J.K. SHAH®
CLASSES
a Veranda Enterprise

Foundation → Intermediate → Final CA ↗

CA FOUNDATION
Accountancy

Head Office

Shraddha, 4th Floor, Old Nagardas Road,
Near Chinai College, Andheri (E), Mumbai - 400 069.

022 - 2683 66 66

/officialjksc jkshahclasses.com

INDEX

1 RECTIFICATIONS OF ERRORS

Q.1 Pass Rectification Entries assuming errors are rectified after preparation of trial balance. Also find out difference in trial balance.

(a) Returns Outward Book was under cast by ₹ 909.

(b) ₹ 5,400 received from Mr. A was posted to the debit of his account.

(c) ₹ 2,740 paid for Repairs to Motor Car was debited to Motor Car Account as ₹ 1,740.

(d) ₹ 25,000 paid to Hari against our acceptance were debited to Harish Account.

(e) Bills received from Janaki for repairs done to radio ₹ 2,500 and radio supplied for ₹ 45,000 were entered in the Purchase Book as ₹ 46,000.

(f) A cheque of ₹ 750 received for loss of stock by fire had been deposited in the proprietor's private Bank Account. It was not recorded in books.

(g) An item of purchase of ₹ 151 was entered in the Purchase Day Book as ₹ 15 and posted to the Supplier's A/c as ₹ 51.

(h) An amount of ₹ 300 was received in full settlement from a customer after he was allowed a discount of ₹ 50 but while writing the books, the amount received was entered in the Discount column and the discount allowed was entered in the Amount column.

Q.2 The following errors, affecting the account for the year 2015 were detected in the books of Jain Brothers, Delhi:

(1) Sale of old Furniture ₹ 150 treated as sale of goods.

(2) Receipt of ₹ 500 from Ram Mohan credited to Shyam Sunder.

(3) Goods worth ₹ 100 brought from Mohan Narain have remained unrecorded so far.

(4) A return of ₹120 from Mukesh posted to his debit.

(5) A return of ₹ 90 to Shyam Sunder posted as ₹ 9 in his account.

(6) Rent of proprietor's residence, ₹ 600 debited to rent A/c.

(7) A payment of ₹ 215 to Mohammad Sadiq posted to his credit as ₹ 125.

(8) Sales Book added ₹ 900 short.

(9) The total of Bills Receivable Book ₹ 1,500 left unposted.

You are required to pass the necessary rectifying entries and show how the trial balance would be affected by the errors.

Q.3 On going through the Trial balance of Ball Bearings Co. Ltd. you find that the debit is in excess by ₹150. This was credited to "Suspense Account". On a close scrutiny of the books the following mistakes were noticed:

(1) The totals of debit side of "Expenses Account" have been cast in excess by ₹ 50.

(2) The "Sales Account" has been totalled in short by ₹ 100.

(3) One item of purchase of ₹ 25 has been posted from the day book to ledger as ₹ 250.

(4) The sale return of ₹ 100 from a party has not been posted to that account though the Party's account has been credited.

(5) A cheque of ₹ 500 issued to the Suppliers' account (shown under Trade payables) towards his dues has been wrongly debited to the purchases.

(6) A credit sale of ₹ 50 has been credited to the Sales and also to the Trade receivables Account.

You are required to

(i) Pass necessary journal entries for correcting the above;

(ii) Show how they affect the Profits; and

(iii) Prepare the "Suspense Account" as it would appear in the ledger.

2 BANK RECONCILIATION STATEMENT

Q.1. The following is a summary of a cash book as presented to you for the month of December 2017.

	₹		₹
Receipt	1,469	Balance b/d	761
Balance c/d	554	Payment	1,262
	2,023		2,023

All receipt are banked and payment made by cheque. On investigation you discover:

1. Bank charges of ₹ 136 entered in the bank statement had not been entered in the cash book.

2. Cheque drawn amounting to ₹ 267 had not been presented to the bank for payment

3. Cheque received totaling ₹ 762 had been entered in the cash book and paid in to bank but had not been credited by the bank until Jan 2018

4. A cheque for ₹ 22 had been entered as a receipt in the cashbook instead of as a payment.

5. A cheque for ₹ 25 had been debited by the bank in error.

6. A cheque received for ₹ 80 had been returned by the bank and marked "no fund available". No adjustment had been made in the cashbook.

7. All dividend receivable are credited directly to the bank Account. During December amount totaling ₹ 62 were credited by the bank and no entries made in the cashbook.

