

ISC SEMESTER 2 EXAMINATION
SAMPLE PAPER - 2
ACCOUNTS

Maximum marks : 40

Time allowed : One and a half hour

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

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 sheet as, and adjacent to, the rest of the answer.

All questions of Section A are compulsory.

All questions from either Section B or Section C are compulsory

Section-A (Answer all questions)

Question 1.

Select the correct option for each of the following questions.

- (i) PQR Ltd., is an unlisted Non-NBFC Company. It has 1,00,000; 9% Debentures of ₹100 each outstanding as on 31st March, 2020 to be redeemed on 31st March, 2021. It was decided to transfer amount to DRR on 31st March 2020. DRR has a balance of ₹2,50,000. State the amount that will be transferred from Debenture Redemption Reserve to General Reserve on 31st March, 2021?
(a) ₹10,00,000 (b) ₹7,50,000 (c) ₹12,50,000 (d) ₹22,50,000
- (ii) Which of the following transactions is credited to Revaluation Account?
(a) Increase in the value of Building
(b) Creditors discharged at a discount
(c) Loss on revaluation of all assets and reassessment of all liabilities
(d) All of the above
- (iii) What is minimum amount of the face value of Debentures to be redeemed that will be transferred to Debentures Redemption Investment ?
(a) 15% (b) 25% (c) 50% (d) 100%
- (iv) 'A' one of the partners of the firm ABC Ltd., was to bear all the Realisation Expenses for which he was given a commission of 5% of net cash realised from Dissolution. Cash realised from Assets was ₹50,000. Amount used to pay off liabilities amounted to ₹10,000. The amount of commission will be:
(a) ₹2,500 (b) ₹1,000 (c) ₹800 (d) ₹2,000

Question 2.

- (i) In a firm A, B and C were partners. The investments were worth ₹1,20,000, 75% of the investment were taken over by a Partner A at 80% of their book value.

You are required to pass necessary Journal entry to record this transaction at the time of dissolution.

- (ii) ABC Export Import Bank, a listed company has issued 10%, 1,000 Debentures @ ₹1,000 each in the year 2018 and redeemable after 4 years. State the amount of DRR to be created for redemption of debentures.

Question 3.

[5]

ABC Ltd., an unlisted company issued 10,000, 10% Debentures @ ₹100 each. On 1st April 2018 is to be redeemed at a premium of 10% after 3 years. The issue was subscribed and allotted. The company followed its rules related to DRR and its investment also on 31st March, 2020. Interest earned on Debenture Redemption Investment was @ 10% p.a.

You are required to pass the necessary journal entries related to :

- (i) Issue of Debentures.**
- (ii) Redemption of Debentures.**
- (iii) Interest earned on Debenture Redemption Investment.**

Question 4.

- (i) A, B and C are partners with profit sharing ratio as 4 : 3 : 2. B retired on 1st April, 2021. Their capitals after all adjustments stood at ₹1,20,000; ₹90,000 and ₹60,000 respectively. The capital of the new reconstituted firm has to be readjusted by bringing in cash or paying cash so that the future capital of the firm remains the same and future capitals of A and C are in their future sharing ratio which is 3 : 2. Also, the continuing partners will bring in cash to pay the retiring partner.

You are required to calculate:

- **Show the Cash adjustment for the continuing partners.**
- **Journal entry for the cash adjustment of the continuing partners.**

- (ii) On 1st April 2020, ABC Ltd., issued 1,000, 10% Debentures of ₹1,000 each at a discount of 5%, redeemable at a premium of 5% after four years.

Assuming interest is paid half yearly and TDS is charged @ 10%.

You are required to pass necessary journal entries for interest on debentures for the year ending 31st March, 2021.

Question 5.

- (i) A and B are in partnership and as on 31st March 2021, B wishes to retire. His balance amount in Capital and Current Account stand at ₹1,50,000 (Cr) and ₹10,000 (Dr) respectively. The General Reserve ₹50,000. Goodwill is valued at 2 years purchase of 3 years average profits. His drawings amounted to ₹15,000. Interest on capital is to be charged at @ 10%. Profits for the previous 3 years ₹1,10,000; ₹1,50,000 and ₹1,00,000. Having a loan amount of ₹2,00,000 transferred to B's Loan Account rest was paid in cash to B.

