



Course: CA Foundation
Paper: Accounts

Marks: 100
Time Allowed: 3 Hours

Model Answer Sheet

Question No. 1 is compulsory.

Attempt any four questions from the remaining five questions.

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

Q1) Answer the following:

a) State with reasons, whether the following statements are true or false:

- (i) Overhauling expenses for the engine of motor car to get better fuel efficiency is revenue expenditure.
- (ii) Depreciation is a non-cash expense and does not result in any cash outflow.
- (iii) Fees received for Life Membership is a revenue receipt as it is of recurring nature.
- (iv) If Closing Stock appears in the Trial Balance:
The closing inventory is then not entered in Trading Account. It is shown only in the balance sheet.
- (v) If the bank column is showing the opening balance on credit side, it is an overdraft.
- (vi) Profit under single entry system is always correct and accurate.

Marks 12

Answer

- (i) **False:** Overhauling expenses for the engine of the motor car is incurred to get better fuel efficiency. These expenses will reduce the running cost in future and thus the benefit is in the form of a long-term advantage. So overhauling expenses should be capitalized.
- (ii) **True:** Depreciation is a non-cash expense and unlike other normal expenditure (e.g. wages, rent, etc.) does not result in any cash outflow. Therefore depreciation is a non-cash expense and does not result in any cash outflow.
- (iii) **False:** Life Membership Fee received for life membership is a capital receipt as it is of non-recurring nature. It is directly added to capital fund or general fund.
- (iv) **True:** The closing stock appears in the trial balance only when it is adjusted against purchases by passing the entry (in which Closing Stock A/c is debited and Purchases A/c is credited). In this case, closing stock is not entered in Trading Account and is shown only in Balance sheet.
- (v) **True:** The debit side of opening balance shows a favourable balance, whereas the credit balance is an unfavourable balance and treated as overdraft.
- (vi) **False:** Profit under single entry system is only an estimate based on available information and correct profits cannot be determined.

b) Classify each of the following transactions into capital or revenue transactions:

- Complete repaint of existing building.
- Installation of a new central heating system.
- Repainting of a delivery van.
- Providing drainage for a new piece of water-extraction equipment.

Marks 4

Answer

- Complete repaint: revenue.
- Installation of new heating system: capital.
- Repainting van: revenue.
- Drainage for new equipment: capital.

c) X purchased a machinery on 1st January 2017 for Rs. 4,80,000 and spent Rs. 20,000 on its installation. On July 1, 2017 another machinery costing Rs. 2,00,000 was purchased. On 1st July, 2018 the machinery purchased on 1st January, 2017 having become scrapped and was sold for Rs. 2,90,000 and on the same date fresh machinery was purchased for Rs. 5,00,000. Depreciation is provided annually on 31st December at the rate of 10% p.a. on written down value. Prepare Machinery account for the years 2017 and 2018.

Marks 4

Answer

Machinery Account

| Dr. | | Rs. | 2017 | | Cr. |
|--------|-----------------------------------|-----------|---------|------------------------------------|-----------|
| 2017 | | | 2017 | | Rs. |
| Jan. 1 | To Bank A/c | 4,80,000 | Dec. 31 | By Depreciation A/c | 60,000 |
| Jan. 1 | To Bank A/c – erection charges | 20,000 | | By Balance c/d | 6,40,000 |
| July 1 | To Bank A/c | 2,00,000 | | | |
| | | 7,00,000 | | | 7,00,000 |
| 2018 | | | 2018 | | |
| Jan. 1 | To Balance b/d | 6,40,000 | July 1 | By Depreciation on sold machine | 22,500 |
| July 1 | To Bank A/c | 5,00,000 | | By Bank A/c | 2,90,000 |
| | | | | By Profit and Loss A/c | 1,37,500 |
| | | | Dec. 31 | By Depreciation A/c | 44,000 |
| | | | | By Balance c/d | 6,46,000 |
| | | 11,40,000 | | | 11,40,000 |

Working Note:

Book Value of Machines

| | Machine I Rs. | Machine II Rs. | Machine III Rs. |
|-----------------------|---------------------|----------------------|-----------------------|
| Cost | 5,00,000 | 2,00,000 | 5,00,000 |
| Depreciation for 2017 | 50,000 | 10,000 | |
| Written down value | 4,50,000 | 1,90,000 | |
| Depreciation for 2018 | 22,500 | 19,000 | 25,000 |
| Written down value | 4,27,500 | 1,71,000 | 4,75,000 |
| Sale Proceeds | 2,90,000 | | |
| Loss on Sale | 1,37,500 | | |

Q2) Answer the following:

a) On 30th September, 2019, the bank account of Neel, according to the bank column of the Cash- Book, was overdrawn to the extent of Rs. 8,124. On the same date the bank statement showed a debit balance of Rs. 41,516 in favour of Neel. An examination of the Cash Book and Bank Statement reveals the following:

1. A cheque for Rs. 26,28,000 deposited on 29th September, 2019 was credited by the bank only on 3rd October, 2019
2. A payment by cheque for Rs. 32,000 has been entered twice in the Cash Book.
3. On 29th September, 2019, the bank credited an amount of Rs. 2,34,800 received from a customer of Neel, but the advice was not received by Neel until 1st October, 2019.
4. Bank charges amounting to Rs. 1,160 had not been entered in the Cash Book.
5. On 6th September, 2019, the bank credited Rs. 40,000 to Neel in error.
6. A bill of exchange for Rs. 2,80,000 was discounted by Neel with his bank. This bill was dishonoured on 28th September, 2019 but no entry had been made in the books of Neel.
7. Cheques issued upto 30th September, 2019 but not presented for payment upto that date totalled Rs. 26,52,000.

