CBSE Class 12 Accountancy Question Paper 2022 with Solution PDF-Set 67-6-1 - Compartment

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

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

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

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

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

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

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

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

Part A (30 marks)

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

1. Give the meaning of 'Legacy' and its accounting treatment while preparing financial statements of a Not-for-Profit Organisation. [2 marks]

Solution:

Concept:

- A legacy is a gift of money or property received by a Not-for-Profit Organisation under the will of a deceased person.
- A legacy is treated as a capital receipt. Its treatment differs from recurring revenue receipts such as subscriptions, which relate to the organisation's normal activities.

Step 1: Explain the meaning of legacy When a person provides in their will that an amount of money or an asset should pass to a Not-for-Profit Organisation after their death, the amount or property received by that organisation is called a legacy. Thus, a legacy arises from a testamentary gift and is not income earned by providing services.

Step 2: State its treatment in the financial statements A cash legacy received during the year is recorded on the receipts side of the Receipts and Payments Account. Since it is a capital receipt, it is not credited to the Income and Expenditure Account. A general legacy is added to the Capital Fund on the liabilities side of the Balance Sheet. If the will specifies a particular purpose, the legacy is credited to that specific fund and shown separately on the liabilities side of the Balance Sheet.

Step 3: Conclusion A legacy is a gift received under a deceased person's will. It is capitalised by adding it to the Capital Fund, or to the specified purpose fund, rather than treating it as revenue income.

Quick Tip to Solve: Identify whether the will specifies a purpose: use the Capital Fund for a general legacy and the named specific fund for a restricted legacy.

2. Madhu, Tina and Neha were partners in a firm sharing profits and losses in the ratio of 4 : 3 : 3. On 31st March, 2022, Tina retired and her share was taken over by Madhu and Neha in the ratio of 2 : 1. Calculate the new profit sharing ratio of Madhu and Neha. [2 marks]

Solution:

Concept:

- A continuing partner's new share equals their old share plus the share acquired from the retiring partner.
- The gaining ratio determines how the retiring partner's share is distributed; it need not equal the new profit sharing ratio.

Step 1: Calculate the shares acquired from Tina **Working Notes:** The old ratio of Madhu, Tina and Neha is $4 : 3 : 3$, so Tina's share of the total profit is $3/10$. Madhu and Neha acquire this share in the

ratio $2:1$. Hence,

$$\text{Madhu's gain} = \frac{3}{10} \times \frac{2}{3} = \frac{2}{10},$$
$$\text{Neha's gain} = \frac{3}{10} \times \frac{1}{3} = \frac{1}{10}.$$

Their combined gain is $3/10$, which accounts for Tina's entire retiring share.

Step 2: Add each gain to the corresponding old share Madhu's old share is $4/10$, while Neha's old share is $3/10$. Therefore,

$$\text{Madhu's new share} = \frac{4}{10} + \frac{2}{10} = \frac{6}{10},$$
$$\text{Neha's new share} = \frac{3}{10} + \frac{1}{10} = \frac{4}{10}.$$

The two new shares add to 1, confirming that all future profits are allocated between the continuing partners.

Step 3: Conclusion The new profit sharing ratio of Madhu and Neha is $6:4 = \boxed{3:2}$.

Quick Tip to Solve: Distribute only Tina's $3/10$ share in $2:1$; then add those gains to Madhu's and Neha's old shares before forming the new ratio.

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3. A, B and C were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. On 31st March, 2022, B retired from the firm. On B's retirement the goodwill of the firm was valued at Rs. 1,80,000. Calculate B's share of goodwill and pass necessary journal entry for the same without opening goodwill account. [2 marks]

Solution:

Concept:

- The retiring partner's goodwill entitlement equals the firm's goodwill multiplied by that partner's old profit share.
- Without opening a Goodwill Account, debit the gaining partners' Capital Accounts in their gaining ratio and credit the retiring partner's Capital Account.

Step 1: Calculate B's share and the gaining ratio **Working Notes:** B's old share is $2/(3+2+1) = 2/6$. Therefore,

$$\text{B's share of goodwill} = \text{Rs } 1,80,000 \times \frac{2}{6} = \text{Rs } 60,000.$$

Since no new ratio or other agreement is given, A and C continue in their old relative ratio $3:1$, which is also their gaining ratio. Their gains are $3/4 - 3/6 = 1/4$ and $1/4 - 1/6 = 1/12$, respectively. Hence, A bears $60,000 \times 3/4 = \text{Rs } 45,000$, and C bears $60,000 \times 1/4 = \text{Rs } 15,000$.

Step 2: Record the goodwill adjustment through capital accounts The continuing partners compensate B because they acquire B's profit share. Record the following entry without creating a Goodwill Account:

Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-03-2022	A's Capital A/c Dr.		45,000	
	C's Capital A/c Dr.		15,000	
	To B's Capital A/c			60,000
	(Being B's share of goodwill adjusted through the gaining partners' capital accounts in the ratio of 3:1)			

Total debits equal total credits of Rs 60,000; B's capital receives the full goodwill entitlement.

Step 3: Conclusion B's share of goodwill is $\boxed{\text{Rs } 60,000}$. Debit A's Capital Account by Rs 45,000 and C's Capital Account by Rs 15,000, and credit B's Capital Account by Rs 60,000.

Quick Tip to Solve: Find B's goodwill using B's old share first; divide that amount among A and C in their gaining ratio, not the original three-partner ratio.

4(a). Receipts and Payments Account of Asha Health Club showed Rs. 70,000 as subscriptions received for the year ended 31st March, 2022. The additional information was as under :

(i) Subscriptions received in advance as on 31st March, 2022 were Rs. 7,000.

(ii) Subscriptions received in advance as on 31st March, 2021 were Rs. 4,000.

(iii) Outstanding subscriptions as on 31st March, 2022 were Rs. 8,000.

(iv) Outstanding subscriptions as on 31st March, 2021 were Rs. 3,000.

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

Solution:

Concept:

- The Income and Expenditure Account follows the accrual basis: subscription income belongs to the year for which it is due, irrespective of when cash is received.
- Current-year income equals cash subscriptions received, plus opening advance and closing outstanding subscriptions, less closing advance and opening outstanding subscriptions.

Step 1: Identify the adjustments to cash receipts The Receipts and Payments Account records Rs 70,000 actually received during the year. The opening advance of Rs 4,000 was received before this year but relates to the current year, so add it. Closing outstanding subscriptions of Rs 8,000 are earned this year but remain uncollected, so add them too.

The closing advance of Rs 7,000 relates to a future year and is excluded from this year's income. Opening outstanding subscriptions of Rs 3,000 relate to the preceding year; their collection during this year is also excluded from current-year income.

Step 2: Calculate the subscription income for the year The adjustments are applied to receipts as follows:

Particulars	Amount (Rs)
Subscriptions received during the year	70,000
Add: Advance subscriptions on 31st March, 2021	4,000
Add: Outstanding subscriptions on 31st March, 2022	8,000
Sub-total	82,000
Less: Advance subscriptions on 31st March, 2022	(7,000)
Less: Outstanding subscriptions on 31st March, 2021	(3,000)
Subscription income for the year	72,000

This converts cash receipts into income earned between 1st April, 2021 and 31st March, 2022. Thus the receipt of cash and recognition of income are matched to their respective years.

