ISC Solved Paper 2020

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)

Answer __all__ questions

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

(i) Why is goodwill considered to be an intangible asset and not a fictitious asset ?

Ans. Fictitious assets are those expenses or losses which are unclaimed and don't have any market value.

Intangible assets are non-physical assets which cannot be seen or touched but have market value.

Goodwill is non-physical but has market value and can be sold. Therefore, goodwill is considered to be an intangible asset and not a fictitious asset.

(ii) How will a firm deal with a situation when its partnership deed provides for interest on capital, but the profit earned by it is not enough to do so, at the rate mentioned in the deed ?

Ans. When partnership deed provides for interest on capital but the profit to be earned by the firm is not enough to do so, then profit is distributed in the ratio of interest on capital of each partner instead of profit sharing ratio.

(iii) State with reason whether Securities Premium Reserve can be used by a company to write off the discount allowed to its debtors.

Ans. No, securities permium Reserve cannot be used to unite off discount allowed to its debtors.Discount payable on Debtors is anticipated loss for which provision is maintained and it is written off from such provision only.

(iv) List any four items that are shown under the sub-head 'Other Current Assets' in the Balance Sheet of a company prepared as per Schedule III of the Companies Act, 2013.

Ans. **(a)** Prepaid expenses

(b) Dividend receivables

(c) Advances to personnel

(d) Advance taxes

(v) What is the maximum limit of debentures which companies, other than Banking Companies and All India Financial Institutions, can redeem out of capital ? [ISC marking Scheme 2020]

Ans. 75% is the maximum limit of debentures which a company can redeem out of capital.

(vi) (a) Mention *any two* circumstances which can lead to dissolution of partnership.

(b) What is the status of the firm upon the dissolution of partnership ?

Ans. **(a)** A partnership can be dissolved :

- In case of admission of a new partner
- In case of retirement of a partner

(b) In case of dissolution of partnership the firm as a who is not close down, it only results in the end of the old agreement between partners and its replacement with next agreement.

(Part II)

(48 Marks)

Answer any four questions

2. (A) From the following information, calculate goodwill of the firm of Anmol and Sujay at the time of admission of Dhruv : [4]

(i) At three years' purchase of Super Profit.

(ii) On the basis of Capitalisation of Super Profit.

(a) Actual Average Profits of the firm for the last three years is ₹ 25,000.

(b) Normal Rate of Return is 10%.

(c) Balance Sheet of Anmol and Sujay

As at 31st March 2019

Liabilities		Amount (₹)	Assets	Amount (₹)
Sundry Creditors		40,000	Plant and Machinery	40,000
Bills Payable		10,000	Land and Building	80,000
General Reserve		20,000	Investments (Non-trade)	50,000
Capital Accounts :			Sundry Debtors	15,000
Anmol	80,000		Bank	55,000
Sujay	90,000	1,70,000		
		2,40,000		2,40,000

(B) Manoj, Hari and Karan are partners in a firm sharing profits and losses in the ratio 4:2:1. Their Balance Sheet as at 31st March 2019 was as follows : [8]

Balance Sheet of Manoj, Hari and Karan

As at 31st March 2019

Liabilities		Amount (₹)	Assets	Amount (₹)
Sundry Creditors		32,600	Plant and Machinery	20,000
Bills Payable		4,000	Goodwill	7,000
General Reserve		8,400	Stock	38,000
Capital Accounts :			Bank	20,000
Manoj	16,000			
Hari	14,000			
Karan	10,000	40,000		
		85,000		85,000

Hari retired from the business on 1st April, 2019. The remaining partners decided to carry on the business. The terms of retirement provided the following :

(a) Out of the total insurance premium paid, ₹ 7,000 to be treated as prepaid insurance. The amount was earlier debited to Profit and Loss Account.

(b) General Reserve not to be distributed.

(c) Hari to be paid ₹ 24,400 in full settlement.

You are required to prepare Partners' Capital Accounts.

