SOLVED PAPER 2014

QUESTION NO.1

A's Journal

Date	Details	L/F	Debit Rs.	Credit Rs.
2013 Jan. 01	Bill receivable account B **Acceptance received.**		5,000	5,000
Jan. 01	Bank account Discount account (5,000 – 4,800) Bills receivable account **Bill discounted**		4,800 200	5,000
Jan. 01	B Bank account Discount account **Proceeds shared.**		2,500	2,400 100
Mar. 31	B Bills payable account **Acceptable given.**		3,600	3,600
Mar. 31	Bank account Discount account B **Proceeds received.**		900 97	997
July 03	Bills payable account B **Bills dishonored**		3,600	3,600
July 03	B Cash account Deficiency account **40% dividend paid.**		3,497	1,399 2,098
	Total		24,194	24,194

B's Journal

Date	Details	L/F	Debit Rs.	Credit Rs.
2013 Jan. 01	A Bills payable account **Acceptance received.**		5,000	5,000

Jan. 01	Bank account		2,400	
	Discount account		100	
	A			
	Proceeds received.			2,500
Mar. 31	Bank account		3,600	
	A			3,600
	Acceptance received			
Mar. 31	Bank account		3,500	
	Discount account (3,600 – 3,500)		100	
	Bills Receivable account			3,600
	Bill discounted.			
Mar. 31	A		997	
	Bank account			900
	Discount account			97
	Proceeds paid.			
Apr. 04	Bills payable account		5,000	
	Bank account			5,000
	Bills paid on maturity			
July 03	A		3,600	
	Bank account			3,600
	Bill dishonored			
July 03	Cash account		1,399	
	Bad debts account		2,098	
	A			3,497
	40% dividend received			
	Total		**27,794**	**27,794**

A's Account

Date	Details	J.F	Rs.	Date	Details	J.F	Rs.
2013				2013			
Jan. 01	Bills payable A/c		5,000	Jan. 01	Bank A/c		2,400
Mar. 31	Bank A/c		900	Jan. 01	Discount A/c		100
Mar. 31	Discount A/c		97	Mar. 31	Bills receivable A/c		3,600
July 03	Bank A/c		3,600	July 03	Cash A/c		1,399
				July 03	Bad debts A/c		2,099
			9,597				**9,597**

Calculation for the A's Discount:

	Rs.
Proceeds from 1st bill	Rs.
Add: Proceeds from 2nd bill	2,500
Total proceeds	900
	3,400

For Rs. 3,500 discounts are Rs. 100
For Rs. 3,400 discounts are Rs. 97
(100/3500 x 3400 = Rs. 97)

QUESTION NO.2

Mr. Shaheer
Bank Reconciliation Statement
As on December 31, 2013

	Details			Rs.	Rs.
	Bank balance as per Pass Book		Credit		120,800
Add:	1	Uncredited cheque	Credit	10,000	
	4	Insurance premiums paid by bank but not recorded in cash book	Credit	4,000	
	5	Cheques deposited but returned dishonored by bank	Credit	26,000	
					40,000
Less:	**Balance as per pass book**		**Credit**		160,800
	2	unpresented cheques (10,000 + 10,000)	Debit	20,000	
	3	interest credited by bank but not recorded in cash book	Debit	2,800	
	Bank balance as per cash book		Debit		22,800
					138,000

QUESTION NO.3

Mr. Ishtiaq's Journal (Rectifying Entries)

Date	Details	L/F	Debit Rs.	Credit Rs.
1	Shabeer		4,000	
	Suspense account			4,000
	(Shabeer account not debited now rectified)			
2	Suspense account		4,800	
	Interest account			4,800
	(interest received account not credited now rectified)			
3	Malik Shakeel		12,000	
	Purchase return account			6,000
	Sales return account			6,000
	(Purchases return and sales return account now rectified)			
4	Suspense account		180	
	Shumaila			180
	(Shumaila account more debited now rectified) (7,860 – 7,680)			

5	Furniture account Building account (Machinery accounts wrongly debited now rectified)		14,000	14,000
6	Suspense account Wages account (wages account posted twice now rectified)		16,000	16,000