You are required:

- (a) to show the appropriate rectifications required in the Cash Book of Neel, to arrive at the correct balance on 30th September, 2019 and
- (b) to prepare a bank reconciliation statement as on that date.

Marks 10

Answer

(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 (Direct deposit) | 2,34,800 | | By Bank charges | 1,160 |
| | To Balance c/d | 22,484 | | By Customer A/c (B/R dishonoured) | 2,80,000 |
| | | <u>2,89,284</u> | | | <u>2,89,284</u> |

(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 | <u>41,516</u> |

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.

b) Smith Library Society showed the following position on 31st March, 2019:
Balance Sheet as on 31st March, 2019

| Liabilities | Rs. | Assets | Rs. |
|------------------|-----------------|--------------------------|-----------------|
| Capital fund | 7,93,000 | Electrical fittings | 1,50,000 |
| Expenses payable | 7,000 | Furniture | 50,000 |
| | | Books | 4,00,000 |
| | | Investment in securities | 1,50,000 |
| | | Cash at bank | 25,000 |
| | | Cash in hand | <u>25,000</u> |
| | <u>8,00,000</u> | | <u>8,00,000</u> |

The receipts and payment account for the year ended on 31st March, 2020 is given below:

| | Rs. | | Rs. |
|--------------------------------|---------------|------------------------------|--------|
| To Balance b/d | | By Electric charges | 7,200 |
| Cash at bank | 25,000 | By Postage and stationary | 5,000 |
| Cash in hand | <u>25,000</u> | By Telephone charges | 5,000 |
| To Entrance fee | 30,000 | By Books purchased | 60,000 |
| To Membership subscription | 2,00,000 | By Outstanding expenses paid | 7,000 |
| To Sale proceeds of old papers | 1,500 | By Rent | 88,000 |

| | | | |
|----------------------------|-----------------|-----------------------------|-----------------|
| To Hire of lecture hall | 20,000 | By Investment in securities | 40,000 |
| To Interest on securities. | 8,000 | By Salaries | 66,000 |
| | | By Balance c/d | |
| | | Cash at bank | 20,000 |
| | | Cash in hand | <u>11,300</u> |
| | <u>3,09,500</u> | | <u>3,09,500</u> |

You are required to prepare income and expenditure account for the year ended 31st March, 2020 after making the following adjustments:

Membership subscription included Rs. 10,000 received in advance. Provide for outstanding rent Rs. 4,000 and salaries Rs. 3,000.

Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.

75% of the entrance fees is to be capitalized.

Interest on securities is to be calculated @ 5% p.a. including purchases made on 1.10.2019 for Rs. 40,000.

Marks 10

Answer

Smith Library Society
Income and Expenditure Account for the year ended 31st March, 2020

| Dr. | | | | | Cr. |
|---------------------------|---------------|-----------------|---|---------------|-----------------|
| Expenditure | Rs. | Rs. | Income | | Rs. |
| 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 | 88,000 | | Less: Received in advance | <u>10,000</u> | 1,90,000 |
| Add: Outstanding | <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 | | | |
| To Depreciation (W.N.1) | | | By Hire of lecture hall | | 20,000 |
| Electrical fittings | 15,000 | | By Interest on securities (W.N.2) | 8,000 | |
| Furniture | 5,000 | | Add: Receivable | | |
| Books | <u>46,000</u> | 66,000 | By Deficit- excess of expenditure over income | <u>500</u> | 8,500 |
| | | | | | 16,700 |
| | | <u>2,44,200</u> | | | <u>2,44,200</u> |

Working Notes:

- Depreciation

| | |
|---|------------|
| Electrical fittings 10% of Rs. 1,50,000 | Rs. 15,000 |
| Furniture 10% of Rs. 50,000 | 5,000 |
| Books 10% of Rs. 4,60,000 | 46,000 |
- 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> |

Q3) Answer the following:

a) Mr. Anup runs a wholesale business where in all purchases and sales are made on credit. He furnishes the following closing balances:

| | 31 st March 2021 | 31 st March 2022 |
|------------------|-----------------------------|-----------------------------|
| Sundry debtors | 70,000 | 92,000 |
| Bills receivable | 15,000 | 6,000 |
| Bills payable | 12,000 | 14,000 |
| Sundry creditors | 40,000 | 56,000 |
| Inventory | 1,10,000 | 1,90,000 |
| Bank | 90,000 | 87,000 |
| Cash | 5,200 | 5,300 |

Summary of cash transactions during the year 2021- 2022:

- (i) Deposited to bank after payment of shop expenses @ Rs. 600 p.m., salary @ Rs. 9,200 p.m. and personal expenses @ Rs. 1,400 p.m. Rs. 7,62,750.
- (ii) Cash Withdrawn from bank Rs. 1,21,000.
- (iii) Cash payment to suppliers Rs. 77,200 for supplies and Rs. 25,000 for furniture.
- (iv) Cheques collected from customers but dishonoured Rs. 5,700.
- (v) Bills accepted by customers Rs. 40,000.
- (vi) Bills endorsed Rs. 10,000.
- (vii) Bills discounted Rs. 20,000, discount Rs. 750.
- (viii) Bills matured and duly collected Rs. 16,000.
- (ix) Bills accepted Rs. 24,000.
- (x) Paid suppliers by cheque Rs. 3,20,000.
- (xi) Received Rs. 20,000 on maturity of one LIC policy of the proprietor by cheque.
- (xii) Rent received Rs. 14,000 by cheque for the premises owned by proprietor.
- (xiii) A building was purchased on 30-11-2021 for opening a branch for Rs. 3,50,000 and some expenses were incurred on this building, details of which are not maintained.
- (xiv) Electricity and telephone bills paid by cash Rs. 18,700, due Rs. 2,200.

Other transactions:

- (i) Claim against the firm for damage Rs. 1,55,000 is under legal dispute. Legal expenses Rs. 17,000. The firm anticipates defeat in the suit.
- (ii) Goods returned to suppliers Rs. 4,200.
- (iii) Goods returned by customers Rs. 1,200.
- (iv) Discount offered by suppliers Rs. 2,700.
- (v) Discount offered to the customers Rs. 2,400.
- (vi) The business is carried on at the rented premises for an annual rent of Rs. 20,000 which is outstanding at the year end.

Prepare Trading and Profit & Loss Account of Mr. Anup for the year ended 31st March 2022 and Balance Sheet as on that date.

Marks 20

Answer

Trading Account of Mr. Anup for the year ended 31st March 2022

| | Rs. | Rs. | | Rs. | Rs. |
|------------------------|----------|-----------|----------------------|----------|-----------|
| To Opening Inventory | | 1,10,000 | By Sales | 9,59,750 | |
| To Purchases | 4,54,100 | | Less: Sales Return | (1,200) | 9,58,550 |
| Less: Purchases Return | (4,200) | 4,49,900 | By Closing Inventory | | 1,90,000 |
| To Gross Profit (b.f.) | | 5,88,650 | | | |
| | | 11,48,550 | | | 11,48,550 |

Profit & Loss Account of Mr. Anup for the year ended 31st March 2022

| | Rs. | | Rs. |
|--|----------|-----------------|----------|
| To salary (9,200 x 12) | 1,10,400 | By Gross Profit | 5,88,650 |
| To Electricity & Tel. Charges (18,700 + 2,200) | 20,900 | By Discount | 2,700 |
| To Legal expenses | 17,000 | | |
| To Discount (2,400 + 750) | 3,150 | | |
| To Shop exp. (600 x 12) | 7,200 | | |
| To Provision for claims for damages | 1,55,000 | | |
| To Shop Rent | 20,000 | | |
| To Net Profit (b.f.) | 2,57,700 | | |
| | 5,91,350 | | 5,91,350 |

Balance Sheet as on 31st March 2022

| Liabilities | Rs. | | Assets | Rs. |
|----------------------------------|----------|----------|---|----------|
| Capital A/c (W.N.vi) | 2,38,200 | | Building (from summary cash and bank A/c) | 3,72,000 |
| Add : Fresh capital introduced | | | Furniture | 25,000 |
| Maturity value from LIC | 20,000 | | Inventory | 1,90,000 |
| Rent | 14,000 | | Sundry debtors | 92,000 |
| Add : Net Profit | 2,57,700 | | Bills receivable | 6,000 |
| | 5,29,900 | | Cash at Bank | 87,000 |
| Less : Drawing(14,00 x12) | (16,800) | 5,13,100 | Cash in Hand | 5,300 |
| Rent outstanding | | 20,000 | | |
| Sundry creditors | | 56,000 | | |
| Bills Payable | | 14,000 | | |
| Outstanding expenses | | | | |
| Legal Exp. | 17,000 | | | |
| Electricity & Telephone charges | 2,200 | 19,200 | | |
| Provision for claims for damages | | 1,55,000 | | |
| | | 7,77,300 | | 7,77,300 |

Working Notes :

(i)

Sundry Debtors Account

| | Rs. | | Rs. |
|--|----------|--|----------|
| To Balance b/d | 70,000 | By Bill Receivable A/c | |
| To Bill receivable A/c-Bills dishonoured | 3,000 | Bills accepted by customers | 40,000 |
| To Bank A/c-Cheque dishonoured | 5,700 | By Bank A/c - Cheque received | 5,700 |
| To Credit sales (Balancing Figure) | 9,59,750 | By Cash (from summary cash and bank account) | 8,97,150 |

| | | | |
|--|-----------|----------------------|-----------|
| | | By Return inward A/c | 1,200 |
| | | By Discount A/c | 2,400 |
| | | By Balance c/d | 92,000 |
| | 10,38,450 | | 10,38,450 |

(ii)

Bills Receivable Account

| | Rs. | | Rs. |
|---|--------|------------------------------|--------|
| To Balance b/d | 15,000 | By Sundry creditors A/c | |
| To Sundry Debtors A/c (Bills accepted) | 40,000 | (Bills endorsed) | 10,000 |
| | | By Bank A/c (20,000 – 750) | 19,250 |
| | | By Discount A/c | 750 |
| | | (Bills discounted) | |
| | | By Bank | |
| | | Bills collected on maturity | 16,000 |
| | | By Sundry debtors | |
| | | Bills dishonoured (Bal. Fig) | 3,000 |
| | | By Balance c/d | 6,000 |
| | 55,000 | | 55,000 |

