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CA FOUNDATION Nov' 2018 EXAM

SUBJECT-ACCOUNTS

(Topics: Theoritical Framework, Books of Accounts and Trial Balance, Royalty Account & Partnership Accounts)

Test Code- CFN 9051

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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. Corrected Trial Balance of Mr. Singhania as on 31st March, 2016

	Debit Balance (Rs.)	**Credit Balance (Rs.)**
Singhania's Capital		1,556
Singhania's Drawings	564	
Leasehold premises	750	
Sales		2,750
Due from customers	530	
Purchases	1,259	
Purchases return		264
Loan from bank		256
Trade payables		528
Trade expenses	700	
Cash at bank	226	
Bills payable		100
Salaries and wages	600	
Inventories (1.4.2015)	264	
Rent and rates	463	
Sales return	98	
	5,454	**5,454**

Reasons:

1. Due from customers is an asset, so its balance will be a debit balance.
2. Purchases return account always shows a credit balance because assets go out.
3. Balance in Creditors Account is a liability, so its balance will be a credit balance.
4. Bills payable is a liability, so its balance will be a credit balance.

5. Inventory (opening) represents assets, so it will have a debit balance.

6. Sales return account always shows a debit balance because assets come.

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:	Rs.13,464			
	Rahim:	Rs.13,464			
	Karim:	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

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 4

ANSWER-A

Petty Cash Book

Receipts Rs.	Date 2016	V. No.	Particulars	Total Rs.	Con-veyance Rs.	Cartage Rs.	Stationery 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			To balance b/d							
60.00	8		To Cash							

ANSWER-B

In the books of Mr. S

Mr. H Account

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**

Mr. R Account

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

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.

<u>Answer 5</u>

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 and expenditure has been done as per the needs of financial recording to ascertain financial results of various operations. Other types of classification like the geographical and historical ones and ad hoc classification 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 statistical analysis is more useful if a longer view is taken for the purpose. For example, to fit the trend line a longer period will be required. However, statistical methods do use past accounting records maintained on a consistent basis.

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

In accountancy, a number of financial and other ratios are based on statistical methods, which help in averaging them over a period of time. Several accounting and -financial calculations are based on statistical 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-days multiple discriminate analysis is popularly used to identify symptoms of sickness of a business firm. Therefore, the study and application of statistical methods would add extra edge to the accounting data.

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 (₹1,750 – ₹200)	1,550	By Investment	450
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 Rs. 25,000 consist of only 1/6th of capital.

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

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

Thus, the hidden goodwill is Rs. 45,000 (Rs.1,50,000- Rs.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 $= ₹45{,}000 \times \frac{1}{6} = ₹7{,}500$