MOCK TEST PAPER II

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. **(a)** **(i)** **False**: Overhauling expenses incurred for the engine of a truck to derive better fuel efficiency reduces the running cost in future and thus the benefit is in form of endurable long-term advantage. So this expenditure should be capitalised.

(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) **False:** The sale value of the by product is credited to Manufacturing Account so as to reduce to that extent, the cost of manufacture of main product.

(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) **True**: The capital fund represents the amount contributed by members through legacies, special donations entrance fee and accumulated surplus over the years.

(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. Therefore, it is necessary to quantify the effect of change on financial statement items like assets, liabilities, profit/loss.

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

(c) **Vinayak Ltd.**

Bank Reconciliation Statement as on 31.3.2023

Particulars	₹
Balance as per cash book	4,80,000
Add : Cheque issued but not presented	2,72,000
Interest credited	6,000
	7,58,000
Less : Bank charges	(1,200)
Balance as per pass book	7,56,800

2. **(a)**

(i)	Bills Receivables A/c	Dr.	4,650	
	Bills Payable A/c	Dr.	4,650	

	To Krishan A/c (Correction of error by which Bills Receivable account of ₹ 4,650 was wrongly posted through Bills Payable book)			9,300
(ii)	Suspense A/c To Manan A/c To Suman A/c (Removal of wrong debit to Suman and giving credit to Manan from whom cash was received)	Dr.	32,000	16,000 16,000
(iii)	Suspense A/c To P & L Adjustment A/c (Correct of error by which general expenses of ₹ 3,900 was wrongly posted as ₹ 9,300)	Dr.	5,400	5,400
(iv)	P&L Adjustment A/c To Suspense A/c (Correction of error by which Sales account was overcast last year)	Dr.	15,000	15,000
(v)	P & L Adjustment A/c To Mr. Badri (Correction of error by which legal expenses paid to Mr. Badri was wrongly debited to his personal account)	Dr.	23,010	23,010
(vi)	Neha A/c To Megha A/c (Correction of error by which sale of ₹ 75,000 to Neha was wrongly debited to Megha's account)	Dr.	75,000	75,000
(vii)	Suspense A/c To P&L Adjustment A/c (Correction of error by which Purchase A/c was excess debited by ₹270 i.e. ₹1,960 – ₹1,690)	Dr.	270	270
(vii)	Trade Receivable A/c To Suspense A/c (₹ 21,000 due by Mr. Madan not taken into trial balance now rectified)	Dr.	21,000	21,000

Suspense A/c

Particulars	₹	Particulars	₹
To P & L Adjustment A/c	5,400	By P & L Adjustment A/c	15,000
To Manan	16,000	By Trade Receivable (Mr. Madan)	21,000
To Suman	16,000	By Difference in Trial Balance (Balancing figure)	1,670
To P&L Adjustment A/c	270		
	37,670		37,670

(b) **Truck A/c**

Date	Particulars	Amount	Date	Particulars	Amount
2021			**2021**		
Jan-01	To balance b/d	2,92,50,000	Oct-01	By Bank A/c	27,00,000
Oct-01	To Profit & Loss A/c (Profit on settlement of Truck)	4,50,000	Oct-01	By Depreciation on lost assets	6,75,000
Oct-01	To Bank A/c	50,00,000	Dec-31	By Depreciation A/c	83,50,000
			Dec-31	By balance c/d	2,29,75,000
		3,47,00,000			3,47,00,000
2022			**2022**		
Jan-01	To balance b/d	2,29,75,000	Dec-31	By Depreciation A/c	91,00,000
			Dec-31	By balance c/d	1,38,75,000
		2,29,75,000			2,29,75,000

Working Note:

1. To find out loss or Profit on settlement of truck

	₹
Original cost as on 1.4.2019	45,00,000
Less: Depreciation for 2019	6,75,000
	38,25,000
Less: Depreciation for 2020	9,00,000
	29,25,000
Less: Depreciation for 2021 (9 months)	6,75,000
	22,50,000
Less: Amount received from Insurance company	27,00,000
Profit on Settlement of Truck	4,50,000

3. (a) **Journal Entries in the Books of Mr. X**

Date		*Particulars*	*L.F.*	*Dr. Amount ₹*	*Cr. Amount ₹*
2022					
August	1	Bills Receivable A/c Dr.		50,000	
		To Y			50,000
		(Being the acceptance received from Y to settle his account)			
August	1	Bank A/c Dr.		49,000	
		Discount A/c Dr.		1,000	
		To Bills Receivable			50,000
		(Being the bill discounted for ₹ 49,000 from bank)			

