SUGGESTED SOLUTION

CA FOUNDATION

SUBJECT- ACCOUNTS

Test Code – CFN 9278

BRANCH - () (Date :)

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NOTES: (1) WORKING NOTES SHOULD FORM PART OF ANSWERS.
(2) INTERNAL WORKING NOTES SHOULD ALSO BE CONSIDERED.
(3) NEW QUESTION SHOULD BE ON NEW PAGE

ANSWER -1

ANSWER –A **(2*6 = 12 marks)**

(i) **False:** In Consignment sale, ownership of the goods rests with the consignor till they are sold by the consignee. The consignee does not become the owner of the goods even though goods are in his possession. He acts only as agent of the consignor.

(ii) **False-** The right hand side of the equation includes cash twice- once as a part of current assets and another separately. The basic accounting equation is

Equity + Long Term Liabilities = Fixed Assets + Current Assets - Current Liabilities

(iii) **False:** The Cinema Hall could not be started without license. Expenditure incurred to obtain the license is pre-operative expense which is capitalized. Such expenses are not revenue and amortized over a period of time.

(iv) **False-** The Sales book is a register specially kept to record credit sales of goods dealt in by the firm, cash sales are entered in the cash book and not in the sales book.

(v) **True:** In case the due date of a bill falls after the date of closing the account, then no interest is allowed for that. However, interest from the date of closing to such due date is written in “Red-Ink” in the appropriate side of the ‘Account current’. This interest is called Red-Ink interest.

(vi) **False**: Consignment account is a nominal account.

ANSWER –B

In the books of Firm

Calculation of depreciation for 5th year

(a) Depreciation per year charged for four years = Rs. 10,00,000 / 10 = Rs.1,00,000
(b) WDV of the machine at the end of fourth year = Rs. 10,00,000 – (Rs. 1,00,000 × 4) = Rs. 6,00,000.
(c) Depreciable amount after revaluation = Rs. 6,00,000 + Rs. 40,000 = Rs.6,40,000
(d) Remaining useful life as per previous estimate = 6 years
(e) Remaining useful life as per revised estimate = 8 years
(f) Depreciation for the fifth year and onwards = Rs. 6,40,000 / 8 = Rs.80,000.

(4 marks)

ANSWER –C

Limitations which must be kept in mind while evaluating the Financial Statements are as follows:

- The factors which may be relevant in assessing the worth of the enterprise don't find place in the accounts as they cannot be measured in terms of money.

- Balance Sheet shows the position of the business on the day of its preparation and not on the future date while the users of the accounts are interested in knowing the position of the business in the near future and also in long run and not for the past date.
- Accounting ignores changes in some money factors like inflation etc.
- There are occasions when accounting principles conflict with each other.
- Certain accounting estimates depend on the sheer personal judgement of the accountant.
- Different accounting policies for the treatment of same item adds to the probability of manipulations.

(4 marks)

ANSWER -2

ANSWER –A

Cash Book (Bank Column)

Date	Particulars	Amount	Date	Particulars	Amount
2017		Rs.	**2017**		Rs.
Sept. 30			Sept. 30		
	To Party A/c	32,000		By Balance b/d	8,124
	To Customer A/c			By Bank charges	1,160
	(Direct deposit)	2,34,800		By Customer A/c	2,80,000
	To Balance c/d	22,484		(B/R dishonoured)	
		2,89,284			2,89,284

(4 marks)

Bank Reconciliation Statement as on 30th September, 2017

Particulars	Amount
	Rs.
Overdraft as per Cash Book	22,484
Add: Cheque deposited but not collected upto 30th Sept., 2017	26,28,000
	26,50,484
Less: Cheques issued but not presented for payment upto 30th Sept., 2017	(26,52,000)

Credit by Bank erroneously on 6th Sept.	(40,000)
Balance as per bank statement	(41,516)

Note: Bank has credited Neel by 40,000 in error on 6th September, 2017. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with Rs. 26,52,000 resulting in debit balance of Rs. 1,516 as per pass-book.

