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CA FOUNDATION

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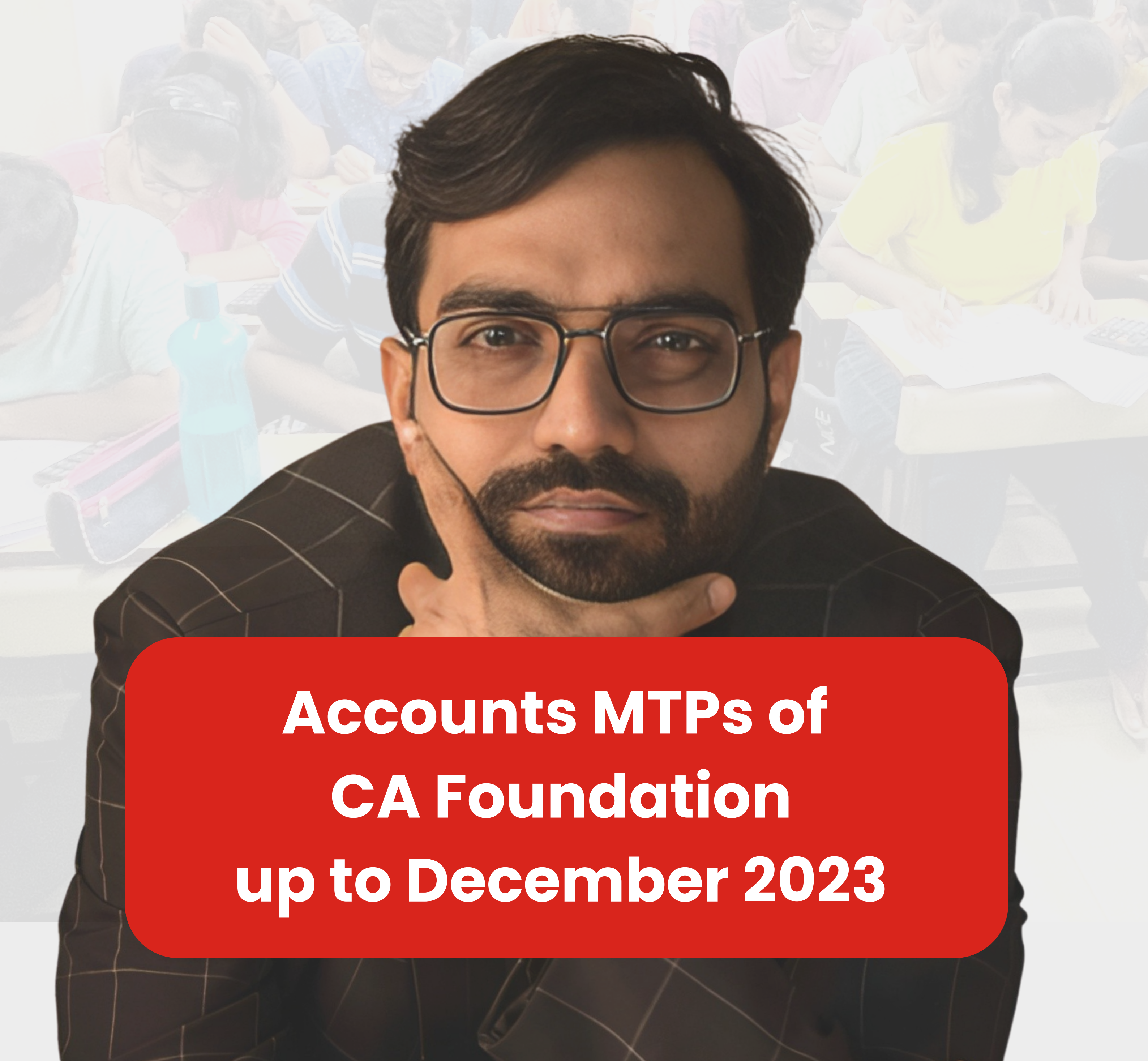

Accounts MTPs of CA Foundation up to December 2023

CA CS CMA NIRAJ AGARWAL

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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)

(c) Calculate the missing amount for the following.

	Assets	Liabilities	Capital
(a)	30,00,000	5,00,000	?
(b)	?	3,00,000	1,50,000
(c)	29,00,000	?	27,50,000
(d)	1,14,00,000	(5,60,000)	?

(4 Marks)

2. (a) The M/s LG Transport purchased 10 trucks at Rs. 45,00,000 each on 1st April 2014. On October 1st, 2016, one of the trucks is involved in an accident and is completely destroyed andRs. 27,00,000 is received from the insurance in full settlement. On the same date, another truck is purchased by the company for the sum of Rs. 50,00,000. The company write off 20% on the original cost per annum. The company follows the calendar year as its financial year. You are required to prepare the motor truck account for two year ending 31 Dec, 2017.

(b) On 30th September, 2017, the bank account of Neel, according to the bank column of the Cash-Book, was overdrawn to the extent of Rs. 8,124. On the same date the bank statement showed a debit balance of Rs. 41,516 in favour of Neel. An examination of the Cash Book and Bank. Statement reveals the following:

1. A cheque for Rs. 26,28,000 deposited on 29th September, 2017 was credited by the bank only on 3rd October, 2017
2. A payment by cheque for Rs. 32,000 has been entered twice in the Cash Book.
3. On 29th September, 2017, the bank credited an amount of Rs. 2,34,800 received from a customer of Neel, but the advice was not received by Neel until 1st October, 2017.
4. Bank charges amounting to Rs. 1,160 had not been entered in the Cash Book.
5. On 6th September, 2017, the bank credited Rs. 40,000 to Neel in error.
6. A bill of exchange for Rs. 2,80,000 was discounted by Neel with his bank. This bill was dishonoured on 28th September, 2017 but no entry had been made in the books of Neel.
7. Cheques issued upto 30th September, 2017 but not presented for payment upto that date totalled Rs. 26,52,000.

You are required :

(a) to show the appropriate rectifications required in the Cash Book of Neel, to arrive at the correct balance on 30th September, 2017 and

(b) to prepare a bank reconciliation statement as on that date.

(10 Marks +10 Marks= 20 Marks)

3. (a) Gagan of Mumbai consigns 2,000 cases of goods costing Rs. 1,000 each to Kumar of Chennai. Gagan pays the following expenses in connection with consignment:

	Rs.
Carriage	20,000
Freight	60,000
Loading charges	20,000

Kumar sells 1,400 cases at Rs. 1,400 per case and incurs the following expenses:

Clearing charges	17,000
Warehousing and storage	34,000
Packing and selling expenses	12,000

It is found that 100 cases have been lost in transit and 200 cases are still in transit.

Kumar is entitled to a commission of 10% on gross sales. You are required to prepare the Consignment Account and Kumar's Account in the books of Gagan.

(b) A and B entered into a joint venture agreement to share the profits and losses in the ratio of 2:1. A supplied goods worth Rs. 60,000 to B incurring expenses amounting to Rs. 2,000 for freight and insurance. During transit goods costing Rs. 5,000 became damaged (having no residual value) and a sum of

Rs. 3,000 was recovered from the insurance company. B reported that 90% of the remaining goods were sold at a profit of 30% of their original cost. Towards the end of the venture, a fire occurred and as a result the balance Inventories lying unsold with B was damaged. The goods were not insured and B agreed to compensate A by paying in cash 80% of the aggregate of the original cost of such goods plus proportionate expenses incurred by A. Apart from the share of profit of the joint venture, B was also entitled under the agreement to a commission of 5% of net profits of joint venture after charging such commission. Selling expenses incurred by B totalled Rs. 1,000. B had earlier remitted an advance of Rs. 10,000. B duly paid the balance due to A byBank Draft.

You are required to prepare the following accounts in A's books:

(i) Joint Venture Account and

(ii) B's Account. **(10 + 10 = 20 Marks)**

4. Laurel and Hardy are partners of the firm LH & Co., from 1.4.2013. Initially both of them contributed Rs. 1,00,000 each as capital. They did not contribute any capital thereafter. They maintain accounts of the firm on mercantile basis. They were sharing profits and losses in the ratio of 5:4. After the accounts for the year ended 31.3.2017 were finalized, the partners decided to share profits and losses equally with effect from 1.4.2013.

It was also discovered that in ascertaining the results in the earlier years certain adjustments, details of which are given below, had not been noted.

Year ended 31st March	2014	2015	2016	2017
	Rs.	Rs.	Rs.	Rs.
Profit as per accounts prepared and finalized	1,40,000	2,60,000	3,20,000	3,60,000
Expenses not provided for (as at 31st March)	30,000	20,000	36,000	24,000
Incomes not taken into account (as at 31st March)	18,000	15,000	12,000	21,000

The partners decided to admit Chaplin as a partner with effect from 1.4.2017. It was decided that Chaplin would be allotted 20% share in the firm and he must bring 20% of the combined capital of Laurel and Hardy.

Following is the Balance sheet of the firm as on 31.3.2017 before admission of Chaplin and before adjustment of revised profits between Laurel and Hardy.

Balance Sheet of LH & Co. as at 31.3.2017

Liabilities	Rs.	Assets	Rs.
Capital Accounts:		Plant and machinery	60,000
Laurel	2,11,500	Cash on hand	10,000
Hardy	1,51,500	Cash at bank	5,000
Trade Payables	2,27,000	Stock in trade	3,10,000
		Trade Receivables	2,05,000
	5,90,000		5,90,000

You are required to prepare:

(i) Profit and Loss Adjustment account;

(ii) Capital accounts of the partners; and

(iii) Balance Sheet of the firm after the admission of Chaplin. **(20 Marks)**

5. (a) Smith Library Society showed the following position on 31st March, 2017:

Balance Sheet as on 31st March, 2017

Liabilities	Rs.	Assets	Rs.
Capital fund	7,93,000	Electrical fittings	1,50,000
Expenses payable	7,000	Furniture	50,000
		Books	4,00,000
		Investment in securities	1,50,000
		Cash at bank	25,000
		Cash in hand	25,000
	8,00,000		8,00,000

The receipts and payment account for the year ended on 31st March, 2018 is given below:

	Rs.		Rs.
To Balance b/d		By Electric charges	7,200
Cash at bank 25,000		By Postage and stationary	5,000
Cash in hand 25,000	50,000	By Telephone charges	5,000
To Entrance fee	30,000	By Books purchased	60,000
To Membership subscription	2,00,000	By Outstanding expenses paid	7,000
To Sale proceeds of old papers	1,500	By Rent	88,000
To Hire of lecture hall	20,000	By Investment in securities	40,000
To Interest on securities.	8,000	By Salaries	66,000
		By Balance c/d	
		Cash at bank	20,000
		Cash in hand	11,300
	3,09,500		3,09,500

You are required to prepare income and expenditure account for the year ended 31st March, 2018 after making the following adjustments:

Membership subscription included Rs. 10,000 received in advance.

Provide for outstanding rent Rs. 4,000 and salaries Rs. 3,000.

Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.

75% of the entrance fees is to be capitalized.

Interest on securities is to be calculated @ 5% p.a. including purchases made on 1.10. 2017 for Rs. 40,000.

(b) (i)

Share capital	18,00,000
Preference shareholders	10,00,000
10% debentures	4,00,000
Loan from bank	24,00,000
Reserves	8,00,000

You are required to compute the Capital Gearing Ratio.

(ii) From the following information, calculate inventory turnover ratio:

Inventory in the beginning	108,000	Inventory at the end	1,32,000
Net purchases	2,76,000	Carriage inwards	24,000
Wages	84,000		

(12 + 4+4 = 20 Marks)

6. (a) On 1st June, 2017, Suraj Ltd. issued 86,000 shares of Rs. 100 each payable as follows:

Rs. 20 on application;

Rs. 20 on allotment;

First call of Rs. 30 on 1st Dec, 2017; and

Second and final call of Rs. 30 on 1st March, 2018.

By 20th July, 80,000 shares were applied for and all applications were accepted. Allotment was made on 1st Aug. All sums due on allotment were received on 15th Sept; those on 1st call were received on 20th Dec.

You are required to journalise the transactions when accounts were closed on 31st March, 2018.

(10 Marks)

(b) Pihu Ltd. issued 50,00,000, 9% debentures of Rs. 100 each at a discount of 10% redeemable at par at the end of 10th year. Money was payable as follows :

Rs. 40 on application

Rs. 50 on allotment

Record necessary journal entries regarding issue of debenture. **(5 Marks)**

(c) Explain in brief objectives of preparing Trial Balance.

Or

What are the rules of posting of journal entries into the Ledger? Explain in brief. **(5 Marks)**

Test Series: August, 2018

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.

(c) Using the Accounting Equation:

Assets = Capital + Liabilities

(i) 25,00,000

(ii) 4,50,000

(iii) 1,50,000

(iv) 1,19,60,000

2. (a) **Motor Truck A/c**

Date	Particulars	Amount	Date	Particulars	Amount
2016			**2016**		
Jan-01	To balance b/d	2,92,50,000	Oct-01	By bank A/c	27,00,000
Oct-01	To Profit & Loss A/c (Profit on settlement of Truck)	4,50,000	Oct-01	By Depreciation on lost assets	6,75,000
Oct-01	To Bank A/c	50,00,000	Dec-31	By Depreciation A/c	83,50,000
			Dec-31	By balance c/d	2,29,75,000
		3,47,00,000			**3,47,00,000**
2017			**2017**		
Jan-01	To balance b/d	2,29,75,000	Dec-31	By Depreciation A/c	91,00,000
			Dec-31	By balance c/d	1,38,75,000
		2,29,75,000			**2,29,75,000**

Working Note:

To find out loss on Profit on settlement of truck

Original cost as on 1.4.2014	45,00,000
Less: Depreciation for 2014	6,75,000
	38,25,000
Less: Depreciation for 2015	9,00,000
	29,25,000
Less: Depreciation for 2016 (9 months)	6,75,000
	22,50,000
Less: Amount received from Insurance company	27,00,000
	4,50,000

(b) (i) **Cash Book (Bank Column)**

Date	Particulars	Amount	Date	Particulars	Amount
2017		Rs.	**2017**		

Sept. 30	To Party A/c	32,000	Sept. 30	By Balance b/d	8,124
	To Customer A/c (Direct deposit)	2,34,800		By Bank charges	1,160
	To Balance c/d	22,484		By Customer A/c (B/R dishonoured)	2,80,000
		2,89,284			2,89,284

(ii) Bank Reconciliation Statement as on 30th September, 2017

2

Particulars	**Amount**
	Rs.
Overdraft as per Cash Book	22,484
Add: Cheque deposited but not collected upto 30th Sept., 2017	26,28,000
	26,50,484
Less: Cheques issued but not presented for payment upto 30th Sept., 2017	(26,52,000)
Credit by Bank erroneously on 6th Sept.	(40,000)
Overdraft as per bank statement	41,516

Note: Bank has credited Neel by 40,000 in error on 6th September, 2017. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with Rs. 26,52,000 resulting in debit balance of Rs. 1,516 as per pass-book.

3. (a) In the books of Gagan

Consignment to Kumar of Chennai Account

Particulars	Rs.	**Particulars**		Rs.
To Goods sent on Consignment	20,00,000	By Kumar (Sales)		19,60,000
		By Loss in Transit 100 cases @ Rs. 1,050 each		1,05,000
To Bank (Expenses)	1,00,000	By Consignment Inventories		
To Kumar (Expenses)	63,000	In hand 300 @ Rs. 1,060 each	3,18,000	
To Kumar (Commission)	1,96,000	In transit 200 @ Rs. 1,050 each	2,10,000	5,28,000
To Profit on Consignment to Profit & Loss A/c	2,34,000			
	25,93,000			25,93,000

Kumar's Account

Particulars	Rs.	**Particulars**	Rs.
To Consignment to Chennai A/c	19,60,000	By Consignment A/c	

		(Expenses)	63,000
		By Consignment A/c	-
		(Commission)	1,96,000
		By Balance c/d	17,01,000
	19,60,000		19,60,000

Working Notes:

(i) Consignor's expenses on 2,000 cases amounts to Rs. 1,00,000; it comes to Rs. 50 per case. The cost of cases lost will be computed at Rs. 1,050 per case.

(ii) Kumar has incurred Rs. 17,000 on clearing 1,700 cases, i.e., Rs. 10 per case; while valuing closing inventories with the agent Rs. 10 per case has been added to cases in hand with the agent.

(iii) It has been assumed that balance of Rs. 17,01,000 is not yet paid.

(b) **In the books of A**

Joint Venture Account

Particulars	**Amount (Rs.)**	**Particulars**	**Amount (Rs.)**
To Purchases (Cost of goods supplied)	60,000	By Bank (Insurance claim)	3,000
To Bank (Expenses)	2,000	By B (Sales)	64,350
To B (Expenses)	1,000	By B (agreed value for damaged goods)	4,546
To B (Commission - 1/21 of Rs. 8,896)	424		
To Profit transferred to:			
Profit & Loss A/c	5,648		
B	2,824		
	71,896		71,896

B's Account

Particulars	**Amount (Rs.)**	**Particulars**	**Amount (Rs.)**
To Joint Venture A/c (Sales)	64,350	By Bank (Advance)	10,000
		By Joint Venture A/c (Expenses)	1,000
To Joint Venture A/c (Claim Portion)	4,546	By Joint Venture A/c (Commission)	424
		By Joint Venture A/c (Share of Profit)	2,824
		By Bank (Balance received)	54,648
	68,896		68,896

Working Note:

Computation of Sales:

	Rs.
Cost of goods sent	60,000
Less: Cost of damaged goods	(5,000)
	55,000
Less: Cost of goods remaining unsold	(5,500)
Cost of goods sold	49,500
Add: Profit @ 30%	14,850
Sales	64,350
Claim for loss of fire admitted by B	
Cost of goods	5,500
Add: Proportionate expenses [(2,000 x 5,500)/60,000]	183
	5,683
Less: 20%	(1,137)
	4,546

4. (i) **Profit and Loss Adjustment Account***

	Rs.		Rs.
To Expenses not provided for (years 2014-2017)	1,10,000	By Income not considered (for years 2014-2017)	66,000
		By Partners' capital accounts (loss)	
		Laurel	22,000
		Hardy	22,000
	1,10,000		1,10,000

(ii) **Partners' Capital Accounts**

	Laurel Rs.	Hardy Rs.	Chaplin Rs.		Laurel Rs.	Hardy Rs.	Chaplin Rs.
To P & L Adjustment A/c	22,000	22,000	-	By Balance b/d	2,11,500	1,51,500	-
To Hardy	60,000			By Laurel	-	60,000	-
To Balance c/d	1,29,500	1,89,500	63,800	By Cash	-	-	63,800
	2,11,500	2,11,500	63,800		2,11,500	2,11,500	63,800
				By Balance b/d	1,29,500	1,89,500	63,800

(iii) **Balance Sheet of LH & Co.**

as on 1.4.2017

(After admission of Chaplin)

Working Notes:

Liabilities	Rs.	Assets	Rs.
Capital accounts:		Plant and machinery	60,000
Laurel	1,29,500	Trade receivables	2,05,000
Hardy	1,89,500	Stock in trade	3,10,000
Chaplin	63,800	Accrued income	66,000
Trade payables	2,27,000	Cash on hand (10,000 + 63,800)	73,800
Outstanding expenses	1,10,000	Cash at bank	5,000
	7,19,800		7,19,800

1. Computation of Profit and Loss distributed among partners

		Rs.
Profit for the year ended	31.3.2014	1,40,000
	31.3.2015	2,60,000
	31.3.2016	3,20,000
	31.3.2017	3,60,000
Total Profit		10,80,000

* It is assumed that expenses and incomes not taken into account in earlier years were fully ignored.

	Laurel	Hardy	Total
	Rs.	Rs.	Rs.
Profit shared in old ratio i.e 5:4	6,00,000	4,80,000	10,80,000
Profit to be shared as per new ratio i.e. 1:1	5,40,000	5,40,000	10,80,000
Excess share	60,000		
Deficit share		(60,000)	

Laurel to be debited by Rs. 60,000 and Hardy to be credited by Rs. 60,000.

2. Capital brought in by Chaplin

	Rs.
Capital to be brought in by Chaplin must be equal to 20% of the combined capital of Laurel and Hardy	
Capital of Laurel (2,11,500 – 22,000 – 60,000)	1,29,500
Capital of Hardy (1,51,500 – 22,000 + 60,000)	1,89,500
Combined Capital	3,19,000

20% of the combined capital brought in by Chaplin (20% of Rs. 3,19,000)	63,800

5. (a) **Smith Library Society**

Income and Expenditure Account
for the year ended 31st March, 2018

Dr.					Cr.
Expenditure	Rs.	Rs.	Income		Rs.
To Electric charges		7,200	By Entrance fee (25% of Rs. 30,000)		7,500
To Postage and stationary		5,000			
To Telephone charges		5,000	By Membership subscription	2,00,000	
To Rent	88,000		Less: Received in advance	10,000	1,90,000
Add: Outstanding	4,000	92,000			
To Salaries	66,000		By Sale proceeds of old papers		1,500
Add: Outstanding	3,000	69,000			
To Depreciation (W.N.1)			By Hire of lecture hall		20,000
Electrical fittings	15,000		By Interest on securities (W.N.2)	8,000	
Furniture	5,000				
Books	46,000	66,000	Add: Receivable	500	8,500
			By Deficit- excess of expenditure over income		16,700
		2,44,200			2,44,200

Working Notes:

1. Depreciation

	Rs.
Electrical fittings 10% of Rs. 1,50,000	15,000
Furniture 10% of Rs. 50,000	5,000
Books 10% of Rs. 4,60,000	46,000

2. Interest on Securities

Interest @ 5% p.a. on Rs. 1,50,000 for full year	7,500	
Interest @ 5% p.a. on Rs. 40,000 for half year	1,000	8,500
Less: Received		(8,000)
Receivable		500

(b) (i) Capital Gearing Ratio $= \dfrac{\text{(Preference Share Capital + Debentures + Other Borrowed funds)}}{\text{(Equity Share Capital + Reserves \& Surplus - Losses)}}$

$$= \frac{10,00,000 + 4,00,000 + 24,00,000}{18,00,000 + 8,00,000}$$

= 38, 00,000/26, 00,000

= 19: 13 (highly geared)

(ii) **Inventory Turnover Ratio** = Cost of goods sold/ Average Inventory

Inventory Turnover Ratio = Rs. 3,60,000/ Rs. 1,20,000

= 3 Times

Working notes:

1. Cost of goods sold= Inventory in the beginning + Net Purchases + Wages + Carriage inwards – Inventory at the end

   = Rs. 1,08,000 + Rs. 2,76,000 + Rs. 84,000 + Rs. 24,000 – Rs. 1,32,000

   = Rs. 3,60,000

2. Average Inventory = (Inventory in the beginning + Inventory at the end)/ 2

   = (Rs. 1,08,000 + Rs. 1,32,000)/ 2

   = Rs. 1,20,000

6. (a) **Suraj Ltd.**

Journal

2017			Dr. Rs.	Cr. Rs.
July 20	Bank Account	Dr.	16,00,000	
	To Share Application A/c			16,00,000
	(Application money on 80,000 shares at Rs. 20 per share received.)			
Aug 1	Share Application A/c	Dr.	16,00,000	
	To Share Capital A/c			16,00,000
	(The amount transferred to Capital Account on 80,000 shares Rs. 20 on application. Directors' resolution no........ dated)			
	Share Allotment A/c	Dr.	16,00,000	
	To Share Capital A/c			16,00,000
	(Being share allotment made due at Rs. 20 per share. Directors' resolution no...... dated .....)			
Sept15	Bank Account	Dr.	16,00,000	
	To Share Allotment A/c			16,00,000
	(The sums due on allotment received.)			
Dec. 1	Share First Call Account	Dr.	24,00,000	
	To Share Capital Account			24,00,000
	(Amount due from members in respect of first call-on 80,000 shares at Rs. 30 as per Directors, resolution no... dated...)			

Dec. 20	Bank Account	Dr.	24,00,000	
	To Share First Call Account			24,00,000
	(Receipt of the amounts due on first call.)			
2018				
March 1	Share Second and Final Call A/c	Dr.	24,00,000	
	To Share Capital A/c			24,00,000
	(Amount due on 80,000 share at Rs. 30 per share on second and final call, as per Directors resolution no... dated...)			
March 31	Bank Account	Dr.	24,00,000	
	To Share Second & Final Call A/c			24,00,000
	(Amount received against the final call on 80,000 shares at Rs. 30 per share.)			

(b) **Books of Pihu Ltd.**

Journal

Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
Bank A/c	Dr.	20,00,00,000	
To Debenture Application A/c			20,00,00,000
(Debenture application money received)			
Debenture Application A/c	Dr.	20,00,00,000	
To 9% Debentures A/c			20,00,00,000
(Application money transferred to 9% debentures account consequent upon allotment)			
Debenture allotment A/c	Dr.	25,00,00,000	
Discount on issue of debentures A/c	Dr.	5,00,00,000	
To 9% Debentures A/c			30,00,00,000
(Amount due on allotment)			
Bank A/c	Dr.	25,00,00,000	
To Debenture Allotment A/c			25,00,00,000
(Money received consequent upon allotment)			

(c) The preparation of trial balance has the following objectives:

1 **Checking of the arithmetical accuracy of the accounting entries:** Trial Balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish the arithmetical

accuracy of the books.

2. **Basis for preparation of financial statements:** Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarized form for a particular period. In case, the Trial Balance is not prepared, it will be almost impossible to prepare the financial statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.

3. **Summarized ledger:** Trial Balance contains the ledger balances on a particular position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required.

Or

Rules regarding posting of entries in the ledger

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective account accordingly.
2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger.
3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

Test Series: March, 2018

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)***

(c) From the following particulars, **prepare** a Bank Reconciliation Statement for Pathak Ltd. As on 31.3.2017

(1) Balance as per cash book is ` 1,20,000.

(2) Cheques issued but not presented in the bank amounts to ` 68,000.

(3) Bank charges amounts to ` 300.

(4) Interest credited by bank amounts to ` 1,500. ***(4 Marks)***

2. (a) **Prepare** a Petty Cash Book on the Imprest System from the following:

2017		`
April 1	Received ` 20,000 for petty cash	
" 2	Paid auto fare	500

“	3	Paid cartage	2,500
“	4	Paid for Postage & Telegrams	500

“	5	Paid wages	600
“	5	Paid for stationery	400
“	6	Paid for the repairs to machinery	1,500
“	6	Bus fare	100
“	7	Cartage	400
“	7	Postage and Telegrams	700
“	8	Cartage	3,000
“	9	Stationery	2,000
“	10	Sundry expenses	5,000

(b) M/s Kedar, Profit and loss account showed a net profit of ₹ 8,00,000, after considering the closingstock of ₹ 7,50,000 on 31st March, 2017. Subsequently the following information was obtained from scrutiny of the books:

(i) Purchases for the year included ₹ 30,000 paid for new electric fittings for the shop.

(ii) M/s Kedar gave away goods valued at ₹ 80,000 as free samples for which no entry was made in the books of accounts.

(iii) Invoices for goods amounting to ₹ 5,00,000 have been entered on 27th March, 2017, but the goods were not included in stock.

(iv) In March, 2017 goods of ₹ 4,00,000 sold and delivered were taken in the sales for April, 2017.

(v) Goods costing ₹ 1,50,000 were sent on sale or return in March, 2017 at a margin of profit of 33-1/3% on cost. Though approval was given in April, 2017 these were taken as sales for March, 2017.

You are required to **determine** the adjusted net profit for the year ended on 31.3.2017 and calculate the value of stock on 31st March, 2017. ***(10 Marks +10 Marks= 20 Marks)***

3 (a) Manoj of Noida consigned to Kiran of Jaipur, goods to be sold at invoice price which represents 125% of cost. Kiran is entitled to a commission of 10% on sales at invoice price and 25% of any excess realised over invoice price. The expenses on freight and insurance incurred by Manoj were ₹ 15,000. The account sales received by Manoj shows that Kiran has effected sales amounting to ₹ 1,50,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were ₹ 12,000. 10% of consignment goods of the value of ₹ 18,750 were destroyed in fire at the Jaipur godown. Kiran remitted the balance in favour of Manoj.

You are required to **prepare** consignment account in the books of Manoj along with the necessary calculations. ***(10 Marks)***

(b) A and B entered into a joint venture to buy and sell mobile sets, on 1st July, 2017.

On 1.7.2017, A sent a draft for ₹ 3,75,000 in favour of B, and on 4.7.2017, **the latter** purchased 200 sets each at a cost of ₹ 3,000 each. The sets were sent to A by lorry under freight “to pay” for ₹ 3,000 and were cleared by A on 15.7.2017.

A effected sales in the following manner:

Date	No. of sets	Sale price per set	Discount on sale price
16.7.2017	3	4,500	10%
31.7.2017	80	4,200	-
15.8.2017	80	4,050	5%

On 25.8.2017, A settled the account by sending a draft in favour of B, profits being shared equally. B does not maintain any books.

You are required to **prepare** in A's books:

(i) Joint Venture with B A/c; and

(ii) Memorandum Joint Venture A/c. ***(10 Marks)***

4. From the following data, **prepare** an Income and Expenditure Account for the year ended 31st December 2017, and Balance Sheet as at that date of the Jeevan Hospital:

Receipts and Payments Account for the year ended 31 December, 2017

	RECEIPTS	`			PAYMENTS		`
To	Balance b/d			By	Salaries:		
	Cash	800			(` 7,200 for 2016)		31,200
	Bank	5,200	6,000	By	Hospital Equipment		17,000
To	Subscriptions:			By	Furniture purchased		6,000
	For 2016		5,100	By	Additions to Building		50,000
	For 2017		24,500	By	Printing and Stationery		2,400
	For 2018		2,400				
To	Government Grant:			By	Diet expenses		15,600
	For building		80,000	By	Rent and rates		
	For maintenance		20,000		(` 300 for 2018)		2,000
	Fees from sundry			By	Electricity and water		
	Patients		4,800		charges		2,400
To	Donations (not to be		8,000	By	office expenses		2,000
	capitalized)			By	Investments		20,000
To	Net collections from			By	Balances:		
	benefit shows		6,000		Cash	1,400	
					Bank	6,800	8,200
			1,56,800				1,56,800

Additional information :	`
Value of building under construction as on 31.12.2017	1,40,000
Value of hospital equipment on 31.12.2017	51,000

Building Fund as on 1.1. 2017	80,000
Subscriptions in arrears as on 31.12.2016	6,500
Investments in 8% Govt. securities were made on 1st July, 2017.	

(20 Marks)

5 (a) The following is the Balance Sheet of M/s. LMN Bros as at 31st December, 2017, they share profit equally: Balance Sheet as at 31st December, 2017

Liabilities		`	**Assets**		`
Capital	L	8,200	Machinery		10,000
	M	8,200	Furniture		5,600
	N	9,000	Fixture		4,200
General Reserve		3,000	Cash		3,000
Trade payables		4,700	Inventories		1,900
			Trade receivables	9,000	
			Less: Provision for Doubtful debts	<u>600</u>	8,400
		33,100			33,100

N died on 3rd January, 2018 and the following agreement was to be put into effect.

(a) Assets were to be revalued: Machinery to ` 11,700; Furniture to ` 4,600; Inventory to` 1,500.

(b) Goodwill was valued at ` 6,000 and was to be credited with his share, without using a Goodwill Account

(c) ` 2,000 was to be paid away to the executors of the dead partner on 5th January, 2018.

(d) After death of N, L and M share profit equally.

You are required to prepare:

(i) Journal Entry for Goodwill adjustment.

(ii) Revaluation Account and Capital Accounts of the partners.

(b) The following information of Hari Ltd. as on Dec 31st 2017 is given as below:

Equity and Liabilities			**Assets**	`
Shareholder's Funds		1,12,500	Current Assets	1,50 ,000
Current Liabilities	1,50,000		Fixed Assets	2,25,000
Long Term Liabilities	<u>1,12,500</u>	<u>2,62,500</u>		
		<u>3,75,000</u>		<u>3,75,000</u>

Net sales	5,62,500
Interest Expense	6,000
Net Profit	39,375

On Dec 31st 2016, Total Assets were `3,00,000 and the tax rate is 40%.

You are required to **compute** the following ratios of Hari Ltd. as on Dec. 31st 2017.

(i) Long Term Debt to Total Assets Ratio

(ii) Net Profit Ratio

(iii) Return on Average Total Assets

(iv) Return on Equity

(v) Net Sales to Total Assets. ***(10 + 10 = 20 Marks)***

6. (a) Mohan Ltd. invited applications for 15 lakhs shares of ` 100 each payable as follows :

	`
On Application	20
On Allotment (on 1st June, 2017)	30
On First Call (on 1st Nov., 2017)	30
On Final Call (on 1st March., 2018)	20

All the shares were applied for and allotted. A shareholder holding 30,000 shares paid the whole of the amount due along with allotment.

You are required to **prepare** the journal entries for the above-mentioned transactions, assuming all sums due were received. Interest was paid to the shareholder concerned on 1st March, 2018.

(10 Marks)

(b) Pihu Ltd. issued 300 lakh 8% debentures of `100 each at a discount of 6%, redeemable at a premium of 5% after 3 years payable as : ` 50 on application and ` 44 on allotment.

You are required to **prepare** the necessary journal entries for issue of debentures. ***(5 Marks)***

(c) **Explain** the differences between:

Money measurement concept and Matching Concept

Or

Going concern and Cost concept. ***(5 Marks)***

Test Series: March, 2018

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.

(c) **Pathak Ltd.**

Bank Reconciliation Statement as on 31.3.2017

Particulars	`

Balance as per cash book	1,20,000
Add : Cheque issued but not presented	68,000
Interest credited	1,500
	1,89,500
Less : Bank charges	(300)
Balance as per pass book	1,89,200

2. (a) **PETTY CASH BOOK**

Receipts `	Date 2017	V. No.	Particulars	Total `	Con-veyance `	Cartage `	Statio-nery `	Postage & Telegrams `	Wages `	Sundries `
20,000	April1		To Cash							
	2	1	By Conveyance	500	500					
	3	2	By Cartage	2,500		2,500				
	4	3	By Postage and Telegrams	500				500		
	5	4	By Wages	600					600	
	5	5	By Stationery	400			400			
	6	6	By Repairs to machine	1,500						1,500
	6	7	By Conveyance	100	100					
	7	8	By Cartage	400		400				
	7	9	By Postage and Telegrams	700				700		
	8	10	By Cartage	3,000		3,000				
	9	11	By Stationery	2,000			2,000			
	10	12	By Sundry Expenses	5,000						5,000
				17,200	600	5,900	2,400	1,200	600	6,500
			By Balance c/d	2,800						
20,000				20,000						
2800			To Balance b/d							
17,200	11		To Cash							

(b) **Profit and Loss Adjustment Account**

	`		`
To Advertisement (samples)	80,000	By Net profit	8,00,000
To Sales	2,00,000	By Electric fittings	30,000
(goods approved in April to be taken as April sales)		By Samples	80,000
To Adjusted net profit	16,80,000	By Stock (Purchases of March not included in stock)	5,00,000
		By Sales (goods sold in March wrongly taken as April sales)	4,00,000

		By Stock (goods sent on approval basis not included in stock)	1,50,000
	19,60,000		19,60,000

Calculation of value of inventory on 31st March, 2017

	`
Stock on 31st March, 2017 (given)	7,50,000
Add: Purchases of March, 2017 not included in the stock	5,00,000
Goods lying with customers on approval basis	1,50,000
	14,00,000

3. (a) Books of Manoj

Consignment to Jaipur Account

Particulars	`	***Particulars***	`
To Goods sent on Consignment A/c	1,87,500	By Goods sent on Consignment A/c (loading)	37,500
To Cash A/c	15,000	By Abnormal Loss	16,500
To Kiran(Expenses)	12,000	By Kiran(Sales)	1,50,000
To Kiran(Commission)	16,406	By Inventories on Consignment A/c	30,375
To Inventories Reserve A/c	5,625	By General Profit & Loss A/c	2,156
	2,36,531		2,36,531

Working Notes:

1. **Calculation of value of goods sent on consignment:**

Abnormal Loss at Invoice price = ` 18,750

Abnormal Loss as a percentage of total consignment = 10%.

Hence the value of goods sent on consignment = ` 18,750 X 100/ 10 = ` 1,87,500

Loading of goods sent on consignment = ` 1,87,500 X 25/125 = ` 37,500

2. **Calculation of abnormal loss (10%):**

Abnormal Loss at Invoice price = ` 18,750.

Abnormal Loss at cost = ` 18,750 X 100/125 = ` 15,000

Add: Proportionate expenses of Manoj (10 % of ` 15,000) = ` 1,500

` 16,500

3. Calculation of closing Inventories (15%):

Manoj's Basic Invoice price of consignment= ` 1,87,500

Manoj's expenses on consignment = ` 15,000

` 2,02,500

Value of closing Inventories = 15% of ` 2,02,500= ` 30,375

Loading in closing Inventories = ` 37,500 x 15/100= ` 5,625

Where ` 28,125 (15% of ` 1,87,500) is the basic invoice price of the goods sent on consignment remaining unsold.

4. Calculation of commission:

Invoice price of the goods sold = 75% of ` 1,87,500 = ` 1,40,625

Excess of selling price over invoice price = ` 9,375 ( ` 1,50,000 - ` 1,40,625)

Total commission = 10% of ` 1,40,625 + 25% of ` 9,375

= ` 14,062.5 + ` 2,343.75

= ` 16,406

(b) **A's Books**

Joint Venture with B A/c

2017	Particulars	Amount (`)	2017	Particulars	Amount (`)
July 1	To Bank - draft sent on A/c	3,75,000	July 16	By Bank-sale proceeds	1,21,500
July 15	To Bank - freight	3,000	July 31	By Bank-sale proceeds	3,36,000
Aug 25	To Profit and Loss A/c share of profit	81,150	Aug 14	By Bank-sale proceeds	3,07,800
	To Bank - draft sent in settlement	3,06,150			
		7,65,300			7,65,300

Memorandum Joint Venture A/c

Particulars		Amount (`)	Particulars	Amount (`)
To Cost of 200 sets		6,00,000	By Sales proceeds (net)	
To Freight		3,000	30 sets @ ` 4,050 net	1,21,500
To Profit :			80 sets @ ` 4,200 net	3,36,000
A	81,150		80 sets @ ` 3,847.5 net	3,07,800
B	81,150	1,62,300		
		7,65,300		7,65,300

4. **Jeevan Hospital**

Income & Expenditure Account
for the year ended 31 December, 2017

Expenditure	(`)	Income	(`)
To Salaries	24,000	By Subscriptions	24,500
To Diet expenses	15,600	By Govt. Grants (Maintenance)	20,000
To Rent & Rates	1,700	By Fees, Sundry Patients	4,800
To Printing & Stationery	2,400	By Donations	8,000
To Electricity & Water-charges	2,400	By Benefit shows (net collections)	6,000
To Office expenses	2,000	By Interest on Investments	800
To Excess of Income over expenditure transferred to Capital Fund	16,000		
	64,100		64,100

Balance Sheet as at 31st Dec., 2017

Liabilities	`	`	Assets	`	`
Capital Fund :			Building :		
Opening balance	49,300		Opening balance	90,000	
Excess of Income			Addition	50,000	1,40,000
Over Expenditure	16,000	65,300	Hospital Equipment :		
Building Fund :			Opening balance	34,000	
Opening balance	80,000		Addition	17,000	51,000
Add : Govt. Grant	80,000	1,60,000	Furniture		6,000
Subscriptions			Investments-		
received in advance		2,400	8% Govt. Securities		20,000
			Subscriptions receivable		1,400
			Accrued interest		800
			Prepaid expenses (Rent)		300
			Cash at Bank		6,800
			Cash in hand		1,400
		2,27,700			2,27,700

Working Notes:

(1) Balance sheet as at 31st Dec., 2017

Liabilities	`	Assets	`
Capital Fund		Building	90,000
(Balancing Figure)	49,300	Equipment	34,000
Building Fund	80,000	Subscription Receivable	6,500
Creditors for Expenses :		Cash at Bank	5,200
Salaries payable	7,200	Cash in hand	800
	1,36,500		1,36,500

(2) Value of Building	`
Balance on 31st Dec. 2017	1,40,000
Paid during the year	50,000
Balance on 31st Dec. 2016	90,000
(3) Value of Equipment	
Balance on 31st Dec. 2017	51,000
Paid during the year	(17,000)
Balance on 31st Dec. 2016	34,000
(4) Subscription due for 2016	
Receivable on 31st Dec. 2016	6,500
Received in 2017	5,100
Still Receivable for 2016	1,400

5. (a) (i) Journal Entry in the books of the M/s LMN

Date	Particulars		Dr. `	Cr. `
Jan 3 2018	L's Capital A/c	Dr.	1,000	
	M's Capital A/c	Dr.	1,000	
	To N's Capital A/c			2,000
	(Being the required adjustment for goodwill through partner's capital accounts)			

(ii) Revaluation Account

Dr. Particulars	`	Particulars	Cr. `
To Furniture A/c (` 5,600 – 4,600)	1,000	By Machinery A/c (` 11,700 - 10,000)	1,700
To Inventory A/c (` 1,900 – 1,500)	400		
To Partners' Capital A/cs (L - ` 100, M - ` 100, N - ` 100)	300		
	1,700		1,700

Partners' Capital Accounts

	L	M	N		L	M	N
To N (Goodwill)	1,000	1,000	–	By Balance b/d	8,200	8,200	9,000
To Cash A/c	–	–	2,000	By General Reserve A/c	1,000	1,000	1,000
To Executors A/c	–	–	10,100	By Revaluation A/c (Profit)	100	100	100
To Balance C/d	8,300	8,300	–	By L (Goodwill)	–	–	1000
				By M (Goodwill)	–	–	1000
	9,300	9,300	12,100		9,300	9,300	12,100

Working Note:

Statement showing the Required Adjustment for Goodwill

Particulars	L	M	N
Right of goodwill before death	1/3	1/3	1/3
Right of goodwill after death	1/2	1/2	–
Gain / (Sacrifice)	(+) 1/6	(+) 1/6	(-) 1/3

(b) Long Term Debt to Total assets $= \dfrac{\text{Long Term Debt}}{\text{Total Assets}}$

$$= \frac{1{,}12{,}500}{3{,}75{,}000}$$

$$= 1:3.33$$

(i) Net Profit Ratio $= \dfrac{\text{Net Profit} \times 100}{\text{Net Sales}}$

100

$$= \frac{39{,}375 \times 100}{5{,}62{,}500}$$

$$= 7\%$$

(ii) Return on Average Total Assets Ratio $= \dfrac{\text{Net Profit} + \text{Interest}(1-t) \times 100}{\text{Average Total Assets}}$

$$= \frac{39{,}375 + 6{,}000(1-0.40) \times 100}{(3{,}00{,}000 + 3{,}75{,}000) / 2}$$

$$= \frac{42{,}975 \times 100}{3{,}37{,}500}$$

$$= 12.73\%$$

(iii) Return on Equity $= \dfrac{\text{Net Profit} \times 100}{\text{Shareholders' Funds}}$

$= \dfrac{39{,}375 \times 100}{1{,}12{,}500}$

= 35%

(iv) Net Sales to Total Assets Ratio $= \dfrac{\text{Net Profit}}{\text{Total Assets}}$

$= \dfrac{5{,}62{,}500}{3{,}37{,}500}$

= 1.67: 1

6. (a) **Journal of Mohan Ltd.**

2017			Dr. ` in lakhs	Cr. ` in lakhs
June 1	Bank A/c	Dr.	300	
	To Shares Application A/c			300
	(Receipt of applications for 15 lakh shares along with application money of ` 20 per share.)			
June 1	Share Application and Allotment A/c	Dr.	300	
	Share Allotment A/c	Dr.	450	
	To Share Capital A/c			750
	(The allotment of 15 lakh shares : payable on application ` 20 share and ` 30 on allotment as per Directors' resolution no... dated...)			
June 1	Bank A/c	Dr.	465	
	To Shares Allotment A/c			450
	To Calls in Advance A/c			15
	[Receipt of money due on allotment @ ` 30, also the two calls (` 30 and ` 20) on 30,000 shares.]			
Nov. 1	Share First Call A/c	Dr.	450	
	To Share Capital A/c			450
	(The amount due on 15 lakh shares @ ` 30 on first call, as per Directors, resolution no... dated...)			
	Bank A/c	Dr.	441	
	Calls in Advance A/c	Dr.	9	
	To Share First Call A/c			450
	(Receipt of the first call on 14.7 lakh shares, the balance having been previously received and now debited to call in advance account.)			
2018 March 1	Share Final Call A/c	Dr.	300	

	To Share Capital A/c (The amount due on Final Call on 15 lakh shares @ ` 20 per share, as per Directors' resolution no... dated...)			300

March1	Bank A/c Calls in Advance A/c To Share Final Call A/c (Receipt of the moneys due on final call on 14.7 lakhs shares, the balance having been previously received.)	Dr. Dr.	294 6	 300
March 1	Interest on calls in Advance A/c To Shareholder A/c (Being interest on call in advance made due)	Dr.	0.99	 0.99
Feb 1	Shareholder A/c To Bank A/c (Being interest paid)	Dr.	0.99	 0.99

Working Note:

The interest on calls in advance paid @ 12% on :	`
` 9,00,000 (first call) from 1st June to 1st Nov., 2017–5 months	45,000
` 6,00,000 (final call) from 1st June to 1st March., 2018–9 months	54,000
Total Interest Amount Due	99,000

(b) **Books of Pihu Ltd.**

Journal Entries

Date	*Particulars*	*L.F.*	*Debit Amount* (`' Lakhs)	*Credit Amount* (`' Lakhs)
	Bank A/c To Debenture Application A/c (Debentures application money received)	Dr.	15,000	 15,000
	Debenture Application A/c To 8% Debentures A/c (Application money transferred to 8% debentures account)	Dr.	15,000	 15,000
	Debenture Allotment A/c Loss on issue of debenture A/c To 8% Debentures A/c To Debenture redemption premium A/c	Dr. Dr.	13,200 3,300	 15,000 1,500

	(Call made consequent upon allotment of debentures issued at discount and redeemable at premium)			
	Bank A/c To Debenture Allotment A/c (Allotment amount received)	Dr.	13,200	 13,200

Working Notes :

Loss on issue of debentures =

(Amount of discount on issue + Premium payable on redemption) x No. of Debentures

= (6% of `100 + 5% of `100) x 300 lakh

= (` 6 + ` 5) x 300 lakh

= ` 3,300 lakh

(c) Difference between Money measurement concept and matching concept

As per **Money Measurement concept**, only those transactions, which can be measured in terms of money are recorded. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money be only to be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

In **Matching concept**, all expenses matched with the revenue of that period should only be takeninto consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.

Or

Difference between Going Concern Concept and Cost Concept

***Going Concern concept*:** The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed.

The valuation of assets of a business entity is dependent on this assumption. Traditionally, accountants follow historical cost in majority of the cases.

Cost Concept

By this concept, the value of an asset is to be determined on the basis of historical cost, in other words, acquisition cost. Although there are various measurement bases, accountants traditionally prefer this concept in the interests of objectivity. When a machine is acquired by paying ` 5,00,000, following cost concept the value of the machine is taken as ` 5,00,000. It is highly objective and free from all bias. Other measurement bases are not so objective. Current cost of an asset is not easily determinable. If the asset is purchased on 1.1.1995 and such model is not available in the market, it becomes difficult to determine which model is the appropriate equivalent to the existing one. Similarly, unless the machine is actually sold, realisable value will give only a hypothetical figure. Lastly, present value base is highly subjective because to know the value of the asset one has to chase the uncertain future.

Test Series: October, 2018

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)***

(c) Classify the following errors under the three categories – Errors of Omission, Errors of Commission and Errors of Principle.

(i) Sale of furniture credited to Sales Account.

(ii) Purchase worth Rs. 500 from M not recored in subsidiary books.

(iii) Credit sale wrongly passed through the Purchase Book.

(iv) Machinery sold on credit to Mohan recored in Journal Proper but omitted to be posted.

(v) Goods worth Rs. 5000 purchased on credit from Ram recorded in the Purchase Book as

Rs. 500. ***(4 Marks)***

2 (a) M/s Ram took lease of a quarry on 1-1-2016 for Rs. 2,00,00,000. As per technical estimate the total quantity of mineral deposit is 4,00,000 tonnes. Depreciation was charged on the basis of depletion method. Extraction pattern is given in the following table:

Year	Quantity of Mineral extracted
2016	4,000 tonnes
2017	20,000 tonnes
2018	30,000 tonnes

Required

Show the Quarry Lease Account and Depreciation Account for each year from 2016 to 2018.

(b) Physical verification of stock in a business was done on 23rd June, 2018. The value of the stock was Rs. 48,00,000. The following transactions took place between 23rd June to 30th June, 2018:

(i) Out of the goods sent on consignment, goods at cost worth Rs. 2,40,000 were unsold.

(ii) Purchases of Rs. 4,00,000 were made out of which goods worth Rs. 1,60,000 were delivered on 5th July, 2018.

(iii) Sales were Rs. 13,60,000, which include goods worth Rs. 3,20,000 sent on approval. Half of these goods were returned before 30th June, 2018, but no information is available regarding the remaining goods.

(iv) Goods are sold at cost plus 25%. However goods costing Rs. 2,40,000 had been sold for Rs. 1,20,000.

You are required to determine the value of stock on 30th June, 2018.

(10 Marks +10 Marks = 20 Marks)

3 (a) From the following details calculate the average due date:

Date of Bill	Amount (Rs.)	Usance of Bill
28th January, 2018	5,000	1 month
20th March, 2018	4,000	2 months
12th July, 2018	7,000	1 month
10th August, 2018	6,000	2 months

(5 Marks)

(b) Deepak and Om enter into a joint venture to take a building contract for Rs. 12,00,000. They provide the following information regarding the expenditure incurred by them:

	Deepak Rs.	Om Rs.
Materials	3,40,000	2,50,000
Cement	65,000	85,000
Wages	-	1,35,000
Architect's fees	50,000	-
License fees	-	25,000

Plant	-	1,00,000

Plant was valued at ` 50,000 at the end of the contract and Om agreed to take it at that value. Contract amount ` 12,00,000 was received by Deepak. Profits or losses to be shared equally. You are asked to show:

(i) Joint Venture Account and Om's Account in the books of Deepak.

(ii) Joint Venture Account and Deepak's Account in the books of Om.. ***(15 Marks)***

4. (a) The Balance Sheet of Amitabh, Abhishek and Amrish as at 31.12.2017 stood as follows:

Liabilities		Amount	Assets		Amount
		Rs.			Rs.
Capital:			Land & Buildings		74,000
Amitabh	60,000		Investments		10,000
Abhishek	40,000		Advertisement suspense		37,800
Amrish	40,000	1,40,000	Life Policy (at surrender value):		
Creditors		25,800	Amitabh		2,500
General Reserve		8,000	Abhishek		2,500
Investment Fluctuation			Amrish		1,000
Reserve		2,400	Stock		20,000
			Debtors	20,000	
			Less: Provision for doubtful debts	(1,600)	18,400
			Cash & bank balance		10,000
		1,76,200			1,76,200

Amrish died on 31 March, 2018, due to this reason the following adjustments were agreed upon:

(i) Land and Buildings be appreciated by 50%.

(ii) Investment be valued at 6% less than the cost.

(iii) All debtors (except 20% which are considered as doubtful) were good.

(vi) Stock to be reduced to 94%.

(v) Goodwill to be valued at 1 year's purchase of the average profits of the past five years.

(vi) Amrish's share of profit to the date of death be calculated on the basis of average profits of the three completed years immediately preceeding the year of death.

The profits of the last five years are as follows:

Year	Rs.
2013	23,000
2014	28,000

2015	18,000
2016	16,000
2017	20,000
	1,05,000

The life policies have been shown at their surrender values representing 10% of the sum assured in each case. The annual premium of Rs.1,000 is payable every year on 1st August.

You are required to pass necessary Journal Entries in the books of account of the reconstituted firm.

(b) The following information of M/s. TT Club are related for the year ended 31st March, 2018:

(1)

Balances	As on 01-04-2017 (Rs.)	As on 31-3-2018 (Rs.)
Stock of Sports Material	75,000	1,12,500
Amount due for Sports Material	67,500	97,500
Subscription due	11,250	16,500
Subscription received in advance	9,000	5,250

(2) Subscription received during the year Rs. 3,75,000

(3) Payments for Sports Material during the year Rs. 2,25,000

You are required to:

(A) Ascertain the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2018 and

(B) Also show how these items would appear in the Balance Sheet as on 31.03.2018.

(12 + 8 =20 Marks)

5 (a) The trial balance of Kumar as at 31st December, 2017 is as follows:

	Dr.	Cr.
	Rs.	Rs.
Kumar's capital account	-	38,345
Stock 1st January, 2017	23,400	-
Sales	-	1,94,800
Returns inward	4,300	-
Purchases	1,60,850	-
Returns outward	-	2,900
Carriage inwards	9,800	-
Rent & taxes	2,350	-
Salaries & wages	4,650	-
Sundry debtors	12,000	-

Sundry creditors	-	7,400
Bank loan @ 14% p.a.	-	10,000
Bank interest	550	-
Printing and stationary expenses	7,200	-
Bank balance	4,000	-
Discount earned	-	2,220
Furniture & fittings	2,500	-
Discount allowed	900	-
General expenses	5,725	-
Insurance	650	-
Postage & telegram expenses	1,165	-
Cash balance	190	-
Travelling expenses	435	-
Drawings	15,000	-
	2,55,665	2,55,665

The following adjustments are to be made:

(1) Provision for bad and doubtful debts be created at 5% and for discount @ 2% on sundry debtors.

(2) Personal purchases of Kumar amounting to Rs. 300 had been recorded in the purchases day book.

(3) Depreciation on furniture & fittings @ 10% shall be written off.

(4) Included amongst the debtors is Rs. 1,500 due from Dyal and included among the creditors Rs. 500 due to him.

(5) A quarter of the amount of printing and stationary expenses is to be carried forward to the next year.

(6) Credit purchase invoice amounting to Rs. 200 had been omitted from the books.

(7) Stock on 31.12.2017 was Rs. 39,300.

(8) Interest on bank loan shall be provided for the whole year.

You are required to prepare Trading & profit and loss account for the year ended 31.12.2017.

(b) With the help of the following information complete the Balance Sheet of MNOP Ltd.:

Equity share capital	Rs. 1,00,000
The relevant ratios of the company are as follows:	
Current debt to total debt	0.40
Total debt to owner's equity	0.60
Fixed assets to owner's equity	0.60
Total assets turnover	2 Times
Inventory turnover	8 Times

(12 + 8= 20 Marks)

6. (a) On 1st April, 2017, A Ltd. issued 43,000 shares of Rs. 100 each payable as follows: Rs. 20 on application;

Rs. 30 on allotment;

Rs. 25 on 1st October, 2017; and

Rs. 25 on 1st February, 2018.

By 20th May, 40,000 shares were applied for and all applications were accepted. Allotment was made on 1st June. All sums due on allotment were received on 15th July; those on 1st call were received on 20th October. Journalise the transactions when accounts were closed on 31st March, 2018. ***(10 Marks)***

(b) Simmons Ltd. issued 1,00,000, 12% Debentures of Rs.100 each at par payable in full on application by 1st April, Application were received for 1,10,000 Debentures. Debentures were allotted on 7th April. Excess money refunded on the same date.

You are required to pass necessary Journal Entries (including cash transactions) in the books of the company. ***(5 Marks)***

(c) State the causes of difference between the balance shown by the pass book and the cash book.

OR

Which subsidiary books are normally used in a business? ***(5 Marks)***

Test Series: October, 2018

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 capitalof 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 fix ed 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.

(c) (i) Error of Principle.

(ii) Error of Omission.

(iii) Error of Commission.

(iv) Error of Omission.

(v) Error of Commission

2. (a) **Quarry Lease Account**

Dr.					**Cr.**
2016		**Rs.**	**2016**		**Rs.**

Jan.	To Bank A/c	2,00,00,000	Dec. 31	By Depreciation A/c [(4,000/4,00,000) × Rs. 2,00,00,000]	2,00,000
			Dec. 31	By Balance c/d	1,98,00,000
		2,00,00,000			2,00,00,000
2017			2017		
Jan. 1	To Balance b/d	1,98,00,000	Dec. 31	By Depreciation A/c	10,00,000
			Dec. 31	By Balance c/d	1,88,00,000
		1,98,00,000			1,98,00,000
2018			2018		
Jan. 1	To Balance b/d	1,88,00,000	Dec. 31	By Depreciation A/c	15,00,000
			Dec. 31	By Balance c/d	1,73,00,000
		1,88,00,000			1,88,00,000

Depreciation Account

Dr. 2016		Rs.	2016		Cr. Rs.
Dec. 31	To Quarry lease A/c	2,00,000	Dec. 31	By Profit & Loss A/c	2,00,000
		2,00,000			2,00,000
2017			2017		
Dec. 31	To Quarry lease A/c	10,00,000	Dec. 31	By Profit & Loss A/c	10,00,000
		10,00,000			10,00,000
2018			2018		
Dec. 31	To Quarry lease A/c	15,00,000	Dec. 31	By Profit & Loss A/c	15,00,000
		15,00,000			15,00,000

(b) Statement of Valuation of Stock on 30th June, 2018

			Rs.
Value of stock as on 23rd June, 2018			48,00,000
Add:	Unsold stock out of the goods sent on consignment	2,40,000	
	Purchases during the period from 23rd June, 2018 to 30th June, 2018	2,40,000	
	Goods in transit on 30th June, 2018	1,60,000	
	Cost of goods sent on approval basis (80% of Rs. 1,60,000)	1,28,000	7,68,000

			55,68,000
Less: Cost of sales during the period from 23rd June, 2018 to 30th June, 2018			
	Sales (Rs. 13,60,000-Rs. 1,60,000)	12,00,000	
	Less: Gross profit	96,000	
			11,04,000
Value of stock as on 30th June, 2018			44,64,000

Working Notes:

		Rs.	Rs.
1.	**Calculation of normal sales:**		
	Actual sales		13,60,000
	Less: Abnormal sales	1,20,000	
	Return of goods sent on approval	1,60,000	2,80,000 10,80,000
2.	**Calculation of gross profit:**		
	Gross profit or normal sales 20/100 x Rs. 10,80,000		2,16,000
	Less: Loss on sale of particular (abnormal) goods (2,40,000 less 1,20,000)		1,20,000
	Gross profit		96,000

3. (a) Calculation of Average Due Date

(Taking 3rd March, 2018 as base date)

Date of bill 2018	*Term*	*Due date 2018*	*Amount (Rs.)*	*No. of days from the base date i.e. 3rd March,2018 (Rs.)*	*Product (Rs.)*
28th January	1 month	3rd March	5,000	0	0
20th March	2 months	23rd May	4,000	81	3,24,000
12th July	1month	14th Aug.	7,000	164	11,48,000
10th August	2 months	13th Oct.	6,000	224	13,44,000
			22,000		28,16,000

$$\text{Average due date} = \text{Base date + Days equal to } \frac{\text{Sum of Products}}{\text{Sum of Amounts}}$$

$$= \text{3rd March, 2018} + \frac{28,16,000}{22,000}$$

$$= \text{3rd March, 2018 + 128 days = 9th July, 2018}$$

Working Note:

Bill dated 12th July, 2018 has the maturity period of one month, due date (after adding 3 days of grace) falls on 15th August, 2018. 15th August being public holiday, due date would be preceding date i.e. 14th August, 2018.

