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**CA FOUNDATION N'18 EXAM**

**SUBJECT- ACCOUNTS**

**Test Code - CFP 4006**

**BRANCH - () (Date :)**

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## ANSWER-1

### ANSWER-A

(6 Statements x 2 Marks = 12 Marks)

- A. **False**- While calculating the average due date, any transaction date may be taken as the base date.
- B. **False**- Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.
- C. **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.
- D. **False** - According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.
- E. **False**- When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received on shares forfeited.
- F. **False**- The right hand side of the equation includes cash twice- once as a part of current assets and another separately. The basic accounting equation is  
$$\text{Equity} + \text{Long Term Liabilities} = \text{Fixed Assets} + \text{Current Assets} - \text{Current Liabilities}$$

### ANSWER-B

Change in accounting policy may have a material effect on the items of financial statements. For example, if cost formula used for inventory valuation is changed from weighted average to FIFO, or if interest is capitalized which was earlier not in practice, or if proportionate amount of interest is changed to inventory which was earlier not the practice, all these may increase or decrease the net profit. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts. Therefore, it is necessary to quantify the effect of change on financial statement items like assets, liabilities, profit/loss.

The examples in this regard may be given as follows:

Omega Enterprises revised its accounting policy relating to valuation of inventories to include applicable production overheads. (4 MARKS)

### ANSWER-C

(4 MARKS)

Using the Accounting Equation:

Assets = Capital + Liabilities

- (i) 25,00,000
- (ii) 45,000
- (iii) 1,50,000
- (iv) 1,19,60,000

## ANSWER-2

### ANSWER-A

#### 1. Journal Entries

	Particulars		Dr.	Cr.
1.	Joint Bank Account To Arjuna A/c. To Bheema A/c. (Being Initial Contribution by Co – venturers in Joint Bank Account)	Dr.	5,00,000	3,00,000 2,00,000
2.	Joint Venture A/c. To Joint Bank A/c. (Being Expenses paid out of Joint Bank A/c. – (a) Payment to Artists, etc. Rs. 2,80,000, (b) Hire Charges etc. – Rs. 1,20,000, (c) CD Making, Packing & Promotion – Rs. 75,000)	Dr.	4,75,000	4,75,000
3.	Joint Bank Account To Joint Venture A/c. (Being Sales made = 16000 – 2500 = 13,500 CDs at Rs. 45 per CD)	Dr.	6,07,500	6,07,500
4.	Bheema A/c. To Joint Venture A/c. (Being collections directly received by Bheema 2500 CDs at Rs. 45)	Dr.	1,12,500	1,12,500
5.	Arjuna A/c. To Joint Venture A/c (Being 3,000 CDs taken over at agreed cost of Rs. 25)	Dr.	75,000	75,000
6.	Joint Venture A/c. To Arjuna A/c. To Bheema A/c. (Being profit on JV distributed in ratio of 3 : 2)	Dr.	3,20,000	1,92,000 1,28,000
7.	Arjuna A/c. Bheema A/c. To Joint Bank Account (Being final settlement to Co – Venturers, on closure of Joint Bank A/c)	Dr.	4,17,000 2,15,500	6,32,500

(3.5 MARKS)

#### 2. Joint Bank Account

Particulars	Rs.	Particulars	Rs.
To Arjuna A/c (Capital)	3,00,000	By Joint Venture A/c – Exps incurred	4,75,000
To Bheema A/c (Capital)	2,00,000	By Bheema A/c. (final settlement)	2,15,500

To Joint Venture A/c (Sales Collections)	6,07,500	By Arjuna A/c. (final settlement)	4,17,000
	<b>11,07,500</b>		<b>11,07,500</b>

(2.5 MARKS)

### 3. Joint Venture Account

Particulars	Rs.	Particulars	Rs.
To Joint Bank A/c. (Expenses incurred)	4,75,000	By Joint Bank A/c. (Sales collections)	6,07,500
To Co – Venturers' Accounts – Profit		By Bheema A/c (Direct Collections)	1,12,500
Arjuna (3/5)                    1,92,000		By Arjuna A/c (CDs taken over)	75,000
Bheema (2/5)                    1,28,000	3,20,000		
<b>Total</b>	<b>7,95,000</b>	<b>Total</b>	<b>7,95,000</b>

(2 MARKS)

