Test Series: October, 2018

FOUNDATION COURSE

MOCK TEST PAPER - 2

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. (a) 1 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.

2. False - Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.

3 False - Fixed Assets Turnover ratio measures the efficiency with which the firm uses its fixed assets. Capital Turnover Ratio indicates the firm's ability of generating sales per rupee of long term investment.

4 False- The right hand side of the equation includes cash twice- once as a part of current assets and another separately. The basic accounting equation is

Equity + Long Term Liabilities = Fixed Assets + Current Assets - Current Liabilities

5 False - According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.

6. False: Consignment account is a nominal account

(b) Change in accounting policy may have a material effect on the items of financial statements. For example, if cost formula used for inventory valuation is changed from weighted average to FIFO, or if interest is capitalized which was earlier not in practice, or if proportionate amount of interest is changed to inventory which was earlier not the practice, all these may increase or decrease the net profit. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts. Therefore, it is necessary to quantify the effect of change on financial statement items like assets, liabilities, profit/loss.

The examples in this regard may be given as follows:

Omega Enterprises revised its accounting policy relating to valuation of inventories to include applicable production overheads.

(c) (i) Error of Principle.

(ii) Error of Omission.

(iii) Error of Commission.

(iv) Error of Omission.

(v) Error of Commission

2. (a) **Quarry Lease Account**

Dr. 2016		Rs.	2016		**Cr.** Rs.
Jan.	To Bank A/c	2,00,00,000	Dec. 31	By Depreciation A/c [(4,000/4,00,000) × Rs. 2,00,00,000]	2,00,000
			Dec. 31	By Balance c/d	1,98,00,000

		2,00,00,000			2,00,00,000
2017			2017		
Jan. 1	To Balance b/d	1,98,00,000	Dec. 31	By Depreciation A/c	10,00,000
			Dec. 31	By Balance c/d	1,88,00,000
		1,98,00,000			1,98,00,000
2018			2018		
Jan. 1	To Balance b/d	1,88,00,000	Dec. 31	By Depreciation A/c	15,00,000
			Dec. 31	By Balance c/d	1,73,00,000
		1,88,00,000			1,88,00,000

Depreciation Account

Dr. **2016**		**Rs.**	**2016**		**Cr.** **Rs.**
Dec. 31	To Quarry lease A/c	2,00,000	Dec. 31	By Profit & Loss A/c	2,00,000
		2,00,000			2,00,000
2017			2017		
Dec. 31	To Quarry lease A/c	10,00,000	Dec. 31	By Profit & Loss A/c	10,00,000
		10,00,000			10,00,000
2018			2018		
Dec. 31	To Quarry lease A/c	15,00,000	Dec. 31	By Profit & Loss A/c	15,00,000
		15,00,000			15,00,000

(b) Statement of Valuation of Stock on 30th June, 2018

		Rs.
Value of stock as on 23rd June, 2018		48,00,000
Add: Unsold stock out of the goods sent on consignment	2,40,000	
Purchases during the period from 23rd June, 2018 to 30th June, 2018	2,40,000	
Goods in transit on 30th June, 2018	1,60,000	
Cost of goods sent on approval basis (80% of Rs. 1,60,000)	1,28,000	7,68,000
		55,68,000
Less: Cost of sales during the period from 23rd June, 2018 to 30th June, 2018		
Sales (Rs. 13,60,000-Rs. 1,60,000)	12,00,000	
Less: Gross profit	96,000	
		11,04,000
Value of stock as on 30th June, 2018		44,64,000

Working Notes:

1.	**Calculation of normal sales:**	Rs.	Rs.
	Actual sales		13,60,000
	Less: Abnormal sales	1,20,000	
	Return of goods sent on approval	1,60,000	2,80,000 10,80,000
2.	**Calculation of gross profit:**		
	Gross profit or normal sales 20/100 x Rs. 10,80,000		2,16,000
	Less: Loss on sale of particular (abnormal) goods (2,40,000 less 1,20,000)		1,20,000
	Gross profit		96,000

3. (a) Calculation of Average Due Date

(Taking 3rd March, 2018 as base date)

Date of bill 2018	*Term*	*Due date 2018*	*Amount (Rs.)*	*No. of days from the base date i.e. 3rd March,2018 (Rs.)*	*Product (Rs.)*
28th January	1 month	3rd March	5,000	0	0
20th March	2 months	23rd May	4,000	81	3,24,000
12th July	1month	14th Aug.	7,000	164	11,48,000
10th August	2 months	13th Oct.	6,000	224	13,44,000
			22,000		28,16,000

Average due date = Base date + Days equal to $\frac{\text{Sum of Products}}{\text{Sum of Amounts}}$

= 3rd March, 2018 + $\frac{28,16,000}{22,000}$

= 3rd March, 2018 + 128 days = 9th July, 2018

Working Note:

Bill dated 12th July, 2018 has the maturity period of one month, due date (after adding 3 days of grace) falls on 15th August, 2018. 15th August being public holiday, due date would be preceding date i.e. 14th August, 2018.

