

# Sikkim Public Service Commission

Written Examination for the post of Cooperative Inspector and Cooperative Auditor

## PAPER - II COMMERCE

Time Allowed: 3.00 hours

Maximum Marks: 200

### INSTRUCTIONS TO CANDIDATES

*Read the instructions carefully before answering the questions: -*

1. **IMMEDIATELY AFTER THE COMMENCEMENT OF THE EXAMINATION, YOU SHOULD CHECK THAT THIS BOOKLET DOES NOT HAVE ANY UNPRINTED, TORN OR MISSING PAGES OR ITEMS. IF SO, GET IT REPLACED BY A COMPLETE TEST BOOKLET.**
2. **Use only Black Ball Point Pen to fill the OMR Sheet.**
3. Please note that it is the candidate's responsibility to fill in the Roll Number carefully without any omission or discrepancy at the appropriate places in the **OMR ANSWER SHEET** as well as on **SEPARATE ANSWER BOOKLET** for Conventional Type Questions. Any omission/discrepancy will render the Answer Sheet liable for rejection.
4. Do not write anything else on the OMR Answer Sheet except the required information.
5. This Test Booklet is divided into three sections - **Section A (100 marks), Section B(50 marks) and Section C (50 marks).**
6. Section A is **MCQ** which has to be answered in the OMR Sheet provided to the candidate. Section B and Section C contain **conventional questions** which have to be answered in the Answer Sheet. All Sections are **Compulsory**.
7. Before you proceed to mark in the OMR Answer Sheet, you have to fill in some particulars as per given instructions.
8. After you have completed filling in all your responses on the OMR Answer Sheet and the examination has concluded, you should hand over the OMR Answer Sheets and the Answer Booklets to the Invigilator only. You are permitted to take with you the Test Booklet.
9. **Marking Scheme**  
**THERE WILL BE NEGATIVE MARKING FOR WRONG ANSWERS MARKED BY A CANDIDATE IN THE OBJECTIVE TYPE QUESTIONS**
  - (i) There are four alternatives for the answer to every question. For each question for which a wrong answer has been given by the candidate, one-third of the marks assigned to the question will be deducted as penalty.
  - (ii) If a candidate gives more than one answer, it will be treated as a wrong answer even if one of the given answers happens to be correct and there will be same penalty as above to the question.
  - (iii) If a question is left blank. i.e., no answer is given by the candidate; there will be no penalty for that question.

**DO NOT OPEN THIS TEST BOOKLET UNTIL YOU ARE ASKED TO DO SO**

SECTION – A

(Multiple Choice Questions)

Choose the correct answer for the following. Each question carries 2 marks. (50x2=100)

1. **Assets = Liabilities + Capital is based on the concept of**  
(A) Accounting entity concept  
(B) Dual aspect concept  
(C) Money measurement concept  
(D) None of these
2. \_\_\_\_\_ **represents the excess of assets over liabilities.**  
(A) Profit  
(B) Capital  
(C) Fixed assets  
(D) None of these
3. **The unsold goods left at the end of the year is called \_\_\_\_\_ .**  
(A) Profit  
(B) Current assets  
(C) Fixed assets  
(D) Closing stock
4. **Choose the correct match from the following:**

Column A	Column B
A. Building	(I) Debit
B. Salary	(II) Credit
C. Left side	(III) Asset
D. Right side	(IV) Expense
E. Vouchers	(V) Written document.

- A B C D E
- (A) III IV I II V  
(B) I V III II V  
(C) III IV II I V  
(D) IV II I III V

5. **Patents, Copyrights and Trademarks are: -**
- (A) Current Assets
  - (B) Fixed Assets
  - (C) Intangible Assets
  - (D) Investment
6. **Accounting standard for revenue recognition is:**
- (A) AS-8
  - (B) AS-20
  - (C) AS-3
  - (D) AS-9
7. **According to Balance Sheet equation concept, the capital will be:**
- (A) Capital = Liabilities – Assets
  - (B) Capital = Fixed Assets – Current Assets
  - (C) Capital = Assets – Liabilities
  - (D) Capital = Assets + Liabilities
8. **Increase in fixed asset due to purchase is–**
- (A) Source of fund
  - (B) Fund from operation
  - (C) Use of fund
  - (D) None of the above
9. **The following data relates to a manufacturing company for the year 2019-20. Net Profit as per P & L A/c -Rs. 2,40,000; Depreciation–Rs. 80,000; Goodwill written-off–Rs. 40,000, Profit on Sale of Fixed Assets–Rs. 16,000, Proposed Dividend–Rs. 96,000. The fund from operation would be–**
- (A) Rs. 4,25,000
  - (B) Rs. 4,00,000
  - (C) Rs. 6,40,000
  - (D) Rs. 4,40,000
10. **The auditor is generally expected to carry out the following in a particular sequence–**
- 1. Verification of Assets and Liabilities.
  - 2. Vouching of transactions.
  - 3. Checking of valuation of Assets and Liabilities.
- Select the correct sequence of the above from the following–
- (A) 1, 3 and 2
  - (B) 3, 2 and 1
  - (C) 2, 1 and 3
  - (D) 3, 1 and 2

