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CA FOUNDATION Nov' 2018 EXAM

SUBJECT-ACCOUNTS

(Topics: Theoritical Framework, Average Due Date & Account Current, Royalty Account & Partnership Accounts)

Test Code- CFN 9021

Date : 05.08.2018

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Answer 1

A. 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 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.

B. Calculation of Interest chargeable from Partners

Taking 1st May as the base date

	Dates	**Amount (Rs.)**	**Days from 1st May**	**Products (Rs.)**
Yash	1.5.2015	75,000	0	0
	30.6.2015	20,000	60	12,00,000
	31.3.2016	15,000	334	50,10,000
		1,10,000		62,10,000

Average Due Date $= \frac{62,10,000}{1,10,000}$ days from 1st May. i.e 57 days

= 27thJune

Interest is chargeable for Yash from 27th June to March 31 i.e. 277 days

Rs. 1,10,000 x 10% x 277/365 = Rs. 8,348

	Dates	**Amount (Rs.)**	**Days from 1st May**	**Products (Rs.)**
Harsh	14.8.2015	60,000	105	63,00,000
	31.12.2015	50,000	244	1,22,00,000
	4.3.2016	75,000	307	2,30,25,000
		1,85,000		4,15,25,000

Average Due Date $= \frac{4,15,25,000}{1,85,000}$ days from 1 May = 225 days.

= 12th Dec.

Interest is chargeable for Harsh from 12 December to 31st March i.e. for 109 days.

Rs. 1,85,000 x$\frac{10}{100}$x$\frac{109}{365}$ = Rs. 5,525

Thus, interest amounting Rs. 8,348 will be charged from Yash and amount of Rs. 5,525 will be charged fromHarsh.

Answer 2

A. There is no partnership deed. Therefore, the following provisions of the Indian Partnership Act are to be applied for settling the dispute.

(i) No interest on capital is payable to any partner. Therefore, Ram is not entitled to interest on capital.

(ii) No remuneration is payable to any partner.Therefore, Rahim is not entitled to any salary.

(iii) Interest on loan is payable @ 6% p.a. Therefore, Karim is to get interest @ 6% p.a. onRs.2,000 instead of 12%.

(iv) The profits should be distributed equally.

Profit and Loss Appropriation Account for the year ended...

	Particulars		**Rs.**	**Particulars**	**Rs.**
To	Interest on Karim Loan A/c (Rs. 2,000x6/100)		120	By Profit and Loss A/c- (Net profit)	45,000
To	Reserve A/c -10% of Rs. (45,000-120)		4,488		
To	Share of Profit A/c: Ram: Rahim: Karim:	Rs.13,464 Rs.13,464 Rs. 13,464	40,392		
			45,000		45,000

(B)

Average maintainable profits:		₹
Trading profit during	2013	40,000
	2014	36,000
	2015	50,000
		1,26,000
Less: Loss during	2016	(6,000)
Total		1,20,000
Average Profits		30,000
Less: Remuneration for the proprietor		(6,000)
Average maintainable Profit		24,000
Less: Normal Profit (12% on capital employed)		(18,000)
Super Profit		6,000
Goodwill at 5 year's purchase of super Profit		30,000

Answer 3

(A)

Case1. When Guarantee is given by firm.

Profit and Loss Appropriation Account

For the year ending on 31 st March, 2017

Particulars	Rs.	Particulars	Rs.
To A's Capital A/c (3/5 of Rs.650,00,000)	3,90,00,000	By Profit and Loss, A/c	9,00,00,000
To B's Capital A/c (2/5 of Rs.650,00,000)	2,60,00,000		
To C's Capital A/c (1/6 of Rs. 9,00,00,000 or Rs. 25,000,000 whichever is more	250,00,000		
	900,00,000		**900,00,000**

Case2. When Guarantee is given by A

Profit and Loss Appropriation Account

For the year ending on 31 st March, 2017

Particulars	Rs	Particulars	Rs
To A's Capital A/c (3/6 of Rs. 9,00,00,000) 4,50,00,000 Less: Deficiency borne for C (1,00,00,000)	350,00,000	By Profit and Loss, A/c (netprofits)	9,00,00,000
To B's Capital A/c (2/6 of Rs. 9,00,00,000)	300,00,000		
To C's Capital A/c (1/6 of Rs. 9,00,00,000) 1,50,00,000 Add: Deficiency Recovery from A 1,00,00,000	250,00,000		
	900,00,000		900,00,000

Case3. When Guarantee is given by A and B equally.

