ISC Class 12 Accounts Specimen Paper 1

Written by the Future Topper subject team on the CISCE examination pattern. Not an official CISCE paper.
Found a mistake? Write to contactfuturetopper@gmail.com

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) In the absence of a partnership deed, interest on a loan advanced by a partner to the firm is allowed at:

(a) no interest at all (b) 5 per cent per annum

(c) 6 per cent per annum (d) 9 per cent per annum

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

(iii) When a newly admitted partner pays his share of goodwill privately to the old partners, the amount so paid:

(a) is credited to the old partners' capital accounts (b) is credited to a Goodwill Account

(c) is debited to the new partner's capital account (d) is not recorded in the books of the firm

(iv) Name the account to which the balance of the Realisation Account is transferred on the dissolution of a firm.

(v) The balance in the Securities Premium Account may not be used for:

(a) the payment of dividend to equity shareholders (b) the writing off of preliminary expenses

(c) the issue of fully paid bonus shares (d) the buy-back of the company's own shares

(vi) Give one reason why a company may choose to raise funds by issuing debentures rather than equity shares.

(vii) In the Cash Flow Statement of a manufacturing company, the amount paid for the purchase of goodwill is shown as:

(a) an outflow under operating activities (b) an outflow under investing activities

(c) an outflow under financing activities (d) an item that is not shown at all

(viii) The current assets of a company are Rs 6,00,000 and its current ratio is 2.5:1. Calculate its working capital.

(ix) The ratio that measures the proportion of outsiders' funds to the funds of the shareholders is the:

(a) proprietary ratio (b) current ratio

(c) debt to equity ratio (d) operating ratio

(x) State one limitation of comparative financial statements.

(xi) In an electronic spreadsheet, the function used to work out the fixed periodic instalment payable on a loan is:

(a) =NPV (b) =PV

(c) =FV (d) =PMT

(xii) A, B and C were partners sharing profits in the ratio 5:3:2. C died. State the ratio in which A and B will share profits if they agree to go on sharing between themselves as before.

Question 2 [8]

(i) X and Y are partners with capitals of Rs 4,00,000 and Rs 3,00,000. The deed allows interest on capital at 8 per cent per annum but contains no clause making it a charge against profit. The profit for the year before any appropriation was Rs 42,000. Show the amount of interest on capital that will be allowed to each partner, with your working. **[2]**

(ii) Y Ltd forfeited 500 equity shares of Rs 10 each, issued at par, on which Rs 7 per share had been received. Pass the journal entry for the forfeiture. **[2]**

(iii) From the figures that follow, calculate the inventory turnover ratio. Revenue from operations Rs 12,00,000; gross profit ratio 25 per cent; opening inventory Rs 1,40,000; closing inventory Rs 1,60,000. **[2]**

(iv) State two advantages that a firm gains by preparing its payroll on an electronic spreadsheet rather than by hand. **[2]**

SECTION B (60 Marks)

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

Question 3 [15]

A, B and C are partners sharing profits and losses in the ratio 3:2:1. Their capitals at the beginning of the year stood at Rs 6,00,000, Rs 4,00,000 and Rs 2,00,000 respectively, and the capitals are fluctuating.

The deed provides that interest on capital is to be allowed at 10 per cent per annum, that C is to be paid a salary of Rs 2,500 per month, and that C is guaranteed a minimum of Rs 50,000 as his share of profit, apart from his salary and his interest on capital. Any deficiency needed to make up that guarantee is to be borne by A and B in the ratio 3:2.

The net profit for the year, before any of the above appropriations, was Rs 3,90,000. Drawings during the year were A Rs 60,000, B Rs 40,000 and C Rs 20,000, and no interest is to be charged on drawings.

(a) Prepare the Profit and Loss Appropriation Account for the year. **[9]**

(b) Prepare the capital accounts of the three partners. **[6]**

Question 4 [15]

P and Q are partners sharing profits and losses in the ratio 3:2. Their balance sheet at the close of the year stood as set out below.

Liabilities: capital accounts, P Rs 3,00,000 and Q Rs 2,00,000; general reserve Rs 50,000; workmen compensation reserve Rs 20,000; creditors Rs 1,30,000. Total Rs 7,00,000.

