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SUGGESTED SOLUTION

CA FOUNDATION May 19

SUBJECT- ACCOUNTS

Test Code – CFN 9139

BRANCH - () (Date :)

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Answer 1:

(A)

Profit and Loss Appropriation Account
for the year ended 31st December, 2017

Dr.	Rs.	Rs.	Cr.	Rs.
To Interest on capital			By Net profit b/d	1,59,000
A (5% of Rs. 3,20,000)	16,000			
B (5% of Rs. 2,00,000)	10,000			
C (5% of Rs. 1,60,000)	8,000	34,000		
To Partners' capital A/c. [Profit (Rs. 1,59,000 – Rs. 34,000) transferred]				
A ($\frac{5}{10}$ of Rs. 1,25,000)	62,500			
Less : Transferred to C	5,000	57,500		
B ($\frac{3}{10}$ of Rs. 1,25,000)		37,500		
C ($\frac{2}{10}$ of Rs. 1,25,000)	25,000			
Add : Transferred from A	5,000	30,000		
		1,59,000		1,59,000

(5 marks)

(B)

Total Profit for 3 years = (Rs. 17,000) + Rs. 50,000 + Rs. 75,000 = Rs. 1,08,000.

$$\text{Average profits} = \frac{\text{Total profit}}{\text{No. of years}} \times \frac{\text{Rs. 1,08,000}}{3} = \text{Rs. 35,000.}$$

$$= \text{Rs. 36,000} - \text{Rs. 6,000} = \text{Rs. 30,000}$$

Normal Profit = Interest on Capital employed

$$= \text{Rs. 20,000 (i.e. Rs. 2,00,000} \times \frac{10}{100}) = \text{Rs. 20,000}$$

Super Profit = Average Profit – Normal Profit = Rs. 30,000 – Rs. 20,000 = Rs. 10,000.

Goodwill = Super Profit × No. of years purchases = Rs. 10,000 × 2 = Rs. 20,000.

(5 marks)

Answer 2:

(i) Revaluation Account

	Rs.		Rs.
To Furniture	870	By Building	3,200
To Stock	1,070	By Sundry creditors	1,400
To Provision of doubtful debts (Rs. 1,750 – Rs. 200)	1,550	By Investment	450
To Outstanding wages	1,560		
	5,050		5,050

(2 marks)

(ii) Partners' Capital Accounts

	A	B	C		A	B	C
To Balance c/d	71,000	54,000	25,000	By Balance b/d	44,000	36,000	-
				By Cash A/c.	-	-	25,000
				By Goodwill A/c. (Working Note)	27,000	18,000	-
	71,000	54,000	25,000		71,000	54,000	25,000

(2 marks)**(iii) Balance Sheet of New Partnership Firm****(after admission of C) as on 1.1.18**

Liabilities		Rs.	Assets		Rs.
Capital Accounts :			Goodwill		45,000
A	71,000		Building (26,000 + 3,200)		29,200
B	54,000		Furniture (5,800 – 870)		4,930
C	25,000	1,50,000	Stock – in – Trade (21,400 – 1,070)		20,330
Bills Payable		4,100	Debtors		3,500
Bank Overdraft		9,000	Less : Provision for bad debts		(1,750)
Sundry creditors (12,900 – 1,400)		11,500	Investment (2,500 + 450)		2,950
Outstanding Wages		1,560	Cash (15,500 + 25,000)		40,500
		1,76,160			1,76,160

(4 marks)**Working Note :****Calculation of Goodwill**

C's contribution of Rs. 25,000 consists only 1/6th of Capital.

Therefore, total capital of firm should be Rs. 25,000 × 6 = Rs. 1,50,000.

But combined capital of A, B and C amounts Rs. 44,000 + 36,000 + 25,000 = Rs. 1,05,000.

Thus Hidden goodwill is Rs. 45,000 (Rs. 1,50,000 – Rs. 1,05,000).

(2 marks)**Answer 3:**

Date	Output (in tones)	Royalty @Rs. 10 pertone Rs.	Minimum Rent Rs.	Short-workings allowable Rs.	Short-workings recouped by lessee Rs.	Short-workings irrecoverable Rs.	Amount receivable from lessee Rs.
31-3-12	6,000	60,000	1,00,000	40,000			1,00,000
31-3-13	10,500	1,05,000	1,00,000		5,000		1,00,000
31-3-14	13,000	1,30,000	1,00,000		30,000	5,000	1,00,000

31-3-15	20,000	2,00,000	1,00,000				2,00,000
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(3 marks)

