

ISC SEMESTER 2 EXAMINATION
SAMPLE PAPER - 3
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) On the basis of following data, what final payment to a partner on firm's dissolution will be made: Debit balance of Capital A/c-₹14,000; Share of his profit-₹43,000; Firm's assets taken by him for ₹17,000.
(a) ₹31,000 (b) ₹29,000 (c) ₹12,000 (d) ₹60,000
- (ii) Which of the following reserves can be transferred to DRR ?
(a) Capital Reserve
(b) Securities Premium Reserve
(c) Surplus *i.e.*, Balance in Statement of Profit and Loss
(d) Stock Option Outstanding Account
- (iii) On the retirement of Hari, from the firm of Hari, Ram and Sharma, the Balance Sheet showed a debit balance of ₹12,000 in the Profit and Loss Account. For calculating the amount payable to Hari, this balance will be transferred:
(a) to the credit of the Capital Accounts of Hari, Ram and Sharma equally
(b) to the debit of the Capital Accounts of Hari, Ram and Sharma equally
(c) to the debit of the Capital Accounts of Ram and Sharma equally
(d) to the credit of the Capital Accounts of Ram and Sharma equally.
- (iv) VR Ltd. took over assets of ₹21,60,000 and liabilities of ₹1,60,000 of JCV Ltd. at an agreed value of ₹19,20,000 payable as ₹4,80,000 by cheque and the balance by issue of 10% Debenture of ₹100 each at a premium of 20%. Calculate the number of debentures to be issued:
(a) 11,000 Debenture (b) 12,000 Debenture (c) 13,500 Debenture (d) 10,500 Debenture

Question 2.

- (i) What are the provisions for Debentures Redemption Investment ?
- (ii) Charu, one of the partners was to receive 2% of the net cash realised from dissolution and was to bear realisation expenses. Realisation expenses were ₹2,500. The assets (including Cash at Bank ₹7,500) realised ₹3,82,500 and cash paid to outsiders' liabilities ₹1,00,000.

You are required to pass necessary journal entry for Charu's remuneration for doing dissolution process.

Question 3.

Anu Ltd. had issued 10,000 9% Debenture of ₹100 each at par redeemable at par at the end of 4 years. The Board of Directors decided to transfer the minimum required amount to Debenture Redemption Reserve as per the Companies Act, 2013 at the time of redemption.

Assume that investments, as required by rules framed under Section 71(4), were made on 1st April of the financial year in which redemption is due and realised at book value at the end of the same financial year. Interest on the investment is also received @ 8% per annum for the full year.

You are required to pass necessary journal entries at the time of issue of debentures, redemption of debentures and creation of debenture redemption reserve.

Question 4.

- (i) Balram limited took assets of ₹16,80,000 and liabilities of ₹1,60,000 of Krishna limited at an agreed price of ₹14,40,000. The purchase consideration was discharged by issuing 10% debenture of ₹100 each at a premium of 20%.

You are required to pass journal entries in both the cases in the books of the purchasing companies.

- (ii) X, Y and Z were partners sharing profits and losses in the ratio of 4:3:2. Y retired on 1st April 2020 on which date the capitals of X, Y and Z after all adjustments stood at ₹65,800; ₹57,225 and ₹33,800 respectively. Capital of the reconstituted firm will be readjusted by bringing in or paying cash so that the future capitals of X and Z be in their future profit-sharing ratio.

You are required, to pass journal entries. Calculate the amount of cash to be paid or to be brought in by the continuing partners.

Question 5.

- (i) A, B and C are partners sharing profits in the ratio of 4 : 3 : 2. B retires and his capital after making adjustments for reserve and gain (profit) on revaluation stands at ₹1,39,200. A and C agreed to pay him ₹1,50,000 in full settlement of his claim.

You are required to:

(a) Calculate sacrificing/gaining ratio of partners.

(b) Pass necessary journal entry for adjustment of goodwill if the new profit-sharing ratio is decided at 5 : 3.

- (ii) BG Ltd. issued 2,000 12% debenture of ₹100 each on 1st April 2019. This issue was fully subscribed. According to the term of issue, interest on the debenture is payable half yearly on 30th September and 31st March and the tax deducted at sources is 10%.

