

Model Test Paper 11

Answers

Question 1

- (i) Depreciation is not the result of fluctuation in the value of fixed asset. It is the cost of the asset being used in business providing it following either WDV Method or Straight Line Method.
- (ii) Discounting of bill of exchange means taking amount against the bill before its due date. The bank charges interest for the remaining period of the bill.
- (iii) An error of omission is an error when a transaction is completely or partially omitted from being recorded in the books of account, e.g., furniture sold on credit to Mohan recorded in Journal proper but omitted to be posted in the Ledger Accounts.
- (iv) The advantages of allowing trade discount are:
(a) It improves sales by encouraging the purchaser to buy large quantities.
(b) It enables the retailer to sell at the list price and at better profit.
- (v) (a) Credit — Asset Account.
(b) Debit — Liability Account.
- (vi) The advantages of Accrual Basis of Accounting are:
(a) It is more scientific and comprehensive as compared to Cash Basis of Accounting.
(b) It shows correct profit or loss for the accounting period.
- (vii) IFRS are the accounting standards issued by the IASB, recommended to be used by the enterprises globally to produce financial statements following a single set of accounting standards. IFRS are principles based accounting standards in comparison to rule based Indian Accounting Standards. Also they are based on fair value concept.
- (viii) In the books of account, shares shall be taken at ₹ 2,20,000 as according to Prudence Concept or Principle of accounting, inventory (stock) should be taken at Cost or Net Realisable Value, whichever is less.
- (ix) Liability towards the owners of the business is termed as *Internal Liability*.
Liability towards the outsiders, i.e., other than the owners is termed as *External Liability*.
- (x) Yes. Credit purchases are recorded in the Purchases Book on the basis of invoices, the source document. The entries are made with the net amount of the invoice after deducting trade discount.

Question 2

A. Total Cost of Machinery = Purchase Price + Expenses to be capitalised
= ₹ 1,20,000 + ₹ 30,000 = ₹ 1,50,000

Amount of Depreciation per year = $\frac{\text{Total cost of Machinery} - \text{Estimated residual value}}{\text{Estimated useful life}}$
= $\frac{₹ 1,50,000 - ₹ 1,02,000}{4}$ = ₹ 12,000 per year.

Amount of Depreciation for the first year of purchase, i.e., for 3 months
= ₹ 12,000 × 3/12 = ₹ 3,000.

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B.

MACHINERY ACCOUNT					
Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
1st Year	To Bank A/c	10,00,000	1st Year	By Depreciation A/c	1,00,000
				By Balance c/d	9,00,000
		10,00,000			10,00,000
2nd Year	To Balance b/d	9,00,000	2nd Year	By Depreciation A/c	90,000
				By Balance c/d	8,10,000
		9,00,000			9,00,000
3rd Year	To Balance b/d	8,10,000	3rd Year	By Depreciation A/c	81,000
				By Balance c/d	7,29,000
		8,10,000			8,10,000
4th Year	To Balance b/d	7,29,000	4th Year	By Depreciation A/c	72,900
				By Balance c/d	6,56,100
		7,29,000			7,29,000
5th Year	To Balance b/d	6,56,100	5th Year	By Bank A/c (Sale Proceeds)	20,000
				By Loss on Sale of Boiler (WN 1)	45,610
				By Depreciation A/c (WN 2)	59,049
				By Balance c/d	5,31,441
		6,56,100			6,56,100

Working Notes:
1. Calculation of Profit/Loss on sale of Boiler:

Particulars	₹
Cost of Boiler	1,00,000
Less: Depreciation for four years (₹ 10,000 + ₹ 9,000 + ₹ 8,100 + ₹ 7,290)	34,390
Book value in the beginning of year (10% of Book Value of Machinery)	65,610
Less: Sale Proceeds	20,000
Loss on sale of Boiler	45,610

2. Calculation of Depreciation for 5th year:

	₹
A. Balance of remaining machinery in the beginning of 5th year (₹ 6,56,100 – ₹ 65,610)	5,90,490
B. Depreciation for 5th year (₹ 5,90,490 × 10/100)	59,049

3. GST Paid or Collected does not effect the cost of machine.
Question 3
(i)

CASH BOOK (TRIPLE-COLUMN)											
Dr.						Cr.					
Date	Particulars	L.F.	Discount Allowed	Cash	Bank	Date	Particulars	L.F.	Discount Received	Cash	Bank
			₹	₹	₹				₹	₹	₹
2019						2019					
April 1	To Balance b/d			53,800	1,55,000	April 5	By Bank A/c	(C)		70,000	...
April 3	To Sales A/c*			64,000	...	April 8	By Bank A/c	(C)		7,000	...
April 3	To Output CGST A/c			5,760	...	April 10	By Anurag		200	...	9,800
April 3	To Output SGST A/c			5,760	...	April 12	By Purchases A/c**			25,000	...
April 5	To Cash A/c	(C)		...	70,000	April 12	By Input IGST A/c			4,500	...

