ANSWERS OF MODEL TEST PAPER 3

FOUNDATION COURSE

PAPER – 1: ACCOUNTING

1. (a) (i) 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.

(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 ₹ 15 lakhs.

(iii) True: The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

(iv) 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.

(v) False: The debit notes issued are used to prepare purchases return book.

(vi) False: Debenture holder does not enjoy voting rights in company. He is only a creditor of the company.

(b) Change in accounting policy may have a material effect on the items of financial statements. For example, cost formula used for inventory valuation is changed from weighted average to FIFO. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts.

(c) Calculation of depreciation for 5th year

Depreciation per year charged for four years = ₹ 80,00,000 / 10 = ₹ 8,00,000

WDV of the machine at the end of fourth year = ₹ 80,00,000 – ₹ 8,00,000 × 4 = ₹ 48,00,000.

Depreciable amount after revaluation = ₹ 48,00,000 + ₹ 3,20,000 = ₹ 51,20,000

Remaining useful life as per previous estimate = 6 years

Remaining useful life as per revised estimate = 8 years

Depreciation for the fifth year and onwards = ₹ 51,20,000 / 8 = ₹ 6,40,000.

2. (a) Profit and Loss Adjustment A/c

	₹		₹
To Advertisement (samples)	3,20,000	By Net profit	32,00,000

To Sales (goods approved in April to be taken as April sales)	8,00,000	By Electric fittings	1,20,000
		By Samples	3,20,000
To Adjusted net profit	67,20,000	By Stock (Purchases of March not included in stock)	20,00,000
		By Sales (goods sold in March wrongly taken as April sales)	16,00,000
		By Stock (goods sent on approval basis not included in stock)	6,00,000
	78,40,000		78,40,000

Calculation of value of inventory on 31st March, 2024

	₹
Stock on 31st March, 2024 (given)	30,00,000
Add: Purchases of March, 2024 not included in the stock	20,00,000
Goods lying with customers on approval basis	6,00,000
	56,00,000

(b) (i) Cash Book (Bank Column)

Date	Particulars	Amount	Date	Particulars	Amount
2023		₹	2023		₹
Sept. 30			Sept. 30		
	To Party A/c	64,000		By Balance b/d	16,248
	To Customer A/c (Direct deposit)	4,69,600		By Bank charges	2,320
	To Balance c/d	44,968		By Customer A/c (B/R dishonoured)	5,60,000
		5,78,568			5,78,568

(ii) Bank Reconciliation Statement as on 30th September, 2023

Particulars	Amount
	₹
Overdraft as per Cash Book	44,968
Add: Cheque deposited but not collected upto 30th Sept., 2023	52,56,000
	53,00,968

Less: Cheques issued but not presented for payment upto 30th Sept., 2023	(53,04,000)
Credit by Bank erroneously on 6th Sept.	(80,000)
Credit balance as per bank statement	83,032

Note: Bank has credited Akhil by 80,000 in error on 6th September, 2023. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with ₹ 53,04,000 resulting in credit balance of ₹ 3,032 as per pass-book.

3. (a) 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

(b)

Particulars	Ram	Lakhan	Bharat	Total Profit of firm
I. Amount already credited:				
Share of profit (in the ratio of 1:1:1) (2022-23, 2023-24)	78,000	78,000	78,000	2,34,000
II. Amount which should have been credited:				
C's Salary (2022-23, 2023-24)			30,000	
Interest on Capital (2022-23, 2023-24)	15,000	7,500	7,500	
Share of Profit	87,000	43,500	43,500	1,74,000
	1,02,000	51,000	81,000	
Net effect (I-II)	(24,000)	27,000	(3,000)	-

The necessary journal entry will be:

Particulars	Debit (₹)	Credit (₹)
Lakhan's Current A/c	27,000	
To Ram's Current A/c		24,000

To Bharat's Current A/c (Salary to Bharat, Interest on capital charged and profit shared among partners in the ratio of capital)		3,000

(c) Total Profit for 3 years = (₹ 17,000) + ₹ 50,000+₹ 75,000= ₹ 1,08,000.

