

GRAPH PAPER IS ON THE PENULTIMATE PAGE
Book No. 1 (containing 28 pages)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
Foundation Examination

Group No. *I* Paper No. *1 (HAF2)*
Subject *Principles & Practices of Accounting*

Number of Answer Books used : Main + additional sheets

For use by ICAI only



 MAY 2019

04 JUN 2019

Q.No.	To be ticked (✓) by the candidate against the Questions answered	Marks Awarded (To be filled by Examiner)					Total
		a	b	c	d	e	
1	✓	11½	3	4			18½
2	✓	10	10				20
3	✓	7	5	5			17
4	✓	10	10				20
5							
6	✓	10	5	5			20
7							
8							
9							
10							
11							
12							
13							
14							
Total							<i>95½ = 96</i>

Use only Blue / Black Ball Point Pen to write and shade the circles.
AVOID RED PEN.
Write the marks in the boxes before shading the response circles.

Total Marks awarded

96

0 0
1 1
2 2
3 3
4 4
5 5
6 6
7 7
8 8
9 9

Total Marks awarded (In words) *Ninty Six only*

Examiner's Signature _____

INSTRUCTIONS TO THE CANDIDATE

Answers are not to be written on this page

Answers should be written in figures and words in the allotted space at the right hand corner of the answer book/s and nowhere else including additional answer book/s and graph paper.

Roll number should be written in the box in numbers and darken the appropriate circles of the OMR bubbles provided in the right hand corner of the cover page with **Black / Blue** ball point pen.

Write all particulars such as name of Examination, Group No., Paper No. and subject at the appropriate space at the left hand upper corner.

4. Remove the Bar Code sticker of the particular paper from the Attendance sheet and affix the same on the box provided in the right hand corner of the cover page.
5. Since a machine will read the Roll no., please check and ensure that Roll number written in numbers, words and circles darkened are correct. In case any candidate fills this information wrongly, Institute will not take any responsibility for rectifying the mistake.
6. The answers should be written neatly and legibly.
7. The answer to each question must be commenced on a fresh page and question number prominently written at the top of each answer. Alternatively, the question number should be distinctly written in the margin.
8. The answer to each question in all parts should be fully completed in one page or in a consecutive set of pages, before the next question is taken up.
9. Writing of Roll number in place/s other than the space provided for the purpose or writing distinguishing mark, symbols like "OM", "Sri", "Jesus", "786", etc., will tantamount to adoption of "unfair means"
10. Before submission of answer book to the invigilator take care to score out (X) blank pages, if any, that you might have left.



Ques 4(a)

Ques 4(a)

(1). Du. Revaluation Account Cu.

Paticulars	₹	Paticulars	₹
To Stock A/c	1500	By Land & Building	25000
To profit (1:1:1)		By provision for doubtful debt	2000
Monika - 8500			
Yedhant - 8500			
Zoya - 8500	25500		
	<u>27000</u>		<u>27000</u>

(2). Du. Partner's Capital Account Cu.

Paticulars	M	Y	Z	Paticulars	M	Y	Z
To Xaya's A/c (WN 1 & 2)	4375	4375		By bal b/d	100,000	75000	75000
To Zoya's Executor A/c			98125	By General Reserve A/c	4000	4000	4000
To bal c/d	108125	83125		By Monika's A/c			4375
				By Yedhant's A/c			4375
				By P/L Suspense (3)			1875
				By Revaluation	8500	8500	8500
	<u>112500</u>	<u>87500</u>	<u>98125</u>		<u>112500</u>	<u>87500</u>	<u>98125</u>

(3).

Balance Sheet as at 1st July, 2018.