### 4. Co – Venturer's Accounts

Particulars	Arjuna	Bheema	Particulars	Arjuna	Bheema
To Joint Venture (direct colln)	-	1,12,500	By Joint Bank A/c. (Capital)	3,00,000	2,00,000
To Joint Venture (taken over)	75,000	-	By joint venture (Profit)	1,92,000	1,28,000
To Joint Bank (Settlement)	<b>4,17,000</b>	<b>2,15,500</b>			
<b>Total</b>	<b>4,92,000</b>	<b>3,28,000</b>	<b>Total</b>		<b>1,14,000</b>

(2 MARKS)

## ANSWER-B

**Smith Library Society**  
**Income and Expenditure Account for the**  
**year ended 31<sup>st</sup> March, 2018**

Dr.					Cr.
Expenditure	Rs.	Rs.	Income		Rs.
To Electric charges		7,200	By Entrance fee (25% of Rs. 30,000)		7,500
To Postage and stationary		5,000			
To Telephone charges		5,000	By Membership subscription	2,00,000	
To Rent	88,000			<u>10,000</u>	1,90,000
Add: Outstanding	<u>4,000</u>	92,000	Less: Received in advance		
To Salaries	66,000		By Sale proceeds of old papers		1,500
Add: Outstanding	<u>3,000</u>	69,000			
To Depreciation (W.N.1)			By Hire of lecture hall		20,000

Electrical fittings	15,000		By Interest on securities	8,000	
Furniture	5,000		(W.N.2)		
Books	<u>46,000</u>	66,000	Add: Receivable	<u>500</u>	8,500
			Deficit- excess		16,700
			By of		
			expenditure over		
			income		
		<u>2,44,200</u>			<u>2,44,200</u>

(5 MARKS)

**Balance Sheet of Smith Library Society as  
on 31<sup>st</sup> March, 2018**

<i>Liabilities</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Asset</i>	<i>Rs.</i>	<i>Rs.</i>
Capital fund	7,93,000		Electrical fittings	1,50,000	
<i>Add:</i> Entrance fees	<u>22,500</u>		<i>Less:</i> Depreciation	<u>(15,000)</u>	1,35,000
	8,15,500		Furniture	50,000	
<i>Less:</i> Excess of expenditure over income	<u>(16,700)</u>	7,98,800	<i>Less:</i> Depreciation	<u>(5,000)</u>	45,000
Outstanding expenses:			Books	4,60,000	
Rent	4,000		<i>Less</i> Depreciation	<u>(46,000)</u>	4,14,000
Salaries	<u>3,000</u>	7,000	Investment:		
Membership subscription in advance		10,000	Securities	1,90,000	
			Accrued interest	<u>500</u>	1,90,500
			Cash at bank		20,000
			Cash in hand		11,300
		<u>8,15,800</u>			8,15,800

**Working Notes:**

**1. Depreciation****Rs.**

Electrical fittings 10% of Rs.1,50,000	15,000
Furniture 10% of Rs. 50,000	5,000
Books 10% of Rs. 4,60,000	46,000

**2. Interest on Securities**

Interest @ 5% p.a. on Rs. 1,50,000 for full year 7,500

Interest @ 5% p.a. on Rs. 40,000 for half year 1,000 8,500

Less: Received (8,000)

Receivable 500**(5 MARKS)****ANSWER-3****ANSWER-A****Revaluation Account**

	Rs.		Rs.
To Buildings A/c	10,000	By Investments A/c	3,000
To Plant and Machinery A/c	26,000	By Loss to Partners:	
To Provision for Doubtful Debts A/c	27,800	P	30,400
		Q	18,240
		R	<u>12,160</u>
	63,800		60,800
			63,800

**(2 MARKS)****Capital Accounts of Partners**

Particulars		P	Q	R	T	Particulars	P	Q	R	T	
		Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	Rs.	
To	Revaluation A/c	30,400	18,240	12,160	-	By	Balance b/d	80,000	20,000	30,000	-
To	Investments A/c	-	15,000	-	-	By	Reserves A/c	10,000	6,000	4,000	-
To	Q's Loan A/c	-	22,760	-	-	By	R & T's Capital A/c	10,000	30,000	-	-
To	P and Q's Capital			20,000	20,000	By	Bank A/c	10,400	-	78,160	60,000

	A/c					(balancing figure)				
To	Balance c/d	80,000	-	80,000	40,000					
		<u>1,10,400</u>	<u>56,000</u>	<u>1,12,160</u>	<u>60,000</u>		<u>1,10,400</u>	<u>56,000</u>	<u>1,12,160</u>	<u>60,000</u>