(6 marks)

ANSWER –B

(i)	P & L Adjustment A/c	Dr.	1,000	
	To Suspense A/c			1,000
	(Correction of error by which sales account was overcast last year)			
(ii)	X	Dr.	5,000	
	To Y			5,000
	(Correction of error by which sale of Rs. 5,000 to X was wrongly debited to Y’s account)			
(iii)	Suspense A/c	Dr.	630	
	To P & L Adjustment A/c			630
	(Correct of error by which general expenses of Rs. 180 was wrongly posted as Rs. 810)			
(iv)	Bills Receivable A/c	Dr.	1,550	
	Bills Payable A/c	Dr.	1,550	
	To P			3,100
	(Correction of error by which bill receivable of Rs. 1,550 was wrongly passed through BP book)			
(v)	P & L Adjustment A/c	Dr.	1,190	
	To Mrs. Neetu			1,190
	(Correction of error by which legal expenses paid to Mrs. Neetu was wrongly debited to her personal account)			
(vi)	Suspense A/c	Dr.	3,000	
	To Ram			1,500
	To Shyam			1,500

	(Removal of wrong debit to Shyam and giving credit to Ram from whom cash was received)			
(vii)	Suspense A/c To P&L Adjustment A/c (Correction of error by which Purchase A/c was excess debited by Rs.90/-, ie: Rs.1,325 – Rs.1,235)	Dr.	90	90

(7*1 = 7 marks)

Suspense A/c

	Rs.		Rs.
To P&L Adjustment A/c	630	By P & L Adjustment A/c	1,000
To Ram	1,500	By Difference in Trial Balance (Balancing figure)	2,720
To Shyam	1,500		
To P&L Adjustment A/c	90		
	3,720		3,720

(3 marks)

ANSWER -3

ANSWER –A

IN THE BOOKS OF PANKAJ (CONSIGNOR)
Journal Entries

	Particulars		Dr.	Cr.
1.	Consignment Account To Goods sent on consignment A/c. (being 100 ratio sets at Rs. 1,250 pu sent on Consignment basis to Arun)	Dr.	1,25,000	1,25,000
2.	Bills Receivable A/c. To Arun A/c. (being Advance given by Consignee, by way of Bill of Exchange)	Dr.	75,000	75,000
3.	Bank A/c. Discount on B/E To Bills Receivable A/c. (Being B/R given by Consignee Arun, discounted with Bank)	Dr.	73,000 2,000	75,000
4.	Consignment Account To Cash / Bank (Being Trpt & Insurance Exps incurred for goods sent on Consignment)	Dr.	5,000	5,000
5.	Arun A/c. To consignment Account (Being Account Sales received from Consignee, 85 sets sold at Rs. 1,500 pu)	Dr.	1,27,500	1,27,500
6.	Consignment Account	Dr.	27,750	

	To Arun A/c. (Being Consignee's Expenses reimbursable, i.e. Unloading Rs. 2,500 – Advt. Rs. 12,500 + Commission at 10% of Rs. 1,27,500 = Rs. 12,750)		27,750
7.	Stock on Consignment A/c. Dr. To Consignment A/c. (Being Closing Stock 15 radio sets at Rs. 1,325 – See computation below)	19,875	19,875
8.	Goods sent on Consignment A/c. Dr. To Consignment A/c. (Being removal of loading on consigned goods, i.e. 100 sets at Rs. 250 pu)	25,000	25,000
9.	Consignment Account Dr. To Stock Reserve (Being removal of loading on Closing Stock, i.e. 15 sets at Rs. 250 pu)	3,750	3,750
10	Consignment Account Dr. To Profit and Loss Account (Being Profit on Consignment, as below, transferred to P & L)	10,875	10,875
11.	Goods sent on Consignment A/c. Dr. To Trading A/c. (Being transfer of goods sent on Consignment, to Trading A/c.	1,00,000	1,00,000

Note : Since Consignee is entitled to Del Credere Commission also, risk of Bad Debts will be borne by him.