You are required to:

Calculate the amount of cash paid to Partner B with the help of B's Capital A/c.

- (ii) **You are required to pass the necessary journal entries for the issue of debentures in the following cases.**
- (a) Machinery purchased from XYZ Machineries Ltd., for ₹6,30,000. PQR Ltd., issued 5,000, 10% Debentures @ ₹100 each to XYZ Machineries Ltd. at premium of 10%, and also paid ₹80,000 by cash.
 - (b) The company also issued 1,000, 10% Debentures @ ₹1,000 each at a discount of 5% to be redeemable at 10% premium after 5 years.

Question 6.

A, B and C are partners with 2 : 2 : 1 ratio who decide to go for dissolution of their partnership firm as on 31st March 2021. Following is the Balance Sheet of ABC Ltd. as on 31st March, 2021:

Balance Sheet

(as at 31st March, 2021)

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	75,000	Bank	40,000
Bills Payable	60,000	Debtors	60,000
C's Loan	80,000	Bills Receivable	40,000
Capital of A	2,00,000	Furniture	1,00,000
Capital of B	2,00,000	Plant & Machinery	2,25,000
Capital of C	1,00,000	Land & Building	2,50,000
	7,15,000		7,15,000

Additional information:

- (a) Land & Building realised 20% more than the book value, whereas rest of the assets realised 10% less.
- (b) Creditors agreed to accept 10% less than the book value.
- (c) Realisation Expenses were ₹5,000 paid by C.

You are required to prepare the Realisation Account Partner's Capital Accounts and Bank Account.

Section-B (Answer all questions)**Question 7.**

Select the correct option in the following question:

- (i) Which of the following is not a tool of financial analysis?
 - (a) Comparative statements
 - (b) Common-Size Statements
 - (c) Trend Analysis
 - (d) Revaluation Statements
- (ii) Which of the following will result into inflow of Cash?
 - (a) Cash deposited into Bank Account
 - (b) Issue of Bonus Shares
 - (c) Receipt from maturity of Bills Receivable
 - (d) Converted Debentures into Equity shares

Question 8.

From the following extracts of a company's Balance Sheet and the additional information, you are required to calculate Cash Flow from Investing Activities for the year ending 31st March, 2021:

	st March, 2020 (₹)	31 st March, 2021 (₹)
Machinery (at Cost)	5,00,000	8,00,000
Accumulated Depreciation	1,00,000	1,20,000
Goodwill	—	50,000
Patents	60,000	1,50,000
10% Investments	1,50,000	2,00,000
Furniture & Fixtures	2,00,000	3,00,000

Additional information:

- (a) A machinery costing ₹1,00,000 with written down value ₹60,000 was sold at ₹35,000.
- (b) Patents were amortised to the extent of ₹20,000.
- (c) Charge depreciation of 20% on Furniture & Fixtures.
- (d) New investment was purchased on 31st March, 2021.

Question 9.

You are required to prepare Common size Income Statement from the following information:

Particulars	Note No.	31 st March, 2020 (₹)	31 st March, 2021 (₹)
Revenue from Operations		5,00,000	9,00,000
Expenses		40% of Revenue	50% of Revenue
Tax Rate 30%			

Question 10.

From the following extracts of company's Balance Sheet, and the additional information, you are required to calculate Cash from Operating Activities for the year ending 31st March, 2021.

Balance Sheet of ABC Ltd.,

(as at 31st March, 2021)

Particulars	Note No.	31 st March, 2021 (₹)	31 st March, 2020 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Equity Share Capital		12,00,000	10,00,000
(b) Reserves and Surplus	1	1,56,000	80,000
2. Non-current Liabilities			
Long-term Borrowings	2	5,00,000	6,00,000
3. Current Liabilities			
(a) Trade Payables		2,00,000	2,25,000
(b) Short-term Provisions	3	2,50,000	2,00,000
Total		23,06,000	21,05,000
II. ASSETS			
1. Non-current Assets			
Fixed Assets			
(a) Tangible Assets		18,00,000	17,50,000
(b) Intangible Assets Goodwill		1,00,000	1,50,000
2. Current Assets			
(a) Other Current Assets		2,50,000	1,20,000
(b) Cash and Cash Equivalents		1,56,000	85,000
Total		23,06,000	21,05,000

