

Model Test Paper 14

Answers

Question 1

- (i) (a) ₹ 10,000 paid for electricity bill is *Revenue Expenditure* as it is incurred in the normal course of business.
 (b) Custom duty paid on import of a machine is a *Capital Expenditure* as it is incurred for acquisition of a fixed asset (machine) for use in business.
- (ii) The reasons of difference between Cash Book balance and Pass Book balance are:
 (a) Cheques issued but not yet presented for payment.
 (b) Cheques deposited but not yet collected by bank.
- (iii) Contra entries are those entries which affect both cash and bank columns of the Cash Book and therefore, recorded on both sides of the Cash Book. Such entries are denoted by word 'C' written in L.F. column on both sides of the Cash Book.
Example: Cash deposited into bank.
- (iv) Goodwill is not a fictitious asset. It is an intangible asset as it is helpful in doing better business and earn better profits. Fictitious assets do not have market value but goodwill has a market value as it can be sold.
- (v) *Two characteristics of GST:*
 (a) Goods and Services Tax (GST) is a *comprehensive indirect tax* levied at the prescribed rate on every supply, *i.e.*, sale of goods and/or services or both except on petroleum and alcohol for human consumption.
 (b) GST is a *Value Added Tax* because GST Paid (termed as Input GST) is set off against GST Collected (termed as Output GST). As a result, GST is levied on the incremental value of goods and/or services supplied (sold).
- (vi) (a) Rent Outstanding — Personal Account.
 (b) Depreciation — Nominal Account.
 (c) Motor Vehicles — Real Account.
 (d) Drawings — Personal Account.

(vii) Difference between Accrual Basis of Accounting and Cash Basis of Accounting

<i>Basis</i>	<i>Accrual Basis of Accounting</i>	<i>Cash Basis of Accounting</i>
1. Recording of transactions	Both cash and credit transactions are recorded.	Cash transactions are recorded.
2. Profit or Loss	Correct profit or loss is determined because it records both cash and credit transactions.	Correct profit or loss is not determined because it records only cash transactions.

(viii) Difference between Rebate and Trade Discount

<i>Basis</i>	<i>Rebate</i>	<i>Trade Discount</i>
1. Nature	It is allowed because of reasons other than those for which trade discount and cash discount is allowed say because of poor quality of goods.	It is allowed on sale or purchase of certain quantity.
2. Recording	It is recorded separately in the books of account because it is allowed after the sale is made.	It is not recorded separately in the books of account.

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(ix) Sales = Cost of Goods Sold + Gross Profit
 = ₹ 30,000 + ₹ 1,500 = ₹ 31,500.

(x) Closing Capital = Opening Capital + Additional Capital – Loss – Drawings
 = ₹ 6,00,000 + ₹ 1,50,000 – ₹ 45,000 – ₹ 80,000 = ₹ 6,25,000.

Total Assets = Closing Capital + Liabilities
 = ₹ 6,25,000 + ₹ 3,20,000 (Loan) = ₹ 9,45,000.

Question 2
A.

MACHINERY ACCOUNT					
Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
2014			2015		
Aug. 1	To Bank A/c (Machine I)	60,000	Mar. 31	By Depreciation A/c (₹ 60,000 × 8/12 × 20/100)	8,000
			Mar. 31	By Balance c/d	52,000
		60,000			60,000
2015			2016		
April 1	To Balance b/d	52,000	Mar. 31	By Depreciation A/c:	
Oct. 1	To Bank A/c (Machine II)	20,000		—Machine I	12,000
				—Machine II	2,000
			Mar. 31	By Balance c/d:	
				—Machine I	40,000
				—Machine II	18,000
		72,000			58,000
2016			2016		
April 1	To Balance b/d:		June 30	By Bank A/c—Sale Proceeds	38,500
	—Machine I	40,000	June 30	By Depreciation A/c (for 3 months)	3,000
	—Machine II	18,000			
		58,000	2017		
June 30	To Bank A/c (Machine III)	50,000	Mar. 31	By Depreciation A/c:	
June 30	To Gain (Profit) on Sale of Machinery A/c (WN) (Profit and Loss A/c)	1,500		—Machine II	4,000
				—Machine III	7,500
			Mar. 31	By Balance c/d:	
				—Machine II	14,000
		1,09,500		—Machine III	42,500
					56,500
2017					1,09,500
April 1	To Balance b/d	56,500			

