

MOCK EXAMINATION PAPER

Answers

1. [3] **Explanation:** Receipts & Payments Account is a summary of Cash (including Bank) receipts and payments during an accounting period, thus, it is prepared on cash basis. Income & Expenditure Account is prepared on an Accrual Basis of Accounting as revenue incomes and expenses for the accounting period, whether paid or not, are shown therein.
2. [1] **Explanation:** Balance in Debentures' Interest or Interest on Debentures Account is shown in the Statement of Profit & Loss as Finance Cost, it being a revenue expense.
3. [3] **Explanation:** Reserve Capital is the capital that a company decides to call from the shareholder at the time of its winding up. It means that the shareholder will pay the amount of Unpaid Capital when the company calls it to be paid. Therefore, it is not a part of Called-up Capital.
4. [4] **Explanation:** Goodwill, Non-trade Investments and Fictitious Assets are excluded while calculating Capital Employed of the firm for the valuation of Goodwill.
5. [4] **Explanation:** Conversion of Debentures into Shares and Receipt of Dividend Receivable are not shown as Financing Activities as conversion of debentures do not result in flow of cash while receipt of Dividend is shown as inflow under Cash Flow from Investing Activities.
6. [4] **Explanation:** Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the enterprise. Therefore, they generally result from the transactions and other events that enter into the determination of net profit or loss.
7. [3]

BALANCE SHEET (EXTRACT) as at 31st March...

Liabilities		₹	Assets		₹
Library Fund	12,80,000		9% Library Fund Investment		10,00,000
Add: Interest Received	68,000		Accrued Interest on Library Fund Investment		22,000
Accrued Interest	22,000	13,70,000			

Working Note:

Interest on Library Fund Investment: ₹ 10,00,000 × 9% = ₹ 90,000

Accrued Interest: ₹ 90,000 – ₹ 68,000 = ₹ 22,000.

8. [2] **Explanation:**
 - A. Credit Revenue from Operations = Total Revenue from Operations – Cash Revenue from Operations.
 - B. (Opening Debtors and Bills Receivable + Closing Debtors and Bills Receivable)/2.
 - C. Net Credit Revenue from Operations/Average Trade Receivable.
 - D. Number of days or Months/Trade Receivables Turnover Ratio.
9. [4] **Explanation:** Bharat Care Ltd. is a public limited company and hence, need not transfer amount to DRR. Only unlisted companies other than NBFC's and HFC's are required to create DRR.

10. [4] Explanation:

Sacrifice/Gain = New Profit Share – Old Profit Share

$$\text{Neha} = 3/6 - 5/10 = \text{Nil}$$

$$\text{Nisha} = 2/6 - 3/10 = 1/30$$

$$\text{Yamini} = 1/6 - 2/10 = -1/30$$

Thus, Neha neither sacrifices nor gains, Nisha gains 1/30th share and Yamini sacrifices 1/30th share.

11. [2] Explanation: Rent Paid to Manav is debited to Profit & Loss Account as it is a charge against Profit. It means it is considered as an expense and is payable irrespective of the fact whether the firm earns profit or incurs loss.

12. [1] Explanation: Interest on Capital is transferred to the debit of Profit & Loss Account if it is a charge against Profits. It means it is accounted as an expense irrespective of the fact whether the firm earns profit or incurs loss.

13. [2] Explanation:

(i) Interest paid on Kamal's loan = ₹ 3,00,000 × 10/100 × 4/12 = ₹ 10,000.

(ii) Rent paid to Manav = ₹ 2,000 × 12 months = ₹ 24,000.

(iii) *Interest on Capital:*

Kamal: ₹ 12,00,000 × 10/100 = ₹ 1,20,000;

Kabir: ₹ 10,00,000 × 10/100 = ₹ 1,00,000; Manav: ₹ 8,00,000 × 10/100 = ₹ 80,000;

Total Interest on Capital = ₹ 3,00,000.

