ISC SEMESTER 2 EXAMINATION

SAMPLE PAPER - 4

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) XYZ Ltd. (an unlisted NBFC) redeems its 16,000, 10% Debentures of ₹100 each in instalments as follows:

Date of Redemption	Debentures to be redeemed
31st March, 2019	4,000
31st March, 2020	10,000
31st March, 2021	2,000

On the basis of the above details, what will be the amount of Debenture Redemption Reserve which the company will transfer to general reserve on 31st March, 2021?

(a) ₹40,000 (b) ₹50,000 (c) ₹20,000 (d) ₹1,60,000

(ii) What is credited in the Revaluation Account?

(a) An increase in the assets and decrease in its liabilities
(b) A decrease in the assets and increase in its liabilities
(c) Both (a) and (b)
(d) None of the above

(iii) JC Ltd. purchased assets worth ₹28,80,000. It issued Debentures of ₹100 at a discount of 4% in the full settlement of purchase consideration.

The number of Debentures issued to a vendor is:

(a) 35,000 (b) 32,000 (c) 30,000 (d) None of these

(iv) At the time of dissolution of partnership firm, the amount of 'Bills Payable' shown in the liability side of Balance Sheet is transferred to :

(a) Revaluation Account (b) Realisation Account (c) Capital Account (d) Cash Account

Question 2.

(i) Premium collected on issue of debentures is credited to 'Securities Premium Reserve Account'. Do you think it can be credited to any other account ? Give reasons.

(ii) C and D are partners in a firm sharing profits in the ratio of 2 : 3. Mrs. C has given a loan of ₹20,000 to the firm and the firm also obtained a loan of ₹10,000 from D. The firm was dissolved and its assets were realised for ₹25,000. State the order of payment of Mrs. C's Loan and D's Loan with reason, if there were no creditors of the firm.

Question 3.

Manisha Ltd issued ₹38,00,000, 8% debentures of ₹100 each on 1st April, 2018. The terms of issue stated that the debentures were to be redeemed at a premium of 5% on 30th June, 2020. The company decided to transfer out of profits ₹5,00,000 to debenture redemption reserve on 31st March, 2019 and ₹4,50,000 on 31st March, 2020. It was decided to invest the required amount in Debenture Redemption Investment.

You are required to pass necessary journal entries regarding the issue and redemption of debentures, without providing for either the interest or loss on issue of debentures.

Question 4.

(i) Goodrich Ltd. issued 10,000, 10% debentures of ₹100 each on 1st April, 2019. The issue was fully subscribed. According to the terms of issue, interest on debentures is payable half-yearly on 30th September and 31st March and tax deducted at source is 10%.

You are required to pass the necessary entries related to the debenture interest for the half-yearly ending on 31st March, 2020.

(ii) A, B and C are the partners sharing the profit and loss in the ratio of 3 : 2 : 1. B retires and sells his shares to A and C for ₹1,60,000 and ₹1,00,000 being paid by A and ₹60,000 by C. The profit for the year ended after the retirement of B is ₹2,40,000.

You are required to pass the necessary journal entries and calculate the profit to be distributed among A and C.

Question 5.

(i) Suraj, Dheeraj, Virat were partners sharing profits and losses in the ratio of 1/2,1/3 ,1/2. Dheeraj decided to retire, his share being taken up by the remaining partners in the ratio 1 : 4.

On Dheeraj's retirement, a loss of ₹12,000 was determined upon revaluation of assets and liabilities.

You are required to:

(a) Calculate the new profit-sharing ratio of the remaining partners.

(b) Pass the journal entry to write off the loss on revaluation of assets and liabilities.

(ii) Iron Products Ltd. issued 15,000; 9% Debentures of ₹100 each at a premium of ₹40 payable as follows:

(a) ₹40 , including premium of ₹10 on applications;

(b) ₹45, including premium of ₹15 on allotment; and

(c) Balance as first and final call.

