Revenue from operations	10,00,000	5,00,000	100	100
II. Other income	1,00,000	50,000	10	10
III. Total income (I + II)	11,00,000	5,50,000	110	110
IV. Expenses	2,00,000	1,00,000	20	20
V. Profit before tax (III - IV)	9,00,000	4,50,000	90	90
VI. Tax expense (40% of V)	3,60,000	1,80,000	36	36
VII. Profit after tax (V - VI)	5,40,000	2,70,000	54	54

Step 3: Conclusion Profit after tax is **Rs 5,40,000 in 2020–21** and **Rs 2,70,000 in 2019–20**. It equals **54% of revenue from operations in both years**; all common size percentages remain unchanged because the amounts have doubled in the same proportion.

Quick Tip to Solve: Keep revenue from operations at 100% in each year. Apply the 40% tax rate to the 90% profit-before-tax proportion to get tax at 36% of revenue.

OR

11(b). Prepare Comparative Statement of Profit and Loss for the year ended 31st March, 2021 from the following information:

Particulars	2020-21 (Rs.)	2019-20 (Rs.)
Revenue from operations	75,00,000	60,00,000
Expenses	50,00,000	40,00,000
Income Tax @ 40%		

[3 marks]

Solution:

Concept:

- A comparative statement shows both years' amounts, their absolute change and the percentage change. The previous year, 2019-20, is the base year.
- Absolute change $=$ Current-year amount $-$ Previous-year amount, and Percentage change $=$ $\dfrac{\text{Absolute change}}{\text{Previous-year amount}} \times 100$.
- Profit before tax equals revenue from operations less expenses. Income tax is 40% of profit before tax; profit after tax is the remaining 60%.

Step 1: Calculate profit and tax for each year **Working Notes**

For 2019-20, profit before tax is Rs $60,00,000 - 40,00,000 = 20,00,000$. Income tax is Rs $20,00,000 \times 40\% = 8,00,000$, leaving profit after tax of Rs $20,00,000 - 8,00,000 = 12,00,000$.

For 2020-21, profit before tax is Rs $75,00,000 - 50,00,000 = 25,00,000$. Income tax is Rs $25,00,000 \times 40\% = 10,00,000$, leaving profit after tax of Rs $25,00,000 - 10,00,000 = 15,00,000$. Thus, tax is calculated on profit, rather than on revenue or the increase in revenue.

Step 2: Prepare the comparative statement For example, revenue increases by Rs $75,00,000 - 60,00,000 = 15,00,000$, so its percentage increase is $15,00,000/60,00,000 \times 100 = 25\%$. Apply the same base-year method to every row below.

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

Particulars	2019-20 Rs	2020-21 Rs	Increase Rs	Increase %
I. Revenue from operations	60,00,000	75,00,000	15,00,000	25
II. Total revenue	**60,00,000**	**75,00,000**	**15,00,000**	**25**
III. Expenses	40,00,000	50,00,000	10,00,000	25
IV. Profit before tax (II–III)	20,00,000	25,00,000	5,00,000	25
V. Income tax @ 40%	8,00,000	10,00,000	2,00,000	25
VI. Profit after tax (IV–V)	**12,00,000**	**15,00,000**	**3,00,000**	**25**

Step 3: Conclusion Profit after tax increased from Rs 12,00,000 in 2019-20 to Rs 15,00,000 in 2020-21: an increase of Rs 3,00,000 or 25%. Revenue, expenses, profit before tax and income tax also each increased by 25% over the previous year.

Quick Tip to Solve: Use 2019-20 as the denominator for every percentage change. Calculate the 40% tax separately on each year's profit before comparing the two years.

12. Calculate 'Cash Flows from Investing Activities' and 'Cash Flows from Financing Activities' for the year ended 31st March, 2021 from the following Balance Sheet of Kamna Ltd. as at 31st March, 2021 showing your workings clearly:

Kamna Ltd.

