

FOUNDATION COURSE

MOCK TEST PAPER

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. (a) (i) **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.
- (ii) **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.
- (iii) **False** - Finished goods are normally valued at cost or net realizable value whichever is lower.
- (iv) **True** - Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.
- (v) **False** - According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.
- (vi) **False**- Receipts and payments account is a classified summary of cash receipts and payments over a certain period together with cash and bank balances at the beginning and close of the period.

(b) **Cash and mercantile system:** Cash system of accounting is a system by which a transaction is recognized only if cash is received or paid. In cash system of accounting, entries are made only when cash is received or paid, no entry being made when a payment or receipt is merely due. Cash system is normally followed by professionals, educational institutions or non-profit making organizations.

On the other hand, mercantile system of accounting is a system of classifying and summarizing transactions into assets, liabilities, equity (owner's fund), costs, revenues and recording thereof. A transaction is recognized when either a liability is created/ impaired and an asset is created /impaired. A record is made on the basis of amounts having become due for payment or receipt irrespective of the fact whether payment is made or received actually.

Mercantile system of accounting is generally accepted accounting system by business entities

(c) **Journal Entries in the books of Gamma Bros.**

	<i>Particulars</i>	<i>Dr.</i>	<i>Cr.</i>
		<i>Amount</i>	<i>Amount</i>
		<i>(Rs.)</i>	<i>(Rs.)</i>
(i)	Salaries A/c To Purchase A/c (Being entry made for stock taken by employees)	7,500	7,500
(ii)	Machinery A/c To Cash A/c (Being wages paid for erection of machinery)	8,000	8,000

(iii)	Drawings A/c To Petty Cash A/c (Being the income tax of proprietor paid out of business money)	1,700	1,700
(iv)	Purchase A/c To Cash A/c To Discount Received A/c (Being the goods purchased from Naveen for Rs. 2,000 @ 10% trade discount and cash discount of Rs. 50)	1,800	1,750 50

2. (a) **Profit and Loss Adjustment Account**

	Rs.		Rs.
To Advertisement (samples)	80,000	By Net profit	8,00,000
To Sales	2,00,000	By Electric fittings	30,000
(goods approved in April to be taken as April sales)		By Samples	80,000
To Adjusted net profit	16,80,000	By Stock (Purchases of March not included in stock)	5,00,000
		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
	<u>19,60,000</u>		<u>19,60,000</u>

Calculation of value of inventory on 31st March, 2017

	Rs.
Stock on 31 st 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	<u>1,50,000</u>
	<u>14,00,000</u>

(b) **Motor Truck A/c**

Date	Particulars	Amount	Date	Particulars	Amount
2016			2016		
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	<u>2,29,75,000</u>
		<u>3,47,00,000</u>			<u>3,47,00,000</u>
2017			2017		
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
		<u>2,29,75,000</u>			<u>2,29,75,000</u>

Working Note:

1. To find out loss on Profit on settlement of truck	Rs.
Original cost as on 1.4.2014	45,00,000
Less: Depreciation for 2014	<u>6,75,000</u>
	38,25,000
Less: Depreciation for 2015	<u>9,00,000</u>
	29,25,000
Less: Depreciation for 2016 (9 months)	<u>6,75,000</u>
	22,50,000
Less: Amount received from Insurance company	<u>27,00,000</u>
	<u>4,50,000</u>

3. (a) **In the books of Y**
X in Account Current with Y

(Interest to 31st March, 2018 @ 10% p.a)

Date	Particulars	Amount	Days	Product	Date	Particulars	Amount	Days	Product
2018		Rs.		Rs.	2018		Rs.		Rs.
Jan.1	To Balance b/d	5,000	90	4,50,000	Jan.24	By Promissory Note (due date 27 th 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		
		<u>28,619</u>		<u>14,94,600</u>			<u>28,619</u>		<u>14,94,600</u>

Working Note:

Calculation of interest:

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

(b). **Journal Entries in the Books of Mr. A**

Date		Particulars	L.F.	Dr. Amount Rs.	Cr. Amount Rs.
2017 August	1	Bills Receivable A/c To B (Being the acceptance received from B to settle his account)	Dr.	10,000	10,000

