ISC Solved Paper 2022 Semester-1
Accounts
Class-XII

(Maximum Marks : 40)

(Time allowed : One and a half hours)

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*(Candidates are allowed additional **10 minutes** for only reading the paper)*

All questions of Section A are Compulsory

All questions from either Section B or Section C are Compulsory

Each question/subpart of a question carries 2 marks.

Select the correct option for each of the following questions.

SECTION - A

Attempt all questions from this Section

1. Choose the INCORRECT statement from the following options:

(a) Shares forfeited by the company cannot be re-issued at a premium.

(b) At the time of forfeiture of shares, Securities Premium Reserve A/c is not debited with the amount of premium already received.

(c) The shares of a company cannot be issued at a discount.

(d) Securities Premium Reserve cannot be used by the company to write off discount allowed to its debtors.

Ans. Option (a) is correct.

Explanation: Forfeited shares can be re-issued at par, premium or discount as the case may be.

2. A firm follows the fluctuating capital method. One of its partners takes a loan from the firm on which, as per the partnership deed, the firm is entitled to receive interest.

What will be the adjusting entry for this interest on loan?

(a) Debit Interest on Loan A/c; Credit Profit and Loss Appropriation A/c

(b) Debit Interest on Loan A/c; Credit Profit and Loss A/c

(c) Debit Partner's Capital A/c; Credit Interest on Loan A/c

(d) Debit Partner's Loan A/c; Credit Interest on Loan A/c

Ans. Option (c) is correct.

Explanation: In the fluctuating capital method of preparing the partnership accounts, interest on loan account is credited if the firm received any interest on the loan granted to one of its partners. Partner pays its loan from his capital account.

3. Nickel Ltd. took over the business of Bronze Ltd. and agreed to pay for it by issuing 4,500 Equity Shares of ₹ 100 each at a premium of 20% along with a bank draft of ₹ 60,000.

What is the total agreed purchase consideration payable by Nickel Ltd. to Bronze Ltd.?

(a) ₹ 4,50,000 **(b)** ₹ 5,40,000

(c) ₹ 5,10,000 **(d)** ₹ 6,00,000

Ans. Option (d) is correct.

Explanation: Total agreed purchase consideration = ₹120 × 4,500 shares + ₹60,000

= ₹6,00,000

4. A partnership firm has assets worth ₹ 1,34,000. It earns an annual profit of ₹ 18,000. The normal rate of return in the industry is 10%. On the reconstitution of the firm, its goodwill, by capitalising the average profits of the firm, is valued at ₹ 70,000.

What are the outside liabilities of the firm at the time of valuation of its goodwill?

(a) ₹ 24,000 **(b)** ₹ 30,000
(c) ₹ 40,000 **(d)** ₹ 36,000

Ans. Option (a) is correct.

Explanation: Capitalised Average Profits = Average Estimated Profits × 100/Normal Rate of Return
= ₹18,000 × (100/10)
= ₹1,80,000

Goodwill = Capitalised Average Profits – Actual Capital Employed
₹ 70,000 = ₹1,80,000 – ACE
ACE = ₹1,10,000

Outside liabilities = ₹1,34,000 – ₹1,10,000 = ₹ 24,000

5. **Vishesh Ltd. offered 50,000 equity shares of ₹ 10 each to the public for subscription.**

Applications for 45,000 equity shares were received and allotment was made to all the applicants. The first and final call of ₹ 2 per share was not received on 1,000 shares, which were forfeited by the company.

What will be the Subscribed Capital of the company?

(a) ₹ 4,48,000 **(b)** ₹ 4,50,000
(c) ₹ 4,98,000 **(d)** ₹ 4,49,000

Ans. Option (a) is correct.

Explanation: Subscribed capital of the company = ₹40,000 × ₹10 + 1,000 × ₹8
= ₹4,4,40,000 + ₹8,000
= ₹ 4,48,000

The total subscribed capital is not affected by the forfeiture of the shares.

