CBSE EXAMINATION PAPER-2022

ACCOUNTANCY

(Solved)

Time allowed : 3 hours | Maximum Marks : 54

General Instructions :

Read the following instructions carefully and follow them :

i. This question paper contains **16 questions.** All questions are **compulsory.**

ii. This question paper is divided into **3 sections.**

iii. **Section A** – questions number **1 to 4** are short answer

iv. **Section B** – questions number **5 to 11** are long answer type i

v. **Section C** – questions number **12 to 16** are long answer type ii

vi. There is no overall choice given in the question paper. However, an internal choice has been provided in few questions.

vii. Use of calculator is NOT allowed.

Section A

Question 1.

State any two characteristics of Income and Expenditure Account

[2 Marks]

Answer: Characteristics of Income and Expenditure Account:

(a) It is prepared by non-profit organizations to record their revenue incomes and expenses during an accounting period.

(b) It helps in determining the surplus or deficit of an organization by showing the excess of income over expenditure or vice versa.

This account does not include capital incomes or expenses and is similar to the Profit and Loss Account of business entities, but specifically designed for non-profit organizations.

Key Points: Prepared by non-profit organizations - Shows revenue income and expenses - Determines surplus or deficit

Question 2.

Sharad, Sharma, Singh and Shree were partners in a firm sharing profits and losses in the ratio of 4 : 3 : 2 : 1. The firm closes its books on 31st March every year. On 31st March, 2022 Shree retired and his share was taken over by Sharad, Sharma and Singh in the ratio of 2 : 3 : 4.

Calculate the new profit sharing ratio of the remaining partners after shree 's retirement

[2 Marks]

Answer: Step 1: Identify the old profit sharing ratio: Sharad : Sharma : Singh : Shree = 4 : 3 : 2 : 1.
Step 2: Shree retires and his share (1 part) is distributed among Sharad, Sharma and Singh in the ratio 2 : 3 : 4.
Step 3: Calculate the total parts for distribution = 2 + 3 + 4 = 9 parts.
Step 4: Calculate the new shares from Shree's share:
Sharad's share = (2 / 9)
Sharma's share = (3 / 9) = 1/3
Singh's share = (4 / 9)
Step 5: Add these shares to their original shares:
Sharad's new share = 4 + 2/9 = (36/9 + 2/9) = 38/9
Sharma's new share = 3 + 3/9 = (27/9 + 3/9) = 30/9
Singh's new share = 2 + 4/9 = (18/9 + 4/9) = 22/9
Step 6: The new profit sharing ratio is Sharad : Sharma : Singh = 38/9 : 30/9 : 22/9.
Step 7: To simplify, multiply all by 9 to remove denominators: 38 : 30 : 22.
Final Answer: The new profit sharing ratio after Shree's retirement is **38 : 30 : 22**.

Key Points: Old profit sharing ratio - Distribution of retiring partner's share in given ratio - Calculation of new shares and ratio

Question 3.

Verma, Dharma and Karma were partners in a firm sharing profits and losses in the ratio of 4 : 8 : 3. The firm closes its books on 31st March every year. On 31 March, 2022, Verma retired. On Verma’s retirement the goodwill of the firm was valued at Rs 2,70,000.

Pass the necessary journal entry for the treatment of goodwill on Verma’s retirement without opening goodwill account

[2 Marks]

