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SUGGESTED SOLUTION

CAFC May 2019 EXAMINATION

SUBJECT- ACCOUNTS

Test Code - CFN 9120

BRANCH - () (Date :)

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Answer 1:
(A)

In the books of Siriman

Journal Entries

Particulars	**L.F.**		**Dr.** Rs.	**Cr.** Rs.
Bills Receivable A/c		Dr.	1,00,000	
To Rita				1,00,000
(Being a 3 month's bill drawn on Rita for the amount due)				
Bank A/c		Dr.	99,000	
Discount A/c		Dr.	1,000	
To Bills Receivable A/c				1,00,000
(Being the bill discounted)				
Rita		Dr.	1,00,000	
To Bank A/c				1,00,000
(Being the bill cancelled up due to Rita's inability to pay it)				
Rita		Dr.	1,500	
To Interest A/c				1,500
(Being the interest due on Rs. 50,000 @ 12% for 3 months)				
Bank A/c		Dr.	51,500	
To Rita				51,500
(Being the receipt of a portion of the amount due on the bill together with interest)				
Bills Receivable A/c		Dr.	50,000	
To Rita				50,000
(Being the new bill drawn for the balance)				
Rita		Dr.	50,000	
To Bills Receivable A/c				50,000
(Being the dishonour of the bill due to Rita's insolvency)				
Bank A/c		Dr.	20,000	
Bad Debts A/c		Dr.	30,000	
To Rita				50,000
(Being the receipt of 40% of the amount due on the bill from Rita's estate)				

(6 marks)

(B)

Provision is a **<u>present liability of uncertain amount</u>**, which can be measured reliably by using a **<u>substantial degree of estimation</u>**. On the other hand, a Contingent liability is a **<u>possible obligation</u>** that **<u>may or may not crystallize depending</u>** on the occurrence or non-occurrence of one or more **<u>uncertain future events</u>**. **(2 marks)**

(C)

The Government of India in consultation with the ICAI decided to converge and not to adopt IFRSs issued by the IASB. The decision of convergence rather than adoption was taken after the **<u>detailed analysis of IFRSs requirements and extensive discussion with various stakeholders</u>**. Accordingly, while formulating IFRS-converged Indian Accounting Standards (Ind AS), efforts have been made to keep these Standards, as far as possible, in line with the corresponding IAS/IFRS and departures have been made where considered absolutely essential. **(2 marks)**

Answer 2:

Journal Entries

	Particulars		**Dr. (Rs.)**	**Cr. (Rs.)**
(i)	Expenses A/c	Dr.	12,000	
	To Drawings			12,000
	(Entry for the amount wrongly debited to the latter A/c, now corrected)			
(ii)	Purchase A/c	Dr.	16,000	
	To Creditors			16,000
	(Entry for purchases not recorded)			
(iii)	Suspense A/c	Dr.	2,000	
	To Purchase Returns			1,000
	To Sales Returns			1,000
	(Rectification entry for amount wrongly entered in Sales Journal)			
(iv)	Prepaid Expenses A/c	Dr.	6,000	
	To Expenses			6,000
	(Prepaid expenses adjusted)			

(4 marks)

Trading, Profit and Loss Account of T for the year ending 31st March, 2018

Dr.					*Cr.*
		Rs.			*Rs.*
To Opening Stock		60,000	By Sales	22,00,000	
To Purchases	16,00,000		Less: Sales Return		
Add: Amount not recorded	16,000		(99,000– 1,000)	98,000	21,02,000
	16,16,000		By Closing Stock		1,00,000
Less: Purchases Returns					
(69,000+1, 000)	70,000	15,46,000			
To Gross Profit c/f		5,96,000			
		22,02,000			22,02,000

