ISC Solved Paper 2018
Accounts
Class-XII

(Maximum Marks : 80)

(Time allowed : Three hours)

***Part I of Section A** is Compulsory.*

*Answer **any 4** Questions from **Part II of Section A** and **any two** questions from **Section B.***

The intended marks for questions or parts of questions are given in the brackets [].

Transactions should be recorded in the answer book.

All calculations should be shown clearly.

All working including rough work, should be done on the same page as, and adjacent to, the rest of the answer.

SECTION - A **[60 Marks]**

(Part I) (12 Marks)

*Attempt **all** questions.*

1. Answer briefly each of the following questions: **[6×2]**

(i) Give any two differences between Revaluation Account and Realisation Account.

Ans. The differences between Revaluation and Realisation Account are:

S. No.	Revaluation Account	Realisation Account
(a)	It records the effect of revaluation of assets and reassessment of liabilities.	It records the realisation of assets and settlement of liabilities.
(b)	It is prepared at the time of admission, retirement or death of a partner.	It is prepared at the time of dissolution of the firm.
(c)	Only changes in the value of assets and liabilities are recorded.	The book value of all realisable assets and outside liabilities are recorded.
(d)	Entries relating to assets and liabilities are made on the basis of difference between the book values and revalued figures.	Entries relating to assets and liabilities are made on the basis of their book values and actual payments.
(e)	The account may be prepared a number of times during the life of the firm.	The account is prepared only once during the life time of the firm at the time of its dissolution.
(f)	As a result of entries posted in the account the accounts of assets and liabilities are not closed.	As a result of entries posted in the account, the accounts of assets and liabilities are closed.

2 (Any two)

(ii) Mention whether the following Trade Payables are current liabilities or non-current liabilities:

	Operating Cycle	Expected period of Payment
(a)	**12 months**	**14 months**
(b)	**15 months**	**12 months**

Ans. (a) Non-current liability **2**

(b) Current liability

(iii) What is the minimum price at which a company can reissue its forfeited shares which were originally issued at par?

Ans. Amount equal to the unpaid amount on the forfeited shares/calls-in-arrears. /called up amount - amount forfeited maximum dicount at the time of reissue should not exceed the amount which has been forfeited/received on the forfeited share/ through any example. **(Any one)**

(iv) Give the adjusting entry and closing entry for interest on loan taken by a partner from the firm, when the firm follows the Fluctuating Capital Method.

Ans. Adjusting entry:

Partner's Capital A/c Dr.

To Interest on Loan A/c

Closing entry:

Interest on Loan A/c Dr.

To Profit and Loss A/c

(v) State any two reasons for a company to purchase its own debentures from the open market.

Ans. The company may purchase its own debentures in the open market with the objective of:

(a) Immediate cancellation

(b) Keeping them as investments (to be cancelled at a later date).

(c) To reduce the burden of interest payment on these debentures

(d) To redeem the debentures at a profit later on **(Any two)**

(vi) Give the formula for the valuation of a goodwill by the Capitalisation of Average Profit Method.

Ans. Goodwill = Capitalised Average Profit – Actual Capital Employed/Net Assets

Where Capitalised Average Profit $= \dfrac{\text{Average Profit} \times 100}{\text{Normal Rate of Return}}$

Actual capital employed = Assets (excluding purchased goodwill and fictitious assets) – Outside liabilities

(Part II)

(48 Marks)

*Answer **any four** questions.*

2. Saturn Ltd. was registered with an authorised capital of ₹ 12,00,000 divided into 1,20,000 equity shares of ₹ 10 each. It issued 40,000 equity shares to the public at a premium of ₹ 5 per share, payable as follows:

On application	**₹ 6**
On allotment	**₹ 9 (including premium of ₹ 5)**

All the shares were applied for and allotted. One shareholder holding 500 shares did not pay the allotment money and his shares were forfeited. Out of the forfeited shares, the company reissued 400 shares at ₹ 7 per share fully called up.

You are required to:

(a) Pass journal entries in the books of the company.

(b) Prepare :

(i) Securities Premium Reserve Account

(ii) Share Capital Account **[12]**

Ans. (a) **Journal of Saturn Ltd.**

Date	Particulars	L.F.	Amount ₹	Amount ₹
	Bank A/c Dr.		2,40,000	
	To Share Application A/c			2,40,000
	(Being share application money received)			
	Share Application A/c Dr.		2,40,000	
	To Equity Share Capital A/c			2,40,000
	(Being share application money transferred to share capital A/c)			
	Share Allotment A/c Dr.		3,60,000	
	To Equity Share Capital A/c			1,60,000
	To Securities Premium / Securities Premium Reserve A/c			2,00,000
	(Being share allotment money due)			
	Bank A/c Dr.		3,55,500	
	Calls-in-Arrear A/c Dr.		4,500	
	To Share Allotment A/c			3,60,000
	(Being share allotment money received)			
	Equity Share Capital A/c Dr.		5,000	
	Securities Premium /Securities Premium Reserve A/c Dr.		2,500	
	To Share Forfeiture A/c			3,000
	To Calls-in-Arrear A/c			4,500
	(Being 500 shares forfeited)			
	Bank A/c Dr.		2,800	
	Share Forfeiture A/c Dr.		1,200	
	To Equity Share Capital A/c			4,000
	(Being 400 shares reissued)			
	Share Forfeiture A/c Dr.		1,200	
	To Capital Reserve A/c			1,200
	(Being gain on reissued shares transferred to capital reserve)			

(i) Dr. Securities Premium Reserve Account Cr.

