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CA FOUNDATION EXAM

SUBJECT- ACCOUNTS

Test Code – CFP 4001

(Date :)

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ANSWER-1

ANSWER-A **(2 MARKS X 6=12 MARKS)**

(i) False: Net income is determined by preparing income and expenditure in case of persons practicing vacation.

(ii) True: No interest is allowed when the due date of a bill falls after the date of closing the account. However, interest from the date of closing to such due date is written in 'Red Ink' in the appropriate side of account current.

(iii) True - Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

(iv) False - Cash withdrawal by the proprietor from his business should be treated as his drawings and not a business expense chargeable to profit and loss account. Such drawings should be deducted from the proprietors capital.

(v) False - Fixed Assets Turnover ratio measures the efficiency with which the firm uses its fixed assets. Capital Turnover Ratio indicates the firm's ability of generating sales per rupee of long term investment.

(vi) True: Institutions sometimes keep special funds for some special purposes. In such a case the income related to such funds should be added to these funds and expenses should be deducted from such funds.

ANSWER-B **(4 MARKS)**

Cash and mercantile system: Cash system of accounting is a system by which a transaction is recognized only if cash is received or paid. In cash system of accounting, entries are made only when cash is received or paid, no entry being made when a payment or receipt is merely due. Cash system is normally followed by professionals, educational institutions or non-profit making organizations.

On the other hand, mercantile system of accounting is a system of classifying and summarizing transactions into assets, liabilities, equity (owner's fund), costs, revenues and recording thereof. A transaction is recognized when either a liability is created/ impaired and an asset is created /impaired. A record is made on the basis of amounts having become due for payment or receipt irrespective of the fact whether payment is made or received actually.

Mercantile system of accounting is generally accepted accounting system by business entities.

ANSWER-C **(4 MARKS)**

Pathak Ltd.

Bank Reconciliation Statement as on 31.3.2017

Particulars	Rs.
Balance as per cash book	1,20,000
Add : Cheque issued but not presented	68,000
Interest credited	1,500
	1,89,500
Less : Bank charges	(300)
Balance as per pass book	1,89,200

ANSWER-2

ANSWER-A

In the books of Mr. Jill

Consignment Account

Date		*Particulars*	*Rs.*	*Date*		*Particulars*	*Rs.*
2018				**2018**			
Jan. 1	To	Goods sent on Consignment A/c (Invoice price)	1,50,000	Jan. 1	By	Goods sent on Consignment A/c (Loading) Rs. (1,50,000 – 1,00,000)	50,000
	To	Bank A/c – Consignor's Expenses	10,000	Mar. 31	By	Jack – Sales	1,20,000
Mar.31	To	Jack – Expenses	3,000		By	Stock on Consignment A/c 1/5 X Rs.(1,50,000+10,000+ 3,000)	32,600
		– Commission* (0.05 X Rs. 1,20,000)	6,000				
Mar.31	To	Stock Reserve A/c (Rs. 50,000 X 1/5)	10,000				

	To	Profit on Consignment A/c (transferred to Profit and Loss A/c)	23,600				
			2,02,600				2,02,600

*Invoice price of goods sold: = 4/5 of Rs. 1,50,000 = Rs. 1,20,000.

The goods were sold for Rs. 1,20,000 and hence there was no surplus price. Therefore, extra commission @ 20% will not be given to Mr. Jack. **(8 MARKS)**

Jack's Account

	Particulars	*Rs.*		*Particulars*	*Rs.*	*Rs.*
To	Consignment A/c – Sales	1,20,000	By	Consignment A/c: Expenses	3,000	
				Commission	6,000	9,000
			By	Bills Receivable A/c		1,00,000
			By	Bank A/c (Balancing figure)		11,000
		1,20,000				1,20,000

(2 MARKS)

ANSWER-B

(a) Revaluation Account

Date		*Particulars*	*Rs.*	*Date*		*Particulars*	*Rs.*
2017				*2017*			
April	To	Plant & Machinery	6,000	April	By	Lanc And building	6,000
	To	Stock of goods	2,000		By	Sundry creditors	2,000
	To	Provision for bad and doubtful debts	550		By	Cash & Bank - Joint life Policy	7,550

	To	Capital accounts (profit on revaluation transferred) Mr. P (2/7) 2,000 Mr. Q (3/7) 3,000 Mr. R (2/7) 2,000	7,000			surrendered	
			15,550				15,550

(3 MARKS)

