SUGGESTED SOLUTION

CA FOUNDATION

SUBJECT- ACCOUNT

Test Code – CNP 2231

BRANCH - () (Date :)

Head Office : Shraddha, 3rd Floor, Near Chinai College, Andheri (E), Mumbai – 69Rs.
Tel : (022) 26836666

ANSWER : 1

(i) True: Since the temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised.

(ii) False: Finished goods are normally valued at cost or net realizable value whichever is lower

(iii) False: The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission

(iv) False: The firm will receive full value of sum assured of the joint life policy on the death of the partner

(v) True: When in case of trading activities for a Non- Profit -Organisation, the profit/loss from such activity is to be transferred to the Income Expenditure Account at the time of consolidation

(vi) False: The right hand side of the equation includes cash twice- once as a part of current assets and another separately The basic accounting equation is

Equity + Long Term Liabilities = Fixed Assets + Current Assets - Current Liabilities

(6 * 2 MARKS = 12)

ANSWER : 1(B)

	Provision	Contingent liability
(1)	Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation	A Contingent liability is a possible obligation that may or may not crystallise depending on the occurrence or non-occurrence of one or more uncertain future events
(2)	A provision meets the recognition criteria	A contingent liability fails to meet the same.
(3)	Provision is recognized when (a) an enterprise has a present obligation arising from past events; an outflow of resources embodying economic benefits is probable, and (b) a reliable estimate can be made of the amount of the obligation.	Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that settlement of those obligations will require outflow of economic benefits, or the amount cannot be reliably estimated.
(4)	If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognises a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow from the firm to settle the obligation, it discloses the obligation as a contingent liability.

(4 MARKS)

ANSWER : 1(C)

Ayodhya Ltd.

Bank Reconciliation Statement as on 31.3.2021

Particulars	**Rs.**
Balance as per cash book	3,60,000
Add : Cheque issued but not	2,04,000
presented Interest credited	4,500
	5,68,500
Less : Bank charges	(900)
Balance as per pass book	**5,67,600**

(4 MARKS)

ANSWER : 2(A)

Quarry Lease Account

Dr. **Date**	**Particulars**	**Amount Rs.**	**Date**	**Particulars**	**Cr.** **Rs.**
2019 Jan.	To Bank A/c	6,00,00,000	2019 Dec. 31	By Depreciation A/c [(12,000/12,00,000) × Rs. 6,00,00,000]	6,00,000
			Dec. 31	By Balance c/d	5,94,00,000
		6,00,00,000			6,00,00,000
2020 Jan. 1	To Balance b/d	5,94,00,000	2020 Dec. 31	By Depreciation A/c	30,00,000
			Dec. 31	By Balance c/d	5,64,00,000
		5,94,00,000			5,94,00,000
2021 Jan. 1	To Balance b/d	5,64,00,000	2021 Dec. 31	By Depreciation A/c	45,00,000
			Dec. 31	By Balance c/d	5,19,00,000
		5,64,00,000			5,64,00,000

Depreciation Account

Dr.		**Rs.**			**Cr.** **Rs.**
2019 Dec. 31	To Quarry lease A/c	6,00,000	2019 Dec. 31	By Profit & Loss A/c	6,00,000
		6,00,000			6,00,000
2020 Dec. 31	To Quarry lease A/c	30,00,000	2020 Dec. 31	By Profit & Loss A/c	30,00,000
		30,00,000			30,00,000
2021 Dec. 31	To Quarry lease A/c	45,00,000	2021 Dec. 31	By Profit & Loss A/c	45,00,000
		45,00,000			45,00,000

(10 MARKS)

ANSWER : 2(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)		800	72,000
			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 $\left(89{,}000 \times \frac{25}{125}\right)$	17,800	71,200	(72,200)
Value of stock as on 31st March, 2018			79,800

Note: In the above solution, transfer of ownership is assumed to take place at the time of delivery of goods. If it is assumed that transfer of ownership takes place on the date of invoice, then Rs. 4,000 goods delivered in March 2018 for which invoice was received in April, 2018, would be treated as purchases of the accounting year 2017-2018 and thus excluded. Similarly, goods dispatched in March, 2018 but invoiced in April, 2018 would be excluded and treated as sale of the year 2017-2018.