Step 3: Conclusion Subscriptions of $\boxed{\text{Rs } 72,000}$ are to be credited to Asha Health Club's Income and Expenditure Account for the year ended 31st March, 2022.

Quick Tip to Solve: Starting from cash received, add closing outstanding and opening advance; subtract opening outstanding and closing advance. Attach the date to each balance before choosing its sign.

OR

4(b). From the following particulars taken out from the Cash Book of Gem Club, prepare a Receipts and Payments Account for the year ended 31st March, 2022 :

Particulars	Amount (Rs.)
Opening Balance :	
Cash in Hand	**15,000**
Cash at Bank	**12,000**
Subscriptions	**1,02,000**
Investments Purchased	**15,000**
Rent Outstanding	**6,000**
Entrance Fees Collected(including Rs. 10,000 for the previous year)	**36,000**
Closing Balance :	
Cash in Hand	**15,000**

[3 marks]

Solution:

Concept:

- A Receipts and Payments Account summarises actual cash and bank transactions. All receipts appear on its debit side and all payments on its credit side, whether capital or revenue and irrespective of the year to which they relate.
- Opening cash and bank balances appear on the receipts side; closing cash and bank balances appear on the payments side. An outstanding expense is excluded because no payment has yet

occurred.

Step 1: Classify the given items on the cash basis Include subscriptions of Rs 1,02,000 and the entire entrance fees of Rs 36,000 as receipts. The Rs 10,000 relating to the previous year forms part of the cash actually received this year, so it must not be deducted. Investments purchased for Rs 15,000 are a payment even though they are a capital item. Rent outstanding of Rs 6,000 is unpaid and therefore does not appear in this account.

Total funds available are opening cash of Rs 15,000, opening bank balance of Rs 12,000, and receipts of Rs 1,38,000, giving Rs 1,65,000. After the investment payment and retaining closing cash of Rs 15,000, the balancing figure is closing cash at bank:

$$\text{Closing bank balance} = 1,65,000 - 15,000 - 15,000 = \text{Rs } 1,35,000.$$

Step 2: Prepare the Receipts and Payments Account

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

Dr. Receipts	Amount (Rs)	Payments Cr.	Amount (Rs)
To Balance b/d:		By Investments	15,000
Cash in hand	15,000	By Balance c/d:	
Cash at bank	12,000	Cash in hand	15,000
To Subscriptions	1,02,000	Cash at bank	1,35,000
To Entrance fees	36,000		
Total	1,65,000	Total	1,65,000

The two sides agree. The closing cash and bank balances together equal Rs 1,50,000, which is the amount remaining after actual payments.

Step 3: Conclusion Gem Club's Receipts and Payments Account totals $\boxed{\text{Rs } 1,65,000}$ on each side, with closing cash in hand of Rs 15,000 and closing cash at bank of $\boxed{\text{Rs } 1,35,000}$.

Quick Tip to Solve: For this cash-basis account, include all Rs 36,000 of entrance fees, ignore the unpaid rent, and use the missing closing bank balance to balance the two sides.

5. P, Q and R were partners in a firm sharing profits and losses in the ratio of 9 : 8 : 7. The firm closes its books on 31st March every year. Q died on 30th November, 2021. The partnership deed provided that a deceased partner's share in the profits of the firm in the year of his death will be calculated on the basis of the last year's profit. During the year ended 31st March, 2021 the firm's profit was Rs. 9,00,000.

Calculate Q's share of profit till the date of his death and pass necessary journal entry on the same date in the books of the firm. [3 marks]

Solution:

Concept:

- A deceased partner is entitled to the profit earned up to the date of death. When the deed specifies last year's profit as the basis, estimate the current period's profit proportionately for time.
- The deceased partner's share equals last year's annual profit multiplied by the elapsed fraction of a year and the partner's old profit-sharing fraction. Credit this estimated share to the deceased partner's Capital Account by debiting Profit and Loss Suspense Account.

Step 1: Determine the period and Q's share **Working Notes**

The previous accounting year ended on 31st March, 2021. Therefore, the current accounting year starts on 1st April, 2021. Q died on 30th November, 2021, so the relevant period is April to November, or eight months.

$$\text{Q's profit-sharing fraction} = \frac{8}{9+8+7} = \frac{8}{24} = \frac{1}{3}.$$

Do not use the full year's profit as Q's entitlement: it must first be apportioned for eight months and then among the partners.

Step 2: Calculate the profit attributable to Q Using the previous year's profit of Rs 9,00,000 as required by the deed:

$$\text{Estimated profit for eight months} = 9,00,000 \times \frac{8}{12} = \text{Rs } 6,00,000,$$

$$\text{Q's share till death} = 6,00,000 \times \frac{8}{24} = \text{Rs } 2,00,000.$$

This is an estimated profit allocation pending determination of the firm's actual annual profit, so Profit and Loss Suspense Account is used.

Step 3: Record Q's estimated share on the date of death **Journal of the Firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
30 Nov. 2021	Profit and Loss Suspense A/c Dr. To Q's Capital A/c (Being Q's share of profit up to the date of death credited to his Capital Account)		2,00,000	 2,00,000

Step 4: Conclusion Q's share of profit up to 30th November, 2021 is **Rs 2,00,000**. Debit Profit and Loss Suspense Account and credit Q's Capital Account by this amount on that date.

Quick Tip to Solve: Count April to November as eight months, then multiply Rs 9,00,000 by $8/12$ and Q's fraction $8/24$.

6(a). BX Ltd. took over a building worth Rs. 3,00,000, machinery worth Rs. 2,00,000, furniture worth Rs. 30,000 and its liabilities of Rs. 40,000 from PQ & Company for a purchase consideration of Rs. 6,00,000. BX Ltd. paid the purchase consideration by issuing 11% debentures of Rs. 100 each at a premium of 20%.

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

Solution:

Concept:

- Record the assets acquired at their agreed values and credit the liabilities taken over. If purchase consideration exceeds the value of net assets, debit the difference to Goodwill Account.
- When debentures are issued at a premium, the vendor receives their issue value. Credit Debentures Account with their face value and Securities Premium Reserve Account with the premium; the interest rate does not determine the issue price.

Step 1: Calculate net assets and goodwill **Working Notes**

The purchase consideration payable to PQ & Company is Rs 6,00,000. The acquired assets total:

$$3,00,000 + 2,00,000 + 30,000 = \text{Rs } 5,30,000.$$

Liabilities of Rs 40,000 are also taken over, so:

$$\text{Net assets} = 5,30,000 - 40,000 = \text{Rs } 4,90,000,$$
$$\text{Goodwill} = 6,00,000 - 4,90,000 = \text{Rs } 1,10,000.$$

Goodwill is the excess purchase price over net assets; the liabilities must be deducted before making this comparison.

