CA Foundation Accounting Suggested Answers

Answer 1 (a)(i)
False : Overhauling Express are incurred for the engine of a motor car to derive better fuel efficiency these expenses will reduce the running cost in future and thus the benefit is in form of endurable long term advantage. So this expenditure should be capitalised.

Answer 1 (a)(ii)
True : Depreciation is a non cash expense and retained for future replacement of an asset and it is a fund and there will be no care outflow due to this.

Answer 1 (a)(iii)
False : Life membership fee received for the life membership is a capital receipts as it is of non recurring nature, it is directly added to capital fund or general fund.

Answer 1 (a)(iv)
True : If closing stock appears in the Trial balance then it is already adjusted with purchase hence is will only be disclosed in balance sheet.

Answer 1 (a)(v)
True : Inventory Turnover Ratio is also known as stock turnover ratio, It establishes the relationship between the cost of goods sold during the year and average inventory held during the year.

Answer 1 (a)(vi)
False : If Del-credere commission is paid to consignee, then loss of Bad Debts will be borne by consignee an d these will be not belongs to consignor.

Answer 1 (b)
Financial statements suffer from a number of limitations. These must, therefore be studied with care, in order that correct inferences may be drawn. The limitations are less serious if the objective is only to appraise the performance of a single company over a period of year Where, however, a comparison of the working of different companies for the same period is to be made. It can be misleading unless the companies concerned have followed the same system and basis of accounting. On the account, a comparison of the profitability of different industries on the basis of financial statements, should be undertaken only if it is not practicable to make such a comparison on any other basis.

The principal limitations affecting financial statements are the following:

(a) **Historical Cost:** Accounting records and, on that account, the financial statements are prepared only on the basis of the money value prevailing at the time the transaction were entered into. Thus, the effect of subsequent changes in the value of money is not taken into account. At times this has the effect of making the statements of account quite misleading. Take the obvious example of a house built in 1980, say at the cost of `15,000, in 2016 the benefit receivable from its occupation will be as much as that of a house created in 2016, say at a cost of `14,50,000. If the house were included in the financial statements at its original cost, as normally it would not convey a true picture except to a knowledgeable person.

The limitations can be serious in the case of other fixed assets that have been working over a long period over which prices have changed radically. It is, however, not easy to get over this difficulty, since revaluation of fixed assets, apart from being costly is not practicable when the value of money is continuously falling. On this account, historical cost continues to be the accepted basis for the preparation of financial statements. Though it may not be possible to do much to remove the limitation mentioned above, one must always remember to read the balance sheet and the profit and loss account in the light of what they cannot reveal as well as what they do.

(b) **Intangible strengths and weaknesses:** A company may have a number of strengths and weaknesses which cannot be shown in the balance sheet e.g., the loyalty and calibre of its staff. These must be kept in mind while judging the financial position of the company.

(c) **Perpetual continuity and periodical account:** Financial statements ordinarily are drawn up at the end of each year but the accounting record is maintained on the assumption that the business undertaking shall continuetoexistforeveronthebasisofgoing concernassumption. Inconsequence, muchofthe expenditure other than revenue expenditure has to be distributed arbitrarily over a number of years duringwhichbenefit oftheexpenditureisexpectedtoarise.Asaresult,financialstatementsofaccount arenotabsolutelycorrect.

(d) **Different accounting policies:** It is permissible for a company within certain limits to adopt different policies for the preparation of accounts, valuation of various assets and distribution of expenditure over differentperiods ofaccount.Forexample, acompanymaydecide toprovideannuallyforpaymentof pensions and gratuitiesto staff and thus build up a 'fund' out of which paymentswill be made ultimately whereas another companymay deal with these only when actual payments are made. Similarly, a companymay decidewhetherornotto includeintangibleassetsamongstitsassetsormanner inwhich the amounts thereof shouldbewrittenoff.

(e) **Managementpolicies:** Managementcanhavedifferentaccountingpoliciesforwelfareofthestaffand public atlarge.

