Paper: Accounts　　　　　　　　　　Marks: 100
Course: CA Foundation
Model Answer Sheet　　　　　　　　　　Time Allowed : 3 Hours

1. (a)

Solution:

(i) **False**; In case of admission of new partner in a partnership firm, profit/loss on revaluation account is transferred to old partners in their old profit-sharing ratio.

(ii) **True**; According to Section 52 of the Companies Act, 2013, Securities Premium Account may be used by the company to write off preliminary expenses of the company. Thus, the accountant can use the balance in securities premium account to write off the preliminary expenses amounting ₹ 5 lakhs.

(iii) **True**; Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt as it is not obtained in course of normal business activities.

(iv) **False**; When a transaction is recorded in contravention of accounting principles, like treating the purchase of an asset as an expense, it is an error of principle. Purchase of office furniture and fixtures is a capital expenditure, if debited to General Expenses account, is an error of principle and not an error of omission.

(v) **False**; Goods sent on consignment basis should be sent under a proforma invoice not a sale invoice.

(vi) **False**; If the fundamental accounting assumption of going concern is not followed, then the assets and liabilities should be stated at realizable value not historical cost

(Marks 12)

1. (b)

Solution :

Sr. No.	Particulars		Dr (`)	Cr (`)
(i)	Bank A/c	Dr.	2,25,000	
	To Equity Share Capital A/c			1,50,000
	To Securities Premium A/c			75,000
	(Being 15,000 Equity Shares Issued at a premium of ` 5)			
(ii)	Securities Premium A/c	Dr	75,000	
	Profit & Loss A/c	Dr	75,000	
	To Bonus to Equity Shareholders A/c			1,50,000
	(Being amount transferred for issue of Bonus Shares to ESH in the ratio of 1:5)			
(iii)	Bonus to Equity Shareholders A/c	Dr.	1,50,000	
	To Equity Share Capital A/c			1,50,000
	(Being bonus shares issued)			
(iv)	12% Debentures A/c	Dr	3,60,000	
	Premium on Redemption A/c	Dr	10,800	
	To Debenture Holders A/c			3,70,800
	(Being amount payable to debenture holders)			
(v)	Profit & Loss A/c	Dr	10,800	
	To Premium on Redemption A/c			10,800
	(Being premium on redemption transferred to P&L)			
(vi)	Debenture Redemption Reserve A/c	Dr	36,000	
	To General Reserve			36,000
	(Being DRR transferred to General Reserve)			
(vii)	Bank A/c	Dr	54,000	
	To DRR Investment A/c			54,000
	(Being DRR Investment sold)			
(viii)	Debenture Holders A/c		3,70,800	
	To Bank A/c			3,70,800
	(Being Debenture Holders paid)			

(Marks 8)

2. (a)

Solution:

Solution :

Date (2020-21)	Particulars	Amount (Rs.)	Date (2020-21)	Particulars	Amount (Rs.)
Apr-01	To Balance b/d	21,15,250	Jul -01	By Bank (Sales)	90,000
Jul -01	To Bank (4,35,000 + 9800)	4,44,800		By Deprecation (on machine sold)	7,585
Sep -01	To Bank	2,50,000		By Loss on sale	2,05,825
				By Depreciation on Scrapped machine	4,820

				By loss on scrapping the machine	1,87,960
			Mar-31	By Deprecation	2,09,849
			Mar-31	By Balance c/d	21,04,011
		28,10,050			**28,10,050**

Working Notes:

1. Calculation of loss on sale of machine

Cost on 1-4-2017	4,16,200
Less: Depreciation @ 10% on Rs. 4,16,200	(41,620)
W.D.V. on 31.3.2018	3,74,580
Less: Depreciation @10% on Rs. 3,74,580	(37,458)
W.D.V. on 31.3.2019	3,37,122
Less: Depreciation @10% on Rs. 3,37,122	(33,712)
W.D.V on 31.3.2020	3,03,410
Less: Depreciation @ 10% on Rs. 3,03,410 for 3 months	(7,585)
	2,95,825
Less: Sale proceeds on 1-7-2020	(90,000)
Loss on sale of machine	2,05,825