(5 MARKS)

Consignment A/c.

Particulars	Rs.	Particulars	Rs.
To Goods sent on Consignment A/c.	1,25,000	By Arun A/c. (Sales made by Agent)	1,27,500
To Cash /Bank (Trpt & Insurance)	5,000	By Stock on Consignment A/c	19,875
To Arun A/c. Delivery	2,500	By Goods sent on	
Advertisement	12,500	Consignment A/c.	25,000
10% Commission	12,750	(loading removal)	
To Stock Reserve (Loading Removal)			
To P & L A/c. (Profit on Consignment)	10,875		
Total	**1,51,125**	**Total**	**1,72,375**

Goods sent on Consignment A/c.

Particulars	Rs.	Particulars	Rs.
To Consignment A/c. (loading removal)	25,000	By Consignment A/c. (goods sent)	1,25,000
To Trading A/c. (Transfer)	1,00,000		
	1,25,000		**1,25,000**

Arun (Consignee) A/c.

Particulars	Rs.	Particulars	Rs.
To Consignment A/c. (Sales made)	1,27,500	By Bills receivable A/c. (advance recd)	75,000
		By Consignment Deliver	2,500

		A/c. –	
		Advertisement	12,500
		10% Commission	12,750
		By Balance c/d	24,750
Total	**1,27,500**	**Total**	**1,27,500**

Closing Stock Valuation

Particulars	**Total Amount**	**Quantity**	**Avg rate p.u.**
Goods sent by Consignor (Invoice Price)	Rs. 1,25,000	100 uts	Rs. 1,250
Direct Expenses of Consignor (Transport & Insurance)	Rs. 5,000	100 uts	Rs. 50
Direct Expenses of Consignee (Taking delivery)	Rs. 2,500	100 uts	Rs. 25
Total			Rs. 1,325
Cost of Closing stock (100 – 85) = 15 units at Rs. 1,325	Rs. 19,875		
Loading on Closing Stock (Rs. 250 p.u. for 15 units)	Rs. 3,750		
Net Cost of Closing Stock (4 – 5)	Rs. 16,125		

(5 marks)

ANSWER –B

Books of K. Katrak

Journal Entries

			Dr. Rs.	***Cr.*** Rs.
(i)	Bills Payable Account	Dr.	2,500	
	Interest Account	Dr.	50	
	To Cash A/c			1,000
	To Bills Payable Account			1,550
	(Bills Payable to Basu discharged by cash payment of Rs. 1,000 and a new bill for Rs.1,550 including Rs. 50 as interest)			
(ii)	(a) G. Gupta	Dr.	4,020	
	To M. Mehta			4,020
	(G. Gupta's acceptance for Rs. 4,000 endorsed to M. Mehta dishonoured, Rs. 20 paid by M. Mehta as noting charges)			
	(b) M. Mehta	Dr.	4,020	

	To Bank Account (Payment to M. Mehta on withdrawal of bill earlier received from Mr. G. Gupta)				4,020
(iii)	Bank Account	Dr.		1,990	
	Discount Account	Dr.		10	
	To Bills Receivable Account				2,000
	(Payment received from D. Dalal against his acceptance for Rs. 2,000. Allowed him a discount of Rs. 10)				
(iv)	Bills Payable Account	Dr.		5,000	
	To Bills Receivable Account				5,000
	(Bills Receivable from Mody endorsed to Patel in settlement of bills payable issued to him earlier)				

(5 marks)