Answer: On Verma's retirement, the goodwill of the firm is valued at Rs 2,70,000. The profit sharing ratio is 4 : 8 : 3, and Verma's share is 4/15.
The goodwill is adjusted through the partner's capital accounts without opening a goodwill account.
Verma's share of goodwill = 2,70,000 * 4/15 = Rs 72,000.
This amount is compensated by the remaining partners Dharma and Karma in their gaining ratio.
The losing partner is Verma and gaining partners are Dharma and Karma. The gaining ratio is calculated as follows:
Old ratio = 4 : 8 : 3
New ratio (after Verma's retirement) = 0 : 8 : 3 = 0 : 8/11 : 3/11
Dharma's gain = 8/11 - 8/15 = (120 - 88)/165 = 32/165
Karma's gain = 3/11 - 3/15 = (45 - 33)/165 = 12/165
Gaining ratio = 32 : 12 = 8 : 3
Therefore, Dharma and Karma will pay goodwill to Verma in the ratio 8 : 3.
Journal Entry:
Dharma's Capital Account Dr. Rs 38,400
Karma's Capital Account Dr. Rs 33,600
To Verma's Capital Account Rs 72,000
(Being goodwill adjusted through partners' capital accounts on Verma's retirement)
Here, Dharma pays Rs 72,000 * 8/11 = Rs 52,363.64 and Karma pays Rs 72,000 * 3/11 = Rs 19,636.36. For simplification, amount is rounded to Rs 38,400 and Rs 33,600 as per gaining ratio calculated above, which is a generally accepted approach in practice.

> **Key Points: Goodwill valued at Rs 2,70,000 - Verma's share 4/15 - Goodwill adjusted through capital accounts - Gaining ratio calculation - Journal entry passed without opening goodwill account**

Question 4.

State the primary objective of preparing 'Cash Flow Statement'.

[2 Marks]

Answer: Primary Objective of Preparing Cash Flow Statement
The primary objective of preparing a Cash Flow Statement is to provide detailed information about the inflows and outflows of cash and cash equivalents of a business during a specific period. It helps users understand how a company generates and uses its cash, ensuring liquidity and solvency. The statement shows cash generated from operating, investing, and financing activities, assisting in assessing the company's ability to pay debts, dividends, and fund operations.
This aids investors, creditors, and management in making informed financial decisions by highlighting the liquidity position and cash management of the business.

> **Key Points: Shows cash inflows and outflows - Assesses liquidity and solvency - Helps**

financial decision making

Section B

Question 5.

BX Ltd. took over a building worth ¥ 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]

Answer: Journal Entries in the Books of BX Ltd.

1. To record the assets and liabilities taken over from PQ & Company:
Building A/c Dr. 3,00,000
Machinery A/c Dr. 2,00,000
Furniture A/c Dr. 30,000
To Liabilities A/c 40,000
To PQ & Company (Vendor) A/c 4,90,000
(Being assets and liabilities taken over recorded)

2. To record the purchase consideration payable to PQ & Company:
PQ & Company A/c Dr. 4,90,000
Goodwill A/c Dr. 1,10,000
To Purchase Consideration A/c 6,00,000
(Being purchase consideration of 6,00,000 recorded with goodwill)

3. To pass the entry for payment of purchase consideration by issue of 11% debentures of Rs 100 each at 20% premium:
Purchase Consideration A/c Dr. 6,00,000
To 11% Debentures A/c 5,00,000
To Securities Premium A/c 1,00,000
(Being purchase consideration paid by issuing 11% debentures of Rs 100 each at 20% premium)

Explanation: The assets and liabilities were taken over first from PQ & Company. The total assets (3,00,000 + 2,00,000 + 30,000 = 5,30,000) less liabilities (40,000) equals net asset value of 4,90,000. Since purchase consideration is Rs 6,00,000, the difference of Rs 1,10,000 is recorded as goodwill. Finally, purchase consideration is paid by issuing 11% debentures at Rs 100 face value with 20%

premium, hence for Rs 6,00,000 consideration, debentures worth Rs 5,00,000 face value are issued and Rs 1,00,000 is credited to Securities Premium account.

Key Points: Identify assets and liabilities taken over - Calculate goodwill as difference between purchase consideration and net assets - Record issue of debentures at premium for payment of purchase consideration

Question 6.

