

GRAPH PAPER IS ON THE PENULTIMATE PAGE

Book No. 1 (containing 24 pages)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

Foundation Examination

Group No. I Paper No. 1 (HAF2)

Subject Principles & Practices of Accounting

Number of Answer Books used: Main * _____ additional sheets _____

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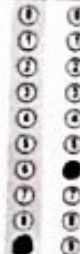
04 JUN 2019

Q.No	To be ticked (✓) by the candidate against the Questions answered	Marks Awarded (To be filled by Examiner)					Total
		a	b	c	d	e	
1	✓	11½	3	4			18½
2	✓	10	10				20
3	✓	7	5	5			17
4	✓	10	10				20
5							
6	✓	10	5	5			20
7							
8							
9							
10							
11							
12							
13							
14							
Total							95½ = 96

Use only Blue / Black Ball Point Pen to write and shade the circles. **AVOID RED PEN.** Write the marks in the boxes before shading the respective circles.

Total Marks awarded

96



Total Marks awarded (in words) Ninety Six only

Examiner's Signature _____

INSTRUCTIONS TO THE CANDIDATE

Answers are not to be written on this page

Answers should be written in figures and words in the allotted space at the right hand corner of the cover page and nowhere else including additional answer book/s and graph paper.

Roll number should be written in the box in numbers and darken the appropriate circles of the OMR bubbles provided in the right hand corner of the cover page with **Black / Blue** ball point pen.

Fill in all particulars such as name of Examination, Group No., Paper No. and subject at the appropriate space at the left hand upper corner.

4. Remove the Bar Code sticker of the particular paper from the Attendance sheet and affix the same on the box provided in the right hand corner of the cover page.
5. Since a machine will read the Roll no., please check and ensure that Roll number written in numbers, words and circles darkened are correct. In case any candidate fills this information wrongly, Institute will not take any responsibility for rectifying the mistake.
6. The answers should be written neatly and legibly.
7. The answer to each question must be commenced on a fresh page and question number prominently written at the top of each answer. Alternatively, the question number should be distinctly written in the margin.
8. The answer to each question in all parts should be fully completed in one page or in a consecutive set of pages, before the next question is taken up.

9. Writing of Roll number in place/s other than the space provided for the purpose or writing distinguishing mark, symbols like "OM", "Sri", "Jesus", "786", etc., will tantamount to adoption of "unfair means"

Ques 4(a)

Ques 4(a)

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(1). Revaluation Account

	Dr.		Cr.	
	Particulars	₹	Particulars	₹
	To Stock A/c	1500	By Land & Building	25000
	To profit (1:1:1)		By provision for	
	Morika - 8500		doubtful debt	2000
	Yedhan - 8500			
<u>2</u>	Zoya - 8500	<u>25500</u>		
		<u>27000</u>		<u>27000</u>

(2). Partners Capital Account

	Dr.				Cr.		
	M	Y	Z		M	Y	Z
To Zoya's A/c (WN 1 & 2)	4375	4375		By bal b/d	100000	75000	75000
To Zoya's Executive A/c			98125	By general Reserve A/c	4000	4000	4000
To bal b/d	108125	83125		By Morika's A/c			4375
				By Yedhan's A/c			4375
				By P/L suspense (3)			1875
				By Revaluation	8500	8500	8500
<u>4</u>	<u>112500</u>	<u>87500</u>	<u>98125</u>		<u>112500</u>	<u>87500</u>	<u>98125</u>

(3).

Balance Sheet
as at 1st July, 2018.

Liabilities	₹	Asset	₹
Creditors.	20,000.	Land and Building	175,000
Capital Accounts:		Investments.	65,000.
Monika - 108125		Stock in trade.	13,500.
Yedhart - 83125	491250.	Trade Receivables.	35,000
Zoya's Executor A/c.	98125.	Cash in hand	7,000
		Cash at bank.	12,000.
		Profit and Loss Suspense	1875.
	<u>309375</u>		<u>309375</u>

2

Working Note :-

(1) Calculation of Goodwill :-

$$\begin{aligned} \text{Average profit} &= \frac{85000 + 20,000 + 22500 + 35000 + 28750}{5} \\ &= 26250. \end{aligned}$$

1/11

Goodwill = 26250.