Liabilities	₹	Asset	₹
Creditors.	20,000.	Land and Building	175,000.
Capital Accounts:		Investments.	65,000.
Mohika - 108,125		Stock in trade.	13,500.
Yedhart - 83,125	491,250.	Trade Receivables.	35,000.
Zoya's Executive A/c.	98,125.	Cash in hand	7,000.
		Cash at bank.	12,000.
		Profit and Loss Suspense	18,750.
	<u>309,375.</u>		<u>309,375.</u>

Working Notes :-

(1) Calculation of Goodwill :-

$$\begin{aligned} \text{Average profit} &= \frac{35,000 + 20,000 + 22,500 + 35,000 + 28,750}{5} \\ &= 26,250. \end{aligned}$$

$$\text{Goodwill} = 26,250.$$

$$\text{Zoya's share of Goodwill} = 8,750.$$



12) Calculation of Gaining Ratio :-

$$\text{Gaining Ratio} = \text{New Share} - \text{Old Share.}$$

$$\text{Monika} = \frac{1}{2} - \frac{1}{3} = \frac{1}{6}$$

$$\text{Yedhant} = \frac{1}{2} - \frac{1}{3} = \frac{1}{6}$$

So, Goodwill to be debited to their
A/c's are :- Gaining Ratio - 1:1

$$\frac{1}{2} \quad \text{Monika} = 8750 \times \frac{1}{2} = 4375 \quad \checkmark$$

$$\text{Yedhant} = 8750 \times \frac{1}{2} = 4375 \quad \checkmark$$

13) Share of profit :-

$$\begin{aligned} \text{Average profit} &= \frac{25000 + 20,000 + 22500}{3} \\ &= 22500. \end{aligned}$$

$$\begin{aligned} \text{So profit share} &= 22500 \times \frac{1}{3} \times \frac{3}{12} \\ &= 1875. \quad \checkmark \end{aligned}$$



Ques 4(b)

Ques 4(b)

Trading and Profit and Loss A/c

Dr. for the year ending 31st Dec. 2018.

Cr.

Particulars	₹	Particulars	₹
To opening Stock	₹400.	By Sales	9000.
To purchases 12000		↳ Sales Return (1000)	8000
↳ purchase Return (2000)	10,000.	By Closing Stock	4500
To Gross profit	1100.		
	12500.		12500.

To tax and insurance 500.		By Gross profit	1100.
↳ Outstanding 200	700.	By Commission	500.
To Bad debts.	500.	↳ Advance (100)	400
To depreciation	160.	By Accrued Interest	210.
To outstanding Salary	2600.	By Net loss.	2500.
To tax and insurance	500		
↳ outstanding 200			
↳ prepaid (50)	650.		
To interest on overdraft	300.		
To Reserve for B.D.	500.		
	4210		4210

4 1/2



Balance Sheet

as at 31st Dec, 2018.

Liabilities	₹	Asset	₹
Capital 16000.		Cash in hand.	1500.
1- Reserve (2000).		Debtors 5000	5000
1- Net loss (2500)	11500	Assets	
Bank overdraft	2000.	1- Reserve for (1000)	4000.
outstanding tax	200.	Bad Debt	
Creditors.	2000.	Investments.	4000.
Advance Commission	100.	Furniture 1600	
Bills payable	2500.	1- Depreciation (160)	4440.
outstanding salary	100.	Bills Receivable	3000.
Outstanding		Closing Stock	4500.
Interest on		Prepaid Insurance	50.
overdraft	300.	Accrued Interest	210.
	<u>18700</u>		<u>18700</u>

Working Notes :-

Dr.		Reserve for Bad debts.		Cr.	
Particulars	₹	Particulars	₹		
To Bad debts.	500.	By bal b/d	1000		
To bal c/d	1000.	By P/L A/c	500.		
	<u>1500</u>		<u>1500</u>		

Ques 3(a)

Ques 3(a)

Dr.	Joint Venture Alc.				Cr.
Particulars	₹		Particulars	₹	
To Joint Bank Alc	145,00,000		By R's Alc-Sale	128,00,000	
To Joint Bank Alc	2750,000		By S's Alc-Sale	56,00,000	
To R's Alc (WN1)	256,000				
To S's Alc (WN2)	112,000				
To profit (2:1)					
R - 521333					
S - 260667	782,000				
	<u>184,00,000</u>			<u>184,00,000</u>	

2 1/2

Dr.	Joint Bank Alc.				Cr.
Particulars	₹		Particulars	₹	
To R's Alc	100,00,000		By Joint Venture	145,00,000	
To S's Alc	50,00,000		By Joint Venture	2750,000	
To R's Alc	2022667				
To S's Alc	227333				
	<u>17250,000</u>			<u>17250,000</u>	

