

**ISC SEMESTER 2 EXAMINATION**  
**SAMPLE PAPER - 5**  
**ACCOUNTS**

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**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.*

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**All questions of Section A are compulsory.**

**All questions from either Section B or Section C are compulsory**

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**Section-A** (Answer all questions)

**Question 1.**

Select the correct option for each of the following questions.

- (i) ABC Ltd. purchased plant and machinery for ₹2,00,000 payable as 40,000 in cash and balance by allotment of 6% Debentures of 1,000 each at a premium of 25%. Calculate the amount of Securities Premium?  
(a) 40,000                      (b) 50,000                      (c) 32,000                      (d) 10,000
- (ii) Which of the following statements is not correct?  
(a) Debentures cannot be redeemed purely out of profits.  
(b) Rate of DRR is 10% of the nominal value of debentures to be redeemed.  
(c) Rate of DRI is 15% of the nominal value of debentures to be redeemed.  
(d) DRR is created before Redemption of debentures commences.
- (iii) Akash and Bob are partners in a firm sharing profits in the ratio of 3 : 2. Mrs. Bob has given a loan of ₹40,000 to the firm and Akash has given a loan of ₹80,000 to the firm. Firm was dissolved and its assets realised ₹60,000. State the order of payment of Mrs. Bob's Loan and Akash's Loan assuming that there was no third-party liability of the firm.  
(a) First, Akash's loan will be paid as he has given more amount to the firm then Mrs. Bob.  
(b) First, Mrs. Bob's loan will be paid, then Akash's Loan.  
(c) Both the loans will be paid simultaneously.  
(d) Loans will not be paid at all.
- (iv) A, B & C share profits and losses of the firm equally. B retires from business and his share is purchased by A and C in the ratio of 2 : 3. New profit sharing ratio between A and C respectively would be :  
(a) 1 : 1                      (b) 2 : 3                      (c) 7 : 8                      (d) 3 : 5

**Question 2.**

- (i) Is it mandatory to create DRR for the listed companies? Who makes it mandatory?
- (ii) Furniture of ₹70,000 was sold for ₹68,000 by auctioneer and auctioneer's commission amounted to ₹2,000.

**You are required to pass necessary journal entry of the above transaction.**

**Question 3.**

Sunrise Ltd. issued 2,000, 10% Debentures of ₹100 each on April 1, 2004 at par, redeemable at premium of 10% on 30<sup>th</sup> June, 2005.

**You are required to pass necessary journal entries for the issue and redemption of debentures (including entries for interest on debentures) if debentures are to be redeemed in lumpsum.**

**Question 4.**

- (i) (Debentures issued as per Collateral Security) Sukesht Ltd. had 5,00,000, 5% Debentures outstanding as on 1<sup>st</sup> April 2014. During the year 2014 – 15, the company took a long-term loan of 1,40,000 from the State Bank of India by issuing 1,500, 5% debentures of 100 each as collateral security.

**You are required to pass necessary journal entries and prepare Balance Sheet of Sukesht Ltd. as at 31 March, 2015.**

- (ii) Following is the balance sheet of X, Y and Z as on 31<sup>st</sup> March, 2008. They shared profits in the ratio of 3 : 3 : 2

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	2,50,000	Cash at Bank	50,000
General Reserve	80,000	Bills Receivables	₹ 60,000
<b>Partners' Loan A/cs:</b>		Debtors	80,000
X	50,000	Less: Provision	<u>(4,000)</u>
Y	40,000	Stock	1,24,000
<b>Capitals:</b>		Fixed Assets	3,00,000
X	1,00,000	Advertisement Suspense A/c	16,000
Y	60,000	Profit & Loss A/c	4,000
Z	5,000		
	<b>6,30,000</b>		<b>6,30,000</b>

On 1<sup>st</sup> April, 2008, Y decided to retire from the firm on the following terms:

- Stock to be depreciated by ₹12,000.
- Advertisement suspense account to be written-off.
- Fixed assets to be appreciated by 10%.
- Provision for doubtful debts to be increased to ₹6,000.
- Goodwill of the firm valued at ₹80,000 and the amount due to the retiring partner be adjusted in X's and Z's capital account.