Ans. (A) (i) Actual Average profit = ₹ 25,000

Capital Employed = All Assets (Except goodwill, non-trade investments and fictitious assets) – Outside Liabilities

= ₹ 1,90,000 – (Sundry Creditors + Bills Payable)

= ₹ 1,90,000 – (40,000 + 10,000)

= ₹ 1,40,000

$$\text{Normal profit} = \frac{\text{Capital Employed} \times \text{Normal Rate of Return}}{100}$$

$$= \frac{₹1,40,000 \times 10}{100}$$

= ₹ 14,000

Super profit = Average Profit – Normal Profit

= ₹25,000 – ₹14,000

= ₹ 11,000

Goodwill = Super profit × Numbers of Years' Purchase

= ₹11,000 × 3

= ₹ 33,000

(ii) Goodwill = $\text{Super Profit} \times \frac{100}{\text{Normal Rate of Return}}$

= $₹11,000 \times \frac{100}{10}$

= ₹ 1,10,000

(B) Dr. **Partners' Capital Account** **Cr.**

Particulars	Manoj(₹)	Hari(₹)	Karan(₹)	Particulars	Manoj(₹)	Hari(₹)	Karan₹
To Goodwill A/c	4,000	2,000	1,000	By Balance b/d	16,000	14,000	10,000
To Hari's Capital A/c	1,920		480	By Revaluation A/c	4,000	2,000	1,000
To Hari's Capital A/c	6,400		1,600	By Manoj's Capital A/c		1,920	
To Bank A/c		24,400		By Karan's Capital A/c		480	
To Balance c/d	7,680		7,920	By Manoj's Capital A/c		6,400	
				By Karan's Capital A/c		1,600	
	20,000	26,400	11,000		20,000	26,400	11,000

Working Notes :

Gaining Ratio of Manoj and Karan 4:1

Share of Hari in General Reserve = $\frac{₹8,400 \times 2}{7}$ = 2,400

3.

Q.3. Sudesh Ltd. was registered with an authorised capital of ₹ 40,00,000 divided into 4,00,000 Equity Shares of ₹ 10 each.

The company offered 50,000 shares to the public at a premium of ₹ 2 per share, payable as follows :

₹ 3 on application

₹ 6 on allotment (including premium)

₹ 3 on first and final call (due two months after allotment)

Applications were received for 60,000 shares and pro-rata allotment was made as follows:

Category A : The applicants of 40,000 shares were allotted 30,000 shares.

Category B : The applicants of 20,000 shares were allotted in full.

Excess money paid on application was utilized towards allotment.

Nobby, a shareholder from Category A, who had applied for 1,200 shares failed to pay the allotment and call money.

Vineet, a shareholder from Category B, who had been allotted 1,000 shares, paid the call money due, along with allotment.

The company forfeited Nobby's shares after the first and final call and paid interest on Calls-in-advance to Vineet @ 12% per annum on the day of the final call.

You are required to :

(i) Pass journal entries to record the above transactions in the books of the company (including entries for interest on Calls-in-advance).

(ii) Prepare Calls-in-arrears Account. **[12]**

Ans. **In the Books of Sudesh Ltd.**

Journal Entries

Date	Particulars	L.F.	Amount Dr. (₹)	Amount Cr. (₹)
	Bank A/c Dr. To Equity Share Application A/c (Being the application money received for 60,000 shares @ 3 per share)		1,80,000	 1,80,000
	Equity Share Application A/c Dr. To Equity Share Capital A/c To Equity Share Allotment A/c (Being the application money adjusted)		1,80,000	 1,50,000 30,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c (Being the allotment money due on 50,000 @ ₹6 per share)		3,00,000	 2,00,000 1,00,000
	Bank A/c Dr. Calls-in-Arrears A/c Dr. To Equity Share Allotment A/c To Calls-in-Advance A/c (Being the allotment money received)		2,68,500 4,500	 2,70,000 3,000
	Equity Shares First and Final Call A/c Dr. To Equity Share Capital A/c (Being first and final call money due on 50,000 shares)		1,50,000	 1,50,000
	Bank A/c Dr. Calls-in-Advance A/c Dr. Calls-in-Arrears A/c Dr. To Equity Share First and Final Calls A/c (Being the first and final call money received)		1,44,300 3,000 2,700	 1,50,000
	Interest on Calls-in-Advance A/c Dr. To Vineet (Being the interest allowed on Calls-in-advance)		60	 60
	Vineet Dr. To Bank A/c (Being the interest paid)		60	 60
	Equity Share Capital A/c Dr. Securities Premium Reserve A/c Dr. To Calls-in-Arrears A/c To Forfeited Shares A/c (Being 900 shares forfeited for non-payment of allotment and call money)		9,000 1,800	 7,200 3,600
	Statement of Profit and Loss A/c Dr. To Interest on Calls-in-Advance A/c (Being the transfer of interest expenses to Statement of Profit and Loss)		60	 60

Calls-in-Arrears Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Equity Share Allotment A/c	4,500	By Share Capital A/c	5,400
To Equity Share First and Final Call A/c	2,700	By securities premium Reserve A/c	1,800
	7,200		7,200

4. (A) Mike and Ajay are partners sharing profits and losses in proportion to their capitals, which on 31st March 2019, stood at ₹ 6,00,000 and ₹ 4,00,000 respectively. On this date, the firm had ₹ 1,00,000 in its Workmen Compensation Reserve and its outside liabilities amounted to ₹ 6,00,000 which included Creditors of ₹ 2,00,000 and Bills Payable of ₹ 60,000.