Answer 1 (c)

Depreciation per year charged for four years = $\frac{`10,00,000}{10}$ = `1,00,000

WDV of the machine at the end of 4th year = 10,00,000 – 1,00,000×4= ` 6,00,000

Depreciable amount after revaluation = 6,00,000 + 40,000 = `6,40,000

Remaining useful life as per previous estimate = 6 years

Remaining useful life as per revised estimate = 8 years

Depreciation for the fifth year onwards = $\frac{6,40,000}{8}$ = `80,000

Answer 2 (a)

Journal

	Particulars		**L.F.**	**Dr. Amount** `	**Cr. Amount** `
(i)	P & L Adjustment A/c	Dr.		1000	
	To Suspense A/c				1000
	(Sales Day Book was over cost by `1,000 now rectified)				
(ii)	X's A/c	Dr.		5,000	
	To Y's A/c				5,000
	(Sale to `5,000 to X was wrongly, debited to Y now rectified)				
(iii)	Suspense A/c	Dr.		630	
	To P & L Adjustment A/c				630
	(Amt. wrongly posted now rectified)				
(iv)	Bills Receivable A/c	Dr.		1,550	
	Bills Payable A/c	Dr.		1,550	
	To P's A/c				3,100
	(B/R wrongly recorded in B/P Books now rectified)				
(v)	P & L Adjustment A/c	Dr.		1,190	
	To Neetu's A/c				1,190
	(Legal Exp. wrongly posted to personal A/c now rectified)				
(vi)	Suspense A/c	Dr.		3,000	
	To Ram's A/c				1500
	To Shyam's A/c				1500
	(Amt wrongly posted in shyam A/c now rectified)				
(vii)	Suspense A/c	Dr.		90	
	To P & L Adjustment A/c				90
	(Carry Forward Error now Rectified)				

Suspense A/c

		Balance B/d	2,720
P & L Adjustments A/c	630	P & L Adjustment A/c	1,000
Ram's A/c	1500		
Shyam's A/c	1500		
P & L Adjustment A/c	90		
	3,720		3,720

Answer 2 (b)

"Royalty"may be defined as:

- Periodicpayment
- Madebyoneperson(lessee)toanotherperson(lessor)
- Forusingtherightbythelessee vestedinthelessor.

Examples:

1. Fortheextractionofoil,coal,andminerals.
2. Toanauthorforsaleofhisbooks.
3. Toapatenteefortheuseofpatent.
4. Foruseoftechnicalknowhowdevelopedbyaparty

Thus, royalty means sum payable, generally based on output or sale, to the owner of mine, a patentee or an author or any other such person for use of rights vested in him. The person paying the royalty will treat this amount as an ordinary business expenditure. Royalties are generally debited to profit and loss account. Strictly speaking, royaltybasedon outputshould be debitedtoTradingormanufacturing account; royalty based on sales shouldbetreatedassellingexpenseanddebitedtoprofitandlossaccount.

Answer 2 (c) (i)

Nature of Suspense A/c—

Mr. XY in Account Current with Mr. YAB
(Interest to 31st October 2 5% P.a.)

Date	Particulars	Due Date	Amount `	Days	Product	Date	Particulars	Due Date	Amount `	Days	Product
2018 1 July	To Balance B/d		1,500	123	1,84,500	2018 28 August	By Sales Return	28 Aug.	400	64	25,600
20 August	To Sales A/c	20 Aug.	2,500	72	1,80,000	25 Sept.	By Bank A/c	25 Sept.	1,600	36	57,600
31 Octo.	To Interest A/c $\frac{2,80,200}{365}\times\frac{5}{100}$		38.38			20 Octo.	By Cash A/c	20 Octo.	1,000	11	11,000
						31 Octo.	By Balance of Product				2,80,200
							By Balance		1038.38		
			4038.38		3,64,500				4038.38		3,64,500
1 Nov.	To Balance B/d		1038.38								

Answer 2 (c)(ii)

In the Books of Ganesh
Journal Entries

Date	Particulars	L.F.		
2018 March 31	Sales A/c To Trade receivables A/c (Being the cancellation of original entry for sale in respect of goods lying with customers awaiting approval)	Dr.	6,500	6,500
2018 March 31	Inventories with Customers on Sale or Return A/c To Trading A/c (Note 1) (Being the adjustment for cost of goods lying with customers awaiting approval)	Dr.	5,500	5,500
2018 April 25	Trade receivables A/c To Sales A/c (Note 1) (Being goods costing ` 3,200 sent to Mr. X on sale or return basis has been accepted by him)	Dr.	3,900	3,900

Balance Sheet of A & Co. as on 31st March, 2018 (Extracts)

Liabilities	`	Assets		
		Trade receivables (`75,000 - ` 6,500)		68,500
		Inventories-in-trade	50,000	
		Add: Inventories with customers on Sale or Return	5,000	55,000
				1,23,500

Notes:

(1) Cost of goods lying with customers = 100/130 x ` 6,500 = `5,000

(2) No entry is required on 15th April, 2018 for goods returned by Mr. Bakkiram. Goods should be included physically in the Inventories-in-trade.