Balance Sheet

as at 31st March, 2021

Particulars	Note No.	31st March, 2021 (Rs)	31st March, 2020 (Rs)
I. Equity and Liabilities			
1. Shareholders' funds			
(a) Share Capital		12,00,000	11,00,000
(b) Reserves and surplus	1	3,00,000	2,00,000
2. Non-Current Liabilities			
Long-term borrowings		2,40,000	1,70,000
3. Current Liabilities			
Trade payables		2,20,000	2,81,000
Total		19,60,000	17,51,000
II. Assets			
1. Non-Current Assets			
(a) Fixed Assets			
(i) Tangible Assets	2	10,70,000	8,50,000
(ii) Intangible Assets	3	40,000	1,12,000
2. Current Assets			
(a) Current Investments		2,40,000	1,50,000
(b) Inventories		1,20,000	1,21,000
(c) Trade Receivables		1,70,000	1,43,000
(d) Cash and Cash Equivalents		3,20,000	3,75,000
Total		19,60,000	17,51,000

Notes to Accounts:

Note No.	Particulars	31st March, 2021 (Rs)	31st March, 2020 (Rs)
1.	Reserve and Surplus		
	Surplus i.e. Balance in Statement of Profit & Loss	3,00,000	2,00,000
2.	Tangible Assets:		
	Machinery	12,70,000	10,00,000
	Accumulated Depreciation	(2,00,000)	(1,50,000)
		10,70,000	8,50,000
3.	Intangible Assets:		
	Goodwill	40,000	1,12,000

Additional Information:

A piece of Machinery costing Rs 24,000 on which accumulated depreciation was Rs 16,000, was sold for Rs 6,000. [5 marks]

Solution:

Concept:

- Investing activities include cash purchases and sales of machinery and investments other than cash equivalents. Use the gross machinery account to calculate the cash purchase; depreciation itself is a non-cash expense.
- Financing activities change share capital and long-term borrowings. An increase from cash issues or borrowing is a cash inflow.
- Cash proceeds of an asset sale are its actual selling price, not its original cost or its carrying amount. A goodwill write-off does not represent a cash receipt.

Step 1: Reconstruct the machinery purchase **Working Notes**

The machinery figures in Note 2 are gross cost, while the balance sheet shows them net of accumulated depreciation. Therefore, use Rs 10,00,000 and Rs 12,70,000 to find purchases. The asset sold must be removed at its original cost of Rs 24,000.

$$\begin{aligned}\text{Purchases} &= \text{Closing cost} - \text{Opening cost} + \text{Cost sold}\\ &= 12,70,000 - 10,00,000 + 24,000\\ &= \text{Rs } 2,94,000.\end{aligned}$$

Machinery Account (at Cost)

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Balance b/d	10,00,000	By Disposal A/c	24,000
To Bank A/c (purchase)	2,94,000	By Balance c/d	12,70,000
Total	12,94,000	Total	12,94,000

Step 2: Separate cash movements from non-cash adjustments The machinery sold had a carrying amount of $24,000 - 16,000 = \text{Rs } 8,000$. Its actual sale proceeds were Rs 6,000, giving a loss of Rs 2,000. Only the Rs 6,000 proceeds enter investing activities; the loss is not a separate investing cash payment. Depreciation for the year is $2,00,000 - 1,50,000 + 16,000 = \text{Rs } 66,000$, which is non-cash. The decrease in goodwill, $1,12,000 - 40,000 = \text{Rs } 72,000$, is treated as goodwill written off, as no goodwill sale is stated. Current investments increase by $2,40,000 - 1,50,000 = \text{Rs } 90,000$. They are shown separately from cash and cash equivalents and no qualifying short maturity is given; the increase is therefore taken as a cash purchase of investments.

Step 3: Prepare the investing activities section **Kamna Ltd.**

Cash Flow Statement (Extract)

For the year ended 31st March, 2021

Particulars	Amount (Rs)
Cash Flows from Investing Activities	
Purchase of machinery	(2,94,000)
Proceeds from sale of machinery	6,000
Purchase of current investments	(90,000)
Net cash used in investing activities	**(3,78,000)**

Parentheses denote cash outflows. The machinery purchase includes replacement of the asset sold, which is why the gross increase alone understates purchases.