The firm was dissolved on 31st March 2019 on which date, the assets, apart from Cash of ₹ 70,000 realised ₹ 14,00,000 and the liabilities were discharged as follows :

(a) Creditors due on 31st May 2019 were paid off at a discount of 3% per annum.

(b) Bills Payable were discharged at a rebate of ₹ 1,000.

(c) Workmen Compensation Claim of ₹ 40,000 was met.

(d) Expenses of dissolution amounting to ₹ 30,000 were paid.

You are required to prepare :

(i) Realisation Account.

(ii) Partners' Capital Accounts. **[8]**

(B) Xen, Sam and Tim are partners in a firm. For the year ended 31st March 2019 the profits of the firm ₹ 1,20,000, were distributed equally amongst them, without providing for the following provisions of the partnership deed:

(a) Sam's guarantee to the firm that the firm would earn a profit of at least ₹ 1,35,000. Any shortfall in these profits would be personally met by him.

(b) Profits to be shared in the ratio of 2:2:1.

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

Ans. (A) **Realisation Account**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Assets A/c	16,30,000	By Outside Liabilities	6,00,000
To Bank A/c (Expense paid)	30,000	By Workmen Compensation Reserve	40,000
To Bank A/c		By Bank A/c (Assets realised)	14,00,000
Workmen Compensation Reserve		By Loss on Realisation transferred to :	
40,000		Mike's Capital A/c 1,54,800	
Creditors 1,99,000		Ajay's Capital A/c 1,03,200	2,58,000
Bills Payable 59,000	2,98,000		
To Bank A/c (Outside Liabilities)	3,40,000		
	22,98,000		22,98,000

Partners' Capital Account

Particulars	Mike(₹)	Ajay(₹)	Particulars	Mike(₹)	Ajay(₹)
To Realisation A/c	1,54,800	1,03,200	By Balance b/d	6,00,000	4,00,000
To Bank A/c	4,81,200	3,20,800	By Workmen Compensation Reserve A/c	36,000	24,000
	6,36,000	4,24,000		6,36,000	4,24,000

(B) **Journal**

Date	Particulars		L.F.	Amount (₹)	Amount (₹)
	Xen's Capital A/c	Dr.		40,000	
	Sam's Capital A/c	Dr.		40,000	
	Tim's Capital A/c	Dr.		40,000	
	To Profit and Loss Adjustment				1,20,000
	(Being the share of profit wrongly credited to partners equally before adjustment to capital accounts of respective partners)				
	Sam's Capital A/c	Dr.		15,000	
	To Profit and Loss Adjustment A/c				15,000
	(Being deficiency met by Sam)				
	Profit and Loss Adjustment A/c	Dr.		1,35,000	
	To Xen's Capital A/c				54,000
	To Sam's Capital A/c				54,000
	To Tim's Capital A/c				27,000
	(Being divisible profit after adjustment credited to capital accounts of respective partners in profit sharing ration)				

5. (A) Zee Ltd. purchased a running business from Rainbow Ltd. for a sum of ₹ 6,60,000. Zee Ltd. paid 5% of the purchase consideration by drawing a Promissory Note in favour of Rainbow Ltd. and the balance by issue of fully paid 7% Debentures of ₹ 100 each at a premium of 10%. The assets and liabilities of Rainbow Ltd. consisted of :

	(₹)
Fixed Assets	**6,50,000**
Sundry Creditors	**80,000**

You are required to pass the necessary journal entries in the books of Zee Ltd. **[4]**

(B) On 1st April 2016 the following balances appeared in the books of Shikhar Ltd.

10% Debentures	**₹ 14,00,000**
Premium on Redemption of Debentures	**₹ 1,40,000**
Debenture Redemption Reserve	**₹ 75,000**

The debentures were to be redeemed at a premium of 10% in two equal annual instalments beginning from 31st March 2018. To meet the requirements of the Companies Act, 2013 the company transferred the balance amount to Debenture Redemption Reserve on 31st March 2017. On 30th April 2017 it met the requirement of the Companies Act, 2013 regarding Debenture Redemption Investment and redeemed the debentures on the scheduled dates.