Step 2: Determine the number and value of debentures Each debenture has face value Rs 100 and is issued at a premium of 20%. Therefore:

$$\text{Issue price} = 100 + 20 = \text{Rs } 120,$$
$$\text{Number of debentures} = \frac{6,00,000}{120} = 5,000,$$
$$\text{Debentures credited} = 5,000 \times 100 = \text{Rs } 5,00,000,$$
$$\text{Securities premium} = 5,000 \times 20 = \text{Rs } 1,00,000.$$

The total credit of Rs 6,00,000 settles the vendor's claim completely. The 11% rate describes annual interest on nominal value; no interest entry is required for this acquisition.

Step 3: Pass the acquisition and settlement entries **Journal of BX Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Building A/c Dr.		3,00,000	
	Machinery A/c Dr.		2,00,000	
	Furniture A/c Dr.		30,000	
	Goodwill A/c Dr.		1,10,000	
	To Liabilities A/c			40,000
	To PQ & Company A/c			6,00,000
	(Being assets and liabilities taken over from PQ & Company for an agreed purchase consideration of Rs 6,00,000)			
	PQ & Company A/c Dr.		6,00,000	
	To 11% Debentures A/c			5,00,000
	To Securities Premium Reserve A/c			1,00,000
	(Being 5,000 debentures of Rs 100 each issued at a premium of 20% to discharge the purchase consideration)			

The acquisition entry balances at Rs 6,40,000 on each side; the settlement entry balances at Rs 6,00,000 on each side.

Step 4: Conclusion BX Ltd. records **goodwill of Rs 1,10,000** and issues **5,000 debentures**, crediting 11% Debentures Account by Rs 5,00,000 and Securities Premium Reserve Account by Rs 1,00,000.

Quick Tip to Solve: Divide the purchase consideration by Rs 120, the issue price, to find the debenture count; use Rs 100 only when crediting Debentures Account.

OR

6(b). XZ Ltd. invited applications for issuing 5000, 9% debentures of Rs. 100 each. The amount was payable as follows :

On application — Rs. 40 per debenture

On allotment — Balance

Applications for 10,000 debentures were received. Applications for 2000 debentures were rejected and the application money of these applicants was refunded to them. Pro-rata allotment was made to the remaining applicants. Excess application money received with those applications against which pro-rata allotment was made was adjusted towards amount due on allotment.

Pass the necessary journal entries for the issue of debentures in the books of XZ Ltd. [3 marks]

Solution:

Concept:

- Application money received is credited to Debenture Application A/c. Money on rejected applications is refunded; money retained is transferred to debentures and, for the excess, to Debenture Allotment A/c.
- Debentures issued at par are credited at face value. Allotment money due is the balance of issue price, and the excess application money reduces the cash subsequently collected.

Step 1: Calculate the application adjustment and allotment balance Applications retained are $10,000 - 2,000 = 8,000$, against which 5,000 debentures are allotted. The allotment-to-application ratio is $5 : 8$.

$$\begin{aligned}
\text{Application money received} &= 10,000 \times 40 = \text{Rs } 4,00,000,\\
\text{Refund on rejected applications} &= 2,000 \times 40 = \text{Rs } 80,000,\\
\text{Application money retained} &= 8,000 \times 40 = \text{Rs } 3,20,000,\\
\text{Application money required} &= 5,000 \times 40 = \text{Rs } 2,00,000,\\
\text{Excess adjusted to allotment} &= 3,20,000 - 2,00,000 = \text{Rs } 1,20,000.
\end{aligned}$$

Allotment is due at Rs 60 per debenture, so total allotment due is $5,000 \times 60 = \text{Rs } 3,00,000$. After adjustment, the balance received is $3,00,000 - 1,20,000 = \text{Rs } 1,80,000$.

Step 2: Record application receipt, refund and transfer **Journal of XZ Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Debenture Application A/c (Being application money received on 10,000 debentures at Rs 40 each)		4,00,000	 4,00,000
	Debenture Application A/c Dr. To Bank A/c (Being money refunded on 2,000 rejected applications)		80,000	 80,000
	Debenture Application A/c Dr. To 9% Debentures A/c To Debenture Allotment A/c (Being application money transferred on allotment of 5,000 debentures and excess adjusted towards allotment)		3,20,000	 2,00,000 1,20,000

Step 3: Record allotment becoming due and its receipt **Journal of XZ Ltd. (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Debenture Allotment A/c Dr. To 9% Debentures A/c (Being allotment money due on 5,000 debentures at Rs 60 each)		3,00,000	 3,00,000
	Bank A/c Dr. To Debenture Allotment A/c (Being the balance allotment money received after adjustment of excess application money)		1,80,000	 1,80,000

Each journal entry balances. Application A/c clears by the refund and transfer; Allotment A/c clears through the excess adjustment and bank receipt. No interest entry is required for the issue itself.

Step 4: Conclusion XZ Ltd. issues 5,000 debentures with a total face value of Rs 5,00,000. Application money of Rs 80,000 is refunded, Rs 1,20,000 is adjusted to allotment, and the remaining allotment receipt is Rs 1,80,000.

Quick Tip to Solve: Calculate the pro-rata excess using only the 8,000 retained applications; refund the rejected 2,000 applications separately before adjusting allotment.

7(a). Ravi, Mohan and Pandey were partners in a firm sharing profits and losses in the ratio of 7 : 8 : 9. On 31st March, 2022, their Balance Sheet was as follows :

Balance Sheet of Ravi, Mohan and Pandey as at 31st March, 2022

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Creditors	1,41,000	Bank	27,000
		Stock	91,000
General Reserve	24,000	Debtors 2,10,000 Less : Provision for doubtful debts 10,000	2,00,000
Capitals : Ravi 3,00,000 Mohan 4,00,000 Pandey 8,43,000	15,43,000	Machinery	3,00,000
		Land and Building	10,00,000
		Profit and Loss Account (Loss of 2021 – 22)	90,000
	17,08,000		17,08,000

On 31st March, 2022, Mohan retired from the firm on the following terms :

(i) Goodwill of the firm was valued at Rs. 4,80,000.

(ii) Mohan's share of goodwill will be credited to his capital account without opening goodwill account.

(iii) Debtors of Rs. 10,000 will be written off and a provision of 10% for bad and doubtful debts will be created on debtors.

(iv) Machinery will be depreciated by 10% and land and building will be appreciated by 5%.

(v) The balance in Mohan's Capital Account will be transferred to his loan account.

Prepare Revaluation Account and Mohan's Capital Account on Mohan's retirement, in the books of the firm. [5 marks]

Solution:

Concept:

- Revaluation Account records changes in asset and liability values; its profit or loss belongs to all old partners in their old profit-sharing ratio, here $7 : 8 : 9$.
- Accumulated reserves are credited and accumulated losses are debited to the old partners' capital accounts in the old ratio. Mohan's share is $8/24 = 1/3$.
- Without opening Goodwill Account, the gaining partners compensate the retiring partner through their capital accounts. The amount due to Mohan after all adjustments is transferred to Mohan's Loan Account.