(3 MARKS)

### Bank Account

	Rs.		Rs.
To P's capital A/c	10,400	By Bank Overdraft A/c	44,000
To R's capital A/c	78,160	By Balance c/d	1,04,560
To T's capital A/c	60,000		
	<u>1,48,560</u>		<u>1,48,560</u>

(2 MARKS)

### Balance Sheet of NEHA Co. as at 1<sup>st</sup> April, 2018

Liabilities		Rs.	Assets		Rs.
Capital Accounts :			Land		10,000
P	80,000		Buildings		1,90,000
Q	80,000		Plant and Machinery		1,04,000
R	<u>40,000</u>	2,00,000	Furniture		43,000
Long Term Debts		3,00,000	Inventories		1,30,000
Trade payables		1,70,000	Trade receivables		1,39,000
Q's Loan Account		22,760	Less : provision for Doubtful Debts		<u>(27,800)</u>
			Balance at Bank		1,04,560
		<b>6,92,760</b>			<b>6,92,760</b>

(3 MARKS)

### ANSWER-B

#### Suraj Ltd.

#### Journal

2017			Dr. Rs.	Cr. Rs.
July 20	Bank Account	Dr.	16,00,000	
	To Share Application A/c			16,00,000
	(Application money on 80,000 shares at Rs. 20 per share)			

		received.)			
	Aug 1	Share Application A/c To Share Capital A/c (The amount transferred to Capital Account on 80,000 shares Rs. 20 on application. Directors' resolution no..... dated ... )	Dr.	16,00,000	16,00,000
		Share Allotment A/c To Share Capital A/c (Being share allotment made due at Rs. 20 per share. Directors' resolution no..... dated )	Dr.	16,00,000	16,00,000
	Sept15	Bank Account To Share Allotment A/c (The sums due on allotment received.)	Dr.	16,00,000	16,00,000
	Dec. 1	Share First Call Account To Share Capital Account (Amount due from members in respect of first call-on 80,000 shares at Rs. 30 as per Directors, resolution no... dated...)	Dr.	24,00,000	24,00,000
	Dec. 20	Bank Account To Share First Call Account (Receipt of the amounts due on first call.)	Dr.	24,00,000	24,00,000
	2018				
	March 1	Share Second and Final Call A/c To Share Capital A/c (Amount due on 80,000 share at Rs. 30 per share on second and final call, as per Directors resolution no... dated...)	Dr.	24,00,000	24,00,000



March 31	Bank Account	Dr.	24,00,000	
	To Share Second & Final Call A/c			24,00,000
	(Amount received against the final call on 80,000 shares at Rs. 30 per share.)			

(10 MARKS)

**ANSWER-4**

**ANSWER-A**

**Rectification Entries**

	<i>Particulars</i>		<i>Dr.</i>	<i>Cr.</i>
			<i>Amount</i>	<i>Amount</i>
			<i>Rs.</i>	<i>Rs.</i>
(i)	Returns inward account	Dr.	2,575	
	Sales account	Dr.	1,725	
	To Purchases account			2,575
	To Returns outward account			1,725
	(Being sales return and purchases return wrongly included in purchases and sales respectively, now rectified)			
(ii)	Drawings account	Dr.	3,500	
	To Purchases account			3,500
	(Being goods withdrawn for own consumption included in purchases, now rectified)			
(iii)	Plant and machinery account	Dr.	450	
	To Wages account			450
	(Being wages paid for installation of plant and machinery wrongly debited to wages, now rectified)			
(iv)	Advertisement expenses account	Dr.	825	
	To Purchases account			825

(Being free samples distributed for publicity out of purchases, now rectified)

(4\*1 = 4 MARKS)

**Trading and Profit and Loss Account of Mr. XYZ for  
the year ended 31st March, 2017**

Dr.

Cr.