6. **Hemal and Rohan are two partners sharing profits and losses in the ratio of 4:3. An extract of their Balance Sheet as at 31st March 2021, showed:**

Balance sheet of Hemal and Rohan (an extract)
As at 31st March 2021

Liabilities		Amount (₹)	Assets	Amount (₹)
Workmen Compensation Reserve		28,000	Profit and Loss A/c	28,000
Capital A/c				
Hemal	40,000			
Rohan	22,000	62,000		

They admit Tanay on 1st April 2021, as a third partner for 1/3 share in the profits. On the date of Tanay's admission, the goodwill of the firm is valued at ₹ 21,000 and the gain on revaluation of assets and liabilities is ₹ 7,000.

Tanay's capital contribution, which is decided as one–half of the combined capitals of Hemal and Rohan, will be:

(a) ₹ 45,000 **(b)** ₹ 38,000
(c) ₹ 52,000 **(d)** ₹ 59,000

Ans. Option (b) is correct.

Explanation: The share of Tanay in Goodwill: 1/3 × ₹ 21,000 = ₹ 7,000.

The remaining goodwill amount of ₹14,000 will be distributed among the old partners in old sharing ratio:

Hemal = ₹ 14,000 × (4/7) = ₹ 8,000
Rohan = ₹ 14,000 × (3/7) = ₹ 6,000

New capital balance:
Hemal = ₹ 48,000
Rohan = ₹ 28,000
Combined Capital = ₹ 76,000
Tanay's capital contribution = ₹ 76,000 × 1/2 = ₹ 38,000

7. **The accountant of Biren Ltd. is preparing the Balance Sheet of the company as per Schedule III of the Companies Act, 2013.**

(i) The company has an operating cycle of 15 months. It has accounts payables (creditors and bills payable) amounting to ₹ 1,20,000. ₹ 20,000 of these are payable within 14 months, while the expected period of payment of the remaining accounts payables is between 16 and 18 months.

How will the company show its accounts payables in the Balance Sheet?

(a) Current Liability of ₹ 1,20,000

(b) Non-current Liability of ₹ 1,20,000

(c) Current Liability of ₹ 20,000 and Non - Current Liability of ₹ 1,00,000

(d) Current Liability of ₹ 1,00,000 and Non - Current Liability of ₹ 20,000

(ii) Which of the following will be shown as a sub - head in the Balance Sheet?

(a) Debtors **(b)** Stock - in- Trade

(c) Current Investments **(d)** Prepaid Expenses

Ans. (i) Option (c) is correct.

Explanation: If the operating cycle of the business is 15 months, then the normal course of business would also be 15 months. So, the receivables before 15 months would be treated as current liability and beyond 15 months would be treated as non - currently liability.

(ii) Option (c) is correct.

Explanation: Current investment is the sub-head in the balance sheet under the head current assets, all other options are accounting items not sub-heads.

8. Joshua Ltd. forfeited 500 equity shares of ₹ 10 each, fully called up, on which ₹ 6 per share (including premium of ₹ 3 per share) was received. The company later reissued these shares at a discount.
What is the maximum discount per share, which the company can give on their reissue?

(a) ₹ 6 per share **(b)** ₹ 7 per share

(c) ₹ 4 per share **(d)** ₹ 3 per share

Ans. Option (d) is correct.

Explanation: The maximum discount would be the amount that has been received from the original shareholder excluding the amount of premium received.

9. Deepa and Shweta are two partners sharing profits in the ratio of 1:2. Their Balance Sheet as at 31st March 2021, is as follows:

Balance Sheet of Deepa and Shweta
As at 31st March 2021

Liabilities		Amount (₹)	Assets	Amount (₹)
Deepa's Loan		25,000	Sundry Assets	1,55,000
Capital A/c				
Deepa	60,000			
Shweta	70,000	1,30000		
		1,55,000		1,55,000

On 1st July 2020 Deepa had introduced additional capital of ₹ 10,000 by converting a part of her loan into capital.

