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EXPLANATIONS ACCOUNTANCY FULL-LENGTH TEST – 02

1. (b) ₹ 12,00,000
Hint Assets, = Liabilities + Capital
 $20,00,000 = \text{Creditors} + 800,000$
 $\text{Creditors} = 20,00,000 - 800,000 = ₹ 12,00,000$
Note Drawings are already deducted from opening capital. So, drawings are not required to be deducted from closing capital.
2. (b) ₹ 2,00,000
Hint Total Assets = Liabilities + Capital $\Rightarrow 40,000 + 1,60,000 \Rightarrow ₹ 2,00,000$
3. (b) Capital reserve
4. (b) Reliability
5. (a) Investors
6. (d) ₹ 9,310
Hint

	Amt(₹)
List Price	10,000
(-) Trade discount @5%	(500)
	9,500
(-) Cash discount @2%(9,500× 2%)	(190)
	9,310
7. (b) 7,000
Hint Cash Received = $10,000 \times 0.70 = ₹ 7,000$
8. (a) Debtor (Drawee) Dr
To Bank A/c
9. (a) Salaries A/c Dr
To Cash A/c
10. (c) Cash account
11. Company or firm (customer of bank)
12. ₹ 21,000
Hint Depreciation = $\frac{1,36,000 - 10,000}{6} = 21,000$
13. No, as per the money measurement concept, only those transactions and events, which can be recorded in money terms and on the basis of evidences, are recorded in the books of accounts.
14. (i) **Reliability** Accounting information must be factual and verifiable. It means the users must be able to depend on the information and information should be free from any material error.
(ii) **Relevance** Accounting information is useful to the user. Information is relevant only when it meet the needs of the user in decision-making.
(iii) **Understandability** Understandability means that accounting information must be presented in such a way that it can be easily understood by the users.
(iv) **Comparability** Comparability means that users should be able to compare the accounting information of an enterprise with that of other enterprises.
Or Expenditure is the amount spent or liability incurred for acquiring assets, goods and services.
Types of expenditures are (any two)
(i) **Capital Expenditure** It is the expenditure incurred to acquire assets or for improving the quality of existing assets which will increase the earning capacity of the business. These expenditures give benefit to the business for more than one accounting year, e.g. purchase of machinery.
(ii) **Revenue Expenditure** It is the amount spent to purchase goods and services that are consumed during the accounting period. Revenue expenditure does not increase the earning capacity; it rather

maintains the existing earning capacity.

- (iii) **Deferred Revenue Expenditure** It is revenue expenditure in nature but provides benefits for more than one accounting period, e.g. heavy advertising expenditure to promote a new product will give benefit for more than one accounting period and hence, is a deferred revenue expenditure.'
15. According to Indian Negotiable Instrument Act, 1881, 'A bills of exchange is an instrument in writing, an unconditional order signed by the maker directing to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument".
- Parties to bills of exchange are
- (i) **Drawer** He is a person who sold goods on credit to someone. He writes or draws the bill.
- (ii) **Drawee** He is the debtor who purchases the goods on credit and accepts bill. He is liable to pay the amount mentioned in the bill.
- (iii) **Payee** The person to whom the payment is to be made is called payee. The drawee himself or any other person may be the payee of the bill.
16. Trial balance is a connecting link between the accounting records and the preparation of financial statements. The availability of a tallied trial balance is the first step in the preparation of financial statements as one need not refer to the ledger. All revenues and liabilities accounts which appear in the trial balance are transferred to the trading and profit and loss account and all liabilities, capital and assets accounts are transferred to the balance sheet. Two advantages of trial balance are as follows
- (i) It helps to check the arithmetical accuracy.
- (ii) It provides with a summarised view of the balance of accounts.

17.

**In the Books of Karim & Co.
Purchases Returns Book**

Date	Particulars	Debit Note Nof	LE	Details Amt (₹)	Total Amt (₹)
2019					
Jan 4	Mohan Mills, Kerala 10 Polyester Sarees @ ₹ 1,600 each (-) Trade Discount @ 10%	101		16,000 (1,600)	14,400
Jan 12	Sonica Mills, Bombay 12 Silk Sarees @ ₹ 1040 each (-) Trade Discount @ 10%	103		12,480 (1,248)	11,232
Jan 31	To Purchases Returns Account	Cr			25,632

Note Return of Kota sarees will be recorded in the cash book and return of typewriter will be recorded in the journal (or journal proper), since in the purchases returns book, only the return of merchandise purchased on credit are recorded.

18.