Answer 3(a)

Revaluation A/c

Date	Particulars	Amount	Date	Particulars	Amount
2018			2018		
	To Furniture & Fixtures	720		By Stock	1,400
	To Debt for Bad & Doubtful	535		By Land & Buildings	5,600
	To Capital A/c				
	(Profit on Revaluation Transferred				
	Dinesh 2872				
	Ramesh 1915				
	Naresh 958	5,745			
		7,000			7,000

Partner’s Capital A/c

Particulars	Dinesh	Ramesh	Ramesh	Suresh	Particulars	Dinesh	Ramesh	Ramesh	Suresh
To Dinesh	–	–	1,125	3,375	By Balance B/d	15,000	15,000	10,000	–
To Ramesh	–	–	375	1,125	By General Reserve	3,900	2,600	1,300	–
To Balance B/d	26,972	21,015	10,758	3,500	By Cash A/c	–	–	–	8,000
					By Naresh	1,125	375	–	–
					By Suresh	3,375	1,125	–	–
					By Outstanding Liabilities	700	–	–	–
					By Revaluation A/c	2,872	1,915	958	–
	26,972	21,015	12,258	8,000		26,972	21,015	12,258	8,000

Working Note:

Calculation of Sacrificing Ratio

Partners	New Share	Old Share	Sacrifice	Gain
Dinesh	¼	3/6	$-\frac{3}{12}$	
Ramesh	¼	2/6	$-\frac{1}{12}$	
Naresh	¼	1/6		$\frac{1}{12}$
Suresh	¼			$\frac{1}{4}$

Sacrifice by Mr. Dinesh = 18,000 × = $\frac{3}{12}$ =`4,500 $\frac{1}{3}$ = $\frac{\text{Naresh} 1,125}{\text{Suresh} 3,375}$

Sacrifice by Mr. Ramesh 18,000× $\frac{1}{12}$ =`1,500 = $\frac{1}{3}$ = $\frac{\text{Naresh } 375}{\text{Suresh} 1125}$

Balance Sheet of M/s. Dinesh, Ramesh, Naresh & Suresh
As on 1.4.2018

Liabilities	`	Assets	`
Trade Payables	22,500	Land & Buildings	42,600
Outstanding Liabilities	1,500	Furniture & Fixtures	6,480
Capital Accounts:		Closing Stock	14,000
Dinesh 26,972		Trade Receivalbes 10,700	
Ramesh 21,015		Less: Provision 535	10,165
Naresh 10,758		Cash in Hand	10,800
Suresh 3,500	62,245	Cash in Bank	2,200
	86,245		86,245

Answer 3(b)

Trading & P& L A/c
For the year ending Mar. 31,2018

Liabilities	`	Assets	`
To cost of Goods sold	22,00,000	By Sales	45,00,000
To Gross Profit c/d	23,00,000		
	45,00,000		45,00,000
To Salaries Paid	12,00,000	By Gross Profit B/d	23,00,000
To General Expenses	6,00,000	By Other Income	45,000
To Selling Expenses	45,000		

To Commission to Manager (20% of Rs. 5,00,000)	1,00,000		
To Net Profit	4,00,000		
	23,45,000		23,45,000

Answer 4 (a)

In the Books of Raj
Consignment Account

	`		`
To Goods sent on consignment A/c	4,50,000	By Siraj (sales	4,50,000
To Cash Freights Insurance	75,000	By Insurance Co.	9,000
To Siraj Advertisment Recurring Exp.	33,000	By Profit & Loss A/c Abnormal Loss	5094
To Siraj Commission	22,500	By Consignment Stock	2,46,644
To Profit & Loss Account Profit	1,30,238		
	7,10,738		**7, 10,738**

Note : 1. Valuation of per unit after Normal Loss :

15,000 kg of Ghee @ 30 = 4,50,000
Add : Freight & Insurance = 75,000
5,52,000

Less : Normal Loss unit
100 kg

Final Kg **14,900 kg**

Per Kg price after normal loss = $\frac{525000\ Rs.}{14900\ Kg}$ = 35.2348 Rs.

