SUGGESTED SOLUTION

CA FOUNDATION N'18 EXAM

SUBJECT- ACCOUNTS

Test Code – CFN 9071

(Date :)

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

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ANSWER-1

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
			By Insurance Co.	35,000
To Cash			By Profit & Loss A/c abnormal loss(net)	10,545
Freight	7,650		By Consignment Inventories	1,84,391
Insurance	3,250	10,900		
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

Miss Geeta's Account

Particulars	Rs.	Particulars	Rs.	Rs.
To Consignment A/c		By Consignment A/c		
(Sales)	9,00,000	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*3 MARKS = 6 MARKS)

Working Notes: **(2*2=4 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

ANSWER-2

In the Books of M/s. ABC Traders

Profit and Loss Account for the year ended 31st March, 2016

Particulars	**Amount** Rs.	**Particulars**	**Amount** Rs.
To Salaries	1,10,000	By Gross Profit	4,20,000
To Legal Charges	25,000	By Discount received	18,000
To Consultancy Fees	32,000		
To Audit Fees	1,000		
To Electricity Charges	17,000		
ToTelephone, Postage &Telegrams	12,000		
	27,000		
To Stationery	65,000		

To Depreciation	19,000		
To Discount Allowed	17,000		
To Bad Debts	70,000		
To Interest	43,000		
To Net Profit	4,38,000		4,38,000

(5 MARKS)

Journal Proper in the Books of M/s. ABC Traders

Date 2016	Particulars		Amount Rs.	Amount Rs.
March 31	Profit & Loss Account	Dr.	3,95,000	
	To Salaries A/c			1,10,000
	To Legal Charges A/c			25,000
	To Consultancy Fees A/c			32,000
	To Audit Fees A/c			1,000
	To Electricity Charges A/c			17,000
	To Telephone, Postage & Telegrams A/c			12,000
	To Stationery A/c			27,000
	To Depreciation A/c			65,000
	To Discount Allowed A/c			19,000
	To Bad Debts A/c			17,000
	To Interest A/c			70,000
	(Being the transfer of balances of various expenses accounts)			
	Discount Received A/c	Dr.	18,000	
	To Profit & Loss A/c			18,000
	(Being the transfer of discount received account balance)			
	Gross Profit A/c	Dr.	4,20,000	
	To Profit & Loss A/c			4,20,000
	(Being the transfer of gross profit from Trading Account)			

	Profit & Loss A/c To Net Profit A/c (Being the ascertainment of net profit)	Dr.	43,000	 43,000
	Net Profit A/c To Capital A/c (Being the transfer of net profit to Capital A/c)	Dr.	43,000	 43,000

(5*1= 5 MARKS)

ANSWER-3

ANSWER-A

Inventory can be defined as assets held

- for sale in the ordinary course of business, or
- in the process of production for such sale, or
- for consumption in the production of goods or services for sale, including maintenance supplies and consumables other than machinery spares.

The significance of inventory valuation arises due to the following reasons:

(i) Determination of Income

(ii) Ascertainment of Financial Position

(iii) Liquidity Analysis

(iv) Statutory Compliance **(5 MARKS)**

ANSWER-B

Statement of Valuation of Stock on 30th June, 2016

Particulars	**Rs.**	**Rs.**
Value of stock as on 23rd June, 2016		48,00,000
Add: Unsold stock out of the goods sent on consignment	2,40,000	
Purchases during the period from 23rd June, 2016 to 30th June,	2,40,000	
2016	1,60,000	
Goods in transit on 30th June, 2016	1,28,000	7,68,000
Cost of goods sent on approval basis (80% of Rs.1,60,000)		55,68,000
Less: Cost of sales during the period from 23rd June, 2016 to 30th June,	12,00,000	
2016	96,000	11,04,000
Sales (Rs. 13,60,000 - Rs. 1,60,000)		44,64,000
Less: Gross profit		
Value of stock as on 30th June, 2016		

(3 MARKS)

Working Notes: **(2*1=2 MARKS)**

1. Calculation of normal sales:

Actual sales		13,60,000
Less: Abnormal sales	1,20,000	
Return of goods sent on approval	1,60,000	2,80,000
		10,80,000

2. Calculation of gross profit:

Gross profit or normal sales 20/100 x Rs. 10,80,000	2,16,000
Less: Loss on sale of particular (abnormal) goods (Rs. 2,40,000 - Rs. 1,20,000)	1,20,000
Gross profit	96,000

ANSWER-4

In the books of Ram

Joint Venture Account

Particulars	Amount (Rs.)		Particulars	Amount (Rs.)
To Bank A/c:			By Bank A/c	24,00,000
Material	6,80,000		By Rahim's A/c (plant)	1,00,000
Cement	1,30,000			
Architect's fee	1,00,000	9,10,000		
To Rahim's A/c:				
Material	5,00,000			
Cement	1,70,000			
Wages	2,70,000			
License fees	50,000			
Plant	2,00,000	11,90,000		
To Net profit transferred to:				
Rahim's A/c	2,00,000			
Profit & Loss A/c	2,00,000	4,00,000		
		25,00,000		25,00,000

(4 MARKS)

Rahim's Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Joint Venture A/c (plant) To Bank A/c	1,00,000 12,90,000	By Joint Venture A/c (sundries) By Joint Venture A/c (profit)	11,90,000 2,00,000
	13,90,000		13,90,000

(1 MARK)

