MOCK TEST PAPER II

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. (a) (i) True: Salary paid in advance relates to the coming accounting period. It has nothing to do with the current period. Hence it is not taken in the Profit and Loss Account as an expense. It is shown as a Current Asset in the Balance Sheet.

(ii) True: In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high in the initial period and reduces continuously in the later periods. Thus, depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.

(iii) True: The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

(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: Debenture interest is payable before the payment of any dividend on shares.

(vi) False: Net income is determined by preparing income and expenditure in case of persons practicing vocation.

(b) Change in accounting policy may have a material effect on the items of financial statements. For example, cost formula used for inventory valuation is changed from weighted average to FIFO. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts.

(c) Calculation of depreciation for 5th year

Depreciation per year charged for four years = Rs. 40,00,000 / 10 = Rs. 4,00,000

WDV of the machine at the end of fourth year = Rs. 40,00,000 – Rs. 4,00,000 × 4 = Rs. 24,00,000.

Depreciable amount after revaluation = Rs. 24,00,000 + Rs. 1,60,000 = Rs. 25,60,000

Remaining useful life as per previous estimate = 6 years

Remaining useful life as per revised estimate = 8 years

Depreciation for the fifth year and onwards = Rs. 25,60,000 / 8 = Rs. 3,20,000.

2. (a)

(i)	Bills Receivables A/c	Dr.	1,550	
	Bills Payable A/c	Dr.	1,550	
	To Ram A/c			3,100
	(Correction of error by which Bills Receivable account of Rs 1,550 was wrongly posted through Bills Payable book)			
(ii)	Suspense A/c	Dr.	15,000	
	To Manan			7,500

	To Tapan (Removal of wrong debit to Tapan and giving credit to Manan from whom cash was received)			7,500
(iii)	Suspense A/c To P & L Adjustment A/c (Correct of error by which general expenses of Rs. 2,600 was wrongly posted as Rs. 6,200)	Dr.	3,600	 3,600
(iv)	P&L Adjustment A/c To Suspense (Correction of error by which Sales account was overcast last year)	Dr.	5,000	 5,000
(v)	P & L Adjustment A/c To Mr. Gupta (Correction of error by which legal expenses paid to Mr. Gupta was wrongly debited to her personal account)	Dr.	7,670	 7,670
(vi)	Tina To Hina (Correction of error by which sale of Rs. 25,000 to Tina was wrongly debited to Hina's account)	Dr.	25,000	 25,000
(vii)	Suspense A/c To P&L Adjustment A/c (Correction of error by which Purchase A/c was excess debited by Rs.270 i.e. Rs.1,960 – Rs.1,690)	Dr.	270	 270
(vii)	Trade Receivable A/c To Suspense A/c (Rs. 7,000 due by Mr. Somdev not taken into trial balance now rectified)	Dr.	7,000	 7,000

Suspense A/c

	Rs.		Rs.
To P & L Adjustment A/c	3,600	By P & L Adjustment A/c	5,000
To Manan	7,500	By Trade Receivable (Mr. Somdev)	7,000
To Tapan	7,500	By Difference in Trial Balance (Balancing figure)	6,870
To P&L Adjustment A/c	270		
	18,870		18,870

(b) (i) Cash Book (Bank Column)

Date	Particulars	Amount	Date	Particulars	Amount
2020		Rs.	**2020**		Rs.
Sept. 30			Sept. 30		
	To Party A/c	64,000		By Balance b/d	16,248
	To Customer A/c (Direct deposit)	4,69,600		By Bank charges	2,320
	To Balance c/d	44,968		By Customer A/c (B/R dishonoured)	5,60,000
		5,78,568			5,78,568

(ii) Bank Reconciliation Statement as on 30th September, 2020

Particulars	Amount
	Rs.
Overdraft as per Cash Book	44,968
Add: Cheque deposited but not collected upto 30th Sept., 2020	52,56,000
	53,00,968
Less: Cheques issued but not presented for payment upto 30th Sept., 2020	(53,04,000)
Credit by Bank erroneously on 6th Sept.	(80,000)
Credit balance as per bank statement	83,032

Note: Bank has credited Sameer by 80,000 in error on 6th September, 2020. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with Rs. 53,04,000 resulting in credit balance of Rs. 3,032 as per pass-book.

