ISC Class 12 Accounts Specimen Paper 2

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Maximum Marks: 80 | Time Allowed: Three hours | Reading Time: 15 minutes

Section A is compulsory. Attempt any four questions from Section B.

General Instructions

Write your answers on the separate answer paper provided. The first 15 minutes are for reading the paper, and you may not write during that time. Section A is compulsory, and from Section B you must attempt any four of the six questions. Marks for each question, or part of a question, are shown in brackets. All working must be shown as part of the answer, and every journal entry, ledger account and statement must carry a proper heading. All amounts are in rupees unless something else is stated. No ledger account, balance sheet or statement is printed in this paper, and where a question asks for one you must rule it up yourself on your answer paper. This paper carries 80 of the 100 marks for the subject, the remaining 20 being for the project work.

SECTION A (20 Marks)

Attempt all parts of Question 1 and all parts of Question 2.

Question 1 [12]

Each part carries 1 mark. For the parts that offer four choices, write only the option you choose. For the rest, answer in a single sentence or give the single word, name or figure asked for.

(i) Where a firm has no partnership deed, the profits and losses of the firm are shared by the partners:

(a) in the ratio of their capitals (b) equally

(c) in the ratio of the time each devotes to the business (d) in the ratio 2:1

(ii) State what is meant by the gaining ratio.

(iii) Where a partner coming into a firm brings in cash for his share of goodwill, that cash is credited to:

(a) the capital accounts of the old partners in their sacrificing ratio (b) the capital accounts of all the partners in the new ratio

(c) a Goodwill Account (d) the Profit and Loss Adjustment Account

(iv) Give one reason why a Realisation Account, and not a Revaluation Account, is opened when a firm is dissolved.

(v) A company issues debentures at par which are redeemable at a premium. The loss on issue of debentures so arising is:

(a) ignored, since no cash is lost (b) a revenue loss charged in full to the Statement of Profit and Loss of the year of issue

(c) debited to the Debenture Redemption Reserve (d) a capital loss, written off against Securities Premium or against the Statement of Profit and Loss

(vi) State what is meant by the issue of debentures as collateral security.

(vii) In the Statement of Profit and Loss drawn up under Schedule III, the cost of materials consumed appears under:

(a) revenue from operations (b) other income

(c) expenses (d) current assets

(viii) The debt to equity ratio of a company is 0.6:1 and its shareholders' funds are Rs 10,00,000. Calculate its long term debt.

(ix) Of the four transactions named below, the one that will improve a company's quick ratio is:

(a) the sale of goods on credit at a profit (b) the purchase of goods on credit

(c) the collection of cash from a trade receivable (d) the purchase of a machine for cash

(x) State one purpose for which a common size statement is prepared.

(xi) In an electronic spreadsheet, the function that returns the depreciation of an asset for one period on the straight line method is:

(a) =SYD (b) =SLN

(c) =DB (d) =DDB

(xii) Under which of the three heads of a Cash Flow Statement is interest received on a long term investment shown, in the case of a company that is not a financial enterprise?

Question 2 [8]

(i) A and B are partners sharing profits in the ratio 3:2. They admit C for a one fourth share, which he acquires three fourths from A and one fourth from B. Calculate the new profit sharing ratio of A, B and C. **[2]**

(ii) Pass the journal entry for the issue of 3,000 10 per cent debentures of Rs 100 each at a premium of 8 per cent, the debentures being redeemable at par. **[2]**

(iii) From the figures that follow, calculate the trade receivables turnover ratio. Revenue from operations Rs 16,00,000, of which cash sales were Rs 4,00,000; opening trade receivables Rs 1,80,000; closing trade receivables Rs 2,20,000. **[2]**

(iv) Name the spreadsheet function you would use in each of the two cases below, and state in one line what it returns. (1) To count how many cells in a range hold a figure greater than a stated amount. (2) To pick a value out of a table by matching a key against the first column of that table. **[2]**

SECTION B (60 Marks)

Attempt any four questions from this Section. Each question carries 15 marks.

Question 3 [15]

D and E are partners in a firm sharing profits and losses in the ratio 3:2.

The profits of the firm for the four years just past were Rs 1,25,000, Rs 1,45,000, Rs 1,55,000 and Rs 2,10,000. On going through the books it was found that the profit of the second year had been arrived at after debiting an abnormal loss of Rs 15,000 caused by a fire, and that the profit of the fourth year included an abnormal gain of Rs 30,000 on the sale of a fixed asset. It was also found that no charge had been made in any year for the remuneration of the partners, which is to be taken at Rs 15,000 a year. The capital employed in the firm is Rs 10,00,000 and the normal rate of return in this class of business is 10 per cent.

(a) Calculate the value of the goodwill of the firm, first at two and a half years' purchase of the super profit and then by the capitalisation of the super profit. **[6]**

For the year that followed, the capitals of the partners were fixed at D Rs 6,00,000 and E Rs 4,00,000. The deed provides that interest on capital is to be allowed at 9 per cent per annum, that E is to be paid a salary of Rs 5,000 per month, and that interest on drawings is to be charged at 6 per cent per annum. D withdrew Rs 1,20,000 spread evenly through the year. E withdrew Rs 60,000 on the first day of the second half of the year. The net profit for that year, before any appropriation, was Rs 3,00,000.