2. Calculation of loss on scrapped machine

Cost on 1-4-2018	2,38,000
Less: Depreciation @10%	(23,800)
W.D.V. on 31.3.2019	2,14,200
Less: Depreciation @10%	(21,420)
W.D.V. on 31.3.2020	1,92,780
Less: Depreciation @ 10% for 3 months	(4,820)
Loss on scrapping the machine	1,87,960

3. Calculation of Depreciation

Balance of Machinery A/c on 1.4.2020	21,15,250
Less: W.D.V. of Machinery Sold	(3,03,410)
Less: W.D.V of Machinery Scrapped	(1,92,780)
W.D.V of other Machinery on 1.4.2020	16,19,060
Depreciation @10% on Rs. 16,19,060 for 12 Months	1,61,906
Depreciation @10% on Rs. 4,44,800 for 9 Months	33,360
Depreciation @10% on Rs. 2,50,000 for 7 Months	14,583

Total Depreciation to be charged on 31.3.2021	2,09,849

(Marks 10)

2. (b)

solution

Journal Entries

	Particulars		L.F.	Dr. `	Cr. `
(i)	Suspense Account	Dr.		936	
	To Profit and Loss Adjustment A/c				936
	(Correction of error by which Purchase Account was over debited last year- Rs 5,615 carried forward instead of Rs. 6,551)				
(ii)	Profit & Loss Adjustment	Dr.		540	
	A/c Customer's Account	Dr.		1,102	
	To Suspense Account				1,642
	(Correction of the entry by which (a) Sales A/c was over credited by ` 540 (b) customer was credited by `821 instead of being debited by `281)				
(iii)	Suspense Account	Dr.		590	
	To Profit & Loss Adjustment A/c				590
	(Correction of error by which Returns Inward Account was debited by `295 instead of Returns Outwards Account being credited by `295)				
(iv)	Suspense Account	Dr.		1,790	
	To Senu				895
	To Sethu				895
	(Removal or wrong debit to Sethu and giving credit to Senu from whom cash was received)				
(v)	Customer's Account	Dr.		1,400	

	To Profit & Loss Adjustment A/c (Rectification of the error arising from non- preparation of invoice for goods delivered)				1,400
(vi)	Profit & Loss Adjustment A/c To Customer's Account	Dr.		1600	1,600
(vii)	(The Customer's A/c credited with goods not yet purchased by him) Inventory A/c To Profit & Loss Adjustment A/c (Cost of goods debited to inventory and credited to Profit & Loss Adjustment A/c)	Dr.		1280	1280
(viii)	Trade receivable/ Q's Account To Suspense Account (`600 due by Q not taken into trial balance, now rectified)	Dr.		600	600
(ix)	R's account/Trade receivable To Profit & Loss Adjustment A/c (Sales to R omitted, now rectified)	Dr.		3,000	3,000
(x)	Profit & Loss Adjustment A/c To Joshi's Capital Account (Transfer of the Profit & Loss Adjustment A/c balance to the Capital Account)	Dr.		5,066	5,066

(Marks 10)

3. (a)

Solution:

Manufacturing A/c

Particulars	₹	Particulars	₹

To Raw Material Consumed (Balancing Figure)	9,15,000	By Trading A/c (W.N. 4)	18,32,000
To Wages (W.N. 2)	3,15,000		
To Depreciation (W.N. 1)	3,95,000		
To Direct Expenses (W.N. 3)	2,07,000		
	18,32,000		**18,32,000**

Raw Material A/c

Particulars	₹	Particulars	₹
To Opening Stock A/c	1,27,000	By Raw Material Consumed (from Manufacturing A/c above)	9,15,000
To Creditors A/c (W.N. 5)	14,40,000	By Closing Stock A/c (Balancing Figure)	6,52,000
	15,67,000		**15,67,000**

Working Notes:

(1) Since purchase of Machinery worth ₹ 12,00,000 has been omitted. So, depreciation omitted from being charged = 12,00,000 X 15%

= ₹ 1,80,000

Correct total depreciation expense = ₹ (2,15,000 + 1,80,000)

= 3,95,000

(2) Wages worth ₹ 50,000 will be excluded from manufacturing account as they pertain to office and hence will be charged P&L A/c. So the revised wages amounting ₹ 3,15,000 will be shown in manufacturing account.