(iv) Net Profit = Profit – Interest paid on Kamal's loan – Rent to Manav – Interest on Capitals (as it is a charge) = ₹ 5,23,200 – ₹ 10,000 – ₹ 24,000 – ₹ 3,00,000 = ₹ 1,89,200.

(v) Manager's Commission = Net Profit × 10/110 = ₹ 1,89,200 × 10/110 = ₹ 17,200.

14. [3] Explanation: 10% of Divisible Profit is transferred to General Reserve.

Partner's salaries:

Kamal = ₹ 5,000 × 12 months = ₹ 60,000

Kabir = ₹ 3,000 × 4 months = ₹ 12,000

Total Partners' salaries = ₹ 72,000

Divisible Profits = Net Profit – Partner's Salaries – Manager's Commission

= ₹ 1,89,200 – ₹ 72,000 – ₹ 17,200 = ₹ 1,00,000

Transfer to General Reserve = ₹ 1,00,000 × 10/100 = ₹ 10,000.

15. [3] Explanation: Tax paid is transferred as expense in Statement of Profit & Loss. Tax provision will be added to Net Profit before Tax and Extraordinary Items and tax paid on sale of fixed asset (Building) will be shown as outflow under Investing Activity.

16. [3] Explanation:

- A. General Reserve is in the nature of undistributed or accumulated profit since it is the amount set aside out of profits which otherwise would have been distributed among partners. **(List II, Option IV)**
- B. Increase in the value of asset is credited to Revaluation Account, it being a gain (profit) for the firm. **(List II, Option I)**
- C. Sacrificing Ratio is calculated by deducting new profit share from the old profit share of the partner, i.e., Old Profit Share – New Profit Share. **(List II, Option II)**
- D. Increase in the value of liability is a loss for the firm and therefore, is debited to Revaluation Account. **(List II, Option III)**

17. [2] **Explanation:** Book Value of furniture is ₹ 60,000. Depreciation charged till 1st October, 2021 is ₹ 3,000 (*i.e.*, ₹ 60,000 × 10/100 × 6/12). Depreciated value of Furniture sold at the time of Sale is ₹ 57,000 (₹ 60,000 – ₹ 3,000).

Profit on Sale of Furniture = ₹ 57,000 × 20/100.

Therefore, Gain on Sale of Furniture = ₹ 11,400.

18. [3] **Explanation:**

Debtors recoverable = Debtors – Bad Debts (*i.e.*, Debts irrecoverable)

= ₹ 5,00,000 – ₹ 1,00,000 = ₹ 4,00,000

Recoverable Debtors are realised at a Discount of 8% is ₹ 3,68,000 (*i.e.*, ₹ 4,00,000 – ₹ 32,000*)

*Discount on Debtors = ₹ 4,00,000 × 8% = ₹ 32,000.

19. [2] **Explanation:**

- A. On shares being forfeited, Share Capital Account is debited by the amount called-up till the date of forfeiture. **(List II, Option II)**
- B. Forfeited shares reissued as fully paid-up at less than its nominal (face) value means shares have been reissued as a discount. **(List II, Option III)**
- C. Amount received on forfeited shares is not refundable and may be used for allowing discount on reissue of shares. It is credited to Shares Forfeited Account or Forfeited Shares Account. **(List II, Option IV)**
- D. Forfeited shares reissued at more than its nominal (face) value means shares have been reissued at a premium. The amount received in excess of the nominal (face) value is credited to Securities Premium/Securities Premium Reserve Account. **(List II, Option I)**

20. [3] **Explanation:**

Increase in Property, Plant and Equipment (in absolute terms)

= ₹ 25,00,000 – ₹ 20,00,000 = ₹ 5,00,000

Increase in Property, Plant and Equipment (in % terms)

= ₹ 5,00,000 × 100/₹ 20,00,000 = 25%.