You are required to pass necessary journal entries to record the above transactions in the books of Shikhar Ltd. (Ignore interest on debentures). **[8]**

Ans. (A) **Journal**

Date	Particulars		L.F.	Amount (₹)	Amount (₹)
	Fixed Assets A/c	Dr.		6,50,000	
	Goodwill A/c	Dr.		90,000	
	To Creditors A/c				80,000
	To Rainbow Ltd.				6,60,000
	(Being business purchased from Rainbow Ltd.)				
	Rainbow Ltd.	Dr.		6,60,000	
	To Bills Payable A/c				33,000
	To 7% Debentures A/c				5,70,000
	To Securities Premium Reserve A/c				57,000
	(Being the bills payable of ₹ 33,000 and 5,700 7% debentures are issued at premium of ₹ 10 against purchase consideration)				

Working Notes :

Number of Debentures issued = (Purchase consideration – Payment through Promissory Note) ÷ Issue Price

= (₹6,60,000 – ₹33,000) ÷ ₹110
= 5,700

(B) **Journal**

Date	Particulars		L.F.	Amount (₹)	Amount (₹)
2017 31 Mar.	Surplus, i.e., Balance in Statement of Profit and Loss	Dr.		2,75,000	
	To Debenture Redemption Reserve A/c				2,75,000
	(Being 25% of face value of debentures transferred to DRR)				
1 April	Debenture Redemption Investment A/c	Dr.		1,05,000	
	To Bank A/c				1,05,000
	(Being amount due to debantine holders.)				
2018 31 Mar.	10% Debentures A/c	Dr.		7,00,000	
	Premium on Redemption of Debentures A/c	Dr.		70,000	
	To Debentureholders' A/c				7,70,000
	(Being the redemption of 10% debentures of ₹ 7,00,000 at a premium of 10%)				
	Debentureholders' A/c	Dr.		7,70,000	
	To Bank A/c				70,000
	(Being the amount due to debentureholders paid)				
	Debenture Redemption Reserve A/c	Dr.		1,75,000	
	To General Reserve A/c				1,75,000
	(Being proportionate amount of DRR redeemed transferred to General Reserve)				
2019 31 Mar.	Bank A/c	Dr.		1,05,000	
	To Debentures Redemption Investment A/c				1,05,000
	(Being investment realised)				
	10% Debentures A/c	Dr.		7,00,000	
	Premium on Redemption of Debentures A/c	Dr.		70,000	
	To Debentureholders' A/c				7,70,000
	(Being redemption due of ₹ 7,00,000 10% debentures at a premium of 10%)				
	Debenturesholders' A/c	Dr.		7,70,000	
	To Bank A/c				7,70,000
	(Being amount due to debentureholders paid)				
	Debenture Redemption Reserve A/c	Dr.		1,75,000	
	To General Reserve A/c				1,75,000
	(Being proportionate amount transferred)				

6. **Anita and Tony, each doing business as sole proprietors, started a partnership on 1st April 2018. Anita brought in Plant and Machinery valued at ₹ 5,00,000 whereas Tony brought in furniture costing ₹ 50,000 and ₹ 7,00,000 in cash.**
Since the business needed more funds, Tony gave a loan of ₹ 2,00,000 to the firm on 30th June 2018.
Their partnership deed provided for :
(a) Interest on capital to be allowed @ 10% per annum
(b) Interest on drawings to be charged @ 6% per annum
(c) Anita to be given a commission of 4% on the corrected net profits before charging commission.
(d) Tony to be given a salary of ₹ 12,000 per annum.
Tony withdrew ₹ 5,000 at the end of every month and Anita withdrew ₹ 30,000 on 1st August 2018.
The net profit of the firm, for the year 2018–19 after debiting Tony's salary of ₹ 12,000 per annum but before considering any interest due to and due from the partners was ₹ 4,00,000.
You are required to prepare for the year 2018–19 :
(i) Profit and Loss Appropriation Account.
(ii) Partners' Capital Accounts. **[12]**

Ans.