(b) Prepare the Profit and Loss Appropriation Account for that year. **[6]**

(c) Prepare the current accounts of the two partners. **[3]**

Question 4 [15]

L, M and N are partners sharing profits and losses in the ratio 5:3:2. Their balance sheet stood as set out below.

Liabilities: capital accounts, L Rs 4,00,000, M Rs 3,00,000 and N Rs 2,00,000; general reserve Rs 1,00,000; creditors Rs 1,50,000; bank loan Rs 50,000. Total Rs 12,00,000.

Assets: building Rs 4,50,000; machinery Rs 2,50,000; furniture Rs 80,000; stock Rs 1,20,000; debtors Rs 1,50,000 less a provision for doubtful debts of Rs 10,000, that is Rs 1,40,000; cash at bank Rs 1,60,000. Total Rs 12,00,000.

M retired on these terms. The goodwill of the firm was valued at Rs 2,00,000, and L and N agreed to go on sharing profits in the ratio 3:2. Building was to be appreciated by 20 per cent and machinery was to be written down by 8 per cent. Stock was to be taken at Rs 1,08,000 and the provision for doubtful debts was to be raised to Rs 16,000. A liability of Rs 7,000 for outstanding repairs was to be brought into the books. M was to be paid Rs 1,03,500 at once out of the bank, and the balance due to him was to be carried to a loan account in his name. No Goodwill Account is to be raised in the books.

(a) Prepare the Revaluation Account. **[4]**

(b) Prepare the capital accounts of the three partners, showing the gaining ratio in which the goodwill is adjusted. **[7]**

(c) Prepare the balance sheet of the firm as it stood after M's retirement. **[4]**

Question 5 [15]

G, H and I are partners sharing profits and losses in the ratio 4:3:3. The firm was dissolved, and on the date of dissolution its balance sheet stood as set out below.

Liabilities: capital accounts, G Rs 1,50,000 and H Rs 1,00,000; general reserve Rs 30,000; creditors Rs 1,20,000; H's loan Rs 50,000. Total Rs 4,50,000.

Assets: freehold premises Rs 1,60,000; plant Rs 1,20,000; stock Rs 60,000; debtors Rs 70,000; cash at bank Rs 20,000; I's capital account, overdrawn, Rs 20,000. Total Rs 4,50,000.

The realisation went as follows. The freehold premises realised Rs 1,95,000 and the plant realised Rs 1,02,000. Four fifths of the stock was sold at a profit of 25 per cent on its cost, and the remaining one fifth was taken over by G at 10 per cent below its book value. The debtors realised Rs 64,000. An investment that had never been brought into the books realised Rs 9,000. The creditors accepted Rs 1,16,000 in full settlement of their claim. H's loan was repaid in full. The expenses of realisation came to Rs 4,500 and were paid by G on behalf of the firm.

(a) Prepare the Realisation Account. **[8]**

(b) Prepare the capital accounts of the three partners. **[5]**

(c) Prepare the Bank Account. **[2]**

Question 6 [15]

(a) Pass the journal entries in the books of T Ltd to record each of the four matters set out below. Narrations are not required. (1) The issue of 4,000 9 per cent debentures of Rs 100 each at a discount of 10 per cent, redeemable at par. (2) The issue of 2,000 9 per cent debentures of Rs 100 each at a premium of 5 per cent, redeemable at a premium of 10 per cent. (3) The purchase of machinery worth Rs 4,75,000 from a vendor, the price being settled by the issue of 9 per cent debentures of Rs 100 each at a premium of 25 per cent. (4) The issue of 1,000 9 per cent debentures of Rs 100 each as collateral security against a bank loan of Rs 80,000, the issue being recorded in the books. **[8]**

The books of V Ltd showed the following figures for the year. Revenue from operations Rs 25,00,000; other income Rs 60,000; cost of materials consumed Rs 12,00,000; purchases of stock-in-trade Rs 2,00,000; inventory of finished goods at the beginning of the year Rs 1,50,000 and at the end of the year Rs 1,90,000; employee benefits expense Rs 4,00,000; finance costs Rs 90,000; depreciation and amortisation expense Rs 1,10,000; other expenses Rs 1,80,000. Tax is to be provided at 30 per cent of the profit before tax.

(b) Prepare the Statement of Profit and Loss of V Ltd for the year in the form required by Schedule III, showing the change in inventories of finished goods as a separate line among the expenses. **[7]**

Question 7 [15]

The balance sheets of K Ltd at the end of the current year and at the end of the previous year showed the figures set out below, those for the current year being given first in each case.

Equity and liabilities: share capital Rs 8,00,000 and Rs 6,00,000; surplus, that is the balance in the Statement of Profit and Loss, Rs 2,50,000 and Rs 1,50,000; long term borrowings, being 12 per cent debentures, Rs 1,50,000 and Rs 2,50,000; trade payables Rs 1,20,000 and Rs 1,40,000; short term provisions, being provision for tax, Rs 50,000 and Rs 40,000. Totals Rs 13,70,000 and Rs 11,80,000.