- 11. Final accounts prepared in narrative style are in—**
- (A) Horizontal form
  - (B) Accounts form
  - (C) Vertical form
  - (D) None of the above
- 12. If super profit is Rs. 4,000 and normal rate of return is 8 percent, the amount of goodwill will be—**
- (A) Rs. 40,000
  - (B) Rs. 50,000
  - (C) Rs. 4,00,000
  - (D) Rs. 5,000
- 13. The portion of share capital which can be called up only on the winding up of a company is known as—**
- (A) Called up Capital
  - (B) Paid up Capital
  - (C) Authorised Capital
  - (D) Reserve Capital
- 14. Which one of the following is called backbone of auditing?**
- (A) Routine checking
  - (B) Vouching
  - (C) Internal check
  - (D) Internal control
- 15. Closing stock appearing in trial balance will be taken to -**
- (A) Trading account only.
  - (B) Balance sheet only.
  - (C) Trading account and balance sheet.
  - (D) Profit and loss account only.
- 16. The amount of capital mentioned in MOA is-**
- (A) Authorised capital
  - (B) Issued capital
  - (C) Reserve capital
  - (D) Subscribed capital

17. Discount on issue of forfeited shares should exceed -
- (A) 5% of subscribed capital
  - (B) 10% of reissued capital
  - (C) the amount received so far on forfeited shares
  - (D) 25% of original issue price.
18. Which of the following is a current liability?
- (A) Share capital
  - (B) Debentures
  - (C) Long-term loans
  - (D) Outstanding wages
19. Premium received on issue of shares cannot be utilised \_\_\_\_.
- (A) for the issue of bonus shares
  - (B) for writing of preliminary expenses
  - (C) for providing premium payable on redemption
  - (D) for distribution of dividend
20. "Auditor is a watchdog and not a blood hound" was a remark made in the case of \_\_\_\_.
- (A) The London Oil Storage Co. Ltd. 1904
  - (B) Kingston Cotton Mills Ltd. 1896
  - (C) London and General Bank 1895
  - (D) Delightful Cigarette Co. Ltd. 1943
21. A Company issues 10,000 shares of 10 each at a discount of 10% payable as follows:
- On application 2.50
  - On allotment 3.00
  - On first and final call 3.50
- A holder of 100 shares did not pay the final call and his shares were forfeited. On forfeiture, his share capital a/c will be debited by
- (A) 650
  - (B) 850
  - (C) 1,000
  - (D) 900
22. If vendors are issued fully paid shares of 80,000 in consideration of net assets of 60,000, then the balance of 20,000 will be:
- (A) Debited to profit and loss account
  - (B) Debited to goodwill account
  - (C) Credited to capital reserve account
  - (D) Credited to share premium account

23. When shares are forfeited, called up amount on shares is debited to \_\_\_\_ .
- (A) Forfeiture Account
  - (B) Capital Reserve Account
  - (C) General Reserve Account
  - (D) Capital Account
24. Generally, Auditor is an:
- (A) Employee of The Company
  - (B) Agent of The Company
  - (C) Agent of The Shareholders
  - (D) None of These
25. A Voucher is a:
- (A) Document in support of an entry made in books of accounts.
  - (B) Invoice received from suppliers.
  - (C) Receipt issued to a customer for cash.
  - (D) Despatch receipt.
26. A kind of audit conducted for a part of the accounting year is called \_\_\_\_ .
- (A) Periodical Audit.
  - (B) Partial Audit.
  - (C) Cost Audit
  - (D) Interim Audit.
27. Management audit is otherwise called as \_\_\_\_.
- (A) Final Audit.
  - (B) Efficiency Audit
  - (C) Cost Audit.
  - (D) Cash Audit
28. What is the full form of MBO?
- (A) Management by Objectives
  - (B) Method by Opportunity
  - (C) Management by Opportunity
  - (D) Method by Objective
29. Stock in trade is valued at \_\_\_\_.
- (A) Market Price.
  - (B) Cost Price or Market Price whichever is less.
  - (C) Cost Price.
  - (D) Cost Price Less Depreciation.