You are required to pass necessary journal entries related to the debenture interest for half yearly ending 31st March, 2020 and transfer of interest on debenture of the year to the Statement of Profit and Loss.

Question 6.

H and J were partners in a firm sharing profits in the ratio of their capitals. On 31st March, 2020 the Balance Sheet was as follows:

Balance Sheet
(as at 31st March, 2020)

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	1,50,000	Bank	2,00,000
Workmen's Compensation Fund	3,00,000	Debtors	3,40,000
General Reserve	75,000	Stock	1,50,000
H's Current A/c	25,000	Furniture	4,60,000
Capital A/c: ₹		Machinery	8,20,000
H 10,00,000		J's Current A/c	80,000
J 5,00,000	15,00,000		
	20,50,000		20,50,000

On the above date the firm was dissolved:

- (a) Debtors were realised at a discount of 5%. 50% of the stock was taken over by H at 10% less than the book value. Remaining stock was sold for ₹65,000.
- (b) Furniture was taken over by J for ₹1,35,000. Machinery was sold as scrap for ₹74,000.
- (c) Creditors were paid in full.
- (d) Expenses on realization ₹8,000 were paid by H

You are required to prepare Realisation Account in the books of the firm.

Section-B (Answer all questions)

Question 7.

Select the correct option in the following question:

- (i) Which one of the following technique of financial analysis shows a comparative study of items or components of financial statement for two or more years?
- (a) Common-size Statements (c) Ratio Analysis
(b) Comparative Statements (d) Trend Analysis
- (ii) Give one example of the transaction which does not appear in Cash Flow statement with reason.

Question 8.

From the following extracts of a company's Balance Sheet and the additional information, you are required to calculate Cash Flow from Financing Activities for the year ending 31st March, 2020.

Particulars	31 st March 2020 (₹)	31 st March 2019 (₹)
Equity Share Capital	20,00,000	15,00,000
12% Preference Share Capital	—	5,00,000
14% Debenture	2,50,000	—

Additional Information:

- (a) Equity share was issued at a premium of 20%.
(b) 12% Preference Shares were redeemed at par.
(c) 14% Debentures were issued at a discount of 10%.
(d) Interim dividend paid on Equity Shares ₹1,50,000.
(e) Interest paid on 14% Debenture ₹35,000.
(f) Underwriting Commission on Equity Shares ₹20,000.
(g) Dividend paid on Preference Shares ₹60,000.

Question 9.

You are required to prepare Comparative Statement of Profit and Loss from the following details:

Particulars	31 st March 2020 (₹)	31 st March 2019 (₹)
Revenue from Operation	30,00,000	20,00,000
Expenses (% of operating revenue)	60%	50%
Tax Rate	30%	30%

Question 10.

From the following extracts of a company's Balance Sheet, and the additional information, you are required to calculate Cash Flow from Operating Activities. for the year ending 31st March, 2020.

Grand Hospitality Ltd. reported Net Profit after Tax of ₹3,40,000 for the year ended 31st March, 2020.

Particulars	31 st March 2020 (₹)	31 st March 2019 (₹)
Inventories	69,000	72,000
Trade Receivable	94,000	61,000
Prepaid Expenses	14,000	3,000
Trade Payable	82,000	78,000
Provision for Tax	13,000	19,000

Depreciation charged on plant and machinery ₹49,000, insurance claim received ₹20,000 and gain on sale of investments of ₹8,000 appeared in the Statement of Profit and Loss for the year ended 31st March, 2020.

Answers

Section-A

Answer 1.

(i) (c) ₹12,000

Explanation :

Final payment to the partner on firm's dissolution = ₹43,000 (–) [₹14,000 + ₹17,000] = ₹12,000

(ii) (c) Surplus *i.e.*, Balance in Statement of Profit and Loss

(iii) (b) to the debit of the Capital Accounts of Hari, Ram and Sharma equally.

Explanation :

(iv) (b) 12,000 debentures

Explanation :

	₹
Assets	21,60,000
Less: Liabilities	(1,60,000)
Net Amount	20,00,000
Net Profit	(19,20,000)
Capital Reserve	80,000
	₹19,20,000
Less: Bank cheque	(4,80,000)
	14,40,000
Balance	$\frac{14,40,000}{120} \text{ ₹} = 12,000 \text{ Debentures}$

Answer 2.