Assets: machinery at cost Rs 9,00,000 and Rs 7,00,000, against which accumulated depreciation of Rs 1,80,000 and Rs 1,50,000 has been provided, giving written down values of Rs 7,20,000 and Rs 5,50,000; non-current investments Rs 1,20,000 and Rs 1,50,000; inventories Rs 2,00,000 and Rs 2,40,000; trade receivables Rs 2,10,000 and Rs 1,80,000; cash and cash equivalents Rs 1,20,000 and Rs 60,000. Totals Rs 13,70,000 and Rs 11,80,000.

Further information. A machine that had cost Rs 1,20,000, and on which accumulated depreciation of Rs 50,000 had been provided, was sold during the year for Rs 85,000. Investments that had cost Rs 30,000 were sold at a profit of Rs 6,000. The debentures were redeemed at par on the first day of the year. Tax of Rs 45,000 was paid during the year, and dividend of Rs 60,000 was paid during the year.

(a) Calculate the cash flow from operating activities. **[7]**

(b) Calculate the cash flow from investing activities. **[4]**

(c) Calculate the cash flow from financing activities and show that your three figures together account for the movement in cash and cash equivalents over the year. **[4]**

Question 8 [15]

The following figures are taken from the books of S Ltd for the year. Revenue from operations Rs 30,00,000; cost of revenue from operations Rs 21,00,000; operating expenses Rs 3,60,000; non-operating income Rs 40,000; non-operating expenses, being interest on long term borrowings, Rs 1,00,000.

(a) Calculate the gross profit ratio, the operating profit ratio and the net profit ratio, taking net profit before tax in the last of the three. **[6]**

The current liabilities of another company, R Ltd, are Rs 3,00,000, its current ratio is 2.5:1 and its quick ratio is 1.2:1. The company has no prepaid expenses.

(b) Calculate its current assets, its quick assets, its inventory and its working capital. **[4]**

The Statement of Profit and Loss of a third company, U Ltd, showed the figures set out below, those for the current year being given first in each case. Revenue from operations Rs 25,00,000 and Rs 20,00,000; cost of materials consumed Rs 13,75,000 and Rs 11,00,000; other expenses Rs 3,75,000 and Rs 3,40,000. There was no other income in either year, and tax is to be taken at 30 per cent of the profit before tax.

(c) Prepare a Common Size Statement of Profit and Loss for U Ltd for the two years. **[5]**

ANSWER KEY AND MARKING SCHEME

Full working is shown for every numerical, and every account and statement is carried through to its total so that the balancing figure can be checked. Marks shown in italics are the step marks an examiner would award. Accept any correct alternative route to the same figure, accept an answer set out in a properly ruled account where the key gives the same content as a line of text, and accept rounding of a percentage to one or to two decimal places.

Question 1 [12]

(i) (b) equally. Where there is no deed, or where the deed is silent, the Partnership Act applies, and under it profits and losses are divided equally whatever the capitals may be.

(ii) The gaining ratio is the ratio in which the remaining partners of a firm acquire the share of a partner who retires or dies. It is found by taking each continuing partner's new share and deducting his old share from it, and it is the ratio in which the outgoing partner's share of goodwill is debited to them.

(iii) (a) the capital accounts of the old partners in their sacrificing ratio. The payment is made for the share of future profits the old partners are giving up, so it belongs to them in the proportion in which they give it up.

(iv) Any one of the following gains the mark. A Revaluation Account restates the assets and liabilities of a firm that is going on, so the balances it produces are carried into a fresh balance sheet. On dissolution the firm ceases to exist, every asset has to be taken out of the books at book value and closed off against what it actually realised, and every liability has to be discharged, so an account is needed that closes all of them and not merely those whose values have altered. A Realisation Account therefore records the whole of the assets and the whole of the outside liabilities, and the balance it throws up is a realised profit or loss and not an unrealised one.

(v) (d) a capital loss, written off against Securities Premium or against the Statement of Profit and Loss. The premium payable on redemption is a liability that arises at the time of issue, and the debit that matches it is a capital loss, so it is not charged wholly against the revenue of the year of issue.

(vi) Debentures issued as collateral security are debentures handed to a lender as a secondary or supporting security for a loan, over and above the main security offered. The lender can enforce them only if the company defaults, and if the loan is repaid the debentures are returned and cancelled. No interest is paid on them. The company may leave them unrecorded, in which case only a note of the fact is given below the borrowing in the balance sheet, or may record them by debiting Debenture Suspense and crediting Debentures.

(vii) (c) expenses. Schedule III places the cost of materials consumed as the first of the itemised expenses, along with purchases of stock-in-trade, changes in inventories, employee benefits expense, finance costs, depreciation and other expenses.

(viii) Debt to equity ratio = long term debt divided by shareholders' funds, so long term debt = 0.6 x 10,00,000 = Rs 6,00,000.

