

ANSWERS OF MODEL TEST PAPER 5

FOUNDATION COURSE

PAPER – 1: ACCOUNTING

1. (a)
1. **True:** The balance represents the cash physically in existence and is therefore an asset.
 2. **False:** Finished goods are normally valued at cost or net realizable value whichever is lower.
 3. **False:** Current year subscription shall be shown in the credit side of the income and expenditure account and not in the balance sheet, as it is not a capital item.
 4. **False:** When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received on shares forfeited.
 5. **True:** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.
 6. **True:** Yes they are types of subsidiary books which is alternate to the journals.
- (b) The practice of accountancy has crossed its usual domain of preparation of financial statements, interpretation of such statements and audit thereof. Chartered Accountants are presently taking active role in company laws and other corporate legislation matters, in taxation laws matters (both direct and indirect) and in general management problems.
- Some of the services rendered by chartered accountants to the society are briefly mentioned hereunder:
- (i) Maintenance of books of accounts;
 - (ii) Statutory audit;
 - (iii) Internal Audit;
 - (iv) Taxation;
 - (v) Management accounting and consultancy services;
 - (vi) Financial advice and financial investigations etc.
- Other services like secretarial work, share registration work, company formation receiverships, arbitrations etc.

(c) **Corrected Trial Balance of Mr. X as on 31st March, 2024**

Particulars	Dr. Amount ₹	Cr. Amount ₹
X's Capital		4,668
X's Drawings	1,692	
Leasehold premises	2,250	
Sales		8,250
Due from customers	1,590	
Purchases	3,777	
Purchase return		792
Loan from Bank		768
Trade expenses	2,100	
Trade Payable		1,584
Bills payable		300
Salaries and Wages	1,800	
Cash at Bank	678	
Inventory (1.4.2023)	792	
Rent and rates	1,389	
Sales return	294	
	16,362	16,362

Reasons:

1. Due from customers is an asset, so its balance will be a debit balance.
2. Purchases return account always shows a credit balance because assets goes out.
3. Trade Payable is a liability, so its balance will be a credit balance.
4. Bills payable is a liability, so its balance will be a credit balance.
5. Inventory (opening) represents assets, so it will have a debit balance.
6. Sales return account always shows a debit balance because assets come in.

2. (a)

Date	Particulars		Dr. ₹	Cr. ₹
(1)	Scooter A/c To Profit and Loss Adjustment A/c (Purchase of scooter wrongly debited to conveyance account now rectified-	Dr.	27,000	27,000

	capitalization of ₹27,000, i.e., ₹30,000 less 10% depreciation)			
(2)	Suspense A/c To Profit & Loss Adjustment A/c (Purchase Account overcast in the previous year error now rectified).	Dr.	1,00,000	1,00,000
(3)	Profit & Loss Adjustment A/c To Sam's Account (Credit purchase from Sam's ₹20,000, entered as sales last year, now rectified)	Dr.	40,000	40,000
(4)	Bhaskar's A/c To Anand's A/c (Amount received from Mr. Anand wrongly posted to the account of Mr. Bhaskar; now rectified)	Dr.	10,000	10,000
(5)	Suspense A/c To Paras's A/c (₹ 5,000 received from Paras wrongly debited to his account; now rectified)	Dr.	10,000	10,000
(6)	Trade receivables (Ramesh) / Ramesh A/c To Suspense A/c (₹5,000 due by Mr. Ramesh not taken into trial balance now rectified)	Dr.	5,000	5,000
(7)	Ram's A/c To Profit & Loss Adjustment A/c (Sales to Ram omitted last year; now adjusted)	Dr.	20,000	20,000
(8)	Suspense A/c To Profit & Loss Adjustment A/c (Excess posting to purchase account last year, ₹25,930, instead of ₹23,950, now adjusted)	Dr.	1,980	1,980
(9)	Profit & Loss Adjustment A/c To Manas's Capital A/c (Balance of Profit & Loss Adjustment A/c transferred to Capital Account)	Dr.	1,08,980	1,08,980

(10)	Manas's Capital A/c To Suspense A/c (Balance of Suspense Account transferred to Capital Account)	Dr.	1,06,980	1,06,980
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(b) Profit and Loss Adjustment A/c

