

## ANSWERS OF MODEL TEST PAPER 4

### FOUNDATION COURSE

#### PAPER – 1: ACCOUNTING

1. (a) (i) **True:** Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt because it has no effect on improvement of future capability of business in revenue generation.
- (ii) **False:** If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.
- (iii) **True:** The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.
- (iv) **False:** The provisions of the Indian Partnership Act, 1932 shall not apply to a limited liability partnership. Limited Liability (LLPs) Act, 2008 is applicable for Limited Liability Partnerships
- (v) **False:** Under the single entry system of bookkeeping, generally cash book and personal accounts of creditors and debtors are maintained, and no other ledger is maintained.
- (vi) **False:** Preference share holder can hold both Equity shares and Preference shares of the company. Any person can hold both kinds of shares.
- (b) Difference between Provision and Contingent liability

	Provision	Contingent liability
(1)	Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation.	A Contingent liability is a possible obligation that may or may not crystallise depending on the occurrence or non-occurrence of one or more uncertain future events.
(2)	A provision meets the recognition criteria.	A contingent liability fails to meet the same.
(3)	Provision is recognized when (a) an enterprise has a present obligation arising from past events; an outflow of resources embodying economic benefits is probable, and (b) a reliable estimate can be made of the amount of the obligation.	Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that settlement of those obligations will require outflow of economic benefits, or the amount cannot be reliably estimated.
(4)	If the management estimates that it is probable	If the management estimates, that it is less likely that any economic

	that the settlement of an obligation will result in outflow of economic benefits, it recognises a provision in the balance sheet.	benefit will outflow from the firm to settle the obligation, it discloses the obligation as a contingent liability.
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(c)

S. No.		Debit (₹)	Credit (₹)
1	Commission A/c Dr. To Interest Received (Correcting wrong entry of interest received into commission account)	13,500	13,500
2	M/s Kamal Traders A/c Dr. To Suspense A/c (Being credit sale of ₹ 5,920 posted as ₹ 5,290 i.e. debiting M/s Kamal Traders A/c less by 630, now rectified)	630	630
3	Drawing A/c Dr. To Machinery A/c (Correction of wrong debit to machinery account for purchase of air-conditioner for personal use)	44,000	44,000
4	Return Inward A/c Dr. To Debtors (Personal) A/c (Correction of omission to record return of goods by customers)	20,000	20,000

2. (a) **In the books of Firm**  
**Machinery Account**

		₹			₹
1.1.2020	To Bank A/c	37,000	31.12.2020	By Depreciation A/c	4,000
	To Bank A/c (overhauling charges)	3,000	31.12.2020	By Balance c/d	36,000
		<u>40,000</u>			<u>40,000</u>
1.1.2021	To Balance b/d	36,000	31.12.2021	By Depreciation A/c (₹ 5,400 + ₹ 750)	6,150

1.7.2021	To Bank A/c	10,000	31.12.2021	By Balance c/d (₹ 30,600 + ₹ 9,250)	39,850
		<u>46,000</u>			<u>46,000</u>
1.1.2022	To Balance b/d	39,850	1.7.2022	By Bank A/c(sale)	28,000
1.7.2022	To Bank A/c	25,000	1.7.2022	By Profit and Loss A/c (Loss on Sale – W.N. 1)	305
			31.12.2022	By Depreciation A/c (₹ 2,295 + ₹ 1,388 + ₹ 1,875)	5,558
				By Balance c/d (₹ 7,862 + ₹ 23,125)	30,987
		<u>64,850</u>			<u>64,850</u>
1.1.2023	To Balance b/d	30,987	1.7.2023	By Bank A/c (sale)	2,000
			1.7.2023	By Profit and Loss A/c (Loss on Sale – W.N. 1)	5,272
			31.12.2023	By Depreciation A/c (₹ 590 + ₹ 3,469)	4,059
			31.12.2023	By Balance c/d	<u>19,656</u>
		<u>30,987</u>			<u>30,987</u>