3. (a) In the books of Devender

Consignment Account

Dr.			*Amount*				*Cr.* *Amount*
2020			*Rs.*	*2020*			*Rs.*
Feb. 16	To	Goods sent on consignment account	50,000	March 15	By	Satender's account (Sales) (300 × Rs. 160)	48,000
Feb. 16	To	Cash/Bank account (Expenses)	750	May 20	By	Satender's account (Sales) (150 × Rs. 170)	25,500
Feb. 16	To	Satender's account (Clearance charges)	1,500	Sep 30	By	Consignment Stock (Working note 2)	5,225
Sep 30	To	Satender's account: Selling expenses (450 × Rs. 20)	9,000				
		Commission (Working note 1)	12,450				
Sep 30	To	Profit and loss account (profit on consignment transferred)	5,025				
			78,725				78,725

Satender's Account

Dr.			*Amount*				*Cr.* *Amount*
2020			*Rs.*	*2020*			*Rs.*
March 15	To	Consignment account (Sales)	48,000	Feb 16	By	Consignment account (Clearance charges)	1,500

May 20	To	Consignment account (Sales)	25,500	Sep 30	By	Consignment account:	
						Selling expenses	9,000
						Commission	12,450
				Sep 30	By	Cash/Bank account	50,550
			73,500				73,500

Working Notes:

1. **Calculation of total commission:**

   Let total commission be *x*

   $$x = 450 \times \text{Rs. } 25 + \frac{1}{4}[(\text{Rs. } 48{,}000 + \text{Rs. } 25{,}500) - x - (450 \times \text{Rs. } 125)]$$

   $$x = \text{Rs. } 11{,}250 + \frac{1}{4}[\text{Rs. } 73{,}500 - x - \text{Rs. } 56{,}250]$$

   $$x = \text{Rs. } 11{,}250 + \frac{1}{4}[\text{Rs. } 17{,}250 - x]$$

   4x + x = Rs. 45,000 + Rs. 17,250

   5x = Rs. 62,250

   x = Rs. 12,450

2. **Valuation of consignment stock:**

	Rs.
50 Pen Drives @ Rs. 100 each	5,000
Add: Proportionate expenses of Satender $\frac{(\grave{} 1{,}500 \times 50)}{500}$	150
Proportionate expenses paid by Devender $\frac{(\grave{} 750 \times 50)}{500}$	75
	5,225

(b) **Taking 19.6.2020 as a Base date**

Transaction Date	Due Date	Amount	Days	Amount
8.3.2020	11.7.2020	12,000	22	2,64,000
16.3.2020	19.6.2020	15,000	0	0
7.4.2020	10.9.2020	18,000	83	14,94,000
17.5.2020	20.8.2020	15,000	62	9,30,000
		60,000		26,88,000

Average Due Date $= \text{Base date} + \frac{\text{Total of Product}}{\text{Total of Amount}}$

= 19.6.2020 + Rs. 26,88,000/Rs.60,000

= 19.6.2020 + 44.8 days (or 45 days approximately)

= 3.8.2020

Hari wants to save interest of Rs. 471. The yearly interest is Rs. 60,000 $\times$ 9% = Rs. 5,400.

Assume that days corresponding to interest of Rs. 471 are Y.

Then, 5,400 $\times$ Y/365 = Rs. 471 or Y = 471 $\times$ 365/5,400 = 31.8 days or 32 days (Approx.)

Hence, if Hari wants to save Rs. 471 by way of interest, he should prepone the payment of amount involved by 32 days from the Average Due Date. Hence, he should make the payment on 2.7.2020 (3.8.2020 – 32 days).

(c) **Sale or Return Account**

Date	*Particulars*	Rs.	*Date*	*Particulars*	Rs.
2020			2020		
Oct 31	To Sundries: Sales	22,500	Oct 31	By Sundries	
Nov 15	To Sundries: Returned	28,000		(Goods sent on sale or return basis)	71,500
Nov 15	To Balance c/d	21,000			
		71,500			71,500
			Nov 16	By Balance b/d	21,000

W's Account

Date	*Particulars*	Rs.	*Date*	*Particulars*	Rs.
2020			2020		
Oct 31	To Sale or Return A/c	18,000	Nov 15	By Sale or Return A/c	18,000

4. (i) **Revaluation Account**

		Rs.			*Rs.*
To	Furniture	1,740	By	Building	6,400
To	Stock	4,280	By	Sundry creditors	2,800
To	Provision of doubtful debts (Rs. 3,500 – Rs. 400)	3,100	By	Investment	900
			By	Revaluation Loss	2,140
To	Outstanding wages	3,120			
		12,240			12,240