The profits for the year ended 31st March 2021, amounting to ₹ 30,000, were distributed between the partners before allowing interest on Deepa's capital @ 10% per annum as provided in the partnership deed.

(i) What was the interest on Deepa's capital for the year 2020–21, which was omitted to be credited to her capital account?

(a) ₹ 4,750 **(b)** ₹ 5,950

(c) ₹ 5,200 **(d)** ₹ 5,800

(ii) What will be the journal entry to convert Deepa's Loan to her capital?

(a) Debit Cash A/c ₹ 10,000; Credit Deepa's Capital A/c ₹ 10,000

(b) Debit Deepa's Capital A/c ₹ 10,000; Credit Deepa's Loan A/c ₹ 10,000

(c) Debit Deepa's Loan A/c ₹ 15,000; Credit Deepa's Capital A/c ₹ 15,000

(d) Debit Deepa's Loan A/c ₹ 10,000; Credit Deepa's Capital A/c ₹ 10,000

Ans. (i) Option (a) is correct.

Explanation: Profit distributed to Deepa : ₹ 30,000 × (1/3) = ₹ 10,000

The amount of loan turning into capital at 1st July 2020 : ₹10,000

Capital balance of Deepa at 1st April 2020 : ₹ 60,000 – ₹ 10,000 – ₹ 10,000 = ₹ 40,000
Capital balance of Deepa at 1st July 2020 : ₹ 40,000 + ₹ 10,000 = ₹ 50,000
Interest on Capital:
For 1st April 2020 – 1st July 2020 : ₹ 40,000 × (3/12) × 10% = ₹ 1,000
For 1st July 2020 – 31st March 2021 : ₹ 50,000 × (9/12) × 10% = ₹ 3,750
Interest on Deepa's capital : ₹ 1,000 + ₹ 3,750 = ₹ 4,750

(ii) Option (d) is correct.

Explanation: The balance in Deepa's personal loan account decreases while in capital account increases.

10. Arav, Rahil and Himmat are partners in a firm sharing profits and losses in the ratio of 5:3:2. Arav guaranteed a minimum profit of ₹ 30,000 to Himmat. The trading loss of the firm for the year ending 31st March 2021 was ₹ 1,20,000.

In order to meet the deficiency in Himmat's profits, Arav's capital will be:

(a) Debited by ₹ 30,000
(b) Credited by ₹ 54,000
(c) Debited by ₹ 54,000
(d) Debited by ₹ 6,000

Ans. Option (c) is correct.

Explanation: Himmat 's share in loss : (2/10) × ₹ 1,20,000 = ₹ 24,000
Guaranteed profit = ₹ 30,000
Arav's capital will be debited by: ₹ 24,000 + ₹ 30,000 = ₹ 54,000

11. The partnership deed of Sakshi and Tanu allowed an annual salary of ₹ 24,000 to Tanu. The trading profit of the firm for the year 2020–21, after debiting Tanu's salary, was ₹ 60,000.

(i) The partnership deed also provided for commission to Sakshi @ 5 % of the correct trading profit of the firm before charging commission.

What will be Sakshi's commission?

(a) ₹ 1,800
(b) ₹ 3,000
(c) ₹ 5,200
(d) ₹ 4,200

(ii) Another provision in the partnership deed was that the partners are to be charged interest on drawings @ 4% per annum. Tanu had withdrawn a fixed amount in the middle of every month and the interest on her drawings at the end of the year was ₹ 600.

What were the total drawings made by Tanu?

(a) ₹ 6,000
(b) ₹ 30,000
(c) ₹ 15,000
(d) ₹ 24,000

(iii) What will be the entry to transfer the trading profit of the firm to the P/L Appropriation A/c?