Particulars	Amount	Particulars	Amount
To Calls-in-Arrear A/c	2,500	By Share Allotment A/c	2,00,000
To Balance c/d	1,97,500		
	2,00,000		2,00,000

(ii) Dr. Share Capital Account Cr.

Particulars	Amount	Particulars	Amount
To Share Forfeiture A/c	3,000	By Share Application A/c	2,40,000
To Calls-in-arrears A/c	2,000	By Share Allotment A/c	1,60,000
To Balance c/d	3,99,000	By Bank A/c	2,800
		By Share Forfeiture A/c	1,200
	4,04,000		**4,04,000**

3. (A) On 1st April, 2013, Rayon Ltd. issued 2,000, 9% Debentures of ₹ 100 each at a discount of 10%, redeemable at par on 31st March 2017. The issue was fully subscribed. To meet the provisions of the Companies Act, 2013 the Board of Directors decided to transfer ₹ 30,000 to Debenture Redemption Reserve on 31st March, 2014 and the balance on 31st March,2015. On 1st April,2016 the company made the required investment in

government securities.

The investments were encashed and the debentures were redeemed on the due date.

It is the policy of the company to write off capital losses in the year in which they occur.

You are required to pass journal entries for issue and redemption of debentures (ignore interest on debentures). **[8]**

(B) **On 1st April, 2016, Krayon Ltd. issued 8,000, 12% Debentures of ₹ 100 each, redeemable at par after 5 years. The issue was fully subscribed.**

According to the terms of issue, interest on debentures is payable annually on 31st March. Tax deducted at source is 20%.

You are required to pass journal entries for the year 2016 –17, regarding issue of debentures and interest on debentures. **[4]**

Ans. (A) **Journal of Rayon Ltd.**

Date	Particulars	L.F.	Amount ₹	Amount ₹
1/4/2013	Bank A/c Dr.		1,80,000	
	To Debenture Application and Allotment A/c			1,80,000
	(Being debenture Application and Allotment money received)			
	Debenture Application and Allotment A/c Dr.		1,80,000	
	Discount on Issue of Debentures A/c Dr.		20,000	
	To 9% Debentures A/c			2,00,000
	(Being debentures issued)			
31/3/2014	Surplus in Statement of Profit and Loss Dr.		30,000	
	To Debentures Redemption Reserve			30,000
	(Being money transferred to Debentures Redemption reserve)			
31/3/2014	Statement of Profit and Loss Dr.		20,000	
	To Discount on Issue of Debentures			20,000
	(Being discount on Issue of Debentures written off)			
31/3/2015	Surplus in statement of Profit and Loss Dr.		20,000	
	To Debentures Redemption Reserve			20,000
	(Being balance as per requirement transferred to Debenture Redemption Reserve)			
1/4/2016	Debentures Redemption Investment A/c Dr.		30,000	
	To Bank A/c			30,000
	(Being purchase of investment equal to 15% of the face value of debentures to be redeemed)			
31/3/2017	Bank A/c Dr.		30,000	
	To Debenture Redemption Investment A/c			30,000
	(Being Debenture Redemption Investment sold)			
31/3/2017	Debenture A/c Dr.		2,00,000	
	To Debenture holder A/c			2,00,0000
	(Being amount due to the debenture holder)			
31/3/2017	Debentures holder A/c Dr.		2,00,000	
	To Bank			2,00,0000
	(Being debentures redeemed)			
31/3/2017	Debentures Redemption Reserve A/c Dr.		50,000	
	To General Reserve			50,000
	(Being Debenture Redemption Reserve transferred to General Reserve)			