(iii)

Sundry Creditors Account

| | Rs. | | Rs. |
|--------------------------|----------|--------------------|----------|
| To Bank | 3,20,000 | By Balance c/d | 40,000 |
| To Cash | 77,200 | By Credit purchase | |
| To Bill Payable A/c | 24,000 | (Balancing figure) | 4,54,100 |
| To Bill Receivable A/c | 10,000 | | |
| To Return Outward A/c | 4,200 | | |
| To Discount Received A/c | 2,700 | | |
| To Balance b/d | 56,000 | | |
| | 4,94,100 | | 4,94,100 |

(iv)

Bills Payable A/c

| | Rs. | | Rs. |
|------------------------------|--------|-------------------------|--------|
| To Bank A/c (Balance figure) | 22,000 | By Balance b/d | 12,000 |
| To Balance c/d | 14,000 | By Sundry creditors A/c | |
| | | Bills accepted | 24,000 |
| | 36,000 | | 36,000 |

(v)

Summary Cash and Bank A/c

| | <i>Cash</i> | <i>Bank</i> | | <i>Cash</i> | <i>Bank</i> |
|--|-------------|-------------|----------------------------------|-------------|-------------|
| | <i>Rs.</i> | <i>Rs.</i> | | <i>Rs.</i> | <i>Rs.</i> |
| To Balance b/d | 5,200 | 90,000 | By Bank | 7,62,750 | |
| To Sundry debtors (Bal. Fig)To Cash | 8,97,150 | | By Cash | | 1,21,000 |
| To Bank | 1,21,000 | 7,62,750 | By Shop exp. (600 x 12) | 7,200 | |
| To Sundry Debtors | | 5,700 | By Salary (9,200 x 12) | 1,10,400 | |
| To Bills receivable | | 19,250 | By Drawing A/c (1,400 x 12) | 16,800 | |
| To Bills receivable | | 16,000 | By Bills Payable | | 22,000 |
| To Capital (maturity value of LIC policy) | | 20,000 | By Sundry creditors | 77,200 | 3,20,000 |
| To Capital (Rent received) | | 14,000 | By Furniture | 25,000 | |
| | | | By Sundry Debtors | | 5,700 |
| | | | By Electricity & Tel. Charges | 18,700 | |
| | | | By Building (Bal. fig) | | 3,72,000 |
| | | | By Balance c/d | 5,300 | 87,000 |
| | 10,23,350 | 9,27,700 | | 10,23,350 | 9,27,700 |

(vi)

Statement of Affairs as on 31st March 2021

| <i>Liabilities</i> | <i>Rs.</i> | <i>Assets</i> | <i>Rs.</i> |
|----------------------------|------------|------------------|------------|
| Sundry Creditors | 40,000 | Inventory | 1,10,000 |
| Bills Payable | 12,000 | Debtors | 70,000 |
| Capital (Balancing figure) | 2,38,200 | Bills receivable | 15,000 |
| | | Cash at Bank | 90,000 |
| | | Cash in Hand | 5,200 |
| | 2,90,200 | | 2,90,200 |

Q4) Answer the following:

a) Miss Daisy was unable to agree the Trial Balance last year and wrote off the difference to the profit and loss account of that year. On verifying the old books by a Chartered Accountant next year, the following mistakes were found.

- Purchase account was undercast by Rs.8,000.
- Sale of goods to Mr. Rahim for Rs.2,500 was omitted to be recorded.
- Receipt of cash from Mr. Asok was posted to the account of Mr. Anbu Rs.1,200.
- Amount of Rs. 4,167 of sales was wrongly posted as Rs.4,617.
- Repairs to Machinery was debited to Machinery Account Rs.1,800.
- A credit purchase of goods from Mr. Paul for Rs. 3,000 entered as sale.

Suggest the necessary rectification entries.

Marks 10

Answer

Journal Entries in the books of Miss Daisy

| <i>Date</i> | <i>Particulars</i> | <i>Dr. (Rs.)</i> | <i>Cr. (Rs.)</i> |
|-------------|--------------------|------------------|------------------|
|-------------|--------------------|------------------|------------------|

| | | | | |
|--------|---|-----|--------|--------|
| (i) | Profit & Loss Adjustment A/c To Suspense* A/c (Purchase Account under cast in the previous year; error now rectified) | Dr. | 8,000 | 8,000 |
| (ii) | Rahim's Account To Profit & Loss Adjustment A/c (Sales to Rahim omitted last year; now adjusted) | Dr. | 2,500 | 2,500 |
| (iii) | Anbu's Account To Asok's Account (Amount received from Asok wrongly posted to the account of Anbu; now rectified) | Dr. | 1,200 | 1,200 |
| (iv) | Profit & Loss Adjustment A/c To Suspense* A/c (Excess posting to sales account last year, Rs. 4,617, instead of Rs. 4,167 now adjusted) | Dr. | 450 | 450 |
| (v) | Profit & Loss Adjustment A/c To Machinery A/c (Repairs to machinery was wrongly debited to machinery account, now rectified) | Dr. | 1,800 | 1,800 |
| (vi) | Profit & Loss Adjustment A/c To Mr. Paul Account Credit purchase of goods from Mr. Paul sale last year, now rectified) | Dr. | 6,000 | 6,000 |
| (vii) | Daisy's Capital A/c To Profit and Loss Adjustment Account (Being balance in P & L Adjustment Account transferred to Daisy's Capital A/c –Refer W.N.1) | Dr. | 13,750 | 13,750 |
| (viii) | Suspense A/c To Daisy's Capital A/c (Being balance of Suspense A/c transferred to Capital A/c– Refer W.N. 2) | Dr. | 8,450 | 8,450 |

*Considering that the difference was posted to Suspense account.

