

**ANSWERS OF MODEL TEST PAPER 7**  
**FOUNDATION COURSE**  
**PAPER – 1: ACCOUNTING**  
**ANSWERS**

1. (a) (i) **False:** A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a contingent asset.
- (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:** If closing stock appears in trail balance, it depicts that one aspect of the double entry has been completed, hence it is taken only to Balance Sheet.
- (iv) **False:** A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale as they have already been allotted earlier.
- (v) **True:** All the receipts and payments whether of revenue or capital nature are included in Receipt and Payment account.
- (vi) **True:** As per perpetual existence the company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

**(b) Distinction between Money Measurement concept and Matching concept**

As per **Money Measurement concept**, only those transactions, which can be measured in terms of money are recorded. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money should be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

In **Matching concept**, all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.

(c)

**Chemical Mill**

**Calculation of the value of Inventory as on 31-3-2024**

Date	Receipts			Issues			Balance		
	Units	Rate	Amount	Units	Rate	Amount	Units	Rate	Amount
		₹	₹		₹	₹		₹	₹
1-1-2024	Balance							Nil	
1-1-2024	100	300	30,000				100	300	30,000
15-1-2024				50	300	15,000	50	300	15,000
1-2-2024	200	400	80,000				250	380	95,000
15-2-2024				100	380	38,000	150	380	57,000
20-2-2024				100	380	38,000	50	380	19,000

Therefore, the value of Inventory as on 31-3-2024 = 50 units @ ₹ 380  
= ₹19,000

2. (a)

**In the books of Saraswat & Sons**

**Journal**

	Particulars	L.F.	Dr. ₹	Cr. ₹
(i)	Furniture A/c Dr. To Purchases A/c (Correction of wrong debit to Purchases A/c for furniture purchased)		20,000	20,000
(ii)	Satyam A/c Dr. To Bad Debts Recovered A/c (Correction of wrong credit to Personal A/c in respect of recovery of previously written off bad debts)		3,000	3,000
(iii)	Repairs A/c Dr. To Building A/c (Correction of wrong debit to building A/c for repairs made)		18,500	18,500
(iv)	Purchases A/c Dr. To Ram Singh A/c (Purchases of goods from Ram Singh remained unrecorded)		18,000	18,000
(v)	Drawings A/c Dr. To Audit Fees A/c (Correction of wrong debit to Audit Fees A/c for college fees of proprietor's son)		15,000	15,000

(vi)	Anita To Kanika (Correction of wrong credit to Anita instead of Kanika)	Dr.	4,500	4,500
(vii)	Returns Inwards / Sales Return A/c To Customer/Debtors A/c (Entry of goods returned by customer and taken in inventory omitted from records)	Dr.	8,900	8,900
(viii)	Furniture A/c To Wages A/c (Wages paid to workmen for office furniture wrongly charged to wages a/c now rectified)	Dr.	7,500	7,500
(ix)	Salaries A/c To Clerk's (Personal) A/c (Correction of wrong debit to Clerk's personal A/c for salaries paid)	Dr.	18,000	18,000
(x)	Purchases A/c Sales A/c To Raghav A/c (Correction of wrong entry in the sales Book for purchases of goods from Raghav)	Dr. Dr.	20,000 20,000	40,000

**(b) S Chand & Associates**

**Dr.**

**Machinery Account**

**Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.1.2021	To Bank A/c	3,00,000	31.12.2021	By Balance c/d	3,00,000
		3,00,000			3,00,000
1.1.2022	To Balance b/d	3,00,000			
1.7.2022	To Bank A/c	4,50,000	31.12.2022	By Balance c/d	7,50,000
		7,50,000			7,50,000
1.1.2023	To Balance b/d	7,50,000	31.12.2023	By Machinery Disposal A/c	3,00,000
			31.12.2023	By Balance c/d	4,50,000
		7,50,000			7,50,000
1.1.2024	To Balance b/d	4,50,000			

Dr. Provision for Depreciation Account			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.12.2021	To Balance c/d	45,000	31.12.2021	By Depreciation A/c	45,000
		45,000			45,000
31.12.2022	To Balance c/d	1,17,000	1.1.2022	By Balance b/d	45,000
			31.12.2022	By Depreciation A/c (₹ 38,250 + ₹ 33,750)	72,000
		1,17,000			1,17,000
31.12.2023	To Machinery Disposal A/c	1,15,762	1.1.2023	By Balance b/d	1,17,000
31.12.2023	To Balance c/d	96,188	31.12.2023	By Depreciation A/c (WN 1)	62,438
			31.12.2023	By Depreciation on machinery sold (WN 2)	32,512
		2,11,950			2,11,950
			1.1.2024	By Balance b/d	96,188