ANSWER – C

In the Books of Mr. Ganesh
Journal Entries

Date	*Particulars*		*L.F.*	*Dr.* Rs.	*Cr.* Rs.
2018	Sales A/c	Dr.		6,500	
March 31	To Trade receivables A/c				6,500
	(Being the cancellation of original entry for sale in respect of goods lying with customers awaiting approval)				
March 31	Inventories with Customers on Sale or Return A/c	Dr.		5,000	
	To Trading A/c (Note 1)				5,000
	(Being the adjustment for cost of goods lying with customers awaiting approval)				
April 25	Trade receivables A/c (Aditya)	Dr.		3,900	
	To Sales A/c				3,900

	(Being goods costing worth Rs. 3,900 sent to Mr. Aditya on sale or return basis has been accepted by him)					

(3*1 = 3 marks)

Balance Sheet of Mr. Ganesh as on 31st March, 2018 (Extracts)

Liabilities	Rs.	***Assets***	Rs.	Rs.
		Trade receivables (Rs. 75,000 - Rs. 6,500)		68,500
		Inventories-in-trade	50,000	
		Add: Inventories with customers on Sale or Return	5,000	55000
				1,23,500

Notes:

(1) Cost of goods lying with customers = 100/130 x Rs. 6,500 = Rs.5,000

(2) No entry is required on 15th April, 2018 for goods returned by Mr. Bakkiram. Goods should be included physically in the Inventories.

(2 marks)

ANSWER -4

Revaluation Account

2018			**Rs.**	**2018**		**Rs.**
April 1	To Provision for bad and doubtful debts		535	April 1	By Inventory in trade	1,400
	To Furniture and fittings		720		By Land and Building	5,600
	To Capital A/cs: (Profit on revaluation transferred)					
	Dinesh	2,872.50				
	Ramesh	1,915.00				
	Naresh	957.50	5,745			
			7,000			7,000

(4 marks)

Partners' Capital Accounts

Particulars	Dinesh Rs.	Ramesh Rs.	Naresh Rs.	Suresh Rs.	Particulars	Dinesh Rs.	Ramesh Rs.	Naresh Rs.	Suresh Rs.
To Dinesh			1,500	4,500	By Balance b/d	15,000	15,000	10,000	–
& Ramesh									
					By General Reserve	3,900	2,600	1,300	
To Balance c/d	26,972.50	21,015	10,757.50	3,500	By Cash	–	–	–	8,000
					By Naresh & Suresh	4,500	1,500	–	–
					By Outstanding Liabilities (Ram)	700	–	–	
					By Revaluation A/c	2,872.50	1,915	957.50	-
	26,972.5	**21,015**	**12,257.50**	**8,000**		**26,972.50**	**21,015**	**12,257.50**	**8,000**

(4 marks)

Working Note:

Calculation of sacrificing ratio

Partners	New share	Old share	Sacrifice	Gain
Dinesh	¼	3/6	6/24	
Ramesh	¼	2/6	2/24	
Naresh	¼	1/6		2/24
Suresh	¼			6/24

Entry for goodwill adjustment

Naresh (2/24 of Rs.18,000)	Dr.	1,500	
Suresh (6/24 of Rs.18,000)	Dr.	4,500	
To Dinesh (6/24 od Rs.18,000)			4,500
To Ramesh (2/24 of Rs.18,000)			1,500

(4 marks)

Balance Sheet of Dinesh, Ramesh, Naresh and Suresh as on 1 -4-2018

Liabilities	Rs.	Rs.	*Assets*	Rs.	Rs.
Trade payables		22,500	Land and Buildings		42,600
Outstanding Liabilities (2,200-700)		1,500	Furniture		6,480
Capital Accounts of Partners:			Inventory of goods		14,000
Mr. Dinesh	26,972.50		Trade receivables	10,700	
Mr. Ramesh	21,015.00		*Less:* Provisions	(535)	10,165
Mr. Naresh	10,757.50		Cash in hand		2,800
Mr. Suresh	3,500.00	62,245	Cash at Bank (2,200+8,000)		10,200
		86,245			**86,245**

(4 marks)

