FOUNDATION COURSE

MOCK TEST PAPER

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. (a) (i) 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.

(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: When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received on shares forfeited.

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

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

(i) <u>Nature of business</u>: 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) <u>Recurring nature of expenditure:</u> 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) <u>Purpose of expenses:</u> 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) <u>Materiality of the amount involved:</u> Relative proportion of the amount involved is another important consideration in distinction between revenue and capital.

(c) **Pathak Ltd.**

Bank Reconciliation Statement as on 31.3.2017

Particulars	**₹**
Balance as per cash book	1,20,000
Add : Cheque issued but not presented	68,000
Interest credited	1,500
	1,89,500
Less : Bank charges	(300)
Balance as per pass book	1,89,200

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

Receipts ₹	Date 2017	V. No.	Particulars	Total ₹	Conveyance ₹	Cartage ₹	Stationery ₹	Postage & Telegrams ₹	Wages ₹	Sundries ₹
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) **Profit and Loss Adjustment Account**

	₹		₹
To Advertisement (samples)	80,000	By Net profit	8,00,000
To Sales (goods approved in April to be taken as April sales)	2,00,000	By Electric fittings	30,000
		By Samples	80,000
		By Stock (Purchases of March not included in stock)	5,00,000
To Adjusted net profit	16,80,000	By Sales (goods sold in March wrongly taken as April sales)	4,00,000
		By Stock (goods sent on approval basis not included in stock)	1,50,000
	19,60,000		19,60,000

Calculation of value of inventory on 31st March, 2017

	₹
Stock on 31st March, 2017 (given)	7,50,000
Add: Purchases of March, 2017 not included in the stock	5,00,000
Goods lying with customers on approval basis	1,50,000
	14,00,000

3. (a) **Books of Manoj**

Consignment to Jaipur Account

Particulars	₹	***Particulars***	₹
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 = ₹ 18,750

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

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

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

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

   Abnormal Loss at Invoice price = ₹ 18,750.

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

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

   ₹ 16,500

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

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

   Manoj's expenses on consignment = ₹ 15,000

   ₹ 2,02,500

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

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

   Where ₹ 28,125 (15% of ₹ 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 ₹ 1,87,500 = ₹ 1,40,625

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

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

   = ₹ 14,062.5 + ₹ 2,343.75

   = ₹ 16,406

(b) **A's Books**

Joint Venture with B A/c

2017	Particulars	Amount (₹)	2017	Particulars	Amount (₹)
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 (₹)	Particulars	Amount (₹)
To Cost of 200 sets		6,00,000	By Sales proceeds (net)	
To Freight		3,000	30 sets @ ₹ 4,050 net	1,21,500
To Profit :			80 sets @ ₹ 4,200 net	3,36,000
A	81,150		80 sets @ ₹ 3,847.5 net	3,07,800
B	81,150	1,62,300		
		7,65,300		7,65,300

4. **Jeevan Hospital**

Income & Expenditure Account
for the year ended 31 December, 2017

Expenditure	(₹)	Income	(₹)
To Salaries	24,000	By Subscriptions	24,500
To Diet expenses	15,600	By Govt. Grants (Maintenance)	20,000
To Rent & Rates	1,700	By Fees, Sundry Patients	4,800
To Printing & Stationery	2,400	By Donations	8,000
To Electricity & Water-charges	2,400	By Benefit shows (net collections)	6,000
To Office expenses	2,000	By Interest on Investments	800
To Excess of Income over expenditure transferred to Capital Fund	16,000		
	64,100		64,100

Balance Sheet as at 31st Dec., 2017

Liabilities	₹	₹	Assets	₹	₹
Capital Fund :			Building :		
Opening balance	49,300		Opening balance	90,000	
Excess of Income			Addition	50,000	1,40,000

Over Expenditure	16,000	65,300	Hospital Equipment :		
Building Fund :			Opening balance	34,000	
Opening balance	80,000		Addition	17,000	51,000
Add : Govt. Grant	80,000	1,60,000	Furniture		6,000
Subscriptions			Investments-		
received in advance		2,400	8% Govt. Securities		20,000
			Subscriptions receivable		1,400
			Accrued interest		800
			Prepaid expenses (Rent)		300
			Cash at Bank		6,800
			Cash in hand		1,400
		2,27,700			2,27,700

Working Notes:

(1) Balance sheet as at 31st Dec., 2017

Liabilities	₹	Assets	₹
Capital Fund		Building	90,000
(Balancing Figure)	49,300	Equipment	34,000
Building Fund	80,000	Subscription Receivable	6,500
Creditors for Expenses :		Cash at Bank	5,200
Salaries payable	7,200	Cash in hand	800
	1,36,500		1,36,500

(2)	**Value of Building**	₹
	Balance on 31st Dec. 2017	1,40,000
	Paid during the year	50,000
	Balance on 31st Dec. 2016	90,000
(3)	**Value of Equipment**	
	Balance on 31st Dec. 2017	51,000
	Paid during the year	(17,000)
	Balance on 31st Dec. 2016	34,000
(4)	**Subscription due for 2016**	
	Receivable on 31st Dec. 2016	6,500
	Received in 2017	5,100
	Still Receivable for 2016	1,400

5. (a) (i) Journal Entry in the books of the M/s LMN

Date	Particulars		*Dr.* ₹	*Cr.* ₹
Jan 3 2018	L's Capital A/c	Dr.	1,000	
	M's Capital A/c	Dr.	1,000	
	To N's Capital A/c			2,000
	(Being the required adjustment for goodwill through partner's capital accounts)			