November	4	Y A/c Dr To Bank Account (Being the Y's acceptance is to be renewed)	50,000	50,000
November	4	Y A/c Dr. To Interest Account (Being the interest due from Y for 3 months i.e., 40,000x3/12× 12%=1,200)	1,200	1,200
November	4	Cash A/c Dr. Bills Receivable A/c Dr. To Y A/c (Being amount and acceptance of new bill received from Y)	11,200 40,000	51,200
December	31	Y A/c Dr. To Bills Receivable A/c (Being Y became insolvent)	40,000	40,000
December	31	Cash A/c Dr. Bad debts A/c Dr. To Y A/c (Being the amount received and written off on Y's insolvency)	16,000 24,000	40,000

(b) **Taking 19.6.2022 as a Base date**

Transaction Date	Due Date	Amount	Days	Amount
8.3.2022	11.7.2022	12,000	22	2,64,000
16.3.2022	19.6.2022	15,000	0	0
7.4.2022	10.9.2022	18,000	83	14,94,000
17.5.2022	20.8.2022	15,000	62	9,30,000
		60,000		26,88,000

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

= 19.6.2022 + ₹ 26,88,000/₹60,000

= 19.6.2022 + 44.8 days (or 45 days approximately)

= 3.8.2022

Satyam wants to save interest of ₹ 471. The yearly interest is ₹ 60,000 × 9% = ₹ 5,400.

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

Then, 5,400 × Y/365 = ₹ 471 or Y = 471 × 365/5,400 = 31.8 days or 32 days (Approx.)

Hence, if Satyam wants to save ₹ 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 2.7.2022 (3.8.2022 – 32 days).

(c) **In the books of Y**

X in Account Current with Y

(Interest to 31st March, 2023 @ 10% p.a)

Date	*Particulars*	*Amount*	*Days*	*Product*	*Date*	*Particulars*	*Amount*	*Days*	*Product*
2023		*₹*		*₹*	*2023*		*₹*		*₹*
Jan.1	To Balance b/d	5,000	90	4,50,000	Jan.24	By Promissory Note (due date 27th April)	5,000	(27)	(1,35,000)
Jan. 11	To Sales	6,000	79	4,74,000	Feb. 1	By Purchases	10,000	58	5,80,000
Feb. 4	To Sales	8,200	55	4,51,000	Feb. 7	By Sales Return	1,000	52	52,000
Mar. 18	To Sales	9,200	13	1,19,600	Mar. 1	By Purchases	5,600	30	1,68,000
Mar. 31	To Interest	219			Mar. 23	By Purchases	4,000	8	32,000
					Mar. 31	By Balance of Products			7,97,600
					Mar. 31	By Bank	3,019		
		28,619		14,94,600			28,619		14,94,600

Working Note:

Calculation of interest:

$$\text{Interest} = \frac{7{,}97{,}600}{365} \times \frac{10}{100} = ₹\ 219 \text{ (approx.)}$$

4. (i) **Revaluation Account**

		₹			₹
To	Furniture	3,480	By	Building	12,800
To	Stock	8,560	By	Sundry creditors	5,600
To	Provision of doubtful debts (₹ 7,000 – ₹ 800)	6,200	By	Investment	1,800
			By	Revaluation Loss	4,280
To	Outstanding wages	6,240			
		24,480			24,480

(ii) **Partners' Capital Accounts**

		Atul	Aman	*Atif*			*Atul*	*Aman*	*Atif*
		₹	₹	₹			₹	₹	₹
To	Revaluation Loss	2,568	1,712		By	Balance b/d	1,76,000	1,44,000	–
To	Goodwill	90,000	60,000	30,000	By	Cash A/c	–	–	1,00,000
To	Balance c/d	1,91,432	1,54,288	70,000					
					By	Goodwill A/c (Working Note)	1,08,000	72,000	
		2,84,000	2,16,000	1,00,000			2,84,000	2,16,000	1,00,000

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

(after admission of Atif) as on 1.1.23

Liabilities	₹	Assets	₹
Capital Accounts:			
Atul 1,91,432		Building (1,04,000 + 12,800)	1,16,800

Aman 1,54,288		Furniture (23,200 – 3,480)		19,720
Atif 70,000	4,15,720	Stock-in-trade (85,600 – 8,560)		77,040
Bills Payable	16,400	Debtors	1,40,000	
Bank Overdraft	36,000	Less: Provision for bad debts	(7,000)	1,33,000
Sundry creditors (51,600-5,600)	46,000	Investment (10,000 + 1,800)		11,800
Outstanding wages	6,240	Cash (62,000 + 1,00,000)		1,62,000
	5,20,360			5,20,360

Working Note:

Calculation of goodwill

Atif's contribution of ₹ 1,00,000 consists only 1/6th of capital.

