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Test Code – JKN_ACC_02

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- NOTES: (1) WORKING NOTES SHOULD FORM PART OF ANSWERS.
(2) INTERNAL WORKING NOTES SHOULD ALSO BE CONSIDERED.
(3) NEW QUESTION SHOULD BE ON NEW PAGE**

ANSWER -1

ANSWER –A

- (i) **False:** A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale as they have already been allotted earlier.
- (ii) **False:** If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.
- (iii) **False:** There are three ways of preparing an Account Current: (i) With help of interest table; (ii) By means of products and (iii) By means of products of balances.
- (iv) **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.
- (v) **True-** If a partner retires, his share of profit or loss will be shared by the other partners in their profit sharing ratio.
- (vi) **False:** Net income is determined by preparing income and expenditure in case of persons practicing vocation.

(2*6 = 12 marks)

ANSWER –B

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

(0.5*4 = 2 marks)

ANSWER –C

Accounting standards seek to describe the accounting principles, the valuation techniques and the methods of applying the accounting principles in the preparation and presentation of financial statements so that they may give a true and fair view. By setting the accounting standards, the accountant has following benefits:

1. Standards reduce to a reasonable extent or eliminate altogether confusing variations in the accounting treatments used to prepare financial statements.
2. There are certain areas where important information are not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.
3. The application of accounting standards would, to a limited extent, facilitate comparison of financial statements of companies situated in different parts of the world and also of different companies situated in the same country. However, it should be noted in this respect that differences in the institutions, traditions and legal systems from one country to another give rise to differences in accounting standards adopted in different countries.

However, there are some limitations of accounting standards:

- Difficulties in making choice between different treatments:** Alternative solutions to certain accounting problems may each have arguments to recommend them. Therefore, the choice between different alternative accounting treatments may become difficult.
- Restricted scope:** Accounting standards cannot override the statute. The standards are required to be framed within the ambit of prevailing statutes.

(6 marks)

ANSWER -2

ANSWER –A

Triple Column Cash Book

Dr.									Cr.
Date	Particulars	Discount	Cash	Bank	Date	Particulars	Discount	Cash	Bank
2019		Rs.	Rs.	Rs.	2019		Rs.	Rs.	Rs.
Nov. 1	To Balance b/d	-	3,000	12,000	Nov. 2	By Bank (C)		1,000	
Nov. 2	To Cash (C)		-	1,000	Nov. 5	By Furniture A/c			1,500
Nov. 12	To Mohan	20	980		Nov. 8	By Purchase A/c		500	
Nov. 14	To Sales A/c		5,000		Nov. 16	By Amar	50		1,450
Nov. 19	To Cash (C)			500	Nov. 19	By Bank (C)		500	
Nov. 24	To Parul (Note 2)	20	1,430		Nov. 23	By Drawings A/c			600
Nov. 26	To Cash (C)			1,430	Nov. 26	By Bank (C)		1,430	
Nov. 28	To Bank (C)		2,000		Nov. 28	By Cash (C)			2,000
					Nov. 30	By Rent A/c			800
		_____	_____	_____	Nov. 30	By Balance c/d	_____	<u>8,980</u>	<u>8,580</u>
		<u>40</u>	<u>12,410</u>	<u>14,930</u>			<u>50</u>	<u>12,410</u>	<u>14,930</u>
Dec. 1	Balance b/d		8,980	8,580					

Note:

- Discount allowed and discount received Rs. 40 and Rs. 50 respectively should be posted in respective Accounts in the ledger.
- When cheque is not promptly deposited into Bank, first it is entered in the Cash Column and subsequently at the time of deposit, Bank Account is debited and Cash Account is credited.

(10 marks)

ANSWER –B**Bank Reconciliation Statement as on 31st March, 2018**

Particulars	Details	Amount
	Rs.	Rs.
Debit balance as per Cash Book		18,60,000
<i>Add:</i> Cheque issued but not yet presented to bank for payment	3,60,000	
Dividend received by bank not entered in cash book	2,50,000	
Interest credited by bank	<u>6,250</u>	<u>6,16,250</u>
		24,76,250
<i>Less:</i> Cheques deposited into bank but not yet collected	7,70,000	
Bank charges debited by Bank	1,000	
Cheque deposited into bank was dishonoured	1,60,000	
House tax paid by bank	<u>1,75,000</u>	<u>(11,06,000)</u>
Credit balance as per Pass Book		<u>13,70,250</u>

(7 marks)**ANSWER –C**

Bank reconciliation statement is prepared as on a particular date to reconcile and explain the causes of difference between the bank balance as per cash book and the same as per savings bank pass book or current account statement. At the end of each month, the bank balance as per cash book and that as per pass book /bank statement should be compared and, if there is disagreement, these balances should be reconciled stating exact reasons of disagreement. The reconciliation is made in a statement called the bank reconciliation statement.