(5 MARKS)

ANSWER : 2(C)

Books of K. Katrak

Journal Entries

			Dr. Rs.	**Cr. Rs.**
(i)	Bills Payable Account	Dr.	2,500	
	Interest Account	Dr.	50	
	To Cash A/c			1,000
	To Bills Payable Account			1,550
	(Bills Payable to Basu discharged by cash payment of Rs. 1,000 and a new bill for Rs.1,550 including Rs. 50 as interest)			
(ii)	(a) G. Gupta	Dr.	4,020	
	To M. Mehta			4,020
	(G. Gupta's acceptance for Rs. 4,000 endorsed to M. Mehta dishonoured, Rs. 20 paid by M. Mehta as noting charges)			
	(b) M. Mehta	Dr.	4,020	
	To Bank Account			4,020
	(Payment to M. Mehta on withdrawal of bill earlier received from Mr. G. Gupta)			

(iii)	Bank Account	Dr.	1,990	
	Discount Account	Dr.	10	
	To Bills Receivable Account			2,000
	(Payment received from D. Dalal against his acceptance for Rs. 2,000. Allowed him a discount of Rs. 10)			
(iv)	Bills Payable Account	Dr.	5,000	
	To Bills Receivable Account			5,000
	(Bills Receivable from Mody endorsed to Patel in settlement of bills payable issued to him earlier)			

(5 MARKS)

ANSWER : 3(A)

In the Books of Nishant

Consignment Account

	Rs.		**Rs.**
To Goods sent on consignment A/c(15,000 kg x Rs. 30)	4,50,000	By Consignee's A/c-Sales (7,500 kg x Rs. 60)	4,50,000
To Cash A/c (Expenses 15,000 kg x Rs. 5)	75,000	By Abnormal Loss A/c (WN-1)	5,000
		By Insurance claim	9,000
To Consignee's A/c:		By Consignment Stock A/c (WN-2)	2,46,690
Advertisement & Recurring expenses	33,000		
Commission @ 5% on Rs.4,50,000	22,500		
To Profit and loss A/c (Profit on Consignment)	1,30,190		
	7,10,690		**7,10,690**

Working Notes:

1. Abnormal Loss:

Cost of goods lost: 400 kg	
Total cost (400 x Rs. 30)	12,000
Add: expenses incurred by the consignor @ Rs.5 per kg	2,000
Gross Amount of abnormal loss	14,000
Less: Insurance claim	(9,000)
Net abnormal loss	5,000

2. Valuation of Inventories

	Quantity (Kgs)	**Amount (Rs.)**
Total Cost (15,000 kg x Rs.30)	15,000	4,50,000

Add: Expenses incurred by the consignor		75,000
Less: Value of Abnormal Loss – 400 kgs (WN 1)	(400)	(14,000)
	14,600	5,11,000
Less: Normal Loss	(100)	
	14,500	5,11,000
Less: Quantity of Sugar sold	(7,500)	
Quantity of Closing Stock	7,000	
Value of 7,000 kgs – (5,11,000/14,500) x 7,000		**2,46,690**

(10 MARKS)

ANSWER : 3(B)

In the books of Mr. Somnath
Journal Entries

Date	Particulars		L.F.	Dr. (in Rs.)	*Cr. (in Rs.)*
2021 Dec. 12	Trade receivables A/c	Dr.		1,60,000	
	To Sales A/c				1,60,000
	(Being the goods sent to customers on sale orreturn basis)				
Dec. 20	Return Inward A/c	Dr.		70,000	
	To Trade receivables A/c				70,000
	(Being the goods returned by customers to whom goods were sent on sale or return basis)				
Dec. 27	Sales A/c	Dr.		30,000	
	To Trade receivables A/c				30,000
	(Being the cancellation of original entry of sale in respect of goods on sale or return basis)				
Dec. 31	Inventories with customers on Sale or Return A/c	Dr.		24,000	
	To Trading A/c (Note 2)				24,000
	(Being the adjustment for cost of goods lying with customers awaiting approval)				

Working Note:

(1) No entry is required for receiving letter of approval from customer.

(2) Cost of goods with customers = Rs. 30,000 x 100/125 = Rs. 24,000

(5 MARKS)

ANSWER : 3(C)(I)

Taking 19.6.2021 as a Base date

Transaction Date	Due Date	Amount	No of days	Amount
8.3.2021	11.7.2021	16,000	22	3,52,000
16.3.2021	19.6.2021	20,000	0	0
7.4.2021	10.9.2018	24,000	83	19,92,000
17.5.2021	20.8.2018	20,000	62	12,40,000
		80,000		35,84,000

Average Due Date = Base data + $\frac{Total\ of\ Product}{Total\ of\ Amount}$

= 19.6.2021 + Rs. 35,84,000/ .80,000

= 19.6.2021 + 44.8 days (or 45 days approximately)

= 3.8.2021

Amar wants to save interest of Rs. 628. The yearly interest is Rs. 80,000 × 18%

= Rs. 14,400.