**You are required to prepare Y's Capital A/c.**

**Question 5.**

- (i) X, Y & Z are partners sharing profits in the ratio of 3 : 2 : 1. Z retires and sells his share to X and Y for ₹5,000 (₹3,000 paid by X and ₹2,000 by Y). The profit for the year after retirement of Z is ₹15,000.

**You are required to:**

- Calculate new profit sharing ratio of the remaining partners.
- Pass the journal entry to distribute profit to the remaining partners.

- (ii) (Creation of Debenture Redemption Reserve) On 31<sup>st</sup> March, 2015 Azad Ltd. had 10,00,000 9% debentures due for redemption. The company had already transferred ₹5,00,000 towards Debenture Redemption Reserve Account and invested 1,50,000 in Debenture Redemption Investment Account.

**You are required to pass necessary journal entries for redemption of debentures assuming that 50% of the redemption was carried out of capital.**

Question 6.

**Balance sheet of Anil and Bhel**

(as at 31<sup>st</sup> March, 2020)

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	10,000	Land and Buildings	20,000
Bills Payable	20,000	Furniture and Fittings	14,000
<b>Capitals:</b> ₹		Motor Car	10,000
Anil           15,000		Stock	5,000
Bhel           15,000	30,000	Debtors	6,000
		Cash	5,000
	<b>60,000</b>		<b>60,000</b>

On the above date, Anil and Bhel decided to dissolve the firm. Anil took over the creditors, Assets realised as follows: Debtors ₹4,500 ; Furniture ₹10,500 ; Stock ₹3,000 ; Motor Car ₹16,000 and Land & Building ₹30,000. Expenses of Realisation paid by Anil ₹600. Bhel took over bills payable.

**You are required to prepare the Realisation Account & Capital Accounts of the partners to close the books of the firm.**

## Section-B (Answer all questions)

### Question 7.

Select the correct option in the following questions.

- (i) Comparative statement of profit and loss provides information about:
- (a) Rate of increase or decrease in revenue from operations.
  - (b) Rate of increase or decrease in cost of revenue from operations.
  - (c) Rate of increase or decrease in net profit.
  - (d) All of the above
- (ii) Cash paid as salaries to workers would result in inflow, outflow or no flow of cash. Give answers 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 Operating Activities for the year ending 31<sup>st</sup> March, 2019.

Particulars	31.03.2019 (₹)	31.08.2018 (₹)
Debtors	15,000	10,000
Bills Receivables	5,000	7,000
Stock	18,000	15,000
Prepaid Expenses	3,000	2,000
Creditors	18,000	20,000
Bills Payable	25,000	15,000
Outstanding Expenses	4,000	3,000

**Additional information:**

- (a) Net Profit for the year 2018 – 19 50,000
- (b) Transfer to General Reserve during the year 10,000
- (c) Depreciation during the year 20,000
- (d) Profit on sale of Furniture 5,000
- (e) Loss on sale of Machine 10,000
- (f) Patents written off during the year 10,000

### Question 9.

From the following Statement of Profit and Loss of ABC Ltd., for the years ended 31<sup>st</sup> March 2018 and 2019, prepare a Comparative Statement of Profit and Loss.

Particulars	Note No.	31 <sup>st</sup> March 2019 (₹)	31 <sup>st</sup> March 2018 (₹)
Revenue from Operations		10,00,000	8,00,000
Employee Benefit Expenses		5,00,000	4,00,000
Other Expenses		50,000	1,00,000
Tax Rate 40%			

### Question 10.

From the following information has been extracted from the books of Laxmi Ltd. Using the information, you are required to calculate the Cash Flow from Investing Activities:

Particulars	₹
Land acquired during the year	6,00,000
Investment purchased	2,90,000
Machinery purchased	4,00,000
Sale of Building	5,20,000
Sale of Investment	1,50,000
Sale of Machinery	1,70,000
Receipt for permission of use of patent	90,000
Interest received on Debentures held as investments	30,000
Dividend received on shares held as investments	50,000

# Answers

## Section-A

### Answer 1.

(i) (c) 32,000

#### Explanation :

$$\frac{1,60,000}{1,000 + 250} = 128 \text{ debentures to be issued}$$

$$\therefore \text{Securities Premium} = 128 \text{ debentures} \times ₹250 \\ = ₹32,000$$

(ii) (a) Debentures cannot be redeemed purely out of profits.