ANSWER -5

ANSWER –A

M/s Raghuram & Associates

Trading Account for the year ended 31st March 2018

Particulars	Details	Amount	Particulars	Details	Amount
		Rs.			Rs.
To Opening Stock		3,20,000	By Sales	15,00,000	
To Purchases	12,00,000		*Less:* Sales Returns	(24,000)	14,76,000
Less: Purchase Returns	(18,000)	11,82,000	By Closing Stock		4,10,000
To Freight		62,000			
To Gross Profit c/d		3,22,000			
		18,86,000			18,86,000

M/s Raghuram & Associates

Profit and Loss Account for the year ended 31st March 2018

Particulars	Details	Amount	Particulars	Details	Amount
		Rs.			Rs.
To Salaries		72,000	By Gross profit b/d		3,22,000
To Rent for Godown	55,000				
Add: Outstanding	5,000	60,000	By Discount received		12,000
To Provision for Doubtful Debts (W.N.4)		16,200			
To Rent and Taxes		24,000			
To Discount Allowed		7,500			
To Carriage outwards		8,500			
To Printing and stationery		6,000			
To Electricity charges		14,000			
To Insurance premium (W.N. 1)		4,800			
To Depreciation (W.N. 2)		80,000			
To General expenses		11,000			
To Bank Charges		3,800			
To Interest on loan	4,400				
Add: Outstanding (W.N. 3)	100	4,500			
To Motor car expenses (Repairs)		13,000			
To Net Profit transferred to Capital A/c		8,700			
		3,34,000			3,34,000

(10 marks)

Balance Sheet of M/s Raghuram & Associates as at 31st March 2018

Liabilities	Details	Amount	Assets	Details	Amount
		Rs.			Rs.
Capital	14,11,400		Land & Building	5,00,000	
Add: Net Profit	8,700		Less: Depreciation	(25,000)	4,75,000
Less: Drawings	(20,000)		Motor Vehicles	1,00,000	
Less: proprietor's Insurance Premium	(42,000)	13,58,100	Less: Depreciation	(20,000)	80,000
Loan from Rajan	60,000		Office equipment	2,00,000	
Add: Outstanding Interest	100	60,100	Less: Depreciation	(30,000)	1,70,000
Sundry Creditors		62,000	Furniture & Fixture	50,000	
Outstanding rent		5,000	Less: Depreciation	(5,000)	45,000
			Stock in Trade		4,10,000
			Sundry Debtors	2,80,000	
			Less: Provision for doubtful debts	(14,000)	2,66,000
			Cash at hand		22,000
			Cash in bank		16,000
			Prepaid insurance (W.N. 1)		1,200
		14,85,200			14,85,200

(6 marks)

Working Notes:

(1) Insurance premium

	₹
Insurance premium as given in trial balance	48,000
Less: Personal premium	(42,000)
Less: Prepaid for 3 months	
$\left(\frac{6,000}{15} \times 3\right)$	(1,200)
Transfer to Profit and Loss A/c	4,800

(2) Depreciation

Building @ 5% on 5,00,000	25,000
Motor Vehicles @ 20% on 1,00,000	20,000
Furniture & Fittings @ 10% on 50,000	5,000
Office Equipment @ 15% on 2,00,000	30,000
Total	80,000

(3) Interest on Loan

Interest on Loan ₹ 60,000 X 10% X 9/12	=	4,500
Less: interest as per Trial Balance	=	(4,400)
Amount (Outstanding)		100

(4) Provision for bad debts A/c

Particulars	*Amount (₹)*	*Particulars*	*Amount (₹)*
To bad debts a/c	12,200	By balance b/d	10,000
To balance c/d (5% of 2,80,000)	14,000	By P&L A/c	16,200
	26,200		26,200

ANSWER –B

(i) Capital expenditure

(ii) Revenue expenditure

(iii) Capital expenditure

(iv) Revenue expenditure

(4*1 = 4 marks)

ANSWER -6

ANSWER –A

A Ltd.