The issue was fully subscribed and allotment was made. Calls were made and due amount was received.

You are required to pass necessary journal entries related to the issue of debenture.

Question 6.

Rohan and Sohan were partners sharing profits in the ratio of 2 : 1. On 31st March, 2019, their balance sheet was as follows.

The firm was dissolved on 1st April, 2019 and the assets and liabilities were settled as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Rohan's Capital	1,20,000	Land and Building	70,000
Sohan's Capital	80,000	Machinery	60,000
Creditors	70,000	Debtors	80,000
		Bank	60,000
	2,70,000		**2,70,000**

On the date of dissolution:

(a) Creditors of ₹50,000 took over land and building in full settlement of their claim.

(b) Remaining creditors were paid in cash.

(c) Machinery was sold at a depreciation of 20%.

(d) Debtors were collected at a cost of ₹500.

(e) Expenses on realisation were ₹1,700.

You are required to pass necessary journal entries related to the Realisation Account.

Section-B (Answer all questions)

Question 7.

Select the correct option of the following questions:

(i) Main objective of Common Size Statement of Profit and Loss is:

(a) to present changes in assets and liabilities

(b) to judge the financial soundness

(c) to establish relationship between revenue from operations and other items of Statement of Profit and Loss.

(d) all of the above

(ii) What do you mean by financing activities and why is specific disclosure of Cash Flow from Financing Activities important while preparing cash flow statement?

Question 8.

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

Particulars	31.3.2021 (₹)	31.3.2020 (₹)
Equity Share Capital	10,00,000	8,00,000
10% Preference Share Capital	3,00,000	5,00,000
Securities Premium Reserve	30,000	5,000
12% Debentures	4,00,000	3,00,000
Cash Credit	10,000	8,000

Additional information:

1. During the year 2020-21:

   (a) Dividend proposed on Equity Shares in 2019-20 of ₹65,000 was declared and paid.

   (b) Debentures were issued on 1st July, 2020, at a premium of 5%.

   (c) Interest on cash credit of ₹500 was paid.

   (d) Underwriting commission of ₹25,000 was paid to the underwriters.

   (e) The Equity shares were issued at a 10% premium.

2. The 10% Preference Shares were redeemed on 31st March, 2021.

Question 9.

You are required to prepare a Comparative Statement of Profit & Loss from the following particulars of Pakhi Ltd.

Particulars	Note No.	31.3.2021 (₹)	31.3.2020 (₹)
Revenue from Operations		10,00,000	5,00,000
Cost of raw materials purchased		2,00,000	1,50,000
Change in inventories		25,000	(12,500)

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, 2021.

Rajan Ltd. reported a profit of ₹1,00,000 for the year ended 31st March, 2021, after considering the following:

Particulars	(₹)
(a) Tax provided during the year	6,000
(b) Amortization of Patents	14,000
(c) Profit on sale of Vehicle	5,000

(d) Writing off Preliminary expenses 6,000

(e) During the year, machinery costing ₹42,000 (accumulated depreciation thereon being ₹20,000) was sold for ₹8,000.

	31.03.2021 (₹)	31.03.2020 (₹)
Trade Receivables	22,000	18,000
Inventory	14,000	16,000
Cash at Bank	12000	14,000
Trade Payables	10,000	12,000
Marketable Securities	7,000	4,000
Plant & Machinery	90,000	1,50,000

Answers

Section-A

Answer 1.

(i) (c) ₹20,000

Explanation :

Amount of Debenture Redemption Reserve which the company will transfer to General Reserve on 31st March, 2021 is ₹20,000

$\therefore$ 10% × ₹2,00,000 = ₹20,000

(ii) Option (a) is correct as in the revaluation account decrease in the assets and increase in the liabilities will be debited and increase in the assets and decrease in the liabilities will be credited.

(iii) Option (c) is correct

Explanation :

Number of debentures = $\frac{28,80,000}{96}$ = 30,000

(iv) Option (b) is correct as at the time of the dissolution of the firm, realisation account is prepared. Therefore, all the liabilities and assets are transferred to the realisation account. So, the option (b) is correct.