Suspense Account

Date	Details	J.F	Rs.	Date	Details	J.F	Rs.
2	Interest A/c		4,800		Balance (Difference in T.B)		16,980
4	Shumaila		180				
6	Wages A/c		16,000	1	Shabeer		4,000
			20,980				**20,980**

QUESTION NO.4

Mr. Zaheer
Statement of Affairs
As on January 1, 2013

Assets	Rs.	Liabilities	Rs.
Current Assets:		**Current Liabilities:**	
Cash and bank	900	Sundry creditors	31,200
Sundry debtors	22,800	Bank overdraft	40,800
Bills receivable	30,500		
Stock in trade	33,400		
Fixed Assets:		**Owners' Equity:**	
Motor car	4,200	Capital	
Furniture and fixture	3,400	(Being the excess of assets over liabilities)	23,200
	95,200		**95,200**

Mr. Zaheer
Statement of Affairs
As on December 31, 2013

Assets		Rs.	Liabilities	Rs.
Current Assets:			**Current Liabilities:**	
Cash and bank		2,800	Sundry creditors	28,400
Sundry debtors	Rs.21,400		Bank overdraft	39,200
Less: Bad debts	Rs. 1,000			
	Rs.20,400			
Less: Provision for Debtors (Rs.20,400 x 5%)	Rs.1020	19,380		
Bills receivables	Rs.28,800			
Less: Reservable for bill Receivable	Rs.1,600	27,200		
Stock in trade	37,400	37,400		
Fixed Assets:			**Owners' Equity:**	
Motor car	Rs.4,200		Capital	
Less: Depreciation	Rs.800		(Being the excess of assets over liabilities)	25,640
Furniture and fixture	Rs.3,400			
Less: Depreciation	Rs. 800	3,400		
Furniture and fixture	Rs.3,400			
Less: Depreciation		3,060		
(3,400 x 10%)	Rs.340			
		93,240		**93,240**

Mr. Zaheer
Statement of Affairs
As on January 1, 2013

Details		Rs.
Capital as on 31st December 2013		25,640
Add:	Drawing during the year	4,800
Adjusted capital as on 31st December 2013		30,440
Less:	Capital on 1st January 2013	23,200
	Net profit made during the year	7,240

QUESTION NO.5

Trading and Profit & Loss Account
For the year ending December 31, 2011

Details	Rs.	Details	Rs.
Opening stock	75,000	Sales 312,500	
Purchases 112,500		Less: Sales return ___	
Less: Purchases return 3,750	108,750	3,125	
Wages 31,250		Closing stock	
Add: Wages payable 2,500	33,750		
Carriage	1,250		
Gross profit c/d	140,625		
	359,375		**359,375**
Salaries	35,000	Gross profit b/d	140,625
Bad debts	1,875	Interest on investment	
New provision for bad debts	2,500	(3,750 x 10%)	375
Discount on debtors	950		
Depreciation on plant & machinery	6,875		
Depreciation on land & Building	3,125		
Expired prepaid insurance	1,875		
Net profit transferred to capital A/c	88,800		
	141,000		**141,000**

Balance Sheet
As on December 31, 2011

Assets	Rs.	Liabilities & Capital	Rs.
Current Assets:		**Current Liabilities:**	
Cash in hand	26,875	Wagespayable	2,500
Prepaid insurance 4,375		Sundry creditors	75,000
Less: Expired 1,875	2,500	Bills payable	20,000
Bills receivable	6,250		
Sundry debtors 50,000			
Less: Provision for B.D			
(50,000 x 5%) 2,500			
47,500			
Less: Discount on debtors			
(47,500 x 2%) 950	46,550		
Interest on investment receivable	375		
Closing stock	50,000		
Investment @ 10%	3,750		

Fixed Assets:			**Owner Equity:**	
Furniture		25,000	Capital	
Plant and machinery	68,750		150,000	
Less: Depreciation	6,875	61,875	+ Net Profit	213,800
Land & building	62,500		88,800	
Less: Depreciation	3,125	59,375	- Drawings	
Loose tool		1,250	25,500	
Goodwill		50,000		
		311,300		311,300

