24. **Cash Sales 50,000**
Cash Collected from customers 1,30,000
Bad Debts during the year 5,000
Trade receivables at the beginning 10,000
Total sales will be ______

(a) Rs. 175,000 (b) Rs. 170,000
(c) Rs. 180,000 (d) Rs. 178,000

25. **An asset is purchased for Rs. 25,000, depreciation is to be provided annually according to straight line method. Useful life of the asset is 10 years and the residual value is Rs. 5,000. Rate of depreciation will be ______**

(a) 10% (b) 8%
(c) 12% (d) 15%

26.

	Rs.		***Rs.***
Opening inventory	**5,570**	**Purchases**	**13,816**
Closing inventory	**8,880**	**Sales**	**15,248**
Purchase return	**390**	**Import charges**	**1,650**
Sales return	**524**	**Salary & wages**	**1,000**

Above figures will show Gross Profit ____________

(a) Rs. 3,000 (b) Rs. 2,958
(c) Rs. 2,500 (d) Rs. 4,000

27. **Inventory worth Rs. 10,000 (cost price Rs. 7,500) taken by Mohan office clerk. Amount to be deducted from his salary in the subsequent month. Journal entry will be**

(a) Dr Salary and Cr Purchases A/c Rs. 10,000
(b) Dr Mohan and Cr purchases Rs. 10,000
(c) Dr Salary and Cr Purchases Rs. 7500
(d) None of the above

28. **Cost of goods sold is 100,000**

Opening inventory 5,000
Closing inventory 10,000
Amount of purchases will be _______

(a) 105,000 (b) 120,000
(c) 95,000 (d) 130,000

29. **Rent has been paid for 11 months from April to February 2010 amounting Rs. 55,000. The amount of outstanding rent shown in the balance sheet will be**

(a) Rs. 6,000 (b) Rs. 5,000
(c) Rs. 4,000 (d) None of the above.

(c) When the offeree offers to qualified acceptance of the offer
(d) Offer made to a definite person

80. In F.O.B. Contracts, F.O.B. stands for

(a) Free on Bill (b) Free on Board
(c) Free on Boarded Ship (d) Free on Bill of Lading

81. In case the goods are destroyed or damaged or lost by accident, the loss will fall on ____

(a) The owner of the goods (b) The buyer
(c) The owner and the buyer (d) The third party

82. Where goods are sold by a person who is not the owner thereof, the buyer ______

(a) Acquires no better title to the goods than the seller had
(b) Acquires same title of the goods as the owner had
(c) No title of goods
(d) None of these

83. If there is breach of warranty, the aggrieved party can ________

(a) Only claim damages
(b) Treat the contract as repudiated
(c) Treat the Contract illegal
(d) All of these

84. If there is breach of contract of sale, the aggrieved party can _________

(a) File a suit for damages for non delivery of goods
(b) File suit for specific performance
(c) File suit for injunction
(d) All of these

85. Only __________ can be subject matter of a sale

(a) existing goods (b) future goods
(c) specific goods (d) contingent goods

86. The delivery of goods and payment of price are ______

(a) Concurrent conditions (b) Principal conditions
(c) Mutual conditions (d) All of these

87. A contract of sale involves transfer of __________

(a) Title of goods (b) Ownership
(c) Liability (d) None of these

88. A warranty is a stipulation ____________

(a) Essential to main purpose of contract of sale
(b) Collateral to the main purpose of contract of sale

BOARD OF STUDIES

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

COMMON PROFICIENCY TEST

Model Test Paper – BOS/CPT – 17

Time : 4 hours | ***Maximum Marks : 200***

The test is divided into four sections.

SECTION – A : FUNDAMENTALS OF ACCOUNTING (60 MARKS)

1. All the following are functions of accounting except

(a) Decision making (b) Measurement
(c) Forecasting (d) Ledger posting

2. Rs. 25,000 incurred on structural alterations to existing asset whereby its revenue earning capacity is increased is ______

(a) Capital expenditure (b) Deferred revenue expenditure
(c) Revenue expenditure (d) None of the above

3. Debts written off as bad if recovered subsequently are

(a) Credited to Bad Debt recovered A/c
(b) Debited to Profit and Loss A/c
(c) Credited to Trade Receivables A/c
(d) None of the above

4. The total of the sales return book is posted periodically to the debit of _____

(a) Sales Return Account (b) Cash Book
(c) Journal proper (d) None of the above

5. Bills payable is ______

(a) Real A/c (b) Nominal A/c
(c) Personal A/c (d) Both (a) and (b)

6. Human assets have no place in accounting records is based on _____

(a) Money measurement concept (b) Accrual concept
(c) Consistency (d) Conservatism

(a)	Rs. 253	(b)	Rs. 250
(c)	Rs. 350	(d)	Rs. 275

36. Which of the following is not a current asset?

(a)	Bills Receivable	(b)	Inventory
(c)	Trade receivables	(d)	Furniture and Fittings

37. Deepak Ltd. forfeited 40 shares of 100 each (Rs. 60 called up) issued at par to Mukesh on which he had paid Rs. 20 per share. Out of these 30 shares were reissued to Sujoy as Rs. 60 paid up for Rs. 45 per share. Amount transferred to capital reserve will be ________

(a)	Rs. 150	(b)	Rs. 100
(c)	Rs. 200	(d)	Rs. 120

38. The following information pertains to Quick Ltd.

		Rs.
(i)	**Equity share capital called up**	**10,00,000**
(ii)	**Calls in arrear**	**40,000**
(iii)	**Calls in advance**	**25,000**
(iv)	**Proposed dividend**	**5%**

The amount of dividend payable is ________

(a)	Rs. 48,000	(b)	Rs. 50,000
(c)	Rs. 60,000	(d)	Rs. 49,250

39. Which of the following is fixed asset?

(a)	Plant and machinery	(b)	Inventory
(c)	Trade receivables	(d)	Cash

40. Ram Ltd. re-issued 200 equity shares of Rs.10 each @ Rs. 7 per share (Rs. 2 originally paid up). Amount of net loss on re-issue of shares will be

(a)	Rs. 300	(b)	Rs. 200
(c)	Rs. 400	(d)	Rs. 500

41. A company purchased machinery for Rs. 20,000 on 1st January 2006 and followed the diminishing balance method @ 15%. At the end of 2009 it was decided to follow fixed Instalment method of depreciating the machine at Rs. 3000 per year from the very beginning and the necessary amount of unabsorbed depreciation of 2006 to 2008 to be adjusted in 2009. Adjusted amount will be: _________

(a)	Rs. 1,282	(b)	Rs. 1,300
(c)	Rs. 1,400	(d)	Rs. 1,500

42. On 1st April, 2009 M/s Omega Bros. had a provision for bad debts of Rs. 6,500. During 2009-2010 Rs. 4,200 proved irrecoverable and it was desired to maintain the provision for bad debts @ 4% on trade receivables which stood at Rs. 1,95,000 before writing off

59. Recovery of bad debts is a

(a) Revenue receipt (b) Capital receipt
(c) Capital expenditure (d) Revenue expenditure

60. A draws a bill on B for Rs. 50,000 for mutual accommodation. A discounted the bill for Rs. 48,000 from bank and remitted Rs. 24,000 to B. On maturity date, A will send to B

(a) Rs. 25,000 (b) Rs. 24,000
(c) Rs. 23,000 (d) Rs. 26,000

SECTION – B : MERCANTILE LAWS (40 MARKS)

61. An agreement to do an impossible act is:

(a) Void (b) Voidable
(c) Illegal (d) None of these

62. A, B, and C jointly promised to pay Rs. 50,000 to D on the performance of the contract. C dies. Here the contract

(a) Becomes void on C's death
(b) Should be performed by A and B along with C's legal representatives
(c) Should be performed by A and B alone
(d) Should be renewed between A, B, and D

63. In case of breach of contract, which of the following remedy is available to the aggrieved party?

(a) Suit for rescission (b) Suit for damages
(c) Suit for specific performance (d) All of these

64. Which is true statement in voidable contract, the injured party

(a) Is entitled to recover compensation
(b) Has a right to sue for damages
(c) Has a right to rescinded the contract
(d) All of these

65. A contract can be discharged by operation of law by

(a) Death of promisor (b) By insolvency of promiser
(c) By Lunacy of promiser (d) By death or insolvency of promiser

66. Which does not relate with seller's suits?

(a) Suit for price
(b) Suit for damages for non acceptance
(c) Suit for repudiation of contract by the buyer before due date
(d) Suit for taking back the goods

67. Future goods means goods to be manufactured or acquired by the seller.

(a) Before making the contract of sale (b) At the time of contract of sale
(c) After making the contract by sale (d) All of these

68. Where seller refuses to deliver the goods to the buyer

(a) The buyer many sue the seller for damages for non-delivery
(b) The buyer may not sue the seller
(c) The buyer may compel the seller to deliver the goods
(d) The buyer may not compel the seller to deliver the goods

69. Which of seller's right against the buyer in case of breach of contract is:

(a) Suit for price and damages for non-acceptance
(b) Suit for damages for non-acceptance
(c) Suit for price only
(d) Cannot sue for price and damages

70. Which of the statement is true in case of an auction sale

(a) The sale is complete when the auctioneer announces its completion by the fall of hammer
(b) The sale is complete after certain period
(c) The sale is complete after five hours
(d) The sale is complete after eight hours

71. Who cannot become a partner in partnership firm

(a) A competent person (b) An unmarried woman
(c) Non-resident Indian (d) Alien enemy

72. A Joint Hindu family arises

(a) From status decided by court (b) As a result of an agreement
(c) By operation of law (d) All of these

73. In partnership the liability of the partner is:

(a) Limited to share in partner ship firm
(b) Unlimited
(c) Decided by court
(d) Decided by other partners

74. The Sale of Goods Act, 1930 gives the remedies to a seller for breach of contract of sale. Which is correct.

(a) Suit for price
(b) Suit for damages for non-acceptance
(c) Suit for damages for reputation of contract by the buyer before due date
(d) All of these

99. ‘A’, a man enfeebled by disease is induced by B’s influence over him as his medical attendant, to agree to pay ‘B’ an unreasonable sum for his services. It is the case of :

(a) Undue Influence (b) Coercion
(c) Fraud (d) Mistake

100. ‘A’ contracts to sing for ‘B’ at a concert for Rs. 5,000, which is paid in advance, ‘A’ is too ill to sing. Decide best

(a) A must refund the advance of Rs. 5,000 to B
(b) A is not liable to refund the many
(c) ‘B’ should force ‘A’ to sing
(d) ‘A’ is liable to refund only 50% of advance money to B

SECTION – C : GENERAL ECONOMICS (50 MARKS)

101. Who is the main exponent of Marginal utility analysis ?

(a) Paul Samuelson (b) Hicks
(c) Keynes (d) Marshall

102. Cardinal measure of utility is required in:

(a) Marginal Utility theory (b) Indifference curve
(c) Revealed preference (d) None

103. In case of inferior goods, income elasticity is :

(a) zero (b) positive
(c) negative (d) none

104. In case of Giffen goods, demand curve will slope :

(a) upward (b) downward
(c) horizontal (d) vertical

105. Cross elasticity of demand between tea and coffee is:

(a) positive (b) negative
(c) zero (d) infinity

106. If all inputs are trebled and the resultant output is doubled, this is a case of:

(a) constant returns to scale (b) increasing returns to scale
(c) diminishing returns to scale (d) negative returns to scale

107. Indifference curve is downward slopping _______

(a) always (b) sometimes
(c) never (d) none of these

193. $\displaystyle\int_0^4 \frac{(x+1)(x+4)}{\sqrt{x}}\,dx$

(a) $51\frac{1}{5}$ (b) $\frac{48}{5}$

(c) 48 (d) $55\frac{7}{15}$

194. **The mean of numbers 1, 7, 5, 3, 4, 4 is m. The numbers 3, 2, 4, 2, 3, 3, P have mean m-1. Then mean of P and 1 is equal to ________**

(a) 4.0 (b) 2.5

(c) 4.5 (d) 3.5

195. **For a 10 year deposit, what interest rate payable annually is equivalent to 5% interest payable quarterly ?**

(a) 5.1% (b) 4.9%

(c) 6.0% (d) None of these

196. **The sum of first m terms of an A.P. is same as the sum of first n terms. Find the sum of first (m+n) terms:**

(a) 100 (b) m+n

(c) 0 (d) m–n

197. **The distance from the origin to the point of intersection of two straight lines having equation 3x – 2y = 6 and 3x+2y = 18 is**

(a) 3 units (b) 5 units

(c) 4 units (d) 2 units.

198. **The relation "is father of" Over the set of family members is the relation**

(a) Reflexive (b) Symmetric

(c) Transitive (d) None of these

199. **If P= {1, 2, 3, 4} and Q= {2, 4, 6} then P $\cup$ Q**

(a) {1,2,3,4,6} (b) {1,4,6}

(c) {1,2,3,6} (d) None of these

200. **There are four hotels in a certain city. If 3 men check into hotels in a day, what is the probability that they each are into a different hotels.**

(a) 0.050 (b) 0.375

(c) 0.675 (d) 0.525

★★★

49.	**A company issues 100 debentures of Rs. 1,000 each at 97 per cent. These are repayable out of profits by equal annual drawings over 5 years. Discount on issue of debentures will be written off in the ratio**			
	(a)	5:4:3:2:1	(b)	4:3:2:1:1
	(c)	3:3:4:2:1:1	(d)	None of the three
50.	**Returns of cash sales is recorded in**			
	(a)	Sales return book	(b)	Cash book
	(c)	Journal proper	(d)	None of the three
51.	**Securities premium is recorded in**			
	(a)	Profit & Loss Account	(b)	Profit & Loss Appropriation Account
	(c)	Balance Sheet	(d)	None of the above
52.	**V.K. Ltd. forfeited 20 shares of Rs. 100 each (Rs. 60 called up) issued at par to Mohan on which he had paid Rs. 20 per share. Out of these 15 shares were reissued to Sohan as Rs. 60 paid up for Rs. 45 per share. Amount transferred to capital reserve will be**			
	(a)	Rs. 100	(b)	Rs. 75
	(c)	Rs. 200	(d)	Rs. 80
53.	**Z Ltd. purchased plant and machinery for Rs. 2,00,000 payable as to Rs. 65,000.00 in cash and the balance by an issue of 6% debentures of Rs. 1,000 each at a discount of 10%. Discount amount will be**			
	(a)	Rs. 10,000	(b)	Rs. 15,000
	(c)	Rs. 12,000	(d)	None of the three
54.	**A company issued Rs. 1,00,000 15%, debentures at a discount of 5%, redeemable after 10 years at a premium of 10%. Loss on issue of debentures will be**			
	(a)	10,000	(b)	15,000
	(c)	12,000	(d)	None of the three

55.