Assets: land and building Rs 2,50,000; plant Rs 1,50,000; stock Rs 90,000; debtors Rs 1,20,000 less a provision for doubtful debts of Rs 6,000, that is Rs 1,14,000; cash at bank Rs 96,000. Total Rs 7,00,000.

On the first day of the following year R was admitted into the firm for a one fifth share on these terms. R was to bring in Rs 2,00,000 as his capital and Rs 60,000 in cash as his share of the goodwill premium. Land and building was to be appreciated by 20 per cent and plant was to be written down by 10 per cent. Stock was to be taken at Rs 84,000 and the provision for doubtful debts was to be raised to Rs 9,000. A claim for

workmen compensation of Rs 8,000 was admitted and is to be carried as a liability. A creditor for Rs 5,000, so far left out of the books, was to be brought in.

(a) Prepare the Revaluation Account. **[5]**

(b) Prepare the capital accounts of P, Q and R. **[6]**

(c) Prepare the balance sheet of the new firm and state the new profit sharing ratio. **[4]**

Question 5 [15]

A and B are partners sharing profits and losses in the ratio 2:1. The firm was dissolved, and on the date of dissolution its balance sheet stood as set out below.

Liabilities: capital accounts, A Rs 2,00,000 and B Rs 1,00,000; A's loan Rs 40,000; creditors Rs 90,000; bills payable Rs 30,000. Total Rs 4,60,000.

Assets: building Rs 1,80,000; machinery Rs 1,00,000; stock Rs 70,000; debtors Rs 80,000 less a provision for doubtful debts of Rs 5,000, that is Rs 75,000; investments Rs 25,000; cash at bank Rs 10,000. Total Rs 4,60,000.

The realisation went as follows. The building fetched Rs 2,10,000 and the stock fetched Rs 58,000. The machinery was taken over by A at an agreed figure of Rs 85,000. The debtors realised Rs 72,000. One half of the investments was taken over by B at 10 per cent below book value and the other half was sold for Rs 14,000. The creditors were paid at a discount of 5 per cent and the bills payable were met in full. A liability for Rs 7,000, not shown in the books, had to be paid. Expenses of realisation came to Rs 6,000 and were paid by the firm. A's loan was repaid in full.

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

(b) Prepare the capital accounts of the two partners. **[4]**

(c) Prepare the Bank Account. **[3]**

Question 6 [15]

X Ltd invited applications for 50,000 equity shares of Rs 10 each, issued at a premium of Rs 4 per share. The amount was payable Rs 5 on application, of which Rs 2 was premium, Rs 6 on allotment, of which Rs 2 was premium, and Rs 3 on the first and final call.

Applications were received for 75,000 shares. Applications for 15,000 shares were rejected outright and the money on them was refunded. The remaining applicants, who had applied for 60,000 shares, were allotted the whole issue on a pro rata basis, the surplus application money being applied towards the sum due on allotment.

A shareholder who had applied for 1,200 shares paid nothing on allotment and nothing on the call, and his shares were forfeited after the call had been made. The whole of the forfeited holding was afterwards reissued, as fully paid, at Rs 8 per share.

(a) Pass the journal entries in the books of X Ltd to record all of the above, from the receipt of the application money to the reissue of the forfeited shares. Narrations are not required. **[12]**

(b) State the amount transferred to Capital Reserve and the balance standing in the Securities Premium Account after these transactions, with your working. **[3]**

Question 7 [15]

The balance sheets of M 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 6,00,000 and Rs 5,00,000; surplus, that is the balance in the Statement of Profit and Loss, Rs 1,80,000 and Rs 1,00,000; long term borrowings, being 10 per cent debentures, Rs 2,00,000 and Rs 1,50,000; trade payables Rs 1,10,000 and Rs 90,000; short term provisions, being provision for tax, Rs 40,000 and Rs 30,000. Totals Rs 11,30,000 and Rs 8,70,000.

Assets: property, plant and equipment at written down value Rs 6,50,000 and Rs 5,00,000; non-current investments Rs 1,00,000 and Rs 60,000; inventories Rs 1,50,000 and Rs 1,20,000; trade receivables Rs 1,40,000 and Rs 1,10,000; cash and cash equivalents Rs 90,000 and Rs 80,000. Totals Rs 11,30,000 and Rs 8,70,000.