Average profits = $\frac{\text{TotalProit}}{\text{No. of years}} \times \frac{₹1,08,000}{3} = ₹36,000$

Average Profits for Goodwill = ₹ 36,000 – Proprietor Remuneration

= ₹ 36,000 – ₹ 6,000 = ₹ 30,000

Normal Profit=Interest on Capital employed

= ₹ 20,000 (i.e. ₹ 2,00,000 x10/100) = ₹ 20,000

Super Profit = Average Profit-Normal Profit = ₹ 30,000 – ₹ 20,000 = ₹ 10,000

Goodwill = Super Profit x No of years purchases = ₹ 10,000 x 2 = ₹ 20,000

4. (a) **Revaluation A/c**

	₹		₹
To Plant & Machinery (1,70,000 x 15%)	25,500	By Land & Building A/c	1,52,000
To Provision for Bad & Doubtful Debts (60,000 x 5%)	3,000		
To Outstanding Repairs to Building	6,000		
To X's Capital A/c (5/8)	73,438		
To Y's Capital A/c (3/8)	44,062		
	1,52,000		1,52,000

Partners Capital A/c

	X	Y	Z		X	Y	Z
To X's Capital A/c	-	-	20,000	By Balance b/d	4,10,000	3,30,000	-
To Y's Capital A/c			12,000	By Revaluation A/c	73,438	44,062	-
To Y's Current A/c	-	68,062		By Profit & Loss A/c	70,000	42,000	-
To Balance c/d	6,00,000	3,60,000	2,40,000	By Bank	-	-	2,72,000
				By Z's Capital A/c	20,000	12,000	-
				By X's Current A/c	26,562	-	-
	6,00,000	4,28,062	2,72,000		6,00,000	4,28,062	2,72,000

Calculation of New Profit Sharing Ratio and gaining ratio:

Z's Share of Profit = 1/5 = 2/10

Remaining Share = 1 – 1/5 = 4/5

X's Share = 5/8 x 4/5 = 20/40 = 5/10

Ys Share = 3/8 x 4/5 = 12/40 = 3/10

New Profit sharing Ratio = 5:3:2

Gaining ratio = 5:3 (same as old profit sharing ratio among old partners)

Balance sheet of Alpha and Associates as on 31.3.2024

Liabilities		₹	*Assets*		
Capital Accounts:			Land & Buildings		5,32,000
X	6,00,000		Plant & Machinery	1,70,000	
Y	3,60,000		Less: Depreciation	25,500	1,44,500
Z	2,40,000	12,00,000	Furniture		1,09,480
Y's Current A/c		68,062	Stock		1,45,260
Trade Creditors		54,800	Sundry Debtors	60,000	
Outstanding Repairs to Building		6,000	*Less*: Provision	3,000	57,000
			Cash at Bank		3,14,060
			X's current A/c		26,562
		13,28,862			13,28,862

Working Note:

Required Balance of Capital Accounts

Z's Capital after writing off Goodwill = 2,72,000 – 32,000 = 2,40,000

Z's Share of Profit = 1/5

Thus Capital of the firm shall be = 2,40,000 x 5 = 12,00,000

X's Capital = 12,00,000 x 5/10 = 6,00,000 and

Y's Capital = 12,00,000 x 3/10 = 3,60,000

(b) **Trading A/c**

for the year ended 31st March, 2024

	₹		₹
To Opening stock	2,80,000	By Sales	
To Purchases	7,70,000	Cash 2,40,000	
To Gross Profit @ 25%	3,10,000	Credit 10,00,000	12,40,000

		By Closing Stock (bal.fig.)	1,20,000
	13,60,000		13,60,000

Profit and Loss Account

for the year ended 31st March, 2024

	₹		₹
To Salaries	40,000	By Gross Profit	3,10,000
To Business expenses	1,20,000		
To Interest on loan (10% of 1,00,000*6/ 12)	5,000		
To Net Profit	1,45,000		
	3,10,000		3,10,000

Balance Sheet as at 31st March, 2024

Liabilities	₹	₹	*Assets*	₹
Ram's capital:			Cash in hand	10,000
Opening	3,00,000		Cash at Bank	80,000
Add: Net Profit	1,45,000		Sundry Debtors	3,50,000
	4,45,000		Stock in trade	1,20,000
Less: Drawings	(80,000)	3,65,000		
Loan from Laxman (including interest due)		1,05,000		
Sundry Creditors		90,000		
		5,60,000		5,60,000

Working Notes:

1. Sundry Debtors Account

	₹		₹
To Balance b/d	1,00,000	By Bank A/c	7,50,000
To Credit sales (Bal. fig)	10,00,000	By Balance c/d	3,50,000
	11,00,000		11,00,000

2. Sundry Creditors Account

	₹		₹
To Bank A/c	7,00,000	By Balance b/d	40,000
To Cash A/c	20,000	By Purchases (Bal. fig.)	7,70,000
To Balance c/d	90,000		
	8,10,000		8,10,000

3. Cash and Bank Account

	Cash	Bank		Cash	Bank
	₹	₹		₹	₹
To Balance b/d	10,000		By Balance b/d		50,000
To Sales (bal. fig)	2,40,000		By Bank A/c (C)	1,00,000	
To Cash (C)		1,00,000	By Salaries	40,000	
To Debtors		7,50,000	By Creditors	20,000	7,00,000
To Laxman's loan		1,00,000	By Drawings	80,000	
			By Business expenses		1,20,000
			By Balance c/d	10,000	80,000
	2,50,000	9,50,000		2,50,000	9,50,000