	₹		₹
To Advertisement (samples)	80,000	By Net profit	8,00,000
To Sales (goods approved in April to be taken as April sales)	2,00,000	By Electric fittings	30,000
To Adjusted net profit	16,80,000	By Samples	80,000
		By Stock (Purchases of March not included in stock)	5,00,000
		By Sales (goods sold in March wrongly taken as April sales)	4,00,000
		By Stock (goods sent on approval basis not included in stock)	1,50,000
	<u>19,60,000</u>		<u>19,60,000</u>

Calculation of value of inventory on 31st March, 2024

	₹
Stock on 31 st March, 2024 (given)	7,50,000
Add: Purchases of March, 2024 not included in the stock	5,00,000
Goods lying with customers on approval basis	<u>1,50,000</u>
	<u>14,00,000</u>

3. (a) Trading and Profit and Loss Account of Mr. Saurav for the year ended 31st March, 2024

	₹	₹		₹	₹
To Opening stock		1,17,000	By Sales	9,74,000	
To Purchases	8,04,250		Less: Returns	21,500	9,52,500
Add: Omitted invoice	1,000		By Closing stock		1,96,500
	8,05,250				
Less: Returns	14,500				
	<u>7,90,750</u>				
Less: Drawings	1,500	7,89,250			

To Carriage Inwards		49,000		
To Gross profit c/d		1,93,750		
		11,49,000		11,49,000
To Rent and taxes		11,750	By Gross profit b/d	1,93,750
To Salaries and wages		23,250	By Discount received	11,100
To Bank interest	2,750			
Add: Due	4,250	7,000		
To Printing and stationary	36,000			
Less: Prepaid (1/4)	9,000	27,000		
To Discount allowed		4,500		
To General expenses		28,625		
To Insurance		3,250		
To Postage & telegram expenses		5,825		
To Travelling expenses		2,175		
To Provision for bad debts [W.N.]		2,875		
To Provision for discount on debtors [W.N.]		1,093		
To Depreciation on furniture & fittings		1,250		
To Net profit		86,257		
		2,04,850		2,04,850

Working Note:

Provision for bad & doubtful debts:

@ 5% on ₹ 57,500 (60,000-2,500)

2,875

Provision for discount:

2% on ₹ 54,625 (57,500 -2,875)

1,093

(b) (i) **Journal Entry in the books of the M/s Vivek Bros**

Date	Particulars	Dr. ₹	Cr. ₹
April, 1 2024	Amit's Capital A/c Dr. Puneet's Capital A/c Dr. To Sumit's Capital A/c (Being the required adjustment for goodwill through partner's capital accounts)	3,000 3,000	6,000

(ii) **Revaluation Account**

Dr. Particulars	₹	Particulars	Cr. ₹
To Furniture A/c (₹ 16,800 – 13,800)	3,000	By Machinery A/c (₹ 35,100 - 30,000)	5,100
To Inventory A/c (₹ 5,700 – 4,500)	1,200		
To Partners' Capital A/c (Amit - ₹ 300, Puneet - ₹ 300, Sumit - ₹ 300)	900		
	5,100		5,100

Partners' Capital Accounts

Particulars	Amit	Puneet	Sumit	Particulars	Amit	Puneet	Sumit
To Sumit (Goodwill)	3,000	3,000	–	By Balance b/d	24,600	24,600	27,000
To Bank A/c	–	–	6,000	By General Reserve A/c	3,000	3,000	3,000
To Executors A/c	–	–	30,300	By Revaluation A/c (Profit)	300	300	300
To Balance C/d	24,900	24,900	–	By Amit (Goodwill)	–	–	3,000
				By Puneet (Goodwill)	–	–	3,000
	27,900	27,900	36,300		27,900	27,900	36,300

Working Note:

Statement showing the Required Adjustment for Goodwill

Particulars	Amit	Puneet	Sumit
Right of goodwill before death	1/3	1/3	1/3
Right of goodwill after death	1/2	1/2	–
Gain / (Sacrifice)	(+) 1/6	(+) 1/6	(-) 1/3