Further information. Depreciation of Rs 70,000 was charged on property, plant and equipment during the year. A machine whose written down value was Rs 30,000 was sold for Rs 25,000. The fresh debentures were issued on the last day of the year, so that interest for the year falls due only on the debentures already outstanding at the beginning. Tax of Rs 35,000 was paid during the year. Dividend of Rs 40,000 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 Z Ltd for the year. Revenue from operations Rs 20,00,000; cost of revenue from operations Rs 14,00,000; operating expenses Rs 2,00,000; opening inventory Rs 1,80,000; closing inventory Rs 2,20,000; trade receivables Rs 2,50,000; cash and cash equivalents Rs 50,000; current liabilities, all of them trade payables, Rs 2,00,000; shareholders' funds Rs 8,00,000; long term borrowings Rs 4,00,000.

(a) Calculate the current ratio, the quick ratio, the inventory turnover ratio, the operating ratio and the debt to equity ratio. **[10]**

The Statement of Profit and Loss of another company, W Ltd, showed the figures set out below, those for the current year being given first in each case. Revenue from operations Rs 18,00,000 and Rs 15,00,000; other income Rs 70,000 and Rs 50,000; total expenses Rs 13,20,000 and Rs 11,00,000. Tax is to be taken at 30 per cent of the profit before tax in both years.

(b) Prepare a Comparative Statement of Profit and Loss for W Ltd, showing the absolute change and the percentage change in each line. **[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) (c) 6 per cent per annum. The Partnership Act treats a loan from a partner as a loan and not as capital, so interest on it runs at 6 per cent per annum whether the firm earns a profit or not.

(ii) The sacrificing ratio is the ratio in which the old partners of a firm give up their share of future profits in favour of a partner coming in. It is found by taking each old partner's old share and deducting his new share from it, and it is the ratio in which the incoming partner's share of goodwill is credited to the old partners.

(iii) (d) is not recorded in the books of the firm. A private payment passes from one partner to another outside the firm, no asset of the firm is affected by it, so no entry is called for in the books.

(iv) The balance of the Realisation Account, whether a profit or a loss, is transferred to the partners' capital accounts in their profit sharing ratio.

(v) (a) the payment of dividend to equity shareholders. Securities premium is a capital receipt, and the uses to which it may be put are limited by statute. Paying dividend out of it would amount to a return of capital, so it is not permitted.

(vi) Any one of the following gains the mark. Debenture interest is a charge against profit and is an allowable deduction for tax, while dividend is not. Debenture holders have no vote, so control of the company is not diluted. Debentures are cheaper to service than equity when the company earns more on its assets than the rate of interest, which gives the equity shareholders the benefit of trading on equity.

(vii) (b) an outflow under investing activities. Goodwill is a non-current asset, and cash spent on acquiring any non-current asset falls under investing activities.

(viii) Current ratio = current assets divided by current liabilities, so current liabilities = 6,00,000 divided by 2.5 = Rs 2,40,000. Working capital = current assets less current liabilities = 6,00,000 less 2,40,000 = Rs 3,60,000.

(ix) (c) debt to equity ratio. It sets long term debt against shareholders' funds and so shows how far the business is financed by outsiders as against its owners.

(x) Any one of the following gains the mark. A comparative statement sets out absolute and percentage changes but says nothing about why they occurred. It is only as sound as the figures it is built from, so any window dressing in the accounts is carried straight into it. A change in an accounting policy between the two periods makes the comparison misleading. Changes in the price level are ignored, so a rise in a money figure may not be a rise in real terms.

(xi) (d) =PMT. The PMT function returns the constant periodic payment of a loan once the rate, the number of periods and the present value have been supplied.

(xii) 5:3. C's share is taken by A and B, and since they wish to go on as before they divide it in their old relative proportions, which leaves their shares in the same 5:3 relation to each other.

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) Interest due at 8 per cent would be X Rs 32,000 and Y Rs 24,000, that is Rs 56,000 in all. The profit available is only Rs 42,000. Where interest on capital is an appropriation and not a charge, it can be allowed only up to the profit available, and the profit is then divided in the ratio of the interest due, which here is the ratio of the capitals, 4:3. X is allowed 42,000 x 4/7 = Rs 24,000 and Y is allowed 42,000 x 3/7 = Rs 18,000. Nothing is left for division as profit.

Interest due of Rs 32,000 and Rs 24,000 identified against a profit of only Rs 42,000 1. Allowance of Rs 24,000 to X and Rs 18,000 to Y in the capital ratio 1.

