Answer Key for KISA ISC Preparatory paper

i. Which of the below items ***do not form part of property, plant, equipment & Equipment & intangible assets*** in the Company's balance sheet.
   (a) Mastheads
   (b) License
   (c) ***Investment in shares of another company***
   (d) Livestock

ii. A listed company can issue bonus shares in case they are financially healthy and if they decide to do so,identify the account which will be debited to issue those shares .
   (a) Share capital a/c
   (b) Shareholders a/c
   (c) Bank a/c
   (d) ***Securities Premium a/c***

iii. **Ans:** Only purchased goodwill is accounting for . The goowill appearing in the firms balance sheet is considered as purchased goodwill and thus accounted for .

iv. Manu , Buila and VIjay are in a partnership firm with equal share for profit and losses. What is the effect of bank overdraft of ₹ 17,000 at the time of dissolution of partnership firm ?
   a) It will be debited to bank a/c
   b) It will be credited to Bank a/c
   c) It will be credited to revaluation a/c
   d) It will be taken to partners capital accounts in their profit sharing ratio

v. Which is the ***only institution*** that has to invest in DRI for redeeming its privately placed debenture debentures?
   a) Listed non-banking financing companies registered with RBI
   b) Unlisted housing finance companies registered with National Housing Bank
   c) Unlisted non-banking financing companies registered with RBI
   d) All India Financial companies regulated by RBI

vi.

Total profit	₹ 75000
This year's estimate	₹ 93750
(25% increase)	
Banu's share	₹ 31250
1/3rd share	
Banu's portion for 4 months	₹ 10417

vii.

Particulars	**Sharon**	**Cassendra**	**Total**
Profit wrongly given in 1:1	7,000	7,000	14000
DR			
Profit to be given in 17:11	8,500	5,500	14000
CR			
	1,500	1,500	
	CR	DR	

viii.

b) Both Assertion and reason are correct, but reason is not the correct explanation for Assertion.

ix

Revaluation	**P&L appropriation**
The main objective is to revalue assets and liabilities and correct errors if any in the accounting	Main objective is to appropriate profits

At the time of reconstitution of the partnership	At the end of every financial year

x)

90% is the maximum limit a company can redeem out of capital .

Question 2

A)

	₹
total settlement	50,000
less ioc	(5,000)
Less Profit	(25,000)
Less GR	(2500)
opening capital	17,500

B) **Workings**

N's gain	1/2 - 4/9
	1/18
K's gain	1/2-3/9
	3/18
Gaining Ratio	1:3

Journal Entry

Date	Particulars	LF	DR	CR
	Naveen's capital a/c		1250	
	Karthik's capital a/c		3750	
	To Sanjay's capital a/c			5000
	(being WCR effect recorded)			

Journal

Date	Particulars	LF	DR	CR
2022	Bank a/c		500000	
Apr-01	To debenture application & allotment			500000
	(being debentured issued)			
2022	Debenture application & allotment a/c		500000	
Apr-01	Loss on issue of debentures a/c		35000	
	To 10% debentures a/c			500000
	To Premium on redemption a/c			35000
	(being debentures allotted)			
2023	Interest on debentures a/c		50000	
Mar-31	To Debenture holders a/c			50000
	(being debenture interest accrued)			
2023	Debenture holders a/c		50000	
Mar-31	To TDS payable a/c			5000
	To Bank a/c			45000
	(being debenture interest paid)			
2023	Statement of P&L		85000	
Mar-31	To Interest on debentures a/c			50000
	to Loss on issue of debentures a/c			35000
	(being interest written off)			

Question 3 Solution

Question 4 (3) I solution

Date	Particulars	LF	DR	CR
2023	Debenture holders a/c		1,10,000	
Oct-01	To 12% debentures a/c			1,00,000
	To Premium on redemption a/c			10,000
	(being debentures due for redemption)			
2023	Bank a/c		1,10,000	
Oct-01	TO Debenture holders a/c			1,10,000
	(being investment disinvested)			
2023	DRR a/c		10,000	
Oct-01	TO general reserve a/c			10,000
	(being DRR converted to free reserve)			

OR

Date	Particulars	JF	Amt	Date	Particulars	JF	Amt
2022				2023			
Apr-01	To Bank		90000	Mar-31	By bal c/d		90000
			90000				90000
2023				2023			

Apr-01	To bal b/d		90000	Aug-31	By Bank		180000
Apr-01	To bank		90000				
			180000				180000

Question 5 **[3]**

Solution

2 years purchase of weighted average profits

Profits	Weights	Product
20000	1	20000
80000	2	160000
100000	3	300000
Total	**6**	**480000**