(B) **Journal of Krayon Ltd.**

Date	Particulars		L.F.	Amount ₹	Amount ₹
1/4/2016	Bank A/c	Dr.		8,00,000	
	To Debenture Application and Allotment A/c				8,00,000
	(Being debenture application and allotment received)				
	Debentures Application and Allotment A/c	Dr.		8,00,000	
	To 12% Debentures A/c				8,00,000
	(Being debentures issued)				
31/3/2017	Debenture Interest A/c	Dr.		96,000	
	To Debenture holder's A/c				76,800
	To TDS /TDS Payable/ Income Tax Payable				19,200
	(Being interest due to debenture holders)				
31/3/2017	Debenture Holder's A/c	Dr.		76,800	
	TDS	Dr.		19,200	
	To Bank A/c				96,000
	(Being interest and TDS paid)				
	OR				
	Debenture holder's A/c	Dr.		76,800	
	To Bank A/c				76,800
	(Being debenture interest paid)				
	TDS	Dr.		19,200	
	To Bank A/c				19,200
	(Being TDS paid)				
31/3/2017	Statement of Profit and Loss	Dr.		96,000	
	To Debenture Interest A/c				96,000
	(Being debenture interest written off)				

4. (A) Asif and Ravi are partners in a firm, sharing profits and losses in the ratio of 3:2. Their fixed capitals as on 1st April, 2016, were ₹ 6,00,000 and ₹ 4,00,000 respectively.

Their partnership deed provides for the following:.

(a) Partners are to be allowed interest on their capital @ 10% per annum.

(b) They are to be charged interest on drawings @ 4% per annum.

(c) Asif is entitled to a salary of ₹ 2,000 per month.

(d) Ravi is entitled to a commission of 5% of the correct net profit of the firm before charging such commission.

(e) Asif is entitled to a rent of ₹ 3,000 per month for the use of his premises by the firm.

The net profit of the firm for the year ended 31st March 2017, before providing for any of the above clauses was ₹ 4,00,000.

Both partners withdrew ₹ 5,000 at the beginning of every month for the entire year.

You are required to prepare a Profit and Loss Appropriation Account for the year ended 31st March 2017. [8]

(B) Rita, Nina and Mita are partners in a firm sharing profits and losses in the ratio of 3:2:1. Mita dies on 1st April 2017. On the date of her death, it was decided to value goodwill on the basis of two years' purchase of weighted average profits of the firm for the last three years.

The profits of the last three years and weights assigned were :

Year	Profit (₹)	Weights assigned
2014–15	30,000 (including gain from speculation ₹ 10,000)	1
2015–16	80,000	2
2016–17	1,00,000	3

(i) Calculate the firms goodwill on the date of Mita's death (show working formula).
(ii) Pass the necessary journal entry to credit Mita's capital account with her share of goodwill. [4

Ans. (A) Profit and Loss Appropriation A/c

Dr. or the year ending 31st March 2017 Cr.

Particulars		Amount (₹)	Particulars		Amount (₹)
			By Net Profit b/d - Transferred from the Profit and Loss Account	4,00,000	
To Interest on Capital A/c			Less: Rent	(36,000)	3,64,000
Asif's Current A/c	60,000		By Interest on Drawings:		
Ravi's Current A/c	40,000	1,00,000	Asif's Current A/c	1,300	
To Asif's Current A/c (Salary)		24,000	Ravi's Current A/c	1,300	2,600
To Ravi's Current A/c (Commission)		18,200			
To Asif's Current A/c		1,34,640			
To Ravi's Current A/c		89,760			
		3,66,600			**3,66,600**

(B) Rita Nina Mita **[4]**

Or 3 2 1

Gaining Ratio 3 : 2

(i) Goodwill = Weighted average profit × Number of years' purchase

$$= \frac{\text{Total product}}{\text{Total weight}} \times \text{Number of year's purchase}$$

Year	Profit (₹)	Weight	Product (₹)
2014–15	20,000	1	20,000
2015–16	80,000	2	1,60,000
2016–17	1,00,000	3	3,00,000
		6	4,80,000

$$\text{Goodwill} = \frac{₹4,80,000}{6} \times 2 = ₹1,60,000$$

$$\text{Mita's share of goodwill} = \frac{₹1,60,000}{6} = 26,666.67$$

(ii)

In the books of Rita, Nina and Mita

Journal

Date	Particulars	L.F.	Amount (₹)	Amount (₹)
	Rita's Capital A/c Dr.		16,000	
	Nina's Capital A/c Dr.		10,667	
	To Mita's Capital A/c			26,667
	(Being Mita's Capital A/c credited with her share of goodwill in the gaining ratio)			

5. Annie and Bonnie are partners in a firm, sharing profits and losses equally. Their Balance Sheet as at 31st March, 2017 was as follows:

Balance Sheet of Annie and Bonnie
As at 31st March, 2017

Liabilities		Amount (₹)	Assets		Amount (₹)
Sundry Creditors		21,000	Cash at Bank		20,000
General Reserve		15,000	Sundry Debtors	22,000	
Capital A/c			Less :Provision for Doubtful Debts	(1,000)	21,000
Annie	45,000		Stock		10,000
Bonnie	40,000	85,000	Plant and Machinery		60,000
			Goodwill		10,000
		1,21,000			**1,21,000**

Carl was to be taken as a partner for 1/4 share in the profits of the firm, with effect from 1st April 2017 on the following terms:

(a) Bad debts amounting to ₹ 1,500 to be written off.
(b) Stock to be taken over by Annie at ₹ 12,000.
(c) Plant and Machinery to be valued at ₹ 50,000.
(d) Goodwill of the firm to be valued at ₹ 20,000.
(e) Carl to bring in ₹ 50,000 as his capital. He was unable to bring his share of goodwill in cash.
(f) General Reserve not to be distributed. For this, it was decided that Carl would compensate the old partners through his current account.