		<i>Amount</i>				<i>Amount</i>	
		<i>Rs.</i>	<i>Rs.</i>			<i>Rs.</i>	<i>Rs.</i>
To	Opening stock		32,250	By	Sales	2,13,575	
To	Purchases	1,53,100			Less: Sales return		2,11,000
	Less: Purchases return	<u>1,725</u>	1,51,375	By	Closing stock	<u>2,575</u>	
					$\left(80000 \times \frac{100}{80} \times \frac{100}{80}\right)$		
To	Carriage inward		1,125				1,25,000
To	Wages		11,715				
To	Gross profit c/d						
			<u>3,36,000</u>				<u>3,36,000</u>
To	Salaries		22,550	By	Gross profit b/d		1,39,535
To	Rent		4,300	By	Bad debts recovered		450
To	Advertisement expenses		4,175				
To	Printing and stationery		1,250				
To	Bad debts		1,100				
To	Carriage outward		1,350				
To	Provision for doubtful debts						
	5% of Rs.	6,000					

	1,20,000				
	Less: Existing provision <u>3,200</u>	2,800			
To	Provision for discount on debtors 2.5% of Rs. 1,14,000 2,850				
	Less: Existing provision 1,375	1,475			
To	Depreciation: Plant and machinery 3,000 Furniture and fittings 1,025	4,025			
To	Office expenses	10,160			
To	Interest on loan	3,000			
To	Net profit (Transferred to capital account)	83,800			
		1,39,985			1,39,985

(6 MARKS)

**Balance Sheet of Mr. XYZ as on 31st March, 2017**

		Amount			Amount
<i>Liabilities</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>	<i>Rs.</i>
Capital account	65,000		Plant and machinery	20,000	
<i>Add:</i> Net profit	<u>83,800</u>		<i>Less:</i> Depreciation	<u>3,000</u>	17,000
	1,48,800		Furniture and fittings	10,250	
<i>Less:</i> Drawings	<u>11,500</u>	1,37,300	<i>Less:</i> Depreciation	<u>1,025</u>	9,225
Bank overdraft		80,000	Closing stock		1,25,000

Sundry creditors	47,500	Sundry debtors	1,20,000
Payable salaries	2,450	Less: Provision for doubtful debts	6,000
		Provision for bad debts	<u>2,850</u>
		Prepaid rent	300
		Cash in hand	1,450
		Cash at bank	<u>3,125</u>
	<u>2,67,250</u>		<u>2,67,250</u>

(5 MARKS)

**ANSWER-B**

**In the books of Y (Ledger from 1<sup>st</sup> Jan to 31<sup>st</sup> Mar)**

Dr.						Cr.					
Dt	Due	Particulars	Rs.	Days	Product	Dt	Due	Particulars	Rs.	Days	product
01 Jan	01 Jan	To bal. b/d	5,000	90	4,50,000	24 Jan	27 Apr	By Bills Receivable	5,000	-27	-
11 Jan	11 Jan	To Sales	6,000	79	4,74,000	01 Feb	01 Feb	By Purchases	10,000	58	5,80,000
04 Feb	04 Feb	To Sales	8,200	55	4,51,000	07 Feb	07 Feb	By Sales	1,000	52	52,000
18 Mar	18 Mar	To Sales	9,200	13	1,19,600	01 Mar	01 Mar	By Purchases	5,600	30	1,68,000
31 Mar	31 Mar	To Interest	219			23 Mar	23 Mar	By Purchases	4,000	8	32,000
						31 Mar	31 Mar	By Balance of products			<b>7,97,600</b>
						31 Mar	31 Mar	By bal. c/d	<b>3,019</b>		
		<b>Total</b>	<b>28,619</b>		<b>14,94,600</b>			<b>Total</b>	<b>28,619</b>		<b>14,94,600</b>

**Note : Interest = Rs. 7,97,600 × 10% ×  $\frac{1}{365}$  = Rs. 219 (approx.)**

(5 MARKS)

**ANSWER-5****ANSWER-A**

**In the books of Riya Company Ltd.  
Journal Entries**

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
(a)	Bank A/c. Dr. To Debentures Application A/c. (Being the application money received on 10,000 debenture @ Rs. 450 each)	45,00,000	45,00,000
	Debenture Application A/c. Dr. Discount on issue of Debenture A/c. Dr. To 14% Debenture A/c. (Being the issue of 10,000 14% Debentures @ 90% as per Board's Resolution No. dated...)	45,00,000 5,00,000	50,00,000
(b)	Fixed Assets A/c. Dr. To Vendor A/c. (Being the purchase of fixed assets from vendor)	20,00,000	20,00,000
	Vendor A/c. Dr. Discount on Issue of Debentures A/c. Dr. To 14% Debentures A/c. (Being the issue of debentures of Rs. 25,00,000 to vendor to satisfy his claim)	20,00,000 5,00,000	25,00,000
(c)	Bank A/c. Dr. To Bank Loan A/c. (See Note) (Being a loan of Rs. 20,00,000 taken from bank by issuing debentures of Rs. 25,00,000 as collateral security)	20,00,000	20,00,000

**Note :** No entry is made in the books of account of the company at the time of making issue of such debentures. In the "Note to Accounts" of Balance Sheet, the fact that the debentures being issued as collateral security and outstanding are shown by a note under the liability secured.