Weighted average profit = Total Weights profits product / Total weights

=480000/6

₹ 80,000

Weighted average profits x No of years of purchase

Goodwill = 80000 x 2

=**₹ 1,60,000**

Question 6 **(2)**

A

Reserves & Surplus

Securities Premium	40,000
Less Underwriting comm	(20000)
Less Preliminary exps	(12000)
	8,000
Add Statement of P&L	40,000
	48,000

B

Particulars	MH	SH
a) Proposed dividend for equity shareholders for previous year	Current liabilities	Short term provisions
b) Unpaid dividend on cumulative preference shareholders	Explanatory notes	Commitments

C

Extract Balance sheet of Alfred Ltd as at 31st March 2023

Particulars	**Note No**	**31.03.2023**	**31.03.2022**
Non current liabilities		4,00,000	
Long term borrowings			
(debentures maturing on 31st March 2024)			
Current Liabitlies			
Short term borrowings		4,00,000	

(debentures maturing on 31st March 2023)			

Question 7
I solution

Revaluation a/c

To Alwin 's capital a/c	3200	By Furniture	600
To Aldrin's capital a/c	800	By Prepaid Insurance	3400
	4000		4000

Partners Capital a/c

	Alwin	Aldrin	Benedict		Alwin	Aldrin	Benedict
To Goodwill	800	200		By Bal b/d	20,000	15,000	
To Alwin 's capital a/c		4,250	21,250	By revaluation a/c	3,200	800	
To bal c/d	47,900	15,600	400,000	By Bank a/c			400,000
				By Benedict's capital a/c	21,250		
				By Aldrin 's capital a/c	4,250		
	48700	**15800**	**400000**		**48700**	**15800**	**400000**

II solution

Journal

Date	Particulars	LF	DR	CR
	Andrea's capital a/c		5,600	
	Adiya's capital a/c		1,400	
	To Goodwill a/c			7,000
	(being goodwill written off)			
	Andrea's capital a/c		2,000	
	Adiya's capital a/c		500	
	To P&L balance a/c			2,500
	(being accumulated loss distributed)			
	Bank a/c		40,000	
	To angel's capital a/c			40,000
	(being capital introduced)			

	Angel's current a/c		12,500	
	To Andrea's capital a/c			10,000
	To Adiya's capital a/c			2,500
	(being goodwill not brought in)			
	Reserve a/c		12,000	
	TO Workmen compensation reserve			12,000
	(being reserve convered to specific reserve)			
	Revaluation a/c		26,200	
	To Trademarks a/c			4,000
	To Furniture a/c			22,200
	(being assets revalued)			
	Andrea's capital a/c		20,960	
	Adiya's capital a/c		5,240	
	To Revaluation a/c			26,200
	(being revaluation loss distributed)			

Question 8 **(6)**
Solution

Realisation a/c

To furniture	2000	By Outstanding exps	15500
To Investment	5000	By Sunshine's capital	25000
To Trademarks	25000	By Moonlight's capital	2000
To Bank FD	25000	By Bank	5000
TO Sunshine's capital a/c	15500	By Investment Fluctuation fund	2000
		By Sunshine's capital	11500
		By Moonlight's capital	11500
-	**72500**	-	**72500**

Partners’ capital a/c

	Sunshine	Moonlight		Sunshine	Moonlight
To Realisation a/c	11,500	11,500	By bal b/d	25,000	20,000
To Realisation a/c	25,000	2,000	By realisation	15,500	
To bank	4,000	6,500			
	40,500	**20,000**		**40,500**	**20,000**

Question 9
Solution :

P&L appropriation a/c for the year ended 31st March 2023					
To IOC			By P&L a/c		432000
Treasa's capital a/c	40000				
Sharon's capital a/c	24000		By IOD		
Angel's capital a/c	<u>16000</u>	80000	Treasa's capital a/c	2750	
			(5000 x12 x 10% x5.5/12)		
			Sharon's capital ac	2250	
To Teresa's capital	140000		(15000x4x10%x4.5/12)		
To sharons's capital	120000		Angel's capital a/c	<u>3000</u>	8000
To Angel's capital	<u>100000</u>	360000	(60000x10%x6/12)		
		<u>440000</u>			**<u>440000</u>**

Workings

	Profit as per PSR		final amt
Treasa	180000	-40000	140000
Sharon	120000		120000
angel	60000	+40000	20000

		Partners	**Capital**	**Accounts**			
	Treasa	**Sharon**	**Angel**		**Treasa**	**Sharon**	**Angel**
To Drawings	60,000	60,000	60,000	By bal b/d	5,00,000	3,00,000	2,00,000
To IOD	2,750	2,250	3,000	By IOC	40,000		
To Angel's capital	40,000			By P&L appropriation a/c	1,40,000	1,20,000	
To bal c/d	77,250	57,750	37,000				
	1,80,000		1,00,000		1,80,000	1,20,000	