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

First write off the bad debts from gross debtors, then calculate the required provision on the balance:

$$\text{Remaining debtors} = 2,10,000 - 10,000 = \text{Rs } 2,00,000,$$
$$\text{New provision} = 2,00,000 \times 10\% = \text{Rs } 20,000,$$
$$\text{Increase in provision} = 20,000 - 10,000 = \text{Rs } 10,000.$$

Thus Revaluation Account is debited with bad debts of Rs 10,000 and the additional provision of Rs 10,000. Only the increase in provision is charged because the opening balance sheet already includes a provision of Rs 10,000.

$$\text{Machinery depreciation} = 3,00,000 \times 10\% = \text{Rs } 30,000,$$
$$\text{Land and building appreciation} = 10,00,000 \times 5\% = \text{Rs } 50,000.$$

The asset reductions total Rs 50,000, exactly equal to the appreciation. Hence there is no revaluation profit or loss to transfer to any partner's capital.

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

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Bad Debts A/c	10,000	By Land and Building A/c	50,000
To Provision for Doubtful Debts A/c (increase)	10,000		
To Machinery A/c	30,000		
Total	50,000	Total	50,000

The account closes with equal debit and credit totals; there is no balance to carry down.

Step 3: Work out Mohan's reserve, loss and goodwill adjustments **Working Notes**

$$\text{Share of general reserve} = 24,000 \times \frac{8}{24} = \text{Rs } 8,000,$$
$$\text{Share of accumulated loss} = 90,000 \times \frac{8}{24} = \text{Rs } 30,000,$$
$$\text{Share of goodwill} = 4,80,000 \times \frac{8}{24} = \text{Rs } 1,60,000.$$

Since no new ratio is specified, Ravi and Pandey continue in their relative old ratio of $7:9$, which is also their gaining ratio. Their gains are

$$\frac{7}{16} - \frac{7}{24} = \frac{7}{48}, \qquad \frac{9}{16} - \frac{9}{24} = \frac{9}{48}.$$

Ravi's Capital Account is debited by $1,60,000 \times 7/16 = \text{Rs } 70,000$, and Pandey's Capital Account by $1,60,000 \times 9/16 = \text{Rs } 90,000$. Mohan's Capital Account receives the corresponding credits. Goodwill is not recorded as an asset.

Step 4: Prepare and close Mohan's Capital Account **Mohan's Capital Account as at 31st March, 2022**

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Profit and Loss A/c	30,000	By Balance b/d	4,00,000
To Mohan's Loan A/c	5,38,000	By General Reserve A/c	8,000
		By Ravi's Capital A/c (good-will)	70,000
		By Pandey's Capital A/c (good-will)	90,000
Total	5,68,000	Total	5,68,000

The amount transferred is calculated as

$$4,00,000 + 8,000 + 1,60,000 - 30,000 = \text{Rs } 5,38,000.$$

This transfer debits Mohan's Capital Account and credits his Loan Account. It closes his capital account; the firm continues to owe him the amount as a loan, so no Bank Account entry is made.

Step 5: Conclusion Revaluation Account has **neither profit nor loss**. Mohan's Capital Account totals Rs 5,68,000 on each side, with **Rs 5,38,000 transferred to Mohan's Loan Account.**

Quick Tip to Solve: Calculate the new provision after writing off bad debts, and charge only its increase. Keep the existing Profit and Loss debit balance out of Revaluation Account: it goes directly to the old partners' capital accounts.

OR

7(b). B, C and D were partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1. On 31st March, 2022 their Balance Sheet was as follows :

Balance Sheet of B, C and D as at 31st March, 2022

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Sundry Creditors	1,20,000	Bank	17,000
Profit and Loss A/c	2,000	Debtors 2,00,000 Less : Provision for bad debts 5,000	1,95,000
Capitals : B 13,00,000 C 2,00,000 D 2,00,000	17,00,000	Stock	4,50,000
		Furniture	60,000
		Land and Building	11,00,000
	18,22,000		18,22,000

On the above date the firm was dissolved. The Assets were realised and the Liabilities were paid off as follows :

(i) Debtors were sold to a debt collection agency at 10% less than the book value.

(ii) Stock Rs. 2,00,000 was taken over by B at Rs. 90,000 less than its book value and the remaining stock realised Rs. 1,80,000.

(iii) Furniture was taken over by C for Rs. 65,000.

(iv) Creditors were paid 10% less in full settlement of their amount.

(v) Land and Building realised Rs. 18,00,000.

(vi) B was assigned the work of dissolution for which he was to be paid Rs. 40,000.

Prepare Realisation Account. [5 marks]

Solution:

Concept:

- On dissolution, transfer all non-cash assets to the debit of Realisation Account at their gross book values. Transfer outside liabilities and the existing provision for bad debts to its credit.
- Credit Realisation Account with sale proceeds and the agreed values of assets taken over by partners. Debit it with payments to creditors and remuneration payable for dissolution work.
- Transfer the resulting profit or loss to the partners' Capital Accounts in their profit-sharing ratio, here $B : C : D = 2 : 2 : 1$. Bank and accumulated profits are dealt with separately.

Step 1: Compute the realisation amounts **Working Notes**

Debtors have a gross book value of Rs 2,00,000; the provision of Rs 5,000 is transferred separately to Realisation Account. Thus the sale proceeds are

$$2,00,000 \times \frac{90}{100} = \text{Rs } 1,80,000.$$

B takes stock with a book value of Rs 2,00,000 at Rs 90,000 below that value:

$$2,00,000 - 90,000 = \text{Rs } 1,10,000.$$

The remaining stock, whose book value is Rs 2,50,000, realises Rs 1,80,000. C takes furniture for Rs 65,000, and land and building realise Rs 18,00,000. The stock taken by B and furniture taken by C are debited to their respective Capital Accounts; they are not bank receipts.

Step 2: Determine settlement costs and profit distribution Creditors of Rs 1,20,000 are settled at a discount of 10%, so the amount paid is

$$1,20,000 \times \frac{90}{100} = \text{Rs } 1,08,000.$$

B's remuneration of Rs 40,000 is a realisation expense credited to B's Capital Account. The opening bank balance of Rs 17,000 is not transferred to Realisation Account. The credit balance of Profit and Loss Account, Rs 2,000, is also excluded because it is an accumulated profit transferred directly to partners' Capital Accounts.

The realisation credits total Rs 24,60,000 and the debits before transfer of profit total Rs 19,58,000.

Their difference is distributed as follows:

$$\text{Profit} = 24,60,000 - 19,58,000 = \text{Rs } 5,02,000,$$
$$B = 5,02,000 \times \frac{2}{5} = \text{Rs } 2,00,800,$$
$$C = 5,02,000 \times \frac{2}{5} = \text{Rs } 2,00,800,$$
$$D = 5,02,000 \times \frac{1}{5} = \text{Rs } 1,00,400.$$

Step 3: Prepare Realisation Account **Realisation Account of B, C and D**

Dr. Particulars	Rs	Particulars Cr.	Rs
To Debtors	2,00,000	By Provision for bad debts	5,000
To Stock	4,50,000	By Sundry Creditors	1,20,000
To Furniture	60,000	By Bank: Debtors	1,80,000
To Land and Building	11,00,000	By Bank: Stock	1,80,000
To Bank: Creditors	1,08,000	By Bank: Land and Building	18,00,000
To B's Capital: Remuneration	40,000	By B's Capital: Stock	1,10,000
To Partners' Capital (profit):		By C's Capital: Furniture	65,000
B	2,00,800		
C	2,00,800		
D	1,00,400		
Total	**24,60,000**	**Total**	**24,60,000**

The account closes when the profit is transferred to the partners; no balance remains to be carried forward.