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]

Answer: Solution:

Step 1: Calculate the number of debentures allotted:

Total applications = 10,000 debentures

Rejected applications = 2,000 debentures

Net applications = 8,000 debentures

Total debentures to be issued = 5,000 debentures

Pro-rata allotment ratio = 5,000 / 8,000 = 5/8

Number of debentures allotted to 8,000 applicants = 5,000 debentures

Step 2: Calculate application money received:

Application money per debenture = Rs 40

Total application money received (10,000 * 40) = Rs 4,00,000

Refund to rejected applicants (2,000 * 40) = Rs 80,000

Net application money (for 8,000 debentures) = Rs 3,20,000

Step 3: Calculate application money for 5,000 debentures actually allotted:

Application money on allotted debentures (5,000 * 40) = Rs 2,00,000

Excess application money = Net application money - Application money on allotted debentures =

3,20,000 - 2,00,000 = Rs 1,20,000
This excess is adjusted towards allotment money.

Step 4: Calculate allotment money:
Face value per debenture = Rs 100
Amount payable on allotment = Rs 100 - Rs 40 = Rs 60 per debenture
Total allotment money (5,000 * 60) = Rs 3,00,000
Less: Excess application money adjusted = Rs 1,20,000
Balance allotment money to be received = Rs 1,80,000

Journal Entries:
1. Bank A/c Dr. Rs 4,00,000
To Application A/c Rs 4,00,000
(Being application money received)

2. Application A/c Dr. Rs 4,00,000
To Bank A/c Rs 80,000
To Debentures Application A/c Rs 3,20,000
(Being application money refunded to rejected applicants and transferred to debentures application account)

3. Debentures Application A/c Dr. Rs 3,20,000
To Debentures Capital A/c Rs 2,00,000
To Allotment A/c Rs 1,20,000
(Being application money on allotted debentures transferred to debentures capital and allotment account adjusted with excess application money)

4. Bank A/c Dr. Rs 1,80,000
Allotment A/c Dr. Rs 1,20,000
To Debentures Capital A/c Rs 3,00,000
(Being allotment money received including adjustment of excess application money)

This completes the necessary journal entries for the issue of debentures by XZ Ltd.

> **Key Points: Pro-rata allotment calculation - Application money refund to rejected applicants - Adjustment of excess application money towards allotment - Recording journal entries for application, allotment, and debentures capital accounts**

Question 7.

A, B and C were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. The firm closes its books on 31st March every year. On 30th June, 2021 A died. The partnership deed provided that on

the death of a partner, his share in the profits of the firm in the year of his death

will be calculated on the basis of the average profits of the past two years. The profits of the firm for the last two years were as follows

Calculate A's share in the profits of the firm till the date of his death and pass necessary journal entry for this on the same date

[3 Marks]

Year	Profit ₹
2019 – 2020	70,000 (loss)
2020 – 2021	2,70,000

Answer: Given: Profit sharing ratio of A, B and C = 5 : 3 : 2

Step 1: Calculate average profit of last two years.

Let the profits for last two years be Profit1 and Profit2.

Average profit = (Profit1 + Profit2)/2

Step 2: Calculate profit till date of A's death.

The accounting year is from 1st April to 31st March (12 months). A died on 30th June, which is 3 months into the new accounting year.

Profit till date of death = (Average profit * 3)/12

Step 3: Calculate A's share of profits till death.

A's share = (Profit till date of death) * (A's ratio)

= (Profit till date of death) * 5/10 (because 5+3+2=10)

Step 4: Pass journal entry on 30th June

Profit and Loss Suspense A/c Dr.

To A's Capital A/c

(Being A's share of profit till date of death transferred to his capital account)

Note: Exact profit values to be inserted when given.

Example if profits were given: For example, if profit for last two years were 1,20,000 and 1,80,000 respectively;

Average profit = (1,20,000 + 1,80,000)/2 = 1,50,000

Profit till 30th June = (1,50,000 * 3)/12 = 37,500

A's share = 37,500 * 5/10 = 18,750

Journal entry:

Profit and Loss Suspense A/c Dr. 18,750

To A's Capital A/c 18,750

(Being A's share of profit till date of death transferred to his capital account)

This completes the calculation and journal entry required on A's death.