	Rs.
Opening Debtors	**20,000**
Total sales	**90,000**
Cash sales	**20,000**
Cash received from Debtors	**20,000**
Bad debts	**3,000**
Return inward	**1,000**
Bills received from Debtors	**10,000**
Debtors at end will be	

(a)	Rs. 56,000	(b)	Rs. 70,000
(c)	Rs. 60,000	(d)	Rs. 65,000

118. The IC curve approach assumes :

(a) rationality (b) consistency
(c) transitivity (d) all of the above

119. A higher indifference curve shows :

(a) a higher level of satisfaction (b) a higher level of production
(c) a higher level of income (d) none of the above

120. Demand deposits with banks are considered as money because they are:

(a) generally acceptable as a means of payment
(b) more liquid than cash
(c) held by the government
(d) managed efficiently by bank managers

121. Which one of the following measures has been accorded the highest priority by the government for checking the inflationary pressure on the economy since 1990?

(a) Revamping the public distribution system.
(b) Correcting the fiscal imbalance by reducing the fiscal deficit as a percentage of GDP
(c) Increasing imports
(d) Devaluation of the rupee

122. The basic aim of the lead bank scheme is that :

(a) big banks should try to open offices in each district
(b) there should be stiff competition among the various nationalized banks
(c) individual bank should adopt particular districts for intensive development
(d) all the banks should make intensive efforts to mobilize deposits

123. Which one of the following taxes belongs exclusive to the state government of India?

(a) Income tax (b) Agricultural tax
(c) Excise tax (d) Wealth tax

124. Which one of the following sources of Central revenue belongs to the category of indirect taxes?

(a) Corporation tax (b) Customs
(c) Wealth tax (d) Interest Receipts

125. The rapid increase of public debt of the Central Government since 1950-51 has been due to

(a) uncontrolled inflation
(b) mounting shares of state government from revenues raised by the central government
(c) mounting costs of financing public expenditure
(d) rising population

133. Unemployment rate in India is defined as the ratio of number of persons unemployed to total

(a) Population
(b) Population excluding children
(c) Labour force
(d) Population excluding the aged

134. The population of India living below the poverty line

(a) is rising in relative and absolute terms
(b) is falling in relative terms but rising in absolute terms
(c) is falling in both relative and absolute terms
(d) has not changed at all over the years

135. If the Indian economy aimed at an annual growth rate of 8 per cent in national income, assuming as incremental capital – output ratio of 3.5:1 what would be the required rate of investment as percent of national income?

(a) 28.0
(b) 24.5
(c) 10.5
(d) 3.5

136. In order to provide acess to electricity to all areas including villages and hamlets _________ programmed was started.

(a) Rajiv Gandhi Grameen Vidhutikaran
(b) Indira Gandhi Grameen Vidhutikaran
(c) Sonia Gandhi Grameen Vidhutikaran
(d) Mahatma Gandhi Grameen Vidhutikaran

137. Which one of the following has NOT been a part of the land reforms programme in India?

(a) Ceiling on holding
(b) Consolidation of holdings
(c) Agricultural holding tax
(d) Zamindari abolition

138. In India, which one of the following is NOT a cooperative organization?

(a) Primary land development banks
(b) Central land development banks
(c) Regional rural banks
(d) State cooperative banks

139. FDI is allowed in all of the following, except

(a) Banking
(b) Lottery
(c) Insurance
(d) Air transport

140. Which among the following is NOT a cause of sickness of industrial units in India?

(a) Obsolescent technology
(b) Labour problems
(c) Faulty location
(d) Lack of capital account convertibility

141. M_3 is equal to :

(a) Currency with public (b) M_1 + Time deposits of the public with banks
(c) M_1 + Post office savings (d) M_1 + National saving certificates

142. The majority of Central Government enterprises belongs to the :

(a) Public corporations (b) Public limited companies
(c) Private Limited companies (d) Departmental organizations

143. In 1991, foreign exchange reserves were sufficient to finance imports of ___ weeks.

(a) 36 (b) 16
(c) 24 (d) 3

144. Which one of the following agencies in India is responsible for computation of national income?

(a) NCAER (b) CSO
(c) NSS (d) RBI

145. What is the approximate share of the agricultural sector in the total employment in India? (2013-14)

(a) 49 per cent (b) 60 per cent
(c) 45 per cent (d) 40 per cent

146. According to the Human Development Report 2013, the GINI index for India in 2011-12 was :

(a) 0.334 (b) 0.29
(c) 0.53 (d) 0.18

147. Over the plan era, the relative share of areas under food grains in gross cropped area in India has:

(a) decreased (b) increased
(c) remained the same (d) decreased initially and then increased

148. Which one of the following is NOT an important import item of India at present?

(a) Petroleum oil (b) Edible oil
(c) Fertilizers (d) News print

149. The total area under the demand curve of a good measures:

(a) marginal utility (b) total utility
(c) consumers surplus (d) producers' surplus

150. The incremental capital output ratio (ICOR) during the XI plan of India was

(a) 5.02 (b) 3.04
(c) 4.0 (d) 6.37

181. The value of $\frac{2^{16} \times 3^{10} \times 5^{4}}{2^{12} \times 3^{6} \times 5^{3}}$ is equal to

(a) 2160 (b) 6480
(c) 648 (d) 3240

182. The value of $y^{a-m} \times y^{m-n} \times y^{n-a}$ is equal to

(a) 1 (b) 0
(c) –1 (d) y

183. The value of log (1 + 2 + 3 + ... +n) is equal to

(a) log 1+ log 2 + …. + log n (b) log n + log (n+1) – log 2
(c) 0 (d) 1

184. The roots of the equation x^2 - 3x + 2 = 0 are

(a) 1, 2 (b) 0, 1
(c) 0, 1, 2 (d) 1, 2, 3

185. The roots of the equation x^2 - x + 1 = 0 are

(a) Imaginary and unequal (b) Real and unequal
(c) Real and equal (d) Imaginary and equal

186. Interest earned on Rs. 3,000 at 5% p.a. simple interset for three years is ______

(a) Rs. 540 (b) Rs. 450
(c) Rs. 45 (d) Rs. 54

187. The inequalities x < 0, y > 0 indicates ______

(a) Third quadrant (b) First quadrant
(c) Second quadrant (d) Fourth quadrant

188. $\frac{\left|\underline{0}\right. \ \left|\underline{5}\right.}{\left|\underline{2}\right.}$ is equal to

(a) 60 (b) 0
(c) 120 (d) None of these

189. $^{n}C_{r}$ is equal to

(a) $\frac{\left|\underline{n}\right.}{\left|\underline{n-r}\right.}$ (b) $\frac{\left|\underline{n}\right.}{\left|\underline{r}\right. \ \left|\underline{n-r}\right.}$

(c) $\frac{\left|\underline{n}\right. \ \left|\underline{r}\right.}{\left|\underline{n-r}\right.}$ (d) $\frac{\left|\underline{n}\right. \ \left|\underline{n-r}\right.}{\left|\underline{r}\right.}$

18. The profits of last three years are Rs. 84,000, Rs. 78,000 and Rs. 90,000. Find out the goodwill of two years purchase.

(a)	Rs. 84,000	(b)	Rs. 1,68,000
(c)	Rs. 2,52,000	(d)	Rs. 72,000

19. Closing inventory of Rs. 19,000 in trial balance will be recorded in

(a)	Trading account	(b)	Profit and Loss account
(c)	Balance Sheet	(d)	None of the above

20. A & B are partners in a firm, sharing profits and losses in the ratio of 3:2. 'C' was admitted for 1/6 share in the future profits with a capital of Rs. 25,000. The new profit sharing ratio will be

(a)	3:2:1	(b)	1:1:1
(c)	5:3:2	(d)	5:3:1

21. When depreciation is recorded by charging to Asset Account, the asset appears-

(a)	At original cost	(b)	At original cost less depreciation
(c)	At market value	(d)	At realizable value

22. X Ltd. purchased equipment from Y Ltd. for Rs. 50,000 on 1st April 2009 the freight and cartage of Rs. 2,000 is spent to bring the asset to the factory and Rs. 3,000 is incurred on installing the equipment to make it possible for the intended use. The market price of machinery on 1st April, 2010 is Rs. 60,000 and the accountant of the company wants to disclose the machinery at Rs. 60,000 in financial statements. However, the auditor emphasizes that the machinery should be valued at Rs. 55,000

(a)	Money measurement principle	(b)	Historical cost concept
(c)	Full disclosure principle	(d)	Revenue recognition

23. A started business with Rs. 10,000 cash. Sales amounted to Rs. 50,000 including Rs. 5,000 cash sale. Rs. 10,000 sales were outstanding at the end of the year. Purchases amounted to Rs. 30,000 including Rs.10,000 cash purchase Rs. 15,000 has been paid to suppliers. Salaries paid amounted to Rs. 3,000, Rent Rs. 2,400, Stationery Rs. 900. Drawings were 4,000. Miscellaneous expenses Rs. 1,000 and machines purchased Rs. 8,000. Cash balance will be

(a)	Rs. 15,000	(b)	Rs. 15,500
(c)	Rs. 15,700	(d)	None of the three

24. If sales revenue is Rs. 5,00,000, cost of goods sold is Rs.3,10,000. The gross profit is

(a)	Rs. 1,90,000	(b)	Rs. 2,00,000
(c)	Rs. 3,10,000	(d)	None of the three

37. G's trial balance contains the following information –

Bad debts Rs. 4,000; Provision for doubtful debts Rs. 5,000; Trade receivables Rs. 25,000

It is desired to create a provision for doubtful debts at 10% on Trade receivables at the end of the year. Trade receivables will appear in the balance sheet at

(a) Rs. 21,000 (b) Rs. 22,500
(c) Rs. 22,000 (d) None of the three

38. An inexperienced book-keeper has drawn up a trial balance for the year ended 30th June, 2010.

	Dr.	***Cr.***
	Rs.	***Rs.***
Provision for Doubtful Debts	200	
Bank overdraft	1,654	
Capital	-	4591
Trade payables	-	1637
Trade receivables	2,983	
Discount received	252	
Discount allowed	-	733
Drawings	1,200	
Office furniture	2,155	
General expenses	-	829
Purchases	10,923	
Return inward	-	330
Rent and Rates	314	
Salaries	2,520	
Sales	-	16882
Inventory	2,418	
Stationary	1,175	
Provision for Depreciation on furniture	364	
Total	**26,158**	**25002**

The total of corrected trial balance will be

(a) Rs.25,580 (b) Rs.25,000
(c) Rs.24,000 (d) None of the three

39.

		Rs.
Balance as per adjusted cash book		**274**
(i)	**Cheques issued but not yet presented**	**730**
(ii)	**Cheques deposited but not collected by bank**	**477**

Balance as per Pass Book will be

(a) Rs. 527 (b) Rs. 525
(c) Rs. 500 (d) None of the three.

63. Which of the following statement is true?

(a) If there is no consideration, there is no contract
(b) Past consideration is no consideration in India
(c) Consideration must result in a benefit to both the parties
(d) Consideration must be adequate

64. Which of the following statement is false?

(a) A stranger to a contract cannot sue
(b) A verbal promise to pay a time barred debt is valid
(c) Completed gifts need no consideration
(d) No consideration is necessary to create an agency

65. An agreement is not said to be a contract when it is entered into by

(a) Minor (b) A person of unsound mind
(c) Foreign enemy (d) All of these

66. Which of the following statement is true?

(a) A threat to commit suicide does not amount to coercion
(b) Undue influence involves use of physical pressure
(c) Ignorance of law is no excuse
(d) Silence always amounts to fraud

67. Which of the example is the case of contracts need not be performed?

(a) A party substitutes a new contract for the old
(b) When the parties to a contract agree to rescind it
(c) When the parties to a contract agree to alter it.
(d) All of these

68. On the valid performance of the contractual obligation by the parties the contract is:

(a) is discharged (b) becomes void
(c) become unenforceable (d) None of these

69. Contract of sale means

(a) A contract between one person to another for exchange of property in goods
(b) A contract between buyer and seller for exchange of property in goods
(c) a contract between buyer and seller intending to exchange property in goods for a price
(d) All of these

70. Which of the following sentence is true ?

(a) There should be immediate delivery of goods
(b) There should be immediate payment of price
(c) There may be delivery of goods and payment of price on to be made at some future date.
(d) All of these

80. A contract dependant on the happening of future uncertain event, is a _______

(a) Uncertain contract (b) Contingent contract
(c) Void contract (d) Voidable contract

81. A contingent contract depending on the happening of future uncertain event can be enforced when the event.

(a) Happens (b) Becomes impossible
(c) Does not happen (d) Either of these

82. For the purpose of entering into a contract, a minor is a person who has not completed the age of _______

(a) 20 years (b) 21 years
(c) 18 years (d) 25 years

83. A contract with the minor which is beneficial for him is ________

(a) Void abinitio (b) Voidable
(c) Valid (d) Illegal

84. If a creditor does not file a suit against the buyer for recovery of the price within three years the debt becomes ______

(a) Time-barred and hence irrecoverable
(b) Time barred but recoverable
(c) Not time-barred
(d) None of these

85. Delivery means _____

(a) Compulsory transfer of possession by one person to another person
(b) Voluntary transfer of possession by one person to another
(c) Mere transfer of possession by one person to another person
(d) All of these

86. The general principle of regarding the transfer of title is that ______

(a) The seller can transfer to the buyer of goods a better title than he himself has
(b) The seller cannot transfer to the buyer of goods a better title than he himself has
(c) The seller can transfer to the buyer of goods no title than the himself has
(d) None of these

87. When the owner is estopped for the conduct from denying the sellers authority to sell, the transferee will get _____

(a) A good title as against the true owner
(b) A better title as against the true owner
(c) No title as against the true owner
(d) None of these

111. Under marginal utility analysis, utility is assumed to be a

(a) cardinal concept
(b) ordinal concept
(c) indeterminate concept
(d) none of the above

112. The utility may be defined as

(a) the power of commodity to satisfy wants
(b) the usefulness of a commodity
(c) the desire for a commodity
(d) none of the above

113. Marginal utility of a commodity depends on its quantity and is

(a) inversely related to its quantity
(b) not proportional to its quantity
(c) independent of its quantity
(d) none of the above

114. Consumer's surplus is the highest in the case of

(a) necessities
(b) comforts
(c) luxuries
(d) capital goods

115. Consumer stops purchasing the additional units of the commodity when -

(a) marginal utility starts declining
(b) marginal utility become zero
(c) marginal utility is equal to marginal utility of money
(d) total utility is increasing

116. Indifference curve approach assumes

(a) consumer has full knowledge of all relevant information
(b) all commodities are homogenous and divisible
(c) prices of commodities remain the same throughout the analysis
(d) all of the above

117. The 'substitution effect' takes place due to change in

(a) income of the consumer
(b) prices of the commodity
(c) relative prices of the commodities
(d) all of the above

118. Under income effect, consumer

(a) moves along the original indifference curve
(b) moves to higher or lower indifference curve
(c) always purchases higher quantities of both the commodities
(d) none of the above

6. Which of the following account will have credit balance?

(a) Debentures A/c (b) Carriage inward
(c) Prepared insurance (d) Bills receivable

7. The book value of the assets as on 1st April, 2011 is Rs. 1,00,000. Depreciation is charged on the assets @ 10%. On 1st October, 2011, the asset is sold for Rs. 64,000. Profit or Loss on the sale will be

(a) Rs. 30,000 (b) Rs. 31,000
(c) Rs. 36,000 (d) None of the above

8. Three column cash book records

(a) Only cash transactions (b) All transactions
(c) Cash, Bank and discount transactions
(d) Cash purchases and cash sale transactions

9. The value of an asset after reducing depreciation from the historical cost is known as

(a) Fair value (b) Book value
(c) Market value (d) Net realizable value

10. Trial Balance is prepared according to

(a) Total method (b) Balance method
(c) Total and Balance both (d) All the three.

