

Model Test Paper 10

Answers

Question 1

- (i) Profit and Loss Account is prepared with the following objectives:
- (a) *Determine Net Profit or Net Loss:* The main purpose of preparing Profit and Loss Account is to determine net profit earned or net loss incurred by the business during the accounting period.
 - (b) *Helps in Preparing Balance Sheet:* A Balance Sheet can be prepared only after ascertaining Net Profit or Net Loss by preparing Profit and Loss Account.

(ii) **Difference between Capital Expenditure and Revenue Expenditure**

Basis	Capital Expenditure	Revenue Expenditure
1. Purpose	It is incurred for acquisition of fixed assets for use in business.	It is incurred for running of business.
2. Capacity	It increases earning capacity of the business.	It is incurred for earning profits.

(iii) 'Grouping' means putting together items of a similar nature under a common heading. For example, amount owed by various customers shown under the heading 'Sundry Debtors'.

'Marshalling' refers to the particular order (permanence or liquidity) in which the various assets and liabilities are shown in the Balance Sheet.

- (iv) The causes of depreciation are:
- (a) *Use of Asset:* Constant use of asset leads to its wear and tear and thus fall in value.
 - (b) *Efflux of time:* Some assets have a definite life period like lease. On the expiry of the life period, the asset will cease to exist.
- (v) (a) Journal is the book of original entry whereas Ledger is the book of final entry.
 (b) Recording in Journal is the first stage whereas recording in Ledger is the second stage.

(vi) **Difference between Reserve and Provision**

Basis	Reserve	Provision
1. Appropriation or charge	It is an appropriation of profit.	It is a charge against profit.
2. Purpose	It is created to strengthen the financial position and/or to meet unforeseen liabilities or losses.	It is made to meet a liability amount of which is not determined.

- (vii) Balance of Suspense Account = (₹ 32,700 – ₹ 20,000) + (₹ 2,440 – ₹ 2,240) = ₹ 12,900.
- (viii) *Journal Proper* is a book in which those transactions are recorded, which cannot be recorded in any of the subsidiary books maintained by the firm.
Examples of entries which appear in Journal Proper:
- (a) *Opening Entry* to bring forward the opening balances of capital, assets and liabilities.
 - (b) Credit purchase of fixed assets, like furniture, machinery, etc.

- (ix) *Going Concern Concept (Principle)* assumes that a business enterprise will not be liquidated in the near future. According to the concept, it is assumed that the business will continue for a foreseeable period in future and there is no intention to close down the business or scale down its operations significantly.
- (x) The limitations of Accounting:
- (a) *Accounting is not Fully Exact*: Accounting is not fully exact in spite of the fact that most transactions are recorded on the basis of evidences yet some estimates are also made for ascertaining profit or loss.
- (b) *Accounting Ignores the Qualitative Elements*: Accounting is confined to monetary matters only, therefore, qualitative elements like quality of management and staff, etc., are ignored.

Question 2

In the Books of Rama Timber

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2019 Jan. 1	Cash A/c ...Dr. To Capital A/c (Being the business started with cash)		50,000	50,000
Jan. 2	Bank A/c ...Dr. To Capital A/c (Being the amount transferred from Savings Account to open Current Account)		3,50,000	3,50,000
Jan. 10	Machinery A/c ...Dr. Input CGST A/c ...Dr. Input SGST A/c ...Dr. To Bank A/c (Being the machinery purchased and payment made by cheque)		1,00,000 6,000 6,000	1,12,000
Jan. 15	Machinery A/c ...Dr. To Cash A/c (Being the wages paid for installation of machine)		2,000	2,000
Jan. 20	Purchases A/c ...Dr. Input CGST A/c ...Dr. Input SGST A/c ...Dr. To Singh & Co. (Being the intra-state purchases made, CGST and SGST payable @ 6% each)		18,000 1,080 1,080	20,160
Jan. 25	Furniture and Fixtures A/c ...Dr. To Purchases A/c (Being the timber used for furnishing the office)		5,000	5,000
Jan. 31	Rakesh ...Dr. To Sales A/c To Output CGST A/c To Output SGST A/c (Being the goods sold to Rakesh, charged CGST and SGST @ 6% each)		10,080	9,000 540 540