In the books of Rahim

Joint Venture Account

Particulars	Amount (Rs.)		Particulars	Amount (Rs.)
To Bank A/c: Material Cement Architect's fee	 6,80,000 1,30,000 1,00,000	9,10,000	By Bank A/c By Rahim's A/c (plant)	24,00,000 1,00,000
To Rahim's A/c: Material Cement Wages License fees Plant	 5,00,000 1,70,000 2,70,000 50,000 2,00,000	11,90,000		
To Net profit transferred to: Rahim's A/c Profit & Loss A/c	 2,00,000 2,00,000	4,00,000		
		25,00,000		25,00,000

(4 MARKS)

Ram's Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Joint Venture A/c (contract amount)	24,00,000	By Joint Venture A/c (sundries) By Joint Venture A/c (profit) By Bank A/c	9,10,000 2,00,000 12,90,000
	24,00,000		24,00,000

(1 MARK)

ANSWER-5

ANSWER-A **(5 MARKS)**

Date	Particulars	Rs.	Date	Particulars	Rs.
2016			2016		
Jan. 1	To Balance b/d	2,92,50,000	Oct. 1	By Bank A/c	27,00,000
Oct. 1	To Profit and Loss A/c	4,50,000	Oct. 1	By Depreciation on lost	6,75,000
	(Profit on settlement of		Oct. 1	assets	83,50,000
	Truck)		Dec. 31	By Depreciation A/c	2,29,75,000
Oct. 1	To Bank A/c	50,00,000		By Balance c/d	
		3,47,00,000			3,47,00,000
2017			2017		
Jan 1	To balance b/d	2,29,75,000	Dec. 31	By Depreciation A/c	91,00,000
			Dec. 31	By Balance c/d	1,38,75,000
		2,29,75,000			2,29,75,000

Working Note:

1. To find out loss on Profit on settlement of truck

	Rs.
Original cost as on 1.4.2014	45,00,000
Less: Depreciation for 2014	(6,75,000)
	38,25,000
Less: Depreciation for 2015	(9,00,000)
	29,25,000
Less: Depreciation for 2016 (9 months)	(6,75,000)
	22,50,000
Less: Amount received from Insurance company	(27,00,000)
	4,50,000

ANSWER-B **(5 MARKS)**

Under straight line method an equal amount is written off each year throughout the working life of the depreciable tangible asset so as to reduce the cost of the asset to nil or to its scarp value at the end. Under reducing balance method, a fi xed percentage is charged on the diminishing balance of the asset each year so as to reduce the value of the asset to its scarp value at the end of useful life. The basic distinction between these two methods are as follows:

Under straight line method, annual depreciation charge is equal throughout the life of the asset; but under reducing balance method, depreciation charge is reduced over the years as the asset grows old.

Under straight-line method, the asset can be fully depreciated but under reducing balance method asset can never be fully depreciated.

Under straight line method the charge for depreciation is constant while repair charges increase with the life of the asset, so the total charge throughout the life of the asset will not be uniform. To the contrary, under reducing balance method, depreciation charges become high in the initial years but generally repair remains low. As the asset grows old depreciation charge reduces but repair expenses increase. Thus under reducing balance method depreciation and repairs are more or less evenly distributed throughout the life of the asset.

ANSWER-6

ANSWER-A

Journal of A

Particulars		Debit Rs.	Credit Rs.
Bills Receivable A/c	Dr.	6,000	
To B			6,000
(Three bills for Rs. 3,000, Rs. 2,000 and Rs. 1,000 drawn on B and duly accepted by him received)			
B	Dr.	3,000	
To Bills Receivable A/c			3,000
(Bill received from B cancelled for renewal)			
Cash Account	Dr.	1,500	
Bill Receivable Account	Dr.	1,600	
To B			3,000
To Interest Account			100
(Amount received on cancellation of the first bill, 50% along with a new bill for 50% of the amount plus interest Rs. 100)			
C	Dr.	1,600	
To Bills Receivable A/c			1,600
(A's acceptance endorsed in favour of C)			
Bank A/c	Dr.	1,900	
Discount A/c	Dr.	100	

To Bills Receivable A/c (Second Bill for Rs.2,000 discounted with the bank @ 5%)		2,000
B Dr. To Bank A/c (Second Bill for Rs.2,000 discounted with the Bank dishonoured, noting charges Rs.30 paid by the Bank)	2,030	2,030
Bank A/c Dr. To Bills Receivable A/c (Amount received on maturity of the third bill)	1,000	1,000

Note: It is assumed that the bill for Rs.1,600 has not yet fallen due for payment. **(5 MARKS)**

ANSWER-B

A bill of exchange has been defined as "an instrument in writing containing an unconditional order signed by the maker directing a certain person to pay a certain sum of money only to or to the order of certain person or to the bearer of the instrument". When such an order is accepted by the drawee, it becomes a valid bill of exchange. A promissory note is an instrument in writing (not being a bank note or a government currency note) containing an unconditional undertaking, signed by the maker, to pay a certain sum of money only to, or to the order of, a certain person, or to the bearer of the instrument.

A promissory note needs no acceptance, as the debtor himself writes the document promising to pay the stated amount. Like bills of exchange, promissory notes are also negotiable instruments, and can be transferred by endorsement. In case of bill of exchange, the drawer and the payee may be the same person but in case of a promissory note, the maker and the payee cannot be the same person. **(5 MARKS)**