Notes to Accounts:

Particulars	31 st March, 2021 (₹)	31 st March, 2020 (₹)
1. Reserves and Surplus		
Surplus, <i>i.e.</i> , Balance in Statement of Profit and Loss	1,56,000	80,000
	1,56,000	80,000
2. Long-term Borrowings		
10% Debentures	5,00,000	6,00,000
	5,00,000	6,00,000
3. Short-term Provisions		
Provision for Tax	2,50,000	2,00,000
	2,50,000	2,00,000

Additional Information:

- (a) Tax paid during the year ₹2,25,000.
 (b) Provide Depreciation ₹2,00,000 on Fixed Assets as on 31st March 2021.
 (c) Debentures were redeemed on 1st April, 2020.



Section-A

Answer 1.

- (i) (b) ₹7,50,000

Explanation:

DRR is created @ 10% on the outstanding Debentures

Debenture Capital = 1,00,000 × 100 = 1,00,000

DRR = 10% × ₹1,00,000

to be created is = ₹10,00,000 (–) ₹2,50,000 (already transferred) = ₹7,50,000

- (ii) (d) All of the above

Explanation:

All the above transactions to be shown on the credit side of Revaluation Account.

- (iii) (a) 15%

Explanation:

As per provisions of the Companies Act, 2013 and SEBI guidelines, 15% of the face value of the debentures to be redeemed should be transferred to DRI.

- (iv) (d) ₹2,000

Explanation:

Amount of commission Net Cash received = (50,000 – 10,000) = ₹40,000

Commission = ₹40,000 × 5% = ₹2,000

Answer 2.

- (i) A's Capital A/c Dr. 72,000 and Realisation A/c Cr. 72,000.

Date	Particulars	L. F.	Debit (₹)	Credit (₹)
	A's Capital A/c Dr. To Realisation A/c (Being investments taken over by A)		72,000	72,000

Working Notes:

$$\text{Investments taken over by A} = 1,20,000 \times \frac{75}{100} \times \frac{80}{100} = ₹72,000$$

- (ii) Nil (DRR will not be created by Listed Banking Companies)

Answer 3.**Journal Entries**

Date	Particulars	L. F.	Debit (₹)	Credit (₹)
	(a) Issue of Debentures			
	Bank A/c Dr.		10,00,000	
	Loss on Redemption of Debentures A/c Dr.		1,00,000	
	To 10% Debenture A/c			10,00,000
	To Premium on Redemption of Debentures A/c			1,00,000
	(Being debentures issued)			
	(b) Redemption of Debentures		10,00,000	
	10% Debentures A/c Dr.			
	Premium on Redemption of Debentures A/c Dr.		1,00,000	
	To Debentureholders A/c			11,00,000
	(Being debentures amount transferred to Debentures holders account)			
	Debentureholders A/c Dr.		11,00,000	
	To Bank A/c			11,00,000
	(Being debentureholders paid)			
	(c) Interest earned on Debenture Redemption Investment.			
	Bank A/c Dr.		15,000	
	To Interest Earned on DRI A/c			15,000
	(Being interest earned on Debentures Redemption Investment)			

$$\text{Interest earned} = 1,50,000 \times \frac{10}{100} \times 1 = ₹15,000$$

Answer 4.

(i) Cash adjustment for the continuing partners.

Particulars	A (₹)	B (₹)	C (₹)	Total (₹)
Old Capitals	1,20,000	90,000	60,000	2,70,000
New Capital	1,62,000	—	1,08,000	2,70,000
Net Adjustment – Cash Brought in	42,000		48,000	90,000

Working Notes:

B's Capital = ₹90,000 will be paid in by A – ₹42,000 and B – ₹48,000.

(b)

Journal Entry

(for the cash adjustment of the continuing partners)

Date	Particulars	L. F.	Debit (₹)	Credit (₹)
	Bank A/c Dr.		90,000	
	To A's Capital A/c			42,000
	To C's Capital A/c			48,000
	(Being cash brought in)			

Working Notes:

Cash A/c Dr. ₹90,000; A's Capital A/c Cr. ₹42,000 and B's Capital A/c Cr. ₹48,000.