#### Explanation :

The company with holds a part of divisible profits for redeeming the debentures. The payment to debentureholders in such a case is out of profit earned in the course of business and therefore it is termed as redemption out of profits.

(iii) (b) First, Mrs. Bob's loan will be paid, then Akash's Loan.

#### Explanation :

Assuming that there was no third-party liability of the firm, the order of payment would be such that first Mrs. Bob's loan payment will be done and then Mr. Akash's loan will be paid.

(iv) (c) 7 : 8

#### Explanation :

$$A : B : C$$

$$\frac{1}{3} : \frac{1}{3} : \frac{1}{3}$$

$$B's \text{ share } \frac{1}{3} \text{ to be shared among A \& C in } 2 : 3$$

$$\therefore A's \text{ share (new)} = \left( \frac{1}{3} \times \frac{2}{5} \right) + \frac{1}{3} = \frac{7}{15}$$

$$\therefore B's \text{ share (new)} = \left( \frac{1}{3} \times \frac{3}{5} \right) + \frac{1}{3} = \frac{8}{15}$$

$$\therefore \boxed{7 : 8}$$

### Answer 2.

(i) Reserve Bank of India

#### Explanation:

As per the SEBI guidelines for redemption of debentures, it is not mandatory to create DRR for the listed companies. But, Reserve Bank of India can make it mandatory.

(ii)	Date	Particulars	Debit (₹)	Credit (₹)
		Cash/Bank A/c Dr.	66,000	
		To Realisation A/c		66,000
		(Being furniture sold by auctioneer)		

**Answer 3.**

**In the Books of Sunrise Ltd.  
Journal Entries**

Date	Particulars	L. F.	Debit (₹)	Credit (₹)
2004 April 1	Bank A/c Dr. To 10% Debenture Application & Allotment A/c (Being Debenture Application Money received)		2,00,000	2,00,000
	10% Debenture Application & Allotment A/c Dr.		2,00,000	
	Loss on Issue of Debentures A/c Dr. To 10% Debentures A/c		20,000	2,00,000
	To Premium on Redemption of Debentures A/c (Being Debentures issued at par redeemable at premium)			20,000
2005 Mar. 31	Interest on Debentures A/c Dr. To 10% Debentureholders A/c (Being Interest due)		20,000	20,000
	10% Debentureholders A/c Dr. To Bank A/c (Being Interest paid)		20,000	20,000
	Statement of Profit and Loss A/c Dr. To Interest on Debentures A/c (Being Interest transferred)		20,000	20,000
	Interest on Debentures A/c Dr. To 10% Debentureholders A/c (Being Interest due) $\left( ₹20,000 \times \frac{3}{12} \right)$		5,000	5,000
2005 Jun 30	10% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To 10% Debentureholders A/c (Being amount due on Redemption)		2,00,000 20,000	2,20,000
	Debentureholders A/c Dr. To Bank A/c (Being amount paid with interest to Debentureholders)		2,25,000	2,25,000
	Statement of Profit and Loss A/c Dr. To Interest on Debentures A/c (Being interest transferred)		5,000	5,000

**Answer 4.**

(i)

**In the Books of Suresh Ltd.  
Journal**

Date	Particulars	L. F.	Debit (₹)	Credit (₹)
	Bank A/c Dr. To Bank Loan A/c (Being loan 1,40,000 taken)		1,40,000	1,40,000
	5% Debentures A/c Dr. To Debenture Suspense A/c (Being issuance of 1,500, 5% debentures as collateral security)		1,50,000	1,50,000