Answer 2.

(i) Premium collected on issue of debentures is a capital receipt and thus, can be credited only to Securities Premium Reserve Account and to no other account.

(ii) Mrs. C's loan will transferred to the realisation account as this is an outsider's liability and it will be settled from the realisation of assets. ₹5,000 (25,000 – 20,000) will be the profit on realisation. It will be distributed among the partners in their profit sharing ratio *i.e.* 2 : 3.

Mr. D's loan is transferred to the partner's capital account on the credit side and it will be adjusted through the D's capital account as this is the partner's liability and it should not considered as an outsider's liability.

Answer 3.

In the Books of Manisha Ltd.
Journal Entries

Date	Particulars	L. F.	Debit (₹)	Credit (₹)
1 April, 2018	Bank A/c Dr. To Debenture Application and Allotment A/c (Being the application and allotment money of debentures is received)		38,00,000	38,00,000

1 April, 2018	Debenture Application and Allotment A/c Dr.		38,00,000	
	Loss on redemption of Debentures A/c Dr.		1,90,000	
	To 8% Debenture A/c			38,00,000
	To Premium on Redemption of Debentures A/c			1,90,000
	(Being 8% debentures issued)			
31 Mar., 2019	Surplus in Statement of P & L A/c Dr.		5,00,000	
	To Debenture Redemption Reserve A/c			5,00,000
	(Being the surplus out of the profits is transferred to DRR A/c)			
31 Mar., 2020	Surplus in Statement of P & L A/c Dr.		4,50,000	
	To Debenture Redemption Reserve A/c			4,50,000
	(Being the surplus out of the profits is transferred to DRR A/c)			
30 April 2020	Debenture Redemption Investment A/c Dr.		5,70,000	
	To Bank A/c			5,70,000
	(Being investment made @ 15% of the face value of debentures to be redeemed) (38,00,000 × 15%)			
30 June, 2020	Bank A/c Dr.		5,70,000	
	To Debenture Redemption Investment A/c			5,70,000
	(Being investment encashed)			
30 June, 2020	8% Debentures A/c Dr.		38,00,000	
	Premium on Redemption of Debenture A/c Dr.		1,90,000	
	To Debentureholders A/c			39,90,000
	(Being the 8% debentures are redeemed at 5% premium)			
30 June, 2020	Debentureholders A/c Dr.		39,90,000	
	To Bank A/c			39,90,000
	(Being the payment made to debentureholder)			
30 June, 2020	Debenture Redemption Reserve A/c Dr.		9,50,000	
	To General Reserve A/c			9,50,000
	(Being transferred to Debenture Redemption Reserve A/c to General Reserve A/c on the redemption of all the debentures)			

Answer 4.

(i)

In the books of Goodrich Ltd.

Journal Entries

Date	Particulars	L. F.	Debit (₹)	Credit (₹)
30 Sep., 2019	Debenture Interest A/c Dr.		50,000	
	To Debentureholders A/c			45,000
	To TDS Payable A/c			5,000
	(Being the interest is due on debentureholders and tax will be deducted at source @10%)			
30 Sep., 2019	Debentureholders A/c Dr.		45,000	
	To Bank A/c			45,000
	(Being the interest paid to the debentureholders)			
30 Sep., 2019	TDS Payable A/c Dr.		5,000	
	To Bank A/c			5,000
	(Being the tax deducted at source is deposited in Government A/c)			

31 Mar., 2020	Debenture Interest A/c Dr.		50,000	
	To Debentureholders A/c			45,000
	To TDS Payable A/c			5,000
	(Being the interest is due on debentureholders and tax will be deducted at source @10%)			
31 Mar., 2020	Debentureholders A/c Dr.		45,000	
	To Bank A/c			45,000
	(Being the interest paid to the debentureholders)			
31 Mar., 2020	TDS Payable A/c Dr.		5,000	
	To Bank A/c			5,000
	(Being the tax deducted at source is deposited in Government A/c)			