(ii) Equity Share Capital Account debit Rs 5,000, being 500 shares of Rs 10 each; to Shares Forfeited Account Rs 3,500, being the Rs 7 per share already received; to Calls in Arrears Account Rs 1,500, being the Rs 3 per share not received. The two credits of Rs 3,500 and Rs 1,500 together equal the debit of Rs 5,000.

Debit to Share Capital of Rs 5,000 1. Credits of Rs 3,500 to Shares Forfeited and Rs 1,500 to Calls in Arrears 1.

(iii) Gross profit = 25 per cent of 12,00,000 = Rs 3,00,000, so cost of revenue from operations = 12,00,000 less 3,00,000 = Rs 9,00,000. Average inventory = (1,40,000 + 1,60,000) divided by 2 = Rs 1,50,000. Inventory turnover ratio = 9,00,000 divided by 1,50,000 = 6 times.

Cost of revenue from operations Rs 9,00,000 and average inventory Rs 1,50,000 1. Inventory turnover ratio 6 times 1.

(iv) Any two of the following gain the marks. Once the formulae for gross pay, the deductions and the net pay are entered, the whole payroll recalculates itself as soon as a rate or a number of days is altered, so no figure has to be worked twice. Arithmetical error is almost eliminated, since the totals and the cross totals are produced by the software and not by hand. The same sheet can be copied forward month after month, so only the changed data need be keyed in. The data can be sorted and filtered at once, which makes a department wise or a grade wise summary quick to produce. The figures feed straight into the accounting entries and the statutory returns without being copied out again.

One sound advantage of the spreadsheet, properly explained 1. A second, different advantage, properly explained 1.

Question 3 [15]

(a) Profit and Loss Appropriation Account for the year. Credit side: net profit brought down from the Profit and Loss Account Rs 3,90,000. Debit side: interest on capital, A Rs 60,000, B Rs 40,000 and C Rs 20,000, that is Rs 1,20,000; salary to C Rs 2,500 x 12 = Rs 30,000; profit transferred to the capital accounts Rs 2,40,000. The two sides agree at Rs 3,90,000. The divisible profit is 3,90,000 less 1,20,000 less 30,000 = Rs 2,40,000, and divided 3:2:1 this gives A Rs 1,20,000, B Rs 80,000 and C Rs 40,000. C's guarantee is for Rs 50,000, so there is a deficiency of Rs 10,000, which A and B bear in the ratio 3:2, that is A Rs 6,000 and B Rs 4,000. The amounts finally credited are therefore A Rs 1,20,000 less 6,000 = Rs 1,14,000, B Rs 80,000 less 4,000 = Rs 76,000 and C Rs 40,000 plus 10,000 = Rs 50,000, which together come to Rs 2,40,000.

Interest on capital of Rs 60,000, Rs 40,000 and Rs 20,000 2. C's salary Rs 30,000 1. Divisible profit Rs 2,40,000 with the account agreeing at Rs 3,90,000 2. Shares of Rs 1,20,000, Rs 80,000 and Rs 40,000 before the guarantee 2. Deficiency of Rs 10,000 borne by A and B in the ratio 3:2, giving final credits of Rs 1,14,000, Rs 76,000 and Rs 50,000 2.

(b) Capital accounts, the capitals being fluctuating. A: opening balance Rs 6,00,000 plus interest Rs 60,000 plus share of profit Rs 1,14,000 less drawings Rs 60,000, closing balance Rs 7,14,000. B: opening balance Rs 4,00,000 plus interest Rs 40,000 plus share of profit Rs 76,000 less drawings Rs 40,000, closing balance Rs 4,76,000. C: opening balance Rs 2,00,000 plus interest Rs 20,000 plus salary Rs 30,000 plus share of profit Rs 50,000 less drawings Rs 20,000, closing balance Rs 2,80,000. The three closing balances come to Rs 14,70,000, which agrees with the opening capitals of Rs 12,00,000 plus interest Rs 1,20,000 plus salary Rs 30,000 plus profit Rs 2,40,000 less drawings Rs 1,20,000.

A's closing capital Rs 7,14,000 2. B's closing capital Rs 4,76,000 2. C's closing capital Rs 2,80,000, with the salary credited to his account 2.