21. [2] **Explanation:**

Dr.		SUBSCRIPTION ACCOUNT		Cr.
Particulars	₹	Particulars	₹	
To Balance b/d (Opening Balance)	84,000	By Receipts & Payments A/c	17,76,000	
To Income & Expenditure A/c*	18,00,000	(Total subscription received during the year)		
(Subscription for the current year)		By Balance c/d (Closing Balance)	1,08,000	
	18,84,000		18,84,000	

* Subscription Due = 1,500 × ₹ 1,200 = ₹ 18,00,000.

No. of Members who paid subscription = ₹ 17,76,000/₹ 1,200 = 1,480 members;

No. of Members who did not pay subscription = 1,500 – No. of Members who paid subscription

= 1,500 – 1,480 = 20 members.

22. [2] Explanation:

Debentures Allotment A/c	...Dr.	₹ 18,75,000	
Loss on Issue of Debentures A/c	...Dr.	₹ 1,25,000	
To 10% Debentures A/c			₹ 17,50,000
To Securities Premium Reserve A/c			₹ 1,25,000
To Premium on Redemption of Debentures A/c			₹ 1,25,000
(25,000, 10% Debentures of ₹ 100 each issued at 5% premium and redeemable at 5% premium)			

Note:

Loss on Issue of Debentures = ₹ 1,25,000 (Premium Payable on Redemption of Debentures)

Premium on Redemption of Debentures = 5% of ₹ 25,00,000 = ₹ 1,25,000.

23. [3] Explanation: Amount of Loss transferred to Profit & Loss Appropriation Account = ₹ 20,000

Interest on Drawings charged from Partners = ₹ 4,000 (i.e., ₹ 2,500 + ₹ 1,500)

Net Loss transferred to Capital Accounts of:

Ravi = ₹ 16,000 × 5/8 = ₹ 10,000;

Bhuvi = ₹ 16,000 × 3/8 = ₹ 6,000.

Note: After transfer of net loss and credit of interest charged on drawings to Profit & Loss Appropriation Account, the balance is loss, thus, appropriation is not made rather loss is distributed between/among partners.

24. [3] Explanation:

Gross Profit 25% on Cost = ₹ 9,00,000 (Let Cost be ₹ 100; Gross Profit ₹ 25; Sales ₹ 125)

Sales (Revenue from Operations) = ₹ 9,00,000 × ₹ 125/₹ 100 = ₹ 11,25,000

Total Liabilities = Shareholders' Funds + Total Outside Liabilities
= ₹ 14,50,000 + ₹ 16,83,000 = ₹ 31,33,000

Total Liabilities = Total Assets

Total Assets = Fixed Assets + Current Assets

Fixed Assets = ₹ 31,33,000 – ₹ 11,33,000 = ₹ 20,00,000

Fixed Assets Turnover Ratio = $\frac{\text{Revenue from Operations}}{\text{Fixed Assets}} = \frac{₹ 11,25,000}{₹ 20,00,000} = 2.25 \text{ Times.}$

25. [4] Explanation: Life membership fee is accounted as a capital receipt and is added to the Capital/General Fund on the liability side of Balance Sheet.

26. [4] Explanation: If donation received is for a specific purpose, it is shown on the liabilities side of the Balance Sheet as a fund irrespective of the fact whether the amount is big or small.

27. [4] Explanation: Entrance fee also known as admission fee is paid by the member at the time of becoming a member. It is accounted as a revenue income and credited to Income & Expenditure Account.

28. [3] Explanation:

	₹
Capital fund as on 31st March, 2021	12,58,000
Add: Surplus	72,000
Life Membership Fees (₹ 25,000 × 10)	2,50,000
Transfer from Playground Fund	18,00,000
Transfer from Gymnasium Fund	11,95,000
Capital fund as on 31st March, 2022	<u>45,75,000</u>

29. [3] **Explanation:** The amount or property received by a Not-for-Profit Organisation as stated by the will of a deceased person is termed Legacy Donation.

