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CA FOUNDATION NOV'19

SUBJECT- ACCOUNTS

Test Code - **CFN 9217**

BRANCH - () (Date :)

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

Tel : (022) 26836666

ANSWER – 1

ANSWER – A

- (i) **False** - Debenture interest is payable before the payment of any dividend on shares.
- (ii) **True:** Amount paid to management company for consultancy to reduce the working expenses is capital expenditure as this expenditure will generate long-term benefit to the entity.
- (iii) **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.
- (iv) **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.
- (v) **False:** The debit notes issued are used to prepare purchases return book.
- (vi) **True:** In case the due date of a bill falls after the date of closing the account, then no interest is allowed for that. However, interest from the date of closing to such due date is written in 'Red Ink' in the appropriate side of Account Current. This Red Ink Interest is treated as negative interest.

(6 Statements x 2 Marks = 12 Marks)

ANSWER – B

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.

(4 Marks)

ANSWER – C

- (i) Error of Principle.
- (ii) Error of Omission.
- (iii) Error of Commission.
- (iv) Error of Omission.
- (v) Error of Commission

(4 Marks)

ANSWER – 2

ANSWER – A

(i)

Cash Book (Bank Column)

Date	Particulars	Amount	Date	Particulars	Amount
2017		Rs.	2017		
Sept. 30			Sept. 30		
	To Party A/c	32,000		By Balance b/d	8,124
	To Customer A/c			By Bank charges	1,160
	(Direct deposit)	2,34,800		By Customer A/c	2,80,000
	To Balance c/d	22,484		(B/R dishonoured)	
		2,89,284			2,89,284

(4 Marks)

(ii)

Bank Reconciliation Statement as on 30th September, 2017

Particulars	Amount
	Rs.
Overdraft as per Cash Book	22,484
Add: Cheque deposited but not collected upto 30th Sept., 2017	26,28,000
	26,50,484
Less: Cheques issued but not presented for payment upto 30th Sept., 2017	(26,52,000)
Credit by Bank erroneously on 6th Sept.	(40,000)
Balance as per bank statement	(41,516)

Note: Bank has credited Neel by 40,000 in error on 6th September, 2017. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with Rs. 26,52,000 resulting in debit balance of Rs. 1,516 as per pass-book.

(6 Marks)

ANSWER – B

JOURNAL ENTRIES IN THE BOOKS OF ANIL

Date	Particulars		Dr.	Cr.
Apr.5	Bills Receivable A/c. To Sanjay A/c. (Being B/R acceptance received from Sanjay)	Dr.	90,000	90,000
Apr 5	Bank A/c. (amount received, given) Discount A/c. (balancing figure) To Bills Receivable A/c. (Being B/R received from Sanjay, discounted with Bank)	Dr. Dr.	88,200 1,800	90,000
Apr 5	Sanjay A/c. To Bank A/c. To Discount A/c. (Being 1/3 share of proceeds paid to Sanjay and 1/3 rd discount trfd)	Dr.	30,000	29,400 600
Jul 8	Sanjay A/c. To Bills Payable A/c. (Being acceptance given to Sanjay)	Dr.	1,26,000	1,26,000
Jul 8	Bank A/c (Amount received, given) Discount A/c. (See note below) To Sanjay A/c. (Being amt received from Sanjay, for new B/E discounted with Bank)	Dr.	22,200 1,800	24,000
Oct 11	Bills Payable A/c. To Sanjay A/c. (Being B/P dishonoured due to insolvency)	Dr.	1,26,000	1,26,000
Oct 15	Sanjay A/c. (net Cr. In Sanjay A/c after all transactions above) To Bank A/c. (40% of Rs. 84,000) To Deficiency A/c (60% of Rs. 84,000) (Being final settlement to Sanjay, being 40% of amount due to him)	Dr.	84,000	33,600 50,400

(7*1 = 7 Marks)

Note :

1. Excess Amount realized by parties on new B/E = New B/E Less Old B/E = 1,26,000 – 90,000	36,000
2. Net amount realized by Sanjay on new bill = 1,23,300 less settlement of old B/E 90,000	33,300
3. Hence, Effective Discount on new B/E is 36,000 – 33,300	2,700
4. Amt sent by Sanjay to Anil from new bill = Rs. 22,200 (given). % of this amount to (2) above	2/3 rd
5. Hence, discount to be borne by Anil on new bill = Rs. 2,700 × 2/3 rd	1,800

(3 Marks)