Profit and Loss Appropriation Account
for the year ending 31st March 2019

Dr. | **Cr.**

Particulars		Amount (₹)	Particulars		Amount (₹)
To Salary A/c (Tony)		12,000	By Profit and Loss A/c		4,03,000
To Interest on Capital A/c			By Interest on Drawings A/c		
Anita	50,000		Anita's Capital A/c	1,200	
Tony	75,000	1,25,000	Tony's Capital A/c	1,650	2,850
To Commission A/c (Anita)		16,120			
To Net Profit Transferred to :					
Anita's Capital A/c	1,26,365				
Tony's Capital A/c	1,26,365	2,52,730			
		4,05,850			4,05,850

Dr. **Partners' Capital Account** **Cr.**

Particulars	Anita	Tony	Particulars	Anita	Tony
To Drawings A/c	30,000	60,000	By Plant and Machinery A/c	5,00,000	
To Interest on Drawings A/c	1,200	1,650	By Furniture A/c		50,000
To Interest on Loan A/c		9,000	By Bank A/c		7,00,000
To Balance c/d	6,61,285	9,01,715	By Interest on Capital A/c	50,000	75,000
			By Salary A/c		12,000
			By Commission A/c	16,120	
			By P and L Appropriation A/c	1,26,365	1,26,365
	6,92,485	9,63,365		6,92,485	9,63,365

7. Smita and Punita are partners in a firm sharing profits and losses in the ratio of 3 : 2. Their Balance Sheet as at 31st March 2019 is as follows :

Balance Sheet of Smita and Punita
As at 31st March, 2019

Liabilities		Amount (₹)	Assets		Amount (₹)
Sundry Creditors		14,000	Cash in hand		30,000
Bank Loan		6,000	Sundry Debtors	22,000	
General Reserve		10,000	Less : Provision for		
Capital Accounts :			doubtful debts	(2000)	20,000
Smita	30,000		Furniture		10,000
Punita	40,000	70,000	Stock		40,000
		1,00,000			1,00,000

On 1st April 2019, Mita is admitted as a new partner on the following terms :

(a) The new profit sharing ratio of Smita, Punita and Mita to be 5:3:2.
(b) Provision for doubtful debts to be raised to 10% of the debtors.
(c) Punita to take over the firm's investments (not recorded in the books) at ₹ 3,000.
(d) Goodwill of the firm to be valued at ₹ 50,000. Mita to bring in cash for her share of goodwill.
(e) 50% of the goodwill to be withdrawn by the old partners.
(f) Mita to pay off the Bank Loan on behalf of the firm. The amount due to her by the firm, to be considered as part of her capital contribution.
(g) Mita to bring in the balance of her capital in cash, so as to make her capital equal to 1/5th of the total capital of the firm.

You are required to:

(i) Pass journal entries at the time of Mita's admission.
(ii) Prepare the Balance Sheet of the reconstituted firm. **[12]**

Ans.(i) **Journal**

Date	Particulars	L.F.	Amount (₹)	Amount (₹)
	Revaluation A/c Dr. To Provision for Doubtful Debts A/c (Being increase in the provision for doubtful debt recorded)		200	 200
	Investments A/c Dr. To Revaluation A/c (Being investments recorded in the books)		3,000	 3,000
	Revaluation A/c Dr. To Smita's Capital A/c To Punita's Capital A/c (Being profit on revaluation distributed among old partner in old profit sharing ratio)		2,800	 1,680 1,120
	General Reserve A/c Dr. To Smita's Capital A/c To Punita's Capital A/c (Being General Reserve distributed)		10,000	 6,000 4,000
	Punita's Capital A/c Dr. To Investment A/c (Being investment taken over)		3,000	 3,000
	Bank Loan A/c Dr. To Mita's Capital A/c (Being bank load paid off)		6,000	 6,000
	Cash A/c Dr. To Mita's Capital A/c To Premium for Goodwill A/c (Being the amount of capital and goodwill brought by Mita)		25,200	 15,200 10,000
	Premium for Goodwill A/c Dr. To Smita's Capital A/c To Punita's Capital A/c (Being amount of goodwill distributed between Smita and Punita in sacrificing ratio)		10,000	 5,000 5,000
	Smita's Capital A/c Dr. Punita's Capital A/c Dr. To Cash A/c (Being 50% of goodwill withdrawn by Smita and Punita)		2,500 2,500	 5,000

(ii) **Balance Sheet**
as on 1st April 2019

Particulars		Amount (₹)	Particulars		Amount (₹)
Sundry Creditors		14,000	Cash in Hand		50,200
Capital :			Sundry Debtors	22,000	
Smita	40,180		Less : Provision for Doubtful Debt		
Punita	44,620			2,200	19,800
Mita	21,200	1,06,000	Furniture		10,000
			Stock		40,000
		1,20,000			1,20,000

Working Notes :