30. Planning provides \_\_\_\_\_.
- (A) Information to outsiders
  - (B) Basis for recruitment and selections
  - (C) Purpose and direction of all persons
  - (D) None of these
31. The art and science of recording business transactions in a set of books is \_\_\_\_\_.
- (A) Accounting
  - (B) Auditing
  - (C) Book Keeping
  - (D) Computing
32. Special audit can be ordered by
- (A) Preference shareholders
  - (B) The Central Government
  - (C) SEBI
  - (D) Debenture holders
33. Which documents contains the regulations relating to the internal management of a company?
- (A) Memorandum of Association
  - (B) Articles of Association
  - (C) Both (A) and (B)
  - (D) None
34. If Cash Balance ₹ 5,000; Trade Payables ₹ 40,000; Inventory ₹ 50,000; Trade Receivables ₹ 65,000 and Prepaid Expenses are ₹ 10,000. The Liquid Ratio will be
- (A) 1.75: 1
  - (B) 2: 1
  - (C) 3.25: 1
  - (D) 3 :1
35. If vendors are issued fully paid 5% debenture of 1,00,000 in consideration of Net Assets of 1,20,000, the balance of 20,000 will be credited to\_\_\_\_\_.
- (A) Goodwill Account
  - (B) Capital Reserve Account
  - (C) Profit and Loss Account
  - (D) None of These

36. The example of cash flow from an operating activity is\_\_\_\_\_.
- (A) Purchase of Own Debenture
  - (B) Sale of Fixed Assets
  - (C) Interest Paid on Term-deposits by a Bank
  - (D) Issue of Equity Share Capital
37. Balance sheet audit is also called as \_\_\_\_\_.
- (A) Final audit.
  - (B) Interim audit.
  - (C) Periodical audit.
  - (D) Income statement audit.
38. A, B, and C are partners in the ratio of 3:4:2. B wants to retire from the firm. The profit on revaluation on that date was ₹ 36,000. The new ratio of A and C is 5:3. Profit on revaluation will be distributed as
- A) A ₹ 16,000, B ₹ 12,000, C ₹ 8,000
  - B) A ₹ 12,000, B ₹ 16,000, C ₹ 8,000
  - C) A ₹ 22,500, C ₹ 13,500
  - D) A ₹ 23,625, C ₹ 12,375
39. On dissolution of a partnership firm, profit or loss on realisation is distributed among the partners \_\_\_\_\_.
- (A) Equally
  - (B) In Profit sharing ratio
  - (C) In capital ratio
  - (D) None of the above
40. Audit Programme is prepared by \_\_\_\_\_.
- (A) The auditor.
  - (B) The client.
  - (C) The audit assistants.
  - (D) The auditor and his audit assistants.
41. The work of one clerk automatically checked by another clerk is called \_\_\_\_ .
- (A) Internal control.
  - (B) Internal check.
  - (C) Internal audit.
  - (D) None of the above.

42. Test Checking refers to \_\_\_\_\_?
- (A) Testing of accounts and records
  - (B) Checking of selected number of transactions
  - (C) Examination of adjusting and closing entries
  - (D) Checking of all transactions recorded
43. The main purpose of internal audit is \_\_\_\_\_.
- (A) Detection of errors and fraud
  - (B) Checking accounts
  - (C) To divide the functions of the organization into employees
  - (D) Verification of assets
44. Share allotment account is a \_\_\_\_\_.
- (A) Personal account
  - (B) Real account
  - (C) Nominal account
  - (D) Impersonal account
45. When shares are issued at premium, which of the following account is credited?
- (A) Share premium account
  - (B) Share first call account
  - (C) Share allotment account
  - (D) Share forfeited account
46. In the absence of Partnership Deed, the interest is allowed on partner's capital at \_\_\_\_\_?
- (A) @ 5% p.a.
  - (B) @ 6% p.a.
  - (C) @ 12% p.a.
  - (D) No interest is allowed
47. The minimum share Application money is \_\_\_\_\_.
- (A) 5% of the face value of shares.
  - (B) 10% of the issue price of shares
  - (C) Rs. 1 per share
  - (D) 15% of the face value of shares
48. Out of the following, which is not a Capital Receipt for Non-profit organisation?
- (A) Life Membership Fee
  - (B) Capitalised Entrance fee
  - (C) Special Donation
  - (D) Subscription