Dr. Machinery Disposal Account			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.12.2023	To Machinery A/c	3,00,000	31.12.2023	By Provision for Depreciation A/c	1,15,762
			31.12.2023	By Bank A/c	1,50,000
			31.12.2023	By Profit & Loss A/c (Loss on Sale)	34,238
		3,00,000			3,00,000

### Working Notes:

- Depreciation for the machine purchased on 1.7.2022.  
For the year 2022 (Used for 6 months) = ₹ 4,50,000 x 15% x  $\frac{6}{12}$   
= ₹ 33,750  
For the year 2023 (Used for full year) = ₹ 4,16,250 x 15% = ₹ 62,438
- Depreciation for the machine purchased on 1.1.2021.  
Depreciation for the year 2021 = ₹ 3,00,000 x 15% = ₹ 45,000  
Depreciation for the year 2022 = ₹ 2,55,000 x 15% = ₹ 38,250  
Depreciation for the year 2023 = ₹ 2,16,750 x 15% = ₹ 32,512

## 3. (a) (i)

**Realisation Account**

<i>Particulars</i>	<i>Amount (₹)</i>	<i>Particulars</i>	<i>Amount (₹)</i>
To Land and building	2,46,000	By Sundry creditors	36,000
To Furniture and fixtures	65,000	By Mortgage loan	1,10,000
To Stock	1,00,000	By Cash account -	
To Debtors	72,500	Land and building	2,30,000
To Cash A/c (expenses on dissolution)	7,800	Furniture & fixtures	42,000
To Cash A/c (creditors ₹ 36,000 + ₹ 18,000)	54,000	Stock	72,000
To Cash A/c (Mortgage loan)	1,10,000	Debtors	65,000
		By Partners' capital accounts (Loss 4:3:2:1)	
		P = 40,120	
		Q = 30,090	
		R = 20,060	1,00,300
		S = <u>10,030</u>	
	6,55,300		6,55,300

**Partners' Capital Accounts**

<i>Particulars</i>	<i>P</i>	<i>Q</i>	<i>R</i>	<i>S</i>	<i>Particulars</i>	<i>P</i>	<i>Q</i>	<i>R</i>	<i>S</i>
	₹	₹	₹	₹		₹	₹	₹	₹
To Balance b/d	-	-	1,000	6,000	By Balance b/d	2,16,000	1,44,000		
To Realization A/c (Loss)	40,120	30,090	20,060	10,030	By Cash A/c (realization loss)	40,120	30,090	-	10,030
To R's Capital A/c (Deficiency)	12,636	8,424	-	-	By P's Capital A/c			12,636	
					By Q's Capital A/c			8,424	
To Cash A/c	2,03,364	1,35,576	-	-	By Cash A/c				6,000
	2,56,120	1,74,090	21,060	16,030		2,56,120	1,74,090	21,060	16,030

**Note:** P, Q and S brought cash to make good, their share of the loss on realization. However, in actual practice they will not be bringing any cash, only a notional entry will be made.

**Cash Account**

<i>Particulars</i>	<i>Amount (₹)</i>	<i>Particulars</i>	<i>Amount (₹)</i>
To Balance b/d	15,500	By Realization A/c:	
To Realization A/c:		Expenses on	7,800
Land and building	2,30,000	dissolution	
Furniture & fixtures	42,000	Creditors (36,000 + 18,000)	54,000
		Mortgage loan	1,10,000
Stock	72,000	By P's capital A/c	2,03,364

Debtors	65,000	By Q's capital A/c	1,35,576
To P, Q, S's capital A/c's (Realisation Loss-) (40,120 + 30,090 + 10,030)	80,240		
To S's capital A/c	<u>6,000</u>		
	<u>5,10,740</u>		<u>5,10,740</u>

### Working Note:

As per Garner Vs. Murray rule, solvent partners have to bear the loss due to insolvency of a partner in their capital ratio.

Calculation of Capital Ratio of Solvent Partners

Though S is a solvent partner yet he cannot be called upon to bear loss on account of insolvency of R because his capital account has a debit balance.