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

1. Cheques issued but not yet presented for payment.
2. Cheques deposited into the bank but not yet cleared.
3. Interest allowed by the bank.
4. Interest and expenses charged by the bank.
5. Interest and dividends collected by the bank.
6. Direct payments by the bank.
7. Direct deposits into the bank by a customer.
8. Dishonour of a bill discounted with bank
9. Bills collected by the bank on behalf of the customer.
10. An error committed by the bank etc.

(3 marks)

ANSWER -3

ANSWER –A

In the books of Ganpath

Consignment to Rawat of Jaipur Account

<i>Particulars</i>	<i>Rs.</i>	<i>Particulars</i>	<i>Rs.</i>
To Goods sent on Consignment	7,50,000	By Rawat (Sales)	7,35,000
To Bank (Expenses: 15,000+45,000+15,000)	75,000	By Goods lost in Transit 50 cases @ Rs. 1,650 each (WN1)	82,500
To Rawat (Expenses: 18,000+25,000+7,000)	50,000	By Consignment Inventories: In hand 50 @ Rs. 1,695 each (WN2)	84,750
To Rawat (Commission)	73,500	By Consignment Inventories: In transit 50 @ Rs. 1,650 each (WN3)	
To Profit on Consignment ts/f to Profit & Loss A/c	36,250		<u>82,500</u>
	9,84,750		9,84,750

(5 marks)

Rawat's Account

<i>Particulars</i>	<i>Rs.</i>	<i>Particulars</i>	<i>Rs.</i>
To Consignment to Jaipur A/c	7,35,000	By Consignment A/c (Expenses)	50,000
		By Consignment A/c(Commission)	73,500
		By Balance c/d	<u>6,11,500</u>
	<u>7,35,000</u>		7,35,000

Working Notes:

1. Consignor's expenses on 500 cases amounts to Rs. 75,000; it comes to Rs. 150 per case. The cost of cases lost will be computed at Rs. 1,650 per case i.e. 1,500 + 150.
2. Rawat has incurred Rs. 18,000 on clearing 400 cases, i.e., Rs. 45 per case; while valuing closing inventories with the agent Rs. 45 per case has been added to cases in hand with the agent i.e. 1,500 + 150 + 45.
3. The goods in transit (50 cases) have not yet been cleared. Hence the proportionate clearing charges on those goods have not been included in their value i.e. 1,500+150 =1,650.
4. It has been assumed that balance of Rs. 6,11,500 is not yet paid.

(5 marks)

ANSWER –B**Calculation of Average Due Date****(Taking 3rd March, 2018 as base date)**

Date of bill 2018	Term	Due date 2018	Amount (Rs.)	No. of days from the base date i.e 3rd march 2018 (Rs.)	Product (Rs.)
28 th January	1 month	3 rd March	5,000	0	0
20 th March	2 months	23 rd May	4,000	81	3,24,000
12 th July	1 month	14 th Aug.	7,000	164	11,48,000
10 th August	2 months	13 th Oct.	<u>6,000</u>	224	13,44,000
			<u>22,000</u>		28,16,000

Average due date = Base date + Days equal to $\frac{\text{Sum of Products}}{\text{Sum of Amounts}}$

$$= 3^{\text{rd}} \text{ march ,2018} + \frac{28,16,000}{22,000}$$

$$= 3^{\text{rd}} \text{ March, 2018} + 128 \text{ days} = 9^{\text{th}} \text{ July, 2018}$$

Working Note:

Bill dated 12th July, 2018 has the maturity period of one month, due date (after adding 3 days of grace) falls on 15th August, 2018. 15th August being public holiday, due date would be preceding date i.e. 14th August, 2018.

(5 marks)**ANSWER –C****In the books of Mr. Perfact**

**Mr. Smart in Account Current with Mr. Perfact (Interest
to 31st March, 2019 @ 12% p.a.)**

(By means of product)

Date 2019	Particulars	Due Date	Amount ₹	Days	Product	Date 2019	Particulars	Due Date	Amount ₹	Days	Product
Jan 12	To Sales A/c	Feb. 1	30,000	58	17,40,000	Jan. 1	By Balance b/d	Jan. 1	3,500	90	3,15,000
Jan 31	To Sales A/c	Feb. 15	27,500	44	12,10,000	Feb. 15	By Cash A/c	Feb. 15	40,000	44	17,60,000
Mar. 31	To Interest		130			Feb. 20	By Cash A/c	Feb. 20	7,500	39	2,92,500
	3,96,500/365					Mar. 10	By Sales returns	Mar. 10	7,000	21	1,47,000
	$x \frac{12}{100}$					Mar. 25	By Cash A/c	Mar. 25	6,500	6	39,000
Mar. 31	To Balance c/d		6,870			Mar. 31	By Balance of products				3,96,500
			<u>64,500</u>		<u>29,50,000</u>				<u>64,500</u>		<u>29,50,000</u>