(ix) (a) the sale of goods on credit at a profit. Inventory, which is not a quick asset, falls by the cost of the goods, while trade receivables, which are quick assets, rise by the higher selling price. Quick assets therefore increase while current liabilities stay where they were, so the ratio improves. A credit purchase raises current liabilities and leaves quick assets alone, so it worsens the ratio. Collecting cash from a receivable merely turns one quick asset into another and changes nothing. Buying a machine for cash reduces quick assets, so it worsens the ratio.

(x) Any one of the following gains the mark. A common size statement expresses every item as a percentage of a common base, revenue from operations in the Statement of Profit and Loss and total assets in the balance sheet, so the structure of the figures can be studied without the size of the business getting in the way. It therefore allows two companies of very different size to be compared with each other, and it shows how the composition of a single company's costs or assets has shifted from one period to the next.

(xi) (b) =SLN. The function takes the cost, the salvage value and the life of the asset, and returns the same amount of depreciation for every period, which is what the straight line method requires.

(xii) Investing activities. Interest and dividend received on investments are returns on amounts invested, so for a company that is not a financial enterprise they are shown as inflows under investing activities.

1 mark for each of the twelve parts. No mark is deducted for a wrong option, and a one-line answer that carries the correct point gains the mark even if it is loosely worded.

Question 2 [8]

(i) C's share is one fourth. He takes three fourths of it from A, that is 1/4 x 3/4 = 3/16, and one fourth of it from B, that is 1/4 x 1/4 = 1/16. A's new share = 3/5 – 3/16 = 48/80 – 15/80 = 33/80. B's new share = 2/5 – 1/16 = 32/80 – 5/80 = 27/80. C's share = 1/4 = 20/80. The three shares come to 80/80, so the new ratio is 33:27:20.

Sacrifice worked out as 3/16 by A and 1/16 by B 1. New ratio 33:27:20 with the shares adding to one 1.

(ii) Bank Account debit Rs 3,24,000; to 10 per cent Debentures Account Rs 3,00,000, being 3,000 debentures of Rs 100 each; to Securities Premium Account Rs 24,000, being Rs 8 on each of 3,000 debentures. The two credits together equal the debit of Rs 3,24,000.

Bank debited with Rs 3,24,000 1. Debentures credited Rs 3,00,000 and Securities Premium credited Rs 24,000 1.

(iii) Credit revenue from operations = 16,00,000 less cash sales 4,00,000 = Rs 12,00,000. Average trade receivables = (1,80,000 + 2,20,000) divided by 2 = Rs 2,00,000. Trade receivables turnover ratio = 12,00,000 divided by 2,00,000 = 6 times.

Credit revenue Rs 12,00,000 and average receivables Rs 2,00,000 1. Ratio 6 times 1.

(iv) (1) COUNTIF. It counts the cells in a range that satisfy a stated condition, so =COUNTIF(B2:B50,">5000") returns the number of cells in that range holding a figure above 5,000. (2) VLOOKUP. It searches for a key down the first column of a table and returns the value standing in a nominated column of the row in which the key is found, so =VLOOKUP(A2,Rates,3,FALSE) returns the figure in the third column of the table named Rates against the key in A2.

COUNTIF named with what it returns 1. VLOOKUP named with what it returns 1.

Question 3 [15]

(a) Adjust each year's profit first. Year one stands at Rs 1,25,000. Year two was struck after debiting an abnormal loss of Rs 15,000, so the loss is added back, giving 1,45,000 + 15,000 = Rs 1,60,000. Year three stands at Rs 1,55,000. Year four included an abnormal gain of Rs 30,000, so the gain is taken out, giving 2,10,000 less 30,000 = Rs 1,80,000. The four adjusted profits come to Rs 6,20,000, so the average is 6,20,000 divided by 4 = Rs 1,55,000. The partners' remuneration of Rs 15,000 a year has not been charged in any year, so it must be deducted, giving an average adjusted profit of 1,55,000 less 15,000 = Rs 1,40,000. Normal profit = 10 per cent of the capital employed of Rs 10,00,000 = Rs 1,00,000. Super profit = 1,40,000 less 1,00,000 = Rs 40,000. Goodwill at two and a half years' purchase of the super profit = 40,000 x 2.5 = Rs 1,00,000. Goodwill by the capitalisation of the super profit = super profit divided by the normal rate of return = 40,000 divided by 0.10 = Rs 4,00,000.

Abnormal loss added back and abnormal gain removed, giving adjusted profits of Rs 1,25,000, Rs 1,60,000, Rs 1,55,000 and Rs 1,80,000 2. Average adjusted profit Rs 1,40,000 after charging the remuneration of Rs 15,000 1. Normal profit Rs 1,00,000 and super profit Rs 40,000 1. Goodwill Rs 1,00,000 at two and a half years' purchase 1. Goodwill Rs 4,00,000 by capitalisation of the super profit 1.