4. (a) (i) **Revaluation Account**

		₹			₹
To	Furniture	1,740	By	Building	6,400
To	Stock	2,140	By	Sundry creditors	2,800
To	Provision of doubtful debts (₹ 3,500 – ₹ 400)	3,100	By	Investment	900
To	Outstanding wages	<u>3,120</u>			
		<u>10,100</u>			<u>10,100</u>

(ii) **Partners' Capital Accounts**

		A	B	C			A	B	C
		₹	₹	₹			₹	₹	₹
To	A's Capital			9,000	By	Balance b/d	88,000	72,000	–
To	B's Capital			6,000	By	Cash A/c	–	–	50,000
To	Balance c/d	97,000	78,000	35,000	By	C's Capital A/c (Working Note)	9,000	6,000	
		<u>97,000</u>	<u>78,000</u>	<u>50,000</u>			<u>97,000</u>	<u>78,000</u>	<u>50,000</u>

(iii) **Balance Sheet of New Partnership Firm
(after admission of C) as on 31.3.2024**

Liabilities	₹	Assets	₹
Capital Accounts:		Building (52,000 + 6,400)	58,400
A 97,000		Furniture (11,600 – 1,740)	9,860
B 78,000		Stock-in-trade (42,800 – 2,140)	40,660
C <u>35,000</u>	2,10,000	Debtors	70,000
Bills Payable	8,200	Less: Provision for bad Debts (3,500)	66,500
Bank Overdraft	18,000	Investment (5,000 + 900)	5,900
Sundry creditors (25,800-2,800)	23,000	Cash (31,000 + 50,000)	81,000
Outstanding wages	<u>3,120</u>		
	<u>2,62,320</u>		<u>2,62,320</u>

Working Note:

1. **Calculation of goodwill**

C's contribution of ₹ 50,000 consists only 1/6th of capital.

Therefore, total capital of firm should be ₹ 50,000 × 6 = ₹ 3,00,000.

But combined capital of A, B and C amounts ₹ 88,000 + 72,000 + 50,000 = ₹ 2,10,000.

Thus Hidden goodwill is ₹ 90,000 (₹ 3,00,000 – ₹ 2,10,000).

C's share $\frac{1}{6}$ th = 15,000

Goodwill will be shared by A & B in their sacrificing ratio.

2. Calculation of sacrificing ratio

Partners	New share	Old share	Sacrifice	Gain
A	$\frac{3}{6}$	$\frac{3}{5}$	$\frac{-3}{30}$	-
B	$\frac{2}{6}$	$\frac{2}{5}$	$\frac{-2}{30}$	-
C	$\frac{1}{6}$	-	-	$\frac{1}{6}$

Therefore,

$$\text{A will get} = ₹ 90,000 \times \frac{3}{30} = ₹ 9,000;$$

$$\text{B will get} = ₹ 90,000 \times \frac{2}{30} = ₹ 6,000; \text{ and}$$

$$\text{C will be debited on account of goodwill} = ₹ 90,000 \times \frac{1}{6} = ₹ 15,000$$

(b) Subscription for the year ended 31.3.2024

		₹
Subscription received during the year		22,50,000
Less: Subscription receivable on 1.4.2023	67,500	
Less: Subscription received in advance on 31.3.2024	<u>31,500</u>	<u>(99,000)</u>
		21,51,000
Add: Subscription receivable on 31.3.2023	99,000	
Add: Subscription received in advance on 1.4.2024	<u>54,000</u>	<u>1,53,000</u>
Amount of Subscription to appear in Income & Expenditure Account		<u>23,04,000</u>

Sports material consumed during the year end 31.3.2024

		₹
Payment for Sports material		13,50,000
Less: Amounts due for sports material on 1.4.2023		<u>(4,05,000)</u>
		9,45,000
Add: Amounts due for sports material on 31.3.2024		<u>5,85,000</u>

Purchase of sports material	<u>15,30,000</u>
Sports material consumed:	
Stock of sports material on 1.4.2023	4,50,000
Add: Purchase of sports material during the year	<u>15,30,000</u>
	19,80,000
Less: Stock of sports material on 31.3.2024	<u>(6,75,000)</u>
Amount of Sports Material appearing in Income & Expenditure Account	<u>13,05,000</u>