Step 4: Prepare the financing activities section Share capital increases by $12,00,000 - 11,00,000 =$ Rs $1,00,000$, and long-term borrowings increase by $2,40,000 - 1,70,000 =$ Rs $70,000$. In the absence of any stated non-cash issue or other movement, these increases represent cash financing receipts. No dividend or interest payment is given.

Kamna Ltd.: Cash Flow Statement (Extract)
For the year ended 31st March, 2021

Particulars	Amount (Rs)
Cash Flows from Financing Activities	
Proceeds from issue of share capital	1,00,000
Proceeds from long-term borrowings	70,000
Net cash from financing activities	**1,70,000**

The surplus in the statement of profit and loss and the movements in inventories, receivables and payables relate to operating activities, so they are excluded from these two sections.

Step 5: Conclusion Net cash used in investing activities is **Rs 3,78,000**; net cash generated from financing activities is **Rs 1,70,000**.

Quick Tip to Solve: Start machinery purchases from gross cost and add back the original cost of machinery sold. Show only the actual sale proceeds as an investing inflow.

PART B (Option-II) (Computerised Accounting)

10. Explain the meaning of the term 'Normalisation' and 'Relational database'. [2 marks]

Solution:

Concept:

- A database stores related data in an organised manner so that it can be retrieved and updated efficiently.
- Normalisation concerns the organisation of data; the relational model represents data through tables linked by common fields.

Step 1: Meaning of normalisation Normalisation is the process of organising the fields and tables of a database to minimise unnecessary duplication of data and undesirable dependencies. A large table may be divided into smaller related tables. This reduces difficulties in inserting, updating and deleting records and helps maintain data consistency. For example, a customer's address can be stored once in a customer table instead of being repeated in every invoice record.

Step 2: Meaning of relational database A relational database is a collection of related tables, called relations. Each table contains rows representing records and columns representing fields or attributes. Common fields establish relationships between tables: for example, Customer ID can link a customer table with an invoice table. A primary key uniquely identifies a record, and a corresponding foreign key in another table provides the link.

Step 3: Conclusion Normalisation organises data to reduce redundancy and inconsistencies; a relational database stores data in related tables connected through common fields.

Quick Tip to Solve: Associate normalisation with reducing repeated data, and relational database with tables linked by keys.

11(a). Explain the terms 'Password Security' and 'Data Vault'. [3 marks]

Solution:

Concept:

- Accounting data must be protected against unauthorised access, disclosure and alteration.
- Access control verifies who may use the system; encryption converts stored information into an unreadable form for those without the required password.

Step 1: Explain password security Password security is a method of restricting access to accounting software and its data to authorised users. A user enters the assigned user name and a secret password, and the system checks these credentials before permitting access. Different users may be given different rights according to their duties; for example, an operator may enter vouchers while an administrator controls settings and user permissions. Keeping passwords confidential, choosing passwords that are difficult to guess and changing them periodically help prevent misuse of accounting information.

Step 2: Explain data vault A data vault provides additional security by encrypting company data. Encryption transforms the original readable information into an unreadable form, so that it cannot be understood without the correct password needed to decrypt it. In Tally, the TallyVault facility protects company data through such password-based encryption. The authorised person supplies the vault password to open and use the protected data. Merely possessing a copy of the encrypted data does not make its contents readable.

Step 3: Distinguish the protection provided Password security controls entry into the system and the operations a user may perform. A data vault protects the confidentiality of the stored data itself through encryption. Together they help safeguard sensitive records such as salaries, customer balances and business transactions.

Step 4: Conclusion Password security authenticates users and restricts access, whereas a data vault encrypts accounting data so that only a person with the correct password can read and use it.

Quick Tip to Solve: In the answer, link password security to authorised access and data vault to encryption of stored company data.