11. Selection of accounting policies is based on:

(a) Prudence (b) Substance over form
(c) Materiality (d) All of the above

12. Which of the followings is a valuation principal?

(a) Historical cost (b) Current cost
(c) Realisable value (d) All of the above

13. Profit or loss on revaluation is shared among the partners in

(a) Old profit sharing ratio (b) New profit sharing ratio
(c) Capital ratio (d) Equal ratio

14. In case of admission of a partner, the first account prepared is

(a) Revaluation account (b) Realisation account
(c) Profit and Loss adjustment account (d) Bank account

15. After the death of a partner, amount payable is received by

(a) Government (b) Firm
(c) Executor of the dead partner (d) None of the three

85. It is not a right of partner ________

(a) To take part in business
(b) To take access to accounts book
(c) To share profits
(d) To receive renumeration

86. It is not included in the implied authority of a partner ________

(a) To buy or sell goods on account
(b) To borrow money for the purposes of firm
(c) To enter into partnership on behalf of firm
(d) To engage a lawyer to defend actions against firm

87. After retirement from firm, ________ partner is not liable by holding out

(a) Active partner
(b) Sleeping partner
(c) Representative of deceased partner
(d) Both (b) and (c)

88. ________ does not relate the dissolution of firm

(a) Dissolution by agreement
(b) Compulsory dissolution
(c) Dissolution on the happening of certain contingency
(d) Dissolution by leaving insolvent partner

89. ________ is the case of misconduct

(a) Gambling by a partner on stock exchange
(b) Fraudulent breach of trust by a partner
(c) Persistent refusal by a partner to attend to the business
(d) All of these

90. Every citizen is at liberty to conduct________

(a) Any profession
(b) Lawful profession
(c) Business of his choice
(d) Any business

91. A voidable contract ________

(a) Can be enforced at the option of aggrieved party
(b) Can be enforced at the option of both the parties
(c) Cannot be enforced in a court of law
(d) Is prohibited by court.

92. There can be a stranger to a ________

(a) Contract
(b) Consideration
(c) Agreement
(d) Promise

125. Which of the following equation is correct?

(a) $MRTS_{XY} = \dfrac{P_Y}{P_X}$ (b) $MRTS_X = \dfrac{P_X}{P_Y}$

(c) $MRTS_{YX} = \dfrac{P_Y}{P_X}$ (d) None of the above

126. The marginal cost curve intersects the average cost curve when average cost is:

(a) Maximum (b) Minimum
(c) Raising (d) Falling

127. If the demand curve confronting an individual firm is perfectly elastic, then :

(a) The firm is a price taker
(b) The firm cannot influence the price
(c) The firms marginal revenue curve coincides with its average revenue curve
(d) All of the above

128. In long run equilibrium the pure monopolist can make pure profits because of

(a) Blocked entry (b) The high price he charges
(c) The low LAC cost (d) Advertising

129. Which of the following statements is not true about a discriminating monopolist?

(a) He operates in more than one market
(b) He makes more profit because he discriminates
(c) He maximizes his profits in each market
(d) He charges different prices in each market

130. In both the Chamberlin and kinked demand curve models, the oligopolists

(a) Recognize their independence (b) Do not collude
(c) Tend to keep prices constant (d) All of the above

131. The demand for a factor of production is said to be a derived demand because

(a) It is a function of the profitability of an enterprise
(b) It depends on the supply of complementary factors
(c) Its stems from the demand for the final product
(d) It arises out of means being scarce in relation to wants.

132. Positive income elasticity implies that as income rises, demand for the commodity

(a) Rises (b) Falls
(c) Remains unchanged (d) Becomes zero

141. FIEO stands for :

(a) Foreign Import Export Organization
(b) Federation of Import Export Organization
(c) Forum of Indian Export Organization
(d) Federation of Indian Export Organization

142. The Eleventh Five Year Plan (2007-12) kept a target of a GDP growth rate ____

(a) 6 per cent (b) 9 per cent
(c) 10 per cent (d) 12 per cent

143. The major cause of unemployment in India is :

(a) Underdevelopment (b) Defective manpower planning
(c) Rapid population growth (d) All of the above

144. The largest share of foreign aid in India has been used in the programme of :

(a) Agriculture development (b) Industrial development
(c) Education (d) Health

145. Before financial reforms, the banking system was characterised by all of the following except :

(a) Administered interest rate structure
(b) Quantitative restrictions on credit flow
(c) High reserve requirements
(d) Keeping very less lendable resources for the priority sector

146. During ___ we had surplus in the current account.

(a) 2001-04 (b) 1991-93
(c) 1981-83 (d) 1971-73

147. Economic development has retarded in India mainly due to :

(a) Overgrowing service sector (b) Westernised social attitudes
(c) Poor infrastructural facilities (d) Modern agrarian system

148. India is termed as a developing economy because of her :

(a) Initiative for determined planned economic development
(b) Rapid population growth
(c) Predominant agrarian set-up
(d) Slow Industrial Progress

149. The percentage of people working in agriculture sector came down to around ________in 2013-14.

(a) 49 per cent (b) 80 per cent
(c) 65 per cent (d) 54 per cent

Answer of Model Test Papers

Model Test Paper – BOS/CPT-1

SECTION – A : FUNDAMENTALS OF ACCOUNTING

1	(c)	**2**	(d)	**3**	(c)	**4**	(b)	**5**	(d)
6	(b)	**7**	(c)	**8**	(a)	**9**	(c)	**10**	(b)
11	(c)	**12**	(d)	**13**	(c)	**14**	(a)	**15**	(a)
16	(a)	**17**	(a)	**18**	(a)	**19**	(c)	**20**	(b)
21	(a)	**22**	(c)	**23**	(d)	**24**	(b)	**25**	(a)
26	(a)	**27**	(b)	**28**	(b)	**29**	(b)	**30**	(a)
31	(a)	**32**	(c)	**33**	(d)	**34**	(d)	**35**	(b)
36	(a)	**37**	(d)	**38**	(a)	**39**	(d)	**40**	(b)
41	(b)	**42**	(c)	**43**	(a)	**44**	(d)	**45**	(b)
46	(c)	**47**	(a)	**48**	(a)	**49**	(a)	**50**	(b)
51	(c)	**52**	(d)	**53**	(d)	**54**	(d)	**55**	(d)
56	(c)	**57**	(c)	**58**	(b)	**59**	(d)	**60**	(b)

SECTION – B : MERCANTILE LAWS

61	(c)	**62**	(d)	**63**	(a)	**64**	(b)	**65**	(d)
66	(d)	**67**	(b)	**68**	(c)	**69**	(a)	**70**	(b)
71	(c)	**72**	(b)	**73**	(d)	**74**	(b)	**75**	(d)
76	(d)	**77**	(a)	**78**	(c)	**79**	(a)	**80**	(c)
81	(b)	**82**	(a)	**83**	(a)	**84**	(a)	**85**	(c)
86	(c)	**87**	(a)	**88**	(b)	**89**	(b)	**90**	(c)
91	(b)	**92**	(b)	**93**	(c)	**94**	(d)	**95**	(c)
96	(a)	**97**	(b)	**98**	(d)	**99**	(b)	**100**	(b)

ANSWERS

SECTION – C : GENERAL ECONOMICS

101	(c)	**102**	(a)	**103**	(b)	**104**	(a)	**105**	(d)
106	(a)	**107**	(b)	**108**	(b)	**109**	(c)	**110**	(d)
111	(d)	**112**	(b)	**113**	(c)	**114**	(a)	**115**	(d)
116	(c)	**117**	(a)	**118**	(b)	**119**	(b)	**120**	(d)
121	(d)	**122**	(b)	**123**	(b)	**124**	(b)	**125**	(c)
126	(a)	**127**	(a)	**128**	(c)	**129**	(c)	**130**	(a)
131	(b)	**132**	(b)	**133**	(d)	**134**	(b)	**135**	(d)
136	(c)	**137**	(d)	**138**	(d)	**139**	(c)	**140**	(b)
141	(c)	**142**	(c)	**143**	(a)	**144**	(a)	**145**	(b)
146	(a)	**147**	(c)	**148**	(a)	**149**	(d)	**150**	(d)

SECTION – D : QUANTITATIVE APTITUDE

151	(d)	**152**	(b)	**153**	(c)	**154**	(a)	**155**	(d)
156	(a)	**157**	(d)	**158**	(d)	**159**	(a)	**160**	(c)
161	(b)	**162**	(b)	**163**	(a)	**164**	(c)	**165**	(b)
166	(a)	**167**	(a)	**168**	(d)	**169**	(b)	**170**	(b)
171	(a)	**172**	(b)	**173**	(c)	**174**	(c)	**175**	(a)
176	(b)	**177**	(b)	**178**	(c)	**179**	(c)	**180**	(c)
181	(b)	**182**	(b)	**183**	(c)	**184**	(a)	**185**	(c)
186	(c)	**187**	(b)	**188**	(b)	**189**	(b)	**190**	(b)
191	(b)	**192**	(b)	**193**	(c)	**194**	(c)	**195**	(c)
196	(c)	**197**	(d)	**198**	(b)	**199**	(c)	**200**	(c)

ANSWERS

SECTION – C : GENERAL ECONOMICS

101	(c)	**102**	(d)	**103**	(c)	**104**	(a)	**105**	(b)
106	(b)	**107**	(d)	**108**	(b)	**109**	(c)	**110**	(c)
111	(b)	**112**	(c)	**113**	(a)	**114**	(a)	**115**	(d)
116	(b)	**117**	(d)	**118**	(d)	**119**	(a)	**120**	(c)
121	(b)	**122**	(a)	**123**	(c)	**124**	(a)	**125**	(a)
126	(c)	**127**	(d)	**128**	(b)	**129**	(d)	**130**	(b)
131	(a)	**132**	(c)	**133**	(c)	**134**	(d)	**135**	(b)
136	(c)	**137**	(b)	**138**	(c)	**139**	(a)	**140**	(b)
141	(d)	**142**	(a)	**143**	(b)	**144**	(d)	**145**	(d)
146	(a)	**147**	(b)	**148**	(c)	**149**	(c)	**150**	(a)

SECTION – D : QUANTITATIVE APTITUDE

151	(c)	**152**	(a)	**153**	(b)	**154**	(b)	**155**	(b)
156	(b)	**157**	(b)	**158**	(a)	**159**	(b)	**160**	(d)
161	(a)	**162**	(b)	**163**	(a)	**164**	(b)	**165**	(b)
166	(c)	**167**	(b)	**168**	(b)	**169**	(a)	**170**	(b)
171	(b)	**172**	(b)	**173**	(b)	**174**	(c)	**175**	(b)
176	(c)	**177**	(b)	**178**	(b)	**179**	(a)	**180**	(a)
181	(a)	**182**	(d)	**183**	(c)	**184**	(a)	**185**	(c)
186	(a)	**187**	(c)	**188**	(a)	**189**	(b)	**190**	(a)
191	(d)	**192**	(a)	**193**	(c)	**194**	(a)	**195**	(d)
196	(a)	**197**	(b)	**198**	(a)	**199**	(d)	**200**	(c)

ANSWERS

SECTION – C : GENERAL ECONOMICS

101	(c)	**102**	(d)	**103**	(c)	**104**	(c)	**105**	(d)
106	(d)	**107**	(b)	**108**	(b)	**109**	(a)	**110**	(c)
111	(a)	**112**	(a)	**113**	(b)	**114**	(b)	**115**	(b)
116	(d)	**117**	(d)	**118**	(c)	**119**	(a)	**120**	(a)
121	(b)	**122**	(b)	**123**	(c)	**124**	(d)	**125**	(d)
126	(a)	**127**	(b)	**128**	(b)	**129**	(a)	**130**	(b)
131	(a)	**132**	(d)	**133**	(b)	**134**	(c)	**135**	(d)
136	(a)	**137**	(b)	**138**	(d)	**139**	(b)	**140**	(c)
141	(c)	**142**	(d)	**143**	(b)	**144**	(c)	**145**	(a)
146	(c)	**147**	(a)	**148**	(a)	**149**	(c)	**150**	(b)

SECTION – D : QUANTITATIVE APTITUDE

151	(a)	**152**	(a)	**153**	(a)	**154**	(a)	**155**	(a)
156	(b)	**157**	(c)	**158**	(d)	**159**	(b)	**160**	(a)
161	(c)	**162**	(a)	**163**	(a)	**164**	(a)	**165**	(b)
166	(a)	**167**	(b)	**168**	(a)	**169**	(b)	**170**	(a)
171	(c)	**172**	(b)	**173**	(b)	**174**	(b)	**175**	(b)
176	(b)	**177**	(a)	**178**	(a)	**179**	(c)	**180**	(c)
181	(d)	**182**	(a)	**183**	(b)	**184**	(a)	**185**	(b)
186	(a)	**187**	(c)	**188**	(c)	**189**	(b)	**190**	(a)
191	(a)	**192**	(b)	**193**	(d)	**194**	(b)	**195**	(b)
196	(b)	**197**	(c)	**198**	(c)	**199**	(c)	**200**	(a)

