



J.K. SHAH[®]
TEST SERIES
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SUGGESTED SOLUTION

CA FOUNDATION N'19

SUBJECT- ACCOUNTS

Test Code – CFN 9244

BRANCH - () (Date :)

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

Tel : (022) 26836666

ANSWER -1

ANSWER –A

(6*2 = 12 MARKS)

1. **False:** Goods taken by the proprietor for personal use should be credited to Purchases Account as less goods are left in the business for sale.
2. **False:** The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.
3. **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.
4. **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 the 'Account current'. This interest is called Red-Ink interest.
5. **False:** The provisions of the Indian Partnership Act, 1932 shall not apply to a limited liability partnership. Limited Liability (LLPs) Act, 2008 is applicable for Limited Liability Partnerships.
6. **False:** If an amount is posted in the wrong account or is written on the wrong side of the correct account, it is case of "errors of commission" and is not "error of principle".

ANSWER –B

Receipts which are obtained in course of normal business activities are revenue receipts (e.g. receipts from sale of goods or services, interest income etc.).

Revenue receipts should not be equated with the actual cash receipts. Revenue receipts are credited to the Profit and Loss Account.

(4 MARKS)

ANSWER –C

S. No.		Debit (Rs.)	Credit (Rs.)
1	Commission A/c Dr. To Interest Received (Correcting wrong entry of interest received into commission account)	4,500	4,500
2	M/s Sobhag Traders A/c Dr. To Suspense A/c (Being credit sale of Rs. 2,760 posted as Rs. 2,670 i.e. debiting M/s Sobhag Traders A/c less by 90, now rectified)	90	90
3	Drawing A/c Dr.	35,000	

4	To Machinery A/c		35,000
	(Correction of wrong debit to machinery account for purchase of air-conditioner for personal use)		
	Return Inward A/c	Dr.	5,000
	To Debtors (Personal) A/c		5,000
	(Correction of omission to record return of goods by customers)		

(4*1 = 4 MARKS)

ANSWER -2

ANSWER –A

(i) **Cash Book (Bank Column)**

Date	Particulars	Amount	Date	Particulars	Amount
2019		Rs.	2019		
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, 2019**

Particulars	Amount
	Rs.
Overdraft as per Cash Book	22,484
Add: Cheque deposited but not collected upto 30 th Sept., 2019	26,28,000
	26,50,484

Less: Cheques issued but not presented for payment upto 30 th Sept., 2019	(26,52,000)
Credit by Bank erroneously on 6th Sept.	(40,000)
Overdraft as per bank statement	41,516

Note: Bank has credited Neel by 40,000 in error on 6th September, 2019. 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

In the books of Firm

Machinery Account

		Rs.			Rs.
1.1.2015	To Bank A/c	37,000	31.12.2015	By Depreciation A/c	4,000
	To Bank A/c (overhauling charges)	3,000	31.12.2015	By Balance c/d	36,000
		<u>40,000</u>			<u>40,000</u>
1.1.2016	To Balance b/d	36,000	31.12.2016	By Depreciation A/c (Rs. 5,400 + Rs. 750)	6,150
1.7.2016	To Bank A/c	10,000	31.12.2016	By Balance c/d (Rs. 30,600 + Rs. 9,250)	39,850
		<u>46,000</u>			<u>46,000</u>
1.1.2017	To Balance b/d	39,850	1.7.2017	By Bank A/c(sale)	28,000
1.7.2017	To Bank A/c	25,000	1.7.2017	By Profit and Loss A/c (Loss on Sale – W.N. 1)	305
			31.12.2017	By Depreciation A/c (Rs. 2,295 + Rs. 1,388 + Rs. 1,875)	5,558
				By Balance c/d (Rs. 7,862 + Rs. 23,125)	30,987
		<u>64,850</u>			<u>64,850</u>

1.1.2018	To	Balance b/d	30,987	1.7.2018	By Bank A/c (sale)	2,000
				1.7.2018	By Profit and Loss A/c (Loss on Sale – W.N. 1)	5,272
				31.12.2018	By Depreciation A/c (Rs. 590 + Rs. 3,469)	4,059
				31.12.2018	By Balance c/d	<u>19,656</u>
			30,987			30,987

(7 MARKS)

Working Note:

Book Value of machines

	<i>Machine I Rs.</i>	<i>Machine II Rs.</i>	<i>Machine III Rs.</i>
Cost of all machinery (Machinery cost for 2015)	40,000	10,000	25,000
Depreciation for 2015	<u>4,000</u>		
Written down value as on 31.12.2015	<u>36,000</u>		
Purchase 1.7.2016 (6 months)		10,000	
Depreciation for 2016	<u>5,400</u>	<u>750</u>	
Written down value as on 31.12.2016	<u>30,600</u>	9,250	
Depreciation for 6 months (2017)	<u>2,295</u>		
Written down value as on 1.7.2017	<u>28,305</u>		
Sale proceeds	<u>28,000</u>		
Loss on sale	<u>305</u>		
Purchase 1.7.2017			25,000
Depreciation for 2017 (6 months)		<u>1,388</u>	<u>1,875</u>
Written down value as on 31.12.2017		7,862	23,125
Depreciation for 6 months in 2018		<u>590</u>	
Written down value as on 1.7.2018		7,272	
Sale proceeds		<u>2,000</u>	
Loss on sale		<u>5,272</u>	
Depreciation for 2018			<u>3,469</u>
Written down value as on 31.12.2018			<u>19,656</u>

(3 MARKS)

ANSWER -3

ANSWER –A

Journal Entries in the Books of Mr. A

<i>Date</i>		<i>Particulars</i>	<i>L.F.</i>	<i>Dr. Amount Rs.</i>	<i>Cr. Amount Rs.</i>
2017					
August	1	Bills Receivable A/c To B (Being the acceptance received from B to settle his account)	Dr.	10,000	10,000
August	1	Bank A/c Discount A/c To Bills Receivable (Being the bill discounted for Rs. 9,800 from bank)	Dr. Dr.	9,800 200	10,000
November	4	B To Bank Account (Being the B's acceptance is to be renewed)	Dr.	10,000	10,000
November	4	B To Interest Account (Being the interest due from B for 3 months i.e., $8000 \times 3 / 12 \times 12\% = 240$)	Dr.	240	240
November	4	Cash A/c Bills Receivable A/c To B (Being amount and acceptance of new bill received from B)	Dr. Dr.	2,240 8,000	10,240
December	31	B A/c To Bills Receivable A/c (Being B became insolvent)	Dr.	8,000	8,000
December	31	Cash A/c	Dr.	3,200	

	Bad debts A/c	Dr.	4,800	
	To B			8,000
	(Being the amount received and written off on B's insolvency)			

(10 MARKS)

ANSWER –B

Statement showing the valuation of stock as on 31st March, 2019

		Rs.
A	Value of Stock as on 10th April, 2019	1,67,500
B	Add: Cost of sales after 31 st March, till stock taking (Rs.6,875 – Rs. 1,719)	5,156
C	Less: Purchases for the next period (net)	8,100
D	Less: Cost of Sales Returns	225
E	Less: Loss on revaluation of slow moving inventories	600
F	Less: Reduction in value on account of default	<u>300</u>
G	Value of Stock on 31 st March, 2019	<u>1,63,431</u>

Note: Profit margin of 33.33 percent on cost means 25 percent on sale price.

(5 MARKS)

ANSWER –C

Goods on sales or return, sold and returned day book in the books of 'X'

Date 2019	Party to whom goods sent	L.F	Amount Rs.	Date 2019	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> </u>	<u> </u>
			<u>77,000</u>		<u>47,000</u>	<u>17,000</u>

Goods on Sales or Return Total Account

2019		Amount Rs.	2019		Amount Rs.
Dec. 31	To Returns	17,000	Dec. 31	By Goods sent	
	To Sales	47,000		on sales or return	77,000
	To Balance c/d	13,000			_____
		77,000			77,000

(5 MARKS)

ANSWER -4

ANSWER –A

**Trading & Profit and Loss Account of
Mr. Sandeep for the year ended 31st December, 2018**

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock		1,400	By Sales	9,000	
To Purchase	12,000		Less: Sales return	<u>(1,000)</u>	8,000
Less: Purchase return	<u>(2,000)</u>	10,000	By Closing stock		4,500
To Gross Profit		<u>1,100</u>			_____
		<u>12,500</u>			12,500
				500	
				(100)	
To Salary	2,500		By Gross Profit		1,100
Add: Outstanding salary	100	<u>2,600</u>	By Commission		
			Less: Advance		400
To Tax & Insurance	500		By Accrued interest		210
Add: Outstanding	200		By Net Loss		2,500
Prepaid insurance	(50)	<u>650</u>			