(a) Debit P/L A/c Appropriation A/c; Credit Net Profit A/c
(b) Debit P/L Appropriation A/c; Credit P/L A/c
(c) Debit P/L A/c; Credit P/L Appropriation A/c
(d) Debit Trading Profit A/c; Credit P/L Appropriation A/c

Ans. (i) Option (d) is correct.

Explanation: Correct trading profit = ₹ 60,000 + ₹ 24,000 = ₹ 84,000.
5% commission on correct trading profit = 5% × ₹ 84,000 = ₹ 4,200.

(ii) Option (b) is correct.

Explanation:

₹ 600 = Total Drawings × 6/12 × Rate of Interest
Total drawings = ₹ 600 × (12/6) × (100/4)
= ₹ 30,000

(iii) Option (c) is correct.

Explanation: Trading profit exists in the P/L A/c and therefore, it is transferred to the P/L Appropriation Account for allocating the profit and loss to the partners.

12. Nitin and Mukul were partners in a business. An extract of the balance sheet of their firm showed:

Balance Sheet of Nitin and Mukul (an extract)

As at 31st March 2021

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	40,000	Land and Building	60,000
		Investments	25,000
		Sundry Debtors 41,000	
		Less: Provision for	
		Doubtful Debts (3,000)	38,000

On Ali's admission as a new partner on 1st April 2021, the assets and liabilities of the firm were to be revalued as follows:

(i) Investments to be valued at ₹ 27,000.

(ii) Bad debts of ₹ 2,000 to be written off.

(iii) The provision for doubtful debts to be brought up to 10% of the debtors.

(iv) The value of land and building to be reduced to ₹ 50,000.

(v) Creditors to be discharged at a discount of 10%.

What will be the net effect of revaluation of assets and liabilities?

(a) Loss of ₹ 8,900 **(b)** Loss of ₹ 11 ,900

(c) Loss of ₹ 6,100 **(d)** Loss of ₹ 7,100

Ans. Option (c) is correct.

Explanation: Gain on revaluation = Increase in Investment + Discount received from creditors

Sundry Debrors

= ₹41,000 – ₹2,000

=₹39,000

= (₹27,000 – ₹25,000) + (10/100 × ₹40,000)

= ₹2,000 + ₹4,000

= ₹6,000

Loss on revaluation

= Building value decreased + Increased in provision for doubtful Debts+Bad debt written off

= (60,000 – 50,000) + (₹ 3,9000 – ₹ 3,000)+₹ 2,000

= ₹ 10,000 + ₹ 900 + ₹ 2,000 =₹ 12,900

Net loss = ₹ 6,000 – ₹ 12,900 = (₹ 6,900)

13.

(i) What will be the formula to value the goodwill of a firm by the Super Profit Method?

(a) Capitalised Super Profit × Number of years' purchase

(b) Super Profit × Number of years' purchase

(c) Average Profit – Normal Profit

(d) Super Profit + Normal Profit

(ii) To calculate goodwill, which one of the following items will the firm add back to its actual profit to get its normal profit?

(a) Gain from speculation of ₹ 5,000 which was taken into account

(b) Manager's salary of ₹ 10,000 which was omitted to be recorded

(c) Undervalued closing stock of ₹ 3,000

(d) Overvalued closing stock of ₹ 2,000

Ans. (i) Option (b) is correct.

Explanation: Super profit is calculated by deducting the normal profit from average profit, and then the result is multiplied by the number of years' purchase to determine the amount of goodwill.

(ii) Option (a) is correct.

Explanation: The actual profit does not account for the items such as speculation income but it is included in the amount of normal profit.