QUESTION NO.6

Literary Society
Balance Sheet
As on January 31,2013

Assessts	Rs.	Liabilities	Rs.
Current Assessts:		**Current Liabilities:**	
Cash at bank	500	Rent Payable	500
Investment	1,000	Capital Fund	
Subscription receivable	1,000	(Being the excess of assessts over liabilities)	7,000
Fixed Asset:			
Books	4,000		
Furniture	1,000		
	7,500		7,500

Literacy Society
Income and Expenditure Account
For the year ended December 31,2013

Expenditures		Amount Rs.	Income		Amount Rs.
Lightening charges		250	Subscriptions	Rs. 10,000	
Wages		500	Less : Last year	Rs. 1,000	
Rent	Rs, 1,000			Rs. 9,000	
Less : last year	Rs. 500		Add: Receivable	Rs. 500	9,500
	Rs. 500		Interest on fixed deposit		
Add: payable	Rs. 500	1,000	(10,000 x 10 % x 6/12)		500
Lecture's Fee		1,000	Interest on investment		100
Office Expenses		2,000	Receipts from lectures		3,000
Depreciation:			Donation		1,000
On Books					

On Furniture	400		
Excess of income over expenditures	8,950		
	14,100		14,100

Literary Society
Balance Sheet
As on December 31,2013

Liabilities		Rs.	Assests		Rs.
Current Assessts:			**Current Liabilities:**		
Cash at bank		850	Rent Payable		500
Subscription receivable		500	**Capital Fund:**		
Interest on fixed eposit receivable		500	Capital	Rs. 7,000	
Investment		1,000	Add: Excess of income		
Fixed deposit @ 10%		1,0000	Over expenses	Rs. 8,950	
Furniture	Rs. 3000		Add: Entrance Fee	Rs. 1,500	
Less: Depreciation	Rs. 300	2,700	Add: Life membership		
Books	Rs. 5,500		Fee	Rs. 3,000	20,450
Less: Depreciation	Rs.100	5,400			
		20,950			20,950

QUESTION NO.7

Date	Details	L/F	Debit Rs.	Credit Rs.
	Cash account		20,880	
	Rehana's capital account			15,000
	Goodwill account			5,880
	(Capital introduced by Rehana and G/w paid in cash)			
	Goodwill account		5,880	
	Humaira's capital account			3,528
	Saba Capital Account			2,352
	(Good will distrubted amongs old partners)			
	Total		26,760	26,760

Balance Sheet
As on ....

Assessts	Rs.	Liabilities	Rs.
Current Assessts:		**Current Liabilities:**	
Cash	22,380	Creditors	11,800
Stock	28,000	**Capital Accounts:**	
Sundry debtors	19,500	Rehana's Capital account	15,000
Fixed Assests:		Humairas's capital acoount	54,978
Machinery	48,500	Saba's capital account	39,102
Furniture	2,500		
	120,880		120,880

Humaira's Capital Account

Particulars	Rs.	References	Rs.
Balance c/d	54,978	Balance b/d	51,450
		Good will A/c	3,528
	54,978		54,978

Saba's Capital Account

Particulars	Rs.	References	Rs.
Balance c/d	39,102	Balance b/d	36,750
		Good will A/c	2,352
	39,102		39,102

Rehana's Capital Account

Particulars	Rs.	References	Rs.
Balance c/d	15,000	Bank A/c	15,000
	15,000		15,000

Cash Account

Particulars	Rs.	References	Rs.
Balance c/d	15,00	Balance b/d	22.380
Rehana's Capital account	15,000		
Good will Account	5,880		
	22,380		22,380

(w-1)<u>**Calculation of New sharing Ratio**</u> **% ages**

share of Rehanas in Future profit	=	$\frac{1}{8}$	35%
Combined share of old patners	=		12.5 %
		Total	100%
Share of Humaira's profit	=		52.5 %
Share of Saba's profit	=		35%
Share of Rehana's profit	=		12.5 %
		Total	100%

w-2) <u>**Valuation of Goodwill:**</u>

Goodwill = Average profit Purchase year price

= 23,520 X 2
= 47,040

Average of profit $=\left(\frac{21{,}000+24{,}000+25{,}560}{3}\right)$
= Rs. 23,520

(w-3) <u>**Amount of Goodwill brought bh Rehana:**</u>

$=47{,}040 \text{ X } \frac{1}{8} = \text{Rs. } 5{,}880$

Question No.8
Every business transaction causes at least two changes in the financial position of a business concern at the same time - hence, both the changes must be recorded in the books of accounts. This concept is explained on Analysis of Business Transaction page. Otherwise, the books of accounts will remain incomplete and the result ascertained therefore will be inaccurate.