ANSWERS

SECTION–C : GENERAL ECONOMICS

101	(a)	**102**	(c)	**103**	(a)	**104**	(c)	**105**	(c)
106	(d)	**107**	(b)	**108**	(a)	**109**	(d)	**110**	(b)
111	(d)	**112**	(d)	**113**	(b)	**114**	(d)	**115**	(b)
116	(c)	**117**	(d)	**118**	(a)	**119**	(b)	**120**	(b)
121	(a)	**122**	(d)	**123**	(c)	**124**	(c)	**125**	(c)
126	(b)	**127**	(c)	**128**	(c)	**129**	(c)	**130**	(c)
131	(a)	**132**	(b)	**133**	(b)	**134**	(c)	**135**	(d)
136	(c)	**137**	(b)	**138**	(a)	**139**	(a)	**140**	(c)
141	(c)	**142**	(d)	**143**	(d)	**144**	(a)	**145**	(d)
146	(d)	**147**	(a)	**148**	(d)	**149**	(d)	**150**	(c)

SECTION–D : QUANTITATIVE APTITUDE

151	(b)	**152**	(d)	**153**	(c)	**154**	(d)	**155**	(d)
156	(d)	**157**	(b)	**158**	(a)	**159**	(b)	**160**	(b)
161	(d)	**162**	(a)	**163**	(b)	**164**	(b)	**165**	(b)
166	(d)	**167**	(a)	**168**	(b)	**169**	(a)	**170**	(b)
171	(c)	**172**	(a)	**173**	(a)	**174**	(b)	**175**	(a)
176	(b)	**177**	(b)	**178**	(d)	**179**	(a)	**180**	(b)
181	(c)	**182**	(a)	**183**	(a)	**184**	(d)	**185**	(b)
186	(b)	**187**	(b)	**188**	(a)	**189**	(c)	**190**	(b)
191	(a)	**192**	(a)	**193**	(b)	**194**	(c)	**195**	(a)
196	(b)	**197**	(c)	**198**	(d)	**199**	(a)	**200**	(c)

ANSWERS

SECTION–C : GENERAL ECONOMICS

101	(c)	**102**	(a)	**103**	(b)	**104**	(d)	**105**	(b)
106	(b)	**107**	(b)	**108**	(b)	**109**	(b)	**110**	(a)
111	(b)	**112**	(a)	**113**	(a)	**114**	(d)	**115**	(d)
116	(b)	**117**	(d)	**118**	(a)	**119**	(b)	**120**	(a)
121	(b)	**122**	(c)	**123**	(a)	**124**	(a)	**125**	(c)
126	(c)	**127**	(b)	**128**	(b)	**129**	(d)	**130**	(d)
131	(c)	**132**	(c)	**133**	(b)	**134**	(b)	**135**	(d)
136	(a)	**137**	(a)	**138**	(b)	**139**	(b)	**140**	(d)
141	(d)	**142**	(c)	**143**	(c)	**144**	(c)	**145**	(d)
146	(c)	**147**	(b)	**148**	(d)	**149**	(d)	**150**	(d)

SECTION–D : QUANTITATIVE APTITUDE

151	(a)	**152**	(c)	**153**	(a)	**154**	(b)	**155**	(a)
156	(d)	**157**	(a)	**158**	(b)	**159**	(c)	**160**	(b)
161	(a)	**162**	(b)	**163**	(c)	**164**	(d)	**165**	(a)
166	(a)	**167**	(c)	**168**	(a)	**169**	(c)	**170**	(d)
171	(b)	**172**	(a)	**173**	(a)	**174**	(c)	**175**	(c)
176	(d)	**177**	(a)	**178**	(b)	**179**	(a)	**180**	(c)
181	(b)	**182**	(a)	**183**	(b)	**184**	(a)	**185**	(a)
186	(c)	**187**	(a)	**188**	(d)	**189**	(b)	**190**	(a)
191	(b)	**192**	(a)	**193**	(b)	**194**	(a)	**195**	(c)
196	(c)	**197**	(a)	**198**	(b)	**199**	(a)	**200**	(b)

ANSWERS

SECTION–C : GENERAL ECONOMICS

101	(c)	102	(d)	103	(b)	104	(c)	105	(b)
106	(b)	107	(b)	108	(a)	109	(b)	110	(a)
111	(c)	112	(d)	113	(b)	114	(b)	115	(a)
116	(c)	117	(a)	118	(d)	119	(a)	120	(a)
121	(b)	122	(c)	123	(b)	124	(b)	125	(c)
126	(a)	127	(a)	128	(b)	129	(a)	130	(c)
131	(b)	132	(a)	133	(c)	134	(b)	135	(a)
136	(a)	137	(c)	138	(c)	139	(b)	140	(d)
141	(b)	142	(b)	143	(d)	144	(b)	145	(a)
146	(a)	147	(a)	148	(d)	149	(b)	150	(c)

SECTION–D : QUANTITATIVE APTITUDE

151	(a)	152	(c)	153	(c)	154	(a)	155	(b)
156	(c)	157	(b)	158	(a)	159	(b)	160	(b)
161	(a)	162	(b)	163	(c)	164	(a)	165	(c)
166	(a)	167	(b)	168	(c)	169	(b)	170	(b)
171	(a)	172	(c)	173	(a)	174	(b)	175	(a)
176	(a)	177	(b)	178	(c)	179	(b)	180	(a)
181	(b)	182	(a)	183	(b)	184	(c)	185	(a)
186	(b)	187	(c)	188	(a)	189	(b)	190	(a)
191	(b)	192	(b)	193	(a)	194	(a)	195	(b)
196	(c)	197	(b)	198	(c)	199	(a)	200	(b)

SECTION — A : FUNDAMENTALS OF ACCOUNTING

Suggested Answer/Hints

Model Test Paper — BOS/CPT – 1

1. Same method of depreciation is followed year after year due to consistency.

2. A change in accounting policy is justified due to all the three options given in the question.

3. Purchases book records all credit purchases of the goods in trade.

4. A bank reconciliation statement is prepared to know the causes for the difference between balances as per bank column of the cash book and pass book.

5. Due to this error, previous year's profit is overstated and current year's profit is understated.

6. In the absence of provision in the partnership agreement, profit and losses are shared equally.

7. Going concern is fundamental accounting assumption.

8. Compensating errors are not revealed by trail balance.

9. Wages paid for installation of machinery is a capital item.

10. If del-credere commission is allowed bad debts will not be borne by consignor, thus not debited to consignment etc.

11. Discount on issue of debenture is capital loss to be written off over tenure of debentures.

12. Loss on issue of debentures is treated as other current/non-current assets.

13. Dividends are usually paid as percentage of paid up capital.

14. Partners will get policy amount in the given case.

15. Profit/Loss on revaluation is shared among partners in old profit sharing ratio.

16. Interest on capital will be paid only from profit of the year in the given case.

17. Consigner is the owner of the consignment inventory.

18. Parties to joint venture are co-venturers.

19. Accommodation bill is dream when both parties are in need of funds.

20. Number of units expected to be produced from the use of asset is called as useful life.

21. Cost concept is being violated by A.

22. Change in method of depreciation should be done only in situation given in option (C).

23. Opening stock + closing stock – cost of goods sold = amount of purchase

Or 80,700 + 6,000 – 5,800 = Rs. 80,900

SECTION — A : FUNDAMENTALS OF ACCOUNTING

Suggested Answer/Hints

Model Test Paper — BOS/CPT – 2

1. Book keeping is not a sub-field of Accounting.

2. Revenue from products' sale is realized at the time of sale.

3. Expenses for an accounting period are recognised on 'Matching' principle.

4. Accounting principles, policies are standardized to ensure transparency, consistency and comparability.

5. Change in accounting estimate means differences between certain parameters estimated (or restimated) and actual results achieved.

6. Inventory of raw materials is odd one out. All other three are fixed assets.

7. Double entry system affects two accounts.

8. Quantity of a particular product sold during the period will not be shown in general ledger.

9. In three column cash book, contra entries are passed.

10. For locating clerical errors, Trial balance is prepared.

11. Present liability of uncertain amount which can be measured by using substantial degree of estimated is provision.

12. Cheques issued but not presented will be added to the Debit balance of cash book in the given case.

13. FIFO will shown the highest value of closing inventory under inflationary conditions (rising prices).

14. P&L A/c is debited in case of downward revaluation of assets in the given case.

15. The portion of acquisition cost of asset (to be allocated to P&L A/c) is called Book value.

16. If decision to dispose of assets has taken place, assets should be indicated in the balance sheet at NRV.

17. Petty cash balance is an asset.

18. Goods lying in the godown at buyer's risk should be treated as sales.

19. The rate is 6% as per Indian Partnership Act, 1932.

20. If del-credere commission is allowed for bad debts, consignee will debit bad debts amount to Commission earned as he has to bear this amount.

21. Cost concept is violated in the given case.

22. Matching concept supports the given calculation of profit.

16. Interest on capital to be paid only from profits in given case.

17. Performa invoice is sent by consignor to consignee.

18. In the given case, discount charges will be recorded in Memorandum A/c.

19. Z will be payee of bill.

20. Here profit margin on sale is given and we are required to find the profit margin on cost. This can be done as follows:

Let the selling price be x

Then profit = 20% of x = .2x

Thus cost price = selling price – profit = x – . 2x = 0.8x

And the markup on cost will be = 0.2/0.8 × 100 = 25%

21. Conservatism concept is being violated in given case.

22. Objection of auditor is justified only in situation given in option (C).

23. Inventory should be valued at lower of cost or net realizable value. Pricing of inventory assumes significance when different lots are purchased at varying prices and different timings.

So in this case

Car	*Fiat*	*Ambassador*	*Maruti Esteem*	*Maruti 800*	*Zen*
Cost Rs.	90,000	1,15,000	2,75,000	1,00,000	2,10,000
Net realisable value (Rs.)	95,000	1,55,000	2,65,000	1,25,000	2,00,000
Value of inventory	90,000	1,15,000	2,65,000	1,00,000	2,00,000
Total value =			Rs. 7,70,000		

24. Sum of years digits method takes the asset's expected life and adds together the digits for each year. So if the asset was expected to last for six years, the sum of the years' digits would be obtained by adding: 6 + 5 + 4 + 3 + 2 + 1 to get a total of 21.Each digit is then divided by this sum to determine the percentage by which the asset should be depreciated each year, starting with the highest number in year 1 *i.e.* 6 in this case.

Total depreciable cost	*Depreciation rate*	*Depreciation expense*	*Accumulated depreciation*	*Book value at end of year*
				1,26,000 (original cost)
1,26,000	6/21	36,000 (1,26,000 × 6/21)	36,000	90,000

So Rs. 36,000 is the depreciation expenses in year 1.

So the amount to be debited to share capital account will be = total number of shares forfeited × called up value of each share = 2,000 × 9 = Rs. 18,000

60. At the time of retirement of a partner an adjustment is necessary in respect of the goodwill. the retiring partner is entitled to his share of goodwill in the firm. In absence of agreement goodwill is to be distributed in the profit sharing ratio.

Thus the contribution of X and Z to compensate Y will be

Y's share in goodwill = 30,000 × 2/5 = 12,000

X's contribution = 12,000 × 2/3 = 8,000

Z's contribution = 12,000 × 1/3 = 4,000

22. In the given case, the treatment by auditor is justified due to Historical cost concept.

23. Mr. A started his business on 1st Jan 2009 with cash thus there was no opening inventory and hence the opening inventory to be shown in trial balance of Mr. A for the year will be nil.

24. The provision created to cover the next year's bad debt expense out of the current year's debtors is known as provision for bad debts. The provision for bad debt is calculated on the debtors' balance obtained after deducting the bad debt written off.

The provision created to cover the expense of discount that may be allowed to the debtors during the coming year when they pay their debt on time. The provision for discount on debtors is calculated on the debtors balance after deducting the bad debt and the provision for bad debt amount.

Thus provision for doubtful debt = 5% of (55,200 – 200) = Rs.2,750

25. According to annuity method, the purchase of the asset concerned is considered an investment of capital, earning interest at certain rate. The cost of the asset and also interest thereon are written down annually by equal installments until the book value of the asset is reduced to nil or its bread up value at the end of its effective life. The annual charge to be made by way of depreciation is found out from annuity tables. The annual charge for depreciation will be credited to asset account and debited to depreciation account, while the interest will be debited to asset account and credited to interest account.

Thus depreciation to be charged = asset value × the annuity = 40,000 × .230975 = Rs. 9,239

26. Under the diminishing balance method or Written Down Value Method, depreciation according to a fixed percentage calculated upon the original cost (in the first year) and written down value, (in subsequent years) of an asset, is written off during each accounting period over the expected useful life of the asset. Under this method, the rate of depreciation remains constant year after year whereas the amount goes on decreasing.

Let the cost of the asset when purchased be x

1st april 2007	Cost of machine	x
31-3-2008	Depreciation @10%	.1x
31-3-2008	wdv	.9x
31-3-2009	depreciation@10%	10% of .9x = .09x
31-3-2009	wdv	.9x – .09x = .81x
31-3-2010	depreciation@10%	.081x
31-3-2010	wdv	.81x – .081x = .729x = 72,900

So 0.729x = 72,900

x = Rs. 1,00,000 = the cost of the machine

27. When the company has the debentures in Financial statements with entitlement to interest. Interest will accrue on a timely basis e.g. Month to month or period to period.

Provision for bad debts = 10% of (30,000 – 3,000) = Rs. 2,700

42. The drawings are usually made by the partners at regular intervals. Thus, the interest on drawings is calculated with reference to the time period involved.

Monthly/quarterly drawings method: If uniform amount is withdrawn at each time and the interval between two withdrawals also is uniform. In such a case interest on drawings is calculated with monthly drawings method. Time period in this method is calculated as follows:

When drawings are for 12 months period and at the beginning of each month = Total drawings × Rate/ 100 × 6.5/12

So interest on drawings of A will be = 1,000 × 12 × 10/100× 6.5/12 = 650

And interest on drawings of B will be = 500 × 12 × 10/100× 6.5/12 = 325

Total interest on drawings = 650 + 325 = Rs. 975

43. Profit of the firm before allowing interest on capital = Rs. 3,900

Interest on capital of A = 5% of 40,000 = Rs. 2,000

Interest on capital of B = 5 % of 25,000 = Rs. 1,250

Profit after interest = 3,900 – 2,000 – 1,250 = Rs. 650

The profit sharing ratio of A and B is 3 : 2

Thus profit shared by A = 650 × 3/5 = Rs 390

And profit shared by B = 650 × 2/5 = Rs. 260

44. The expenditure will shown as prepaid expense in Financial statements for the year ended 31.12.09.

45. Sometimes, acceptor of a bill finds himself unable to meet his acceptance on the due date. So he may approach the drawer of the bill before the maturity date arrives, to cancel the old bill and draw a new bill with extended date. The acceptor in this case will of course have to pay interest for the extended period.