(b) **In the books of Deepak**

Joint Venture Account

Particulars		Amount (`)	Particulars	Amount (`)
To Bank A/c:			By Bank A/c	12,00,000
Material	3,40,000		By Om's A/c (plant)	50,000
Cement	65,000			
Architect's fee	50,000	4,55,000		
To Om's A/c:	-			
Material	2,50,000			
Cement	85,000			
Wages	1,35,000			
License fees	25,000			
Plant	1,00,000	5,95,000		
To Net profit transferred to:	-			
Om's A/c	1,00,000			
Profit & Loss A/c	1,00,000	2,00,000		
		12,50,000		12,50,000

Om's Account

Particulars	Amount (`)	Particulars	Amount (`)
To Joint Venture A/c (plant)	50,000	By Joint Venture A/c (sundries)	5,95,000
To Bank A/c	6,45,000	By Joint Venture A/c (profit)	1,00,000
	6,95,000		6,95,000

In the books of Om

Joint Venture Account

Particulars	`	Amount (`)	Particulars	Amount (`)

To Deepak's A/c:			By Deepak's A/c (contract amount)	12,00,000
Material	3,40,000		By Plant A/c	50,000
Cement	65,000			
Architect's fee	50,000	4,55,000		
To Bank A/c:	-			
Material	2,50,000			
Cement	85,000			
Wages	1,35,000			
License fees	25,000			
Plant	1,00,000	5,95,000		
To Net profit transferred to:				
Deepak's A/c	1,00,000			
Profit & Loss A/c	100,000	2,00,000		
		12,50,000		12,50,000

Dr. **Deepak's Account** ***Cr.***

Particulars	Amount (`)	Particulars	Amount (`)
To Joint Venture A/c (contract amount)	12,00,000	By Joint Venture A/c (sundries)	4,55,000
		By Joint Venture A/c (profit)	1,00,000
		By Bank A/c	6,45,000
	12,00,000		12,00,000

4. (a) **Journal Entries**

Particulars		*Amount*	*Amount*
1. Insurance Company's A/c	Dr.	10,000	
To Life Policy A/c			10,000
(Being the policy on the life of Amrish matured on his death)			

2.	Life Policy A/c	Dr.	9,000	
	To Amitabh's Capital A/c			3,000
	To Abhishek's Capital A/c			3,000
	To Amrish's Capital A/c			3,000
	(Being the transfer of balance in life policy account to all partners' capital accounts)			
3.	Amitabh's Capital A/c	Dr.	12,600	
	Abhishek's Capital A/c	Dr.	12,600	
	Amrish's Capital A/c	Dr.	12,600	
	To Advertisement suspense A/c			37,800
	(Being Advertisement suspense standing in the books written off fully)			
4.	Land & Buildings A/c	Dr.	37,000	
	To Revaluation A/c			37,000
	(Being an increase in the value of assets recorded)			
5.	Investment Fluctuation Reserve A/c	Dr.	600	
	To Investment A/c			600
	(Being reduction in the cost of investment adjusted through Investment Fluctuation Reserve)			
6.	Revaluation A/c	Dr.	3,600	
	To Stock A/c			1,200
	To Provision for Doubtful Debts A/c			2,400
	(Being the fall in value of assets recorded)			
7.	Amitabh's Capital A/c	Dr.	3,500	
	Abhishek's Capital A/c	Dr.	3,500	
	To Amrish's Capital A/c			7,000
	(Being the share of Amrish's revalued goodwill adjusted through capital accounts of the remaining partners)			
8.	Profit & Loss Suspense Account	Dr.	1,500	
	To Amrish's Capital A/c			1,500
	(Being Amrish's Share of profit to date of death credited to his account)			
9.	Revaluation A/c	Dr.	33,400	
	To Amitabh's Capital A/c			11,133
	To Abhishek's Capital A/c			11,133

To Amrish's Capital A/c			11,134•
(Being the transfer of profit on revaluation)			
10. General Reserve A/c	Dr.	8,000	
Investment Fluctuation Reserve A/c (Rs. 2,400 - Rs. 600)	Dr.	1,800	
To Amitabh's Capital A/c			3,267
To Abhishek's Capital A/c			3,267
To Amrish's Capital A/c			3,266
(Being the transfer of accumulated profits to capital accounts)			
11. Amrish's Capital A/c	Dr.	53,300	
To Amrish's Executor's A/c			53,300
(Being the transfer of Amrish's Capital A/c to his Executor's A/c)			

Working Notes:

(i) Calculation of Amrish's Share of Profit

Total profit for last three years	Rs. 18,000 + Rs. 16,000 + Rs. 20,000 = Rs. 54,000
Average profit 54,000/3	= Rs. 18,000
Profit for 3 months = 18,000 x 3/12	= Rs. 4,500
Amrish's share of Profit = 4,500 x 1/3	= Rs. 1,500

• Rounded off.

(ii) Calculation of Goodwill

Total profits for last five years	Rs. 1,05,000
Average profit 1,05,000/5	= Rs. 21,000
Goodwill at one year's purchase	Rs. 21,000 x 1 =Rs. 21,000

(b) Subscription for the year ended 31.3.2018

		Rs.
Subscription received during the year		3,75,000
Less: Subscription receivable on 1.4.2017	11,250	
Less: Subscription received in advance on 31.3.2018	5,250	(16,500)
		3,58,500
Add: Subscription receivable on 31.3.2018	16,500	
Add: Subscription received in advance on 1.4.2017	9,000	25,500
Amount of Subscription appearing in Income & Expenditure Account		3,84,000

Sports material consumed during the year end 31.3.2018

	Rs.
Payment for Sports material	2,25,000
Less: Amounts due for sports material on 1.4.2017	(67,500)
	1,57,500
Add: Amounts due for sports material on 31.3.2018	97,500
Purchase of sports material	2,55,000
Sports material consumed:	
Stock of sports material on 1.4.2017	75,000
Add: *Purchase of sports material during the year*	2,55,000
	3,30,000
Less: *Stock of sports material on 31.3.2018*	(1,12,500)
Amount of Sports Material appearing in Income & Expenditure Account	2,17,500

Balance Sheet of M/s TT Club For the year ended 31st March, 2018(An extract)

Liabilities	*Rs.*	*Assets*	*Rs.*
Unearned Subscription	5,250	Subscription receivable	16,500
Amount due for sports material	97,500	Stock of sports material	1,12,500

5. (a) Trading and Profit and Loss Account of Mr. Kumar

for the year ended 31st December, 2017

	Rs.	Rs.		Rs.	Rs.
To Opening stock		23,400	By Sales	1,94,800	
To Purchases	1,60,850		*Less:* Returns	4,300	1,90,500
Add: Omitted	200		By Closing stock		39,300
invoice	1,61,050				
Less: Returns	2,900				
	1,58,150				
Less: Drawings	300	1,57,850			
To Freight & carriage		9,800			
To Gross profit c/d		38,750			
		2,29,800			2,29,800
To Rent and taxes		2,350	By Gross profit b/d		38,750
To Salaries and wages		4,650	By Discount		2,220
To Bank interest	550				
Add: Due	850	1,400			
To Printing and stationary	7,200				
Less: Prepaid (1/4)	1,800	5,400			
To Discount allowed		900			
To General expenses		5,725			
To Insurance		650			

To Postage & telegram expenses		1,165			
To Travelling expenses		435			
To Provision for bad debts		575			
[W.N.]					
To Provision for discount on debtors [W.N.]		219			
To Depreciation on furniture & fittings		250			
To Net profit		17,251			
		40,970			40,970

Working Note:

Provision for bad & doubtful debts:

@ 5% on Rs. 11,500 — 575

Provision for discount:

2% on Rs. 10,925 (11,500 -575) — 219

(b) MNOP Ltd Balance Sheet

Liabilities	Rs.	Assets	Rs.
Owner equity	1,00,000	Fixed assets	60,000
Current debt	24,000	Cash	60,000
Long term debt	36,000	Inventory	40,000
	1,60,000		1,60,000

Working Notes

1. Total debt = 0.60 × Owners equity = 0.60 × Rs. 1,00,000 = Rs. 60,000

   Current debt to total debt = 0.40, hence current debt = 0.40 × 60,000 = 24,000

2. Fixed assets = 0.60 × Owners equity = 0.60 × Rs. 1,00,000 = Rs. 60,000

3. Total capital employed = Total debt + Owners equity = Rs. 60,000 + Rs. 1,00,000 = Rs. 1,60,000

4. Total assets consisting of fixed assets and current assets must be equal toRs. 1,60,000 (Assets = Liabilities + Owners equity). Since Fixed assets areRs. 60,000, hence, current assets should be Rs. 1,00,000

5. Total assets turnover / Inventory turnover =2 Times/8 Times

   Hence , Inventory /Total assets = 2/8=1/4,

   Total assets = 1,60,000

   Therefore Inventory = 1,60,000/4 = 40,000

   Balance on Asset side = 1,20,000:

   Cash = 1,60,000 – 60,000 – 40,000 = 60,000

6. (a) **A Ltd.**

Journal

2017			*Dr.* Rs.	*Cr.* Rs.
May 20	Bank Account To Share Application A/c (Application money on 40,000 shares at Rs. 20 per share received.)	Dr.	8,00,000	8,00,000
June 1	Share Application A/c To Share Capital A/c (The amount transferred to Capital Account on 40,000 shares Rs. 20 on application. Directors' resolution no........ dated.........)	Dr.	8,00,000	8,00,000
	Share Allotment A/c To Share Capital A/c (Being share allotment made due at Rs. 30 per share. Directors' resolution no........dated......)	Dr.	12,00,000	12,00,000
July 15	Bank Account To Share Application and Allotment A/c (The sums due on allotment received.)	Dr.	12,00,000	12,00,000
Oct. 1	Share First Call Account To Share Capital Account (Amount due from members in respect of first call-on 40,000 shares at Rs. 25 as per Directors, resolution no... dated...)	Dr.	10,00,000	10,00,000
Oct. 20	Bank Account To Share First Call Account (Receipt of the amounts due on first call.)	Dr.	10,00,000	10,00,000
2018 Feb. 1	Share Second and Final Call A/c To Share Capital A/c (Amount due on 40,000 share at Rs. 25 per share on second and final call, as per Directors resolution no... dated...)	Dr.	10,00,000	10,00,000
Mar. 31	Bank Account To Share Second & Final Call A/c (Amount received against the final call on 40,000 shares at Rs.25 per share.)	Dr.	10,00,000	10,00,000

(b) In the books of Simmons Limited

Date	*Particulars*		*Rs. '000*	*Rs. '000*
April 1	Bank A/c	Dr.	11,000	

	To 12% Debentures Application A/c (Being money received on 1,10,000 debentures)			11,000
April 7	12% Debentures Application A/c To Bank A/c (Being money on 10,000 debentures refunded as per Board's Resolution No.....dated...)	Dr.	1,000	1,000
April 7	12% Debentures Application A/c To 12% Debentures A/c (Being the allotment of 1,00,000 debentures of Rs. 100 each at par, as per Board's Resolution No....dated...)	Dr.	10,000	10,000

(c) The difference between the balance shown by the passbook and the cashbook may arise on account of the following:

(i) Cheques issued but not yet presented for payment.

(ii) Cheques deposited into the bank but not yet cleared.

(iii) Interest allowed by the bank.

(iv) Interest and expenses charged by the bank.

(v) Interest and dividends collected by the bank.

(vi) Direct payments by the bank.

(vii) Direct deposits into the bank by a customer.

(viii) Dishonour of a bill discounted with the bank.

(ix) Bills collected by the bank on behalf of the customer.

(x) An error committed by the bank etc.

OR

(c) Normally, the following subsidiary books are used in a business:

(i) Cash book to record receipts and payments of cash, including receipts into and payments out of the bank.

(ii) Purchases book to record credit purchases of goods dealt in or of the materials and stores required in the factory.

(iii) Purchase Returns Books to record the returns of goods and materials previously purchased.

(iv) Sales Book to record the sales of the goods dealt in by the firm.

(v) Sale Returns Book to record the returns made by the customers.

(vi) Bills receivable books to record the receipts of promissory notes or hundies from various parties.

(vii) Bills Payable Book to record the issue of the promissory notes or hundies to other parties.

(viii) Journal (proper) to record the transactions which cannot be recorded in any of the seven books mentioned above.

Test Series: April, 2019

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)***

(c) A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15th April, 2018 on which date the total cost of goods in his godown came to Rs. 50,000. The following facts were established between 31st March and 15th April, 2018.

(i) Sales Rs. 41,000 (including cash sales Rs. 10,000)

(ii) Purchases Rs. 5,034 (including cash purchases Rs. 1,990)

(iii) Sales Return Rs. 1,000.

(iv) On 15th March, goods of the sale value of Rs. 10,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April, approving the rest; the customer was billed on 16th April.

Goods are sold by the trader at a profit of 20% on sales.

You are required to ascertain the value of Inventory as on 31st March, 2018. ***(4 Marks)***

2. (a) Prepare a Petty Cash Book on the Imprest System from the following:

2017			**Rs.**
April	1	Received Rs. 20,000 for petty cash	
"	2	Paid auto fare	500
"	3	Paid cartage	2,500
"	4	Paid for Postage & Telegrams	500
"	5	Paid wages	600
"	5	Paid for stationery	400
"	6	Paid for the repairs to machinery	1,500
"	6	Bus fare	100
"	7	Cartage	400
"	7	Postage and Telegrams	700
"	8	Cartage	3,000
"	9	Stationery	2,000
"	10	Sundry expenses	5,000

(b) On 30th Sept. 2018 my Cash Book (Bank Column of Account No. 1) shows a Bank Overdraft of Rs. 49,350. On going through the Bank Pass book for reconciling the Balance, I found the following:

(a) Out of cheques drawn on 26th Sept, those for Rs. 3,700 were cashed by the bankers on 2nd October.

(b) A crossed cheque for Rs. 750 given to Abdul was returned by him and a bearer cheque was issued to him in lieu on 1st Oct.

(c) Cash and cheques amounting to Rs. 3,400 were deposited in the Bank on 29th Sept., but cheques worth Rs. 1,300 were cleared by the Bank on 1st Oct., and one cheque for Rs. 250 was returned by them as dishonoured on the latter date.

(d) According to my standing instructions, the bankers have on 30th Sept, paid Rs. 320 as interest to my creditors, paid quarterly premium on mypolicyamounting to Rs. 160 and have paid a second call of Rs. 600 on shares held by me and lodged with the bankers for safe custody. They have also received Rs. 150 as dividend on my shares and recovered an Insurance Claim of Rs. 800, as their charges and commission on the above being Rs. 15. On receipt of information of the above transaction, I have passed necessaryentries in my Cash Book on 1st Oct.

(e) My bankers seem to have given me a wrong credit for Rs. 500 paid in by me in No. 2 account and wrong debit in respect of a cheque for Rs. 300 drawn against my No. 2 account.

Prepare a Bank Reconciliation Statement as on 30th September, 2018.

(10 Marks + 10 Marks= 20 Marks)

3 (a) Manoj of Noida consigned to Kiran of Jaipur, goods to be sold at invoice price which represents 125% of cost. Kiran is entitled to a commission of 10% on sales at invoice price and 25% of any excess

realised over invoice price. The expenses on freight and insurance incurred by Manoj were Rs. 15,000. The account sales received by Manoj shows that Kiran has effected sales amounting to Rs. 1,50,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were Rs. 12,000. 10% of consignment goods of the value of Rs. 18,750 were destroyed in fire at the Jaipur godown. Kiran remitted the balance in favour of Manoj.

You are required to prepare consignment account in the books of Manoj along with the necessary calculations. ***(10 Marks)***

(b) A and B entered into a joint venture to buy and sell mobile sets, on 1st July, 2017.

On 1.7.2017, A sent a draft for Rs. 3,75,000 in favour of B, and on 4.7.2017, the latter purchased 200 sets each at a cost of Rs. 3,000 each. The sets were sent to A by lorry under freight "to pay" for Rs. 3,000 and were cleared by A on 15.7.2017.

A effected sales in the following manner:

Date	**No. of sets**	**Sale price per set**	**Discount on sale price**
16.7.2017	3	4,500	10%
31.7.2017	80	4,200	-
15.8.2017	80	4,050	5%

On 25.8.2017, A settled the account by sending a draft in favour of B, profits being shared equally. B does not maintain any books.

You are required to prepare in A's books:

(i) Joint Venture with B A/c; and

(ii) Memorandum Joint Venture A/c. ***(10 Marks)***

4. Smith Library Society showed the following position on 31st March, 2018:

Balance Sheet as on 31st March, 2018

Liabilities	Rs.	Assets	Rs.
Capital fund	7,93,000	Electrical fittings	1,50,000
Expenses payable	7,000	Furniture	50,000
		Books	4,00,000
		Investment in securities	1,50,000
		Cash at bank	25,000
		Cash in hand	25,000
	8,00,000		8,00,000

The receipts and payment account for the year ended on 31st March, 2019 is given below:

	Rs.		Rs.
To Balance b/d		By Electric charges	7,200
Cash at bank 25,000		By Postage and stationary	5,000
Cash in hand 25,000	50,000	By Telephone charges	5,000
To Entrance fee	30,000	By Books purchased	60,000
To Membership subscription	2,00,000	By Outstanding expenses paid	7,000
To Sale proceeds of old papers	1,500	By Rent	88,000
To Hire of lecture hall	20,000	By Investment in securities	40,000

To Interest on securities.	8,000	By Salaries	66,000
		By Balance c/d	
		Cash at bank	20,000
		Cash in hand	11,300
	3,09,500		3,09,500

You are required to prepare income and expenditure account for the year ended 31 st March, 2019 and a balance sheet as at 31s, March, 2019 after making the following adjustments:

Membership subscription included Rs. 10,000 received in advance.

Provide for outstanding rent Rs. 4,000 and salaries Rs. 3,000.

Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.

75% of the entrance fees is to be capitalized.

Interest on securities is to be calculated @ 5% p.a. including purchases made on 1.10.2018 for Rs. 40,000. ***(20 Marks)***

5 (a) Neha & Co. is a partnership firm with partners Mr. P, Mr. Q and Mr. R, sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31st March, 2019 is as under:

Liabilities		**Rs.**	**Assets**	**Rs.**
Capitals:			Land	10,000
Mr. P	80,000		Buildings	2,00,000
Mr. Q	20,000		Plant and machinery	1,30,000
Mr. R	30,000	1,30,000	Furniture	43,000
Reserves			Investments	12,000
(un-appropriated profit)		20,000	Inventories	1,30,000
Long Term Debt		3,00,000	Trade receivables	1,39,000
Bank Overdraft		44,000		
Trade payables		1,70,000		
		6,64,000		6,64,000

It was mutually agreed that Mr. Q will retire from partnership and in his place Mr. T will be admitted as a partner with effect from 1st April, 2019. For this purpose, the following adjustments are to be made:

(a) Goodwill is to be valued at Rs.1 lakh but the same will not appear as an asset in the books of the reconstituted firm.

(b) Buildings and plant and machinery are to be depreciated by 5% and 20% respectively. Investments are to be taken over by the retiring partner at Rs.15,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.

(c) In the reconstituted firm, the total capital will be Rs. 2 lakhs which will be contributed by Mr.P, Mr. R and Mr. T in their new profit sharing ratio, which is 2:2:1.

(i) The surplus funds, if any, will be used for repaying bank overdraft.

(ii) The amount due to retiring partner shall be transferred to his loan account.

You are required to prepare

(a) Revaluation account;

(b) Partners' capital accounts;

(c) Bank account; and

(b) The following information of Hari Ltd. as on Dec 31st 2017 is given as below:

Equity and Liabilities			**Assets**	**Rs.**
Shareholder's Funds		1,12,500	Current Assets	1,50 ,000
Current Liabilities	1,50,000		Fixed Assets	2,25,000
Long Term Liabilities	1,12,500	2,62,500		
		3,75,000		3,75,000

Net sales	5,62,500
Interest Expense	6,000
Net Profit	39,375

On Dec 31st 2016, Total Assets were Rs.3,00,000 and the tax rate is 40%.

You are required to compute the following ratios of Hari Ltd. as on Dec. 31st 2017.

(i) Long Term Debt to Total Assets Ratio

(ii) Net Profit Ratio

(iii) Return on Average Total Assets

(iv) Return on Equity

(v) Net Sales to Total Assets. ***(10 + 10 = 20 Marks)***

6. (a) Abhijeet who was the holder of 4,000 preference shares of Rs. 100 each, on which Rs. 75 per share has been called up could not pay his dues on Allotment and First call each at Rs. 25 per share. The Directors forfeited the above shares and reissued 3,000 of such shares to Mr. X at Rs. 65 per share paid-up as Rs.75 per share.

You are required to prepare journal entries to record the above forfeiture and re-issue in the books of the company. ***(10 Marks)***

(b) Pihu Ltd. issued 300 lakh 8% debentures of Rs.100 each at a discount of 6%, redeemable at a premium of 5% after 3 years payable as : Rs. 50 on application and Rs. 44 on allotment.

You are required to prepare the necessary journal entries for issue of debentures. ***(5 Marks)***

(c) Explain the differences between Money measurement concept and Matching Concept

Or

Explain, in brief, the basic considerations for distinguishing between capital and revenue expenditures? ***(5 Marks)***

Test Series: April, 2019

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.

(c) **Statement of Valuation of Stock on 31st March, 2018**

		Rs.	Rs.
Value of stock as on 15th April, 2018			50,000
Add:	Cost of sales during the period from 31st March, 2018 to 15th April, 2018		
	Sales (Rs. 41,000 – Rs. 1,000)	40,000	
	Less: Gross Profit (20% of Rs. 40,000)	8,000	32,000
	Cost of goods sent on approval basis (80% of Rs. 6,000)		4,800
			86,800
Less:	Purchases during the period from 31st March, 2018 to 15th April, 2018		5,034
			81,766

2. **(a)** **PETTY CASH BOOK**

Receipts Rs.	Date 2017	V. No.	Particulars	Total Rs.	Con-veyance Rs.	Cartage Rs.	Statio-nery Rs.	Postage & Telegrams Rs.	Wages Rs.	Sundries Rs.
20,000	April1		To Cash							
	2	1	By Conveyance	500	500					
	3	2	By Cartage	2,500		2,500				
	4	3	By Postage and Telegrams	500				500		
	5	4	By Wages	600					600	
	5	5	By Stationery	400			400			
	6	6	By Repairs to machine	1,500						1,500
	6	7	By Conveyance	100	100					
	7	8	By Cartage	400		400				
	7	9	By Postage and Telegrams	700				700		
	8	10	By Cartage	3,000		3,000				
	9	11	By Stationery	2,000			2,000			
	10	12	By Sundry Expenses	5,000						5,000
				17,200	600	5,900	2,400	1,200	600	6,500
			By Balance c/d	2,800						
20,000				20,000						
2800			To Balance b/d							
17,200	11		To Cash							

(b)

Balance as per Cash Book				(49,350)
Add :	Cheques issued but not presented for payment		3,700	
	Crossed Cheque issued to Abdul not presented for payment		750	
	Amounts collected byBank on our behalf but not entered in the Cash Book			
	Dividend	150		
	Insurance claim	800		
		950		
	(-) Bank Commission	15	935	
	Amount paid in A/c No. 2 credited by the Bank wrongly to this A/c		500	5885
				(43,465)
Less :	Cheques deposited in the bank but no cleared (Rs. 1,300 + Rs. 250)		1550	
	Payments made by Bank on our behalf but not entered in the Cash Book			
	Interest	320		
	Premium	160		
	Second call	600	1,080	
	Cheques issued against A/c No. 2 but wrongly debited by the Bank to this A/c		300	(2,930)
	Overdraft as per Pass Book			46,395

3. (a) **Books of Manoj**

Consignment to Jaipur Account

Particulars	Rs.	***Particulars***	Rs.
To Goods sent on Consignment A/c	1,87,500	By Goods sent on Consignment A/c (loading)	37,500
To Cash A/c	15,000	By Abnormal Loss	16,500
To Kiran(Expenses)	12,000	By Kiran(Sales)	1,50,000
To Kiran(Commission)	16,406	By Inventories on Consignment A/c	30,375
To Inventories Reserve A/c	5,625	By General Profit & Loss A/c	2,156
	2,36,531		2,36,531

Working Notes:

1. **Calculation of value of goods sent on consignment:**

Abnormal Loss at Invoice price = Rs. 18,750

Abnormal Loss as a percentage of total consignment = 10%.

Hence the value of goods sent on consignment = Rs. 18,750 X 100/ 10 = Rs. 1,87,500

Loading of goods sent on consignment = Rs. 1,87,500 X 25/125 = Rs. 37,500

2. **Calculation of abnormal loss (10%):**

Abnormal Loss at Invoice price = Rs. 18,750.

Abnormal Loss at cost = Rs. 18,750 X 100/125 = Rs. 15,000

Add: Proportionate expenses of Manoj (10 % of Rs. 15,000) = Rs. 1,500

Rs. 16,500

3. **Calculation of closing Inventories (15%):**

Manoj's Basic Invoice price of consignment= Rs. 1,87,500

Manoj's expenses on consignment = Rs. 15,000

Rs. 2,02,500

Value of closing Inventories = 15% of Rs. 2,02,500= Rs. 30,375

Loading in closing Inventories = Rs. 37,500 x 15/100= Rs. 5,625

Where Rs. 28,125 (15% of Rs. 1,87,500) is the basic invoice price of the goods sent on consignment remaining unsold.

Calculation of commission:

Invoice price of the goods sold = 75% of Rs. 1,87,500 = Rs. 1,40,625

Excess of selling price over invoice price = Rs. 9,375 (Rs. 1,50,000 - Rs. 1,40,625)

Total commission = 10% of Rs. 1,40,625 + 25% of Rs. 9,375

= Rs. 14,062.5 + Rs. 2,343.75

= Rs. 16,406

(b) **A's Books**

Joint Venture with B A/c

2017	Particulars	Amount (Rs.)	2017	Particulars	Amount (Rs.)
July 1	To Bank - draft sent on A/c	3,75,000	July 16	By Bank-sale proceeds	1,21,500
July 15	To Bank - freight	3,000	July 31	By Bank-sale proceeds	3,36,000
Aug 25	To Profit and Loss A/c share of profit	81,150	Aug 14	By Bank-sale proceeds	3,07,800
	To Bank - draft sent in settlement	3,06,150			
		7,65,300			7,65,300

Memorandum Joint Venture A/c

Particulars		Amount (Rs.)	Particulars	Amount (Rs.)
To Cost of 200 sets		6,00,000	By Sales proceeds (net)	
To Freight		3,000	30 sets @ Rs. 4,050	1,21,500
To Profit :			80 sets @ Rs. 4,200	3,36,000
A	81,150		80 sets @ Rs. 3,847.5	3,07,800
B	81,150	1,62,300		
		7,65,300		7,65,300

4. **Smith Library Society**

Income and Expenditure Account for the year ended 31st March, 2019

Dr.					*Cr.*
Expenditure	*Rs.*	*Rs.*	*Income*		*Rs.*
To Electric charges		7,200	By Entrance fee (25% of Rs. 30,000)		7,500
To Postage and stationary		5,000			
To Telephone charges		5,000	By Membership subscription	2,00,000	
To Rent	88,000		*Less*: Received in advance	10,000	1,90,000
Add: Outstanding	4,000	92,000			
To Salaries	66,000		By Sale proceeds of old papers		1,500
Add: Outstanding	3,000	69,000	By Hire of lecture hall		
To Depreciation(W.N.1)					20,000
Electrical fittings	15,000		By Interest on securities	8,000	
Furniture	5,000		(W.N.2)		
Books	46,000	66,000	*Add*: Receivable	500	8,500
			By Deficit- excess of expenditure over income		16,700
		2,44,200			2,44,200

Balance Sheet of Smith Library Society as on 31st March, 2019

Liabilities	*Rs.*	*Rs.*	*Asset*	*Rs.*	*Rs.*
Capital fund	7,93,000		Electrical fittings	1,50,000	
Add: Entrance fees	22,500		*Less*: Depreciation	(15,000)	1,35,000
	8,15,500		Furniture	50,000	
Less: Excess of expenditure			*Less*: Depreciation	(5,000)	45,000
over income	(16,700)	7,98,800	Books	4,60,000	

Outstanding expenses:			*Less* Depreciation	(46,000)	4,14,000
Rent	4,000		Investment:		
Salaries	3,000	7,000	Securities	1,90,000	
Membership subscription in advance		10,000	Accrued interest	500	1,90,500
			Cash at bank		20,000
			Cash in hand		11,300
		8,15,800			8,15,800

Working Notes:

1. **Depreciation** ***Rs.***

Electrical fittings 10% of Rs. 1,50,000	15,000	
Furniture 10% of Rs. 50,000	5,000	
Books 10% of Rs. 4,60,000	46,000	

2. Interest on Securities

Interest @ 5% p.a. on Rs. 1,50,000 for full year	7,500	
Interest @ 5% p.a. on Rs. 40,000 for half year	1,000	8,500
Less: Received		(8,000)
Receivable		500

5. (a) **Revaluation Account**

	Rs.			Rs.
To Buildings A/c	10,000	By Investments A/c		3,000
To Plant and MachineryA/c	26,000	By Loss to Partners:		
To Provision for Doubtful Debts A/c	27,800	P	30,400	
		Q	18,240	
		R	12,160	60,800
	63,800			63,800

Capital Accounts of Partners

Particulars	***P***	***Q***	***R***	***T***	***Particulars***	***P***	***Q***	***R***	***T***
	Rs.	***Rs.***	***Rs.***	***Rs.***		***Rs.***	***Rs.***	***Rs.***	***Rs.***
To Revaluation A/c	30,400	18,240	12,160	-	By Balance b/d	80,000	20,000	30,000	-
To Investments A/c	-	15,000	-	-	By Reserves A/c	10,000	6,000	4,000	-
To Q's Loan A/c	-	22,760	-	-	By R and T's Capital A/c	10,000	30,000	-	-
To P and Q's Capital A/c			20,000	20,000	By Bank A/c (balancing figure)	10,400	-	78,160	60,000
To Balance c/d	80,000	-	80,000	40,000					
	1,10,400	56,000	1,12,160	60,000		1,10,400	56,000	1,12,160	60,000

Bank Account

	Rs.		Rs.
To P's capital A/c	10,400	By Bank Overdraft A/c	44,000
To R's capital A/c	78,160	By Balance c/d	1,04,560
To T's capital A/c	60,000		
	1,48,560		1,48,560

(b) Long Term Debt to Total assets $= \dfrac{\text{Long Term Debt}}{\text{Total Assets}}$

$$= \frac{1,12,500}{3,75,000}$$

$$= 1:3.33$$

(i) Net Profit Ratio $= \dfrac{\text{Net Profit} \times 100}{\text{Net Sales}}$

$$= \frac{39,375 \times 100}{5,62,500}$$

$$= 7\%$$

(ii) Return on Average Total Assets Ratio $= \dfrac{\text{Net Profit} + \text{Interest}(1-t) \times 100}{\text{Average Total Assets}}$

$$= \frac{39,375 + 6,000(1-0.40) \times 100}{(3,00,000 + 3,75,000)/2}$$

$$= \frac{42,975 \times 100}{3,37,500}$$

$$= 12.73\%$$

(iii) Return on Equity $= \dfrac{\text{Net Profit} \times 100}{\text{Shareholders' Funds}}$

$$= \frac{39,375 \times 100}{1,12,500}$$

$$= 35$$

6. (a)(iv) Net Sales to Total Assets Ratio = $\frac{\textbf{Net Profit}}{\text{Total Assets}}$

$= \frac{5,62,500}{3,37,500}$

= 1.67: 1

Journal		*Dr.* Rs.	*Cr.* Rs.
Preference Share Capital A/c (4,000 x Rs.75)	Dr.	3,00,000	
To Preference Share Allotment A/c			1,00,000
To Preference Share First Call A/c			1,00,000
To Forfeited Share A/c			1,00,000
(Being the forfeiture of 4,000 preference shares Rs.75 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated......)			
Bank A/c (3,000 x Rs.65)	Dr.	1,95,000	
Forfeited Shares A/c (3,000 x Rs.10)	Dr.	30,000	
To Preference Share Capital A/c			2,25,000
(Being re-issue of 3,000 shares at Rs. 65 per share paid-up as Rs. 75 as per Board's Resolution No.....dated....)			
Forfeited Shares A/c	Dr.	45,000	
To Capital Reserve A/c (Note 1)			45,000
(Being profit on re-issue transferred to Capital/Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =Rs. 1,00,000/4,000 = Rs. 25

Loss on re-issue =Rs. 75 – Rs. 65 = <u>Rs. 10</u>

Surplus per share re-issued <u>Rs. 15</u>

Transferred to capital Reserve Rs. 15 x 3,000 = Rs. 45,000.

(b) Books of Pihu Ltd.

Journal Entries

Date	*Particulars*	*L.F.*	*Debit Amount* (Rs.' Lakhs)	*Credit Amount* (Rs.' Lakhs)
	Bank A/c	Dr.	15,000	
	To Debenture Application A/c			15,000
	(Debentures application money received)			
	Debenture Application A/c	Dr.	15,000	
	To 8% Debentures A/c			15,000

	(Application money transferred to 8% debentures account)			
	Debenture Allotment A/c	Dr.	13,200	
	Loss on issue of debenture A/c	Dr.	3,300	
	To 8% Debentures A/c			15,000
	To Debenture redemption premium A/c			1,500
	(Call made consequent upon allotment of debentures issued at discount and redeemable at premium)			
	Bank A/c	Dr.	13,200	
	To Debenture Allotment A/c			13,200
	(Allotment amount received)			

Working Notes :

Loss on issue of debentures =

(Amount of discount on issue + Premium payable on redemption) x No. of Debentures

= (6% of Rs.100 + 5% of Rs.100) x 300 lakh

= (Rs. 6 + Rs. 5) x 300 lakh

= Rs. 3,300 lakh

(c) Difference between Money measurement concept and matching concept

As per **Money Measurement concept**, only those transactions, which can be measured in terms of money are recorded. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money be only to be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

In **Matching concept**, all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.

Or

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: 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)**

(c) Prepare Journal Entries for the following transactions in the books of Gamma Bros.

(i) Employees had taken stock worth Rs. 10,000 (Cost price Rs. 7,500) on the eve of Deepawali and the same was deducted from their salaries in the subsequent month.

(ii) Wages paid for erection of Machinery Rs. 8,000.

(iii) Income tax liability of proprietor Rs. 1,700 was paid out of petty cash.

(iv) Purchase of goods from Naveen of the list price of Rs. 2,000. He allowed 10% trade discount, Rs. 50 cash discount was also allowed for quick payment. **(4 Marks)**

2. (a) M/s Kedar, Profit and loss account showed a net profit of Rs. 8,00,000, after considering the closing stock of Rs. 7,50,000 on 31st March, 2017. Subsequently the following information was obtained from scrutiny of the books:

(i) Purchases for the year included Rs. 30,000 paid for new electric fittings for the shop.

(ii) M/s Kedar gave away goods valued at Rs. 80,000 as free samples for which no entry was made in the books of accounts.

(iii) Invoices for goods amounting to Rs. 5,00,000 have been entered on 27th March, 2017, but the goods were not included in stock.

(iv) In March, 2017 goods of Rs. 4,00,000 sold and delivered were taken in the sales for April, 2017.

(v) Goods costing Rs. 1,50,000 were sent on sale or return in March, 2017 at a margin of profit of 33-1/3% on cost. Though approval was given in April, 2017 these were taken as sales for March, 2017.

You are required to **determine** the adjusted net profit for the year ended on 31.3.2017 and calculate the value of stock on 31st March, 2017.

(b) The M/s LG Transport purchased 10 trucks at Rs. 45,00,000 each on 1st April 2014. On October 1st, 2016, one of the trucks is involved in an accident and is completely destroyed and Rs. 27,00,000 is received from the insurance in full settlement. On the same date, another truck is purchased by the company for the sum of Rs. 50,00,000. The companywrite off 20% on the original cost per annum. The company observe the calendar year as its financial year.

You are required to prepare the motor truck account for two year ending 31 Dec, 2017.

(10 Marks +10 Marks = 20 Marks)

3. (a) On 1st January, 2018, X's account in Y's ledger showed a debit balance of Rs. 5,000. The following transactions took place between Y and X during the quarter ended 31st March, 2018:

2018			Rs.
Jan.	11	Y sold goods to X	6,000
Jan.	24	Y received a promissory note from X due after 3 months	5,000
Feb.	01	X sold goods to Y	10,000
Feb.	04	Y sold goods to X	8,200
Feb.	07	X returned goods to Y	1,000
March	01	X sold goods to Y	5,600
March	18	Y sold goods to X	9,200
March	23	X sold goods to Y	4,000

Accounts were settled on 31st March, 2018 by means of a cheque. Prepare an Account Current to be submitted by Y to X as on 31st March, 2018, taking interest into account @ 10% per annum. Calculate interest to the nearest multiple of a rupee.

(b) Mr. B accepted a bill for Rs. 10,000 drawn on him by Mr. A on 1st August, 2017 for 3 months. This was for the amount which B owed to A. On the same date Mr. A got the bill discounted at his bank for Rs. 9,800.

On the due date, B approached A for renewal of the bill. Mr. A agreed on condition that Rs. 2,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance B should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2017, B became insolvent and his estate paid 40%.

Prepare Journal Entries in the books of Mr. A **(10 Marks +10 Marks = 20 Marks)**

4. (a) The Balance Sheet of a Partnership Firm M/s AB & Co consisted of two partners A and B who were sharing Profits and Losses in the ratio of 5 : 3 respectively. The position as on 31 -03-2018 was as

follows:

Liabilities	Rs.	Assets	Rs.
A's Capital	4,10,000	Land & Building	3,80,000
B's Capital	3,30,000	Plant & Machinery	1,70,000
Profit & Loss A/c	1,12,000	Furniture	1,09,480
Trade Creditors	54,800	Stock	1,45,260
		Sundry debtors	60,000
		Cash at Bank.	42,060
	9,06,800		9,06,800

On the above date, C was admitted as a partner on the following terms:

(a) C should get 1/5th of share of profits.

(b) C brought Rs. 2,40,000 as his capital and Rs. 32,000 for his share of Goodwill.

(c) Plant and Machinery would be depreciated by 15% and Land & Buildings would be appreciated by 40%.

A provision for doubtful debts to be created at 5% on sundry debtors.

An unrecorded liability of Rs. 6,000 for repairs to Buildings would be recorded in the books of accounts.

(d) Immediately after C's admission, Goodwill brought by him would be adjusted among old partners. Thereafter, the capital accounts of old partners would be adjusted through the current accounts of partners in such a manner that the capital accounts of all the partners would be in their profit sharing ratio.

Prepare Revaluation A/c, Capital Accounts of the partners, New profit sharing ratio and Balance Sheet of the Firm after the admission of C.

(b) Mr. Kotriwal is engaged in business of selling magazines. Several of his customers pay money in advance for subscribing his magazines. Information related to year ended 31st March 2017 has been given below:

On 1.4.2016 he had a balance of Rs.2,00,000 advance from customers of which Rs.1,50,000 is related to year 2016-17 while remaining pertains to year 2017-18. During the year 2016-17 he made cash sales of Rs. 5,00,000. You are required to compute:

(i) Total income for the year 2016-17.

(ii) Total money received during the year if the closing balance in Advance from customers Account is Rs. 1,70,000. **(12 Marks + 8 Marks = 20 Marks)**

5. (a) A doctor, after retiring from govt. service, started private practice on 1st April, 2017 with Rs. 20,000 of his own and Rs. 30,000 borrowed at an interest of 15% per annum on the security of his life policies. His accounts for the year were kept on a cash basis and the following is his summarized cash account:

	Rs.		Rs.
Own capital	20,000	Medicines purchased	24,500

Loan	30,000	Surgical equipments	25,000
Prescription fees	52,500	Motor car	32,000
Gifts from patients	13,500	Motor car expenses	12,000
Visiting fees	25,000	Wages and salaries	10,500
Fees from lectures	2,400	Rent of clinic	6,000
Pension received	30,000	General charges	4,900
		Household expenses	18,000
		Household Furniture	2,500
		Expenses on daughter's marriage	21,500
		Interest on loan	4,500
		Balance at bank	11,000
		Cash in hand	1,000
	1,73,400		1,73,400

You are required to prepare his capital account and income and expenditure account for the year ended 31st March, 2018 and balance sheet as on that date. One-third of the motorcar expense may be treated as applicable to the private use of car and Rs. 3,000 of the wages and salaries are in respect of domestic servants.

The stock of mediciness in hand on 31st March, 2018 was valued at Rs. 9,500.

(b) From the information given below, calculate (i) Current Ratio and (ii) Debt to Equity Ratio:

Net Profit of the year Rs. 80,000, Fixed Assets Rs. 2,00,000; Closing Inventory Rs. 10,000; Other Current Assets Rs. 1,00,000; Current Liabilities Rs. 30,000; Share Capital Rs. 1,70,000; 12% Debenture Rs. 60,000. **(15 Marks +5 Marks = 20 Marks)**

6. (a) Mohan Ltd. invited applications for 15 lakhs shares of Rs. 100 each payable as follows :

	Rs.
On Application	20
On Allotment (on 1st June, 2017)	30
On First Call (on 1st Nov., 2017)	30
On Final Call (on 1st March., 2018)	20

All the shares were applied for and allotted. A shareholder holding 30,000 shares paid the whole of the amount due along with allotment.

You are required to **prepare** the journal entries for the above-mentioned transactions, assuming all sums due were received. Interest was paid to the shareholder concerned on 1st March, 2018.

(b) Riya Limited issued 20,000 14% Debentures of the nominal value of Rs.1,00,00,000 as follows:

(a) To sundry persons for cash at 90% of nominal value of Rs. 50,00,000.

(b) To a vendor for purchase of fixed assets worth Rs. 20,00,000 – Rs. 25,00,000 nominal value.

(c) To the banker as collateral security for a loan of Rs. 20,00,000 – Rs. 25,00,000 nominal value.

You are required to prepare necessary journal entries Journal Entries.

(c) From the following particulars, **prepare** a Bank Reconciliation Statement for Pathak Ltd. As on 31.3.2017

(1) Balance as per cash book is Rs. 1,20,000.

(2) Cheques issued but not presented in the bank amounts to Rs. 68,000.

(3) Bank charges amounts to Rs. 300.

(4) Interest credited by bank amounts to Rs. 1,500. **(10 + 5 + 5 = 20 Marks)**

OR

(c) Difference between Going Concern Concept and Cost Concept.

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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

(c) **Journal Entries in the books of Gamma Bros.**

	Particulars	*Dr.*	*Cr.*
		Amount (Rs.)	*Amount (Rs.)*
(i)	Salaries A/c	7,500	
	To Purchase A/c		7,500
	(Being entry made for stock taken by employees)		
(ii)	MachineryA/c	8,000	
	To Cash A/c		8,000
	(Being wages paid for erection of machinery)		
(iii)	Drawings A/c	1,700	
	To Petty Cash A/c		1,700
	(Being the income tax of proprietor paid out of business money)		
(iv)	Purchase A/c	1,800	
	To Cash A/c		1,750
	To Discount Received A/c		50
	(Being the goods purchased from Naveen for Rs. 2,000 @ 10% trade discount and cash discount of Rs. 50)		

2. (a) **Profit and Loss Adjustment Account**

	Rs.		*Rs.*
To Advertisement (samples)	80,000	By Net profit	8,00,000
To Sales	2,00,000	By Electric fittings	30,000
(goods approved in April to be taken as April sales)		By Samples	80,000
		By Stock (Purchases of March not included in stock)	5,00,000
To Adjusted net profit	16,80,000	By Sales (goods sold in March wrongly taken as April sales)	4,00,000
		By Stock (goods sent on approval basis not included in stock)	1,50,000
	19,60,000		19,60,000

Calculation of value of inventory on 31st March, 2017

	Rs.
Stock on 31st March, 2017 (given)	7,50,000
Add: Purchases of March, 2017 not included in the stock	5,00,000
Goods lying with customers on approval basis	1,50,000
	14,00,000

(b) **Motor Truck A/c**

Date	Particulars	Amount	Date	Particulars	Amount
2016			**2016**		
Jan-01	To balance b/d	2,92,50,000	Oct-01	By bank A/c	27,00,000
Oct-01	To Profit & Loss A/c (Profit on settlement of Truck)	4,50,000	Oct-01	By Depreciation on lost assets	6,75,000
Oct-01	To Bank A/c	50,00,000	Dec-31	By Depreciation A/c	83,50,000
			Dec-31	By balance c/d	2,29,75,000
		3,47,00,000			**3,47,00,000**
2017			**2017**		
Jan-01	To balance b/d	2,29,75,000	Dec-31	By Depreciation A/c	91,00,000
			Dec-31	By balance c/d	1,38,75,000
		2,29,75,000			**2,29,75,000**

Working Note:

1. To find out loss on Profit on settlement of truck

	Rs.
Original cost as on 1.4.2014	45,00,000
Less: Depreciation for 2014	6,75,000
	38,25,000
Less: Depreciation for 2015	9,00,000
	29,25,000
Less: Depreciation for 2016 (9 months)	6,75,000
	22,50,000
Less: Amount received from Insurance company	27,00,000
	4,50,000

3. **(a)** **In the books of Y**

X in Account Current with Y

(Interest to 31st March, 2018 @ 10% p.a)

Date	*Particulars*	*Amount*	*Days*	*Product*	*Date*	*Particulars*	*Amount*	*Days*	*Product*
2018		*Rs.*		*Rs.*	*2018*		*Rs.*		*Rs.*

Jan.1	To Balance b/d	5,000	90	4,50,000	Jan.24	By Promissory Note (due date 27th April)	5,000	(27)	(1,35,000)
Jan.11	To Sales	6,000	79	4,74,000	Feb. 1	By Purchases	10,000	58	5,80,000
Feb. 4	To Sales	8,200	55	4,51,000	Feb. 7	By Sales Return	1,000	52	52,000
Mar.18	To Sales	9,200	13	1,19,600	Mar. 1	By Purchases	5,600	30	1,68,000
Mar.31	To Interest	219			Mar.23	By Purchases	4,000	8	32,000
					Mar.31	By Balance of Products			7,97,600
					Mar.31	By Bank	3,019		
		28,619		14,94,600			28,619		14,94,600

Working Note:

Calculation of interest:

$$\text{Interest} = \frac{7{,}97{,}600}{365} \times \frac{10}{100} = \text{Rs. } 219 \text{ (approx.)}$$

(b). **Journal Entries in the Books of Mr. A**

Date		Particulars	L.F.	Dr. Amount Rs.	Cr. Amount Rs.
2017					
August	1	Bills Receivable A/c Dr.		10,000	
		To B			10,000
		(Being the acceptance received from B to settle his account)			
August	1	Bank A/c Dr.		9,800	
		Discount A/c Dr.		200	
		To Bills Receivable			10,000
		(Being the bill discounted for Rs. 9,800 from bank)			
November	4	B Dr.		10,000	
		To Bank Account			10,000
		(Being the B's acceptance is to be renewed)			
November	4	B Dr.		240	
		To Interest Account			240
		(Being the interest due from B for 3 months i.e., 8000x3/12× 12%=240)			
November	4	Cash A/c Dr.		2,240	
		Bills Receivable A/c Dr.		8,000	
		To B			10,240
		(Being amount and acceptance of new bill received from B)			
December	31	B A/c Dr.		8,000	
		To Bills Receivable A/c			8,000
		(Being B became insolvent)			
December	31	Cash A/c Dr.		3,200	
		Bad debts A/c Dr.		4,800	
		To B			8,000
		(Being the amount received and written off on B's insolvency)			

4. (a) **Revaluation Account**

	Rs.		Rs.
To Plant & Machinery (1,70,000 x 15%)	25,500	By Land & Building A/c	1,52,000
To Provision for Bad & Doubtful Debts (60,000 x 5%)	3,000		
To Outstanding Repairs to Building	6,000		
To A's Capital A/c (5/8)	73,438		
To B's Capital A/c (3/8)	44,062		
	1,52,000		1,52,000

Capital Accounts of Partners

	A	B	C		A	B	C
To A's Capital A/c	-	-	20,000	By Balance b/d	4,10,000	3,30,000	-
To B's Capital A/c			12,000	By Revaluation A/c	73,438	44,062	-
To B's Current A/c	-	68,062		By Profit & Loss A/c	70,000	42,000	-
To Balance c/d	6,00,000	3,60,000	2,40,000	By Bank	-	-	2,72,000
				By C's Capital A/c	20,000	12,000	-
				By A's Current A/c	26,562	-	-
	6,00,000	4,28,062	2,72,000		6,00,000	4,28,062	2,72,000

Calculation of New Profit Sharing Ratio and gaining ratio:

C's Share of Profit = 1/5 = 2/10

Remaining Share = 1 – 1/5 = 4/5

A's Share = 5/8 x 4/5 = 20/40 = 5/10

B's Share = 3/8 x 4/5 = 12/40 = 3/10

New Profit sharing Ratio = 5:3:2

Gaining ratio = 5:3 (same as old profit sharing ratio among old partners)

Balance sheet of AB & Co. as on 31.3.2018

Liabilities		*Rs.*	*Assets*		
Capital Accounts:			Land & Buildings		5,32,000
A	6,00,000		Plant & Machinery	1,70,000	
B	3,60,000		Less: Depreciation	25,500	1,44,500
C	2,40,000	12,00,000	Furniture		1,09,480
B's Current A/c		68,062	Stock		1,45,260
Trade Creditors		54,800	Sundry Debtors	60,000	
Outstanding Repairs to Building		6,000	*Less*: Provision	3,000	57,000
			Cash at Bank		3,14,060
			A's current A/c		26,562
		13,28,862			13,28,862

Working Note:

Required Balance of Capital Accounts

C's Capital after writing off Goodwill = 2,72,000 – 32,000 = 2,40,000

C's Share of Profit = 1/5

Thus Capital of the firm shall be = 2,40,000 x 5 = 12,00,000

A's Capital = 12,00,000 x 5/10 = 6,00,000 and

B's Capital = 12,00,000 x 3/10 = 3,60,000

(b) (i) Computation of Income for the year 2016-17:

	Rs.
Money received during the year related to 2016-17	5,00,000
Add: Money received in advance during previous years	1,50,000
Total income of the year 2016-17	**6,50,000**

(ii) Advance from Customers A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Sales A/c (Advance related to current year transferred to sales)	1,50,000	1.4.2016	By Balance b/d	2,00,000
31.3.17	To Balance c/d	1,70,000		By Bank A/c (Balancing Figure)	1,20,000
		3,20,000			**3,20,000**

So, total money received during the year is:

	Rs.
Cash Sales during the year	5,00,000
Add: Advance received during the year	1,20,000
Total money received during the year	**6,20,000**

5. (a) Capital Account

for the year ended 31st March, 2018

	Rs.		*Rs.*
To Drawings:		By Cash/bank	20,000
Motor car expenses (one-third of Rs. 12,000)	4,000	By Cash bank (pension)	30,000
Household expenses	18,000	By Net income from practice (derived from income and expenditure a/c)	47,500
Daughter's marriage exp.	21,500		
Wages of domestic servants	3,000		
Household furniture	2,500		
To Balance c/d	48,500		
	97,500		97,500

Income and Expenditure Account

for the year ended 31st March, 2018

	Rs.		Rs.
To Medicines consumed		By Prescription fees	52,500
Purchases 24,500		By Gift from patients	13,500
Less: Stock on 31.3.11 (9,500)	15,000	By Visiting fees	25,000
To Motor car expense	8,000	By Fees from lectures	2,400
To Wages and salaries (Rs. 10,500 – Rs. 3,000)	7,500		
To Rent for clinic	6,000		
To General charges	4,900		
To Interest on loan	4,500		
To Net Income	47,500		
	93,400		93,400

Balance Sheet as on 31st March, 2018

Liabilities	Rs.	*Assets*	Rs.
Capital	48,500	Motor car	32,000
Loan	30,000	Surgical equipment	25,000
		Stock of medicines	9,500
		Cash at bank	11,000
		Cash in hand	1,000
	78,500		78,500

(b) **(i)** Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{` 1,10,000}{` 30,000} = 11:3 \text{ or } 3.67:1$

Current Assets= Closing Inventory + Other Current Assets

= Rs. 10,000 + Rs. 1,00,000 = Rs. 1,10,000

(ii) Debt to Equity Ratio = $\frac{\text{Long term Debt}}{\text{Sharholders' Equity}}$

$$= \frac{Debentures}{Share\ \text{Capital} + \text{Profit}}$$

$$= \frac{` 60,000}{` 2,50,000} = 0.24:1$$

6. (a) **Journal of Mohan Ltd.**

2017			Dr. Rs. in lakhs	Cr. Rs. in lakhs
June 1	Bank A/c	Dr.	300	
	To Shares Application A/c			300
	(Receipt of applications for 15 lakh shares along with application money of Rs. 20 per share.)			
June 1	Share Application and Allotment A/c	Dr.	300	
	Share Allotment A/c	Dr.	450	
	To Share Capital A/c			750
	(The allotment of 15 lakh shares : payable on application Rs. 20 share and Rs. 30 on allotment as per Directors' resolution no... dated...)			
June 1	Bank A/c	Dr.	465	
	To Shares Allotment A/c			450
	To Calls in Advance A/c			15
	[Receipt of money due on allotment @ Rs. 30, also the two calls (Rs. 30 and Rs. 20) on 30,000 shares.]			
Nov. 1	Share First Call A/c	Dr.	450	
	To Share Capital A/c			450
	(The amount due on 15 lakh shares @ Rs. 30 on first call, as per Directors, resolution no... dated...)			
	Bank A/c	Dr.	441	
	Calls in Advance A/c	Dr.	9	
	To Share First Call A/c			450
	(Receipt of the first call on 14.7 lakh shares, the balance having been previously received and now debited to call in advance account.)			
2018				
March 1	Share Final Call A/c	Dr.	300	
	To Share Capital A/c			300
	(The amount due on Final Call on 15 lakh shares @ Rs. 20 per share, as per Directors' resolution no... dated...)			
March1	Bank A/c	Dr.	294	
	Calls in Advance A/c	Dr.	6	
	To Share Final Call A/c			300
	(Receipt of the moneys due on final call on 14.7 lakhs shares, the balance having been previously received.)			

March 1	Interest on calls in Advance A/c To Shareholder A/c (Being interest on call in advance made due)	Dr.	0.99	0.99
Feb 1	Shareholder A/c To Bank A/c (Being interest paid)	Dr.	0.99	0.99

Working Note:

The interest on calls in advance paid @ 12% on :	Rs.
Rs. 9,00,000 (first call) from 1st June to 1st Nov., 2017–5 months	45,000
Rs. 6,00,000 (final call) from 1st June to 1st March., 2018–9 months	54,000
Total Interest Amount Due	99,000

(b) **In the books of Riya Company Ltd.**

Journal Entries

Date	***Particulars***		***Dr. Rs.***	***Cr. Rs.***
(a)	Bank A/c To Debentures Application A/c (Being the application money received on 10,000 debentures @ Rs. 450 each)	Dr.	45,00,000	45,00,000
	Debentures Application A/c Discount on issue of Debentures A/c To 14% Debentures A/c (Being the issue of 10,000 14% Debentures @ 90% as per Board's Resolution No….dated….)	Dr. Dr.	45,00,000 5,00,000	50,00,000
(b)	Fixed Assets A/c To Vendor A/c (Being the purchase of fixed assets from vendor)	Dr.	20,00,000	20,00,000
	Vendor A/c Discount on Issue of Debentures A/c To 14% Debentures A/c (Being the issue of debentures of Rs. 25,00,000 to vendor to satisfy his claim)	Dr. Dr.	20,00,000 5,00,000	25,00,000
(c)	Bank A/c To Bank Loan A/c (See Note) (Being a loan of Rs. 20,00,000 taken from bank by issuing debentures of Rs.25,00,000 as collateral security)	Dr.	20,00,000	20,00,000

Note: No entry is made in the books of account of the company at the time of making issue of such debentures. In the "Notes to Accounts" of Balance Sheet, the fact that the debentures being issued as collateral security and outstanding are shown by a note under the liability secured.

(c) **Pathak Ltd.**

Bank Reconciliation Statement as on 31.3.2017

Particulars	Rs.
Balance as per cash book	1,20,000
Add : Cheque issued but not presented	68,000
Interest credited	1,500
	1,89,500
Less : Bank charges	(300)
Balance as per pass book	1,89,200

Or

(c) ***Going Concern concept*:** The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed.

The valuation of assets of a business entity is dependent on this assumption. Traditionally, accountants follow historical cost in majority of the cases.

Cost Concept: By this concept, the value of an asset is to be determined on the basis of historical cost, in other words, acquisition cost. Although there are various measurement bases, accountants traditionally prefer this concept in the interests of objectivity. When a machine is acquired by paying Rs. 5,00,000, following cost concept the value of the machine is taken as Rs. 5,00,000. It is highly objective and free from all bias. Other measurement bases are not so objective. Current cost of an asset is not easily determinable. If the asset is purchased on 1.1.1995 and such model is not available in the market, it becomes difficult to determine which model is the appropriate equivalent to the existing one. Similarly, unless the machine is actually sold, realisable value will give only a hypothetical figure. Lastly, present value base is highly subjective because to know the value of the asset one has to chase the uncertain future.

Test Series: October, 2019

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)

 (c) Classify the following errors under the three categories – Errors of Omission, Errors of Commission and Errors of Principle.

 (i) Sale of furniture credited to Sales Account.

 (ii) Purchase worth Rs. 500 from M not recorded in subsidiary books.

 (iii) Credit sale wrongly passed through the Purchase Book.

 (iv) Machinery sold on credit to Mohan recored in Journal Proper but omitted to be posted.

 (v) Goods worth Rs. 5,000 purchased on credit from Ram recorded in the Purchase Book as Rs. 500. **(4 Marks)**

2. (a) M/s Ram took lease of a quarry on 1-1-2016 for Rs. 2,00,00,000. As per technical estimate the total quantity of mineral deposit is 4,00,000 tonnes. Depreciation was charged on the basis of depletion method. Extraction pattern is given in the following table:

Year	Quantity of Mineral extracted
2016	4,000 tonnes

2017	20,000 tonnes
2018	30,000 tonnes

Required

Show the Quarry Lease Account and Depreciation Account for each year from 2016 to 2018.

(b) On 30th September, 2017, the bank account of Neel, according to the bank column of the Cash- Book, was overdrawn to the extent of Rs. 8,124. On the same date the bank statement showed a debit balance of Rs. 41,516 in favour of Neel. An examination of the Cash Book and Bank Statement reveals the following:

1. A cheque for Rs. 26,28,000 deposited on 29th September, 2017 was credited by the bank only on 3rd October, 2017
2. A payment by cheque for Rs. 32,000 has been entered twice in the Cash Book.
3. On 29th September, 2017, the bank credited an amount of Rs. 2,34,800 received from a customer of Neel, but the advice was not received by Neel until 1st October, 2017.
4. Bank charges amounting to Rs. 1,160 had not been entered in the Cash Book.
5. On 6th September, 2017, the bank credited Rs. 40,000 to Neel in error.
6. A bill of exchange for Rs. 2,80,000 was discounted by Neel with his bank. This bill was dishonoured on 28th September, 2017 but no entry had been made in the books of Neel.
7. Cheques issued upto 30th September, 2017 but not presented for payment upto that date totalled Rs. 26,52,000.