### Balance Sheet

(as at 31<sup>st</sup> March, 2015)

Particulars	Note No.	Amount (₹)
<b>1. EQUITY &amp; LIABILITIES</b>		
<b>Non-current Liabilities:</b>		
Long-term Borrowings	(1)	6,40,000

#### Notes to Accounts

Particulars	Amount (₹)
<b>(1) Long-term Borrowings</b>	₹
6,500, 5% Debentures of ₹100 each	6,50,000
Less: Debenture Suspense	<u>1,50,000</u>
Bank Loan	1,40,000
(On Collateral Security of 1,500, 5% debentures of ₹100 each)	<b>6,40,000</b>

(ii)

#### In the Books of the Firm

**Dr. Revaluation Account Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Stock	12,000	By Fixed Assets A/c	30,000
To Provision for Doubtful Debts A/c	2,000		
To Profit transferred to:	₹		
X	6,000		
Y	6,000		
Z	<u>4,000</u>		
	16,000		
	<b>30,000</b>		<b>30,000</b>

**Dr. Y's Capital Account Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Profit and Loss A/c	1,500	By Balance c/d	60,000
To Advertisement Suspense A/c	6,000	By General Reserve A/c	30,000
To Y's Loan A/c (Bal. Fig.)	1,18,500	By X's Capital A/c	18,000
		By Z's Capital A/c	12,000
		By Revaluation A/c (profit)	6,000
	<b>1,26,000</b>		<b>1,26,000</b>

#### Working Notes:

##### Calculation of Y's Share of Goodwill:

Firm's Goodwill = 80,000

$$Y's \text{ share of Goodwill} = 80,000 \times \frac{3}{8} = ₹30,000$$

To be contributed by X and Z in the gaining ratio i.e. 3 : 2

$$X = 30,000 \times \frac{3}{5} = ₹18,000$$

$$Y = 30,000 \times \frac{2}{5} = ₹12,000$$

**Answer 5.****(i) (a) Calculation of new profit sharing ratio of the remaining partners:**

X and Y will share the profit of Z in 3 : 2 ratio (3,000 and 2,000 = 3 : 2)

$$\text{X gets } \frac{3}{5} \text{ of C's share i.e. } \frac{1}{6} \times \frac{3}{5} = \frac{3}{30}$$

$$\text{Y gets } \frac{2}{5} \text{ of C's share i.e. } \frac{1}{6} \times \frac{2}{5} = \frac{2}{30}$$

$$\text{X's new share} = \frac{3}{6} + \frac{3}{30} = \frac{18}{30}$$

$$\text{Y's new share} = \frac{2}{6} + \frac{2}{30} = \frac{12}{30}$$

New Ratio of X and Y = 18 : 12 or 3 : 2

**Journal Entries**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	X's Capital A/c Dr.		3,000	
	Y's Capital A/c Dr.		2,000	
	To Z's Capital A/c (Being C sold his share to A and B for ₹5,000)			5,000
	Profit and Loss Appropriation A/c Dr.		15,000	
	To X's Capital A/c			9,000
	To Y's Capital A/c			6,000
	(Being profit distributed)			

**(ii)****Journal Entries**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31 <sup>st</sup> Mar. 2015	9% Debentures A/c Dr. To Debentureholder's A/c (Being payment on redemption of debentures due to debenture holders)		10,00,000	10,00,000
31 <sup>st</sup> Mar. 2015	Bank A/c Dr. To Debenture Redemption Investment A/c (Being Investment encashed)		1,50,000	1,50,000
31 <sup>st</sup> Mar. 2015	Debentureholders' A/c Dr. To Bank A/c (Being payment to debentureholders discharged)		10,00,000	10,00,000
31 <sup>st</sup> Mar. 2015	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being balance of DRR A/c transferred to General Reserve Account)		5,00,000	5,00,000