14. Dev and Dhruv are partners sharing profits in the ratio of 5:4. An extract of the Balance Sheet of their firm showed:

Balance Sheet of Dev and Dhruv (an extract)
As at 31st March 2021

Liabilities		Amount (₹)	Assets	Amount (₹)
Creditors		60,000	Advertisement Suspense A/c	9,000
Capital A/c				
Dev	80,000			
Dhruv	79,000	1,59,000		

On Rahul's admission as a new partner, the new profit–sharing ratio is agreed to be 3:2:1.
Rahul brings in ₹ 60,000 as his capital but he is unable to bring his share of goodwill in cash.

(i) What will be the value of non –purchased goodwill of the firm, based on Rahul's share in the profits and the capital contributed by him?
(a) ₹1,45,000 **(b)** ₹1,59,000
(c) ₹1,50,000 **(d)** ₹2,01,000

(ii) What will be the entry to record Rahul's share in the firm's goodwill?
(a) Debit Rahul's Current A/c; Credit the Current Accounts of Dev and Dhruv in the ratio of 5:4
(b) Debit Rahul's Current A/c; Credit the Capital Accounts of Dev and Dhruv in the ratio of 1:2
(c) Debit Rahul's Current A/c; Credit the Capital Accounts of Dev and Dhruv in the ratio of 5:4
(d) Debit Rahul's Capital A/c; Credit the Current Accounts of Dev and Dhruv in the ratio of 1:2

(iii) A Bill of Exchange for 3 months drawn by a creditor of ₹ 37,000 was accepted by the firm.
What will be the entry to record this transaction?
(a) Debit Creditor's A/c ₹ 37,000; Credit Revaluation A/c ₹ 37,000
(b) Debit Creditor's A/c ₹ 37,000; Credit Bills Receivable A/c ₹ 37,000
(c) Debit Bills Payable ₹ 37,000; Credit Creditor's A/c ₹ 37,000
(d) Debit Creditor's A/c ₹ 37,000; Credit Bills Payable A/c ₹ 37,000

(iv) Advertisement Suspense A/c will be written off from:
(a) Dev's Current A/c ₹ 5,000; Dhruv's Current A/c ₹ 4,000
(b) Dev's Capital A/c ₹ 3,000: Dhruv's Capital A/c ₹ 6,000
(c) Dev's Capital A/c ₹ 5,000; Dhruv's Capital A/c ₹ 4,000
(d) Dev's Capital A/c ₹ 4,500; Dhruv's Capital A/c ₹ 3,000; Rahul's Capital A/c ₹ 1,500

Ans. (i) Option (c) is correct.

Explanation: Value of non – purchased goodwill = (Reciprocal of new partner's share × new partner's capital contribution) – Existing total capital of the firm
= (6 × ₹ 60,000) – ₹210,000
= ₹ 1,50,000

(ii) Option (b) is correct.

Explanation: The old sacrficing ratio will be used to distribute the share of goodwill contributed by the new partner to the old partners' capital account.

(iii) Option (d) is correct.
(iv) Option (c) is correct.

Explanation: Singe - fixed capitals are not maintained thus any expense account would be written off from the capital accounts of old partners in their old profit sharing ratio.

15. Harsh and Kamal, sharing profits and losses in the ratio of 3:2, admit Ravi as a third partner for 1/5 share in the profits. Their profit – sharing ratio to be 12:8:5. The capitals of Harsh and Kamal were to be adjusted on the basis of Ravi's capital contribution of ₹ 30,000 which he brings in cash. The surplus and deficit capitals of the old partners were to be adjusted through Current Accounts.
After all adjustments (including Ravi's share of goodwill which he was unable to bring in cash), the capitals of Harsh and Kamal were:

Harsh: ₹ 52,000

Kamal: ₹ 58,000

(i) What will be the total capital of the firm after Ravi's admission?

(a) ₹ 1,20,000 **(b)** ₹ 1,40,000

(c) ₹ 1,50,000 **(d)** ₹ 1,60,000

(ii) What will be the journal entry to adjust the surplus capital of the concerned partner?