(b) **Partners' Capital Accounts**

Dr.									Cr.
Particulars		*P*	*Q*	*R*	*Particulars*		*P*	*Q*	*R*
		(Rs.)	*(Rs.)*	*(Rs.)*			*(Rs.)*	*(Rs.)*	*(Rs.)*
To	P's Capital A/c - goodwill	-	1,000	3,000	By	Balance b/d	20,000	30,000	20,000
To	Cash & bank A/c - (50% dues paid)	13,000	-	-	By	Revaluation A/c	2,000	3,000	2,000
To	P's Loan A/c -(50% transfer)	13,000	-	-	By	Q & R's Capital A/cs - goodwill	4,000	-	-
To	Balance c/d	-	35,000	35,000	By	Cash & bank A/c - amount brought in (Balancing figures)	-	3,000	16,000
		26,000	36,000	38,000			26,000	36,000	38,000

(2 MARKS)

Cash and Bank Account

Particulars		*Rs.*	*Particulars*		*Rs.*
To	Balance b/d	7,000	By	P's Capital A/c - 50% dues paid	13,000
To	Revaluation A/c – surrender value of joint life policy	7,550	By	Balance b/d	20,550
To	Q's Capital A/c	3,000			
To	R's Capital A/c	16,000			
		33,550			33,550

(2 MARKS)

Balance Sheet of M/s Q & R as on 01.04.2017

Liabilities		*Rs.*	*Assets*		*Rs.*
Partners' Capital account			Land and Building	30,000	
Mr. Q	35,000		*Add:* Appreciation 20%	6,000	36,000
Mr. R	35,000	70,000	Plant & Machinery	20,000	
Mr. P's Loan account		13,000	*Less:* Depreciation 30%	6,000	14,000
Sundry Creditors		8,000	Stock of goods	12,000	
			Less: revalued	2,000	10,000
			Sundry Debtors	11,000	
			Less: Provision for bad debts 5%	550	10,450
			Cash & Bank balances		20,550
		91,000			91,000

Working Notes:

Adjustment for Goodwill:	
Goodwill of the firm	14,000
Mr. P's Share (2/7)	4,000
Gaining ratio of Q & R;	
Q = ½ - 3/7 = 1/14	
R = ½ - 2/7 = 3/14	
Q:R = 1:3	

Therefore, Q will bear – ¼ x 4000 or Rs.1,000

R will bear = ¾ x 4000 or Rs.3,000

(3 MARKS)

ANSWER-3

ANSWER-A

Trading and Profit and Loss Account of Mr. Hari for the year ended 31st December, 2017

	Rs.	*Rs.*		*Rs.*	*Rs.*
To Opening stock		46,800	By Sales	3,89,600	
To Purchases	3,21,700		*Less:* Returns	8,600	3,81,000
Add: Omitted invoice	400		By Closing stock		78,600
	3,22,100				
Less: Returns	5,800				
	3,16,300				
Less: Drawings	600	3,15,700			
To Carriage		19,600			
To Gross profit c/d		77,500			
		4,59,600			4,59,600
To Rent and taxes		4,700	By Gross profit b/d		77,500

To Salaries and wages		9,300	By Discount		4,440
To Bank interest	1,100				
Add: Due	1,700	2,800			
To Printing and stationary	14,400				
Less: Prepaid (1/4)	3,600	10,800			
To Discount allowed		1,800			
To General expenses		11,450			
To Insurance		1,300			
To Postage & telegram expenses		2,330			
To Travelling expenses		870			
To Provision for bad debts [W.N.(ii)]		1,150			
To Provision for discount on debtors [W.N.(iii)]		437			
To Depreciation on furniture & fittings		500			
To Net profit		34,503			
		81,940			81,940

(7 MARKS)

Balance Sheet of Hari as at 31st December, 2017

Liabilities	*Rs.*	*Rs.*	*Assets*	*Rs.*	*Rs.*
Capital	76,690		Furniture & fittings	5,000	
Add: Net profit	34,503		*Less:* Depreciation	500	4,500
	1,11,193		Sundry debtors (W.N.1)	23,000	
Less: Drawings:			*Less:* Provision for bad		
Cash 30,000			& doubtful debts (W.N.2)	1,150	

Goods 600 30,600	80,593		21,850	
Bank loan	20,000	*Less:* Provision for		
Bank interest due	1,700	discount (W.N.2)	437	21,413
Sundry creditors (W.N.3)	14,200	Stock		78,600
		Prepaid expenses:		
		Printing & stationary		3,600
		Bank balance		8,000
		Cash balance		380
	1,16,493			1,16,493

(5 MARKS)

Working Notes: **(3*1=3 MARKS)**

(1) Sundry debtors

Balance as per trial balance	24,000
Less: Due to Ram	1,000
	23,000

(2) Provision for bad & doubtful debts:

@ 5% on Rs. 23,000	1,150

Provision for discount:

2% on Rs. 21,850 (23,000 -1,150)	437

(3) Sundry creditors

Balance as per trial balance	14,800
Less: Set off in respect of Ram	1,000
	13,800
Add: Purchase invoice omitted	400
	14,200

ANSWER-B

Mr. A in Account Current with Mr. X (Interest upto 15th March, 2016 @ 10% p.a.)