Working Notes:

$$\text{Interest on debentures} = \left(₹10,00,000 \times 10\% \times \frac{6}{12}\right)$$

(ii) Old Ratio of A : B : C = 3 : 2 : 1

B's share taken by A and C in the ratio – 1,00,000 : 60,000 = 5 : 3

$$\text{A's gain} = \frac{5}{8} \times \frac{2}{6} = \frac{5}{24}$$

$$\text{C's gain} = \frac{3}{8} \times \frac{2}{6} = \frac{3}{24}$$

$$\text{A's new share} = \frac{3}{6} + \frac{5}{24} = \frac{17}{24}$$

$$\text{C's new share} = \frac{1}{6} + \frac{3}{24} = \frac{7}{24}$$

The new ratio of A and C is 17 : 7

The profit of the year is ₹2,40,000. It is divided among the A and C in the ratio 17 : 7.

The journal entry will be:

Date	Particulars	Debit (₹)	Credit(₹)
	Profit and loss appropriation A/c Dr.	2,40,000	
	To A's Capital A/c		1,70,000
	To C's Capital A/c		70,000
	(Being the profit distributed among the partners in their new ratio)		

Answer 5.

(i) (a) Old profit ratio of Suraj, Dheeraj and Virat is $\frac{1}{2}$, $\frac{1}{3}$ and $\frac{1}{2}$, *i.e.* 3 : 2 : 3

$$\text{Suraj's gain} = \frac{1}{5} \times \frac{2}{8} = \frac{2}{40}$$

$$\text{Virat's gain} = \frac{4}{5} \times \frac{2}{8} = \frac{8}{40}$$

New ratio

$$\text{Suraj} = \frac{3}{8} + \frac{2}{40} = \frac{17}{40}$$

$$\text{Virat} = \frac{3}{8} + \frac{8}{40} = \frac{23}{40}$$

New ratio of Suraj and Virat is 17 : 23

(b) **Journal entry for the loss on revaluation of assets and liabilities:**

Date	Particulars		Debit (₹)	Credit (₹)
	Suraj's Capital A/c	Dr.	4,500	
	Dheeraj's Capital A/c	Dr.	3,000	
	Virat's Capital A/c	Dr.	4,500	
	To Revaluation A/c			12,000
	(Being the loss on revaluation is distributed among the partners in their old ratio)			

(ii) **In the books of Iron Products Ltd.**

Journal Entries

Date	Particulars		L. F.	Debit (₹)	Credit (₹)
	Bank A/c	Dr.		6,00,000	
	To 9% Debenture Application A/c				6,00,000
	(Being the receipts of application money on 15,000 debentures at ₹40)				
	9% Debenture Application A/c	Dr.		6,00,000	
	To 9% Debentures A/c				4,50,000
	To Securities Premium Reserve A/c				1,50,000
	(Being the transfer of application money along with premium)				
	9% Debentures Allotment A/c	Dr.		6,75,000	
	To 9% Debentures A/c				4,50,000
	To Securities Premium Reserve A/c				2,25,000
	(Being allotment money along with premium due on debentures)				
	Bank A/c	Dr.		6,75,000	
	To 9% Debentures Allotment A/c				6,75,000
	(Being the receipt of debenture allotment money)				
	9% Debentures First and Final Call A/c	Dr.		8,25,000	
	To 9% Debentures A/c				6,00,000
	To Securities Premium Reserve A/c				2,25,000
	(Being first and final call money due on debentures)				
	Bank A/c	Dr.		8,25,000	
	To 9% Debentures First and Final Call A/c				8,25,000
	(Being the receipt of first and final call money on debentures)				

Answer 6.