Balance Sheet of M/s Football Club For the year ended 31st March, 2024 (An extract)

Liabilities	₹	Assets	₹
Unearned Subscription	31,500	Subscription receivable	99,000
Amount due for sports material	5,85,000	Stock of sports material	6,75,000

5. (a) Bank Reconciliation Statement as on 31st March, 2024

Particulars	Details (₹)	Amount (₹)
Balance as per Pass Book (Cr.)		1,50,000
Add: Cheque deposited but not yet cleared	22,000	
Add: Cheque recorded in Cash Book but not yet deposited	5,000	
Add: Bank Charges debited by bank	250	27,250
Less: Cheque issued but not yet presented	(48,000)	
Less: Amount deposited but not recorded in Cash Book	(15,700)	
Less: Interest allowed by bank	(1,500)	(65,200)
Balance as per Cash Book		1,12,050

(b) Calculation of Capital of Zavier

	₹	1-4-2021 ₹	₹	1-4-2023 ₹
Assets				
Cash in hand		25,500		16,000
Inventory		56,000		91,500
Sundry debtors		41,500		52,500
Land & Building		1,90,000		1,90,000
Wife's Jewellery		75,000		1,25,000

Motor Car		—		1,25,000
Loan to Zavier's Brother		—		20,000
		3,88,000		6,20,000
Liabilities:				
Owing to Zavier's Brother	40,000		—	
Sundry creditors	35,000	75,000	55,000	55,000
Capital		3,13,000		5,65,000
Income during the two years:				
Capital as on 1-4-2023				5,65,000
Add: Drawings – Domestic Expenses for the two years (₹ 4,000 × 24 months)				96,000
				6,61,000
Less: Capital as on 1-4-2021				(3,13,000)
Income earned in 2021-2022 and 2022-2023				3,48,000
Income declared (₹ 1,05,000 + ₹ 1,33,000)				2,38,000
Suppressed Income				1,10,000

The Income-tax officer's contention that Zavier has not declared his true income is correct. Zavier's true income is in excess of the disclosed income by ₹ 1,10,000 based on the information available.

(c) Journal Entries in the Books of Safari Ltd.

		Dr. ₹	Cr. ₹
Bank A/c	Dr.	1,12,500	
To Equity Shareholders A/c			1,12,500
(Application money received on 7,500 shares @ ₹ 15 per share to be issued as rights shares in the ratio of 1:4)			
Equity Shareholders A/c	Dr.	1,12,500	
To Equity Share Capital A/c			75,000
To Securities Premium A/c			37,500
(Share application money on 7,500 shares @ ₹ 10 per share transferred to Share Capital Account, and ₹ 5 per share to Securities Premium Account vide Board's Resolution dated...)			
Securities Premium A/c	Dr.	37,500	

Profit & Loss A/c To Bonus to Shareholders A/c (Amount transferred for issue of bonus shares to existing shareholders in the ratio of 1:5 vide General Body's resolution dated...)	Dr.	37,500	75,000
Bonus to Shareholders A/c To Equity Share Capital A/c (Issue of bonus shares in the ratio of 1 for 5 vide Board's resolution dated....)	Dr.	75,000	75,000
12% Debentures A/c Premium Payable on Redemption A/c To Debenture holders A/c (Amount payable to debentures holders)	Dr. Dr.	1,80,000 5,400	1,85,400
Profit and loss A/c To Premium Payable on Redemption A/c (Premium payable on redemption of debentures charged to Profit & Loss A/c)	Dr.	5,400	5,400
Debenture Redemption Reserve A/c To General Reserve (For DRR transferred to general reserve)	Dr.	18,000	18,000
Bank A/c To Debenture Redemption Reserve Investment (for DRR Investment realised)	Dr.	27,000	27,000
Debenture holders A/c To Bank A/c (Amount paid to debenture holders on redemption)	Dr.	1,85,400	1,85,400

6. (a)