(ii) **Partners' Capital Accounts**

		Alpha	Beta	*Gama*			*Alpha*	*Beta*	*Gama*
		Rs.	*Rs.*	*Rs.*			*Rs.*	*Rs.*	*Rs.*
To	Revaluation Loss	1,284	856		By	Balance b/d	88,000	72,000	–
To	Goodwill	45,000	30,000	15,000	By	Cash A/c	–	–	50,000
To	Balance c/d	95,716	77,144	35,000					
					By	Goodwill A/c (Working Note)	54,000	36,000	
		1,42,000	1,08,000	50,000			1,42,000	1,08,000	50,000

(iii) **Balance Sheet of New Partnership Firm**

(after admission of Gama) as on 1.1.21

Liabilities		*Rs.*	*Assets*		*Rs.*
Capital Accounts:					
Alpha	95,716		Building (52,000 + 6,400)		58,400
Beta	77,144		Furniture (11,600 – 1,740)		9,860
Gama	35,000	2,07,860	Stock-in-trade (42,800 – 4,280)		38,520
Bills Payable		8,200	Debtors	70,000	
Bank Overdraft		18,000	Less: Provision for bad debts	(3,500)	66,500
Sundry creditors (25,800-2,800)		23,000	Investment (5,000 + 900)		5,900
Outstanding wages		3,120	Cash (31,000 + 50,000)		81,000
		2,60,180			2,60,180

Working Note:

Calculation of goodwill

Gama's contribution of Rs. 50,000 consists only 1/6th of capital.

Therefore, total capital of firm should be Rs. 50,000 × 6 = Rs. 3,00,000.

But combined capital of Alpha, Beta and Gama amounts Rs. 88,000 + 72,000 + 50,000 = Rs. 2,10,000.

Thus Hidden goodwill is Rs. 90,000 (Rs. 3,00,000 – Rs. 2,10,000).

(b) **In the Books of Mr. Surya**

Manufacturing Account for the Year ended 31.03.2021

Particulars		Units	Amount Rs.	Particulars	Units	Amount Rs.
To Opening Work-in-Process		27,000	78,000	By Closing Work-in-Process	42,000	1,44,000
To Raw Materials Consumed:				By Trading A/c – Cost of finished goods transferred	15,00,000	58,00,800
Opening Inventory	7,80,000					
Add: Purchases	24,60,000					
	32,40,000					
Closing Inventory	(9,60,000)		22,80,000			
To Direct Wages – W.N. (1)			12,16,800			
To Direct expenses: Hire charges on Machinery – W.N. (2)			10,50,000			

To Indirect expenses:						
Hire charges of Factory			7,80,000			
Repairs & Maintenance			5,40,000			
			59,44,800			59,44,800

Working Notes:

(1) Direct Wages – 1,500,000 units @ Rs.0.80 = Rs.12,00,000

42,000 units @ Rs.0.40 = Rs. 16,800

Rs. 12,16,800

(2) Hire charges on Machinery – 15,00,000 units @ Rs.0.70 = Rs.10,50,000

5. (a) Receipts and Payments Account for the year ended 31-03-2021

Receipts	Rs.	Payments	Rs.
To balance b/d		By Salaries	30,000
Cash and bank	55,000	By Purchase of sports goods	5,000
To Subscription received (W.N.1)	1,22,500	Rs. (12,500-7,500)	
To Sale of investments (W.N.2)	35,000	By Purchase of machinery	5,000
To Interest received on investment	7,000	Rs. (10,000-5,000)	
To Sale of furniture	4,000	By Sports expenses	25,000
		By Rent paid	11,000
		Rs. (12,000 -1,000)	
		By Miscellaneous expenses	2,500
		By Balance c/d	
		Cash and bank	1,45,000
	2,23,500		2,23,500

Income and Expenditure account for the year ended 31-03-2021

Expenditure	Rs.	Rs.	Income	Rs.	Rs.
To Salaries	30,000		By Subscription		1,50,000
Add: Outstanding for 2021	9,000		By Interest on Investment		
	39,000		Received	7,000	
Less: Outstanding for 2020	(7,500)	31,500	Accrued (W.N.5)	1,750	8,750
To Sports expenses		25,000			
To Rent		12,000			
To Miscellaneous exp.		2,500			
To Loss on sale of furniture (W.N.3)		3,000			
To Depreciation (W.N.4)					

Furniture	700				
Machinery	750				
Sports goods	1,125	2,575			
To Surplus		82,175			
		1,58,750			1,58,750

Working Notes:

1. **Calculation of Subscription received during the year 2020-21**

	Rs.
Subscription due for 2020-21	1,50,000
Add: Outstanding of 2020	70,000
Less: Outstanding of 2021	(1,00,000)
Add: Subscription of 2021 received in advance	15,000
Less: Subscription of 2020 received in advance	(12,500)
	1,22,500