(b) In the books of Deepak

Joint Venture Account

Particulars		Amount (₹)	Particulars	Amount (₹)
To Bank A/c:			By Bank A/c	12,00,000
Material	3,40,000		By Om's A/c (plant)	50,000
Cement	65,000			
Architect's fee	50,000	4,55,000		
To Om's A/c:	-			

Material	2,50,000			
Cement	85,000			
Wages	1,35,000			
License fees	25,000			
Plant	1,00,000	5,95,000		
To Net profit transferred to:	-			
Om's A/c	1,00,000			
Profit & Loss A/c	1,00,000	2,00,000		
		12,50,000		12,50,000

Om's Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Joint Venture A/c (plant)	50,000	By Joint Venture A/c (sundries)	5,95,000
To Bank A/c	6,45,000	By Joint Venture A/c (profit)	1,00,000
	6,95,000		6,95,000

In the books of Om

Joint Venture Account

Particulars	₹	Amount (₹)	Particulars	Amount (₹)
To Deepak's A/c:			By Deepak's A/c (contract amount)	12,00,000
Material	3,40,000		By Plant A/c	50,000
Cement	65,000			
Architect's fee	50,000	4,55,000		
To Bank A/c:	-			
Material	2,50,000			
Cement	85,000			
Wages	1,35,000			
License fees	25,000			
Plant	1,00,000	5,95,000		
To Net profit				

transferred to:				
Deepak's A/c	1,00,000			
Profit & Loss A/c	100,000	2,00,000		
		12,50,000		12,50,000

Dr. **Deepak's Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Joint Venture A/c (contract amount)	12,00,000	By Joint Venture A/c (sundries)	4,55,000
		By Joint Venture A/c (profit)	1,00,000
		By Bank A/c	6,45,000
	12,00,000		12,00,000

4. (a) **Journal Entries**

Particulars		*Amount*	*Amount*
1. Insurance Company's A/c	Dr.	10,000	
To Life Policy A/c			10,000
(Being the policy on the life of Amrish matured on his death)			
2. Life Policy A/c	Dr.	9,000	
To Amitabh's Capital A/c			3,000
To Abhishek's Capital A/c			3,000
To Amrish's Capital A/c			3,000
(Being the transfer of balance in life policy account to all partners' capital accounts)			
3. Amitabh's Capital A/c	Dr.	12,600	
Abhishek's Capital A/c	Dr.	12,600	
Amrish's Capital A/c	Dr.	12,600	
To Advertisement suspense A/c			37,800
(Being Advertisement suspense standing in the books written off fully)			
4. Land & Buildings A/c	Dr.	37,000	
To Revaluation A/c			37,000
(Being an increase in the value of assets recorded)			
5. Investment Fluctuation Reserve A/c	Dr.	600	
To Investment A/c			600

	(Being reduction in the cost of investment adjusted through Investment Fluctuation Reserve)			
6.	Revaluation A/c	Dr.	3,600	
	To Stock A/c			1,200
	To Provision for Doubtful Debts A/c			2,400
	(Being the fall in value of assets recorded)			
7.	Amitabh's Capital A/c	Dr.	3,500	
	Abhishek's Capital A/c	Dr.	3,500	
	To Amrish's Capital A/c			7,000
	(Being the share of Amrish's revalued goodwill adjusted through capital accounts of the remaining partners)			
8.	Profit & Loss Suspense Account	Dr.	1,500	
	To Amrish's Capital A/c			1,500
	(Being Amrish's Share of profit to date of death credited to his account)			
9.	Revaluation A/c	Dr.	33,400	
	To Amitabh's Capital A/c			11,133
	To Abhishek's Capital A/c			11,133
	To Amrish's Capital A/c			11,134•
	(Being the transfer of profit on revaluation)			
10.	General Reserve A/c	Dr.	8,000	
	Investment Fluctuation Reserve A/c (Rs. 2,400 - Rs. 600)	Dr.	1,800	
	To Amitabh's Capital A/c			3,267
	To Abhishek's Capital A/c			3,267
	To Amrish's Capital A/c			3,266
	(Being the transfer of accumulated profits to capital accounts)			
11.	Amrish's Capital A/c	Dr.	53,300	
	To Amrish's Executor's A/c			53,300
	(Being the transfer of Amrish's Capital A/c to his Executor's A/c)			