(3) Expenses to be excluded from direct expenses:

Office Electricity Charges (80,000 X 25%)	20,000
Delivery Charges to Customers	22,000
Total expenses not part of Direct Expenses	42,000

=> Revised Direct Expenses = ₹ (2,49,000 - 42,000)

= ₹ 2,07,000

Fuel charges are related to factory expenses and also freight inwards are incurred for bringing goods to factory/ godown so they are part of direct expenses.

(4) Revised Balance to be transferred to Trading A/c:

Particulars	**₹**
Current Balance transferred	17,44,000
Add: Depreciation charges not recorded earlier	1,80,000
Less: Wages related to Office	(50,000)

Less: Office Expenses	(42,000)
Revised balance to be transferred	**18,32,000**

(5) Creditors A/c

Particulars	₹	Particulars	₹
To Bank A/c	23,50,000	By Balance b/d	15,70,000
To Balance c/d	6,60,000	By Raw Materials A/c (Bal. figure)	14,40,000
	30,10,000		30,10,000

(Marks 10)

3. (b)

Solution:

Bank Reconciliation Statement as on 30th June 2018

	Particulars	Amount	Amount
	Overdraft as per Pass Book (Dr. Balance)		25,000
Add:	Cheques issued but not presented ` (34,000-20,000)	14,000	
	Cheques deposited into the Bank by Customer but not entered in Cash Book	400	
	Bank charges written twice in Cash Book	80	14,480
			39,480
Less:	Cheques received, recorded in cash Book but not sent to the Bank	4,000	
	Cheques sent to the Bank but not collected	6,000	
	Direct payment made by the bank not recorded in the Cash book	600	
	Interest on Overdraft charged by Bank	1,600	
	Insurance charges not entered in Cash Book	70	
	Credit side of bank column of Cash Book was undercast	2,000	14,270
	Overdraft as per Cash Book		**25,210**

(Marks 10)

4. (a) (Marks 15)

Solution

Revaluation Account

Date		Particulars	Amount		Date		Particulars	Amount `
2020 April	To	Plant & Machinery	6,000		2020 April	By	Land and building	6,000
	To	Stock of goods	2,000			By	Sundry creditors	2,000
	To	Provision for bad and doubtful debts	550			By	Cash & Bank - Joint life Policy surrendered	7,550
	To	Capital accounts (profit on revaluation transferred) Mr. P (2/7) 2,000 Mr. Q (3/7) 3,000 Mr. R (2/7) 2,000	7,000					
			15,550					15,550

(b) Partners' Capital Accounts

Dr.									Cr.
Particulars		P	Q	R	Particulars		P	Q	R
		Rs	Rs	Rs			Rs	Rs	Rs
To	P's Capital A/c - goodwill	-	1,000	3,000	By	Balance b/d	20,000	30,000	20,000
To	Cash & bank A/c - (50% dues paid)	13,000	-	-	By	Revaluation A/c	2,000	3,000	2,000
To	P's Loan A/c - (50% transfer)	13,000	-	-	By	Q & R's Capital A/cs - goodwill	4,000	-	-
To	Balance c/d	-	35,000	35,000	By	Cash & bank A/c - amount brought in (Balancing figures)	-	3,000	16,000
		26,000	36,000	38,000			26,000	36,000	38,000

(c) **Cash and Bank Account**

Particulars		`	*Particulars*		`
To	Balance b/d	7,000	By	P's Capital A/c - 50% dues paid	13,000
To	Revaluation A/c – surrender value of joint life policy	7,550	By	Balance b/d	20,550
To	Q's Capital A/c	3,000			
To	R's Capital A/c	16,000			
		33,550			33,550

(d) Balance Sheet of M/s Q & R as on 01.04.2020

Liabilities		`	*Assets*		`
Partners' Capital account			Land and Building	30,000	
Mr. Q	35,000		*Add:* Appreciation 20%		
				6,000	36,000
			Plant & Machinery		
Mr. R	35,000	70,000		20,000	
			Less: Depreciation 30%		
Mr. P's Loan account		13,000	Stock of goods		
				6,000	14,000
			Less: revalued		
Sundry Creditors		8,000		12,000	
			Sundry Debtors		
				2,000	10,000
			Less: Provision for bad debts 5%	11,000	
			Cash & Bank balances	550	10,450
					20,550
		91,000			91,000