**In the books of Omega
Journal Entries**

			Rs.	Rs.
2012 March 31	State Collieries Co. To Royalties Receivable Account To Short-workings allowable Account (Minimum rent receivable from State Collieries Co., royalties receivable being Rs. 60,000; excess of the former over the latter being credited to Short workings allowable Account.)	Dr.	1,00,000	60,000 40,000
March 31	Bank A/c To State Collieries Co. (Receipt of amount due from State Collieries Co.)	Dr.	1,00,000	1,00,000
March 31	Royalties Receivable Account To Profit & Loss Account (Transfer of Royalties Account to Profit & Loss Account)	Dr.	60,000	60,000
2013 March 31	State Collieries Co. Short-workings allowable Account To Royalties Receivable Account (Minimum rent receivable from State Collieries Co., after adjusting Rs. 5,000 of short-workings allowable against royalties receivable)	Dr. Dr.	1,00,000 5,000	1,05,000
March 31	Bank To State Collieries Co. (Receipt of amount due from State Collieries Co.)	Dr.	1,00,000	1,00,000
March 31	Royalties Receivable Account To Profit & Loss Account (Transfer of Royalties Account to Profit & Loss Account)	Dr.	1,05,000	1,05,000
2014 March 31	State Collieries Co. Short-workings allowable Account To Royalties Receivable Account (Minimum rent receivable from State Collieries Co., after adjusting of short-workings allowable Rs. 30,000 against royalties receivable)	Dr. Dr.	1,00,000 30,000	1,30,000
March 31	Bank To State Collieries Co. (Amount received from State Collieries Co.)	Dr.	1,00,000	1,00,000
March 31	Short-workings allowable Account To Profit & Loss Account (Balance of Short workings allowable count, being irrecoverable short-workings, transferred to Profit & Loss Account.)	Dr.	5,000	5,000
March 31	Royalties Receivable Account To Profit & Loss Account (Transfer of Royalties Receivable Account to Profit & Loss Account)	Dr.	1,30,000	1,30,000
2015 Mar. 31	State Collieries Co. To Royalties Receivable Account (Amount due from State Collieries Co., for royalties receivable for the year)	Dr.	2,00,000	2,00,000

March 31	Bank To State Collieries Co. (Amount of royalties received from State Collieries Co.)	Dr.	2,00,000	2,00,000
March 31	Royalties Receivable Account To Profit & Loss Account Transfer of Royalties Receivable Account to Profit & Loss Account.	Dr.	2,00,000	2,00,000

(7 marks)

Answer 4:

Date	Particulars	Rs.	Date	Particulars	Rs.
2017 April	To Plant & Machinery To Stock of goods To Provision for bad and doubtful debts 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	6,000 2,000 550 7,000	2017 April	By Land and building By Sundry creditors By Cash & Bank Joint life Policy surrendered	6,000 2,000 7,550
		15,550			15,550

(2 marks)

(b) Partners' Capital Accounts

Dr.

Cr.

Particulars	P	Q	R	Particulars	P	Q	R
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
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

(3 marks)

(c) 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)

(d) Balance sheet of M/s Q & R as on 01.04.2017

Liabilities		Rs.	Assets		Rs.
Partners' Capital A/c.			Land & 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

(2 marks)

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 = $\frac{1}{2} - \frac{3}{7} = \frac{1}{14}$	
R = $\frac{1}{2} - \frac{2}{7} = \frac{3}{14}$	
Q : R = 1 : 3	

Therefore, Q will bear – $\frac{1}{4} \times 4,000$ or Rs. 1,000R will bear = $\frac{3}{4} \times 4,000$ or Rs. 3,000

(1 mark)

Answer 5:**Computation of Royalty, Minimum Rent and Short-workings**

Year	Quantity in tonnes	Rate per tonne	Royalty	Minimum Rent	Short-workings
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 mark)

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

Year	Recoupment	Short-workings carried forward	Transferred to P&L Account	Payment to Landlord
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

(2 marks)

Ledger Accounts

Lessor Account

1st Year To Bank A/c	Rs. 2,00,000	By Royalty A/c By Short-workings	Rs. 90,000 1,10,000
	2,00,000		2,00,000
2nd Year To Bank A/c	2,00,000	By Royalty A/c By Short-working	1,30,000 70,000
	2,00,000		2,00,000
3rd Year To Bank A/c	2,00,000	By Royalty A/c	2,00,000
4th Year To Bank A/c	2,00,000	By Royalty A/c	2,00,000
5th Year To Bank A/c	5,00,000	By Royalty A/c	5,00,000

(2 marks)

Short-workings Account

1st Year To Lessor A/c	Rs. 1,10,000	By Balance c/d	Rs. 1,10,000
2nd Year To Balance b/d To Lessor A/c	1,10,000 70,000	By Balance c/d	1,80,000
	1,80,000		1,80,000
3rd Year To Balance b/d	1,80,000	By Royalty By Balance c/d	50,000 1,30,000
	1,80,000		1,80,000
4th Year To Balance b/d	1,30,000	By Royalty By P&L	1,00,000 30,000
	1,30,000		1,30,000

(2 marks)

Royalty A/c

1st Year To Lessor	90,000	By P&L	90,000
2nd Year To Lessor	1,30,000	By P&L	1,30,000
3rd Year To Lessor To Short-workings	2,00,000 50,000	By P&L	2,50,000
	2,50,000		2,50,000
4th Year To Lessor To Short-workings	2,00,000 1,00,000	By P&L	3,00,000

	3,00,000		3,00,000
5th Year To Lessor	5,00,000	By P&L	5,00,000

(3 marks)