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Feb. 10	Singh & Co. ...Dr. To Bank A/c To Discount Received A/c (Being the cheque issued to Singh & Co. in full settlement)	20,160	20,000 160
Feb. 15	Bank A/c ...Dr. Discount Allowed A/c ...Dr. To Rakesh (Being a cheque received from Rakesh in full settlement and sent to the bank)	10,000 80	10,080
Feb. 18	Bank A/c ...Dr. To Mohan (Being the cheque received from Mohan)	4,000	4,000
Feb. 19	Anil (Note) ...Dr. To Sales A/c To Output IGST A/c (Being the goods sold on credit)	4,480	4,000 480
Feb. 22	Drawings A/c ...Dr. To Cash/Bank A/c (Being the income tax paid)	15,000	15,000

Note:	₹
Cost	4,000
Add: Profit @ 25% on cost*	1,000
List Price	5,000
Less: Trade Discount @ 20%	1,000
Sale Value	4,000
Add: IGST 12%	480
	<u>4,480</u>

*Let the selling price = ₹ 100; Profit = 20% of ₹ 100 = ₹ 20
 Cost = Selling Price – Profit = ₹ 100 – ₹ 20 = ₹ 80
 Profit on Cost = ₹ 20/₹ 80 = 1/4 or 25% of cost.

Question 3
Ramesh
A.
BANK RECONCILIATION STATEMENT as on 31st March, 2019

Particulars	Amount Details (₹)	Amount ₹
Balance as per Pass Book (Dr.)		80,000
Add: Cheques issued but not yet presented for payment		28,000
		<u>1,08,000</u>
Less: Interest on Bank Overdraft charged by the bank but not recorded in Cash Book	2,000	
Cheque deposited but not yet collected by bank	30,000	
Insurance premium paid by bank but not entered in Cash Book	10,000	
Fee of Chamber of Commerce paid by the bank but not recorded in Cash Book	3,000	
Collection charges charged by bank but not entered in Cash Book	1,000	
Discounted bill dishonored but not recorded in Cash Book	5,000	51,000
Balance as per Cash Book (Cr.)		<u><u>57,000</u></u>

Note: Adjustment will not be made for wrong debit and later reversal of cheque of ₹ 10,000 of Somesh.

B. SALES RETURN BOOK

Date	Particulars	Credit Note No.	L.F.	Details ₹	Sale Value ₹	Output CGST Dr. (₹)	Output SGST Dr. (₹)	Output IGST Dr. (₹)	Total ₹
2019 Feb. 10	Bhema Stores, Delhi 2 Televisions, Sony @ ₹ 20,000 each Add: CGST @ 9% SGST @ 9%			40,000 3,600 3,600 47,200	40,000	3,600	3,600	...	47,200
Feb. 20	Reena & Co., Dehradun 3 Washing machines, Videocon @ ₹ 10,000 each Add: IGST @ 18%			30,000 5,400 35,400	30,000	5,400	35,400
Feb. 28					70,000	3,600	3,600	5,400	82,600

Question 4

A. RECTIFYING JOURNAL ENTRIES

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Suspense A/c ...Dr. To Profit and Loss Adjustment A/c (Being Sales Book undercast, now rectified)		100	100
(ii)	Profit and Loss Adjustment A/c ...Dr. To Suspense A/c (Being the wrong carrying forward of Purchases Book, now rectified)		200	200
(iii)	Suspense A/c ...Dr. To X (Being the wrong posting to X, now rectified)		3,600	3,600
(iv)	Profit and Loss Adjustment A/c ...Dr. To Karan (Being the sales recorded in excess in Sales Book, now rectified)		3,600	3,600
(v)	Furniture A/c ...Dr. To Profit and Loss Adjustment A/c (Being the wrong recording of purchase of furniture, now rectified)		10,000	10,000
(vi)	Pawan ...Dr. To Furniture A/c (Being the omission in recording of sale of furniture, now recorded)		1,000	1,000
(vii)	Narayan ...Dr. To Suspense A/c (Being the credit purchases of ₹ 5,000 wrongly credited to Narayan as ₹ 5,500, now rectified)		500	500
(viii)	Acceptor's A/c ...Dr. To Bills Receivable A/c (Being the bill dishonoured wrongly debited to Bills Receivable Account instead of acceptor, now rectified)		20,000	20,000
(ix)	Profit and Loss Adjustment A/c ...Dr. To Capital A/c (Being the profit due to errors of previous year credited to Capital Account)		6,300	6,300

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B.