1 1/2

Dr.	R's Account				Cr.
Particulars	₹		Particulars	₹	
To Joint Venture	1,28,00,000		By Joint Bank Alc	100,00,000	
			By Joint Venture	256,000	
			By Joint Venture	521333	
			By Joint Bank Alc	2022667	
	<u>128,00,000</u>			<u>128,00,000</u>	

1 1/2



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Dr.	S's Account.		Cr.
Particulars	₹	Particulars	₹
To Joint Venture	5600,000	By Joint Bank A/c	50,00,000
		By Joint Venture	112,000
		By Joint Venture	26,066.7
		By Joint Bank A/c	22,733.3
	<u>5600,000</u>		<u>5600,000</u>

 $\frac{1}{2}$

Working Notes B-

- (1) R's Commission = $\frac{12800,000 \times 2}{100} = 256000$
- (2) S's Commission = $\frac{5600,000 \times 2}{100} = 112000$

7

Ques 3(b)

Ques 3(b)

In the Books of Akshay.
Journal Entries

Date	Particulars	LF	Dr (₹)	Cr (₹)
2018.				
1 Jan	Bills Receivable (1) A/c	Dr	16000	—
	Bills Receivable (2) A/c	Dr	25000	—
	To Vishal's A/c		—	41000
	(Being bills drawn by Akshay).			
4 Mar.	Vishal's A/c	Dr	16000	—
	To Bills Receivable (1) A/c		—	16000
	(Being first bill cancelled).			
4 Mar.	Bills Receivable (3) A/c	Dr	16400	—
	To Vishal's A/c		—	16000
	To Interest A/c $(16000 \times 15 \times \frac{2}{100 \times 12})$		—	400
	(Being new bill drawn).			



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25 Mar.	Bank A/c	Dr	24750	-
	Rebate A/c	Dr	250	-
1	To Bills Receivable (2) A/c.		-	25000
	(Being bill settled).			

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7 May.	Vishal's A/c	Dr	16400	-
	To Bills Receivable (3) A/c		-	16400
$\frac{1}{2}$	(Being Vishal became insolvent).			

7 May.	Bank A/c	Dr	8200	-
	Bad debts A/c	Dr	8200	-
1	To Vishal's A/c		-	16400
	(Being part payment received).			

5

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Ques 3 (c)(ii)

Q 3(c)(ii)

Statement showing Royalty payable.

Year ended	Coal extracted	Royalty @ ₹25/ton	Shortfall allowed	Shortfall measured	Royalty payable
2014	3000	75000	175000	-	250,000
2015	4800	120,000	130,000	-	250,000
2016	10,600	265000	-	15000	250,000
2017	16800	420,000	-	170,000	250,000
2018	21000	525000	-	120,000	405000
	56200	1405000	305000	305000	1405000

5



Ques 2(a)

Ques 2(a)

Bank Reconciliation Statement

as on 30th June, 2018

Particulars.	Details	Amount.
(i). Debit balance as per Pass Book.		25000.
(ii). Cheque directly deposited by a Customer in the bank.	400. ✓	
(iii). Cheques issued but not presented.	14000. ✓	
(iv). Cheque recorded in Pass Book but not banked.	(4000). ✓	
(v). Cheques sent but not collected.	(6000). ✓	
(vi). Direct payment by bank.	(600) ✓	
(vii). Interest on overdraft charged by bank.	(1600) ✓	
(viii). Bank Charges entered twice in Pass Book.	80. ✓	
Insurance Charges paid by bank	(70). ✓	
(ix). Credit side of Pass Book understated.	(2000). ✓	
		210.
Credit balance as per Pass Book.	✓	<u>25210</u>

10

Ques 2(b)

Ques 2(b)