April 6	To Sunil		7,000	...	April 14	By Cash A/c	(C)	...	50,000	
April 8	To Cash A/c	(C)	...	7,000	April 19	By Bank A/c	(C)	9,500	...	
April 14	To Bank A/c	(C)	50,000	...	April 19	By Bank A/c	(C)	40,000	...	
April 15	To Onkar		500	9,500	...	April 21	By Stationery A/c		1,000	
April 18	To Bills Receivable		...	9,800	April 21	By Input CGST A/c		90	...	
April 19	To Cash A/c	(C)	...	9,500	April 21	By Input SGST A/c		90	...	
April 19	To Cash A/c	(C)	...	40,000	April 23	By Commission A/c		...	5,000	
April 25	To Chandra		...	10,000	April 23	By Input CGST A/c		...	450	
					April 23	By Input SGST A/c		...	450	
					April 27	By Onkar (Note 2)		...	9,520	
					April 29	By Drawings A/c		...	8,000	
					April 30	By Salaries A/c		5,000	15,000	
					April 30	By Bank Charges A/c		...	200	
					April 30	By Insurance Premium A/c		...	5,200	
					April 30	By Balance c/d		33,640	1,97,680	
			500	1,95,820	3,01,300			200	1,95,820	3,01,300

*Sale value before GST = ₹ 75,520 × 100/118 = ₹ 64,000; CGST = ₹ 64,000 × 9/100 = ₹ 5,760; SGST = ₹ 64,000 × 9/100 = ₹ 5,760.

**Purchase cost before GST = ₹ 29,500 × 100/118 = ₹ 25,000; IGST = 18% of ₹ 25,000 = ₹ 4,500.

(ii) (a)

Dr.		DISCOUNT ALLOWED ACCOUNT			Cr.	
Date	Particulars	₹	Date	Particulars	₹	
2019			2019			
April 30	To Sundries as per Cash Book	500	April 27	By Onkar (Note 2)	500	

(b)

Dr.		DISCOUNT RECEIVED ACCOUNT			Cr.	
Date	Particulars	₹	Date	Particulars	₹	
			2019			
			April 30	By Sundries as per Cash Book	200	

Notes:

1. Discounting charges will be recorded in the Journal proper as under:

Discounting Charges A/c ...Dr. ₹ 200
 To Bills Receivable A/c ₹ 200

2. ₹ 9,520 includes bank charges of ₹ 20 which are to be charged from Onkar.

3. Discount allowed to Onkar will be reversed by passing the following entry:

Onkar ...Dr. ₹ 500
 To Discount Allowed A/c ₹ 500

(Being the discount allowed reversed on cheque being dishonoured)

Question 4

JOURNAL OF DHAR

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Bills Payable A/c ...Dr.		20,000	
	To Basu (Being the bill cancelled)			20,000
	Basu ...Dr.		10,000	
	To Bank A/c (Being the part payment to Basu)			10,000
	Basu ...Dr.		10,000	
	Interest A/c ...Dr.		100	
	To Bills Payable A/c (Being the new bill accepted with interest for the balance due to Basu)			10,100

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(ii)	Atul ...Dr.	40,200	
	To Bose		40,200
	(Being the bill received from Atul and endorsed to Bose dishonoured and noting charges paid by Bose)		
(iii)	Bank A/c ...Dr.	19,900	
	Rebate A/c ...Dr.	100	
	To Bills Receivable A/c		20,000
	(Being the bill retired under discount by Dalal)		
(iv)	Bills Payable A/c ...Dr.	50,000	
	To Bills Receivable		50,000
	(Being the acceptance to Mittra discharged by Ghosh's acceptance for a similar amount)		
(v)	Bills Payable A/c ...Dr.	40,000	
	To Sen		40,000
	(Being the bill cancelled)		
	Sen ...Dr.	20,000	
	Interest A/c ...Dr.	200	
	To Bank A/c		20,200
	(Being the part payment to Sen with interest)		
	Sen ...Dr.	20,000	
	To Bills Payable A/c		20,000
	(Being the bill accepted for the balance due to Sen)		