Therefore, total capital of firm should be ₹ 1,00,000 × 6 = ₹ 6,00,000.

But combined capital of Atul, Aman and Atif amounts ₹ 1,76,000 + 1,44,000 + 1,00,000 = ₹ 4,20,000.

Thus Hidden goodwill is ₹ 1,80,000 (₹ 6,00,000 – ₹ 4,20,000).

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

Manufacturing Account for the Year ended 31.03.2023

Particulars		Units	Amount ₹	Particulars	Units	Amount ₹
To Opening Work-in-Process		81,000	2,34,000	By Closing Work- in-Process	1,26,000	4,32,000
To Raw Materials Consumed:				By Trading A/c – Cost of finished goods transferred	45,00,000	17,40,2400
Opening Inventory	23,40,000					
Add: Purchases	73,80,000					
	97,20,000					
Closing Inventory	(28,80,000)		68,40,000			
To Direct Wages – W.N. (1)			36,50,400			
To Direct expenses:						
Hire charges on Machinery – W.N. (2)			31,50,000			
To Indirect expenses:						
Hire charges of Factory			23,40,000			
Repairs & Maintenance			16,20,000			
			1,78,34,400			1,78,34,400

Working Notes:

(1) Direct Wages – 45,00,000 units @ ₹0.80 = ₹36,00,000

1,26,000 units @ ₹0.40 = ₹ 50,400

₹ 36,50,400

(2) Hire charges on Machinery – 45,00,000 units @ ₹0.70 = ₹31,50,000

5. (a) Receipts and Payments Account for the year ended 31-03-2023

Receipts	₹	Payments	₹
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	₹ (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	₹ (10,000-5,000)	
To Sale of furniture	4,000	By Sports expenses	25,000
		By Rent paid	11,000
		₹ (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 31-03-2023

Expenditure	₹	₹	Income	₹	₹
To Salaries	30,000		By Subscription		1,50,000
Add: Outstanding for 2023	9,000		By Interest on Investment		
	39,000		Received	7,000	
Less: Outstanding for 2022	(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 2022-23

	₹
Subscription due for 2022-23	1,50,000
Add: Outstanding of 2022	70,000
Less: Outstanding of 2023	(1,00,000)
Add: Subscription of 2023 received in advance	15,000
Less: Subscription of 2022 received in advance	(12,500)
	1,22,500

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

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

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

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

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

3. Loss on sale of furniture

	₹
Value of furniture as on 01-04-2022	14,000
Value of furniture as on 31-03-2023	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 -	₹7,000 × 10%	=	700
Machinery -	₹5,000 × 15%	=	750
Sports goods -	₹7,500 × 15%	=	1,125

5. Interest accrued on investment

	₹
Face value of investment on 01-04-2022 (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) (i) Computation of Income for the year 2022-23:

	₹
Money received during the year related to 2022-23	15,00,000
Add: Money received in advance during previous years	4,50,000
Total income of the year 2022-23	**19,50,000**

(ii) Advance from Customers A/c

Date	Particulars	₹	Date	Particulars	₹
	To Sales A/c (Advance related to current year transferred to sales)	4,50,000	1.4.2022	By Balance b/d	6,00,000
				By Bank A/c (Balancing Figure)	3,60,000
31.3.23	To Balance c/d	5,10,000			
		9,60,000			9,60,000

So, total money received during the year is:

	₹
Cash Sales during the year	15,00,000
Add: Advance received during the year	3,60,000
Total money received during the year	**18,60,000**

6. (a)

In the books of FCI Ltd.