Working Notes

1. Profit and Loss Adjustment Account.

| | Rs. | | Rs. |
|-------------------|---------------|------------------------|---------------|
| To Suspense A/c | 8,000 | By Rahim's A/c | 2,500 |
| To Suspense A/c | 450 | By Daisy's Capital A/c | 13,750 |
| To Machinery A/c | 1,800 | (Bal. Transfer) | |
| To Mr. Paul's A/c | 6,000 | | |
| | <u>16,250</u> | | <u>16,250</u> |

2. Suspense Account

| | Rs. | | Rs. |
|--|------------|-------------------|------------|
| To Daisy's Capital A/c (Balance Transfer) | 8,450 | By P & L Adj. A/c | 8,000 |
| | | By P & L Adj. A/c | 450 |

| | | | |
|--|--------------|--|--------------|
| | <u>8,450</u> | | <u>8,450</u> |
|--|--------------|--|--------------|

b) Stock taking of XYZ Stores for the year ended 31st March, 2019 was completed by 10th April, 2019, the valuation of which showed a stock figure of Rs. 1,67,500 at cost as on the completion date. After the end of the accounting year and till the date of completion of stock taking, sales for the next year were made for Rs. 6,875, profit margin being 33.33 percent on cost. Purchases for the next year included in the stock amounted to Rs. 9,000 at cost less trade discount 10 percent. During this period, goods were added to stock of the mark-up price of Rs. 300 in respect of sales returns. After stock taking it was found that there were certain very old slow moving items costing Rs. 1,125 which should be taken at Rs. 525 to ensure disposal to an interested customer. Due to heavy floods, certain goods costing Rs. 1,550 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be Rs. 1,250 on 31st March, 2019.

You are required to calculate the value of stock for inclusion in the final accounts for the year ended 31st March, 2019. Closing stock is valued by XYZ Stores on generally accepted accounting principles. **Marks 5**

Answer

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.

c) Journalise the following transactions in K. Katrak's books.

- (i) Katrak's acceptance to Basu for Rs. 2,500 discharged by a cash payment of Rs. 1,000 and a new bill for the balance plus Rs. 50 for interest.
- (ii) G. Gupta's acceptance for Rs. 4,000 which was endorsed by Katrak to M. Mehta was dishonoured. Mehta paid Rs. 20 noting charges. Bill withdrawn against cheque.
- (iii) D. Dalal retires a bill for Rs. 2,000 drawn on him by Katrak for Rs.10 discount.
- (iv) Katrak's acceptance to Patel for Rs. 5,000 and Mody's acceptance to Katrak for a similar amount were duly discharged.

Marks 5

Answer

Books of K. Katrak Journal Entries

| | | Rs. | 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 (Payment to M. Mehta on withdrawal of bill earlier received from Mr. G. Gupta) | | | 4,020 |
| (iii) | Bank Account | Dr. | 1,990 | |
| | Discount Account | Dr. | 10 | |
| | To Bills Receivable Account (Payment received from D. Dalal against his acceptance for Rs.2,000. Allowed him a discount of Rs.10) | | | 2,000 |
| (iv) | Bills Payable Account | Dr. | 5,000 | |
| | To Bills Receivable Account (Bills Receivable from Mody endorsed to Patel in settlement of bills payable issued to him earlier) | | | 5,000 |

Q5) Answer the following:

a) Dalal, Banerji and Mallick are partners in a firm sharing profits and losses in the ratio 2:2:1. Their Balance Sheet as on 31st March, 2022 is as below:

| Liabilities | | Rs. | Assets | Rs. |
|-------------------------|--------|--------|--------------------|--------|
| Trade payables | | 12,850 | Land and Buildings | 25,000 |
| Outstanding Liabilities | | 1,500 | Furniture | 6,500 |
| General Reserve | | 6,500 | Inventory of goods | 11,750 |
| Capital Account : | | | Trade receivables | 5,500 |
| Mr. Dalal | 12,000 | | Cash in hand | 140 |
| Mr. Banerji | 12,000 | | Cash at Bank | 960 |
| Mr. Mallick | 5,000 | 29,000 | | |
| | | 49,850 | | 49,850 |

The partners have agreed to take Mr. Mistri as a partner with effect from 1st April, 2022 on the following terms:

- (1) Mr. Mistri shall bring Rs. 5,000 towards his capital.
- (2) The value of Inventory should be increased by Rs. 2,500 and Furniture should be depreciated by 10%.
- (3) Reserve for bad and doubtful debts should be provided at 10% of the Trade receivables.
- (4) The value of land and buildings should be enhanced by 20%.
- (5) The value of the goodwill be fixed at Rs. 15,000.
- (6) General Reserve will be transferred to the Partners' Capital Accounts.
- (7) The new profit sharing ratio shall be: Mr. Dalal 5/15, Mr. Banerji 5/15, Mr. Mallick 3/15 and Mr. Mistri 2/15.

