J.K. SHAH®

TEST SERIES

Evaluate Learn Succeed

SUGGESTED SOLUTION

CAFC NOVEMBER 2018 EXAM

SUBJECT - Accounts

Test Code – CFN 9026

BRANCH - () (Date : 05/08/2018)

Head Office : Shraddha, 3rd Floor, Near Chinai College, Andheri (E), Mumbai – 69.

Tel : (022) 26836666

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 take 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 judgment of the accountant.
- Different accounting policies for the treatment of same item adds to the probability of manipulations.

(0.5 mark * 6 = 3 marks)

(B) **A Ltd.**

Journal

2017		Rs.	Rs.
May 20	Bank Account Dr. To Share Application A/c (Application money on 40,000 shares at Rs.20 per share received.)	8,00,000	 8,00,000
June 1	Share Application A/c Dr. To Share Capital A/c (The amount transferred to Capital Account on 40,000 shares at - Rs.20 on application. Directors' resolution no.....dated ...)	8,00,000	 8,00,000
	Share Allotment A/c Dr. To Share Capital A/c (Being share allotment made due at Rs.30 per share. Directors' resolution no.....dated)	12,00,000	 12,00,000
July 15	Bank Account Dr. To Share Allotment A/c (The sums due on allotment received.)	12,00,000	 12,00,000
Oct. 1	Share First Call Account Dr. To Share Capital Account (Amount due from members in respect of first call-on 40,000 shares at Rs.25 as per Directors, resolution no... dated...)	10,00,000	 10,00,000
Oct. 20	Bank Account Dr. To Share First Call Account (Receipt of the amounts due on first call.)	10,00,000	 10,00,000
2018 Feb. 1	Share Second and Final Call A/c Dr. To Share Capital A/c (Amount due on 40,000 shares at Rs. 25 per share on second and final call, as per Directors resolution no... dated...)	10,00,000	 10,00,000
Mar. 31	Bank Account Dr. To Share Second & Final Call A/c (Amount received against the final call on 40,000 shares at Rs. 25 per share.)	10,00,000	 10,00,000

(0.5 mark * 8 = 4 marks)

(C) Analysis of Business Transaction: Accounting Equation Approach

The accounting equation is

Assets = Liabilities + Capital (0.5 mark)

(`in '000)

ASSETS						=	CAPITAL	+	LIABILITIES
	CASH	+	BANK	+	FURNITURE	=	CAPITAL	+	LIABILITIES
(a)	-	+	4,000	+	-	=	4,000	+	-
(b)	+200	+	-200	+	-	=	-	+	-
(c)	-	+	500	+	-	=	-	+	500
(d)	-	+	-300	+	-	=	-400	+	100
(e)	-	+	-500	+	500	=	-	+	-
Balance	**200**	**+**	**3,500**	**+**	**500**	**=**	**3,600**	**+**	**600**
4,200							**4,200**		

(2.5 marks)

Answer 2:

(A)

	Particulars		Rs.	Rs.
1 2016 July 3	**On sending the acceptance to Exe** Exe To Bills Payable A/c	Dr.	30,000	30,000
2 2016 July 3	**On meeting expenses on the consignment:** Exe To Bank	Dr.	2,800	2,800
3 2016 Oct. 6	**On meeting his acceptance:** Billspayable ToBank	Dr.	30,000	30,000
4	**On sales being effected:** Trade receivables/Bank To Exe	Dr.	55,000	55,000
5	**On there being a bad debt:** Exe To Trade receivables	Dr.	600	600
6	**On earning the commission:** Exe To Commission Earned A/c	Dr.	5,500	5,500
7	**On settling the account to Exe:** Exe To Bank	Dr.	16,100	16,100

(4 marks)

If the commission includes del-credere commission also, he would not be able to debit Exe for the bad debt.

In that case the debit should be to the Commission Earned Account whose net balance will then be Rs.4,900 and he will have to pay Rs. 16,700 to Exe. (1 mark)

(B)

Books of Koinal Chemicals Ltd.