(a) Debit Kamal's Capital A/c ₹ 10,000; Credit Kamal's Current A/c ₹ 10,000

(b) Debit Harsh's Capital A/c ₹ 20,000; Credit Harsh's Current A/c ₹ 20,000

(c) Debit Kamal's Current A/c ₹ 10,000; Credit Kamal's Capital A/c ₹ 10,000

(d) Debit Harsh's Current A/c ₹ 20,000; Credit Harsh's Capital A/c ₹ 20,000

(iii) The firm had ₹ 15,000 in its bank account. It pays off its bank loan of ₹ 12,000 at the time of Rahul's admission. What will be the bank balance in the Balance Sheet of the reconstituted firm?

(a) ₹ 18,000 **(b)** ₹ 57,000

(c) ₹ 3,000 **(d)** ₹ 33,000

Ans. (i) Option (c) is correct.

Explanation: Total capital = ₹30,000 × 5

= ₹1,50,000

(ii) Option (a) is correct.

Explanation: Kamal's Capital A/c balance after Ravi's admission should be:

= ₹ 150,000 × (8/25)

= ₹ 48,000

(iii) Option (d) is correct.

Explanation: Bank balance of the reconstituted firm = Bank balance +Capital brought in cash by Ravi – Loan payment

= ₹ 30,000 + ₹15,000 – ₹12,000

= ₹ 33,000

16. Following is an extract of the Balance Sheet of Vitamin Ltd. prepared incorrectly by a trainee accountant:

Balance sheet of Vitamin Ltd. (an extract)

For the year ended 31st March 2021

Assets	(₹)	Liabilities	(₹)
Statement of P/L (Dr)	2,10,000	Bills Receivable	50,000
**Securities Premium Reserve	10,000	Provision for Tax	1,00,000
Bills Receivable maturing on 30th June, 2021, discounted with the bank	1,50,000	Equity Share capital (90,000 shares of ₹ 10 each)	9,00,000
Proposed Dividend for 2020–21	1,10,000	Provision for Doubtful Debts	40,000
Sundry Debtors	3,30,000	Share Issue Expenses	25,000
Call–in advance	20,000	Underwriting Commission	5,000

Note: Apart from preparing an incorrect format of the Balance Sheet, the accountant also did not follow the company's policy of writing off the capital losses in the year in which they occur.

If this Balance Sheet was prepared as per Schedule III of the Companies Act, 2013, it would show:

(i) The date of the Balance Sheet as:

(a) Mentioned by the trainee accountant

(b) Balance Sheet of Vitamin Ltd. as at 31st March 2021

(c) Balance Sheet of Vitamin Ltd. as on 31st March 2021

(d) Balance Sheet of Vitamin Ltd. for the year 2020–21

**As per schedule III of the Companies Act 2013 Securities Premium Reserve to be replaced with Securities Premium.

(ii) The head 'Shareholders Funds' of amount:

(a) ₹ 6,70,000 **(b)** ₹ 10,95,000

(c) ₹ 6,00,000 **(d)** ₹ 7,05,000

(iii) The sub –head 'Trade Receivables' of amount:

(a) ₹ 4,90,000 **(b)** ₹ 5,30,000

(c) ₹ 3,40,000 **(d)** ₹ 3,80,000

(iv) The item 'Bills Receivable maturing on 30th June 2021, discounted with the bank' as a:

(a) Current Liability **(b)** Current Asset

(c) Non –current Liability **(d)** Contingent Liability

Ans. (i) Option (b) is correct.

Explanation: The date of the balance sheet is prescribed in this format only as per Schedule III of the Companies Act, 2013.

(ii) Option (a) is correct.

Explanation: Shareholder's Funds = Equity share capital + Securities Premium Reserve – Loss – Share issue expense – Underwriting commission

= ₹ 9,00,000 + ₹10,000 – ₹2,10,000 – 25,000 – ₹5,000

= ₹ 6,70,000

(iii) Option (c) is correct.