Journal Entries

		Dr. ₹	Cr. ₹
Bank A/c	Dr.	18,00,000	
To Equity Share Application A/c			18,00,000
(Being the application money received for 3,00,000 shares at ₹ 6 per share)			
Equity Share Application A/c	Dr.	18,00,000	
To Equity Share Capital A/c (2,00,000 x ₹ 6)			12,00,000
To Share allotment A/c			6,00,000
(Being share allotment made for 2,00,000 shares and excess adjusted towards allotment)			
Equity Share Allotment A/c	Dr.	20,00,000	
To Equity Share Capital A/c			20,00,000
(Being allotment amount due on 2,00,000 equity shares at ₹ 10 per share as per Directors' resolution no... dated...)			
Bank A/c	Dr.	14,00,000	

To Equity Share Allotment A/c (Being balance allotment money received for 2,00,000 shares)		14,00,000
Equity Share first and final call A/c Dr. To Equity Share Capital A/c (Being first and final call amount due on 2,00,000 equity shares at ₹ 4 per share as per Directors' resolution no... dated...)	8,00,000	 8,00,000
Bank A/c Dr. Calls in arrears A/c To Equity Share first and final call A/c (Being final call received on 1,94,000 shares)	7,76,000 24,000	 8,00,000
Share capital A/c (6,000 x ₹ 20) Dr. To Forfeited shares A/c (6,000 x ₹ 16) To Calls in arrears A/c (6,000 x ₹ 4) (Being forfeiture of 6,000 shares of ₹ 20 each fully called-up for non payment of first and final call @ ₹ 4 as per Directors' resolution no... dated..)	1,20,000	 96,000 24,000
Bank A/c (5,000 x ₹16) Dr. Forfeited shares A/c (5,000 x ₹4) To Equity Share Capital A/c (5,000 x ₹ 20) (Being re-issue of 2,500 shares @ ₹ 16)	80,000 20,000	 1,00,000
Forfeited share A/c (5,000 x ₹ 12) To capital reserve A/c (5,000 x ₹ 12) (Being profit on re-issue transferred to capital reserve)	60,000	 60,000

Working Note:

Calculation of amount to be transferred to Capital reserve A/c			**₹**
Forfeited amount per share	= 96,000/6,000	=	16
Loss on re issue (20-16)			4
Surplus per share			12
Transfer to capital reserve	₹ 12 x 5,000	₹ 60,000	

(b) **Journal of Alpha Ltd.**

Date	Particulars	Dr.	Cr.
2022 April,1	Sundry Assets A/c Dr. Goodwill A/c (Bal. fig) Dr. To Beta Ltd. A/c To Sundry Liabilities A/c (Being Asset and liabilities taken over for a net Consideration of ₹ 4,40,000)	4,50,000 50,000	 4,40,000 60,000
	Beta Ltd. A/c Dr. To 8% Debentures A/c	4,40,000	 4,00,000

	To Securities Premium Reserve A/c (Being 4,000; 8% Debenture of ₹ 100 each Issued at a premium of 10%)		40,000
	Bank A/c Dr. To Debenture Application A/c (Being the application money receive for 3000, 8% Debenture)	90,000	90,000
	Debenture Application A/c Dr. To 8% Debenture A/c (Being 3,000; 8% Debenture allotted)	90,000	90,000
	Debentures allotment A/c Dr. Loss on issue of debenture A/c Dr. To 8% Debentures A/c To Premium on redemption of debentures A/c (Being allotment money due on 3000; 8% Debentures at 10% discount and redeemable at 5% premium)	1,80,000 45,000	2,10,000 15,000
	Bank A/c Dr. To Debentures Allotment A/c (Being the allotment money received)	1,80,000	1,80,000
2023 March, 31	Securities Premium Reserve A/c Dr. Profit and Loss A/c Dr. To Loss on issue of Debenture A/c (Being the Loss on issue of debenture written off)	40,000 5,000	45,000

(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) Del-credere commission is an additional commission paid by the consignor to the consignee for undertaking responsibility of collection of debts. Generally, the consignee gets ordinary commission for sales made by him as a percentage of gross sales, over and above, he may get del-credere commission for the additional responsibility of debt collection. Sometimes it is agreed that del-credere commission shall be allowed on credit sales only. However, in the absence of any such agreement the consignor allows del-credere commission on total sales and not merely on credit sales. If the consignee is entitled to del-credere commission, he has to bear the bad debts; if any, arising, out of credit sale of consignment goods

(iv) Under FIFO method of inventory valuation, inventories purchased first are issued first. The closing inventories are valued at latest purchase prices and inventory issues are valued at corresponding old purchase prices. In other words, under FIFO method, costs are assigned to the units issued in the same order as the costs entered in the inventory. During periods of rising prices, cost of goods sold are valued at older and lower prices if FIFO is followed and consequently reported profits rise due to lower cost of goods sold.

On the other hand, under LIFO method of inventory valuation, units of inventories issued should be valued at the prices paid for the latest purchases and closing inventories should be valued at the prices paid for earlier purchases. In other words, closing inventories are valued at old purchase prices and issues are valued at corresponding latest purchase prices.