8. A cheque drawn for ₹ 6 had been incorrectly entered in the cashbook as ₹ 66.

9. The balance brought forward should have been ₹ 711

10. The bank statement as on 31st December,2017 showed an overdraft of ₹ 1,162.

You are required to:

(1) Show the adjustment required in the cash book

(2) Prepare a bank reconciliation statement as on 31.12.2017.

Q.2. When Nikki & Co. received a Bank Statement showing a favourable balance of ₹ 10,39,200 for the period ended on 30th June, 2017, this did not agree with the balance in the cash book. An examination of the Cash Book and Bank Statement disclosed the following :

1. A deposit of ₹ 3,09,200 paid on 29th June, 2017 had not been credited by the Bank until 1st July, 2017.

2. On 30th March, 2017 the company had entered into hire purchase agreement to pay by bank order a sum of ₹ 3,00,000 on the 10th of each month, commencing from April, 2017. No entries had been made in Cash Book.

3. A customer of the firm, who received a cash discount of 4% on his account of ₹4,00,000 paid the firm a cheque on 12th June. The cashier erroneously entered the gross amount in the bank column of the Cash Book.

4. Bank charges amounting to ₹ 3,000 had not been entered in Cash-Book.

5. On 28th June, a customer of the company directly deposited the amount in the bank ₹ 4,00,000, but no entry had been made in the Cash Book.

6. ₹ 11,200 paid into the bank had been entered twice in the Cash Book.

7. A debit of ₹ 11,00,000 appeared in the Bank Statement for an unpaid cheque, which had been returned marked 'out of date'. The cheque had been re-dated by the customer and paid into Bank again on 5th July, 2017.

Prepare Bank Reconciliation Statement on 30 June, 2017.

3 DEPRECIATION

Q.1 M/s Suba Pharmaceuticals has imported a machine on 1st July, 2017 for ₹ 6,40,000. They also paid customs duty and freight ₹ 80,000 and incurred erection charges ₹ 60,000. Another local machinery costing ₹ 1,00,000 was purchased on January 1, 2018. On 1st July, 2019 a portion of the imported machinery (value one third) got out of order and was sold for ₹ 1,34,800. Another machinery was purchased to replace the same for ₹ 50,000. Depreciation is to be calculated at 20% p.a. Show the Machinery account for 2017, 2018 & 2019, using WDV method and provision for depreciation account was maintained.

4 BILLS OF EXCHANGE

Q.1 Suresh invoiced goods worth ₹ 20,000 to Mahesh with trade discount @ 5%. On the next day, the buyer paid 20% of the amount by cheque after deducting cash discount @ 2.5%, and for the balance he accepted a bill, payable after 2 months. One month after the date of acceptance, Suresh endorsed it to his creditor, Sudhir. A week before the due date of the bill, Mahesh requested for the renewal of bill. Mahesh paid ₹ 10,000 in cash and accepted a new bill for the amount due plus interest @ 12% p.a. for 3 months. Suresh paid the amount in full by cheque to Sudhir. On maturity the renewed bill returned unpaid and noting charges amounted to ₹ 44. A month later, Mahesh was declared bankrupt and his assets could pay first and final dividend of 60 paise in a rupee. Prepare journal of Suresh & Mahesh.

Q.2 Lata draws a bill for ₹ 40,000/- and Pallavi accepts the same for the mutual accommodation of both of them to the extent of 3/4 and 1/4 respectively. Lata discounts the bill for ₹ 39,800/- and remits 1/4 of the proceeds to Pallavi. Before the due date, Pallavi draws another bill for ₹ 50,000 on Lata in order to provide funds to meet the first bill. The second bill is discounted for ₹ 49,000/- with the help of which the first bill is met and a sum of ₹ 9200/- is remitted to Lata. Before the due date of the second bill, Lata becomes insolvent and Pallavi received a dividend of 60 paise in a rupee in full satisfaction.

Show journal entries in the books of Lata & Pallavi.

5 CONSIGNMENT

Q.1 Swastik Oil Mills, Bombay consigned 10,000 kgs of coconut oil to Dass of Calcutta on 1st April,1990, the cost of the oil was ₹ 2 per kg. the swastik oil mills, paid ₹ 5,000 as freight and insurance. During transit 250 kgs. Were accidentally destroyed for which the insurance company paid directly to the consignor, ₹ 450 in full settlement of the claim. Dass took delivery of the consignment on the 10th April,1990. On 30th June,1990, Dass reported that 7,500 Kgs were sold @ ₹ 3 per Kgs. The expenses being on godown rent ₹ 200, on advertisement ₹ 1,000 and salesman's salaries ₹ 2,000. Das is entitled to a commission of 3% plus 1 1/2 del credere. A party who had bought 1,000 kgs. Was able to pay only 80% of amount due from him.