To	Bad debt	500			
	Opening provision	(1,000)			
	Closing provision	1,000	<u>500</u>		
To	Interest on overdraft		<u>300</u>		
To	Depreciation on furniture		<u>160</u>		
			<u>4,210</u>		4,210

(5 MARKS)

Balance Sheet of Mr. Sandeep as on 31.3.2018

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
Capital	16,000		By Furniture	1,600	
Less: drawing	(2,000)		Less: Depreciation	<u>(160)</u>	1,440
Net loss	<u>(2,500)</u>	11,500	Bill receivable		3,000
Bank overdraft	2,000		Investment	4,000	
Add: interest	<u>300</u>	2,300	Add: accrued interest	<u>210</u>	4,210
Creditors		2,000	Debtors	5,000	
Bills payable		2,500	Less: Provision on bad debts	<u>(1,000)</u>	4,000
Outstanding expenses:			Closing stock		4,500
Salary	100		Cash in hand		1,500
Tax	<u>200</u>	300	Prepaid insurance		50
Commission received in advance		100			
		<u>18,700</u>			<u>18,700</u>

(5 MARKS)

ANSWER –B

(a)

Revaluation Account

Particulars	Rs.	Particulars	Rs.
To Stock	1,500	By Land & Building	25,000
To Partners: (Revaluation Profit)		By Provision for doubtful debt	2,000
Monika	8,500		
Yedhant	8,500		
Zoya	8,500		
	27,000		27,000

(2 MARKS)

Partners' Capital Accounts

Particulars	Monika	Yedhant	Zoya	Particulars	Monika	Yedhant	Zoya
To Zoya	4,375	4,375	-	By Bal b/d.	1,00,000	75,000	75,000
To Zoya's Executor	-	-	98,125	By General reserve	4,000	4,000	4,000
				By Monika & Yedhant	-	-	8,750
To Bal. c/d	1,08,125	83,125		By Profit and Loss Adjustment* (suspense) A/c	-	-	1,875
				By Revaluation	8,500	8,500	8,500
	1,12,500	87,500	98,125		1,12,500	87,500	98,125

*Profit and Loss Adjustment = $[(25,000 + 20,000 + 22,500)/3] \times 3/12 \times 1/3 = 1,875$

(3 MARKS)

Balance Sheet of Firm as on 1.7.2018

Particulars	Rs.	Particulars	Rs.
Monika	1,08,125	Land & Building	1,75,000
Yedhant	83,125	Investment	65,000
Zoya Executor	98,125	Stock	13,500
Creditors	20,000	Trade receivable	35,000
		Profit & Loss Adjustment	1,875
		Cash in hand	7,000
		Cash at bank	12,000
	3,09,375		3,09,375

Calculation of goodwill and Zoya's share

Average of last five year's profits and losses for the year ended on 31st March

31.3.2014	28,750
31.3.2015	35,000
31.3.2016	22,500
31.3.2017	20,000
31.3.2018	<u>25,000</u>
Total	<u>1,31,250</u>
Average profit	26,250

Goodwill at 1 year purchase = Rs. 26,250 x 1 = Rs. 26,250

Zoya's Share of Goodwill = Rs. 26,250X1/3

= Rs. 8,750

Which is contributed by Monika and Yedhant in their gaining Ratio

Monika = Rs. 8750X1/2 =Rs. 4375

Yedhant =Rs. 8750X1/2 = Rs. 4375

(5 MARKS)

ANSWER -5

ANSWER –A

Receipts and Payments Account for the year ended 31-03-2019

Receipts	Rs.	Payments	Rs.
To balance b/d		By Salaries	60,000
Cash and bank	1,10,000	By Purchase of sports goods	10,000
To Subscription received (W.N.1)	2,45,000	Rs. (25,000-15,000)	
To Sale of investments (W.N.2)	70,000	By Purchase of machinery	10,000
To Interest received on investment	14,000	Rs. (20,000-10,000)	
To Sale of furniture	8,000	By Sports expenses	50,000
		By Rent paid	22,000
		Rs. (24,000 -2,000)	
		By Miscellaneous expenses	5,000
		By Balance c/d	
		Cash and bank	<u>2,90,000</u>
	<u>4,47,000</u>		<u>4,47,000</u>