You are required :

(a) to show the appropriate rectifications required in the Cash Book of Neel, to arrive at the correct balance on 30th September, 2017 and

(b) to prepare a bank reconciliation statement as on that date.

(10 Marks +10 Marks= 20 Marks)

3. (a) Gagan of Mumbai consigns 2,000 cases of goods costing Rs. 1,000 each to Kumar of Chennai. Gagan pays the following expenses in connection with consignment:

	Rs.
Carriage	20,000
Freight	60,000
Loading charges	20,000
Kumar sells 1,400 cases at Rs. 1,400 per case and incurs the following expenses:	
Clearing charges	17,000
Warehousing and storage charges	34,000
Packing and selling expenses	12,000

It is found that 100 cases have been lost in transit and 200 cases are still in transit.

Kumar is entitled to a commission of 10% on gross sales. You are required to prepare the Consignment Account and Kumar's Account in the books of Gagan.

(b) From the following details calculate the average due date:

Date of Bill	Amount (Rs.)	Usance of Bill
28th January, 2018	5,000	1 month
20th March, 2018	4,000	2 months
12th July, 2018	7,000	1 month
10th August, 2018	6,000	2 months

(c) Prepare Journal entries for the following transactions in K. Katrak's books.

(i) Katrak's acceptance to Basu for Rs. 2,500 discharged by a cash payment of Rs. 1,000 and a new bill for the balance plus Rs. 50 for interest.

(ii) G. Gupta's acceptance for Rs. 4,000 which was endorsed by Katrak to M. Mehta was dishonoured. Mehta paid Rs. 20 noting charges. Bill withdrawn against cheque.

(iii) D. Dalal retires a bill for Rs. 2,000 drawn on him by Katrak for Rs. 10 discount.

(iv) Katrak's acceptance to Patel for Rs. 5,000 discharged by Patel Mody's acceptance to Katrak for a similar amount. **(10 + 5 + 5 = 20 Marks)**

4. A, B and C are partners in a firm sharing profits and losses as 8:5:3. Their balance sheet as at 31st December, 2018 was as follows:

	Rs.		Rs.
Sundry creditors	1,50,000	Cash	40,000
General reserve	80,000	Bills receivable	50,000
Partners' loan accounts:		Sundry debtors	60,000
A	40,000	Stock	1,20,000
B	30,000	Fixed assets	2,80,000
Partners' capital accounts:			
A	1,00,000		
B	80,000		
C	70,000		
	5,50,000		5,50,000

From 1st January, 2019 they agreed to alter their profit-sharing ratio as 5:6:5. It is also decided that:

(a) the fixed assets should be valued at Rs. 3,31,000;

(b) a provision of 5% on sundry debtors to be made for doubtful debts;

(c) the goodwill of the firm at this date be valued at three years' purchase of the average net profits of the last five years before charging insurance premium; and

(d) the stock be reduced to Rs. 1,12,000.

There is a joint life insurance policy for Rs. 2,00,000 for which an annual premium of Rs. 10,000 is paid, the premium being charged to profit and loss account. The surrender value of the policy on 31st December, 2018 was Rs. 78,000.

The net profits of the firm for the last five years were Rs. 14,000, Rs. 17,000, Rs. 20,000, Rs. 22,000 and Rs. 27,000.

Goodwill and the surrender value of the joint life policy was not to appear in the books.

Draft journal entries necessary to adjust the capital accounts of the partners and prepare the revised balance sheet. **(20 Marks)**

5. (a) From the following receipts and payments account of Mumbai Club, prepare income and expenditure account for the year ended 31.12.2018 and its balance sheet as on that date:

Receipts	Rs.	Payments	Rs.
Cash in hand	4,000	Salary	2,000
Cash at bank	10,000	Repair expenses	500
Donations	5,000	Purchase of furniture	6,000
Subscriptions	12,000	Misc. expenses	500
Entrance fees	1,000	Purchase of investments	6,000
Interest on investments	100	Insurance premium	200
Interest received from bank	400	Billiard table	8,000
Sale of old newspaper	150	Paper, ink etc.	150
Sale of drama tickets	1,050	Drama expenses	500
		Cash in hand (closing)	2,650
		Cash at bank (closing)	7,200
	33,700		33,700

Information:

1. Subscriptions in arrear for 2018 Rs. 900 and subscriptions in advance for 2019 Rs. 350.
2. Insurance premium outstanding Rs. 40.
3. Misc. expenses prepaid Rs. 90.
4. 50% of donation is to be capitalized.
5. Entrance fees are to be treated as revenue income.
6. 8% interest has accrued on investment for five months.
7. Billiard table costing Rs. 30,000 was purchased during the last year and Rs. 22,000 were paid for it.

(b) From the below mentioned information, prepare a Trading Account of M/s. Ketan Traders for the year ended 31st March, 2019:

	Rs.

Opening Inventory	1,50,000
Purchases	10,08,000
Carriage Inwards	45,000
Wages	75,000
Sales	16,50,000
Returns inward	1,50,000
Returns outward	1,08,000
Closing Inventory	3,00,000

(c) Sky Ltd. keeps no stock records but a physical inventory of stock is made at the end of each quarter and the valuation is taken at cost. The company's year ends on 31st March, 2018 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2018 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2018 with the stock figure as on 31st December, 2017 and some other information is available to you:

(i) The cost of stock on 31st December, 2017 as shown by the inventory sheet was Rs. 80,000.

(ii) On 31st December, stock sheet showed the following discrepancies:

(a) A page total of Rs. 5,000 had been carried to summary sheet as Rs. 6,000.

(b) The total of a page had been undercast by Rs. 200.

(iii) Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2018 totalled Rs. 70,000. Out of this Rs. 3,000 related to goods received prior to 31st December, 2017. Invoices entered in April 2018 relating to goods received in March, 2018 totalled Rs. 4,000.

(iv) Sales invoiced to customers totalled Rs. 90,000 from January to March, 2018. Of this Rs. 5,000 related to goods dispatched before 31st December, 2017. Goods dispatched to customers before 31st March, 2018 but invoiced in April, 2018 totalled Rs. 4,000.

(v) During the final quarter, credit notes at invoiced value of Rs. 1,000 had been issued to customers in respect of goods returned during that period. The gross margin earned by the company is 25% of cost.

You are required to prepare a statement showing the amount of stock at cost as on 31st March, 2018. **(12 + 4+4 = 20 Marks)**

6. (a) On 1st April, 2017, A Ltd. issued 43,000 shares of Rs. 100 each payable as follows: Rs. 20 on application;

Rs. 30 on allotment;

Rs. 25 on 1st October, 2017; and

Rs. 25 on 1st February, 2018.

By 20th May, 40,000 shares were applied for and all applications were accepted. Allotment was made on 1st June. All sums due on allotment were received on 15th July those on 1st call were received on 20th October. Journalise the transactions when accounts were closed on 31st March, 2018. **(10 Marks)**

(b) Simmons Ltd. issued 1,00,000, 12% Debentures of Rs.100 each at par payable in full on application by 1st April, Application were received for 1,10,000 Debentures. Debentures were allotted on 7th April. Excess money refunded on the same date.

You are required to pass necessary Journal Entries (including cash transactions) in the books of the company. **(5 Marks)**

(c) State the causes of difference between the balance shown by the pass book and the cash book.

OR

Which subsidiary books are normally used in a business? **(5 Marks)**

Test Series: October, 2019

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.

(c) (i) Error of Principle.

(ii) Error of Omission.

(iii) Error of Commission.

(iv) Error of Omission.

(v) Error of Commission

2. (a) **Quarry Lease Account**

Dr.					Cr.

		Rs.			Rs.
2016			**2016**		
Jan.	To Bank A/c	2,00,00,000	Dec. 31	By Depreciation A/c [(4,000/4,00,000) × Rs. 2,00,00,000]	2,00,000
			Dec. 31	By Balance c/d	1,98,00,000
		2,00,00,000			2,00,00,000
2017			2017		
Jan. 1	To Balance b/d	1,98,00,000	Dec. 31	By Depreciation A/c	10,00,000
			Dec. 31	By Balance c/d	1,88,00,000
		1,98,00,000			1,98,00,000
2018			2018		
Jan. 1	To Balance b/d	1,88,00,000	Dec. 31	By Depreciation A/c	15,00,000
			Dec. 31	By Balance c/d	1,73,00,000
		1,88,00,000			1,88,00,000

Depreciation Account

Dr.		Rs.			Cr. Rs.
2016			**2016**		
Dec. 31	To Quarry lease A/c	2,00,000	Dec. 31	By Profit & Loss A/c	2,00,000
		2,00,000			2,00,000
2017			2017		
Dec. 31	To Quarry lease A/c	10,00,000	Dec. 31	By Profit & Loss A/c	10,00,000
		10,00,000			10,00,000
2018			2018		
Dec. 31	To Quarry lease A/c	15,00,000	Dec. 31	By Profit & Loss A/c	15,00,000
		15,00,000			15,00,000

(b) (i) **Cash Book (Bank Column)**

Date	Particulars	Amount	Date	Particulars	Amount
2017		Rs.	**2017**		Rs.
Sept. 30	To Party A/c	32,000	Sept. 30	By Balance b/d	8,124
	To Customer A/c			By Bank charges	1,160

		(Direct deposit)	2,34,800	By	Customer A/c	2,80,000
	To	Balance c/d	22,484		(B/R dishonoured)	
			2,89,284			2,89,284

(ii) Bank Reconciliation Statement as on 30th September, 2017

Particulars	Amount
	Rs.
Overdraft as per Cash Book	22,484
Add: Cheque deposited but not collected upto 30th Sept., 2017	26,28,000
	26,50,484
Less: Cheques issued but not presented for payment upto 30th Sept., 2017	(26,52,000)
Credit by Bank erroneously on 6th Sept.	(40,000)
Overdraft as per bank statement	41,516

Note: Bank has credited Neel by 40,000 in error on 6th September, 2017. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with Rs. 26,52,000 resulting in debit balance of Rs. 1,516 as per pass-book.

3. (a) In the books of Gagan

Consignment to Kumar of Chennai Account

Particulars	Rs.	Particulars		Rs.
To Goods sent on Consignment	20,00,000	By Kumar (Sales)		19,60,000
		By Loss in Transit 100 cases @ Rs. 1,050 each		1,05,000
To Bank (Expenses)	1,00,000	By Consignment Inventories		
To Kumar (Expenses)	63,000	In hand 300 @ Rs. 1,060 each	3,18,000	
To Kumar (Commission)	1,96,000	In transit 200 @ Rs. 1,050 each	2,10,000	5,28,000
To Profit on Consignment to Profit & Loss A/c	2,34,000			
	25,93,000			25,93,000

Kumar's Account

Particulars	Rs.	Particulars	Rs.
To Consignment to Chennai A/c	19,60,000	By Consignment A/c (Expenses)	63,000
		By Consignment A/c (Commission)	1,96,000
		By Balance c/d	17,01,000
	19,60,000		19,60,000

Working Notes:

(i) Consignor's expenses on 2,000 cases amounts to Rs. 1,00,000; it comes to Rs. 50 per case. The cost of cases lost will be computed at Rs. 1,050 per case.

(ii) Kumar has incurred Rs. 17,000 on clearing 1,700 cases, i.e., Rs. 10 per case; while valuing closing inventories with the agent Rs. 10 per case has been added to cases in hand with the agent.

(iii) It has been assumed that balance of Rs. 17,01,000 is not yet paid.

(b) Calculation of Average Due Date

(Taking 3rd March, 2018 as base date)

Date of bill 2018	*Term*	*Due date 2018*	*Amount (Rs.)*	*No. of days from the base date i.e. 3rd March,2018 (Rs.)*	*Product (Rs.)*
28th January	1 month	3rd March	5,000	0	0
20th March	2 months	23rd May	4,000	81	3,24,000
12th July	1month	14th Aug.	7,000	164	11,48,000
10th August	2 months	13th Oct.	6,000	224	13,44,000
			22,000		28,16,000

$$\text{Average due date} = \text{Base date + Days equal to } \frac{\text{Sum of Products}}{\text{Sum of Amounts}}$$

$$= 3^{rd} \text{ March, 2018} + \frac{28{,}16{,}000}{22{,}000}$$

$$= 3^{rd} \text{ March, 2018 + 128 days} = 9^{th} \text{ July, 2018}$$

Working Note:

Bill dated 12th July, 2018 has the maturity period of one month, due date (after adding 3 days of grace) falls on 15th August, 2018. 15th August being public holiday, due date would be preceding date i.e. 14th August, 2018.

(c) Books of K. Katrak

Journal Entries

			Dr. Rs.	*Cr.* Rs.
(i)	Bills Payable Account	Dr.	2,500	
	Interest Account	Dr.	50	
	To Cash A/c			1,000
	To Bills Payable Account			1,550
	(Bills Payable to Basu discharged by cash payment of Rs. 1,000 and a new bill for Rs.1,550 including Rs. 50 as interest)			
(ii)	(a) G. Gupta	Dr.	4,020	

	To M. Mehta (G. Gupta's acceptance for Rs. 4,000 endorsed to M. Mehta dishonoured, Rs. 20 paid by M. Mehta as noting charges)			4,020
	(b) M. Mehta To Bank Account (Payment to M. Mehta on withdrawal of bill earlier received from Mr. G. Gupta)	Dr.	4,020	 4,020
(iii)	Bank Account Discount Account To Bills Receivable Account (Payment received from D. Dalal against his acceptance for Rs. 2,000. Allowed him a discount of Rs. 10)	Dr. Dr.	1,990 10	 2,000
(iv)	Bills Payable Account To Bills Receivable Account (Bills Receivable from Mody endorsed to Patel in settlement of bills payable issued to him earlier)	Dr.	5,000	 5,000

4. **In the books of M/s ABC**

Journal Entries

Date	*Particulars*		*Dr. (Rs.)*	*Cr.(Rs.)*
2019 January 1	Fixed assets A/c To Revaluation A/c (Revaluation of fixed assets)	Dr.	51,000	 51,000
	Revaluation A/c To Stock A/c To Provision for doubtful debts A/c (Reduction in the value of stock and provision @ 5% on sundry debtors created for doubtful debts)	Dr.	11,000	 8,000 3,000
	B's capital A/c C's capital A/c To A's capital A/c (Adjustment for goodwill and joint life policy(W.N.1))	Dr. Dr.	10,500 21,000	 31,500
	Revaluation A/c To A's capital A/c To B's capital A/c To C's capital A/c (Transfer of profit on revaluation)	Dr.	40,000	 20,000 12,500 7,500

	General reserve A/c	Dr.	80,000	
	To A's capital A/c			40,000
	To B's capital A/c			25,000
	To C's capital A/c			15,000
	(Transfer of general reserve)			

Balance Sheet (revised)

as on 1st January, 2019

Liabilities		*Amount Rs.*	*Assets*		*Amount Rs.*
Sundry creditors		1,50,000	Cash		40,000
Partners' loan A/cs:			Bills receivable		50,000
A	40,000		Sundry debtors	60,000	
B	30,000	70,000	*Less:* Provision	3,000	57,000
Partners' capital A/cs: (W.N.2)			Stock		1,12,000
			Fixed assets		3,31,000
A	1,91,500				
B	1,07,000				
C	71,500	3,70,000			
		5,90,000			5,90,000

Working Notes:

(1) Adjustment for goodwill and joint life policy

	Rs.
Average profit of last five years	20,000
Add: Insurance premium per annum	10,000
Average profit before charging premium	30,000
Value of goodwill (3x Rs. 30,000)	90,000
Add: Surrender value of joint life policy	78,000
Total amount for adjustment	1,68,000

	A	*B*	*C*
	Rs.	*Rs.*	*Rs.*
Raised in old profit sharing ratio (8:5:3)	84,000	52,500	31,500
Written off in new profit sharing ratio (5:6:5)	52,500	63,000	52,500
Net effect in capital accounts	31,500 (Cr.)	10,500 (Dr.)	21,000 (Dr.)

Alternatively, the net effect in partners' capital accounts due to adjustment for goodwill and joint life policy can be shown on the basis of profit sacrificing ratio. Profit sacrificing ratios are:

A = (8/16) - (5/16) = 3/16

B = (5/16) - (6/16) = (1/16)

C = (3/16) - (5/16) = (2/16)

Therefore, adjustments in partner's capital account:

A = 3/16 x Rs. 1,68,000 = Rs. 31,500 (Cr.)

B = (1/16) x Rs. 1,68,000 = Rs. 10,500 (Dr.)

C = (2/16) x Rs. 1,68,000 = Rs. 21,000 (Dr.)

(2) **Partners' Capital Accounts**

		A	B	C			A	B	C
2019		Rs.	Rs.	Rs.	2019		Rs.	Rs.	Rs.
Jan 1	To A' capital A/c	-	10,500	21,000	Jan 1	By Balance b/d	1,00,000	80,000	70,000
	To Balance c/d	1,91,500	1,07,000	71,500		By B and C's capital A/c (as per contra)	31,500	-	-
						By Revaluation A/c (revaluation profit)	20,000	12,500	7,500
						By General reserve	40,000	25,000	15,000
		1,91,500	1,17,500	92,500			1,91,500	1,17,500	92,500

5. (a) **Income and Expenditure Account of Mumbai Club**

for the year ended 31st December, 2018

Dr.					Cr.
Expenditure	*Rs.*	*Rs.*	*Income*	*Rs.*	*Rs.*
To Salary		2,000	By Donation	5,000	
To Repair expenses		500	*Less:* Capitalised (50%)	2,500	2,500
To Misc. expenses	500		By Subscriptions	12,000	
Less: Prepaid	90	410	*Add:* Outstanding	900	
To Insurance premium	200			12,900	
Add: Outstanding	40	240	*Less:* Advance for 2019	350	12,550
To Paper, ink etc.		150	By Entrance fees		1,000
To Drama expenses		500	By Interest on investment		300
To Surplus-excess of		14,150	[100+8/100x6,000x5/12]		

income over expenditure			By Interest received from bank		400
			By Sale of old newspapers		150
			By Sale of drama tickets		1,050
		17,950			17,950

Balance Sheet of Mumbai Club

as on 31st December, 2018

Liabilities	Rs.	Rs.	Assets	Rs.
Capital fund			Billiard table	30,000
Opening balance	36,000		Furniture	6,000
Add: Surplus	14,150		Investments	6,000
Donations	2,500	52,650	Interest accrued	200
Outstanding insurance premium		40	Prepaid expenses	90
Subscription received in advance		350	Subscriptions receivable	900
			Cash in hand	2,650
			Cash at bank	7,200
		53,040		53,040

Working Note:

Balance Sheet of Mumbai Club

as on 31st December, 2017

Liabilities	Rs.	Assets	Rs
Capital fund	36,000	Billiard table	30,000
(balancing figure)		Cash in hand	4,000
Creditors for billiard table	8,000	Cash at bank	10,000
	44,000		44,000

(b) **In the books of M/s. Ketan Traders**

Trading Account for the year ended 31st March, 2019

Particulars	Rs.	Amount Rs.	Particulars	Rs.	Amount Rs.
To Opening Inventory		1,50,000	By Sales	16,50,000	
To Purchases	10,08,000		*Less:* Returns Inward	(1,50,000)	15,00,000
Less: Returns outward	(1,08,000)	9,00,000	By Closing Inventory		3,00,000
To Carriage Inwards		45,000			
To Wages		75,000			

To Gross profit		6,30,000		
		18,00,000		18,00,000

(c) Valuation of Physical Stock as at March 31, 2018

		Rs.
Stock at cost on 31.12.2017		80,000
Add: (1) Undercasting of a page total	200	
(2) Goods purchased and delivered during January – March, 2018		
Rs. (70,000 – 3,000 + 4,000)	71,000	
(3) Cost of sales return Rs. (1,000 – 200)	800	72,000
		1,52,000
Less: (1) Overcasting of a page total Rs. (6,000 – 5,000)	1,000	
(2) Goods sold and dispatched during January – March, 2018		
Rs. (90,000 – 5,000 + 4,000) 89,000		
Less: Profit margin $\left(89,000 \times \frac{25}{125}\right)$ 17,800	71,200	(72,200)
Value of stock as on 31st March, 2018		79,800

Note: In the above solution, transfer of ownership is assumed to take place at the time of delivery of goods. If it is assumed that transfer of ownership takes place on the date of invoice, then Rs. 4,000 goods delivered in March 2018 for which invoice was received in April, 2018, would be treated as purchases of the accounting year 2017-2018 and thus excluded. Similarly, goods dispatched in March, 2018 but invoiced in April, 2018 would be excluded and treated as sale of the year 2017-2018

6. (a) A Ltd.

Journal

2017			Dr. Rs.	Cr. Rs.
May 20	Bank Account	Dr.	8,00,000	
	To Share Application A/c			8,00,000
	(Application money on 40,000 shares at Rs. 20 per share received.)			
June 1	Share Application A/c	Dr.	8,00,000	
	To Share Capital A/c			8,00,000
	(The amount transferred to Capital Account on 40,000 shares Rs. 20 on application. Directors' resolution no........ dated)			
	Share Allotment A/c	Dr.	12,00,000	
	To Share Capital A/c			12,00,000
	(Being share allotment made due at Rs. 30 per share. Directors' resolution no........dated ....)			

July 15	Bank Account To Share Application and Allotment A/c (The sums due on allotment received.)	Dr.	12,00,000	12,00,000
Oct. 1	Share First Call Account To Share Capital Account (Amount due from members in respect of first call-on 40,000 shares at Rs. 25 as per Directors, resolution no... dated...)	Dr.	10,00,000	10,00,000
Oct. 20	Bank Account To Share First Call Account (Receipt of the amounts due on first call.)	Dr.	10,00,000	10,00,000
2018 Feb. 1	Share Second and Final Call A/c To Share Capital A/c (Amount due on 40,000 share at Rs. 25 per share on second and final call, as per Directors resolution no... dated...)	Dr.	10,00,000	10,00,000
Mar. 31	Bank Account To Share Second & Final Call A/c (Amount received against the final call on 40,000 shares at Rs.25 per share.)	Dr.	10,00,000	10,00,000

(b) **In the books of Simmons Limited**

Date	Particulars		Rs. '000	Rs. '000
April 1	Bank A/c To 12% Debentures Application A/c (Being money received on 1,10,000 debentures)	Dr.	11,000	11,000
April 7	12% Debentures Application A/c To Bank A/c (Being money on 10,000 debentures refunded as per Board's Resolution No.....dated...)	Dr.	1,000	1,000
April 7	12% Debentures Application A/c To 12% Debentures A/c (Being the allotment of 1,00,000 debentures of Rs. 100 each at par, as per Board's Resolution No....dated...)	Dr.	10,000	10,000

(c) The difference between the balance shown by the passbook and the cashbook may arise on account of the following:

(i) Cheques issued but not yet presented for payment.

(ii) Cheques deposited into the bank but not yet cleared.

(iii) Interest allowed by the bank.

(iv) Interest and expenses charged by the bank.

(v) Interest and dividends collected bythe bank.

(vi) Direct payments by the bank.

(vii) Direct deposits into the bank by a customer.

(viii) Dishonour of a bill discounted with the bank.

(ix) Bills collected bythe bank on behalf of the customer.

(x) An error committed by the bank etc.

OR

(c) Normally, the following subsidiary books are used in a business:

(i) Cash book to record receipts and payments of cash, including receipts into and payments out of the bank.

(ii) Purchases book to record credit purchases of goods dealt in or of the materials and stores required in the factory.

(iii) Purchase Returns Books to record the returns of goods and materials previously purchased.

(iv) Sales Book to record the sales of the goods dealt in by the firm.

(v) Sale Returns Book to record the returns made by the customers.

(vi) Bills receivable books to record the receipts of promissory notes or hundies from various parties.

(vii) Bills Payable Book to record the issue of the promissory notes or hundies to other parties.

(viii) Journal (proper) to record the transactions which cannot be recorded in any of the seven books mentioned above.

Test Series: May, 2020

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 timeof 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)**

(c) From the following transactions, prepare the Purchases Returns Book of Alpha & Co., a saree dealer and post them to ledger :

Date	Debit Note No.	Particulars
04.01.2020	101	Returned to Goyal Mills, Surat – 5 polyester sarees @ Rs. 100.
09.01.2020		Garg Mills, Kota – accepted the return of sarees (which were purchased for cash) – 5 Kota sarees @ Rs. 40.
16.01.2020	102	Returned to Mittal Mills, Bangalore –5 silk sarees @ Rs. 260.
30.01.2020		Returned one typewriter (being defective) @ Rs. 3,500 to B & Co.

(4 Marks)

2. (a) A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15th April, 2020 on which date the total cost of goods in his godown came

to Rs. 50,000. The following facts were established between 31st March and15th April, 2020.

(i) Sales Rs. 41,000 (including cash sales Rs. 10,000)

(ii) Purchases Rs. 5,034 (including cash purchases Rs. 1,990)

(iii) Sales Return Rs. 1,000.

(iv) On 15th March, goods of the sale value of Rs. 10,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April, approving the rest; the customer was billed on 16th April.

(v) The trader had also received goods costing Rs. 8,000 in March, for sale on consignment basis; 20% of the goods had been sold by 31st March, and another 50% by 15th April. These sales are not included in above sales.

Goods are sold by the trader at a profit of 20% on sales.

You are required to ascertain the value of Inventory as on 31st March, 2020.

(b) A Plant & Machinery costing Rs. 10,00,000 is depreciated on straight line assuming 10 year working life and zero residual value, for four years. At the end of the fourth year, the machinery was revalued upwards by Rs. 40,000. The remaining useful life was reassessed at 8 year. Calculate Depreciation for the fifth year.

(c) Prepare the Bank Reconciliation Statement of M/s. R.K. Brothers on 30th June 2020 from the particulars given below:

(i) The Bank Pass Book had a debit balance of Rs. 25,000 on 30th June, 2020.

(ii) A cheque worth Rs. 400 directly deposited into Bank by customer but no entry was made in the Cash Book.

(iii) Out of cheques issued worth Rs. 34,000, cheques amounting to Rs. 20,000 only were presented for payment till 30th June, 2020.

(iv) A cheque for Rs. 4,000 received and entered in the Cash Book but it was not sent to the Bank.

(v) Cheques worth Rs. 20,000 had been sent to Bank for collection but the collection was reported by the Bank as under.

(1) Cheques collected before 30th June, 2020, Rs. 14,000

(2) Cheques collected on 10th July, 2020, Rs. 4,000

(3) Cheques collected on 12th July, 2020, Rs. 2,000.

(vi) The Bank made a direct payment of Rs. 600 which was not recorded in the Cash Book.

(vii) Interest on Overdraft charged by the bank Rs. 1,600 was not recorded in the Cash Book.

(viii) Bank charges worth Rs. 80 have been entered twice in the cash book whereas Insurance charges for Rs. 70 directly paid by Bank was not at all entered in the Cash Book.

(ix) The credit side of bank column of Cash Book was under cast by Rs. 2,000.

(5+5 + 10 = 20 Marks)

3. (a) Raj of Gwalior consigned 15,000 kgs of Ghee at Rs. 30 per kg to his agent Siraj at Delhi. He spent Rs. 5 per kg as freight and insurance for sending the Ghee at Delhi. On the way 100 kgs. of Ghee was lost due to the leakage (which is to be treated as normal loss) and 400 kgs. of Ghee was destroyed in transit. Rs. 9,000 was paid to consignor directly by the Insurance company as Insurance claim.

Siraj sold 7,500 kgs. at Rs. 60 per kg. He spent Rs. 33,000 on advertisement and recurring expenses.

You are required to calculate:

(i) The amount of abnormal loss

(ii) Value of stock at the end and

(iii) Prepare Consignment account showing profit or loss on consignment, if Siraj is entitled to 5% commission on sales.

(b) Mr. A owed Rs. 4,000 on 1st January, 2020 to Mr. X. The following transactions took place between them. It is agreed between the parties that interest @ 10% p.a. is to be calculated on all transactions.

	Rs.
15 January, 2020 Mr. X sold goods to Mr. A	2,230
29 January, 2020 Mr. X bought goods from Mr. A	1,200
10 February, 2020 Mr. A paid cash to Mr. X	1,000
13 March, 2020 Mr. A accepted a bill drawn by Mr. X for one month	2,000

They agree to settle their complete accounts by one single payment on 15th March, 2020.

Prepare Mr. A in Account Current with Mr. X and ascertain the amount to be paid. Ignore days of grace.

(c) Mr. Badhri sends goods to his customers on Sale or Return. The following transactions took place during the month of December 2019.

December 2nd - Sent goods to customers on sale or return basis at cost plus 25% - Rs. 80,000

December 10th - Goods returned by customers Rs. 35,000

December 17th - Received letters from customers for approval Rs. 35,000

December 23rd - Goods with customers awaiting approval Rs. 15,000

Mr. Badhri records sale or return transactions as ordinary sales. You are required to pass the necessary Journal Entries in the books of Mr. Badhri assuming that the accounting year closes on 31st Dec. 2019. Considered that the transaction values are at involve price (including profit margin).

(10 + 5 + 5 = 20 Marks)

4. (a) Monika, Yedhant and Zoya are in partnership, sharing profits and losses equally.

Zoya died on 30th June 2020. The Balance Sheet of Firm as at 31st March 2020 stood as

Liabilities	Amount	Assets		Amount
Creditors	20,000	Land and Building		1,50,000
General Reserve	12,000	Investments		65,000
Capital Accounts:		Stock in trade		15,000
Monika	1,00,000	Trade receivables	35,000	
Yedhant	75,000	Less: Provision for doubtful debt	(2,000)	33,000
Zoya	75,000	Cash in hand		7,000
		Cash at bank		12,000

	2,82,000		2,82,000

In order to arrive at the balance due to Zoya, it was mutually agreed that:

(i) Land and Building be valued at Rs. 1,75,000

(ii) Debtors were all good, no provision is required

(iii) Stock is valued at Rs. 13,500

(iv) Goodwill will be valued at one Year's purchase of the average profit of the past five years. Zoya's share of goodwill be adjusted in the account of Monika and Yedhant.

(v) Zoya's share of profit from 1st April 2020, to the date of death be calculated on the basis of average profit of preceding three years.

(vi) The profit of the preceding five years ended 1st March were:

2020	2019	2018	2017	2016
25,000	20,000	22,500	35,000	28,750

You are required to prepare: (1) Revaluation account and (2) Capital accounts of the partners as at 1st July 2020.

(b) Following particulars are extracted from the books of Mr. Sandeep for the year ended 31st December, 2020.

Particulars	Amount	Particulars	Amount
Debit Balances:	**Rs.**	**Credit Balances:**	**Rs.**
Cash in hand	1,500	Capital	16,000
Purchase	12,000	Bank overdraft	2,000
Sales return	1,000	Sales	9,000
Salaries	2,500	Purchase return	2,000
Tax and Insurance	500	Provision for Bad debts	1,000
Bad debts	500	Creditors	2,000
Debtors	5,000	Commission	500
Investments	4,000	Bills payable	2,500
Opening stock	1,400		
Drawings	2,000		
Furniture	1,600		
Bills receivables	3,000		
	35,000		35,000

Other information :

(i) Closing stock was valued at Rs. 4,500.

(ii) Salary of Rs. 100 and Tax of Rs. 200 are outstanding whereas insurance Rs. 50 is prepaid.

(iii) Commission received in advance is Rs. 100.

(iv) Interest accrued on investment is Rs. 210.

(v) Interest on overdraft is unpaid Rs. 300.

(vi) Provision for bad debts is to be kept at Rs. 1,000 .

(vii) Depreciation on furniture is to be charged @ 10%.

You are required to prepare the final accounts after making above adjustments.

(8 + 12 = 20 Marks)

5. (a) Smith Library Society showed the following position on 31st March, 2019:

Balance Sheet as on 31st March, 2019

Liabilities	Rs.	Assets	Rs.
Capital fund	7,93,000	Electrical fittings	1,50,000
Expenses payable	7,000	Furniture	50,000
		Books	4,00,000
		Investment in securities	1,50,000
		Cash at bank	25,000
		Cash in hand	25,000
	8,00,000		8,00,000

The receipts and payment account for the year ended on 31st March, 2020 is given below:

		Rs.		Rs.
To Balance b/d			By Electric charges	7,200
Cash at bank	25,000		By Postage and stationary	5,000
Cash in hand	25,000	50,000	By Telephone charges	5,000
To Entrance fee		30,000	By Books purchased	60,000
To Membership subscription		2,00,000	By Outstanding expenses paid	7,000
To Sale proceeds of old papers		1,500	By Rent	88,000
To Hire of lecture hall		20,000	By Investment in securities	40,000
To Interest on securities.		8,000	By Salaries	66,000
			By Balance c/d	
			Cash at bank	20,000
			Cash in hand	11,300
		3,09,500		3,09,500

You are required to prepare income and expenditure account for the year ended 31st March, 2020 after making the following adjustments:

Membership subscription included Rs. 10,000 received in advance.

Provide for outstanding rent Rs. 4,000 and salaries Rs. 3,000.

Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.

75% of the entrance fees is to be capitalized.

Interest on securities is to be calculated @ 5% p.a. including purchases made on 1.10.2019 for Rs. 40,000.

(b) Following information is provided for M/s. Kumar Traders for the year ended 31st March, 2019:

	Rs.
Opening Inventory	1,00,000
Purchases	6,72,000
Carriage Inwards	30,000
Wages	50,000
Sales	11,00,000
Returns inward	1,00,000
Returns outward	72,000
Closing Inventory	2,00,000

You are required to pass necessary closing entries in the journal proper of M/s. Kumar Trade.

(15 + 5 = 20 Marks)

6. (a) Give necessary journal entries for the forfeiture and re-issue of shares:

(i) X Ltd. forfeited 300 shares of Rs. 10 each fully called up, held by Ramesh for non-payment of allotment money of Rs. 3 per share and final call of Rs. 4 per share. He paid the application money of Rs. 3 per share. These shares were re-issued to Suresh for Rs. 8 per share.

(ii) Mr. P, who was the holder of 2,500 preference shares of Rs. 100 each, on which Rs. 70 per share has been called up, could not pay his dues on Allotment and First call each at Rs. 20 per share. The Directors forfeited the above shares and reissued 2,000 of such shares to Mr. Q at Rs. 60 per share paid-up as Rs. 70 per share.

(b) Pure Ltd. issues 1,00,000 12% Debentures of Rs. 10 each at Rs. 9.40 on 1st January, 2018. Under the terms of issue, the Debentures are redeemable at the end of 5 years from the date of issue.

Calculate the amount of discount to be written-off in each of the 5 years.

(c) Classify the following expenditures as capital or revenue expenditure:

(i) Amount spent on making a few more exists in a Cinema Hall to comply with Government orders.

(ii) Travelling expenses of the directors for trips abroad for purchase of capital assets.

(iii) Amount spent to reduce working expenses.

(iv) Amount paid for removal of stock to a new site.

(v) Cost of repairs on second-hand car purchased to bring it into working condition.

(10 + 5 + 5 = 20 Marks)

Test Series: May, 2020

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 areto 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.

(c) Purchase Returns Book

Date	*Debit Note No.*	*Name of supplier*	*L.F.*	*Amount*
2020 Jan. 4	101	Goyal Mills, Surat		500

Jan. 16	102	Mittal Mills, Bangalore		1,300
Jan. 31		Purchases Returns Account (Cr.)		1,800

2. (a) Statement of Valuation of Stock on 31st March, 2020

		Rs.	Rs.
Value of stock as on 15th April, 2020			50,000
Add:	Cost of sales during the period from 31st March, 2020 to 15th April, 2020		
	Sales (Rs. 41,000 – Rs. 1,000)	40,000	
	Less: Gross Profit (20% of Rs. 40,000)	8,000	32,000
	Cost of goods sent on approval basis (80% of Rs. 6,000)		4,800
			86,800
Less:	Purchases during the period from 31st March, 2020 to 15th April, 2020	5,034	
	Unsold stock out of goods received on consignment basis (30% of Rs. 8,000)	2,400	7,434
			79,366

(b) Calculation of depreciation for 5th year

Depreciation per year charged for four years = Rs. 10,00,000 / 10 = Rs. 1,00,000

WDV of the machine at the end of fourth year = Rs. 10,00,000 – Rs. 1,00,000 × 4 = Rs. 6,00,000.

Depreciable amount after revaluation = Rs. 6,00,000 + Rs. 40,000 = Rs. 6,40,000

Remaining useful life as per previous estimate = 6 years

Remaining useful life as per revised estimate = 8 years

Depreciation for the fifth year and onwards = Rs. 6,40,000 / 8 = Rs. 80,000.

(c) Bank Reconciliation Statement as on 30th June 2020

	Particulars	Amount	Amount
	Overdraft as per Pass Book (Dr. Balance)		25,000
Add:	Cheques issued but not presented Rs. (34,000-20,000)	14,000	
	Cheques deposited into the Bank by Customer but not entered in Cash Book	400	
	Bank charges written twice in Cash Book	80	14,480
			39,480
Less:	Cheques received, recorded in cash Book but not sent to the Bank	4,000	
	Cheques sent to the Bank but not collected	6,000	
	Direct payment made by the bank not recorded in the Cash book	600	

	Interest on Overdraft charged by Bank	1,600	
	Insurance charges not entered in Cash Book	70	
	Credit side of bank column of Cash Book was undercast	2,000	14,270
	Balance as per Cash Book		25,210

3. (a) **Consignment Account**

	Rs.			Rs.
To Goods sent on consignment A/c (15,000 kg x Rs. 30)	4,50,000	By Consignee's A/c-Sales (7,500 kg x Rs. 60)		4,50,000
To Cash A/c (Expenses 15,000 kg x Rs. 5)	75,000	By Abnormal Loss A/c (Insurance claim - WN)	9,000	
To Consignee's A/c:		Add: Abnormal Loss (WN)	5,000	14,000
Advertisement & Recurring expenses	33,000	(Profit and Loss Account)		
Commission @ 5% on Rs.4,50,000	22,500	By Consignment Stock A/c		2,46,690
To Profit and loss A/c (Profit on Consignment)	1,30,190			
	7,10,690			7,10,690

Working Notes:

1. Abnormal Loss:

Cost of goods lost: 400 kg	
Total cost (400 x Rs. 30)	12,000
Add: expenses incurred by the consignor @ Rs.5 per kg	2,000
Gross Amount of abnormal loss	14,000
Less: Insurance claim	(9,000)
Net abnormal loss	5,000

2. Valuation of Inventories

	Quantity (Kgs)	Amount (Rs.)
Total Cost (15,000 kg x Rs.30)	15,000	4,50,000
Add: Expenses incurred by the consignor		75,000
Less: Value of Abnormal Loss – 400 kgs (WN 1)	(400)	(14,000)
	14,600	5,11,000
Less: Normal Loss	(100)	
	14,500	5,11,000
Less: Quantity of ghee sold	(7,500)	
Quantity of Closing Stock	7,000	
Value of 7,000 kgs – (5,11,000/14,500) x 7,000		**2,46,690**

(b) **Mr. A in Account Current with Mr. X**

(Interest upto 15th March, 2020 @ 10% p.a.)

Dr.											*Cr.*
Date		*Particulars*	*Amount*	*Days*	*Product*	*Date*		*Particulars*	*Amount*	*Days*	*Product*
2020						*2020*					
Jan. 01	To	Balance b/d	4,000	75	3,00,000	Jan. 29	By	Purchase account	1,200	46	55,200
Jan. 15	To	Sales account	2,230	60	1,33,800	Feb. 10	By	Cash account	1,000	34	34,000
Mar. 13	To	Red Ink product (Rs. 2,000 × 29)			58,000	Mar. 13	By	Bills Receivable account	2,000		
Mar. 15	To	Interest account $\left(\frac{Rs.4,02,600 \times 10 \times 1}{100 \times 366}\right)$	110			Mar. 15	By	Balance of product			4,02,600
							By	Balance c/d (amount to be paid)	2,140		
			6,340		4,91,800				6,340		4,91,800

(c) **In the books of Mr. Badhri**

Journal Entries

Date	***Particulars***		***L.F.***	***Dr. (in Rs.)***	***Cr. (in Rs.)***
2019					
Dec. 2	Trade receivables A/c	Dr.		80,000	
	To Sales A/c				80,000
	(Being the goods sent to customers on sale or return basis)				
Dec. 10	Return Inward A/c (Note 1)	Dr.		35,000	
	To Trade receivables A/c				35,000
	(Being the goods returned by customers to whom goods were sent on sale or return basis)				
Dec. 23	Sales A/c	Dr.		15,000	
	To Trade receivables A/c				15,000
	(Being the cancellation of original entry of sale in respect of goods on sale or return basis)				
Dec. 31	Inventories with customers on Sale or Return A/c	Dr.		12,000	
	To Trading A/c (Note 3)				12,000
	(Being the adjustment for cost of goods lying with customers awaiting approval)				

Working Note:

1 No entry is required for receiving letter of approval from customer.

(2) Cost of goods with customers = Rs. 15,000 x 100/125 = Rs. 12,000

4 **(a)** **Revaluation Account**

Particulars	Rs.	Particulars	Rs.
To Stock	1,500	By Land & Building	25,000
To Partners:		By Provision for doubtful debt	2,000
(Revaluation Profit)			
Monika	8,500		
Yedhant	8,500		
Zoya	8,500		
	27,000		27,000

Partners' Capital Accounts

Particulars	Monika	Yedhant	Zoya	Particulars	Monika	Yedhant	Zoya
To Zoya	4,375	4,375	-	By Bal b/d.	1,00,000	75,000	75,000
To Zoya's Executor	-	-	98,125	By General reserve	4,000	4,000	4,000
				By Monika & Yedhant	-	-	8,750
To Bal. c/d	1,08,125	83,125		By Profit and Loss Adjustment* (suspense) A/c	-	-	1,875
				By Revaluation A/c	8,500	8,500	8,500
	1,12,500	87,500	98,125		1,12,500	87,500	98,125

*Profit and Loss Adjustment = [(25,000 + 20,000 + 22,500)/3] x 3/12 x 1/3 = 1,875

Working Note:

Calculation of goodwill and Zoya's share

Average of last five year's profits and losses for the year ended on 31^{st} March

31.3.2016	28,750
31.3.2017	35,000
31.3.2018	22,500
31.3.2019	20,000
31.3.2020	25,000
Total	1,31,250
Average profit	26,250

Goodwill at 1 year purchase = Rs. 26,250 x 1 = Rs. 26,250

Zoya's Share of Goodwill = Rs. 26,250X1/3

= Rs. 8,750

Which is contributed by Monika and Yedhant in their gaining Ratio

Monika = Rs. 8,750X1/2 = Rs. 4,375

Yedhant = Rs. 8,750X1/2 = Rs. 4,375

(b) **Trading & Profit and Loss Account of Mr. Sandeep for the year ended 31st December, 2020**

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock		1,400	By Sales	9,000	
To Purchase	12,000		*Less:* Sales return	(1,000)	8,000
Less: Purchase return	(2,000)	10,000	By Closing stock		4,500
To Gross Profit		1,100			
		12,500			12,500
To Salary	2,500		By Gross Profit		1,100
Add: Outstanding salary	100	2,600	By Commission	500	
			Less: Advance	(100)	400
To Tax & Insurance	500		By Accrued interest		210
Add: Outstanding	200		By Net Loss		2,500
Prepaid insurance	(50)	650			
To Bad debt	500				
Opening provision	(1,000)				
Closing provision	1,000	500			
To Interest on overdraft		300			
To Depreciation on furniture		160			
		4,210			4,210

Balance Sheet of Mr. Sandeep as on 31.3.2020

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
Capital	16,000		By Furniture	1,600	
Less: drawing	(2,000)		*Less:* Depreciation	(160)	1,440
Net loss	(2,500)	11,500	Bill receivable		3,000
Bank overdraft	2,000		Investment	4,000	
Add: interest	300	2,300	*Add:* accrued interest	210	4,210
Creditors		2,000	Debtors	5,000	
Bills payable Outstanding expenses:		2,500	*Less:* Provision on bad debts	(1,000)	4,000
Salary	100		Closing stock		4,500
Tax	200	300	Cash in hand		1,500
Commission received in advance		100	Prepaid insurance		50
		18,700			18,700

5. (a) **Smith Library Society**

Income and Expenditure Account

for the year ended 31st March, 2020

Dr.						Cr.
Expenditure	Rs.	Rs.	Income			Rs.
To Electric charges		7,200	By	Entrance fee (25% of Rs. 30,000)		7,500
To Postage and stationary		5,000				
To Telephone charges		5,000	By	Membership subscription	2,00,000	
To Rent	88,000			Less: Received in advance	10,000	1,90,000
Add: Outstanding	4,000	92,000				
To Salaries	66,000		By	Sale proceeds of old papers		1,500
Add: Outstanding	3,000	69,000				
To Depreciation (W.N.1)			By	Hire of lecture hall		20,000
Electrical fittings	15,000		By	Interest on securities (W.N.2)	8,000	
Furniture	5,000					
Books	46,000	66,000		Add: Receivable	500	8,500
			By	Deficit- excess of expenditure over income		16,700
		2,44,200				2,44,200

Working Notes:

1. Depreciation **Rs.**

Electrical fittings 10% of Rs. 1,50,000	15,000
Furniture 10% of Rs. 50,000	5,000
Books 10% of Rs. 4,60,000	46,000

2. Interest on Securities

Interest @ 5% p.a. on Rs. 1,50,000 for full year	7,500	
Interest @ 5% p.a. on Rs. 40,000 for half year	1,000	8,500
Less: Received		(8,000)
Receivable		500

(b) Journal Proper in the Books of M/s. Kumar Traders

Date 2019	Particulars		Amount Rs.	Amount Rs.
Mar. 31	Returns outward A/c	Dr.	72,000	
	To Purchases A/c			72,000
	(Being the transfer of returns to purchases account)			
	Sales A/c	Dr.	1,00,000	

	To Returns Inward A/c (Being the transfer of returns to sales account)			1,00,000
.	Sales A/c To Trading A/c (Being the transfer of balance of sales account to trading account)	Dr.	10,00,000	10,00,000
	Trading A/c To Opening Inventory A/c To Purchases A/c To Wages A/c To Carriage Inwards A/c (Being the transfer of balances of opening inventory, purchases and wages accounts)	Dr.	7,80,000	 1,00,000 6,00,000 50,000 30,000
	Closing Inventory A/c To Trading A/c (Being the incorporation of value of closing Inventory)	Dr.	2,00,000	2,00,000
	Trading A/c To Gross Profit (Being the amount of gross profit)	Dr.	4,20,000	4,20,000
	Gross profit To Profit and Loss A/c (Being the transfer of gross profit to Profit and Loss Account)	Dr.	4,20,000	4,20,000

6. (a) (i) Journal Entries in the books of X Ltd.

Date			*Dr.* Rs.	*Cr.* Rs.
(a)	Equity Share Capital A/c To Equity Share Allotment money A/c (300 x Rs. 3)	Dr.	3,000	 900
	To Equity Share Final Call A/c (300 x Rs. 4) To Forfeited Shares A/c (300 x Rs. 3) (Being the forfeiture of 300 equity shares ofRs. 10 each for non-payment of allotment money and final call, held by Ramesh as per Board's resolution No…………….dated ....)			1,200 900
(b)	Bank Account (300 x 8) Forfeited	Dr. Dr.	2,400 600	

(c)	Shares Account (300x 2) To Equity Share Capital Account (Being the re-issue of 300 forfeited shares @ Rs. 8 each as fully paid up to Suresh as per Board's resolution No……….dated…………………….) Forfeited Shares Account To Capital Reserve Account (Being the profit on re-issue, transferred to capital reserve)	Dr.	300	3,000 300

(ii)

		Dr. Rs.	Cr. Rs.
Preference Share Capital A/c (2,500 x Rs. 70)	Dr.	1,75,000	
To Preference Share Allotment A/c (2,500 x Rs. 20)			50,000
To Preference Share First Call A/c (2,500 x Rs. 20)			50,000
To Forfeited Share A/c			75,000
(Being the forfeiture of 2,500 preference shares Rs. 70 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated)			
Bank A/c (2,000 x Rs.60)	Dr.	1,20,000	
Forfeited Shares A/c (2,000 x Rs.10)	Dr.	20,000	
To Preference Share Capital A/c			1,40,000
(Being re-issue of 2,000 shares at Rs. 60 per share paid-up as Rs. 70 as per Board's Resolution No…..dated….)			
Forfeited Shares A/c	Dr.	40,000	
To Capital Reserve A/c (Note 1)			40,000
(Being profit on re-issue transferred to			
Capital/Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =Rs. 75,000/2500 = Rs. 30

Loss on re-issue =Rs. 70 – Rs. 60 = Rs. 10

Surplus per share re-issued Rs. 20

Transferred to capital Reserve Rs. 20 x 2000 = Rs. 40,000.

(b) Total amount of discount comes to Rs. 60,000 (Rs. 0.6 X 1, 00,000). The amount of discount to be written-off in each year is calculated as under:

Year end	Debentures Outstanding	Ratio in which discount to be written-off	Amount of discount to be written-off
1st	Rs. 10, 00,000	1/5	1/5th of Rs. 60,000 = Rs. 12,000
2nd	Rs. 10, 00,000	1/5	1/5th of Rs. 60,000 = Rs. 12,000
3rd	Rs. 10, 00,000	1/5	1/5th of Rs. 60,000 = Rs. 12,000
4th	Rs. 10, 00,000	1/5	1/5th of Rs. 60,000 = Rs. 12,000
5th	Rs. 10, 00,000	1/5	1/5th of Rs. 60,000 = Rs. 12,000

(c) (i) Revenue Expenditure.

(ii) Capital Expenditure.

(iii) Revenue Expenditure.

(iv) Revenue Expenditure.

(v) Capital Expenditure.

Test Series: October, 2020

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:

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

   3 Receipts and Payments Account highlights total income and expenditure.

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

   (b) Prepare Journal Entries for the following transactions in the books of Symphony Bros. for the year ending 31st March, 2020

   (i) Employees had taken stock worth ` 10,000 (Cost price ` 7,500) on the eve of Deepawali and the same was deducted from their salaries in the subsequent month.

   (ii) Goods distributed by way of free samples ` 2,000.

   (iii) Income tax liability of proprietor ` 1,400 was paid out of petty cash.

   (iv) Purchase of goods from Naveen of the list price of ` 2,000. He allowed 10% trade discount, ` 50 cash discount was also allowed for quick payment. **(4 Marks)**

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

   (4 Marks)

2. (a) Physical verification of stock in a business was done on 14th June, 2020. The value of the stock was `96,00,000. The following transactions took place between 14th June to 30th June, 2020:

   (i) Out of the goods sent on consignment, goods at cost worth ` 4,80,000 were unsold.

   (ii) Purchases of ` 8,00,000 were made out of which goods worth ` 3,20,000 were delivered on5th July, 2020.

(iii) Sales were `27,20,000, which include goods worth ` 6,40,000 sent on approval. Half of these goods were returned before 30th June, 2020, but no information is available regarding the remaining goods.

(iv) Goods are sold at cost plus 25%. However goods costing ` 4,80,000 had been sold for ` 2,40,000.

You are required to determine the value of stock on 30th June, 2020.

(b) On 31st March 2020, the bank account of Chandan, according to the bank column of the Cash- Book, was overdrawn to the extent of ` 4,062. On the same date the bank statement showed a debit balance of ` 20,758 in favour of Chandan. An examination of the Cash Book and Bank statement reveals the following:

1. A cheque for ` 13,14,000 deposited on 29th March,2020 was credited by the bank only on 4th April ,2020
2. A payment by cheque for ` 16,000 has been entered twice in the Cash Book.
3. On 29th March, 2020, the bank credited an amount of ` 1,17,400 received from a customer of Chandan, but the advice was not received by Chandan until 1st April, 2020.
4. Bank charges amounting to ` 580 had not been entered in the Cash Book.
5. On 6th March, 2020, the bank credited ` 20,000 to Chandan in error.
6. A bill of exchange for ` 1,40,000 was discounted by Chandan with his bank. This bill was dishonoured on 28th March, 2020 but no entry had been made in the books of Chandan.
7. Cheques issued upto 31st March, 2020 but not presented for payment upto that date totalled ` 13,26,000.

You are required :

(a) to show the appropriate rectifications required in the Cash Book of Chandan, to arrive at the correct balance on 31st March,2020 and

(b) to prepare a bank reconciliation statement as on that date. **(10 +10 = 20 Marks)**

3 (a) Gagandeep of Delhi consigned to Mandeep of Ludhiana, goods to be sold at invoice price which represents 125% of cost. Mandeep is entitled to a commission of 10% on sales at invoice price and 25% of any excess realised over invoice price. The expenses on freight and insurance incurred by Gagandeep were ` 15,000. The account sales received by Gagandeep shows that Mandeep has effected sales amounting to ` 1,50,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were ` 12,000. 10% of consignment goods of the value of ` 18,750 were destroyed in fire at the Ludhiana godown. Mandeep remitted the balance in favour of Gagandeep.

You are required to prepare consignment account in the books of Gagandeep along with the necessary calculations.

(b) On 1st January, 2020, Ankur account in Varun ledger showed a debit balance of ` 2,500. The following transactions took place between Varun and Ankur during the quarter ended 31st March, 2020:

2020		`

Jan.	11	Varun sold goods to Ankur	3,000
Jan.	24	Varun received a promissory note from Ankur due after 3 months	2,500
Feb.	01	Ankur sold goods to Varun	5,000
Feb.	04	Varun sold goods to Ankur	4,100
Feb.	07	Ankur returned goods to Varun	500
March	01	Ankur sold goods to Varun	2,800
March	18	Varun sold goods to Ankur	4,600
March	23	Ankur sold goods to Varun	2,000

Accounts were settled on 31st March, 2020 by means of a cheque. Prepare an Account Current to be submitted by Varun to Ankur as on 31st March, 2020, taking interest into account @ 10% per annum. Calculate interest to the nearest multiple of a rupee. **(12 + 8 = 20 Marks)**

4. (a) The following information of M/s. Rose Club are related for the year ended 31st March, 2020: (1)

Balances	As on 01-04-2019 (`)	As on 31-3-2020 (`)
Stock of Sports Material	2,25,000	3,37,500
Amount due for Sports Material	2,02,500	2,92,500
Subscription due	33,750	49,500
Subscription received in advance	27,000	15,750

(2) Subscription received during the year ` 11,25,000

(3) Payments for Sports Material during the year ` 6,75,000

You are required to ascertain the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2020.

(b) P and Q are partners in a firm, sharing Profits and Losses in the ratio of 3 : 2. The Balance Sheet of P and Q as on 31.3.2020 was as follow:

Liabilities	Amount `	Assets		Amount `
Sundry Creditors	25,800	Building		52,000
Bill Payable	8,200	Furniture		11,600
Bank Overdraft	18,000	Stock-in-Trade		42,800
Capital Accounts:		Debtors	70,000	
P 88,000		Less: Provision	400	69,600
Q 72,000	1,60,000	Investment		5,000
		Cash		31,000
	2,12,000			2,12,000

'R' was admitted to the firm on the above date on the following terms:

(i) He is admitted for 1/6th share in future profits and to introduce a Capital of ` 50,000.

(ii) The new profit sharing ratio of P, Q and R will be 3 : 2 : 1 respectively.

(iii) 'R' is unable to bring in cash for his share of goodwill, partners therefore, decide to raise goodwill account in the books of the firm. They further decide to calculate goodwill on the basis of 'R's share in the profits and the capital contribution made by him to the firm.

(iv) Furniture is to be written down by ` 1,740 and Stock to be depreciated by 5%. A provision is required for Debtors @ 5% for Bad Debts. A provision would also be made for outstanding wages for `3,120. The value of Buildings having appreciated be brought upto ` 58,400. The value of investment is increased by ` 900.

(v) It is found that the creditors included a sum of ` 2,800, which is not to be paid off.

Prepare the following:

(i) Revaluation Account.

(ii) Partners' Capital Accounts.

(iii) Balance Sheet of New Partnership firm after admission of 'R'. **(5+15= 20 Marks)**

5 (a) M/s Surya Transport purchased 10 Innova cars at ` 4,50,000 each on 1st April 2017. On October 1st 2019, one of the car is involved in an accident and is completely destroyed and ` 2,70,000 is received from the insurance in full settlement. On the same date, another car is purchased by the company for the sum of ` 5,00,000. The company writes off 20% on the original cost per annum. The company observe the calendar year as its financial year.

You are required to prepare the Innova cars account for years ended 31st Dec, 2019 and 31st Dec. 2020.

(b) The following are the balances as at 31st March, 2020 extracted from the books of Mr. Sanjeev.

	`		`
Plant and Machinery	39,100	Bad debts recovered	900
Furniture and Fittings	20,500	Salaries	45,100
Bank Overdraft	1,60,000	Salaries payable	4,900
Capital Account	1,30,000	Prepaid rent	600
Drawings	16,000	Rent	8,600
Purchases	3,20,000	Carriage inward	2,250
Opening Stock	64,500	Carriage outward	2,700
Wages	24,330	Sales	4,30,600
Provision for doubtful debts	6,400	Advertisement Expenses	6,700
Provision for Discount on		Printing and Stationery	2,500
debtors	2,750	Cash in hand	2,900
Sundry Debtors	2,40,000	Cash at bank	6,250
Sundry Creditors	95,000	Office Expenses	20,320
Bad debts	2,200	Interest paid on loan	6,000

Additional Information:

1. Purchases include sales return of ` 5,150 and sales include purchases return of ` 3,450.

2. Goods withdrawn by Mr. Sanjeev for own consumption ` 7,000 included in purchases.
3. Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
4. Free samples distributed for publicity costing ` 1,650.
5. Wages paid in the month of April for installation of plant and machinery amounting to ` 900 were included in wages account.
6. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2020 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.
7. Depreciation is to be provided on plant and machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2020 and a Balance Sheet as on that date. **(6 + 14 = 20 Marks)**

6. (a) Alpha Limited registered with an authorized equity capital of ` 4,00,000 divided into 2,000 shares of ` 100 each, issued for subscription of 1,000 shares payable at ` 25 per share on application, ` 30 per share on allotment, ` 20 per share on first call and the balance as and when required. Application money on 1,000 shares was duly received and allotment was made to them. The allotment amount was received in full, but when the first call was made, two shareholders failed to pay the amount on 100 shares each held by them and another shareholder with 100 shares, paid the entire amount on his shares. The company did not make any other call. Give the necessary journal entries in the books of the company to record these transactions.

(b) Aditya Limited issued 20,000 9% Debentures of the nominal value of `1,00,00,000 as follows:

(a) To sundry persons for cash at 90% of nominal value of ` 50,00,000.

(b) To a vendor for purchase of fixed assets worth ` 20,00,000 – ` 25,00,000 nominal value.

(c) To the banker as collateral security for a loan of ` 20,00,000 – ` 25,00,000 nominal value.

You are required to prepare necessary journal entries Journal Entries.

(c) Distinguish between Money Measurement concept and Matching concept.

(10 + 5 + 5 = 20 Marks)

Test Series: October, 2020

MOCK TEST PAPER

FOUNDATION COURSE

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 capitalof shares forfeited and the share forfeiture account is credited with amount received on shares forfeited.

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

3 **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.

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

(b) **Journal Entries in the books of Symphony Bros.**

	Particulars	*Dr.*	*Cr.*
		Amount (`)	*Amount (`)*
(i)	Salaries A/c	7,500	
	To Purchase A/c		7,500
	(Being entry made for stock taken by employees)		
(ii)	Advertisement Expenses A/c	2,000	
	To Purchases A/c		2,000
	(Being distribution of goods by the way of free samples)		
(iii)	Drawings A/c	1,400	
	To Petty Cash A/c		1,400
	(Being the income tax of proprietor paid out of business money)		
(iv)	Purchase A/c	1,800	
	To Cash A/c		1,750
	To Discount Received A/c		50

	(Being the goods purchased from Naveen for ` 2,000 @ 10% trade discount and cash discount of ` 50)		

(c) 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.