August	1	Bank A/c	Dr.	9,800	
		Discount A/c	Dr.	200	
		To Bills Receivable			10,000
		(Being the bill discounted for Rs. 9,800 from bank)			
November	4	B	Dr.	10,000	
		To Bank Account			10,000
		(Being the B's acceptance is to be renewed)			
November	4	B	Dr.	240	
		To Interest Account			240
		(Being the interest due from B for 3 months i.e., $8000 \times 3/12 \times 12\% = 240$)			
November	4	Cash A/c	Dr.	2,240	
		Bills Receivable A/c	Dr.	8,000	
		To B			10,240
		(Being amount and acceptance of new bill received from B)			
December	31	B A/c	Dr.	8,000	
		To Bills Receivable A/c			8,000
		(Being B became insolvent)			
December	31	Cash A/c	Dr.	3,200	
		Bad debts A/c	Dr.	4,800	
		To B			8,000
		(Being the amount received and written off on B's insolvency)			

4. (a) **Revaluation Account**

	Rs.		Rs.
To Plant & Machinery (1,70,000 x 15%)	25,500	By Land & Building A/c	1,52,000
To Provision for Bad & Doubtful Debts (60,000 x 5%)	3,000		
To Outstanding Repairs to Building	6,000		
To A's Capital A/c (5/8)	73,438		
To B's Capital A/c (3/8)	44,062		
	1,52,000		1,52,000

Capital Accounts of Partners

	A	B	C		A	B	C
To A's Capital A/c	-	-	20,000	By Balance b/d	4,10,000	3,30,000	-
To B's Capital A/c			12,000	By Revaluation A/c	73,438	44,062	-
To B's Current A/c	-	68,062		By Profit & Loss A/c	70,000	42,000	-
To Balance c/d	6,00,000	3,60,000	2,40,000	By Bank	-	-	2,72,000
				By C's Capital A/c	20,000	12,000	-
				By A's Current A/c	26,562	-	-
	6,00,000	4,28,062	2,72,000		6,00,000	4,28,062	2,72,000

Calculation of New Profit Sharing Ratio and gaining ratio:

C's Share of Profit = $1/5 = 2/10$

Remaining Share = $1 - 1/5 = 4/5$

A's Share = $5/8 \times 4/5 = 20/40 = 5/10$

B's Share = $3/8 \times 4/5 = 12/40 = 3/10$

New Profit sharing Ratio = 5:3:2

Gaining ratio = 5:3 (same as old profit sharing ratio among old partners)

Balance sheet of AB & Co. as on 31.3.2018

Liabilities		Rs.	Assets		
Capital Accounts:			Land & Buildings		5,32,000
A	6,00,000		Plant & Machinery	1,70,000	
B	3,60,000		Less: Depreciation	<u>25,500</u>	1,44,500
C	<u>2,40,000</u>	12,00,000	Furniture		1,09,480
B's Current A/c		68,062	Stock		1,45,260
Trade Creditors		54,800	Sundry Debtors	60,000	
Outstanding Repairs to Building		6,000	Less: Provision	<u>3,000</u>	57,000
			Cash at Bank		3,14,060
			A's current A/c		<u>26,562</u>
		<u>13,28,862</u>			<u>13,28,862</u>

Working Note:

Required Balance of Capital Accounts

C's Capital after writing off Goodwill = $2,72,000 - 32,000 = 2,40,000$

C's Share of Profit = $1/5$

Thus Capital of the firm shall be = $2,40,000 \times 5 = 12,00,000$

A's Capital = $12,00,000 \times 5/10 = 6,00,000$ and

B's Capital = $12,00,000 \times 3/10 = 3,60,000$

(b) (i) Computation of Income for the year 2016-17:

	Rs.
Money received during the year related to 2016-17	5,00,000
Add: Money received in advance during previous years	1,50,000
Total income of the year 2016-17	6,50,000

(ii) Advance from Customers A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Sales A/c (Advance related to current year transferred to sales)	1,50,000	1.4.2016	By Balance b/d	2,00,000

31.3.17	To Balance c/d	1,70,000	By Bank A/c (Balancing Figure)	1,20,000
		3,20,000		3,20,000

So, total money received during the year is:

	Rs.
Cash Sales during the year	5,00,000
Add: Advance received during the year	<u>1,20,000</u>
Total money received during the year	<u>6,20,000</u>

5. (a)

Capital Account

for the year ended 31st March, 2018

	Rs.		Rs.
To Drawings:		By Cash/bank	20,000
Motor car expenses	4,000	By Cash bank (pension)	30,000
(one-third of Rs. 12,000)		By Net income from practice	47,500
Household expenses	18,000	(derived from income and expenditure a/c)	
Daughter's marriage exp.	21,500		
Wages of domestic servants	3,000		
Household furniture	2,500		
To Balance c/d	<u>48,500</u>		<u> </u>
	<u>97,500</u>		<u>97,500</u>