Therefore, capital ratio of P & Q = 216 : 144 = 3 : 2

Deficiency of R will be shared by P & Q in the capital ratio of 3 : 2 i.e.

$$P = ₹ 21,060 \times \frac{3}{5} = ₹ 12,636$$

$$Q = ₹ 21,060 \times \frac{2}{5} = ₹ 8,424$$

(b)

### In the books of Mr. Dilip

#### Trading Account for the year ended 31<sup>st</sup> March, 2024

Particulars	Amount (₹)	Particulars		Amount (₹)
To Opening Inventory	3,30,000	By Sales	29,10,000	
To Purchases 12,90,000		Less: Returns (60,000)		28,50,000
Less: Returns (36,000)	12,54,000	By Closing Inventory		5,40,000
To Freight Inwards	1,20,000			
To Gross profit	16,86,000			
	<u>33,90,000</u>			<u>33,90,000</u>

#### Profit and Loss Account for the year ended 31<sup>st</sup> March, 2024

Particulars	₹	Particulars	₹
To Depreciation	1,57,500	By Gross profit	16,86,000
To Salaries	6,30,000	By Discount received	27,000
To Administration expenses	4,50,000		
To Discount allowed	57,000		

To Bad debts	15,000		
To Net profit	4,03,500		
	17,13,000		17,13,000

### Balance Sheet as at 31st March, 2024

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital	19,50,000		Furniture	10,50,000	
Add: Net profit	4,03,500	23,53,500	Less: Depreciation	(1,57,500)	8,92,500
Trade payables		5,70,000	Closing Inventory		5,40,000
Output IGST		6,000	Trade receivables		6,30,000
			Investment in Govt Securities		3,00,000
			Cash in Hand and Cash at Bank		5,67,000
		29,29,500			29,29,500

### Working Note:

Summary of Output and Input GST liability (as per trial balance)

	OUTPUT GST (₹)	INPUT GST (₹)
CGST	24,000	30,000
SGST	24,000	30,000
IGST	18,000	

Output liability (Tax head)	Tax Payable	Paid through ITC			Tax Liability
		IGST	CGST	SGST	
CGST	24,000		24,000		
SGST	24,000			24,000	
IGST	18,000		6,000	6,000	6,000

In the above solution, it is assumed that balance IGST liability of ₹ 6,000 (after utilising CGST and SGST) is not paid off in cash.

Alternatively, it can also be assumed that the balance liability of ₹ 6,000 is paid off in cash. Accordingly, Output IGST liability of ₹ 6,000 shall not appear under liability side of the balance sheet and amount of cash at bank is reported as ₹ 5,61,000.

4. (a)

**New State Society**  
**Income and Expenditure Account**  
**for the year ended 31<sup>st</sup> March, 2024**

Dr.					Cr.
Expenditure	₹	₹	Income		₹
To Electric charges		14,400	By Entrance fee (40% of ₹ 60,000)		24,000
To Postage and stationary		10,000			
To Telephone charges		10,000	By Membership subscription	4,00,000	
To Rent	1,76,000		Less: Received in advance	<u>20,000</u>	3,80,000
Add: Outstanding	<u>8,000</u>	1,84,000			
To Salaries	1,32,000		By Sale proceeds of old papers		3,000
Add: Outstanding	<u>6,000</u>	1,38,000	By Hire of lecture hall		40,000
To Depreciation (W.N.1)					
Electrical fittings	30,000		By Interest on securities (W.N.2)	16,000	
Furniture	10,000		Add: Receivable	<u>35,000</u>	51,000
Books	<u>92,000</u>	1,32,000			
To Excess of Income over Expenditure		<u>9,600</u>			
		<u>4,98,000</u>			<u>4,98,000</u>

**Working Notes:**

**1. Depreciation**

₹

Electrical fittings 10% of ₹ 3,00,000	30,000
Furniture 10% of ₹ 1,00,000	10,000
Books 10% of ₹ 9,20,000	92,000

**2. Interest on Securities**

Interest @ 15% p.a. on ₹ 3,00,000 for full year	45,000
Interest @ 15% p.a. on ₹ 80,000 for half year	<u>6,000</u>
	51,000
Less: Received	<u>(16,000)</u>
Receivable	<u>35,000</u>

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

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



(ii) **Revaluation Account**

Particulars	₹	Particulars	₹
To Furniture A/c	3,000	By Machinery A/c	5,100
To Inventory A/c	1,200		
To Partners' Capital A/cs (Amit - ₹ 300, Lalit - ₹ 300, Sumit - ₹ 300)	900		
	5,100		5,100