SUSPENSE ACCOUNT			
Dr.			Cr.
Particulars	₹	Particulars	₹
To Profit and Loss Adjustment A/c	100	By Balance b/d	3,000
To X	3,600	By Profit and Loss Adjustment A/c	200
		By Narayan	500
	3,700		3,700
	3,700		3,700

C.

PROFIT AND LOSS ADJUSTMENT ACCOUNT			
Dr.			Cr.
Particulars	₹	Particulars	₹
To Suspense A/c	200	By Suspense A/c	100
To Karan	3,600	By Furniture A/c	10,000
To Capital A/c (Balancing Figure)	6,300*		
	10,100		10,100
	10,100		10,100

*The last year's profit must have been less by ₹ 6,300.

Question 5

TRADING AND PROFIT AND LOSS ACCOUNT			
for the year ended 31st March, 2019			
Dr.			Cr.
Particulars	₹	Particulars	₹
To Opening Stock	8,000	By Sales	2,20,000
To Purchases	1,26,000	By Closing Stock	20,600
To Productive Wages	56,500		
To Stores Consumed	6,050		
To Carriage	3,050		
To Gross Profit c/d	41,000		
	2,40,600		2,40,600
To Rent	5,200	By Gross Profit b/d	41,000
Less: Prepaid Rent	400		
[₹ 5,200 – (₹ 400 × 12)]	4,800		
To Insurance	1,320		
Less: Prepaid	120		
To General Expenses	2,600		
To Salaries	16,000		
To Bad Debts	1,020		
Add: Further Bad Debts	220		
Provision for			
Doubtful Debts (New)	2,189		
	3,429		
Less: Provision for			
Doubtful Debts (Old)	2,000		
To Provision for Discount on Debtors	832		
[2% (₹ 44,000 – ₹ 220 – ₹ 2,189)]			
To Depreciation on Machinery	5,200		
To Manager's Commission (₹ 8,939 × 5/105)	426		
To Net Profit transferred to Capital A/c	8,513		
	41,000		41,000
	41,000		41,000

BALANCE SHEET as at 31st March, 2019

Liabilities	₹	Assets	₹
Capital	1,45,000	Furniture	3,350
Add: Net Profit	8,513	Machinery	52,000
Sundry Creditors	20,600	Less: Depreciation	5,200
Secured Loan	16,000	Building	67,000
Manager's Commission Outstanding	426	Sundry Debtors	44,000
		Less: Further Bad Debts	220
			43,780
		Less: Provision for Doubtful Debts (5% of ₹ 43,780)	2,189
			41,591
		Less: Provision for Discount on Debtors	832
		Bank	8,580
		Cash in Hand	1,930
		Input CGST	3,000
		Less: Output CGST	2,500
		Input SGST	3,000
		Less: Output SGST	2,500
		Prepaid Insurance	120
		Prepaid Rent	400
		Closing Stock	20,600
	1,90,539		1,90,539

Question 6

A.

MACHINERY ACCOUNT					
Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
2016			2017		
April 1	To Bank A/c	18,00,000	Mar. 31	By Balance c/d	18,00,000
2017			2018		
April 1	To Balance b/d	18,00,000	Mar. 31	By Balance c/d	18,00,000
2018			2018		
April 1	To Balance b/d	18,00,000	Oct. 1	By Bank A/c (Sale Proceeds)	67,500
Oct. 1	To Bank A/c (Purchase)	2,37,000	Oct. 1	By Provision for Depreciation A/c	27,660
			Oct. 1	By Loss on Sale of Machinery A/c (WN 1)	24,840
			2019		
			Mar. 31	By Balance c/d	19,17,000
		20,37,000			20,37,000

PROVISION FOR DEPRECIATION ACCOUNT					
Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
2017			2017		
Mar. 31	To Balance c/d	1,80,000	Mar. 31	By Depreciation A/c	1,80,000
2018			2017		
Mar. 31	To Balance c/d	3,42,000	April 1	By Balance b/d	1,80,000
			2018		
			Mar. 31	By Depreciation A/c	1,62,000
		3,42,000			3,42,000

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2018				2018			
Oct. 1	To	Machinery A/c (WN 1)	27,660	April 1	By	Balance b/d	3,42,000
		(₹ 12,000 + ₹ 10,800 + ₹ 4,860)		Oct. 1	By	Depreciation A/c (WN 1)	4,860
2019				2019			
Mar. 31	To	Balance c/d	4,67,130	Mar. 31	By	Depreciation A/c (WN 2)	1,47,930
			4,94,790				4,94,790

