FOUNDATION COURSE

MOCK TEST PAPER 2

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. (a) (i) False - Debenture interest is payable before the payment of any dividend on shares.

(ii) True: Amount paid to management company for consultancy to reduce the working expenses is capital expenditure as this expenditure will generate long-term benefit to the entity.

(iii) False: The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.

(iv) False: According to the Indian Partnership Act, in the absence of any agreement to the contrary, profits and losses of the firm are shared equally among partners.

(v) False: Goods taken by the proprietor for personal use should be credited to Purchases Account as less goods are left in the business for sale.

(vi) False: Quick ratio is known as Acid Test Ratio and not Cash Ratio.

(b) Objective and Advantages of Accounting Standards: An Accounting Standard is a selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The Accounting Standards Board formulates Accounting Standards to be established by the Council of the Institute of Chartered Accountants of India.

The main objective of Accounting Standards is to establish standards which have to be complied with to ensure that financial statements are prepared in accordance with generally accepted accounting standards. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India.

The main advantage of setting accounting standards is that the adoption and application of Accounting Standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements.

The other advantages are as follows:

(i) Reduction in variations.

(ii) Disclosure beyond that required by law.

(iii) Facilities comparison.

(c) Statement of Valuation of Stock on 31st March, 2018

		Rs.	*Rs.*
Value of stock as on 15th April, 2018			50,000
Add:	Cost of sales during the period from 31st March, 2018 to 15th April, 2018		
	Sales (Rs. 41,000 – Rs. 1,000)	40,000	
	Less: Gross Profit (20% of Rs. 40,000)	8,000	32,000
	Cost of goods sent on approval basis (80% of Rs. 6,000)		4,800
			86,800

Less:	Purchases during the period from 31st March, 2018 to 15th April, 2018	5,034
		81,766

2. (a) **PETTY CASH BOOK**

Receipts Rs.	Date 2017	V. No.	Particulars	Total Rs.	Con-veyance Rs.	Cartage Rs.	Statio-nery Rs.	Postage & Telegrams Rs.	Wages Rs.	Sundries Rs.
20,000	April1		To Cash							
	2	1	By Conveyance	500	500					
	3	2	By Cartage	2,500		2,500				
	4	3	By Postage and Telegrams	500				500		
	5	4	By Wages	600					600	
	5	5	By Stationery	400			400			
	6	6	By Repairs to machine	1,500						1,500
	6	7	By Conveyance	100	100					
	7	8	By Cartage	400		400				
	7	9	By Postage and Telegrams	700				700		
	8	10	By Cartage	3,000		3,000				
	9	11	By Stationery	2,000			2,000			
	10	12	By Sundry Expenses	5,000						5,000
				17,200	600	5,900	2,400	1,200	600	6,500
			By Balance c/d	2,800						
20,000				20,000						
2800			To Balance b/d							
17,200	11		To Cash							

(b)

Balance as per Cash Book				(49,350)
Add :	Cheques issued but not presented for payment		3,700	
	Crossed Cheque issued to Abdul not presented for payment		750	
	Amounts collected by Bank on our behalf but not entered in the Cash Book			
	Dividend	150		
	Insurance claim	800		
		950		
	(-) Bank Commission	15	935	
	Amount paid in A/c No. 2 credited by the Bank wrongly to this A/c		500	5885
				(43,465)
Less :	Cheques deposited in the bank but no cleared (Rs. 1,300 + Rs. 250)		1550	

	Payments made by Bank on our behalf but not entered in the Cash Book			
	Interest	320		
	Premium	160		
	Second call	600	1,080	
	Cheques issued against A/c No. 2 but wrongly debited by the Bank to this A/c		300	(2,930)
	Overdraft as per Pass Book			46,395

3. (a)

Books of Manoj

Consignment to Jaipur Account

Particulars	Rs.	*Particulars*	Rs.
To Goods sent on Consignment A/c	1,87,500	By Goods sent on Consignment A/c (loading)	37,500
To Cash A/c	15,000	By Abnormal Loss	16,500
To Kiran(Expenses)	12,000	By Kiran(Sales)	1,50,000
To Kiran(Commission)	16,406	By Inventories on Consignment A/c	30,375
To Inventories Reserve A/c	5,625	By General Profit & Loss A/c	2,156
	2,36,531		2,36,531

Working Notes:

1. **Calculation of value of goods sent on consignment:**

Abnormal Loss at Invoice price = Rs. 18,750

Abnormal Loss as a percentage of total consignment = 10%.

Hence the value of goods sent on consignment = Rs. 18,750 X 100/ 10 = Rs. 1,87,500

Loading of goods sent on consignment = Rs. 1,87,500 X 25/125 = Rs. 37,500

2. **Calculation of abnormal loss (10%):**

Abnormal Loss at Invoice price = Rs. 18,750.