**Working Note:**

**Book Value of machines**

	<i>Machine I ₹</i>	<i>Machine II ₹</i>	<i>Machine III ₹</i>
Cost of all machinery (Machinery cost for 2020)	40,000	10,000	25,000
Depreciation for 2020	<u>4,000</u>		
Written down value as on 31.12.2020	36,000		
Purchase 1.7.2021 (6 months)		10,000	

Depreciation for 2021	<u>5,400</u>	<u>750</u>	
Written down value as on 31.12.2021	30,600	9,250	
Depreciation for 6 months (2022)	<u>2,295</u>		
Written down value as on 1.7.2022	28,305		
Sale proceeds	<u>28,000</u>		
Loss on sale	<u>305</u>		
Purchase 1.7.2022			25,000
Depreciation for 2022		<u>1,388</u>	<u>1,875</u>
Written down value as on 31.12.2022		7,862	23,125
Depreciation for 6 months in 2023		<u>590</u>	
Written down value as on 1.7.2023		7,272	
Sale proceeds		<u>2,000</u>	
Loss on sale		<u>5,272</u>	
Depreciation for 2023			<u>3,469</u>
Written down value as on 31.12.2023			<u>19,656</u>

**(b) Valuation of Physical Stock as at March 31, 2024**

		₹
Stock at cost on 31 <sup>st</sup> March, 2023		7,20,000
Add: (1) Under casting of a page total	1,800	
(2) Goods purchased and delivered during January – March, 2024		
₹ (6,30,000 – 27,000 + 36,000)	6,39,000	
(3) Cost of sales return ₹ (9,000 – 1,800)	<u>7,200</u>	<u>6,48,000</u>
		13,68,000
Less: (1) Overcasting of a page total ₹ (54,000 – 45,000)	9,000	
(2) Goods sold and dispatched during January – March, 2024		
₹ (8,10,000 – 45,000 + 36,000)	8,01,000	
Less: Profit margin $8,01,000 \times \frac{25}{125}$	<u>1,60,200</u>	<u>(6,49,800)</u>
Value of stock as on 31 <sup>st</sup> March, 2024	<u>6,40,800</u>	<u>7,18,200</u>

**Note:** In the above solution, transfer of ownership is assumed to take place at the time of delivery of goods. If it is assumed that transfer of ownership takes place on the date of invoice, then ₹ 36,000 goods delivered in March 2024 for which invoice was received in April, 2024, would be treated as purchases of the accounting year 2023-2024 and thus excluded. Similarly, goods dispatched in March, 2024 but invoiced in April, 2024 would be excluded and treated as sale of the year 2023-2024

3. (a) **Income and Expenditure Account**  
for the year ended 31<sup>st</sup> March, 2024

	₹		₹
To Medicines consumed		By Prescription fees	6,60,000
Purchases 2,45,000			
Less: Stock on 31.3.24 (95,000)	1,50,000	By Visiting fees	2,50,000
To Motor car expense	80,000	By Fees from lectures	24,000
To Wages and salaries (1,05,000 – 30,000)	75,000		
To Rent for clinic	60,000		
To General charges	49,000		
To Interest on loan	36,000		
To Net Income	<u>4,84,000</u>		
	<u>9,34,000</u>		<u>9,34,000</u>

**Capital Account**  
for the year ended 31<sup>st</sup> March, 2024

	₹		₹
To Drawings:		By Cash/bank	2,00,000
Motor car expenses	40,000	By Cash/ bank (pension)	3,00,000
(one-third of ₹ 1,20,000)		By Net income from	4,84,000
Household expenses	1,80,000	practice (derived from	
Daughter's Surgery exp.	2,15,000	income and expenditure	
		A/c)	
Wages of domestic servants	30,000		
Household furniture	25,000		
To Balance c/d	<u>4,94,000</u>		
	<u>9,84,000</u>		<u>9,84,000</u>