Question 4 [15]

(a) Revaluation Account. Credit side: land and building, appreciation of 20 per cent on 2,50,000 = Rs 50,000. Debit side: plant, 10 per cent of 1,50,000 = Rs 15,000; stock, 90,000 less 84,000 = Rs 6,000; provision for doubtful debts, 9,000 less 6,000 = Rs 3,000; unrecorded creditor Rs 5,000. The debits come to Rs 29,000, so the profit on revaluation is 50,000 less 29,000 = Rs 21,000, which is credited to P and Q in the ratio 3:2, that is P Rs 12,600 and Q Rs 8,400. Both sides of the account then total Rs 50,000. The workmen compensation reserve is not touched in this account, since it is a reserve and not an asset or a liability being revalued.

Appreciation of Rs 50,000 on the credit side 1. Plant Rs 15,000, stock Rs 6,000, provision Rs 3,000 and the unrecorded creditor Rs 5,000 on the debit side, Rs 29,000 in all 2. Profit on revaluation Rs 21,000 1. Division in the ratio 3:2, P Rs 12,600 and Q Rs 8,400 1.

(b) Capital accounts. The general reserve of Rs 50,000 is divided 3:2, giving P Rs 30,000 and Q Rs 20,000. Of the workmen compensation reserve of Rs 20,000, Rs 8,000 is set aside to meet the admitted claim and the surplus of Rs 12,000 is divided 3:2, giving P Rs 7,200 and Q Rs 4,800. The goodwill premium of Rs 60,000 brought in by R is credited to P and Q in their sacrificing ratio, which is their old ratio of 3:2 because they continue to share the remaining four fifths between them in the same proportion, giving P Rs 36,000 and Q Rs 24,000. P's capital is therefore 3,00,000 plus 12,600 plus 30,000 plus 7,200 plus 36,000 = Rs 3,85,800. Q's capital is 2,00,000 plus 8,400 plus 20,000 plus 4,800 plus 24,000 = Rs 2,57,200. R's capital is Rs 2,00,000. The three capitals together come to Rs 8,43,000.

General reserve of Rs 50,000 divided 3:2 1. Workmen compensation reserve, Rs 8,000 carried as a liability and the surplus of Rs 12,000 divided 3:2 1. Premium for goodwill of Rs 60,000 credited 3:2 as Rs 36,000 and Rs 24,000 2. P's closing capital Rs 3,85,800 1. Q's closing capital Rs 2,57,200 1.

(c) Balance sheet of the new firm. Liabilities: capital accounts, P Rs 3,85,800, Q Rs 2,57,200 and R Rs 2,00,000, that is Rs 8,43,000; workmen compensation claim Rs 8,000; creditors 1,30,000 plus the unrecorded 5,000 = Rs 1,35,000. Total Rs 9,86,000. Assets: land and building Rs 3,00,000; plant Rs 1,35,000; stock Rs 84,000; debtors Rs 1,20,000 less provision Rs 9,000, that is Rs 1,11,000; cash at bank 96,000 plus R's capital 2,00,000 plus the premium 60,000 = Rs 3,56,000. Total Rs 9,86,000. The two sides agree at Rs 9,86,000. New profit sharing ratio: R takes one fifth, so P and Q share the remaining four fifths in the ratio 3:2, giving P 12/25 and Q 8/25 and R 5/25, that is 12:8:5.

Capitals totalling Rs 8,43,000 carried into the balance sheet 1. Cash at bank Rs 3,56,000 1. Creditors Rs 1,35,000 with the workmen compensation claim of Rs 8,000 shown as a liability 1. Balance sheet agreeing at Rs 9,86,000 on each side, and the new ratio 12:8:5 1.

Question 5 [15]

(a) Realisation Account. Debit side, assets transferred at book value: building Rs 1,80,000; machinery Rs 1,00,000; stock Rs 70,000; debtors at the gross figure Rs 80,000; investments Rs 25,000. These come to Rs 4,55,000. Debit side, amounts paid through the bank: creditors, 90,000 less the 5 per cent discount of 4,500, that is Rs 85,500; bills payable Rs 30,000; the unrecorded liability Rs 7,000; expenses of realisation Rs 6,000. These come to Rs 1,28,500. The debit side therefore totals Rs 5,83,500. Credit side: provision for doubtful debts Rs 5,000; creditors Rs 90,000; bills payable Rs 30,000; cash realised, being the building Rs 2,10,000, the stock Rs 58,000, the debtors Rs 72,000 and one half of the investments sold for Rs 14,000, that is Rs 3,54,000; A's capital account for the machinery taken over Rs 85,000; B's capital account for one half of the investments, 12,500 less 10 per cent, that is Rs 11,250. The credit side therefore totals Rs 5,75,250. The loss on realisation is 5,83,500 less 5,75,250 = Rs 8,250, which is carried to the capital accounts in the ratio 2:1, that is A Rs 5,500 and B Rs 2,750. Both sides then close at Rs 5,83,500. A's loan is not brought into this account, because a partner's loan is paid off separately after the outside liabilities.