2. **Calculation of Sale price and profit on sale of investment**

   Face value of investment sold: Rs. 87,500 × 50% = Rs. 43,750

   Sales price: Rs. 43,750 × 80% = Rs. 35,000

   Cost price of investment sold: Rs. 70,000 × 50% = Rs. 35,000

   Profit/loss on sale of investment: Rs. 35,000 - Rs. 35,000 = NIL

3. **Loss on sale of furniture**

	Rs.
Value of furniture as on 01-04-2020	14,000
Value of furniture as on 31-03-2021	7,000
Value of furniture sold at the beginning of the year	7,000
Less: Sales price of furniture	(4,000)
Loss on sale of furniture	3,000

4. **Depreciation**

Furniture -	Rs.7,000 × 10%	=	700
Machinery -	Rs.5,000 × 15%	=	750
Sports goods -	Rs.7,500 × 15%	=	1,125

5. **Interest accrued on investment**

	Rs.
Face value of investment on 01-04-2020	87,500
Interest @ 10%	8,750
Less: Interest received during the year	(7,000)
Interest accrued during the year	1,750

Note: It is assumed that the sale of investment has taken place at the end of the year.

(b) Journal Proper in the Books of M/s. Ritu Manufacturers

Date 2020	Particulars		Amount Rs.	Amount Rs.
Dec. 31	Returns outward A/c	Dr.	2,16,000	
	To Purchases A/c			2,16,000
	(Being the transfer of returns to purchases account)			
	Sales A/c	Dr.	3,00,000	
	To Returns Inward A/c			3,00,000
	(Being the transfer of returns to sales account)			
.	Sales A/c	Dr.	30,00,000	
	To Trading A/c			30,00,000
	(Being the transfer of balance of sales account to trading account)			
	Trading A/c	Dr.	23,40,000	
	To Opening Inventory A/c			3,00,000
	To Purchases A/c			18,00,000
	To Wages A/c			1,50,000
	To Carriage Inwards A/c			90,000
	(Being the transfer of balances of opening inventory, purchases, carriage inwards and wages accounts)			
	Closing Inventory A/c	Dr.	6,00,000	
	To Trading A/c			6,00,000
	(Being the incorporation of value of closing Inventory)			
	Trading A/c	Dr.	12,60,000	
	To Gross Profit			12,60,000
	(Being the amount of gross profit)			
	Gross profit	Dr.	12,60,000	
	To Profit and Loss A/c			12,60,000
	(Being the transfer of gross profit to Profit and Loss Account)			

6. (a) In the books of Daniel Ltd.

Journal Entries

		Dr. Rs.	Cr. Rs.
Bank A/c	Dr.	9,00,000	
To Equity Share Application A/c			9,00,000
(Being the application money received for 1,50,000 shares at Rs. 6 per share)			
Equity Share Application A/c	Dr.	9,00,000	
To Equity Share Capital A/c (1,00,000 x Rs. 6)			6,00,000
To Share allotment A/c			3,00,000
(Being share allotment made for 1,00,000 shares and excess adjusted towards allotment)			

Equity Share Allotment A/c	Dr.	10,00,000	
To Equity Share Capital A/c			10,00,000
(Being allotment amount due on 1,00,000 equity shares at Rs. 10 per share as per Directors' resolution no... dated...)			
Bank A/c	Dr.	7,00,000	
To Equity Share Allotment A/c			7,00,000
(Being balance allotment money received for 1,00,000 shares)			
Equity Share first and final call A/c	Dr.	4,00,000	
To Equity Share Capital A/c			4,00,000
(Being first and final call amount due on 1,00,000 equity shares at Rs. 4 per share as per Directors' resolution no... dated...)			
Bank A/c	Dr.	3,88,000	
Calls in arrears A/c		12,000	
To Equity Share first and final call A/c			4,00,000
(Being final call received on 97,000 shares)			
Share capital A/c (3,000 x Rs. 20)	Dr.	60,000	
To Forfeited shares A/c (3,000 x Rs. 16)			48,000
To Calls in arrears A/c (3,000 x Rs. 4)			12,000
(Being forfeiture of 3,000 shares of Rs. 20 each fully called-up for non payment of first and final call @ Rs. 4 as per Directors' resolution no... dated..)			
Bank A/c (2,500 x Rs.16)	Dr.	40,000	
Forfeited shares A/c (2,500 x Rs.4)		10,000	
To Equity Share Capital A/c (2,500 x Rs. 20)			50,000
(Being re-issue of 2,500 shares @ Rs. 16)			
Forfeited share A/c (2,500 x Rs. 12)		30,000	
To capital reserve A/c (2,500 x Rs. 12)			30,000
(Being profit on re-issue transferred to capital reserve)			