OR

11(b). Explain the terms 'Basic Pay', 'Dearness Allowance' and 'House Rent Allowance' as components of payroll. [3 marks]

Solution:

Concept:

- Payroll records the remuneration payable to employees. Earnings are commonly classified into basic pay and separately identified allowances.
- Basic pay is the foundation of salary; Dearness Allowance and House Rent Allowance meet different needs and are recorded as distinct payroll components.

Step 1: Basic Pay Basic Pay is the fixed core remuneration paid to an employee for services rendered,

as determined by the employee's post, grade or agreed pay scale. It excludes allowances such as Dearness Allowance and House Rent Allowance, as well as separate bonus or overtime payments. It commonly serves as the base on which specified allowances are calculated. Thus, an employee's basic pay is only one component of earnings and must not be confused with gross salary or the amount received after deductions.

Step 2: Dearness Allowance (DA) Dearness Allowance is an allowance paid to compensate employees for an increase in the cost of living caused by rising prices. It helps offset the reduction in the purchasing power of salary. It is generally calculated as a specified percentage of basic pay and may be revised as prices change. If the prescribed DA rate is $d\%$, the payroll calculation is DA $=$ Basic Pay $\times\, d/100$.

Step 3: House Rent Allowance (HRA) House Rent Allowance is an allowance paid to assist an employee in meeting the cost of residential accommodation or house rent. It is paid separately from basic pay. Its amount is determined by the employer's applicable rules and may be a specified percentage of basic pay, with the rate varying according to the place of posting or city. If the applicable HRA rate is $h\%$, then HRA $=$ Basic Pay $\times\, h/100$.

Step 4: Conclusion Basic Pay is the core salary, DA compensates for rising living costs, and HRA assists with residential rent. All three are earnings components of payroll.

Quick Tip to Solve: Remember the purpose of each component: Basic Pay for service, DA for rising prices, and HRA for housing; do not equate basic pay with take-home salary.

12. State the steps to construct Bank-Reconciliation statement using Tally. [5 marks]

Solution:

Concept:

- A Bank Reconciliation Statement explains the difference between the bank balance in the business's books and the balance in the bank statement on a specified date.
- Tally uses the bank ledger entries and their bank dates to identify reconciled and unreconciled transactions. The bank date is the date on which the transaction appears in the bank statement; it may differ from the voucher date.

Step 1: Open the company's bank book Select the required company in Tally. From Gateway of Tally, select **Display**, then **Account Books**, and then **Cash/Bank Book(s)**. Select the required bank ledger and open its transactions. This ensures that reconciliation is performed for the correct bank account.

Step 2: Set the reconciliation period Select the month or period for which the Bank Reconciliation Statement is required and display the bank ledger vouchers. Use **F2: Period** to set the relevant dates where necessary. Keep the bank statement for the same period available for matching the entries.

Step 3: Activate the reconciliation screen In the bank ledger voucher display, press **F5: Reconcile**. Tally displays the bank reconciliation screen, including the bank-date field against the bank transactions. Compare the amounts and cheque or reference details with the bank statement.

Step 4: Enter bank dates for cleared transactions For each matching transaction, enter in the **Bank**

Date column the date on which the bank actually debited or credited it. Leave the bank date blank for cheques issued but not yet presented and cheques deposited but not yet collected. Do not enter a voucher date merely to make an unmatched item disappear.

Step 5: Accept and review the statement Accept and save the reconciliation entries. Tally prepares the Bank Reconciliation Statement showing the balance as per the company's books, amounts not yet reflected in the bank and the resulting bank balance. Compare it with the bank statement. If bank charges, interest or direct credits have not been recorded in the books, first record the appropriate vouchers and then reconcile those entries. Display or print the completed statement as required.

Step 6: Conclusion Thus, open the bank ledger, choose the period, use F5: Reconcile, enter the bank dates from the bank statement and save the entries to prepare the Bank Reconciliation Statement in Tally.

Quick Tip to Solve: Enter the clearance date from the bank statement in Bank Date; leave uncleared transactions blank so that Tally retains them as reconciling items.