Abnormal Loss at cost = Rs. 18,750 X 100/125 = Rs. 15,000

Add: Proportionate expenses of Manoj (10 % of Rs. 15,000) = Rs. 1,500

Rs. 16,500

3. **Calculation of closing Inventories (15%):**

Manoj's Basic Invoice price of consignment= Rs. 1,87,500

Manoj's expenses on consignment = Rs. 15,000

Rs. 2,02,500

Value of closing Inventories = 15% of Rs. 2,02,500= Rs. 30,375

Loading in closing Inventories = Rs. 37,500 x 15/100= Rs. 5,625

Where Rs. 28,125 (15% of Rs. 1,87,500) is the basic invoice price of the goods sent on consignment remaining unsold.

4. **Calculation of commission:**

Invoice price of the goods sold = 75% of Rs. 1,87,500 = Rs. 1,40,625

Excess of selling price over invoice price = Rs. 9,375 (Rs. 1,50,000 - Rs. 1,40,625)

Total commission = 10% of Rs. 1,40,625 + 25% of Rs. 9,375

= Rs. 14,062.5 + Rs. 2,343.75

= Rs. 16,406

(b) **A's Books**

Joint Venture with B A/c

2017	Particulars	Amount (Rs.)	2017	Particulars	Amount (Rs.)
July 1	To Bank - draft sent on A/c	3,75,000	July 16	By Bank-sale proceeds	1,21,500
July 15	To Bank - freight	3,000	July 31	By Bank-sale proceeds	3,36,000
Aug 25	To Profit and Loss A/c share of profit	81,150	Aug 14	By Bank-sale proceeds	3,07,800
	To Bank - draft sent in settlement	3,06,150			
		7,65,300			7,65,300

Memorandum Joint Venture A/c

Particulars		Amount (Rs.)	Particulars	Amount (Rs.)
To Cost of 200 sets		6,00,000	By Sales proceeds (net)	
To Freight		3,000	30 sets @ Rs. 4,050	1,21,500
To Profit :			80 sets @ Rs. 4,200	3,36,000
A	81,150		80 sets @ Rs. 3,847.5	3,07,800
B	81,150	1,62,300		
		7,65,300		7,65,300

4. **Smith Library Society**

Income and Expenditure Account
for the year ended 31st March, 2019

Dr.					*Cr.*
Expenditure	*Rs.*	*Rs.*	*Income*		*Rs.*
To Electric charges		7,200	By Entrance fee (25% of Rs. 30,000)		7,500
To Postage and stationary		5,000			
To Telephone charges		5,000	By Membership subscription	2,00,000	
To Rent	88,000		*Less*: Received in advance	10,000	1,90,000
Add: Outstanding	4,000	92,000			
To Salaries	66,000		By Sale proceeds of old papers		1,500
Add: Outstanding	3,000	69,000	By Hire of lecture hall		
To Depreciation (W.N.1)					20,000

Electrical fittings	15,000		By	Interest on securities (W.N.2)	8,000	
Furniture	5,000					
Books	46,000	66,000		*Add*: Receivable	500	8,500
			By	Deficit- excess of expenditure over income		16,700
		2,44,200				2,44,200

Balance Sheet of Smith Library Society
as on 31st March, 2019

Liabilities	*Rs.*	*Rs.*	*Asset*	*Rs.*	*Rs.*
Capital fund	7,93,000		Electrical fittings	1,50,000	
Add: Entrance fees	22,500		*Less*: Depreciation	(15,000)	1,35,000
	8,15,500		Furniture	50,000	
Less: Excess of expenditure			*Less*: Depreciation	(5,000)	45,000
over income	(16,700)	7,98,800	Books	4,60,000	
Outstanding expenses:			*Less* Depreciation	(46,000)	4,14,000
Rent	4,000		Investment:		
Salaries	3,000	7,000	Securities	1,90,000	
Membership subscription in			Accrued interest	500	1,90,500
advance		10,000	Cash at bank		20,000
			Cash in hand		11,300
		8,15,800			8,15,800

Working Notes:

1. **Depreciation**

	Rs.	
Electrical fittings 10% of Rs. 1,50,000	15,000	
Furniture 10% of Rs. 50,000	5,000	
Books 10% of Rs. 4,60,000	46,000	

2. **Interest on Securities**

Interest @ 5% p.a. on Rs. 1,50,000 for full year	7,500	
Interest @ 5% p.a. on Rs. 40,000 for half year	1,000	8,500
Less: Received		(8,000)
Receivable		500

5. (a) **Revaluation Account**

	Rs.			Rs.
To Buildings A/c	10,000	By Investments A/c		3,000
To Plant and Machinery A/c	26,000	By Loss to Partners:		
To Provision for Doubtful Debts A/c	27,800	P	30,400	
		Q	18,240	
		R	12,160	60,800
	63,800			63,800

Capital Accounts of Partners

Particulars	P	Q	R	T	Particulars	P	Q	R	T
	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	Rs.
To Revaluation A/c	30,400	18,240	12,160	-	By Balance b/d	80,000	20,000	30,000	-
To Investments A/c	-	15,000	-	-	By Reserves A/c	10,000	6,000	4,000	-
To Q's Loan A/c	-	22,760	-	-	By R and T's Capital A/c	10,000	30,000	-	-
To P and Q's Capital A/c			20,000	20,000	By Bank A/c (balancing figure)	10,400	-	78,160	60,000
To Balance c/d	80,000	-	80,000	40,000					
	1,10,400	56,000	1,12,160	60,000		1,10,400	56,000	1,12,160	60,000