Working Note:

Calculation of Gain (Profit) on Sale of Machinery:	₹
Cost of Machine on 1st August, 2014	60,000
Less: Depreciation for 2014–15	8,000
Book value as on 1st April, 2015	52,000
Less: Depreciation for 2015–16	12,000
Book value as on 1st April, 2016	40,000
Less: Depreciation (till 30th June, 2016)	3,000
Book value of Machine as on date of sale	(A) 37,000
Sale Proceeds	(B) 38,500
Gain (Profit) on Sale of Machinery	(B – A) 1,500

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

Particulars	₹
Closing Capital as on 31st March, 2019 (WN)	1,85,000
Add: Drawings (₹ 10,000 × 12)	1,20,000
	3,05,000
Less: Additional Capital introduced on 1st October, 2018	1,00,000
	2,05,000
Less: Opening Capital	2,00,000
Gross Profit	5,000
Less: Depreciation on Furniture and Fixtures (10% of ₹ 1,25,000)	12,500
Net Loss for the year	7,500

Working Note:

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

Liabilities	₹	Assets	₹
Creditors	50,000	Cash	10,000
Capital (Balancing Figure)	1,85,000	Stock	25,000
		Debtors	75,000
		Furniture and Fixtures	1,25,000
	2,35,000		2,35,000

Question 3

In the Books of Amit

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bhaskar ...Dr.		11,800	
	To Sales A/c			10,000
	To Output CGST A/c			900
	To Output SGST A/c			900
	(Being the goods sold to Bhaskar, charged CGST and SGST @ 9% each)			
	Bills Receivable A/c ...Dr.		10,000	
	Cash A/c ...Dr.		1,800	
	To Bhaskar			11,800
	(Being the cash and acceptance for balance amount for 3 months received from Bhaskar)			
	Bhaskar ...Dr.		10,000	
	To Bills Receivable A/c			10,000
	(Being the bill cancelled for renewal)			
	Cash/Bank A/c ...Dr.		3,000	
	To Bhaskar			3,000
	(Being the cash received as part payment)			
	Bhaskar ...Dr.		200	
	To Interest A/c			200
	(Being the interest charged for the extended period)			
	Bills Receivable A/c ...Dr.		7,200	
	To Bhaskar			7,200
	(Being the new bill drawn for the balance plus interest)			
	Cash/Bank A/c ...Dr.		7,200	
	To Bills Receivable A/c			7,200
	(Being the new bill duly honoured)			

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Dr.		BHASKAR'S ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Sales A/c	10,000	By Cash A/c	1,800		
To Output CGST A/c	900	By Bills Receivable A/c	10,000		
To Output SGST A/c	900	By Cash/Bank A/c	3,000		
To Bills Receivable A/c	10,000	By Bills Receivable A/c	7,200		
To Interest A/c	200				
	22,000				
				22,000	

In the Books of Bhaskar
JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Purchases A/c ...Dr.		10,000	
	Input CGST A/c ...Dr.		900	
	Input SGST A/c ...Dr.		900	
	To Amit			11,800
	(Being the goods purchased from Amit, CGST and SGST payable @ 9% each)			
	Amit ...Dr.		11,800	
	To Cash A/c			1,800
	To Bills Payable A/c			10,000
	(Being the cash paid and acceptance of a bill for the balance amount given to Amit)			
	Bills Payable A/c ...Dr.		10,000	
	To Amit			10,000
	(Being the bill cancelled for renewal)			
	Amit ...Dr.		3,000	
	To Cash/Bank A/c			3,000
	(Being the part payment made to Amit)			
	Interest A/c ...Dr.		200	
	To Amit			200
	(Being the interest payable to Amit for the extended period)			
	Amit ...Dr.		7,200	
	To Bills Payable A/c			7,200
	(Being the acceptance of a new bill for the balance <i>plus</i> interest)			
	Bills Payable A/c ...Dr.		7,200	
	To Cash/Bank A/c			7,200
	(Being the new bill duly honoured)			