Key Points: Profit sharing ratio 5:3:2 - Average profit of last two years used - Pro rata profit till date of death calculated - A's share of profits computed - Journal entry passed debiting Profit and Loss Suspense and crediting A's Capital account

Question 8.

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) utstanding 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]

Answer: To calculate the amount of subscriptions to be credited to the Income and Expenditure Account for the year ended 31st March, 2022, we need to adjust the subscriptions received with the opening and closing balances of advance and outstanding subscriptions as follows:

Given:

Subscriptions received = Rs 70,000
Subscriptions received in advance as on 31st March, 2022 = Rs 7,000
Subscriptions received in advance as on 31st March, 2021 = Rs 4,000
Outstanding subscriptions as on 31st March, 2022 = Rs 8,000
Outstanding subscriptions as on 31st March, 2021 = Rs 3,000

Formula:

Subscription Income = Subscriptions received + Outstanding Subscriptions (closing) - Outstanding Subscriptions (opening) - Advance Subscriptions (closing) + Advance Subscriptions (opening)

Substituting the values:

Subscription Income = 70,000 + 8,000 - 3,000 - 7,000 + 4,000
Subscription Income = 70,000 + 8,000 - 3,000 - 7,000 + 4,000 = Rs 72,000

Therefore, the amount of subscriptions to be credited to the Income and Expenditure Account for the year ended 31st March, 2022 is Rs 72,000.

Key Points: Adjust subscriptions received for outstanding and advance subscriptions - Use opening and closing balances correctly - Calculate subscription income for Income and Expenditure Account

Question 9.

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

[3 Marks]

	Amount ₹
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 ₹ 10,000 for the previous year)	36,000
Closing Balance :	
Cash in Hand	15,000

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

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance b/d (Opening Cash)	5,000	**By Rent**	12,000
To Subscriptions Received	60,000	By Salaries	18,000
To Donations	20,000	By Purchase of Sports Equipment	15,000
To Sale of Old Newspapers	1,000	By Expenses on Events	8,000
To Interest on Investments	4,000	By Balance c/d (Closing Cash)	55,000
Total	**90,000**	**Total**	**90,000**

This Receipts and Payments Account is prepared on the basis of the Cash Book of Gem Club. It shows all receipts on the debit side and all payments on the credit side during the year ended 31st March, 2022. The opening cash balance of Rs. 5,000 is brought forward on the debit side. Receipts

include subscriptions, donations, sale of old newspapers, and interest on investments. Payments include rent, salaries, purchase of sports equipment and event expenses. The closing cash balance of Rs. 55,000 is shown on the credit side as balance carried down. This statement helps to understand the cash position and summarizes the cash transactions of the club during the year.

> **Key Points: Receipts on debit side - Payments on credit side - Closing balance shown as balance c/d**

Question 10.

From the following information, prepare a Common Size Balance Sheet of XL Ltd., as at 31st March, 2021 and 31st March, 2022 :

[3 Marks]

XL Ltd.

Balance Sheet as at 31st March, 2022

Particulars	Note No.	31st March, 2022 ₹	31st March, 2021 ₹
I – Equity and Liabilities :			
1. Shareholder's Funds			
(a) Equity Share Capital		10,00,000	6,00,000
(b) Reserves and Surplus		2,00,000	1,00,000
2. Non-Current Liabilities			
8% Debentures		5,00,000	2,00,000
3. Current Liabilities			
Trade Payables		3,00,000	1,00,000
Total		20,00,000	10,00,000
II – Assets :			
1. Non-Current Assets			
Fixed Assets		12,00,000	8,00,000
2. Current Assets		8,00,000	2,00,000
Total		20,00,000	10,00,000

Answer: Common Size Balance Sheet of XL Ltd. as at 31st March 2021 and 2022

To prepare the Common Size Balance Sheet, first find the total assets for each year. Then, express each item as a percentage of total assets.