You are required to:
(i) Pass journal entries on the date of Carl's admission.
(ii) Prepare the Balance Sheet of the reconstituted firm. **[12]**

Ans. (i) **In the books of Annie, Bonnie and Carl**

Journal

Date		L.F.	Amount (₹)	Amount (₹)
	Bank A/c Dr.		50,000	
	To Carl's Capital A/c			50,000
	(Being cash brought in by Carl for capital)			
	Carl's Current A/c Dr.		5,000	
	To Annie's Capital A/c			2,500
	To Bonnie's Capital A/c			2,500
	(Being old partners compensated for goodwill in the sacrificing ratio)			
	Provision for Doubtful Debts A/c Dr.		1,000	
	Revaluation A/c Dr.		500	
	To Debtors A/c			1,500
	(Being bad debts written off)			
	Revaluation A/c Dr.		10,000	
	To Plant and Machinery A/c			10,000
	(Being loss on plant and machinery)			
	Stock A/c Dr.		2,000	
	To Revaluation A/c			2,000
	(Being stock revalued)			
	Annie's Capital A/c Dr.		4,250	
	Bonni's Capital A/c Dr.		4,250	

	To Revaluation A/c				8,500
	(Being loss on revaluation written off in old profit sharing ratio)				
	Annie's Capital A/c	Dr.		12,000	
	To Stock A/c				12,000
	(Being stock taken over by Annie)				
	Annie's Capital A/c	Dr.		5,000	
	Bonnie's Capital A/c	Dr.		5,000	
	To Goodwill A/c				10,000
	(Being goodwill written off in old profit sharing ratio)				
	Carl's Current A/c	Dr.		3,750	
	To Annie's Capital A/c				1,875
	To Bonnie's Capital A/c				1,875
	(Being old partners compensated for General Reserve in the sacrificing ratio)				

Working Notes :

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Annie	Bonnie	Carl	Particulars	Annie	Bonnie	Carl
To Revaluation A/c	4,250	4,250		By Balance b/d	45,000	40,000	
To Goodwill A/c	5,000	5,000		By Bank A/c			50,000
To Stock A/c	12,000			By Carl's Current A/c	2,500	2,500	
To Bal. c/d	28,125	35,125	50,000	By Carl's Current A/c	1,875	1,875	
	49,375	**44,375**	**50,000**		**49,375**	**44,375**	**50,000**

Balance Sheet of Annie and Bonnie and Carl
As at 1st April, 2017

Liabilities		Amount (₹)	Assets		Amount (₹)
Sundry Creditors		21,000	Cash at Bank		70,000
General Reserve		15,000	Sundry Debtors	22,000	
Capital A/c			Less: Bad Debts	(1,500)	20,500
Annie	28,125		Plant and Machinery		50,000
Bonnie	35,125		Carl's Current A/c		8,750
Carl	50,000	1,13,250			
		1,49,250			**1,49,250**

6. **(A) Harish, Paresh and Mahesh were three partners sharing profits and losses in the ratio of 5:4:1.**
Paresh retired on 31st March 2017. His capital on 1st April 2016 was ₹ 80,000. During the year 2016 - 17, he made drawings of ₹ 5,000. He was to be charged interest on drawings of ₹100.
The partnership deed provides that on the retirement of a partner, he will be entitled to:
(i) His share of capital.
(ii) Interest on capital @ 10% per annum.
(iii) His share of profit for the year of his retirement.
(iv) His share of goodwill in the firm.
(v) His share in the profit/loss on revaluation of assets and liabilities.
Additional information:
(a) Paresh's share in the profits of the firm for the year 2016 - 17 was ₹ 20,000.
(b) Goodwill of the firm was valued at ₹ 24,000.

(c) The firm suffered a loss of ₹ 12,000 on the revaluation of assets and liabilities.

(d) It was decided to transfer the amount due to Paresh to his loan account bearing interest @ 6% per annum. The loan was to be repaid in two equal annual instalments, the first instalment to be paid on 31st March, 2018.

You are required to prepare:

(i) Paresh's Capital Account.

(ii) Paresh's Loan Account till it is finally closed. [8]

(B) Parth, Angad and Leesha are partners in a firm sharing profits and losses in the ratio of 3:2:1 respectively. Angad retires and his claim including his capital and entitlements from the firm including his share of goodwill of the firm is ₹ 50,000.