Assume that days corresponding to interest of Rs. 628 are Y.

Then, 14,400 × Y/365 = Rs. 628

or Y = 628 × 365/14,400 = 15.9 days or 16 days (Approx.)

Hence, if Amar wants to save Rs. 628 by way of interest, she should prepone the payment of amount involved by 16 days from the Average Due Date. Hence, she should make the payment on 18.7.2021 (3.8.2021 – 16 days) **(5 MARKS)**

OR

ANSWER : 3(C)(II)

In the books of A

B in Account Current with A

(interest to 31st March,2021@10%p.a.)

Date	Due date	Particulars	No. of days till 31.3.21	Amt.	Product	Date	Due date	Particulars	No. of days till 31.3.21	Amt.	Product
2020	2020			Rs.	Rs.	2020	2020			Rs..	Rs..
Oct 1,	Oct 1,	To Balance b/d	182	3,000	5,46,000	Nov 16	Nov 26	By Purchases	125	4,000	5,00,000
Oct 18,	Oct 18	To Sales	164	2,500	4,10,000	Dec 7	Dec. 17	By Purchases	104	3,500	3,64,000
2021	2021					2021	2021				
Jan 3	Apr 6	To Bills payable	(6)	5,000	(30,000)	Mar 28	Apr 8	By Purchases	(8)	2,700	(21,600)
Feb 4	Feb 4	To Cash	55	1,000	55,000	Mar 31	Mar 31	By Balance ofproduct			1,81,600

Mar 21	Mar. 21	To Sales	10	4,300	43,000			By Balance c/d		5,650	
Mar 31	Mar 31	To Interest		50	-						
				15,850	**10,24,000**					**15,850**	**10,24,000**

Interest for the period = $\frac{1,81,600 \times 10 \times 1}{100 \times 365}$ = Rs. 50 (approx.)

(5 MARKS)

ANSWER : 4(A)

Subscription for the year ended 31.3.2021

		Rs.
Subscription received during the year		11,25,000
Less: Subscription receivable on 1.4.2020	33,750	
Less: Subscription received in advance on 31.3.2021	15,750	(49,500)
		10,75,500
Add: Subscription receivable on 31.3.2021	49,500	
Add: Subscription received in advance on 1.4.2020	27,000	76,500
Amount of Subscription appearing in Income & ExpenditureAccount		11,52,000

Sports material consumed during the year end 31.3.2021

	Rs.
Payment for Sports material	6,75,000
Less: Amounts due for sports material on 1.4.2020	(2,02,500)
	4,72,500
Add: Amounts due for sports material on 31.3.2021	2,92,500
Purchase of sports material	7,65,000
Sports material consumed:	
Stock of sports material on 1.4.2020	2,25,000
Add: Purchase of sports material during the year	7,65,000
	9,90,000
Less: Stock of sports material on 31.3.2021	(3,37,500)
Amount of Sports Material appearing in Income & Expenditure Account	6,52,500

Balance Sheet of M/s Missionary Club For the year ended 31st March, 2021(An extract)

Liabilities	**Rs.**	**Assets**	**Rs.**
Unearned Subscription	15,750	Subscription receivable	49,500
Amount due for sports material	2,92,500	Stock of sports material	3,37,500

(10 MARKS)

ANSWER : 4(B)

Date 2020	Particulars	L.F.	Rs.	Rs.
March 31	Trading Account Dr. To Inventory Account To Purchase A/c To Wages A/c (Being the accounts in the Trial Balance which have to betransferred to the Trading Account debit side)		30,20,000	2,00,000 18,20,000 10,00,000
March 31	Sales Account Dr. To Trading A/c (Being the amount of Sales transferred to the credit of Trading Account)		50,00,000	50,00,000
March 31	Inventory (Closing) A/c Dr. To Trading A/c (Being the value of Inventory on hand on 31st Dec. 2016)		2,70,000	2,70,000
March 31	Trading A/c Dr. To Profit and Loss A/c (Being the transfer of gross profit.)		22,50,000	22,50,000
March 31	Profit and Loss A/c Dr. To Discount Allowed Account To Salaries A/c To Sundry Office Expenses A/c (Being the various expense accounts transferred to the P& L Account)		16,50,000	50,000 10,00,000 6,00,000
March 31	Discount Received A/c Dr. To P & L Account (Being the credit balance of discount received transferredto Profit and Loss A/c)		30,000	30,000
March 31	Profit and Loss A/c Dr. To Capital A/c (Being the transfer to Net Profit to the Capital Account)		6,30,000 **1,28,50,000**	6,30,000 **1,28,50,000**