(5 marks)

ANSWER -4

ANSWER -A

Revaluation Account

Particulars	Rs.	Particulars	Rs.
To Provision for Doubtful Debts A/c.	1,500	By Land and Buildings A/c.	3,000
To Profit on revaluation transferred to : Krishna's Capital A/c. 2,400		By stock A/c	2,500
Balram Capital A/c. 1,600	4,000		
	5,500		5,500

(2 marks)

Partner's Capital Accounts

Particulars	K	B	S	Particulars	K	B	S
To K & B (G/W)	-	-	10,000	By balance b/d	15,000	10,000	-
To advertisement Expenditure A/c.	3,000	2,000	-	By General Reserve A/c.	18,000	12,000	-
To balance c/d	40,200	26,800	15,000	By Revaluation A/c.	2,400	1,600	-
				By Workmen's compensation Reserve A/c.	1,800	1,200	-
				By Bank A/c. (Cap + G/W)	-	-	25,000
				By Subhadra Capital (G/W)	6,000	4,000	-
Total	43,200	28,800	15,000	Total	43,200	28,800	15,000

Note :

1. Provident Fund is an Outside Liability (and not a Reserve). Therefore, it will not be adjusted.
2. Workmen's compensation Reserve is a Specific Reserve created for payment of compensation in case of an accident. It appears in the Balance Sheet as Rs. 15,000 whereas the liability for workmen compensation is Rs. 12,000. Hence, the excess Reserve is Rs. 3,000 transferred to the Old Partners' Capital Accounts in the old Ratio, i.e. 3 : 2.
3. Advertisement Expenditure is Deferred Revenue Expenditure, and transferred directly to the Old Partners Capital A/c, in the Old Ratio, as it is an accumulated loss.

(4 marks)**Balance Sheet of the new Firm (after admission)**

Liabilities	Rs.	Assets	Rs.
Capital A/cs.		Land and buildings (18,000 + 3,000)	21,000
Krishna	40,200		
Balram	26,800	Plant & Machinery	12,000
Subhadra	15,000	82,000 Stock (11,000 + 2,500)	13,500
Workmen's Compensation Reserve	12,000	Debtors	22,000
Creditors	10,000	Less : Provision for doubtful Debts	2,500
Provident Fund	8,000	Bank	46,000
Total	1,12,000	Total	1,12,000

(4 marks)**ANSWER –B****Income and Expenditure Account of Mumbai Club for the year ended 31st December, 2018**

Dr.					Cr.
Expenditure	Rs.	Rs.	Income	Rs.	Rs.
To Salary		2,000	By Donation	5,000	
To Repair expenses		500	Less: Capitalised (50%)	<u>2,500</u>	2,500
To Misc. expenses	500		By Subscriptio/ns	12,000	
Less: Prepaid	<u>90</u>	410	Add: Outstanding	<u>900</u>	
To Insurance premium	200			12,900	
Add: Outstanding	<u>40</u>	240	Less: Advance for 2019	<u>350</u>	12,550
To Paper, ink etc.		150	By Entrance fees		1,000
To Drama expenses		500	By Interest on investment		300
To Surplus-excess of		14,150	[100+8/100x6,000x5/12]		

income over expenditure			By Interest received from bank	400
			By Sale of old newspapers	150
			By Sale of drama tickets	<u>1,050</u>
		<u>17,950</u>		<u>17,950</u>

(6 marks)

Balance Sheet of Mumbai Club as on 31st December, 2018

<i>Liabilities</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Capital fund			Billiard table	30,000
Opening balance	36,000		Furniture	6,000
Add: Surplus	14,150		Investments	6,000
Donations	<u>2,500</u>	52,650	Interest accrued	200
Outstanding insurance premium		40	Prepaid expenses	90
Subscription received in advance		350	Subscriptions receivable	900
			Cash in hand	2,650
			Cash at bank	<u>7,200</u>
		<u>53,040</u>		<u>53,040</u>

Working Note:

**Balance Sheet of Mumbai Club
as on 31st December, 2017**

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Capital fund	36,000	Billiard table	30,000
(balancing figure)		Cash in hand	4,000
Creditors for billiard table	<u>8,000</u>	Cash at bank	<u>10,000</u>
	<u>44,000</u>		<u>44,000</u>

(4 marks)

ANSWER -5

ANSWER -A

Profit and Loss Appropriation Account for the year ended 31st December, 2019

Dr.

Cr.