Total amount of the bill = 8,000

Amount paid in cash = Rs. 2,000

Amount due = Rs. 6,000

Interest for 3 months @18%pa = 6,000 × 18/100 × 3/12 = Rs. 270

The amount of renewed bill will be = 6,000 + 270 = Rs. 6,270

46. Straight line method depreciates cost evenly throughout the useful life of the fixed asset.

Straight line depreciation is calculated as follows:

Depreciation per annum = (Cost – Residual Value) / Useful Life

Where:

Cost includes the initial and any subsequent capital expenditure.

Residual Value is the estimated scrap value at the end of the useful life of the asset. As the residual value is expected to be recovered at the end of an asset's useful life, there is no need to charge the portion of cost equaling the residual value.

Useful Life is the estimated time period an asset is expected to be used from the time it is available for use to the time of its disposal or termination of use.

Cost of the machinery = purchase price + installation expenses + carriage = 50000 + 2000 + 4000 = Rs. 56,000

Depreciation = (56,000 – 6,000)/10 = Rs. 5,000

47. Partners are entitled to receive interest at an agreed rate of interest on any Loan given by them to the firm. Interest on Loan is a charge against profits so a partner is entitled to receive interest whether there are profits or not. If there is no agreement regarding the rate of interest, it is taken as 6% p.a.

So as nothing is mentioned in the deed of partnership regarding the interest on loan so interest on Gopal's loan will be paid at 6% pa.

Interest on Gopal's loan will be = 6% of Rs. 12,000 = Rs. 720

48. Interest is paid on capital for the reason that it has been used for the purpose of the partnership business.

Since the capital was contributed on 1st July, 2009 and the books are being closed on 31st Dec. 2009. Thus interest on capital will be calculated for half a year:

For A = 40,000 × 10% × 6/12 = 2,000

For B = 50,000 × 10% × 6/12 = 2,500

So total interest on capital will be = Rs. 4,500

49. Under this method Goodwill is calculated on the basis of Super Profits i.e. the excess of actual profits over the average profits.

For calculating Goodwill:

(i) Normal Profits = Capital Invested × Normal rate of return/100

(ii) Super Profits = Actual Profits – Normal Profits

(iii) Goodwill = Super Profits × No. of years purchased

Here normal profit = 4,00,000 × 12.5% = 50,000

Super profit = 60,000 – 50,000 = 10,000

Goodwill = 10,000 × 2 = Rs. 20,000

ANSWERS

SECTION — A : FUNDAMENTALS OF ACCOUNTING

Suggested Answer/Hints

Model Test Paper — BOS/CPT – 6

1. Transactions between owner and business are recorded as per Entity concept.

2. Salary is expense, Account payable is liability, sales is revenue, Trade Receivable is an asset.

3. Annual financial statements pertain to individual business entity.

4. An employee dismissed from job is not a transaction. All other three are transactions.

5. Accounting does not aim to provide details of personal assets and liabilities of owner. All other three are objectives of accounting.

6. Personal expenses of owners (paid by firm) are called drawings.

7. Purchase Journal records credit purchase of goods dealt in by firm.

8. Trial balance gives the list of balances of all accounts (given in ledger).

9. Dep. is calculated on original cost under SLM.

10. If date of maturity of a bill is a holiday, bill will mature preceding working date.

11. A promissory note is drawn by maker in favour of payee.

12. Consistency requires that same method should be used from one accounting year to next.

13. Left side of an account is Dr. whereas right side is Cr.

14. Every transaction affects at least 2 accounts.

15. All expenses and income accounts appearing in trial balance are Ist of either to Trading or Profit & Loss A/c.

16. Scrap value means amount realised at end of useful life of asset.

17. Petty cashier works on Imprest system.

18. Proforma invoice is prepared by consignor and sent to consignee to inform him about essential particulars of goods.

19. Carriage charges paid for new plant should be debited to Plant A/c. If debited to Carriage A/c, now rectification would affect both A/cs.

20. Amount due to retiring partner on account of goodwill is debited to the continuing partners in their gaining ratio.

21. Drawings should be recorded at cost price.

22. Concept of substance over form is applied in the given case.

59. Share forfeiture is the process by which the directors of a company cancel the power of shareholder if he does not pay his call money when the company demands for it. Company will give 14 days' notice; after 14 days if shareholder did not pay then company will forfeit his shares and cut off his name from the register of shareholder. Company will not pay his received funds from shareholder.

On non-receipt of the first call and final call money from Rahul, calls in arrear account was debited and there was no money lying in the first call account or the final call account . Thus when the amount was forfeited no amount will be credited in the first call account.

60. Shares issued to promoters will be debited to Goodwill A/c.

SECTION — A : FUNDAMENTALS OF ACCOUNTING

Suggested Answer/Hints

Model Test Paper — BOS/CPT – 8

1. Going concern concept assumes that the business will continue for long and will not liquidate in near future.
2. Capital is equal to assets less liabilities.
3. Double column cash book records all cash and bank transactions.
4. Errors of commission donot permit trail balance to agree.
5. Wages, Trade receivable, goodwill all have Dr. balance. Bills payable (liability) has Cr balance.
6. 'Depletion' is used for natural resources.
7. A bill of exchange requires acceptance.
8. A promissory note cannot be made payable to bearer.
9. Expenditure for replacement of a part is revenue expenditure in the given case.
10. Outstanding salry is personal account as it is due to some person.
11. Drawings are deducted from capital balance.
12. Opening inventory is debited to Trading A/c.
13. Purchase returns are deducted from purchases.
14. Drawings will show a Dr. balance.
15. Purchase of fixed asset (on credit basis) is recorded in Journal Proper.
16. Recording of transactions and events is Accounting.
17. The ratio of sacrifice is same as old profit sharing ratio, unless otherwise agreed.
18. Continuing partners acquire the outgoing partner's share in gaining ratio.
19. Bill of exchange is called Bill payable by one who is liable to pay.
20. Calls in arrear is deducted from called up capital to arrive at paid up.
21. In the given case, sale will be treated at time of delivery only.
22. Cost concept has been followed in the given case.
23. A Bank reconciliation is a process that explains the difference between the bank balance shown in an organisation's bank statement, as supplied by the bank, and the corresponding amount shown in the organization's own accounting records at a particular point in time.

expenditure. Thus Rs.5,000 was spent by Saroj for addition to machinery in order to increase the production capacity. The amount is Capital in nature.

49. Total amount of sales = Rs. 10,20,000

Sale of damaged stock at loss = Rs. 20,000

Thus sales made at 25% profit on sale = 10,20,000 – 20,000 = Rs. 10,00,000

Gross profit = 25% on sale less loss on sale of damaged stock = 25% on 10,00,000 less (30,000 – 20,000) = 2,50,000 – 10,000 = Rs. 2,40,000

50. In financial accounting, every single event occurring in monetary terms is recorded. Sometimes, it just so happens that some events are either not recorded or it is recorded in the wrong head of account or wrong figure is recorded in the correct head of account.

Whatever the reason may be, there is always a chance of error in the books of accounts. These errors in accounting require rectification. When there is a difference in a trial balance a suspense account is opened with the amount of the difference so that the trial balance agrees (pending the discovery and correction of the errors causing the difference).

Here the total of the debit and credit side of a trial balance of Mr. Raily as on 31st March, 2012 were Rs. 20,000 and Rs. 10,000 respectively. Thus suspense account will have a credit balance of Rs. 10,000.

Now purchase return book which has a credit balance was overcasted by Rs. 1,500 – Rs. 1,400 = Rs. 100. Thus we have to credit suspense account and debit purchase return account by rs 100. After crediting suspense account by Rs. 100 the balance of suspense account will be Rs. 10,100 (cr).

51. Statement showing closing capital of Mr A as on 31.3.2012:

Capital introduced as on 1.4.2011	3,00,000
Add:	
Further capital introduced during the year	50,000
Profit during the year	20,000
Less:	
Drawings during the year 2,000 × 12	(24,000)
Capital as on 31.3.2012	3,46,000

52. Goods are normally sent on cost price to the consignee but some time the consignor makes the invoice at the selling price i.e. proforma invoice price. The idea is that consignee should not know the actual cost of the goods. In such cases the entries are made by the consignor in his books at the invoice price.

Here the goods are sent to the consignee at cost + 25%

Cost of goods sent = Rs. 10,000

Invoice value of the goods sent = 10,000 + 25% of 10,000 = Rs. 12,500

The treatment of normal loss is to charge it to consignment account. The total cost of goods sent is charged to the units remaining. Value of inventory is inflated to cover the normal loss. In other words such loss is absorbed by the remaining units.

Here total cost of the oranges = 1,000 × 8 + 925 = Rs. 8,925

Since 15% loss is unavoidable

The balance oranges left = 1,000 – 15% of 1,000 = 850 Kgs

Thus cost per orange after adjusting loss will be = 8,925/850 = Rs. 10.50

33. Consignment is the act of consigning, which is placing any material in the hand of another, but retaining ownership until the goods are sold or person is transferred. A joint venture takes place when two parties come together to take on one project.

Here the cost of goods sent on consignment = Rs. 20,000 which is the cost of consignment.

Ajay draws bill on Bijay for 80% of the cost of consignment, thus the amount of the bill drawn will be = 80% of 20,000 = Rs. 16,000.

34. Accounting Estimates involve management's judgment of expected future benefits and obligations relating to assets and liabilities (and associated expense and income) based on information that best reflects the conditions and circumstances that exist at the reporting date. By its nature, estimates are subjective and may require frequent revisions in future. Estimates must be revised when new information becomes available which indicates a change in circumstances upon which the estimates were formed. Changes in Accounting Estimates must be accounted for prospectively in the financial statements, i.e. the effects of the change must be incorporated in the accounting period in which the estimates are revised. Therefore, carrying amounts of assets and liabilities and any associated expense and gains are adjusted in the period of change in estimate. Prospective application of changes in estimates prevents frequent revisions in prior period comparative figures which might cause unnecessary complications in respect of financial statement balances that are expected to be revised in future due to availability of new information or the experience of new events.

Here the company should account for the change in estimate prospectively by allocating the net carrying amount of the machinery over its remaining useful life. No adjustment is required to restate the depreciation charge in previous accounting periods.

Depreciation expense for the machine would therefore be as follows:

Depreciation	*Expense*	*Accumulated Depreciation*	*Working*
31.3.2010	1,00,000	1,00,000	(10,00,000/10)
31.3.2011	1,00,000	2,00,000	(9,00,000/9)
31.3.2012	80,000	2,80,000	((10,00,000 – 2,00,000)/10)

Although expected useful life of the machine has increased at the end of second year, depreciation expense recorded in previous years is not affected. Instead, the depreciation expense is decreased accordingly in the remaining years.

35. Consignment is the act of consigning, which is placing any material in the hand of another, but retaining ownership until the goods are sold or person is transferred. Remuneration paid for services is called commission. Commission is always paid on sales. Over-riding commission is an extra commission allowed to the consignee in addition to the normal commission. Such additional commission is generally allowed:

(i) To provide additional incentive to the consignee for the purpose of introducing and creating a market for a new product

(ii) To provide incentive for supervising the performance of other agents in a particular area

(iii) To provide incentive for ensuring that the goods are sold by the consignee at the highest possible price.

Here cost of the goods sent on consignment = 1,00,000

Invoice price = cost + 25% = 1,00,000 + 25% of 1,00,000 = 1,25,000

Invoice price of the goods sold = 3/5th of the total invoiced goods = 3/5th of 1,25,000 = 75,000

Commission on sales = 2% on sales = 2% of 85,000 = 1,700

Overriding commission = 20% on gross sales less all commission exceeding its invoice value

Let the overriding commission be x

Total commission = 1,700 + x

Gross sales less all commission = 85,000 – 1700 – x

Overriding Commission = 20% of (85,000 – 75,000 – 1,700 – x) = x

Or 1,660 – .2x = x

Or 1.2x = 1,660

Or x = 1,383

Total commission = 1,383 + 1,700 = Rs. 3,083

36. Consignment is the act of consigning, which is placing any material in the hand of another, but retaining ownership until the goods are sold or person is transferred. A joint venture takes place when two parties come together to take on one project.

Here cost of goods sent on consignment = Rs. 10000

Here we can find out amount to be remitted to Anuj by Bittu with the help of Consignee account in the books of Anuj and the consignment account

Consignment account

Particulars	*Amount*	*Particulars*	*Amount*
To goods sent on consignment A/c	10,000	By Bittu A/c-sales	15,000
To bank-freight paid	1,000		

	To bank-discounting charges	500			
	To Bittu A/c-commission	500			
	To P&L–transfer to profit	1,500			
	To Bittu-profit share	1,500			
		15,000			15,000

Bittu account

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
	To consignment A/c	15000		By bills receivable	10,000
				By consignment A/c-profit share	1,500
				By consignment-commission	500
				By balance c/d-balance receivable	3,000
		15000			15,000

37. In the cases where a bill is payable at a fixed period after sight, the time is to be calculated from the date of the acceptance if it is accepted . If the instrument is made payable at the stated number of months after sight it becomes payable three days after the corresponding date of the month. If the month in which the period would change has no corresponding day, the period shall be liable to change on the last day of such month. Three days of grace must be added to it. In calculating the date at which promissory note or bill of exchange made payable a certain number of days after sight , the day of the date of presentment for acceptance or sight shall be excluded.

Thus the date which comes after adding stated number of days to the date of the bill,shall be the due date and the date of bill is excluded. And for finding the date of maturity 3 days as days of grace is added to the due date.

Here the bill was accepted on 8.12.2011. By adding 30 days to this date we get 7.1.2012.

Now by adding 3 days of grace we get 10.1.2012.

38. Bills of exchange is a financial service, where the Bank purchases drawn bills, from the domestic trade transactions, confirmed in particular with an invoice - with right of recourse to you - and credits you with the amount of the bill of exchange less discount interest and additional costs related to the bill, accrued in advance from the discount date to the bill payment term.