Zoya's share of Goodwill = 8750.

12) Calculation of Gaining Ratio :-

$$\text{Gaining Ratio} = \text{New Share} - \text{Old Share.}$$

$$\text{Monika} = \frac{1}{2} - \frac{1}{3} = \frac{1}{6}$$

$$\text{Yedhant} = \frac{1}{2} - \frac{1}{3} = \frac{1}{6}$$

So, Goodwill to be debited to their
A/c are - Gaining Ratio - 1:1

$\frac{1}{2}$

$$\text{Monika} = 8750 \times \frac{1}{2} = 4375 \checkmark$$

$$\text{Yedhant} = 8750 \times \frac{1}{2} = 4375 \checkmark$$

13) Share of profit :-

$$\begin{aligned} \text{Average profit} &= \frac{25000 + 20000 + 22500}{3} \\ &= 22500. \end{aligned}$$

$$\begin{aligned} \text{So profit share} &= 22500 \times \frac{1}{3} \times \frac{3}{12} \\ &= 1875 \checkmark \end{aligned}$$

$\frac{1}{2}$

10

Ques 4(b)

Ques 4(b)

Trading and Profit and Loss A/c

Dr. for the year ending 31st Dec, 2018. Cr.

Particulars	₹	Particulars	₹
To opening Stock	4900.	By Sales	9000.
To purchases	12000.	↳ Sales Return (1000)	8000
↳ Purchase Return (8000)	10,000.	By Closing Stock	4500
To Gross profit	<u>1100.</u>		
	<u>12500.</u>		<u>12500.</u>

To tax and insurance	500.	By Gross profit	1100.
↳ Outstanding	200	By Commission	500.
To Bad debts.	500.	↳ Advance (100)	400
To depreciation	160 ✓	By Accrued Interest	210.
To outstanding salary	2600 ✓	By Net loss.	2500.
To tax and insurance	500		
↳ outstanding	200		
↳ prepaid	(50)		
To interest on overdraft	300 ✓		
To Reserve for B.O	<u>500 ✓</u>		
	<u>4210</u>		<u>4210</u>

4 1/2

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Balance Sheet

as at 31st Dec, 2018.

Liabilities	₹	Assets	₹
Capital 16000.		Cash in hand.	1500.
↳ Drawing (2000)		Debtors 5000	5000.
↳ Net loss (2500)	11500	Assets	
Bank Overdraft ✓ 2000.		↳ Reserve for (1000) ✓	4000.
outstanding tax ✓ 200.		Bad debts	
Creditors. ✓ 2000.		Investments. ✓	4000.
Advance Commission ✓ 100.		Furniture 1600	
Bills payable ✓ 2500.		↳ Depreciation (160) ✓	1440.
outstanding salary ✓ 100.		Bills Receivable ✓	3000.
outstanding interest on overdraft ✓ 300.		Closing Stock ✓	4500.
	18700	Prepaid insurance ✓	50.
		Accrued Interest ✓	210.
			18700

Working Notes :-

Dr.	Particulars	₹	Cr.	Particulars	₹
1 ✓	To Bad debts.	500.		By bal b/d	1000
2 ✓	To bal c/d	1000.		By P/L A/c	500.
		1500			1500

10

Ques 3(a)

Ques 3(a)

Dr.	Joint Venture Ac.	Cr.
Particulars	₹	Particulars
To Joint Bank Ac	145,00,000	By R's Ac - Sale
To Joint Bank Ac	2750,000	By S's Ac - Sale
To R's Ac (WV1)	256,000	
To S's Ac (WV2)	112,000	
To Profit (2:1)		
R - 521333		
S - 260667	382,000	
	<u>184,00,000</u>	
		<u>184,00,000</u>

2 1/2

Dr.	Joint Bank Ac.	Cr.
Particulars	₹	Particulars
To R's Ac	100,00,000	By Joint Venture
To S's Ac	50,00,000	By Joint Venture
To R's Ac	2092667	
To S's Ac	227333	
	<u>17250,000</u>	
		<u>17250,000</u>