Step 4: Conclusion Realisation profit is **Rs 5,02,000**, credited to B, C and D at **Rs 2,00,800, Rs 2,00,800 and Rs 1,00,400**, respectively. Realisation Account totals **Rs 24,60,000** on each side.

Quick Tip to Solve: Transfer gross debtors and their provision separately. Credit assets taken over by partners at the agreed values, and keep both the opening bank balance and accumulated profit out of Realisation Account.

8. Pass the necessary journal entries for the issue of 9% debentures in the following cases :

(a) Issued Rs. 5,00,000, 9% debentures of Rs. 100 each at par, redeemable at par, after three years.

(b) Issued 4,000, 9% debentures of Rs. 100 each at a discount of 3%, redeemable at a premium of 10% after five years.

(c) Issued 10,000, 9% debentures of Rs. 100 each issued at a premium of 20%, redeemable at a premium of 10% after five years. [5 marks]

Solution:

Concept:

- The Debentures Account is credited with the nominal value: number of debentures multiplied by face value. Bank Account is debited with the actual issue proceeds.
- A discount on issue and a premium payable on redemption are capital losses, debited to Loss on Issue of Debentures Account. The redemption premium is recognised as a liability at the date of

issue.

- A premium received on issue is credited separately to Securities Premium Reserve. The 9% rate determines interest on nominal value; it does not change the amount recorded for the issue itself.

Step 1: Record case (a): issue and redemption at par The nominal value and cash proceeds are both Rs 5,00,000. There are $5,00,000 \div 100 = 5,000$ debentures. Since redemption is also at par, there is neither a discount nor a redemption premium to recognise.

Journal: Case (a)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To 9% Debentures A/c (Being 5,000 debentures of Rs 100 each issued at par, redeemable at par after three years)		5,00,000	 5,00,000

Step 2: Compute the loss and record case (b) **Working Notes**

The face value of 4,000 debentures is $4,000 \times 100 =$ Rs $4,00,000$. The issue price is Rs 97 per debenture, whereas the redemption amount is Rs 110 per debenture.

$$\begin{aligned}\text{Issue discount} &= 4,00,000 \times 3\% = \text{Rs } 12,000,\\ \text{Bank proceeds} &= 4,00,000 - 12,000 = \text{Rs } 3,88,000,\\ \text{Redemption premium} &= 4,00,000 \times 10\% = \text{Rs } 40,000,\\ \text{Loss on issue} &= 12,000 + 40,000 = \text{Rs } 52,000.\end{aligned}$$

Both components of the loss are recognised on issue, although the redemption premium will be paid after five years.

Journal: Case (b)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. Loss on Issue of Debentures A/c Dr. To 9% Debentures A/c To Premium on Redemption of Debentures A/c (Being 4,000 debentures of Rs 100 each issued at 3% discount, redeemable at 10% premium after five years)		3,88,000 52,000	 4,00,000 40,000

The debit total is Rs 4,40,000, equal to the credit total.

Step 3: Compute the premiums and record case (c) **Working Notes**

The nominal value is $10,000 \times 100 =$ Rs $10,00,000$. The issue price is Rs 120 and the redemption amount is Rs 110 per debenture.

$$\begin{aligned}\text{Issue premium} &= 10,00,000 \times 20\% = \text{Rs } 2,00,000,\\ \text{Bank proceeds} &= 10,00,000 + 2,00,000 = \text{Rs } 12,00,000,\\ \text{Redemption premium} &= 10,00,000 \times 10\% = \text{Rs } 1,00,000.\end{aligned}$$

There is no issue discount. The loss on issue is therefore Rs 1,00,000, representing the premium payable on redemption. Record the issue premium and redemption premium separately in their

respective accounts.

Journal: Case (c)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		12,00,000	
	Loss on Issue of Debentures A/c Dr.		1,00,000	
	To 9% Debentures A/c			10,00,000
	To Securities Premium Reserve A/c			2,00,000
	To Premium on Redemption of Debentures A/c			1,00,000
	(Being 10,000 debentures of Rs 100 each issued at 20% premium, redeemable at 10% premium after five years)			

The debit and credit totals are each Rs 13,00,000. These are issue entries; future interest and actual redemption entries are not required.

Step 4: Conclusion The issue entries credit 9% Debentures with Rs 5,00,000, Rs 4,00,000 and Rs 10,00,000 in cases (a), (b) and (c), respectively. Loss on issue is nil, Rs 52,000 and Rs 1,00,000, respectively; case (c) also credits Securities Premium Reserve with Rs 2,00,000.

Quick Tip to Solve: First calculate all percentages on face value. Debit Bank with issue proceeds, credit Debentures at face value, and add issue discount plus redemption premium to obtain the loss on issue.

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

Receipts and Payments Account of Laxmi Club

for the year ended 31st March, 2022

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
To Balance b/d Cash 40,000 Bank 70,000	1,10,000	By Printing and Stationery	65,000
To Subscriptions	5,30,000	By Electricity Bill	54,000
To Entrance Fee	46,000	By Municipal Tax	35,000
To Life Membership Fee	40,000	By Insurance Premium	10,000
To Interest on Fixed Deposit	13,500	By Furniture	2,00,000
To Donations	1,20,000	By Fixed Deposits	3,00,000
To Locker Rent	28,000	By Balance c/d Cash 1,03,500 Bank 1,20,000	2,23,500
	8,87,500		8,87,500

Additional Information :

The club has 500 members, each paying an annual subscription of Rs. 1,000. [5 marks]

Solution:

Concept:

- An Income and Expenditure Account records revenue income and revenue expenditure of the current accounting year on the accrual basis. Opening and closing cash or bank balances are excluded.
- Current subscription income equals the number of members multiplied by the annual subscription per member. Capital receipts and payments do not enter this account.
- Life membership fees are capital receipts. General donations and entrance fees are treated as revenue income when no specific purpose or direction to capitalise them is given.

Step 1: Determine subscription income for the year **Working Notes**

All 500 members pay an annual subscription of Rs 1,000. Therefore, the amount earned for the year is

$$\text{Subscription income} = 500 \times \text{Rs } 1,000 = \text{Rs } 5,00,000.$$

The receipts account shows Rs 5,30,000 collected in cash, but the Income and Expenditure Account must show the subscription earned for this year. Thus, Rs 30,000 of the cash collections is excluded from current subscription income. The question does not provide the separate opening and closing subscription balances, so their individual amounts need not be inferred to prepare the required account.

Step 2: Separate revenue items from capital items Include entrance fees of Rs 46,000, interest on fixed deposits of Rs 13,500, general donations of Rs 1,20,000 and locker rent of Rs 28,000 as revenue income. No restriction on the donations or instruction to capitalise entrance fees is stated. Life membership fees of Rs 40,000 are capital receipts and are therefore excluded.