ANSWER – 3

ANSWER – A

In the books of Gagan
Consignment to Kumar of Chennai Account

Particulars	Rs.	Particulars		Rs.
To Goods sent on Consignment	20,00,000	By Kumar (Sales)		19,60,000
To Bank (Expenses)	1,00,000	By Loss in Transit 100 cases @ Rs. 1,050 each		1,05,000
To Kumar (Expenses)	63,000	By Consignment Inventories		
To Kumar (Commission)	1,96,000	In hand 300 @ Rs. 1,060 each	3,18,000	
To Profit on Consignment to Profit & Loss A/c	2,34,000	In transit 200 @ Rs. 1,050 each	2,10,000	5,28,000
	25,93,000			25,93,000

Kumar's Account

Particulars	Rs.	Particulars	Rs.
To Consignment to Chennai A/c	19,60,000	By Consignment A/c (Expenses)	63,000
		By Consignment A/c (Commission)	1,96,000
		By Balance c/d	<u>17,01,000</u>
	<u>19,60,000</u>		19,60,000

(7 Marks)

Working Notes:

- (i) Consignor's expenses on 2,000 cases amounts to Rs. 1,00,000; it comes to Rs. 50 per case. The cost of cases lost will be computed at Rs. 1,050 per case.
- (ii) Kumar has incurred Rs. 17,000 on clearing 1,700 cases, i.e., Rs. 10 per case; while valuing closing inventories with the agent Rs. 10 per case has been added to cases in hand with the agent.
- (iii) It has been assumed that balance of Rs. 17,01,000 is not yet paid.

(3*1 = 3 Marks)

ANSWER – B

Profit and Loss Adjustment Account

	Rs.		Rs.
To Advertisement (samples)	80,000	By Net profit	8,00,000
To Sales (goods approved in April to be taken as April sales)	2,00,000	By Electric fittings	30,000
To Adjusted net profit	16,80,000	By Samples	80,000
		By Stock (Purchases of March not included in stock)	5,00,000
		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
	<u>19,60,000</u>		<u>19,60,000</u>

Calculation of value of inventory on 31st March, 2017

	Rs.
Stock on 31 st 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	<u>1,50,000</u>
	<u>14,00,000</u>

(10 Marks)

ANSWER – 4

Smith Library Society

Income and Expenditure Account

for the year ended 31st March, 2019

<i>Dr.</i>					<i>Cr.</i>
<i>Expenditure</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Income</i>		<i>Rs.</i>
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			Less: Received in advance	<u>10,000</u>	1,90,000
Add: Outstanding	88,000				
	<u>4,000</u>	92,000			
To Salaries	66,000		By Sale proceeds of old papers		1,500
Add: Outstanding	<u>3,000</u>	69,000	By Hire of lecture hall		20,000
To Depreciation(W.N.1)					
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
			By Deficit- excess of		16,700
		<u>2,44,200</u>	expenditure over income		<u>2,44,200</u>

(8 Marks)

**Balance Sheet of Smith Library Society
as on 31st March, 2019**

<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	
Add: Entrance fees	<u>22,500</u>		Less: Depreciation	<u>(15,000)</u>	1,35,000
	8,15,500		Furniture	50,000	
Less: Excess of expenditure over income	<u>(16,700)</u>	7,98,800	Less: Depreciation	<u>(5,000)</u>	45,000
Outstanding expenses:			Books	4,60,000	
Rent	4,000		Less 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		<u>11,300</u>
		<u>8,15,800</u>			<u>8,15,800</u>

(8 Marks)

Working Notes:

1. Depreciation

	<i>Rs.</i>
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	<u>1,000</u> 8,500
Less: Received	<u>(8,000)</u>
Receivable	<u>500</u>

(4 Marks)

ANSWER – 5

ANSWER –A

Revaluation Account

	Rs.		Rs.
To Plant & Machinery (1,70,000 x 15%)	25,500	By Land & Building A/c	1,52,000
To Provision for Bad & Doubtful Debts (60,000 x 5%)	3,000		
To Outstanding Repairs to Building	6,000		
To A's Capital A/c (5/8)	73,438		
To B's Capital A/c (3/8)	44,062		
	1,52,000		1,52,000

Capital Accounts of Partners

	A	B	C		A	B	C
To A's Capital A/c	-	-	20,000	By Balance b/d	4,10,000	3,30,000	-
To B's Capital A/c			12,000	By Revaluation A/c	73,438	44,062	-
To B's Current A/c	-	68,062		By Profit & Loss A/c	70,000	42,000	-
To Balance c/d	6,00,000	3,60,000	2,40,000	By Bank	-	-	2,72,000
				By C's Capital A/c	20,000	12,000	-
				By A's Current A/c	26,562	-	-
	6,00,000	4,28,062	2,72,000		6,00,000	4,28,062	2,72,000