2. (a) **Statement of Valuation of Stock on 30th June, 2020**

		`
Value of stock as on 14th June, 2020		96,00,000
Add: Unsold stock out of the goods sent on consignment	4,80,000	
Purchases during the period from 14th June, 2020 to 30th June, 2020	4,80,000	
Goods in transit on 30th June, 2020	3,20,000	
Cost of goods sent on approval basis (80% of ` 3,20,000)	2,56,000	15,36,000
		1,11,36,000
Less: Cost of sales during the period from 14th June, 2020 to 30th June, 2020		
Sales (` 27,20,000-` 3,20,000)	24,00,000	
Less: Gross profit	1,92,000	
		22,08,000
Value of stock as on 30th June, 2020		89,28,000

Working Notes:

1.	**Calculation of normal sales:**	`	`
	Actual sales		27,20,000
	Less: Abnormal sales	2,40,000	
	Return of goods sent on approval	3,20,000	5,60,000
			21,60,000
2.	**Calculation of gross profit:**		
	Gross profit or normal sales		4,32,000
	20/100 x ` 21,60,000		

	Less: Loss on sale of particular (abnormal) goods (4,80,000 less 2,40,000)		2,40,000
	Gross profit		1,92,000

(b) (i) Cash Book (Bank Column)

Date	Particulars	Amount	Date	Particulars	Amount
2020		`	2020		`
March 31	To Party A/c	16,000	March 31	By Balance b/d	4,062
	To Customer A/c (Direct deposit)	1,17,400		By Bank charges	580
	To Balance c/d	11,242		By Customer A/c (B/R dishonoured)	1,40,000
		1,44,642			1,44,642

(ii) Bank Reconciliation Statement as on 31st March,2020

Particulars	Amount
	`
Overdraft as per Cash Book	11,242
Add: Cheque deposited but not collected upto 31st March,2020	13,14,000
	13,25,242
Less: Cheques issued but not presented for payment upto 31st March,2020	(13,26,000)
Credit by Bank erroneously on 6th March,2020	(20,000)
Overdraft as per bank statement	20,758

Note: Bank has credited Chandan by 20,000 in error on 6th March, 2020. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with ` 13,26,000 resulting in debit balance of ` 758 as per pass-book.

3. (a) Books of Gagandeep

Consignment to Ludhiana Account

Particulars	`	*Particulars*	`
To Goods sent on Consignment A/c	1,87,500	By Goods sent on Consignment A/c (loading)	37,500
To Cash A/c	15,000	By Abnormal Loss	16,500
To Mandeep (Expenses)	12,000	By Mandeep (Sales)	1,50,000
To Mandeep (Commission)	16,406	By Inventories on Consignment A/c	30,375
To Inventories Reserve A/c	5,625	By General Profit & Loss A/c	2,156
	2,36,531		2,36,531

Working Notes:

1. **Calculation of value of goods sent on consignment:**

   Abnormal Loss at Invoice price = ` 18,750

   Abnormal Loss as a percentage of total consignment = 10%

   Hence the value of goods sent on consignment = ` 18,750 X 100/ 10 = ` 1,87,500

   Loading of goods sent on consignment = ` 1,87,500 X 25/125 = ` 37,500

2. **Calculation of abnormal loss (10%):**

   Abnormal Loss at Invoice price = ` 18,750.

   Abnormal Loss at cost = ` 18,750 X 100/125 = ` 15,000

   Add: Proportionate expenses of Gagandeep (10 % of ` 15,000) = ` 1,500

   ` 16,500

3. **Calculation of closing Inventories (15%):**

   Gagandeep's Basic Invoice price of consignment= ` 1,87,500

   Gagandeep's expenses on consignment = ` 15,000

   ` 2,02,500

   Value of closing Inventories = 15% of ` 2,02,500 = ` 30,375

   Loading in closing Inventories = ` 37,500 x 15/100 = ` 5,625

   Where ` 28,125 (15% of ` 1,87,500) is the basic invoice price of the goods sent on consignment remaining unsold.

4. **Calculation of commission:**

   Invoice price of the goods sold = 75% of ` 1,87,500 = ` 1,40,625

   Excess of selling price over invoice price = ` 9,375 ( ` 1,50,000 - ` 1,40,625)

   Total commission = 10% of ` 1,40,625 + 25% of ` 9,375

   = ` 14,062.5 + ` 2,343.75

   = ` 16,406

(b) **In the books of Varun**

Ankur in Account Current with Varun

(Interest to 31st March, 2020 @ 10% p.a)

Date	Particulars	Amount	Days	Product	Date	Particulars	Amount	Days	Product
2020		`		`	2020		`		`
Jan.1	To Balance b/d	2,500	90	2,25,000	Jan.24	By Promissor Varun Note (due date 27th April)	2,500	(27)	(67500)
Jan. 11	To Sales	3,000	79	2,37,000	Feb. 1	By Purchases	5,000	58	2,90,000

Feb. 4	To Sales	4,100	55	2,25,500	Feb. 7	By Sales Return	500	52	26,000
Mar. 18	To Sales	4,600	13	59,800	Mar. 1	By Purchases	2,800	30	84,000
Mar. 31	To Interest	110			Mar. 23	By Purchases	2,000	8	16,000
					Mar. 31	By Balance of Products			3,98,800
					Mar. 31	By Bank	1,510		
		14,310		7,47,300			14,310		7,47,300

Working Note:

Calculation of interest: $\frac{3,98,800}{365} \times \frac{10}{100} =$ ` 110 (approx.)

4. (a) Subscription for the year ended 31.3.2020

		`
Subscription received during the year		11,25,000
Less: Subscription receivable on 1.4.2019	33,750	
Less: Subscription received in advance on 31.3.2020	15,750	(49,500)
		10,75,500
Add: Subscription receivable on 31.3.2020	49,500	
Add: Subscription received in advance on 1.4.2019	27,000	76,500
Amount of Subscription appearing in Income & Expenditure Account		11,52,000

Sports material consumed during the year end 31.3.2020

	`
Payment for Sports material	6,75000
Less: Amounts due for sports material on 1.4.2019	(2,02,500)
	4,72,500
Add: Amounts due for sports material on 31.3.2020	2,92,500
Purchase of sports material	7,65,000
Sports material consumed:	
Stock of sports material on 1.4.2019	2,25,000
Add: Purchase of sports material during the year	7,65,000
	9,90,000
Less: Stock of sports material on 31.3.2020	(3,37,500)
Amount of Sports Material appearing in Income & Expenditure Account	6,52,500

(b) (i) Revaluation Account

		`			`
To	Furniture	1,740	By	Building	6,400
To	Stock	2,140	By	Sundry creditors	2,800
To	Provision of doubtful debts (` 3,500 – ` 400)	3,100	By	Investment	900
To	Outstanding wages	3,120			
		10,100			10,100

(ii) **Partners' Capital Accounts**

		P	Q	R			P	Q	R
		`	`	`			`	`	`
To	Balance c/d	142,000	108,000	50,000	By	Balance b/d	88,000	72,000	–
					By	Cash A/c	–	–	50,000
					By	Goodwill A/c (Working Note)	54,000	36,000	
		142,000	108,000	50,000			142,000	108,000	50,000

(iii) **Balance Sheet of New Partnership Firm**

(after admission of R) as on 31.3.2020

Liabilities		`	Assets		`
Capital Accounts:			Goodwill		90,000
P	1,42,000		Building (52,000 + 6,400)		58,400
Q	1,08,000		Furniture (11,600 – 1,740)		9,860
R	50,000	3,00,000	Stock-in-trade (42,800 – 2,140)		40,660
Bills Payable		8,200	Debtors	70,000	
Bank Overdraft		18,000	Less: Provision for bad Debts	(3,500)	66,500
Sundry creditors (25,800-2,800)		23,000	Investment (5,000 + 900)		5,900
Outstanding wages		3,120	Cash (31,000 + 50,000)		81,000
		3,52,320			3,52,320

Working Note:

Calculation of goodwill

R's contribution of ` 50,000 consists only 1/6th of capital.

Therefore, total capital of firm should be ` 50,000 × 6 = ` 3,00,000.

But combined capital of P, Q and R amounts ` 88,000 + 72,000 + 50,000 = ` 2,10,000.

Thus Hidden goodwill is ` 90,000 (` 3,00,000 – ` 2,10,000).

5. (a) **Innova Cars A/c**

Date	Particulars	Amount	Date	Particulars	Amount
2019			2019		
Jan-01	To balance b/d	29,25,000	Oct-01	By bank A/c	2,70,000
Oct-01	To Profit & Loss A/c (Profit on settlement of car)	45,000	Oct-01	By Depreciation on lost assets	67,500
Oct-01	To Bank A/c	5,00,000	Dec-31	By Depreciation A/c	8,35,000
			Dec-31	By balance c/d	22,97,500
		34,70,000			34,70,000

2020			2020		
Jan-01	To balance b/d	22,97,500	Dec-31	By Depreciation A/c	9,10,000
			Dec-31	By balance c/d	13,87,500
		22,97,500			22,97,500

Working Note:

1. To find out loss on Profit on settlement of Innova Car

	`
Original cost as on 1.4.2017	4,50,000
Less: Depreciation for 2017	67,500
	3,82,500
Less: Depreciation for 2018	90,000
	2,92,500
Less: Depreciation for 2019 (9 months)	67,500
	2,25,000
Less: Amount received from Insurance company	2,70,000
	45,000

(b) **Trading and Profit and Loss Account of Mr. Sanjeev for the year ended 31st March, 2020**

.Dr. *Cr.*

			Amount				*Amount*
		`	`			`	`
To	Opening stock		64,500	By	Sales	4,27,150	
To	Purchases	3,062,00			*Less*: Sales return	5,150	4,22,000
	Less: Purchases return	3,450	3,02,750	By	Closing stock $\left(`1,60,000 \times \frac{100}{80} \times \frac{100}{80}\right)$		2,50,000
To	Carriage inward		2,250				
To	Wages		23,430				
To	Gross profit c/d		2,79,070				
			6,72,000				6,72,000
To	Salaries		45,100	By	Gross profit b/d		2,79,070
To	Rent		8,600	By	Bad debts recovered		900
To	Advertisement expenses		8,350				
To	Printing and stationery		2,500				
To	Bad debts		2,200				
To	Carriage outward		2,700				

To	Provision for doubtful debts						
	5% of ` 2,40,000 12,000						
	Less: Existing provision 6,400		5,600				
To	Provision for discount on debtors						
	2.5% of ` 2,28,000 5,700						
	Less: Existing provision 2,750		2,950				
To	Depreciation:						
	Plant and machinery	6,000					
	Furniture and fittings	2,050	8,050				
To	Office expenses		20,320				
To	Interest on loan		6,000				
To	Net profit (Transferred to capital account)		1,67,600				
			2,79,970				2,79,970

Balance Sheet of Mr. Sanjeev as on 31st March, 2020

		Amount			*Amount*
Liabilities	`	`	*Assets*	`	`
Capital account	1,30,000		Plant and machinery	40,000	
Add: Net profit	1,67,600		*Less*: Depreciation	6,000	34,000
	2,97,600		Furniture and fittings	20,500	
Less: Drawings	23,000	2,74,600	*Less*: Depreciation	2,050	18,450
Bank overdraft		1,60,000	Closing stock		2,50,000
Sundry creditors		95,000	Sundry debtors	2,40,000	
Payable salaries		4,900	*Less*: Provision for doubtful debts	12,000	
			Provision for bad debts	5,700	2,22,300
			Prepaid rent		600
			Cash in hand		2,900
			Cash at bank		6,250
		5,34,500			5,34,500

Working Note:

Rectification Entries

	Particulars		*Dr.*	*Cr.*
			Amount	*Amount*
			`	`
(i)	Returns inward account	Dr.	5,150	
	Sales account	Dr.	3,450	

	To Purchases account		5,150
	To Returns outward account		3,450
	(Being sales return and purchases return wrongly included in purchases and sales respectively, now rectified)		
(ii)	Drawings account	Dr. 7,000	
	To Purchases account		7,000
	(Being goods withdrawn for own consumption included in purchases, now rectified)		
(iii)	Plant and machinery account	Dr. 900	
	To Wages account		900
	(Being wages paid for installation of plant and machinery wrongly debited to wages, now rectified)		
(iv)	Advertisement expenses account	Dr. 1,650	
	To Purchases account		1,650
	(Being free samples distributed for publicity out of purchases, now rectified)		

6. (a)

Bank A/c	Dr.	25,000	
To Equity Share Application A/c			25,000
(Money received on application for 1,000 shares @ ` 25 per share)			
Equity Share Application A/c	Dr.	25,000	
To Equity Share Capital A/c			25,000
(Transfer of application money on 1,000 shares to share capital)			
Equity Share Allotment A/c	Dr.	30,000	
To Equity Share Capital A/c			30,000
(Amount due on the allotment of 1,000 shares @ ` 30 per share)			
Bank A/c	Dr.	30,000	
To Equity Share Allotment A/c			30,000
(Allotment money received)			
Equity Share First Call A/c	Dr.	20,000	
To Equity Share Capital A/c			20,000
(First call money due on 1,000 shares @ ` 20 per share)			
Bank A/c	Dr.	18,500	
Calls-in-Arrears A/c	Dr.	4,000	
To Equity Share First Call A/c			20,000
To Calls-in-Advance A/c			2,500

(First call money received on 800 shares and calls-in-advance on 100 shares @ ` 25 per share)				

(b) **In the books of Aditya Company Ltd.**

Journal Entries

Date	***Particulars***		***Dr.*** `	***Cr.*** `
(a)	Bank A/c	Dr.	45,00,000	
	To Debentures Application A/c			45,00,000
	(Being the application money received on 10,000 debentures @ ` 450 each)			
	Debentures Application A/c	Dr.	45,00,000	
	Discount on issue of Debentures A/c	Dr.	5,00,000	
	To 9% Debentures A/c			50,00,000
	(Being the issue of 10,000 9% Debentures @ 90% as per Board's Resolution No....dated....)			
(b)	Fixed Assets A/c	Dr.	20,00,000	
	To Vendor A/c			20,00,000
	(Being the purchase of fixed assets from vendor)			
	Vendor A/c	Dr.	20,00,000	
	Discount on Issue of Debentures A/c	Dr.	5,00,000	
	To 9% Debentures A/c			25,00,000

(c)	(Being the issue of debentures of ` 25,00,000 to vendor to satisfy his claim)			
	Bank A/c To Bank Loan A/c (See Note) (Being a loan of ` 20,00,000 taken from bank by issuing debentures of `25,00,000 as collateral security)	Dr.	20,00,000	20,00,000

Note: No entry is made in the books of account of the company at the time of making issue of such debentures. In the "Notes to Accounts" of Balance Sheet, the fact that the debentures being issued as collateral security and outstanding are shown by a note under the liability secured.

(c) Distinction between Money Measurement concept and Matching concept

As per **Money Measurement concept**, only those transactions, which can be measured in terms of money are recorded. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money should be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

In **Matching concept**, all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.

Test Series: April,2021

MOCK TEST PAPER II

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. "Salary paid in advance" is not an expense because it neither reduces assets nor increases liabilities.

   ii. Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

   iii. The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

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

   v. Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.

   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) 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)**

   (c) A Plant & Machinery costing Rs. 40,00,000 is depreciated on straight line basis assuming 10 year working life and zero residual value, for four years. At the end of the fourth year, the machinery was revalued upwards by Rs. 1,60,000. The remaining useful life was reassessed at 8 years. Calculate Depreciation for the fifth year. **(4 Marks)**

2. (a) The following mistakes were located in the books of a concern after its books were closed and a Suspense Account was opened in order to get the Trial Balance agreed:

   (i) A Bill Receivable for Rs. 1,550 was passed through Bills Payable Book. The Bill was given by Ram.

   (ii) Cash received from Manan was debited to Tapan Rs. 7,500.

   (iii) General expenses Rs. 2600 was posted in the General Ledger as Rs. 6200.

(iv) Sales Day Book was overcast by Rs. 5,000.

(v) Legal Expenses Rs. 7,670 paid to Mr. Gupta was debited to her personal account.A sale of Rs. 25,000 to Tina was wrongly debited to the Account of Hina.

(vi) While carrying forward the total of one page of the Purchases Book to the next, the amount of Rs. 1,690 was written as Rs. 1,960.

(vii) Rs 7,000 due to Mr. Somdev was omitted to be taken to trial balance.

Find out the nature and amount of the Suspense Account and Pass entries (including narration) for the rectification of the above errors in the subsequent year's books.

(b) On 30th September, 2020, the bank account of Sameer, according to the bank column of the Cash- Book, was overdrawn to the extent of Rs. 16,248. On the same date the bank statement showeda credit balance of Rs. 83,032 in favour of Sameer. An examination of the Cash Book and Bank Statement reveals the following:

1. A cheque for Rs. 52,56,000 deposited on 29th September, 2020 was credited by the bank only on 3rd October, 2020

2. A payment by cheque for Rs. 64,000 has been entered twice in the Cash Book.

3. On 29th September, 2020, the bank credited an amount of Rs. 4,69,600 received from a customer of Sameer, but the advice was not received by Sameer until 1st October, 2020.

4. Bank charges amounting to Rs. 2,320 had not been entered in the Cash Book.

5. On 6th September, 2020, the bank credited Rs. 80,000 to Sameer in error.

6. A bill of exchange for Rs. 5,60,000 was discounted by Sameer with his bank. This bill was dishonoured on 28th September, 2020 but no entry had been made in the books of Sameer.

7. Cheques issued upto 30th September, 2020 but not presented for payment upto that date totalled Rs. 53,04,000.

You are required :

(a) to show the appropriate rectifications required in the Cash Book of Sameer, to arrive at the correct balance on 30th September, 2020 and

(b) to prepare a bank reconciliation statement as on that date. **(10 +10 = 20 Marks)**

3. (a) Mr. Devender of Dehradun sent on 16th February, 2020 a consignment of 500 Pen drives to Mr. Satender of Bengal costing Rs. 100 each. Expenses of Rs. 750 were met by the consignor. Satender spent Rs. 1,500 for clearance and selling expenses were Rs. 20 per Pen Drive.

Satender sold on 15th March, 2020, 300 Pen drives @ Rs. 160 per Pen drive and again on 20th May, 2020, 150 Pen drives @ Rs. 170 each.

Satender is entitled to a commission of Rs. 25 per Pen drive sold plus ¼ of the amount by which the gross sale proceeds less total commission thereon exceeded a sum calculated @ Rs. 125 per Pen drive sold. Satender sent the amount due to Devender on 30th September, 2020.

You are required to prepare the consignment account and Satender's account in the books of Devender.

(b) Hari accepted the following bills drawn by Vinny:

On 8th March, 2020 Rs. 12,000 for 4 months.

On 16th March, 2020 Rs. 15,000 for 3 months.

On 7th April, 2020 Rs. 18,000 for 5 months.

On 17th May, 2020 Rs. 15,000 for 3 months.

He wants to pay all the bills on a single day. Find out this date. Interest is charged @ 9 % p.a. and Hari wants to save Rs. 471 by way of interest. Calculate the date on which he has to effect the payment to save interest of Rs. 471.

(c) A firm sends good on "Sale or Return basis. Customers have the choice of returning the goods within a month. During October,2020 the following are the details of goods sent:

Date (Oct)	2	8	12	18	20	27
Customers	U	V	W	X	Y	Z
Value (Rs.)	10,000	15,000	18,000	5,500	2,000	21,000

Within the stipulated time, U and W returned the goods and V, X and Y signified that they have accepted the goods.

Show in the books of the firm, the Sale or Return Account and Customer W for Sale or Return Account as on 15th November 2020. **(10 + 5 + 5 = 20 Marks)**

4. (a) Alpha and Beta are partners in a firm, sharing Profits and Losses in the ratio of 3 : 2. The Balance Sheet of Alpha and Beta as on 1.1.2021 was as follows:

Liabilities	Amount Rs.	Assets		Amount Rs.
Sundry Creditors	25,800	Building		52,000
Bill Payable	8,200	Furniture		11,600
Bank Overdraft	18,000	Stock-in-Trade		42,800
Capital Account:		Debtors	70,000	
Alpha 88,000		Less: Provision	400	69,600
Beta 72,000	1,60,000	Investment		5,000
		Cash		31,000
	2,12,000			2,12,000

'Gama' was admitted to the firm on the above date on the following terms:

(i) He is admitted for 1/6th share in future profits and to introduce a Capital of Rs. 50,000.

(ii) The new profit sharing ratio of Alpha, Beta and Gama will be 3 : 2 : 1 respectively.

(iii) 'Gama' is unable to bring in cash for his share of goodwill, partners therefore, decide to raise goodwill account in the books of the firm. They further decide to calculate goodwill on the basis of 'Gama's share in the profits and the capital contribution made by him to the firm. Later, the goodwill was written off among all the partners in the new profit sharing ratio.

(iv) Furniture is to be written down by Rs. 1,740 and Stock to be depreciated by 10%. A provision is required for Debtors @ 5% for Bad Debts. A provision would also be made for outstanding wages for Rs. 3,120. The value of Buildings having appreciated be brought upto Rs. 58,400. The value of investment is increased by Rs. 900.

(v) It is found that the creditors included a sum of Rs. 2,800, which is not to be paid off.

Prepare the following:

(i) Revaluation Account.

(ii) Partners' Capital Accounts.

(iii) Balance Sheet of New Partnership firm after admission of 'Gama'.

(b) Mr. Surya runs a factory, which produces detergents. Following details were available in respect of his manufacturing activities for the year ended 31-03-2021.

Opening work-in-progress (27,000 units)	78,000
Closing work-in-progress (42,000 units)	1,44,000
Opening inventory of Raw Materials	7,80,000
Closing inventory of Raw Materials	9,60,000
Purchases	24,60,000
Hire charges of Machinery @ Rs. 0.70 per unit manufactured	
Hire charges of factory	7,80,000
Direct wages-contracted @ Rs. 0.80 per unit manufactured	
and @ Rs. 0.40 per unit of closing W.I.P.	
Repairs and maintenance	5,40,000
Units produced - 15,00,000 units	

You are required to prepare a Manufacturing Account of Mr. Surya for the year ended 31-03-2021.

(15+5= 20 Marks)

5. (a) From the following information supplied by New Punjabi Bagh Club, prepare Receipts and Payments account and Income and Expenditure Account for the year ended 31st March 2021.

	01.04.2020 Rs.	31.03.2021 Rs.
Outstanding subscription	70,000	1,00,000
Advance subscription	12,500	15,000
Outstanding salaries	7,500	9,000
Cash in Hand and at Bank	55,000	?
10% Investment	70,000	35,000
Furniture	14,000	7,000
Machinery	5,000	10,000
Sports goods	7,500	12,500

Subscription for the year amount to Rs. 1,50,000/-. Salaries paid Rs. 30,000. Face value of the Investment was Rs. 87,500, 50% of the Investment was sold at 80% of Face Value. Interest on investments was received Rs. 7,000. Furniture was sold for Rs. 4000 at the beginning of the year. Machinery and Sports Goods purchased and put to use at the last date of the year. Charge depreciation @ 15% p.a. on Machinery and Sports goods and @10% p.a. on Furniture.

Following Expenses were made during the year:

Sports Expenses:	Rs. 25,000
Rent:	Rs. 12,000 out of which Rs. 1,000 outstanding
Misc. Expenses:	Rs. 2,500

(b) Following information is provided for M/s. Ritu Manufacturers for the year ended 31st Dec, 2020:

	Rs.
Opening Inventory	3,00,000
Purchases	20,16,000
Carriage Inwards	90,000
Wages	1,50,000
Sales	33,00,000
Returns inward	3,00,000
Returns outward	2,16,000
Closing Inventory	6,00,000

You are required to pass necessary closing entries in the journal proper of M/s. Ritu Manufacturers.

(15 + 5 = 20 Marks)

6. (a) Daniel Ltd. invited applications for issuing 1,00,000 equity shares of Rs. 20 each.

The amounts were payable as follows:

On application	- Rs. 6 per share
On allotment	- Rs. 10 per share
On first and final call	- Rs. 4 per share

Applications were received for 1,50,000 shares and pro-rata allotment was made to all the applicants. Money overpaid on application was adjusted towards allotment money. X, who was allotted 3,000 shares, failed to pay the first and final call money. His shares were forfeited. Out of the forfeited shares, 2,500 shares were reissued as fully paid-up @ Rs. 16 per share.

Pass necessary Journal entries to record the above transactions in the books of Daniel Ltd.

(10 Marks)

(b) On 1st January 2020 Pigeon Ltd. issued 12% debentures of the face value of Rs. 40,00,000 at 10% discount. Debenture interest after deducting tax at source @10% was payable on 30th June and 31st December every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium.

Pass necessary journal entries for the accounting year 2020. **(5 Marks)**

(c) Write short notes on any two of the following:

(i) Double entry system.

(ii) Importance of bank reconciliation to an industrial unit.

(iii) Bill of exchange and the various parties to it.

(iv) Retirement of bills of exchange.

(5 Marks)

Test Series: April,2021

MOCK TEST PAPER II

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. **(a)** **(i)** **True:** Salary paid in advance relates to the coming accounting period. It has nothing to do with the current period. Hence it is not taken in the Profit and Loss Account as an expense. It is shown as a Current Asset in the Balance Sheet.

(ii) **True:** In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high in the initial period and reduces continuously in the later periods. Thus, depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.

(iii) **True:** The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

(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:** Debenture interest is payable before the payment of any dividend on shares.

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

(b) Change in accounting policy may have a material effect on the items of financial statements. For example, cost formula used for inventory valuation is changed from weighted average to FIFO. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts.

(c) **Calculation of depreciation for 5th year**

Depreciation per year charged for four years = Rs. 40,00,000 / 10 = Rs. 4,00,000

WDV of the machine at the end of fourth year = Rs. 40,00,000 – Rs. 4,00,000 × 4 = Rs. 24,00,000.

Depreciable amount after revaluation = Rs. 24,00,000 + Rs. 1,60,000 = Rs. 25,60,000

Remaining useful life as per previous estimate = 6 years

Remaining useful life as per revised estimate = 8 years

Depreciation for the fifth year and onwards = Rs. 25,60,000 / 8 = Rs. 3,20,000.

2. **(a)**

(i)	Bills Receivables A/c	Dr.	1,550	
	Bills Payable A/c	Dr.	1,550	
	To Ram A/c			3,100
	(Correction of error by which Bills Receivable account of Rs 1,550 was wrongly posted through Bills Payable book)			

(ii)	Suspense A/c To Manan To Tapan (Removal of wrong debit to Tapan and giving credit to Manan from whom cash was received)	Dr.	15,000	 7,500 7,500
(iii)	Suspense A/c To P & L Adjustment A/c (Correct of error by which general expenses of Rs. 2,600 was wrongly posted as Rs. 6,200)	Dr.	3,600	 3,600
(iv)	P&L Adjustment A/c To Suspense (Correction of error by which Sales account was overcast last year)	Dr.	5,000	 5,000
(v)	P & L Adjustment A/c To Mr. Gupta (Correction of error by which legal expenses paid to Mr. Gupta was wrongly debited to her personal account)	Dr.	7,670	 7,670
(vi)	Tina To Hina (Correction of error by which sale of Rs. 25,000 to Tina was wrongly debited to Hina's account)	Dr.	25,000	 25,000
(vii)	Suspense A/c To P&L Adjustment A/c (Correction of error by which Purchase A/c was excess debited by Rs.270 i.e. Rs.1,960 – Rs.1,690)	Dr.	270	 270
(vii)	Trade Receivable A/c To Suspense A/c (Rs. 7,000 due by Mr. Somdev not taken into trial balance now rectified)	Dr.	7,000	 7,000

Suspense A/c

	Rs.		Rs.
To P & L Adjustment A/c	3,600	By P & L Adjustment A/c	5,000
To Manan	7,500	By Trade Receivable (Mr. Somdev)	7,000
To Tapan	7,500	By Difference in Trial Balance (Balancing figure)	6,870
To P&L Adjustment A/c	270		
	18,870		18,870

(b) (i) **Cash Book (Bank Column)**

Date	Particulars	Amount	Date	Particulars	Amount
2020		Rs.	2020		Rs.
Sept. 30		64,000	Sept. 30		16,248

	To	Party A/c			By	Balance b/d	2,320
	To	Customer A/c	4,69,600		By	Bank charges	5,60,000
		(Direct deposit)	44,968		By	Customer A/c	
	To	Balance c/d	5,78,568			(B/R dishonoured)	5,78,568

(ii) Bank Reconciliation Statement as on 30th September, 2020

Particulars	**Amount**
	Rs.
Overdraft as per Cash Book	44,968
Add: Cheque deposited but not collected upto 30th Sept., 2020	52,56,000
	53,00,968
Less: Cheques issued but not presented for payment upto 30th Sept., 2020	(53,04,000)
Credit by Bank erroneously on 6th Sept.	(80,000)
Credit balance as per bank statement	83,032

Note: Bank has credited Sameer by 80,000 in error on 6th September, 2020. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with Rs. 53,04,000 resulting in credit balance of Rs. 3,032 as per pass-book.

3. (a) **In the books of Devender**

Consignment Account

Dr.			*Amount*				*Cr.* *Amount*
2020			*Rs.*	*2020*			*Rs.*
Feb. 16	To	Goods sent on consignment account	50,000	March 15	By	Satender's account (Sales) (300 × Rs. 160)	48,000
Feb. 16	To	Cash/Bank account (Expenses)	750	May 20	By	Satender's account (Sales) (150 × Rs. 170)	25,500
Feb. 16	To	Satender's account (Clearance charges)	1,500	Sep 30	By	Consignment Stock (Working note 2)	5,225
Sep 30	To	Satender's account:					
		Selling expenses (450 × Rs. 20)	9,000				
		Commission (Working note 1)	12,450				
Sep 30	To	Profit and loss account (profit on consignment transferred)	5,025				
			78,725				78,725

Satender's Account

Dr.			Amount				Cr. Amount
2020			Rs.	2020			Rs.
March 15	To	Consignment account (Sales)	48,000	Feb 16	By	Consignment account (Clearance charges)	1,500
May 20	To	Consignment account (Sales)	25,500	Sep 30	By	Consignment account: Selling expenses Commission	9,000 12,450
				Sep 30	By	Cash/Bank account	50,550
			73,500				73,500

Working Notes:

1. **Calculation of total commission:**

Let total commission be *x*

$$x = 450 \times \text{Rs. } 25 + \frac{1}{4}[(\text{Rs. } 48{,}000 + \text{Rs. } 25{,}500) - x - (450 \times \text{Rs. } 125)]$$

$$x = \text{Rs. } 11{,}250 + \frac{1}{4}[\text{Rs. } 73{,}500 - x - \text{Rs. } 56{,}250]$$

$$x = \text{Rs. } 11{,}250 + \frac{1}{4}[\text{Rs. } 17{,}250 - x]$$

$4x + x = \text{Rs. } 45{,}000 + \text{Rs. } 17{,}250$

$5x = \text{Rs. } 62{,}250$

$x = \text{Rs. } 12{,}450$

2. **Valuation of consignment stock:**

	Rs.
50 Pen Drives @ Rs. 100 each	5,000
Add: Proportionate expenses of Satender $\frac{(\grave{}1{,}500 \times 50)}{500}$	150
Proportionate expenses paid by Devender $\frac{(\grave{}750 \times 50)}{500}$	75
	5,225

(b) **Taking 19.6.2020 as a Base date**

Transaction Date	Due Date	Amount	Days	Amount
8.3.2020	11.7.2020	12,000	22	2,64,000
16.3.2020	19.6.2020	15,000	0	0
7.4.2020	10.9.2020	18,000	83	14,94,000
17.5.2020	20.8.2020	15,000	62	9,30,000
		60,000		26,88,000

$$\text{Average Due Date} = \text{Basedate} + \frac{\text{Total of Product}}{\text{Total of Amount}}$$

= 19.6.2020 + Rs. 26,88,000/Rs.60,000

= 19.6.2020 + 44.8 days (or 45 days approximately)

= 3.8.2020

Hari wants to save interest of Rs. 471. The yearly interest is Rs. 60,000 × 9% = Rs. 5,400. Assume that days corresponding to interest of Rs. 471 are Y.

Then, 5,400 × Y/365 = Rs. 471 or Y = 471 × 365/5,400 = 31.8 days or 32 days (Approx.)

Hence, if Hari wants to save Rs. 471 by way of interest, he should prepone the payment of amount involved by 32 days from the Average Due Date. Hence, he should make the payment on 2.7.2020 (3.8.2020 – 32 days).

(c) **Sale or Return Account**

Date	*Particulars*	Rs.	*Date*	*Particulars*	Rs.
2020			2020		
Oct 31	To Sundries: Sales	22,500	Oct 31	By Sundries	
Nov 15	To Sundries: Returned	28,000		(Goods sent on sale or return basis)	71,500
Nov 15	To Balance c/d	21,000			
		71,500			71,500
			Nov 16	By Balance b/d	21,000

W's Account

Date	*Particulars*	Rs.	*Date*	*Particulars*	Rs.
2020			2020		
Oct 31	To Sale or Return A/c	18,000	Nov 15	By Sale or Return A/c	18,000

4. (i) **Revaluation Account**

		Rs.			*Rs.*
To	Furniture	1,740	By	Building	6,400
To	Stock	4,280	By	Sundry creditors	2,800
To	Provision of doubtful debts (Rs. 3,500 – Rs. 400)	3,100	By	Investment	900
			By	Revaluation Loss	2,140
To	Outstanding wages	3,120			

		12,240			12,240

(ii) **Partners' Capital Accounts**

		Alpha	Beta	Gama			Alpha	Beta	Gama
		Rs.	Rs.	Rs.			Rs.	Rs.	Rs.
To	Revaluation Loss	1,284	856		By	Balance b/d	88,000	72,000	–
To	Goodwill	45,000	30,000	15,000	By	Cash A/c	–	–	50,000
To	Balance c/d	95,716	77,144	35,000					
					By	Goodwill A/c (Working Note)	54,000	36,000	
		1,42,000	1,08,000	50,000			1,42,000	1,08,000	50,000

Balance Sheet of New Partnership Firm (after admission of Gama) as on 1.1.21

Liabilities	Rs.	Assets	Rs.
Capital Accounts:			
Alpha 95,716		Building (52,000 + 6,400)	58,400
Beta 77,144		Furniture (11,600 – 1,740)	9,860
Gama 35,000	2,07,860	Stock-in-trade (42,800 – 4,280)	38,520
Bills Payable	8,200	Debtors 70,000	
Bank Overdraft	18,000	Less: Provision for bad debts (3,500)	66,500
Sundry creditors (25,800-2,800)	23,000	Investment (5,000 + 900)	5,900
Outstanding wages	3,120	Cash (31,000 + 50,000)	81,000
	2,60,180		2,60,180

Working Note:

Calculation of goodwill

Gama's contribution of Rs. 50,000 consists only 1/6th of capital.

Therefore, total capital of firm should be Rs. 50,000 × 6 = Rs. 3,00,000.

But combined capital of Alpha, Beta and Gama amounts Rs. 88,000 + 72,000 + 50,000 = Rs. 2,10,000.

Thus Hidden goodwill is Rs. 90,000 (Rs. 3,00,000 – Rs. 2,10,000).

(b) **In the Books of Mr. Surya**

Manufacturing Account for the Year ended 31.03.2021

Particulars		Units	Amount Rs.	Particulars	Units	Amount Rs.
To Opening Work-in-Process		27,000	78,000	By Closing Work-in-Process	42,000	1,44,000
To Raw Materials Consumed:				By Trading A/c – Cost of finished goods transferred	15,00,000	58,00,800

Opening Inventory	7,80,000					
Add: Purchases	24,60,000					
	32,40,000					
Closing Inventory	(9,60,000)		22,80,000			
To Direct Wages – W.N. (1)			12,16,800			
To Direct expenses: Hire charges on Machinery – W.N. (2)			10,50,000			
To Indirect expenses: Hire charges of Factory			7,80,000			
Repairs & Maintenance			5,40,000			
			59,44,800			59,44,800

Working Notes:

(1) Direct Wages – 1,500,000 units @ Rs.0.80 = Rs.12,00,000

42,000 units @ Rs.0.40 = Rs. 16,800

Rs. 12,16,800

(2) Hire charges on Machinery – 15,00,000 units @ Rs.0.70 = Rs.10,50,000

5. (a) Receipts and Payments Account for the year ended 31-03-2021

Receipts	Rs.	Payments	Rs.
To balance b/d		By Salaries	30,000
Cash and bank	55,000	By Purchase of sports goods	5,000
To Subscription received (W.N.1)	1,22,500	Rs. (12,500-7,500)	
To Sale of investments (W.N.2)	35,000	By Purchase of machinery	5,000
To Interest received on investment	7,000	Rs. (10,000-5,000)	
To Sale of furniture	4,000	By Sports expenses	25,000
		By Rent paid	11,000
		Rs. (12,000 -1,000)	
		By Miscellaneous expenses	2,500
		By Balance c/d	
		Cash and bank	1,45,000

	2,23,500		2,23,500

Income and Expenditure account for the year ended 31-03-2021

Expenditure	Rs.	Rs.	Income	Rs.	Rs.
To Salaries	30,000		By Subscription		1,50,000
Add: Outstanding for 2021	9,000		By Interest on Investment		
	39,000		Received	7,000	
Less: Outstanding for 2020	(7,500)	31,500	Accrued (W.N.5)	1,750	8,750
To Sports expenses		25,000			
To Rent		12,000			
To Miscellaneous exp.		2,500			
To Loss on sale of furniture (W.N.3)		3,000			
To Depreciation (W.N.4)					
Furniture	700				
Machinery	750				
Sports goods	1,125	2,575			
To Surplus		82,175			
		1,58,750			1,58,750

Working Notes:

1. **Calculation of Subscription received during the year 2020-21**

	Rs.
Subscription due for 2020-21	1,50,000
Add: Outstanding of 2020	70,000
Less: Outstanding of 2021	(1,00,000)
Add: Subscription of 2021 received in advance	15,000
Less: Subscription of 2020 received in advance	(12,500)
	1,22,500

2. **Calculation of Sale price and profit on sale of investment**

   Face value of investment sold: Rs. 87,500 × 50% = Rs. 43,750

   Sales price: Rs. 43,750 × 80% = Rs. 35,000

   Cost price of investment sold: Rs. 70,000 × 50% = Rs. 35,000

   Profit/loss on sale of investment: Rs. 35,000 - Rs. 35,000 = NIL

3. **Loss on sale of furniture**

	Rs.
Value of furniture as on 01-04-2020	14,000

Value of furniture as on 31-03-2021	7,000
Value of furniture sold at the beginning of the year	7,000
Less: Sales price of furniture	(4,000)
Loss on sale of furniture	3,000

4. Depreciation

Furniture -	Rs.7,000 × 10%	=	700
Machinery -	Rs.5,000 × 15%	=	750
Sports goods -	Rs.7,500 × 15%	=	1,125

5. Interest accrued on investment

	Rs.
Face value of investment on 01-04-2020	87,500
Interest @ 10%	8,750
Less: Interest received during the year	(7,000)
Interest accrued during the year	1,750

Note: It is assumed that the sale of investment has taken place at the end of the year.

(b) Journal Proper in the Books of M/s. Ritu Manufacturers

Date 2020	Particulars		Amount Rs.	Amount Rs.
Dec. 31	Returns outward A/c	Dr.	2,16,000	
	To Purchases A/c			2,16,000
	(Being the transfer of returns to purchases account)			
	Sales A/c	Dr.	3,00,000	
	To Returns Inward A/c			3,00,000
	(Being the transfer of returns to sales account)			
.	Sales A/c	Dr.	30,00,000	
	To Trading A/c			30,00,000
	(Being the transfer of balance of sales account to trading account)			
	Trading A/c	Dr.	23,40,000	
	To Opening Inventory A/c			3,00,000
	To Purchases A/c			18,00,000
	To Wages A/c			1,50,000
	To Carriage Inwards A/c			90,000
	(Being the transfer of balances of opening inventory, purchases, carriage inwards and wages accounts)			
	Closing Inventory A/c	Dr.	6,00,000	
	To Trading A/c			6,00,000
	(Being the incorporation of value of closing Inventory)			
	Trading A/c	Dr.	12,60,000	

	To Gross Profit (Being the amount of gross profit)			12,60,000
	Gross profit To Profit and Loss A/c (Being the transfer of gross profit to Profit and Loss Account)	Dr.	12,60,000	12,60,000

6. (a) **In the books of Daniel Ltd.**

Journal Entries

		Dr. Rs.	Cr. Rs.
Bank A/c	Dr.	9,00,000	
To Equity Share Application A/c			9,00,000
(Being the application money received for 1,50,000 shares at Rs. 6 per share)			
Equity Share Application A/c	Dr.	9,00,000	
To Equity Share Capital A/c (1,00,000 x Rs. 6)			6,00,000
To Share allotment A/c			3,00,000
(Being share allotment made for 1,00,000 shares and excess adjusted towards allotment)			
Equity Share Allotment A/c	Dr.	10,00,000	
To Equity Share Capital A/c			10,00,000
(Being allotment amount due on 1,00,000 equity shares at Rs. 10 per share as per Directors' resolution no... dated...)			
Bank A/c	Dr.	7,00,000	
To Equity Share Allotment A/c			7,00,000
(Being balance allotment money received for 1,00,000 shares)			
Equity Share first and final call A/c	Dr.	4,00,000	
To Equity Share Capital A/c			4,00,000
(Being first and final call amount due on 1,00,000 equity shares at Rs. 4 per share as per Directors' resolution no... dated...)			
Bank A/c	Dr.	3,88,000	
Calls in arrears A/c		12,000	
To Equity Share first and final call A/c			4,00,000
(Being final call received on 97,000 shares)			

Share capital A/c (3,000 x Rs. 20) To Forfeited shares A/c (3,000 x Rs. 16) To Calls in arrears A/c (3,000 x Rs. 4) (Being forfeiture of 3,000 shares of Rs. 20 each fully called-up for non payment of first and final call @ Rs. 4 as per Directors' resolution no... dated..)	Dr.	60,000	 48,000 12,000
Bank A/c (2,500 x Rs.16) Forfeited shares A/c (2,500 x Rs.4) To Equity Share Capital A/c (2,500 x Rs. 20) (Being re-issue of 2,500 shares @ Rs. 16)	Dr.	40,000 10,000	 50,000
Forfeited share A/c (2,500 x Rs. 12) To capital reserve A/c (2,500 x Rs. 12) (Being profit on re-issue transferred to capital reserve)		30,000	 30,000

Working Note:

Calculation of amount to be transferred to Capital reserve A/c			**Rs.**
Forfeited amount per share	= 48,000/3,000	=	16
Loss on re issue (20-16)			4
Surplus per share			12
Transfer to capital reserve	Rs. 12 x 2,500	Rs. 30,000	

(b) **Journal Entries**

			Dr. (Rs.)	*Cr. (Rs.)*
1-1-2020	Bank A/c	Dr.	36,00,000	
	Discount/Loss on Issue of Debentures A/c	Dr.	4,00,000	
	To 12% Debentures A/c			40,00,000
	To Premium on Redemption of Debentures A/c			2,00,000
	(For issue of debentures at discount redeemable at premium)			
30-6-2020	Debenture Interest A/c	Dr.	4,80,000	
	To Debenture holders A/c			4,32,000
	To Tax Deducted at Source A/c			48,000
	(For interest payable)			
	Debenture holders A/c	Dr.	4,32,000	
	Tax Deducted at Source A/c	Dr.	48,000	
	To Bank A/c			4,80,000
	(For payment of interest and TDS)			

31-12-2020	Debenture Interest A/c To Debenture holders A/c To Tax Deducted at Source A/c (For interest payable)	Dr.	4,80,000	 4,32,000 48,000
	Debenture holders A/c Tax Deducted at Source A/c To Bank A/c (For payment of interest and tax)	Dr. Dr.	4,32,000 48,000	 4,80,000
	Profit and Loss A/c To Debenture Interest A/c (For transfer of debenture interest to profit and loss account at the end of the year)	Dr.	9,60,000	 9,60,000
	Profit and Loss A/c To Discount/Loss on issue of debenture A/c (For proportionate debenture discount and premium on redemption written off, i.e., 4,00,000 x 1/5)	Dr.	80,000	 80,000

(c) **(i)** Double entry system may be defined as that system which recognizes and records both the aspects of a transaction.

Every transaction has two aspects and according to this system, both the aspects are recorded. This system was developed in the 15th century in Italy by Luca Pacioli. It has proved to be systematic and has been found of great use for recording the financial affairs for all institutions requiring use of money.

(ii) Banks are essential to modern society, but for an industrial unit, it serves as a necessary instrument in the commercial world. Most of the transactions of the business are done through bank whether it is a receipt or payment. Rather, it is legally necessary to operate the

transactions through bank after a certain limit. All the transactions, which have been operated through bank, if not verified properly, the industrial unit may not be sure about its liquidity position in the bank on a particular date. There may be some cheques which have been issued, but not presented for payment, as well as there may be some deposits which has been deposited in the bank, but not collected or credited so far. Some expenses might have been debited or bills might have been dishonoured. It is not known to the industrial unit in time, it may lead to wrong conclusions. The errors committed by bank may not be known without preparing bank reconciliation statement. Preparation of bank reconciliation statement prevents the chances of embezzlement. Hence, bank reconciliation statement is very important and is a necessity of an industrial unit as it plays a key role in the liquidity control of the industry.

(iii) A bill of exchange is an instrument in writing containing an unconditiona l order, signed by the maker, directing a certain person to pay a certain sum of money to or to the order of certain person or to the bearer of the instrument. When such an order is accepted by the drawee on the face of the order itself, it becomes a valid bill of exchange.

There are three parties to a bill of exchange:

(i) The drawer, who draws the bill, that is, the creditor to whom the money is owing;

(ii) The drawee, the person to whom the bill is addressed or on whom it is drawn and who accepts the bill that is, the debtor; and

(iii) The payee, the person who is to receive the payment. The drawer in many cases is also the payee.

(iv) **Retirement of bills of exchange:** Sometimes, the acceptor of a bill of exchange has spare funds much before the maturity date of the bill of exchange accepted by him. He may, therefore, desire to pay the bill before the due date. In such a circumstance, the acceptor shall ask the payee or the holder of the bill to accept cash before the maturity date. If the payee agrees, the acceptor may be allowed a rebate or discount on such early payment. This rebate is generally the interest at an agreed rate for the period between the date of payment and date of maturity. The interest/rebate/discount becomes the income of the acceptor and expense of the payee. It is a consideration for premature payment. When a bill is paid before due date, it is said to be retired under rebate.

Test Series: March, 2021

MOCK TEST PAPER - 1

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:

1 The balance in petty cash book represents an asset.

2. Finished goods are normally valued at cost or market price whichever is higher.

3 Subscriptions received for the current year shall be shown in the balance sheet as a current asset.

4 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.

5 Discount at the time of retirement of a bill is a gain for the drawee.

6. Bills receivable and bills payable books are type of subsidiary books.

(6 statements x 2 Marks= 12 Marks)

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

(4 Marks)

(c) The following errors were committed by the Accountant of Hari Om Toys.

(i) Purchase of Rs. 1620 from Anupam & Co. passed through Sales Day Book as Rs. 1260

(ii) Credit sale of Rs. 1600 to Soni & Co. was posted to the credit of their account.

How would you rectify the errors assuming that :

(a) they were detected before preparation of Trial Balance.

(b) they were detected after preparation of Trial Balance but before preparing Final Accounts, the difference was taken to Suspense A/c.

(c) they were detected after preparing Final Accounts. **(4 Marks)**

2. (a) M/s. JP Wires Co. purchased a second-hand machine on 1st January, 2017 for Rs. 3,20,000. Overhauling and erection charges amounted to Rs. 80,000.

Another machine was purchased for Rs. 1,60,000 on 1st July, 2017.

On 1st July, 2019, the machine installed on 1st January, 2017 was sold for Rs. 1,60,000. Another machine amounted to Rs. 60,000 was purchased and was installed on 30th September, 2019.

Under the existing practice the company provides depreciation @ 20% p.a. on original cost. However, from the year 2020 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2017 to 2020.

(b) Universe Ltd. keeps no stock records but a physical inventory of stock is made at the end of each quarter and the valuation is taken at cost. The company's year ends on 31st March, 2021 and their accounts have been prepared to that date. The stock valuation taken on 31 st March, 2021 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2021 with the stock figure as on 31st December, 2020 and some other information is available to you:

(i) The cost of stock on 31st December, 2020 as shown by the inventory sheet was Rs. 2,40,000.

(ii) On 31st December, stock sheet showed the following discrepancies:

(a) A page total of Rs. 15,000 had been carried to summary sheet as Rs. 18,000.

(b) The total of a page had been undercast by Rs. 600.

(iii) Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2021 totalled Rs. 2,10,000. Out of this Rs. 9,000 related to goods received prior to31st December, 2020. Invoices entered in April, 2021 relating to goods received in March, 2021 totalled Rs. 12,000.

(iv) Sales invoiced to customers totalled Rs. 2,70,000 from January to March, 2021. Of this Rs. 15,000 related to goods dispatched before 31st December, 2020. Goods dispatched to customers before 31st March, 2021 but invoiced in April, 2021 totalled Rs. 12,000.

(v) During the final quarter, credit notes at invoiced value of Rs. 3,000 had been issued to customers in respect of goods returned during that period. The gross margin earned by the company is 25% of cost.

You are required to prepare a statement showing the amount of stock at cost as on 31st March, 2021. **(10 +10 = 20 Marks)**

3. (a) Mr. Z accepted a bill for Rs. 50,000 drawn on him by Mr. Y on 1st August, 2020 for 3 months. This was for the amount which Z owed to Y. On the same date Mr. Y got the bill discounted at his bank for Rs. 49,000.

On the due date, Z approached Y for renewal of the bill. Mr. Y agreed on condition that Rs. 10,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and thatfor the remaining balance Z should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2020, Z became insolvent and his estate paid 40%.
Prepare Journal Entries in the books of Mr. Y. **(10 Marks)**

(b) On 31st March, 2021 goods sold at a sale price of Rs. 30,000 were lying with customer, Sapan to whom these goods were sold on 'sale or return basis' were recorded as actual sales. Since no consent has been received from Sapan, you are required to pass adjustment entries presuming goods were sent on approval at a profit of cost plus 25%. Present market price is 20% less than the cost price. **(5 Marks)**

(c) Meera purchases goods on credit. His due dates for payments are given below. You are required to calculate average due date.

Transaction Date	*Rs.*	*Due Date*
August 5	600	Sept. 08
Sept. 15	400	Oct. 18

Oct. 10 Nov. 5	550 800	Nov. 13 Dec. 10

(5 Marks)

4. From the following data, prepare an Income and Expenditure Account for the year ended 31st December 2020, and Balance Sheet as at that date of the New Max Hospital:

Receipts and Payments Account for the year ended 31 December, 2020

	RECEIPTS	Rs.			PAYMENTS		Rs.
To	Balance b/d			By	Salaries:		
	Cash	400			(Rs. 3,600 for 2019)		15,600
	Bank	2,600	3,000	By	Hospital Equipment		8,500
To	Subscriptions:			By	Furniture purchased		3,000
	For 2019		2,550	By	Additions to Building		25,000
	For 2020		12,250	By	Printing and Stationery		1,200
	For 2021		1,200	By	Diet expenses		7,800
To	Government Grant: For building		40,000	By	Rent and rates (Rs. 150 for 2021)		1,000
	For maintenance		10,000	By	Electricity and water charges		1,200
	Fees from sundry Patients		2,400	By	Office expenses		1,000
				By	Investments		10,000
To	Donations (not to be capitalized)		4,000	By	Balances:		
					Cash	700	
To	Net collections from benefit shows		3,000		Bank	3,400	4,100
			78,400				78,400

Additional information :	Rs.
Value of building under construction as on 31.12.2020	70,000
Value of hospital equipment on 31.12.2020	25,500
Building Fund as on 1.1. 2020	40,000
Subscriptions in arrears as on 31.12.2019	3,250
Investments in 8% Govt. securities were made on 1st July, 2020.	

(20 Marks)

5. (a) The following are the balances as at 31st March, 2021 extracted from the books of Mr. Vijay.

Particulars	Rs.	Particulars	Rs.
Plant and Machinery	39,100	Bad debts recovered	900
Furniture and Fittings	20,500	Salaries	45,100
Bank Overdraft	1,60,000	Salaries payable	4,900

Capital Account	1,30,000	Prepaid rent	600
Drawings	16,000	Rent	8,600
Purchases	3,20,000	Carriage inward	2,250
Opening Stock	64,500	Carriage outward	2,700
Wages	24,330	Sales	4,30,600
Provision for doubtful debts	6,400	Advertisement Expenses	6,700
Provision for Discount on debtors	2,750	Printing and Stationery	2,500
Sundry Debtors	2,40,000	Cash in hand	2,900
Sundry Creditors	95,000	Cash at bank	6,250
Bad debts	2,200	Office Expenses	20,320
		Interest paid on loan	6,000

Additional Information:

1. Purchases include sales return of Rs. 5,150 and sales include purchases return of Rs. 3,450.
2. Free samples distributed for publicity costing Rs. 1,650.
3. Goods withdrawn by Mr. Vijay for own consumption Rs. 7,000 included in purchases.
4. Wages paid in the month of April for installation of plant and machinery amounting to Rs. 900 were included in wages account.
5. Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
6. Depreciation is to be provided on plant and machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.
7. Closing stock as on 31st March, 2021 is Rs. 2,50,000.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2021, and a Balance Sheet as on that date.

(b) The following is the Balance Sheet of M/s. Krishna Bros as at 31st March, 2021, they share profit and losses equally:

Balance Sheet as at 31st March, 2021

Liabilities		Rs.	Assets		Rs.
Capital	Amit	24,600	Machinery		30,000
	Lalit	24,600	Furniture		16,800
	Sumit	27,000	Fixture		12,600
General Reserve		9,000	Cash		9,000
Trade payables		14,100	Inventories		5,700
			Trade receivables	27,000	
			Less: Provision for Doubtful debts	1,800	25,200

	99,300		99,300

Sumit died on 1st April, 2021 and the following agreement was to be put into effect.

(a) Assets were to be revalued: Machinery to Rs. 35,100; Furniture to Rs. 13,800; Inventory to Rs. 4,500.

(b) Goodwill was valued at Rs. 18,000 and was to be credited with his share, without using a Goodwill Account.

(c) Rs. 6,000 is to be paid to the executors of the dead partner on 5th April, 2021.

(d) After death of Sumit, Amit and Lalit share profit equally.

You are required to prepare:

(i) Journal Entry for Goodwill adjustment.

(ii) Revaluation Account and Capital Accounts of the partners. **(12 + 8 = 20 Marks)**

6. (a) Deepak Chemicals Ltd. invited applications for 10 lakhs shares of Rs. 100 each payable as follows:

	Rs.
On Application	10
On Allotment (on 1st June, 2020)	30
On First Call (on 1st Nov., 2020)	30
On Final Call (on 1st March., 2021)	30

All the shares were applied for and allotted. A shareholder holding 15,000 shares paid the whole of the amount due along with allotment.

You are required to prepare the journal entries for the above-mentioned transactions, assuming all sums due were received. Interest was paid to the shareholder concerned on 1st March, 2021.

(10 Marks)

(b) Tim Tim Limited issued 10,000 8% Debentures of the nominal value of Rs.10,00,000 as follows:

(a) To sundry persons for cash at 90% of nominal value of Rs. 5,00,000.

(b) To a vendor for purchase of fixed assets worth Rs. 2,00,000 – Rs. 2,50,000 nominal value.

(c) To the banker as collateral security for a loan of Rs. 2,00,000 – Rs. 2,50,000 nominal value.

You are required to prepare necessary Journal Entries. **(5 Marks)**

(c) State the causes of difference between the balance shown by the pass book and the cash book.

OR

Which subsidiary books are normally used in a business? **(5 Marks)**

Test Series: March , 2021

MOCK TEST PAPER - 1

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. (a) 1. **True -** The balance represents the cash physically in existence and is therefore an asset.

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

3. **False -** Current year subscription shall be shown in the credit side of the income and expenditure account and not in the balance sheet, as it is not a capital item.

4. **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.

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

6. **True -** Yes they are types of subsidiary books which is alternate to the journals.

(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.

(c) (i) Purchase of Rs. 1,620 is wrongly recorded through sales day book as Rs. 1,260.

Correct Entry			Entry Made Wrongly		
Purchase A/c	Dr. 1,620		Anupam & Co.	Dr. 1,260	
To Anupam & Co.		1,620	To Sales		1,260

Rectification Entry

Before Trial Balance			After Trial Balance			After Final Accounts		
Sales A/c	Dr.	1,260	Sales A/c	Dr. 1,260		Profit & Loss Adj. A/c	Dr. 2,880	
Purchase A/c	Dr.	1,620	Purchase A/c	Dr. 1,620		To Anupam & Co.		2,880
To Anupam & Co.		2,880	To Anupam & Co.		2,880			

(ii) This is one sided error. Soni & Co. account is credited instead of debit. Amount posted to the wrong side and therefore while rectifying the account, double the amount (Rs. 3200) will be taken.

Before Trial Balance	After Trial Balance	After Final Accounts
No Entry Debit Soni A/c with Rs. 3200	Soni & Co. A/c Dr. 3200 To Suspense A/c 3200	Soni & Co. A/c Dr. 3200 To Suspense A/c 3200

2. (a) In the books of M/s. JP Wires Co.

Machinery Account

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
1.1.2017	To Bank A/c	3,20,000	31.12.2017	By Depreciation A/c (Rs.80,000+ Rs. 16,000)	96,000
	To Bank A/c (Erection charges)	80,000	31.12.2017	By Balance c/d (Rs.3,20,000+ Rs.1,44,000)	4,64,000
1.7.2017	To Bank A/c	1,60,000			
		5,60,000			5,60,000
01.01.18	To Balance b/d	4,64,000	31.12.2018	By Depreciation A/c (Rs.80,000+ Rs. 32,000)	1,12,000
			31.12.2018	By Balance c/d (Rs.2,40,000+Rs. 1,12,000)	3,52,000
		4,64,000			4,64,000
01.01.19	To Balance b/d	3,52,000	01.07.2019	By Bank A/c	1,60,000
30.9.19	To Bank A/c	60,000		By Profit and Loss A/c (Loss on Sale – W.N.)	40,000
			31.12.2019	By Depreciation A/c (Rs. 40,000 + Rs. 32,000 + Rs. 3,000)	75,000
				By Balance c/d (Rs. 80,000 + Rs. 57,000)	1,37,000
		4,12,000			4,12,000
01.01.20	To Balance b/d	1,37,000	31.12.2020	By Depreciation A/c (Rs. 12,000 + Rs. 8,550)	20,550
				By Balance c/d (Rs. 68,000 + Rs. 48,450)	1,16,450
		1,37,000			1,37,000

Working Notes:

Book Value of machines (Straight line method)

	Machine I	Machine II	Machine III
	Rs.	Rs.	Rs.

