FOUNDATION COURSE

MOCK TEST PAPER

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

*Question No. **1** is compulsory.*

*Answer any **four** questions from the remaining **five** questions.*

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

(Time allowed: 3 Hours) **(100 Marks)**

1. (a) **State** with reasons whether the following statements are **True or False:**

   (i) Goods worth ₹ 600 taken by the proprietor for personal use should be credited to Capital Account.

   (ii) Amount paid to Management company for consultancy to reduce the working expenses is capital expenditure if the reduced working expenses will generate long term benefits to the entity.

   (iii) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.

   (iv) When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital ratio.

   (v) When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with calls in arrear of shares forfeited.

   (vi) Quick ratio is also known as Cash Ratio. ***(6 statements x 2 Marks= 12 Marks)***

   (b) **Explain**, in brief, the basic considerations for distinguishing between capital and revenue expenditures? ***(4 Marks)***

FOUNDATION COURSE

MOCK TEST PAPER

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. **(a)** (i) False: Goods taken by the proprietor for personal use should be credited to Purchases Account as less goods are left in the business for sale.

(ii) True: Amount paid to management company for consultancy to reduce the working expenses is capital expenditure as this expenditure will generate long-term benefit to the entity.

(iii) False: The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.

(iv) False: According to the Indian Partnership Act, in the absence of any agreement to the contrary, profits and losses of the firm are shared equally among partners.

(v) False: When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received on shares forfeited.

(vi) False: Quick ratio is also known as Acid Test Ratio and not Cash Ratio.

(b) The basic considerations in distinction between capital and revenue expenditures are:

(i) Nature of business: For a trader dealing in furniture, purchase of furniture is revenue expenditure but for any other trade, the purchase of furniture should be treated as capital expenditure and shown in the balance sheet as asset.

(ii) Recurring nature of expenditure: If the frequency of an expense is quite often in an accounting year then it is said to be an expenditure of revenue nature while non-recurring expenditure is infrequent in nature and do not occur often in an accounting year.

(iii) Purpose of expenses: Expenses for repairs of machine may be incurred in course of normal maintenance of the asset. Such expenses are revenue in nature. On the other hand, expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature.

(iv) Materiality of the amount involved: Relative proportion of the amount involved is another important consideration in distinction between revenue and capital.

Test Series: August, 2018

FOUNDATION COURSE

MOCK TEST PAPER - 1

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

(Time allowed: 3 Hours) **(100 Marks)**

Question No. **1** is compulsory.

Answer any **four** questions from the remaining **five** questions.

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

1. (a) State with reasons whether the following statements are True or False:

   i. Inventory Turnover Ratio indicates the firm's ability of generating sales per rupee of long term investment.

   ii. The Sales book is kept to record both cash and credit sales.

   iii. In the calculation of average due date, only the due date of first transaction must be taken as the base date.

   iv. If a partner retires, then other partners have a gain in their profit sharing ratio.

   v. When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with calls in arrear of shares forfeited.

   vi. Accrual concept implies accounting on cash basis. **(6 Statements x 2 Marks = 12 Marks)**

   (b) Discuss the limitations which must be kept in mind while evaluating the Financial Statements.

   (4 Marks)

FOUNDATION COURSE

MOCK TEST PAPER - 1

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

SUGGESTED ANSWERS/HINTS

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

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

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

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

(v) **False**- When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received on shares forfeited.

(vi) **False-** Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.

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

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

FOUNDATION COURSE

MOCK TEST PAPER - 2

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

Question No. **1** is compulsory.

Answer any **four** questions from the remaining **five** questions.