After this amount was determined, it was found that there was an unrecorded piece of furniture valued at ₹ 12,000 which had to be recorded.

Upon recording this piece of furniture, the revised amount due to Angad was determined and settled by giving him this piece of furniture and the balance in cash.

You are required to give the journal entries for recording the payment to Angad in the books of the firm. [4]

Ans.(A) (i) In the books of Harish, Paresh and Mahesh

Dr. **Paresh's Capital A/c** Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Drawings A/c	5,000	By Balance b/d	80,000
To Interest on Drawings A/c	100	By Interest on Capital A/c	8,000
To Revaluation A/c	4,800	By Profit and Loss Appropriation A/c	20,000
To Paresh's Loan A/c	1,07,700	By Harish's Capital A/c	8,000
		By Mahesh's Capital A/c	1,600
	1,17,600		1,17,600

(ii) Dr. **Paresh's Loan A/c** Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31/3/2017	To Balanced c/d	1,07,700	31/3/2017	By Paresh's Capital	1,07,700
		1,07,700			**1,07,700**
31/3/2018	To Bank	60,312	1/4/2017	By Balance b/d	1,07,700
31/3/2018	To Balanced c/d	53,850	31/3/2018	By Interest on Loan	6,462
		1,14,162			**1,14,162**
31/3/2019	To Bank	57,081	1/4/2018	By Balance b/d	53,850
			31/3/2019	By Interest on Loan	3,231
		57,081			**57,081**

Ans. (B) In the books of Parth, Angad and Leesha

Journal

Date	Particular	L.F.	Amount (₹)	Amount (₹)
	Furniture A/c Dr.		12,000	
	To Revaluation A/c			12,000
	(Being furniture recorded in book)			
	Revaluation A/c Dr.		12,000	
	To Parth's Capital A/c			6,000
	To Angad's Capital A/c			4,000
	To Lessha's Capital A/c			2,000
	(Being transfer of profit on revaluation)			
	Angad's Capital A/c Dr.		54,000	
	To Furniture A/c			12,000
	To Cash A/c			42,000
	(Being Angad's claim discharged)			

7. The following balances have been extracted from the books of Vanity Ltd. as at 31st March,2017:

Trial Balance as at 31st March, 2017

Particulars	Debit (₹)	Credit (₹)
Equity Share Capital (5,000 shares of ₹ 100 each fully paid)		5,00,000
Fixed Assets	7,30,000	
Reverses and Surplus		2,00,000
Inventories	50,000	
Cash and Bank Balances	1,70,000	
Creditors		40,000
Bills Payable		20,000
Underwriting Commission on issue of shares	10,000	
5% Debentures (1/5 of the Debentures to be redeemed on 31st March, 2018)		2,00,000
Proposed Dividend		12,000
Interest accrued and due on 5% Debentures		8,000
Trade Receivables	20,000	
Total	**9,80,000**	**9,80,000**

You are required to prepare as at 31st March, 2017:

(i) The Balance Sheet of Vanity Ltd. as per Schedule III of the Companies Act, 2013.

(ii) Notes to Accounts. **[12]**

Ans.

Balance Sheets of Vanity Ltd.

As at 31st March, 2017

	Particulars	Note No.	31.03.2017 (₹)	31.03.2016 (₹)
I	**EQUITY AND LIABILITIES**			
1.	**Shareholders's Funds**			
	(a) Share Capital	1	5,00,000	
	(b) Reserves and Surplus	2	1,90,000	
2.	**Non-Current Liabilities**			
	Long Term Borrowing (5% Debentures)	3	1,60,000	
3.	**Current Liabilities**			
	(a) Trade Payables	4	60,000	
	(b) Other Current Liabilities	5	48,000	
	(c) Short Term Provisions	6	12,000	
	TOTAL		**9,70,000**	
II	**ASSETS**			
1.	**Non-Current Assets**			
	**Fixed Assets		7,30,000	
2.	**Current Assets**			
	(a) Inventories		50,000	
	(b) Trade Receivables		20,000	
	(c) Cash and Bank Balances		1,70,000	
	TOTAL		**9,70,000**	

**As Schedule III of the Companies Act 2013 Fixed Assets is replaced with Property, Plant and Equipment.

Notes to Accounts:

	Particulars	(₹)	31.03.2017 (₹)
1.	Share Capital		
	Authorized Capital		
	.... Equity Shares @ ₹ 100		....
	Issued Capital	(—)	
	.... Equity Shares @ ₹ 100	(—)	....
	Subscribed Capital		
	Subscribed and fully paid up		
	5000 Equity Shares @ ₹ 100		5,00,000
2.	Reserves and Surplus	2,00,000	
	Less :Under writing commission	(10,000)	1,90,000
3.	Long term borrowings		
	5% Debentures		1,60,000
4.	Trade Payable		
	Creditors		40,000
	Bills Payable		20,000
5.	Other Current Liabilities		
	Current Maturity of Long Term Debts -5% Debentures		40,000
	Interest Accrued and Due on 5% Debentures		8,000
6.	Short Term Provisions		
	Proposed Dividend		12,000