Assets transferred at book value, Rs 4,55,000 2. Provision for doubtful debts and the two liabilities on the credit side, Rs 1,25,000 in all 1. Cash realised Rs 3,54,000 2. Assets taken over by the partners, Rs 85,000 by A and Rs 11,250 by B 1. Payments of Rs 1,28,500, including the discount of Rs 4,500 and the unrecorded liability of Rs 7,000 1. Loss on realisation Rs 8,250 and the account closing at Rs 5,83,500 1.

(b) Capital accounts. A: opening credit Rs 2,00,000, less machinery taken over Rs 85,000, less share of the loss Rs 5,500, leaving Rs 1,09,500 paid to him in cash. B: opening credit Rs 1,00,000, less investments taken over Rs 11,250, less share of the loss Rs 2,750, leaving Rs 86,000 paid to him in cash. The two payments come to Rs 1,95,500.

Machinery of Rs 85,000 debited to A and investments of Rs 11,250 debited to B 1. Loss divided 2:1 as Rs 5,500 and Rs 2,750 1. Cash paid to A Rs 1,09,500 1. Cash paid to B Rs 86,000 1.

(c) Bank Account. Receipts: opening balance Rs 10,000; Realisation Account, being the assets sold, Rs 3,54,000. Total receipts Rs 3,64,000. Payments: Realisation Account, being the liabilities and the expenses paid, Rs 1,28,500; A's loan Rs 40,000; A's capital Rs 1,09,500; B's capital Rs 86,000. Total payments Rs 3,64,000. The account closes exactly, with no balance left, which is the test that the dissolution has been fully worked out.

Receipts side totalling Rs 3,64,000 1. A's loan of Rs 40,000 paid after the outside liabilities and before the capitals 1. Account closing at Rs 3,64,000 on each side with no balance carried down 1.

Question 6 [15]

(a) The pro rata basis is 60,000 applications to 50,000 shares, that is 6:5. Journal entries follow.

One. Bank Account debit Rs 3,75,000; to Equity Share Application Account Rs 3,75,000, being the application money of Rs 5 on 75,000 shares.

Two. Equity Share Application Account debit Rs 3,75,000; to Equity Share Capital Account Rs 1,50,000, being Rs 3 on 50,000 shares; to Securities Premium Account Rs 1,00,000, being Rs 2 on 50,000 shares; to Equity Share Allotment Account Rs 50,000, being the surplus on the 60,000 applications accepted; to Bank Account Rs 75,000, being the refund on the 15,000 applications rejected. The four credits come to Rs 3,75,000.

Three. Equity Share Allotment Account debit Rs 3,00,000; to Equity Share Capital Account Rs 2,00,000, being Rs 4 on 50,000 shares; to Securities Premium Account Rs 1,00,000, being Rs 2 on 50,000 shares.

Four. Bank Account debit Rs 2,45,000; to Equity Share Allotment Account Rs 2,45,000. The sum due on allotment was Rs 3,00,000, of which Rs 50,000 stood already adjusted, leaving Rs 2,50,000 to be collected. The defaulter failed to pay Rs 5,000 of it, so Rs 2,45,000 was received.

Five. Equity Share First and Final Call Account debit Rs 1,50,000; to Equity Share Capital Account Rs 1,50,000, being Rs 3 on 50,000 shares.

Six. Bank Account debit Rs 1,47,000; to Equity Share First and Final Call Account Rs 1,47,000, the call on the defaulter's 1,000 shares, Rs 3,000, not having been received.

Seven. Equity Share Capital Account debit Rs 10,000 and Securities Premium Account debit Rs 2,000; to Shares Forfeited Account Rs 4,000; to Equity Share Allotment Account Rs 5,000; to Equity Share First and Final Call Account Rs 3,000. The debits come to Rs 12,000 and so do the credits.