1 1/2

Dr.	R's Account	Cr.
Particulars	₹	Particulars
To Joint Venture	1,28,00,000	By Joint Bank Ac
		By Joint Venture
		By Joint Venture
		By Joint Bank Ac

1 1/2

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Dr.		S's Account		Cr.	
Particulars	₹	Particulars	₹		
To Joint Venture	5600,000	By Joint Bank A/c	50,00,000		
		By Joint Venture	112,000		
		By Joint Venture	26,067		
		By Joint Bank A/c	227,933		
	<u>5600,000</u>		<u>5600,000</u>		

$\frac{1}{2}$

Working Notes :-

- (1) R's Commission = $12800,000 \times \frac{2}{100} = 256000$
- (2) S's Commission = $5600,000 \times \frac{2}{100} = 112000$

7

Ques 3(b)

Ques 3(b)

In the Books of Akshay.
Journal Entries

Date	Particulars	LF	Dr (₹)	Cr (₹)
2018.				
1 Jan	Bills Receivable (1) A/c	Dr	16000	-
	Bills Receivable (2) A/c	Dr	25000	-
<u>1</u>	To Vishal's A/c		-	41000
	(Being bills drawn by Akshay).			
4 Mar.	Vishal's A/c	Dr	16000	-
<u>1</u> <u>2</u>	To Bills Receivable (1) A/c		-	16000
	(Being first bill cancelled).			
4 Mar.	Bills Receivable (3) A/c	Dr	16400	-
	To Vishal's A/c		-	16000
<u>1</u>	To Interest A/c $(16000 \times 15 \times \frac{2}{100})$		-	400
	(Being new bill drawn).			

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25 May.	Bank A/c	Dr	24750	-
1	Rebate A/c	Dr	250	-
	To Bills Receivable (2) A/c.		-	25000
	(Being bill settled).			

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7 May.	Vishal's A/c	Dr	16400	-
$\frac{1}{2}$	To Bills Receivable (3) A/c.		-	16400
	(Being Vishal became insolvent)			

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7 May.	Bank A/c	Dr	8200	-
1	Bad debts A/c	Dr	8200	-
	To Vishal's A/c		-	16400
	(Being part payment received)			

5

Ques 3 (c)(ii)

Q.2c(ii)

Statement showing Royalty payable.

Year ended	Coal extracted	Royalty @ 25%	Shareholder's allowed	Shareholder's accrued	Royalty payable
2014	3000	75000	175000	-	250000
2015	4800	120000	130000	-	250000
2016	10,600	265000	-	15000	250000
2017	16800	420000	-	170000	250000
2018	21000	525000	-	120000	405000
	56200	1405000	305000	205000	1405000

5

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Ques 2(a)

Ques 2(a)

Bank Reconciliation Statement
as on 30th June, 2018

Particulars.	Details	Amount.
(i). Debit balance as per Pass Book.		25000.
(ii). Cheque directly deposited by a customer in the bank.	400 ✓	
(iii). Cheques issued but not presented.	14000 ✓	
(iv). Cheque recorded in Pass Book but not banked.	(4000) ✓	
(v). Cheques sent but not collected.	(6000) ✓	
(vi). Direct payment by bank.	(600) ✓	
(vii). Interest on overdraft charged by bank.	(1600) ✓	
(viii). Bank Charges entered twice in Cash book.	80 ✓	
(ix). Insurance Charges paid by bank	(70) ✓	
(x). Credit side of Cash Book understated.	(2000) ✓	210.
<u>Credit balance as per Cash Book.</u>		<u>25210</u>

Ques 2(b)

Ques 2(b)

