



**J.K. SHAH<sup>®</sup>**  
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**SUGGESTED SOLUTION**  
**CAFC NOVEMBER 2018 EXAM**

**SUBJECT- Accounts**

**Test Code - CFN 9027**

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

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**Answer 1:**

- (A)**
- (i) **Fundamental accounting assumptions:** There are three fundamental accounting assumptions: Going Concern; Consistency and Accrual. If nothing has been written about the fundamental accounting assumption in the financial statements then it is assumed that they have already been followed in their preparation of financial statements.
- (ii) **Periodicity concept:** According to this concept accounts should be prepared after every period & not at the end of the life of the entity.
- (iii) **Accounting conventions:** Accounting conventions emerge out of accounting practices, commonly known as accounting principles, adopted by various organizations over a period of time. (1 mark \* 3 = 3 marks)

**(B) Income and Expenditure Account of Exe Club**

**for the year ending 31st March, 2016**

**(all figures in thousand)**

<b>Expenditure</b>		<b>Rs.</b>	<b>Income</b>	<b>Rs.</b>
To Groundsman's fee		750	By Donations and Subscription	2,550
To Rent of Ground		250	By Receipts from teas	50
To Fares' Expenses	400		(Fares) less expenses	
Less: Contribution	(100)	300	(Rs.300 - Rs.250)	
To Printing & Office Expenses		260	By Proceeds of Variety	
To Repairs		460	Entertainment	780
To Depreciation on Machinery			By Interest (Rs.30 + Rs.20)	50
Opening balance and Purchases	2,300			
Less: Closing Balance	(1,750)			
	550			
Less: Sale	(80)	470		
To Honorarium to Sect. & Treasurer		600		
To Bonus to Grounds man		300		
To Excess of Income over Expenditure		40		
		3,430		3,430

**(3 marks)**

**Balance Sheet of Exe Club as on 31<sup>st</sup> March, 2016**

<b>Liabilities</b>		<b>Rs.</b>	<b>Assets</b>	<b>Rs.</b>
Outstanding Expenses:				
Grounds man Bonus		300	Cash in hand	250
Printing		80	Cash in Deposit A/c	3,090
Honorarium		600	Subscription Due	100
Bank Overdraft (Rs.260-		110	Interest Due	20
Rs.150) Capital Fund:	3,080		Machinery & Equipments	1,750
Opening	40	3,120		
Add: Surplus for the year		1,000		
Tournament Fund (Donation)		5,210		5,210

**(2 marks)**

**Balance Sheet as on 1<sup>st</sup> April, 2015**

<b>Liabilities</b>	Rs.	<b>Assets</b>	Rs.
Outstanding Expenses and Honorarium (Rs.100 + Rs.400)	500	Cash in hand	100
Capital Fund (Balancing Figure)	3,080	Cash in Deposit A/c	2,230
		Cash in Current A/c	300
		Subscription Due	150
		Machinery	800
	3,580		3,580

(2 marks)

**Answer 2:**

(A)

**B in Account Current with A**

**for the period ending on 30th June, 2016**

<b>Date 2016</b>	<b>Particulars</b>	<b>Amount Rs.</b>	<b>Days</b>	<b>Products</b>	<b>Date 2016</b>	<b>Particulars</b>	<b>Amount Rs.</b>	<b>Days</b>	<b>Products</b>
Jan.1	To Balance b/d	600	182	1,09,200	Jan.18	By Sales Returns By	125	164	20,500
Jan. 11	To Sales A/c	520	171	88,920	Feb. 11	Bank A/c	400	140	56,000
Apr. 29	To Sales A/c	615	62	38,130	Feb. 14	By B/R A/c	300	105	31,500
June 30	To Interest A/c	15.75				(due date: March 17)			
					May 15	By Cash A/c	700	46	32,200
					June30	By Balance of products			96,050
						By Balance c/d			
							225.75		
		1,750.75		2,36,250			1,750.75		2,36,250

(4 marks)