OR
II solution

Journal				
Date	**Particualrs**	**LF**	**DR**	**CR**
2023	IOC a/c		140000	
Mar-31	TO Allan's capital a/c			24000
	TO Shane's capital a/c			36000
	To Riya's capital a/c			80000
	(being IOC allowed)			
2023	P&L appropriation a/c		140000	
Mar-31	To IOC a/c			140000
	(being IOC closed)			
	Allan's salary a/c		120000	
	To Allan's capital a/c			120000
	(being salary due to partner)			
	P&L appropriation a/c		120000	
	TO Allan's salary/c			120000
	(being salary closed)			
	Shane's commission a/c		80000	
	To Shane’s capital a/c			80000
	(being commission due)			
	P&L appropriation a/c		80000	
	To Shane’s commission			80000
	(being commission written off)			

	P&L a/c		1030000	
	TO P&L appropriation a/c			1030000
	(being profit transferred)			
	Allan's Rent a/c		150000	
	TO Allan's capital a/c			150000
	(Being rent due)			
	P&L a/c		150000	
	TO Allan's rent a/c			150000
	(being rent written off)			
	Allan's capital a/c		60000	
	Shane’s capital a/c		60000	
	Riya's capital a/c		96000	
	To Allan's Drawings a/c			60000
	TO Shane's capital a/c			60000
	To Riya's capital a/c			96000
	(being drawings transferred)			
	Allan's capital a/c		3250	
	Shane's capital a/c		2750	
	Riya's capital a/c		6000	
	TO IOD a/c			12000
	(being IOD charged)			
	IOD		12000	
	To P&L appropriation a/c			12000
	(being IOD written off)			
	P&L appropriation a/c		552000	
	TO Allan's capital a/c			80000
	To Shane's capital a/c			172000
	To Riya's capital a/c			300000
	(being profit distributed)			
	Allan's capital		12000	
	Shane's capital a/c		12000	
	To Riya's capital a/c			24000
	(being guarantee of profits)			

Workings

P&L appropriation a/c for the year ended 31st March 2023					
To IOC			By P&L a/c	1030000	
Allan's capitla	24000		Less Rent	(150000)	880000
Shane's capital	36000				
Riya's capital	80000	140000	By IOD		
To Allan's salary		120000	Allan's capital	3250	
To Shane's commission		80000	(5000 x 12 x10%x6.5/12)		
(880000x10/110)			Shane's capital a/c	2750	
To Allan's capital	80000		(5000 x12 x10%x5.5/12)		
To Shane's capital	172000		Riya's capital	6000	12000

To Riya's capital a/c	300000	552000	(24000 x4 x 10%x7.5/12)		
	-	**892000**	-	-	**892000**

Workings

	Allan	Shane	Riya	Total
As per PSR	92000	184000	276000	552000
Guarantee deficit	-12000	-12000	24000	
	80000	172000	300000	

Question 10 **(4)**

A) Solution

Journal

Date	**Particulars**	**LF**	**Dr**	**CR**
	Generator		12,00,000	
	To Druthi ltd			12,00,000
	(being asset purchase)			
	Druthi Ltd		12,00,000	
	To Bank a/c			2,40,000
	TO Equity share capital a/c	(40000 x 10)		4,00,000
	TO Securities Premium	(40000 x2)		80,000
	TO 12% Preference share capital			3,60,000
	To Bills payable			1,20,000

B

i) Fill in the blanks of this journal for the company.

Date	**Particulars**	**LF**	**Dr**	**CR**
	Share capital		88,000	
	To CIA			35,200
35200	To Share forfeiture			52800
	(being 4400 shares forfeited for non-payment of share final call money)			
	Bank	**(1)**	31,680	
	Share forfeiture a/c	**(1)**	3,520	
	To Share capital a/c	**(1)**		35,200
	(being 40% of shar+es forfeited reissued as fully paid at 10%discount)			
	Share forfeiture a/c	**(1/2)**	17,600	
	(1)	**(1/2)**		17,600
	(being excess share forfeiture transferred to capital reserve)			

ii) 1760 shares were reissued

OR

II solution

Journal

Date	Particulars	LF	Dr	CR
	bank a/c		2,50,000	
	TO share application a/c			2,50,000
	(being application money received)			
	Share application a/c		2,50,000	
	TO equity share capital a/c			1,50,000
	To Securities premium			1,00,000
	(being application money transferred to capital a/c)			
	Share allotment a/c		1,50,000	
	TO equity share capital a/c			1,50,000
	(being alootment due)			
	bank a/c		1,38,000	
	CIA		12,000	
	TO Share allotment a/c			1,50,000
	(being money received)			
	Share first and final call a/c		2,00,000	
	To Equity sharecapital a/c			2,00,000
	(being call due)			
	Bank a/c		1,76,000	
	CIA		24,000	
	TO Share first and final call			2,00,000
	(being call money receied)			
	Equity share capital a/c		60,000	
	To Share forfeiture			24,000
	To CIA			36,000
	(being 6000 shares forfeited)			
	Bank a/c		40,000	