Journal

When premium money is received along with application money:

Date	Particulars	Debit Amount(Rs.)	Credit Amount(Rs.)
	Bank A/c Dr. To Debenture Application A/c (Debenture application money received)	3,00,00,000	3,00,00,000
	Debentures Application A/c Dr. To 10% Debentures A/c To Securities Premium A/c (Application money transferred to 10% debentures account and securities premium account consequent upon allotment)	3,00,00,000	2,25,00,000 75,00,000
	Debenture Allotment A/c Dr. To10% Debentures A/c (Call made consequent upon allotment)	5,25,00,000	5,25,00,000
	Bank A/c Dr. To Debenture Allotment A/c (Call made consequent upon allotment money received)	5,25,00,000	5,25,00,000

(5 marks)

Answer 3:

(A)

S.No.	Increase (+) / Decrease (-) / No Change (0) in Assets	Reasons
a	+	Furniture has been purchased making it an increase in assets andalso it being purchased on credit it increases liability and there is no outflow of assets like cash or bank.
b	+	Cash has flowed in for services provided making it an increase inassets.
c	+	Here with goods sold there is a decrease in inventory (assets) butgiven there is an increase in debtors there will be a net increase inassets. Though if goods are sold at cost it will result in no change whereassale at below cost will result in decrease in assets.
d	-	Here cash has been withdrawn from business resulting in decrease in assets and capital.
e	0	Only hiring of employee has been done resulting in no change in assets.

f	-	Outflow of goods has resulted in decrease in assets while money owed to creditors reduce on the liability side.
g	-	Here both assets and liabilities reduce by same amounts meaning a decrease in assets.
h	0	Only a purchase agreement has been entered into with no transaction taking place yet

(0.5 mark * 8 = 4 marks)

(B) (i) Foreign Company

According to Section 2 (42) of the Companies Act, 2103, "Foreign company" means any company or body corporate incorporated outside India which –

(a) Has a place of business in India whether by itself or through an agent physically or through electronic mode; and

(b) Conducts any business activity in India in any other manner.

(ii) Small Company

Section 2(85) of the Companies Act, 2013 defines "Small company" means a company, other than a public company.

(i) paid-up share capital of which does not exceed fifty lakh rupees or such higher amount as may be prescribed which shall not be more than five crore rupees; or

(ii) turnover of which as per its last profit and loss account does not exceed two crore rupees or such higher amount as may be prescribed which shall not be more than twenty crore rupees.

(iii) Company limited by Guarantee

As per Section 2(21) of the Companies Act, 2013, "company limited by guarantee" means a company having the liability of its members limited by the memorandum to such amount as the members may respectively undertake to contribute to the assets of the company in the event of its being wound up.

(2 marks * 3 = 6 marks)

Answer 4:

(A) In the books of Miss Rakhi

Consignment Account

Particulars	Rs.	Rs.	Particulars	Rs.
To Goods sent on Consignment A/c		9,00,000	By Miss Geeta	9,00,000
To Cash			By Insurance Co.	35,000
Freight	7,650		By Profit & Loss A/c abnormal loss(net)	10,545
Insurance	3,250	10,900	By Consignment Inventories	1,84,391
To Miss Geeta				
Carriage	10,500			
Repairs	2,500			
Commission	54,000	67,000		
To Profit & Loss A/c		1,52,036		
		11,29,936		11,29,936

(2 marks)

Miss Geeta's Account

Particulars	Rs.	Particulars	Rs.	Rs.
To Consignment A/c (Sales)	9,00,000	By Consignment A/c		
		Expenses:		
		Carriage	10,500	
		Repairs	2,500	
		Commission	54,000	67,000
		By Bank (bal. fig.)		8,33,000
	9,00,000			9,00,000

Note: It is assumed that the agent has remitted the amount due from her. (2 marks)

Working Notes: (1 mark * 2 = 2 marks)

1. Abnormal loss :

Cost to the consignor: 50 sets @ Rs. 900		45,000
Add: Proportionate expenses incurred by the consignor $\frac{50 \times 10,900}{1,000}$	545	
Gross abnormal loss		45,545
Less: Insurance claim		(35,000)
Net abnormal loss		10,545

2. Valuation of Inventories

200 sets @ Rs. 900	1,80,000
Add: Proportionate expenses of the consignor $\frac{200 \times 10,900}{1,000}$	2,180
Add: Carriage and customs duty paid by the consignee $\frac{200 \times 10,500}{950}$	2,211
	1,84,391