Calculation of interest:

$$\text{Interest} = \frac{96,050}{366} \times \frac{6}{100} = \text{Rs. } 15.75$$

(1 mark)

(B)

**Computation of Royalty, Minimum Rent and Short-workings**

<b>Year</b>	<b>Quantity in tonnes</b>	<b>Rate per tonne</b>	<b>Royalty</b>	<b>Minimum Rent</b>	<b>Short-workings</b>
1	18,000	5	90,000	2,00,000	1,10,000
2	26,000	5	1,30,000	2,00,000	70,000
3	50,000	5	2,50,000	2,00,000	
4	60,000	5	3,00,000	2,00,000	
5	1,00,000	5	5,00,000	2,00,000	

(1.5 marks)

**Computation of Recoupment, Short-workings carried forward, Transferred to P&L Account**

<b>Year</b>	<b>Recoupment</b>	<b>Short-workings carried forward</b>	<b>Transferred to P&amp;L Account</b>	<b>Payment to Landlord</b>
1		1,10,000		2,00,000

2		1,80,000		2,00,000
3	50,000	1,30,000		2,00,000
4	1,00,000		30,000	2,00,000
5				5,00,000

(1.5 marks)

### Journal Entries in the Books of India Coal Ltd

#### Entries for Year 1

##### Entry 1:

##### When Royalty is Payable:

RoyaltyA/c----- Dr.	90,000	
Short-workingsA/c ----- Dr.	1,10,000	
To Landlord A/c		2,00,000

##### Entry 2:

##### For Payment to Landlord:

Landlord A/c ----- Dr.	2,00,000	
To Bank A/c		2,00,000

##### Entry 3:

##### For Transferring Royalty:

Trading/Profit and Loss/Manufacturing/Production A/c ----- Dr.	90,000	
To Royalty A/c		90,000

#### Entries for Year 2

##### Entry 1:

##### When Royalty is Payable:

RoyaltyA/c----- Dr.	1,30,000	
Short-workingsA/c ----- Dr.	70,000	
To Landlord A/c		2,00,000

##### Entry 2:

##### For Payment to Landlord:

LandlordA/c----- Dr.	2,00,000	
To Bank A/c		2,00,000

##### Entry 3:

##### For Transferring Royalty:

Trading/Profit and Loss/Manufacturing/ProductionA/c Dr.	1,30,000	
To Royalty A/c		1,30,000

(2 marks)

#### Answer 3:

(A)

Taking 10th January as the base date

DueDate (Normal)	Due Date (Actual)	No. of days from 10th January. . .	Amount Rs.	Product
10th January	10th January	0	500	0
26th January	25th January	15	1,000	15,000
23rd March	23rd March	72	3,000	2,16,000
18th August	17th August	219	4,000	8,76,000
			8,500	11,07,000

(1.5 marks)

$$\text{Average Due Date} = 10\text{th Jan.} + \frac{11,07,000}{8500} = 10\text{th Jan} + 131 \text{ days} = 21\text{st May}$$

(1.5 marks)

January	21
February	28
March	31
April	30
	<u>110</u>

- (a) If the payment is made on 18th March rebate will be allowed for unexpired time from 18th March to 21st May i.e., 13 + 30 + 21 i.e. for 64 days. He has to pay the discounted value of the total amount.

$$\text{Discount} = 8,500 \times \frac{8}{100} \times \frac{64}{365} = 680 \times \frac{64}{365} = \text{Rs. } 119.2 \quad (0.5 \text{ mark})$$

$$\text{Amount to be paid on 18th March} = \text{Rs. } (8,500 - 119.23) = \text{Rs. } 8,380.77 \quad (0.5 \text{ mark})$$

- (b) If the payment is deferred to 14th July, interest is to be paid from 21st May to 14th July i.e., for 10 + 30 + 14 = 54 days.

$$\text{Interest} = 8,500 \times \frac{54}{365} = 680 \times \frac{54}{365} = \text{Rs. } 100.6 \quad (0.5 \text{ mark})$$