Dr.											Cr.
Date		Particulars	Amount	Days	Product	Date		Particulars	Amount	Days	Product
2016						2016					
Jan. 01	To	Balance b/d	4,000	75	3,00,000	Jan. 29	By	Purchase account	1,200	46	55,200
Jan. 15	To	Sales account	2,230	60	1,33,800	Feb. 10	By	Cash account	1,000	34	34,000
Mar. 13	To	Red Ink product (Rs. 2,000 × 29)			58,000	Mar. 13	By	Bills Receivable account	2,000		
Mar. 15	To	Interest account {402600 X 10 X 1/ 100 X 366}	110			Mar. 15	By	Balance of product			4,02,600
							By	Balance c/d (amount to be paid)	2,140		
			6,340		4,91,800				6,340		4,91,800

Note: Student may give an Alternative effect of Red Ink.

(5 MARKS)

ANSWER-4

ANSWER-A

Profit and Loss Adjustment Account

	Rs.		*Rs.*
To Advertisement (samples)	80,000	By Net profit	8,00,000
To Sales	2,00,000	By Electric fittings	30,000
(goods approved in April to		By Samples	80,000
be taken as April sales)		By Stock (Purchases of March	5,00,000
To Adjusted net profit	16,80,000	not included in stock)	
		By Sales (goods sold in March wrongly taken as April sales)	4,00,000
		By Stock (goods sent on approval basis not included in stock)	1,50,000
	19,60,000		19,60,000

(7 MARKS)

Calculation of value of inventory on 31st March, 2017

	Rs.
Stock on 31st March, 2017 (given)	7,50,000
Add: Purchases of March, 2017 not included in the stock	5,00,000
Goods lying with customers on approval basis	1,50,000
	14,00,000

(3 MARKS)

ANSWER- B **(5*2=10 MARKS)**

(i) Long Term Debt to Total assets $= \frac{Long\ Term\ Debt}{Total\ Assets}$

$= \frac{112500}{375000}$

= 1: 3.33

(ii) Net Profit Ratio $= \frac{Net\ Profit}{Net\ Sales} \times 100$

$= \frac{\mathbf{39375}}{\mathbf{562500}} \times \mathbf{100}$

= 7%

(iii) Return on Average Total Assets Ratio $= \frac{Net\ Profit + Interest\ (1-t)}{Average\ Total\ Assets} \times 100$

$= \frac{\mathbf{39375+6000\ (1-0.4)}}{\mathbf{300000+375000/2}} \times \mathbf{100}$

$= \frac{\mathbf{42975}}{\mathbf{337500}} \times \mathbf{100}$

= 12.73%

(iv) Return on Equity $= \frac{Net\ Profit}{Shareholders\ Funds} \times 100$

$= \frac{\mathbf{39375}}{\mathbf{112500}} \times \mathbf{100}$

= 35%

(v) Net Sales to Total Assets Ratio = Net Profit/ Total Assets

= 562500/ 337500

= 1.67 :1

ANSWER-5

ANSWER-A

Book of Pihu Limited

Journal

Date	*Particulars*		*L.F.*	*Debit Amount (Rs.)*	*Credit Amount (Rs.)*
	Bank A/c	Dr.		5,00,000	
	To Equity Share Application A/c				5,00,000
	(Money received on applications for 2,00,000 shares @Rs. 2.50 per share)				
	Equity Share Application A/c	Dr.		5,00,000	
	To Equity Share Capital A/c				5,00,000
	(Transfer of application money on 2,00,000 shares to share capital)				
	Equity Share Allotment A/c	Dr.		6,00,000	
	To Equity Share Capital A/c				6,00,000
	(Amount due on the allotment of 2,00,000 shares @ Rs. 3 per share)				
	Bank A/c	Dr.		6,00,000	
	To Equity Share Allotment A/c				6,00,000
	(Allotment money received)				
	Equity Share First Call A/c	Dr.		4,00,000	
	To Equity Share Capital A/c				4,00,000
	(Being first call made due on 2,00,000				
	shares at Rs..2 per share))				
	Bank A/c	Dr.		4,50,000	
	To Equity Share First Call A/c				4,00,000
	To Calls in Advance A/c				50,000