Journal Entries

Date	Particulars		L. F.	Debit (₹)	Credit (₹)
	Realisation A/c	Dr.		2,10,000	
	To Land and Building A/c				70,000
	To Machinery A/c				60,000
	To Debtors A/c				80,000
	(Being the assets transferred to realisation A/c)				
	Creditors A/c	Dr.		70,000	
	To Realisation A/c				70,000
	(Being the liabilities transferred to realisation A/c)				

	Bank A/c Dr. To Realisation A/c (Being the machine sold at a discount 20%)		48,000	48,000
	Realisation A/c Dr. To Bank A/c (Being the remaining creditors paid in full)		20,000	20,000
	Bank A/c Dr. To Realisation A/c (Being the cash collected from the debtors)		79,500	79,500
	Realisation A/c Dr. To Bank A/c (Being the realisation expenses paid)		1,700	1,700
	Rohan's Capital A/c Dr. Sohan's Capital A/c Dr. To Realisation A/c (Being loss on realisation transferred to partners' capital in the ratio 2 : 1)		22,800 11,400	34,200

Section-B

Answer 7.

(i) Option (c) is correct as to establish relationship between revenue from operations and other items of Statement of Profit and Loss is the main objective of common size statement of profit and loss.

(ii) Financing activities are transactions involve long-term liabilities, owner's equity, and changes in short-term borrowings. These activities show the cash and cash equivalents flow between the company and its sources of finance. The importance of the specific disclosure of cash flow from financing activities is that these are the activities that show changes in the composition and size of an organisation's capital structure and borrowings.

Answer 8.

Cash Flow from Financing Activities

Particulars	Amount (₹)
Cash Flow from Financing Activities	
Payment of Dividend proposed on Equity Shares	(65,000)
Issue on Debenture	1,05,000
Interest on cash credit	(500)
Underwriting commission	(25,000)
Equity shares were issued at a premium	2,20,000
10% Preference Shares redeemed	(2,00,000)
Cash credit received	2,000
Payment of preference dividend	(50,000)
(10% × 5,00,000)	
Payment of debenture interest (32 × 12%)	(36,000)
Net Cash Flow From Financing Activities	**(49,500)**

Answer 9.

Comparative Statement of Profit and Loss

Particulars	31.03.2021 (₹)	31.03.2020 (₹)	Absolute Change	% (Change)
1. Revenue from operations	10,00,000	5,00,000	5,00,000	100%
2. Other income	0	0	0	0
3. (1 + 2 = 3) Total Revenue	10,00,000	5,00,000	5,00,000	100%
4. Cost of raw materials purchased	2,00,000	1,50,000	50,000	33.33%
5. Changes in inventories	25,000	(12,500)	37,500)	300
6. Total cost	2,25,000	1,37,500	87,500	63.64
7. Profit (6 – 3 = 3)	7,75,000	3,62,500	4,12,500	113

Answer 10.

Cash Flow from Operating Activities

Particulars	Amount (₹)
Cash Flow from Operating Activities	
Net profit after Tax	1,00,000
Add: Provision for tax	6,000
Net profit before Tax	1,06,000
Add: Non-cash items and Non-operating Expenses	
Amortization of patent	14,000
Preliminary expenses Written off	6,000
Loss on sale of machinery (Note 1)	14,000
Depreciation on machinery (Note 1)	38,000
Less: Non-operating income	
Profit on sale of vehicle	(5,000)
Operating profit before changes in working Capital	1,73,000
Increase in trade receivable	(4,000)
Decrease in inventory	2,000
Decrease in trade payable	(2,000)
Net Cash Flow from Operating Activities	**1,69,000**

Note 1.

Dr. **Plant and Machinery Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	1,50,000	By Bank A/c (sales)	8,000
		By Profit and loss A/c(loss on sale)	14,000
		By Deprecation A/c (Bal. Fig.)	38,000
		By Balance c/d	90,000
	1,50,000		**1,50,000**

Note 2. Other particulars like cash and marketable securities form part of cash flow after calculation of all the activities it does not form part of operating activities.

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