(i) Company has to invest at least 15% of the nominal (face) value of the debentures to be redeemed by 31st March of next year in specified securities on or before 30th April of current year.

(ii)	Date	Particulars	Debit (₹)	Credit (₹)
		Realisation A/c Dr.	5,500	
		To Charu's Capital A/c		5,500
		(Being the remuneration for dissolution work done to Charu <i>i.e.</i> 2% of ₹3,75,000 – ₹1,00,000)		

Answer 3.

Journal Entries

Date	Particulars	L. F.	Debit (₹)	Credit (₹)
	Issue of Debenture			
	Bank A/c Dr.		10,00,000	
	To 9% Debenture Application and Allotment A/c			10,00,000
	(Being the application money received)			
	9% Debenture Application and Allotment A/c Dr.		10,00,000	
	To 9 % Debentures A/c			10,00,000
	(Being the issue of 10,000, 9% Debenture of ₹100 each at par and redeemable at par)			

	On Creation of DRR Surplus, i.e. Balance in Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being the profit transferred to DRR to make the reserve equivalent to 25% of the value of Debenture)		1,00,000	1,00,000
	On 1st April of the Financial Year in which Redemption is Due Debenture Redemption Investment A/c Dr. To Bank A/c (Being the amount invested in specified securities equal to 15% of the amount of redeemable debenture)		1,50,000	1,50,000
	On Redemption Bank A/c Dr. To Debenture Redemption Investment A/c To Interest Earned A/c (1,50,000 × 8%) (Being the debenture redemption investment realised and interest received)		1,62,000	1,50,000 12,000
	9% Debentures A/c Dr. To Debentureholders' A/c (Being the amount due on redemption)		10,00,000	10,00,000
	Debentureholders' A/c Dr. To Bank A/c (Being payment made to debentureholders)		10,00,000	10,00,000
	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being the amount in DRR A/c transferred to General Reserve)		1,00,000	1,00,000
	Interest Received A/c Dr. To Statement of Profit & Loss A/c (Being transfer of interest on investment)		12,000	12,000

Answer 4.

(i)

Journal Entries

Date	Particulars	L. F.	Debit (₹)	Credit (₹)
	Sundry Assets A/c Dr. To Sundry Liabilities A/c To M/s Krishna Ltd. To Capital Reserve A/c (Being the assets and liabilities of Krishna Ltd. taken over)		16,80,000	1,60,000 14,40,000 80,000
	M/s Krishna Ltd. Dr. To 10% Debentures A/c To Securities Premium Reserve A/c (Being the issue of 12,000 debentures of ₹100 each at a premium of 20% on vendors)		14,40,000	12,00,000 2,40,000

(ii) Capital of Reconstituted Firm = ₹65,800 + ₹33,800 = ₹99,600

Calculation of cash to be brought in/(Paid off) by X and Z:

	X (₹)	Z(₹)
(a) New Capital (₹99,600 in the ratio of 2:1)	66,400	33,200
(b) Existing Capital	65,800	33,800
(c) Cash to be brought in /(Paid off) (a – b)	600	(600)

Journal Entries

Date	Particulars	L. F.	Debit (₹)	Credit (₹)
2020 April 1	Cash A/c Dr. To X's Capital A/c (Being shortage of capital brought by X)		600	600
	Z's Capital A/c Dr. To Cash A/c (Being excess capital withdraw by Z)		600	600

Answer 5.

(i) Amount agreed to be paid in full settlement	₹1,50,000
Less: B's capital after all adjustment	₹1,39,200
B's share of goodwill	₹10,800

Gaining Ratio = New profit share – old profit share

$$A = \frac{5}{8} - \frac{4}{9} = \frac{13}{72}$$

$$C = \frac{3}{8} - \frac{2}{9} = \frac{11}{72}$$

Its gaining ratio = (13 : 11)

Journal Entry

Date	Particulars	L. F.	Debit (₹)	Credit (₹)
	A's Capital A/c Dr. C's Capital A/c Dr. To B's Capital A/c (Being B's Share of goodwill adjusted to the Capital A/c of A and B in their gaining ratio of 13 : 11)		5,850 4,950	10,800