30. [1] **Explanation:** Profit from 1st April, 2021 to 31st August, 2021 based on sales:

If sales are ₹ 8,00,000, Profit is ₹ 1,12,000

Profit % of 2020 – 21 = ₹ 1,12,000/8,00,000 × 100 = 14%

Profit is assumed to be earned uniformly at the same rate.

If the sales from 1st April, 2021 to 31st August, 2021 is ₹ 4,50,000

Then Profit of the firm would be = ₹ 4,50,000 × 14/100 = ₹ 63,000

and P's Share of Profit = ₹ 63,000 × 8/20 = ₹ 25,200.

31. [3] **Explanation:**

A. Loss on sale of Motor Vehicle owned by the Business is added as it is an abnormal income.

B. Income from Non-trade Investment is deducted as it is not related to normal business activities.

C. Managing Cost is deducted as it is an expense that will be incurred to manage the business.

D. Undervaluation of Closing stock is added as it would have reduced the profits.

32. [2] **Explanation:**

	₹
Balance in Forfeited Shares Account after forfeiture (5,000 × ₹ 6)	30,000
Discount Allowed on Reissued Shares (5,000 × ₹ 2)	10,000
Amount transferred to Capital Reserve	<u>20,000</u>

33. [4] **Explanation:**

Profit Earning (P/E) Ratio = Market Price Per Share/Earning Per Share (EPS)

= ₹ 448/₹ 5.60 = 80 Times.

Earning Per Share (EPS) = (Net Profit after Tax* – Preference Dividend)/No. of Equity Shares

= (₹ 12,00,000 – ₹ 80,000)/2,00,000 = ₹ 5.60.

*Net Profit after Tax = Net Profit before Tax – Tax

= ₹ 16,00,000 – ₹ 4,00,000 (i.e., 25% of ₹ 16,00,000)

= ₹ 12,00,000.

Note: Preference Dividend = 8% of ₹ 10,00,000 = ₹ 80,000.

34. [4] **Explanation:** Section 48 of the Indian Partnership Act, 1932 states that Application of assets at the time of dissolution of partnership firm shall be in the following sequence:

- (i) In paying firm's debts to the third parties;
- (ii) In paying to each partner what is due to him on account of loans or advances;
- (iii) In paying to each partner what is due to him on account of capital; and
- (iv) The balance, if any, is distributed among the partners in their profit-sharing ratio.

35. [1] **Explanation:**

A. Cost of Materials Consumed + Purchases of Stock-in-Trade + Changes in Inventories of Finished Goods, WIP and Stock-in-Trade + Direct Expenses = Cost of Revenue from Operations. **(List II, Option I)**

B. Cost of Revenue from Operations + Operating Expenses = Operating Cost. **(List II, Option III)**

C. Revenue from Operations – Cost of Revenue from Operations – Operating Expenses = Operating Profit. **(List II, Option IV)**

D. Revenue from Operations – Gross Profit = Cost of Revenue from Operations. **(List II, Option I)**

36. [1] Explanation:

Interest received on investment = Value of Investment $\times$ Rate/100 $\times$ 8/12

$$\text{₹ } 40,000 = \text{Value of Investment} \times 12/100 \times 8/12$$

$$\text{Value of Investment} = \text{₹ } 40,000 \times 100/12 \times 12/8 = \text{₹ } 5,00,000.$$

Interest on Investment is accrued for 4 months which means it has been received for 8 months. Interest received is shown in Receipts & Payments Account.

