Test Series: August, 2018

FOUNDATION COURSE

MOCK TEST PAPER - 1

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. **(a)** **(i)** **False -** Inventory Turnover Ratio measures the efficiency of the firm to manage its inventory Capital Turnover Ratio indicates the firm's ability of generating sales per rupee of long term investment.

(ii) **False-** The Sales book is a register specially kept to record credit sales of goods dealt in by the firm, cash sales are entered in the cash book and not in the sales book.

(iii) **False-** While calculating the average due date, any transaction date may be taken as the base date.

(iv) **True-** If a partner retires, his share of profit or loss will be shared by the other partners in their profit sharing ratio.

(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-** 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.

(b) Limitations which must be kept in mind while evaluating the Financial Statements are as follows:

- The factors which may be relevant in assessing the worth of the enterprise don't find place in the accounts as they cannot be measured in terms of money.
- Balance Sheet shows the position of the business on the day of its preparation and not on the future date while the users of the accounts are interested in knowing the position of the business in the near future and also in long run and not for the past date.
- Accounting ignores changes in some money factors like inflation etc.
- There are occasions when accounting principles conflict with each other.
- Certain accounting estimates depend on the sheer personal judgement of the accountant.
- Different accounting policies for the treatment of same item adds to the probability of manipulations.

(c) Using the Accounting Equation:

Assets = Capital + Liabilities

(i) 25,00,000

(ii) 4,50,000

(iii) 1,50,000

(iv) 1,19,60,000

2. (a) **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	2,29,75,000
		3,47,00,000			**3,47,00,000**
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
		2,29,75,000			**2,29,75,000**

Working Note:

To find out loss on Profit on settlement of truck

Original cost as on 1.4.2014	45,00,000
Less: Depreciation for 2014	6,75,000
	38,25,000
Less: Depreciation for 2015	9,00,000
	29,25,000
Less: Depreciation for 2016 (9 months)	6,75,000
	22,50,000
Less: Amount received from Insurance company	27,00,000
	4,50,000

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

Date	Particulars	Amount	Date	Particulars	Amount
2017		Rs.	**2017**		
Sept. 30			Sept. 30		
	To Party A/c	32,000		By Balance b/d	8,124
	To Customer A/c (Direct deposit)	2,34,800		By Bank charges	1,160
	To Balance c/d	22,484		By Customer A/c (B/R dishonoured)	2,80,000
		2,89,284			2,89,284

(ii) **Bank Reconciliation Statement as on 30th September, 2017**

Particulars	Amount
	Rs.
Overdraft as per Cash Book	22,484

Add: Cheque deposited but not collected upto 30th Sept., 2017	26,28,000
	26,50,484
Less: Cheques issued but not presented for payment upto 30th Sept., 2017	(26,52,000)
Credit by Bank erroneously on 6th Sept.	(40,000)
Overdraft as per bank statement	41,516

Note: Bank has credited Neel by 40,000 in error on 6th September, 2017. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with Rs. 26,52,000 resulting in debit balance of Rs. 1,516 as per pass-book.

3. (a) In the books of Gagan

Consignment to Kumar of Chennai Account

Particulars	Rs.	Particulars		Rs.
To Goods sent on Consignment	20,00,000	By Kumar (Sales)		19,60,000
		By Loss in Transit 100 cases @ Rs. 1,050 each		1,05,000
To Bank (Expenses)	1,00,000	By Consignment Inventories		
To Kumar (Expenses)	63,000	In hand 300 @ Rs. 1,060 each	3,18,000	
To Kumar (Commission)	1,96,000	In transit 200 @ Rs. 1,050 each	2,10,000	5,28,000
To Profit on Consignment to Profit & Loss A/c	2,34,000			
	25,93,000			25,93,000

Kumar's Account

Particulars	Rs.	Particulars	Rs.
To Consignment to Chennai A/c	19,60,000	By Consignment A/c (Expenses)	63,000
		By Consignment A/c (Commission)	1,96,000
		By Balance c/d	17,01,000
	19,60,000		19,60,000

Working Notes:

(i) Consignor's expenses on 2,000 cases amounts to Rs. 1,00,000; it comes to Rs. 50 per case. The cost of cases lost will be computed at Rs. 1,050 per case.

(ii) Kumar has incurred Rs. 17,000 on clearing 1,700 cases, i.e., Rs. 10 per case; while valuing closing inventories with the agent Rs. 10 per case has been added to cases in hand with the agent.

(iii) It has been assumed that balance of Rs. 17,01,000 is not yet paid.