Machinery Account							
Dr.	Date	Particulars	JF	Amount (₹)	Cr.	Date	Particulars
	2015					2015.	
	1 Jan	To Bank A/c. (37000 + 3000)	✓	40,000		31 Dec	By Depreciation
							By bal c/d
				40,000			40,000
	2016					2016.	
	1 Jan	To bal b/d.	✓	36,000		31 Dec	By Depreciation
	1 July	To Bank A/c	✓	10,000			(5400 + 750)
							By bal c/d
				46,000			46,000
	2017					2017.	
	1 Jan	To bal b/d	✓	39,850		1 July	By Depreciation (1)
	1 July	To bank A/c	✓	25,000			By Bank A/c
							By P/L A/c
						31 Dec	By Depreciation
							By bal c/d
				64,850			64,850
	2018					2018.	
	1 Jan	To bal b/d.	✓	30,987.6		1 July	By Depreciation
							By Bank A/c

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<u>7 1/2</u>		By P/L A/c	✓ 5272.
	31 Dec	By Depreciation	✓ 8469
		By bal c/d.	19656
			<u>30987</u>

Working Notes :-

1) Depreciation for Machines :-

Purchased on.

		1 Jan 2015	1 July 2016	1 July 2017
2015.	Cost.	40,000		
	(-) Depreciation	(4000)		
2016.	WDV.	36,000.	10,000.	
	(-) Depreciation	(5400).	(750).	
2017	WDV.	30600.	9250	25000.
	(-) Depreciation.	(2295).	(1389.5).	(1875).
2018.	WDV.	28305.	7860.5.	23125.
<u>1</u>	(-) Depreciation.		(590).	(3469).
			7272	✓ 19656.
<u>1</u>	(-) Sale.		2000	
	less on sale.		✓ 5272.	
	(-) Sale.	28,000.		
<u>1/2</u>	less on sale	✓ 305.		

Ques 6(a)

Ques 6(a)

In the books of Bhagwati Ltd.
Journal Entries.

Date	Particulars	LF	Du. (₹)	Cr. (₹)
1	Bank A/c Du.		900,000	-
	✓ To Equity Share Application A/c.		-	900,000
	(Being applications for 300,000 shares received).			
1	Equity Share Application A/c Du.		900,000	-
	To Equity Share Allotment A/c		-	300,000
	To Equity Share Capital A/c		-	600,000
	(Being 300,000 shares allotted on pro-rata basis).			
1	Equity Share Allotment A/c Du.		10,00,000	-
	To Equity Share Capital A/c		-	10,00,000
	(Being allotment money due).			
1	Bank A/c Du.		700,000	-
	To Equity Share Allotment A/c.		-	700,000
	(Being allotment money received).			

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1	Equity Share first & final call A/c	Dr	400,000	-
	To Equity Share Capital A/c		-	400,000
	(Being first call money due).			

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1	Bank A/c	Dr	394,000	-
	Call-in-advance A/c	Dr	6,000	-
	To Equity Share first & final call A/c		-	400,000
	(Being call money received)			

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1	Equity Share Capital A/c	Dr	30,000	-
	To Equity Share forfeiture A/c		-	24,000
	To Call-in-advance A/c		-	6,000
	(Being Rs share forfeited)			

1	Bank A/c	Dr	15,000	-
	Equity Share forfeiture A/c	Dr	10,000	-
	To Equity Share Capital A/c		-	25,000
	(Being shares issued)			

1	Equity Share forfeiture A/c	Dr	10,000	-
	To Capital Reserve A/c (WN)		-	10,000
	(Being transfer to Capital Reserve)			

Working Notes :-

(1) Transfer to Capital Reserve :-

$$\frac{24000}{3000} \times 2500 = 10,000$$

✓
= 10,000

Ans 6 (b)

Ques (b)

Journal Entries :-

Date	Particulars	lf	Dr. (₹)	Cr. (₹)
2018 1 Jan.	Bank A/c To Debenture Application A/c (Being 10% Debentures iss appli- cation money received).	Dr	1800,000	-
			-	1800,000
1 Jan.	Debenture Application A/c To Premium on issue of Debenture A/c To 10% Debenture A/c To Premium on redemption A/c (Being 10% Debentures issued).	Dr	1800,000.	-
			300,000.	-
			-	20,00,000.
			-	100,000

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30 June	Debiture Interest A/c	du	100,000	-
$\frac{1}{2}$	To Tos payable		-	10,000
$\frac{1}{2}$	To Debitureholders A/c.		-	90,000.
	(Being interest due).			