Eight. Bank Account debit Rs 8,000 and Shares Forfeited Account debit Rs 2,000; to Equity Share Capital Account Rs 10,000, being the reissue of 1,000 shares of Rs 10 each at Rs 8 as fully paid.

Nine. Shares Forfeited Account debit Rs 2,000; to Capital Reserve Account Rs 2,000.

The defaulter's figures are arrived at as follows. He applied for 1,200 shares and was allotted 1,200 x 5/6 = 1,000 shares. He paid Rs 6,000 on application. Of that sum Rs 3,000 was the capital part of the application money on the 1,000 shares allotted, Rs 2,000 was the premium part and the remaining Rs 1,000 was surplus carried to allotment. The sum due from him on allotment was Rs 6,000, against which that surplus of Rs 1,000 was set, leaving Rs 5,000 unpaid, and the call of Rs 3,000 was unpaid as well. Since the premium of Rs 2 included in the allotment money was never received, the Securities Premium Account is debited with 1,000 x 2 = Rs 2,000 on forfeiture. The credit to Shares Forfeited is the capital element actually received from him, Rs 3,000 plus Rs 1,000, that is Rs 4,000.

> *Entry for the receipt of application money, Rs 3,75,000 1. Entry adjusting the application money, with Rs 1,50,000 to capital, Rs 1,00,000 to premium, Rs 50,000 to allotment and Rs 75,000 refunded 3. Allotment due of Rs 3,00,000 split correctly between capital and premium 2. Allotment received Rs 2,45,000 1. Call due Rs 1,50,000 1. Call received Rs 1,47,000 1. Forfeiture entry, with the premium debit of Rs 2,000 and Rs 4,000 credited to Shares Forfeited 2. Reissue entry, with Rs 2,000 drawn from Shares Forfeited 1.*

(b) The Shares Forfeited Account stood at Rs 4,000 after the forfeiture. Of that, Rs 2,000 was used to meet the discount of Rs 2 per share allowed on the reissue of the 1,000 shares. The balance of Rs 2,000 is a capital profit and is transferred to Capital Reserve, so the amount transferred is Rs 2,000. The Securities Premium Account was credited with Rs 1,00,000 on application and Rs 1,00,000 on allotment, that is Rs 2,00,000 in all, and was debited with Rs 2,000 on the forfeiture. Nothing is credited to it on the reissue, because the shares were reissued at a discount and not at a premium. Its balance is therefore 2,00,000 less 2,000 = Rs 1,98,000.

> *Capital Reserve Rs 2,000, with the Rs 2,000 absorbed by the reissue discount shown 2. Securities Premium balance Rs 1,98,000 1.*

Question 7 [15]

(a) First find the profit. The surplus rose from Rs 1,00,000 to Rs 1,80,000, an increase of Rs 80,000, and dividend of Rs 40,000 was paid out of the year's earnings, so the profit after tax was Rs 1,20,000. The provision for tax charged during the year was the closing provision of Rs 40,000 less the opening provision of Rs 30,000 plus the tax of Rs 35,000 actually paid, that is Rs 45,000. Net profit before tax was therefore 1,20,000 plus 45,000 = Rs 1,65,000. Cash flow from operating activities. Net profit before tax Rs 1,65,000; add depreciation Rs 70,000; add loss on sale of machine, 30,000 less 25,000 = Rs 5,000; add interest on debentures, 10 per cent of 1,50,000 = Rs 15,000. Operating profit before working capital changes = Rs 2,55,000. Less increase in inventories Rs 30,000; less increase in trade receivables Rs 30,000; add increase in trade payables Rs 20,000; that is a net deduction of Rs 40,000. Cash generated from operations = Rs 2,15,000. Less tax paid Rs 35,000. Net cash from operating activities = Rs 1,80,000.

Net profit before tax Rs 1,65,000, the provision for tax of Rs 45,000 and the dividend of Rs 40,000 both added back correctly 2. Depreciation Rs 70,000, loss on sale Rs 5,000 and interest Rs 15,000 added back, giving Rs 2,55,000 2. Working capital changes, a net deduction of Rs 40,000, giving Rs 2,15,000 2. Tax paid Rs 35,000 deducted, leaving Rs 1,80,000 1.