			Dr. ₹	Cr. ₹
1	Bank A/c To Share Application & Allotment A/c (Being Application money on 3,00,000 shares at ₹ 9 per share received.)	Dr.	27,00,000	27,00,000

2	Share Application & Allotment A/c To Share Capital A/c (75,000 x ₹ 4) To Securities premium A/c (75,000 x ₹ 5) To Bank A/c (2,00,000 x ₹ 9) To Share First & Final Call A/c (Being application money transferred)	Dr.	27,00,000	
				3,00,000
				3,75,000
				18,00,000
				2,25,000
3	Share First & Final Call A/c (75,000 x 6) To Share Capital Account (Amount First & Final Call A/c due from members as per Directors, resolution no..... dated.....)	Dr.	4,50,000	
				4,50,000
4	Bank Account A/c Calls in arrear A/c To Share First & Final Call Account (Being Receipt of the amounts due on first call.)	Dr. Dr.	2,21,625 3,375	
				2,25,000
5	Equity share capital A/c To Share forfeiture A/c To Calls in arrear A/c (Being 1,125 shares forfeited for non payment of final call.)	Dr.	11,250	
				7,875
				3,375
6	Bank Account A/c (1,125 x ₹ 6) Share forfeiture A/c (1,125 x ₹ 4) To Share Capital A/c (1,125 x ₹ 10) (Being forfeited shares reissued at ₹ 4 discount)	Dr.	6,750 4,500	
				11,250
7	Share forfeiture A/c To Capital reserve A/c (Being share forfeiture transferred to capital reserve)		3,375	
				3,375

Working notes:

1.

Shares Applied	Shares Allotted	Money Received on Application @ ₹ 9/-	Money Transferred to Share Capital @ ₹ 4/-	Money Transferred to Security Premium @ ₹ 5/-	Excess Application Money	Share First and Final Call @ ₹ 6/-	Amount received from Share First and Final Call including excess appl. Money received	Money Refunded
2,00,000	-	18,00,000	-	-	-	-	-	18,00,000
1,00,000	75,000	9,00,000	3,00,000	3,75,000	2,25,000	4,50,000	4,46,625	-
3,00,000	75,000	27,00,000	3,00,000	3,75,000	2,25,000	4,50,000	4,46,625*	18,00,000

* ₹2,25,000+ ₹ 2,25,000 - ₹ 3,375.

2. **Number of shares allotted to Mr. Raj** = $1,500 \times 75,000 / 1,00,000$
= 1,125 shares

3. **Calculation of calls in arrear**

Application money received from Raj	(1,500 x9)	13,500
Less: actual application money	1,125 x9	<u>10,125</u>
Excess Application & Allotment Money Adjusted with first and final call		<u>3,375</u>
Final call due from Raj		6,750
Less: Adjusted with final call		<u>(3,375)</u>
Calls in arrear		<u>3,375</u>

(c) The difference between the balance shown by the passbook and the cashbook may arise on account of the following:

- (i) Cheques issued but not yet presented for payment.
- (ii) Cheques deposited into the bank but not yet cleared.
- (iii) Interest allowed by the bank.
- (iv) Interest and expenses charged by the bank.
- (v) Interest and dividends collected by the bank.
- (vi) Direct payments by the bank.
- (vii) Direct deposits into the bank by a customer.
- (viii) Dishonour of a bill discounted with the bank.
- (ix) Bills collected by the bank on behalf of the customer.
- (x) An error committed by the bank etc.

OR

- (c)** Normally, the following subsidiary books are used in a business:
- (i) Cash book to record receipts and payments of cash, including receipts into and payments out of the bank.
 - (ii) Purchases book to record credit purchases of goods dealt in or of the materials and stores required in the factory.
 - (iii) Purchase Returns Books to record the returns of goods and materials previously purchased.
 - (iv) Sales Book to record the sales of the goods dealt in by the firm.
 - (v) Sale Returns Book to record the returns made by the customers.
 - (vi) Bills receivable books to record the receipts of promissory notes or hundies from various parties.
 - (vii) Bills Payable Book to record the issue of the promissory notes or hundies to other parties.
 - (viii) Journal (proper) to record the transactions which cannot be recorded in any of the seven books mentioned above.