	Share foefeiture a/c		10,000	
	TO Equity share capital			50,000
	(being 5000 shares reissued)			
	Share forfeiture a/c		5,000	
	TO capital reserve a/c			5,000
	(being excess forfeiture taken to reserve)			

Workings
Total forfeiture for
Nevin (4000 shares) 4000 x3 =12000
Total forfeiture for 2000 shares
2000 x 6= 6000

Share forfeiture available for the reissued 5000 shares is 12000+6000/2(1000 shares)
=15000
Less Share forfeiture utilised =10000

Excess transferred to CR 5,000

Section B
Question 11
In subparts (i) and (ii) choose he correct option and in subparts (iii) to (v) answer the questions as instructed

i) a) ₹ 41,500
ii) (d) Bills payable of ₹ 2,000 honoured on the due date
iii) Long term debt + Long term provisions
iv) Increase
v) No flow

Question 12
Solution

common size statement of profit and loss for the year ended 31st march 2023

(particulars	**note no**	**naveen ltd**	**ayush ltd**	**percentage on rfo**	
				Naveen ltd	ayush ltd
revenue from operations		60,00,000	30,00,000	100	100
add other income					
		60,00,000	**30,00,000**	**100**	**100**
Less					
Materials Consumed	`	20,00,000	30,00,000	33.33	100
Change in inventories		12,00,000	(2,00,000)	20	(6.66)
Total Expenses		**32,00,000**	**28,00,000**	**53.33**	**100**
profit before tax		28,00,000	2,00,000	46.66	6.66
Less tax at 40%		(19,20,000)	(80,000)	(19.06)	(2.66)
		8,80,000	**1,20,000**	**27.6**	**3.996**

Question 13

Solution

Cash flows from investing activities	**₹**
Purchase of Plant and machinery	(2,40,000)
Sale of Plant and Machinery	107,000
Net cash used in investing activities	**(133000)**

Accumulated depreciation a/c

To Plant & machinery	28,000	By bal b/d	148,000
To bal c/d	170,000	By Depreciation	50,000
	198,000		**198,000**

Plant and machinery a/c

To bal b/d	560000	By bank	107,000
To Bank	240000	By Accumulated depreciation	28,000
To Statement of P&L	15000	By bal c/d	680,000

Cash flows from financing activities	**₹**
bank loan enhanced	50,000
Interest	(15,000)
Interim dividend paid	(30000)
Equity shares issued	2,00,000
Net cash from financing activities	**205,000**

OR

<u>II option Solution</u>

Cash flow statement of Esther ltd for the year ending 31st March 2023

	Particulars	₹	₹	₹
A	Cash flow from operating activities			
	Net profit as per note 1		127000	
	Adjustments for non cash and non operating items			
	Add Amortisation		10000	
			137000	
	Less		0	
	Operating profit before working capital		137000	
	changes			
	Add		0	
			137000	
	Less Trade receivables	80,000		
	Trade payables	18,000		

	Inventory	50,000	148,000	
	Cash generated from operations before tax paid		(11000)	
	Less Income tax paid		(27000)	
	Net cash used in Operating activities		**(38000)**	**(38000)**
B	Cash flows from investing activities			
	Purchase of property , plant and equipment		(10000)	
	Net cash used in investing activities		**(10000)**	**(10000)**
C	Cash flows from financing activities			
	Issue of shares		50000	
	Net cash from financing activities		50000	50,000
	Net increase in cash and cash equivalents (A+B+C)			**2,000**
	Add Cash and cash equivalents in the beginning of the year			15,000
	Cash and cash equivalents in the end of the year			17,000

Question 14

Any three

debt to total assets ratio =	debt	Long term debt		
	total assets	Total assets		
		=800000		
		27,40,000		
		0.292:1		
Proprietary Ratio =	Shareholders' unds	=14,40,000		
	Total assets	27,40,000		
		0.526:1		
Inventory turnover ratio =	Cost of revenue from operations			
	Average inventory			
	= 9,00,000			
	2,00,000			
Cost of revenue from operations = Revenue from operations - Gross profit				
	= 15,00,000- 6,00,000			
	=9,00,000			

Average inventory = closing inventory				
Liquid Ratio = Quick Ratio = Quick Assets				
	Current liabilities			
	=8,00,000			
	5,00,000			
	1.6:1			