Machinery Account							
Dr.				Cr.			
Date	Particulars	JF	Amount (₹)	Date	Particulars	JF	Amount (₹)
2015				2015.			
1 Jan	To Bank A/c. (37000 + 3000)		✓ 40,000	31 Dec	By Depreciation		✓ 4000
			40000		By bal c/d		36000
							<u>40,000</u>
2016				2016.			
1 Jan	To bal b/d.		✓ 36000	31 Dec	By Depreciation		
1 July	To Bank A/c		✓ 10,000		(5400 + 750)		✓ 6150
			46000		By bal c/d		39850
							<u>46000</u>
2017				2017.			
1 Jan	To bal b/d		✓ 39850	1 July	By Depreciation (1)		✓ 2295
1 July	To bank A/c		✓ 25000		By Bank A/c		✓ 28000
					By P/L A/c		✓ 305
				31 Dec	By Depreciation		✓ 3262
			64850		By bal c/d		✓ 30987
							<u>64850</u>
2018				2018.			
1 Jan	To bal b/d.		✓ 30987	1 July	By Depreciation		✓ 590
					By Bank A/c		✓ 2000



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 $7\frac{1}{2}$

30987

By P/L A/c

✓ 5272.

31 Dec

By Depreciation

✓ 8469

By bal c/d

19656

30987

Working Notes :-

11. Depreciation for Machines :-

Purchased on.

		1 Jan 2015	1 July 2016	1 July 2017
2015.	Cost.	40,000		
	(-) Depreciation	(4000)		
2016.	WDV.	36,000.	10,000.	
	(-) Depreciation	(5400).	(750).	
2017	WDV.	30600.	9250	25000.
	(-) Depreciation.	(2295).	(1388).	(1875).
2018.	WDV.	28305.	7862.	23125.
	(-) Depreciation.		(590).	(3469).
			7272.	✓ 19656.
	(-) Sale.		2000	
	Loss on Sale.		✓ 5272.	
	(-) Sale.	28,000.		
	Loss on Sale	✓ 305.		

10



Ques 6(a)

Ques 6(a)

In the books of Bhagwati Ltd.
Journal Entries.

Date	Particulars	LF	Dr. (₹)	Cr. (₹).
	Bank A/c Du.		900,000	—
1	To Equity Share Application A/c. (Being applications for 300,000 shares received).		—	900,000
	Equity Share Application A/c Du.		900,000.	—
	To Equity Share Allotment A/c		—	300,000.
	To Equity Share Capital A/c		—	600,000
	(Being 200,000 shares allotted on pro-rata basis).			
	Equity Share Allotment A/c Du.		10,00,000	—
1	To Equity Share Capital A/c (Being allotment money due).		—	10,00,000
	Bank A/c Du.		700,000	—
1	To Equity Share Allotment A/c. (Being allotment money received).		—	700,000



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1 Equity Share first & final Call A/c Dr 400,000 -
 To Equity Share Capital A/c - 400,000
 (Being first call money due).

1 Bank A/c Dr 394,000 -
 Calls-in-advance A/c Dr 6,000 -
 To Equity Share first & final Call A/c - 400,000
 (Being call money received)

1 Equity Share Capital A/c Dr 30,000 -
 To Equity Share forfeiture A/c - 24,000
 To Calls-in-advance A/c - 6,000
 (Being Rs 10 share forfeited)

1 Bank A/c Dr 15,000 -
 Equity Share forfeiture A/c Dr 10,000 -
 To Equity Share Capital A/c - 25,000
 (Being shares reissued).

1 Equity Share forfeiture A/c Dr 10,000 -
 To Capital Reserve A/c (WN1) - 10,000
 (Being transfer to Capital Reserve)



Working Notes :-

(1) Transfer to Capital Reserve :-

$$1 = \frac{24000}{3000} \times 2500 = 10,000$$

(10)

$$= 10,000$$

Ques 6 (b)

Ques 6(b)

Journal Entries -

Date	Particulars	lf	Dr. (₹)	Cr. (₹)
2018 1 Jan.	Bank A/c	Dr	1800,000	-
	To Debenture Application A/c		-	1800,000
<u>1</u> <u>2</u>	(Being 10% Debentures iss application money received).			
1 Jan.	Debenture Application A/c	Dr	1800,000.	-
	to on issue of Debenture A/c	Dr	300,000.	-
<u>1</u> <u>2</u>	To 10% Debenture A/c		-	20,00,000.
	To Premium on redemption A/c		-	100,000
	(Being 10% Debentures issued).			



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30 June	Debtenture Interest A/c	du	100,000	-
$\frac{1}{2}$	To TDS payable		-	10,000
$\frac{1}{2}$	To Debtenture holders A/c.		-	90,000
	(Being interest due).			