The amount to be paid on 14th July.

$$\text{Rs. } 8,500 + 100.6 = 8600.6 \quad (0.5 \text{ mark})$$

**(B)**

**For the year ended April 1, 2016:**

$$\text{Equity} = \text{Capital} = \text{Rs. } 1,00,000$$

$$\begin{aligned} \text{Liabilities} &= \text{Bank Loan} + \text{Trade Payables} \\ &= \text{Rs. } 1,00,000 + \text{Rs. } 75,000 \\ &= \text{Rs. } 1,75,000 \end{aligned}$$

$$\begin{aligned} \text{Assets} &= \text{Fixed Assets} + \text{Trade Receivables} + \text{Inventory} + \text{Cash \& Bank} \\ &= \text{Rs. } 1,25,000 + \text{Rs. } 75,000 + \text{Rs. } 70,000 + \text{Rs. } 5,000 \\ &= \text{Rs. } 2,75,000 \end{aligned}$$

$$\text{Equity} + \text{Liabilities} = \text{Assets}$$

$$\text{Rs. } 1,00,000 + \text{Rs. } 1,75,000 = \text{Rs. } 2,75,000 \quad (2 \text{ marks})$$

**For the year ended April 1, 2017:**

$$\text{Assets} = \text{Rs. } 1,10,000 + \text{Rs. } 80,000 + \text{Rs. } 80,000 + \text{Rs. } 6,000 = \text{Rs. } 2,76,000$$

$$\text{Liabilities} = \text{Rs. } 1,00,000 + \text{Rs. } 70,000 = \text{Rs. } 1,70,000$$

$$\text{Equity} = \text{Assets} - \text{Liabilities} = \text{Rs. } 2,76,000 - \text{Rs. } 1,70,000 = \text{Rs. } 1,06,000 \quad (2 \text{ marks})$$

$$\text{Profits} = \text{New Equity} - \text{Old Equity} = \text{Rs. } 1,06,000 - \text{Rs. } 1,00,000 = \text{Rs. } 6,000 \quad (1 \text{ mark})$$

Answer 4:

(A)

**Salaries Account**

		Rs.			Rs.
April, 1 2015	To Prepaid Salaries A/c	400	April, 1, 2015	By Salaries Outstanding A/c	1,400
March, 31, 2016	To Cash	23,000	March, 31, 2016	By Salaries Prepaid A/c	600
	To Salaries Outstanding A/c	1,800		By Transfer to Income & Expenditure A/c	23,200
		<b>25,200</b>			<b>25,200</b>

(2 marks)

**Salaries Outstanding Account**

		Rs.			Rs.
April, 1, 2015	To SalariesA/c	1,400	April, 1, 2015	By Balanceb/d	1,400
March, 31, 2016	To Balancec/d	1,800	March, 31, 2016	By SalariesA/c	1,800
		<b>3,200</b>			<b>3,200</b>
			April, 1, 2016	By Balance b/d	1,800

(2 marks)

**Salaries Prepaid Account**

		Rs.			Rs.
April, 2015	To Balanceb/d	400	April, 1, 2015	By Salaries A/c (transfer)	400
March, 31, 2016	To SalariesA/c	600	March, 31, 2016	By Balance c/d	600
		<b>1,000</b>			<b>1,000</b>
April, 1, 2016	To Balance b/d	600			

(2 marks)

(B)

Few instances where average due date can be used:

- (i) Calculation of interest on drawings made by the proprietors or partners of a business firm at several points of time.
- (ii) Settlement of accounts between a principal and an agent.
- (iii) Settlement of contra accounts, that is, A and B sell goods to each other on different dates. (2 marks)

(C)

Royalty" may be defined as periodic payment made by one person (lessee) to another person (lessor) for using the right by the lessee vested in the lessor. Examples: For the extraction of oil, coal, and minerals or to an author for sale of his books. (2 marks)