Cost	4,00,000	1,60,000	60,000
Depreciation for 2017	80,000	16,000	
Written down value as on 31.12.2017	3,20,000	1,44,000	
Depreciation for 2018	80,000	32,000	
Written down value as on 31.12.2018	2,40,000	1,12,000	
Depreciation for 2019	40,000	32,000	3,000
Written down value as on 31.12.2019	2,00,000	80,000	57,000
Sale proceeds	1,60,000		
Loss on sale	40,000		

(b) Valuation of Physical Stock as at March 31, 2021

		Rs.
Stock at cost on 31.12.2020		2,40,000
Add: (1) Undercasting of a page total	600	
(2) Goods purchased and delivered during January – March, 2021 Rs. (2,10,000 – 9,000 + 12,000)	2,13,000	
(3) Cost of sales return Rs. (3,000 – 600)	2,400	
		2,16,000
		4,56,000
Less:(1) Overcasting of a page total Rs. (18,000 – 15,000)	3,000	
(2) Goods sold and dispatched during January – March, 2021 Rs. (2,70,000 – 15,000 + 12,000) 2,67,000		
Less: Profit margin $2,67,000 \times \frac{25}{125}$ 53,400	2,13,600	
		(2,16,600)
Value of stock as on 31st March, 2021		2,39,400

Note: In the above solution, transfer of ownership is assumed to take place at the time of delivery of goods. If it is assumed that transfer of ownership takes place on the date of invoice, then Rs. 12,000 goods delivered in March 2021 for which invoice was received in April, 2021, would be treated as purchases of the accounting year 2020-2021 and thus excluded. Similarly, goods dispatched in March, 2021 but invoiced in April, 2021 would be excluded and treated as sale of the year 2020-2021.

3. (a) Journal Entries in the Books of Mr. Y

Date		*Particulars*	*L.F.*	*Dr. Amount Rs.*	*Cr. Amount Rs.*
2020					
August	1	Bills Receivable A/c Dr.		50,000	
		To Z A/c			50,000
		(Being the acceptance received from Z to settle his account)			
August	1	Bank A/c Dr.		49,000	
		Discount A/c Dr.		1,000	
		To Bills Receivable			50,000

		(Being the bill discounted for Rs. 49,000 from bank)		
November	4	Z A/c Dr. To Bank Account (Being the Z's acceptance is to be renewed)	50,000	50,000
November	4	Z A/c Dr To Interest Account (Being the interest due from Z for 3 months i.e., 40,000x3/12× 12%=12,000)	1,200	1,200
November	4	Cash A/c Dr. Bills Receivable A/c Dr. To Z A/c (Being amount and acceptance of new bill received from Z)	11,200 40,000	51,200
December	31	Z A/c Dr. To Bills Receivable A/c (Being Z became insolvent)	40,000	40,000
December	31	Cash A/c Dr. Bad debts A/c Dr. To Z A/c (Being the amount received and written off on Z's insolvency)	16,000 24,000	40,000

(b) **Journal Entries**

Date 2021	Particulars		Dr. Rs.	Cr. Rs.
31st March	Sales A/c To Sapan A/c (Being cancellation of entry for sale of goods, not yet approved)	Dr.	30,000	30,000
	Inventories with customers A/c (Refer W.N.) To Trading A/c (Being Inventories with customers recorded at market price)	Dr.	19,200	19,200

Working Note:

Calculation of cost and market price of Inventories with customer

Sale price of goods sent on approval	Rs.30,000
Less: Profit (30,000 x 25/125)	Rs. 6,000
Cost of goods	Rs.24,000

Market price = 24,000 - (24,000 x 20%) = Rs. 19,200.

(c) **Calculation of average due date (Base date: 8th September)**

Due Date	Amount	No. of days from base date	Product
	Rs.		Rs.
8th September	600	0	0
18th October	400	40	16,000
13th November	550	66	36,300
10th December	800	93	74,400
	2,350		1,26,700

Average due date = Base date ± $\frac{\text{Total Product}}{\text{Total Amount}}$

= 8th September + 1,26,700/2,350

= 8th September + 54 days = 1st November

4. (a) **New Max Hospital**

Income & Expenditure Account
for the year ended 31 December, 2020

Expenditure	(Rs.)	Income	(Rs.)
To Salaries	12,000	By Subscriptions	12,250
To Diet expenses	7,800	By Govt. Grants (Maintenance)	10,000
To Rent & Rates	850	By Fees, Sundry Patients	2,400
To Printing & Stationery	1,200	By Donations	4,000
To Electricity & Water-charges	1,200	By Benefit shows (net collections)	3,000
To Office expenses	1,000	By Interest on Investments	400
To Excess of Income over expenditure transferred to Capital Fund	8,000		
	32,050		32,050

Balance Sheet as at 31st Dec., 2020

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital Fund :			Building :		
Opening balance	24,650		Opening balance	45,000	
Excess of Income			Addition	25,000	70,000
Over Expenditure	8,000	32,650	Hospital Equipment :		
Building Fund :			Opening balance	17,000	
Opening balance	40,000		Addition	8,500	25,500
Add : Govt. Grant	40,000	80,000	Furniture		3,000
Subscriptions			Investments-		
received in advance		1,200	8% Govt. Securities		10,000
			Subscriptions receivable		700
			Accrued interest		400
			Prepaid expenses (Rent)		150
			Cash at Bank		3,400
			Cash in hand		700
		1,13,850			1,13,850

orking Notes:

(1) Balance sheet as at 31st Dec., 2019

Liabilities	Rs.	Assets	Rs.

Capital Fund		Building	45,000
(Balancing Figure)	24,650	Equipment	17,000
Building Fund	40,000	Subscription Receivable	3,250
Creditors for Expenses :		Cash at Bank	2,600
Salaries payable	3,600	Cash in hand	400
	68,250		68,250

(2)	**Value of Building**	Rs.
	Balance on 31st Dec. 2020	70,000
	Paid during the year	(25,000)
	Balance on 31st Dec. 2019	45,000
(3)	**Value of Equipment**	
	Balance on 31st Dec. 2020	25,500
	Paid during the year	(8,500)
	Balance on 31st Dec. 2019	17,000
(4)	**Subscription due for 2019**	
	Receivable on 31st Dec. 2019	3,250
	Received in 2020	2,550
	Still Receivable for 2019	700

5. (a) Trading and Profit and Loss Account of Mr. Vijay

for the year ended 31st March, 2021

Dr. Cr.

	Particulars		Amount		Particulars		Amount
		Rs.	Rs.			Rs.	Rs.
To	Opening stock		64,500	By	Sales	4,27,150	
To	Purchases	3,06,200			Less: Sales return	5,150	4,22,000
	Less: Purchases return	3,450	3,02,750	By	Closing stock		2,50,000
To	Carriage inward		2,250				
To	Wages		23,430				
To	Gross profit c/d		2,79,070				
			6,72,000				6,72,000
To	Salaries		45,100	By	Gross profit b/d		2,79,070
To	Rent		8,600	By	Bad debts recovered		900
To	Advertisement expenses		8,350				
To	Printing and stationery		2,500				
To	Bad debts		2,200				

To	Carriage outward		2,700				
To	Provision for doubtful debts						
	5% of Rs. 2,40,000	12,000					
	Less: Existing provision	6,400	5,600				
To	Provision for discount on debtors						
	2.5% of Rs. 2,28,000	5,700					
	Less: Existing provision	2,750	2,950				
To	Depreciation:						
	Plant and machinery	6,000					
	Furniture and fittings	2,050	8,050				
To	Office expenses		20,320				
To	Interest on loan		6,000				
To	Net profit						
	(Transferred to capital account)		1,67,600				
			2,79,970				2,79,970

Balance Sheet of Mr. Vijay as on 31st March, 2021

Liabilities	Rs.	Amount *Rs.*	*Assets*	Rs.	Amount Rs.
Capital account	1,30,000		Plant and machinery	40,000	
Add: Net profit	1,67,600		Less: Depreciation	6,000	34,000
	2,97,600		Furniture and fittings	20,500	
Less: Drawings	23,000	2,74,600	Less: Depreciation	2,050	18,450
Bank overdraft		1,60,000	Closing stock		2,50,000
Sundry creditors		95,000	Sundry debtors	2,40,000	
Payable salaries		4,900	Less: Provision for doubtful debts	12,000	
			Less: Provision for bad debts	5,700	2,22,300
			Prepaid rent		600
			Cash in hand		2,900
			Cash at bank		6,250
		5,34,500			5,34,500

(b) (i) Journal Entry in the books of the M/s Krishna

Date	Particulars		Dr. Rs.	Cr. Rs.
April, 1 2021	Amit's Capital A/c	Dr.	3,000	
	Lalit's Capital A/c	Dr.	3,000	
	To Sumit's Capital A/c			6,000
	(Being the required adjustment for goodwill through partner's capital accounts)			

(ii) Revaluation Account

Dr. Particulars	Rs.	Particulars	Cr. Rs.
To Furniture A/c (Rs. 16,800 – 13,800)	3,000	By Machinery A/c (Rs. 35,100 - 30,000)	5,100
To Inventory A/c (Rs 5,700 – 4,500)	1,200		
To Partners' Capital A/cs (Amit - Rs. 300, Lalit - Rs. 300, Sumit - Rs. 300)	900		
	5,100		5,100

Partners' Capital Accounts

Particulars	Amit	Lalit	Sumit	Particulars	Amit	Lalit	Sumit
To Sumit (Goodwill)	3,000	3,000	–	By Balance b/d	24,600	24,600	27,000
To Cash A/c	–	–	6,000	By General Reserve A/c	3,000	3,000	3,000
To Executors A/c	–	–	30,300	By Revaluation A/c (Profit)	300	300	300
To Balance C/d	24,900	24,900	–	By Amit (Goodwill)	–	–	3,000
				By Lalit (Goodwill)	–	–	3,000
	27,900	27,900	36,300		27,900	27,900	36,300

Working Note:

Statement showing the Required Adjustment for Goodwill

Particulars	Amit	Lalit	Sumit
Right of goodwill before death	1/3	1/3	1/3
Right of goodwill after death	1/2	1/2	–
Gain / (Sacrifice)	(+) 1/6	(+) 1/6	(-) 1/3

6. (a) Journal of Deepak Chemicals Ltd.

2020			Dr. Rs. in lakhs	Cr. Rs. in lakhs
June 1	Bank A/c	Dr.	100	
	To Shares Application A/c			100

	(Receipt of applications for 10 lakh shares along with application money of Rs. 10 per share.)			
June 1	Share Application and Allotment A/c Share Allotment A/c To Share Capital A/c (The allotment of 10 lakh shares : payable on application Rs. 10 share and Rs. 30 on allotment as per Directors' resolution no... dated...)	Dr. Dr.	100 300	 400
June 1	Bank A/c To Shares Allotment A/c To Calls in Advance A/c [Receipt of money due on allotment @ Rs. 30, also the two calls (Rs. 30 and Rs. 30) on 15,000 shares.]	Dr.	309	 300 9
Nov. 1	Share First Call A/c To Share Capital A/c (The amount due on 10 lakh shares @ Rs. 30 on first call, as per Directors, resolution no... dated...)	Dr.	300	 300
	Bank A/c Calls in Advance A/c To Share First Call A/c (Receipt of the first call on 9.85 lakh shares, the balance having been previously received and now debited to call in advance account.)	Dr. Dr.	295.5 4.5	 300
2021 March 1	Share Final Call A/c To Share Capital A/c (The amount due on Final Call on 10 lakh shares @ Rs. 30 per share, as per Directors' resolution no... dated...)	Dr.	300	 300
March1	Bank A/c Calls in Advance A/c To Share Final Call A/c (Receipt of the moneys due on final call on 9.85 lakhs shares, the balance having been previously received.)	Dr. Dr.	295.5 4.5	 300
March 1	Interest on calls in Advance A/c To Shareholder A/c (Being interest on call in advance made due)	Dr.	0.63	 0.63
March 1	Shareholder A/c To Bank A/c (Being interest paid)	Dr.	0.63	 0.63

Working Note:

The interest on calls in advance paid @ 12% on :	Rs.
Rs. 4,50,000 (first call) from 1st June to 1st Nov., 2020–5 months	22,500
Rs. 4,50,000 (final call) from 1st June to 1st March., 2021–9 months	40,500
Total Interest Amount Due	63,000

(b) **In the books of Tim Tim Ltd.**

Journal Entries

Date	Particulars		Dr. Rs.	Cr. Rs.
(a)	Bank A/c	Dr.	4,50,000	
	To Debentures Application A/c			4,50,000
	(Being the application money received on 5,000 debentures @ Rs. 90 each)			
	Debentures Application A/c	Dr.	4,50,000	
	Discount on issue of Debentures A/c	Dr.	50,000	
	To 8% Debentures A/c			5,00,000
	(Being the issue of 5,000 8% Debentures @ 90% as per Board's Resolution No….dated….)			
(b)	Fixed Assets A/c	Dr.	2,00,000	
	To Vendor A/c			2,00,000
	(Being the purchase of fixed assets from vendor)			
	Vendor A/c	Dr.	2,00,000	
	Discount on Issue of Debentures A/c	Dr.	50,000	
	To 8% Debentures A/c			2,50,000
	(Being the issue of debentures of Rs. 2,50,000 to vendor to satisfy his claim)			
(c)	Bank A/c	Dr.	2,00,000	
	To Bank Loan A/c (See Note)			2,00,000
	(Being a loan of Rs. 2,00,000 taken from bank by issuing debentures of Rs.2,50,000 as collateral security)			

Note: No entry is made in the books of account of the company at the time of making issue of such debentures. In the "Notes to Accounts" of Balance Sheet, the fact that the debentures being issued as collateral security and outstanding are shown by a note under the liability secured.

(c) The difference between the balance shown by the passbook and the cashbook may arise on account of the following:

(i) Cheques issued but not yet presented for payment.

(ii) Cheques deposited into the bank but not yet cleared.

(iii) Interest allowed by the bank.

(iv) Interest and expenses charged by the bank.

(v) Interest and dividends collected by the bank.

(vi) Direct payments by the bank.

(vii) Direct deposits into the bank by a customer.

(viii) Dishonour of a bill discounted with the bank.

(ix) Bills collected by the bank on behalf of the customer.

(x) An error committed by the bank etc.

OR

(c) Normally, the following subsidiary books are used in a business:

(i) Cash book to record receipts and payments of cash, including receipts into and payments out of the bank.

(ii) Purchases book to record credit purchases of goods dealt in or of the materials and stores required in the factory.

(iii) Purchase Returns Books to record the returns of goods and materials previously purchased.

(iv) Sales Book to record the sales of the goods dealt in by the firm.

(v) Sale Returns Book to record the returns made by the customers.

(vi) Bills receivable books to record the receipts of promissory notes or hundies from various parties.

(vii) Bills Payable Book to record the issue of the promissory notes or hundies to other parties.

(viii) Journal (proper) to record the transactions which cannot be recorded in any of the seven books mentioned above.

Test Series: November, 2021

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) 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.

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

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

(iv) The firm will receive surrender value of the joint life policy on the death of the partner.

(v) Where a non profit organisation separate trading activity, the profit/loss from the trading account shall be transferred to Income Expenditure Account at the time of consolidation.

(vi) Capital + Long Term Liabilities = Fixed Assets + Current Assets + Cash - Current Liabilities.

(6 statements x 2 Marks= 12 Marks)

(b) Differentiate between provision and contingent liability. **(4 Marks)**

(c) From the following particulars, prepare a Bank Reconciliation Statement for Ayodhya Ltd. as on 31.3.2021

(1) Balance as per cash book is Rs. 3,60,000.

(2) Cheques issued but not presented in the bank amounts to Rs. 2,04,000.

(3) Bank charges amounts to Rs. 900.

(4) Interest credited by bank amounts to Rs. 4,500. **(4 Marks)**

2. (a) The following mistakes were located in the books of a concern after its books were closed and a Suspense Account was opened in order to get the Trial Balance agreed:

(i) Sales Day Book was overcast by Rs. 5,000.

(ii) A sale of Rs. 25,000 to Ram was wrongly debited to the Account of Shyam.

(iii) General expenses Rs. 360 was posted in the General Ledger as Rs. 630.

(iv) A Bill Receivable for Rs. 1,550 was passed through Bills Payable Book. The Bill was given by Hari.

(v) Legal Expenses Rs. 2,910 paid to Mrs. Neetu was debited to her personal account.

(vi) Cash received from Aman was debited to Vimal Rs. 3,200.

(vii) While carrying forward the total of one page of the Purchases Book to the next, the amount of Rs. 1,235 was written as Rs. 1,325.

Find out the nature and amount of the Suspense Account and Pass entries for the rectification of the above errors in the subsequent year's books.

(b) Anirudh and Associates purchased an old Machinery for Rs. 74,000 on 1st January, 2017 and spent Rs. 6,000 on its overhauling. On 1st July 2018, another machine was purchased for Rs. 20,000. On 1st July 2019, the machinery which was purchased on 1st January 2017, was sold for Rs. 56,000 and the same day a new machinery costing Rs. 50,000 was purchased. On 1st July, 2020, the machine which was purchased on 1st July, 2018 was sold for Rs. 4,000.

Depreciation is charged @ 10% per annum on straight line method. The firm changed the method and adopted diminishing balance method with effect from 1st January, 2018 and the rate was increased to 15% per annum. The books are closed on 31st December every year.

Prepare Machinery account for four years from 1st January, 2017. **(10 Marks +10 Marks= 20 Marks)**

3 (a) Deepankar of Vijay Nagar consigns 500 cases of goods costing Rs. 3,000 each to Sandeep of Udaipur. Deepankar pays the following expenses in connection with the consignment:

Particulars	Rs.
Carriage	30,000
Freight	90,000
Loading Charges	30,000

Sandeep sells 350 cases at Rs. 4,200 per case and incurs the following expenses:

Clearing charges	36,000
Warehousing and Storage charges	50,000
Packing and selling expenses	14,000

It is found that 50 cases were lost in transit and another 50 cases were in transit. Sandeep is entitled to a commission of 10% on gross sales. Draw up the Consignment Account and Sandeep's Account in the books of Deepankar. **(10 Marks)**

(b) On 31st December, 2020 goods sold at a sale price of Rs. 18,000 were lying with customer, Mansi to whom these goods were sold on 'sale or return basis' were recorded as actual sales. Since no consent has been received from Mansi, you are required to pass adjustment entries presuming goods were sent on approval at a profit of cost plus 20%. Present market price is 10% less than the cost price.

(5 Marks)

(c) Attempt any ONE of the following two sub-parts i.e. **either (i) or (ii).**

(i) Amar accepted the following bills drawn by Pawan.

On 8th March, 2021 Rs. 16,000 for 4 months.

On 16th March,2021 Rs. 20,000 for 3 months. On

7th April, 2021 Rs. 24,000 for 5 months.

On 17th May, 2021 Rs. 20,000 for 3 months.

He wants to pay all the bills on a single day. Find out this date. Interest is charged @ 18% p.a. and Amar wants to save Rs. 628 by way of interest. Calculate the date on which he has to effect the payment to save interest of Rs. 628.

The following are the transactions that took place between A and B during the period from 1st October, 2020 to 31st March, 2021:

2020		Rs.
Oct.1	Balance due to A by B	3,000
Oct 18	Goods sold by A to B	2,500
Nov. 16	Goods sold by B to A (invoice dated November, 26)	4,000
Dec.7	Goods sold by B to A (invoice dated December, 17)	3,500
2021		**Rs.**
Jan. 3	Promissory note given by A to B, at three months	5,000
Feb. 4	Cash paid by A to B	1,000
Mar. 21	Goods sold by A to B	4,300
Mar.28	Goods sold by B to A (invoice dated April, 8)	2,700

Draw up an Account Current up to March 31st, 2021 to be rendered by A to B, charging interest at 10% per annum. Interest is to be calculated to the nearest rupee.

(5 Marks)

4. Moscow and Danial are partners of the firm MD & Co., from 1.4.2017. Initially both of them contributed Rs. 1,00,000 each as capital. They did not contribute any capital thereafter. They maintain accounts of the firm on mercantile basis. They were sharing profits and losses in the ratio of 5:4. After the accounts for the year ended 31.3.2021 were finalized, the partners decided to share profits and losses equally with effect from 1.4.2017.

It was also discovered that in ascertaining the results in the earlier years certain adjustments, details of which are given below, had not been noted.

Year ended 31st March	2018	2019	2020	2021
	Rs.	Rs.	Rs.	Rs.
Profit as per accounts prepared and finalized	70,000	1,30,000	1,60,000	1,80,000
Expenses not provided for (as at 31st March)	15,000	10,000	18,000	12,000
Incomes not taken into account (as at 31st March)	9,000	7,500	6,000	10,500

The partners decided to admit Spinny as a partner with effect from 1.4.2021. It was decided that Spinny would be allotted 20% share in the firm and he must bring 20% of the combined capital of Moscow and Danial.

Following is the Balance sheet of the firm as on 31.3.2021 before admission of Spinny and before adjustment of revised profits between Moscow and Danial.

Balance Sheet of MD & Co. as at 31.3.2021

Liabilities	Rs.	Assets	Rs.
Capital Accounts:		Plant and machinery	30,000

Moscow	1,05,750	Cash on hand	5,000
Danial	75,750	Cash at bank	2,500
Trade Payables	1,13,500	Stock in trade	1,55,000
		Trade Receivables	1,02,500
	2,95,000		2,95,000

You are required to prepare:

(i) Profit and Loss Adjustment account;

(ii) Capital accounts of the partners; and

(iii) Balance Sheet of the firm after the admission of Spinny. **(20 Marks)**

5 (a)The following information of M/s. Missionary Club are related for the year ended 31st March, 2021:

(1)

Balances	As on 01-04-2020 (Rs.)	As on 31-3-2021 (Rs.)
Stock of Sports Material	2,25,000	3,37,500
Amount due for Sports Material	2,02,500	2,92,500
Subscription due	33,750	49,500
Subscription received in advance	27,000	15,750

(2) Subscription received during the year Rs. 11,25,000

(3) Payments for Sports Material during the year Rs. 6,75000

You are required to:

(A) Ascertain the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2021 and

(B) Also show how these items would appear in the Balance Sheet as on 31.03.2021.

(10 Marks)

(b) Following particulars are extracted from the books of Mr. Vaid for the year ended 31st March, 2021.

Particulars	Amount	Particulars	Amount
Debit Balances:	Rs.	Credit Balances:	Rs.
Cash in hand	3,000	Capital	32,000
Purchase	24,000	Bank overdraft	4,000
Sales return	2,000	Sales	18,000
Salaries	5,000	Purchase return	4,000
Tax and Insurance	1,000	Provision for Bad debts	2,000
Bad debts	1,000	Creditors	4,000
Debtors	10,000	Commission	1,000
Investments	8,000	Bills payable	5,000
Opening stock	2,800		

Drawings	4,000		
Furniture	3,200		
Bills receivables	6,000		
	70,000		70,000

Other information :

(i) Closing stock was valued at Rs. 9,000.

(ii) Goods withdrawn by Mr. Vaid for own consumption Rs. 4000 included in purchases.

(ii) Salary of Rs. 200 and Tax of Rs. 400 are outstanding whereas insurance Rs. 100 is prepaid.

(iii) Commission received in advance is Rs. 200.

(iv) Interest accrued on investment is Rs. 420.

(v) Interest on overdraft is unpaid Rs. 600.

(vi) Provision for bad debts is to be kept at Rs. 2,000.

(vii) Depreciation on furniture is to be charged @ 10%.

You are required to prepare the final accounts after making above adjustments. **(10 Marks)**

6. (a) Hament applies for 2,000 shares of Rs. 10 each at a premium of Rs. 2.50 per share. He was allotted 1,000 shares. After having paid Rs. 3 per share on application , he did not pay the allotment money of Rs. 4.50 per share (including premium) and on his subsequent failure to pay the first call of Rs. 2 per share, his share were forfeited. These share were reissued at Rs. 8 per share, his shares were forfeited.

At the time of re-issue of forfeited shares of Mr. Hament, final call money amount all other shareholders were duly called up.

You are required to pass journal entries to record forfeiture and reissue of shares.

(10 Marks)

(b) On 1st January, 2020 Simon Ltd. issued 10% debentures of the face value of Rs. 10,00,000 at 10% discount. Debenture interest after deducting tax at source @10% was payable on 30th June and 31st December every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium.

Pass necessary journal entries for the year ending December,2020. **(10 Marks)**

Test Series: November,2021

FOUNDATION COURSE

MOCK TEST PAPER

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. (i)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.

(ii) False: Finished goods are normally valued at cost or net realizable value whichever is lower.

(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: The firm will receive full value of sum assured of the joint life policy on the death of the partner.

(v) True: When in case of trading activities for a Non- Profit -Organisation, the profit/loss from such activity is to be transferred to the Income Expenditure Account at the time of consolidation.

(vi) 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

(b) Difference between Provision and Contingent liability

	Provision	*Contingent liability*
(1)	Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation.	A Contingent liability is a possible obligation that may or may not crystallise depending on the occurrence or non-occurrence of one or more uncertain future events.
(2)	A provision meets the recognition criteria.	A contingent liability fails to meet the same.
(3)	Provision is recognized when (a) an enterprise has a present obligation arising from past events; an outflow of resources embodying economic benefits is probable, and (b) a reliable estimate can be made of the amount of the obligation.	Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that settlement of those obligations will require outflow of economic benefits, or the amount cannot be reliably estimated.
(4)	If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognises a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow from the firm to settle the obligation, it discloses the obligation as a contingent liability.

(c) **Ayodhya Ltd.**

Bank Reconciliation Statement as on 31.3.2021

Particulars	Rs.
Balance as per cash book	3,60,000
Add : Cheque issued but not presented	2,04,000
Interest credited	4,500
	5,68,500
Less : Bank charges	(900)
Balance as per pass book	5,67,600

2. **(a)**

	Particulars		Dr. Rs.	Cr. Rs.
(i)	P & L Adjustment A/c	Dr.	5,000	
	To Suspense A/c			5,000
	(Correction of error by which sales account was overcast last year)			
(ii)	Ram A/c	Dr.	25,000	
	To Shyam A/c			25,000
	(Correction of error by which sale of Rs. 25,000 to Ram was wrongly debited to Shyam's account)			
(iii)	Suspense A/c	Dr.	270	
	To P & L Adjustment A/c			270
	(Correct of error by which general expenses of Rs. 360 was wrongly posted as Rs. 630)			
(iv)	Bills Receivable A/c	Dr.	1,550	
	Bills Payable A/c	Dr.	1,550	
	To Hari			3,100
	(Correction of error by which bill receivable of Rs. 1,550 was wrongly passed through Bills Payable book)			
(v)	P & L Adjustment A/c	Dr.	2,910	
	To Mrs. Neetu			2,910
	(Correction of error by which legal expenses paid to Mrs. Neetu was wrongly debited to her personal account)			
(vi)	Suspense A/c	Dr.	6,400	
	To Aman A/c			3,200
	To Vimal A/c			3,200
	(Removal of wrong debit to Vimal and giving credit to Aman from whom cash was received)			

(vii)	Suspense A/c To P&L Adjustment A/c (Correction of error by which Purchase A/c was excess debited by Rs.90/-, i.e.: Rs.1,325 – Rs.1,235)	Dr.	90	90

Suspense A/c

	Rs.		Rs.
To P & L Adjustment A/c	270	By P & L Adjustment A/c	5,000
To Ram A/c	3,200	By Difference in Trial Balance (Balancing figure)	1,760
To Shyam A/c	3,200		
To P&L Adjustment A/c	90		
	6,760		6,760

(b) **In the books of Anirudh and Associates**

Machinery Account

			Rs.				Rs.
1.1.2017	To	Bank A/c	74,000	31.12.2017	By	Depreciation A/c	8,000
	To	Bank A/c (overhauling charges)	6,000	31.12.2017	By	Balance c/d	72,000
			80,000				80,000
1.1.2018	To	Balance b/d	72,000	31.12.2018	By	Depreciation A/c (Rs. 10,800 + Rs. 1,500)	12,300
1.7.2018	To	Bank A/c	20,000	31.12.2018	By	Balance c/d (Rs. 61,200 + Rs. 18,500)	79,700
			92,000				92,000
1.1.2019	To	Balance b/d	79,700	1.7.2019	By	Bank A/c(sale)	56,000
1.7.2019	To	Bank A/c	50,000	1.7.2019	By	Profit and Loss A/c- (Loss on Sale – W.N. 1)	610
				31.12.2019	By	Depreciation A/c (Rs. 4,590 + Rs.2,775 + Rs. 3,750)	11,115
					By	Balance c/d (Rs. 15,725 + Rs. 46,250)	61,975
			1,29,700				1,29,700

1.1.2020	To	Balance b/d	61,975	1.7.2020	By	Bank A/c (sale)	4,000
				1.7.2020	By	Profit and Loss A/c (Loss on Sale – W.N. 1)	10,545
				31.12.2020	By	Depreciation A/c (Rs. 1,180 + Rs. 6,938)	8,118
				31.12.2020	By	Balance c/d	39,312
			61,975				61,975

Working Note:

Book Value of machines

	Machine I Rs.	*Machine II Rs.*	*Machine III Rs.*
Cost of all machinery (Machinery cost for 2017)	80,000	20,000	50,000
Depreciation for 2017	8,000	-	
Written down value as on 31.12.2017	72,000		
Purchase 1.7.2018 (6 months)		20,000	
Depreciation for 2018	10,800	1500	-
Written down value as on 31.12.2018	61,200	18,500	
Depreciation for 6 months (2019)	4,590	-	
Written down value as on 1.7.2019	56,610		
Sale proceeds	56,000	-	
Loss on sale	610	-	
Purchase 1.7.2019			50,000
Depreciation for 2019 (6 months)		2,775	3,750
Written down value as on 31.12.2019		15,725	46,250
Depreciation for 6 months in 2020		1180	-
Written down value as on 1.7.2020		14,545	
Sale proceeds		4,000	-
Loss on sale		10,545	-
Depreciation for 2020			6,938
Written down value as on 31.12.2020			39,312

3. (a) **In the books of Deepankar**

Consignment to Sandeep of Udaipur Account

Particulars	Rs.	Particulars	Rs.
To Goods sent on Consignment	15,00,000	By Sandeep (Sales)	14,70,000
To Bank (Expenses: 30,000+90,000+30,000)	1,50,000	By Goods lost in Transit 50 cases @ Rs. 3,300 each (WN1)	1,65,000
To Sandeep (Expenses: 36,000+Rs.50,000+14,000)	1,00,000	By Consignment Inventories: In hand 50 @ Rs. 3,390 each (WN2)	1,69,500
To Sandeep (Commission)	1,47,000	By Consignment Inventories: In transit 50 @ Rs. 3,300 each (WN3)	1,65,000
To Profit on Consignment transfered to Profit & Loss A/c	72,500		
	19,69,500		19,69,500

Sandeep's Account

Particulars	Rs.	Particulars	Rs.
To Consignment to Udaipur A/c	14,70,000	By Consignment A/c (Expenses)	1,00,000
		By Consignment A/c(Commission)	1,47,000
		By Balance c/d	12,23,000
	14,70,000		14,70,000

Working Notes:

1. Consignor's expenses on 500 cases amounts to Rs.1,50,000; it comes to Rs. 300 per case. The cost of cases lost will be computed at Rs. 3,300 per case i.e. 3,000+300.
2. Sandeep has incurred Rs. 36,000 on clearing 400 cases, i.e., Rs. 90 per case; while valuing closing inventories with the agent Rs. 90 per case has been added to cases in hand with the agent i.e. 3,000+300+90.
3. The goods in transit (50 cases) have not yet been cleared. Hence the proportionate clearing charges on those goods have not been included in their value i.e. 3,000+300 =3,300.
4. It has been assumed that balance of Rs. 12,23,000 is not yet paid.

(b) **Journal Entries**

Date 2020	***Particulars***		***Dr.*** Rs.	***Cr.*** Rs.
31st Dec.	Sales A/c To Mansi's A/c	Dr.	18,000	 18,000

	(Being cancellation of entry for sale of goods, not yet approved)			
	Inventories with customers A/c (Refer W.N.) To Trading A/c (Being Inventories with customers recorded at market price)	Dr.	13,500	 13,500

Working Note:

Calculation of cost and market price of Inventories with customer

Sale price of goods sent on approval	Rs.18,000
Less: Profit (3,000 x 20/120)	Rs. 3000
Cost of goods	Rs.15,000

Market price = 15,000 - (15,000 x 10%) = Rs. 13,500.

(c) (i) Taking 19.6.2021 as a Base date

Transaction Date	Due Date	Amount	No of days	Amount
8.3.2021	11.7.2021	16,000	22	3,52,000
16.3.2021	19.6.2021	20,000	0	0
7.4.2021	10.9.2018	24,000	83	19,92,000
17.5.2021	20.8.2018	20,000	62	12,40,000
		80,000		35,84,000

Average Due Date = Base date + $\frac{\text{Total of Product}}{\text{Total of Amount}}$

= 19.6.2021 + Rs. 35,84,000/Rs.80,000

= 19.6.2021 + 44.8 days (or 45 days approximately)

= 3.8.2021

Amar wants to save interest of Rs. 628. The yearly interest is Rs. 80,000 × 18%

= Rs. 14,400.

Assume that days corresponding to interest of Rs. 628 are Y.

Then, 14,400 × Y/365 = Rs. 628

or Y = 628 × 365/14,400 = 15.9 days or 16 days (Approx.)

Hence, if Amar wants to save Rs. 628 by way of interest, she should prepone the payment of amount involved by 16 days from the Average Due Date. Hence, she should make the payment on 18.7.2021 (3.8.2021 – 16 days)

(ii) In the books of A

B in Account Current with A
(interest to 31st March,2021@10%p.a.)

Date	Due date	Particulars	No. of days till 31.3.21	Amt.	Product	Date	Due date	Particulars	No. of days till 31.3.21	Amt.	Product
2020	2020			Rs.	Rs.	2020	2020			Rs.	Rs.
Oct 1,	Oct 1,	To Balance b/d	182	3,000	5,46,000	Nov 16	Nov 26	By Purchases	125	4,000	5,00,000
Oct 18,	Oct 18	To Sales	164	2,500	4,10,000	Dec 7	Dec. 17	By Purchases	104	3,500	3,64,000
2021	2021					2021	2021				
Jan 3	Apr 6	To Bills payable	(6)	5,000	(30,000)	Mar 28	Apr 8	By Purchases	(8)	2,700	(21,600)
Feb 4	Feb 4	To Cash	55	1,000	55,000	Mar 31	Mar 31	By Balance of product			1,81,600
Mar 21	Mar. 21	To Sales	10	4,300	43,000			By Balance c/d		5,650	
Mar 31	Mar 31	To Interest		50	-						
				15,850	10,24,000					15,850	10,24,000

Interest for the period = $\frac{1,81,600 \times 10 \times 1}{100 \times 365}$ = Rs. 50 (approx.)

4. **Profit and Loss Adjustment Account***

	Rs.		Rs.
To Expenses not provided for (years 2018-2021)	55,000	By Income not considered (for years 2018-2021)	33,000
		By Partners' capital accounts (loss)	
		Moscow	11,000
		Danial	11,000
	55,000		55,000

(ii) **Partners' Capital Accounts**

	Moscow Rs.	Danial Rs.	Spinny Rs.		Moscow Rs.	Danial Rs.	Spinny Rs.
To P & L Adjustment A/c	11,000	11,000	-	By Balance b/d	1,05,750	75,750	-
To Danial	30,000			By Moscow	-	30,000	-
To Balance c/d	64,750	94,750	31,900	By Cash	-	-	31,900
	1,05,750	1,05,750	31,900		1,05,750	1,05,750	31,900

				By Balance b/d	64,750	94,750	31,900

(iii) Balance Sheet of MD & Co. as on 1.4.2021

(After admission of Spinny)

Liabilities	Rs.	Assets	Rs.
Capital accounts:		Plant and machinery	30,000
Moscow	64,750	Trade receivables	1,02,500
Danial	94,750	Stock in trade	1,55,000
Spinny	31,900	Accrued income	33,000
Trade payables	1,13,500	Cash on hand (5,000 + 31,900)	36,900
Outstanding expenses	55,000	Cash at bank	2,500
	3,59,900		3,59,900

Working Notes:

1. Computation of Profit and Loss distributed among partners

		Rs.
Profit for the year ended	31.3.2018	70,000
	31.3.2019	1,30,000
	31.3.2020	1,60,000
	31.3.2021	1,80,000
Total Profit		5,40,000

	Moscow	Danial	Total
	Rs.	Rs.	Rs.
Profit shared in old ratio i.e 5:4	3,00,000	2,40,000	5,40,000
Profit to be shared as per new ratio i.e. 1:1	2,70,000	2,70,000	5,40,000
Excess share	30,000		
Deficit share		(30,000)	

Moscow to be debited by Rs. 30,000 and Danial to be credited by Rs.30,000.

2. Capital brought in by Spinny

	Rs.
Capital to be brought in by Spinny must be equal to 20% of the combined capital of Moscow and Danial	
Capital of Moscow (1,05,750 – 11,000 – 30,000)	64,750
Capital of Danial (75,750 – 11,000 + 30,000)	94,750
Combined Capital	1,59,500
20% of the combined capital brought in by Spinny (20% of Rs. 1,59,500)	31,900

5. (a) **Subscription for the year ended 31.3.2021**

		Rs.
Subscription received during the year		11,25,000
Less: Subscription receivable on 1.4.2020	33,750	
Less: Subscription received in advance on 31.3.2021	15,750	(49,500)
		10,75,500
Add: Subscription receivable on 31.3.2021	49,500	
Add: Subscription received in advance on 1.4.2020	27,000	76,500
Amount of Subscription appearing in Income & Expenditure Account		11,52,000

Sports material consumed during the year end 31.3.2021

	Rs.
Payment for Sports material	6,75,000
Less: Amounts due for sports material on 1.4.2020	(2,02,500)
	4,72,500
Add: Amounts due for sports material on 31.3.2021	2,92,500
Purchase of sports material	7,65,000
Sports material consumed:	
Stock of sports material on 1.4.2020	2,25,000
Add: Purchase of sports material during the year	7,65,000
	9,90,000
Less: Stock of sports material on 31.3.2021	(3,37,500)
Amount of Sports Material appearing in Income & Expenditure Account	6,52,500

Balance Sheet of M/s Missionary Club For the year ended 31st March, 2021(An extract)

Liabilities	*Rs.*	*Assets*	*Rs.*
Unearned Subscription	15,750	Subscription receivable	49,500
Amount due for sports material	2,92,500	Stock of sports material	3,37,500

(b) **Trading & Profit and Loss Account of**

Mr. Vaid for the year ended 31st March, 2021

	Particulars	Rs.	Rs.		Particulars	Rs.	Rs.
To	Opening Stock		2,800	By	Sales	18,000	
To	Purchase	20,000			Less: Sales return	(2,000)	16,000
	Less: Purchase return	(4,000)	16,000	By	Closing stock		9,000
To	Gross Profit		6,200				
			25,000				25,000
To	Salary	5,000		By	Gross Profit		6,200

Add: Outstanding salary	200	5,200	By Commission	1,000	
			Less: Advance	(200)	800
To Tax & Insurance	1000		By Accrued interest		420
Add: Outstanding	400		By Net Loss		1,000
Prepaid insurance	(100)	1,300			
To Bad debt	1000				
Opening provision	(2,000)				
Closing provision	2,000	1,000			
To Interest on overdraft		600			
To Depreciation on furniture		320			
		8,420			8,420

Balance Sheet of Mr. Vaid as on 31.3.2021

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
Capital	32,000		By Furniture	3,200	
Less: drawing	(8,000)		Less: Depreciation	(320)	2,880
Net loss	(1,000)	23,000	Bill receivable		6,000
Bank overdraft	4,000		Investment	8,000	
Add: interest	600	4,600	Add: accrued interest	420	8,420
Creditors		4,000	Debtors	10,000	
Bills payable Outstanding expenses:		5,000	Less: Provision on bad debts	(2,000)	8,000
Salary	200		Closing stock		9,000
Tax	400	600	Cash in hand		3,000
Commission received in advance		200	Prepaid insurance		100
		37,400			37,400

6. (a) Journal

		Dr.	Cr.
Share Capital A/c	Dr.	7,000	
Securities Premium Reserve A/c	Dr.	1,500	
To Forfeited Share A/c			5,000
To Share Allotment A/c			1,500
To Share First Call A/c			2,000
(Being 1000 shares forfeited for non-payment of allotment money and first call)			
Bank A/c	Dr.	8,000	
Forfeited Shares A/c	Dr.	2,000	
To Share Capital A/c			10,000

(Being 1000 forfeited shares reissued as fully paid up for Rs 8 per share)			
Forfeited Shares A/c To Capital Reserve A/c (Being the transfer of gain on reissue)	Dr.	3,000	3,000

Working Note:

Calculation of the amount due but not paid on allotment	Rs.
(a) Total No. of Shares applied	2,000
(b) Total money paid of application (2,000x 3)	6,000
(c) Excess application money (Rs. 6000-(1,000x3))	3,000
(d) Total amount due on allotment (1,000x 4.50)	4,500
(e) Amount due but not paid (Rs.4,500- Rs.3,000)	1,500
Out of Rs. 4,500, Rs. 2,000 are for Share Capital and Rs. 2,500 are for Securities Premium Reserve. Out of excess application money of Rs.3,000 , Rs.2000 are	
adjusted towards allotment as share capital and Rs.. 1,000 are adjusted towards allotment as securities premium reserve. Therefore, Securities Premium Reserve of Rs. 1,500 (i.e. Rs. 2,500- 1,000) is not received. Hence securities Premium Reserve is debited by Rs. 1,500.	

(b) **Journal Entries**

			Dr. (Rs.)	*Cr. (Rs.)*
1-1-2020	Bank A/c	Dr.	9,00,000	
	Discount/Loss on Issue of Debentures A/c	Dr.	1,50,000	
	To 10% Debentures A/c			10,00,000
	To Premium on Redemption of Debentures A/c			50,000
	(For issue of debentures at discount redeemable at premium)			
30-6-2020	Debenture Interest A/c	Dr.	50,000	
	To Debenture holders A/c			45,000
	To Tax Deducted at Source A/c			5,000
	(For interest payable)			
	Debenture holders A/c	Dr.	45,000	
	Tax Deducted at Source A/c	Dr.	5,000	
	To Bank A/c			50,000
	(For payment of interest and TDS)			
31-12-2020	Debenture Interest A/c	Dr.	50,000	
	To Debenture holders A/c			45,000

	To Tax Deducted at Source A/c (For interest payable)			5,000
	Debenture holders A/c	Dr.	45,000	
	Tax Deducted at Source A/c	Dr.	5,000	
	To Bank A/c			50,000
	(For payment of interest and tax)			
	Profit and Loss A/c	Dr.	1,00,000	
	To Debenture Interest A/c			1,00,000
	(For transfer of debenture interest to profit and loss account at the end of the year)			
	Profit and Loss A/c	Dr.	30,000	
	To Discount/Loss on issue of debenture A/c			30,000
	(For proportionate debenture discount and premium on redemption written off, i.e., 50,000 x 1/5)			

Test Series: October, 2021

MOCK TEST PAPER 1

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) The concept of conservatism when applied to the balance sheet results in understatement of assets.

(ii) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

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

(iv) If individual life policies are taken in the name of the partners and premium is paid from the firm, then retiring partner is entitled to surrender value of his policy only.

(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) Goods worth ` 600 taken by the proprietor for personal use should be credited to Capital Account. **(6 statements x 2 Marks = 12 Marks)**

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

(c) Classify the following errors under the three categories – Errors of Omission, Errors of Commission and Errors of Principle.

(i) Sale of furniture credited to Sales Account.

(ii) Purchase worth ` 500 from M not recorded in subsidiary books.

(iii) Credit sale wrongly passed through the Purchase Book.

(iv) Machinery sold on credit to Mohan recorded in Journal Proper but omitted to be posted.

(v) Goods worth ` 5000 purchased on credit from Ram recorded in the Purchase Book as ` 500. **(4 Marks)**

2. (a) Prepare a Bank Reconciliation statement for Satyam Traders as on 31st March,2021

The cash book of Satyam Traders shows a debit balance of ` 4,12,200 at bank as on 31st March,2021, but you find that it does not agree with the balance as per Pass Book. After checking you find the following:

1. On 12th March, 2021 the payment side of the Cash Book was under cast by ` 12,000/-
2. A cheque of ` 85,000 issued on 20th March, 2021 was not taken in the bank column.
3. On 22nd March, 2021 the debit balance of ` 18,500 as on the previous day, was brought forwards as credit balance.
4. Out of the total cheques amounting to ` 42,000 issued in, the last week of March, 2021, cheques aggregating ` 28,500 were encashed in March, 2021.
5. Dividends of ` 35,000 collected by the Bank and Fire insurance premium of ` 20,000 paid by it were not recorded in the cash book.
6. One cheque issued to a Creditor of ` 1,29,000 was recorded twice in the Cash book.
7. A debtor Mr. A has deposited the Cheque for ` 32,000 into the bank directly in the month of March, 2021 without intimating to Satyam Traders and the same cheque was dishonored by the bank due to insufficient funds in the month of March itself.
8. A cheque from customer for ` 5,000 was deposited in bank on 28th March,2021 but was dishonored and advice received from bank on 3rd April, 2021.
9. Bank paid credit card bill of ` 2,500 which is not recorded in cash book.
10. Bank wrongly credited cheque of ` 25,000 of other customer in our account.
11. Bank credited cheque of ` 2,000 in savings account of proprietor of Satyam Traders instead of crediting cheque in current account of Satyam Traders.
12. ` 500 discount received wrongly entered in bank column in cash book.
13. Bank debited charges ` 200 on 25th March for which no intimation received till 31st March.

(b) A Plant & Machinery costing ` 50,00,000 is depreciated on straight line assuming 10 year working life and zero residual value, for four years. At the end of the fourth year, the machinery was revalued upwards by ` 2,00,000. The remaining useful life was reassessed at 8th year. Calculate Depreciation for the fifth year. **(15 Marks +5 Marks= 20 Marks)**

3 (a) Calculate average due date from the following information:

Date of bill	Term	Amount (`)
1st March, 2021	2 months	20,000
10th March, 2021	3 months	15,000
5th April, 2021	2 months	10,000
23rd April, 2021	1 months	18,750
10th May, 2021	2 months	25,000

(5 Marks)

(b) Mr. Lalit owed ` 4,000 on 1st January, 2021 to Mr. Sumit. The following transactions took place between them. It is agreed between the parties that interest @ 10% p.a. is to be calculated on all transactions.

	`
15 January, 2021 Mr. Sumit sold goods to Mr. Lalit	2,230
29 January, 2021 Mr. Sumit bought goods from Mr. Lalit	1,200
10 February, 2021 Mr. Lalit paid cash to Mr. Sumit	1,000
13 March, 2021 Mr. Lalit accepted a bill drawn by Mr.Sumit for one month	2,000

They agree to settle their complete accounts by one single payment on 15th March, 2021.

Prepare Mr. Lalit in Account Current with Mr. Sumit and ascertain the amount to be paid. Ignore days of grace. **(5 Marks)**

(c) Mr. Q accepted a bill for ` 10,000 drawn on him by Mr. P on 1st August, 2020 for 3 months. This was for the amount which Q owed to P. On the same date Mr. P got the bill discounted at his bank for ` 9,800.

On the due date, Q approached P for renewal of the bill. Mr. P agreed on condition that ` 2,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance Q should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2020, Q became insolvent and his estate paid 40%.

Prepare Journal Entries in the books of Mr. P **(10 Marks)**

4. From the following data, prepare an Income and Expenditure Account for the year ended 31st December 2020, and Balance Sheet as at that date of the Rex Speciality Hospital:

Receipts and Payments Account for the year ended 31 December, 2020

RECEIPTS	`		PAYMENTS		`
To Balance b/d			By Salaries:		
Cash	1,600		(` 14,400 for 2019)		62,400
Bank	10,400	12,000	By Hospital Equipment		34,000
To Subscriptions:			By Furniture purchased		12,000
For 2019		10,200	By Additions to Building		1,00,000
For 2020		49,000	By Printing and Stationery		4,800
For 2021		4,800			
To Government Grant:			By Diet expenses		31,200
For building		1,60,000	By Rent and rates		
For maintenance		40,000	(` 600 for 2021)		4,000
Fees from sundry			By Electricity and water		
Patients		9,600	charges		4,800
To Donations (not to be		16,000	By office expenses		4,000
capitalized)			By Investments		40,000
To Net collections from			By Balances:		
benefit shows		12,000	Cash	2,800	
			Bank	13,600	16,400
		3,13,600			3,13,600

Additional information :	`
Value of building under construction as on 31.12.2020	2,80,000
Value of hospital equipment on 31.12.2020	1,02,000
Building Fund as on 1.1. 2020	1,60,000
Subscriptions in arrears as on 31.12.2019	13,000

Investments in 8% Govt. securities were made on 1st July, 2020.	

(20 Marks)

5. (a) Superior & Co. is a partnership firm with partners Mr. Sam, Mr. Tim and Mr. Lee, sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31st March, 2020 is as under:

Liabilities		`	**Assets**	`
Capitals:			Land	10,000
Mr. Sam	80,000		Buildings	2,00,000
Mr. Tim	20,000		Plant and machinery	1,30,000
Mr. Lee	30,000	1,30,000	Furniture	43,000
Reserves			Investments	12,000
(un-appropriated profit)		20,000	Inventories	1,30,000
Long Term Debt		3,00,000	Trade receivables	1,39,000
Bank Overdraft		44,000		
Trade payables		1,70,000		
		6,64,000		6,64,000

It was mutually agreed that Mr. Tim will retire from partnership and in his place Mr. Ben will be admitted as a partner with effect from 1st April, 2020. For this purpose, the following adjustments are to be made:

(a) Goodwill is to be valued at `1 lakh but the same will not appear as an asset in the books of the reconstituted firm.

(b) Buildings and plant and machinery are to be depreciated by 5% and 20% respectively. Investments are to be taken over by the retiring partner at `15,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.

(c) In the reconstituted firm, the total capital will be ` 2 lakhs which will be contributed by Mr. Sam, Mr. Lee and Mr. Ben in their new profit sharing ratio, which is 2:2:1.

(i) The surplus funds, if any, will be used for repaying bank overdraft.

(ii) The amount due to retiring partner shall be transferred to his loan account. You

are required to prepare

(a) Revaluation account;

(b) Partners' capital accounts; and

(c) Bank account;

(b) Following information is provided for M/s. Rishi traders for the year ended 31st March, 2021:

	`
Opening Inventory	3,00,000
Purchases	20,16,000
Carriage Inwards	90,000
Wages	1,50,000
Sales	33,00,000
Returns inward	3,00,000

Returns outward	2,16,000
Closing Inventory	6,00,000

You are required to pass necessary closing entries in the journal proper of M/s. Rishi traders.

(15 + 5 = 20 Marks)

6. (a) Give necessary journal entries for the forfeiture and re-issue of shares:

(i) Suresh Ltd. forfeited 300 shares of ₹ 10 each fully called up, held by Ramesh for non-payment of allotment money of ₹ 3 per share and final call of ₹ 4 per share. He paid the application money of ₹ 3 per share. These shares were re-issued to Mahesh for ₹ 8 per share.

(ii) Mr. P, who was the holder of 2,500 preference shares of ₹ 100 each, on which ₹ 70 per share has been called up, could not pay his dues on Allotment and First call each at ₹ 20 per share. The Directors forfeited the above shares and reissued 2,000 of such shares to Mr. Q at ₹ 60per share paid-up as ₹ 70 per share. **(10 Marks)**

(b) On 1st April, 2020, Sky ltd. took over assets of ₹ 4,50,000 and liabilities of ₹ 60,000 of Universe Ltd. for the purchase consideration of ₹ 4,40,000. It paid the purchase consideration by issuing 8% debentures of ₹ 100 each at 10% premium. On the same date it issued another 3,000,8% debentures of ₹ 100 at discount of 10% redeemable at the premium of 5% after 5 years. According to the terms of the issue ₹ 30 is payable on application and the balance on the allotment of debenture.

You are required to pass journal entries in the books of Sky ltd. for financial year 2020-21.

(5 Marks)

(c) Explain in brief objectives of preparing Trial Balance.

Or

What are the rules of posting of journal entries into the Ledger? Explain in brief. **(5 Marks)**

Test Series: October,2021

MOCK TEST PAPER 1

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. (a) (i) **True -** Conservatism states that the accountant / entity should not anticipate any future income. However, they should provide for all possible / probable losses. Imprudent use of concept of conservatism may lead to understatement of income and assets.

(ii) **True -** In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high in the initial period and reduces continuously in the later periods. Thus, depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset

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

(iv) **False** -If individual life policies are taken in the name of the partners and premium is paid from the firm, then retiring partner is entitled to surrender value of all the partners policies.

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

(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.

(c) (i) Error of Principle.

(ii) Error of Omission.

(iii) Error of Commission.

(iv) Error of Omission.

(v) Error of Commission

2. (a)

Bank Reconciliation Statement of Satyam Traders as on 31st March, 2021		
Particulars	**Amount**	**Amount**
Balance as per Cash Book		4,12,200
Add:		
Mistake in bringing forward `18,500/-debit Balance as credit balance on 22nd March	37,000	
Cheques issued but not presented Issued = `42,000 less cashed ` 28,500 = `13,500/-	13,500	
Dividend directly collected but not entered in cash book	35,000	
Cheques recorded twice in the cash book	1,29,000	
Wrongly credited cheque by bank	25,000	
Discount amount wrongly entered in bank column	500	
TOTAL		2,40,000
Less:		
Wrong casting in cash book on12th March, 2021	12,000	
Cheque issued and not entered in the Bank Column	85,000	
Fire Insurance premium paid directly by bank	20,000	
Cheque dishonored not recorded in books	5,000	
Credit card payment not recorded in cash book	2,500	
Cheque wrongly deposited by bank in savings account	2,000	
Bank charges debited not recorded in cash book	200	
TOTAL		1,26,700
Balance as per the Passbook		5,25,500
No effects of cheque deposit directly and dishonored in the same Month. Alternatively figure of ` 32,000/- can be added as well as deducted from balance as per cash book.		

(b) Calculation of depreciation for 5th year

Depreciation per year charged for four years = ` 50,00,000 / 10 = ` 5,00,000

WDV of the machine at the end of fourth year = ` 50,00,000 – ` 5,00,000 × 4 = ` 30,00,000.

Depreciable amount after revaluation = ` 30,00,000 + ` 2,00,000 = ` 32,00,000

Remaining useful life as per previous estimate = 6 years

Remaining useful life as per revised estimate = 8 years

Depreciation for the fifth year and onwards = ` 32,00,000 / 8 = ` 4,00,000.

3. (a) Calculation of Average Due Date

(Taking 4th May, 2021 as the base date)

Date of bill	*Term*	*Due date*	*Amount* `	*No. of days from the base date i.e. May 4, 2021*	*Product* `
2021		2021			
1st March	2 months	4th May	20,000	0	0
10th March	3 months	13th June	15,000	40	6,00,000
5th April	2 months	8th June	10,000	35	3,50,000
23rd April	1 month	26th May	18,750	22	4,12,500
10th May	2 months	13th July	25,000	70	17,50,000
			88,750		31,12,500

Average due date=Base date+ Days equal to $\frac{\text{Total of products}}{\text{Total amount}}$

$$= 4^{th}\text{ May, 2021} + \frac{`\,31,12,500}{88,750} = 4^{th}\text{ May, 2021} + 35 \text{ days} = 8^{th}\text{ June, 2021}$$

(b) **Mr. Lalit in Account Current with Mr. Sumit**

(Interest upto 15th March, 2021 @ 10% p.a.)

Dr.											*Cr.*
Date		*Particulars*	*Amount*	*Days*	*Product*	*Date*		*Particulars*	*Amount*	*Days*	*Product*
2021						*2021*					
Jan. 01	To	Balance b/d	4,000	74	2,96,000	Jan. 29	By	Purchase account	1,200	45	54,000
Jan. 15	To	Sales account	2,230	59	1,31,570	Feb. 10	By	Cash account	1,000	33	33,000
Mar. 13	To	Red Ink product (` 2,000 × 29)			58,000	Mar. 13	By	Bills Receivable account	2,000		
Mar. 15	To	Interest account $\left(\frac{`3,98,570 \times 10 \times 1}{100 \times 365}\right)$	109			Mar. 15	By	Balance of product			3,98,570
							By	Balance c/d (amount to be paid)	2,139		
			6,339		4,85,570				6,339		4,85,570

(c) **Journal Entries in the Books of Mr. P**

Date		*Particulars*	*L.F.*	*Dr. Amount `*	*Cr. Amount `*
2020					
August	1	Bills Receivable A/c Dr.		10,000	
		To Q			10,000
		(Being the acceptance received from Q to settle his account)			
August	1	Bank A/c Dr.		9,800	
		Discount A/c Dr.		200	
		To Bills Receivable			10,000
		(Being the bill discounted for ` 9,800 from bank)			
November	4	Q Dr.		10,000	
		To Bank Account			10,000
		(Being the Q's acceptance is to be renewed)			
November	4	Q Dr.		240	
		To Interest Account			240
		(Being the interest due from Q for 3 months i.e., 8000x3/12× 12%=240)			
November	4	Cash A/c Dr.		2,240	

		Bills Receivable A/c Dr.	8,000	
		To Q		10,240
		(Being amount and acceptance of new bill received from Q)		
December	31	Q A/c Dr.	8,000	
		To Bills Receivable A/c		8,000
		(Being Q became insolvent)		
December	31	Cash A/c Dr.	3,200	
		Bad debts A/c Dr.	4,800	
		To Q		8,000
		(Being the amount received and written off on Q's insolvency)		

4. **Rex Speciality Hospital**

Income & Expenditure Account
for the year ended 31 December, 2020

Expenditure	**(`)**	**Income**	**(`)**
To Salaries	48,000	By Subscriptions	49,000
To Diet expenses	31,200	By Govt. Grants (Maintenance)	40,000
To Rent & Rates	3,400	By Fees, Sundry Patients	9,600
To Printing & Stationery	4,800	By Donations	16,000
To Electricity & Water-charges	4,800	By Benefit shows (net collections)	12,000
To Office expenses	4,000	By Interest on Investments	1,600
To Excess of Income over expenditure transferred to Capital Fund	32,000		
	1,28,200		1,28,200

Balance Sheet as at 31st Dec., 2020

Liabilities	`	`	**Assets**	`	`
Capital Fund :			Building :		
Opening balance	98,600		Opening balance	1,80,000	
Excess of Income			Addition	1,00,000	2,80,000
Over Expenditure	32,000	1,30,600	Hospital Equipment :		
Building Fund :			Opening balance	68,000	
Opening balance	1,60,000		Addition	34,000	1,02,000
Add : Govt. Grant	1,60,000	3,20,000	Furniture		12,000
Subscriptions			Investments-		
received in advance		4,800	8% Govt. Securities		40,000

			Subscriptions receivable		2,800
			Accrued interest		1,600
			Prepaid expenses (Rent)		600
			Cash at Bank		13,600
			Cash in hand		2,800
		4,55,400			4,55,400

Working Notes:

(1) Balance sheet as at 31st Dec., 2020

Liabilities	`	Assets	`
Capital Fund		Building	1,80,000
(Balancing Figure)	98,600	Equipment	68,000
Building Fund	1,60,000	Subscription Receivable	13,000
Creditors for Expenses :		Cash at Bank	10,400
Salaries payable	14,400	Cash in hand	1,600
	2,73,000		2,73,000

		`
(2)	**Value of Building**	
	Balance on 31st Dec. 2020	2,80,000
	Paid during the year	1,00,000
	Balance on 31st Dec. 2019	1,80,000
(3)	**Value of Equipment**	
	Balance on 31st Dec. 2020	1,02,000
	Paid during the year	(34,000)
	Balance on 31st Dec. 2019	78,000
(4)	**Subscription due for 2019**	
	Receivable on 31st Dec. 2019	13,000
	Received in 2020	10,200
	Still Receivable for 2019	2,800

5. (a) Revaluation Account

	`			`
To Buildings A/c	10,000	By Investments A/c		3,000
To Plant and Machinery A/c	26,000	By Loss to Partners:		
To Provision for Doubtful Debts A/c	27,800	Sam	30,400	
		Tim	18,240	
		Lee	12,160	60,800
	63,800			63,800

Capital Accounts of Partners

Particulars	Sam	Tim	Lee	Ben	Particulars	Sam	Tim	Lee	Ben
	`	`	`	`		`	`	`	`
To Revaluation A/c	30,400	18,240	12,160	-	By Balance b/d	80,000	20,000	30,000	-
To Investments A/c	-	15,000	-	-	By Reserves A/c	10,000	6,000	4,000	-
To Tim Loan A/c	-	22,760	-	-	By Lee and Ben Capital A/c	10,000	30,000	-	-
To P and Q's Capital A/c			20,000	20,000	By Bank A/c (balancing figure)	10,400	-	78,160	60,000
To Balance c/d	80,000	-	80,000	40,000					
	1,10,400	56,000	1,12,160	60,000		1,10,400	56,000	1,12,160	60,000

Bank Account

	`		`
To Sam's capital A/c	10,400	By Bank Overdraft A/c	44,000
To Lee's capital A/c	78,160	By Balance c/d	1,04,560
To Ben's capital A/c	60,000		
	1,48,560		1,48,560

(b) Journal Proper in the Books of M/s. Rishi Traders

Date 2021	Particulars		Amount `	Amount `
Mar. 31	Returns outward A/c	Dr.	2,16,000	
	To Purchases A/c			2,16,000
	(Being the transfer of returns to purchases account)			
	Sales A/c	Dr.	3,00,000	
	To Returns Inward A/c			3,00,000
	(Being the transfer of returns to sales account)			
.	Sales A/c	Dr.	30,00,000	
	To Trading A/c			30,00,000
	(Being the transfer of balance of sales account to trading account)			
	Trading A/c	Dr.	23,40,000	
	To Opening Inventory A/c			3,00,000
	To Purchases A/c			18,00,000
	To Wages A/c			1,50,000
	To Carriage Inwards A/c			90,000
	(Being the transfer of balances of opening inventory, purchases and wages accounts)			
	Closing Inventory A/c	Dr.	6,00,000	
	To Trading A/c			6,00,000

	(Being the incorporation of value of closing Inventory)			
	Trading A/c To Gross Profit (Being the amount of gross profit)	Dr.	12,60,000	12,60,000
	Gross profit To Profit and Loss A/c (Being the transfer of gross profit to Profit and Loss Account)	Dr.	12,60,000	12,60,000

6. (a) (i) Journal Entries in the books of Suresh Ltd.