(b) **In the books of A**

Joint Venture Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Purchases (Cost of goods supplied)	60,000	By Bank (Insurance claim)	3,000
To Bank (Expenses)	2,000	By B (Sales)	64,350
To B (Expenses)	1,000	By B (agreed value for damaged goods)	4,546
To B (Commission - 1/21 of Rs. 8,896)	424		
To Profit transferred to:			
Profit & Loss A/c	5,648		
B	2,824		
	71,896		71,896

B's Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Joint Venture A/c (Sales)	64,350	By Bank (Advance)	10,000
		By Joint Venture A/c (Expenses)	1,000
To Joint Venture A/c (Claim Portion)	4,546	By Joint Venture A/c (Commission)	424
		By Joint Venture A/c (Share of Profit)	2,824
		By Bank (Balance received)	54,648
	68,896		68,896

Working Note:

Computation of Sales:

	Rs.
Cost of goods sent	60,000
Less: Cost of damaged goods	(5,000)
	55,000
Less: Cost of goods remaining unsold	(5,500)
Cost of goods sold	49,500
Add: Profit @ 30%	14,850
Sales	64,350
Claim for loss of fire admitted by B	
Cost of goods	5,500
Add: Proportionate expenses [(2,000 x 5,500)/60,000]	183
	5,683
Less: 20%	(1,137)
	4,546

4. (i) **Profit and Loss Adjustment Account***

	Rs.		Rs.
To Expenses not provided for (years 2014-2017)	1,10,000	By Income not considered (for years 2014-2017)	66,000
		By Partners' capital accounts (loss)	
		Laurel	22,000
		Hardy	22,000
	1,10,000		1,10,000

(ii) **Partners' Capital Accounts**

	Laurel Rs.	Hardy Rs.	Chaplin Rs.		Laurel Rs.	Hardy Rs.	Chaplin Rs.
To P & L Adjustment A/c	22,000	22,000	-	By Balance b/d	2,11,500	1,51,500	-
To Hardy	60,000			By Laurel	-	60,000	-
To Balance c/d	1,29,500	1,89,500	63,800	By Cash	-	-	63,800
	2,11,500	2,11,500	63,800		2,11,500	2,11,500	63,800
				By Balance b/d	1,29,500	1,89,500	63,800

(iii) **Balance Sheet of LH & Co.**

as on 1.4.2017
(After admission of Chaplin)

Liabilities	Rs.	Assets	Rs.
Capital accounts:		Plant and machinery	60,000
Laurel	1,29,500	Trade receivables	2,05,000
Hardy	1,89,500	Stock in trade	3,10,000
Chaplin	63,800	Accrued income	66,000
Trade payables	2,27,000	Cash on hand (10,000 + 63,800)	73,800
Outstanding expenses	1,10,000	Cash at bank	5,000
	7,19,800		7,19,800

Working Notes:

1. Computation of Profit and Loss distributed among partners

		Rs.
Profit for the year ended	31.3.2014	1,40,000
	31.3.2015	2,60,000
	31.3.2016	3,20,000
	31.3.2017	3,60,000
Total Profit		10,80,000

* It is assumed that expenses and incomes not taken into account in earlier years were fully ignored.

	Laurel	Hardy	Total
	Rs.	Rs.	Rs.
Profit shared in old ratio i.e 5:4	6,00,000	4,80,000	10,80,000
Profit to be shared as per new ratio i.e. 1:1	5,40,000	5,40,000	10,80,000
Excess share	60,000		
Deficit share		(60,000)	

Laurel to be debited by Rs. 60,000 and Hardy to be credited by Rs. 60,000.

2. **Capital brought in by Chaplin**

	Rs.
Capital to be brought in by Chaplin must be equal to 20% of the combined capital of Laurel and Hardy	
Capital of Laurel (2,11,500 – 22,000 – 60,000)	1,29,500
Capital of Hardy (1,51,500 – 22,000 + 60,000)	1,89,500
Combined Capital	3,19,000
20% of the combined capital brought in by Chaplin (20% of Rs. 3,19,000)	63,800

5. (a)

Smith Library Society

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

Dr.							Cr.
	Expenditure	Rs.	Rs.		Income	Rs.	Rs.
To	Electric charges		7,200	By	Entrance fee (25% of Rs. 30,000)		7,500
To	Postage and stationary		5,000				
To	Telephone charges		5,000	By	Membership subscription	2,00,000	
To	Rent	88,000			Less: Received in advance	10,000	1,90,000
	Add: Outstanding	4,000	92,000				
To	Salaries	66,000		By	Sale proceeds of old papers		1,500
	Add: Outstanding	3,000	69,000				
To	Depreciation (W.N.1)			By	Hire of lecture hall		20,000
	Electrical fittings	15,000		By	Interest on securities (W.N.2)	8,000	
	Furniture	5,000					
	Books	46,000	66,000		Add: Receivable	500	8,500
				By	Deficit- excess of expenditure over income		16,700
			2,44,200				2,44,200