(b) **Revaluation Account**

	₹		₹
To Furniture A/c	40,000	By Office equipment A/c	47,000
To Stock A/c	30,000	By Building A/c	5,00,000
		By Provision for doubtful debts	15,000
To Partners' capital A/cs:			
P 2,46,000			
Q 1,64,000			
R <u>82,000</u>	<u>4,92,000</u>		
	<u>5,62,000</u>		<u>5,62,000</u>

### Partners' Capital Accounts

	P ₹	Q ₹	R ₹		P ₹	Q ₹	R ₹
To Q's capital A/c	90,000	—	30,000	By Balance b/d	8,00,000	4,20,000	4,00,000
To Q's loan A/c		8,24,000		By General Reserve	1,80,000	1,20,000	60,000
To Balance c/d	11,36,000		5,12,000	By revaluation reserve	2,46,000	1,64,000	82,000
				By P's capital A/c		90,000	
				By R's capital A/c		30,000	
	12,26,000	8,24,000	5,42,000		12,26,000	8,24,000	5,42,000

### Balance Sheet as on 1.4.2024 (After Q's retirement)

Liabilities	₹	₹	Assets	₹	₹
Capital accounts:			Building		15,00,000
P	11,36,000		Furniture		2,00,000
R	<u>5,12,000</u>	16,48,000	Office equipment		3,27,000
Q's loan account		8,24,000	Stock		2,20,000
Sundry creditors		3,70,000	Sundry debtors	3,00,000	
			Less: Provision for doubtful debts	<u>(15,000)</u>	2,85,000
			Cash at bank		<u>3,10,000</u>
		<u>28,42,000</u>			<u>28,42,000</u>

### Working Notes:

Calculation of goodwill:

- Average of last 4 year's profit  

$$= (90,000 + 1,40,000 + 1,20,000 + 1,30,000) / 4$$

$$= ₹ 1,20,000$$
- Goodwill at three years' purchase  

$$₹ 1,20,000 \times 3 = ₹ 3,60,000$$

### Goodwill adjustment

	Share of goodwill (Old ratio)	Share of goodwill (New ratio)	Adjustment
P	1,80,000	2,70,000	90,000 (Dr.)
Q	1,20,000	-	1,20,000 (Cr.)
R	60,000	90,000	30,000 (Dr.)

4. (i) **Statement showing Realization of Cash**

Sr. No.	Particulars	Realization	Creditors	Partner's Loan	Partner's Capital
1	After taking into account cash balance and amount set aside for expenses	1,500	1,500	-	-
2		4,500	1,500	3,000	
3		5,850	-	4,500	1,350
4		9,000	-	-	9,000
	Including Savings in Exp	30,150	-	-	30,150
		51,000	3,000	7,500	40,500

To ascertain the amount distributable out of each installment realized among the partners, the following table will be constructed:

**Statement of Distribution on Capital Accounts**

**(1) Calculation to determine the mode of distribution of ₹1,350**

Particulars	Total	A	B	C
Balance	63,000	22,500	27,000	13,500
Less: Maximum Loss in 2:2:1	(61,650)	(24,660)	(24,660)	(12,330)
	+1,350	-2,160	+2,340	+1,170
Deficiency of A's capital written off against those of B and C in the ratio of their capital 27,000: 13,500, (Garner vs. Murray)			(1,440)	(720)
Manner in which the first ₹ 1,350 should be distributed			+ 900	+ 450

**(2) Distribution of ₹9,000**

Balance after (1)	61,650	22,500	26,100	13,050
Less : Maximum Loss in 2:2:1	(52,650)	(21,060)	(21,060)	(10,530)
Balance available and distributed	9,000	1,440	5,040	2,520

**(3) Distribution of ₹30,150**

Balance after (2)	52,650	21,060	21,060	10,530
Less: Maximum Loss in 2:2:1	(22,500)	(9,000)	(9,000)	(4,500)

Distribution of ₹ 30,150	30,150	12,060	12,060	6,030
<u>Summary:</u>				
- Balance	63,000	22,500	27,000	13,500
- Total Amounts Paid	40,500	13,500	18,000	9,000
- Loss	22,500	9,000	9,000	4,500