Working Notes:

Adjustment for Goodwill:	
Goodwill of the firm	14,000
Mr. P's Share (2/7)	4,000
Gaining ratio of Q & R;	
Q = ½ - 3/7 = 1/14	
R = ½ - 2/7 = 3/14	
Q:R = 1:3	

Therefore, Q will bear – ¼ × 4000 or `1,000 R

will bear = ¾ × 4000 or `3,000

4. (b)

In the books of Somya Ltd.
Journal Entries

Date	Particulars		Dr. ₹	Cr. ₹
(a)	Bank A/c	Dr.	67,50,000	
	To Debentures Application A/c			67,50,000
	(Being the application money received on 15,000 debentures @ ₹ 450 each)			
	Debentures Application A/c	Dr.	67,50,000	
	Discount on issue of Debentures A/c	Dr.	7,50,000	
	To 14% Debentures A/c			75,00,000
	(Being the issue of 15,000 12% Debentures @ 90% as per Board's Resolution No....dated....)			
(b)	Fixed Assets A/c	Dr.	30,00,000	
	To Vendor A/c			30,00,000
	(Being the purchase of fixed assets from vendor)			
	Vendor A/c	Dr.	30,00,000	
	Discount on Issue of Debentures A/c	Dr.	7,50,000	
	To 14% Debentures A/c			37,50,000
	(Being the issue of debentures of ₹ 37,50,000 to vendor to satisfy his claim)			
(c)	Bank A/c	Dr.	30,00,000	
	To Bank Loan A/c (See Note)			30,00,000
	(Being a loan of ₹ 30,00,000 taken from bank by issuing debentures of ₹37,50,000 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

(Marks 5)

5. b

Solution:

Income and Expenditure Account for the year ending 31st March, 2020

Expenditure	₹	₹	Income	₹	₹
To Salaries: Teaching		8,75,000	By Tutions & other fee		8,92,000
Research		1,25,000	By Govt. Grants		5,01,000
To Material & Supplies Consumed			By Income from Investments		1,75,000
Teaching		52,000	By Hostel room Rent By		1,65,000
Research		1,45,000	Mess Receipts		2,05,000
			By Profit-stores sales		1,14,000
To Sports & Games Expenses					
Cash	52,000				
Materials	24,000	76,000			
To Students Welfare Expenses					
Cash	37,000				
Materials	78,000	1,15,000			
To Scholarships		85,000			
To Depreciation:					
Building		77,500			
Plant & Equipment		85,000			
Furniture		54,000			
Motor Vehicle		48,000			
To Excess of Income over Expenditure		3,14,500			
		20,52,000			20,52,000

AS College

Balance Sheet as on 31st March, 2020

Liabilities	₹	₹	Assets	₹	₹
			Fixed Assets:		
Capital Fund Opening			Land Building		1,50,000
balance	13,08,000		Cost	15,50,000	

Add: Excess of Income over Expenditure	3,14,500	16,22,500	Less: Dep.	(5,67,500)	9,82,500
Building Fund		19,10,000	Plant & Machinery Cost	8,50,000	
Current Liabilities:			Less: Dep.	(5,90,000)	2,60,000
Outstanding Expenses		2,35,000			
Security Deposit		1,55,000	Furniture & Fittings:		
			Cost	5,40,000	
			Less: Dep.	(3,80,000)	1,60,000
			Motor Vehicles		
			Cost:	2,40,000	
			Less: Dep.	(48,000)	1,92,000
			Library		3,20,000
			Investments		12,75,000
			Stock (stores)- Material & Supplies		1,85,000
			Tuition fees receivable		82,000
			Cash in hand & at Bank		3,16,000
		39,22,500			39,22,500

Working Notes:

(1)	Material & Supplies-Closing Stock		₹	₹
	Opening Stock			3,10,000
	Purchases			8,20,000
				11,30,000
	Less: Cost of Goods Sold		6,46,000	
	Material Consumed		2,99,000	(9,45,000)
	Balance			1,85,000
(2)	Provisions for Depreciation			
			Plant & Equipment	Furniture & Fitting
			₹	₹

	Opening Balance		5,05,000	3,26,000
	Addition		85,000	54,000
	Closing Balance		5,90,000	3,80,000