Working Notes:

1. **Depreciation**

	Rs.
Electrical fittings 10% of Rs. 1,50,000	15,000
Furniture 10% of Rs. 50,000	5,000
Books 10% of Rs. 4,60,000	46,000

2. Interest on Securities

Interest @ 5% p.a. on Rs. 1,50,000 for full year	7,500	
Interest @ 5% p.a. on Rs. 40,000 for half year	1,000	8,500
Less: Received		(8,000)
Receivable		500

(b) (i) Capital Gearing Ratio = $\frac{\text{(Preference Share Capital + Debentures + Other Borrowed funds)}}{\text{(Equity Share Capital + Reserves \& Surplus - Losses)}}$

$$= \frac{10,00,000 + 4,00,000 + 24,00,000}{18,00,000 + 8,00,000}$$

= 38, 00,000/26, 00,000

= 19: 13 (highly geared)

(ii) **Inventory Turnover Ratio** = Cost of goods sold/ Average Inventory

Inventory Turnover Ratio = Rs. 3,60,000/ Rs. 1,20,000

= 3 Times

Working notes:

1. Cost of goods sold= Inventory in the beginning + Net Purchases + Wages + Carriage inwards – Inventory at the end

   = Rs. 1,08,000 + Rs. 2,76,000 + Rs. 84,000 + Rs. 24,000 – Rs. 1,32,000

   = Rs. 3,60,000

2. Average Inventory = (Inventory in the beginning + Inventory at the end)/ 2

   = (Rs. 1,08,000 + Rs. 1,32,000)/ 2

   = Rs. 1,20,000

6. (a) Suraj Ltd.

Journal

2017			Dr. Rs.	Cr. Rs.
July 20	Bank Account	Dr.	16,00,000	
	To Share Application A/c			16,00,000
	(Application money on 80,000 shares at Rs. 20 per share received.)			
Aug 1	Share Application A/c	Dr.	16,00,000	
	To Share Capital A/c			16,00,000
	(The amount transferred to Capital Account on 80,000 shares Rs. 20 on application. Directors' resolution no........ dated ......)			
	Share Allotment A/c	Dr.	16,00,000	
	To Share Capital A/c			16,00,000
	(Being share allotment made due at Rs. 20 per share. Directors' resolution no...... dated ......)			

Sept15	Bank Account To Share Allotment A/c (The sums due on allotment received.)	Dr.	16,00,000	 16,00,000
Dec. 1	Share First Call Account To Share Capital Account (Amount due from members in respect of first call-on 80,000 shares at Rs. 30 as per Directors, resolution no... dated...)	Dr.	24,00,000	 24,00,000
Dec. 20	Bank Account To Share First Call Account (Receipt of the amounts due on first call.)	Dr.	24,00,000	 24,00,000
2018 March 1	 Share Second and Final Call A/c To Share Capital A/c (Amount due on 80,000 share at Rs. 30 per share on second and final call, as per Directors resolution no... dated...)	 Dr.	 24,00,000	 24,00,000
March 31	Bank Account To Share Second & Final Call A/c (Amount received against the final call on 80,000 shares at Rs. 30 per share.)	Dr.	24,00,000	 24,00,000

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

Journal

Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
Bank A/c To Debenture Application A/c (Debenture application money received)	Dr.	20,00,00,000	 20,00,00,000
Debenture Application A/c To 9% Debentures A/c (Application money transferred to 9% debentures account consequent upon allotment)	Dr.	20,00,00,000	 20,00,00,000
Debenture allotment A/c Discount on issue of debentures A/c To 9% Debentures A/c (Amount due on allotment)	Dr. Dr.	25,00,00,000 5,00,00,000	 30,00,00,000
Bank A/c To Debenture Allotment A/c (Money received consequent upon allotment)	Dr.	25,00,00,000	 25,00,00,000

(c) The preparation of trial balance has the following objectives:

1 **Checking of the arithmetical accuracy of the accounting entries:** Trial Balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish the arithmetical accuracy of the books.

2. **Basis for preparation of financial statements:** Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarized form for a particular period. In case, the Trial Balance is not prepared, it will be almost impossible to prepare the financial statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.

3. **Summarized ledger:** Trial Balance contains the ledger balances on a particular position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required.

Or

Rules regarding posting of entries in the ledger

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective account accordingly.

2. It is a practice to use words ‘To’ and ‘By’ while posting transactions in the ledger.

3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.