Bank Account

	Rs.		Rs.
To P's capital A/c	10,400	By Bank Overdraft A/c	44,000
To R's capital A/c	78,160	By Balance c/d	1,04,560
To T's capital A/c	60,000		
	1,48,560		1,48,560

(b) Long Term Debt to Total assets $= \dfrac{\text{Long Term Debt}}{\text{Total Assets}}$

$$= \frac{1,12,500}{3,75,000}$$

$$= 1:3.33$$

(i) Net Profit Ratio $= \dfrac{\text{Net Profit} \times 100}{\text{Net Sales}}$

$$= \frac{39,375 \times 100}{5,62,500}$$

$$= 7\%$$

(ii) Return on Average Total Assets Ratio $= \dfrac{\text{Net Profit} + \text{Interest}(1-t) \times 100}{\text{Average Total Assets}}$

$$= \frac{39,375 + 6,000(1-0.40) \times 100}{(3,00,000 + 3,75,000)/2}$$

$$= \frac{42,975 \times 100}{3,37,500}$$

$$= 12.73\%$$

(iii) Return on Equity $= \dfrac{\text{Net Profit} \times 100}{\text{Shareholders' Funds}}$

$$= \frac{39,375 \times 100}{1,12,500}$$

$$= 35\%$$

(iv) Net Sales to Total Assets Ratio $= \dfrac{\text{Net Profit}}{\text{Total Assets}}$

$= \dfrac{5,62,500}{3,37,500}$

= 1.67: 1

6. (a)

Journal		*Dr.* Rs.	*Cr.* Rs.
Preference Share Capital A/c (4,000 x Rs.75)	Dr.	3,00,000	
To Preference Share Allotment A/c			1,00,000
To Preference Share First Call A/c			1,00,000
To Forfeited Share A/c			1,00,000
(Being the forfeiture of 4,000 preference shares Rs.75 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated.....)			
Bank A/c (3,000 x Rs.65)	Dr.	1,95,000	
Forfeited Shares A/c (3,000 x Rs.10)	Dr.	30,000	
To Preference Share Capital A/c			2,25,000
(Being re-issue of 3,000 shares at Rs. 65 per share paid-up as Rs. 75 as per Board's Resolution No…..dated….)			
Forfeited Shares A/c	Dr.	45,000	
To Capital Reserve A/c (Note 1)			45,000
(Being profit on re-issue transferred to Capital/Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =Rs. 1,00,000/4,000 = Rs. 25

Loss on re-issue =Rs. 75 – Rs. 65 = Rs. 10

Surplus per share re-issued Rs. 15

Transferred to capital Reserve Rs. 15 x 3,000 = Rs. 45,000.

(b)

Books of Pihu Ltd.

Journal Entries

Date	*Particulars*	*L.F.*	*Debit Amount* (Rs.' Lakhs)	*Credit Amount* (Rs.' Lakhs)
	Bank A/c	Dr.	15,000	
	To Debenture Application A/c			15,000
	(Debentures application money received)			
	Debenture Application A/c	Dr.	15,000	
	To 8% Debentures A/c			15,000
	(Application money transferred to 8% debentures account)			
	Debenture Allotment A/c	Dr.	13,200	

	Loss on issue of debenture A/c To 8% Debentures A/c To Debenture redemption premium A/c (Call made consequent upon allotment of debentures issued at discount and redeemable at premium)	Dr.	3,300	 15,000 1,500
	Bank A/c To Debenture Allotment A/c (Allotment amount received)	Dr.	13,200	 13,200

Working Notes :

Loss on issue of debentures =

(Amount of discount on issue + Premium payable on redemption) x No. of Debentures

= (6% of Rs.100 + 5% of Rs.100) x 300 lakh

= (Rs. 6 + Rs. 5) x 300 lakh

= Rs. 3,300 lakh

(c) Difference between Money measurement concept and matching concept

As per **Money Measurement concept**, only those transactions, which can be measured in terms of money are recorded. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money be only to be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

In **Matching concept**, all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.

Or

The basic considerations in distinction between capital and revenue expenditures are:

(i) Nature of business: For a trader dealing in furniture, purchase of furniture is revenue expenditure but for any other trade, the purchase of furniture should be treated as capital expenditure and shown in the balance sheet as asset.

(ii) Recurring nature of expenditure: If the frequency of an expense is quite often in an accounting year then it is said to be an expenditure of revenue nature while non-recurring expenditure is infrequent in nature and do not occur often in an accounting year.

(iii) Purpose of expenses: Expenses for repairs of machine may be incurred in course of normal maintenance of the asset. Such expenses are revenue in nature. On the other hand, expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature.

(iv) Materiality of the amount involved: Relative proportion of the amount involved is another important consideration in distinction between revenue and capital.