**Answer 6.**

In the Books of the firm				
Dr.	Realisation Account		Cr.	
Particulars		Amount (₹)	Particulars	Amount (₹)
<b>To Sundry Assets:</b>			<b>By Sundry Liabilities:</b>	
Land & Building	20,000		Creditors	10,000
Furniture & Fittings	14,000		Bills Payable	20,000
Motor Car	10,000			
Stock	5,000		<b>By Cash A/c:</b>	
Debtors	6,000		Debtors	4,500
		55,000	Furniture	10,500
To Anil's Capital A/c (creditors taken over)		10,000	Stock	3,000
To Bhel's Capital A/c (Bills payable)		20,000	Motor Car	16,000
To Anil's Capital A/c (Exp.)		600	Land & Building	30,000
<b>To Profit transferred to:</b>				
Anil	4,200			
Bhel	4,200	8,400		
		94,000		94,000

Dr.	Partners' Capital A/c				Cr.
Particulars	Anil (₹)	Bhel (₹)	Particulars	Anil (₹)	Bhel (₹)
To Cash A/c (Final Payment) (Balancing Fig.)	29,800	39,200	By Balance b/d	15,000	15,000
			By Realisation A/c	10,000	20,000
			By Realisation A/c	600	–
			By Realisation A/c	4,200	4,200
	29,800	39,200		29,800	39,200

## Section-B

**Answer 7.**

- (i) (d) All of these

**Explanation :**

Comparative Statement of Profit and Loss is the horizontal analysis of Statement of Profit and Loss which shows (i) rate of increase or decrease in revenue from operations (ii) rate of increase or decreases in cost of revenue from operations. (iii) rate of increase or decrease in net profit.

- (ii) Cash paid to workers as salaries will reduce the cash balance or cash and cash equivalents. So, it is an outflow of cash.

**Answer 8.**

Particulars	Amount (₹)
Profit for the year	50,000
Add: Transfer to Reserve	10,000
Add: Depreciation	20,000
Add: Loss on sale of machine	10,000

Add: Patents written off	10,000
Less: Profit on sale of furniture	(5,000)
Operating Profit before working capital changes	<b>95,000</b>
Add: Decrease in Bills Receivable	2,000
Add: Increase in Bills Payable	10,000
Add: Increase in Outstanding Expenses	1,000
	<b>1,08,000</b>
Less: Decrease in creditors	(2,000)
Less: Increase in debtors	(5,000)
Less: Increase in stock	(3,000)
Less: Increase in prepaid expenses	(1,000)
<b>Net cash flow from operating activities</b>	<b>97,000</b>

Answer 9.

**Comparative Statement Of Profit & Loss**  
(for the years ended 31<sup>st</sup> March 2019 and 2018)

Particulars	Note No.	31.3.2019	31.3.2018	Absolute Changes	% Change
(A) Revenue from Operations		10,00,000	8,00,000	2,00,000	25
Less: Expenses					
Employee Benefit Expenses		5,00,000	4,00,000	1,00,000	25
Other Expenses		50,000	1,00,000	(50,000)	(50)
(B) Total Expenses		<b>5,50,000</b>	<b>5,00,000</b>	<b>50,000</b>	<b>10</b>
(C) Profit Before Tax (A – B)		4,50,000	3,00,000	1,50,000	50
Less: Tax @ 40%		<b>1,80,000</b>	<b>1,20,000</b>	<b>60,000</b>	<b>50</b>
Profit After Tax		<b>2,70,000</b>	<b>1,80,000</b>	<b>90,000</b>	<b>50</b>

Answer 10.

**In the Books of Laxmi Ltd.**  
**Cash Flow from Investing Activities**

Particulars	Amount (₹)
Proceeds from sale of Building	5,20,000
Proceeds from sale of Investments	1,50,000
Proceeds from sale of Machinery	1,70,000
Receipt for permission of use of patent	90,000
Interest received on debentures held as Investment	30,000
Dividend received on shares held as Investment	50,000
Land acquired during the year	(6,00,000)
Investment purchased	(2,90,000)
Machinery purchased	(4,00,000)
<b>Net Cash used in Investing Activities</b>	<b>(2,80,000)</b>

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