**Income and Expenditure Account
for the year ended 31st March, 2018**

	Rs.		Rs.
To Medicines consumed		By Prescription fees	52,500
Purchases	24,500	By Gift from patients	13,500
Less: Stock on 31.3.11	<u>(9,500)</u>	By Visiting fees	25,000
To Motor car expense	8,000	By Fees from lectures	2,400
To Wages and salaries (Rs. 10,500 – Rs. 3,000)	7,500		
To Rent for clinic	6,000		
To General charges	4,900		
To Interest on loan	4,500		
To Net Income	<u>47,500</u>		<u> </u>
	<u>93,400</u>		<u>93,400</u>

Balance Sheet as on 31st March, 2018

Liabilities	Rs.	Assets	Rs.
Capital	48,500	Motor car	32,000
Loan	30,000	Surgical equipment	25,000
		Stock of medicines	9,500

	Cash at bank	11,000
	Cash in hand	<u>1,000</u>
		<u>78,500</u>

(b) (i) Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{\text{₹ 1,10,000}}{\text{₹ 30,000}} = 11:3$ or 3.67:1

Current Assets = Closing Inventory + Other Current Assets
= Rs. 10,000 + Rs. 1,00,000 = Rs. 1,10,000

(ii) Debt to Equity Ratio = $\frac{\text{Long term Debt}}{\text{Shareholders' Equity}}$
= $\frac{\text{Debentures}}{\text{Share Capital} + \text{Profit}}$
= $\frac{\text{₹ 60,000}}{\text{₹ 2,50,000}} = 0.24:1$

6. (a) **Journal of Mohan Ltd.**

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

2018 March 1	Share Final Call A/c To Share Capital A/c (The amount due on Final Call on 15 lakh shares @ Rs. 20 per share, as per Directors' resolution no... dated...)	Dr.	300	300
March 1	Bank A/c Calls in Advance A/c To Share Final Call A/c (Receipt of the moneys due on final call on 14.7 lakhs shares, the balance having been previously received.)	Dr. Dr.	294 6	300
March 1	Interest on calls in Advance A/c To Shareholder A/c (Being interest on call in advance made due)	Dr.	0.99	0.99
Feb 1	Shareholder A/c To Bank A/c (Being interest paid)	Dr.	0.99	0.99

Working Note:

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

(b)

In the books of Riya Company Ltd.

Journal Entries

Date	Particulars		Dr. Rs.	Cr. Rs.
(a)	Bank A/c To Debentures Application A/c (Being the application money received on 10,000 debentures @ Rs. 450 each)	Dr.	45,00,000	45,00,000
	Debentures Application A/c Discount on issue of Debentures A/c To 14% Debentures A/c (Being the issue of 10,000 14% Debentures @ 90% as per Board's Resolution No....dated....)	Dr. Dr.	45,00,000 5,00,000	50,00,000
(b)	Fixed Assets A/c To Vendor A/c (Being the purchase of fixed assets from vendor)	Dr.	20,00,000	20,00,000
	Vendor A/c Discount on Issue of Debentures A/c To 14% Debentures A/c (Being the issue of debentures of Rs. 25,00,000 to vendor to satisfy his claim)	Dr. Dr.	20,00,000 5,00,000	25,00,000

(c)	Bank A/c To Bank Loan A/c (See Note) (Being a loan of Rs. 20,00,000 taken from bank by issuing debentures of Rs.25,00,000 as collateral security)	Dr.	20,00,000	20,00,000
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Note: No entry is made in the books of account of the company at the time of making issue of such debentures. In the "Notes to Accounts" of Balance Sheet, the fact that the debentures being issued as collateral security and outstanding are shown by a note under the liability secured.

(c) **Pathak Ltd.**

Bank Reconciliation Statement as on 31.3.2017

Particulars	Rs.
Balance as per cash book	1,20,000
Add : Cheque issued but not presented	68,000
Interest credited	1,500
	<u>1,89,500</u>
Less : Bank charges	<u>(300)</u>
Balance as per pass book	<u>1,89,200</u>

Or

(c) **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 Rs. 5,00,000, following cost concept the value of the machine is taken as Rs. 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.