Cash Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	30,000	By Smita's Capital A/c	2,500
To Mita's Capital A/c	15,200	By Punita's Capital A/c	2,500
To Premium for Goodwill A/c	10,000	By Balance c/d	50,200
	55,200		55,200

8. **(A) Xylo Ltd. was formed on 1st April 2017, with an authorised capital of ₹ 12,00,000 divided into Equity Shares of ₹ 10 each. It issued a prospectus inviting applications for 30,000 shares to be issued at par. The issue was fully subscribed and the amount due on the shares was received by the company.**

On 1st April 2018, the company issued another 60,000 shares at a premium of ₹ 2 per share to be received with allotment. Applications for 55,000 shares were received which were duly allotted.

All the amounts due on these shares were received except the final call of ₹ 2 per share on 1,000 shares.

On 1st October 2018, the company also issued 2,000 6% debentures of ₹ 100 each at par, to be redeemed at par in five equal annual instalments beginning from 1st October, 2019. The entire issue price of these debentures was received by the company with application.

Half yearly interest on the debentures of ₹ 6,000 was paid by the company to the debenture holders on 31st March 2019.

You are required to show the relevant items under :

(i) Equity and Liabilities in the Balance Sheet of the Company as at 31st March 2019 (prepared as per Schedule III of the Companies Act, 2013).

(ii) Notes to Accounts. **[8]**

(B) Under which heads and sub-heads will the following items appear in the Balance Sheet of a company as per Schedule III of the Companies Act, 2013 :

(i) Trade Debtors

(ii) Marketable Securities

(iii) Finished Goods

(iv) Patents **[4]**

Ans. (A)

Balance Sheet of Xylo Ltd.
as at 31st March 2019

Particulars	Note No.	Amount (₹)
I. Equity and Liabilities		
1. Shareholders' Funds		
(a) Share Capital	1	8,48,000
(b) Reserves and surplus	2	1,10,000
2. Non- current Liabilities		
Long- term borrowings	3	1,60,000
3. Current Liabilities		
Other Current Liabilities	4	40,000

Particulars		Amount (₹)
1. **Share Capital**		
Authorised Capital		
1,20,000 shares of ₹ 10 each		12,00,000
Issued Capital		
30,000 shares of ₹ 10 each	3,00,000	
60,000 shares of ₹ 10 each	6,00,000	9,00,000
Subscribed and Fully Paid-up		
30,000 shares of ₹ 10 each	3,00,000	3,00,000
Subscribed but not Fully Paid-up		
55,000 share of ₹ 10 each	5,50,000	
(—) Calls-in-arrears	2,000	5,48,000
		8,48,000
2. **Reserve and Surplus**		
Securities Premium Reserve		1,10,000

As per new syllabus, (Schedule III of companies Act, 2013), long term browning is shown under head-current liability; Securities Premium Reserve to be replaced with Securities Premium.

3. **Long-term Borrowings**	
6% Debentures	1,60,000
4. **Other Current Liabilities**	
6% Debentures due for redemption on 1.10.2019	40,000

Note : It is assumed that Interest on Debentures has been paid beifore preparing Balance Sheet.

(B)

	Particulars	Heads	Sub-Heads
(i)	Trade Debtors	Current Assets	Trade Receivables
(ii)	Marketable Securities	Current Assets	Current Investments
(iii)	Finished Goods	Current Assets	Inventories
(iv)	Patents	Non-Current Assets	Fixed Assets—Intangible Assets

SECTION - B [20 Marks]

*Answer any **two** questions*

9. (A) Assuming that the current ratio of a company is 0.7 : 1, mention whether this ratio would increase, decrease or not change after the following transactions :

(i) Payment of ₹ 15,000 made to a creditor.

(ii) Purchase of Inventory worth ₹ 1,00,000 on credit. **[2]**

(B) Prepare a Comparative Statement of Profit and Loss of Cosmos Ltd. from the following information :

Particulars	31.03.2019	31.03.2018
Revenue from Operations	₹ 20,00,000	₹ 10,00,000
Purchases of Stock-in-Trade	₹ 12,00,000	₹ 6,00,000
Change in Inventories of Stock-in-Trade	25% of purchases of stock-in trade	20% of purchases of stock-in trade
Other Expenses	₹ 1,00,000	₹ 80,000
Tax Rate	40%	40%

[6]

(C) From the following extract of the Balance Sheet of Regal Ltd., taking into consideration the additional information, you are required to calculate the amounts of the following items to be shown in the company's Cash Flow Statement for the year 2018 - 19:

(i) Fixed asset purchased.