4. Calculation of Ram's Capital on 1st April, 2023

Balance Sheet as at 1st April,2023

Liabilities	₹	*Assets*	₹
Ram's Capital (bal. fig)	3,00,000	Cash in hand	10,000
Bank Overdraft	50,000	Sundry Debtors	1,00,000
Sundry Creditors	40,000	Stock in trade	2,80,000
	3,90,000		3,90,000

5. (a) Rectification entries in the books of M/s VB Wires

	Particulars	L.F.	Dr. ₹	Cr. ₹
1.	Profit and Loss Adjustment Account Dr.		37,500	
	To Building Account			37,500
	(Repairs amounting ₹ 37,500 wrongly debited to building account, now rectified)			
2.	Profit and Loss Adjustment Account Dr.		4,500	
	To Suspense Account			4,500
	(Addition of freight column in purchase journal was under casted, now rectification entry made)			

3.	Suspense Account Dr.		6,300	
	To Seven & Co.			6,300
	(Goods returned by Seven & Co. had been posted wrongly to the debit of her account, now rectified)			
4.	Profit and Loss Adjustment Account Dr.		90,000	
	To Furniture account			90,000
	(Being sale of furniture wrongly entered in sales book, now rectified)			
5.	Comfort & Co. Dr.		60,000	
	To Bills receivable account			60,000
	(Bill receivable dishonoured debited to Bills receivable account instead of customer account, now rectified)			

(b) Receipts and Payments Account for the year ended 31-03-2024

Receipts	₹	Payments	₹
To balance b/d		By Salaries	30,000
Cash and bank	55,000	By Purchase of sports goods	5,000
To Subscription received (W.N.1)	1,22,500	₹ (12,500 - 7,500)	
To Sale of investments (W.N.2)	35,000	By Purchase of machinery	5,000
To Interest received on investment	7,000	₹ (10,000-5,000)	
To Sale of furniture	4,000	By Sports expenses	25,000
		By Rent paid	11,000
		₹ (12,000 -1,000)	
		By Miscellaneous expenses	2,500
		By Balance c/d	
		Cash and bank	1,45,000
	2,23,500		2,23,500

Income and Expenditure account for the year ended 31-03-2024

Expenditure	₹	₹	Income	₹	₹
To Salaries	30,000		By Subscription		1,50,000
Add: Outstanding for 2024	9,000		By Interest on Investment		
	39,000		Received	7,000	

Less: Outstanding for 2023	(7,500)	31,500	Accrued (W.N.5)	1,750	8,750
To Sports expenses		25,000			
To Rent		12,000			
To Miscellaneous exp.		2,500			
To Loss on sale of furniture (W.N.3)		3,000			
To Depreciation (W.N.4)					
Furniture	700				
Machinery	750				
Sports goods	1,125	2,575			
To Surplus		82,175			
		1,58,750			1,58,750

Working Notes:

1. Calculation of Subscription received during the year 2023-24

	₹
Subscription due for 2023-24	1,50,000
Add: Outstanding of 2023	70,000
Less: Outstanding of 2024	(1,00,000)
Add: Subscription of 2024 received in advance	15,000
Less: Subscription of 2023 received in advance	(12,500)
	1,22,500

2. Calculation of Sale price and profit on sale of investment

Face value of investment sold: ₹ 87,500 × 50% = ₹ 43,750

Sales price: ₹ 43,750 × 80% = ₹ 35,000

Cost price of investment sold: ₹ 70,000 × 50% = ₹ 35,000

Profit/loss on sale of investment: ₹ 35,000 - ₹ 35,000 = NIL

3. Loss on sale of furniture

	₹
Value of furniture as on 01-04-2023	14,000
Value of furniture as on 31-03-2024	7,000
Value of furniture sold at the beginning of the year	7,000
Less: Sales price of furniture	(4,000)
Loss on sale of furniture	3,000

4. Depreciation

Furniture -	₹7,000 × 10%	=	700
Machinery -	₹5,000 × 15%	=	750
Sports goods -	₹7,500 × 15%	=	1,125

5. Interest accrued on investment

	₹
Face value of investment on 01-04-2023	87,500
Interest @ 10%	8,750
Less: Interest received during the year	(7,000)
Interest accrued during the year	1,750

Note: It is assumed that the sale of investment has taken place at the end of the year.