Calculation of New Profit Sharing Ratio and gaining ratio:

$$C's \text{ Share of Profit} = 1/5 = 2/10$$

$$\text{Remaining Share} = 1 - 1/5 = 4/5$$

$$A's \text{ Share} = 5/8 \times 4/5 = 20/40 = 5/10$$

$$B's \text{ Share} = 3/8 \times 4/5 = 12/40 = 3/10$$

New Profit sharing Ratio = 5:3:2

Gaining ratio = 5:3 (same as old profit sharing ratio among old partners)

(6 Marks)

Balance sheet of AB & Co. as on 31.3.2018

Liabilities		Rs.	Assets		
Capital Accounts:			Land & Buildings		5,32,000
A	6,00,000		Plant & Machinery	1,70,000	
B	3,60,000		Less: Depreciation	25,500	1,44,500

C	<u>2,40,000</u>	12,00,000	Furniture		1,09,480
B's Current A/c		68,062	Stock		1,45,260
Trade Creditors		54,800	Sundry Debtors	60,000	
Outstanding Repairs to Building		6,000	Less: Provision	<u>3,000</u>	57,000
			Cash at Bank		3,14,060
			A's current A/c		<u>26,562</u>
		<u>13,28,862</u>			<u>13,28,862</u>

Working Note:

Required Balance of Capital Accounts

C's Capital after writing off Goodwill = 2,72,000 – 32,000 = 2,40,000

C's Share of Profit = 1/5

Thus Capital of the firm shall be = 2,40,000 x 5 = 12,00,000

A's Capital = 12,00,000 x 5/10 = 6,00,000 and

B's Capital = 12,00,000 x 3/10 = 3,60,000

(4 Marks)

ANSWER –B

Trading and Profit and Loss Account of Mr. Kumar for the year ended

31st December, 2017

	Rs.	Rs.		Rs.	Rs.
To Opening stock		23,400	By Sales	1,94,800	
To Purchases	1,60,850		Less: Returns	<u>4,300</u>	1,90,500
Add: Omitted invoice	<u>200</u>		By Closing stock		39,300
	1,61,050				
Less: Returns	<u>2,900</u>				
	1,58,150				
Less: Drawings	<u>300</u>	1,57,850			
To Freight & carriage		9,800			
To Gross profit c/d		38,750			
		2,29,800			2,29,800
To Rent and taxes		2,350	By Gross profit b/d		38,750
To Salaries and wages		4,650	By Discount		2,220

To Bank interest	550			
Add: Due	850	1,400		
To Printing and stationary	7,200			
Less: Prepaid (1/4)	1,800	5,400		
To Discount allowed		900		
To General expenses		5,725		
To Insurance		650		
To Postage & telegram expenses		1,165		
To Travelling expenses		435		
To Provision for bad debts		575		
[W.N.]				
To Provision for discount on debtors [W.N.]		219		
To Depreciation on furniture & fittings		250		
To Net profit		17,251		
		40,970		40,970

Working Note:

Provision for bad & doubtful debts:

@ 5% on Rs. 11,500 575

Provision for discount:

2% on Rs. 10,925 (11,500 - 575) 219

(10 Marks)

ANSWER – 6

ANSWER –A

Journal Entries in the books of Ekamranath Ltd.

No.	Particulars	Dr. (Rs.)	Cr.(Rs.)
1.	Bank A/c. (50,000 × Rs. 25) Dr. To Equity Share Application A/c. (Being application moneys received from applicants of 50,000 Shares at Rs. 25)	12,50,000	12,50,000
2.	Equity Share Application A/c. (50,000 × Rs. 25) Dr. Equity Share Allotment A/c. (50,000 × Rs. 6) Dr. Discount on Issue of Shares A/c. (50,000 × Rs. 4) Dr.	12,50,000 3,00,000 2,00,000	