C. WANCHOO

Trading Account of the year ended March 31, 2020

Particulars	Rs.	Particulars	Rs.
To Inventory A/c	2,00,000	By Sales A/c	50,00,000
To Purchases	18,20,000	By Inventory (Closing)	2,70,000
To Wages	10,00,000		
To Gross profit trfd. to P & L A/c	22,50,000		
	52,70,000		**52,70,000**

Profit and Loss Account for the year ended March 31, 2020

Particulars	Rs.	Particulars	Rs.
To Salaries	10,00,000	By Gross profit trfd. From the Trading Account	22,50,000
To Discount Allowed	50,000	By Discount Received	30,000
To Sundry Office Expenses	6,00,000		
To Net Profit transferred to Capital A/c	6,30,000		
	22,80,000		**22,80,000**

(10 MARKS)

ANSWER : 5(A)

In the books of M/s Amal, Kamal and Tamal Journal Entries

Date	Particulars		Dr. (Rs.)	Cr.(Rs.)
2022 January 1	Fixed assets A/c To Revaluation A/c (Revaluation of fixed assets)	Dr.	1,02,000	1,02,000
	Revaluation A/c To Stock A/c To Provision for doubtful debts A/c (Reduction in the value of stock and provision @ 5% on sundry debtors created for doubtful debts)	Dr.	22,000	 16,000 6,000
	Kamal's capital A/c Tamal's capital A/c To Amal's capital A/c (Adjustment for goodwill and joint life policy(W.N.1))	Dr. Dr.	21,000 42,000	 63,000
	Revaluation A/c To Amal's capital A/c To Kamal's capital A/c To Tamal's capital A/c (Transfer of profit on revaluation)	Dr.	80,000	 40,000 25,000 15,000
	General reserve A/c To Amal's capital A/c To Kamal's capital A/c To Tamal's capital A/c (Transfer of general reserve)	Dr.	1,60,000	 80,000 50,000 30,000

Balance Sheet (revised)as on 1st January, 2021

Liabilities		Amount Rs.	Assets		Amount Rs.
Sundry creditors		3,00,000	Cash		80,000
Partners' loan A/cs:			Bills receivable		1,00,000

Amal	80,000		Sundry debtors	1,20,000	
kamal	60,000	1,40,000	*Less:* Provision	6,000	1,14,000
Partners' capital A/cs: (W.N.2)			Stock		2,24,000
			Fixed assets		6,62,000
Amal	3,83,000				
Kamal	2,14,000				
Tamal	1,43,000	7,40,000			
		11,80,000			11,80,000

Working Notes:

(1) Adjustment for goodwill and joint life policy

	Rs.
Average profit of last five years	40,000
Add: Insurance premium per annum	20,000
Average profit before charging premium	60,000
Value of goodwill (3x Rs. 60,000)	1,80,000
Add: Surrender value of joint life policy	1,56,000
Total amount for adjustment	3,36,000

	Amal	Kamal	Tamal
	Rs.	Rs.	Rs.
Raised in old profit sharing ratio (8:5:3)	1,68,000	1,05,000	63,000
Written off in new profit sharing ratio (5:6:5)	1,05,000	1,26,000	1,05,000
Net effect in capital accounts	63,000 (Cr.)	21,000 (Dr.)	42,000 (Dr.)

Alternatively, the net effect in partners' capital accounts due to adjustment for goodwill and joint life policy can be shown on the basis of profit sacrificing ratio. Profit sacrificing ratios are:

Amal = (8/16) - (5/16) = 3/16
Kamal = (5/16) - (6/16) = (1/16)

Tamal = (3/16) - (5/16) = (2/16)

Therefore, adjustments in partner's capital account:

Amal = 3/16 x Rs. 3,36,000 = Rs. 63,000 (Cr.)

Kamal = (1/16) x Rs. 3,36,000 = Rs. 21,000 (Dr.)

Tamal = (2/16) x Rs. 3,36,000 = Rs. 42,000 (Dr.)

(2) Partners' Capital Accounts

		Amal	Kamal	Tamal			Amal	Kamal	Tamal
2021		**Rs.**	**Rs.**	**Rs.**	**2021**		**Rs.**	**Rs.**	**Rs.**
Jan 1	To Amal's capital A/c	-	21,000	42,000	Jan 1	By Balance b/d	2,00,000	1,60,000	1,40,000

	To Balance c/d	3,83,000	2,14,000	1,43,000		By Kamal & Tamal's capital A/c (as per contra)	63,000	-	-
						By Revaluation A/c (revaluation profit)	40,000	25,000	15,000
						By General reserve	80,000	50,000	30,000
		3,83,000	**2,35,000**	**1,85,000**			**3,83,000**	**2,35,000**	**1,85,000**

(20 MARKS)

ANSWER : 6(A)

Journal Entries in the books of Akhil Ltd.