(ii) Fixed asset sold.

(iii) Profit/Loss on sale of fixed asset.

(iv) Depreciation charged on fixed assets.

Particulars	31.03.2019 (₹)	31.03.2018 (₹)
Fixed Asset	6,00,000	4,90,000

Additional informations:

(i) The Provision for depreciation on fixed assets stood at ₹ 1,40,000 on 31st March 2018 and ₹ 1,80,000 on 31st March, 2019.

(ii) During the year 2018 - 19, a fixed asset costing ₹ 60,000 (book value ₹ 30,000) was sold for ₹ 20,000. **[2]**

Ans. (A) (i) Payment of ₹ 15,000 made to a creditor will decrease the current liabilities and also decrease the current assets (cash) which in turn will decrease the ratio.

(ii) Purchase of inventory worth ₹ 1,00,000 on credit will increase current assets and also increase the current liabilities which in turn will increase the ratio.

(B) **Comparative Statement of Profit and Loss for the year ended 31st March 2018 and 2019**

Particulars	Note No.	31.03.2019 (₹)	31.03.2018 (₹)	Absolute Change (₹)	Percentage Change (%)
(I) Revenue from Operations		20,00,000	10,00,000	10,00,000	100
(II) Expenses:					
Purchase of Stock-in-Trade		12,00,000	6,00,000	6,00,000	100
Change in Inventories of Stock-in-Trade		3,00,000	1,20,000	1,80,000	150
Other Expenses		1,00,000	80,000	20,000	25
Total Expenses		16,00,000	8,00,000	8,00,000	100
(III) Profit before Tax (I - II)		4,00,000	2,00,000	2,00,000	100
(IV) Less Tax:		(1,60,000)	(80,000)	(80,000)	100
(V) Profit after Tax (III - IV)		2,40,000	1,20,000	1,20,000	100

(C) **Fixed Asset Account**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Balance b/d	6,30,000		By Bank A/c	20,000
				By Accumulated Depreciation A/c	30,000
	To Bank A/c (Bal. fig.)	2,10,000		By Statement of Profit and Loss	10,000
				By Balance c/d	7,80,000
		8,40,000			8,40,000

Accumulated Depreciation Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Fixed Asset A/c	30,000		By Balance b/d	1,40,000
	To Balance c/d	1,80,000		By Statement of Profit and Loss (Bal. fig.)	70,000
		2,10,000			2,10,000

(i) Fixed Asset purchased = ₹ 2,10,000
(ii) Fixed Asset sold = ₹ 20,000
(iii) Profit/Loss on sale of Fixed Asset = ₹ 10,000(Loss)
(iv) Depreciation charged on Fixed Assets = ₹ 70,000

10. **You are required to prepare a Cash-Flow Statement (as per AS-3) for the year 2018–2019 from the following Balance Sheets-:**

Balance Sheet of Hillock Ltd.
As at 31st March 2018

Particulars	Note No.	31.3.2019 (₹)	31.3.2018 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds:			
(a) Equity Share Capital		2,50,000	2,00,000
(b) Reserves and Surplus	1	90,000	50,000
2. Current Liabilities:			
(a) Short-term Borrowings (Bank overdraft)			10,000
(b) Trade Payables		20,000	15,000
(c) Other Current Liabilities	2	5,000	5,000

(d) Short-term Provisions (Provision for Tax)		25,000	20,000
Total		3,90,000	3,00,000
II. ASSETS			
1. Non-Current Assets:			
**Fixed Assets			
Tangible		2,55,000	2,35,000
2. Current Assets:			
(a) Current Investments		30,000	—
(b) Inventories		15,000	25,000
(c) Trade Receivables		40,000	10,000
(d) Cash and Bank Balances		50,000	30,000
Total		3,90,000	3,00,000

Notes to Accounts :

Particulars	31.3.2019 (₹)	31.3.2018 (₹)
1. Reserves and Surplus		
Balance in Statement of Profit and Loss	70,000	40,000
Securities Premium Reserve	20,000	10,000
	90,000	50,000
2. Other Current Liabilities		
Outstanding Expenses	1,000	5,000
Unclaimed Dividend	4,000	—
	5,000	5,000
3. Contingent Liability		
Proposed Dividend	5,000	10,000

Additional Information:
During the year 2018 19 :
(i) A tangible fixed asset costing ₹ 50,000 was purchased.
(ii) Tax paid ₹ 15,000.
(iii) Interest of ₹ 1,000 was paid on bank overdraft. **[10]**