(B) **Petty Cash Book**

Receipts Rs.	Date 2016	V. No.	Particulars	Total Rs.	Con-veyance Rs.	Cartage Rs.	Station-ery Rs.	Postage & Telegram Rs.	Wages Rs.	Sundries Rs.
100	Jan.1		To Cash							
	2	1	By Conveyance	.50	.50					
		2	By Cartage	2.50		2.50				
	3	3	By Postage and Telegram	5.00				5.00		
		4	By Wages	6.00					6.00	
	4	5	By stationery	4.00			4.00			
		6	By conveyance	2.00	2.00					
	5	7	By Repairs to Furniture	15.00						15.00
		8	By Conveyance	1.00	1.00					
		9	By Cartage	4.00		4.00				
	6	10	By Postage and Telegram	7.00				7.00		
	6	11	By Conveyance	3.00	3.00					
	6	12	By Cartage	3.00		3.00				
	6	13	By Stationery	2.00			2.00			
	6	14	By General Expenses	5.00						5.00
				60.00	6.50	9.50	6.00	12.00	6.00	20.00
			By Balance c/d	40.00						
100				100.00						

40.00 60.00	 8		To balance b/d To Cash							

(4 marks)

Answer 5:

(A) **In the books of X Ltd.**

Date	Journal Particulars	Rs.	Rs.
	Equity Share Capital A/c (5,000 x Rs. 100) Securities Dr. Premium A/c (See Note) Dr. To Equity Share Allotment A/c (5,000 x Rs. 50) To Equity Share First and Final Call A/c (5000 x Rs. 50) To Forfeited Shares A/c (5000 x Rs. 20) (Being the forfeiture of 5,000 equity shares of Rs. 100 each fully called-up, issued at a premium of 20%, for nonpayment of allotment and call money as per Board's Resolution No.....dated....)	5,00,000 1,00,000	 2,50,000 2,50,000 1,00,000

(2 marks)

Tutorial Note: Share premium @ Rs. 20 on 5,000 shares has not been received by the company. Therefore, at the time of forfeiture, Securities Premium Account will be debited to cancel it (because Securities Premium Account was credited at the time of allotment).

Also, in case of pro-rata allotment where shares are issued at premium, the excess money received on application will be first adjusted to capital account and then for securities premium.

(B) As per **Money Measurement concept**, only those transactions, which can be measured in terms of money are recorded. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money be only to be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books. (1 mark)

In **Matching concept**, all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized. (1 mark)

(C) **In the books of Mr. S**

Dr. **Mr. H Account** Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
1.4.2015	To Balance b/d	20,000	22.4.2015	By Bank A/c	20,000
5.4.2015	To Sales A/c	30,000	22.4.2015	By Cash A/c (Note 2)	24,775
17.4.2015	To Sales A/c	40,000	29.4.2015	By discount allowed A/c	225
			29.4.2015	By Bank A/c	40,000
			29.4.2015	By Bad Debts A/c	5,000
		90,000			**90,000**

(2 marks)

Dr. **Mr. R Account** Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
18.4.2015	To Purchase	5,400	1.4.2015	By Balance b/d	15,000
	To Returns A/c		4.4.2015	By Purchases A/c	54,000
26.4.2015	To Bank A/c	77,600	17.4.2015	By Purchases A/c	25,000
26.4.2015	To Discount received A/c	1,000			
30.4.2015	To Balance c/d	10,000			
		94,000			**94,000**
			1.5.2015		10,000

(2 marks)

Working Notes:

(1) Sale of Rs.10,000 on 19th April is a cash sales, therefore, it will not be recorded in the Personal Account of Mr. H; and

(2) On 22nd April, Mr. H owes Mr. S Rs. 90,000, amount paid by Mr. H ½ of Rs. 90,000 less ½% discount i.e., Rs. 45,000– Rs. 225 = Rs. 44,775. Out of this amount, Rs. 20,000 paid by cheque and the balance of Rs. 24,775 in cash.