Note : 2. Abnormal Loss in Transit:
Cost to the consignor
400 kg x 35.2348 = 14,094
Less : Insurance Clain = 9,000
5,094

Note : 3. Valuation of Stock:
7000 kg x 35.2348 = 2,46,644 Rs.

Answer 4 (b)

Bank Reconciliation Statement
As on March 31,2018

Particulars		Amount	Amount
	Debit Balance as per Cash Book		18,60,000
Add:	Cheque Issued but not yet presented	3,60,000	
	Dividend received by the Bank	2,50,000	
	Interest Allowed by the Bank	6,250	6,16,250
			24,76,250
Less:	Cheques Deposited but not collected	7,70,000	
	Bank Charges	1,000	
	Cheque Dishonoured	1,60,000	
	House Tax Paid by Bank	1,75,000	11,06,000
	Credit Balance as per Pass Book		13,70,000

Answer 5 (a)

Income & Expenditure Account

For the year ended March 31,2018

Liabilities	`	Assets		`
To Expenses (for 2018)	20,000	By subscription		27,000
To Interest	4,000	By Locker Rent	7,000	
To Misc. Expenses	4,700	Less: Outstanding	<u>2,400</u>	4,600
To Excess of Income	12,900	For 2016-17		
Over Expenditure		By Sale Proceeds of old News paper		1,000
		By Misc. Income		<u>9,000</u>
	41,600			41,600

Working Note:

Subscription A/c

Date	Particulars	Amount	Date	Particulars	Amount
2017			2017		
1 April	To Subscription Outstanding (2016-17)	3,800	April	By Cash A/c	24,000
				By Subscription in Advance (2016-17)	6,000
	To Subscription in Advance	1,000			
31 March 2018	To Income & Expenditures	27,000		By Subscription Outstanding (2017-18)	1,800
		31,800			31,800

Balance Sheet

As on March 31,2018

Outstanding Expenses (2016-17)		2,000	Cash	18,300
Advance Subscription		1,000	Outstanding Subscription	1,800
Creditors		10,000	Building	1,50,000
Loan		40,000	Land	40,000
Capital fund	1,06,200			
Entrance Fees	38,000			
Surplus	<u>12,900</u>	1,57,100		
		2,10,100		**2,10,100**

Answer 5 (b)

Balance Sheet

Capital	8,00,000	Fixed Assets	10,00,000
Other Liabilities	16,00,000	Other current Assets	13,00,000
		Closing stock	1,00,000
	24,00,000		**24,00,000**

(i) Computation of Total Current Assets & Other Current Assets

$$\frac{\text{Fixed Assets}}{\text{Total Current Assets}} = \frac{5}{7}$$

Total Current Assets = $\frac{7}{5} \times 10{,}00{,}000$ =`14,00,000

Closing Stock = 1,00,000

Other Current Assets = 14,00,000 – 1,00,000 = 13,00,000

(ii) Computation of Capital

$$\frac{\text{Fixed Assets}}{\text{Capital}} = \frac{5}{4}$$

Capital = $\frac{4}{5} \times 10{,}00{,}000$ = `8,00,000

(iii) Computation of total Other Liabilities

$$\frac{\text{Capital}}{\text{Total Other Liabilities}} = \frac{1}{2}$$

$8{,}00{,}000 \times \frac{2}{1}$ Total other Liabilities = ` 16,00,000

(iv) Computation of Net Profit

$$\frac{\text{Net Profit}}{\text{Capital}} = \frac{1}{5}$$

Net Profit = $\frac{1}{5} \times 8{,}00{,}000 = 1{,}60{,}000$

(v) Computation of Sales

$$\frac{\text{Net Profit}}{\text{Sales}} \times 100 = 20$$

Sales = $\frac{1{,}60{,}000 \times 100}{20}$ =`8,00,000

(vi) Calculation Gross Profit & Loss of Goods Sold

Gross Profit = $\frac{\text{Gross Profit}}{\text{Sales}} \times 100 = 25$

Gross Profit = $\frac{25 \times 8{,}00{,}000}{100} = 2{,}00{,}000$

Cost of Goods Sold = 8,00,000 – 2,00,000 = `6,00,000

(vii) Calculation of opening Stock & Purchase

$$\text{Stock Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Stock}} = 10$$

$$\text{Average Stock} = \frac{6{,}00{,}000}{10} = \grave{}60{,}000$$

$$\frac{\text{OP. Stock} + \text{Cl. Stock}}{2} = 60{,}000$$

Opening Stock = 1,20,000 – 1,00,000 = 20,000

Cost of Goods Sold = Opening Stock + Purchases – Closing Stock

6,00,000 = 20,000 + Purchases – 1,00,000

Purchases = ` 6,80,000

Answer 6 (a)