(3 MARKS)

Income and Expenditure account for the year ended 31-03-2019

Expenditure	Rs.	Rs.	Income	Rs.	Rs.
To Salaries	60,000		By Subscription		3,00,000
<i>Add:</i> Outstanding for 2019	<u>18,000</u>		By Interest on Investment		
	78,000		Received	14,000	
<i>Less:</i> Outstanding for 2018	<u>(15,000)</u>	63,000	Accrued (W.N.5)	<u>3,500</u>	17,500
To Sports expenses		50,000			
To Rent		24,000			
To Miscellaneous exp.		5,000			
To Loss on sale of furniture (W.N.3)		6,000			
To Depreciation (W.N.4)					
Furniture	1,400				
Machinery	1,500				
Sports goods	<u>2,250</u>	5,150			
To Surplus		<u>1,64,350</u>			
		<u>3,17,500</u>			<u>3,17,500</u>

(3 MARKS)

Working Notes:

(4 MARKS)

1. Calculation of Subscription received during the year 2018-19

	Rs.
Subscription due for 2018-19	3,00,000
<i>Add:</i> Outstanding of 2018	1,40,000
<i>Less:</i> Outstanding of 2019	(2,00,000)
<i>Add:</i> Subscription of 2019 received in advance	30,000
<i>Less:</i> Subscription of 2018 received in advance	<u>(25,000)</u>
	<u>2,45,000</u>

2. Calculation of Sale price and profit on sale of investment

Face value of investment sold: Rs. 1,75,000 × 50% = Rs. 87,500

Sales price: Rs. 87,500 × 80% = Rs. 70,000

Cost price of investment sold: Rs. 1,40,000 × 50% = Rs. 70,000

Profit/loss on sale of investment: Rs. 70,000 - Rs. 70,000 = NIL

3. Loss on sale of furniture

	Rs.
Value of furniture as on 01-04-2018	28,000
Value of furniture as on 31-03-2019	14,000
Value of furniture sold at the beginning of the year	14,000

Less: Sales price of furniture	<u>(8,000)</u>
Loss on sale of furniture	<u>6,000</u>

4. Depreciation

Furniture - Rs.14,000 × 10%=	1,400
Machinery- Rs.10,000 × 15% =	1,500
Sports goods – Rs.15,000 × 15% =	2,250

5. Interest accrued on investment

	Rs.
Face value of investment on 01-04-2018	1,75,000
Interest @ 10%	17,500
Less: Interest received during the year	<u>(14,000)</u>
Interest accrued during the year	<u>3,500</u>

Note: It is assumed that the sale of investment has taken place at the end of the year.

ANSWER –B

PETTY CASH BOOK

Receipts	Date	V. No.	Particulars	Total	Con-veyance	Carta ge	Statio-nery	Postage & Telegrams	Wages	Sundries
Rs.	2019			Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
20,000	April 1		To Cash							
	2	1	By Conveyance	500	500					
	3	2	By Cartage	2,500		2,500				
	4	3	By Postage and Telegrams	500				500		
	5	4	By Wages	600						
	5	5	By Stationery	400			400		600	
	6	6	By Repairs to machine	1,500						1,500
	6	7	By Conveyance	100	100					
	7	8	By Cartage	400		400				
	7	9	By Postage and Telegrams	700				700		
	8	10	By Cartage	3,000		3,000				

	9	11	By Stationery	2,000			2,000			
	10	12	By Sundry Expenses	5,000						5,000
				17,200	600	5,900	2,400	1,200	600	6,500
			By Balance c/d	2,800						
20,000				20,000						
2800			To Balance b/d							
17,200	11		To Cash							

(10 MARKS)

ANSWER -6

ANSWER -A

In the books of Bhagwati Ltd. Journal Entries

		Dr.	Cr.
		Rs.	Rs.
Bank A/c	Dr.	9,00,000	
To Equity Share Application A/c			9,00,000
(Being the application money received for 3,00,000 shares at Rs. 3 per share)			
Equity Share Application A/c	Dr.	9,00,000	
To Equity Share Capital A/c (2,00,000 x Rs. 3)			6,00,000
To Share allotment A/c			3,00,000
(Being share allotment made for 2,00,000 shares and excess adjusted towards allotment)			
Equity Share Allotment A/c	Dr.	10,00,000	
To Equity Share Capital A/c			10,00,000
(Being allotment amount due on 2,00,000 equity shares at Rs. 5 per share as per Directors' resolution no... dated...)			
Bank A/c	Dr.	7,00,000	
To Equity Share Allotment A/c			7,00,000