**Partners' Capital Account**

Particulars	Amit	Lalit	Sumit	Particulars	Amit	Lalit	Sumit
To Sumit (Goodwill)	3,000	3,000	—	By Balance b/d	24,600	24,600	27,000
To Cash 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 Lalit (Goodwill)	—	—	3,000
	27,900	27,900	36,300		27,900	27,900	36,300

**Balance Sheet M/s Krishna Bros after death of Sumit**

Liabilities	₹	Assets	₹
Capital		Machinery	35,100
Amit	24,900	Furniture	13,800
Lalit	24,900	Fixture	12,600
Sumit's	30,300	Cash (9,000-6,000)	3,000
Executors A/c		Inventories	4,500
Trade payables	14,100	Trade receivables	27,000
		Less: Provision for Doubtful debts	<u>1,800</u>
	94,200		25,200
			94,200

**Working Note:**

**Statement showing the Required Adjustment for Goodwill**

Particulars	Amit	Lalit	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

5. (a)

In the books of Ali

**Journal Entries**

Date	Particulars		Debit Amount	Credit Amount
2024			₹	₹
April 15	Bills receivable A/c Dr. To Akbar's A/c (Being acceptance received from Akbar for mutual accommodation)		45,000	45,000
April 18	Bank A/c Dr. Discount A/c Dr. To Bills receivable A/c (Being bill discounted with bank)		44,100 900	45,000
April 18	Akbar's A/c Dr. To Bank A/c To Discount A/c (Being one-third proceeds of the bill sent to Akbar)		15,000	14,700 300
July 18	Akbar's A/c Dr. To Bills payable A/c (Being Acceptance given)		52,500	52,500
July 18	Bank A/c Dr. Discount A/c Dr. $\left\{ 1,200 \times \left( \frac{30,000 + 8,475}{51,300} \right) \right\}$ To Akbar's A/c (Being proceeds of second bill received from Akbar)		8,475 900	9,375

(b)

**Trading and Profit and Loss Account**

**for the year ended 31<sup>st</sup> December, 2024**

	Amount		Amount
	₹		₹
To Opening stock	50,000	By Sales (₹ 2,60,000 × 125/100)	3,25,000
To Purchases (balancing figure)	2,72,500	By Closing stock	62,500
To Gross profit c/d (₹ 2,60,000 × 25/100)	65,000		
	3,87,500		3,87,500

To Expenses	49,250	By Gross profit b/d	65,000
To Loss on sale of fixed assets (W.N.1)	750		
To Depreciation on fixed assets (W.N.1)	1,000		
To Net profit	14,000		
	<u>65,000</u>		<u>65,000</u>

### Working Note:

#### 1. Fixed Assets A/c

	₹		₹
To Balance b/d	7,500	By Bank (sale)	1,750
To Bank (Purchases)	5,000	By Loss on sale of fixed asset (2,500-1,750)	750
		By Depreciation (bal fig)	1,000
		By Balance c/d	<u>9,000</u>
	<u>12,500</u>		<u>12,500</u>

#### (c) Journal Entries in the books of Substance Ltd.

		₹	₹
1-4-2024	Equity share final call A/c Dr. To Equity share capital A/c (For final calls of ₹ 2 per share on 4,05,000 equity shares due as per Board's Resolution dated....)	8,10,000	8,10,000
20-4-2024	Bank A/c Dr. To Equity share final call A/c (For final call money on 4,05,000 equity shares received)	8,10,000	8,10,000
	Securities Premium A/c Dr. Capital Reserve A/c Dr. General Reserve A/c Dr. Profit and Loss A/c Dr. To Bonus to shareholders A/c (For making provision for bonus issue of one share for every four shares held)	1,12,500 1,80,000 5,40,000 1,80,000	10,12,500

	Bonus to shareholders A/c Dr.	10,12,500	
	To Equity share capital A/c		10,12,500
	(For issue of bonus shares)		

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

	₹
Authorised Capital	
45,000 12% Preference shares of ₹10 each	4,50,000
5,06,250 Equity shares of ₹10 each (W.N.)	<u>50,62,500</u>
Issued and subscribed capital	
36,000 12% Preference shares of ₹10 each, fully paid	3,60,000
5,06,250 Equity shares of ₹10 each, fully paid	50,62,500
(Out of above, 1,01,250 equity shares @ ₹10 each were issued by way of bonus)	
Reserves and surplus	
Profit and Loss Account	7,20,000