Profit and Loss Appropriation Account

For the year ending on 31 st March, 2017

Particulars				Rs.
To A's Capital A/c			By Profit and Loss, A/c (net profits)	9,00,00,000
(3/6 of Rs. 9,00,00,000)	4,50,00,000			
Less: Deficiency borne				
for C (1/2 of 1,00,00,000)	(50,00,000)	4,00,00,000		
To B's Capital A/c				
(2/6 ofRs. 9,00,00,000)	3,00,00,000			
Less: Deficiency borne	(50,00,000)	2,50,00,000		
for C (1/2 of1,00,00,000)				
To C's Capital A/c	1,50,00,000			
(1/6 ofRs. 9,00,00,000)				
Less: Deficiency				
Recovery from A	50,00,000			
Less: Deficiency				
Recovery from B	50,00,000	2,50,00,000		
		9,00,00,000		9,00,00,000

B. The following adjustments are necessary in the Capital A/c:(i) Transfer of reserve, (ii) Transfer of goodwill, (iii)Transfer of profit/loss on revaluation. After adjustment of these items, the Capital Account balance standing to the credit of the retiring partner represents amount to be paid to him. The continuing partners may discharge the whole claim at the time of retirement.

C. A partnership firm may decide to take a Joint Life Insurance Policy on the lives of all partners. The firm pays the premium and the amount of policy is payable to the firm on the death of any partner or on the maturity of policy whichever is earlier. The objective of taking such a policy is to minimize the financialhardships to the event of payment of a large sum to the legal representatives of a deceased partner or to the retiring partner.

Answer 4

Date	**Output** (in tones)	**Royalty** @Rs. **10 pertone** Rs.	**Minimum Rent** Rs.	**Short-workings allowable** Rs.	**Short-workings recouped by lessee** Rs.	**Short-workings irrecoverable** Rs.	**Amount receivable from lessee** Rs.
31-3-12	6,000	60,000	1,00,000	40,000			1,00,000

31-3-13	10,500	1,05,000	1,00,000		5,000		1,00,000
31-3-14	13,000	1,30,000	1,00,000		30,000	5,000	1,00,000
31-3-15	20,000	2,00,000	1,00,000				2,00,000

In the books of Omega

Journal Entries

			Rs.	Rs.
2012 March 31	State Collieries Co. To Royalties Receivable Account To Short-workings allowable Account (Minimum rent receivable from State Collieries Co., royalties receivable being Rs. 60,000; excess of the formeroverthelatterbeingcreditedtoShortworkingsallowable Account.)	Dr.	1,00,000	 60,000 40,000
March 31	Bank A/c To State Collieries Co. (Receipt of amount due from State Collieries Co.)	Dr.	1,00,000	 1,00,000
March 31	Royalties Receivable Account To Profit & Loss Account (Transfer of Royalties Account to Profit & LossAccount)	Dr.	60,000	 60,000
2013 March 31	State Collieries Co. Short-workings allowable Account To Royalties Receivable Account (Minimum rent receivable from State Collieries Co.,after adjusting Rs. 5,000 of short-workings allowable against royalties receivable)	Dr. Dr.	1,00,000 5,000	 1,05,000
March 31	Bank To State Collieries Co. (Receipt of amount due from State Collieries Co.)	Dr.	1,00,000	 1,00,000
March 31	Royalties Receivable Account To Profit & Loss Account (Transfer of Royalties Account to Profit & Loss Account)	Dr.	1,05,000	 1,05,000
2014 March 31	State Collieries Co. Short-workings allowable Account To Royalties Receivable Account (Minimum rent receivable from State Collieries Co., after adjusting of short-workings allowable Rs. 30,000 against royalties receivable)	Dr. Dr.	1,00,000 30,000	 1,30,000
March 31	Bank To State Collieries Co. (Amount received from State Collieries Co).	Dr.	1,00,000	 1,00,000

March 31	Short-workings allowable Account To Profit & Loss Account (Balance of Shortworkings allowable count, being irrecoverable short-workings, transferred to Profit & Loss Account.)	Dr.	5,000	5,000
March 31	Royalties Receivable Account To Profit & Loss Account (Transfer of Royalties Receivable Account to Profit & Loss Account)	Dr.	1,30,000	1,30,000
2015 Mar. 31	State Collieries Co. To Royalties Receivable Account (Amount due from State Collieries Co., for royalties receivable for the year)	Dr.	2,00,000	2,00,000
March 31	Bank To State Collieries Co. (Amount of royalties received from State Collieries Co.)	Dr.	2,00,000	2,00,000
March 31	RoyaltiesReceivableAccount To Profit & Loss Account Transfer of Royalties Receivable Account to Profit & Loss Account.	Dr.	2,00,000	2,00,000

Answer 5

A. **Accounting and Statistics:** The use of statistics in accounting can be appreciated better in the context of the nature of accounting records. Accounting information is very precise; it is exact to the last paisa. But,for decision-making purposes such precision is not necessary and hence, the statistical approximations are sought.

In accounts, all values are important individually because they relate to business transactions. As against this, statistics is concerned with the typical value, behaviour or trend over a period of time or the degree of variation over a series of observations. Therefore, wherever a need arises for only broad generalisations or the average of relationships, statistical methods have to be applied in accounting data.