Working Notes:

- Calculation of Loss on Sale of Machinery:**

	₹
Original Cost (1st April, 2016)	1,20,000
Less: Depreciation (2016 – 17) @ 10%	12,000
Book Value (1st April, 2017)	1,08,000
Less: Depreciation (2017–18) @ 10%	10,800
Book Value (1st April, 2018)	97,200
Less: Depreciation up to date of sale (₹ 97,200 × 10/100 × 6/12)	4,860
Book Value of Machinery as on 1st October, 2018	92,340
Less: Sale Proceeds	67,500
Loss on Sale of Machinery	24,840
- Depreciation on Remaining Machinery for 2018–19:**
 - Book value of old machinery on 1st April, 2018:**
 = ₹ 18,00,000 – ₹ 3,42,000 (Debit) = ₹ 14,58,000.
 - Book value of machinery sold on 1st April, 2018:**
 = ₹ 1,20,000 – ₹ 12,000 – ₹ 10,800 = ₹ 97,200.
 - Book value of remaining machinery on 1st April, 2018:**
 = ₹ 14,58,000 – ₹ 97,200 = ₹ 13,60,800.
 - Depreciation on old machinery** = ₹ 13,60,800 × 10/100 = ₹ 1,36,080
Add: Depreciation on new machine = ₹ 2,37,000 × 10/100 × 6/12 = ₹ 11,850
Total Depreciation = ₹ 1,47,930.
- GST Paid or Collected on purchase or sale of machinery does not effect cost of machinery debited/credited to Machinery Account.**

B.

S.No.	Transactions	Assets		=	Liabilities	+	Capital	
		Cash	+	Stock	=	Creditors	+	Capital
		₹		₹	₹		₹	
1.	Started business with cash	3,00,000	+	0	=	0	+	3,00,000
2.	Purchased goods from Monu on credit	0	+	50,000	=	50,000	+	0
	New Equation	3,00,000	+	50,000	=	50,000	+	3,00,000
3.	Sold goods for cash	28,000	+	(10,000)	=	0	+	18,000
	New Equation	3,28,000	+	40,000	=	50,000	+	3,18,000
4.	Paid to Monu in full settlement	(45,000)	+	0	=	(50,000)	+	5,000
	New Equation	2,83,000	+	40,000	=	0	+	3,23,000

Question 7

A. JOURNAL OF KAMLESH

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Bills Payable A/c ...Dr. To Sajan (Being the cancellation of acceptance to Sajan for the purpose of renewal)		20,000	20,000
	Interest A/c ...Dr. To Sajan (Being the interest due to Sajan @ 18% p.a. for 3 months on ₹ 20,000)		900	900
	Sajan ...Dr. To Bills Payable A/c (Being the new bill accepted in favour of Sajan)		20,900	20,900
(ii)	Chayan ...Dr. To Bills Receivable A/c (Being the cancellation of Chayan's acceptance for purpose of renewal)		15,000	15,000
	Chayan ...Dr. To Interest A/c (Being the interest due from Chayan @ 10% p.a. for 2 months, the period of the new bill)		250	250
	Bills Receivable A/c ...Dr. Cash A/c ...Dr. To Chayan (Being the cash ₹ 250 and new bill for ₹ 15,000 received from Chayan)		15,000 250	15,250

B. (i) THREE-COLUMN CASH BOOK

Dr.						Cr.					
Date	Particulars	L.F.	Discount Allowed ₹	Cash ₹	Bank ₹	Date	Particulars	L.F.	Discount Received ₹	Cash ₹	Bank ₹
2019						2019					
Mar. 1	To Balance b/d			30,000	...	Mar. 1	By Balance b/d			...	5,000
Mar. 5	To Cash A/c	C		...	10,000	Mar. 3	By Purchases A/c			12,000	...
Mar. 6	To Sales A/c			20,000	...	Mar. 5	By Bank A/c	C		10,000	...
Mar. 10	To Bank A/c	C		4,000	...	Mar. 10	By Cash	C		...	4,000
Mar. 12	To Hema		200	6,000	...	Mar. 20	By Ritu (Note 1)			...	4,020
Mar. 15	To Ritu		150	...	4,000	Mar. 23	By Bank A/c	C		10,000	...
Mar. 18	To Amit			10,000	...	Mar. 24	By Chaman		250	...	5,000
Mar. 23	To Cash A/c	C		...	10,000	Mar. 27	By Drawings A/c			...	3,000
						Mar. 31	By Balance c/d			38,000	2,980
			350	70,000	24,000				250	70,000	24,000