(i)

Journal

	Particulars		L.F.	Dr. Amount `	Cr. Amount `
(i)	Equity Share Capital A/c (300 ×` 10)	Dr.		3,000	
	To Equity Share Allotment A/c (300 × `3)				900
	To Equity Share first & Final Call A/c (300 × `4)				1,200
	To forfeited Shares A/c (300 × `3)				900
	(Share forfeited of X due to non payment of allotment and final call)				
(ii)	Bank A/c (300 × `8)	Dr.		2,400	
	Forfeited Shares A/c (300 × `2)	Dr.		600	
	(300 × `10) To Equity Share Capital A/c				3,000
	(Share reissued at Rs. 2 Discount)				
(iii)	Forfeited Shares A/c	Dr.		300	
	To Capital Reserve A/c	Dr.			300
	(Profit on reissue transferred to Capital Reserve)				

(ii)

Journal

	Particulars		L.F.	Dr. Amount `	Cr. Amount `
(i)	Equity Share Capital A/c (200 ×` 7)	Dr.		14,00	
	To [alls in Arrears (200 × `2)				400
	To Forfeited Shares A/c (200 × `5)				1,000
	(Share forfeited of X due to non payment of final call)				
(ii)	Bank A/c (150 × `6)	Dr.		900	
	Forfeited Shares A/c (150 × `4)	Dr.		600	
	To Equity Share Capital A/c (150 × `10				1,500
	(Share reissued at Rs. 4 Discount)				
(iii)	Forfeited Shares A/c (150 × `1)	Dr.		150	
	To Capital Reserve A/c				150
	(Profit on reissue transferred to Capital Reserve)				

(iii)

Journal

Particulars		L.F.	Dr. Amount `	Cr. Amount `
(i) Equity Shares Capital A/c (100 × `6)	Dr.		600	
To Discount on Issue of Equity Shares				100
To Calls in Arrears				300
To forfeited Shares A/c				200
(Share forfeited of X due to non payment of allotment and final call)				
(ii) Bank A/c (80 × `1)	Dr.		480	
Discount on Issue of Equity Shares A/c (80 × `1)	Dr.		80	
Forfeited Shares A/c (80 × `1)	Dr.		80	
To Equity Share Capital A/c (80 × `8)				640
(Share reissued and Original Discount canceled)				
(iii) Forfeited Shares A/c (80 × `1)	Dr.		80	
To Capital Reserve A/c				80
(Profit on reissue transferred to Capital Reserve)				

Year end	Debentures Outstanding	tio in which discount to be written off	mount of discount to be written off
1st	`10,00,000	1/5	60,000 = `12000
2nd	`10,00,000	1/5	60,000 = `12000
3rd	`10,00,000	1/5	60,000 = `12000
4th	`10,00,000	1/5	60,000 = `12000
5th	`10,00,000	1/5	60,000 = `12000

Trading & Profit & Loss A/c

To Opening Stock	20,000	By Sales A/c	8,00,000
To Purchase	6,80,000	By Closing Stock	1,00,000
To Gross Profit c/d	2,00,000		
	9,00,000		9,00,000
To Other Expenses	40,000	By Gross Profit b/d	2,00,000
To Net Profit	1,60,000		
	2,00,000		2,00,000

A	B	C	D= B +C
	Principal Amount	Interest from average due date to Actual date of Payment	Total Amount to be paid
(i) Payment on average due date (10.8.2018)	`1,75,800	`1,75,800 $\times \frac{12}{100} \times \frac{0}{365} = 0$	`1,75,800
(ii) Payment on 28th Aug, 2018	`1,75,800	`1,75,800 $\times \frac{15}{100} \times \frac{18}{365} = 1300.44$ Interest to be charged for period of 18 days from 10.8.2018 to 28.8.2018	`1,77,100.44
(iii) Payment on 29th July, 2018	`1,75,800	`1,75,800 $\times \frac{15}{100} \times \frac{(12)}{365} = (866.96)$ Rebate has been allowed for unexpired credit period of 12 days from 29.7.2018 to 10.8.2018	`1,74,933.04