**Bank Reconciliation Statement
as on 31st December, 2019**

Particulars	Plus (₹)	Minus (₹)
Overdraft/Credit/Unfavourable Balance as per Cash Book	-	19,890
(+) Cheque issued but not presented for payment	6,500	-
Interest collected by bank not credited in cash book	925	-
(-) Interest and collection charges debited by bank (315 + 75)	-	390
Bill discounted with bank dishonoured	-	825
Cheque sent to the bank for collection but not collected and credited by the bank	-	7,250
Debit side of cash book (bank column) overcast	-	1,000
Overdraft/Debit/Unfavourable Balance as per Pass Book	21,930	-
	29,355	29,355

Or

Differences between source documents and vouchers are

Basis	Source Documents	Vouchers
Meaning	These are written documents which contain details of the transactions and are prepared at the time, a transaction is entered into.	These are documents evidencing a business transaction. A voucher details the accounts that are debited and credited. It is prepared on the basis of source documents.
Purpose	It is used for preparing accounting vouchers.	It is used for analysing the transactions.
Preparation	It is prepared at the time when an event or a transaction occurs.	It can be prepared either when an event or a transaction occurs or later on.
Examples	Cash memo, invoice or bill, pay-in-slip, cheque, debit note and credit note.	Cash vouchers, i.e. debit vouchers or credit vouchers, transfer vouchers etc.

19. For making the accounting information meaningful to its internal and external users, it is important that such information is reliable as well as comparable. The comparability of information is required both to make inter-firm comparisons, i.e. to see how a firm has performed as compared to the other firms, as well as to make inter-period comparison, i.e. how it has performed as compared to the previous years.

This becomes possible only if the information provided by the financial statements is based on consistent accounting policies, principles and practices. Such consistency is required throughout the process of identifying the events and transactions to be accounted for, measuring them, communicating them in the books of accounts, summarising the results thereof and reporting them to the interested parties.

However, consistency does not prohibit change in accounting policies. Necessary required changes are fully disclosed by presenting them in the financial statements and indicating their probable effects on the financial results of business.

Hence, it is important to adopt a consistent basis for the preparation of financial statements.

20.

JOURNAL

Date	Particulars	LE	Amt (Dr)	Amt (Cr)
(i)	Office Equipment A/c (Typewriter) To Office Expenses A/c (Being the expenditure that should have been capitalised wrongly shown as revenue expenditure, now rectified)	Dr	17,000	17,000
(ii)	Pluto To Sales A/c (Being the cash sales wrongly posted to customer's account, now rectified)	Dr	50,000	50,000
(iii)	Sales A/c Returns Inward A/c To Suspense A/c (Being the returns inward wrongly credited to sales, now rectified)	Dr Dr	8,000 8,000	16,000
(iv)	Bills Payable A/c Bills Receivable A/c To Suspense A/c (Being the bills receivable wrongly recorded as bills payable, now rectified)	Dr Dr	30,000 30,000	60,000
(v)	Suspense A/c To Sun (Being the wrong amount posted to his account, now rectified)	Dr	80,000	80,000
(vi)	Suspense A/c To Returns Inward A/c (Being the overcasting of sales returns book rectified)	Dr	1,000	1,000

21.

Dr			Machinery Account			Cr		
Date	Particulars	Amt (₹)	Date	Particulars	Amt (₹)			
2018 Apr 1	To Balance b	50,00,000	2018 Oct 1 2019 Mar 31	By Machinery Disposal A/c By Balance c/d	10,00,000 40,00,000			
		<u>50,00,000</u>			<u>50,00,000</u>			

Dr			Provision for Depreciation			Cr		
Date	Particulars	Amt (₹)	Date	Particulars	Amt (₹)			
2018 Oct 1 2019 Mar 31	To Machinery Disposal A/c (WN 2) To Balance c/d	4,24,000 14,40,000	2018 Apr 1 Oct 1 2019 Mar 31	/ By Balance b/d By Depreciation A/c (WN 1) By Depreciation A/c	11,60,000 64,000 6,40,000			
		r 18,64,000		•	18,64,000			

Dr			Machinery Disposal Account			Cr		
Date	Particulars	Amt (₹)	Date	Particulars	Amt (₹)			
2018 Oct 1 Oct 1	To Machinery A/c To Profit and Loss A/c (Profit on sale) [6,00,000 - 5,76,000 (WN 1)]	10,00,000 24,000	2018 Oct 1 Oct 1	By Provision for Depreciation A/c (WN 2) By Bank A/c	4,24,000 6,00,000			
		10,24,000		f	10,24,000			