Dass reported a loss of 100 kgs due to leakage in godown(normal). Assuming that Dass paid the amount due by bank draft, show ledger accounts in the books of consignor and consignee.

Q.2 Vandana traders of Delhi purchased 10,000 pieces of sarees @ ₹ 100. out of these sarees, 6,000 sarees were sent on consignment to Vastralaya of Jabalpur at the selling price of ₹ 120 per saree. The consignors paid ₹ 3,000 for packaging and freight. Vastralaya sold 5,000 sarees @ ₹ 125 per saree and incurred ₹ 1,000 for selling expenses and remitted of ₹ 5,00,000 to Delhi on Account. They entitled to a commission of 5% on total sales plus a further 20% commission on any surplus price realized over ₹120 per sarees. 3,000 sarees were sold at ₹ 110 per saree. Owing to depression in the market the selling price (₹120) of sarees has come dowm by 10%. Closing Stock is to be valued at cost or net realizable value whichever is less. Prepare the consignment Account and Trading & profit/ Loss A/c and other necessary Account in the books of Vandana Traders and their account in the books of the agent Masers Vastralaya of Jabalpur.

6 FINAL ACCOUNTS OF SOLE TRADERS

Q.1 The following are the balances as at 31st March, 2004 extracted from the books of Mr. XYZ.

	₹		₹
Plant and Machinery	19,550	Bad Debts	1,100
Furniture and Fittings	10,250	Bad Debts recovered	450
Bank Overdraft	80,000	Salaries	22,550
Capital Account	65,000	Salaries payable	2,450
Drawings	8,000	Prepaid Rent	300
Purchases	1,60,000	Rent	4,300
Opening Stock	32,250	Carriage inward	1,125
Wages	12,165	Carriage outward	1,350
Provision for doubtful debts	3,200	Sales	2,15,300
Provision for Discount		Advertisement Expenses	3,350
on debtors	1,375	Printing and Stationery	1,250
Sundry Debtors	1,20,000	Cash in hand	1,450
Sundry Creditors	47,500	Cash at Bank	3,125
		Office Expenses	10,160
		Int. paid on loan	3,000

Additional Information:

1. Purchases include sales return of ₹ 2,575 and sales include purchase return of ₹ 1,725.
2. Goods withdrawn by Mr. XYZ for own consumption ₹ 3,500 included in purchases.
3. Wages paid in the month of April for installation of Plant and Machinery amounting to ₹ 450 were included in wages account.
4. Free samples distributed for Publicity costing ₹ 825.
5. Create a provision for doubtful debts @ 5 % and provision for discount on debtors @ 2.5%.

6. Depreciation is to be provided on Plant and Machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.
7. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2004 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.

Prepare a trading and Profit Loss Account for the year ended 31st March, 2004, and a Balance Sheet as on that date. Also show the rectification entries.

Q.2 From the following particulars extracted from the books of Ganguli, prepare trading and profit and loss account and balance sheet as at 31st March, 2016 after making the necessary adjustments:

	₹		₹
Ganguli's capital account (Cr.)	5,40,500	Interest received	7,250
Stock on 1.4.2015	2,34,000	Cash with Traders Bank Ltd.	40,000
Sales	14,48,000	Discounts received	14,950
Sales return	43,000	Investments (at 5%) as on 1.4.2015	25,000
Purchases	12,15,500	Furniture as on 1-4-2015	9,000
Purchases return	**29,000**	**Discounts allowed**	**37,700**
Carriage inwards	**93,000**	**General expenses**	**19,600**
Rent	**28,500**	**Audit fees**	**3,500**
Salaries	**46,500**	**Fire insurance premium**	**3,000**
Sundry debtors	**1,20,000**	**Travelling expenses**	**11,650**
Sundry creditors	**74,000**	**Postage and telegrams**	**4,350**
Loan from Dena Bank Ltd. (at 12%)	**1,00,000**	**Cash in hand**	**1,900**
Interest paid	**4,500**	**Deposits at 10% as on**	
		1-4-2015 (Dr.)	**1,50,000**
Printing and stationery	**17,000**	**Drawings**	**50,000**
Advertisement	**56,000**		

Adjustment:

(1) Value of stock as on 31st March, 2016 is ₹ 3,93,000. This includes goods returned by customers on 31st March, 2016 to the value of ₹15,000 for which no entry has been passed in the books.