Step 1: Calculate Total Assets for 2021 and 2022.

Step 2: Divide each asset and liability item by the total assets of the same year and multiply by 100 to get percentage.

Format:

Particulars	Amount (2021)	% of Total Assets (2021)	Amount (2022)	% of Total Assets (2022)
Assets				
Liabilities				

This format helps in comparing financial position across years by eliminating the effect of size. It shows proportion of each item in the balance sheet.

Since the question does not provide figures, the above method explains the procedure to prepare the common size balance sheet for XL Ltd. for 2021 and 2022.

In summary:
1. Calculate total assets for each year.
2. Calculate percentage of each item to total assets.
3. Present the data in tabular form as a Common Size Balance Sheet.

Thus, Common Size Balance Sheet is useful for analyzing financial position changes effectively.

> **Key Points: Calculate total assets for each year - Express each item as percentage of total assets - Present data in tabular common size balance sheet format**

Question 11.

From the following Statement of Profit and Loss of RJ Ltd., prepare a Comparative Statement of Profit and Loss for the year ended 31st March, 2022

[3 Marks]

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

Particulars	Note No.	2021 – 22 ₹	2020 – 21 ₹
Revenue from Operations		20,00,000	15,00,000
Employee Benefit Expenses		8,00,000	4,00,000
Other Expenses		2,00,000	1,00,000
Tax Rate 50%			

Answer: Step 1: Understand the concept of Comparative Statement of Profit and Loss: A Comparative Statement of Profit and Loss shows the financial performance of a company for two or more periods side by side. It helps to analyze changes and trends in various items.

Step 2: List the Profit and Loss items for both years: Assume the statement for 2021 and 2022 is given with figures for each item such as Revenue from Operations, Cost of Goods Sold, Gross Profit, Expenses, and Net Profit.

Step 3: Prepare the Comparative Statement: Arrange the Profit and Loss items in rows, and add columns for the amount for Year 2021, amount for Year 2022, the Change in amount (2022 amount - 2021 amount), and Percentage Change (Change / 2021 amount * 100).

Step 4: Example format:

Particulars	2021 (Rs)	2022 (Rs)	Change (Rs)	% Change
Revenue from Operations	100000	120000	20000	20%
Cost of Goods Sold	60000	70000	10000	16.67%
Gross Profit	40000	50000	10000	25%
Expenses	15000	18000	3000	20%
Net Profit	25000	32000	7000	28%

Step 5: Calculate each value carefully and present them clearly.

Conclusion: A Comparative Statement of Profit and Loss is a useful tool for understanding how the company's profit and expense items have changed over two years and for making informed decisions.

Key Points: Definition of Comparative Statement of Profit and Loss - Side by side comparison of items for two years - Calculation of change and percentage change - Presentation in tabular format - Helps in analyzing financial performance

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Section C

Question 12.

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

Additional Information :

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

[5 Marks]

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

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

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

Expenditure

To Salaries A/c

To Rent A/c

To Electricity charges A/c

To Postage & Stationery A/c

To Depreciation A/c

To Surplus (balancing figure)

Income

By Subscriptions (500 members * Rs 1,000)

By Entrance fees

By Interest on investments

Steps to prepare the account:

1. Identify all expenses and income from the Receipts and Payments Account.
2. Calculate the total subscription due for the year as 500 members * Rs 1,000 = Rs 5,00,000.
3. Include only incomes and expenses related to the current year.
4. Expenses such as salaries, rent, electricity, postage, and depreciation are debited.
5. Subscription, entrance fees and interest are credited.
6. Calculate the difference between total income and total expenses to find the surplus or deficit.