	To Equity Share Capital A/c. (Being allotment of 50,000 Shares and transfer of application moneys, recording allotment moneys due at Rs. 6 per share, balance transferred to Discount A/c)			17,50,000
3.	Bank A/c. To Equity Share Allotment A/c. (Being amounts received towards allotment from all allottees)	Dr.	3,00,000	3,00,000
4.	Equity Share First Call A/c (50,000 × Rs. 10) To Equity Share Capital A/c. (Being Call Money on 50,000 share due at Rs. 10 per share)	Dr.	5,00,000	5,00,000
5.	Bank A/c. To Equity Share First Call A/c. (Being First Call moneys received except on 1,200 Shares at Rs. 10)	Dr.	4,88,000	4,88,000
6.	Equity Share Capital (1,200 × Rs. 45 called up) To Discount on Issue of Shares (1,200 Shares × Rs. 4) To Equity Share First Call A/c. (1,200 Shares × Rs. 100 To Shares Forfeited A/c. (1,200 × Rs. 31 paid so far) (Being forfeiture of 1,200 Shares for non – payment of First call of Rs. 10, as per Resolution No. dated Discount on Issue now reversed.)	Dr.	54,000	4,800 12,000 37,200
7.	Equity share Second & Final Call A/c (48,800 × Rs. 5) To Equity Share Capital A/c. (Being Final Call Money on 48,800 Share due at Rs. 5 per share) (1,200 shares already forfeited at 1 st Call Stage, not yet re – issued, hence call money not raised)	Dr.	2,44,000	2,44,000
8.	Bank A/c. To Equity Share Second and Final Call A/c. (Being amount received on Final Call of Rs. 5 on 48,800 Shares except allottees for 2,000 Shares, i.e. 46,800 shares at Rs. 5)	Dr.	2,34,000	2,34,000
9.	Equity Share Capital (2,000 × Rs. 50 fully called up) To Discount on Issue of Shares (2,000 Shares × Rs. 4) To Equity Share Second and Final A/c. (2,000 Shares × Rs. 5) To Shares Forfeited A/c. (2,000 × Rs. 41 paid so far) (Being forfeiture of 2,000 Shares on which Final Call due, as per Resolution No..... dated..... Discount on Issue of Shares now reversed.)	Dr.	1,00,000	8,000 10,000 82,000
10.	Bank A/c. (3,000 Shares × Rs. 15 received now) Discount on Issue of Shares (3,000 Shares × Rs. 4) Shares Forfeited A/c. [3,000 shares × (Rs. 50 (FV) – Rs. 4 (Disc) – Rs. 15 (Recd now)]	Dr. Dr. Dr.	45,000 12,000 93,000	

	To Equity Share Capital (3,000 Shares × Rs. 50) (Being re – issue of 3,000 Shares at Rs. 14 per share)		1,50,000
11.	Equity Shares Forfeited A/c. (WN 5) To Capital Reserve A/c. (Being balance in Shares Forfeited A/c. transferred to Capital Reserve A/c.)	Dr.	18,000 18,000

(10 Marks)

ANSWER –B

Books of Pihu Ltd.

Journal

Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
Bank A/c To Debenture Application A/c (Debenture application money received)	Dr.	20,00,00,000	20,00,00,000
Debenture Application A/c To 9% Debentures A/c (Application money transferred to 9% debentures account consequent upon allotment)	Dr.	20,00,00,000	20,00,00,000
Debenture allotment A/c Discount on issue of debentures A/c To 9% Debentures A/c (Amount due on allotment)	Dr. Dr.	25,00,00,000 5,00,00,000	30,00,00,000
Bank A/c To Debenture Allotment A/c (Money received consequent upon allotment)	Dr.	25,00,00,000	25,00,00,000

(5 Marks)

OR

In the books of Y

X in Account Current with Y

(Interest to 31st March, 2018 @ 10% p.a)

Date	Particulars	Amount	Days	Product	Date	Particulars	Amount	Days	Product
2018		Rs.		Rs.	2018		Rs.		Rs.
Jan.1	To Balance b/d	5,000	90	4,50,000	Jan.24	By Promissory Note (due date 27 th April)	5,000	(27)	(1,35,000)
Jan.11	To Sales	6,000	79	4,74,000	Feb. 1	By Purchases	10,000	58	5,80,000
Feb. 4	To Sales	8,200	55	4,51,000	Feb. 7	By Sales Return	1,000	52	52,000

Mar.18	To Sales	9,200	13	1,19,600	Mar. 1	By Purchases	5,600	30	1,68,000
Mar.31	To Interest	219			Mar.23	By Purchases	4,000	8	32,000
					Mar.31	By Balance of Products			7,97,600
					Mar.31	By Bank	3,019		
		28,619		14,94,600			28,619		14,94,600

Working Note:

Calculation of interest:

$$\text{Interest} = \frac{797600}{365} \times \frac{10}{100} = \text{Rs. 219 (approx)}$$

(5 Marks)

ANSWER –C

The basic considerations in distinction between capital and revenue expenditures are:

- (i) **Nature of business:** For a trader dealing in furniture, purchase of furniture is revenue expenditure but for any other trade, the purchase of furniture should be treated as capital expenditure and shown in the balance sheet as asset.
- (ii) **Recurring nature of expenditure:** If the frequency of an expense is quite often in an accounting year then it is said to be an expenditure of revenue nature while non-recurring expenditure is infrequent in nature and do not occur often in an accounting year.
- (iii) **Purpose of expenses:** Expenses for repairs of machine may be incurred in course of normal maintenance of the asset. Such expenses are revenue in nature. On the other hand, expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature.
- (iv) **Materiality of the amount involved:** Relative proportion of the amount involved is another important consideration in distinction between revenue and capital.

(5 Marks)

OR

Rules regarding posting of entries in the ledger

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective account accordingly.
2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger.
3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

(5 Marks)