**(b) Trading and Profit and Loss Account of Mr. Chauhan  
for the year ended 31st March, 2024**

Dr.				Cr.			
	Particulars	₹	Amount (₹)		Particulars	₹	Amount (₹)
To	Opening stock		64,500	By	Sales	4,27,150	
To	Purchases	3,13,200			Less: Sales return	<u>5,150</u>	4,22,000
	Less: Purchases return	<u>3,450</u>	3,09,750	By	Closing stock		2,50,000
To	Carriage inward		2,250				
To	Wages		23,430				
To	Gross profit c/d		<u>2,72,070</u>				
			<u>6,72,000</u>				<u>6,72,000</u>
To	Salaries		45,100	By	Gross profit b/d		2,72,070
To	Rent		8,600	By	Bad debts recovered		900
To	Advertisement expenses		8,350				
To	Printing and stationery		2,500				
To	Bad debts		2,200				
To	Carriage outward		2,700				
To	Provision for doubtful debts						
	5% of ₹ 2,40,000	12,000					
	Less: Existing provision	<u>6,400</u>	5,600				
To	Provision for discount on debtors						
	2.5% of ₹ 2,28,000	5,700					
	Less: Existing provision	<u>2,750</u>	2,950				
To	Depreciation:						
	Plant and machinery	6,000					
	Furniture and fittings	<u>2,050</u>	8,050				
To	Office expenses		20,320				
To	Interest on loan		6,000				
To	Net profit (Transferred to capital account)		<u>1,60,600</u>				
			<u>2,72,970</u>				<u>2,72,970</u>



**Balance Sheet of Mr. Chauhan as on 31st March, 2024**

Liabilities	₹	Amount ₹	Assets	₹	Amount ₹
Capital account	1,30,000		Plant and machinery	40,000	
Add: Net profit	<u>1,60,600</u>		Less: Depreciation	<u>6,000</u>	34,000
	2,90,600		Furniture and fittings	20,500	
Less: Drawings	<u>16,000</u>	2,74,600	Less: Depreciation	<u>2,050</u>	18,450
Bank overdraft		1,60,000	Closing stock		2,50,000
Sundry creditors		95,000	Sundry debtors	2,40,000	
Payable salaries		4,900	Less: Provision for doubtful debts	12,000	
			Less: Provision for bad debts	<u>5,700</u>	2,22,300
			Prepaid rent		600
			Cash in hand		2,900
			Cash at bank		6,250
		<u>5,34,500</u>			<u>5,34,500</u>

**5. (a) In the books of Katen**  
**Journal Entries**

Particulars	₹	₹
Bills Receivable A/c Dr. To Bharat A/c (Being a 3 month's bill drawn on Bharat for the amount due)	50,000	50,000
Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Being the bill discounted)	49,500 500	50,000
Bharat A/c Dr. To Bank A/c (Being the bill cancelled up due to Bharat's inability to pay it)	50,000	50,000
Bharat A/c Dr. To Interest A/c (Being the interest due on ₹ 25,000 @ 12% for 3 months)	750	750

Bank A/c To Bharat A/c (Being the receipt of a portion of the amount due on the bill together with interest)	Dr.	25,750	25,750
Bills Receivable A/c To Bharat A/c (Being the new bill drawn for the balance)	Dr.	25,000	25,000
Bharat A/c To Bills Receivable A/c (Being the dishonour of the bill due to Bharat's insolvency)	Dr.	25,000	25,000
Bank A/c Bad Debts A/c To Bharat A/c (Being the receipt of 40% of the amount due on the bill from Bharat's estate)	Dr. Dr.	10,000 15,000	25,000

**(b) (i) (i) Computation of Income for the year 2023-24:**

	₹
Money received during the year related to 2023-24	15,00,000
Add: Money received in advance during previous years	4,50,000
Total income of the year 2023-24	19,50,000