8. (A) Susan, Geeta and Rashi are partners sharing profits and losses in the ratio of 5:3:2. Their Balance Sheet as at 31st March, 2017 is as under:

Balance Sheet of Susan, Geeta and Rashi

As at 31st March, 2017

Liabilities		Amount (₹)	Assets		Amount (₹)
Sundry Creditors		50,000	Cash at Bank		70,000
Workmen Compensation Reserve		25,000	Sundry Debtors	65,000	
Employees Provident Fund		5,000	Less: Provision for Doubtful Debts	(5,000)	60,000
Bank Loan		55,000	Goodwill		50,000
Capital A/c			Furniture		1,00,000
Susan	2,20,000		Building		3,80,000
Geeta	1,70,000				
Rashi	1,35,000	5,25,000			
		6,60,000			**6,60,000**

The partners decided to dissolve their partnership on 31st March 2017.

The following transactions took place at the time of dissolution :

(a) Realisation expenses of ₹ 2,000 were paid by Susan on behalf of the firm.

(b) Geeta took over the goodwill for her own business at ₹ 40,000.

(c) Building was taken over by Rashi at ₹ 3,00,000.

(d) Only 80% of the debtors paid their dues.

(e) Furniture was sold for ₹ 97,000.

(f) Bank Loan was settled along with interest of ₹ 5,000.

You are required to prepare the Realisation Account. **[8]**

(B) **The capital accounts of Amar and Harsh stood at ₹ 20,000 and ₹ 30,000 respectively after the necessary adjustments in respect of drawings and net profit for the year ended 31st March 2017. It was subsequently ascertained that interest on capital @ 12% per annum was not taken into account while arriving at the divisible profits for the year.**

During the year 2016 - 17, Amar had withdrawn ₹ 2,000 and Harsh's drawings were ₹ 1,000.

The net profit for the year amounted to ₹ 15,000.

The partners shared profits and losses in the ratio of 3:2.

You are required to pass the necessary journal entries to rectify the error in accounting. **[4]**

Ans. (A) **In the books of Susan, Geeta and Rashi**

Dr. **Realisation Account** **Cr.**

Particulars		Amount (₹)	Particulars		Amount (₹)
To Sundry Assets A/c			By Provision for doubtful debts A/c		5,000
Sundry Debtors	65,000		By Sundry Liabilities A/c		
Goodwill	50,000		Creditors	50,000	
Furniture	1,00,000		Bank Loan	55,000	
Building	3,80,000	5,95,000	Employees Provident Fund	5,000	1,10,000
To Susan's CapitalA/c (Realisation Expenses)		2,000	By Geeta's Capital A/c (Goodwill)		40,000
To Bank A/c			By Rashi's Capital A/c (Building)		3,00,000
Creditors	50,000		By Bank		
Bank Loan (55,000 + 5,000)	60,000		Debtors (80% of 65,000)	52,000	
Employees Provident Fund	5,000	1,15,000	Furniture	97,000	1,49,000
			By Susan's Capital A/c		54,000
			By Geeta's Capital A/c		32,400
			By Rashi's Capital A/c		21,600
		7,12,000			**7,12,000**

Ans. **In the book of Amar and Harsh**

Journal

Date	Particular		L.F.	Amount (₹)	Amount (₹)
	Amar's Capital A/c	Dr		9,000	
	Harsh's Capital A/c	Dr		6,000	
	To Profit and Loss Adjustment A/c				15,000
	(Being incorrect profits cancelled)				
	Interest on Capital A/c	Dr		4,560	
	To Amar's Capital A/c (12% of 13,000)				1,560
	To Harsh's Capital A/c (12% of 25,000)				3,000
	(Being interest on capital not credited earlier rectified)				
	Profit and Loss Adjustment A/c	Dr		4,560	
	To Interest on Capita A/c				4,560
	(Being Interest on Capital transferred to Profit and Loss Adjustment A/c)				

	Profit and Loss Adjustment A/c Dr		10,440	
	To Amar's Capital A/c			6,264
	To Harsh's Capital A/c			4,176
	(Being correct profits credited to partner's Capital A/c)			

Working Notes :

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Amar	Harsh	Particulars	Amar	Harsh
To Drawings	2,000	1,000	By Balance b/d (balancing figure)	13,000	25,000
To Balance c/d	20,000	30,000	By Profit and Loss Adjustment A/c	9,000	6,000
	22,000	**31,000**		**22,000**	**31,000**

SECTION - B [20 Marks]

9. (A) **You are required to prepare a Cash-Flow Statement (as per AS-3) for the year 2016 - 17 from the following Balance Sheet.**