B. (ii) DISCOUNT ALLOWED ACCOUNT

Dr.				Cr.			
Date	Particulars	₹	Date	Particulars	₹		
2019			2019				
Mar. 31	To Sundries as per Cash Book	350	Mar. 20	By Ritu (Note 2)	150		

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	₹
2. Salaries paid during the year	24,000
Less: Salaries Outstanding (1st April, 2018)	2,000
	22,000
Add: Salaries Outstanding (31st March, 2019)	2,500
	24,500
3. Rent paid during the year	7,200
Less: Rent Outstanding (1st April, 2018)	600
	6,600
Add: Rent Outstanding (31st March, 2019)	800
	7,400

Question 9**A.** STATEMENT OF PROFIT AND LOSS for the year ended 31st March, 2019

Particulars	₹
Capital as on 31st March, 2019 (WN 2)	1,29,860
Add: Drawings during the year	16,600
	1,46,460
Less: Capital introduced during the year	20,000
Adjusted Capital at the end	1,26,460
Less: Opening Capital (WN 1)	75,760
Profit before Adjustments	50,700
Less: Bad Debts	1,800
Outstanding Interest on Ashu's Loan	60
	1,860
Net Profit for the Year	48,840

STATEMENT OF AFFAIRS (AFTER ADJUSTMENTS)
as at 31st March, 2019

Liabilities	₹	Assets	₹
Creditors	18,340	Plant and Machinery (₹ 60,000 + ₹ 26,000)	86,000
Loan from Ashu	1,000	Stock	9,000
Interest on Ashu's Loan (WN 3)	60	Cash and Bank Balance	8,200
Capital (WN 4)	1,28,000	Debtors	46,000
		Less: Bad Debts	1,800
	1,47,400		44,200
			1,47,400

Working Notes:1. STATEMENT OF AFFAIRS
as at 1st April, 2018

Liabilities	₹	Assets	₹
Loan from Ashu (4% p.a.)	2,000	Plant and Machinery	60,000
Bank Overdraft	2,200	Stock	10,000
Creditors	24,240	Cash in Hand	200
Capital (Balancing Figure)	75,760	Debtors	34,000
	1,04,200		1,04,200
			1,04,200

2. STATEMENT OF AFFAIRS (BEFORE ADJUSTMENTS) as at 31st March, 2019

Liabilities	₹	Assets	₹
Creditors	18,340	Plant and Machinery (₹ 60,000 + ₹ 26,000)	86,000
Loan from Ashu	1,000	Stock	9,000
Capital (Balancing Figure)	1,29,860	Debtors	46,000
		Cash and Bank Balance	8,200
	1,49,200		1,49,200

3. Interest on Loan from Ashu:	₹
On ₹ 2,000 for 6 months @ 4% p.a.	40
On ₹ 1,000 for 6 months @ 4% p.a.	20
	<u>60</u>

4. Capital at the end = Opening Capital + Capital Introduced during the year + Net Profit – Drawings
= ₹ 75,760 + ₹ 20,000 + ₹ 48,840 – ₹ 16,600 = ₹ 1,28,000.

- B.** Computerised Accounting System refers to a system wherein the accounts of the enterprise are maintained on a computer. An accounting system has two aspects: first, it has to work under a set of well-defined accounting concepts and principles and, second, it has to maintain records and generate reports as defined by the user.

Process of Recording Transactions

The process of recording transaction in the books of original entry, posting them in the Ledger Accounts, performing mathematical functions, *i.e.*, adding, subtraction and totalling, are carried out manually under the manual process. In the computerised process, transactions are recorded in the books of account and the remaining functions are performed without any further process or command being carried out manually.

Advantages of Computerised Accounting System

- (i) *Large Volume of Transactions:* In the present-day business environment, the transactions of a business are normally large in volume. The Computerised Accounting System can store and process such voluminous transactions with speed and accuracy.
- (ii) *Security:* The accounting data under the computerised environment is safer than the accounting data under the manual system. The data can be kept secured by using a password, *i.e.*, allowing only authorised users to access the data.