Marks 15

5. b

Solution:

Statement of Inventory in trade as on 31st	**March,2020**	
	Rs	Rs
Inventory as on 31st March, 2019	3,50,000	
Less:Book value of abnormal inventory		
(` 55,000 - ` 20,000)	35,000	3,15,000
Add: Purchases		12,00,000
Manufacturing Expenses		1,00,000
		16,15,000
Less: Cost of goods sold:		
Sales as per books	18,50,000	
Less: Sales of abnormal item	50,000	
	18,00,000	
Less: Gross Profit @ 20%	3,60,000	14,40,000
Inventory in trade as on 31st March, 2020		**1,75,000**

Marks 5

6. a

Solution:

Date 2023	Particulars		Dr. `	Cr. `
May 31	Bank A/c (Note 1 – Column 3) To Equity Share Application A/c (Being application money received on 5,60,000	Dr.	11,20,000	 11,20,000

	shares @ ` 2 per share)			
June 10	Equity Share Application A/c	Dr.	11,20,000	
	To Equity Share Capital A/c			2,70,000
	To Equity Share Allotment A/c			
	(Note 1 - Column 5)			5,50,000
	To Bank A/c (Note 1– Column 6)			3,00,000
	(Being application money on 1,35,000 shares transferred to Equity Share Capital Account; on 2,75,000 shares adjusted with allotment and on 1,50,000 shares refunded as per Board's Resolution No…..dated…)			
	Equity Share Allotment A/c	Dr.	6,75,000	
	To Equity Share Capital A/c			1,35,000
	To Securities Premium A/c			5,40,000
	(Being allotment money due on 1,35,000 shares @ ` 5 each including premium at `4 each as per Board's Resolution No….dated….)			
	Bank A/c (Note 1 – Column 8)	Dr.	1,25,000	
	To Equity Share Allotment A/c			1,25,000
Dec. 31	(Being balance allotment money received)			
	Equity Share Final Call A/c	Dr.	9,45,000	
	To Equity Share Capital A/c			9,45,000
	(Being final call money due on 1,35,000 shares @` 7 per share as per Board's Resolution No…..dated….)			

	Bank A/c To Equity Share Final Call A/c (Being final call money on 1,35,000 shares @ ` 7 each received)	Dr.	9,45,000	9,45,000

Working Note:

Calculation for Adjustment and Refund

Cate-gory	No.of Shares Applied for	No. of Shares Allotted	Amount Received on Application	Amount Required on Application	Amount adjusted on Allotment	Refund [3 – (4 + 5)]	Amount due on Allotment	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(i)	10,000	10,000	20,000	20,000	Nil	Nil	50,000	50,000
(ii)	50,000	25,000	1,00,000	50,000	50,000	Nil	1,25,000	75,000
(iii)	5,00,000	1,00,000	10,00,000	2,00,000	5,00,000	3,00,000	5,00,000	Nil
TOTAL	5,60,000	1,35,000	11,20,000	2,70,000	5,50,000	3,00,000	6,75,000	1,25,000

Also,

(i) Amount Received on Application (3) = No. of shares applied for (1) X `2

(ii) Amount Required on Application (4) = No. of shares allotted (2) X `2

Marks 15

6. b

Solution:

Machine Hour Rate method of calculating depreciation: Where it is practicable to keep a record of the actual running hours of each machine, depreciation may be calculated on the basis of hours that the concerned machinery worked. Under machine hour rate method of calculating depreciation, the life of a machine is not estimated in years but in hours. Thus depreciation is calculated after estimating the total number of hours that machine would work during its whole life; however, it may have to be varied from time to time, on a consideration of the changes in the economic and technological conditions which might take place, to ensure that the amount provided for depreciation corresponds to that considered appropriate in the changed circumstances. Proper records are maintained for running hours of the machine and depreciation is computed accordingly. For example, the cost of a machine is `10,00,000 and life of the machine is estimated at 50,000 hours. The hourly depreciation will be calculated as follows:

Hourly Depreciation : Total Cost of Machine / Estimated Life of Machine

= 10,00,000/50,000 Hours

= Rs 20 Per Hour

If the machine runs for say, 2,000 hours in a particular period, depreciation for the period will be 2,000 hours x Rs. 20 = Rs. 40,000.

Marks 5