(ii) Revaluation Account

Dr. Particulars	₹	Particulars	*Cr.* ₹
To Furniture A/c (₹ 5,600 – 4,600)	1,000	By Machinery A/c (₹ 11,700 - 10,000)	1,700
To Inventory A/c (₹ 1,900 – 1,500)	400		
To Partners' Capital A/cs (L - ₹ 100, M - ₹ 100, N - ₹ 100)	300		
	1,700		1,700

Partners' Capital Accounts

	L	M	N		L	M	N
To N (Goodwill)	1,000	1,000	–	By Balance b/d	8,200	8,200	9,000
To Cash A/c	–	–	2,000	By General Reserve A/c	1,000	1,000	1,000
To Executors A/c	–	–	10,100	By Revaluation A/c (Profit)	100	100	100
To Balance C/d	8,300	8,300	–	By L (Goodwill)	–	–	1000
				By M (Goodwill)	–	–	1000
	9,300	9,300	12,100		9,300	9,300	12,100

Working Note:

Statement showing the Required Adjustment for Goodwill

Particulars	L	M	N
Right of goodwill before death	1/3	1/3	1/3
Right of goodwill after death	1/2	1/2	–
Gain / (Sacrifice)	(+) 1/6	(+) 1/6	(-) 1/3

(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 $= \dfrac{\text{Net Profit} \times 100}{\text{Shareholders' Funds}}$

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

= 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 of Mohan Ltd.**

2017			Dr. ₹ in lakhs	Cr. ₹ in lakhs
June 1	Bank A/c	Dr.	300	
	To Shares Application A/c			300
	(Receipt of applications for 15 lakh shares along with application money of ₹ 20 per share.)			
June 1	Share Application and Allotment A/c	Dr.	300	
	Share Allotment A/c	Dr.	450	
	To Share Capital A/c			750
	(The allotment of 15 lakh shares : payable on application ₹ 20 share and ₹ 30 on allotment as per Directors' resolution no... dated...)			
June 1	Bank A/c	Dr.	465	
	To Shares Allotment A/c			450
	To Calls in Advance A/c			15
	[Receipt of money due on allotment @ ₹ 30, also the two calls (₹ 30 and ₹ 20) on 30,000 shares.]			
Nov. 1	Share First Call A/c	Dr.	450	
	To Share Capital A/c			450
	(The amount due on 15 lakh shares @ ₹ 30 on first call, as per Directors, resolution no... dated...)			
	Bank A/c	Dr.	441	
	Calls in Advance A/c	Dr.	9	
	To Share First Call A/c			450
	(Receipt of the first call on 14.7 lakh shares, the balance having been previously received and now debited to call in advance account.)			
2018 March 1	Share Final Call A/c	Dr.	300	
	To Share Capital A/c			300
	(The amount due on Final Call on 15 lakh shares @ ₹ 20 per share, as per Directors' resolution no... dated...)			

March1	Bank A/c	Dr.	294	
	Calls in Advance A/c	Dr.	6	
	To Share Final Call A/c			300
	(Receipt of the moneys due on final call on 14.7 lakhs shares, the balance having been previously received.)			
March 1	Interest on calls in Advance A/c	Dr.	0.99	
	To Shareholder A/c			0.99
	(Being interest on call in advance made due)			
Feb 1	Shareholder A/c	Dr.	0.99	
	To Bank A/c			0.99
	(Being interest paid)			

Working Note:

The interest on calls in advance paid @ 12% on :	₹
₹ 9,00,000 (first call) from 1st June to 1st Nov., 2017–5 months	45,000
₹ 6,00,000 (final call) from 1st June to 1st March., 2018–9 months	54,000
Total Interest Amount Due	99,000

(b) **Books of Pihu Ltd.**

Journal Entries

Date	*Particulars*	*L.F.*	*Debit Amount* (₹' Lakhs)	*Credit Amount* (₹' 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	Dr.	3,300	
	To 8% Debentures A/c			15,000
	To Debenture redemption premium A/c			1,500
	(Call made consequent upon allotment of debentures issued at discount and redeemable at premium)			
	Bank A/c	Dr.	13,200	
	To Debenture Allotment A/c			13,200
	(Allotment amount received)			

Working Notes :

Loss on issue of debentures =

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

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

= (₹ 6 + ₹ 5) x 300 lakh

= ₹ 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

Difference between Going Concern Concept and Cost Concept

***Going Concern concept*:** The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed.

The valuation of assets of a business entity is dependent on this assumption. Traditionally, accountants follow historical cost in majority of the cases.

Cost Concept

By this concept, the value of an asset is to be determined on the basis of historical cost, in other words, acquisition cost. Although there are various measurement bases, accountants traditionally prefer this concept in the interests of objectivity. When a machine is acquired by paying ₹ 5,00,000, following cost concept the value of the machine is taken as ₹ 5,00,000. It is highly objective and free from all bias. Other measurement bases are not so objective. Current cost of an asset is not easily determinable. If the asset is purchased on 1.1.1995 and such model is not available in the market, it becomes difficult to determine which model is the appropriate equivalent to the existing one. Similarly, unless the machine is actually sold, realisable value will give only a hypothetical figure. Lastly, present value base is highly subjective because to know the value of the asset one has to chase the uncertain future.