Date			Dr. Rs.	Cr. Rs.
(a)	Equity Share Capital A/c	Dr.	90,000	
	To Equity Share Allotment money A/c(9000 x Rs. 3)			27,000
	To Equity Share Final Call A/c (9000 x Rs. 4)			36,000
	To Forfeited Shares A/c (9000 x Rs. 3)			27,000
	(Being the forfeiture of 9000 equity shares of Rs. 10 each for non-payment of allotment money and final call, held by Aditya as per Board's resolution No……………dated)			
(b)	Bank Account (9,000 x 8)	Dr.	72,000	
	Forfeited Shares Account (9,000x 2)	Dr.	18,000	
	To Equity Share Capital Account			90,000
	(Being the re-issue of 9,000 forfeited shares @ Rs. 8 each as fully paid up to Katen as per Board's resolution No……….dated)			
(c)	Forfeited Shares Account	Dr.	9,000	
	To Capital Reserve Account			9,000
	(Being the profit on re-issue, transferred to capital reserve)			

(ii)

		Dr. Rs.	Cr. Rs.
Preference Share Capital A/c (10,000 x Rs. 70)	Dr.	7,00,000	
To Preference Share Allotment A/c (10,000 x Rs. 20)			2,00,000
To Preference Share First Call A/c (10,000 x Rs. 20)			2,00,000
To Forfeited Share A/c			3,00,000
(Being the forfeiture of 10,000 preference shares Rs. 70 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated)			
Bank A/c (8,000 x Rs.60)	Dr.	4,80,000	
Forfeited Shares A/c (8,000 x Rs.10)	Dr.	80,000	

To Preference Share Capital A/c (Being re-issue of 8,000 shares at Rs. 60 per share paid-upas Rs. 70 as per Board's Resolution No…..dated….)			5,60,000
Forfeited Shares A/c To Capital Reserve A/c (Note 1) (Being profit on re-issue transferred to Capital/Reserve)	Dr.	1,60,000	 1,60,000

Working Note :

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share = Rs. 3,00,000/ 10,000 = Rs. 30

Loss on re – issue = Rs. 70 – Rs. 60 Rs. 10

Surplus per share re – issued Rs. 20

Transferred to capital Reserve Rs. 20 $\times$ 8,000 = Rs, 1,60,000

(10 MARKS)

ANSWER : 6(B)

In the books of Galaxy Ltd.

Journal Entries

Date	**Particulars**		**Dr. Rs.**	**Cr. Rs.**
(a)	Bank A/c To Debentures Application A/c (Being the application money received on 10,000 debentures @ Rs. 225 each)	Dr.	22,50,000	 22,50,000
	Debentures Application A/c Discount on issue of Debentures A/c To 8% Debentures A/c (Being the issue of 10,000 8% Debentures @ 90% as per Board's Resolution No….dated….)	Dr. Dr.	22,50,000 2,50,000	 25,00,000
(b)	Fixed Assets A/c To Vendor A/c (Being the purchase of fixed assets from vendor)	Dr.	10,00,000	 10,00,000
	Vendor A/c Discount on Issue of Debentures A/c To 8% Debentures A/c (Being the issue of debentures of Rs. 12,50,000 to vendor to satisfy his claim)	Dr. Dr.	10,00,000 2,50,000	 12,50,000
	Alternative Entry Debenture Suspense To 8% Debentures	 Dr.	 12,50,000	 12,50,000
(c)	Bank A/c To Bank Loan A/c (See Note)	Dr.	10,00,000	 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 "Notes to Accounts" of Balance Sheet, the fact that the debentures being issued as collateral security and outstanding are shown by a note under the liability secured.

(5 MARKS)

ANSWER : 6(C)

(i) Adjusted selling method is also called retail inventory method. It is used widely in retail business or in business where the inventory comprises of items, the individual costs of which are not readily ascertainable. The historical cost of inventory is estimated by calculating it in the first instance at selling price and then deducting an amount equal to the estimated gross margin of profit on such stocks.

(ii) The specific identification method, First-In–First-Out (FIFO) and weighted average cost formulae are the principal methods of ascertaining the cost of inventory. The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned by specific identification of their individual costs under the specific identification method.

(5 MARKS)