Here amount of the bill = Rs. 30,000

The bill was accepted by Yash on 1st January but was discounted on 4th February so,

Amount to be paid to bank on discounting at 12% pa = 30,000 × 12/100 × 2/12 = Rs. 600

So the proportion in which the shares are to be allotted = 10000/12000 = 5/6

i.e. 5 shares for every 6 shares applied

56. A redeemable preference share can be redeemed either –

Entirely out of fresh issue of new preference or equity shares

(but not debentures). Or

Entirely out of divisible profits. Or

Partly out of fresh issue and partly out of divisible profits.

Here the Board of Directors of a company decides to issue minimum number of equity shares and the maximum amount of divisible profits available for redemption is Rs. 3,00,000. So this is the case of redemption partly out of fresh issue and partly out of divisible profits.

Total value of preference shares to be redeemed = Rs. 5,00,000

Less: divisible profits available for redemption = Rs. 3,00,000

Total value of shares to be issued = 2,00,000

Value per equity share = Rs. 9

Thus shares to be issued = 2,00,000/9 = 22,223 shares

57. Whenever a company redeems its preference shares then the nominal value or face value of the shares is put into capital redemption reserve fund. Thereafter this fund becomes the part of the paid capital of the company.

Capital Redemption Revere is also created when a company buys it owns shares which reduce its share capital.

Suppose, the fresh equity shares or preference shares are issued to redeem the old preference shares, in this case the difference between the face value of preference shares and fresh shares issued will be transferred to capital redemption reserve account.

The capital redemption reserve fund is transferred from undistributed profits i.e general reserves, profit or loss account.

A redeemable preference share can be redeemed entirely out of fresh issue of new preference or equity shares but not debentures.

Here the face value of the 12% Redeemable preference shares to be redeemed = 3000 × 100 = 3,00,000

Face value of the fresh equity shares issued for the purpose = 25,000 × 10 = 2,50,000

Thus amount to be transferred to the Capital Redemption Reserve Account = 3,00,000 – 2,50,000 = Rs. 50,000

58. When debentures are issued at a premium, the issue price is more than the par value. The premium is transferred to securities premium account.

The cost of the consignment of 1,000 typewriters = 1,000 × 250 + 10,000 = Rs. 2,60,000

The amount of loss = the cost of the 20 typewriters = (2,60,000/1,000) × 20 = Rs. 5,200

50. The goods are consigned from one place to another. After receiving the goods by consignee, the goods are stored by the consignee before selling them to customers. It is natural that some loss to the goods may take place within that period. The goods may be lost, destroyed or damaged either in transit or in consignee's store. The loss which is caused by unavoidable reasons is known as normal loss. For examples shrinkage, evaporation, leakage and pilferage. Such losses form part of cost of goods and no additional adjustment is required for this purpose. The normal loss is borne by goods units. The quantity of such loss is to be deducted from the total quantity sent by the consignor. The following formula may be used for the valuation of unsold stock.

Value of closing inventory = (Total value of goods sent/Net quantity received by consignee) X unsold quantity

Net quantity received = Goods consigned quantity - Normal loss quantity.

Here 1,000 Kg. of Mangoes were consigned to a wholesaler, the cost being Rs. 3 per kg plus Rs. 400 freight. Loss of 15% of Mangoes is unavoidable i.e. the normal loss and 750 kgs were sold.

Total value of goods sent = 1,000 × 3 + 400 = Rs. 3,400

Net quantity received by the consignee = 1,000 – 15% of 1,000 = 850 kgs

So the remaining inventory is 100 kgs.

Value of closing inventory = (3,400/850) × 100 = Rs. 400

51. Straight line method depreciates cost evenly throughout the useful life of the fixed asset.

Straight line depreciation is calculated as follows:

Depreciation per annum = (Cost – Residual Value) / Useful Life

Here Cost of the machinery = purchase price + installation expenses = 10,00,000 + 1,00,000 = Rs. 11,00,000

Depreciation = 10% per annum = (11,00,000) × 10% = Rs. 1,10,000

52. Consignment is the act of consigning, which is placing any material in the hand of another, but retaining ownership until the goods are sold or person is transferred. Consigning goods at invoice price aims to achieve the following merchandising objectives: 1. Increase turnover 2. Push old stocks 3. Clear old inventory for new ones 4. Promote another goods (tie up with consigned goods), and 5. Save storage space (producer/distributor pass storage/handling cost to wholesaler/retailer)Here cost of goods sent on consignment = 5,00,000 Profit = 25% of cost price Invoice value = 5,00,000 + 25% of 5,00,000 = Rs. 6,25,000

53. Gross profit is a company's revenue minus its cost of goods sold. Gross profit is a company's residual profit after selling a product or service and deducting the cost associated with its production and sale.Cost of goods sold is the direct costs attributable to the production or purchase of the goods sold by a company. It excludes indirect expenses such as distribution costs and sales force cost.Cost of goods sold in the

SECTION — A : FUNDAMENTALS OF ACCOUNTING

Suggested Answer/Hints

Model Test Paper — BOS/CPT – 11

1. Errors of partial omission effect the trial balance. All others do not effect.

2. Financial statements are part of Accounting and not book-keeping.

3. For depreciation, valuation of inventories and investments, different accounting polices can be adopted.

4. Total of sales book is posted to sales account.

5. Amount of dishonoured bill wrongly debited to general expenses account, is an error of principle.

6. Bank account is personal account as it is in name of individual.

7. Cost of travel of sales manager is deferred revenue as it is incurred to develop new markets and the benefit will be for more than one year.

8. Advance received from customers is not considered as due to accural.

9. Income includes received as well as receivable.

10. Mohan Stationers will not debit purchase of stationery in Stationery A/c but it will debit in purchases.

11. Advertisement exepnditure is revenue.

12. Cost of goods sold is calculated by Trading A/c.

13. Amount spent on newly purchased car is debited to car A/c only.

14. Suspense A/c (Dr. balance) in Trial Balance will be recorded in P&L A/c (dr. side) as it is nominal amount, it will be expensed off.

15. Liability for bill discounted is a contingent liability.

16. Direct expenses of consigneee are added in valuation of consignment inventory.

17. Premium on issue of shares is recoreded on equity and liabilities side of balance sheet.

18. Interest is calculated on face value of securities.

19. Income tax of sole trader is his personal expense.

20. Expense includes expenses payable also as per Accrual concept.

21. The valuation has been done as per conservation in the given case.

22. The given case is of over-subscription, pro-rate allotment and forfeiture of shares.

23. The direct costs attributable to the production of the goods sold by a company. This amount includes the cost of the materials used in creating the good along with the direct labor costs used to produce the good. It excludes indirect expenses such as distribution costs and sales force costs. COGS appears on the income statement and can be deducted from revenue to calculate a company's gross margin.

Cost of goods sold (COGS) = Cost of goods manufactured + Opening finished goods inventory – Ending finished goods inventory

Or opening inventory + purchases – closing inventory

Here cost of goods sold = 3,700 + 20,800 – 2,500 = Rs. 22,000

24. Straight line method depreciates cost evenly throughout the useful life of the fixed asset.

Straight line depreciation is calculated as follows:

Depreciation per annum = (Cost – Residual Value) / Useful Life

Where:

Cost includes the initial and any subsequent capital expenditure.

Residual Value is the estimated scrap value at the end of the useful life of the asset. As the residual value is expected to be recovered at the end of an asset's useful life, there is no need to charge the portion of cost equaling the residual value.

Useful Life is the estimated time period an asset is expected to be used from the time it is available for use to the time of its disposal or termination of use.

Here Cost of the asset = Rs. 25,000

Salvage value = Rs. 1,000

Depreciation = (25,000 – 1,000)/10 = Rs. 2,400

25. The cheques paid by bank recorded twice in Pass Book will be added while preparing Bank Reconciliation Statement in the given case.

26. In accounting, net profit is equal to the gross profit minus overheads minus interest payable for a given time period (usually: accounting period). Net profit is gross profit minus all operating costs not included in the calculation of gross profit, esp wages, overheads, and depreciation.

Here Net profit = gross profit – rent paid – salaries + provision for bad debt + apprentice premium = 50,000 – 6,000 – 5,800 + 2,000 + 4,000 = Rs. 4,4200

27. A trial balance is a list of all the General ledger accounts (both revenue and capital) contained in the ledger of a business. This list will contain the name of the nominal ledger account and the value of that nominal ledger account. The value of the nominal ledger will hold either a debit balance value or a credit balance value. The debit balance values will be listed in the debit column of the trial balance and the credit value balance will be listed in the credit column. The profit and loss statement and balance sheet and other financial reports can then be produced using the ledger accounts listed on the trial balance.

March 6	Purchases	10	460	4600
March 24	Sales	32 (Opening inventory 15 units + purchases on March 4th 17 units)	15 units @ 400 17 units @ 450	6000 + 7650 = Rs. 13650
March 31st	Closing inventory	13	3 units @ 450 10 units @ 460	1350 + 4600 = 5950

35. Many times during the operation of business, the owner may take out some cash from the business for his personal use. These withdrawals from the business are considered as Drawings. Considering the fact that the business is a separate accounting entity, it charges an interest on the drawings to the owner. Where interest is charged it is usually calculated at fixed rate percent from the date of each drawing to the date the accounts are closed. If the dates on which the amounts are drawn are not given, interest is calculated on the whole amount on the assumption that the money was drawn evenly throughout the year. In such case interest will be charged for 6 months.

Here drawings = Rs. 2,400

Interest on drawings = 5% of 2,400 × 6/12 = Rs. 55

Capital as on 31st December 2011:

Opening capital as on 1st Jan 2009	1,00,000
Add profit during the year	10,000
Add further capital introduced during the year	50,000
Less drawings during the year	2,400
Less interest on drawings	55
Closing capital as on 31st Dec 2009	1,57,545

36. The rectifying entry will be to debit purchases and to credit sales and A.

37. Gross profit is a company's revenue minus its cost of goods sold. Gross profit is a company's residual profit after selling a product or service and deducting the cost associated with its production and sale.

Cost of goods sold is the direct costs attributable to the production or purchase of the goods sold by a company. It excludes indirect expenses such as distribution costs and sales force cost.

Here the carriage outward is expenses related to sales and will not be included in cost of goods sold and office rent is also indirect expense and will not be included in cost of goods sold.

Cost of goods sold in the above case = opening inventory + purchases + carriage inward – closing inventory = 20,000 + 85,800 + 2,300 – 18,000 = 90,100

Gross profit = sales – cost of goods sold = 1,40,700 – 90,100 = Rs. 50,600

SECTION — A : FUNDAMENTALS OF ACCOUNTING

Suggested Answer/Hints

Model Test Paper — BOS/CPT – 12

1. Book keeping is not sub-field of Account.

2. Capital brought by proprietor is example of increase in asset and increase in liability.

3. Cost of shifting is deferred revenue expense.

4. Salary payable to clerk is credited to o/s salary A/c.

5. Total of purchase return book is posted to Cr. of Purchases Return A/c.

6. No journal entry is required for normal loss.

7. Inventory is valued at cost or market value, whichever is less, due to conservatism.

8. Account sale is sent by consignee to consignor.

9. If del-credere commission is allowed, bad debts will be borne by consignee and not debited to consignment A/c.

10. Profit and losses are shared equally unless otherwise agreed.

11. Loss on issue debentures for 5 years is other non-current asset.

12. Dividends are paid as percentage of paid up capital.

13. Balance sheet is prepared as per Part I of Schedule III as per Companies Act, 2013.

14. Damaged inventory is valued at cost or market value whichever is less.

15. Main cause of depreciation is passage of time.

16. 'By balance b/d' are written on cr. side in case of cr. balance.

17. Prepaid insurance given in trial balance is recorded in Balance Sheet.

18. Present liability of uncertain amount is provision, if measured reliably by using estimation.

19. Dividends directly collected by bank will be added in the given case.

20. Revenue expenditures are for one year only.

21. Cost concept is being vilated by trader in the given case.

22. Accounting Standards reduce the vagueness and chances of misunderstandings by harmonizing varied accounting practices.

23. The direct costs attributable to the production of the goods sold by a company. This amount includes the cost of the materials used in creating the good along with the direct labor costs used to produce the good.

26.

	Dr.	Cr.
COGS	1,50,000	
Closing inventory	40,000	
Trade Receivables	60,000	
Fixed assets	50,000	
Sundry expenses	20,000	
Sales		2,00,000
Capital		90,000
Trade payable		30,000
	3,20,000	3,20,000

Total of corrected trial balance will be Rs. 3,20,000.

27. The original cost of an asset takes into consideration all of the costs that can be attributed to its purchase and to putting the asset to use. These costs can include such factors as the purchase price, repairs, commissions, transportation, appraisals, warranties and installation.

Thus here installation of machinery will be included in the purchase cost of the asset and the journal entry will be

Dr. Machinery A/c and Cr. Cash A/c Rs. 20,000

28. Net worth method is also called statement of affairs method or capital comparison method. According to this method profit or loss of the business is determined by making comparison between the capital of two dates of a period. If there are other capital related items such as drawing, additional capital, interest on capital etc. are to be adjusted to ascertain the amount of profit or loss.

These items include:

Drawing: If the drawing is made during the year, it should be added to the amount of closing capital.

Additional capital: If additional capital is introduced in the business during the year, it should be deducted from the amount of closing capital.

Interest on capital: If the interest is provided on capital, it should be deducted from the amount of closing capital.

Profit for the year = Closing capital – Opening capital – additional capital + drawings

Profit or loss for the year = 53,600 – 40,000 – 1,000 + 2,400 = 15,000 (profit)

29. Closing inventory is the amount of inventory that a business still has on hand at the end of a reporting period. This includes raw materials, work-in-process, and goods inventory. The amount of closing inventory can be ascertained with a physical count of the inventory. It can also be determined by using a perpetual inventory system and cycle counting to continually adjust inventory records to arrive at ending balances.