Balance Sheet of Honesty Ltd.
As at 31st March 2016 and 31st March 2017

		Particulars	Note No.	31.03.2017 (₹)	31.03.2016 (₹)
I		**EQUITY AND LIABILITIES**			
	1.	**Shareholders Funds**			
		(a) Share Capital (Equity Share Capital)		14,00,000	10,00,000
		(b) Reserves and Surplus (Statement of P/L)		5,00,000	4,00,000
	2.	**Non-Current Liabilities**			
		Long Term Borrowing (10% Debentures)		5,00,000	1,40,000
	3.	****Current Liabilities**			
		(a) Short Term Borrowings (Bank Overdraft)		20,000	30,000
		(b) Trade Payables (Creditors)		1,00,000	60,000
		(c) Short Term Provisions	1.	60,000	30,000
		TOTAL		**25,80,000**	**16,60,000**
II		**ASSETS**			
	1.	**Non-Current Assets**			
		Fixed Assets			
		(i) Tangible	2.	16,00,000	9,00,000
		(ii) Intangible (Goodwill)		1,40,000	2,00,000
	2.	**Current Assets**			
		(a) Inventories		2,50,000	2,00,000
		(b) Trade Receivables		5,00,000	3,00,000
		(c) Cash and Bank Balances (Cash at Bank)		90,000	60,000
		TOTAL		**25,80,000**	**16,60,000**

**As per new syllabus (Schedule III of Companies Act, 2013) Long Term Borrowing is shown under Head-current Liability.

Notes to Accounts:

Particulars	31.03.2017 (₹)	31.03.2016 (₹)
1. Short term provisions		
Provision for taxation	60,000	30,000
2. Fixed Assets (Tangible)		
Plant and Machinery	17,60,000	10,00,000
Less : Accumulated Depreciation	(1,60,000)	(1,00,000)
	16,00,000	**9,00,000**

Additional Information:

During the year 2016 - 17:

(i) A part of the machine, costing ₹ 50,000 accumulated depreciation thereon being ₹ 20,000 was sold for ₹ 18,000.

(ii) Tax paid ₹ 20,000.

(iii) Interest of ₹ 50,000 paid on Debentures. **[8]**

(B) State whether the following would result in inflow, outflow or no flow of cash: **[2]**

(i) Bill Receivable Endorsed to Creditors.

(ii) Old Vehicle Written Off.

Ans. (A) Working Note 1.

Dr. **Accumulated Depreciation A/c** **Cr.**

Particulars	Amount(₹)	Particulars	Amount(₹)
To Plant and Machinery	20,000	By Balance b/d	1,00,000
To Balance c/d	1,60,000	By Depreciation (Balancing Figure)	80,000
	1,80,000		**1,80,000**

Working Note 2.

Dr. **Provision for Taxation A/c** **Cr.**

Particulars	Amount(₹)	Particulars	Amount(₹)
To Cash A/c	20,000	By Balance b/d	30,000
To Balance c/d	60,000	By Statement of P/L Profit and Loss (Balancing Figure)	50,000
	80,000		**80,000**

Working Note 3.

Dr. **Plant and Machinery A/c** **Cr.**

Particulars	Amount(₹)	Particulars	Amount(₹)
To Balance b/d	10,00,000	By Accumulated Depreciation A/c	20,000
To Cash A/c	8,10,000	By Cash A/c	18,000
		By Loss on sale (Balancing Figure)	12,000
		By Balance c/d	17,60,000
	18,10,000		**18,10,000**

Working Note 4.

Particulars	(₹)
Net Profit for the year	1,00,000
Add: Provision for Tax	50,000
Net Profit before Tax	1,50,000

Cash Flow Statement of Honesty Ltd.
for the year ending 31.03.2017

	Particular	(₹)	(₹)	(₹)
I	**Cash Flows from Operating activities**			
	Net Profit before Tax		1,50,000	
	Add: Non-operating/non-cash expenses			
	Goodwill written off		60,000	
	Depreciation on Plant and Machinery		80,000	
	Loss on sale of Plant and Machinery		12,000	
	Interest on Debentures		50,000	
	Net Operating Profit before working capital charges		3,52,000	
	Add: Trade Payables	40,000		
	Less: Inventory	(50,000)		
	Less: Trade Receivables	(2,00,000)	(2,10,000)	
	Cash Flow from operating activities before tax paid		1,42,000	
	Less: Tax Paid		(20,000)	
	Cash Flow from Operating Activities			**1,22,000**
II	**Cash Flows from Investing Activities**			
	Sale of Plant and Machinery		18,000	
	Purchase of Plant and Machinery		(8,10,000)	
	Cash used in Investing Activities			**(7,92,000)**
III	**Cash Flows from Financing Activities**			
	Issue of Share Capital		4,00,000	
	Issue of Debentures		3,60,000	
	Interest on Debentures paid		(50,000)	
	Bank overdraft repaid		(10,000)	
	Cash Flow from Financing Activities			**7,00,000**
	Net increase in Cash as per I, II and III			30,000
	Add: Opening Cash and Cash Equivalent			
	Cash at Bank			60,000
	Closing Cash and Cash Equivalent		90,000	
			90,000	**90,000**

Ans.(B) **(i)**No Flow **[1]**

(ii) No Flow **[1]**

10. **(A)** Give any two differences between horizontal analysis and vertical analysis of financial statements. **[2]**

(B) The Quick Ratio of a company is 0.8:1. State whether the Quick Ratio will *improve, decline* or *will not change* in the following cases:

(i) Cash collected from Debtors ₹ 50,000.