Working Note:

Calculation of amount to be transferred to Capital reserve A/c **Rs.**

Forfeited amount per share	= 48,000/3,000	=	16
Loss on re issue (20-16)			<u>4</u>
Surplus per share			<u>12</u>
Transfer to capital reserve	Rs. 12 x 2,500	Rs. 30,000	

(b) **Journal Entries**

			Dr. (Rs.)	*Cr.* (Rs.)
1-1-2020	Bank A/c	Dr.	36,00,000	

	Discount/Loss on Issue of Debentures A/c	Dr.	4,00,000	
	To 12% Debentures A/c			40,00,000
	To Premium on Redemption of Debentures A/c			2,00,000
	(For issue of debentures at discount redeemable at premium)			
30-6-2020	Debenture Interest A/c	Dr.	4,80,000	
	To Debenture holders A/c			4,32,000
	To Tax Deducted at Source A/c			48,000
	(For interest payable)			
	Debenture holders A/c	Dr.	4,32,000	
	Tax Deducted at Source A/c	Dr.	48,000	
	To Bank A/c			4,80,000
	(For payment of interest and TDS)			
31-12-2020	Debenture Interest A/c	Dr.	4,80,000	
	To Debenture holders A/c			4,32,000
	To Tax Deducted at Source A/c			48,000
	(For interest payable)			
	Debenture holders A/c	Dr.	4,32,000	
	Tax Deducted at Source A/c	Dr.	48,000	
	To Bank A/c			4,80,000
	(For payment of interest and tax)			
	Profit and Loss A/c	Dr.	9,60,000	
	To Debenture Interest A/c			9,60,000
	(For transfer of debenture interest to profit and loss account at the end of the year)			
	Profit and Loss A/c	Dr.	80,000	
	To Discount/Loss on issue of debenture A/c			80,000
	(For proportionate debenture discount and premium on redemption written off, i.e., 4,00,000 x 1/5)			

(c) **(i)** Double entry system may be defined as that system which recognizes and records both the aspects of a transaction.

Every transaction has two aspects and according to this system, both the aspects are recorded. This system was developed in the 15th century in Italy by Luca Pacioli. It has proved to be systematic and has been found of great use for recording the financial affairs for all institutions requiring use of money.

(ii) Banks are essential to modern society, but for an industrial unit, it serves as a necessary instrument in the commercial world. Most of the transactions of the business are done through bank whether it is a receipt or payment. Rather, it is legally necessary to operate the transactions through bank after a certain limit. All the transactions, which have been operated through bank, if not verified properly, the industrial unit may not be sure about its liquidity position in the bank on a particular date. There may be some cheques which have been issued, but not presented for payment, as well as there may be some deposits which has been deposited in the bank, but not collected or credited so far. Some expenses might have been debited or bills might have been dishonoured. It is not known to the industrial unit in time, it may lead to wrong conclusions. The errors committed by bank may not be known without preparing bank reconciliation statement. Preparation of bank reconciliation statement prevents the chances of embezzlement. Hence, bank reconciliation statement is very important and is a necessity of an industrial unit as it plays a key role in the liquidity control of the industry.

(iii) A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money to or to the order of certain person or to the bearer of the instrument. When such an order is accepted by the drawee on the face of the order itself, it becomes a valid bill of exchange.

There are three parties to a bill of exchange:

(i) The drawer, who draws the bill, that is, the creditor to whom the money is owing;

(ii) The drawee, the person to whom the bill is addressed or on whom it is drawn and who accepts the bill that is, the debtor; and

(iii) The payee, the person who is to receive the payment. The drawer in many cases is also the payee.

(iv) **Retirement of bills of exchange:** Sometimes, the acceptor of a bill of exchange has spare funds much before the maturity date of the bill of exchange accepted by him. He may, therefore, desire to pay the bill before the due date. In such a circumstance, the acceptor shall ask the payee or the holder of the bill to accept cash before the maturity date. If the payee agrees, the acceptor may be allowed a rebate or discount on such early payment. This rebate is generally the interest at an agreed rate for the period between the date of payment and date of maturity. The interest/rebate/discount becomes the income of the acceptor and expense of the payee. It is a consideration for premature payment. When a bill is paid before due date, it is said to be retired under rebate.