Printing and stationery of Rs 65,000, electricity of Rs 54,000, municipal tax of Rs 35,000 and insurance premium of Rs 10,000 are revenue expenses. No outstanding, prepaid or stock adjustments for these expenses are supplied. Furniture of Rs 2,00,000 and fixed deposits of Rs 3,00,000 are asset purchases, not revenue expenses. No depreciation information is given. The opening balance of Rs 1,10,000 and closing balance of Rs 2,23,500 represent cash and bank balances, not income or expenditure.

Step 3: Prepare the Income and Expenditure Account

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

Dr. Expenditure	**Rs**	**Income Cr.**	**Rs**
To Printing and Stationery	65,000	By Subscriptions	5,00,000
To Electricity Bill	54,000	By Entrance Fee	46,000
To Municipal Tax	35,000	By Interest on Fixed Deposit	13,500
To Insurance Premium	10,000	By Donations	1,20,000
To Surplus (transferred to Capital Fund)	5,43,500	By Locker Rent	28,000
Total	**7,07,500**	**Total**	**7,07,500**

Revenue expenses total Rs 1,64,000. The excess of total revenue income over these expenses is shown on the debit side to balance this nominal account and is transferred to the Capital Fund; it is not a

cash payment.

Step 4: Conclusion Laxmi Club's income is Rs 7,07,500 and expenditure is Rs 1,64,000. The surplus for the year ended 31st March, 2022 is Rs $7,07,500$ – Rs $1,64,000 =$ $\boxed{\text{Rs } 5,43,500}$, transferred to the Capital Fund.

Quick Tip to Solve: Start with $500 \times 1,000$ for subscription income, not the cash received. Exclude life membership fees, asset purchases and cash or bank balances before balancing the account.

Part B (10 marks)

OPTION 1 (Analysis of Financial Statements)

10. State the primary objective of preparing 'Cash Flow Statement'. [2 marks]

Solution:

Concept:

- A Cash Flow Statement reports the inflows and outflows of cash and cash equivalents during a specified accounting period.
- Cash flows are classified into operating, investing and financing activities so that the sources and applications of cash can be identified.

Step 1: Identify the information to be disclosed The primary objective is to provide useful information about the historical changes in the enterprise's cash and cash equivalents. The statement shows how cash was generated and how it was used during the period, explaining the change from the opening balance to the closing balance.

Step 2: Classify the changes by activity Cash flows are grouped under operating, investing and financing activities. This classification helps users assess the enterprise's ability to generate cash and cash equivalents and its needs for using those cash flows. For example, cash received from customers relates to operations, whereas cash raised by issuing shares relates to financing.

Step 3: Conclusion The primary objective of a Cash Flow Statement is to show the changes in cash and cash equivalents during the period by classifying cash inflows and outflows into operating, investing and financing activities.

Quick Tip to Solve: State both parts of the objective: changes in cash and cash equivalents, and their classification into the three activities.

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

Particulars	Note No.	2021 – 22 (Rs.)	2020 – 21 (Rs.)
Revenue from Operations		26,00,000	20,00,000
Employee Benefit Expenses		6,00,000	5,00,000
Other Expenses		12,00,000	10,00,000
Tax Rate 50%			

[3 marks]

Solution:

Concept:

- A comparative statement shows both years' amounts, absolute changes and percentage changes.
- Absolute change = current year minus previous year; percentage change = change divided by previous year, multiplied by 100.
- Profit before tax = revenue minus expenses; profit after tax = profit before tax minus tax.

Step 1: Calculate expenses and profit for both years **Working Notes**

Revenue from operations is the total revenue here. Add the two expense heads:

$$\text{Expenses, 2020–21} = 5,00,000 + 10,00,000 = \text{Rs } 15,00,000,$$
$$\text{Expenses, 2021–22} = 6,00,000 + 12,00,000 = \text{Rs } 18,00,000.$$

Subtracting expenses from revenue gives profits before tax of Rs 5,00,000 and Rs 8,00,000 respectively. Tax at 50% is Rs 2,50,000 and Rs 4,00,000; deducting it leaves profits after tax of Rs 2,50,000 and Rs 4,00,000.

Step 2: Prepare the comparative statement Use 2020–21 as the base. Revenue increases by Rs 6,00,000, or $6,00,000/20,00,000 \times 100 = 30\%$. Apply this method to each row:

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

Particulars	2020–21 (Rs)	2021–22 (Rs)	Increase (Rs)	Increase (%)
I. Revenue from operations	20,00,000	26,00,000	6,00,000	30
II. Total revenue	20,00,000	26,00,000	6,00,000	30
III. Expenses:				
Employee benefit expenses	5,00,000	6,00,000	1,00,000	20
Other expenses	10,00,000	12,00,000	2,00,000	20
Total expenses	15,00,000	18,00,000	3,00,000	20
IV. Profit before tax (II–III)	5,00,000	8,00,000	3,00,000	60
V. Tax expense (50%)	2,50,000	4,00,000	1,50,000	60
VI. Profit after tax (IV–V)	2,50,000	4,00,000	1,50,000	60

Step 3: Conclusion Revenue from operations increased by Rs 6,00,000 (30%), while total expenses increased by Rs 3,00,000 (20%). Profit after tax increased from Rs 2,50,000 to Rs 4,00,000, an increase of Rs 1,50,000 (60%).

Quick Tip to Solve: Use the 2020–21 amount as the denominator for each percentage change, and apply the 50% tax rate to profit before tax, not revenue.

OR

11(b). From the following information, prepare Common Size Statement of Profit and Loss for the year ended 31st March, 2021 and 31st March, 2022 :

Particulars	Note No.	2021 – 22 (Rs.)	2020 – 21 (Rs.)
Revenue from Operations		5,00,000	2,00,000
Other Income		3,00,000	50,000
Employee Benefit Expenses		4,00,000	1,50,000
Other Expenses		10,000	10,000
Income Tax @ 50%			

[3 marks]

Solution:

Concept:

- In a Common Size Statement of Profit and Loss, revenue from operations for each year is taken as the base of 100%. Each item is expressed as a percentage of that year's revenue from operations.
- Common size percentage $= \dfrac{\text{Amount of the item}}{\text{Revenue from operations}} \times 100$. Total income includes other income; profit before tax equals total income less total expenses.
- Income tax is 50% of profit before tax. Profit after tax is the balance remaining after deducting income tax from profit before tax.

Step 1: Calculate total income, expenses and profit For 2021–22, total income is Rs $(5,00,000 + 3,00,000) =$ Rs $8,00,000$. Total expenses are Rs $(4,00,000 + 10,000) =$ Rs $4,10,000$. Thus profit before tax is Rs $3,90,000$, tax is Rs $3,90,000 \times 50\% =$ Rs $1,95,000$, and profit after tax is Rs $1,95,000$. For 2020–21, total income is Rs $(2,00,000+50,000) =$ Rs $2,50,000$. Total expenses are Rs $(1,50,000+10,000) =$ Rs $1,60,000$. Hence profit before tax is Rs $90,000$, tax is Rs $45,000$, and profit after tax is Rs $45,000$.