**Answer 5:**

- (A) (1) **False:** Overhaul expenses are incurred to put second-hand machinery in working condition to derive durable long-term advantage. So it should be capitalized.
- (2) **False:** It may be reasonably presumed that money spent for reducing revenue expenditure would have generated long-term benefits to the entity. It becomes part of intangible fixed assets if it is in the form of technical know-how and tangible fixed assets if it is in the form of additional replacement of any of the existing tangible fixed assets. So this is capital expenditure.
- (3) **True:** Legal fee paid to acquire any property is part of the cost of that property. It is incurred to possess the ownership right of the property and hence a capital expenditure.
- (4) **False:** Legal expenses incurred to defend a suit claiming that the firm's factory site belongs to the plaintiff is maintenance expenditure of the asset. By this expense, neither any durable benefit can be obtained in future in addition to that what is presently available nor the capacity of the asset will be increased. Maintenance expenditure in relation to an asset is revenue expenditure.
- (5) **False:** Amount spent for replacement of any worn out part of a machine is revenue expense since it is part of its maintenance cost.
- (6) **False:** Repairing and white washing expenses for the first time of an old building are incurred to put the building in usable condition. These are the part of the cost of building. Accordingly, these are capital expenditure.
- (7) **True:** The Cinema Hall could not be started without license. Expenditure incurred to obtain the licenses pre-operative expense which is capitalized. Such expenses are amortized over a period of time.
- (8) **True:** Cost of temporary huts constructed which were necessary for the construction of the cinema house is part of the construction cost of the cinema house. Therefore such costs are to be capitalised.

(6 marks)

(B)

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. This Red Ink interest is treated as negative interest. In actual practice, however the product of such bill [value of bill X (due date-closing date) is written in ordinary ink in the opposite side on which the bill is entered]. It means interest from future date from date of account current i.e., present date. In earlier periods, it was written in red ink; hence it got the name of red ink interest. It implies that rebate will be allowed on interest paid/ received, if settlement of future due transaction is done on account current date. (2 marks)

- (C) Accounting is the art of recording, classifying, and summarising in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the result thereof. Various subfields of accounting are listed as: Financial Accounting; Management Accounting; Cost Accounting; Social Responsibility Accounting and Human Resource Accounting. (2 marks)

**Question 6:**

- (A) Accounting Standards are selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The main objective of Accounting Standards is to establish standards which have to be complied with, to ensure that financial statements are prepared in accordance with generally accepted accounting principles. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India. (2 marks)
- (B) Global Standards facilitate cross border flow of money, global listing in different bourses and comparability of financial statements. The convergence of financial reporting and accounting standards is a valuable process that contributes to the free flow of global investment and achieves substantial benefits for all capital market stakeholders. It improves the ability of investors to compare investments on a global basis and thus lowers their risk of errors of judgment. It facilitates accounting and reporting for companies with global operations and eliminates some costly requirements say reinstatement of financial statements. (2 marks)
- (C) Receipts which are obtained in course of normal business activities are revenue receipts (e.g. receipts from sale of goods or services, interest income etc.).

Revenue receipts should not be equated with the actual cash receipts. Revenue receipts are credited to the Profit and Loss Account. (2 marks)

**(D) Income & Expenditure Account (An extract) of Sachin Cricket Club****For the year ended 31st March, 2016**

	Rs.		Rs.
		By Subscription (500 members × Rs. 1,500 per member)	7,50,000

(1 marks)

**Balance Sheet of Sachin Cricket Club as on 31st March, 2015 (An extract)**

Liabilities	Rs.	Assets	Rs.
		Subscription Receivable (Rs. 15,000 + Rs. 12,000)	27,000

(1 marks)

**Balance Sheet of Sachin Cricket Club as on 31st March, 2016 (An extract)**

Liabilities	Rs.	Assets	Rs.
Unearned Subscription	18,000	Outstanding Subscription of 2014-15	15,000
		of 2015-16	
		Rs. (7,50,000 – 6,15,000)	1,35,000
			1,50,000

(2 marks)