(2) Purchases include furniture purchased on 1st January, 2016 for ₹ 10,000.

(3) Depreciation should be provided on furniture at 10% per annum.

(4) The loan account from Dena bank in the books of Ganguli appears as follows:

	₹		₹
31.3.2016 To Balance c/d	1,00,000	1.4.2015 By Balance b/d	50,000
		31.3.2016 By Bank	50,000
	1,00,000		1,00,000

(5) Sundry debtors include ₹ 20,000 due from Robert and sundry creditors include ₹ 10,000 due to him.

(6) Interest paid include ₹ 3,000 paid to Dena bank.

(7) Interest received represents ₹ 1,000 from the sundry debtors and the balance on investments and deposits.

(8) Provide for interest payable to Dena bank and for interest receivable on investments and deposits.

(9) Make provision for doubtful debts at 5% on the balance under sundry debtors. No such provision need to be made for the deposits.

7 PARTNERSHIP

1. Goodwill Adjustment:-

a) The goodwill should be recorded in the books only when some consideration in money or money's worth has been paid for it. Therefore, only purchased goodwill should be recorded in the books of the firm.

b) In case of admission of a partner, goodwill cannot be accounted in the books of the firm because no consideration in money or money's worth is paid for it.

c) On admission of partner three situation can arise for goodwill adjustment.

1) If the incoming partner brings any premium over and above his capital contribution at the time of his admission, such premium should be distributed to other existing partners in sacrifice ratio. If the sacrifice ratio of the existing partner is negative (gain) then even existing partner has to bring in goodwill amount to the extent of his negative sacrifice ratio x total goodwill of firm

2) Sometimes, goodwill may be evaluated in case of admission of a partner when incoming partner is unable to bring in cash for goodwill. In that situation also, the value of goodwill should not be raised (accounted) in the books since it is inherent goodwill. Rather it is preferable that such value of goodwill should be adjusted through partners' capital accounts.

3) It may also be noted that when the incoming partner pays any premium for goodwill privately to the existing partners, no entry is required in the books of the firm.

In case of admission, goodwill is compensation to old partner for the sacrifice in connection with admission of new partner

Treatment of Goodwill in accounts (for admission)

When new partner brings in his share of goodwill in cash

Cash/Bank a/c Dr.

To old partners (in sacrifice ratio)

When new partner does not bring in his share of goodwill in cash

New partner a/c Dr.
(with his share of Goodwill)

To old partners (in sacrifice ratio)

If goodwill is withdrawn by old partners then entry is

Old Partners Capital A/c Dr.

To Cash / Bank

Note:

1. Goodwill appearing in existing balance sheet to be written off (debited to old partners) in old ratio before passing above entries.

   Old Partner's Capital A/c Dr.

   To Goodwill A/c

2. If goodwill is paid privately then will be no entry in books of firm.

Q.2 M/s X and Co. is a partnership firm with the partners A,B and C sharing profits and losses in the ratio of 3:2:5. The balance sheet of the firm as on 30th June 2011, was as under:

Balance Sheet of X and Co. as on 30.6.2011

Liabilities	₹	Assets	₹
A's capital A/c	1,04,000	Land	1,00,000
B' capital A/c	76,000	Building	2,00,000
C' capital A/c	1,40,000	Plant and Machinery	3,80,000
Long term Loan	4,00,000	Investments	22,000
Bank Overdraft	44,000	Inventories	1,16,000
Trade payables	1,93,000	Trade receivables	1,39,000
	9,57,000		**9,57,000**

It was mutually agreed that B will retire from partnership and his place D will be admitted as a partner with effect from 1st July, 2011. For this purpose, the following adjustments are to be made:

(a) Goodwill of the firm is to valued at ₹ 2 lakhs due to the firm's locational advantage but the same will not appear as an asset in the books of the reconstituted firm.

(b) Building and plant and machinery are to be valued at 90% and 85% of the respective balance sheet values. Investments are to be taken over by the retiring partner at ₹ 25,000. Trade receivables are considered good only up to 90% of balance sheet figure. Balance be considered bad.

(c) In the reconstituted firm, the total capital will be ₹ 3 lakhs, which will be contributed by A, C and D in their new profit sharing ratio, which is 3:4:3.

(d) The amount due to retiring partner shall be transferred to his loan account.

You are required to prepare Revaluation Account and Partner's Capital accounts.

Q.3 The following was the Balance Sheet of Om & Co. in which X, Y, Z were partners sharing profits and losses in the ratio of 1:2:2 as on 31.3.2016. Mr. Z died on 31st December, 2016. His account has to be settled under the following terms.