(b) Profit and Loss Appropriation Account for the year. Credit side: net profit brought down Rs 3,00,000; interest on drawings, D Rs 3,600 and E Rs 1,800, that is Rs 5,400. Total Rs 3,05,400. Debit side: interest on capital, D Rs 54,000 and E Rs 36,000, that is Rs 90,000; salary to E Rs 60,000; profit transferred to the current accounts Rs 1,55,400. Total Rs 3,05,400. The two sides agree. Interest on drawings is worked out thus. D's drawings of Rs 1,20,000 were spread evenly through the year, so the average period is six months and the interest is 1,20,000 x 6/100 x 6/12 = Rs 3,600. E drew Rs 60,000 on the first day of the second half year, so that money was out of the firm for six months and the interest is 60,000 x 6/100 x 6/12 = Rs 1,800. Interest on capital is D 6,00,000 x 9 per cent = Rs 54,000 and E 4,00,000 x 9 per cent = Rs 36,000. E's salary is 5,000 x 12 = Rs 60,000. The divisible profit is 3,00,000 + 5,400 less 90,000 less 60,000 = Rs 1,55,400, which divided 3:2 gives D Rs 93,240 and E Rs 62,160.

Interest on drawings Rs 3,600 for D and Rs 1,800 for E, each with its period 2. Interest on capital Rs 54,000 and Rs 36,000, and salary Rs 60,000 1. Divisible profit Rs 1,55,400 1. Shares of Rs 93,240 and Rs 62,160 1. Account agreeing at Rs 3,05,400 on each side 1.

(c) Current accounts, the capitals being fixed, so nothing in this part touches the capital accounts. D: credits, interest on capital Rs 54,000 and share of profit Rs 93,240, that is Rs 1,47,240; debits, drawings Rs 1,20,000 and interest on drawings Rs 3,600, that is Rs 1,23,600; closing credit balance Rs 23,640. E: credits, interest on capital Rs 36,000, salary Rs 60,000 and share of profit Rs 62,160, that is Rs 1,58,160; debits, drawings Rs 60,000 and interest on drawings Rs 1,800, that is Rs 61,800; closing credit balance Rs 96,360. The two closing balances come to Rs 1,20,000, which agrees with the total appropriated of Rs 3,05,400 less the drawings and the interest on drawings of Rs 1,85,400.

D's closing current account balance Rs 23,640 1. E's closing current account balance Rs 96,360, with the salary credited to his current account 1. Both balances shown as credit balances and the capital accounts left untouched 1.

Question 4 [15]

(a) Revaluation Account. Credit side: building, 20 per cent of 4,50,000 = Rs 90,000. Debit side: machinery, 8 per cent of 2,50,000 = Rs 20,000; stock, 1,20,000 less 1,08,000 = Rs 12,000; provision for doubtful debts, 16,000 less 10,000 = Rs 6,000; outstanding repairs Rs 7,000. The debits come to Rs 45,000, so the profit on revaluation is 90,000 less 45,000 = Rs 45,000, divided among L, M and N in the ratio 5:3:2, that is L Rs 22,500, M Rs 13,500 and N Rs 9,000. Both sides of the account then total Rs 90,000.

Appreciation of Rs 90,000 on the credit side 1. Machinery Rs 20,000, stock Rs 12,000, provision Rs 6,000 and outstanding repairs Rs 7,000 on the debit side, Rs 45,000 in all 2. Profit on revaluation Rs 45,000 divided 5:3:2 as Rs 22,500, Rs 13,500 and Rs 9,000 1.

(b) The general reserve of Rs 1,00,000 is divided 5:3:2, giving L Rs 50,000, M Rs 30,000 and N Rs 20,000. The gaining ratio is found next. L's new share is 3/5, that is 6/10, against an old share of 5/10, so he gains 1/10. N's new share is 2/5, that is 4/10, against an old share of 2/10, so he gains 2/10. The gaining ratio is therefore 1:2. M's share of the goodwill is 3/10 of Rs 2,00,000 = Rs 60,000, and since no Goodwill Account is to be raised this sum is debited to the gaining partners in the ratio 1:2, that is L Rs 20,000 and N Rs 40,000, and credited to M. Capital accounts. M: opening Rs 3,00,000 plus reserve Rs 30,000 plus revaluation profit Rs 13,500 plus goodwill Rs 60,000 = Rs 4,03,500, of which Rs 1,03,500 is paid at once through the bank and the balance of Rs 3,00,000 is carried to M's loan account. L: opening Rs 4,00,000 plus reserve Rs 50,000 plus revaluation profit Rs 22,500 less goodwill Rs 20,000 = Rs 4,52,500. N: opening Rs 2,00,000 plus reserve Rs 20,000 plus revaluation profit Rs 9,000 less goodwill Rs 40,000 = Rs 1,89,000.

General reserve divided 5:3:2 1. Gaining ratio worked out as 1:2 2. M's share of goodwill Rs 60,000 debited Rs 20,000 to L and Rs 40,000 to N 2. M's account closed at Rs 4,03,500, with Rs 1,03,500 paid and Rs 3,00,000 to his loan account 1. L Rs 4,52,500 and N Rs 1,89,000 1.