W.N.: The authorised capital has been increased by sufficient number of shares.  $(5,06,250 - 4,50,000) = 56,250$  shares

**6. (a)**

Entry No.	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
1	Bank A/c Dr. To Equity Share Application A/c (Money received on applications for 2,00,000 shares @ ₹ 2 per share)		4,00,000	4,00,000
2	Equity Share Application A/c Dr. To Equity Share Capital A/c (Transfer of application money on 2,00,000 shares to share capital)		4,00,000	4,00,000
3	Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Amount due on the allotment of 2,00,000 shares @ ₹ 3 per share and Securities Premium @ ₹1 per share)		8,00,000	6,00,000 2,00,000
4	Bank A/c Dr. To Equity Share Allotment A/c (Allotment money received)		800,000	800,000

5	Equity Share First Call A/c To Equity Share Capital A/c (Being first call made due on 2,00,000 shares at ₹ 2 per share)	Dr.	4,00,000	
6	Bank A/c To Equity Share First Call A/c To Calls in Advance A/c (Being first call money received along with calls in advance on 20,000 shares at ₹ 3 per share)	Dr.	460,000	4,00,000 60,000
7	Equity Share Final Call A/c To Equity Share Capital A/c (Being final call made due on 2,00,000 shares at ₹ 3 each)	Dr.	6,00,000	6,00,000
8	Bank A/c Calls in Advance A/c Calls in Arrears A/c To Equity Share Final Call A/c (Being final call received for 1,77,000 shares, calls in advance for 20,000 shares and calls in arrears on 3,000 shares adjusted)	Dr. Dr. Dr.	53,1000 60,000 9,000	6,00,000
9	Interest on Calls in Advance A/c To Shareholders A/c (Being interest made due on calls in advance of ₹60,000 at the rate of 12% p.a.)	Dr.	2,400	2,400
10	Shareholders A/c To Bank A/c (Being payment of interest made to shareholder)	Dr.	2,400	2,400
11	Shareholders A/c To Interest on Calls in Arrears A/c (Being interest on calls in arrears made for 2000 shares due at the rate of 10%)	Dr.	150	150
12	Bank A/c To Calls in Arrears A/c To Shareholders A/c (Being money received from shareholder having 2,000 shares for calls in arrears and interest thereupon)	Dr.	6,150	6,000 150

13	Shareholders A/c To Interest on Calls in Arrears A/c (Being interest on calls in arrears made on 1,000 shares due at the rate of 10%)	Dr.	100	100
14	Bank A/c To Calls in Arrears A/c To Shareholders A/c (Being money received from shareholder having 1,000 share for calls in arrears and interest thereupon)	Dr.	3,100	3,000 100

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

Interest on Calls in Advance = ₹ 60,000 x 12% x 4 / 12 = ₹ 2,400

Interest on Calls in Arrears ₹ 6,000 x 10% x 3 / 12 = ₹ 150

Interest on Calls in Arrears ₹ 3,000 x 10% x 4 / 12 = ₹ 100

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,

### (c) Bank Reconciliation Statement as on 31<sup>st</sup> March, 2024

	₹	₹
Bank balance as per Pass book		75,00,000
<i>Add:</i> Bills dishonoured not recorded in the cash book	37,50,000	
Cheque received entered twice in the cash book	75,000	
Insurance premium paid directly not recorded in the cash book	4,50,000	
Cheque received but not sent to the bank	84,00,000	
Credit side of the bank column cast short	15,000	1,26,90,000
		20,19,0000
<i>Less:</i> Cheque deposited into the bank but no entry was passed in the cash book	37,50,000	
Bank charges recorded twice in the cash book	15,000	
Cheque issued but not presented to the bank	37,50,000	(75,15,000)
Bank balance as per Cash book		1,26,75,000

**Or**

- (c) **Objective and Advantages of Accounting Standards:** An Accounting Standard is a selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The Accounting Standards Board formulates Accounting Standards to be established by the Council of the Institute of Chartered Accountants of India.

The main objective of Accounting Standards is to establish standards which have to be complied with to ensure that financial statements are prepared in accordance with generally accepted accounting standards. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India.

The main advantage of setting accounting standards is that the adoption and application of Accounting Standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements.

The other advantages are as follows:

- (i) Reduction in variations.
- (ii) Disclosure beyond that required by law.
- (iii) Facilities comparison.