Step 2: Prepare the common size statement using the separate yearly bases The bases are Rs 5,00,000 for 2021–22 and Rs 2,00,000 for 2020–21. For example, other income is $3,00,000/5,00,000 \times 100 = 60\%$ in 2021–22 and $50,000/2,00,000 \times 100 = 25\%$ in 2020–21.

Common Size Statement of Profit and Loss

For the years ended 31st March, 2022 and 31st March, 2021

Particulars	2021–22 (Rs)	2020–21 (Rs)	2021–22 (%)	2020–21 (%)
I. Revenue from operations	5,00,000	2,00,000	100	100
II. Other income	3,00,000	50,000	60	25
III. Total income (I + II)	8,00,000	2,50,000	160	125
IV. Expenses:				
Employee benefit expenses	4,00,000	1,50,000	80	75
Other expenses	10,000	10,000	2	5
Total expenses	4,10,000	1,60,000	82	80
V. Profit before tax (III - IV)	3,90,000	90,000	78	45
VI. Income tax at 50%	1,95,000	45,000	39	22.5
VII. Profit after tax (V - VI)	1,95,000	45,000	39	22.5

The common size totals reconcile: $160 - 82 = 78$ and $125 - 80 = 45$. Applying the tax rate halves each year's profit before tax percentage.

Step 3: Conclusion Profit after tax is Rs 1,95,000 (39% of revenue from operations) for 2021–22 and Rs 45,000 (22.5%) for 2020–21, as shown in the statement above.

Quick Tip to Solve: Keep revenue from operations as the 100% base even when other income makes total income exceed 100%; apply the 50% tax rate to profit before tax.

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

PP Ltd.

Balance Sheet as at 31st March, 2022

Particulars	Note No.	31st March, 2022 (Rs.)	31st March, 2021 (Rs.)
I – Equity and Liabilities :			
1. Shareholder's Funds			
(a) Share Capital	1	70,00,000	50,00,000
(b) Reserves and Surplus	2	10,00,000	8,00,000
2. Non-Current Liabilities Long-term Borrowings	3	20,00,000	15,00,000
3. Current Liabilities			
(a) Trade Payables		2,00,000	1,00,000
(b) Short-term Provisions	4	50,000	80,000
Total		1,02,50,000	74,80,000
II – Assets :			
1. Non-Current Assets			
(a) Fixed Assets			
(i) Tangible Assets	5	65,00,000	40,00,000
(ii) Intangible Assets	6	2,00,000	3,00,000
(b) Long-term Loans and Advances		10,00,000	15,00,000
2. Current Assets			
(a) Inventories		6,00,000	7,00,000
(b) Trade Receivables		5,00,000	3,00,000
(c) Cash and Cash Equivalents		14,50,000	6,80,000
Total		1,02,50,000	74,80,000

Notes to Accounts :

Note No.	Particulars	31st March, 2022 (Rs.)	31st March, 2021 (Rs.)
1	Share Capital Equity Share Capital	70,00,000	50,00,000
2	Reserves and Surplus (Surplus i.e., Balance in the Statement of Profit and Loss)	10,00,000	8,00,000
3	Long-term Borrowings 6% Debentures	20,00,000	15,00,000
4	Short-term Provisions Provision for Tax	50,000	80,000
5	Tangible Assets Land and Building	65,00,000	40,00,000
6	Intangible Assets Goodwill	2,00,000	3,00,000

Additional Information :

Rs. 90,000 interest was paid on 6% debentures. [5 marks]

Solution:

Concept:

- Under the indirect method, cash flow from operating activities is obtained by adjusting profit before tax for non-cash expenses, financing or investing items, and changes in operating working capital, and then deducting income tax paid.
- Goodwill written off is a non-cash expense and is added back. Debenture interest is added back to profit because interest paid by a non-financial company is a financing cash outflow.
- A decrease in an operating current asset or an increase in an operating current liability increases operating cash flow; the reverse changes reduce it. Cash balances and tax provision are not included in these working-capital adjustments.

Step 1: Prepare the working notes for profit and tax **Working Notes**

The surplus in the Statement of Profit and Loss rises from Rs 8,00,000 to Rs 10,00,000. No dividend or transfer to reserves is given, so profit after tax is:

$$\text{Profit after tax} = 10,00,000 - 8,00,000 = \text{Rs } 2,00,000.$$

Following the usual treatment when only opening and closing tax provisions are given, the opening provision of Rs 80,000 is taken as tax paid during the year, and the closing provision of Rs 50,000 as the current year's tax provision. Thus:

$$\text{Profit before tax} = 2,00,000 + 50,000 = \text{Rs } 2,50,000.$$

This is consistent with the tax-provision reconciliation: opening Rs 80,000 plus current provision Rs 50,000 less payment Rs 80,000 equals closing Rs 50,000. Tax paid is deducted separately after calculating cash generated from operations.

Step 2: Identify the non-cash and working-capital adjustments Goodwill falls from Rs 3,00,000 to

Rs 2,00,000. With no disposal information, the decrease of Rs 1,00,000 represents goodwill written off and is added back. The given debenture interest of Rs 90,000 is also added back; it is the stated interest amount, so the increased closing debenture balance is not used to invent a full-year interest charge.

Inventory falls by Rs 1,00,000, releasing cash. Trade receivables rise by Rs 2,00,000, absorbing cash. Trade payables rise by Rs 1,00,000, conserving cash. These three working-capital adjustments net to zero.

Changes in share capital and debentures belong to financing activities; changes in land and building and long-term loans and advances belong to investing activities. The movement in cash and cash equivalents is the result of all three activities and is not an operating adjustment. No depreciation amount is supplied for land and building, so none is separately introduced.

Step 3: Prepare the operating activities section **PP Ltd.**

Cash Flow Statement (Extract)

For the year ended 31st March, 2022

Particulars	Amount (Rs)
A. Cash flows from operating activities	
Net profit before tax	2,50,000
Add: Goodwill written off	1,00,000
Add: Interest on debentures	90,000
Operating profit before working-capital changes	**4,40,000**
Add: Decrease in inventories	1,00,000
Less: Increase in trade receivables	(2,00,000)
Add: Increase in trade payables	1,00,000
Cash generated from operations	**4,40,000**
Less: Income tax paid	(80,000)
Net cash from operating activities	**3,60,000**

Step 4: Conclusion PP Ltd.'s net cash inflow from operating activities for the year ended 31st March, 2022 is $\boxed{\text{Rs } 3,60,000}$.

Quick Tip to Solve: Keep the tax provision out of working capital: add the current tax provision to profit and deduct the opening provision as tax paid. Here, the inventory, receivables and payables adjustments cancel exactly.

OPTION 2 (Computerised Accounting)

10. Give the meaning of 'Group of Account' as per Tally software. [2 marks]

Solution:

Concept:

- A ledger represents an individual account, whereas an account group collects accounts of the same nature under one common heading.
- Grouping determines how ledger balances are classified and summarised in accounting reports.