(b) The purchase of property, plant and equipment is found from the asset account. Opening written down value Rs 5,00,000, less depreciation for the year Rs 70,000, less the written down value of the machine sold Rs 30,000, gives Rs 4,00,000. The closing written down value is Rs 6,50,000, so purchases during the year were 6,50,000 less 4,00,000 = Rs 2,50,000. Cash flow from investing activities. Purchase of property, plant and equipment, an outflow of Rs 2,50,000; sale of the machine, an inflow of Rs 25,000; purchase of non-current investments, 1,00,000 less 60,000, an outflow of Rs 40,000. Net cash used in investing activities = Rs 2,65,000.

Purchase of property, plant and equipment Rs 2,50,000, with the working shown 2. Sale proceeds of Rs 25,000 shown as an inflow 1. Purchase of investments Rs 40,000 and the net outflow of Rs 2,65,000 1.

(c) Cash flow from financing activities. Proceeds of the issue of share capital, 6,00,000 less 5,00,000, an inflow of Rs 1,00,000; proceeds of the issue of debentures, 2,00,000 less 1,50,000, an inflow of Rs 50,000; interest on debentures paid, an outflow of Rs 15,000; dividend paid, an outflow of Rs 40,000. Net cash from financing activities = Rs 95,000. Reconciliation: 1,80,000 from operating, less 2,65,000 used in investing, plus 95,000 from financing, gives a net increase in cash and cash equivalents of Rs 10,000. Opening cash and cash equivalents Rs 80,000 plus Rs 10,000 gives Rs 90,000, which is the closing figure shown in the balance sheet.

Issue of shares Rs 1,00,000 and issue of debentures Rs 50,000 as inflows 1. Interest paid Rs 15,000 1. Dividend paid Rs 40,000 1. Net inflow Rs 95,000 and the reconciliation to a closing balance of Rs 90,000 1.

Question 8 [15]

(a) Current assets = inventory 2,20,000 plus trade receivables 2,50,000 plus cash 50,000 = Rs 5,20,000, and current liabilities are Rs 2,00,000. Current ratio = 5,20,000 divided by 2,00,000 = 2.6:1. Quick assets = 5,20,000 less inventory 2,20,000 = Rs 3,00,000, so quick ratio = 3,00,000 divided by 2,00,000 = 1.5:1. Average inventory = (1,80,000 plus 2,20,000) divided by 2 = Rs 2,00,000, so inventory turnover ratio = cost of revenue from operations 14,00,000 divided by 2,00,000 = 7 times. Operating cost = 14,00,000 plus 2,00,000 = Rs 16,00,000, so operating ratio = 16,00,000 divided by 20,00,000 x 100 = 80 per cent. Debt to equity ratio = long term borrowings 4,00,000 divided by shareholders' funds 8,00,000 = 0.5:1.

Current ratio 2.6:1 2. Quick ratio 1.5:1 2. Inventory turnover ratio 7 times, with average inventory of Rs 2,00,000 2. Operating ratio 80 per cent 2. Debt to equity ratio 0.5:1 2.

(b) Comparative Statement of Profit and Loss. Revenue from operations: previous year Rs 15,00,000, current year Rs 18,00,000, increase Rs 3,00,000, that is 20.00 per cent. Other income: Rs 50,000 and Rs 70,000, increase Rs 20,000, that is 40.00 per cent. Total revenue: Rs 15,50,000 and Rs 18,70,000, increase Rs 3,20,000, that is 20.65 per cent. Total expenses: Rs 11,00,000 and Rs 13,20,000, increase Rs 2,20,000, that is 20.00 per cent. Profit before tax: Rs 4,50,000 and Rs 5,50,000, increase Rs 1,00,000, that is 22.22 per cent. Tax at 30 per cent: Rs 1,35,000 and Rs 1,65,000, increase Rs 30,000, that is 22.22 per cent. Profit after tax: Rs 3,15,000 and Rs 3,85,000, increase Rs 70,000, that is 22.22 per cent. Each percentage is worked on the previous year's figure as base.

Total revenue of Rs 15,50,000 and Rs 18,70,000 with the absolute changes correctly entered 2. Percentage change of 20.00 per cent on revenue from operations and 20.65 per cent on total revenue 2. Profit after tax of Rs 3,15,000 and Rs 3,85,000, a rise of 22.22 per cent 1.