Date		*Dr.* `	*Cr.* `
(a)	Equity Share Capital A/c Dr.	3,000	
	To Equity Share Allotment money A/c (300 x ` 3)		900
	To Equity Share Final Call A/c (300 x ` 4)		1,200
	To Forfeited Shares A/c (300 x ` 3)		900
	(Being the forfeiture of 300 equity shares of ` 10 each for non-payment of allotment money and final call, held by Ramesh as per Board's resolution No…………….dated......................)		
(b)	Bank Account (300 x 8) Dr.	2,400	
	Forfeited Shares Account (300x 2) Dr.	600	
	To Equity Share Capital Account		3,000
	(Being the re-issue of 300 forfeited shares @ ` 8 each as fully paid up to Mahesh as per Board's resolution No……….dated........................)		
(c)	Forfeited Shares Account Dr.	300	
	To Capital Reserve Account		300
	(Being the profit on re-issue, transferred to capital reserve)		

(ii)

	Dr. `	***Cr.*** `
Preference Share Capital A/c (2,500 x ` 70) Dr.	1,75,000	
To Preference Share Allotment A/c (2,500 x ` 20)		50,000
To Preference Share First Call A/c (2,500 x ` 20)		50,000
To Forfeited Share A/c		75,000

(Being the forfeiture of 2,500 preference shares ` 70 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated)			
Bank A/c (2,000 x `60) Forfeited Shares A/c (2,000 x `10) To Preference Share Capital A/c (Being re-issue of 2,000 shares at ` 60 per share paid-up as ` 70 as per Board's Resolution No.....dated....)	Dr. Dr.	1,20,000 20,000	 1,40,000
Forfeited Shares A/c To Capital Reserve A/c (Note 1) (Being profit on re-issue transferred to Capital/Reserve)	Dr.	40,000	 40,000

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share = ` 75,000/2500 = ` 30

Loss on re-issue = ` 70 – ` 60 = ` 10

Surplus per share re-issued ` 20

Transferred to capital Reserve ` 20 x 2000 = ` 40,000.

(b) **Journal of Sky Ltd.**

Date	Particulars		Dr.	Cr.
2020 April,1	Sundry Assets A/c Goodwill A/c (Bal. fig) To Universe Ltd. A/c To Sundry Liabilities A/c (Being Asset and liabilities taken over for a net Consideration of ` 4,40,000)	Dr. Dr.	4,50,000 50,00	 4,40,000 60,000
	Universe Ltd. A/c To Debentures A/c To Securities Premium Reserve A/c (Being 4000; 8% Debenture of ` 100 each Issued at a premium of 10%)	Dr.	4,40,000	 4,00,000 40,000
	Bank A/c To Debenture Application A/c (Being the application money receive for 3000, 8% Debenture)	Dr.	90,000	 90,000
	Debenture Application A/c To 8% Debenture A/c (Being 3000; 8% Debenture allotted)	Dr.	90,000	 90,000
	Debentures allotment A/c Loss on issue of debenture A/c To 8% Debentures A/c	Dr. Dr.	1,80,000 45,000	 2,10,000

	To Premium on redemption of debentures A/c (Being allotment money due on 3000; 8% Debentures at 10% discount and redeemable at 5% premium)		15,000
	Bank A/c Dr. To Debentures Allotment A/c (Being the allotment money received)	1,80,000	1,80,000
2021 March, 31	Securities Premium Reserve A/c Dr. Profit and Loss A/c Dr. To Loss on issue of Debenture A/c (Being the Loss on issue of debenture written off)	40,000 5,000	45,000

(c) The preparation of trial balance has the following objectives:

1 **Checking of the arithmetical accuracy of the accounting entries:** Trial Balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish the arithmetical accuracy of the books.

2. **Basis for preparation of financial statements:** Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarized form for a particular period. In case, the Trial Balance is not prepared, it will be almost impossible to prepare the financial statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.

3. **Summarized ledger:** Trial Balance contains the ledger balances on a particular position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required

O

r Rules regarding posting of entries in the

ledger

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective account accordingly.

2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger.

3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

Test Series: March, 2022

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) Wages paid for erection of machinery are debited to Profit and Loss Account.

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

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

(v) The business of partnership must be carried on by all the partners.

(vi) Debenture interest is payable after the payment of preference dividend but before thepayment of equity dividend. **(6 Statements x 2 Marks = 12 Marks)**

(b) What services can a Chartered Accountant provide to the society? **(4 Marks)**

(c) Calculate the missing amount for the following.

	Assets	Liabilities	Capital
(a)	45,00,000	7,50,000	?
(b)	?	4,50,000	2,25,000
(c)	43,50,000	?	41,25,000
(d)	1,71,00,000	(8,40,000)	?

(4 Marks)

2. (a) M/s Krishna took lease of a quarry on 1-1-2019 for ` 6,00,00,000. As per technical estimate the total quantity of mineral deposit is 12,00,000 tonnes. Depreciation was charged on the basis of depletionmethod. Extraction pattern is given in the following table:

Year	Quantity of Mineral extracted
2019	12,000 tonnes
2020	60,000 tonnes
2021	90,000 tonnes

Required

Show the Quarry Lease Account and Depreciation Account for each year from 2019 to 2021.

(b) On 30th June. 2021, Cash Book of Ms. Suman (Bank Column of Account No. 1) shows a Bank Overdraft of ` 1,97,400. On going through the Bank Pass book for reconciling the Balance, she found the following:

(a) Out of cheques drawn on 26th June, those for ` 14,800 were cashed by the bankers on 2nd July.

(b) A crossed cheque for ` 3000 given to Abdul was returned by him and a bearer cheque was issued to him in lieu on 1st July.

(c) Cash and cheques amounting to ` 13,600 were deposited in the Bank on 29th June., but cheques worth ` 5,200 were cleared by the Bank on 1st July., and one cheque for ` 1,000 was returned by them as dishonoured on the latter date.

(d) According to Suman's standing instructions, the bankers have on 30th June, paid ` 1,280 as interest to her creditors, paid quarterly premium on her policy amounting to ` 640 and have paid a second call of ` 2,400 on shares held by her and lodged with the bankers for safe custody. They have also received ` 600 as dividend on her shares and recovered anInsurance Claim of ` 3,200, as their charges and commission charged on the above being `

400. On receipt of information of the above transaction, she has passed necessary entries in her Cash Book on 1st July.

(e) Bankers seem to have given a wrong credit for ` 2,000 paid in by her in No. 2 account and wrong debit in respect of a cheque for ` 1,200 drawn against her No. 2 account.

Prepare a Bank Reconciliation Statement as on 30th June, 2021. **(10 + 10 = 20 Marks)**

3. (a) Nishant of Noida consigned 15,000 kgs of Sugar at ` 30 per kg to his agent Raja at Gurgaon. Hespent ` 5 per kg as freight and insurance for sending the Sugar at Gurgaon. On the way 100 kgs. of sugar was lost due to the leakage (which is to be treated as normal loss) and 400 kgs. of sugar was destroyed in transit. ` 9,000 was paid to consignor directly by the Insurance company as Insurance claim.

Raja sold 7,500 kgs. at ` 60 per kg. He spent ` 33,000 on advertisement and recurring expenses. You are required to calculate:

(i) The amount of abnormal loss

(ii) Value of stock at the end and

(iii) Prepare Consignment account showing profit or loss on consignment, if Raja is entitled to 5% commission on sales.

(b) On 1st January, 2021, Aditi account in Deepti ledger showed a debit balance of ` 7,500. The following transactions took place between Deepti and Aditi during the quarter ended 31st March, 2021:

2021		`
Jan. 11	Deepti sold goods to Aditi	9,000
Jan. 24	Deepti received a promissory note from Aditi due after 3 months	7,500
Feb. 01	Aditi sold goods to Deepti	15,000
Feb. 04	Deepti sold goods to Aditi	12,300
Feb. 07	Aditi returned goods to Deepti	1,500
March 01	Aditi sold goods to Deepti	8,400
March 18	Deepti sold goods to Aditi	13,800

March	23	Aditi sold goods to Deepti	6,000

Accounts were settled on 31st March, 2020 by means of a cheque. Prepare an Account Current to be submitted by Deepti to Aditi as on 31st March, 2021, taking interest into account @ 10% per annum. Calculate interest to the nearest multiple of a rupee.

(c) Mr. Somnath sends goods to his customers on Sale or Return. The following transactions took place during the month of December, 2021.

December 12th - Sent goods to customers on sale or return basis at cost plus 25% - ` 1,60,000

December 20th - Goods returned by customers ` 70,000

December 22nd - Received letters from customers for approval ` 70,000

December 27th - Goods with customers awaiting approval ` 30,000

Mr. Somnath records sale or return transactions as ordinary sales. You are required to pass the necessary Journal Entries in the books of Mr. Somnath assuming that the accounting year closes on 31st Dec., 2021. Considered that the transaction values are at involve price (including profit margin) **(10 + 5 + 5 = 20 Marks)**

4. (a) Amal, Kamal and Tamal are partners in a firm sharing profits and losses as 8:5:3. Their balance sheet as at 31st December, 2021 was as follows:

Particulars	`	*Particulars*	`
Sundry creditors	3,00,000	Cash	80,000
General reserve	1,60,000	Bills receivable	1,00,000
Partners' loan accounts:		Sundry debtors	1,20,000
Amal	80,000	Stock	2,40,000
Kamal	60,000	Fixed assets	5,60,000
Partners' capital accounts:			
Amal	2,00,000		
Kamal	1,60,000		
Tamal	1,40,000		
	11,00,000		11,00,000

From 1st January, 2022 they agreed to alter their profit-sharing ratio as 5:6:5. It is also decided that:

(a) The fixed assets should be valued at ` 6,62,000;

(b) A provision of 5% on sundry debtors to be made for doubtful debts;

(c) Goodwill of the firm at this date be valued at three years' purchase of the average net profits of the last five years before charging insurance premium; and

(d) Stock be reduced to ` 2,24,000.

There is a joint life insurance policy for ` 4,00,000 for which an annual premium of ` 20,000 is paid, the premium being charged to profit and loss account. The surrender value of the policy on 31st December, 2021 was ` 1,56,000.

The net profits of the firm for the last five years were ` 28,000, ` 34,000, ` 40,000, ` 44,000 and ` 54,000.

Goodwill and the surrender value of the joint life policy was not to appear in the books.

Draft journal entries necessary to adjust the capital accounts of the partners and prepare the revised balance sheet. **(20 Marks)**

5. (a) The trial balance of Sahil as at 31st March, 2021 is as follows:

	Dr.	**Cr.**
	`	`
Sahil's capital account	-	1,91,725
Stock 1st April, 2020	1,17,000	-
Sales	-	9,74,000
Returns inward	21,500	-
Purchases	8,04,250	-
Returns outward	-	14,500
Carriage inwards	49,000	-
Rent & taxes	11,750	-
Salaries & wages	23,250	-
Sundry debtors	60,000	-
Sundry creditors	-	37,000
Bank loan @ 14% p.a.	-	50,000
Bank interest	2,750	-
Printing and stationary expenses	36,000	-
Bank balance	20,000	-
Discount earned	-	11,100
Furniture & fittings	12,500	-
Discount allowed	4,500	-
General expenses	28,625	-
Insurance	3,250	-
Postage & telegram expenses	5,825	-
Cash balance	950	-
Travelling expenses	2,175	-
Drawings	75,000	-
	12,78,325	12,78,325

The following adjustments are to be made:

(1) Provision for bad and doubtful debts be created at 5% and for discount @ 2% on sundry debtors.

(2) Personal purchases of Sahil amounting to ` 1,500 had been recorded in the purchases day book.

(3) Depreciation on furniture & fittings @ 10% shall be written off.

(4) Included amongst the debtors is ` 7,500 due from Sunder and included among the creditors ` 2,500 due to him.

(5) A quarter of the amount of printing and stationary expenses is to be carried forward to the next year.

(6) Credit purchase invoice amounting to ` 1,000 had been omitted from the books.

(7) Stock on 31.03.2021 was ` 1,96,500.

(8) Interest on bank loan shall be provided for the whole year.

You are required to prepare Trading & profit and loss account for the year ended 31. 03.2021.

(b) The following information of M/s. Badminton Club are related for the year ended 31st March, 2021:

(1)

Balances	As on 01-04-2020 (`)	As on 31-3-2021 (`)
Stock of Sports Material	4,50,000	6,75,000
Amount due for Sports Material	4,05,000	5,85,000
Subscription due	67,500	99,000
Subscription received in advance	54,000	31,500

(2) Subscription received during the year ` 22,50,000

(3) Payments for Sports Material during the year ` 13,50,000

You are required to:

(A) Ascertain the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2021 and

(B) Also show how these items would appear in the Balance Sheet as on 31.03.2021.

(15 + 5 = 20 Marks)

6. (a) Give necessary journal entries for the forfeiture and re-issue of shares:

(i) Akhil Pvt. Ltd. forfeited 9,000 shares of ` 10 each fully called up, held by Aditya for non- payment of allotment money of ` 3 per share and final call of ` 4 per share. He paid the application money of ` 3 per share. These shares were re-issued to Katen for ` 8 per share.

(ii) Mr. C, who was the holder of 10,000 preference shares of ` 100 each, on which ` 70 per share has been called up, could not pay his dues on Allotment and First call each at ` 20 per share. The Directors forfeited the above shares and reissued 8,000 of such shares to Mr. D at ` 60 per share paid-up as ` 70 per share.

(b) Galaxy Limited issued 10,000 8% Debentures of the nominal value of `1,00,00,000 as follows:

(a) To sundry persons for cash at 90% of nominal value of ` 25,00,000.

(b) To a vendor for purchase of fixed assets worth ` 10,00,000 – ` 12,50,000 nominal value.

(c) To the banker as collateral security for a loan of ` 10,00,000 – ` 12,50,000 nominal value

You are required to prepare necessary Journal Entries.

(c) Write short notes on:

(i) Adjusted Selling Price method of determining cost of stock.

(ii) Principal methods of ascertainment of cost of inventory. **(10 + 5 + 5 = 20 Marks)**

Test Series: March, 2022

MOCK TEST PAPER 1

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. **(a)** **(i)** **False:** Such wages being related to capital Asset should be debited to the machinery account.

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

(iv) **False:** Due date may be the due date of the first transaction or the due date of the last transaction or any other due date between the first and the last but preferably earlier due date may be taken.

(v) **False:** The business of the partnership firm can be carried on by all the partners or by any one of them acting for all.

(vi) **False**: Debenture interest is payable before the payment of any dividend on shares.

(b) The practice of accountancy has crossed its usual domain of preparation of financial statements, interpretation of such statements and audit thereof. Chartered Accountants are presently taking active role in company laws and other corporate legislation matters, in taxation laws matters (both direct and indirect) and in general management problems.

Some of the services rendered by chartered accountants to the society are briefly mentioned hereunder:

(i) Maintenance of books of accounts;

(ii) Statutory audit;

(iii) Internal Audit;

(iv) Taxation;

(v) Management accounting and consultancy services;

(vi) Financial advice and financial investigations etc.

Other services like secretarial work, share registration work, company formation receiverships, arbitrations etc.

(c) Using the Accounting Equation:

Assets = Capital + Liabilities

(i) 37,50,000

(ii) 6,75,000

(iii) 2,25,000

(iv) 1,79,40,000

2. (a) **Quarry Lease Account**

Dr. Date	Particulars	Amount `	Date	Particulars	**Cr.** `
2019			2019		
Jan.	To Bank A/c	6,00,00,000	Dec. 31	By Depreciation A/c [(12,000/12,00,000) × ` 6,00,00,000]	6,00,000
			Dec. 31	By Balance c/d	5,94,00,000
		6,00,00,000			6,00,00,000
2020			2020		
Jan. 1	To Balance b/d	5,94,00,000	Dec. 31	By Depreciation A/c	30,00,000
			Dec. 31	By Balance c/d	5,64,00,000
		5,94,00,000			5,94,00,000
2021			2021		
Jan. 1	To Balance b/d	5,64,00,000	Dec. 31	By Depreciation A/c	45,00,000
			Dec. 31	By Balance c/d	5,19,00,000
		5,64,00,000			5,64,00,000

Depreciation Account

Dr.		`			**Cr.** `
2019			2019		
Dec. 31	To Quarry lease A/c	6,00,000	Dec. 31	By Profit & Loss A/c	6,00,000
		6,00,000			6,00,000
2020			2020		
Dec. 31	To Quarry lease A/c	30,00,000	Dec. 31	By Profit & Loss A/c	30,00,000
		30,00,000			30,00,000
2021			2021		
Dec. 31	To Quarry lease A/c	45,00,000	Dec. 31	By Profit & Loss A/c	45,00,000
		45,00,000			45,00,000

(b)

	Balance as per Cash Book			(1,97,400)
Add :	Cheques issued but not presented for payment		14,800	
	Crossed Cheque issued to Abdul not presented for payment		3,000	
	Amounts collected by Bank on our behalf but not entered in the Cash Book			

	Dividend	600		
	Insurance claim	3,200		
		3,800		
	(-) Bank Commission	400	3,400	
	Amount paid in A/c No. 2 credited by the Bank wrongly to this A/c		2,000	23,200
				(1,74,200)
Less :	Cheques deposited in the bank but no cleared (` 5,200 + ` 1,000)		6,200	
	Payments made by Bank on our behalf but not entered in the Cash Book			
	Interest	1,280		
	Premium	640		
	Second call	2,400	4,320	
	Cheques issued against A/c No. 2 but wrongly debited by the Bank to this A/c		1,200	(11,720)
	Overdraft as per Pass Book			1,85,920

3. (a) **In the Books of Nishant**

Consignment Account

	`		`
To Goods sent on consignment A/c (15,000 kg x ` 30)	4,50,000	By Consignee's A/c-Sales (7,500 kg x ` 60)	4,50,000
To Cash A/c (Expenses 15,000 kg x ` 5)	75,000	By Abnormal Loss A/c (WN-1)	5,000
		By Insurance claim	9,000
To Consignee's A/c:		By Consignment Stock A/c (WN-2)	2,46,690
Advertisement & Recurring expenses	33,000		
Commission @ 5% on `4,50,000	22,500		
To Profit and loss A/c (Profit on Consignment)	1,30,190		
	7,10,690		7,10,690

Working Notes:

1. Abnormal Loss:

Cost of goods lost: 400 kg	
Total cost (400 x ` 30)	12,000
Add: expenses incurred by the consignor @ `5 per kg	2,000
Gross Amount of abnormal loss	14,000

Less: Insurance claim	(9,000)
Net abnormal loss	5,000

2. Valuation of Inventories

	Quantity (Kgs)	Amount (`)
Total Cost (15,000 kg x `30)	15,000	4,50,000
Add: Expenses incurred by the consignor		75,000
Less: Value of Abnormal Loss – 400 kgs (WN 1)	(400)	(14,000)
	14,600	5,11,000
Less: Normal Loss	(100)	
	14,500	5,11,000
Less: Quantity of Sugar sold	(7,500)	
Quantity of Closing Stock	7,000	
Value of 7,000 kgs – (5,11,000/14,500) x 7,000		**2,46,690**

(b) **In the books of Deepti**

Aditi in Account Current with Deepti

(Interest to 31st March, 2021 @ 10% p.a)

Date	*Particulars*	*Amount*	*Days*	*Product*	*Date*	*Particulars*	*Amount*	*Days*	*Product*
2021		`		`	*2021*		`		`
Jan.1	To Balance b/d	7,500	90	6,75,000	Jan.24	By Promissor Varun Note (due date 27th April)	7,500	(27)	(2,02,500)
Jan. 11	To Sales	9,000	79	7,11,000	Feb. 1	By Purchases	15,000	58	8,70,000
Feb. 4	To Sales	12,300	55	6,76,500	Feb. 7	By Sales Return	1,500	52	78,000
Mar. 18	To Sales	13,800	13	1,79,400	Mar. 1	By Purchases	8,400	30	2,52,000
Mar. 31	To Interest	328			Mar. 23	By Purchases	6,000	8	48,000
					Mar. 31	By Balance of Products			11,96,400
					Mar. 31	By Bank	4,528		
		42,928		22,41,900			42,928		22,41,900

Working Note:

Calculation of interest:

$$\text{Interest} = \frac{11{,}96{,}400}{365} \times \frac{10}{100} = \text{` } 328 \text{ (approx.)}$$

(c) **In the books of Mr. Somnath**

Journal Entries

Date	Particulars		L.F.	Dr. (in `)	Cr. (in `)
2021 Dec. 12	Trade receivables A/c	Dr.		1,60,000	
	To Sales A/c				1,60,000
	(Being the goods sent to customers on sale or return basis)				
Dec. 20	Return Inward A/c	Dr.		70,000	
	To Trade receivables A/c				70,000
	(Being the goods returned by customers to whom goods were sent on sale or return basis)				
Dec. 27	Sales A/c	Dr.		30,000	
	To Trade receivables A/c				30,000
	(Being the cancellation of original entry of sale in respect of goods on sale or return basis)				
Dec. 31	Inventories with customers on Sale or Return A/c	Dr.		24,000	
	To Trading A/c (Note 2)				24,000
	(Being the adjustment for cost of goods lying with customers awaiting approval)				

Working Note:

(1) No entry is required for receiving letter of approval from customer.

(2) Cost of goods with customers = ` 30,000 x 100/125 = ` 24,000

4. (a) **In the books of M/s Amal, Kamal and Tamal**

Journal Entries

Date	Particulars		Dr. (`)	Cr.(`)
2022 January 1	Fixed assets A/c	Dr.	1,02,000	
	To Revaluation A/c			1,02,000
	(Revaluation of fixed assets)			
	Revaluation A/c	Dr.	22,000	
	To Stock A/c			16,000
	To Provision for doubtful debts A/c			6,000
	(Reduction in the value of stock and provision @ 5% on sundry debtors created for doubtful debts)			
	Kamal's capital A/c	Dr.	21,000	
	Tamal's capital A/c	Dr.	42,000	
	To Amal's capital A/c			63,000
	(Adjustment for goodwill and joint life policy (W.N.1))			

	Revaluation A/c	Dr.	80,000	
	To Amal's capital A/c			40,000
	To Kamal's capital A/c			25,000
	To Tamal's capital A/c			15,000
	(Transfer of profit on revaluation)			
	General reserve A/c	Dr.	1,60,000	
	To Amal's capital A/c			80,000
	To Kamal's capital A/c			50,000
	To Tamal's capital A/c			30,000
	(Transfer of general reserve)			

Balance Sheet (revised)

as on 1st January, 2021

Liabilities		*Amount* `	*Assets*		*Amount* `
Sundry creditors		3,00,000	Cash		80,000
Partners' loan A/cs:			Bills receivable		1,00,000
Amal	80,000		Sundry debtors	1,20,000	
kamal	60,000	1,40,000	*Less:* Provision	6,000	1,14,000
Partners' capital A/cs: (W.N.2)			Stock		2,24,000
			Fixed assets		6,62,000
Amal	3,83,000				
Kamal	2,14,000				
Tamal	1,43,000	7,40,000			
		11,80,000			11,80,000

Working Notes:

(1) Adjustment for goodwill and joint life policy

	`
Average profit of last five years	40,000
Add: Insurance premium per annum	20,000
Average profit before charging premium	60,000
Value of goodwill (3x ` 60,000)	1,80,000
Add: Surrender value of joint life policy	1,56,000
Total amount for adjustment	3,36,000

	Amal	*Kamal*	*Tamal*
	`	`	`
Raised in old profit sharing ratio (8:5:3)	1,68,000	1,05,000	63,000

Written off in new profit sharing ratio (5:6:5)	1,05,000	1,26,000	1,05,000
Net effect in capital accounts	63,000 (Cr.)	21,000 (Dr.)	42,000 (Dr.)

Alternatively, the net effect in partners' capital accounts due to adjustment for goodwill and joint life policy can be shown on the basis of profit sacrificing ratio. Profit sacrificing ratios are:

Amal = (8/16) - (5/16) = 3/16

Kamal = (5/16) - (6/16) = (1/16)

Tamal = (3/16) - (5/16) = (2/16)

Therefore, adjustments in partner's capital account:

Amal = 3/16 x ` 3,36,000 = ` 63,000 (Cr.)

Kamal = (1/16) x ` 3,36,000 = ` 21,000 (Dr.)

Tamal = (2/16) x ` 3,36,000 = ` 42,000 (Dr.)

(2) **Partners' Capital Accounts**

		Amal	*Kamal*	*Tamal*			*Amal*	*Kamal*	*Tamal*
2021		`	`	`	2021		`	`	`
Jan 1	To Amal's capital A/c	-	21,000	42,000	Jan 1	By Balance b/d	2,00,000	1,60,000	1,40,000
	To Balance c/d	3,83,000	2,14,000	1,43,000		By Kamal and Tamal's capital A/c (as per contra)	63,000	-	-
						By Revaluation A/c (revaluation profit)	40,000	25,000	15,000
						By General reserve	80,000	50,000	30,000
		3,83,000	2,35,000	1,85,000			3,83,000	2,35,000	1,85,000

5. (a) **Trading and Profit and Loss Account of Mr. Sahil**

for the year ended 31st March, 2021

	`	`		`	`
To Opening stock		1,17,000	By Sales	9,74,000	
To Purchases	8,04,250		*Less:* Returns	21,500	9,52,500
Add: Omitted invoice	1,000		By Closing stock		1,96,500
	8,05,250				
Less: Returns	14,500				
	7,90,750				
Less: Drawings	1,500	7,89,250			
To Carriage Inwards		49,000			
To Gross profit c/d		1,93,750			
		11,49,000			11,49,000
To Rent and taxes		11,750	By Gross profit b/d		1,93,750
To Salaries and wages		23,250	By Discount received		11,100
To Bank interest	2,750				
Add: Due	4,250	7,000			

To Provision for bad debts [W.N.]		2,875			
To Provision for discount on debtors [W.N.]		1,093			
To Depreciation on furniture & fittings		1,250			
To Net profit		86,257			
		2,04,850			2,04,850

Working Note:

Provision for bad & doubtful debts:

@ 5% on ` 57,500 **2,875**

Provision for discount:

2% on ` 54,625 (57,500 -2,875) **1,093**

(b) Subscription for the year ended 31.3.2021

		`
Subscription received during the year		22,50,000
Less: Subscription receivable on 1.4.2020	67,500	
Less: Subscription received in advance on 31.3.2021	31,500	(99,000)
		21,51,000
Add: Subscription receivable on 31.3.2021	99,000	
Add: Subscription received in advance on 1.4.2021	54,000	1,53,000
Amount of Subscription appearing in Income & Expenditure Account		23,04,000

Sports material consumed during the year end 31.3.2021

	`
Payment for Sports material	13,50,000
Less: Amounts due for sports material on 1.4.2020	(4,05,000)
	9,45,000
Add: Amounts due for sports material on 31.3.2021	5,85,000
Purchase of sports material	15,30,000
Sports material consumed:	
Stock of sports material on 1.4.2020	4,50,000
Add: Purchase of sports material during the year	15,30,000
	19,80,000
Less: Stock of sports material on 31.3.2021	(6,75,000)

Amount of Sports Material appearing in Income & Expenditure Account	13,05,000

Balance Sheet of M/s Badminton Club For the year ended 31st March, 2021 (An extract)

Liabilities	`	*Assets*	`
Unearned Subscription	31,500	Subscription receivable	99,000
Amount due for sports material	5,85,000	Stock of sports material	6,75,000

6. (a) (i) Journal Entries in the books of Akhil Ltd.

Date			*Dr.* `	*Cr.* `
(a)	Equity Share Capital A/c	Dr.	90,000	
	To Equity Share Allotment money A/c (9000 x ` 3)			27,000
	To Equity Share Final Call A/c (9000 x ` 4)			36,000
	To Forfeited Shares A/c (9000 x ` 3)			27,000
	(Being the forfeiture of 9000 equity shares of ` 10 each for non-payment of allotment money and final call, held by Aditya as per Board's resolution No…………….dated ....)			
(b)	Bank Account (9,000 x 8)	Dr.	72,000	
	Forfeited Shares Account (9,000x 2)	Dr.	18,000	
	To Equity Share Capital Account			90,000
	(Being the re-issue of 9,000 forfeited shares @ ` 8 each as fully paid up to Katen as per Board's resolution No……….dated........................)			
(c)	Forfeited Shares Account	Dr.	9,000	
	To Capital Reserve Account			9,000
	(Being the profit on re-issue, transferred to capital reserve)			

(ii)

		Dr. `	*Cr.* `
Preference Share Capital A/c (10,000 x ` 70)	Dr.	7,00,000	
To Preference Share Allotment A/c (10,000 x ` 20)			2,00,000
To Preference Share First Call A/c (10,000 x ` 20)			2,00,000
To Forfeited Share A/c			3,00,000
(Being the forfeiture of 10,000 preference shares ` 70 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated.......)			
Bank A/c (8,000 x `60)	Dr.	4,80,000	
Forfeited Shares A/c (8,000 x `10)	Dr.	80,000	
To Preference Share Capital A/c			5,60,000
(Being re-issue of 8,000 shares at ` 60 per share paid-up as ` 70 as per Board's Resolution No…..dated….)			

Forfeited Shares A/c To Capital Reserve A/c (Note 1) (Being profit on re-issue transferred to Capital/Reserve)	Dr.	1,60,000	1,60,000

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =` 3,00,000/10,000 = ` 30

Loss on re-issue =` 70 – ` 60 = ` 10

Surplus per share re-issued ` 20

Transferred to capital Reserve ` 20 x 8,000 = ` 1,60,000.

(b) **In the books of Galaxy Ltd.**

Journal Entries

Date	***Particulars***		***Dr.*** `	***Cr.*** `
(a)	Bank A/c To Debentures Application A/c (Being the application money received on 10,000 debentures @ ` 225 each)	Dr.	22,50,000	22,50,000
	Debentures Application A/c Discount on issue of Debentures A/c To 8% Debentures A/c (Being the issue of 10,000 8% Debentures @ 90% as per Board's Resolution No....dated....)	Dr. Dr.	22,50,000 2,50,000	25,00,000
(b)	Fixed Assets A/c To Vendor A/c (Being the purchase of fixed assets from vendor)	Dr.	10,00,000	10,00,000
	Vendor A/c Discount on Issue of Debentures A/c To 8% Debentures A/c (Being the issue of debentures of ` 12,50,000 to vendor to satisfy his claim)	Dr. Dr.	10,00,000 2,50,000	12,50,000
(c)	Bank A/c To Bank Loan A/c (See Note) (Being a loan of ` 10,00,000 taken from bank by issuing debentures of `12,50,000 as collateral security)	Dr.	10,00,000	10,00,000

Note: No entry is made in the books of account of the company at the time of making issue of such debentures. In the "Notes to Accounts" of Balance Sheet, the fact that the debentures being issued as collateral security and outstanding are shown by a note under the liability secured.

(c) **(i)** Adjusted selling method is also called retail inventory method. It is used widely in retail business or in business where the inventory comprises of items, the individual costs of which are not readily ascertainable. The historical cost of inventory is estimated by calculating it in the first instance at selling price and then deducting an amount equal to the estimated gross margin of profit on such stocks.

(ii) The specific identification method, First-In–First-Out (FIFO) and weighted average cost formulae are the principal methods of ascertaining the cost of inventory. The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned by specific identification of their individual costs under the specific identification method.

Test Series: May, 2022

MOCK TEST PAPER 2

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) Expenses in connection with obtaining a license for running the Cinema Hall is Revenue Expenditure.

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

   (iii) Stock at the end, if appears in the Trial Balance, is taken only to the Balance Sheet.

   (iv) Consignment account is of the nature of real account.

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

   (vi) Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

   (6 Statements x 2 Marks = 12 Marks)

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

   (c) Give journal entries (narrations not required) to rectify the following:

   (i) Purchase of Furniture on credit from Samay for ` 4,300 posted to Vipin account as ` 3,400.

   (ii) A Sales Return of ` 15,000 to Palash was not entered in the financial accounts though it was duly taken in the stock book.

   (iii) Investments were sold for ` 75,000 at a profit of ` 15,000 and passed through Sales account.

   (iv) An amount of ` 37,000 withdrawn by the proprietor (Sukhdeep) for his personal use has been debited to Trade Expenses account. **(4 Marks)**

2. (a) M/s Sam, Profit and loss account showed a net profit of ` 24,00,000, after considering the closing stock of ` 22,50,000 on 31st March, 2022. Subsequently the following information was obtained from scrutiny of the books:

   (i) Purchases for the year included ` 90,000 paid for new electric fittings for the shop.

   (ii) M/s Sam gave away goods valued at ` 2,40,000 as free samples for which no entry was made in the books of accounts.

   (iii) Invoices for goods amounting to ` 15,00,000 have been entered on 27th March, 2022, but the goods were not included in stock.

   (iv) In March, 2022 goods of ` 12,00,000 sold and delivered were taken in the sales for April, 2022.

(v) Goods costing ` 4,50,000 were sent on sale or return in March, 2022 at a margin of profit of 33-1/3% on cost. Though approval was given in April, 2022 these were taken as sales for March, 2022.

You are required to determine the adjusted net profit for the year ended on 31.3.2022 and calculate the value of stock on 31st March, 2022.

(b) S & Co. purchased a machine for `1,00,000 on 1.1.2019 Another machine costing `1,50,000 was purchased on 1.7.2020. On 31.12.2021 the machine purchased on 1.1.2019 was sold for `50,000. The company provides depreciation at 15% on Written Down Value Method. The company closes its accounts on 31st December every year. Prepare – (i) Machinery Account, (ii) Machinery Disposal Account and (iii) Provision for Depreciation Account. **(10 +10 = 20 Marks)**

3. (a) Ramesh had the following bills receivable and bills payable against Ravi.

Date	*Bills Receivable*	*Tenure*	*Date*	*Bills Payable*	*Tenure*
1st June	10,200	3 month	29th May	7,500	2 month
5th June	8,700	3 month	3rd June	10,200	3 month
9th June	17,400	1 month	9th June	17,100	1 month
12th June	5,100	2 month			
20th June	5,700	3 month			

15th August was a public holiday. However, 6th September, was also declared as sudden holiday.

Calculate the average due date, when the payment can be received or made without any loss of interest to either party.

(b) Attempt any **one** of the following two sub-parts i.e. Either (i) or (ii).

(i) From the following particulars prepare an account current, as sent by Mr. AB to Mr. XY as on 31st October, 2021 by means of product method charging interest @ 5% p.a.

Date	Particulars	(`)
1st July	Balance due from XY	1,500
20th August	Sold goods to XY	2,500
28th August	Goods returned by XY	400
25th September	XY paid by cheque	1,600
20th October	Received cash form XY	1,000

(ii) Ms. Sangeeta sends out goods on approval to few customers and includes the same in the Sales Account. On 31.03.2022, the Trade Receivables balance stood at ` 1,50,000 which included `13,000 goods sent on approval against which no intimation was received during the year. These goods were sent out at 30% over and above cost price and were sent to -

Ms. Mansi ` 7,800 and Ms. Divya ` 5,200.

Ms. Mansi sent intimation of acceptance on 25th April, 2022 and Ms. Divya returned the goods on 15th April, 2022.

Make the adjustment entries and show how these items will appear in the Balance Sheet as on 31st March, 2022. Show also the entries to be made during April, 2022. Value of Closing

Inventories as on 31st March, 2022 was ` 1,00,000.

(c) Ravi draws a bill for `45,000 on Rishi on 15th April, 2021 for 3 months, which is returned by Rishi to Ravi after accepting the same. Ravi gets it discounted with the bank for ` 44,100 on 18th April, 2021 and remits one-third amount to Rishi. On the due date Ravi fails to remit the amount due to Rishi, but he accepts bill of ` 52,500 for 3 months, which Rishi discounts for `51,300 and remits ` 8,475 to Ravi. Before the maturity of the renewed bill Ravi becomes insolvent and only 50% was realized from his estate on 31st October,2021.

Pass necessary Journal entries for the above transactions in the books of Ravi.

(5 + 5 + 10 = 20 Marks)

4. (a) Venus and Mercury are partners in a firm, sharing Profits and Losses in the ratio of 3 : 2. The Balance Sheet of Mercury and Venus as on 31.3.2022 was as follow:

Liabilities	Amount `	Assets		Amount `
Sundry Creditors	51,600	Building		1,04,000
Bill Payable	16,400	Furniture		23,200
Bank Overdraft	36,000	Stock-in-Trade		85,600
Capital Account:		Debtors	1,40,000	
Mercury 1,76,000		Less: Provision	800	1,39,200
Venus 1,44,000	3,20,000	Investment		10,000
		Cash		62,000
	4,24,000			4,24,000

'Mars' was admitted to the firm on the above date on the following terms:

(i) He is admitted for 1/6th share in future profits and to introduce a Capital of ` 1,00,000.

(ii) The new profit sharing ratio of Venus, Mercury and Mars will be 3 : 2 : 1 respectively.

(iii) 'Mars' is unable to bring in cash for his share of goodwill, partners therefore, decide to raise goodwill account in the books of the firm. They further decide to calculate goodwill on the basis of 'Mars's share in the profits and the capital contribution made by him to the firm.

(iv) Furniture is to be written down by ` 3,480 and Stock to be depreciated by 5%. A provision is required for Debtors @ 5% for Bad Debts. A provision would also be made for outstanding wages for `6,240. The value of Buildings having appreciated be brought upto ` 1,16,800. The value of investment is increased by ` 1,800.

(v) It is found that the creditors included a sum of ` 5,600, which is not to be paid off.

Prepare the following:

(i) Revaluation Account.

(ii) Partners' Capital Accounts.

(iii) Balance Sheet of New Partnership firm after admission of 'Mars'.

(b) Ms. Nidhi is engaged in business of selling magazines. Several of her customers pay money in advance for subscribing his magazines. Information related to year ended 31st March 2022 has been given below:

On 1.4.2021 he had a balance of `6,00,000 advance from customers of which `4,50,000 is relatedto year 2020-21 while remaining pertains to year 2021-22. During the year 2020-21 she made cash sales of ` 15,00,000. You are required to compute:

(i) Total income for the year 2020-21.

(ii) Total money received during the year if the closing balance in Advance from customers Account is ` 5,10,000. **(15 + 5 = 20 Marks)**

5. (a) New State Society showed the following position on 31st March, 2021:

Balance Sheet as on 31st March, 2021

Liabilities	`	Assets	`
Capital fund	15,86,000	Electrical fittings	3,00,000
Expenses payable	14,000	Furniture	1,00,000
		Books	8,00,000
		Investment in securities	3,00,000
		Cash at bank	50,000
		Cash in hand	50,000
	16,00,000		16,00,000

The receipts and payment account for the year ended on 31st March, 2022 is given below:

	`		`
To Balance b/d		By Electric charges	14,400
Cash at bank 50,000		By Postage and stationary	10,000
Cash in hand 50,000	1,00,000	By Telephone charges	10,000
To Entrance fee	60,000	By Books purchased	1,20,000
To Membership subscription	4,00,000	By Outstanding expenses paid	14,000
To Sale proceeds of old papers	3,000	By Rent	1,76,000
To Hire of lecture hall	40,000	By Investment in securities	80,000
To Interest on securities.	16,000	By Salaries	1,32,000
		By Balance c/d	
		Cash at bank	40,000
		Cash in hand	22,600
	6,19,000		6,19,000

You are required to prepare Income and Expenditure account for the year ended 31st March, 2022 after making the following adjustments:

Membership subscription included ` 20,000 received in advance.

Provide for outstanding rent ` 8,000 and salaries ` 6,000.

Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.

75% of the entrance fees is to be capitalized.

Interest on securities is to be calculated @ 5% p.a. including purchases made on 1.10.2021 for ` 80,000.

(b) Zavier & Co. employs a team of 9 workers who were paid ` 1,20,000 per month each in the year ending 31st December, 2020. At the start of 2021, the company raised salaries by 10% to ` 1,32,000 per month each.

On 1 July, 2021 the company hired 2 trainees at salary of ` 63,000 per month each. The work force are paid salary on the first working day of every month, one month in arrears, so that the employees receive their salary for January on the first working day of February, etc.

You are required to calculate:

(i) Amount of salaries which would be charged to the profit and loss account for the year ended 31st December, 2021.

(ii) Amount actually paid as salaries during 2021.

(iii) Outstanding salaries as on 31st December, 2021. **(15 + 5 = 20 Marks)**

6. (a) Hari Om Ltd. registered with an authorised equity capital of ` 16,00,000 divided into 8,000 shares of ` 100 each, issued for subscription of 4,000 shares payable at ` 25 per share on application, ` 30 per share on allotment, ` 20 per share on first call and the balance as and when required. Application money on 4,000 shares was duly received and allotment was made to them. The allotment amount was received in full, but when the first call was made, two shareholders failed to pay the amount on 400 shares each held by them and another shareholder with 400 shares, paid the entire amount on his shares. The company did not make any other call. Give the necessary journal entries in the books of the company to record these transactions.

(b) Sampati Ltd. issued 300 lakh 8% debentures of `100 each at a discount of 6%, redeemable at a premium of 5% after 3 years payable as : ` 50 on application and ` 44 on allotment.

You are required to prepare the necessary journal entries for issue of debentures.

(c) From the following particulars, prepare a Bank Reconciliation Statement for Adam Ltd. As on 31.3.2022

(1) Balance as per cash book is ` 6,00,000.

(2) Cheques issued but not presented in the bank amounts to ` 3,40,000.

(3) Bank charges amounts to ` 1,500.

(4) Interest credited by bank amounts to ` 7,500.

OR

(c) Explain in brief objective and advantages of setting Accounting Standards.

(10 + 5 + 5 = 20 Marks)

Test Series: May, 2022

MOCK TEST PAPER 2

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. (a) (i) **False:** The Cinema Hall could not be started without license. Expenditure incurred to obtain the license is pre-operative expense which is capitalized. Such expenses are not revenue and amortized over a period of time.

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

(iii) **True:** If closing stock appears in trail balance, it depicts that one aspect of the double entry has been completed, hence it is taken only to Balance Sheet.

(iv) **False:** Consignment account is a nominal-cum-personal account

(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) **True:** As per Perpetual Existence company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

(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

(c) **Journal Entries**

	Particulars	*L.F.*	*Dr.* (`)	*Cr.* (`)
(i)	Vipin A/c	Dr.	900	
	Furniture A/c	Dr.	3,400	
	To Samay A/c			4,300
(ii)	Sales Returns A/c	Dr.	15,000	
	To Palash A/c			15,000
(iii)	Sales A/c	Dr.	75,000	
	To P & L A/c (Gain on sale of investments)			15,000
	To Investments A/c			60,000
(iv)	Drawings A/c	Dr.	37,000	

	To Trade Expenses A/c			37,000

2. (a) Profit and Loss Adjustment Account

	`		`
To Advertisement (samples)	2,40,000	By Net profit	24,00,000
To Sales	6,00,000	By Electric fittings	90,000
(goods approved in April to be taken as April sales)		By Samples	2,40,000
To Adjusted net profit	50,40,000	By Stock (Purchases of March not included in stock)	15,00,000
		By Sales (goods sold in March wrongly taken as April sales)	12,00,000
		By Stock (goods sent on approval basis not included in stock)	4,50,000
	58,80,000		58,80,000

Calculation of value of inventory on 31st March, 2022

	`
Stock on 31st March, 2022 (given)	22,50,000
Add: Purchases of March, 2022 not included in the stock	15,00,000
Goods lying with customers on approval basis	4,50,000
	42,00,000

(b) S &Co.

Dr. Machinery Account Cr.

Date	Particulars	Amount (`)	Date	Particulars	Amount (`)
1.1.2019	To, Bank A/c	1,00,000	31.12.2019	By Balance c/d	1,00,000
		1,00,000			1,00,000
1.1.2020	To, Balance b/d	1,00,000			
1.7.2020	To, Bank A/c	1,50,000	31.12.2020	By Balance c/d	2,50,000
		2,50,000			2,50,000
1.1.2021	To, Balance b/d	2,50,000	31.12.2021	By, Machinery Disposal A/c	1,00,000
			31.12.2021	By Balance c/d	1,50,000
		2,50,000			2,50,000
1.1.2022	To, Balance b/d	1,50,000			

Dr. Provision for Depreciation Account Cr.

Date	Particulars	Amount (`)	Date	Particulars	Amount (`)
31.12.2019	To, Balance c/d	15,000	31.12.2019	By, Depreciation A/c	15,000
		15,000			15,000
31.12.2020	To, Balance c/d	39,000	1.1.2020	By, Balance b/d	15,000

			31.12.2020	By, Depreciation A/c (` 12,750+`11,250)	24,000
		39,000			39,000
31.12.2021	To, Machinery Disposal A/c [100000-61,413]	38,587	1.1.2021	By, Balance b/d	39,000
31.12.2021	To, Balance c/d	32,063	31.12.2021 31.12.2021	By, Depreciation A/c By Depreciation	20,813 10,837
		70,650			70,650
			1.1.2022	By, Balance b/d	32,063

Dr. **Machinery Disposal Account** **Cr.**

Date	Particulars	Amount (`)	Date	Particulars	Amount (`)
31.12.2021	To, Machinery A/c	1,00,000	31.12.2021	By, Provision for Depreciation A/c	38,587
			31.12.2021	By, Bank A/c	50,000
			31.12.2021	By, Profit & Loss A/c (Loss on Sale)	11,413
		1,00,000			1,00,000

Working Notes:

1. Depreciation for the machine purchased on 1.7.2020.

   For the year 2020 (Used for 6 months) = ` 1,50,000 x 15% x $\frac{6}{12}$ = ` 11,250

For the year 2021 (Used for full year) = ` 1,38,750 x15 % = ` 20,813

2. Depreciation for the machine purchased on

1.1.2019.Depreciation = ` 1,00,000 x 15%

$$\frac{9,08,400}{12,300}$$

= ` 15,000

So, Depreciation for 2nd year = ` 85,000 x15% = ` 12,750

3. **(a)** Let us take 12.07.2021 as Base date**.**

Bills receivable

Due date	*No. of days from 12.07.2021*	*Amount*	*Product*
04/09/2021	54	10,200	5,50,800
08/09/2021	58	8,700	5,04,600
12/07/2021	0	17,400	0
14/08/2021	33	5,100	1,68,300
23/09/2021	73	5,700	4,16,100
		47,100	16,39,800

Bills payable

Due date	*No. of days from 12.07.2021*	*Amount*	*Product*
01/08/2021	20	7,500	1,50,000
07/09/2021	57	10,200	5,81,400
12/07/2021	0	17,100	0
		34,800	7,31,400

Excess of products of bills receivable over bills payable = 16,39,800 -7,31,400= 9,08,400

Excess of bills receivable over bills payable = 47,100 - 34,800 = 12,300

Number of days from the base date to the date of settlement is

= 73.85 (appox.)

Hence date of settlement of the balance amount is 74 days after 12th July i.e. 24th September.

On 24thSeptember, 2021 Ravi has to pay Ramesh ` 12,300 to settle the account.

(b) **(i)** **XY in Account Current with AB as on 31st Oct, 2021**

		(`)	**Days**	**Product (`)**			**(`)**	**Days**	**Product (`)**
01.07.21	To Bal. b/d	1,500	123	1,84,500	28.08.21	By Sales Returns	400	64	25,600
20.8.21	To Sales	2,500	72	1,80,000	25.09.21	By Bank	1,600	36	57,600
31.10.21	To Interest	37			20.10.21	By Cash	1,000	11	11,000
					20.10.21	By Balance of Products			2,70,300
					31.10.21	By Bal. c/d	1,037		

		4,037	3,64,500			4,037	3,64,500

Note:

Interest = ` 2, 70,300 x $\frac{5}{100} \times \frac{1}{365}$ = ` 37 (approx.)

(ii) **In the Books of Ms. Sangeeta**

Journal Entries

Date	***Particulars***		***L.F.***	***Dr.*** `	***Cr.*** `
2022 March 31	Sales A/c	Dr.		13,000	
	To Trade receivables A/c				13,000
	(Being the cancellation of original entry for sale in respect of goods lying with customers awaiting approval)				
March 31	Inventories with Customers on Sale or Return A/c	Dr.		10,000	
	To Trading A/c (Note 1)				10,000
	(Being the adjustment for cost of goods lying with customers awaiting approval)				
April 25	Trade receivables A/c	Dr.		7,800	
	To Sales A/c				7,800
	(Being goods costing worth ` 7,800 sent to Ms. Mansi on sale or return basis has been accepted by her)				

Balance Sheet of Ms. Sangeeta as on 31st March, 2022 (Extracts)

Liabilities	`	Assets	`	`
		Trade receivables (` 1,50,000 - ` 13,000)		1,37,000
		Inventories-in-trade	1,00,000	
		Add: Inventories with customers on Sale or Return	10,000	1,10,000
				2,47,000

Notes:

(1) Cost of goods lying with customers = 100/130 x ` 13,000 = ` 10,000

(2) No entry is required on 15th April, 2022 for goods returned by Ms. Divya. Goods should be included physically in the Inventories

(c) **In the books of Ravi**

Journal Entries

Date	Particulars		Debit Amount	Credit Amount
2021			`	`
April 15	Bills receivable account	Dr.	45,000	
	To Rishi's account			45,000
	(Being acceptance received from Rishi for mutual accommodation)			
April 18	Bank account	Dr.	44,100	
	Discount account	Dr.	900	
	To Bills receivable account			45,000
	(Being bill discounted with bank)			
April 18	Anup's account	Dr.	15,000	
	To Bank account			14,700
	To Discount account			300
	(Being one-third proceeds of the bill sent to Rishi)			
July 18	Rishi's account	Dr.	52,500	
	To Bills payable account			52,500
	(Being Acceptance given)			
July 18	Bank account	Dr.	8,475	
	Discount account (1,200 x 3/4)	Dr.	900	
	To Anup's account			9,375
	(Being proceeds of second bill received from Rishi)			
Oct.21	Bills payable account	Dr.	52,500	
	To Rishi's account			52,500

	(Being bill dishonoured due to insolvency)			
Oct.31	Anup's account (30,000+9,375)	Dr.	39,375	
	To Bank account			19,687.50
	To Deficiency account			19,687.50
	(Being insolvent, only 50% amount paid to Rishi)			

4. (a) (i) **Revaluation Account**

		`			`
To	Furniture	3,480	By	Building	12,800
To	Stock	4,280	By	Sundry creditors	5,600
To	Provision of doubtful debts (` 7,000 – ` 800)	6,200	By	Investment	1800
To	Outstanding wages	6,240			
		20,200			20,200

(ii) **Partners' Capital Accounts**

	Mercury	*Venus*	*Mars*		Mercury	*Venus*	*Mars*
	`	`	`		`	`	`
To Balance c/d	284,000	216,000	1,00,000	By Balance b/d	1,76,000	1,44,000	–
				By Cash A/c	–	–	1,00,000
				By Goodwill A/c (Working Note)	1,08,000	72,000	
	284,000	216,000	1,00,000		284,000	216,000	1,00,000

(iii) **Balance Sheet of New Partnership Firm**

(after admission of Mars) as on 31.3.2022

Liabilities	`	Assets	`
Capital Accounts:		Goodwill	1,80,000
Mercury 2,84,000		Building (1,04,000 + 12,800)	1,16,800
Venus 2,16,000		Furniture (23,200 – 3,480)	19,720
Mars 1,00,000	6,00,000	Stock-in-trade (85,600 – 4,280)	81,320
Bills Payable	16,400	Debtors 1,40,000	
Bank Overdraft	36,000	Less: Provision for bad Debts (7,000)	1,33,000
Sundry creditors (51,600-5,400)	46,000	Investment (10,000 + 1,800)	11,800
Outstanding wages	6,240	Cash (62,000 + 1,00,000)	1,62,000
	7,04,640		7,04,640

Working Note:

Calculation of goodwill

Mars's contribution of ` 1,00,000 consists only 1/6th of capital.

Therefore, total capital of firm should be ` 1,00,000 × 6 = ` 6,00,000.

But combined capital of Mercury, Venus and Mars amounts ` 1,76,000 + 1,44,000 + 1,00,000 = ` 4,20,000.

Thus Hidden goodwill is ` 1,80,000 (` 6,00,000 – ` 4,20,000).

(b) (i) Computation of Income for the year 2020-21:

	`
Money received during the year related to 2020-21	15,00,000
Add: Money received in advance during previous years	4,50,000
Total income of the year 2020-21	**19,50,000**

(ii) Advance from Customers A/c

Date	Particulars	`	Date	Particulars	`
	To Sales A/c (Advance related to current year transferred to sales)	4,50,000	1.4.2020	By Balance b/d	6,00,000
				By Bank A/c (Balancing Figure)	3,60,000
31.3.21	To Balance c/d	5,10,000			
		9,60,000			9,60,000

So, total money received during the year is:

	`
Cash Sales during the year	15,00,000
Add: Advance received during the year	3,60,000
Total money received during the year	**18,60,000**

5. (a) New State Society

Income and Expenditure Account

for the year ended 31st March, 2022

Dr.					Cr.
Expenditure	`	`	Income	`	`
To Electric charges		14,400	By Entrance fee (25% of ` 60,000)		15,000
To Postage and stationary		10,000			
To Telephone charges		10,000	By Membership subscription	4,00,000	
To Rent	1,76,000		Less: Received in advance	20,000	3,80,000
Add: Outstanding	8,000	1,84,000			
To Salaries	1,32,000		By Sale proceeds of old papers		3,000
Add: Outstanding	6,000	1,38,000			
To Depreciation (W.N.1)			By Hire of lecture hall		40,000
Electrical fittings	30,000		By Interest on securities	16,000	

Furniture	10,000			(W.N.2)		
Books	92,000	1,32,000		Add: Receivable	1,000	17,000
			By	Deficit- excess of expenditure over income		33,400
		4,88,400				4,88,400

Working Notes:

1. Depreciation

	₹
Electrical fittings 10% of ₹ 3,00,000	30,000
Furniture 10% of ₹ 1,00,000	10,000
Books 10% of ₹ 9,20,000	92,000

2. Interest on Securities

Interest @ 5% p.a. on ₹ 3,00,000 for full year	15,000	
Interest @ 5% p.a. on ₹ 80,000 for half year	2,000	17,000
Less: Received		(16,000)
Receivable		1,000

(b) (i) Amount of salaries to be charged to P & L A/c for the year ended 31st December, 2021

Employees = 9 x ₹ 1,32,000 x 12 = ₹ 1,42,56,000Trainees

= 2 x ₹ 63,000 x 6 = ₹ 7,56,000

Salaries charged to P & L A/c ₹ 1,50,12,000

(ii) Amount actually paid as salaries during 2021

Employees	= 9 x ₹ 1,32,000 x 11 + 9 x ₹ 1,20,000	= ₹ 1,41,48,000
Trainees	= 2 x ₹ 63,000 x 5	= ₹ 6,30,000
Amount paid as salaries		₹ 1,47,78,000

(iii) Outstanding salaries as on 31.12.2021

Employees	= 9 x ₹ 1,32,000	= ₹ 11,88,000
Trainees	= 2 x ₹ 63,000	= ₹ 1,26,000
Outstanding salaries		₹ 13,14,000

6. (a) In the Books of HariOm

Bank A/c To Equity Share Application A/c (Money received on application for 4,000 shares @ ₹ 25 per share)	Dr.	1,00,000	1,00,000
Equity Share Application A/c To Equity Share Capital A/c (Transfer of application money on 4,000 shares to share capital)	Dr.	1,00,000	1,00,000

Equity Share Allotment A/c	Dr.	1,20,000	
To Equity Share Capital A/c			1,20,000
(Amount due on the allotment of 4,000 shares @ ` 30 per share)			
Bank A/c	Dr.	1,20,000	
To Equity Share Allotment A/c			1,20,000
(Allotment money received)			
Equity Share First Call A/c	Dr.	80,000	
To Equity Share Capital A/c			80,000
(First call money due on 4,000 shares @ ` 20 per share)			
Bank A/c	Dr.	74,000	
Calls-in-Arrears A/c	Dr.	16,000	
To Equity Share First Call A/c			80,000
To Calls-in-Advance A/c			10,000
(First call money received on 3,200 shares and calls-in-advance on 400 shares @ ` 25 per share)			

(b) **Books of Sampati Ltd.**

Journal Entries

Date	Particulars	L.F.	Debit Amount (` Lakhs)	Credit Amount (` Lakhs)
	Bank A/c	Dr.	15,000	
	To Debenture Application A/c			15,000
	(Debentures application money received)			
	Debenture Application A/c	Dr.	15,000	
	To 8% Debentures A/c			15,000
	(Application money transferred to 8% debentures account)			
	Debenture Allotment A/c	Dr.	13,200	
	Loss on issue of debenture A/c	Dr.	3,300	
	To 8% Debentures A/c			15,000
	To Debenture redemption premium A/c			1,500
	(Call made consequent upon allotment of debentures issued at discount and redeemable at premium)			
	Bank A/c	Dr.	13,200	
	To Debenture Allotment A/c			13,200
	(Allotment amount received)			

Working Notes :

Loss on issue of debentures =

(Amount of discount on issue + Premium payable on redemption) x No. of Debentures

= (6% of `100 + 5% of ` 100) x 300 lakh

= (` 6 + ` 5) x 300 lakh

= ` 3,300 lakh

(c) **Adam Ltd.**

Bank Reconciliation Statement as on 31.3.2022

Particulars	`
Balance as per cash book	6,00,000
Add : Cheque issued but not presented	3,40,000
Interest credited	7,500
	9,47,500
Less: Bank charges	(1,500)
Balance as per pass book	9,46,000

Or

(c) **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.