	(Being first call money received along with calls in advance on 20,000 shares at Rs.2.50 per share)				
	Equity Share Final Call A/c	Dr.		5,00,000	
	To Equity Share capital A/c (Being final call made due on 2,00,000 shares at Rs.2.50 each)				5,00,000
	Bank A/c Calls in Advance /C Calls in Arrears A/c To Equity Share Capital (Being final call received for 1,78,000 shares and calls in advance for 20,000 shares adjusted)	Dr. Dr. Dr.		4,45,000 50,000 5,000	 5,00,000
	Interest on Calls in Advance A/c To shareholders A/c Being interest made due on calls in advance of Rs.50,000 at the rate of 12% p.a.)	Dr.		1,500	 1,500
	Shareholders A/c To bank A/c (Being payment of Interest made to shareholders)	Dr.		1,500	 1,500
	Shareholders A/c To Interest on Calls in Arrears A/c (Being interest on calls in arrears made due at the rate of 10%)	Dr.		83.34	 83.34
	Bank A/c To Calls in Arrears A/c To Shareholders A/c (Being money received from shareholder for calls in arrears and interest thereupon)	Dr.		5,083.34	 5,000 83.34

(10 MARKS)

ANSWER-B

Subscription for the year ended 31.3.2018

		Rs.
Subscription received during the year		3,75,000
Less: Subscription receivable on 1.4.2017	11,250	
Less: Subscription received in advance on 31.3.2018	5,250	(16,500)
		3,58,500
Add: Subscription receivable on 31.3.2018	16,500	
Add: Subscription received in advance on 1.4.2017	9,000	25,500
Amount of Subscription appearing in Income & Expenditure Account		3,84,000

(4 MARKS)

Sports material consumed during the year end 31.3.2018

	Rs.
Payment for Sports material	2,25,000
Less: Amounts due for sports material on 1.4.2017	(67,500)
	1,57,500
Add: Amounts due for sports material on 31.3.2018	97,500
Purchase of sports material	2,55,000
Sports material consumed:	
Stock of sports material on 1.4.2017	75,000
Add: Purchase of sports material during the year	2,55,000
	3,30,000
Less: Stock of sports material on 31.3.2018	(1,12,500)
Amount of Sports Material appearing in Income &	

Expenditure Account	2,17,500

(4 MARKS)

Balance Sheet of M/s TT Club For the year ended 31st March, 2018 (An extract)

Liabilities	**Rs.**	***Assets***	**Rs.**
Unearned Subscription	5,250	Subscription receivable	16,500
Amount due for sports material	97,500	Stock of sports material	1,12,500

(2 MARKS)

ANSWER-6

ANSWER-A

The main advantage of setting accounting standards is that the adoption and application of accounting standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements. The other advantages are: Reduction in variations; Disclosures beyond that required by law and Facilitates comparison. **(5 MARKS)**

ANSWER-B

(5 MARKS)

Complete repaint: revenue.

-- Installation of new heating system: capital.

-- Repainting van: revenue.

-- Drainage for new equipment: capital.

-- Legal fees on acquisition of land: capital

-- Carriage costs on replacement part: revenue.

ANSWER-C **(5 MARKS)**

Motor Truck A/c

Date	Particulars	Amount	Date	Particulars	Amount
2016			**2016**		
Jan-01	To balance b/d	2,92,50,000	Oct-01	By bank A/c	27,00,000
Oct-01	To Profit & Loss A/c (Profit on settlement of Truck)	4,50,000	Oct-01	By Depreciation on lost assets	6,75,000
Oct-01	To Bank A/c	50,00,000	Dec-31	By Depreciation A/c	83,50,000
			Dec-31	By balance c/d	2,29,75,000
		3,47,00,000			**3,47,00,000**
2017			**2017**		
Jan-01	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-D **(5 MARKS)**

A joint venture account is a nominal account prepared by the co-venturers involved in the joint ventures. The objective of preparing a joint venture account is to ascertain the profit or loss arising out of the joint venture business. The joint venture account is debited with the value of goods or stores bought or used on account of joint venture. It is also debited with expenses incurred. The credit will be to the trading account or cash account or to the party which has supplied the goods or incurred the expenses. When the sale proceeds are received, the party receiving it will debit bank account (or sundry debtors) and credit the joint venture account. The other party will debit the party which has received the sale proceeds and credit the joint venture account.

Thus, joint venture account will reflect profit or loss, which must be transferred to the profit and loss account and the other party's account in agreed proportions.