Question 5

INCOME AND EXPENDITURE ACCOUNT for the year ended 31st March, 2019			
Dr.			Cr.
Expenditure	₹	Income	₹
To Salary	6,00,000	By Subscription (WN 2)	9,20,000
To Honorarium	40,000	By Sale of Newspapers	5,000
To Charities	60,000	By Advertisements	20,000
To Printing and Stationery	1,20,000	By Deficit, i.e., Excess of	
To Postage	12,000	Expenditure over Income	2,62,000
To Newspapers	8,000		
To Telephone Expenses	10,000		
To Rent	90,000		
To Sports Materials	2,50,000		
To Depreciation on Furniture (WN 1)	12,000		
To Loss on Sale of Furniture (WN 1)	5,000		
	12,07,000		12,07,000

BALANCE SHEET as at 31st March, 2019

BALANCE SHEET as at 31st March, 2019			
Liabilities	₹	Assets	₹
Subscription Received in Advance	70,000	Cash at Bank	10,000
Capital Fund (WN 3)	2,70,000	Subscription Due (Receivable):	
Less: Deficit	2,62,000	2017-18	10,000
Legacy	1,00,000	2018-19	50,000
		Furniture	1,08,000
	1,78,000		1,78,000

Working Notes:

1. Calculation of Depreciation on Furniture and Loss on Sale of Furniture:

Gross Value of furniture before depreciation:

Let Gross Value of Furniture = ₹ 100; Depreciation = ₹ 10; Book value after Depreciation = ₹ 100 – ₹ 10 = ₹ 90

Book Value before depreciation = ₹ 1,08,000 × ₹ 100/₹ 90 = ₹ 1,20,000

Depreciation = ₹ 1,20,000 × 10/100 = ₹ 12,000

Book Value of Furniture sold:

	₹
Furniture on 1st April, 2018	2,00,000
Less: Furniture on 31st March, 2019 (Gross Value)	<u>1,20,000</u>
Book Value of Furniture sold	80,000
Less: Sale Proceeds	<u>75,000</u>
Loss on sale of Furniture	<u><u>5,000</u></u>

2. Calculation of Subscription Income for 2018–19:

	₹	₹
Subscription received during the year		9,40,000
Add: Subscription due for 2018–19*	50,000	
Subscription received in advance as on 31st March, 2018	<u>40,000</u>	<u>90,000</u>
		10,30,000
Less: Subscription due for 2017–18	40,000	
Subscription received in advance as on 31st March, 2019	<u>70,000</u>	<u>1,10,000</u>
Subscription Income to be credited to Income and Expenditure Account		<u><u>9,20,000</u></u>

*Subscription due on 31st March, 2019: ₹ 60,000 are inclusive of ₹ 10,000 (i.e., ₹ 50,000 – ₹ 40,000 = ₹ 10,000) still in arrears for 2017–18.

Alternative way to calculate Subscription Income:

SUBSCRIPTION ACCOUNT					
Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
2018			2018		
April 1	To Subscription Due A/c	50,000	April 1	By Subscription Received in Advance	40,000
2019			2019		
Mar. 31	To Income and Expenditure A/c	9,20,000	Mar. 31	By Bank A/c	9,40,000
Mar. 31	To Subscription Received in Advance	70,000	Mar. 31	By Subscription Due:	
				2017–18	10,000
				2018–19	<u>50,000</u>
		<u>10,40,000</u>			<u>60,000</u>
					<u><u>10,40,000</u></u>

3. Calculation of Capital Fund on 1st April, 2018:

BALANCE SHEET as at 1st April, 2018

Liabilities	₹	Assets	₹
Subscription Received in Advance	40,000	Cash in Hand	20,000
Capital Fund (Balancing Figure)	2,70,000	Cash at Bank	40,000
		Subscription Due	50,000
		Furniture	2,00,000
	<u>3,10,000</u>		<u>3,10,000</u>

Question 6

A.

PURCHASES BOOK

Date	Particulars	Invoice No.	L.F.	Details	Cost	Input CGST	Input SGST	Input IGST	Total
				₹	₹	₹	₹	₹	₹
2019 Jan. 3	M/s Aditya Mills, Kolkata 100 pieces long cloth @ ₹ 800 each 50 pieces shirting @ ₹ 500 each Add: CGST @ 6% each SGST @ 6% each			80,000 25,000 1,05,000 6,300 6,300 1,17,600	1,05,000	6,300	6,300	...	1,17,600
Jan. 15	M/s Devika Mills, Ahmedabad 20 pieces coating @ ₹ 2,000 each 10 pieces shirting @ ₹ 500 each Add: IGST @ 12%			40,000 5,000 45,000 5,400 50,400	45,000	5,400	50,400
Jan. 31					1,50,000	6,300	6,300	5,400	1,68,000

B.