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30 June	Tos payable A/c	du	10,000	-
$\frac{1}{2}$	Debitureholders A/c	du	90,000	-
$\frac{1}{2}$	To Bank A/c		-	100,000
	(Being interest paid).			

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31 Dec.	Debiture Interest A/c	du	100,000	-
$\frac{1}{2}$	To Tos payable		-	10,000
$\frac{1}{2}$	To Debitureholders A/c		-	90,000
	(Being interest due).			

31 Dec	Tos payable A/c	du	10,000	-
$\frac{1}{2}$	Debitureholders A/c	du	90,000	-
$\frac{1}{2}$	To Bank A/c		-	100,000.
	(Being interest due).			

31 Dec	Profit and Loss A/c	du	260,000.	-
$\frac{1}{2} + \frac{1}{2}$	To Debiture Interest A/c		-	200,000.
$\frac{1}{2} + \frac{1}{2}$	To Loss on issue of Debiture		-	60,000
	(Being loss transferred).			

Ques 6 (c)

Ques 6 (c)

Statement for Calculation of Inventory

Inventory on 10 th April 2019.	125000.
(+) Sales. 20,000.	
(-) Gross profit (WN 1) 4000.	16000.
(+) Free samples issued	4000.
(-) Purchases. 10,000.	
(-) Goods still not received. 2000.	(8000).
(+) Goods not included in stocks.	20,000.
Value of Inventory on 31 st Mar. 2019	157000

Working Note :-

(1) Gross profit :-

$$= 20,000 \times \frac{25}{125} = 4000.$$

(5)

Ques 1(a)

Ques 1(a)

(i). True.

2
Amount spent for the construction of temporary
sheds necessary for Cinema House are
Capital expenditure because they are
non-recurring in nature and
it is necessary for Cinema House without
which Cinema Hall cannot be
put to use.

(ii). False.

2
If the error is posted in the wrong
account or it is written on the
wrong side of the account, it is
error of Commission.

Error of principle relates to treating
a revenue expense as Capital or
treating the sale of furniture as an
ordinary sale.

(iii). False.

1/2
In the Consignment Sale, when the goods are delivered to the Consignee, there is mere passing of possession of goods, ownership remains with the Consignor only.

(iv). True.

2
If the due date of a bill falls after the date of closing the account, the interest thereon is not paid however such interest is written on the appropriate side in Red Ink.

It is called Red Ink Interest.

(v). False.

2
Limited liability Partnership is governed by limited liability Partnership Act, 2008. according to which LLP is a type of organisation scheme

The liability of every partner is limited to the extent of capital contributed by them.

(vi). **False**.

$$\text{Working Capital Ratio} = \frac{\text{Current Asset} - \text{Current Liability}}{\text{Current Liability}}$$

So, the relationship between Current Asset and Current Liability is Working Capital Ratio.

2. However, the relationship between Sales and Fixed Asset is expressed as Fixed Assets Turnover Ratio.

11 1/2

Ques 1(b)

Ques 1(b)

Going Concern Concept

As per going concern concept, it is assumed that the business will continue in the long-term and has no intention to shut down.

$\frac{1}{2}$

As per this concept only, assets and liabilities are categorised as long term / fixed assets and short term / current assets.

Cost Concept

As per this concept, all the assets and liabilities are recorded at their historical cost that is acquisition cost.

Historical cost is more practical in calculation rather than current cost as present value. Because it

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$1\frac{1}{2}$ will not be easy to find the current cost of the asset without any personal bias or estimation of the accountant.

③ whereas historical cost is free from any bias or estimation.

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Ques 1(c)

Ques 1(c)

Journal Entries.

Date	Particulars	lf	Dr. (₹)	Cr. (₹)
1	Commission A/c To Interest A/c (Being ₹ amount accrued as interest credited to Commission A/c).	dr.	4500 -	- 4500
1	M/s Sobhag Traders A/c To Suspense A/c (Being wrong amount posted).	dr.	90 -	- 90

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(iv)	Sales Return A/c	Dr	5000	-
	To Customer's A/c		-	5000
↓	(Being goods returned by Customer but no entry passed).			

(4)

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