(1 mark * 2 = 2 marks)

Answer 6:

(A) **Calculation of amount of discount to be written-off**

At the Year end	Debentures Outstanding before redemption	Ratio of benefit Derived	Amount of discount to be written-off
2010	Rs. 20,00,000	5	5/15th of Rs. 1,20,000 = Rs. 40,000
2011	Rs. 16,00,000	4	4/15th of Rs. 1,20,000 = Rs. 32,000
2012	Rs. 12,00,000	3	3/15th of Rs. 1,20,000 = Rs. 24,000
2013	Rs. 8,00,000	2	2/15th of Rs. 1,20,000 = Rs. 16,000
2014	Rs. 4,00,000	1	1/15th of Rs. 1,20,000 = Rs. 8,000
	TOTAL	15	Rs. 1,20,000

(2 marks)

(B) **Books of Ajay**

Consignment to Vijay Account

Particulars	Rs.	Particulars	Rs.
To Goods sent on Consignment A/c	1,25,000	By Goods sent on Consignment A/c (Loading)	25,000
To Cash A/c	10,000	By Abnormal Loss	11,000
To Vijay(Expenses)	8,000	By Vijay (Sales)	1,00,000
To Vijay(Commission)	10,938	By Inventories on Consignment A/c	20,250
To Inventories Reserve A/c	3,750	By General Profit & Loss A/c	1,438
	1,57,688		1,57,688

(2 marks)

Vijay's Account

Particulars	Rs.	**Particulars**	Rs.
To Consignment A/c	1,00,000	By Consignment A/c By Consignment A/c By Bank A/c	8,000 10,938 81,062
	1,00,000		1,00,000

(1 mark)

Working Notes:

1. Calculation of value of goods sent on consignment:

   Abnormal Loss at Invoice price = Rs.12,500.

   Abnormal Loss as a percentage of total consignment =10%.

   Hence the value of goods sent on consignment =Rs.12,500X100/10=Rs.1,25,000.

   Loading of goods sent on consignment = Rs. 1,25,000 X 25/125 = Rs. 25,000.

   (0.75 mark)

2. Calculation of abnormal loss (10%):

   Abnormal Loss at Invoice price = Rs. 12,500.

   Abnormal Loss at cost=Rs.12,500X100/125 = Rs.10,000

   Proportionate expenses of Ajay (10 %ofRs. 10,000) = Rs. 1,000

   Rs. 11,000 (0.75 mark)

3. Calculation of closing Inventories (15%):

   Ajay's Basic Invoice price of consignment = Rs. 1,25,000

   Ajay's expenses on consignment = Rs. 10,000

   Rs. 1,35,000

   Value of closing Inventories = 15% ofRs.1,35,000 = Rs.20,250

   Loading in closing Inventories=Rs.25,000X15/100 = Rs.3,750

   Where Rs.18,750 (15%of Rs.1,25,000) is the basic invoice price of the goods sent on consignment remaining unsold. (0.75 mark)

4. Calculation of commission:

   Invoice price of the goods sold = 75% of Rs. 1,25,000 = Rs. 93,750

   Excess of selling price over invoice price = Rs. 6,250 (Rs. 1,00,000- Rs. 93,750)

   Total commission = 10% of Rs. 93,750 + 25% of Rs. 6,250

= Rs. 9,375 + Rs. 1,562.50

= Rs. 10,937.50 OR 10,938 (0.75 mark)

Note:

1. It has been assumed that final payment received from Vijay.
2. Abnormal loss is always calculated at cost even if invoice price of goods is given.
3. Value of inventories always valued at invoice price if invoice price is given.

(C) (1) Money paid Rs. 10,000 for obtaining license to start a factory is a capital expenditure. This is an item of expenditure incurred to acquire the right to carry on business.

(2) Rs. 1,000 paid for removal of Inventory to a new site is revenue expenditure. This is neither bringing enduring benefit nor enhancing the value of the asset.

(3) Rs. 5,000 spent in changing Rings and Pistons of an engine to get fuel efficiency is capital expenditure. This is an expenditure on improvement of a fixed asset. It results in increasing profit-earning capacity of the business by cost reduction.

(4) Money deposited with MTNL for installation of telephone in office is not expenditure. This is treated as an asset and the same is adjusted over a period of time against actual telephone bills.

(5) Cost of construction of building including cost of temporary huts is capital expenditure. Building is fixed asset which will generate enduring benefit to the business over more than one accounting period. Construction of temporary huts is incidental to the main construction. Such cost is also capitalized with the cost of building.

(0.4 mark * 5 = 2 marks)