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30 June	TDS payable A/c	du	10,000	-
$\frac{1}{2}$	Debtentureholder A/c	du	90,000	-
$\frac{1}{2}$	To Bank A/c		-	100,000
	(Being interest paid).			

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31 Dec.	Debtenture Interest A/c	du	100,000	-
$\frac{1}{2}$	To TDS payable		-	10,000
$\frac{1}{2}$	To Debtentureholder A/c		-	90,000
	(Being interest due).			

31 Dec	TDS payable A/c	du	10,000	-
$\frac{1}{2}$	Debtentureholder A/c	du	90,000	-
$\frac{1}{2}$	To Bank A/c		-	100,000
	(Being interest due).			

31 Dec	Profit and Loss A/c	du	260,000	-
$\frac{1}{2} + \frac{1}{2}$	To Debtenture Interest A/c		-	200,000
$\frac{1}{2} + \frac{1}{2}$	To Loss on issue of Debtenture		-	60,000
	(Being loss transferred).			

(Information)

5



Ques 6 (C)

Ques 6 (C)

Statement for Calculation of Inventory

Inventory on 10th April 2019. 125000.

(+) Sales. 20,000.
(-) Gross profit (WN 1) 4000. 16000.

(+) Free Samples issued ✓ 4000.

(-) Purchases. 10,000.
(-) Goods still not received. (2000) ✓ (8000).

(+) Goods not included in Stocks. 20,000. ✓

Value of Inventory on 31st Mar. 2019 157000.

Working Notes :-

(1) Gross profit :-

$$= 20,000 \times \frac{25}{125} = 4000. \quad \checkmark$$

(5)

⇒ 25%.



Ques 1(a)

Ques 1(a)

(i). True.

2
Amount spent for the construction of temporary huts necessary for Cinema House are Capital expenditure because they are non-recurring in nature and it is necessary for Cinema House without which Cinema Hall cannot be put to use.

(ii). False.

2
If the error is posted in the wrong account or it is written on the wrong side of the account, it is error of Commission.

Error of principle relates to treating a revenue expense as Capital or treating the sale of furniture as an ordinary sale.

(iii). False.

1 1/2

In the Consignment Sale, when the goods are delivered to the Consignee, there is mere passing of possession of goods, ownership remains with the Consignor only.

(iv). True.

2

If the due date of a bill falls after the date of closing the account, the interest thereon is not paid however such interest is written on the appropriate side in Red Ink.

It is called Red Ink Interest.

(v). False.

2

Limited liability Partnership is governed by limited liability Partnership Act, 2008. according to which LLP is a type of organisation where



the liability of every partner is limited to the extent of capital contributed by them.

(vi). False.

$$\text{Working Capital Ratio} = \frac{\text{Current Asset} - \text{Current Liability}}{\text{Current Liability}}$$

So, the relationship between Current Asset and Current Liability is Working Capital Ratio.

2. However, the relationship between Sales and Fixed Asset is expressed as Fixed Assets Turnover Ratio.

11½



Ques 1(b)

Ques 1(b)

Going Concern Concept

As per going Concern Concept, it is assumed that the business will continue in the long-term and has no intention of shutting down.

$\frac{1}{2}$
As per this concept only, Assets and liabilities are categorised as long term / fixed assets or short term / Current assets.

Cost Concept

As per this Concept, all the assets and liabilities are recorded at their historical cost that is acquisition cost.

Historical Cost is more practical in calculation rather than Current cost or Present value. Because, it



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will not be easy to find the current cost of the asset without any personal bias or estimation of the accountant.

③

whereas Historical Cost is free from any biasness or estimation.

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[Ques 1(c)]

[Ques 1(c)]

Journal Entries.

Date	Particulars	LF	Dr. (₹)	Cr. (₹).
i.	Commission A/c Dr.		4500	—
	To Interest A/c		—	4500
1	(Being ₹ amount received as interest credited to Commission A/c).			
ii.	M/S Sahag Traders A/c Dr.		90	—
1	To Suspense A/c		—	90
	(Being wrong amount posted).			
iii.	Drawings A/c Dr.		35000	—
1	To Machinery A/c		—	35000
	(Being ₹ Machine purchased for personal use of proprietor).			