Explanation: Trade receivables = Sundry Debtors + Bill Receivables – Provision for Doubtful Debts

= ₹ 3,30,000 + ₹ 50,000 – ₹ 40,000

= ₹ 3,40,000

(iv) Option (d) is correct.

Explanation: As these bills receivable were maturing beyond the normal course of business or after the reporting period, it will not be considered as current liability or as current asset but will be treated as a contingent liability.

17. Pluto Ltd. with a registered capital of ₹ 20,00,000 in shares of ₹ 10 each, invited applications for 50,000 shares. The face value of the share was payable in three installments.

The company received ₹ 1,62,000 with applications, out of which it refunded ₹ 12,000 which it had received with the surplus applications.

(i) What was the amount payable per share with application?

(a) ₹3 **(b)** ₹ 3.5

(c) ₹2 **(d)** ₹5

(ii) What were the number of shares applied for by the public?

(a) 81,000 **(b)** 50,000

(c) 40,000 **(d)** 54,000

(iii) The company received ₹ 2,25,000 with allotment. The calls .in– arrears were ₹ 25,000.

What was the amount payable per share with allotment?

(a) ₹5 **(b)** ₹4.5

(c) ₹3 **(d)** ₹6

(iv) The company immediately forfeits the shares on which it has not received the allotment.

With which amount will the company debit Share Capital A/c to record the forfeiture of these shares?

(a) The total face value of these shares.

(b) The market value of these shares.

(c) The amount called up on these shares.

(d) The amount received by the company on these shares.

17. (i) Option (a) is correct.

Explanation: Amount payable per share on application:

= (Total amount received – Surplus refunded)/Number of shares issued

= (₹1,62,000 – ₹12,000)/50,000 shares

= ₹3 per share

(ii) Option (d) is correct.

Explanation: Number of shares applied by the public = Total amount received as application/Amount payable per share

= ₹1,62,000/₹3

= 54,000 shares

(iii) Option (a) is correct.

Explanation: Amount payable per share with allotment = (Amount received in allotment + Call in – arrears)/Number of shares issued

= (₹2,25,000 + ₹25,000)/50,000

= ₹5

(iv) Option (c) is correct.

Explanation: The company will debit the Share Capital A/c with the amount called– up to the date of forfeiture on shares, when forfeited shares were issued at par value.

SECTION - B

Answer all questions

18. Sumo Ltd. had a Current Ratio of 0.8:1; its Current Assets being ₹ 2,00,000 and Current Liabilities being ₹ 2,50,000.

What will be the revised Current Ratio of Sumo Ltd., after one of its endorsed Bills Receivable of ₹ 30,000 gets dishonoured?

(a) 0·71:1 **(b)** 0·92:1

(c) 0·72:1 **(d)** 0·82:1

Ans. Option (d) is correct.

Explanation: $\text{Current Ratio} = \dfrac{\text{Current Assets}}{\text{Current Lilibities}}$

$$\text{Current Ratio} = \frac{₹\ 2{,}00{,}000 + ₹\ 30{,}000}{₹\ 2{,}50{,}000 + ₹\ 30{,}000} = \frac{₹\ 2{,}30{,}000}{₹\ 2{,}80{,}000}$$

$$= 0.82 : 1$$

19. The Debt-Equity Ratio of a company is 1.7:1

Which one of the following transactions will *reduce* the Debt–Equity Ratio?

(a) Plant and Machinery worth ₹ 1,20,000 sold at a loss of ₹ 10,000

(b) Interest of ₹ 5,000 received on calls–in–arrears

(c) A loan of ₹ 10,00,000 taken from a bank

(d) Interest of ₹ 10,000 paid on the bank loan

Ans. Option (b) is correct.

Explanation: Interest received on call–in–arrears increases the equity of the company and therefore increase in denominator will reduce the Debt–Equity ratio.