Working Notes:

(i) Calculation of Amrish's Share of Profit

Total profit for last three years	Rs. 18,000 + Rs. 16,000 + Rs. 20,000 = Rs. 54,000
Average profit 54,000/3	= Rs. 18,000
Profit for 3 months = 18,000 x 3/12	= Rs. 4,500
Amrish's share of Profit = 4,500 x 1/3	= Rs. 1,500

• Rounded off.

(ii) Calculation of Goodwill

Total profits for last five years	Rs. 1,05,000
Average profit 1,05,000/5	= Rs. 21,000
Goodwill at one year's purchase	Rs. 21,000 x 1 =Rs. 21,000

(b) Subscription for the year ended 31.3.2018

		Rs.
Subscription received during the year		3,75,000
Less: Subscription receivable on 1.4.2017	11,250	
Less: Subscription received in advance on 31.3.2018	5,250	(16,500)
		3,58,500
Add: Subscription receivable on 31.3.2018	16,500	
Add: Subscription received in advance on 1.4.2017	9,000	25,500
Amount of Subscription appearing in Income & Expenditure Account		3,84,000

Sports material consumed during the year end 31.3.2018

	Rs.
Payment for Sports material	2,25,000
Less: Amounts due for sports material on 1.4.2017	(67,500)
	1,57,500
Add: Amounts due for sports material on 31.3.2018	97,500
Purchase of sports material	2,55,000
Sports material consumed:	
Stock of sports material on 1.4.2017	75,000
Add: *Purchase of sports material during the year*	2,55,000
	3,30,000
Less: *Stock of sports material on 31.3.2018*	(1,12,500)
Amount of Sports Material appearing in Income & Expenditure Account	2,17,500

Balance Sheet of M/s TT Club For the year ended 31st March, 2018(An extract)

Liabilities	*Rs.*	*Assets*	*Rs.*
Unearned Subscription	5,250	Subscription receivable	16,500
Amount due for sports material	97,500	Stock of sports material	1,12,500

5. (a) Trading and Profit and Loss Account of Mr. Kumar

for the year ended 31st December, 2017

	Rs.	***Rs.***		***Rs.***	***Rs.***
To Opening stock		23,400	By Sales	1,94,800	
To Purchases	1,60,850		*Less:* Returns	4,300	1,90,500
Add: Omitted	200		By Closing stock		39,300
invoice	1,61,050				
Less: Returns	2,900				
	1,58,150				
Less: Drawings	300	1,57,850			
To Freight & carriage		9,800			

To Gross profit c/d		38,750			
		2,29,800			2,29,800
To Rent and taxes		2,350	By Gross profit b/d		38,750
To Salaries and wages		4,650	By Discount		2,220
To Bank interest	550				
Add: Due	850	1,400			
To Printing and stationary	7,200				
Less: Prepaid (1/4)	1,800	5,400			
To Discount allowed		900			
To General expenses		5,725			
To Insurance		650			
To Postage & telegram expenses		1,165			
To Travelling expenses		435			
To Provision for bad debts		575			
[W.N.]					
To Provision for discount on debtors [W.N.]		219			
To Depreciation on furniture & fittings		250			
To Net profit		17,251			
		40,970			40,970

Working Note:

Provision for bad & doubtful debts:

@ 5% on Rs. 11,500 575

Provision for discount:

2% on Rs. 10,925 (11,500 -575) 219

(b) MNOP Ltd Balance Sheet

Liabilities	Rs.	Assets	Rs.
Owner equity	1,00,000	Fixed assets	60,000
Current debt	24,000	Cash	60,000
Long term debt	36,000	Inventory	40,000
	1,60,000		1,60,000

Working Notes

1. Total debt = 0.60 $\times$ Owners equity = 0.60 $\times$ Rs. 1,00,000 = Rs. 60,000

   Current debt to total debt = 0.40, hence current debt = 0.40 $\times$ 60,000 = 24,000