Test Series: November, 2022

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) Accrual concept implies accounting on cash basis.

(iii) Consignment account is of the nature of real account.

(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) 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.

(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)**

(c) Classify the following errors under the three categories – Errors of Omission, Errors of Commission and Errors of Principle.

(i) Credit sale wrongly passed through the Purchase Book.

(ii) Machinery sold on credit to Mohan recorded in Journal Proper but omitted to be posted.

(iii) Purchase from M not recorded in subsidiary books.

(iv) Goods worth ` 1,520 purchased on credit from Ram recorded in the Purchase Book as ` 1,250.

(v) Sale of furniture credited to Sales Account. **(4 Marks)**

2. (a) The Plant and Machinery Account of a Factory shed showed a balance of `21,15,250 on 1st April, 2020. Its accounts were made up on 31st March every year and depreciation is written off @ 10% p.a. under the Diminishing Balance Method.

On 1st July, 2020 a new machinery was acquired at a cost of `4,35,000 and installation charges incurred in erecting the machine works out to `9,800 on the same date. On 1st July,2020, a machine which had cost `4,16,200 on 1st April 2017, having become obsolete, was sold off for `90,000. Another machine which had cost `2,38,000 on 1st April, 2018 was scrapped on the same date and it realized nothing. On 1st September,2020, a new machinery was purchased for `2,50,000.Write a plant and machinery account for the accounting year 2020-21, allowing the same rate ofdepreciation as in the past, calculating depreciation to the nearest multiple of a Rupee.

(b) Prepare the Bank Reconciliation Statement of M/s. Singh Brothers on 30th June 2022 from the particulars given below:

(i) The Bank Pass Book had a debit balance of ` 75,000 on 30th June, 2022.

(ii) A cheque worth ` 1,200 directly deposited into Bank by customer but no entry was made in the Cash Book.

(iii) Out of cheques issued worth ` 1,02,000, cheques amounting to ` 60,000 only were presented for payment till 30th June, 2022.

(iv) A cheque for ` 12,000 received and entered in the Cash Book but it was not sent to the Bank.

(v) Cheques worth ` 60,000 had been sent to Bank for collection but the collection was reported by the Bank as under.

(1) Cheques collected before 30th June, 2022, ` 42,000

(2) Cheques collected on 10th July, 2022, ` 12,000

(3) Cheques collected on 12th July, 2022, ` 6,000.

(vi) The Bank made a direct payment of ` 1,800 which was not recorded in the Cash Book.

(vii) Interest on Overdraft charged by the bank ` 4,800 was not recorded in the Cash Book.

(viii) Bank charges worth ` 240 have been entered twice in the cash book whereas Insurance charges for ` 210 directly paid by Bank was not at all entered in the Cash Book.

(ix) The credit side of bank column of Cash Book was under cast by ` 6,000.

(x) A bill for ` 3000(discounted with bank in May, 2022) dishonored on 30th June ,2022 and noting charges of Rs 100 paid by bank. **(10 + 10 = 20 Marks)**

3. (a) Hari of Bangalore consigns 2,000 cases of goods costing ` 1,000 each to Om of Hyderabad. Hari pays the following expenses in connection with consignment:

	`
Carriage	20,000
Freight	60,000
Loading charges	20,000

Om sells 1,400 cases at ` 1,400 per case and incurs the following expenses:

Clearing charges	17,000
Warehousing and storage	34,000
Packing and selling expenses	12,000

It is found that 100 cases have been lost in transit and 200 cases are still in transit.

Om is entitled to a commission of 10% on gross sales. You are required to prepare the Consignment Account and Om's Account in the books of Hari.

(b) From the following details calculate the average due date:

Date of Bill	*Amount (`)*	*Usance of Bill*
28th January, 2021	10,000	1 month
20th March, 2021	8,000	2 months
12th July, 2021	14,000	1 month
10th August, 2021	12,000	2 months

(c) On 1st January, 2022, P's account in Q's ledger showed a debit balance of ` 5,000. The following transactions took place between Q and P during the quarter ended 31st March, 2022:

2022			`
Jan.	11	Q sold goods to P	6,000
Jan.	24	Q received a promissory note from P due after 3 months	5,000
Feb.	01	P sold goods to Q	10,000
Feb.	04	Q sold goods to P	8,200
Feb.	07	P returned goods to Q	1,000
March	01	P sold goods to Q	5,600
March	18	Q sold goods to P	9,200
March	23	P sold goods to Q	4,000

Accounts were settled on 31st March, 2022 by means of a cheque. Prepare an Account Current to be submitted by Q to P as on 31st March, 2022, taking interest into account @ 10% per annum. Calculate interest to the nearest multiple of a rupee. **(10 + 5 + 5 = 20 Marks)**

4. (a) The Balance Sheet of Sam, Saif and Sameer as at 31.12.2021 stood as follows:

Liabilities		**Amount (`)**	**Assets**		**Amount (`)**
Capital:			Land & Buildings		74,000
Sam	60,000		Investments		10,000
Saif	40,000		Advertisement suspense		37,800
Sameer	40,000	1,40,000	Life Policy (at surrender value):		
Creditors		25,800	Sam		2,500
General Reserve		8,000	Saif		2,500
Investment Fluctuation			Sameer		1,000
Reserve		2,400	Stock		20,000
			Debtors	20,000	
			Less: Provision for doubtful debts	(1,600)	18,400
			Cash & bank balance		10,000
		1,76,200			1,76,200

Sameer died on 31st March, 2022, due to this reason the following adjustments were agreed upon:

(i) Land and Buildings to be appreciated by 50%.

(ii) Investment to be valued at 6% less than the cost.

(iii) All debtors (except 20% which are considered as doubtful) were good.

(vi) Stock to be reduced to 94%.

(v) Goodwill to be valued at 1 year's purchase of the average profits of the past five years.

(vi) Sameer's share of profit to the date of death be calculated on the basis of average profits of the three completed years immediately preceding the year of death.

The profits of the last five years are as follows:

Year	`
2017	23,000
2018	28,000
2019	18,000
2020	16,000
2021	20,000
	1,05,000

The life policies have been shown at their surrender values representing 10% of the sum assured in each case. The annual premium of `1,000 is payable every year on 1st August.

You are required to pass necessary Journal Entries in the books of account of the reconstituted firm.

(b) Following particulars are extracted from the books of Mr. Purav for the year ended 31st March, 2022.

Particulars	**Amount**	**Particulars**	**Amount**
Debit Balances:	`	**Credit Balances:**	`
Cash in hand	15,000	Capital	1,60,000
Purchase	1,20,000	Bank overdraft	20,000
Sales return	10,000	Sales	90,000
Salaries	25,000	Purchase return	20,000
Tax and Insurance	5,000	Provision for Bad debts	10,000
Bad debts	5,000	Creditors	20,000
Debtors	50,000	Commission	5,000
Investments	40,000	Bills payable	25,000
Opening stock	14,000		
Drawings	20,000		
Furniture	16,000		
Bills receivables	30,000		
	3,50,000		3,50,000

Other information :

(i) Closing stock was valued at ` 45,000.

(ii) Salary of ` 1,000, and Tax of ` 2,000 are outstanding whereas insurance ` 500 is prepaid.

(iii) Interest accrued on investment is ` 2,100. Interest on overdraft is unpaid ` 3000.

(iv) Provision for bad debts is to be kept at ` 15,000.

(v) Depreciation on furniture is to be charged @ 10%.

You are required to prepare the final accounts after making above adjustments.

(10 + 10 = 20 Marks)

5. (a) Ankit Sports club gives the following Receipts and Payments account for the year ended March 31,2022:

Receipts and Payments Account

Receipts	`	**Payments**	`
To Opening cash and bank balances	52,000	By Salaries	1,50,000
To Subscription	3,48,000	By Rent and taxes	54,000
To Donations	1,00,000	By Electricity charges	6,000
To Interest on investments	12,000	By Sports goods	20,000
To Sundry receipts	3,000	By Library books	1,00,000
		By Newspapers and periodicals	10,800
		By Miscellaneous expenses	54,000
		By Closing cash and bank balances	1,20,200
	5,15,000		5,15,000

	As on 31.3.2021 (`)	**As on 31.3.2022 (`)**
Liabilities		
Outstanding expense:		
Salaries	10,000	20,000
Newspapers and periodicals	4,000	5,000
Rent and taxes	6,000	6,000
Electricity charges	8,000	10,000
Assets		
Library Books	1,00,000	-
Sports goods	80,000	-
Furniture and fixtures	1,00,000	-
Subscription receivable	50,000	1,20,000
Investment government securities	5,00,000	-
Accrued interest	6,000	6,000

Provide depreciation on Furniture and fixtures @ 10% , Sports goods @ 20%, Library books @

10%. Provide full depreciation on additions.

Donations are to be capitalised.

You are required to prepare Club's opening Balance Sheet as on 1.4.2021, Income and expenditure Account for the year ended on 31.3.2022 and Balance sheet as on that date.

(b) Following information is provided for M/s. Diana fiber for the year ended 31st March, 2022:

	`
Opening Inventory	1,00,000
Purchases	6,72,000
Carriage Inwards	30,000
Wages	50,000
Sales	11,00,000
Returns inward	1,00,000
Returns outward	72,000
Closing Inventory	2,00,000
Factory Rent	70,000

You are required to pass necessary closing entries in the journal proper of M/s. Diana fiber.

(15 + 5 = 20 Marks)

6. (a) Give necessary journal entries for the forfeiture and re-issue of shares:

(i) Azar Ltd. forfeited 600 shares of ` 10 each fully called up, held by Ali for non-payment of allotment money of ` 3 per share and final call of ` 4 per share. He paid the application money of ` 3 per share. These shares were re-issued to Kaif for ` 8 per share.

(ii) Mr. X, who was the holder of 2,500 preference shares of ` 100 each, on which ` 70 per share has been called up, could not pay his dues on Allotment and First call each at ` 20 per share. The Directors forfeited the above shares and reissued 2,000 of such shares to Mr. Y at ` 60 per share paid-up as ` 70 per share.

(b) Symphony Ltd. issued 300 lakh 8% debentures of `1000 each at a discount of 6%, redeemable at a premium of 5% after 3 years payable as : ` 500 on application and ` 440 on allotment.

You are required to prepare the necessary journal entries for issue of debentures.

(c) Classify the following expenditures as capital or revenue expenditure:

(i) Amount spent for replacement of a petrol driven engine by CNG kits.

(ii) Travelling expenses of the directors for trips abroad for purchase of capital assets.

(iii) Amount spent to reduce working expenses.

(iv) Insurance claim received on account of inventory damaged by fire.

(v) Expenses incurred on the repairs and white washing for the first time on purchase of an old factory.

(10 + 5 + 5 = 20 Marks)

Test Series: November, 2022

MOCK TEST PAPER 2

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. (a) (i) **False**: Prior Period Items should be separately disclosed in the current statement of profit and loss together with their nature and amount in a manner that their impact on current profit or loss can be perceived.

(ii) **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

(iii) **False**: The sale value of the by product is credited to Manufacturing Account so as to reduce to that extent, the cost of manufacture of main product.

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

(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.

(c) Trade receivables= Sales- Amount received during the Year

= ` (13,75,000-13,15,000)

= ` 60,000

Since, we know Assets= Capital+ Liabilities

Therefore, balance of assets is also ` 12,25,000 and Cash balance will be computed as under:

Particulars	**Amount (`)**
Total Assets	12,25,000
Less: Machinery	(10,00,000)

Less: Inventory	(56,000)
Less: Cash at bank	(75,000)
Less: Trade receivables	(60,000)
Cash in hand	34,000

Computation of Closing Capital:

Particulars	**Amount (`)**
Opening Capital	7,50,000
Add: Introduced during the year	1,00,000
Add: Profit during the year	45,000
Closing Capital	8,95,000

Computation of Amount of Loans:

Loans= Total Liabilities and capital - Closing capital - Trade payables

= ` (12,25,000 - 8,95,000 - 70,000)

= ` 2,60,000

2. (a) **Quarry Lease Account**

Dr.		`			**Cr.** `
01.04.2019	To Bank A/c	2,00,00,000	31.03.2019	By Depreciation A/c [(4,000/4,00,000) × ` 2,00,00,000]	2,00,000
			31.03.2019	By Balance c/d	1,98,00,000
		2,00,00,000			2,00,00,000
01.04.2020	To Balance b/d	1,98,00,000	31.03.2021	By Depreciation A/c	10,00,000
			31.03.2021	By Balance c/d	1,88,00,000
		1,98,00,000			1,98,00,000
01.04.2021	To Balance b/d	1,88,00,000	31.03.2022	By Depreciation A/c	15,00,000
			31.03.2022	By Balance c/d	1,73,00,000
		1,88,00,000			1,88,00,000

Depreciation Account

Dr.		`			**Cr.** `
31.03.2020	To Quarry lease A/c	2,00,000	31.03.2020	By Profit & Loss A/c	2,00,000
		2,00,000			2,00,000
31.03.2021	To Quarry lease A/c	10,00,000	31.03.2021	By Profit & Loss A/c	10,00,000

		10,00,000			10,00,000
31.03.2022	To Quarry lease A/c	15,00,000	31.03.2022	By Profit & Loss A/c	15,00,000
		15,00,000			15,00,000

(b) (i) Profit and Loss Adjustment Account

	`		`
To Advertisement (samples)	3,20,000	By Net profit	32,00,000
To Sales (goods approved in April to be taken as April sales)	8,00,000	By Electric fittings	1,20,000
		By Samples	3,20,000
To Adjusted net profit	67,20,000	By Stock (Purchases of March not included in stock)	20,00,000
		By Sales (goods sold in March wrongly taken in April sales)	16,00,000
		By Stock (goods sent on approval basis not included in stock)	6,00,000
	78,40,000		78,40,000

Calculation of value of inventory on 31st March, 2022

	`
Stock on 31st March, 2022 (given)	30,00,000
Add: Purchases of March, 2022 not included in the stock	20,00,000
Goods lying with customers on approval basis	6,00,000
	56,00,000

3. (a) Journal Entries in the Books of Mr. X

Date		*Particulars*	*L.F.*	*Dr. Amount* `	*Cr. Amount* `
2021					
August	1	Bills Receivable A/c Dr.		50,000	
		To Y			50,000
		(Being the acceptance received from B to settle his account)			
August	1	Bank A/c Dr.		49,000	
		Discount A/c Dr.		1,000	
		To Bills Receivable A/c			50,000
		(Being the bill discounted for ` 49,000 from bank)			
November	4	Y Dr.		50,000	
		To Bank A/c			50,000
		(Being the Y's acceptance is to be renewed)			
November	4	Y Dr.		1,200	
		To Interest Account			1,200

		(Being the interest due from Y for 3 months i.e., 40,000 x 3/12 × 12% = 1,200)		
November	4	Bank A/c Dr.	11,200	
		Bills Receivable A/c Dr.	40,000	
		To Y		51,200
		(Being amount and acceptance of new bill received from Y)		
December	31	Y A/c Dr.	40,000	
		To Bills Receivable A/c		40,000
		(Being Y became insolvent)		
December	31	Bank A/c Dr.	16,000	
		Bad debts A/c Dr.	24,000	
		To Y		40,000
		(Being the amount received and written off on Y's insolvency)		

(b) **Calculation of Average Due Date**

(Taking 3rd March, 2022 as base date)

Date of bill 2022	*Term*	*Due date 2022*	*Amount (`)*	*No. of days from the base date i.e. 3rd March,2022 (`)*	*Product (`)*
28th January	1 month	3rd March	5,000	0	0
20th March	2 months	23rd May	4,000	81	3,24,000
12th July	1month	14th Aug.	7,000	164	11,48,000
10th August	2 months	13th Oct.	6,000	224	13,44,000
			22,000		28,16,000

Average due date = Base date + Days equal to $\frac{\text{Sum of Products}}{\text{Sum of Amounts}}$

$= 3^{rd}$ March, 2022 + $\frac{28,16,000}{22,000}$

$= 3^{rd}$ March, 2022 + 128 days = 9^{th} July, 2022

Working Note:

Bill dated 12th July, 2022 has the maturity period of one month, due date (after adding 3 days of grace) falls on 15th August, 2022. 15th August being public holiday, due date would be preceding date i.e. 14th August, 2022.

(c) **Journal Entries**

Date 2021	***Particulars***		***Dr.*** `	***Cr.*** `
31st Dec.	Sales A/c To Shama's A/c	Dr.	10,500	 10,500

	(Being cancellation of entry for sale of goods, not yet approved)			
	Inventories with customers A/c (Refer W.N.) To Trading A/c (Being Inventories with customers recorded at market price)	Dr.	7,875	7,875

Working Note:

Calculation of cost and market price of Inventories with customer

Sale price of goods sent on approval ` 10,500

Less: Profit (10,500 x 20/120) `1,750

Cost of goods `8,750

Market price = 8,750 - (8,750 x 10%) = ` 7,875

4. (a) **Revaluation Account**

	`		`
To Plant & Machinery (3,40,000 x 15%)	51,000	By Land & Building A/c	3,04,000
To Provision for Bad & Doubtful Debts (1,200,000 x 5%)	6,000		
To Outstanding Repairs to Building	12,000		
To Anil's Capital A/c (5/8)	1,46,875		
To Bharat's Capital A/c (3/8)	88,125		
	3,04,000		3,04,000

Capital Accounts of Partners

	Anil	Bharat	Dev		Anil	Bharat	Dev
To Anil's Capital A/c	-	-	40,000	By Balance b/d	8,20,000	6,60,000	-
To Bharat's Capital A/c			24,000	By Revaluation A/c	1,46,875	88,125	-
To Bharat's Current A/c	-	1,36,125		By Profit & Loss A/c	1,40,000	84,000	-
To Balance c/d	12,00,000	7,20,000	4,80,000	By Bank			5,44,000
				By Dev's Capital A/c	40,000	24,000	
				By Anil's Current A/c	53,125		
	12,00,000	8,56,125	5,44,000		12,00,000	8,56,125	5,44,000

Calculation of New Profit Sharing Ratio and gaining ratio:

Dev's Share of Profit = 1/5 = 2/10

Remaining Share = 1 – 1/5 = 4/5

Anil's Share = 5/8 x 4/5 = 20/40 = 5/10

Bharat's Share = 3/8 x 4/5 = 12/40 = 3/10

New Profit sharing Ratio = 5:3:2

Gaining ratio = 5:3 (same as old profit sharing ratio among old partners)

Balance sheet of Pradeep & Associates as on 31.3.2022

Liabilities		`	*Assets*		
Capital Accounts:			Land & Buildings		10,64,000
Anil	12,00,000		Plant & Machinery	3,40,000	
Bharat	7,20,000		Less: Depreciation	51,000	2,89,000
Dev	4,80,000	24,00,000	Furniture		2,18,960
Bharat's Current A/c		1,36,125	Stock		2,90,520
Trade Creditors		1,09,600	Sundry Debtors	1,20,000	
Outstanding Repairs to Building		12,000	*Less*: Provision	6,000	1,14,000
			Cash at Bank		6,28,120
			Anil's current A/c		53,125
		26,57,725			26,57,725

Working Note:

Required Balance of Capital Accounts

Dev's Capital after writing off Goodwill = 5,44,000 – 64,000 = 4,80,000

Dev's Share of Profit = 1/5

Thus, Capital of the firm shall be = 4,80,000 x 5 = 24,00,000

Anil's Capital = 24,00,000 x 5/10 = 12,00,000 and

Bharat's Capital = 24,00,000 x 3/10 = 7,20,000

(b) (i) Computation of Income for the year 2021-22:

	`
Money received during the year related to 2021-22	7,50,000
Add: Money received in advance during previous years	2,25,000
Total income of the year 2021-22	9,75,000

(ii) Advance from Customers A/c

Date	Particulars	`	Date	Particulars	`
	To Sales A/c (Advance related to current year transferred to sales)	2,25,000	1.4.2021	By Balance b/d	3,00,000

31.3.22	To Balance c/d	2,55,000		By Bank A/c (Balancing Figure)	1,80,000
		4,80,000			4,80,000

So, total money received during the year is:

	`
Cash Sales during the year	7,50,000
Add: Advance received during the year	1,80,000
Total money received during the year	9,30,000

5. (a) Corrected Receipts and Payments Account of Silver Stitch Club for the year ended 31st March, 2022

	Receipts	`	Amount `		Payments	Amount `
To	Balance b/d		9,000	By	Expenses (` 1,26,000 – ` 54,000)	72,000
To	Subscription					
	Annual Income	91,800		By	Sports Material	54,000
				By	Balance c/d (Cash in Hand and at Bank)	18,14,400
	Less: Receivable as on 31.3.2022	5,400				
	Add: Advance received for the year 2022–2023	1,800				
	Add: Receivable as on 31.3.2021	3,600				
	Less: Advance received as on 31.3.2021	1,800	90,000			
To	Other Fees		36,000			
To	Donation for Building		18,00,000			
To	Sale of Furniture		5,400			
			19,40,400			19,40,400

Income and Expenditure Account of Silver Stitch Club for the year ended 31st March, 2022

	Expenditure	`	Amount `		Income	Amount `
To	Sundry Expenses		72,000	By	Subscription	91,800
To	Sports Material			By	Other fees	36,000
	Balance as on 1.4.2021	1,33,200		By	Interest on investment (5% on ` 5,40,000)	27,000
	Add: Purchases	54,000		By	Deficit: Excess of Expenditure over Income	72,000
	Less: Balance as on 31.3.2022	36,000	1,51,200			
	Loss on sale of Furniture		3,600			

			2,26,800		2,26,800

Balance Sheet of Silver Stitch Club
as on 31st March, 2022

Liabilities		**Amount (`)**	**Assets**		**Amount (`)**
Capital Fund	7,20,000		Furniture	36,000	
Less: Excess of	72,000		Less: Sold	9,000	27,000
Expenditure over Income		6,48,000	5% Investment		5,40,000
Building Fund		18,00,000	Interest Accrued on Investment		27,000
Subscription Received in Advance		1,800	Sports Material		36,000
			Subscription Receivable		5,400
			Cash in Hand and at Bank		18,14,400
		24,49,800			24,49,800

Working Note:

Balance Sheet of Silver Stitch Club
as on 1st April, 2021

Liabilities	**Amount `**	**Assets**	**Amount `**
Subscription Received in Advance	1,800	Furniture	36,000
		Investment	5,40,000
Capital Fund (Balancing Figure)	7,20,000	Sports Material	1,33,200
		Subscription Receivable	3,600
		Cash in Hand and at Bank	9,000
	7,21,800		7,21,800

(b)

(i)	P&L Adjustment A/c	Dr.	7,000	
	To Suspense A/c			7,000
	(Correction of error by which Sales account was overcast last year)			
(ii)	P & L Adjustment A/c	Dr.	7,670	
	To Mr. Bansal			7,670
	(Correction of error by which legal expenses paid to Mr. Bansal was wrongly debited to his personal account)			
(iii)	Suspense A/c	Dr.	4,500	
	To P & L Adjustment A/c			4,500
	(Correct of error by which general expenses of ` 4,900 was wrongly posted as ` 9,400)			
(iv)	Bills Receivables A/c	Dr.	1,550	
	Bills Payable A/c	Dr.	1,550	
	To Jai A/c			3,100
	(Correction of error by which Bills Receivable account of ` 1,550 was wrongly posted through Bills Payable book)			
(v)	Suspense A/c	Dr.	15,000	
	To Deepak			7,500
	To Vivek			7,500
	(Removal of wrong debit to Vivek and giving credit to Deepak from whom cash was received)			
(vi)	Reema A/c	Dr.	25,000	
	To Shikha A/c			25,000
	(Correction of error by which sale of ` 25,000 to Reema was wrongly debited to Shikha's account)			

(vii)	Suspense A/c To P&L Adjustment A/c (Correction of error by which Purchase A/c was excess debited by ` 270 i.e. ` 21,960 – ` 21,690)	Dr.	270	 270

(viii)	Trade Receivable A/c To Suspense A/c (` 7,000 due by Mr. Surya not taken into trial balance now rectified)	Dr.	7,000	 7,000

Suspense A/c

	`		`
To P & L Adjustment A/c	4,500	By P & L Adjustment A/c	7,000
To Deepak	7,500	By Trade Receivable (Mr. Surya)	7,000
To Vivek	7,500	By Difference in Trial Balance (Balancing figure)	5,770
To P&L Adjustment A/c	270		
	19,770		19,770

6. (a) In the Books of Hari Om Ltd.

Bank A/c To Equity Share Application A/c (Money received on application for 2,000 shares @ ` 25 per share)	Dr.	50,000	 50,000
Equity Share Application A/c To Equity Share Capital A/c (Transfer of application money on 2,000 shares to share capital)	Dr.	50,000	 50,000
Equity Share Allotment A/c To Equity Share Capital A/c (Amount due on the allotment of 2,000 shares @ ` 30 per share)	Dr.	60,000	 60,000
Bank A/c To Equity Share Allotment A/c (Allotment money received)	Dr.	60,000	 60,000
Equity Share First Call A/c To Equity Share Capital A/c (First call money due on 2,000 shares @ ` 20 per share)	Dr.	40,000	 40,000
Bank A/c Calls-in-Arrears A/c To Equity Share First Call A/c To Calls-in-Advance A/c (First call money received on 1,800 shares and calls-in-advance on 100 shares @ ` 25 per share)	Dr. Dr.	38,500 4,000	 40,000 2,500

(b) In the Books of Peanut Ltd.

Journal Entries

			Dr. (`)	Cr. (`)

1-4-2021	Bank A/c	Dr.	36,00,000	
	Discount/Loss on Issue of Debentures A/c	Dr.	6,00,000	
	To 12% Debentures A/c			40,00,000
	To Premium on Redemption of Debentures A/c			2,00,000
	(For issue of debentures at discount redeemable at premium)			
30-9-2020	Debenture Interest A/c	Dr.	4,80,000	
	To Debenture holders A/c			4,32,000
	To Tax Deducted at Source A/c			48,000
	(For interest payable)			
	Debenture holders A/c	Dr.	4,32,000	
	Tax Deducted at Source A/c	Dr.	48,000	
	To Bank A/c			4,80,000
	(For payment of interest and TDS)			
31-03-2020	Debenture Interest A/c	Dr.	4,80,000	
	To Debenture holders A/c			4,32,000
	To Tax Deducted at Source A/c			48,000
	(For interest payable)			
	Debenture holders A/c	Dr.	4,32,000	
	Tax Deducted at Source A/c	Dr.	48,000	
	To Bank A/c			4,80,000
	(For payment of interest and tax)			
	Profit and Loss A/c	Dr.	9,60,000	
	To Debenture Interest A/c			9,60,000
	(For transfer of debenture interest to profit and loss account at the end of the year)			
	Profit and Loss A/c	Dr.	80,000	
	To Discount/Loss on issue of debenture A/c			80,000
	(For proportionate debenture discount and premium on redemption written off, i.e., 4,00,000 x 1/5)			

(c) The difference between the balance shown by the passbook and the cashbook may arise on account of the following:

(i) Cheques issued but not yet presented for payment.

(ii) Cheques deposited into the bank but not yet cleared.

(iii) Interest allowed by the bank.

(iv) Interest and expenses charged by the bank.

(v) Interest and dividends collected by the bank.

(vi) Direct payments by the bank.

(vii) Direct deposits into the bank by a customer.

(viii) Dishonour of a bill discounted with the bank.

(ix) Bills collected by the bank on behalf of the customer.

(x) An error committed by the bank etc.

OR

(c) Normally, the following subsidiary books are used in a business:

(i) Cash book to record receipts and payments of cash, including receipts into and payments out of the bank.

(ii) Purchases book to record credit purchases of goods dealt in or of the materials and stores required in the factory.

(iii) Purchase Returns Books to record the returns of goods and materials previously purchased.

(iv) Sales Book to record the sales of the goods dealt in by the firm.

(v) Sale Returns Book to record the returns made by the customers

(vi) Bills receivable books to record the receipts of promissory notes or hundies from various parties.

(vii) Bills Payable Book to record the issue of the promissory notes or hundies to other parties.

(viii) Journal (proper) to record the transactions which cannot be recorded in any of the seven books mentioned above.

Test Series: November, 2022

MOCK TEST PAPER 2

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. Prior Period Items need not be separately disclosed in the current statement of profit and loss.

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

   iii. The sale value of the by-product is credited to Trading Account.

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

   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)

   (c) From the following information provided by Mr. Shivam for the year ended 31st March,2022. Find the unknown figures for the certain items:

Particulars	Amount (`)
Machinery	10,00,000
Trade Payables	70,000
Inventory	56,000
Total Liabilities including Capital	12,25,000
Cash at bank	75,000
Cash in hand	?
Trade Receivables	?
Opening Capital	7,50,000
Profit during the Year	45,000
Capital introduced during the Year	1,00,000
Closing Capital	?
Loans	?

   Additional information: During the year sales of ` 13,75,000 was made of which `13,15,000 have been received. **(4 Marks)**

2. (a) M/s Avneet took lease of a quarry on 1-4-2019 for ` 2,00,00,000. As per technical estimate thetotal quantity of mineral deposit is 4,00,000 tonnes. Depreciation was charged on the basis of depletion method. Extraction pattern is given in the following table:

Year	Quantity of Mineral extracted
2019-20	4,000 tonnes
2020-21	20,000 tonnes
2021-22	30,000 tonnes

Show the Quarry Lease Account and Depreciation Account for each year from 2019-20 to 2021-22.

(b) M/s Mandeep, Profit and loss account showed a net profit of ` 32,00,000, after considering the closing stock of ` 30,00,000 on 31st March, 2022. Subsequently the following information was obtained from scrutiny of the books:

(i) Purchases for the year included ` 1,20,000 paid for new electric fittings for the shop.

(ii) M/s Mandeep gave away goods valued at ` 3,20,000 as free samples for which no entry was made in the books of accounts.

(iii) Invoices for goods amounting to ` 20,00,000 have been entered on 27th March, 2022, but the goods were not included in stock.

(iv) In March, 2022 goods of ` 16,00,000 sold and delivered were taken in the sales for April, 2022.

(v) Goods costing ` 6,00,000 were sent on sale or return in March, 2022 at a margin of profit of 33-1/3% on cost. Though approval was given in April, 2022 these were taken as sales for March, 2022.

You are required to determine the adjusted net profit for the year ended on 31.3.2022 and calculate the value of stock on 31st March, 2022. **(10 Marks +10 Marks= 20 Marks)**

3. (a) Mr. Y accepted a bill for ` 50,000 drawn on him by Mr. X on 1st August, 2021 for 3 months. This was for the amount which Y owed to X. On the same date Mr. X got the bill discounted at his bank for ` 49,000.

On the due date, Y approached X for renewal of the bill. Mr. X agreed on condition that ` 10,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance Y should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2021, Y became insolvent and his estate paid 40%.

Prepare Journal Entries in the books of Mr. X

(b) From the following details calculate the average due date:

Date of Bill	Amount (`)	Usance of Bill
28th January, 2022	5,000	1 month
20th March, 2022	4,000	2 months
12th July, 2022	7,000	1 month
10th August, 2022	6,000	2 months

(c) On 31st December, 2021 goods sold at a sale price of ` 10,500 were lying with customer, Shama to whom these goods were sold on 'sale or return basis' were recorded as actual sales. Since no consent has been received from Shama, you are required to pass adjustment entries presuming goods were sent on approval at a profit of cost plus 20%. Present market price is 10% less than the cost price. **(10 + 5 + 5 = 20 Marks)**

4. (a) The Balance Sheet of a Partnership Firm M/s Pradeep & Associates consisted of two partners Anil and Bharat who were sharing Profits and Losses in the ratio of 5 : 3 respectively. The position as on 31-03-2022 was as follows:

Liabilities	`	*Assets*	`
Anil's Capital	8,20,000	Land & Building	7,60,000
Bharat's Capital	6,60,000	Plant & Machinery	3,40,000
Profit & Loss A/c	2,24,000	Furniture	2,18,960
Trade Creditors	1,09,600	Stock	2,90,520
		Sundry debtors	1,20,000
		Cash at Bank	84,120
	18,13,600		18,13,600

On the above date, Dev was admitted as a partner on the following terms:

(a) Dev should get 1/5th of share of profits.

(b) Dev brought ` 4,80,000 as his capital and ` 64,000 for his share of Goodwill.

(c) Plant and Machinery would be depreciated by 15% and Land & Buildings would be appreciated by 40%.

(d) A provision for doubtful debts to be created at 5% on sundry debtors.

(e) An unrecorded liability of ` 12,000 for repairs to Buildings would be recorded in the books of accounts.

(f) Immediately after Dev's admission, Goodwill brought by him would be adjusted among old partners. Thereafter, the capital accounts of old partners would be adjusted through the current accounts of partners in such a manner that the capital accounts of all the partners would be in their profit sharing ratio.

Prepare Revaluation A/c, Capital Accounts of the partners, new profit sharing ratio and Balance Sheet of the Firm after the admission of Dev.

(b) Ms. Veena is engaged in business of selling magazines. Several of his customers pay money in advance for subscribing his magazines. Information related to year ended 31 st March, 2022 has been given below:

On 1.4.2021 he had a balance of ` 3,00,000 advance from customers of which ` 2,25,000 is related to year 2021-22 while remaining pertains to year 2022-23. During the year 2021-22 he made cash sales of ` 7,50,000. You are required to compute:

(i) Total income for the year 2021-22.

(ii) Total money received during the year if the closing balance in Advance from customers Account is ` 2,55,000. **(12 + 8 Marks)**

5. (a) The Receipts and Payments account of Silver Stitch Club prepared on 31st March, 2022 is as follows:

Receipts and Payments Account

Receipts	`	**Amount** `	**Payments**	**Amount** `
To Balance b/d		9,000	By Expenses (including Payment for sports material ` 54,000)	1,26,000
To Annual Income from Subscription	91,800		By Loss on Sale of Furniture (cost price ` 9,000)	3,600
Add: Outstanding of last year received this year	3,600		By Balance c/d	18,09,000
	95,440			
Less: Prepaid of last year	1,800	93,600		
To Other fees		36,000		
To Donation for Building		18,00,000		
		19,38,600		19,38,600

Additional information:

Silver Stitch Club had balances as on 1.4.2021 : -

Furniture ` 36,000; Investment at 5% ` 5,40,000;

Sports material ` 1,33,200;

Balance as on 31.3.2022 : Subscription Receivable ` 5,400;

Subscription received in advance ` 1,800;

Stock of sports material ` 36,000.

Do you agree with above Receipts and Payments account? If not, prepare correct Receipts and Payments account and Income and Expenditure account for the year ended 31st March, 2022 and Balance Sheet on that date.

(b) The following mistakes were located in the books of a concern after its books were closed and a Suspense Account was opened in order to get the Trial Balance agreed:

(i) Sales Day Book was overcast by ` 7,000.

(ii) Legal Expenses ` 7,670 paid to Mr. Bansal was debited to her personal account.

(iii) General expenses ` 4,900 was posted in the General Ledger as ` 9,400.

(iv) A Bill Receivable for ` 1,550 was passed through Bills Payable Book. The Bill was given by Jai.

(v) Cash received from Deepak was debited to Vivek ` 7,500.

(vi) A sale of ` 25,000 to Reema was wrongly debited to the Account of Shikha.

(vii) While carrying forward the total of one page of the Purchases Book to the next, the amount of ` 21,690 was written as ` 21,960.

(viii) ` 7,000 due to Mr. Surya was omitted to be taken to trial balance.

Find out the nature and amount of the Suspense Account and Pass entries (including narration) for the rectification of the above errors in the subsequent year's books. **(12 + 8 = 20 Marks)**

6. (a) Hari Om Limited registered with an authorised equity capital of ₹ 4,00,000 divided into 4,000 shares of ₹ 100 each, issued for subscription of 2,000 shares payable at ₹ 25 per share on application, ₹ 30 per share on allotment, ₹ 20 per share on first call and the balance as and when required. Application money on 2,000 shares was duly received and allotment was made to them. The allotment amount was received in full, but when the first call was made, one shareholder failed to pay the amount on 200 shares held by him and another shareholder with 100 shares, paid the entire amount on his shares. The company did not make any other call. Give the necessary journal entries in the books of the company to record these transactions. **(10 Marks)**

(b) On 1st April, 2021 Peanut Ltd. issued 12% debentures of the face value of ₹ 40,00,000 at 10% discount. Debenture interest after deducting tax at source @10% was payable on 30th June and 31st December every year. All the debentures were to be redeemed after the expiry of five years period at 5% premium.

Pass necessary journal entries for the financial year 2021-22. **(5 Marks)**

(c) State the causes of difference between the balance shown by the pass book and the cash book.

OR

Which subsidiary books are normally used in a business? **(5 Marks)**

Test Series: November, 2022

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) 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 irrespectiveof actual receipts or payments.

(iii) False: Consignment account is a nominal account.

(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: 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.

(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 financialstatements 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.

(c) (i) Error of Commission.

(ii) Error of Omission.

(iii) Error of Omission.

(iv) Error of Commission.

(v) Error of Principle.

2. (a) Plant and Machinery Account

Date (2020-21)	Particulars	Amount (`)	Date (2020-21)	Particulars	Amount (`)

Apr-01	To Balance b/d	21,15,250	Jul -01	By Bank (Sales)	90,000
Jul -01	To Bank (4,35,000 + 9800)	4,44,800		By Deprecation (on machine sold)	7,585
Sep -01	To Bank	2,50,000		By Loss on sale	2,05,825
				By Depreciation on Scrapped machine	4,820
				By loss on scrapping the machine	1,87,960
			Mar-31	By Deprecation	2,09,849
			Mar-31	By Balance c/d	21,04,011
		28,10,050			28,10,050

Working Notes:

1. Calculation of loss on sale of machine

Cost on 1-4-2017	4,16,200
Less: Depreciation @ 10% on ` 4,16,200	(41,620)
W.D.V. on 31.3.2018	3,74,580
Less: Depreciation @10% on ` 3,74,580	(37,458)
W.D.V. on 31.3.2019	3,37,122
Less: Depreciation @10% on ` 3,37,122	(33,712)
W.D.V on 31.3.2020	3,03,410
Less: Depreciation @ 10% on ` 3,03,410 for 3 months	(7,585)
	2,95,825
Less: Sale proceeds on 1-7-2020	(90,000)
Loss on sale of machine	2,05,825

2. Calculation of loss on scrapped machine

Cost on 1-4-2018	2,38,000
Less: Depreciation @10%	(23,800)
W.D.V. on 31.3.2019	2,14,200
Less: Depreciation @10%	(21,420)
W.D.V. on 31.3.2020	1,92,780
Less: Depreciation @ 10% for 3 months	(4,820)
Loss on scrapping the machine	1,87,960

3. Calculation of Depreciation

Balance of Machinery A/c on 1.4.2020	21,15,250
Less: W.D.V. of Machinery Sold	(3,03,410)
Less: W.D.V of Machinery Scrapped	(1,92,780)
W.D.V of other Machinery on 1.4.2020	16,19,060

Depreciation @10% on ` 16,19,060 for 12 Months	1,61,906
Depreciation @10% on ` 4,44,800 for 9 Months	33,360
Depreciation @10% on ` 2,50,000 for 7 Months	14,583
Total Depreciation to be charged on 31.3.2021	2,09,849

(b) **Bank Reconciliation Statement as on 30th June 2022**

	Particulars	Amount	Amount
	Overdraft as per Pass Book (Dr. Balance)		75,000
Add:	Cheques deposited into the Bank by Customer but not entered in Cash Book	1,200	
	Cheques issued but not presented ` (1,02,000-60,000)	42,000	
	Bank charges written twice in Cash Book	240	43,440
			1,18,440
Less:	Cheques received, recorded in cash Book but not sent to the Bank	12,000	
	Cheques sent to the Bank but not collected	18,000	
	Direct payment made by the bank not recorded in the Cash book	1,800	
	Interest on Overdraft charged by Bank	4,800	
	Insurance charges not entered in Cash Book	210	
	Credit side of bank column of Cash Book was undercast	6,000	
	Discounted bill dishonored & noting charges Paid (WN)	3,100	45,910
	Overdraft as per Cash Book		72,530

Working Note: Bill amount of ` 3,100 were debited by bank. However, it is not been recorded in the Cash Book. So to arrive at the cash balance, ` 3,100 was added.

3. (a) **In the books of Hari**

Consignment to Om of Hyderabad Account

Particulars	`	Particulars		`
To Goods sent on Consignment	20,00,000	By Om (Sales)		19,60,000
		By Loss in Transit 100 cases @ ` 1,050 each		1,05,000
To Bank (Expenses)	1,00,000	By Consignment Inventories		
To Om (Expenses)	63,000	In hand 300 @ ` 1,060 each	3,18,000	
To Om (Commission)	1,96,000	In transit 200 @ ` 1,050 each	2,10,000	5,28,000
To Profit on Consignment to Profit & Loss A/c	2,34,000			
	25,93,000			25,93,000

Om's Account

Particulars	`	Particulars	`

To Consignment A/c	19,60,000	By Consignment A/c (Expenses)	63,000
		By Consignment A/c (Commission)	- 1,96,000
		By Balance c/d	17,01,000
	19,60,000		19,60,000

Working Notes:

(i) Consignor's expenses on 2,000 cases amounts to ` 1,00,000; it comes to ` 50 per case. The cost of cases lost will be computed at ` 1,050 per case.

(ii) Om has incurred ` 17,000 on clearing 1,700 cases, i.e., ` 10 per case; while valuing closing inventories with the agent ` 10 per case has been added to cases in hand with the agent.

(iii) It has been assumed that balance of ` 17,01,000 is not yet paid.

(b) **Calculation of Average Due Date**

(Taking 3rd March, 2021 as base date)

Date of bill 2021	*Term*	*Due date 2021*	*Amount (`)*	*No. of days from the base date i.e. 3rd March,2021 (`)*	*Product (`)*
28th January	1 month	3rd March	10,000	0	0
20th March	2 months	23rd May	8,000	81	6,48,000
12th July	1month	14th Aug.	14,000	164	22,96,000
10th August	2 months	13th Oct.	12,000	224	26,88,000
			44,000		56,32,000

Average due date = Base date + Days equal to $\frac{\text{Sum of Products}}{\text{Sum of Amounts}}$

= 3rd March, 2021 + $\frac{56{,}32{,}000}{44{,}000}$

= 3rd March, 2021 + 128 days = 9th July, 2021

Working Note: Bill dated 12th July, 2021 has the maturity period of one month, due date (after adding 3 days of grace) falls on 15th August, 2021. 15th August being public holiday, due date would be preceding date i.e. 14th August, 2021.

(c) **In the books of Q**

P in Account Current with Q

(Interest to 31st March, 2022 @ 10% p.a)

Date	*Particulars*	*Amount*	*Days*	*Product*	*Date*	*Particulars*	*Amount*	*Days*	*Product*
2022		`		`	*2022*		`		`
Jan.1	To Balance b/d	5,000	90	4,50,000	Jan.24	By Promissory Note (due date 27th April)	5,000	(27)	(1,35,000)
Jan. 11	To Sales	6,000	79	4,74,000	Feb. 1	By Purchases	10,000	58	5,80,000
Feb. 4	To Sales	8,200	55	4,51,000	Feb. 7	By Sales Return	1,000	52	52,000

Mar. 18	To Sales	9,200	13	1,19,600	Mar. 1	By Purchases	5,600	30	1,68,000
Mar. 31	To Interest	219			Mar. 23	By Purchases	4,000	8	32,000
					Mar. 31	By Balance of Products			7,97,600
					Mar. 31	By Bank	3,019		
		28,619		14,94,600			28,619		14,94,600

Working Note:

Calculation of interest:

Interest = $\frac{7,97,600}{365} \times \frac{10}{100}$ = ` 219 (approx.)

4 (a) **Journal Entries**

Particulars		Amount	Amount
1. Insurance Company's A/c	Dr.	10,000	
To Life Policy A/c			10,000
(Being the policy on the life of Sameer matured on his death)			
2. Life Policy A/c	Dr.	9,000	
To Sam's Capital A/c			3,000
To Saif's Capital A/c			3,000
To Sameer's Capital A/c			3,000
(Being the transfer of balance in life policy account to all partners' capital accounts)			
3. Sam's Capital A/c	Dr.	12,600	
Saif's Capital A/c	Dr.	12,600	
Sameer's Capital A/c	Dr.	12,600	
To Advertisement suspense A/c			37,800
(Being Advertisement suspense standing in the books written off fully)			
4. Land & Buildings A/c	Dr.	37,000	
To Revaluation A/c			37,000
(Being an increase in the value of assets recorded)			
5. Investment Fluctuation Reserve A/c	Dr.	600	
To Investment A/c			600
(Being reduction in the cost of investment adjusted through Investment Fluctuation Reserve)			
6. Revaluation A/c	Dr.	3,600	
To Stock A/c			1,200
To Provision for Doubtful Debts A/c			2,400
(Being the fall in value of assets recorded)			
7. Sam's Capital A/c	Dr.	3,500	
Saif's Capital A/c	Dr.	3,500	
To Sameer's Capital A/c			7,000
(Being the share of Sameer's revalued goodwill adjusted through capital accounts of the remaining partners)			
8. Profit & Loss Suspense A/c	Dr.	1,500	
To Sameer's Capital A/c			1,500
(Being Sameer's Share of profit to date of death credited to his account)			

9. Revaluation A/c	Dr.	33,400	
To Sam's Capital A/c			11,133
To Saif's Capital A/c			11,133
To Sameer's Capital A/c			11,134•
(Being the transfer of profit on revaluation)			
10. General Reserve A/c	Dr.	8,000	
Investment Fluctuation Reserve A/c (` 2,400 - ` 600)	Dr.	1,800	
To Sam's Capital A/c			3,267
To Saif's Capital A/c			3,267
To Sameer's Capital A/c			3,266
(Being the transfer of accumulated profits to capital accounts)			
11. Sameer's Capital A/c	Dr.	53,300	
To Sameer's Executor's A/c			53,300
(Being the transfer of Sameer's Capital A/c to his Executor's A/c)			

Working Notes:

Calculation of Sameer's Share of Profits

Total profit for last three years	` 18,000 + ` 16,000 + ` 20,000 = ` 54,000
Average profit 54,000/3	= ` 18,000
Profit for 3 months = 18,000 x 3/12	= ` 4,500
Sameer's share of Profit = 4,500 x 1/3	= ` 1,500

Calculation of Goodwill

Total profits for last five years	` 1,05,000
Average profit 1,05,000/5	= ` 21,000
Goodwill at one year's purchase	` 21,000 x 1 =` 21,000

(b) **Trading & Profit and Loss Account of Mr. Purav for the year ended 31st March, 2022**

Particulars	`	`	Particulars	`	`
To Opening Stock		14,000	By Sales	90,000	
To Purchase	1,20,000		*Less*: Sales return	(10,000)	80,000
Less: Purchase return	(20,000)	1,00,000	By Closing stock		45,000
To Gross Profit		11,000			
		1,25,000			1,25,000

• Rounded off.

To Salaries	25,000		By Gross Profit		11,000

Add: Outstanding salary	1,000	26,000	By Commission		5,000
To Tax & Insurance	5,000		By Accrued interest		2,100
Add: Outstanding	2,000		By Net Loss		29,000
Prepaid insurance	(500)	6,500			
To Provision for Bad debt (W N)		10,000			
To Interest on overdraft		3,000			
To Depreciation on furniture		1,600			
		47,100			47,100

Balance Sheet of Mr. Purav as on 31.3.2022

Particulars	`	`	Particulars	`	`
Capital	1,60,000		By Furniture	16,000	
Less: drawing	(20,000)		*Less:* Depreciation	(1,600)	14,400
Net loss	(29,000)	1,11,000	Bill receivable		30,000
Bank overdraft	20,000		Investment	40,000	
Add: interest	3000	23,000	*Add:* accrued interest	2,100	42,100
Creditors		20,000	Debtors	50,000	
Bills payable		25,000	*Less:* Provision on bad debts	(15,000)	35,000
Outstanding expenses:					
Salary	1,000		Closing stock		45,000
Tax	2,000	3,000	Cash in hand		15,000
			Prepaid insurance		500
		1,82,000			1,82,000

Working Note:

Provision for Bad Debts A/c

Particulars	`	Particulars	`
To Bad Debts	5,000	By bal b/d	10,000
To bal c/d	15,000	By P& L A/c (Bal fig.)	10,000
	20,000		20,000

5. (a) Balance Sheet of Ankit Sports Club as on 1st April,2021

Liabilities	`	`	Assets	`
Capital fund (bal.fig)		8,60,000	Library books	1,00,000
Outstanding expenses:			Sports goods	80,000
Salaries	10,000		Furniture and Fixtures	1,00,000
Newspapers and			Subscriptions Receivable	50,000
Periodicals	4,000		Investment Govt. Securities	5,00,000

Electricity charges	8,000		Accrued interest	6,000
Rent and taxes	6,000	28,000	Cash and Bank balances	52,000
		8,88,000		8,88,000

Income and Expenditure Account

for the year ended on 31st March,2022

Expenditure	`	Income	`
To Salaries (WN 3)	1,60,000	By subscription (W.N.I)	4,18,000
To Electricity charges (WN 3)	8,000	By Interest on Investments (W.N.2)	12,000
To Rent and taxes (WN 3)	54,000		
To Newspapers and Periodicals (WN 3)	11,800	By Sundry receipts	3,000
To Miss expenses	54,000		
To Depreciation on fixed Assets (W N 4)	50,000		
To Excess of income over Expenditure (Transferred to Capital fund)	95,200		
	4,33,000		4,33,000

Balance Sheet of Ankit Sports Club as on 31st March,2022

Liabilities	`	`	Assets	`	`
Capital fund			Fixed assets (W.N.4)		
Opening balance	8,60,000		Furniture and Fixtures	90,000	
Add: Surplus	95200				
Add: Donations	1,00,000		Sports goods	80,000	
		10,55,200	Library books	1,80,000	
					3,50,000
Outstanding Expenses: (W.N.3)			Investment Govt Securities		5,00,000
Salaries	20,000		Accrued interest		6,000
Newspapers and Periodicals	5,000		Subscriptions Receivable		1,20,000
Electricity charges	10,000		Cash and bank Balance		1,20,200
Rent and taxes	6,000	41,000			
		10,96,200			10,96,200

Working Notes:

(1) Subscriptions for the year ended 31st March,2022:

	`
Subscription received during the year	3,48,000
Add: Subscriptions receivable on 31.3.2022	1,20,000
	4,68,000
Less: Subscriptions receivable on 31.3.2021	(50,000)
	4,18,000

(2) Interest on investments for the year ended 31st March,2022:

	`
Interest received during the year	12,000
Add: Accrued interest on 31.3.2022	6,000
	18,000
Less: Accrued interest on 31.3.2021	(6,000)
	12,000

(3) Expenses for the year ended 31st March,2022:

Expenses	Salaries	Electricity	Rent and taxes	Newspapers and periodicals
	`	`	`	`
Paid during the year	1,50,000	6,000	54,000	10,800
Add: Outstanding (as on 31.3.2022)	20,000	10,000	6,000	5,000
	1,70,000	16,000	60,000	15,800
Less: Outstanding (as on 31.3.2021)	(10,000)	(8,000)	(6,000)	(4,000)
	1,60,000	8,000	54,000	11,800

(4) Depreciation on Fixed assets

Assets	Book value as on 31.3.2021	Additions during the year	Total	Rate of depreciation	Depreciation	W.D.V.as on 31.3.2022
Furniture and fixtures	1,00,000		1,00,000	10%	10,000	90,000
Sports Goods	80,000	20,000	1,00,000	20%	20,000	80,000
Library Books	1,00,000	1,00,000	2,00,000	10%	20,000	1,80,000
Total					50,000	3,50,000

(b) Journal Proper in the Books of M/s. Diana Fiber

Date	Particulars		Amount	Amount

2022			`	`
Mar. 31	Returns outward A/c To Purchases A/c (Being the transfer of returns to purchases account)	Dr.	72,000	 72,000
	Sales A/c To Returns Inward A/c (Being the transfer of returns to sales account)	Dr.	1,00,000	 1,00,000
.	Sales A/c To Trading A/c (Being the transfer of balance of sales account to trading account)	Dr.	10,00,000	 10,00,000
	Trading A/c To Opening Inventory A/c To Purchases A/c To Wages A/c To Carriage Inwards A/c To Factory Rent (Being the transfer of balances of opening inventory, purchases, wages, Carriage Inward and factory rent accounts)	Dr.	8,50,000	 1,00,000 6,00,000 50,000 30,000 70,000
	Closing Inventory A/c To Trading A/c (Being the incorporation of value of closing Inventory)	Dr.	2,00,000	 2,00,000
	Trading A/c To Gross Profit (Being the amount of gross profit)	Dr.	3,50,000	 3,50,000
	Gross profit To Profit and Loss A/c (Being the transfer of gross profit to Profit and Loss Account)	Dr.	3,50,000	 3,50,000

6. (a) (i) Journal Entries in the books of Azar Ltd.

Date			*Dr.* `	*Cr.* `
(a)	Equity Share Capital A/c To Equity Share Allotment money A/c (600 x ` 3) To Equity Share Final Call A/c (600 x ` 4) To Forfeited Shares A/c (600 x ` 3) (Being the forfeiture of 600 equity shares of ` 10 each for non-payment of allotment money and final call, held by Ali as per Board's resolution No…………dated…………………………………)	Dr.	6,000	 1,800 2,400 1,800
(b)	Bank Account (600 x 8)	Dr.	4,800	

	Forfeited Shares Account (600x 2)	Dr.	1,200	
	To Equity Share Capital Account			6,000
	(Being the re-issue of 600 forfeited shares @ ` 8 each as fully paid up to Kaif as per Board's resolution No..........dated ....)			
(c)	Forfeited Shares Account	Dr.	600	
	To Capital Reserve Account			600
	(Being the profit on re-issue, transferred to capital reserve)			

(ii)

		Dr. `	**Cr.** `
Preference Share Capital A/c (2,500 x ` 70)	Dr.	1,75,000	
To Preference Share Allotment A/c (2,500 x ` 20)			50,000
To Preference Share First Call A/c (2,500 x ` 20)			50,000
To Forfeited Share A/c			75,000
(Being the forfeiture of 2,500 preference shares ` 70 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated)			
Bank A/c (2,000 x `60)	Dr.	1,20,000	
Forfeited Shares A/c (2,000 x `10)	Dr.	20,000	
To Preference Share Capital A/c			1,40,000
(Being re-issue of 2,000 shares at ` 60 per share paid-up as ` 70 as per Board's Resolution No.....dated....)			
Forfeited Shares A/c	Dr.	40,000	
To Capital Reserve A/c (Working Note)			40,000
(Being profit on re-issue transferred to Capital/Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =` 75,000/2,500 = ` 30

Loss on re-issue =` 70 – ` 60 = ` 10

Surplus per share re-issued ` 20

Transferred to capital Reserve ` 20 x 2000 = ` 40,000.

(b) **Books of Symphony Ltd.**

Journal Entries

Date	**Particulars**	**L.F.**	**Debit Amount (`' Lakhs)**	**Credit Amount (`' Lakhs)**
	Bank A/c	Dr.	1,50,000	
	To Debenture Application A/c			1,50,000

	(Being Debentures application money received)			
	Debenture Application A/c	Dr.	1,50,000	
	To 8% Debentures A/c			1,50,000
	(Being application money transferred to 8% debentures account)			
	Debenture Allotment A/c	Dr.	1,32,000	
	Loss on issue of debenture A/c	Dr.	33,000	
	To 8% Debentures A/c			1,50,000
	To Debenture redemption premium A/c			15,000
	(Being call made consequent upon allotment of debentures issued at discount and redeemable at premium)			
	Bank A/c	Dr.	1,32,000	
	To Debenture Allotment A/c			1,32,000
	(Being allotment amount received)			

Working Notes :

Loss on issue of debentures =

(Amount of discount on issue + Premium payable on redemption) x No. of Debentures

= (6% of ₹1000 + 5% of ₹1000) x 300 lakh

= (₹ 60+ ₹ 50) x 300 lakh

= ₹ 33,000 lakh

(c) (i) Capital Expenditure.

(ii) Capital Expenditure.

(iii) Capital Expenditure.

(iv) Revenue Expenditure.

(v) Capital Expenditure.

Test Series: April, 2023

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) The concepts of conservatism when applied to the Balance Sheet results in understatement of assets.

(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) Current Account and Account Current are one and the same.

(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) On death of a partner, the firm gets surrender value of the joint life policy .

(vi) Company A is incurring huge losses, the Board of Directors are of the opinion that incase of losses, there is no need to pay interest on debenture holders.

(6 Statements x 2 Marks = 12 Marks)

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

(c) From the following transactions, prepare the Purchases Returns Book of Sampat & Co., a furniture dealer and post them to ledger :

Date	Debit Note No.	Particulars
04.01.2023	501	Returned to Duggal Furniture's, Jaipur – 5 Tables @ ` 5,000.
09.01.2023		Chopra Furniture's, Kota – accepted the return of Centre Tables (which were purchased for cash) – 5 Centre Tables @ ` 4,400.
16.01.2023	502	Returned to Khanna Furniture's, Bangalore –5 Dining Table @ ` 4,500.
30.01.2023		Returned one Printer (being defective) @ ` 10,000 to B & Co.

(4 Marks)

2. (a) Mangalam group had Property, Plant and Machinery with a book value of ` 1,00,00,000/- on 31st December, 2022. The balance in Revaluation Surplus on that date was ` 10,00,000/-. As part of regular practice of revaluing the assets on yearly basis, another valuation was carried out on 31st December, 2022. Evaluate the impact of Revaluation, if the fair market value as a result of Revaluation done on 31st December, 2022 was (a) ` 1,05,00,000/- and (b) 85,00,000/-.You are required

to explain with reason the accounting treatment with Journal Entries.

(b) Prepare a Bank Reconciliation statement for Krishna Traders as on 31st March,2023.