(Being balance allotment money received for 2,00,000 shares at Rs. 5 per share.)			
Equity Share first and final call A/c	Dr.	4,00,000	
To Equity Share Capital A/c			4,00,000
(Being first and final call amount due on 2,00,000 equity shares at Rs. 2 per share as per Directors' resolution no... dated...)			
Bank A/c	Dr.	3,94,000	
Calls in arrears A/c		6,000	
To Equity Share first and final call A/c			4,00,000
(Being final call received on 1,97,000 shares)			
Share capital A/c (3,000 x Rs. 10)	Dr.	30,000	
To Forfeited share A/c (3,000 x Rs. 8)			24,000
To Calls in arrears A/c (3,000 x Rs. 2)			6,000
(Being forfeiture of 3,000 shares of Rs. 10 each fully called- up for non payment of first and final call @ Rs. 2 as per Directors' resolution no... dated..)			
Bank A/c (2,500 x Rs.6)	Dr.	15,000	
Forfeited share A/c (2,500 x Rs.4)		10,000	
To Equity Share Capital A/c (2,500 x Rs. 10) (Being re-issue of 2,500 shares @6)			25,000
Forfeited share A/c (2,500 x Rs. 4)		10,000	
To capital reserve A/c (2,500 x Rs. 4)			10,000
(Being profit on re-issue transferred to capital reserve)			

(9*1 = 9 MARKS)

Working Note:

Calculation of amount to be transferred to Capital reserve A/c Rs.

Forfeited amount per share = $24,000/3,000 = 8$

Loss on re issue (8-4) 4

Surplus per share 4

Transfer to capital reserve 4 x 2,500 Rs. 10,000

ANSWER –B

Journal Entries

			Dr. (Rs.)	Cr. (Rs.)
1-1-2018	Bank A/c	Dr.	18,00,000	
	Discount/Loss on Issue of Debentures A/c	Dr.	3,00,000	
	To 10% Debentures A/c			20,00,000
	To Premium on Redemption of Debentures A/c			1,00,000
	(For issue of debentures at discount redeemable at premium)			
30-6-2018	Debenture Interest A/c	Dr.	1,00,000	
	To Debenture holders A/c			90,000
	To Tax Deducted at Source A/c			10,000
	(For interest payable)			
	Debenture holders A/c	Dr.	90,000	
	Tax Deducted at Source A/c	Dr.	10,000	
	To Bank A/c			1,00,000
	(For payment of interest and TDS)			
31-12-2018	Debenture Interest A/c	Dr.	1,00,000	
	To Debenture holders A/c			90,000
	To Tax Deducted at Source A/c			10,000
	(For interest payable)			
	Debenture holders A/c	Dr.	90,000	
	Tax Deducted at Source A/c	Dr.	10,000	
	To Bank A/c			1,00,000
	(For payment of interest and tax)			
	Profit and Loss A/c	Dr.	2,00,000	
	To Debenture Interest A/c			2,00,000
	(For transfer of debenture interest to profit and loss account at the end of			

	the year)	Dr.	60,000	60,000
	Profit and Loss A/c			
	To Discount/Loss on issue of debenture A/c			
	(For proportionate debenture discount and premium on redemption written off, i.e., 3,00,000 x 1/5)			

(5 MARKS)

ANSWER – C

Banks are essential to modern society, but for an industrial unit, it serves as a necessary instrument in the commercial world. Most of the transactions of the business are done through bank whether it is a receipt or payment. Rather, it is legally necessary to operate the transactions through bank after a certain limit. All the transactions, which have been operated through bank, if not verified properly, the industrial unit may not be sure about its liquidity position in the bank on a particular date. There may be some cheques which have been issued, but not presented for payment, as well as there may be some deposits which has been deposited in the bank, but not collected or credited so far. Some expenses might have been debited or bills might have been dishonoured. It is not known to the industrial unit in time, it may lead to wrong conclusions. The errors committed by bank may not be known without preparing bank reconciliation statement. Preparation of bank reconciliation statement prevents the chances of embezzlement. Hence, bank reconciliation statement is very important and is a necessity of an industrial unit as it plays a key role in the liquidity control of the industry.

(5 MARKS)