	<i>Rs.</i>	<i>Rs.</i>		<i>Rs.</i>
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 accounts :				
[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)

ANSWER –B

Valuation of Physical Stock as at March 31, 2018

		Rs.
Stock at cost on 31.12.2017		80,000
Add: (1) Undercasting of a page total	200	
(2) Goods purchased and delivered during January – March, 2018 Rs. (70,000 – 3,000 + 4,000)	71,000	
(3) Cost of sales return Rs. (1,000 – 200)	<u>800</u>	<u>72,000</u>
		1,52,000
Less:(1) Overcasting of a page total Rs. (6,000 – 5,000)	1,000	
(2) Goods sold and dispatched during January – March, 2018 Rs. (90,000 – 5,000 + 4,000)	89,000	
Less: Profit margin (89000 X 25/125)	<u>17800</u>	<u>71,200</u>
		<u>72,200</u>
Value of stock as on 31st March, 2018		<u>79,800</u>

(5 marks)

ANSWER –C

A. Income and expenditure Account for the year ended 31st March

Particulars	Rs.	Particulars	Rs.
To Medicines Consumed :		By Prescription fees	52,500
Purchases	24,500	By Gift from Patients (= Income in kind)	13,500
Less : Closing stock	(9,500)	By Visiting Fees	25,000
To Motor Car Expenses (12,000 – Personal 4,000)	8,000	By Fee from Lectures	2,400
To wages and Salaries (Rs. 10,500 – Rs. 3,000)	7,500		
To Rent for Clinic	6,000		
To General Charges	4,900		
To Interest on Loan	4,500		
To Net Income (balancing figure)	47,500		
Total	93,400	Total	93,400

(5 marks)

B. Balance sheet as on 31st March

Capital and Liabilities	Rs.	Properties and Assets	Rs.
Capital	48,500	Non – Current Assets : Motor car	32,000
Non – Current Liabilities : Loan	30,000	Surgical Equipments	25,000
		Current Assets : Stock of Medicines	9,500
		Cash at Bank	11,000
		Cash in hand	1,000
	78,500		78,500

(2 marks)

C. Capital account for the year ended 31st March

Particulars	Rs.	Particulars	Rs.
To Drawings :		By Cash / Bank	20,000
- Motor Car Expenses (1/3 rd of Rs. 12,000)	4,000	By Cash / Bank (Pension)	30,000
- Household Expenses	18,000	By Net Income from Practice	47,500
- Daughter's Marriage Expenses	21,500	(from Income and Expenditure A/c)	
- Wages of Domestic Servants	3,000		
- Household Furniture	2,500		
To Balance c/d (Balancing figure)	48,500		
Total	97,500	Total	97,500

(3 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 @ Rs. 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 Rs.4 x 2,500 Rs.10,000

(1 mark)

ANSWER –B

In the books of X Company Ltd.

Journal Entries

Date	Particulars	Rs.	Rs.
(a)	Bank A/c Dr. To Debentures Application A/c (Being the application money received on 5,000 debentures @ Rs. 450 each)	22,50,000	22,50,000
	Debentures Application A/c Dr. Discount on issue of Debentures A/c Dr. To 14% Debentures A/c (Being the issue of 5,000 14% Debentures @ 90% as per Board's Resolution No....dated....)	22,50,000 2,50,000	25,00,000
(b)	Fixed Assets A/c Dr. To Vendor A/c (Being the purchase of fixed assets from vendor)	10,00,000	10,00,000
	Vendor A/c Dr. Discount on Issue of Debentures A/c Dr. To 14% Debentures A/c (Being the issue of debentures of Rs.12,50,000 to vendor to satisfy his claim)	10,00,000 2,50,000	12,50,000
(c)	Bank A/c Dr.	10,00,000	

To Bank Loan A/c (See Note)		10,00,000
(Being a loan of Rs.10,00,000 taken from bank by issuing debentures of Rs.12,50,000 as collateral security)		

Note : No entry is made in the books of account of the company at the time of making issue of such debentures. In the Balance Sheet the fact that the debentures being issued as collateral security and outstanding are shown under the respective liability.

(5 marks)

ANSWER –C

Distinction between Trade bill and Accommodation bill

- (a) Trade bills are usually drawn to facilitate trade transmission, that is, these bills are meant to finance actual purchase and sale of goods. On the other hand, an accommodation bill is one which is drawn, accepted or endorsed for the purpose of arranging financial accommodation for one or more interested parties.
- (b) On discount of a trade bill, full amount is retained by the drawer. In an accommodation bill however, the amount may be shared by the drawer and the drawee in an agreed ratio.
- (c) Trade bill is drawn for some consideration while accommodation bill is drawn and accepted without any consideration.
- (d) Trade bill acts as an evidence of indebtedness while accommodation bill acts as a source of finance.
- (e) In order to recover the debt, the drawer can initiate legal action on a trade bill. In accommodation bill, legal remedy for the recovery of amount may not be available for immediate parties.

(5 marks)