(ii) Journal Entry for the interest on Debentures on 30th September, 2020

Date	Particulars	L. F.	Debit (₹)	Credit (₹)
2020 Sep. 30	Interest on Debentures A/c Dr.		50,000	
	To Debentureholders A/c			45,000
	To TDS Payable A/c			5,000
	(Being interest on debentures made due)			
	Debentureholders A/c Dr.		45,000	
	To Bank A/c			45,000
	(Being interest on debentures paid)			

Journal entry for the interest on Debentures on 31st March, 2021

2021 Mar. 31	Interest on Debentures A/c Dr.		50,000	
	To Debentureholders A/c			45,000
	To TDS Payable A/c			5,000
	(Being interest on debentures made due)			
	Interest on Debentures A/c Dr.		45,000	
	To Debentureholders A/c			45,000
	(Being interest on debentures paid)			
	Statement of Profit and Loss A/c Dr.		1,00,000	
	To Interest on Debentures A/c			1,00,000
	(Being Interest on debentures transferred)			
	TDS Payable A/c Dr.		10,000	
	To Bank A/c			10,000
	(Being TDS Paid to Government)			

Answer 5.

(i) **Dr.**

B's Current Account

Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	10,000	By General Reserve A/c	25,000
To Drawings A/c	15,000	By Interest on Capital A/c	15,000
To Balance c/d to B's Capital A/c	1,35,000	By A's Capital A/c (goodwill)	1,20,000
	1,60,000		1,60,000

Dr.

B's Capital Account

Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To B's Loan A/c	2,00,000	By Balance b/d	1,50,000
To Cash A/c (Bal. Fig.)	85,000	By B's Current A/c	1,35,000
	2,85,000		2,85,000

Working Notes:

Calculation for the goodwill:

Goodwill of the firm = 2 years purchase × Average Profits of 3 years

$$= 2 \times \left(\frac{1,10,000 + 1,50,000 + 1,00,000}{3} \right)$$

$$= 2 \times \left(\frac{3,60,000}{3} \right) = ₹2,40,000$$

$$\text{Share of Partner 'B'} = 2,40,000 \times \frac{1}{2} = ₹1,20,000$$

∴ Amount paid in cash to Partner B - ₹85,000

(ii) **(a) Issue of Debentures to Vendor**

Journal Entries

Date	Particulars	L. F.	Debit (₹)	Credit (₹)
	Machinery A/c Dr. To XYZ Machineries Ltd. A/c (Being Machinery purchased)		6,30,000	6,30,000
	XYZ Machineries Ltd. A/c Dr. To Cash A/c To 10% Debenture Capital A/c To Securities Premium A/c (Being debentures issued)		6,30,000	80,000 5,00,000 50,000

(b) Issue of Debentures

Date	Particulars	L. F.	Debit (₹)	Credit (₹)
	Bank A/c Dr. Loss on Issue of Debentures A/c Dr. To 10% Debenture Capital A/c To Premium on Redemption of Debentures A/c (Being debentures issued)		9,50,000 1,50,000	10,00,000 1,00,000

Answer 6.

Realisation Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Debtors A/c	60,000	By Creditors A/c	75,000
To Bills Receivable	40,000	By Bills Payable A/c	60,000
To Furniture	1,00,000	By Bank A/c	₹ 6,82,500
To Plant and Machinery	2,25,000	Debtors	54,000
To Land and Building	2,50,000	B/R	36,000
To Bank A/c	₹ 1,27,500	Furniture	90,000
Creditors	67,500	Plant and Machinery	2,02,500
Bills Payable	60,000	Land and Building	3,00,000
To C's Capital A/c (Realisation Expenses)	5,000		
To Profit transfer to:			
A's Capital A/c	4,000		
B's Capital A/c	4,000		
C's Capital A/c	2,000		
(2 : 2 : 1)	10,000		
	8,17,500		8,17,500

Dr. Partner's Capital Account Cr.