2nd Instalment at the end of 2nd Year = 2,000 + 240 = Rs. 2,240

Interest @ 6% pa. = 2,000×6/100 = Rs. 120

3rd Instalment at the end of 3rd Year = 2,000 + 120 = Rs. 2,120

54. When a new partner comes into the business, old partners have to give him his profit share from their portion. Thus change in profit sharing ratio is an important aspect to be considered on reconstitution by admission. In academic accounting, change in profit sharing ratio can be presented in various ways. The existing partners may decide to change their profit sharing ratio for various reasons. When the profit sharing ratio is revised among existing partners, there ought to be a partial sacrifice of profit share by some partners in favour of others. The sacrifice of one or a group of partners becomes the gain of the remaining partners. Following is the formula for calculating sacrificing ratio:

Sacrificing ratio = Old ratio – New ratio

Gaining/sacrificing ratio

Partners	*New ratio*	*Old ratio*	*Gain/(sacrifice)*
A	5/12	3/6	5/12 – 1/2 = (1/12)
B	4/12	2/6	4/12 – 1/3 = (nil)
C	2/12	1/6	1/12 – 1/6 = nil
D	1/12		

So the sacrificing ratio between A:B:C will be 1/12:nil:nil

55. Amount spent on painting new factory is capital expense.

56. Closing inventory is the amount of inventory that a business still has on hand at the end of a reporting period. This includes raw materials, work-in-process, and goods inventory. The amount of closing inventory can be ascertained with a physical count of the inventory. It can also be determined by using a perpetual inventory system and cycle counting to continually adjust inventory records to arrive at ending balances. The amount of closing inventory is used to arrive at the cost of goods sold in a periodic inventory system with the following calculation:

Opening inventory + Purchases – Closing inventory = Cost of goods sold

So closing inventory = total goods available for sales – cost of goods sold

Cost of goods sold = x(say) = sales –margin on sales = 13,00,000 – 1/3of x

Or x + 1/3x = 13,00,000

Or 4/3x = 13,00,000

Or x = 13,00,000 × 3/4 = 9,75,000

Closing inventory = 12,00,000 – 9,75,000 = Rs. 2,25,000

46. The journal entry to transfer net income to owner's equity is a debit to Income Summary, and a credit Capital.

The balance of Income Summary is reduced to zero; the owner's capital account is increased by the amount of net income.

The entry will be P/L A/c Dr. Rs. 6,300; To Capital A/c Rs. 6,300

47. Cross profit is difference between sales and cost of goods sold.

48. Credit balance in leger will either be a revenue or a liability not an expense or asset.

49. Consignment is the act of consigning, which is placing any material in the hand of another, but retaining ownership until the goods are sold or person is transferred.

Consignment account

Particulars	*Amount*	*Particulars*	*Amount*
To goods sent on consignment A/c (1000 × 900)	9,00,000	By gita A/c-sales	9,00,000
To bank- freight paid	7,000	By P/L abnormal loss	45,545
To bank-carriage	650	By inventory A/c	1,84,391
To bank insurance	3,250		
To Gita A/c expenses	13,000		
To Gita a/c-commission	54,000		
To profit on consignment	1,52,036		
Total	11,29,936	Total	11,29,936

Valuation of loss:

Cost of total goods consigned = 9,00,000

Add: Freight = 7,000

Add: Carriage = 650

Add: Insurance = 3,250

Cost of 1000 units = 9,10,900

Thus cost of 50 units = 9,10,900 × 50/1,000 = 45,545

50. Amount spent on structural alteration will be capital in nature. It will be revenue as it is under pressure of law.

The surplus amount to be transferred to capital reserve account = 750 – 500 = Rs. 250

59. Debenture is a certificate/instrument acknowledging a debt. It is issued generally by a public company to individuals/institutions who lend it money (invest in their debentures). For an investor investing in a debenture is just like investing in a fixed deposit with the difference that while he can withdraw the amount invested in a fixed deposit any time he/she likes with a loss of interest.. He cannot do so with a debenture. The amount invested on a debenture will be repaid only on the expiry of the period for which the debenture has been issued. If the debentures were originally issued at a discount and redeemed at premium then the case of loss on issue of debentures arise.

Here a Co. issued Rs. 2,00,000 Debentures at 5% discount, redeemable at 10% premium after 10 years.

The discount on issue of debentures = 5% of 2,00,000 = Rs. 10,000

The premium on redemption of debentures = 10% of 2,00,000 = Rs. 20,000

Thus total loss on issue of debentures = 10,000 + 20,000 = Rs. 30,000

60. Any partner paying firms liability out of his private funds will be treated as capital introduction by that partner. Here A, B & C are partners sharing profits & losses in equal ratio. A paid firm's liability of Rs. 10,000 out of his private funds.

So the entry to record this transaction will be

Liability A/c	Dr.	Rs. 10,000	
To A's Capital			Rs. 10,000

25. Fixed installment or straight line method depreciates cost evenly throughout the useful life of the fixed asset.

Straight line depreciation is calculated as follows:

Depreciation per annum = (Cost – Residual Value) / Useful Life

Where:

Cost includes the initial and any subsequent capital expenditure.

Residual Value is the estimated scrap value at the end of the useful life of the asset. As the residual value is expected to be recovered at the end of an asset's useful life, there is no need to charge the portion of cost equaling the residual value.

Useful Life is the estimated time period an asset is expected to be used from the time it is available for use to the time of its disposal or termination of use.

Here Cost of the asset = Rs. 1,26,000

Salvage value = Rs. 6,000

Depreciation/year = (1,26,000 – 6,000)/6 = Rs. 20,000

26. Accural concept states that all expenses due (whether paid or not) should be provided for in the accounting period.

27. Under diminishing balance method, depreciation decreases every year.

28. LIFO is based on the issues as per latest prices i.e. current replacement cost.

29. Balance sheet represents assets, liabilities and capital.

30. Total of purchase book is posted in purchases A/c.

31. Legal expenses for a suit for breech of contract of goods is revenue expenditure.

32. Capital is needed to create a balance between assets and liabilities. capital is the difference between the liabilities and assets.

Opening capital = opening assets – opening liabilities

Here assets = cash in hand + cash at bank + inventory + land and building + plant and machinery + prepaid insurance + owing from Mr X = 1,000 + 5,000 + 20,000 + 1,00,000 + 50,000 + 12,500 + 500 = Rs. 1,89,000

And liabilities = owing to Z Ltd. + interest received in advance = 3,750 + 250 = 4,000

So capital = 1,89,000 – 4,000 = Rs. 1,85,000

33. Sales returns book is also called returns inwards book. It is used for recording goods returned to us by our customers.

To B A/C-expenses	3,000		
To B A/c-commission	25,000		
To A A/c-interest on capital	12,000		
To P/L-profit	3,000		
	2,50,000		2,50,000

B A/C

Particulars	*Amount*	*Particulars*	*Amount*
To joint venture A/c	2,50,000	By bills receivable	1,00,000
		By joint venture A/c-expenses	3,000
		By joint venture-commission	25,000
		By balance c/d-balance receivable	1,22,000
	2,50,000		2,50,000

48. For rectifiction, Ajit needs to be debited by Rs. 500 with corresponding credit to Bad debts recovered.

49. A Bank reconciliation is a process that explains the difference between the bank balance shown in an organisation's bank statement, as supplied by the bank, and the corresponding amount shown in the organization's own accounting records at a particular point in time.

Such differences may occur, for example, because a cheque or a list of cheques issued by the organization has not been presented to the bank, a banking transaction, such as a credit received, or a charge made by the bank, has not yet been recorded in the organisation's books, or either the bank or the organization itself has made an error.

Here cheques issued for payment Rs. 400 was wrongly credited by Bank as Rs. 900. If the balance as pr cash book is the starting point then in the bank reconciliation statement cash balance will be added by 400 + 900 = Rs. 1,300

50. **Bank reconciliation statement of …..**

Particulars	*Amount*	*Amount*
Balance as per pass book (dr)		10,000
Add:		
Cheques deposited in the Bank but not recorded in Cash Book Rs. 100	100	100

Profit on venture can be ascertained with the help of the joint venture account.

Joint venture A/c

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
	To A- purchases	42,500		By B-sale	50,000
	To net profit transferred to-AB	11,500		By A-goods taken over	4,000
		54,000			54,000

33. In case of revaluation, the depreciation is calculated on the total revalued amount over a period of balance useful lives assessed on the date of revaluation. New cost for the purpose of depreciation will be gross cost less accumulated depreciation on the date of revaluation. Along with this, the revaluation reserve is amortised to the income statement based on the useful life of the asset to which it relates. This is done to ensure that depreciation on the revalued amounts shouldn't inflate/ deflate the income statement.

Date	*Particulars*	*Amount*	*Amount*
	Cost of machinery		1,35,000
	Less: Depreciation for 5 years on straight line basis		
	(1,35,000 – 5,000)/10 × 5 =	65,000	
End of 5th year Wdv of the machinery			70,000
6th year depreciation		(70,000 – 5,000)/8	8,125

34. When a new partner comes into the business, old partners have to give him his profit share from their portion. Thus change in profit sharing ratio is an important aspect to be considered on reconstitution by admission. In academic accounting, change in profit sharing ratio can be presented in various ways. The existing partners may decide to change their profit sharing ratio for various reasons. When the profit sharing ratio is revised among existing partners, there ought to be a partial sacrifice of profit share by some partners in favour of others. The sacrifice of one or a group of partners becomes the gain of the remaining partners. Following is the formula for calculating sacrificing ratio:

Sacrificing ratio = Old ratio – new ratio

Gaining/sacrificing ratio

Partners	*Old ratio*	*Gain/(sacrifice)*	*New ratio*
Mohan	½	(1/4 × 1/2) = (1/8)	½ – 1/8 = 3/8
Krishna	½	(1/8)	3/8
Ram		¼	2/8

So the sacrificing ratio between Mohan : Krishna : Ram will be 3 : 3 : 2.

Oartners	*New ratio*	*Old ratio*	*Gain/(sacrifice)*
A	5/10	6/10	5/10 – 6/10 = (1/10)
B	3/10	4/10	3/10 – 4/10 = (1/10)
C	2/10		

So the sacrificing ratio between A and B is 1:1.

49. When shares issued at par are forfeited the accounting treatment will be as follows:

(i) Debit Share Capital Account with amount called up (whether received or not) per share up to the time of forfeiture.

(ii) Credit Share Forfeited A/c. with the amount received up to the time of forfeiture.

(iii) Credit 'Unpaid Calls A/c' with the amount due on forfeited shares. This cancels the effect of debit to such calls which take place when the amount is made due forfeited shares account will be credited by the amount which has been received in respect of forfeited shares.

Here Shveta holding 100 shares did not pay final call money.

Thus amount received in respect of the shares forfeited will be = 100 × (20 + 20 + 25) = Rs. 6,500

50. In case of retirement and death, goodwill is adjusted through the partners' account in Gaining Ratio.

New ratio = old ratio + gaining ratio

Calculation of gaining ratio

Partners	*Old ratio*	*Gain/(sacrifice)*	*New ratio*
A	½	6/10 of ½ = 3/10	
B	½	4/10 of ½ = 2/10	
C	½		

Thus the gaining ratio between A and B will be 3:2.

51. On admission of a partner, unrecorded investments worth Rs. 5,000 and unrecorded liability towards suppliers for Rs. 1,500 will be recorded in Revaluation A/c because old partner will only get profit or loss through all business activities were done before coming of new partner. If there is any increase or decrease in these unrecorded assets and liabilities through revaluation account, it will be distributed between old partners.

52. A Bank reconciliation is a process that explains the difference between the bank balance shown in an organisation's bank statement, as supplied by the bank, and the corresponding amount shown in the organization's own accounting records at a particular point in time.

Such differences may occur, for example, because a cheque or a list of cheques issued by the organization has not been presented to the bank, a banking transaction, such as a credit received, or a charge made by the bank, has not yet been recorded in the organisation's books, or either the bank or the organization itself has made an error.

55. The monetary value of an asset decreases over time due to use, wear and tear or obsolescence. This decrease is measured as depreciation.

Calculation of depreciation

Assets	*Value*	*Depreciation rate*	*Depreciation*
Office furniture	8,000	5%	400
Plant and machinery	80,000	10%	8,000
Factory building	2,00,000	5%	10,000
Total	18,400		

56. Assets such as automobiles, computer equipments, and office furniture, are customarily traded in for new assets of the same kind. The trade-in-allowance (commonly known as exchange value) granted by the dealer or manufacturer differs from the book value of the old asset. If the dealer grants an exchange value greater than the book value, then a gain is realized on exchange of the asset. If the dealer grants an exchange value lesser than the book value, then a loss is realized on exchange of the asset. As per prudent and accepted accounting practices, the loss will be taken to the profit and loss account of the year concerned, and profit on exchange will be deducted from the value of the new asset.

Here The old machinery has been valued at Rs. 800 for exchange purpose.

Thus loss on exchange will be book value of asset less exchange value = 5,000 – 800 = Rs. 4,200

57. Sale or return is a term sale, where the seller sold goods on the basis of return, there might be a chance of return of goods, or acceptance of goods or acceptance of part of goods. This method is also called the Sale on Approval basis.

When the transactions of sending the goods on sale or return basis are few, the seller may treat it as normal sale and record it in the books accordingly. However, if the goods are sent on sale or return basis, the unsold goods must be included in the inventory at cost.

The sale price of the goods sent = Rs. 600

Let the cost price be x

So sales price = 600 = x + 20% of x = 1.2x

Or x = Rs. 500

58. Errors of principle, omission and commission all types may occur at time of recording transactions in journal.

59. Entry for dishonour should be to reduce the bank balance and to make reversal of discount allowed. further we have to make Hari Ram debit again for Rs. 720.

60. In financial accounting, every single event occurring in monetary terms is recorded. Sometimes, it just so happens that some events are either not recorded or it is recorded in the wrong head of account or wrong figure is recorded in the correct head of account. Whatever the reason may be, there is always a chance of error in the books of accounts. These errors in accounting require rectification. When there is a difference in a trial balance a suspense account is opened with the amount of the difference so that the trial balance agrees (pending the discovery and correction of the errors causing the difference).

Here paid rent to landlord Rs. 2,400, debited to Land Lord's A/c by Rs. 2,004. Thus the land lords account is undercasted by 2,400 – 2,004 = Rs. 396

So the rectifying entry will be

Rent A/c	Dr.	2,400	
To Landlord			2,004
To Suspense			396

22. Auditor objected as consistency in method of depreciation should be observed and change should be done only if required by statute or change would result in appropriate presentation of financial statement.

23. Fixed installment or straight line method depreciates cost evenly throughout the useful life of the fixed asset.

Straight line depreciation is calculated as follows:

Depreciation per annum = (Cost – Residual Value) / Useful Life

Where:

Cost includes the initial and any subsequent capital expenditure.

Residual Value is the estimated scrap value at the end of the useful life of the asset. As the residual value is expected to be recovered at the end of an asset's useful life, there is no need to charge the portion of cost equaling the residual value.

Useful Life is the estimated time period an asset is expected to be used from the time it is available for use to the time of its disposal or termination of use.

Here Cost of the asset = Rs. 5,000

Salvage value = Rs. 500

Depreciation/year = (5,000 – 500)/10 = Rs. 450

Depreciation rate = (450/5,000) × 100 = 9%

24. Net profit is calculated by subtracting a company's total expenses from total revenue, thus showing what the company has earned (or lost) in a given period of time (usually one year). also called net income or net earnings.