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1	(iv).	Sales Return A/c	Dr	5000	—
		To Customer's A/c		—	5000
		(Being goods returned by Customer but no entry passed).			

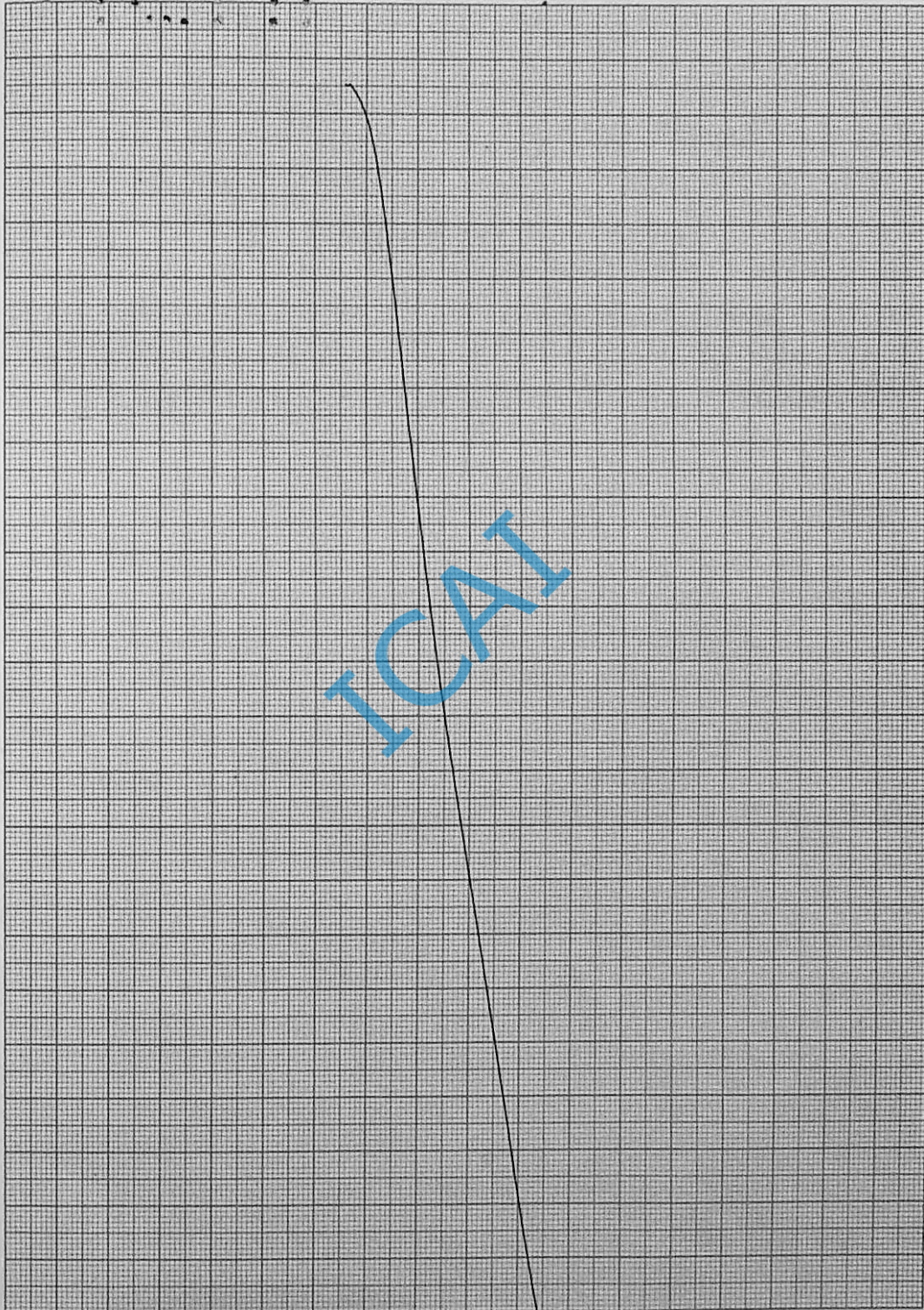
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