49. Credit side balance in Income & Expenditure Account reveals \_\_\_\_\_ .

- (A) Excess of cash receipts over payments
- (B) Excess of cash payments over receipts
- (C) Excess of expenditure over income
- (D) Excess of income over expenditure

50. Which of the following represent capital receipt ?

- (A) Life Membership Subscription
- (B) Donation
- (C) Subscription
- (D) Interest on Investments

## SECTION – B

**Attempt any 5 (five) from Questions 51 to 58. Each question carries 10 marks. (5x10=50)**

51. 'Accounting information should be comparable.' Do you agree with this statement? Give two reasons.
52. State the meaning of following and give the adjustment entries for them:
- (a) Outstanding Expenses
  - (b) Prepaid Expenses
  - (c) Income received in advance
  - (d) Manager's Commission
53. (a) A, B, and C were sharing profits in the ratio of  $\frac{2}{6}$ ,  $\frac{1}{2}$ , and  $\frac{1}{6}$ . A retires and surrenders  $\frac{2}{3}$  of his share in favour of B and remaining in favour of C. Calculate new ratio and Gaining Ratio. (4 Marks)
- (b) A and B are partners sharing profits and losses in the ratio of 4:1. They admit C into partnership for  $\frac{1}{6}$ <sup>th</sup> shares for which he pays Rs. 20,000 for Goodwill. A, B and C decide to share future profits in the ratio of 3: 2: 1 respectively. Give necessary journal entries. (6 Marks)
54. How are the various activities classified as per AS – 3 revised while preparing cash flow statement?
55. "Accountancy is necessity while auditing is luxury for a business concern." Do you agree? Give 4 (four) reasons to support your opinion.
56. What do you understand by 'Flexible Audit Programme'?
57. Explain the difference between verification and vouching of assets.
58. Discuss the qualification and disqualification of a company Auditor.

**SECTION – C**

**Answer any 2 (two) from Questions 59 to 62. Each question carries 25 marks. (2x25=50)**

**59. A and B are partners, and the profit is divided as follows:**

1/2 to A, 1/3 to B and 1/6 carried to reserve account. They admit C as a partner on 1 April 2019 at which date the Balance Sheet of the firm was under:

<b>Liabilities</b>	<b>Amount</b>	<b>Assets</b>	<b>Amount</b>
Creditors	1,60,000	Cash at Bank	20,000
Outstanding Exp	12,000	Debtors	2,20,000
Reserve	90,000	Stock	1,80,000
Capital A/c		Plant and Machinery	1,50,000
A 3,18,000		Building	2,00,000
B 2,00,000	5,18,000	Advertisement Exp	10,000
	<b>7,80,000</b>		<b>7,80,000</b>

**Following terms are agreed.**

- (i) Stock is undervalued by 10%.
- (ii) Depreciation of Rs.30,000 had been omitted on Plant and Machinery for the year ended 31 March, 2019.
- (iii) Creditors include a contingent liability of Rs. 50,000 which has been decided by the court at Rs. 43,000.
- (iv) In respect of debtors, the following, the following debts proved bad or doubtful: Rs. 15,000 due from Ramesh – bad to the full extent. Rs. 20,000 due from Sohan – insolvent, Estate expected to pay only 40%
- (v) Goodwill of the firm is valued at Rs. 60,000. However, C is unable to bring his share of goodwill in cash.
- (vi) C is given 1/5<sup>th</sup> share of profits which he acquires equally from A and B. C is to bring in capital proportionate to his share of profits in the firm.
- (vii) The partners decide that 5% of profit of each year be given to a Non-Government Organisation, which is working for cleanliness drive in the area.

You are required to prepare Revaluation Account, Capital Accounts and the new balance sheet of the firm. **(8+8+9 Marks)**

60. Explain the following:

(5 marks each)

- (a) Doctrine of Indoor Management
- (b) Doctrine of Constructive Notice
- (c) Duties and Power of Board of Director of a company
- (d) Principal of Management
- (e) Delegation of Authority

61. (a) Explain the term leadership and state the qualities of a good leader.

(b) Describe the characteristics of a joint stock company.

(15 +10 marks)

62. (a) "Vouching is backbone of auditing." In the light of this statement discuss the importance of vouching.

(10 marks)

(b) What do you mean by Test Check in Auditing? State what precautions should be taken in this connection.

(15 Marks)

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