To Expenses (50,000 – 6,000 + 12,000)		56,000	By Gross Profit		5,96,000
To Rent (17,000 – 5,000)		12,000	By Interest on Fixed Deposit		20,000
To Depreciation	14,000		By Interest on Investments		20,000
Add: Further Depreciation $\left(2,00,000 \times \frac{10}{100} \times \frac{6}{12}\right)$	10,000	24,000	$\left(2,50,000 \times \frac{12}{100} \times \frac{8}{12}\right)$		
To Net Profit		5,44,000			
		6,36,000			6,36,000

(4 marks)

Balance Sheet as on 31st March, 2018

Liabilities		*Rs.*	***Assets***		*Rs.*
Capital	6,00,000		Fixed Assets	1,40,000	
Add: Profit	5,44,000		Additions	2,00,000	
Less: Drawings				3,40,000	
(70,000 – 12,000)	58,000	10,86,000	*Less*: Depreciation	10,000	3,30,000
Creditors	2,20,000		Stock		1,00,000
Add: Purchases not recorded			Debtors		2,50,000
	16,000	2,36,000	Investments		2,50,000
Overdraft		8,000	Interest accrued		20,000
			Bank fixed deposit		2,00,000
			Prepaid Expenses (6000+5000)		11,000
			Bank		1,69,000
		13,30,000			13,30,000

(4 marks)

Answer 3:

(A)

Trial Balance of Anuradha Traders as on 31.03.2016

Debit Balance	**Rs.**	**Credit Balance**	**Rs.**
Purchases	1,50,000	Capital	1,00,000
Sales return	1,000	Sales	1,66,000
Discount allowed	2,000	Trade Payables	25,000
Expenses	10,000	Interest received on investments	1,500
Trade receivables	75,000		
Investments	15,000		
Cash at bank and in hand	37,000		
Insurance paid	2,500		
Total	**2,92,500**		**2,92,500**

(6 marks)

(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 **(2 marks)**

For the year ended March 31, 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 **(2 marks)**

Answer 4:

(A)

As per **Money Measurement concept**, only those transactions, which can be **measured in terms of money are recorded**. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money be only to be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books. **(2 marks)**

In **Matching concept**, **all expenses matched with the revenue of that period** should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized. **(2 marks)**

(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, **(2 marks)**

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. **(2 marks)**

Answer 5:

In the books of M/s. ABC Traders

Trading Account for the year ended 31st March, 2016

Particulars	Rs.	**Amount** Rs.	**Particulars**	Rs.	**Amount** Rs.
To Opening Inventory		1,00,000	By Sales	11,00,000	
To Purchases	6,72,000		Less: Returns	(1,00,000)	10,00,000
Less: Returns	(72,000)	6,00,000	Inward By Closing		2,00,000
outward		30,000	Inventory		
To Carriage Inwards		50,000			
To Wages		4,20,000			
To Gross profit		12,00,000			12,00,000

(3 marks)

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

Date 2017	**Particulars**		**Amount** Rs.	**Amount** Rs.
Mar. 31	Returns outward A/c	Dr.	72,000	
	To Purchases A/c			72,000
	(Being the transfer of returns to purchases account)			
	Sales A/c	Dr.	1,00,000	
	To Returns Inward A/c			1,00,000
	(Being the transfer of returns to sales account)			
	Sales A/c	Dr.	10,00,000	
	To Trading A/c			10,00,000
	(Being the transfer of balance of sales account to trading account)			
	Trading A/c	Dr.	7,80,000	
	To Opening Inventory			1,00,000
	A/c To Purchases A/c			6,00,000
	To Wages A/c			50,000
	To Carriage Inwards A/c			30,000
	(Being the transfer of balances of opening Inventory, purchases and wages accounts)			
	Closing Inventory	Dr.	2,00,000	
	A/c To Trading			2,00,000
	A/c			
	(Being the incorporation of value of closing Inventory)			
	Trading A/c	Dr.	4,20,000	
	To Gross Profit			4,20,000
	(Being the amount of gross profit)			
	Gross profit	Dr.	4,20,000	
	To Profit and Loss A/c			4,20,000
	(Being the transfer of gross profit to Profit and Loss Account)			

(7 marks)