Working Notes

	Amt (₹)
1. Cost of Sold Machinery (on 1 st April, 2016)	10,00,000
(-) Depreciation (2016-17)	(2,00,000)
Diminishing Value on 31 st March, 2017	8,00,000
(-) Depreciation (2017-18)	(1,60,000)
Diminishing Value on 31 st March, 2018	6,40,000
(-) Depreciation till 1 st October, 2018	64,000
	<u>5,76,000</u>
2. Total Depreciation charged on sold machinery	
2016 – 17	2,00,000
2017-18	1,60,000
2018-1 st October	

Or
In the Books of lipakshi
Journal

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2019 Mar 2	Ipshita To Sales A/c (Being goods sold to Ipshita)	Dr	19,000	19,000
Mar 2	Cash A/c Bills.Receivable A/c To Ipshita (Being ₹ 4,000 cash and acceptance for ₹ 15,000 received)	Dr Dr	4,000 15,000	19,000
Mar 2	Bank A/c Discounting Charges A/c To Bills Receivable A/c (Being bill discounted by bank)	Dr Dr	14,625 375	15,000
Jun 5	Ipshita To Bank A/c (Being bill dishonoured on due date and noting charges paid)	Dr	15,030	15,030

22. (a) operating environment
23. (a) Application software
24. (b) ₹ 28,500
Hint Debtors 30,000
(-) Provision for Doubtful Debts @ 5% (1,500)
 28,500
25. (d) ₹ 90,000
Hint Machinery 1,00,000
(-) Depreciation @ (10%) (10,000)
26. (a) database level
27. **Printer**
28. Cash-in-hand, debtors
- 29.

Statement Showing Capital
at the beginning of the year

Particulars	Amt (₹)
Capital at the end of the year (+) Drawings made during the year	8,00,000
	1,20,000
(-) Fresh capital introduced during the year	9,20,000
	(2,00,000)
(-) Profit of the current year	7,20,000
Capital in the beginning of the year	(1,60,000)
	<u>5,60,000</u>

Or

Statement of Affairs
as at 31st March, 2019

Liabilities	Amt (₹)	Assets	Amt (₹)
Sundry Creditors	30,000	Cash	2,000
Capital (Balancing figure)	2,38,000	Sundry Debtors	78,000
		Stock	68,000
		Plant and Machinery	1,20,000
	2,68,000		2,68,000
Liabilities	Amt (₹)	Assets	Amt (₹)
Sundry Creditors	30,000	Cash	2,000
Capital (Balancing figure)	2,38,000	Sundry Debtors	78,000
		Stock	68,000
		Plant and Machinery	1,20,000
	2,68,000		2,68,000

30. It is the most commonly used form of information system. Management Information System (MIS) is a system that provides the necessary information required for managing an organisation effectively and in taking various decisions. MIS is viewed and used by management at many levels such as operational, tactical and strategic. MIS is supportive of the institution's long-term strategic goals and objectives. Management information system is basically concerned with processing data into information which is then communicated to various departments in an organisation for appropriate decision-making.

Data -> Information -> Communication -> Decision

The purpose of management information system is to provide the right information, to the right person, at the right place, at the right time, in the right form, at the right cost.

Or The four elements/components of a computer system are

- Hardware** Computer hardware consists of physical components such as keyboard, mouse, monitor and processor. These components can be physically touched. These are electronic and electromechanical components. These are the basic components of a computer that collectively form a system.
- Software** It is the set of instructions that makes the computer work. Software is held on the computer's hard disk, CD-ROM, DVD or on a diskette (floppy disk) and is loaded from the disk into the computer's RAM (Random Access Memory), as and when required. It is the hypothetical or imaginary part of computer which is used with hardware to make computer perform operations.
- Human ware/People** People interacting with the compute and execute the program or software are known as human ware. They constitute the most important part of the computer system and they are system analyst, programmers and operators.
- Procedure** A specified series of actions or operations, which have to be executed in the same manner in order to always achieve the desired result in same circumstances. There are three type of procedures which constitute part of computer system and they are hardware oriented procedure, software oriented procedure and internal endure.

31.

Statement of Affairs
as at 31st December, 2018

Liabilities	Amt (₹)	Assets	Amt (₹)
Bank Overdraft	15,000	Cash in Hand	3,000
Sundry Creditors	13,000	Stock	25,000
Bills Payable	3,000	Sundry Debtors	30,000
Capital (Balancing Figure)	91,000	Furniture	20,000
		Bills Receivable	4,000
		Machinery	25,000
		Investment	15,000
	1,22,000		1,22,000