**(ii) Advance from Customers A/c**

Date	Particulars	₹	Date	Particulars	₹
	To Sales A/c (Advance related to current year transferred to sales)	4,50,000	1.4.2023	By Balance b/d	6,00,000
31.3.24	To Balance c/d	5,10,000		By Bank A/c (Balancing Figure)	3,60,000
		9,60,000			9,60,000

So, total money received during the year is:

	₹
Cash Sales during the year	15,00,000
Add: Advance received during the year	3,60,000
Total money received during the year	<u>18,60,000</u>

**OR**

**(ii) (i) Amount of salaries to be charged to P & L A/c for the year ended 31<sup>st</sup> December, 2023**

Employees = 9 x ₹ 1,32,000 x 12 = ₹ 1,42,56,000

Trainees = 2 x ₹ 63,000 x 6 = ₹ 7,56,000

Salaries charged to P & L A/c ₹ 1,50,12,000

**(ii) Amount actually paid as salaries during 2023**

Employees = 9 x ₹ 1,32,000 x 11 + 9 x ₹ 1,20,000 = ₹ 1,41,48,000

Trainees = 2 x ₹ 63,000 x 5 = ₹ 6,30,000

Amount paid as salaries ₹ 1,47,78,000

**(iii) Outstanding salaries as on 31.12.2023**

Employees = 9 x ₹ 1,32,000 = ₹ 11,88,000

Trainees = 2 x ₹ 63,000 = ₹ 1,26,000

Outstanding salaries ₹ 13,14,000

**(c) Journal Entries in the books of Puri Ltd.**

			₹	₹
1-4-2024	Equity share final call A/c Dr.	2,70,000		
	To Equity share capital A/c			2,70,000
	(For final calls of ₹ 2 per share on 1,35,000 equity shares due as per Board's Resolution dated....)			
20-4-2024	Bank A/c Dr.	2,70,000		
	To Equity share final call A/c			2,70,000
	(For final call money on 1,35,000 equity shares received)			
	Securities Premium A/c Dr.	37,500		
	Capital Reserve A/c Dr.	60,000		
	General Reserve A/c Dr.	1,80,000		
	Profit and Loss A/c Dr.	60,000		
	To Bonus to shareholders A/c			3,37,500
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c Dr.	3,37,500		
	To Equity share capital A/c			3,37,500
	(For issue of bonus shares)			

**Extract of Balance Sheet as at 30<sup>th</sup> April, 2024 (after bonus issue)**

	₹
Authorised Capital	
15,000 12% Preference shares of ₹10 each	1,50,000
1,83,750 Equity shares of ₹10 each (W.N.2)	<u>18,37,500</u>
Issued and subscribed capital	
12,000 12% Preference shares of ₹10 each, fully paid	1,20,000
1,68,750 Equity shares of ₹10 each, fully paid	16,87,500
(Out of above, 33,750 equity shares @ ₹10 each were issued by way of bonus)	
Reserves and surplus	
Profit and Loss Account	2,40,000

**Working Notes:**

The authorized capital should be increased as per details given below: ₹

Existing authorized Equity share capital	15,00,000
Add: Issue of bonus shares to equity shareholders (25% of ₹ 13,50,000)	<u>3,37,500</u>
	<u>18,37,500</u>

**6. (a) In the books of Devis Ltd.****Journal Entries**

	Dr. ₹	Cr. ₹
Bank A/c Dr. To Equity Share Application A/c (Being the application money received for 4,50,000 shares at ₹ 6 per share)	27,00,000	27,00,000
Equity Share Application A/c Dr. To Equity Share Capital A/c To Share allotment A/c (Being share allotment made for 3,00,000 shares and excess adjusted towards allotment)	27,00,000	18,00,000 9,00,000
Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Being allotment amount due on 3,00,000 equity shares at ₹ 10 per share as per Directors' resolution no... dated...)	30,00,000	30,00,000