**(5 MARKS)****ANSWER-B**

The difference between the balance shown by the passbook and the cashbook may arise on account of the following:

- (i) Cheques issued but not yet presented for payment.
- (ii) Cheques deposited into the bank but not yet cleared.
- (iii) Interest allowed by the bank.
- (iv) Interest and expenses charged by the bank.
- (v) Interest and dividends collected by the bank.
- (vi) Direct payments by the bank.
- (vii) Direct deposits into the bank by a customer.
- (viii) Dishonour of a bill discounted with the bank.

(ix) Bills collected by the bank on behalf of the customer.

(x) An error committed by the bank etc.

(5 MARKS)

**ANSWER-C**

**Bank Reconciliation Statement as at 31.03.2018**

		Rs.
Balance as per Pass Book		10,000
<i>Add:</i> Cheque wrongly credited to another customer's A/c	500	
Error in carrying forward	3,000	
Cheque recorded twice	<u>350</u>	<u>3,850</u>
		13,850
<i>Less:</i> Excess credit for cash deposit	9	
Undercasting of withdrawal column	100	
Wrong credit	<u>1,000</u>	<u>1,109</u>
Balance as per Cash Book		<u>12,741</u>

(5 MARKS)

**ANSWER-D**

**In the books of 'X'**

**Goods on sales or return, sold and returned day book**

Date 2017	Party to whom goods sent	L.F	Amount Rs.	Date 2017	Sold Rs.	Returned Rs.
Dec.10	M/s ABC		10,000	Dec. 25	10,000	-
Dec.12	M/s DEF		15,000	Dec. 16	-	15,000
Dec.15	M/s GHI		12,000	Dec. 20	10,000	2,000
Dec.20	M/s DEF		16,000	Dec. 24	16,000	-
Dec.25	M/s ABC		11,000	Dec. 28	11,000	-
Dec.30	M/s GHI		<u>13,000</u>	-	_____	_____
			<u>77,000</u>		<u>47,000</u>	<u>17,000</u>

**Goods on Sales or Return Total Account**

2017		Amount Rs.	2017		Amount Rs.
Dec. 31	To Returns	17,000	Dec. 31	By Goods sent	
	To Sales	47,000		on sales or	77,000
	To Balance c/d	<u>13,000</u>		return	
					<u>77,000</u>
		<u>77,000</u>			<u>77,000</u>

**(5 MARKS)**

**ANSWER-6**

**ANSWER-A**

**Working for Royalty, short – Working and Recoupment (Rs. Lakhs)**

Year	Min. Rent	Actual Royalty – Tons × Rs. 10	Short – workings	Cumulative Short – Workings
Col	(1)	(2)	(3) = (1) – (2)	(4), net of recoupment
1	10.00	75,000 × Rs. 10 = 7.50	2.50	2.50
2	10.00	90,000 × Rs. 10 = 9.00	1.00	2.50 + 1.00 = 3.50
3	10 × 9/12 = 7.50	60,000 × Rs. 10 = 6.00	1.50	3.50 + 1.50 = 5.00
4	10.00	1,20,000 × Rs. 10 = 12.00	NA	5.00 (-) Recoupment 2.00 = 3.00
5	10.00	1,80,000 × Rs. 10 = 18.00	NA	NII

**Note :** Since Recoupment is for 4 years only, the balance in Short – Workings Rs. 3.00 Lakhs shall lapse at the end of Year 4.