(c) Balance sheet after M's retirement. Liabilities: capital accounts, L Rs 4,52,500 and N Rs 1,89,000, that is Rs 6,41,500; M's loan Rs 3,00,000; creditors Rs 1,50,000; outstanding repairs Rs 7,000; bank loan Rs 50,000. Total Rs 11,48,500. Assets: building Rs 5,40,000; machinery Rs 2,30,000; furniture Rs 80,000; stock Rs 1,08,000; debtors Rs 1,50,000 less provision Rs 16,000, that is Rs 1,34,000; cash at bank 1,60,000 less the Rs 1,03,500 paid to M, that is Rs 56,500. Total Rs 11,48,500. The two sides agree at Rs 11,48,500.

Capitals of Rs 6,41,500 and M's loan of Rs 3,00,000 carried in 1. Revalued building Rs 5,40,000, machinery Rs 2,30,000 and stock Rs 1,08,000 1. Cash at bank Rs 56,500 1. Balance sheet agreeing at Rs 11,48,500 on each side 1.

Question 5 [15]

(a) Realisation Account. Debit side, assets transferred at book value: freehold premises Rs 1,60,000; plant Rs 1,20,000; stock Rs 60,000; debtors Rs 70,000. These come to Rs 4,10,000. I's overdrawn capital of Rs 20,000 is not transferred here, being a balance on his capital account and not an asset of the firm. Debit side, liabilities and expenses: creditors paid Rs 1,16,000; expenses of realisation Rs 4,500, credited to G's capital account because he paid them. The debit side therefore totals Rs 5,30,500. Credit side: creditors transferred at book value Rs 1,20,000; bank, being the cash realised, Rs 4,30,000; G's capital account for the stock taken over Rs 10,800. The credit side therefore totals Rs 5,60,800. The cash realised is made up of the premises Rs 1,95,000, the plant Rs 1,02,000, four fifths of the stock Rs 60,000, the debtors Rs 64,000 and the unrecorded investment Rs 9,000. Four fifths of the stock cost 60,000 x 4/5 = Rs 48,000 and was sold at a profit of 25 per

cent on cost, so it fetched 48,000 x 1.25 = Rs 60,000. The remaining one fifth had a book value of Rs 12,000 and was taken by G at 10 per cent less, that is Rs 10,800. The profit on realisation is 5,60,800 less 5,30,500 = Rs 30,300, which is divided among G, H and I in the ratio 4:3:3, that is G Rs 12,120, H Rs 9,090 and I Rs 9,090. Both sides then close at Rs 5,60,800. H's loan is not brought into this account, since a partner's loan is repaid separately after the outside creditors have been settled.

Assets transferred at book value, Rs 4,10,000, with I's overdrawn capital correctly left out 2. Creditors shown at Rs 1,20,000 on the credit side and at Rs 1,16,000 as paid 1. Cash realised Rs 4,30,000, including Rs 60,000 for four fifths of the stock and Rs 9,000 for the unrecorded investment 2. Stock taken over by G at Rs 10,800 1. Expenses of Rs 4,500 debited and credited to G's capital account 1. Profit on realisation Rs 30,300 divided 4:3:3, the account closing at Rs 5,60,800 1.

(b) The general reserve of Rs 30,000 is divided 4:3:3, giving G Rs 12,000, H Rs 9,000 and I Rs 9,000. G: credits, opening balance Rs 1,50,000, reserve Rs 12,000, share of the realisation profit Rs 12,120 and expenses paid on behalf of the firm Rs 4,500, that is Rs 1,78,620; debit, stock taken over Rs 10,800; cash paid to him Rs 1,67,820. H: credits, opening balance Rs 1,00,000, reserve Rs 9,000 and share of the profit Rs 9,090, that is Rs 1,18,090; cash paid to him Rs 1,18,090. I: debit, opening overdrawn balance Rs 20,000; credits, reserve Rs 9,000 and share of the profit Rs 9,090, that is Rs 18,090. His account is therefore short by Rs 1,910, which he brings into the firm in cash.

General reserve divided 4:3:3 1. G's account credited with the Rs 4,500 he paid and debited with the Rs 10,800 of stock, leaving Rs 1,67,820 2. Cash paid to H Rs 1,18,090 1. I's deficiency of Rs 1,910 brought in by him in cash 1.

(c) Bank Account. Receipts: opening balance Rs 20,000; Realisation Account, being the assets sold, Rs 4,30,000; I's capital account Rs 1,910. Total receipts Rs 4,51,910. Payments: Realisation Account, being the creditors paid, Rs 1,16,000; H's loan Rs 50,000; G's capital Rs 1,67,820; H's capital Rs 1,18,090. Total payments Rs 4,51,910. The account closes exactly with no balance left, which is the test that the dissolution has been fully worked out. Note that the expenses of Rs 4,500 do not appear in this account, since they were met by G and not out of the firm's bank.

Receipts totalling Rs 4,51,910, including the Rs 1,910 brought in by I 1. Payments totalling Rs 4,51,910, with H's loan paid before the capitals and the expenses correctly left out 1.

Question 6 [15]

(a) One. Bank Account debit Rs 3,60,000 and Discount on Issue of Debentures Account debit Rs 40,000; to 9 per cent Debentures Account Rs 4,00,000. The debits come to Rs 4,00,000 and so does the credit.