The outstanding liabilities include Rs. 1,000 due to Mr. Sen which has been paid by Mr. Dalal. Necessary entries were not made in the books.

Prepare (i) Revaluation Account, (ii) The Capital Accounts of the partners, (iii) Balance Sheet of the firm after admission of Mr. Mistri.

Marks 12

Answer

Revaluation Account

| | | | | | |
|------|--|-----|------|--|-----|
| 2022 | | Rs. | 2022 | | Rs. |
|------|--|-----|------|--|-----|

| | | | | | |
|---------|---|--------------|---------|----------------------|-------|
| April 1 | To Provision for bad and doubtful debts | 550 | April 1 | By Inventory trade | 2,500 |
| | To Furniture and fittings | 650 | | By Land and Building | 5,000 |
| | To Capital A/cs: (Profit on revaluation transferred) | | | | |
| | Dalal | 2,520 | | | |
| | Banerji | 2,520 | | | |
| | Mallick | 1,260 | | | |
| | | <u>6,300</u> | | | |
| | | 7,500 | | | 7,500 |

Partners' Capital Accounts

| Particulars | Dalal | Banerji | Mallick | Mistri | Particulars | Dalal | Banerji | Mallick | Mistri |
|----------------|---------------|---------------|--------------|--------------|----------------------------|---------------|---------------|--------------|--------------|
| | Rs. | Rs. | Rs. | Rs. | | Rs. | Rs. | Rs. | Rs. |
| To Dalal | | | | 1,000 | By Balance b/d | 12,000 | 12,000 | 5,000 | — |
| To Banerji | | | | 1,000 | By General Reserve | 2,600 | 2,600 | 1,300 | |
| To Balance c/d | 19,120 | 18,120 | 7,560 | 3,000 | By Cash | — | — | — | 5,000 |
| | | | | | By Mistri | 1,000 | 1,000 | — | — |
| | | | | | By Outstanding Liabilities | 1,000 | — | — | — |
| | | | | | By Revaluation A/c | 2,520 | 2,520 | 1,260 | — |
| | <u>19,120</u> | <u>18,120</u> | <u>7,560</u> | <u>5,000</u> | | <u>19,120</u> | <u>18,120</u> | <u>7,560</u> | <u>5,000</u> |

**Working Note:
Calculation of sacrificing ratio**

| Partners | New share | Old share | Sacrifice | Gain |
|----------|----------------|---------------|-----------------|----------------|
| Dalal | $\frac{5}{15}$ | $\frac{2}{5}$ | $\frac{1}{15}$ | |
| Banerji | $\frac{5}{15}$ | $\frac{2}{5}$ | $\frac{1}{15}$ | |
| Mallick | $\frac{3}{15}$ | $\frac{1}{5}$ | No gain No loss | — |
| Mistri | $\frac{2}{15}$ | | | $\frac{2}{15}$ |

Sacrifice by Mr. Dalal and Mr. Banerji = Rs. 15,000 × $\frac{1}{15}$ = Rs. 1,000 each

Balance Sheet of M/s. Dalal, Banerji, Mallick and Mistri as on April 1, 2022

| Liabilities | Rs. | Assets | Rs. |
|----------------|--------|--------------------|--------|
| Trade payables | 12,850 | Land and Buildings | 30,000 |

| | | | | | |
|--------------------------------|--------|--------|--------------------|-------|--------|
| Outstanding Liabilities | | 500 | Furniture | | 5,850 |
| Capital Accounts of Partners : | | | Inventory of goods | | 14,250 |
| Mr. Dalal | 19,120 | | Trade receivables | 5,500 | |
| Mr. Banerji | 18,120 | | Less : Provisions | (550) | 4,950 |
| Mr. Mallick | 7,560 | | Cash in hand | | 140 |
| Mr. Mistri | 3,000 | 47,800 | Cash at Bank | | 5,960 |
| | | 61,150 | | | 61,150 |

b) On 1st April, 2017, Pehal Ltd. issued 64,500 shares of Rs. 100 each payable as follows:

Rs. 30 on application, Rs. 30 on allotment, Rs. 20 on 1st October, 2017; and Rs. 20 on 1st February, 2018.

By 20th May, 60,000 shares were applied for and all applications were accepted. Allotment was made on 1st June. All sums due on allotment were received on 15th July; those on 1st call were received on 20th October.

You are required to prepare the Journal entries to record the transactions when accounts were closed on 31st March, 2018.