Particulars	A(₹)	B(₹)	C (₹)	Particulars	A(₹)	B(₹)	C (₹)
To Bank A/c	2,04,000	2,04,000	1,07,000	By Balance b/d	2,00,000	2,00,000	1,00,000
				By Realisation A/c Expenses	—	—	5,000
				By Realisation A/c (Profit.)	4,000	4,000	2,000
	2,04,000	2,04,000	1,07,000		2,04,000	2,04,000	1,07,000

Dr. Bank Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	40,000	By Realisation A/c (Liabilities)	1,27,500
To Realisation A/c (Assets)	6,82,500	By C's Loan A/c	80,000
		By A's Capital A/c	2,04,000
		By B's Capital A/c	2,04,000
		By C's Capital A/c	1,07,000
	7,22,500		7,22,500

Section-B

Answer 7.

- (i) (d) Revaluation Statements
- (ii) (c) Receipt from maturity of Bills Receivable

Answer 8.

Particulars	(₹)	(₹)
Cash Flow from Investing Activities		
Inflow:		
Sale of Machinery	35,000	
Interest on Investments	15,000	50,000
Less: Outflow:		
Purchase of Machinery	4,00,000	
Purchase of Patents	1,10,000	
Purchase of Investments	50,000	
Purchase of Goodwill	50,000	
Purchase of Furnitures and Fixtures	1,40,000	(7,50,000)
Net Cash Used in Investment Activities		7,00,000

Working Notes: 1.

Dr. Machinery Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.03.20	To Balance b/d	5,00,000		By Bank A/c (Sale)	35,000
	To Bank A/c (Purchase)	4,00,000		By Loss on sale (trans. to statement of Profit & Loss A/c)	25,000
				By Depreciation A/c	40,000
			31.03.21	By Balance c/d	8,00,000
		9,00,000			9,00,000

Dr. Accumulated Depreciation A/c on Machinery A/c Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Depreciation Plant & Machinery A/c	40,000	31.03.21	By Balance b/d	1,00,000
31.03.21	To Balance c/d	1,20,000		By Statement of Profit and Loss A/c (Bal. Fig.)	60,000
		1,60,000			1,60,000

Dr. Patents Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	60,000	By Statement of Profit and Loss A/c	20,000
To Bank A/c (Bal. Fig.)	1,10,000	By Balance c/d	1,50,000
	1,70,000		1,70,000

Dr. Furniture Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	2,00,000	By Depreciation A/c (20% on ₹ 2,00,000)	40,000
To Bank A/c (Bal. fig.) (Purchase)	1,40,000	By Balance c/d	3,00,000
	3,40,000		3,40,000

Working Note: 2.

	₹
Machinery Cost	1,00,000
Less: Depreciation	(40,000)
Written Down Value	60,000
Less: Sale Value	35,000
Loss on Sale	<u>25,000</u>

Answer 9.**Common-Size Income Statement**

Particulars	Note No.	31 st March, 2020 (₹)	% 2020	31 st March, 2021 (₹)	% 2021
Revenue		5,00,000	100	9,00,000	100
Lesss: Expenses		(2,00,000)	40	4,50,000	50
Earning Before Tax		3,00,000	60	4,50,000	50
Less :Tax (@ 30%)		90,000	18	1,35,000	15
Earning After Tax		2,10,000	42	3,15,000	35

Answer 10.**Cash Flow Statement***(for the year ended 31st March, 2021)*

Particulars	Amount (₹)	Amount (₹)
A. Cash Flow from Operating Activities		
Closing Balance of Surplus i.e. Statement of Profit and Loss	1,56,000	
Less: Opening Balance of Surplus i.e. Statement of Profit and Loss	(80,000)	
Net Profit during the year	76,000	
Add: Provision made for Tax	2,75,000	
Net Profit before tax and extraordinary items	3,51,000	
Add: Depreciation charged during the year	2,00,000	
Goodwill amortised	50,000	
Interest paid on 10% debentures	50,000	
Net Profit before Working Capital changes	6,51,000	
Less: Decrease in Trade Payables	(25,000)	
Increase in Current assets	(1,30,000)	
Net Profit before tax	4,96,000	
Less: Tax Paid during the year	(2,25,000)	
Cash Flow from Operating Activities		2,71,000

Working Notes:**Dr.****Provision for Tax Account****Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bank A/c (Paid)	2,25,000	By Balance b/d	2,00,000
To Balance c/d	2,50,000	By Profit and Loss A/c (Bal. fig.)	2,75,000
	<u>4,75,000</u>		<u>4,75,000</u>