Journal

2017			**Dr.** **Rs.**	**Cr.** **Rs.**
May 20	Bank Account	Dr.	8,00,000	
	To Share Application A/c			8,00,000
	(Application money on 40,000 shares at Rs. 20 per share received.)			
June 1	Share Application A/c	Dr.	8,00,000	
	To Share Capital A/c			8,00,000
	(The amount transferred to Capital Account on 40,000 shares Rs. 20 on application. Directors' resolution no........ dated)			
	Share Allotment A/c	Dr.	12,00,000	
	To Share Capital A/c			12,00,000
	(Being share allotment made due at Rs. 30 per share. Directors' resolution no dated)			
July 15	Bank Account	Dr.	12,00,000	
	To Share Allotment A/c			12,00,000
	(The sums due on allotment received.)			
Oct. 1	Share First Call Account	Dr.	10,00,000	
	To Share Capital Account			10,00,000
	(Amount due from members in respect of first call-on 40,000 shares at Rs. 25 as per			

	Directors, resolution no... dated...)			
Oct. 20	Bank Account	Dr.	10,00,000	
	To Share First Call Account			10,00,000
	(Receipt of the amounts due on first call.)			
2018				
Feb. 1	Share Second and Final Call A/c	Dr.	10,00,000	
	To Share Capital A/c			10,00,000
	(Amount due on 40,000 share at Rs. 25 per share on second and final call, as per Directors resolution no... dated...)			
Mar. 31	Bank Account	Dr.	10,00,000	
	To Share Second & Final Call A/c			10,00,000
	(Amount received against the final call on 40,000 shares at Rs.25 per share.)			

(8 marks)

ANSWER –B

	Value of Physical stocks on 31st March	Rs. 28,00,000
Add :	Goods in Transit	Rs. 3,50,000
Add :	Goods held by other Entities (e.g. stock held by Sub – Contractor, Job Workers)	Rs. 8,30,000
Add :	Goods Sent on approval & confirmation not received from Customer Sankari Ltd.	Rs. 2,00,000
Less :	Goods sold but delivery pending at Buyer's request (Harini Ltd.)	Rs. 10,00,000
Less :	Goods held by us on behalf of Other Entities (e.g. in our capacity as Consignee Agent)	Rs. 2,50,000
	Value of Stocks as per Balance Sheet	**Rs. 29,30,000**

(5 marks)

ANSWER –C

Total amount of discount comes to Rs. 60,000 (Rs. 0.6 X 1, 00,000). The amount of discount to be written-off in each year is calculated as under:

Year end outstanding	Debentures	Ratio in which discount to be written off	Amount of discount to be written off
1st	Rs. 10,00,000	1/5	1/5th of Rs. 60,000 = Rs. 12,000
2nd	Rs. 10,00,000	1/5	1/5th of Rs. 60,000 = Rs. 12,000
3rd	Rs. 10,00,000	1/5	1/5th of Rs. 60,000 = Rs. 12,000
4th	Rs. 10,00,000	1/5	1/5th of Rs. 60,000 = Rs. 12,000
5th	Rs. 10,00,000	1/5	1/5th of Rs. 60,000 = Rs. 12,000

(3 marks)

ANSWER –D

According to Section 52 of the Companies Act, 2013, Securities Premium Account may be used by the company:

(a) Towards issue of un-issued shares of the company to be issued to members of the company as fully paid bonus securities.

(b) To write off preliminary expenses of the company.

(c) To write off the expenses of, or commission paid, or discount allowed on any of the securities or debentures of the company.

(d) To provide for premium on the redemption of redeemable preference shares or debentures of the company.

(e) For the purchase of own shares or other securities.

Note : It may be noted that certain class of Companies as prescribed under Section 133 of the Companies Act, 2013, whose financial statements comply with the accounting standards prescribed for them, can't apply the securities premium account for the purposes (b) and (d) mentioned above.

(4 marks)