Statement of Affairs
as at 31st December, 2019

Liabilities	Amt (₹)	Assets	Amt (₹)
Sundry Creditors	20,000	Cash in Hand	12,000
Bills Payable	6,000	Stock	40,000
Outstanding Salary	1,200	Debtors	70,000
Capital (Balancing Figure)	2,16,700	(-) Bad debts	(1,000)
			69,000
		(-) Provision @ 5%	(3,450)
		Furniture	30,000
		(-) Depreciation @ 10%	(3,000)
		Bills Receivable	14,000
		Machinery	50,000
		(-) Depreciation @ 10%	(5,000)
		Investment	40,000
		Prepaid Insurance	350
	2,43,900		2,43,900

Statement Showing Profit or Loss
for the year ended 31st December, 2019

Particulars	Amt (₹)
Capital at the end of the year	2,16,700
(+) Drawings during the year (5000x 12)	60,000
	2,76,700
(-) Fresh capital introduced during 2019	(1,00,000)
Adjusted capital in the end	1,76,700
(-) Capital in the beginning of the year at 31st December, 2018	(91,000)
Profit for the year 2019	85,700

32.

Trading and Profit and Loss Account
for the year ending 31st March, 2020

Dr		Cr	
Particulars	Amt (₹)	Particulars	Amt (₹)
To Purchases	11,60,000	By Sales	16,00,000
To Wages	80,000	(-) Returns	(40,000)
To Carriage Inward	20,000	By Closing Stock	2,60,000
To Gross Profit c/d	5,60,000		18,20,000
	18,20,000		
To Salaries	1,00,000	By Gross Profit b/d	5,60,000
(+) Outstanding	5,000	By Accrued Interest on Investment	7,500
To Printing and Stationery	8,000	By Interest on Drawings	4,500
To Advertisements	12,000		
To Trade Charges	6,000		
To Rent and Taxes	14,000		
To Discount	5,000		
To Bad Debts	5,000		
(+) Provision for			
Bad Debts	12,250		
To Interest on Capital (WN)	21,000		
To Depreciation on Plant and Machinery	8,000		
To Net Profit Transferred to Capital A/c	3,75,750		
	5,72,000		5,72,000

Working Note

$$\text{Interest on capital} = \left[\left(3,00,000 \times \frac{6}{100} \times \frac{12}{12} \right) + \left(1,00,000 \times \frac{1}{100} \times \frac{6}{12} \right) \right] = ₹21,000$$

Balance Sheet
as at 31st March, 2020

Liabilities		Amt (₹)	Assets	Amt (₹)
Sundry Creditors		1,20,000	Cash in Hand	30,000
Bills Payable		90,000	Cash at Bank	1,60,000
Outstanding Salaries		5,000	Bills Receivable	50,000
Capital			Sundry Debtors	2,50,000
Opening Balance	4,00,000		(-) Further Bad Debts	(5,000)
(+) Interest	21,000		(-) Provision	(12,250)
(+) Net Profit	3,75,750		Investments	1,50,000
(-) Drawings	(45,000)		(+) Accrued Interest	7,500
(-) Interest on Drawings	(4,500)	7,47,250	Closing Stock	2,60,000
			Plant and Fixtures	80,000
			(-) Depreciation	(8,000)
		9,62,250		9,62,250

Or
Trading and Profit and Loss Account
for the year ending 31 st March, 2020

Dr		Amt (₹)	Cr	Amt (₹)
Particulars			Particulars	
To Opening Stock		20,000	By Sales	1,60,000
To Purchases	80,000		(-) Sales n Return	(400)
(-) Purchase Return	(1,200)	78,800	By Closing Stock	4,000
To Wages		12,000		
To Dock and Clearing Charges		8,000		
To Gross Profit c/d		44,800		
		1,63,600		1,63,600
To Donation and Charity		1,200	By Gross Profit b/d	44,800
To Interest on Capital		4,000	By Interest on Drawings	280
To Depreciation on Furniture		1,130	By Interest on Investment	720
To Depreciation on Land and		4,300	By Miscellaneous Income	12,000
To Lighting		1,000	' By Rent Received	4,000
To Net Profit (Balancing Figure)		49,970	(-) Unexpired Rent	(200)
		61,600		61,600

Balance Sheet
as at 31st March, 2020

Liabilities		Amt (₹)	Assets	Amt (₹)
Capital	80,000		Furniture	22,600
(+) Interest on Capital	4,000		(-) Depreciation @ 5%	(1,130)
	84,000		Land and Machinery	86,000
(+) Net Profit	49,970		(-) Depreciation @ 5%	(4,300)
	1,33,970		Investment	12,000
(-) Drawings	(4,000)		(+) Interest @ 6%	720
(-) Interest on Drawings	(280)	1,29,690	Debtors	12,000
Unexpired Rent		200	Cash	6,000
Sales Tax Collected		2,000	Patents	8,000
Creditors		14,000	Closing Stock	4,000
		1,45,890		1,45,890