Two. Bank Account debit Rs 2,10,000 and Loss on Issue of Debentures Account debit Rs 20,000; to 9 per cent Debentures Account Rs 2,00,000; to Securities Premium Account Rs 10,000; to Premium on Redemption of Debentures Account Rs 20,000. The debits come to Rs 2,30,000 and so do the three credits. The debentures are issued at a premium of Rs 5 each, which is a capital receipt, while the premium of Rs 10 each payable on redemption is a liability recognised at once, and the loss on issue is the debit that matches it.

Three. Machinery Account debit Rs 4,75,000; to Vendor's Account Rs 4,75,000. Then Vendor's Account debit Rs 4,75,000; to 9 per cent Debentures Account Rs 3,80,000; to Securities Premium Account Rs 95,000. The number of debentures issued is 4,75,000 divided by the issue price of Rs 125 each, that is 3,800 debentures of Rs 100 each, so the nominal value is Rs 3,80,000 and the premium is Rs 95,000.

Four. Debenture Suspense Account debit Rs 1,00,000; to 9 per cent Debentures Account Rs 1,00,000. The entry records the nominal value of the debentures lodged with the lender and not the amount of the loan. Both the suspense account and the debentures are shown in the balance sheet and cancel one another out, and when the loan of Rs 80,000 is repaid the entry is reversed.

Entry one, with the discount of Rs 40,000 debited 2. Entry two, with Securities Premium Rs 10,000, Premium on Redemption Rs 20,000 and Loss on Issue Rs 20,000 2. Entry three, with 3,800 debentures giving Rs 3,80,000 and a premium of Rs 95,000 2. Entry four, with Debenture Suspense taken at the nominal value of Rs 1,00,000 2.

(b) Statement of Profit and Loss of V Ltd for the year. Revenue from operations Rs 25,00,000; other income Rs 60,000; total revenue Rs 25,60,000. Expenses: cost of materials consumed Rs 12,00,000; purchases of stock-in-trade Rs 2,00,000; changes in inventories of finished goods, being the opening inventory of Rs 1,50,000 less the closing inventory of Rs 1,90,000, a figure of minus Rs 40,000; employee benefits expense Rs 4,00,000; finance costs Rs 90,000; depreciation and amortisation expense Rs 1,10,000; other expenses Rs 1,80,000. Total expenses Rs 21,40,000. Profit before tax = 25,60,000 less 21,40,000 = Rs 4,20,000. Tax at 30 per cent = Rs 1,26,000. Profit for the year = Rs 2,94,000. The negative figure for the change in inventories is right, because the stock of finished goods has risen over the year, and a rise in closing stock reduces the charge against the revenue of the year.

Total revenue Rs 25,60,000 1. Change in inventories entered as minus Rs 40,000, with the reason 2. Total expenses Rs 21,40,000 2. Profit before tax Rs 4,20,000 1. Tax Rs 1,26,000 and profit for the year Rs 2,94,000 1.

Question 7 [15]

(a) First find the profit. The surplus rose from Rs 1,50,000 to Rs 2,50,000, an increase of Rs 1,00,000, and dividend of Rs 60,000 was paid, so the profit after tax was Rs 1,60,000. The provision for tax charged during the year was the closing provision of Rs 50,000 less the opening provision of Rs 40,000 plus the tax of Rs 45,000 paid, that is Rs 55,000. Net profit before tax was therefore 1,60,000 plus 55,000 = Rs 2,15,000. Depreciation for the year is found from the accumulated depreciation account. The closing figure of Rs 1,80,000 equals the opening figure of Rs 1,50,000, less the Rs 50,000 written back on the machine sold, plus the charge for the year, so the charge for the year is 1,80,000 less 1,00,000 = Rs 80,000. Interest on debentures is 12 per cent of Rs 1,50,000 = Rs 18,000, the redeemed debentures having gone on the first day of the year. The machine sold had a written down value of 1,20,000 less 50,000 = Rs 70,000 and fetched Rs 85,000, so there was a profit of Rs 15,000 on it. Cash flow from operating activities. Net profit before tax Rs 2,15,000; add depreciation Rs 80,000; add interest on debentures Rs 18,000; less profit on sale of machinery Rs 15,000; less profit on sale of investments Rs 6,000. Operating profit before working capital changes = Rs 2,92,000. Add decrease in inventories Rs 40,000; less increase in trade receivables Rs 30,000; less decrease in trade payables Rs 20,000; that is a net deduction of Rs 10,000. Cash generated from operations = Rs 2,82,000. Less tax paid Rs 45,000. Net cash from operating activities = Rs 2,37,000.

Net profit before tax Rs 2,15,000, with the tax provision of Rs 55,000 and the dividend of Rs 60,000 correctly handled 2. Depreciation for the year Rs 80,000, worked out from the accumulated depreciation account 1. Interest of Rs 18,000 added back and the two profits on sale, Rs 15,000 and Rs 6,000, deducted, giving Rs 2,92,000 2. Working capital changes, a net deduction of Rs 10,000, giving Rs 2,82,000 1. Tax paid Rs 45,000 deducted, leaving Rs 2,37,000 1.