Dr.		AMIT'S ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Cash A/c	1,800	By Purchases A/c	10,000		
To Bills Payable A/c	10,000	By Input CGST A/c	900		
To Cash/Bank A/c	3,000	By Input SGST A/c	900		
To Bills Payable A/c	7,200	By Bills Payable A/c	10,000		
		By Interest A/c	200		
	22,000				
				22,000	

Question 4

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

Particulars	Plus Items (₹)	Minus Items (₹)
Credit Balance as per Cash Book		40,500
(i) Cheque issued but not presented for payment	5,000	
(ii) Cheque debited in the Cash Book but not presented for collection (Note 1)		900
(iii) Cheques deposited into bank but not yet collected		10,200
Cheque deposited into bank but dishonoured		4,000
(iv) Excess payment recorded in Bank Column of the Cash Book (Note 2)	150	
Overdraft or Debit Balance as per Pass Book (₹ 55,600 – ₹ 5,150)	50,450	
	55,600	55,600

Notes:

1. "Post-dated Cheque" is a cheque that has a future date written on it by the issuer of cheque. Post-dated cheques are not payable till the date written on it. For example, a cheque written on 20th March, 2019 but dated for the 3rd April, 2019 will not be cashed till 3rd April, 2019.
2. Bank retired (or paid) a Bill Payable of ₹ 10,000 on our behalf under a rebate (discount) of ₹ 150. It means bank paid ₹ 9,850 (i.e., ₹ 10,000 – ₹ 150). However, the total amount, i.e., ₹ 10,000 was recorded on the Payments side (or credit side) of the Cash Book. So, ₹ 150 will be recorded on the *plus* side of Bank Reconciliation Statement.

B. Even though the debit and credit sides agree, the Trial Balance is incorrect.

Correct trial balance is as follows:

TRIAL BALANCE as on 31st March, 2019

Particulars	L.F.	Dr. (₹)	Cr. (₹)
Land and Building		1,20,000	...
Plant and Machinery		92,000	...
Wages		18,200	...
Discount Allowed (Note 1)		1,620	...
Discount Received (Note 2)		...	730
Purchases		1,26,000	...
Sales		...	2,40,000
Returns Inward (Note 3)		6,500	...
Returns Outward (Note 4)		...	3,370
Opening Stock		15,000	...
Debtors		30,000	...
Creditors		...	20,000
Carriage on Sales (Note 5)		3,280	...
Carriage on Purchases		2,800	...
General Expenses		17,600	...
Cash in Hand		2,400	...
Bank Overdraft (Note 6)		...	12,100
Capital		...	1,64,000
Drawings (Note 7)		4,800	...
Total		4,40,200	4,40,200

Notes:

1. Discount Allowed will appear in the debit column as it is an expense.
2. Discount Received will appear in the credit column as it is an income.
3. Returns Inward will appear in the debit column as there is inflow of goods.
4. Returns outward will appear in the credit column as there is outflow of goods.
5. Carriage on sales will appear in the debit column as it is an expense.
6. Bank Overdraft will appear in the credit column as it is a liability.
7. Drawings will appear in the debit column as drawings reduces the capital.

B. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2019				
Mar. 31	Bad Debts A/c ...Dr. To Sundry Debtors A/c (Being the additional bad debts recorded)		6,000	6,000
	Provision for Doubtful Debts A/c ...Dr. To Bad Debts A/c (Being the bad debts transferred to Provision for Doubtful Debts Account)		9,600	9,600
	Profit and Loss A/c ...Dr. To Provision for Doubtful Debts A/c (Being the amount charged from Profit and Loss A/c to maintain Provision for Doubtful Debts @ 10% on sundry debtors)		21,600	21,600

Dr. PROVISION FOR DOUBTFUL DEBTS ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Bad Debts A/c (₹ 3,600 + ₹ 6,000)	9,600	By Balance b/d	12,000
To Balance c/d [10% of (₹ 2,46,000 – ₹ 6,000)]	24,000	By Profit and Loss A/c (Balancing Figure)	21,600
	33,600		33,600

Question 6

Dr. CASH BOOK (TRIPLE-COLUMN) Cr.

Date	Particulars	L.F.	Discount Allowed ₹	Cash ₹	Bank ₹	Date	Particulars	L.F.	Discount Received ₹	Cash ₹	Bank ₹
2019						2019					
June 1	To Balance b/d			5,000	17,500	June 7	By S. Bose		200	...	12,500
June 5	To Asset A/c (Sale)			5,000	...	June 9	By Wages A/c			3,000	...
June 6	To Advance for Sale A/c			...	50,000	June 21	By Office Salaries A/c			5,000	...
June 20	To A. Mukerjee			...	6,000	June 30	By Rent A/c			...	1,000
June 29	To Sales A/c			...	8,000	June 30	By Input CGST A/c			...	60*
June 29	To Output CGST A/c			...	480	June 30	By Input SGST A/c			...	60*
June 29	To Output SGST A/c			...	480	June 30	By Bank A/c			1,500	
June 30	To Cash A/c			...	1,500	June 30	By Balance c/d			9,400	70,340
June 30	To Amit		100	8,900	...						
			100	18,900	83,960				200	18,900	83,960
July 1	To Balance b/d			9,400	70,340						

*CGST = 6%; SGST = 6%; Total GST = 12%

GST = ₹ 1,120 × 12/112 = ₹ 120; out of which ₹ 60 is for CGST and ₹ 60 is for SGST.

Dr. DISCOUNT ALLOWED ACCOUNT Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2019							
June 30	To Sundries as per Cash Book		100				

Dr. DISCOUNT RECEIVED ACCOUNT Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
				2019			
				June 30	By Sundries as per Cash Book		200

Notes:

1. Purchase of goods from Akram on 30th June, shall not be recorded in the Cash Book, being a credit purchase.
2. When a cheque is received but endorsed in favour of a creditor, it will be recorded through Journal entry.

Question 7

A. JOURNAL				
Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Drawings A/c ...Dr. To Purchases A/c To Input CGST A/c To Input SGST A/c (Being the goods used for domestic purpose, CGST and SGST reversed)		5,900	5,000 450 450
(ii)	Consultancy Fees A/c ...Dr. Input CGST A/c (₹ 5,000 × 9/100) ...Dr. Input SGST A/c (₹ 5,000 × 9/100) ...Dr. To Bank A/c (Being the consultancy fees paid and GST recorded)		5,000 450 450	5,900
(iii)	Loss of Stock by Fire A/c ...Dr. To Purchases A/c To Input CGST A/c To Input SGST A/c (Being the goods destroyed by fire, CGST and SGST reversed)		3,540	3,000 270 270
(iv)	Insurance Co. ...Dr. To Purchases A/c To Input CGST A/c To Input SGST A/c (Being the insurance claim lodged with the insurance company, CGST and SGST reversed)		1,180	1,000 90 90
	Bank A/c ...Dr. Profit and Loss A/c (Loss of Stock by Fire) ...Dr. To Insurance Co. (Being the insurance claim of ₹ 1,180 accepted by the insurance company at ₹ 800)		800 380	1,180
(v)	Donation A/c ...Dr. To Purchases A/c To Input IGST A/c (Being the goods given as charity, IGST reversed)		590	500 90
(vi)	Rent A/c ...Dr. Input CGST A/c ...Dr. Input SGST A/c ...Dr. To Cash/Bank A/c (Being the rent paid to landlord, CGST and SGST paid @ 9% each)		1,500 135 135	1,770
B. RECTIFYING JOURNAL ENTRIES				
Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Building A/c ...Dr. To Wages A/c (Being the wages paid for construction of office wrongly debited to Wages A/c, now rectified)		20,000	20,000
(ii)	Suspense A/c ...Dr. To Sales A/c (Being the mistake in totalling of Sales A/c, now rectified)		200	200
(iii)	Bills Payable A/c ...Dr. Bills Receivable A/c ...Dr. To Suspense A/c (Being the bills receivable received from Henry wrongly posted to the credit of bills payable, now rectified)		16,000 16,000	32,000