(ii) Creditors of ₹ 20,000 paid off. **[2]**

(C) From the following information, prepare a Common Size Statement of Profit and Loss of Prudence Ltd. for the year ending 31st March 2017:

Particulars	**31.03.2017** ₹
Revenue from Operations	**20,00,000**
Purchases	**15,00,000**
Changes in Inventories	**1,00,000**
Other Income (Dividend received)	**40,000**
Depreciation and Amortisation Expenses	**60,000**

Tax Rate @ 40% **[6]**

Ans. (A) Horizontal analysis and Vertical analysis of financial statements :

	Horizontal analysis	**Vertical analysis**
1.	It is concluded for two or more accounting periods.	It is conducted for one accounting period.
2.	Same items for different accounting periods are analysed.	Different items for the same period are analysed.
3.	It provides information in absolute and percentage form.	It provides information in percentage form.
4.	This analysis can be done by preparing Comparative Balance Sheet/Statement of P/L	This analysis can be done by preparing Common Size Balance Sheet/Statement of P/L

B. **(i)** No Change

(ii) Decline

C. **Common size Statement of Profit and Loss of Prudence Ltd**

For the year ending 31st March 2017

Particulars	**Absolute Amount (₹)**	**% to Revenue from Operations**
Revenue from Operations	20,00,000	100
Other Income (Dividend received)	40,000	2
Total Revenue	20,40,000	102
Expenses		
Purchases	15,00,000	75
Changes in Inventories	1,00,000	5
Depreciation and Amortisation Expenses	60,000	3
Total Expenses	16,60,000	83
Profit before Tax	3,80,000	19
Less: Tax	(1,52,000)	7.6
Profit after Tax	2,28,000	11.4

11. (A) Calculate the Net Profit Ratio (up to two decimal places) from the following information: **[2]**

Particulars	₹
Gross Profit	80,000
Salary and Rent	30,000
Interest on Debentures	5,000
Gain on Sale of Furniture	2,000
Revenue from Operations	4,00,000

(B) From the following information calculate the following ratios (up to two decimal places): **[8]**

(i) Earning Per Share

(ii) Price Earning Ratio

(iii) Return on Investments

(iv) Working Capital Turnover Ratio

Particulars	₹
Net Profit after Interest and Tax	2,40,000
Tax	1,60,000
Net Fixed Assets	10,00,000
Non-current Investments (Non-Trade)	1,00,000
Equity Share Capital (face value ₹ 10 per share)	5,00,000
15% Preference Share Capital	1,00,000
Reserves and Surplus (including surplus of the year under consideration)	2,00,000
10% Debentures	4,00,000
Revenue from Operations	10,00,000
Working Capital	1,00,000

Note: The market value of an equity share is ₹ 40.

Ans.11.(A) Net Profit Ratio $= \dfrac{\text{Net profit}}{\text{Revenue from operations}} \times 100$

$$= \frac{₹80,000 + ₹2,000 - ₹30,000 - ₹5,000}{₹4,00,000} \times 100$$

$$= \frac{₹47,000}{₹4,00,000} \times 100 = 11.75\%$$

(B).(i) Earning per share $= \dfrac{\text{Net Profit after Tax and Preference Dividend}}{\text{Number of Equity Shares}}$

$$= \frac{₹2,40,000 - ₹15,000}{₹50,000}$$

$$= \frac{₹2,25,000}{₹50,000} = ₹\ 4.5$$

(ii) Price Earning Ratio $= \dfrac{\text{Market value of an Equity Share}}{\text{Earning per Share}}$

$$= \frac{₹40}{₹4.5} = 8.89 \text{ times}$$

(iii) Return on Investments $= \dfrac{\text{Net profit before Interest and Tax}}{\text{Capital Employed}} \times 100$

$$= \frac{₹2,40,000 + ₹1,60,000 + ₹40,000}{₹11,00,000} \times 100$$

$$= \frac{₹4,40,000}{₹11,00,000} \times 100 = 40\%$$

(iv) Working Capital Turnover Ratio $= \dfrac{\text{Revenue from Operations}}{\text{Working Capital}}$

$$= \frac{₹10,00,000}{₹1,00,000} = 10 \text{ times}$$

■■■