For example, we buy machinery for $100,000. Obviously, it is a business transaction. It has brought two changes - machinery increases by $100,000 and cash decreases by an equal amount. While recording this transaction in the books of accounts, both the changes must be recorded. In accounting language these two changes are termed as "a debit change" and "a credit change" The detail about these terms is given under the topic account. Thus we see that for every transaction there will be two entries - one debit entry and another credit entry.

For each debit there will be a corresponding credit entry of an equal amount. Conversely, for every credit entry there will be a corresponding debit entry of an equal amount. So, the system under which both the changes in a transaction are recorded together - one change is debited, while the other change is credited with an equal amount - is known as double entry system.

Locus Pacioli, an Italian wrote a first book on double entry system in 1494. It is regarded as the best and the only scientific method of accounting system universally accepted throughout the world. It has been built on well defined rules and principles which is the foundation of modern accountancy.

The fundamental principle of double entry system lies in analyzing the two changes (parties) involved in business transactions and properly recording of both the changes in the books of accounts. There is no exception to this principle. If a complete picture of the transactions is to be reflected through books of accounts, the double entry system must be duly observed. Otherwise the books of accounts will fail to provided complete information and the very objective of accounting will be defeated.

Successive Processes of the Double Entry System:
Following are the successive processes of the double entry system:

Journal:
First of all, transactions are recorded in a book known as journal. Read more about journal.

Ledger:
In the second process, the transactions are classified in a suitable manner and recorded in another book known as ledger. Read more about ledger.

Trial Balance:

In the third process, the arithmetical accuracy of the books of account is tested by means of trial balance. Read more about trial balance.

Final Accounts:
In the fourth and final process the result of the full year's working is determined through final accounts.

Advantages:
Double entry system is acknowledged as the best method of accounting in the modern world. Following are the main advantages of double entry system:

Under this method both the aspects of each and every transaction are recorded. So it is possible to keep complete account.

Since both the aspects of a transaction are recorded, for each debit there must be a corresponding credit of an equal amount. Therefore, total debits must be equal to total credits. In fact, it is possible to verify the arithmetical accuracy of the books of accounts by ascertaining whether the two sides become equal or not through a process known as trial balance.

Under this system profit and loss account can be prepared easily by taking together all the accounts relating to income or revenue and expenses or losses and thereby the result of the business can be ascertained.

A balance sheet can be prepared by taking together all the accounts relating to assets and liabilities and thereby the financial position of the business can be assessed.

Under this system mistakes and deflections can be detected - this exerts a moral pressure on the accountant and his staff.

Under this system necessary statistics are easily available so that the management can take appropriate decision and run the business efficiently.

All the necessary details about a transaction can be obtained quickly and easily.

The total amount owed by debtors and the total amount owed to creditors can be ascertained easily.

Sale, purchase of goods, stock, revenue, expenses and profit or loss of different years can be compared and the success or failure of the business measured. Thereafter the causes of failure can be found out and necessary remedial measures taken to ensure success of the business.

Disadvantages:
Despite so may advantages of the system, double entry system has some disadvantages which are as follows:

Under this method each transaction is recorded in books in two stages (journal and ledger) and two sides (debit and credit). This results in increase of number and size of books of account and creation of complications.

It involves time, labor and money. So it is not possible for small concerns to keep accounts under this system.

It requires expert knowledge to keep accounts under this system.

As the system is complex, there is greater possibility of committing errors and mistakes.

It is clear from the above discussion that the advantages of double entry system far outweigh its disadvantages. So, it is regarded as the best system in the modern world.