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Working Notes:

1. Adjustment Entry for Accrued Commission:		₹	₹
Accrued Commission A/c	...Dr.	14,160	
To Commission A/c			12,000
To Output CGST A/c			1,080
To Output SGST A/c			1,080
2. Adjustment Entry for Drawings:			
Drawings A/c	...Dr.	33,600	
To Purchases A/c			30,000
To Input CGST A/c			1,800
To Input SGST A/c			1,800

Question 9

A.

Sirifort Club

INCOME AND EXPENDITURE ACCOUNT

Dr.		for the year ended 31st March, 2019		Cr.	
Expenditure	₹	Income	₹		
To Salaries	60,000	By Subscription (₹ 500 × 500)	2,50,000		
Add: Outstanding Salaries	5,000	By Donations	54,000		
To General Expenses	7,500	By Proceeds of Drama Tickets	95,000		
To Drama Expenses	45,000	By Sale of Waste Paper	4,500		
To Newspapers	15,000	By Accrued Interest on Investments	5,000		
To Municipal Taxes	4,000	(₹ 2,00,000 × 6/100 × 5/12)			
Less: Prepaid for 2019–20	1,000				
Add: Prepaid for 2018–19	1,000				
To Charity	35,000				
To Electricity Charges	14,500				
To Surplus, i.e., Excess of Income over Expenditure	2,22,500				
	4,08,500				
				4,08,500	

BALANCE SHEET

as at 31st March, 2019

Liabilities	₹	Assets	₹
Capital Fund (WN 1)	6,12,500	Cash in Hand	90,000
Add: Surplus	2,22,500	Building	5,00,000
Advance Subscription	6,000	Outstanding Subscription:	
Outstanding Salaries	5,000	For 2017–18	5,000
		For 2018–19	45,000
		Accrued Interest	5,000
		Investments	2,00,000
		Prepaid Municipal Taxes (WN 2)	1,000
	8,46,000		8,46,000

Working Notes:

1. Calculation of Opening Capital Fund:

BALANCE SHEET as at 1st April, 2018

Liabilities	₹	Assets	₹
Capital Fund (Balancing Figure)	6,12,500	Cash in Hand	1,02,500
		Outstanding Subscription (₹ 4,000 + ₹ 5,000)	9,000
		Building	5,00,000
		Prepaid Municipal Taxes (WN 2)	1,000
	6,12,500		6,12,500
	6,12,500		6,12,500

2. Since, yearly municipal taxes are ₹ 4,000; ₹ 1,000 must have been paid during the previous year for the current year. As municipal taxes amounted to ₹ 4,000 per year have been paid up to 30th June, 2019, it means out of ₹ 4,000, ₹ 1,000 (i.e., ₹ 4,000 × 1/4) for three months relate to next year.

B. Computerised Accounting suffers from the following limitations:

- (i) *Controls:* If adequate controls are not built and, where built, are not followed, it can lead to loss of data. This shortcoming can be overcome by taking back-ups at regular intervals to avoid such a situation.
- (ii) *Data Corruption:* The data can get corrupted through viruses that may come in through the Internet or the use of external input devices without scanning them for viruses. This shortcoming can be overcome with the use of antivirus software.
- (iii) *Untrained Computer Operators:* Untrained computer operators can cause loss of data.
- (iv) *Limitations of Software:* The software is developed on the basis of the experiences of the team of developers. As such, it may not be able to deal with a specific problem that may arise.