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

(Time allowed: 3 Hours) **(100 Marks)**

1. (a) State with reasons, whether the following statements are true or false:

1 When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with Calls in arrear of shares forfeited.

2. Accrual concept implies accounting on cash basis.

3 Fixed Assets Turnover ratio indicates the firm's ability of generating sales per rupee of long term investment

4 Capital + Long Term Liabilities= Fixed Assets + Current Assets + Cash- Current Liabilities.

5 Partners can share profits or losses in their capital ratio, when there is no agreement.

6. Consignment account is of the nature of real account.

(6 statements x 2 Marks= 12 Marks)

(b) "Change in accounting policy may have a material effect on the items of financial statements." Explain the statement with the help of an example. ***(4 Marks)***

FOUNDATION COURSE

MOCK TEST PAPER - 2

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. (a) 1 False- When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received on shares forfeited.

2. False - Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.

3 False - Fixed Assets Turnover ratio measures the efficiency with which the firm uses its fixed assets. Capital Turnover Ratio indicates the firm's ability of generating sales per rupee of long term investment.

4 False- The right hand side of the equation includes cash twice- once as a part of current assets and another separately. The basic accounting equation is

Equity + Long Term Liabilities = Fixed Assets + Current Assets - Current Liabilities

5 False - According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.

6. False: Consignment account is a nominal account

(b) Change in accounting policy may have a material effect on the items of financial statements. For example, if cost formula used for inventory valuation is changed from weighted average to FIFO, or if interest is capitalized which was earlier not in practice, or if proportionate amount of interest is changed to inventory which was earlier not the practice, all these may increase or decrease the net profit. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts. Therefore, it is necessary to quantify the effect of change on financial statement items like assets, liabilities, profit/loss.

The examples in this regard may be given as follows:

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

Test Series: March, 2019

FOUNDATION COURSE

MOCK TEST PAPER

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

*Question No. **1** is compulsory.*

*Answer any **four** questions from the remaining **five** questions.*

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

(Time allowed: 3 Hours) **(100 Marks)**

1. (a) **State** with reasons whether the following statements are **True or False:**

(i) When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with calls in arrear of shares forfeited.

(iii) Accrual concept implies accounting on cash basis.

(iii) Finished goods are normally valued at cost or market price whichever is higher.

(iv) Discount at the time of retirement of a bill is a gain for the drawee.

(v) Partners can share profits or losses in their capital ratio, when there is no agreement.

(vi) Receipts and Payments Account highlights total income and expenditure.

(6 Statements x 2 Marks = 12 Marks)

(b) Explain Cash and Mercantile system of accounting. **(4 Marks)**

FOUNDATION COURSE

MOCK TEST PAPER

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. (a) (i) **False**- When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received on shares forfeited.

(ii) **False-** Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.

(iii) **False -** Finished goods are normally valued at cost or net realizable value whichever is lower.

(iv) **True -** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

(v) **False -** According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.

(vi) **False-** Receipts and payments account is a classified summary of cash receipts and payments over a certain period together with cash and bank balances at the beginning and close of the period.

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

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

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

FOUNDATION COURSE

MOCK TEST PAPER 2

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

*Question No. **1** is compulsory.*

*Answer any **four** questions from the remaining **five** questions.*

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

(Time allowed: 3 Hours) **(100 Marks)**

1. (a) State with reasons whether the following statements are True or False:

(i) Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.

(ii) Amount paid to Management company for consultancy to reduce the working expenses is capital expenditure if the reduced working expenses will generate long term benefits to the entity.

(iii) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.

(iv) When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital ratio.

(v) Goods worth Rs. 600 taken by the proprietor for personal use should be credited to Capital Account.

(vi) Quick ratio is also known as Cash Ratio. ***(6 statements x 2 Marks = 12 Marks)***

(b) Explain in brief objective and advantages of setting Accounting Standards. ***(4 Marks)***

FOUNDATION COURSE

MOCK TEST PAPER 2

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. (a) (i) False - Debenture interest is payable before the payment of any dividend on shares.

(ii) True: Amount paid to management company for consultancy to reduce the working expenses is capital expenditure as this expenditure will generate long-term benefit to the entity.

(iii) False: The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.

(iv) False: According to the Indian Partnership Act, in the absence of any agreement to the contrary, profits and losses of the firm are shared equally among partners.

(v) False: Goods taken by the proprietor for personal use should be credited to Purchases Account as less goods are left in the business for sale.