2. Fixed assets = 0.60 $\times$ Owners equity = 0.60 $\times$ Rs. 1,00,000 = Rs. 60,000

3. Total capital employed = Total debt + Owners equity = Rs. 60,000 + Rs. 1,00,000 = Rs. 1,60,000

4. Total assets consisting of fixed assets and current assets must be equal to Rs. 1,60,000 (Assets = Liabilities + Owners equity). Since Fixed assets are Rs. 60,000, hence, current assets should be Rs. 1,00,000

5. $\frac{\text{Total assets turnover}}{\text{Inventory turnover}} = \frac{2\text{ Times}}{8\text{ Times}}$

Hence , Inventory /Total assets = 2/8=1/4,

Total assets = 1,60,000

Therefore Inventory = 1,60,000/4 = 40,000

Balance on Asset side = 1,20,000:

Cash = 1,60,000 – 60,000 – 40,000 = 60,000

6. (a) **A Ltd.**

Journal

2017			*Dr.* Rs.	*Cr.* Rs.
May 20	Bank Account	Dr.	8,00,000	
	To Share Application A/c			8,00,000
	(Application money on 40,000 shares at Rs. 20 per share received.)			
June 1	Share Application A/c	Dr.	8,00,000	
	To Share Capital A/c			8,00,000
	(The amount transferred to Capital Account on 40,000 shares Rs. 20 on application. Directors' resolution no........ dated ......)			
	Share Allotment A/c	Dr.	12,00,000	
	To Share Capital A/c			12,00,000
	(Being share allotment made due at Rs. 30 per share. Directors' resolution no...... dated ......)			
July 15	Bank Account	Dr.	12,00,000	
	To Share Application and Allotment A/c			12,00,000
	(The sums due on allotment received.)			
Oct. 1	Share First Call Account	Dr.	10,00,000	
	To Share Capital Account			10,00,000
	(Amount due from members in respect of first call-on 40,000 shares at Rs. 25 as per Directors, resolution no... dated...)			
Oct. 20	Bank Account	Dr.	10,00,000	
	To Share First Call Account			10,00,000
	(Receipt of the amounts due on first call.)			
2018				
Feb. 1	Share Second and Final Call A/c	Dr.	10,00,000	
	To Share Capital A/c			10,00,000
	(Amount due on 40,000 share at Rs. 25 per share on second and final call, as per Directors resolution no... dated...)			
Mar. 31	Bank Account	Dr.	10,00,000	
	To Share Second & Final Call A/c			10,00,000
	(Amount received against the final call on 40,000 shares at Rs.25 per share.)			

(b) In the books of Simmons Limited

Date	*Particulars*		*Rs. '000*	*Rs. '000*
April 1	Bank A/c	Dr.	11,000	
	To 12% Debentures Application A/c			11,000
	(Being money received on 1,10,000 debentures)			
April 7	12% Debentures Application A/c	Dr.	1,000	
	To Bank A/c			1,000
	(Being money on 10,000 debentures refunded as per Board's Resolution No…..dated…)			
April 7	12% Debentures Application A/c	Dr.	10,000	
	To 12% Debentures A/c			10,000
	(Being the allotment of 1,00,000 debentures of Rs. 100 each at par, as per Board's Resolution No….dated…)			

(c) The difference between the balance shown by the passbook and the cashbook may arise on account of the following:

(i) Cheques issued but not yet presented for payment.

(ii) Cheques deposited into the bank but not yet cleared.

(iii) Interest allowed by the bank.

(iv) Interest and expenses charged by the bank.

(v) Interest and dividends collected by the bank.

(vi) Direct payments by the bank.

(vii) Direct deposits into the bank by a customer.

(viii) Dishonour of a bill discounted with the bank.

(ix) Bills collected by the bank on behalf of the customer.

(x) An error committed by the bank etc.

OR

(c) Normally, the following subsidiary books are used in a business:

(i) Cash book to record receipts and payments of cash, including receipts into and payments out of the bank.

(ii) Purchases book to record credit purchases of goods dealt in or of the materials and stores required in the factory.

(iii) Purchase Returns Books to record the returns of goods and materials previously purchased.

(iv) Sales Book to record the sales of the goods dealt in by the firm.

(v) Sale Returns Book to record the returns made by the customers.

(vi) Bills receivable books to record the receipts of promissory notes or hundies from various parties.

(vii) Bills Payable Book to record the issue of the promissory notes or hundies to other parties.

(viii) Journal (proper) to record the transactions which cannot be recorded in any of the seven books mentioned above.