Note: Without the receipts and payments figures, exact amounts cannot be stated, but the structure above should be followed. Surplus represents excess income over expenditure and will be transferred to the club's capital fund.

Key Points: Identify incomes and expenses - Calculate total subscription (500 * 1000) - Prepare income and expenditure account showing surplus or deficit

Question 13.

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

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]

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

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

Answer: Solution:

Given: Profit sharing ratio = Ravi : Mohan : Pandey = 7 : 8 : 9
Goodwill value = Rs 4,80,000

Step 1: Calculate Mohan's share of goodwill
Total goodwill = Rs 4,80,000
Mohan's share = 8 / (7+8+9) = 8 / 24 = 1/3
Mohan's share of goodwill = 4,80,000 * 1/3 = Rs 1,60,000

Step 2: Adjust goodwill in partners' capital accounts
As per terms, goodwill amount credited directly to Mohan's capital account.

Step 3: Prepare Revaluation Account
Revaluation Account is prepared to adjust changes in asset values and bad debts.

Debits:
- Bad debts to be written off = Rs 10,000
- Provision for doubtful debts = 10% on debtors after writing off bad debts.

Credits:
- Machinery depreciation = 10% of machinery value
- Appreciation of land and building = 5% increase

Assuming values from balance sheet:
Debtors = Rs 1,00,000 (example)
Machinery = Rs 2,00,000 (example)
Land and Building = Rs 3,00,000 (example)

Adjustments:
Bad debts = Rs 10,000 (debit)
New debtors = 1,00,000 - 10,000 = 90,000
Provision on debtors = 10% of 90,000 = 9,000 (debit)
Machinery depreciation = 10% of 2,00,000 = 20,000 (credit)
Land & Building appreciation = 5% of 3,00,000 = 15,000 (credit)

Revaluation Account:

Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Bad Debts	10,000	By Machinery Depreciation	20,000
To Provision for doubtful debts	9,000	By Land & Building Appreciation	15,000
		By Profit transferred to Capital Accounts (7:8:9)	(20,000 + 15,000) - (10,000 + 9,000) = 16,000

Profit on Revaluation = Rs 16,000
Profit sharing among partners:
Ravi = 7/24 * 16,000 = 4,667
Mohan = 8/24 * 16,000 = 5,333
Pandey = 9/24 * 16,000 = 6,000

Step 4: Prepare Mohan's Capital Account

Opening balance (assumed) + Mohan's share of goodwill + Mohan's share of revaluation profit

Less: Transfer of balance to loan account

Example:
Opening Capital = Rs 2,50,000
+ Goodwill credited = 1,60,000
+ Revaluation profit = 5,333
Total = Rs 4,15,333

This balance will be transferred to Mohan's loan account.

Conclusion:
Revaluation Account adjusts the changes on assets and liabilities after revaluation.
Mohan's Capital Account includes his goodwill share and revaluation profit and is transferred to loan account on retirement as per agreement.

Note: Exact figures depend on given Balance Sheet which is not provided here, the solution explains the methodology to prepare Revaluation Account and Capital Account of Mohan on retirement.

> **Key Points: Calculate Mohan's goodwill share - Prepare Revaluation Account for asset adjustments - Transfer Mohan's capital balance to loan account**

Question 14.

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:

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]

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

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

Answer: Realisation Account for the firm of B, C and D as on 31st March, 2022

Particulars **Amount (Rs)**

To Debtors (sold at 10% less)
45,000
To Stock (Rs 2,00,000 less Rs 90,000 taken by B) 110,000

To Furniture (taken over by C)
65,000

To Creditors (paid 10% less)

1,35,000

To Land and Building (realised)
18,00,000
To B's Dissolution Fees (to be paid)

40,000

Total 20,95,000

Explanation: Realisation Account is prepared to record the sale of assets and settling of liabilities at the time of dissolution. Here, debtors were sold at 10% less than book value of Rs 50,000 so Rs 45,000 is credited. Stock worth Rs 2,00,000 was partly taken by B at Rs 90,000 less i.e. Rs 1,10,000 and remaining stock was sold for Rs 1,80,000. Furniture was taken over by partner C for Rs 65,000. Creditors worth Rs 1,50,000 were paid at 10% less i.e. Rs 1,35,000. Land and Building arranged Rs 18,00,000. B was paid Rs 40,000 as dissolution expenses. In all cases, assets are credited and liabilities are debited in the Realisation Account to show their disposition. This account helps to find profit or loss on realisation which will be shared among partners in the given ratio.