37. [2] Explanation:

	₹
Amount received as Application Money (1,45,000 $\times$ ₹ 3)	4,35,000
Less: Application Money refunded (20,000 $\times$ ₹ 3)	60,000
Balance	3,75,000
Less: Application Money transferred to Share Capital (50,000 $\times$ ₹ 3)	1,50,000
Excess Application money	2,25,000
Less: Amount Due as Allotment Money (50,000 $\times$ ₹ 4)	2,00,000
Amount credited to Calls-in-Advance	25,000

38. [1] Explanation:

<i>Cash Outflow</i>	₹
Redemption of Preference Shares	7,50,000
Premium paid on Redemption of Preference Shares	75,000
Total	8,25,000
<i>Cash Inflow</i>	₹
Proceeds from Issue of Equity Shares	3,00,000
Premium received on issue of shares	45,000
Total	3,45,000

39. [3] Explanation: Books have been closed as on the date of death and financial statements, *i.e.*, Profit & Loss Account, Profit & Loss Appropriation Account and Balance Sheet have been prepared. Profit or loss is distributed through Profit & Loss Appropriation Account if financial statements are prepared. Profit share of *P* for the intervening period will be debited to Profit & Loss Appropriation Account and credited to *P*'s Capital Account.

40. [3] Explanation: Since Debentures have been issued at a discount of 5% which are redeemable at premium of 5%, Loss on Issue of Debentures Account will be debited by ₹ 20,00,000 (₹ 10,00,000 + ₹ 10,00,000) and Premium on Redemption Account will be credited by ₹ 10,00,000.

41. [4] Explanation: In Common-size Statement of Profit & Loss, Revenue from Operations is taken as a base, *i.e.*, (100).

42. [3] Explanation: Subscription received in advance in the year ended 31st March, 2021 for the year ended 31st March, 2023 is to be accounted as income in the year ended 31st March, 2023. Hence, it will be shown in the liabilities side of the Balance Sheet, it having credit balance and as an income in the year ended 31st March, 2023, it being subscription for the year.

43. [4] Explanation: According to Section 52(2) of the Companies Act, 2013 the securities premium may be used for issue of fully paid bonus shares to the members.

44. [1] Explanation:

Working Note:

	₹	₹
Balance of Capital Account		10,05,000
Less: Investment taken over	2,90,000	
Transferred to Loan	<u>6,15,000</u>	<u>9,05,000</u>
Stock taken over		<u>1,00,000</u>

Total value of stock before retirement = ₹ 1,00,000 × 100/20 = ₹ 5,00,000.

45. [4] Explanation:

A. Issue Price of Debentures = ₹ 50 + ₹ 10 = ₹ 60 (₹ 50 × ₹ 20/100 = ₹ 10)

Number of Debentures = Amount due to Vendor/Issue Price of Debenture
= ₹ 24,00,000/₹ 60 = 40,000 Debentures.

B. Issue Price of Debentures = ₹ 50 – ₹ 10 = ₹ 40 (₹ 50 × 20/100 = ₹ 10)

Number of Debentures = Amount due to Vendor/Issue Price of Debenture
= ₹ 24,00,000/₹ 40 = 60,000 Debentures.

C. Issue Price of Debenture is ₹ 110 (₹ 100 + ₹ 10)

Amount received as Application Money is ₹ 55,00,000

Number of Debentures applied are ₹ 55,00,000/₹ 110 = 50,000 Debentures.

D. Issue Price of Debenture is ₹ 95 (₹ 100 – ₹ 5)

Amount received as Application Money is ₹ 23,75,000

Number of Debentures applied are ₹ 23,75,000/₹ 95 = 25,000 Debentures.

46. [2] Explanation:

Increase in Value of Stock = ₹ 20,000

Increase in Provision for Doubtful Debts = (₹ 4,000)

Increase in Value of Building (Balancing Figure) = ₹ 20,000

Gain (Profit) on Revaluation* = ₹ 36,000

Working Note:

*Vansh's share of Gain on Revaluation for 4/9 share = ₹ 16,000;

Thus, total Gain (Profit) on Revaluation = ₹ 16,000 × 9/4 = ₹ 36,000.

From the above calculation, increase in value of building has been arrived at ₹ 20,000, and original book value of Building as given in question is ₹ 2,00,000. Hence, revalued amount of Building is ₹ 2,00,000 + ₹ 20,000 = ₹ 2,20,000.

47. [1]

48. [1]

49. [2]

50. [3]

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