Marks 8

Answer

**Peahal Ltd.
Journal**

| 2017 | | | Dr. Rs. | Cr. Rs. |
|----------|--|-----|------------|------------|
| May 20 | Bank Account To Share Application A/c (Application money on 60,000 shares at Rs. 30 per share received.) | Dr. | 18,00,000 | 18,00,000 |
| June 1 | Share Application A/c To Share Capital A/c (The amount transferred to Capital Account on 60,000 shares Rs. 30 on application. Directors' resolution no..... dated) | Dr. | 18,00,000 | 18,00,000 |
| | Share Allotment A/c To Share Capital A/c (Being share allotment made due at Rs. 30 per share. Directors' resolution no. dated)) | Dr. | 18,00,000 | 18,00,000 |
| July 15 | Bank Account To Share Application and Allotment A/c (The sums due on allotment received.) | Dr. | 18,00,000 | 18,00,000 |
| Oct. 1 | Share First Call Account To Share Capital Account (Amount due from members in respect of first call- on 60,000 shares at Rs. 20 as per Directors, resolution no... dated...) | Dr. | 12,00,000 | 12,00,000 |
| Oct. 20 | Bank Account To Share First Call Account (Receipt of the amounts due on first call.) | Dr. | 12,00,000 | 12,00,000 |
| 2018 | | | | |
| Feb. 1 | Share Second and Final Call A/c To Share Capital A/c (Amount due on 60,000 share at Rs. 20 per share on second and final call, as per Directors resolution no... dated...) | Dr. | 12,00,000 | 12,00,000 |
| March 31 | Bank Account | Dr. | 12,00,000 | |

| | | |
|--|--|-----------|
| To Share Second & Final Call A/c (Amount received against the final call on 60,000 shares at Rs. 20 per share.) | | 12,00,000 |
|--|--|-----------|

Q6) Answer the following:

a) Pass Journal Entries in the following circumstances:

- (i) A Limited company with subscribed capital of Rs. 5,00,000 consisting of 50,000 Equity shares of Rs. 10 each; called up capital Rs. 7.50 per share. A bonus of Rs. 1,25,000 declared out of General Reserve to be applied in making the existing shares fully paid up.
- (ii) A Limited company having fully paid up capital of Rs. 50,00,000 consisting of Equity shares of Rs. 10 each, had General Reserve of Rs. 9,00,000. It was resolved to capitalize Rs. 5,00,000 out of General Reserve by issuing 50,000 fully paid bonus shares of Rs. 10 each, each shareholder to get one such share for every ten shares held by him in the company.

Marks 5

Answer

Journal Entries

| | | <i>Rs.</i> | <i>Rs.</i> |
|------|---|------------|------------|
| (i) | General Reserve A/c Dr. | 1,25,000 | |
| | To Bonus to shareholders A/c (For making provision of bonus issue) | | 1,25,000 |
| | Share Final Call A/c Dr. | 1,25,000 | |
| | To Equity share capital A/c (For final calls of Rs. 2.5 per share on 50,000 equity shares due as per Board's Resolution dated....) | | 1,25,000 |
| (ii) | Bonus to shareholders A/c Dr. | 1,25,000 | |
| | To Share Final Call A/c (For bonus money applied for call) | | 1,25,000 |
| | General Reserve A/c Dr. | 5,00,000 | |
| | To Bonus to shareholders A/c (For making provision of bonus issue) | | 5,00,000 |
| | Bonus to shareholders A/c Dr. | 5,00,000 | |
| | To Equity share capital A/c (For issue of 50,000 bonus shares at Rs. 10) | | 5,00,000 |

b) The following are the balances extracted from the books of Shri Raghuram as on 31.03.2018, who carries on business under the name and style of M/s Raghuram and Associates at Chennai:

| Particulars | Debit (Rs.) | Credit (Rs.) |
|-------------------|--------------|---------------|
| Capital A/c | | 14,11,400 |
| Purchases | 12,00,000 | |
| Purchase Returns | | 18,000 |
| Sales | | 15,00,000 |
| Sales Returns | 24,000 | |
| Freight Inwards | 62,000 | |
| Carriage Outwards | 8,500 | |
| Rent of Godown | 55,000 | |
| Rates and Taxes | 24,000 | |
| Salaries | 72,000 | |
| Discount allowed | 7,500 | |

| | | |
|---------------------------|-------------------------|-------------------------|
| Discount received | | 12,000 |
| Drawings | 20,000 | |
| Printing and Stationery | 6,000 | |
| Insurance premium | 48,000 | |
| Electricity charges | 14,000 | |
| General expenses | 11,000 | |
| Bank charges | 3,800 | |
| Bad debts | 12,200 | |
| Repairs the Motor vehicle | 13,000 | |
| Interest on loan | 4,400 | |
| Provision for Bad-debts | | 10,000 |
| Loan from Mr. Rajan | | 60,000 |
| Sundry creditors | | 62,000 |
| Motor vehicles | 1,00,000 | |
| Land and Building | 5,00,000 | |
| Office equipment | 2,00,000 | |
| Furniture and Fixtures | 50,000 | |
| Stock as on 31.03.2017 | 3,20,000 | |
| Sundry debtors | 2,80,000 | |
| Cash at Bank | 22,000 | |
| Cash in Hand | <u>16,000</u> | |
| Total | <u>30,73,400</u> | <u>30,73,400</u> |

Prepare Trading and Profit and Loss Account for the year ended 31.03.2018 and the Balance Sheet as at that date after making provision for the following:

- Depreciate Building by 5%, Furniture and Fixtures by 10%, Office Equipment by 15% and Motor Car by 20%.
- Value of stock at the close of the year was Rs. 4,10,000.
- One month rent for godown is outstanding.
- Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2017
- Provision for bad debts is to be maintained at 5% of Sundry debtors.
- Insurance premium includes Rs. 42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 01.04.2017 to 30.06.2018.