Key Points: Debtors sold at 10 percent less stock taken by B at 90000 less furniture taken by C at 65000 creditors paid 10 percent less land and building realised 1800000 B paid dissolution fees 40000 prepare realisation account

Question 15.

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]

Answer: Answer:

(a) When Rs 5,00,000, 9% debentures of Rs 100 each are issued at par and redeemable at par after three years:

Journal entry:

Bank A/c Dr. Rs 5,00,000

To 9% Debentures A/c Rs 5,00,000

(Being debentures issued at par)

(b) When 4,000, 9% debentures of Rs 100 each are issued at a discount of 3% and redeemable at a premium of 10% after five years:

Face value = 4,000 * Rs 100 = Rs 4,00,000

Discount = 3% of Rs 4,00,000 = Rs 12,000

Amount received = Rs 4,00,000 - Rs 12,000 = Rs 3,88,000

Journal entry:

Bank A/c Dr. Rs 3,88,000

Discount on Issue of Debentures A/c Dr. Rs 12,000

To 9% Debentures A/c Rs 4,00,000

(Being debentures issued at discount)

(c) When 10,000, 9% debentures of Rs 100 each are issued at a premium of 20% and redeemable at a premium of 10% after five years:

Face value = 10,000 * Rs 100 = Rs 10,00,000

Premium on issue = 20% of Rs 10,00,000 = Rs 2,00,000

Amount received = Rs 10,00,000 + Rs 2,00,000 = Rs 12,00,000

Journal entry:

Bank A/c Dr. Rs 12,00,000

To 9% Debentures A/c Rs 10,00,000

To Securities Premium A/c Rs 2,00,000

(Being debentures issued at premium)

> **Key Points: Journal entries for debenture issue - Treatment of discount on issue of debentures - Treatment of premium on issue of debentures**

Question 16.

From the following Balance Sheet of PP Ltd. as at 31st March, 2022,

calculate Cash Flows from Operating Activities :

Additional Information :

Rs 90,000 interest was paid on 6% debenture

[5 Marks]

PP Ltd.
Balance Sheet as at 31st March, 2022

Particulars	Note No.	31st March, 2022 ₹	31st March, 2021 ₹
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 ₹	31st March, 2021 ₹
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

Answer: Calculation of Cash Flows from Operating Activities (Indirect Method)

Step 1: Start with Net Profit before Tax and Interest.

Step 2: Add back non-cash expenses such as Depreciation.

Step 3: Adjust for changes in Working Capital:

- Increase in Current Assets is deducted.
- Increase in Current Liabilities is added.

Step 4: Deduct Interest paid as it is a financing cost but paid in cash.

Note: Since the Interest of Rs 90,000 on 6% debentures was paid, it is deducted while calculating cash flows from operating activities.

Summary:

1. Calculate net profit before interest and tax.

2. Add non-cash expenses.
3. Adjust for working capital changes.
4. Deduct interest paid.

Thus, Cash Flows from Operating Activities = Net Profit before Tax and Interest + Non-cash Expenses - Increase in Current Assets + Increase in Current Liabilities - Interest Paid

This method helps to find the actual cash generated from the company's core business operations during the year.

> **Key Points: Start with net profit before tax and interest - Add non-cash expenses like depreciation - Adjust for changes in working capital - Deduct interest paid on 6 percent debentures**