BANK RECONCILIATION STATEMENT

as on 30th April, 2019

Particulars	Plus Items (₹)	Minus Items (₹)
Overdraft as per Cash Book (Cr.)		45,000
Payment side of the Cash Book is undercast		1,500
Cheque drawn on Savings Account but wrongly shown as drawn on Current Account	7,500	
Cheques issued but not yet presented for payment	70,000	
Cheques paid into bank but not yet credited		60,000
Dividends directly received by the bank but not entered in Cash Book	35,000	
Balance as per Bank Statement (Cr.) (₹ 1,12,500 – ₹ 1,06,500)		6,000
	1,12,500	1,12,500

Notes:

1. Bank charges were reversed on 10th April, 2019. Hence, Bank Reconciliation Statement will not be affected.
2. Cheque of ₹ 10,000 issued to Ramesh & Co. is post-dated and not recorded. Hence, its dishonour will not affect Bank Reconciliation Statement as on 30th April, 2019.

Question 7

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Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Cash A/c ...Dr. To Bank A/c (Being the cheque received but entered in the bank column, now rectified)		2,500	2,500
(ii)	Discount Allowed A/c ...Dr. To Cash A/c (Being the discount allowed to customer posted to cash column instead of discount column, now rectified)		20	20
(iii)	Cash A/c ...Dr. To Bank A/c (Being the insurance premium paid by bank posted to cash column by mistake, now rectified)		5,000	5,000
(iv)	Ram ...Dr. To Desai (Being the wrong posting of cheque received, now rectified)		2,500	2,500
(v)	Returns Inward A/c ...Dr. To Aman (Being the returns inward not recorded by mistake, now recorded)		4,400	4,400
(vi)	Salaries A/c ...Dr. To Purchase A/c (Being the goods purchased for staff members wrongly recorded as purchases, now rectified)		8,000	8,000
(vii)	Repairs A/c ...Dr. To Plant and Machinery A/c (Being the repairs wrongly capitalised instead of being treated as revenue expenditure, now rectified)		1,800	1,800
(viii)	Plant and Machinery A/c ...Dr. To Wages A/c (Being the wages paid for additions to Machinery wrongly treated as revenue expenditure, now rectified)		3,000	3,000
(ix)	Hari ...Dr. To Bills Receivable A/c (Being the dishonour of discounted bill receivable wrongly debited to Bills Receivable, now rectified)		6,000	6,000
(x)	Sales A/c ...Dr. To Z (Being the excess recording of sales in the Sales Book, now rectified)		540	540
(xi)	Salary A/c ...Dr. To Krishna (Being the salary paid posted to personal account by mistake, now rectified)		20,000	20,000
(xii)	Stationery A/c ...Dr. To Purchases A/c (Being the purchase of stationery wrongly passed through the Purchases Book, now rectified)		2,500	2,500

Question 8

TRADING AND PROFIT AND LOSS ACCOUNT

Dr.		for the year ended 31st March, 2019		Cr.	
Particulars	₹	Particulars	₹		₹
To Opening Stock		By Sales	66,420		
To Purchases	30,000	Add: Credit Sales	2,000		68,420
Less: Free to Staff Members	1,000	By Closing Stock	6,000		
	29,000	Less: Cost of Goods Sold			
Less: Drawings of Goods	500	but not delivered	1,000		5,000
To Wages	4,600				
To Gross Profit c/d	35,820				
	73,420				73,420
To Salaries	10,223	By Gross Profit b/d			35,820
To Interest on Loan	400	By Old Provision for Doubtful Debts	2,500		
Add: Outstanding Interest on Loan	100	Less: Bad Debts	1,200		
To Insurance Premium	900		1,300		
To Rent	1,520	Less: New Provision for			
To Carriage Outwards	600	Doubtful Debts	1,112		188
To Depreciation on Furniture	2,500	By Discount Received			400
To Advertisement	7,500	By Bad Debts Recovered			200
To Staff Welfare Expenses (WN 1)	1,120	By Interest on Investments			2,000
To Net Profit transferred to Capital A/c	20,745	By Commission			7,000
	45,608				45,608