Marks 15

Answer

M/s Raghuram & Associates

Trading Account for the year ended 31st March 2018

| Particulars | Details | Amount | Particulars | Details | Amount |
|------------------------|-----------------|------------------|---------------------|-----------------|------------------|
| | | ₹ | | | ₹ |
| To Opening Stock | | 3,20,000 | By Sales | 15,00,000 | |
| To Purchases | 12,00,000 | | Less: Sales Returns | <u>(24,000)</u> | 14,76,000 |
| Less: Purchase Returns | <u>(18,000)</u> | 11,82,000 | By Closing Stock | | 4,10,000 |
| To Freight | | 62,000 | | | |
| To Gross Profit c/d | | <u>3,22,000</u> | | | |
| | | <u>18,86,000</u> | | | <u>18,86,000</u> |

M/s Raghuram & Associates

Profit and Loss Account for the year ended 31st March 2018

| Particulars | Details | Amount | Particulars | Details | Amount |
|--|--------------|-----------------|----------------------|---------|-----------------|
| | | ₹ | | | ₹ |
| To Salaries | | 72,000 | By Gross profit b/d | | 3,22,000 |
| To Rent for Godown | 55,000 | | | | |
| <i>Add:</i> Outstanding | <u>5,000</u> | 60,000 | By Discount received | | 12,000 |
| To Provision for Doubtful Debts (W.N.4) | | 16,200 | | | |
| To Rent and Taxes | | 24,000 | | | |
| To Discount Allowed | | 7,500 | | | |
| To Carriage outwards | | 8,500 | | | |
| To Printing and stationery | | 6,000 | | | |
| To Electricity charges | | 14,000 | | | |
| To Insurance premium (W.N. 1) | | 4,800 | | | |
| To Depreciation (W.N. 2) | | 80,000 | | | |
| To General expenses | | 11,000 | | | |
| To Bank Charges | | 3,800 | | | |
| To Interest on loan | 4,400 | | | | |
| <i>Add:</i> Outstanding (W.N. 3) | <u>100</u> | 4,500 | | | |
| To Motor car expenses (Repairs) | | 13,000 | | | |
| To Net Profit transferred to Capital A/c | | <u>8,700</u> | | | |
| | | <u>3,34,000</u> | | | <u>3,34,000</u> |

Balance Sheet of M/s Raghuram & Associates

as at 31st March 2018

| Liabilities | | Details | Amount | Assets | |
|--------------------------------------|-----------------|-----------|------------------|------------------------------------|------------------|
| | | | ₹ | | |
| Capital | 14,11,400 | | | Land & Building | 5,00,000 |
| Add: Net Profit | 8,700 | | | Less: Depreciation | <u>(25,000)</u> |
| Less: Drawings | (20,000) | | | Motor Vehicles | 1,00,000 |
| | | | | | 4,75,000 |
| Less: proprietor's Insurance Premium | <u>(42,000)</u> | 13,58,100 | | Less: Depreciation | <u>(20,000)</u> |
| Loan from Rajan | 60,000 | | | Office equipment | 2,00,000 |
| Add: Outstanding Interest | <u>100</u> | 60,100 | | Less: Depreciation | <u>(30,000)</u> |
| Sundry Creditors | | 62,000 | | Furniture & Fixture | 50,000 |
| Outstanding rent | | 5,000 | | Less: Depreciation | <u>(5,000)</u> |
| | | | | Stock in Trade | 4,10,000 |
| | | | | Sundry Debtors | 2,80,000 |
| | | | | Less: Provision for doubtful debts | <u>(14,000)</u> |
| | | | | Cash at hand | 22,000 |
| | | | | Cash in bank | 16,000 |
| | | | | Prepaid insurance (W.N. 1) | <u>1,200</u> |
| | | | <u>14,85,200</u> | | <u>14,85,200</u> |

Working Notes:

| | |
|---|----------------|
| (1) Insurance premium | ₹ |
| Insurance premium as given in trial balance | 48,000 |
| Less: Personal premium | (42,000) |
| Less: Prepaid for 3 months | |
| $\left(\frac{6,000}{15} \times 3\right)$ | <u>(1,200)</u> |
| Transfer to Profit and Loss A/c | <u>4,800</u> |
| (2) Depreciation | |
| Building @ 5% on 5,00,000 | 25,000 |
| Motor Vehicles @ 20% on 1,00,000 | 20,000 |
| Furniture & Fittings @ 10% on 50,000 | 5,000 |
| Office Equipment @ 15% on 2,00,000 | <u>30,000</u> |
| Total | <u>80,000</u> |

(3) Interest on Loan

Interest on Loan ₹ 60,000 X 10% X 9/12 = 4,500

Less: interest as per Trial Balance = (4,400)

Amount (Outstanding) 100

(4) Provision for bad debts A/c

| <i>Particulars</i> | <i>Amount (₹)</i> | <i>Particulars</i> | <i>Amount (₹)</i> |
|------------------------------------|-----------------------|--------------------|-----------------------|
| To bad debts a/c | 12,200 | By balance b/d | 10,000 |
| To balance c/d (5% of 2,80,000) | 14,000 | By P&L A/c | 16,200 |
| | <u>26,200</u> | | <u>26,200</u> |