(ii) **Journal Entries**

Date	Particulars	L. F.	Debit (₹)	Credit (₹)
2020 Mar. 31	Interest on Debentures A/c Dr. To Debentureholders' A/c To TDS Payable A/c (Being half yearly interest due on debenture and tax deducted at source)		12,000	10,800 1,200
Mar. 31	Debentureholders' A/c Dr. To Bank A/c (Being TDS deposited with Income tax authorities)		10,800	10,800

Mar. 31	TDS Payable A/c To Bank A/c (Being TDS deposited in Government Account)	Dr.	1,200	1,200
Mar. 31	Statement of Profit and Loss A/c To Interest on Debenture A/c (Being Interest transferred to Statement of Profit and Loss A/c)	Dr.	24,000	24,000

Answer 6.

Dr.		Realisation Account		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)		
To Debtors	3,40,000	By Creditors	1,50,000		
To Stock	1,50,000	By H's Capital A/c			
To Furniture	4,60,000	(Stock ₹75,000 – ₹7,500)	67,500		
To Machinery	8,20,000	By Bank A/c (Assets Realised): ₹			
To Bank A/c (Creditors)	1,50,000	Stock (Remaining)	65,000		
To H's Capital A/c	8,000	Debtors	3,23,000		
(Realisation Expenses)		Machinery	74,000	4,62,000	
		By J's capital A/c		1,35,000	
		By Loss transferred to:			
		H's Capital A/c	7,42,333		
		J's Capital A/c	3,71,167	11,13,500	
	19,28,000			19,28,000	

Section-B

Answer 7.

- (i) (c) Comparative Statements
- (ii) Issue of Share/ Debenture for consideration other than cash.
- For example: Purchase of an asset against the issue of Share/ Debenture.
- Reason: These transactions do not involve any inflow/outflow of Cash.

Answer 8.

Cash Flow From Financing Activities

(for the year ended 31st March, 2020)

Particulars	Amount (₹)
Proceeds from Issue of Equity Shares	5,00,000
Receipt of Securities Premium	1,00,000
Underwriting Commission Paid	(20,000)
Redemption of Preference Shares	(5,00,000)
Proceeds from Issue of 14% Debenture [₹2,50,000 – ₹25,000 (Discount)]	2,25,000
Interim Dividend paid on Equity Shares	(1,50,000)
Dividend paid on Preference shares	(60,000)
Interest paid on Debenture	(35,000)
Cash flow from Financing Activities	60,000

Answer 9.

Comparative Statement of Profit and Loss

(for the years ended 31st March, 2020 and 2019)

Particulars	Note No.	2019-20	2018-20	Absolute Change (Increase / Decrease)	% (Increase /Decrease)
1		2	3	4	5
		A	B	(A – B) = C	$\frac{C}{B} \times 100 = D$
I. Revenue from Operations		(₹) 30,00,000	(₹) 20,00,000	(₹) 10,00,000	(₹) 50%
II. Less: Expenses		18,00,000	10,00,000	8,00,000	80%
Net (Before Tax)		12,00,000	10,00,000	2,00,000	20%
IV. Less: Tax		3,60,000	3,00,000	60,000	20%
V. Profit After Tax (III – IV)		8,40,000	7,00,000	1,40,000	20%

Answer 10.

Cash Flow from Operating Activities

(for the year ended 31st March, 2018)

Particulars	Amount (₹)
Net Profit after Tax as per Statement of Profit and Loss	3,40,000
Add: Provision for Tax (Current Year)	13,000
	3,53,000
Less: Extraordinary item:	
Insurance Claim Received	20,000
Net Profit before Tax and Extraordinary items	3,33,000
Add/Less: Non-cash and Non-operating items:	
Add: Depreciation	49,000
	3,82,000
Less: Gain on Sale of Investment	8,000
Operating profit before Working Capital Changes	3,74,000
Add: Decrease in Current Assets and Increase in Current Liabilities:	
Inventories	3,000
Trade Payable	4,000
	3,81,000
Less: Increase in Current Assets:	
Trade Receivable	33,000
Prepaid Expenses	11,000
Cash generated from operations	3,37,000
Less: Income Tax	19,000
Cash Flow from Operating Activities before Extraordinary items	3,18,000
Extraordinary items:	
Add: Insurance claim received	20,000
Cash Flow from Operating Activities	3,38,000