BALANCE SHEET as at 31st March, 2019

Liabilities		₹	Assets		₹
Capital	50,000		Furniture		12,000
Add: Net Profit	20,745		Bills Receivable		6,377
	70,745		Investments		40,000
Less: Drawings (WN 2)	560	70,185	Debtors	20,000	
10% Loan		10,000	Add: Credit sales not recorded (WN 3)	2,240	
Outstanding Interest on Loan		100		22,240	
Creditors		9,300	Less: Provision for Doubtful Debts	1,112	21,128
Bills Payable		5,000	Accrued Commission		1,000
Outstanding Salaries		500	Closing Stock		5,000
Output CGST		330	Cash at Bank		12,000
Output SGST		2,090			
		97,505			97,505

Working Notes:

- Goods distributed among staff members as free of cost will be recorded as follows:

		₹	₹
Staff Welfare Expenses A/c	...Dr.	1,120	
To Purchases A/c			1,000
To Input CGST A/c			60
To Input SGST A/c			60
- Adjustment entry for drawings will be as under:

Drawings A/c	...Dr.	560	
To Purchases A/c			500
To Input CGST A/c			30
To Input SGST A/c			30

3. Credit sale of goods will be recorded as follows:

Sundry Debtors A/c	...Dr.	₹	₹
		2,240	
To Sales A/c			2,000
To Output IGST A/c			240

Question 9

A.

STATEMENT OF AFFAIRS as at 1st April, 2018

Liabilities	₹	Assets	₹
Sundry Creditors	15,400	Cash in Hand	250
Bank Overdraft	19,200	Sundry Debtors	11,200
Capital (Balancing Figure)	12,950	Bills Receivable	16,000
		Stock-in-Trade	16,700
		Fixtures and Fittings	1,500
		Bank Balance	1,900
	<u>47,550</u>		<u>47,550</u>

STATEMENT OF AFFAIRS (BEFORE ADJUSTMENTS)

as at 31st March, 2019

Liabilities	₹	Assets	₹
Sundry Creditors	19,200	Cash in Hand	1,400
Capital (Balancing Figure)	20,300	Bank Balance	2,900
		Sundry Debtors	10,600
		Bills Receivable	5,000
		Stock-in-Trade	18,100
		Fixtures and Fittings	1,500
	<u>39,500</u>		<u>39,500</u>

STATEMENT OF PROFIT AND LOSS for the year ended 31st March, 2019

Particulars	₹
Capital as on 31st March, 2019	20,300
Add: Drawings during the year	2,400
	<u>22,700</u>
Less: Capital as on 1st April, 2018	12,950
Gross Profit made during the year	<u>9,750</u>

Dr.

PROFIT AND LOSS ACCOUNT for the year ended 31st March, 2019

Cr.

Particulars	₹	Particulars	₹
To Depreciation on Fixtures and Fittings	150	By Gross Profit	9,750
To Bad Debts	600		
To Provision for Doubtful Debts	500		
To Provision for Bills Receivable	200		
To Net Profit transferred to Capital A/c	8,300		
	<u>9,750</u>		<u>9,750</u>

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

Liabilities	₹	Assets	₹
Sundry Creditors	19,200	Cash in Hand	1,400
Capital	12,950	Cash at Bank	2,900
Add: Net Profit	8,300	Sundry Debtors	10,600
	21,250	Less: Bad Debts	600
Less: Drawings	2,400		10,000
	18,850	Less: Provision for Doubtful Debts	500
		Bills Receivable	5,000
		Less: Provision for Bills Receivable	200
		Stock-in-Trade	18,100
		Fixtures and Fittings	1,500
		Less: Depreciation	150
	38,050		38,050
	38,050		38,050

B. The four factors affecting the selection of Accounting software are:

- (i) *Size of Organisation:* An accounting system must be according to the size of the organisation, *i.e.*, volume of business transactions, multi-user requirements.
- (ii) *Ease of Adaptation and Training Needs:* Some accounting softwares are user-friendly and require a simple training to the users. However, some other complex software packages, linked to other information systems, require intensive training on continuous basis.
- (iii) *Expected Level of Secrecy:* Security features of an accounting system software are also important. Software should ensure that it prevents unauthorised access and manipulation of data.
- (iv) *Exporting/Importing Data Facility:* The software should allow easy data transfer option for flexible reporting, such as transfer of information directly from the ledger into the spreadsheet software like Lotus or Excel.