Ans. **Cash Flow Statement**
(for the year ending 31st March 2019)

Particulars	Amount (₹)	Amount (₹)
(A) Cash Flow from Operating Activities		
Net Profit before Tax	60,000	
Adjustments for non-cash and non-operating items to be added back:		
Interest on Bank Overdraft	1,000	
Depreciation	30,000	
Operating Profit before Working Capital Changes	91,000	
Add:Decrease in Current Assets and Increase in Current Liabilities		
Trade Payables	5,000	
Inventories	10,000	
Less : Increase in Current Assets and Decrease in Current Liabilities	(30,000)	
Current Investments		
Outstanding Expenses	(4,000)	

As per schedule III of companies Act, 2013 Fixed Assets is replaced with Property, Plant and Equipment.

Trade Receivables	(30,000)	
Cash Generated from Operating Activities		42,000
Less:Tax Paid		(15,000)
Net Cash Flow from Operating Activities		27,000
(B) Cash Flow from Investing Activities		
Purchase of Fixed Assets	(50,000)	
Net Cash flow from Investing Activities		(50,000)
(C) Cash Flow from Financing Activities		
Proceeds from issue of Share Capital (50,000 + 10,000)	60,000	
Dividend Paid	(6,000)	
Bank Overdraft Repaid	(10,000)	
Interest on Bank Overdraft	(1,000)	
Net Cash Flow from Financing Activities		43,000
Net Increase in Cash and Cash Equivalents		20,000
Add:Cash and Cash Equivalents in the beginning of the period		30,000
Cash and Cash Equivalent at the end of period (including Current Investment)		50,000

Calculation of Profit before Tax :	₹
Statement of Profit and Loss A/c	30,000
Add : Provision for Tax	20,000
Dividend Paid	10,000
	60,000

11. (A) State the objective of calculating Liquidity Ratios. **[2]**

(B) From the following information, calculate earnings per share (up to two decimal places):

Particulars	
10% Preference Share Capital	**₹ 6,00,000**
Equity Share Capital (3,00,000 shares of ₹ 10 each)	**₹ 30,00,000**
Profit before Tax	**₹ 15,00,000**
Tax Rate	**30%**

[2]

(C) From the following information, calculate the following ratios (up to two decimal places):

(i) Debt to Total Assets Ratio

(ii) Proprietary Ratio

(iii) Inventory Turnover Ratio

Particulars	**₹**
Fixed Assets	**14,00,000**
Current Assets (including inventory of ₹ 2,00,000)	**10,00,000**
Shareholders' Funds	**14,40,000**
Non-Current Liabilities (10% Long-term Bank Loan)	**8,00,000**
Current Liabilities	**5,00,000**
Revenue from Operations	**15,00,000**
Gross Profit	**6,00,000**

[6]

Ans. (A) Objective of calculating liquidity ratio is to evaluate company's ability to meet short-term obligations and cash outflows.

(B) Tax @ 30% = $₹15,00,000 \times \frac{30}{100}$ = ₹4,50,000

Net Income after Tax = ₹15,00,000 – ₹4,50,000

= ₹10,50,000

Dividend on Preference Share = $₹6,00,000 \times \frac{10}{100}$

= ₹60,000

$$\text{Earning Per Share} = \frac{\text{Net Income} - \text{Dividend}}{\text{No. of Equity Shares}}$$

$$= \frac{₹10,50,000 - ₹60,000}{₹3,00,000}$$

$$= \frac{₹9,90,000}{₹3,00,000} = 3.3$$

(C) (i) $\text{Debt to Total Assets Ratio} = \frac{\text{Long-term Debts}}{\text{Total Assets}}$

$$= \frac{₹8,00,000}{₹14,40,000 + ₹8,00,000 + ₹5,00,000}$$

$$= \frac{₹8,00,000}{₹27,40,000}$$

$$= 0.29:1$$

(ii) $\text{Proprietary Ratio} = \frac{\text{Shareholders' Funds}}{\text{Total Assets}}$

$$= \frac{₹14,40,000}{₹27,40,000}$$

$$= 0.53:1$$

(iii) $\text{Inventory Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$

$$= \frac{\text{Revenue from Operations} - \text{Gross Profit}}{\text{Average Inventory}}$$

$$= \frac{₹15,00,000 - ₹6,00,000}{₹2,00,000}$$

$$= \frac{₹9,00,000}{₹2,00,000}$$

$$= 4.5 \text{ times}$$

■■■