(vi) False: Quick ratio is known as Acid Test Ratio and not Cash Ratio.

(b) **Objective and Advantages of Accounting Standards:** An Accounting Standard is a selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The Accounting Standards Board formulates Accounting Standards to be established by the Council of the Institute of Chartered Accountants of India.

The main objective of Accounting Standards is to establish standards which have to be complied with to ensure that financial statements are prepared in accordance with generally accepted accounting standards. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India.

The main advantage of setting accounting standards is that the adoption and application of Accounting Standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements.

The other advantages are as follows:

(i) Reduction in variations.

(ii) Disclosure beyond that required by law.

(iii) Facilities comparison.

MOCK TEST PAPER

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

*Question No. **1** is compulsory.*

*Answer any **four** questions from the remaining **five** questions.*

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

(Time allowed: 3 Hours) **(100 Marks)**

1. (a) State with reasons whether the following statements are True or False:

i. Capital + Long Term Liabilities= Fixed Assets + Current Assets + Cash- Current Liabilities.

ii. Consignment account is of the nature of real account.

iii. The Sales book is kept to record both cash and credit sales.

iv. In the calculation of average due date, only the due date of first transaction must be taken as the base date.

v. If a partner retires, then other partners have a gain in their profit sharing ratio.

vi. Net income in case of persons practicing vocation is determined by preparing profit and loss account.

(6 Statements x 2 Marks = 12 Marks)

(b) Discuss the limitations which must be kept in mind while evaluating the Financial Statements.

(4 Marks)

MOCK TEST PAPER

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. (a) (i) **False-** The right hand side of the equation includes cash twice- once as a part of current assets and another separately. The basic accounting equation is

Equity + Long Term Liabilities = Fixed Assets + Current Assets - Current Liabilities

(ii) **False**: Consignment account is a nominal account

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

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

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

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

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

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

MOCK TEST PAPER 1

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

*Question No. **1** is compulsory.*

*Attempt any **four** questions from the remaining **five** questions.*

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

Time Allowed: 3 Hours **Maximum Marks: 100**

1. (a) State with reasons, whether the following statements are true or false:

(i) If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.

(ii) Amount spent for the construction of temporary huts, which were necessary for construction of the Cinema House and were demolished when the Cinema House was ready, is capital expenditure.

(iii) In case of consignment sale, ownership of goods will be transferred to consignee at the time of receiving the goods.

(iv) In case the due date of a bill falls after the date of closing the account, the interest from the date of closing to such due date is known as Red-Ink interest.

(v) When there is no partnership deed prevails, the interest on loan of a partner to be paid @ 6%.

(vi) Re-issue of forfeited shares is allotment of shares but not a sale.

(6 Statements x 2 Marks = 12 Marks)

(b) Explain the objective of "Accounting Standards" in brief. **(4 Marks)**

MOCK TEST PAPER 1

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) (i) **False:** If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.

(ii) **True:** Since the temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised.

(iii) **False:** In Consignment sale, ownership of the goods rests with the consignor till they are sold by the consignee. The consignee does not become the owner of the goods even though goods are in his possession. He acts only as agent of the consignor.

(iv) **True:** In case the due date of a bill falls after the date of closing the account, then no interest is allowed for that. However, interest from the date of closing to such due date is written in "Red-Ink" in the appropriate side of the 'Account current'. This interest is called Red-Ink interest.

(v) **True:** When there is no partnership deed then the provisions of the Indian Partnership Act are to be applied for settling the dispute. Interest on loan is payable @ 6% p.a. as per Indian Partnership Act.

(vi) **False:** A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale as they have already been allotted earlier.

(b) Accounting Standards are selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The Accounting Standards Board of the Institute of Chartered Accountants of India (ICAI) formulates Accounting Standards to be established by the Council of the ICAI. The main objective of Accounting Standards is to establish standards which have to be complied with, to ensure that financial statements are prepared in accordance with generally accepted accounting principles. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India.