20. What will be the correct formula to compute Operating Profit Ratio of a company?

(a) $\frac{\text{Gross Profit} + \text{Operating Expenses} - \text{Operating Income}}{\text{Revenue from Operations}} \times 100$

(b) $\frac{\text{Cost of Revenue from Operations} + \text{Operating Expenses} - \text{Operating Income}}{\text{Revenue from Operations}} \times 100$

(c) $\frac{\text{Gross Profit} - \text{Operating Expenses} + \text{Operating Income}}{\text{Revenue from Operations}} \times 100$

(d) $\frac{\text{Net Profit} - \text{Non Operating Expenses} + \text{Non Operating Income}}{\text{Revenue from Operations}} \times 100$

Ans. Option (c) is correct.

Explanation: Operating income means the income ascertained after deducting the operating expenses from the gross income and adding the operating income items to the result.

Revenue from operations means the net sales.

21. The particulars of Mars Ltd. are given below:

Particulars	(₹)
Opening Debtors	50,000
Cash received from Debtors	2,20,000
Closing Debtors	30,000

What will be the Trade Receivables Turnover Ratio of the company?

(a) 4·75 times **(b)** 5·5 times

(c) 5 times **(d)** 6·75 times

Ans. Option (c) is correct.

Explanation: Trade Receivables Turnover Ratio = Net Credit sales/Average A/R

Average A/R = (Opening Debtors + Closing Debtors)/2

= (₹ 50,000 + ₹ 30,000)/2

= ₹40,000

Net credit sales = Cash received from debtors – (Opening debtors – Closing debtors)

= ₹ 2,20,000 – (₹ 50,000 – ₹ 30,000)

= ₹ 2,00,000

Trade Receivables Turnover ratio = ₹ 2,00,000/₹ 40,000 = 5 times

22. The particulars of Barua Ltd are given below:

Particulars	(₹)
Revenue from Operations	10,00,000
Purchases of Stock–in–Trade	6,00,000
Changes in Inventory of stock–in–trade	(60,000)
Opening Inventory	1,20,000
Closing Inventory	1,80,000
Employee benefit expenses (Salaries)	40,000
Provision for Tax	1,00,000
Sundry Creditors	2,00,000
Cash at Bank	5,00,000
Marketable Securities	50,000

(i) What will be the Current Ratio of the company?

(a) 2·23:1 **(b)** 3·65:1

(c) 2·43:1 **(d)** 1·83:1

(ii) What will be the Net Profit Ratio of the company?

(a) 32% **(b)** 30%

(c) 42% **(d)** 36%

Ans. (i) Option (c) is correct.

Explanation: Current Ratio = Current Assets/Current Liabilities

Current Assets = Closing Inventories + Cash at Bank + Marketable Securities
= ₹1,80,000 + ₹5,00,000 + ₹50,000
= ₹7,30,000

Current Liabilities = Sundry Creditors + Provision for Tax
= ₹2,00,000 + ₹1,00,000
= ₹3,00,000

Current Ratio = ₹7,30,000/₹3,00,000
= 2.43:1

(ii) Option (a) is correct.

Explanation: Net Profit = Revenue from operations – [Cost of goods sold – Tax – Salaries]
= ₹10,00,000 – [(₹6,00,000 + ₹1,20,000 – ₹1,80,000) + 1,00,000 + ₹40,000]
= ₹10,00,000 – ₹6,80,000
= ₹3,20,000

$$\text{Net profit margin} = \frac{\text{Net Profit}}{\text{Revenue from operations}} \times 100$$

= (₹3,20,000/₹10,00,000) × 100
= 32%

23. What will be the aggregate of Capital Employed and Current Liabilities of a company, which does not have any non–trade investments?

(a) Total Debt
(b) Total Assets
(c) Working Capital
(d) Shareholders' Funds

Ans. Option (b) is correct.

Explanation: Capital Employed = Total Assets – Current Liabilities

Then,

Total Assets = Capital Employed + Current Liabilities