(b) Machinery purchased during the year is found from the cost account. The closing cost of Rs 9,00,000 equals the opening cost of Rs 7,00,000, less the Rs 1,20,000 cost of the machine sold, plus the purchases, so the purchases were 9,00,000 less 5,80,000 = Rs 3,20,000. Investments purchased are found in the same way. The closing figure of Rs 1,20,000 equals the opening figure of Rs 1,50,000 less the Rs 30,000 cost of those sold plus the purchases, so the purchases were nil. Cash flow from investing activities. Purchase of machinery, an outflow of Rs 3,20,000; sale of machinery, an inflow of Rs 85,000; sale of investments, an inflow of 30,000 plus the profit of 6,000, that is Rs 36,000. Net cash used in investing activities = Rs 1,99,000.

Purchase of machinery Rs 3,20,000, worked out from the cost account 2. Sale of machinery Rs 85,000 and sale of investments Rs 36,000 as inflows, with no purchase of investments 1. Net outflow Rs 1,99,000 1.

(c) Cash flow from financing activities. Proceeds of the issue of share capital, 8,00,000 less 6,00,000, an inflow of Rs 2,00,000; redemption of debentures, 2,50,000 less 1,50,000, an outflow of Rs 1,00,000; interest on debentures paid, an outflow of Rs 18,000; dividend paid, an outflow of Rs 60,000. Net cash from financing activities = Rs 22,000. Reconciliation: 2,37,000 from operating, less 1,99,000 used in investing, plus 22,000 from financing, gives a net increase in cash and cash equivalents of Rs 60,000. Opening cash and cash equivalents Rs 60,000 plus Rs 60,000 gives Rs 1,20,000, which is the closing figure shown in the balance sheet.

Issue of shares Rs 2,00,000 as an inflow 1. Redemption of debentures Rs 1,00,000 as an outflow 1. Interest Rs 18,000 and dividend Rs 60,000 as outflows 1. Net inflow Rs 22,000 and the reconciliation to a closing balance of Rs 1,20,000 1.

Question 8 [15]

(a) Gross profit = 30,00,000 less 21,00,000 = Rs 9,00,000, so the gross profit ratio = 9,00,000 divided by 30,00,000 x 100 = 30 per cent. Operating profit = gross profit less operating expenses = 9,00,000 less 3,60,000 = Rs 5,40,000, so the operating profit ratio = 5,40,000 divided by 30,00,000 x 100 = 18 per cent. Net profit before tax = operating profit plus non-operating income less non-operating expenses = 5,40,000 plus 40,000 less 1,00,000 = Rs 4,80,000, so the net profit ratio = 4,80,000 divided by 30,00,000 x 100 = 16 per cent.

Gross profit Rs 9,00,000 and gross profit ratio 30 per cent 2. Operating profit Rs 5,40,000 and operating profit ratio 18 per cent 2. Net profit before tax Rs 4,80,000 and net profit ratio 16 per cent 2.

(b) Current assets = current ratio x current liabilities = 2.5 x 3,00,000 = Rs 7,50,000. Quick assets = quick ratio x current liabilities = 1.2 x 3,00,000 = Rs 3,60,000. Since there are no prepaid expenses, inventory = current assets less quick assets = 7,50,000 less 3,60,000 = Rs 3,90,000. Working capital = current assets less current liabilities = 7,50,000 less 3,00,000 = Rs 4,50,000.

Current assets Rs 7,50,000 1. Quick assets Rs 3,60,000 1. Inventory Rs 3,90,000 1. Working capital Rs 4,50,000 1.

(c) Common Size Statement of Profit and Loss, revenue from operations being taken as 100 in each year. Current year, with the previous year's figure given after it in each case. Revenue from operations Rs 25,00,000 and Rs 20,00,000, 100.0 per cent in both years. Cost of materials consumed Rs 13,75,000 and Rs 11,00,000, that is 55.0 per cent in both years. Other expenses Rs 3,75,000 and Rs 3,40,000, that is 15.0 per cent and 17.0 per cent. Total expenses Rs 17,50,000 and Rs 14,40,000, that is 70.0 per cent and 72.0 per cent. Profit before tax Rs 7,50,000 and Rs 5,60,000, that is 30.0 per cent and 28.0 per cent. Tax at 30 per cent Rs 2,25,000 and Rs 1,68,000, that is 9.0 per cent and 8.4 per cent. Profit for the year Rs 5,25,000 and Rs 3,92,000, that is 21.0 per cent and 19.6 per cent. The statement shows that the cost of materials has held steady as a proportion of revenue while other expenses have fallen from 17.0 per cent to 15.0 per cent, and that is what has lifted the profit for the year from 19.6 per cent of revenue to 21.0 per cent.

Revenue taken as 100 in both years and cost of materials shown at 55.0 per cent in both 1. Other expenses 15.0 per cent and 17.0 per cent 1. Total expenses 70.0 per cent and 72.0 per cent, giving profit before tax of 30.0 per cent and 28.0 per cent 2. Profit for the year Rs 5,25,000 and Rs 3,92,000, that is 21.0 per cent and 19.6 per cent 1.