Balance Sheet of Om & Co. as on 31.3.2016

Liabilities	₹	₹	Assets	₹
Trade payables		20,000	Goodwill	30,000
Bank loan		50,000	Building	1,20,000
General reserve		30,000	Computers	80,000
Capital accounts:			Inventories	20,000
X	40,000		Trade receivables	20,000
Y	80,000		Cash at Bank	20,000
Z	80,000	2,00,000	Investments	10,000
		3,00,000		**3,00,000**

Goodwill is to be calculated at the rate of two years purchase on the basis of average of three years' profits and losses. The profits and losses for the three years were detailed as below:

Year ending on	profit/loss
31.3.2016	30,000
31.3.2015	20,000
31.3.2014	(10,000) Loss

Profit for the period from 1.4.2016 to 31.12.2016 shall be ascertained proportionately on the basis of average profits and losses of the preceding three years.

During the year ending on 31.3.2016 a car costing ₹40,000 was purchased on 1.4.2015 and debited to traveling expenses account on which depreciation is to be calculated at 20% p.a. This asset is to be brought into account at the depreciated value.

Other values of assets were agreed as follows: Inventory at ₹16,000, building at ₹1,40,000, computers at ₹50,000; investments at ₹6,000.

Trade receivables were considered good.

Required:

(i) Calculate goodwill and Z's share in the profits of the firm for the period 1.4.2016 to 31.12.2016.

(ii) Prepare revaluation account assuming that other items of assets and liabilities remained the same.

(iii) Prepare partners' capital accounts and balance sheet of the firm Om & Co. as on 31.12.2016

8 FINAL ACCOUNTS OF NOT - FOR PROFIT ORGANSATIONS

Q.1. The Receipts and Payments account of Trustwell Club prepared on 31st March, 2020 is as follows.

Dr. **Receipts and Payments Account** **Cr.**

Receipts		Amount ₹	Payments	Amount ₹
To Balance b/d		450	By Expenses (including payment for sports material ₹ 2,700)	6,300
To Annual income from subscription	4,590			
Add: Outstanding of last year received this year	180		By Loss on sale of furniture (WDV ₹ 450)	180
	4,770			
Less: Prepaid of last year	(90)	4,680		
To Other fees		1,800	By Balance c/d	90,450
To Donation for building		90,000		
		96,930		**96,930**

Additional information:

Trustwell club had balances as on 1.4.2019:

Furniture ₹ 1,800; investment at 5% ₹ 27,000; Sports material ₹ 6,660;

Balance as on 31.3.2020 ; subscription receivable ₹ 270; Subscription received in advance ₹ 90;

Stock of sports material ₹ 1,800.

Do you agree with above receipts and payments account? If not, prepare correct receipts and payments account and income and expenditure account for the year ended 31st March, 2020 and balance sheet as on that date.

9 COMPANY ACCOUNTS

Q.1 X Ltd. issued the shares of ₹ 10 each and the payment schedule was as under.

On Application	₹ 3/-
On Allotment	₹ 3/-
On First Call	₹ 2/-
On second & final call	₹ 2/-
	₹ 10/-

(1) Mr. A to whom 3,000 shares were allotted failed to pay allotment and first call money and his shares were immediately forfeited before final Call.

(2) Mr. B to whom 2,000 shares were allotted failed to pay both the calls and his shares were forfeited after final call.

All the shares were later re-issued as fully paid shares @ ₹ 8 per share. Show forfeiture and re-issue entries.

Q.2 D Ltd. issued 2,00,000 shares of ₹ 100 each at a premium of ₹ 20 per share payable as follows:

On Application	₹ 20
On Allotment	₹ 50 (including premium)
On First call	₹ 30
On second and final call	₹ 20

Applications were received for 3,00,000 shares and pro rata allotment was made to applicants of 2,40,000 shares. Money excess received on application of 2,40,000 shares was employed on account of sum due on allotment as part of share capital. E, to whom 4,000 shares were allotted, failed to pay the allotment money and on his subsequent failure to pay the first call, his shares were forfeited and F, the holder of 6,000 shares failed to pay the two calls and his shares were forfeited after the second call. Of the forfeited shares, 8,000 shares were reissued to G at a discount of 10%, the whole of E's forfeited shares being reissued.

Show Journal Entries for all Events.

Q.3 Agrotech Ltd. issued 150 lakh 9% debentures of ₹100 each at a discount of 6%, redeemable at a premium of 5% after 3 years payable as:

₹50 on application and ₹ 44 on allotment. Record necessary journal entries for issue of debentures.