6. (a)

Entry No.	Particulars		L.F.	Debit Amount (₹)	Credit Amount (₹)
1	Bank A/c	Dr.		40,000	
	To Equity Share Application A/c				40,000
	(Money received on applications for 20,000 shares @ ₹ 2 per share)				
2	Equity Share Application A/c	Dr.		40,000	
	To Equity Share Capital A/c				40,000
	(Transfer of application money on 20,000 shares to share capital)				
3	Equity Share Allotment A/c	Dr.		80,000	
	To Equity Share Capital A/c				60,000
	To Securities Premium A/c				20,000
	(Amount due on the allotment of 20,000 shares @ ₹ 3 per share and Securities Premium @ ₹1 per share)				
4	Bank A/c	Dr.		80,000	
	To Equity Share Allotment A/c				80,000
	(Allotment money received)				
5	Equity Share First Call A/c	Dr.		40,000	
	To Equity Share Capital A/c				40,000
	(Being first call made due on 20,000 shares at ₹ 2 per share)				

	Bank A/c Dr.		46,000	
6	To Equity Share First Call A/c			40,000
	To Calls in Advance A/c			6,000
	(Being first call money received along with calls in advance on 2,000 shares at ₹ 3 per share)			
	Equity Share Final Call A/c Dr.		60,000	
7	To Equity Share Capital A/c			60,000
	(Being final call made due on 20,000 shares at ₹ 3 each)			
	Bank A/c Dr.		53,100	
	Calls in Advance A/c Dr.		6,000	
8	Calls in Arrears A/c Dr.		900	
	To Equity Share Final Call A/c			60,000
	(Being final call received for 17,700 shares, calls in advance for 2,000 shares and calls in arrears on 300 shares adjusted)			
	Interest on Calls in Advance A/c Dr.		240	
9	To Shareholders A/c			240
	(Being interest made due on calls in advance of ₹6,000 at the rate of 12% p.a.)			
	Shareholders A/c Dr.		240	
10	To Bank A/c			240
	(Being payment of interest made to shareholder)			
	Shareholders A/c Dr.		15	
11	To Interest on Calls in Arrears A/c			15
	(Being interest on calls in arrears made due at the rate of 10%)			
	Bank A/c Dr.		615	
12	To Calls in Arrears A/c			600
	To Shareholders A/c			15
	(Being money received from shareholder having 200 shares for calls in arrears and interest thereupon)			
13	Shareholders A/c Dr.		10	
	To Interest on Calls in Arrears A/c			10
	(Being interest on calls in arrears made due at the rate of 10%)			
14	Bank A/c Dr.		310	

	To Calls in Arrears A/c			300
	To Shareholders A/c			10
	(Being money received from shareholder having 100 share for calls in arrears and interest thereupon)			

Calculation of Interest on Calls in Advance & Calls in Arrears:

Interest on Calls in Advance = ₹ 6,000 x 12% x 4 / 12 = ₹ 240

Interest on Calls in Arrears ₹ 600 x 10% x 3 / 12 = ₹ 15

Interest on Calls in Arrears ₹ 300 x 10% x 4 / 12 = ₹ 10

Table F of The Companies Act,2013 prescribes 10% and 12% p.a. as the maximum rates respectively for calls in arrears and calls in advance. Accordingly these rates have been considered while passing the above entries,

(b) **(i)** A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money to or to the order of certain person or to the bearer of the instrument. When such an order is accepted by the drawee on the face of the order itself, it becomes a valid bill of exchange.

There are three parties to a bill of exchange:

(i) The drawer, who draws the bill, that is, the creditor to whom the money is owing;

(ii) The drawee, the person to whom the bill is addressed or on whom it is drawn and who accepts the bill that is, the debtor; and

(iii) The payee, the person who is to receive the payment. The drawer in many cases is also the payee.

(ii) **Retirement of bills of exchange:** Sometimes, the acceptor of a bill of exchange has spare funds much before the maturity date of the bill of exchange accepted by him. He may, therefore, desire to pay the bill before the due date. In such a circumstance, the acceptor shall ask the payee or the holder of the bill to accept cash before the maturity date. If the payee agrees, the acceptor may be allowed a rebate or discount on such early payment. This rebate is generally the interest at an agreed rate for the period between the date of payment and date of maturity. The interest/rebate/discount becomes the income of the acceptor and expense of the payee. It is a consideration for premature payment. When a bill is paid before due date, it is said to be retired under rebate.

OR

The basic considerations in distinction between capital and revenue expenditures are:

(i) Nature of business: For a trader dealing in furniture, purchase of furniture is revenue expenditure but for any other trade, the purchase of furniture should be treated as capital expenditure and shown in the balance sheet as asset.

(ii) Recurring nature of expenditure: If the frequency of an expense is quite often in an accounting year then it is said to be an expenditure of revenue nature while non-recurring expenditure is infrequent in nature and do not occur often in an accounting year.

(iii) Purpose of expenses: Expenses for repairs of machine may be incurred in course of normal maintenance of the asset. Such expenses are revenue in nature. On the other hand, expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature.

(iv) Materiality of the amount involved: Relative proportion of the amount involved is another important consideration in distinction between revenue and capital.