Step 1: Define a group of accounts In Tally, a **Group of Account** is a collection of ledger accounts

having similar characteristics or a common accounting nature. Each ledger is placed under an appropriate group so that related accounts can be viewed and reported together. Thus, a group is a classification heading, while a ledger records the transactions of a particular account.

Step 2: Explain its use with an example For example, the individual ledger accounts of credit customers are placed under **Sundry Debtors**. Their balances are summarised under that group when preparing reports. Similarly, bank ledgers may be grouped under Bank Accounts. This arrangement helps Tally classify assets, liabilities, incomes and expenses correctly and prepare the Profit and Loss Account and Balance Sheet systematically.

Step 3: Conclusion A group in Tally is a common classification of similar ledger accounts, used to consolidate their balances for meaningful accounting reports.

Quick Tip to Solve: Link the definition to one example: individual customers are ledgers; Sundry Debtors is their common group.

11(a). Explain 'Grade Pay', 'Dearness Pay' and 'Dearness Allowance' as earnings components in Payroll. [3 marks]

Solution:

Concept:

- Payroll earnings are amounts payable to an employee before deductions; basic pay and the applicable pay components together form gross earnings.
- Grade pay relates to the employee's grade, while dearness pay and dearness allowance relate to compensation for increased cost of living.

Step 1: Explain Grade Pay **Grade Pay** is a fixed amount attached to an employee's grade or level in the pay structure and paid in addition to pay in the pay band, where that structure applies. It reflects the grade, responsibility or status of the post. Employees belonging to the same prescribed grade receive the corresponding grade pay, which is included as an earnings component in payroll.

Step 2: Explain Dearness Pay **Dearness Pay** is the portion of dearness allowance merged with basic pay and shown as a separate pay component under the applicable pay rules. Under the commonly used 50-percent merger convention, it is calculated as

$$\text{Dearness Pay} = \frac{50}{100} \times \text{Basic Pay}.$$

It becomes part of the pay base for calculating those allowances and benefits for which the rules permit its inclusion. It should therefore be distinguished from the continuing dearness allowance.

Step 3: Explain Dearness Allowance **Dearness Allowance (DA)** is an allowance paid to compensate employees for a rise in prices and the resulting increase in the cost of living. It is usually computed as a prescribed percentage of the eligible pay base, and its rate is revised periodically. In a payroll structure using basic pay plus dearness pay as that base,

$$\text{DA} = \frac{\text{DA rate}}{100} \times (\text{Basic Pay} + \text{Dearness Pay}).$$

The employer's applicable pay rules determine the precise base and rate.

Step 4: Conclusion Grade pay is linked to the employee's grade, dearness pay is the merged portion of DA, and dearness allowance provides ongoing compensation for rising living costs. All three are earnings components when applicable to the employee's pay structure.

Quick Tip to Solve: Remember the distinction as grade, merger and inflation: Grade Pay follows the grade; Dearness Pay is merged DA; DA compensates for price increases.

OR

11(b). Explain the 'Provident Fund', 'Professional Tax' and 'Any other deductions' as deduction components of Payroll. [3 marks]

Solution:

Concept:

- Payroll deductions are amounts withheld from an employee's gross earnings. They reduce the amount actually paid to the employee: Net pay = Gross earnings − Total deductions.
- A payroll system records each deduction separately because its basis of calculation and the person or authority to whom it is payable may differ.

Step 1: Explain Provident Fund Provident Fund (PF) is a retirement savings arrangement. The employee's contribution is deducted regularly from salary at the prescribed percentage of the salary components eligible under the scheme and deposited in the provident fund. The accumulated contributions and interest provide financial support on retirement, subject to the scheme's rules. The employer also contributes under the applicable scheme; the employer's own contribution is not an additional deduction from the employee's salary.

Step 2: Explain Professional Tax Professional Tax is a tax levied by a State Government on income from employment, professions, trades or callings, wherever applicable. For a salaried employee, the employer deducts it from salary according to the applicable State's prescribed salary slabs and deposits the amount with the State Government. Thus, the deduction is determined by the applicable rules and salary slab, rather than being the same amount for every employee.

Step 3: Explain any other deductions Any other deductions are additional amounts recoverable from an employee through the payroll, apart from the separately listed deductions. Examples include instalments of a loan taken from the employer, recovery of a salary advance, employee association subscriptions and authorised insurance premiums. These deductions depend on the employee's individual obligations or authorisations. Each recovery is entered under its appropriate payroll heading and included in total deductions before calculating net pay.

Step 4: Conclusion Provident Fund represents the employee's retirement savings contribution; Professional Tax is the applicable State levy collected through salary; and other deductions cover individual recoveries such as loan instalments and salary advances. All three reduce the employee's take-home pay.

Quick Tip to Solve: Distinguish the deductions by their purpose: retirement savings for PF, a State levy for Professional Tax, and employee-specific recoveries for other deductions.

12. Explain three types of vouchers and two methods of voucher numbering used in Tally software.

[5 marks]

Solution:

Concept:

- A voucher in Tally is the document or entry form used to record a business transaction. The voucher type is selected according to the nature of the transaction.
- Voucher numbering assigns a reference number to each voucher so that transactions can be identified, located and checked. Automatic and manual numbering are two available methods.

Step 1: Explain the contra voucher A **contra voucher** records transfers of money between the business's own cash and bank accounts, or between its bank accounts. Examples include depositing cash into the bank, withdrawing cash from the bank for office use, and transferring money from one bank account to another. Such a transaction changes where the business holds its money; it does not itself create an income or expense.

Step 2: Explain the payment voucher A **payment voucher** records payments made by the business through cash or bank. It is used, for example, to record payment of salaries, rent or an amount due to a supplier. The relevant expense, asset or creditor account is debited and the cash or bank account from which payment is made is credited. A transfer between the business's own cash and bank accounts is ordinarily recorded using a contra voucher.

Step 3: Explain the receipt voucher A **receipt voucher** records money received by the business in cash or through its bank. Examples include receipt from a debtor and receipt of commission or interest. The cash or bank account receiving the money is debited and the relevant debtor, income or other account is credited. The choice of receipt voucher depends on an inflow of money, whereas a payment voucher records an outflow.

Step 4: Explain automatic voucher numbering Under **automatic numbering**, Tally assigns voucher numbers automatically in sequence according to the numbering configuration for the voucher type. For example, with starting number 1 and a simple consecutive series, successive vouchers receive numbers 1, 2 and 3. The user does not have to type each number. This is convenient for maintaining an orderly sequence and locating recorded transactions.

Step 5: Explain manual voucher numbering Under **manual numbering**, the user enters the voucher number while recording each voucher. This permits the business to follow its own numbering system or use a number corresponding to an existing document. For example, a payment voucher may be given a reference such as PV/101. The user must ensure that the numbers are entered correctly and consistently and check for unintended duplication.

Step 6: Conclusion Three types are **contra vouchers** for internal cash and bank transfers, **payment vouchers** for money paid and **receipt vouchers** for money received. Two numbering methods are **automatic**, where Tally assigns the number, and **manual**, where the user enters it.

Quick Tip to Solve: Classify the money movement first: internal transfer means contra, money paid means payment, and money received means receipt. For numbering, state clearly whether the software or the user supplies the number.