**(2.5 MARKS)**

**Ledger Accounts in the Books of Tile Company**

**1. Royalty Expense Account**

Year	Particulars	Rs. Lakhs	Year	Particulars	Rs. Lakhs
1	To Lessor a/c.	7.50	1	By Manufacturing / Production A/c	7.50
2	To Lessor A/c.	9.00	2	By manufacturing / Production A/c.	9.00
3	To Lessor A/c.	6.00	3	By Manufacturing / Production A/c.	6.00
4	To Lessor A/c.	12.00	4	By Manufacturing /Production A/c.	12.00
5	To Lessor A/c.	18.00	5	By Manufacturing / Production A/c.	18.00

**(2.5 MARKS)**

## 2. Short – Working Account

Year	Particulars	Rs. Lakhs	Year	Particulars	Rs. Lakhs
1	To Lessor A/c.	2.50	1	By balance c/d	2.50
	<b>Total</b>	<b>2.50</b>		<b>Total</b>	<b>2.50</b>
2.	To balance b/d	2.50	2		
	To Lessor A/c.	1.00		By balance c/d	3.50
	<b>Total</b>	<b>3.50</b>		<b>Total</b>	<b>3.50</b>
3.	To balance b/d	3.50	3		
	To Lessor A/c.	1.50		By balance c/d	5.00
	<b>Total</b>	<b>5.00</b>		<b>Total</b>	<b>5.00</b>
4.	To balance b/d	5.00	4	By Lessor A/c. (adjustment)	2.00
				By Manufacturing/ Production A/c. (Lapsed)	<b>3.00</b>
	<b>Total</b>	<b>5.00</b>		<b>Total</b>	<b>5.00</b>

(2.5 MARKS)

## 3. Lessor A/c.

Year	Particulars	Rs. Lakhs	Year	Particulars	Rs. Lakhs
1	To Bank A/c (Payment)	10.00	1	By Royalty Expenses A/c. (Actual Royalty)	7.50
				By Short – Working A/c (Refer WN)	2.50
	<b>Total</b>	<b>10.00</b>		<b>Total</b>	<b>10.00</b>
2.	To Bank A/c. (payment)	10.00	2	By Royalty Expense A/c (Actual Royalty)	9.00
				By Short – working a/c. (Refer W.N.)	1.00
	<b>Total</b>	<b>10.00</b>		<b>Total</b>	<b>10.00</b>
3	To Bank A/c (Payment)	7.50	3	By Royalty Expense A/c. (Actual Royalty)	6.00
				By Short – Working A/c. ( <b>Refer WN</b> )	1.50
	<b>Total</b>	<b>7.50</b>		<b>Total</b>	<b>7.50</b>
4	To Bank A/c (Payment)	10.00	4	By Royalty Expense A/c (Actual Royalty)	12.00
	To Short – Working A/c.	2.00			
	<b>Total</b>	<b>12.00</b>		<b>Total</b>	<b>12.00</b>

(2.5 MARKS)



## ANSWER-B

### MNOP Ltd Balance Sheet

Liabilities	Rs.	Assets	Rs.
Owner equity	1,00,000	Fixed assets	60,000
Current debt	24,000	Cash	60,000
Long term debt	<u>36,000</u>	Inventory	<u>40,000</u>
	<u>1,60,000</u>		<u>1,60,000</u>

### Working Notes

- Total debt =  $0.60 \times \text{Owners equity} = 0.60 \times \text{Rs. } 1,00,000 = \text{Rs. } 60,000$   
Current debt to total debt = 0.40, hence current debt =  $0.40 \times 60,000 = 24,000$
- Fixed assets =  $0.60 \times \text{Owners equity} = 0.60 \text{ Rs. } 1,00,000 = \text{Rs. } 60,000$
- Total capital employed = Total debt + Owners equity = Rs. 60,000 + Rs. 1,00,000 = Rs. 1,60,000
- Total assets consisting of fixed assets and current assets must be equal to Rs. 1,60,000 (Assets = Liabilities + Owners equity). Since Fixed assets are Rs. 60,000, hence, current assets should be Rs. 1,00,000
- Total assets turnover/ inventory turnover = 2 times/ 8 times

Hence , Inventory /Total assets =  $2/8=1/4$ ,

Total assets = 1,60,000

Therefore Inventory =  $1,60,000/4 =$

40,000 Balance on Asset side = 1,20,000:

Cash =  $1,60,000 - 60,000 - 40,000 = 60,000$

**(5 MARKS)**

## ANSWER-C

### Objectives of preparing Trial Balance

The preparation of trial balance has the following objectives:

- Checking of the arithmetical accuracy of the accounting entries: Trial Balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish the arithmetical accuracy of the books.
- Basis for preparation of financial statements: Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarized form

for a particular period. In case, the Trial Balance is not prepared, it will be almost impossible to prepare the financial statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.

3. Summarized ledger: Trial Balance contains the ledger balances on a particular date. Thus, the entire ledger is summarized in the form of trial balance. The position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required.

**(5 MARKS)**