Further, in accountancy, the classification of assets and liabilities as well as the heads of income andexpenditure has been done as per the needs of financial recording to ascertain financial results ofvarious operations. Other types of classification like the geographical and historical ones and ad hocclassification are done depending on the purpose to make such classification meaningful.

Accounting records generally take a short-term view of events and are concerned to a year while statisticalanalysis is more useful if a longer view is taken for the purpose. For example, to fit the trend line a longerperiod will be required. However, statistical methods do use past accounting records maintained on aconsistent basis.

The functional relations showing mathematical relations of one variable with one or more othervariables are based on statistical work. These relations are used widely in making cost or price estimatesfor some estimated future values assigned to the given independent variables. For example, given thefunctional relation of total cost to the price of an input, the effect of changes in future prices on the costof production can be calculated.

In accountancy, a number of financial and other ratios are based on statistical methods, which helpin averaging them over a period of time. Several accounting and -financial calculations are based onstatistical formulae.

Statistical methods are helpful in developing accounting data and in their interpretation. For example,time series and cross-sectional comparison of accounting data is based on statistical techniques. Now-a-daysmultiple discriminate analysis is popularly used to identify symptoms of sickness of a businessfirm. Therefore, the study and application of statistical methods would add extra edge to the accountingdata.

B. For the year ended April 1, 2016:

Equity = Capital = Rs. 1,00,000

Liabilities = Bank Loan + Trade Payables

= Rs. 1,00,000 + Rs. 75,000

= Rs. 1,75,000

Assets = Fixed Assets + Trade Receivables + Inventory + Cash & Bank

= Rs. 1,25,000 + Rs. 75,000 + Rs. 70,000 + Rs. 5,000

= Rs. 2,75,000

Equity + Liabilities = Assets

Rs. 1,00,000 + Rs. 1,75,000 = Rs.2,75,000

For the year ended April 1, 2017:

Assets = Rs. 1,10,000 + Rs. 80,000 + Rs. 80,000 + Rs. 6,000 = Rs. 2,76,000

Liabilities = Rs. 1,00,000 + Rs. 70,000 = Rs. 1,70,000

Equity = Assets – Liabilities = Rs. 2,76,000 – Rs. 1,70,000 = Rs. 1,06,000

Profits = New Equity – Old Equity = Rs. 1,06,000 – Rs.1,00,000 = Rs. 6,000

Answer 6

(A)

Partner	New Share		Old Share		Difference
A	$\frac{7}{20}$	—	$\frac{4}{10}$	=	$(\frac{1}{20})$
B	$\frac{7}{20}$	—	$\frac{3}{10}$	=	$\frac{1}{20}$
C	$\frac{6}{20}$	—	$\frac{3}{10}$	=	0

Thus, B gained 1/20th share while A sacrificed 1/20th share i.e. ₹20,000 x = ₹1,000. For C there was no loss no gain.

Journal Entry

		₹	₹
B's Capital A/c	Dr.	1,000	
To A's Capital A/c			1,000
(Being goodwill adjusted through partners' capital accounts in sacrificing/gaining ratio)			

(B)

Revaluation Account

	₹		₹
To Furniture	870	By Building	3,200
To Inventory	1,070	By Trade payables	1,400
To Provision for doubtful debts		By Investment	450
(₹1,750 – ₹200)	1,550		
To Outstanding wages	1,560		
	5,050		5,050

Partners' Capital Accounts

	A ₹	B ₹	C ₹		A ₹	B ₹	C ₹
To A			4,500	By Balance b/d	44,000	36,000	–
To B			3,000	By Cash A/c	–	–	25,000
To Balance c/d	48,500	39,000	17,500	By C (working note 2)	4,500	3,000	–
	48,500	39,000	25,000		48,500	39,000	25,000

Working Notes:

1. Calculation of goodwill:

C's contribution of ` 25,000 consist of only 1/6th of capital.

Therefore, total capital of firm should be ` 25,000 x 6 = `1,50,000

But combined capital of A, B and C amounts ` 44,000 + 36,000 + 25,000 = `1,05,000

Thus, the hidden goodwill is ` 45,000 (`1,50,000- `1,05,000).

Goodwill will be shared by A & B in their sacrificing ratio.

2. Calculation of sacrificing ratio

Partners	New share	Old share	Sacrifice	Gain
A	$\frac{3}{6}$	$\frac{3}{5}$	$-\frac{3}{30}$	
B	$\frac{2}{6}$	$\frac{2}{5}$	$-\frac{2}{30}$	
C	$\frac{1}{6}$			$\frac{1}{6}$

Therefore, A will get $= ₹45,000 \times \frac{3}{30} = ₹4,500$;

B will get $= ₹45,000 \times \frac{2}{30} = ₹3,000$; and

C will be debited on account of goodwill $= ₹45,000 \times \frac{1}{6} = ₹7,500$