Bank A/c To Equity Share Allotment A/c (Being balance allotment money received for 3,00,000 shares)	Dr.	21,00,000	21,00,000
Equity Share first and final call A/c To Equity Share Capital A/c (Being first and final call amount due on 3,00,000 equity shares at ₹ 4 per share as per Directors' resolution no... dated...)	Dr.	12,00,000	12,00,000
Bank A/c Calls in arrears A/c To Equity Share first and final call A/c (Being final call received on 2,91,000 shares)	Dr.	11,64,000 36,000	12,00,000
Share capital A/c (9,000 x ₹ 20) To Forfeited shares A/c (9,000 x ₹ 16) To Calls in arrears A/c (9,000 x ₹ 4) (Being forfeiture of 9,000 shares of ₹ 20 each fully called-up for non payment of first and final call @ ₹ 4 as per Directors' resolution no... dated..)	Dr.	1,80,000	1,44,000 36,000
Bank A/c (7,500 x ₹16) Forfeited shares A/c (7,500 x ₹4) To Equity Share Capital A/c (7,500 x ₹ 20) (Being re-issue of 7,500 shares @ ₹ 16)	Dr.	1,20,000 30,000	1,50,000
Forfeited share A/c (7,500 x ₹ 12) To capital reserve A/c (7,500 x ₹ 12) (Being profit on re-issue transferred to capital reserve)		90,000	90,000

**Working Note:**

Calculation of amount to be transferred to Capital reserve A/c

			₹
Forfeited amount per share	= 1,44,000/9,000	=	16
Loss on re issue (20-16)			<u>4</u>
Surplus per share			<u>12</u>
Transfer to capital reserve	= ₹ 12 x 7,500	= ₹ 90,000	

(b)

**In the Books of Universe Limited**

**Journal Entries**

			<i>Dr. (₹)</i>	<i>Cr. (₹)</i>
1-4-2023	Bank A/c Discount/Loss on Issue of Debentures A/c To 12% Debentures A/c To Premium on Redemption of Debentures A/c (For issue of debentures at discount redeemable at premium)	Dr. Dr.	36,00,000 6,00,000	40,00,000 2,00,000
30-9-2023	Debenture Interest A/c To Debenture holders A/c To Tax Deducted at Source A/c (For interest payable)	Dr.	2,40,000	2,16,000 24,000
30-9-2023	Debenture holders A/c Tax Deducted at Source A/c To Bank A/c (For payment of interest and TDS)	Dr. Dr.	2,16,000 24,000	2,40,000
31-3-2024	Debenture Interest A/c To Debenture holders A/c To Tax Deducted at Source A/c (For interest payable)	Dr.	2,40,000	2,16,000 24,000
31-3-2024	Debenture holders A/c Tax Deducted at Source A/c To Bank A/c (For payment of interest and tax)	Dr. Dr.	2,16,000 24,000	2,40,000
31-3-2024	Profit and Loss A/c To Debenture Interest A/c (For transfer of debenture interest to profit and loss account at the end of the year)	Dr.	4,80,000	4,80,000
31-3-2024	Profit and Loss A/c To Discount/Loss on issue of debenture A/c (For proportionate debenture discount and premium on redemption written off, i.e., 6,00,000 x 1/5)	Dr.	1,20,000	1,20,000

(c) **Adjusted Cash Book as on 31<sup>st</sup> December, 2023**

Particulars	₹	Particulars	₹
To Balance b/d	1,98,000	By Bank charges	34,000
To Debtors	1,00,000	By Debtor (cheque dishonour)	5,000
		By Balance c/d	2,59,000
	2,98,000		2,98,000

**Bank Reconciliation Statement as on 31<sup>st</sup> December, 2023**

Particulars	₹	₹
Balance as per adjusted cash book		2,59,000
ADD: Cheque issued but not presented	45,000	
Payment not effected by bank	<u>4,000</u>	
		<u>49,000</u>
		3,08,000
LESS: Cheque deposited but not cleared	(25,000)	<u>(25,000)</u>
Balance as per Bank Pass Book		2,83,000