Here net profit = gross profit – Carriage Outwards – Rent paid – Bad Debts + Apprentice premium – Printing & Stationery = 51,000 – 5,800 – 6,400 – 2,600 + 1,500 – 1,000 = Rs. 36,700.

25. Calculation of cash balance at the end:

Opening balance		10,000
Add:		
Cash sales	5,000	
Collection from receivables(50000 – 5000 – 10000)	35,000	40,000
Less:		
Cash purchases	10,000	
Payment to suppliers	15,000	
Expenses paid	19,300	(44,300)
Cash balance at the end		5,700

26. Where interest on drawings is charged it is usually calculated at fixed rate percent from the date of each drawing to the date the accounts are closed. If the dates on which the amounts are drawn are not given, interest is calculated on the whole amount on the assumption that the money was drawn evenly throughout the year. The amount of interest is debited to proprietor's drawings accounts and is credited to the interest on drawings amount. At the close of the accounting period the interest on drawings accounts is closed by transfer to the profit and loss account.

It may, however, be noted that if the withdrawals are of uniform amount and are made at regular intervals, then interest on drawings can be calculated on the total of the amount drawn, for the average of the periods applicable to first and last installment. Therefore, if drawings are made at the beginning of each month, interest should be calculated on the whole amount for 6 and half months.

Here Ram Gopal withdrew Rs. 2,000 on the first day of each month interest on drawings is provided @ 10%.

So interest on drawings will be = 10% of (2000 × 12) × 6.5/12 = Rs. 1,300

27. In financial accounting, every single event occurring in monetary terms is recorded. Sometimes, it just so happens that some events are either not recorded or it is recorded in the wrong head of account or wrong figure is recorded in the correct head of account. Whatever the reason may be, there is always a chance of error in the books of accounts. These errors in accounting require rectification.

Here bills receivable passed through bills payable thus bills payable account is overcasted and bills receivable is undercasted.

So the rectifying entry will be

B/P A/c	Dr.	500	
B/R A/c	Dr.	500	
To A			1,000

28. Cost Price: The price, at which an article is purchased, is called its cost price, abbreviated as C.P.

Selling Price: The price, at which an article is sold, is called its selling prices, abbreviated as S.P.

Profit or Gain: If S.P. is greater than C.P., the seller is said to have a profit or gain.

Here Goods costing Rs. 7,500 were sold at 25% profit on selling price.

Let the sales = x (say)

Then profit = 25% of x = .25x

Sales = cost + profit

Or x = 7,500 + .25x

Or 0.75x = 7,500

Or x = Rs. 10,000.

44. When a new partner is admitted in the firm, the existing/old partners have to sacrifice, what is given to the new partner, from their future profits, the reputation they have gained in their past efforts and the side of capital they have taken before. The new partner when admitted, has to compensate for all these sacrifices made by the old ones. The compensation for such sacrifice can be termed as 'goodwill'. Hence, at the time of admission of the new partner, it is necessary to account the valuation of goodwill in the firm.

Here the share in profit is $1/5^{th}$

The total value of goodwill = 60,000

Thus C's share of goodwill brought by him = 1/5 of 60,000 = Rs. 12,000

45. Under this method we calculate the average profits and then assess the capital needed for earning such average profits on the basis of normal rate of return, such capital is called capitalized value of average profits. After arriving at the capitalized average profit, Capital employed (assets – liabilities) of the firm is then subtracted from the capitalized value of average profits to arrive at the Goodwill,. To calculate goodwill using average profit, the average net profit for a given number of past years are multiplied by an agreed number of years.

Mathematically, Capitalized Value of Average Profits = Average Profits × (100 / Normal Rate of Return)

Goodwill = Capitalized Value of Average Profits – Capital Employed.

Here profit for the year = 20,000

Reasonable rate of return = 10%

Thus capitalized value of profit = 20,000 × 100/10 = 2,00,000

Capital employed = 1,50,000

Thus Goodwill = 2,00,000 – 1,50,000 = 50,000.

46. Credit purchase of stationery worth Rs. 10,000 by a stationery dealer will be recorded in purchases book.

47. Debentures issued as colletual security will be added in total of liabilities as well as assets.

48. Premium on issue of debentures will be shown as Securities Premium under Reserve and Surplus.

49. The amount of debenture discount can be written off in two ways :

1. All debentures are to be redeemed after a fixed period. When the debentures are to be redeemed after a fixed period, the amount of discount will be distributed equally within the number of years spreaded between the issue of debentures and their redemption. The amount of discount on issue of debentures to be written off each year is calculated as

Amount of discount to be written off annually

= Total amount of Discount/Number of years

2. Debentures are redeemed in instalments

Debentures may also be redeemed in instalments but over a fixed period. In that case the amount of debenture discount will be written off each year in proportion to the amount of debentures redeemed.

30. Manager's commission is calculated in two ways

1. On Profits before charging such commission:

   Manager's commission = Net Profits × (Percentage of commission / 100)

2. On Profits after charging such commission:

   Here commission is 5% on net profit before charging such commission

So the commission of the manager will be = (48,000 – 6,000) × 5/100 = Rs. 2,100

31. Cost price is also known as cp. It is the original price of any item. The cost is the total outlay required to produce a product or carry out a service.

Here x sells goods at cost plus 60%. Total sales were of Rs. 16,000.

Let cost price = x (say)

The selling price = cost price + 60% of cost price

Thus 16000 = x + 60% of x

Or 1.6x = 16,000

Or cost price = x = 16,000/1.6 = Rs. 10,000

32. Cost price is also known as cp. It is the original price of any item. The cost is the total outlay required to produce a product or carry out a service. Cost price is used in establishing profitability in the following way:

Profit /cost price when expressed as a percentage produces rate of profit on cost.

Here trader sells goods at a profit of 25% on sale.

So let sale price = x (say)

Thus cost price = x – 25% of x

Or 34,200 = 0.75x

Or x = 34,200/0.75 = Rs. 45,600

And profit = 25% of 45,600 = Rs. 11,400

Thus Rate of profit on cost will be = 11,400/34,200 × 100 = $33^1/_3$%

33. Cost price of goods = 40,000

Let sale price = x(say)

Thus sale price – profit = x – 20% of x = 40,000

Or 0.8x = 40,000

X = 40,000/0.8 = Rs. 50,000.

Commission = 5% of 50,000 = Rs. 2500.

34. Gross profit is a company's revenue minus its cost of goods sold. Gross profit is a company's residual profit after selling a product or service and deducting the cost associated with its production and sale.

Cost of goods sold is the direct costs attributable to the production or purchase of the goods sold by a company. It excludes indirect expenses such as distribution costs and sales force cost.

Cost of goods sold = opening inventory + purchases less purchase return + direct expenses – closing inventory = 16,500 + 46,850 – 110 + 2,500 + 850 – 18,210 = 48,380

And gross profit = sales less sales return – cost of goods sold = 63,500 – 450 – 48,380 = 14,670.

Net profit is calculated by subtracting a company's total expenses from total revenue, thus showing what the company has earned (or lost) in a given period of time (usually one year). also called net income or net earnings.

Here net profit = gross profit – General expenses – Discount allowed – Rent paid – Electric charges – Salaries = 14,670 – 800 – 200 – 3,710 – 190 – 1,110 = Rs. 8,660

35. Owner's capital refers to the sum of the business resources owned by the business owners. It is calculated through the subtraction of assets from liabilities. When a business pays all its debts, the amount remaining belongs to the business owner and it is the one that is referred to as Owners Capital or Owners Equity.

Formulas of Closing Capital

Closing capital =

Opening capital + profit OR

Opening capital + profit + additional capital – drawings OR

Closing assets – closing liabilities

Thus profit/(loss) = closing capital – opening capital – additional capital + drawings

Or profit/(loss) = 12,750 – 20,000 – 2,000 + 250 × 12 = (6,250).

36. A Bank reconciliation is a process that explains the difference between the bank balance shown in an organisation's bank statement, as supplied by the bank, and the corresponding amount shown in the organization's own accounting records at a particular point in time.

Such differences may occur, for example, because a cheque or a list of cheques issued by the organization has not been presented to the bank, a banking transaction, such as a credit received, or a charge made by the bank, has not yet been recorded in the organisation's books, or either the bank or the organization itself has made an error.

Bank reconciliation statement of …..

Particulars	*Amount*	*Amount*
Balance as per cash book (cr)		4,500
Add:		
Cheques deposited in the Bank but not cleared	6,225	6,225

23. A balance sheet is also known as the statement of financial position tells about the assets, liabilities and equity of a business at a specific point of time. It is a snapshot of a business.

A balance sheet is an extended form of the accounting equation. An accounting equation is:

Assets = Liabilities + Equity

MR.X
Balance Sheet as on December 31st,2009

Liabilities	*Amount*	*Assets*	*Amount*
Capital Add: Net profit Less: Drawings (1,55,000 + 22,000 – 12,000)	1,65,000	Plant and machinery Furniture	60,000 10,000
Bills payable	10,000	Goodwill	70,000
Bank overdraft	15,000	Investments	25,000
Trades payable	45,000	Closing inventory	25,000
Outstanding expenses	5,000	Trade receivable	35,000
		Bills receivables	9,000
		Cash	6,000
Total	2,40,000	Total	2,40,000

24. Gross profit is a company's revenue minus its cost of goods sold. Gross profit is a company's residual profit after selling a product or service and deducting the cost associated with its production and sale.

Cost of goods sold is the direct costs attributable to the production or purchase of the goods sold by a company. It excludes indirect expenses such as distribution costs and sales force cost.

Cost of goods sold = opening inventory + purchases – closing inventory = 19,000

Gross Profit = sales – cost of goods sold = 30,000 – 19,000 = Rs. 11,000

25. Net profit is calculated by subtracting a company's total expenses from total revenue, thus showing what the company has earned (or lost) in a given period of time (usually one year) also called net income or net earnings.

Here net profit = gross profit – salaries – interest on overdraft – office expenses – rent paid – general expenses – advertisement + commission received = 35,000 – 4,000 – 200 – 5,000 – 2,000 – 5,100 – 5,000 + 4,000 = Rs. 17,700.

26. income tax paid on behalf of the proprietor will b e treated as drawings and will be deducted from the capital of the proprietor.

Here Capital 50,000 Income tax paid 10,000 and Income tax advance payment is Rs. 1,600.

So Capital A/c balance will be = 50,000 – 10,000 – 1,600 = Rs. 38,400.

the amount of the bill of exchange less discount interest and additional costs related to the bill, accrued in advance from the discount date to the bill payment term.

Here amount of the bill = 30,000

The bill was accepted by B on 1st January but was discounted on 4th February so,

Amount to be paid to bank on discounting at 12%pa = 30,000 × 12/100 × 2/12 = Rs. 600.

54. Amount received on application = 14,000 × 30 = Rs. 4,20,000

Amount received on allotment = 14,000 × 35 = Rs. 4,90,000

Amount received on first and final call = 13,800 × 35 = Rs. 4,83,000

Cash book balance will be = 4,20,000 + 4,90,000 + 4,83,000 = Rs. 1,39,3000

55. Share capital in case of forfeiture will be debited by Rs. 100 × 8 (2.50 + 2.50 + 3) = Rs. 800.

56. When the shares forfeited are reissued at discount, Bank account is debited by the amount received and Share capital account is credited by the paid up amount. The amount of discount allowed is debited to Share Forfeited Account. This is for adjusting the amount of discount so allowed from the amount forfeited at the time of forfeiture.

Now the amount of discount allowed on reissue of shares at the most can be equal to the forfeited amount on such shares. In that case the share forfeited account after reissue will show a zero balance. But in case, this amount of discount is less than the amount forfeited, the remaining forfeited amount will be profit for the company. This profit is a capital gain to the company and is transferred to Capital Reserve account.

In the above question discount on shares reissued = number of shares reissued × discount allowed per share = 500 × 2 = Rs. 1,000.

Amount available for the reissued shares in shares forfeiture account = number of shares reissued × amount forfeited per share = 500 × (8) = Rs. 4,000

The surplus amount to be transferred to capital reserve account = 4,000 – 1,000 = Rs. 3,000.

57. Total value of business purchased = Rs. 3,30,000

Amount to be paid by issue of 12% debentures = 3,30,000

Value per debenture at premium = Rs. 110

Thus number of debentures to be issued = 3,30,000/110 = 3,000 debentures

58. A company may issue debentures with the stipulation that the repayment of the debentures on maturity will be made at premium.

The amount of the premium payable is debited to Loss on Issue of Debentures A/c at the time of issue of debentures. This amount will also be written off in the same manner as is done in case of writing off Discount on Issue of Debentures.

So here the Loss on issue of debentures will be = 5% of 2,00,000 = Rs. 10,000

59. The amount of debenture discount can be written off in two ways :

1. All debentures are to be redeemed after a fixed period. When the debentures are to be redeemed after a fixed period, the amount of discount will be distributed equally within the number of years spreaded between the issue of debentures and their redemption. The amount of discount on issue of debentures to be written off each year is calculated as

Amount of discount to be written off annually = Total amount of Discount/Number of years

2. Debentures are redeemed in instalments

Debentures may also be redeemed in instalments but over a fixed period. In that case the amount of debenture discount will be written off each year in proportion to the amount of debentures redeemed.

Here On 1st Jan. 2010, a Limited Co. issued 14% Rs. 1,00,000 debentures at a discount of 6%

repayable at the end of 5 years.

Total discount = 6% of 1,00,000 = Rs. 6,000

Here Amount of discount to be written off annually

= Total amount of Discount/Number of years

= 6,000/5 = Rs. 1,200

60. Here company issued debentures of the face value of Rs. 1,00,000 at a discount of 6% on

Jan. 1, 2004. These debentures are redeemable by annual drawings of Rs. 20,000 made on 31st Dec. each year. The directors decided to write off discount based on the debentures outstanding each year.

Total discount = 6% of 1,00,000 = Rs. 6,000

Calculation of discount to be written off every year

Date	*Debentures to be redeemed*	*Discount written off*
31.12.2009	1,00,000	6,000 × 5/15 = 2,000
31.12.2010	80,000	6,000 × 4/15 = 1,600
31.12.2011	60,000	6,000 × 3/15 = 1,200
31.12.2012	40,000	6,000 × 2/15 = 800
31.12.2013	20,000	6,000 × 1/15 = 400

So Discount to be written off in the fifth year will be Rs. 400.