The cash book of Krishna Traders shows a debit balance of ` 8,24,400 at bank as on 31st March,2023, but you find that it does not agree with the balance as per Pass Book. After checking you find the following:

1. On 12th March, 2023 the payment side of the Cash Book was under cast by ` 24,000/-
2. A cheque of ` 1,70,000 issued on 20th March, 2023 was not taken in the bank column.
3. On 22nd March, 2023 the debit balance of ` 37,000 as on the previous day, was brought forwards as credit balance.
4. Out of the total cheques amounting to ` 84,000 issued in, the last week of March, 2023, cheques aggregating ` 57,000 were encashed in March, 2023.
5. Dividends of ` 70,000 collected by the Bank and Fire insurance premium of ` 40,000 paid by it were not recorded in the cash book.
6. One cheque issued to a Creditor of ` 2,58,000 was recorded twice in the Cash book.
7. A debtor Mr. A has deposited the Cheque for ` 64,000 into the bank directly in the month of March, 2023 without intimating to Krishna Traders and the same cheque was dishonored by the bank due to insufficient funds in the month of March itself.
8. A cheque from customer for ` 10,000 was deposited in bank on 28th March,2023 but was dishonored and advice received from bank on 3rd April, 2023.
9. Bank paid credit card bill of ` 5,000 which is not recorded in cash book.
10. Bank wrongly credited cheque of ` 50,000 of other customer in our account.
11. Bank credited cheque of ` 4,000 in savings account of proprietor of Krishna Traders instead of crediting cheque in current account of Krishna Traders.
12. ` 1,000 discount received wrongly entered in bank column in cash book.
13. Bank debited charges ` 400 on 25th March for which no intimation received till 31st March.

(5 + 15 = 20 Marks)

3. (a) Kamal of Gwalior consigned 15,000 kgs of Sugar at ` 30 per kg to his agent Vimal at Delhi. He spent ` 5 per kg as freight and insurance for sending the Sugar at Delhi. On the way 100 kgs. of sugar was lost due to the leakage (which is to be treated as normal loss) and 400 kgs. of sugar was destroyed in transit. ` 9,000 was paid to consignor directly by the Insurance company as Insurance claim. Vimal sold 7,500 kgs. at ` 60 per kg. He spent ` 33,000 on advertisement and recurring expenses.

You are required to calculate:

(i) The amount of abnormal loss

(ii) Value of stock at the end and

(iii) Prepare Consignment account showing profit or loss on consignment, if Vimal is entitled to 5% commission on sales.

(b) Mr. Aryan owed ` 4,000 on 1st January, 2023 to Mr. Abram. The following transactions took place between them. It is agreed between the parties that interest @ 10% p.a. is to be calculated on all transactions.

	`
15 January, 2023 Mr. Abram sold goods to Mr. Aryan	2,230
29 January, 2023 Mr. Abram bought goods from Mr. Aryan	1,200

10 February, 2023 Mr. Aryan paid cash to Mr. Abram	1,000
13 March, 2023 Mr. Aryan accepted a bill drawn by Mr. Abram for one month	2,000

They agree to settle their complete accounts by one single payment on 15th March, 2023.

Prepare Mr. Aryan in Account Current with Mr. Abram and ascertain the amount to be paid. Ignore days of grace.

(c) Mr. Gupta sends goods to his customers on Sale or Return. The following transactions took place during the month of December 2022.

December 2nd - Sent goods to customers on sale or return basis at cost plus 25% - ` 2,40,000

December 10th - Goods returned by customers ` 1,05,000

December 17th - Received letters from customers for approval ` 1,05,000

December 23rd - Goods with customers awaiting approval ` 45,000

Mr. Gupta records sale or return transactions as ordinary sales. You are required to pass the necessary Journal Entries in the books of Mr. Gupta assuming that the accounting year closes on 31st Dec. 2022. Considered that the transaction values are at involve price (including profit margin).

(10 + 5 + 5 = 20 Marks)

4. (a) Planting & Associates. is a partnership firm with partners Seed, Plant and Flower, sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31st March, 2023 is as under:

Liabilities		`	**Assets**	`
Capitals:			Land	30,000
Seed	2,40,000		Buildings	6,00,000
Plant	60,000		Machinery	3,90,000
Flower	90,000	3,90,000	Furniture	1,29,000
Reserves			Investments	36,000
(un-appropriated profit)		60,000	Inventories	3,90,000
Long Term Debt		9,00,000	Trade receivables	4,17,000
Bank Overdraft		1,32,000		
Trade payables		5,10,000		
		19,92,000		19,92,000

It was mutually agreed that Plant will retire from partnership and in his place Leaf will be admitted as a partner with effect from 1st April, 2023. For this purpose, the following adjustments are to be made:

(a) Goodwill is to be valued at `3 lakh but the same will not appear as an asset in the books of the reconstituted firm.

(b) Buildings and Machinery are to be depreciated by 5% and 20% respectively. Investments are to be taken over by the retiring partner at `45,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.

(c) In the reconstituted firm, the total capital will be ` 6 lakhs which will be contributed by Seed Flower and Leaf in their new profit sharing ratio, which is 2:2:1.

(i) The surplus funds, if any, will be used for repaying bank overdraft.

(ii) The amount due to retiring partner shall be transferred to his loan account.

You are required to prepare

(a) Revaluation account;

(b) Partners' capital accounts; and

(c) Bank account;

(b) The following are the balances as at 31st March, 2023 extracted from the books of Mr. Shyam.

	`		`
Plant and Machinery	39,100	Bad debts recovered	900
Furniture and Fittings	20,500	Salaries	45,100
Bank Overdraft	1,60,000	Salaries payable	4,900
Capital Account	1,30,000	Prepaid rent	600
Drawings	16,000	Rent	8,600
Purchases	3,20,000	Carriage inward	2,250
Opening Stock	64,500	Carriage outward	2,700
Wages	24,330	Sales	4,30,600
Provision for doubtful debts	6,400	Advertisement Expenses	6,700
Provision for Discount on		Printing and Stationery	2,500
debtors	2,750	Cash in hand	2,900
Sundry Debtors	2,40,000	Cash at bank	6,250
Sundry Creditors	95,000	Office Expenses	20,320
Bad debts	2,200	Interest paid on loan	6,000

Additional Information:

1. Purchases include sales return of `5,150 and sales include purchases return of ` 3,450.
2. Goods withdrawn by Mr. Shyam for own consumption ` 7,000 included in purchases.
3. Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
4. Free samples distributed for publicity costing ` 1,650.
5. Wages paid in the month of April for installation of plant and machinery amounting to ` 900 were included in wages account.
6. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2023 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.
7. Depreciation is to be provided on plant and machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2023 and a Balance Sheet as on that date. Also show the rectification entries. **(8 + 12 = 20 Marks)**

5. (a) Roxy Library Society showed the following position on 31st March, 2022:

Balance Sheet as on 31st March, 2022

Liabilities	`	Assets	`

Capital fund	31,72,000	Electrical fittings	6,00,000
Expenses payable	28,000	Furniture	2,00,000
		Books	16,00,000
		Investment in securities	6,00,000
		Cash at bank	1,00,000
		Cash in hand	1,00,000
	32,00,000		32,00,000

The receipts and payment account for the year ended on 31st March, 2023 is given below:

	`		`
To Balance b/d		By Electric charges	28,800
Cash at bank 1,00,000		By Postage and stationary	20,000
Cash in hand 1,00,000	2,00,000	By Telephone charges	20,000
To Entrance fee	1,20,000	By Books purchased	2,40,000
To Membership subscription	8,00,000	By Outstanding expenses paid	28,000
To Sale proceeds of old papers	6,000	By Rent	3,52,000
To Hire of lecture hall	80,000	By Investment in securities	1,60,000
To Interest on securities	32,000	By Salaries	2,64,000
		By Balance c/d	
		Cash at bank	80,000
		Cash in hand	45,200
	12,38,000		12,38,000

You are required to prepare Income and Expenditure account for the year ended 31st March, 2023 after making the following adjustments:

Membership subscription included ` 40,000 received in advance.

Provide for outstanding rent ` 16,000 and salaries ` 12,000.

Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.

75% of the entrance fees is to be capitalized.

Interest on securities is to be calculated @ 5% p.a. including purchases made on 1.10.2022 for ` 1,60,000.

(b) A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15th April, 2023 on which date the total cost of goods in his godown came to ` 50,000. The following facts were established between 31st March and 15th April, 2023.

(i) Sales ` 41,000 (including cash sales ` 10,000)

(ii) Purchases ` 5,034 (including cash purchases ` 1,990)

(iii) Sales Return ` 1,000.

(iv) On 15th March, goods of the sale value of ` 10,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April, approving the rest; the customer was billed on 16th April.

(v) The trader had also received goods costing ` 8,000 in March, for sale on consignment basis; 20% of the goods had been sold by 31st March, and another 50% by 15th April. These sales are not included in above sales.

Goods are sold by the trader at a profit of 20% on sales.

You are required to ascertain the value of Inventory as on 31st March, 2023. **(15 + 5 = 20 Marks)**

6. (a) Ashish applies for 2,000 shares of ` 10 each at a premium of ` 2.50 per share. He was allotted 1,000 shares. After having paid ` 3 per share on application, he did not pay the allotment money of ` 4.50 per share (including premium) and on his subsequent failure to pay the first call of ` 2 per share, his share were forfeited. These share were reissued at ` 8 per share, his shares were forfeited.

At the time of re-issue of forfeited shares of Mr. Ashish, final call money amount all other shareholders were duly called up.

You are required to pass journal entries to record forfeiture and reissue of shares.

(b) Perfect Ltd. issues 3,00,000 12% Debentures of ` 10 each at ` 9.40 on 1st January, 2023. Under the terms of issue, the Debentures are redeemable at the end of 5 years from the date of issue.

Calculate the amount of discount to be written-off in each of the 5 years.

(c) Explain in brief objectives of preparing Trial Balance.

Or

What are the rules of posting of journal entries into the Ledger? Explain in brief.

(10 + 5 + 5 = 20 Marks)

Test Series: April, 2023

MOCK TEST PAPER 1

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) (i) True: Conservatism states that the accountant / entity should not anticipate any future income. However, they should provide for all possible / probable losses. Imprudent use of concept of conservatism may lead to understatement of Income and Assets.

(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: Account current statement is running transaction between two parties to ascertain the amount payable along with interest. A Current Account is an account type to be maintained with the bank. In both the cases interest is calculated, with the help of different methods.

(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) False: On the death of a partner, the firm receives full value of the sum assured of the joint life policy.

(vi) False: Even if the company incurs losses, it has to pay interest on debentures. Debentures being debts on the company & debenture holders are not concerned with the profit or loss of the company, the interest is to be paid at the rate fixed on it at the time of issue of debenture.

(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.

(c) **Purchase Returns Book**

Date	*Debit Note No.*	*Name of supplier*	*L.F.*	*Amount (`)*
2023				
Jan. 4	501	Duggal Furniture's, Jaipur		25,000
Jan. 16	502	Khanna Furniture's, Bangalore		22,500
Jan. 31		Purchases Returns Account (Cr.)		47,500

2. (a) (a) Fair Value : ` 1,05,00,000/-

Since this is an upward revaluation and group had a balance in revaluation surplus (i.e. there was an upward movement earlier), hence this will result in additional credit of ` 5,00,000/- to

Revaluation Surplus and hence total Revaluation Surplus Balance (part of other comprehensive income in Equity) shall increase to ` 15,00,000/-

The journal entry shall be:

Property, Plant and Machinery A/c	Dr.	5,00,000	
To Revaluation Surplus A/c			5,00,000

(b) Fair Value : ` 85,00,000/-

Since this is a downward revaluation and group had a balance in revaluation surplus (i.e, there was an upward movement earlier), hence this will result in a reduction or a debt to Revaluation Surplus to the extent of balance therein and any excess shall be debited to Profit & Loss A/c. In this case, there is a reduction in fair value of ` 15,00,000 (` 1,00,00,000 – ` 85.00.000). Hence, the Revaluation Surplus A/c shall be debited by ` 10,00,000 and the balance `5,00,000 shall be debited to Profit & Loss A/c. Hence total Revaluation surplus balance (part of other comprehensive income in Equity) shall become NIL.

The journal entry shall be :

Revaluation Surplus A/c	Dr.	10,00,000	
Profit & Loss A/c	Dr.	5,00,000	
To Property, Plant and Machinery A/c			15,00,000

(b)

Bank Reconciliation Statement of Krishna Traders as on 31st March, 2023

Particulars	Amount (`)	Amount (`)
Balance as per Cash Book		8,24,400
Add:		
Mistake in bringing forward `37,000/- debit balance as credit balance on 22nd March	74,000	
Cheques issued but not presented Issued = `84,000 less cashed ` 57,000 = `27,000/-	27,000	
Dividend directly collected but not entered in cash book	70,000	
Cheques recorded twice in the cash book	2,58,000	
Wrongly credited cheque by bank	50,000	
Discount amount wrongly entered in bank column	1,000	
TOTAL		4,80,000
Less:		
Wrong casting in cash book on12th March, 2023	24,000	
Cheque issued and not entered in the Bank Column	1,70,000	
Fire Insurance premium paid directly by bank	40,000	
Cheque dishonored not recorded in books	10,000	
Credit card payment not recorded in cash book	5,000	
Cheque wrongly deposited by bank in savings account	4,000	
Bank charges debited not recorded in cash book	400	

TOTAL		2,53,400
Balance as per the Passbook		10,51,000

Note : No effects of cheque deposit directly and dishonored in the same Month. Alternatively amount of ` 64,000/- can be added as well as deducted from balance as per cash book.

3. (a) **Consignment Account**

	`			`
To Goods sent on consignment A/c (15,000 kg x ` 30)	4,50,000	By Consignee's A/c-Sales (7,500 kg x ` 60)		4,50,000
To Cash A/c (Expenses 15,000 kg x ` 5)	75,000	By Abnormal Loss A/c (Insurance claim – WN-1)	9,000	
To Consignee's A/c:		Add: Abnormal Loss (WN-1)	5,000	14,000
Advertisement & Recurring expenses	33,000	(Profit and Loss Account)		
Commission @ 5% on `4,50,000	22,500	By Consignment Stock A/c (WN-2)		2,46,690
To Profit and loss A/c (Profit on Consignment)	1,30,190			
	7,10,690			7,10,690

Working Notes:

1. Abnormal Loss:

Cost of goods lost: 400 kg	
Total cost (400 x ` 30)	12,000
Add: expenses incurred by the consignor @ `5 per kg	2,000
Gross Amount of abnormal loss	14,000
Less: Insurance claim	(9,000)
Net abnormal loss	5,000

2. Valuation of Inventories

	Quantity (Kgs)	Amount (`)
Total Cost (15,000 kg x `30)	15,000	4,50,000
Add: Expenses incurred by the consignor		75,000
Less: Value of Abnormal Loss – 400 kgs (WN 1)	(400)	(14,000)
	14,600	5,11,000
Less: Normal Loss	(100)	
	14,500	5,11,000
Less: Quantity of Sugar sold	(7,500)	
Quantity of Closing Stock	7,000	
Value of 7,000 kgs – (5,11,000/14,500) x 7,000		2,46,690

(b) **Mr. Aryan in Account Current with Mr. Abram**

(Interest upto 15th March, 2023 @ 10% p.a.)

Dr.											Cr.
Date		Particulars	Amount	Days	Product	Date		Particulars	Amount	Days	Product
2023						2023					
Jan. 01	To	Balance b/d	4,000	74	2,96,000	Jan. 29	By	Purchase A/c	1,200	45	54,000
Jan. 15	To	Sales A/c	2,230	59	1,31,570	Feb. 10	By	Cash A/c	1,000	33	33,000
Mar. 13	To	Red Ink product (` 2,000 × 29)			58,000	Mar. 13	By	Bills Receivable A/c	2,000		
Mar. 15	To	Interest A/c $\left(\frac{\text{` }3,98,570 \times 10 \times 1}{100 \times 365}\right)$	109.20			Mar. 15	By	Balance of product			3,98,570
							By	Balance c/d (amount to be paid)	2,139.20		
			6,339.20		4,85,570				6,339.20		4,85,570

(c) **In the books of Mr. Gupta**

Journal Entries

Date	***Particulars***		***L.F.***	***Dr. (in `)***	***Cr. (in `)***
2022 Dec. 2	Trade receivables A/c	Dr.		2,40,000	
	To Sales A/c				2,40,000
	(Being the goods sent to customers on sale or return basis)				
Dec. 10	Return Inward A/c	Dr.		1,05,000	
	To Trade receivables A/c				1,05,000
	(Being the goods returned by customers to whom goods were sent on sale or return basis)				
Dec. 23	Sales A/c	Dr.		45,000	
	To Trade receivables A/c				45,000
	(Being the cancellation of original entry of sale in respect of goods on sale or return basis)				
Dec. 31	Inventories with customers on Sale or Return A/c	Dr.		36,000	
	To Trading A/c (Note 2)				36,000
	(Being the adjustment for cost of goods lying with customers awaiting approval)				

Working Note:

(1) No entry is required for receiving letter of approval from customer.

(2) Cost of goods with customers = ` 45,000 x 100/125 = ` 36,000

4 **(a)** **Revaluation Account**

	`		`
To Buildings A/c	30,000	By Investments A/c	9,000
To Machinery A/c	78,000	By Loss to Partners:	
To Provision for Doubtful Debts A/c	83,400	Seed 91,200	

		Plant	54,720	
		Flower	36,480	1,82,400
	1,91,400			1,91,400

Partners' Capital Account

Particulars	Seed	Plant	Flower	Leaf	Particulars	Seed	Plant	Flower	Leaf
	₹	₹	₹	₹		₹	₹	₹	₹
To Revaluation A/c	91,200	54,720	36,480	-	By Balance b/d	2,40,000	60,000	90,000	-
To Investments A/c	-	45,000	-	-	By Reserves A/c	30,000	18,000	12,000	-
To Plant Loan A/c	-	68,280	-	-	By Flower and Leaf Capital A/c	30,000	90,000	-	-
To Seed and Plant's Capital A/c			60,000	60,000	By Bank A/c (balancing figure)	31,200		2,34,480	1,80,000
To Balance c/d	2,40,000		2,40,000	1,20,000		-	-	-	-
	3,31,200	1,68,000	3,36,480	1,80,000		3,31,200	1,68,000	3,36,480	1,80,000

Bank Account

	₹		₹
To Seed's capital A/c	31,200	By Bank Overdraft A/c	1,32,000
To Flower's capital A/c	2,34,480	By Balance c/d	3,13,680
To Leaf's capital A/c	1,80,000		
	4,45,680		4,45,680

(b) Rectification Entries

	Particulars	*Dr. Amount*	*Cr. Amount*
		₹	₹
(i)	Returns Inward A/c Dr.	5,150	
	Sales A/c Dr.	3,450	
	To Purchases A/c		5,150
	To Returns Outward A/c		3,450
	(Being sales return and purchases return wrongly included in purchases and sales respectively, now rectified)		
(ii)	Drawings A/c Dr.	7,000	
	To Purchases A/c		7,000
	(Being goods withdrawn for own consumption included in purchases, now rectified)		
(iii)	Plant and machinery A/c Dr.	900	
	To Wages A/c		900
	(Being wages paid for installation of plant and machinery wrongly debited to wages, now rectified)		

(iv)	Advertisement expenses A/c Dr. To Purchases A/c (Being free samples distributed for publicity out of purchases, now rectified)	1,650	 1,650

Trading and Profit and Loss Account of Mr. Shyam

for the year ended 31st March, 2023

Dr. *Cr.*

			Amount				*Amount*
		`	`			`	`
To	Opening stock		64,500	By	Sales	4,27,150	
To	Purchases	3,06,200			*Less*: Sales return	5,150	4,22,000
	Less: Purchases return	3,450	3,02,750	By	Closing stock		
To	Carriage inward		2,250		(` 1,60,000 × $\frac{100}{80}$ × $\frac{100}{80}$)		2,50,000
To	Wages		23,430				
To	Gross profit c/d		2,79,070				
			6,72,000				6,72,000
To	Salaries		45,100	By	Gross profit b/d		2,79,070
To	Rent		8,600	By	Bad debts recovered		900
To	Advertisement expenses		8,350				
To	Printing and stationery		2,500				
To	Bad debts		2,200				
To	Carriage outward		2,700				
To	Provision for doubtful debts						
	5% of ` 2,40,000 12,000						
	Less: Existing provision 6,400		5,600				
To	Provision for discount on debtors						
	2.5% of ` 2,28,000 5,700						
	Less: Existing provision 2,750		2,950				
To	Depreciation:						
	Plant and machinery	6,000					
	Furniture and fittings	2,050	8,050				
To	Office expenses		20,320				
To	Interest on loan		6,000				
To	Net profit						
	(Transferred to capital account)		1,67,600				
			2,79,970				2,79,970

Balance Sheet of Mr. Shyam as on 31st March, 2023

		Amount			*Amount*
Liabilities	`	`	Assets	`	`
Capital account	1,30,000		Plant and machinery	40,000	
Add: Net profit	1,67,600		*Less*: Depreciation	6,000	34,000

	2,97,600		Furniture and fittings	20,500	
Less: Drawings	23,000	2,74,600	*Less*: Depreciation	2,050	18,450
Bank overdraft		1,60,000	Closing stock		2,50,000
Sundry creditors		95,000	Sundry debtors	2,40,000	
Payable salaries		4,900	*Less*: Provision for doubtful debts	12,000	
			Provision for bad debts	5,700	2,22,300
			Prepaid rent		600
			Cash in hand		2,900
			Cash at bank		6,250
		5,34,500			5,34,500

5. (a) Roxy Library Society

Income and Expenditure Account

for the year ended 31st March, 2023

Dr.					Cr.
Expenditure	`	`	Income		`
To Electric charges		28,800	By Entrance fee (25% of ` 1,20,000)		30,000
To Postage and stationary		20,000			
To Telephone charges		20,000	By Membership subscription	8,00,000	
To Rent	3,52,000		Less: Received in advance	40,000	7,60,000
Add: Outstanding	16,000	3,68,000			
To Salaries	2,64,000		By Sale proceeds of old papers		6,000
Add: Outstanding	12,000	2,76,000			
To Depreciation (W.N.1)			By Hire of lecture hall		80,000
Electrical fittings	60,000		By Interest on securities (W.N.2)	32,000	
Furniture	20,000				
Books	1,84,000	2,64,000	Add: Receivable	2,000	34,000
			By Deficit- excess of expenditure over income		66,800
		9,76,800			9,76,800

Working Notes:

1. Depreciation

	`	
Electrical fittings 10% of ` 6,00,000	60,000	
Furniture 10% of ` 2,00,000	20,000	
Books 10% of ` 18,40,000	1,84,000	

2. Interest on Securities

Interest @ 5% p.a. on ` 6,00,000 for full year	30,000	
Interest @ 5% p.a. on ` 1,60,000 for half year	4,000	34,000

Less: Received	(32,000)
Receivable	2,000

(b) Statement of Valuation of Stock on 31st March, 2023

		`	`
Value of stock as on 15th April, 2023			50,000
Add:	Cost of sales during the period from 31st March, 2023 to 15th April, 2023		
	Sales (` 41,000 – ` 1,000)	40,000	
	Less: Gross Profit (20% of ` 40,000)	8,000	32,000
	Cost of goods sent on approval basis (80% of ` 6,000)		4,800
			86,800
Less:	Purchases during the period from 31st March, 2023 to 15th April, 2023	5,034	
	Unsold stock out of goods received on consignment basis (30% of ` 8,000)	2,400	7,434
			79,366

6. (a) Journal

		Dr.	Cr.
Share Capital A/c	Dr.	7,000	
Securities Premium Reserve A/c	Dr.	1,500	
To Forfeited Share A/c			5,000
To Share Allotment A/c			1,500
To Share First Call A/c			2,000
(Being 1000 shares forfeited for non-payment of allotment money and first call)			
Bank A/c	Dr.	8,000	
Forfeited Shares A/c	Dr.	2,000	
To Share Capital A/c			10,000
(Being 1000 forfeited shares reissued as fully paid up for Rs 8 per share)			
Forfeited Shares A/c	Dr.	3,000	
To Capital Reserve A/c			3,000
(Being the transfer of gain on reissue)			

Working Note:Calculation of the amount due but not paid on allotment	`
(a) Total No. of Shares applied	2,000
(b) Total money paid of application (2,000x 3)	6,000
(c) Excess application money (` 6000-(1,000x3))	3,000
(d) Total amount due on allotment (1,000x 4.50)	4,500
(e) Amount due but not paid (`4,500- `3,000)	1,500
Out of the allotment amount of ` 4,500, ` 2,000 are for Share Capital and ` 2,500 are for Securities Premium Reserve. Out of excess application money of `3,000, `2000 are adjusted towards allotment as share capital and ` 1,000 are adjusted towards allotment as securities premium reserve. Therefore, Securities Premium Reserve of ` 1,500 (i.e. ` 2,500- 1,000) is not received. Hence securities Premium Reserve is debited by ` 1,500.	

(b) Total amount of discount comes to ` 1,80,000 (` 0.6 X 3, 00,000). The amount of discount to be written-off in each year is calculated as under:

Year end	Debentures Outstanding	Ratio in which discount to be written-off	Amount of discount to be written-off
1st	` 30, 00,000	1/5	1/5th of ` 1,80,000 = ` 36,000
2nd	` 30, 00,000	1/5	1/5th of ` 1,80,000 = ` 36,000
3rd	` 30, 00,000	1/5	1/5th of ` 1,80,000 = ` 36,000
4th	` 30, 00,000	1/5	1/5th of ` 1,80,000 = ` 36,000
5th	` 30, 00,000	1/5	1/5th of ` 1,80,000 = ` 36,000

(c) The preparation of trial balance has the following objectives:

1 **Checking of the arithmetical accuracy of the accounting entries:** Trial Balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish the arithmetical accuracy of the books.

2. **Basis for preparation of financial statements:** Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarized form for a particular period. In case, the Trial Balance is not prepared, it will be almost impossible to prepare the financial statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.

3. **Summarized ledger:** Trial Balance contains the ledger balances on a particular position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required.

Or

Rules regarding posting of entries in the ledger

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective account accordingly.
2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger.
3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

Test Series: May,2023

MOCK TEST PAPER II

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. Overhauling expenses of the engine of a truck to get better fuel efficiency is revenue expenditure.

ii. Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

iii. The sale value of by-product is credited to Trading Account.

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

v. Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.

vi. In Not for Profit (NPO) organizations, the excess of total assets over total outside liabilities is known as Capital Fund. **(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)**

(c) From the following particulars, prepare a Bank Reconciliation Statement for Vinayak Ltd. as on 31.3.2023

(1) Balance as per cash book is ` 4,80,000.

(2) Cheques issued but not presented in the bank amounts to ` 2,72,000.

(3) Bank charges amounts to ` 1,200.

(4) Interest credited by bank amounts to ` 6,000. **(4 Marks)**

2. (a) The following mistakes were located in the books of a concern after its books were closed and a Suspense Account was opened in order to get the Trial Balance agreed:

(i) A Bill Receivable for ` 4,650 was passed through Bills Payable Book. The Bill was given by Krishan.

(ii) Cash received from Manan was debited to Suman ` 16,000.

(iii) General expenses ` 3,900 was posted in the General Ledger as ` 9,300.

(iv) Sales Day Book was overcast by ` 15,000.

(v) Legal Expenses ` 23,010 paid to Mr. Badri was debited to her personal account.

(vi) A sale of ` 75,000 to Neha was wrongly debited to the Account of Megha.

(vii) While carrying forward the total of one page of the Purchases Book to the next, the amount of ` 1,690 was written as ` 1,960.

(viii) ` 21,000 due to Mr. Madan was omitted to be taken to trial balance.

Find out the nature and amount of the Suspense Account and Pass entries (including narration) for the rectification of the above errors in the subsequent year's books. **(10 Marks)**

(b) The M/s PT Transport purchased 10 trucks at ` 45,00,000 each on 1st April 2019. On October 1st, 2021, one of the trucks is involved in an accident and is completely destroyed and ` 27,00,000 is received from the insurance in full settlement. On the same date, another truck is purchased bythe company for the sum of ` 50,00,000. The company write off 20% on the original cost per annum. The company observe the calendar year as its financial year.

You are required to prepare the Truck account for two year ending 31 Dec, 2022. **(10 Marks)**

3. (a) Mr. Y accepted a bill for ` 50,000 drawn on him by Mr. X on 1st August, 2022 for 3 months. This was for the amount which Y owed to X. On the same date Mr. X got the bill discounted at his bank for ` 49,000.

On the due date, Y approached X for renewal of the bill. Mr. X agreed on condition that ` 10,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance Y should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2022, Y became insolvent and his estate paid 40%.

Prepare Journal Entries in the books of Mr. X **(10 Marks)**

(b) Satyam accepted the following bills drawn by Shivam: On

8th March, 2022 ` 12,000 for 4 months.

On 16th March, 2022 ` 15,000 for 3 months.

On 7th April, 2022 ` 18,000 for 5 months.

On 17th May, 2022 ` 15,000 for 3 months.

He wants to pay all the bills on a single day. Find out this date. Interest is charged @ 9 % p.a. and Satyam wants to save ` 471 by way of interest. Calculate the date on which he has to effect the payment to save interest of ` 471. **(5 Marks)**

(c) On 1st January, 2023, X's account in Y's ledger showed a debit balance of ` 5,000. The following transactions took place between Y and X during the quarter ended 31st March, 2023:

2023			`
Jan.	11	Y sold goods to X	6,000
Jan.	24	Y received a promissory note from X due after 3 months	5,000
Feb.	01	X sold goods to Y	10,000
Feb.	04	Y sold goods to X	8,200
Feb.	07	X returned goods to Y	1,000

March	01	X sold goods to Y	5,600
March	18	Y sold goods to X	9,200
March	23	X sold goods to Y	4,000

Accounts were settled on 31st March, 2023 by means of a cheque. Prepare an Account Current to be submitted by Y to X as on 31st March, 2023, taking interest into account @ 10% per annum. Calculate interest to the nearest multiple of a rupee. **(5 Marks)**

4. (a) Atul and Aman are partners in a firm, sharing Profits and Losses in the ratio of 3 : 2. The Balance Sheet of Atul and Aman as on 1.1.2023 was as follows:

Liabilities	Amount `	Assets		Amount `
Sundry Creditors	51,600	Building		1,04,000
Bill Payable	16,400	Furniture		23,200
Bank Overdraft	36,000	Stock-in-Trade		85,600
Capital Account:		Debtors	1,40,000	
Atul 1,76,000		Less: Provision	800	1,39,200
Aman 1,44,000	3,20,000	Investment		10,000
		Cash		62,000
	4,24,000			4,24,000

'Atif' was admitted to the firm on the above date on the following terms:

(i) He is admitted for 1/6th share in future profits and to introduce a Capital of ` 1,00,000.

(ii) The new profit sharing ratio of Atul, Aman and Atif will be 3 : 2 : 1 respectively.

(iii) 'Atif' is unable to bring in cash for his share of goodwill, partners therefore, decide to raise goodwill account in the books of the firm. They further decide to calculate goodwill on the basis of 'Atif's share in the profits and the capital contribution made by him to the firm. Later, the goodwill was written off among all the partners in the new profit sharing ratio.

(iv) Furniture is to be written down by ` 3,480 and Stock to be depreciated by 10%. A provision is required for Debtors @ 5% for Bad Debts. A provision would also be made for outstanding wages for ` 6,240. The value of Buildings having appreciated be brought upto ` 1,16,800. The value of investment is increased by ` 1,800.

(v) It is found that the creditors included a sum of ` 5,600, which is not to be paid off.

Prepare the following:

(i) Revaluation Account.

(ii) Partners' Capital Accounts.

(iii) Balance Sheet of New Partnership firm after admission of 'Atif'. **(15 Marks)**

(b) Mr. Zen runs a factory, which produces detergents. Following details were available in respect of his manufacturing activities for the year ended 31-03-2023.

Opening work-in-progress (81,000 units)	2,34,000
Closing work-in-progress (1,26,000 units)	4,32,000
Opening inventory of Raw Materials	23,40,000
Closing inventory of Raw Materials	28,80,000
Purchases	73,80,000
Hire charges of Machinery @ ` 0.70 per unit manufactured	
Hire charges of factory	23,40,000
Direct wages-contracted @ ` 0.80 per unit manufactured	
and @ ` 0.40 per unit of closing W.I.P.	
Repairs and maintenance	16,20,000
Units produced - 45,00,000 units	

You are required to prepare a Manufacturing Account of Mr. Zen for the year ended 31-03-2023.

(5 Marks)

5. (a) From the following information supplied by The new Hockey club, prepare Receipts and Payments Account and Income and Expenditure Account for the year ended 31st March 2023.

	01.04.2022 `	31.03.2023 `
Outstanding subscription	70,000	1,00,000
Advance subscription	12,500	15,000
Outstanding salaries	7,500	9,000
Cash in Hand and at Bank	55,000	?
10% Investment	70,000	35,000
Furniture	14,000	7,000
Machinery	5,000	10,000
Sports goods	7,500	12,500

Subscription for the year amount to ` 1,50,000/-. Salaries paid ` 30,000. Face value of the Investment was ` 87,500, 50% of the Investment was sold at 80% of Face Value. Interest on investments was received ` 7,000. Furniture was sold for ` 4000 at the beginning of the year. Machinery and Sports Goods purchased and put to use at the last date of the year. Charge depreciation @ 15% p.a. on Machinery and Sports goods and @10% p.a. on Furniture.

Following Expenses were made during the year:

Sports Expenses:	` 25,000
Rent:	` 12,000 out of which ` 1,000 outstanding
Misc. Expenses:	` 2,500

(15 Marks)

(b) Mr. Magan is engaged in business of selling magazines. Several of his customers pay money in advance for subscribing his magazines. Information related to year ended 31st March 20 23 has been given below:

On 1.4.2022 he had a balance of `6,00,000 advance from customers of which `4,50,000 is relatedto year 2022-23 while remaining pertains to year 2023-24. During the year 2022-23 he made cash sales of

` 15,00,000. You are required to compute:

(i) Total income for the year 2022-23.

(ii) Total money received during the year if the closing balance in Advance from customers Account is ` 5,10,000. **(5 Marks)**

6. (a) FCI Ltd. invited applications for issuing 2,00,000 equity shares of ` 20 each.

The amounts were payable as follows:

On application	- ` 6 per share
On allotment	- ` 10 per share
On first and final call	- ` 4 per share

Applications were received for 3,00,000 shares and pro-rata allotment was made to all the applicants. Money overpaid on application was adjusted towards allotment money. Ajeet, who was allotted 6,000 shares, failed to pay the first and final call money. His shares were forfeited. Out of the forfeited shares, 5,000 shares were reissued as fully paid-up @ ` 16 per share.

Pass necessary Journal entries to record the above transactions in the books of FCI Ltd.

(10 Marks)

(b) On 1st April, 2022, Alpha ltd. took over assets of ` 4,50,000 and liabilities of ` 60,000 of Beta ltd. for the purchase consideration of ` 4,40,000. It paid the purchase consideration by issuing 8% debentures of ` 100 each at 10% premium. On the same date it issued another 3,000,8% debentures of ` 100 at discount of 10% redeemable at the premium of 5% after 5 years. According to the terms of the issue ` 30 is payable on application and the balance on the allotment of debenture.

You are required to pass journal entries in the books of Alpha ltd. for financial year 2022-23.

(5 Marks)

(c) Write short notes on any two of the following:

(i) Double entry system.

(ii) Importance of bank reconciliation to an industrial unit.

(iii) Del-credere commission.

(iv) LIFO and FIFO basis of costing of stock. **(5 Marks)**

Test Series: May,2023

MOCK TEST PAPER II

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. (a) (i) **False**: Overhauling expenses incurred for the engine of a truck to derive better fuel efficiency reduces the running cost in future and thus the benefit is in form of endurable long-term advantage. So this expenditure should be capitalised.

(ii) **True:** In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high in the initial period and reduces continuously in the later periods. Thus, depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.

(iii) **False:** The sale value of the by product is credited to Manufacturing Account so as to reduce to that extent, the cost of manufacture of main product.

(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:** Debenture interest is payable before the payment of any dividend on shares.

(vi) **True**: The capital fund represents the amount contributed by members through legacies, special donations entrance fee and accumulated surplus over the years.

(b) Change in accounting policy may have a material effect on the items of financial statements. For example, cost formula used for inventory valuation is changed from weighted average to FIFO. Unless the effect of such change in accounting policy is quantified, the fin ancial 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.

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

(c) **Vinayak Ltd.**

Bank Reconciliation Statement as on 31.3.2023

Particulars	`
Balance as per cash book	4,80,000
Add : Cheque issued but not presented	2,72,000
Interest credited	6,000
	7,58,000
Less : Bank charges	(1,200)
Balance as per pass book	7,56,800

2. (a)

(i)	Bills Receivables A/c Bills Payable A/c To Krishan A/c (Correction of error by which Bills Receivable account of ` 4,650 was wrongly posted through Bills Payable book)	Dr. Dr.	4,650 4,650	 9,300
(ii)	Suspense A/c To Manan A/c To Suman A/c (Removal of wrong debit to Suman and giving credit to Manan from whom cash was received)	Dr.	32,000	 16,000 16,000
(iii)	Suspense A/c To P & L Adjustment A/c (Correct of error by which general expenses of ` 3,900 was wrongly posted as ` 9,300)	Dr.	5,400	 5,400
(iv)	P&L Adjustment A/c To Suspense A/c (Correction of error by which Sales account was overcast last year)	Dr.	15,000	 15,000
(v)	P & L Adjustment A/c To Mr. Badri (Correction of error by which legal expenses paid to Mr. Badri was wrongly debited to his personal account)	Dr.	23,010	 23,010
(vi)	Neha A/c To Megha A/c (Correction of error by which sale of ` 75,000 to Neha was wrongly debited to Megha's account)	Dr.	75,000	 75,000
(vii)	Suspense A/c To P&L Adjustment A/c (Correction of error by which Purchase A/c was excess debited by `270 i.e. `1,960 – `1,690)	Dr.	270	 270
(vii)	Trade Receivable A/c To Suspense A/c (` 21,000 due by Mr. Madan not taken into trial balance now rectified)	Dr.	21,000	 21,000

Suspense A/c

Particulars	`	Particulars	`
To P & L Adjustment A/c	5,400	By P & L Adjustment A/c	15,000
To Manan	16,000	By Trade Receivable (Mr. Madan)	21,000
To Suman	16,000	By Difference in Trial Balance (Balancing figure)	1,670
To P&L Adjustment A/c	270		

	37,670		37,670

(b) **Truck A/c**

Date	Particulars	Amount	Date	Particulars	Amount
2021			**2021**		
Jan-01	To balance b/d	2,92,50,000	Oct-01	By Bank A/c	27,00,000
Oct-01	To Profit & Loss A/c (Profit on settlement of Truck)	4,50,000	Oct-01	By Depreciation on lost assets	6,75,000
Oct-01	To Bank A/c	50,00,000	Dec-31	By Depreciation A/c	83,50,000
			Dec-31	By balance c/d	2,29,75,000
		3,47,00,000			3,47,00,000
2022			**2022**		
Jan-01	To balance b/d	2,29,75,000	Dec-31	By Depreciation A/c	91,00,000
			Dec-31	By balance c/d	1,38,75,000
		2,29,75,000			2,29,75,000

Working Note:

1. To find out loss or Profit on settlement of truck `

Original cost as on 1.4.2019	45,00,000
Less: Depreciation for 2019	6,75,000
	38,25,000
Less: Depreciation for 2020	9,00,000
	29,25,000
Less: Depreciation for 2021 (9 months)	6,75,000
	22,50,000
Less: Amount received from Insurance company	27,00,000
Profit on Settlement of Truck	4,50,000

3. (a) **Journal Entries in the Books of Mr. X**

Date		*Particulars*	*L.F.*	*Dr. Amount `*	*Cr. Amount `*
2022 August	1	Bills Receivable A/c Dr.		50,000	
		To Y			50,000
		(Being the acceptance received from Y to settle his account)			
August	1	Bank A/c Dr.		49,000	

		Discount A/c Dr.	1,000	
		To Bills Receivable		50,000
		(Being the bill discounted for ` 49,000 from bank)		
November	4	Y A/c Dr	50,000	
		To Bank Account		50,000
		(Being the Y's acceptance is to be renewed)		
November	4	Y A/c Dr.	1,200	
		To Interest Account		1,200
		(Being the interest due from Y for 3 months i.e., 40,000x3/12× 12%=1,200)		
November	4	Cash A/c Dr.	11,200	
		Bills Receivable A/c Dr.	40,000	
		To Y A/c		51,200
		(Being amount and acceptance of new bill received from Y)		
December	31	Y A/c Dr.	40,000	
		To Bills Receivable A/c		40,000
		(Being Y became insolvent)		
December	31	Cash A/c Dr.	16,000	
		Bad debts A/c Dr.	24,000	
		To Y A/c		40,000
		(Being the amount received and written off on Y's insolvency)		

(b) **Taking 19.6.2022 as a Base date**

Transaction Date	Due Date	Amount	Days	Amount
8.3.2022	11.7.2022	12,000	22	2,64,000
16.3.2022	19.6.2022	15,000	0	0
7.4.2022	10.9.2022	18,000	83	14,94,000
17.5.2022	20.8.2022	15,000	62	9,30,000
		60,000		26,88,000

Average Due Date $= \text{Base date} + \dfrac{\text{Total of Product}}{\text{Total of Amount}}$

= 19.6.2022 + ` 26,88,000/` 60,000

= 19.6.2022 + 44.8 days (or 45 days approximately)

= 3.8.2022

Satyam wants to save interest of ` 471. The yearly interest is ` 60,000 × 9% = ` 5,400. Assume that days corresponding to interest of ` 471 are Y.

Then, 5,400 × Y/365 = ` 471 or Y = 471 × 365/5,400 = 31.8 days or 32 days (Approx.)

Hence, if Satyam wants to save ` 471 by way of interest, he should prepone the payment of amount involved by 32 days from the Average Due Date. Hence, he should make the payment on 2.7.2022 (3.8.2022 – 32 days).

(c) **In the books of Y**

X in Account Current with Y

(Interest to 31st March, 2023 @ 10% p.a)

Date	*Particulars*	*Amount*	*Days*	*Product*	*Date*	*Particulars*	*Amount*	*Days*	*Product*
2023		`		`	*2023*		`		`
Jan.1	To Balance b/d	5,000	90	4,50,000	Jan.24	By Promissory Note (due date 27th April)	5,000	(27)	(1,35,000)
Jan. 11	To Sales	6,000	79	4,74,000	Feb. 1	By Purchases	10,000	58	5,80,000
Feb. 4	To Sales	8,200	55	4,51,000	Feb. 7	By Sales Return	1,000	52	52,000
Mar. 18	To Sales	9,200	13	1,19,600	Mar. 1	By Purchases	5,600	30	1,68,000
Mar. 31	To Interest	219			Mar. 23	By Purchases	4,000	8	32,000
					Mar. 31	By Balance of Products			7,97,600
					Mar. 31	By Bank	3,019		
		28,619		14,94,600			28,619		14,94,600

Working Note:

Calculation of interest:

Interest = $\frac{7,97,600}{365} \times \frac{10}{100}$ = ` 219 (approx.)

4 (a) (i) **Revaluation Account**

		`			`
To	Furniture	3,480	By	Building	12,800
To	Stock	8,560	By	Sundry creditors	5,600
To	Provision of doubtful debts (` 7,000 – ` 800)	6,200	By	Investment	1,800
			By	Revaluation Loss	4,280
To	Outstanding wages	6,240			
		24,480			24,480

(ii) **Partners' Capital Accounts**

		Atul	Aman	*Atif*			*Atul*	*Aman*	*Atif*
		`	`	`			`	`	`
To	Revaluation Loss	2,568	1,712		By	Balance b/d	1,76,000	1,44,000	–
To	Goodwill	90,000	60,000	30,000	By	Cash A/c	–	–	1,00,000
To	Balance c/d	1,91,432	1,54,288	70,000					
					By	Goodwill A/c (Working Note)	1,08,000	72,000	
		2,84,000	2,16,000	1,00,000			2,84,000	2,16,000	1,00,000

(iii) **Balance Sheet of New Partnership Firm**

(after admission of Atif) as on 1.1.23

Liabilities		`	Assets		`
Capital Accounts: Atif	70,000	4,15,720	Stock-in-trade (85,600 – 8,560)		77,040
Bills Payable Atul	1,91,432	16,400	Building Debtors (1,04,000 + 12,800)	1,40,000	1,16,800
Bank Overdraft		36,000	Less: Provision for bad debts	(7,000)	1,33,000
Sundry creditors (51,600-5,600)		46,000	Investment (10,000 + 1,800)		11,800
Outstanding wages		6,240	Cash (62,000 + 1,00,000)		1,62,000
		5,20,360			5,20,360

Working Note:

Calculation of goodwill

Atif's contribution of ` 1,00,000 consists only 1/6th of capital.

Therefore, total capital of firm should be ` 1,00,000 × 6 = ` 6,00,000.

But combined capital of Atul, Aman and Atif amounts ` 1,76,000 + 1,44,000 + 1,00,000 = ` 4,20,000.

Thus Hidden goodwill is ` 1,80,000 (` 6,00,000 – ` 4,20,000).

Note: The above calculation of goodwill has been done considering the opening capitals of Atul and Aman. Alternatively the adjusted capital of Atul and Aman (i.e. after taking revaluation loss into account) can also be considered while calculating goodwill. Then the solution will be

Atif's contribution of ` 1,00,000 consists only 1/6th of capital.

Therefore, total capital of firm should be ` 1,00,000 × 6 = ` 6,00,000.

But combined capital of Atul, Aman and Atif amounts

` 1,76,000 +` 1,44,000 + ` 1,00,000 – ` 4,280 = ` 4,15,720.

Thus, Hidden goodwill is ` 1,84,280 (` 6,00,000 – ` 4,15,720).

Partners' Capital Accounts

		Atul	Aman	Atif			Atul	Aman	Atif
		`	`	`			`	`	`
To	Revaluation Loss	2,568	1,712		By	Balance b/d	1,76,000	1,44,000	–
To	Goodwill	92,140	61,427	30,713	By	Cash A/c	–	–	1,00,000
To	Balance c/d	1,91,860	1,54,573	69,287					
					By	Goodwill A/c (Working Note)	1,10,568	73,712	
		2,86,568	2,17,712	1,00,000			2,86,568	2,17,712	1,00,000

(iii) **Balance Sheet of New Partnership Firm**

(after admission of Atif) as on 1.1.23

Liabilities		`	Assets	`
Capital Accounts: Atif	69,287	4,15,720	Stock-in-trade (85,600 – 8,560)	77,040
Bills Payable Atul	1,91,860	16,400	Buildings (1,04,000 + 12,800) Debtors 1,40,000	1,16,800
Bank Overdraft		36,000	Less: Provision for bad debts (7,000)	1,33,000
Sundry creditors (51,600-5,600)		46,000	Investment (10,000 + 1,800)	11,800
Outstanding wages		6,240	Cash (62,000 + 1,00,000)	1,62,000
		5,20,360		5,20,360

Note: The figures are rounded off to nearest rupee.

(b) **In the Books of Mr. Zen**

Manufacturing Account for the Year ended 31.03.2023

Particulars		Units	Amount `	Particulars	Units	Amount `
To Opening Work-in-Process		81,000	2,34,000	By Closing Work- in-Process	1,26,000	4,32,000
To Raw Materials Consumed:				By Trading A/c – Cost of finished goods transferred	45,00,000	17,40,2400
Opening Inventory	23,40,000					
Add: Purchases	73,80,000					
	97,20,000					

Closing Inventory	(28,80,000)		68,40,000			
To Direct Wages – W.N. (1)			36,50,400			
To Direct expenses:						
Hire charges on Machinery – W.N. (2)			31,50,000			
To Indirect expenses:						
Hire charges of Factory			23,40,000			
Repairs & Maintenance			16,20,000			
			1,78,34,400			1,78,34,400

Working Notes:

(1) Direct Wages – 45,00,000 units @ `0.80 = `36,00,000

1,26,000 units @ `0.40 = ` 50,400

` 36,50,400

(2) Hire charges on Machinery – 45,00,000 units @ `0.70 = `31,50,000

5. (a) Receipts and Payments Account for the year ended 31-03-2023

Receipts	`	Payments	`
To balance b/d		By Salaries	30,000
Cash and bank	55,000	By Purchase of sports goods	5,000
To Subscription received (W.N.1)	1,22,500	` (12,500-7,500)	
To Sale of investments (W.N.2)	35,000	By Purchase of machinery	5,000
To Interest received on investment	7,000	` (10,000-5,000)	
To Sale of furniture	4,000	By Sports expenses	25,000
		By Rent paid	11,000
		` (12,000 -1,000)	
		By Miscellaneous expenses	2,500
		By Balance c/d	
		Cash and bank	1,45,000
	2,23,500		2,23,500

Income and Expenditure account for the year ended 31-03-2023

Expenditure	`	`	Income	`	`

To Salaries	30,000		By Subscription		1,50,000
Add: Outstanding for 2023	9,000		By Interest on Investment		
	39,000		Received	7,000	
Less: Outstanding for 2022	(7,500)	31,500	Accrued (W.N.5)	1,750	8,750
To Sports expenses		25,000			
To Rent		12,000			
To Miscellaneous exp.		2,500			
To Loss on sale of furniture (W.N.3)		3,000			
To Depreciation (W.N.4)					
Furniture	700				
Machinery	750				
Sports goods	1,125	2,575			
To Surplus		82,175			
		1,58,750			1,58,750

Working Notes:

1. Calculation of Subscription received during the year 2022-23

	`
Subscription due for 2022-23	1,50,000
Add: Outstanding of 2022	70,000
Less: Outstanding of 2023	(1,00,000)
Add: Subscription of 2023 received in advance	15,000
Less: Subscription of 2022 received in advance	(12,500)
	1,22,500

2. Calculation of Sale price and profit on sale of investment

Face value of investment sold: ` 87,500 × 50% = ` 43,750

Sales price: ` 43,750 × 80% = ` 35,000

Cost price of investment sold: ` 70,000 × 50% = ` 35,000

Profit/loss on sale of investment: ` 35,000 - ` 35,000 = NIL

3. Loss on sale of furniture

	`
Value of furniture as on 01-04-2022	14,000
Value of furniture as on 31-03-2023	7,000
Value of furniture sold at the beginning of the year	7,000
Less: Sales price of furniture	(4,000)
Loss on sale of furniture	3,000

4. Depreciation

Furniture - `7,000 × 10%	=	700
Machinery - `5,000 × 15%	=	750
Sports goods - `7,500 × 15%	=	1,125

5. Interest accrued on investment

	`
Face value of investment on 01-04-2022 (87,500)	
Interest @ 10%	8,750
Less: Interest received during the year	(7,000)
Interest accrued during the year	1,750

Note: It is assumed that the sale of investment has taken place at the end of the year.

(b) (i) Computation of Income for the year 2022-23:

	`

Money received during the year related to 2022-23	15,00,000
Add: Money received in advance during previous years	4,50,000
Total income of the year 2022-23	**19,50,000**

(ii) Advance from Customers A/c

Date	Particulars	`	Date	Particulars	`
	To Sales A/c (Advance related to current year transferred to sales)	4,50,000	1.4.2022	By Balance b/d	6,00,000
				By Bank A/c	3,60,000
31.3.23	To Balance c/d	5,10,000		(Balancing Figure)	
		9,60,000			9,60,000

So, total money received during the year is:

	`
Cash Sales during the year	15,00,000
Add: Advance received during the year	3,60,000
Total money received during the year	**18,60,000**

6. (a)

In the books of FCI Ltd.

Journal Entries

		Dr. `	Cr. `
Bank A/c	Dr.	18,00,000	
To Equity Share Application A/c			18,00,000
(Being the application money received for 3,00,000 shares at ` 6 per share)			
Equity Share Application A/c	Dr.	18,00,000	
To Equity Share Capital A/c (2,00,000 x ` 6)			12,00,000
To Share allotment A/c			6,00,000
(Being share allotment made for 2,00,000 shares and excess adjusted towards allotment)			
Equity Share Allotment A/c	Dr.	20,00,000	
To Equity Share Capital A/c			20,00,000
(Being allotment amount due on 2,00,000 equity shares at ` 10 per share as per Directors' resolution no... dated...)			
Bank A/c	Dr.	14,00,000	
To Equity Share Allotment A/c			14,00,000
(Being balance allotment money received for 2,00,000 shares)			

Equity Share first and final call A/c Dr. To Equity Share Capital A/c (Being first and final call amount due on 2,00,000 equity shares at ` 4 per share as per Directors' resolution no... dated...)	8,00,000	 8,00,000
Bank A/c Dr. Calls in arrears A/c To Equity Share first and final call A/c (Being final call received on 1,94,000 shares)	7,76,000 24,000	 8,00,000
Share capital A/c (6,000 x ` 20) Dr. To Forfeited shares A/c (6,000 x ` 16) To Calls in arrears A/c (6,000 x ` 4) (Being forfeiture of 6,000 shares of ` 20 each fully called-up for non payment of first and final call @ ` 4 as per Directors' resolution no... dated..)	1,20,000	 96,000 24,000
Bank A/c (5,000 x `16) Dr. Forfeited shares A/c (5,000 x `4) To Equity Share Capital A/c (5,000 x ` 20) (Being re-issue of 2,500 shares @ ` 16)	80,000 20,000	 1,00,000
Forfeited share A/c (5,000 x ` 12) To capital reserve A/c (5,000 x ` 12) (Being profit on re-issue transferred to capital reserve)	60,000	 60,000

Working Note:

Calculation of amount to be transferred to Capital reserve A/c			`
Forfeited amount per share	= 96,000/6,000	=	16
Loss on re issue (20-16)			<u>4</u>
Surplus per share			<u>12</u>
Transfer to capital reserve	` 12 x 5,000	` 60,000	

(b) **Journal of Alpha Ltd.**

Date	Particulars	Dr.	Cr.
2022 April,1	Sundry Assets A/c Dr. Goodwill A/c (Bal. fig) Dr. To Beta Ltd. A/c To Sundry Liabilities A/c (Being Asset and liabilities taken over for a net Consideration of ` 4,40,000)	4,50,000 50,000	 4,40,000 60,000

	Beta Ltd. A/c Dr. To 8% Debentures A/c To Securities Premium Reserve A/c (Being 4,000; 8% Debenture of ` 100 each Issued at a premium of 10%)	4,40,000	 4,00,000 40,000
	Bank A/c Dr. To Debenture Application A/c	90,000	 90,000
	(Being the application money receive for 3000, 8% Debenture)		
	Debenture Application A/c Dr. To 8% Debenture A/c (Being 3,000; 8% Debenture allotted)	90,000	 90,000
	Debentures allotment A/c Dr. Loss on issue of debenture A/c Dr. To 8% Debentures A/c To Premium on redemption of debentures A/c (Being allotment money due on 3000; 8% Debentures at 10% discount and redeemable at 5% premium)	1,80,000 45,000	 2,10,000 15,000
	Bank A/c Dr. To Debentures Allotment A/c (Being the allotment money received)	1,80,000	 1,80,000
2023 March, 31	Securities Premium Reserve A/c Dr. To Loss on issue of Debenture A/c (Being the Loss on issue of debenture written off)	9,000	 9,000

Note: In the above solution, the loss on issue of Debenture has been amortized over the period of 5 years. However, if the company decides to write off the loss on issue of Debenture in the first year itself, the following entry can be passed

Securities Premium Reserve A/c Dr. Profit and Loss A/c Dr. To Loss on issue of Debenture A/c (Being the Loss on issue of debenture written off)	40,000 5,000	 45,000

(c) **(i)** Double entry system may be defined as that system which recognizes and records both the aspects of a transaction.

Every transaction has two aspects and according to this system, both the aspects are recorded. This system was developed in the 15th century in Italy by Luca Pacioli. It has proved to be systematic and has been found of great use for recording the financial affairs for all institutions requiring use of money.

(ii) Banks are essential to modern society, but for an industrial unit, it serves as a necessary instrument in the commercial world. Most of the transactions of the business are done through bank whether it is a receipt or payment. Rather, it is legally necessary to operate the transactions through bank after a certain limit. All the transactions, which have been operated through bank, if not verified properly, the industrial unit may not be sure about its liquidity position in the bank on a particular date. There may be some cheques which have been issued, but not presented for payment, as well as there may be some deposits which has been deposited in the bank, but not collected or credited so far. Some expenses might have been debited or bills might have been dishonoured. It is not known to the industrial unit in time, it may lead to wrong conclusions. The errors committed by bank may not be known

without preparing bank reconciliation statement. Preparation of bank reconciliation statement prevents the chances of embezzlement. Hence, bank reconciliation statement is very important and is a necessity of an industrial unit as it plays a key role in the liquidity controlof the industry.

(iii) Del-credere commission is an additional commission paid by the consignor to the consignee for undertaking responsibility of collection of debts. Generally, the consignee gets ordinary commission for sales made by him as a percentage of gross sales, over and above, he may get del-credere commission for the additional responsibility of debt collection. Sometimes it is agreed that del-credere commission shall be allowed on credit sales only. However, in the absence of any such agreement the consignor allows del-credere commission on total sales and not merely on credit sales. If the consignee is entitled to del-credere commission, he has to bear the bad debts; if any, arising, out of credit sale of consignment goods

(iv) Under FIFO method of inventory valuation, inventories purchased first are issued first. The closing inventories are valued at latest purchase prices and inventory issues are valued at corresponding old purchase prices. In other words, under FIFO method, costs are assigned to the units issued in the same order as the costs entered in the inventory. During periods of rising prices, cost of goods sold are valued at older and lower prices if FIFO is followed and consequently reported profits rise due to lower cost of goods sold.

On the other hand, under LIFO method of inventory valuation, units of inventories issued should be valued at the prices paid for the latest purchases and closing inventories should be valued at the prices paid for earlier purchases. In other words, closing inventories are valued at old purchase prices and issues are valued at corresponding latest purchase prices .

Test Series: November, 2023

MOCK TEST PAPER 1

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) "Salary paid in advance" is not an expense because it neither reduces assets nor increases liabilities.

   (ii) Accrual concept implies accounting on cash basis.

   (iii) Stock at the end, if appears in the Trial Balance, is taken only to the Balance Sheet.

   (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)**

   (c) Prepare Journal Entries for the following transactions in the books of Annamalai Bros.

   (i) Employees had taken stock worth ` 20,000 (Cost price ` 15,000) on the eve of Deepawali and the same was deducted from their salaries in the subsequent month.

   (ii) Wages paid for erection of Machinery ` 16,000.

   (iii) Income tax liability of proprietor ` 3,400 was paid out of petty cash.

   (iv) Purchase of goods from Naveen of the list price of ` 4,000. He allowed 10% trade discount, ` 100 cash discount was also allowed for quick payment. **(4 Marks)**

2. (a) Physical verification of stock in a business was done on 23rd April, 2023. The value of the stock was ` 48,00,000. The following transactions took place between 23rd April to 30th April, 2023:

   (i) Out of the goods sent on consignment, goods at cost worth ` 2,40,000 were unsold.

   (ii) Purchases of ` 4,00,000 were made out of which goods worth ` 1,60,000 were delivered on 5th May, 2023.

   (iii) Sales were ` 13,60,000, which include goods worth ` 3,20,000 sent on approval. Half of these goods were returned before 30th May, 2023, but no information is available regarding the remaining goods.

   (iv) Goods are sold at cost plus 25%. However goods costing ` 2,40,000 had been sold for ` 1,20,000.You are required to determine the value of stock on 30th April, 2023

   (b) M/s Mazars purchased a brand new machinery on 1st January 2019 for ` 3,20,000 and also incurred ` 80,000 on its installation. Another machinery was purchased on 1st July 2019 for ` 1,60,000. On 1st

July 2021, the machinery purchased on 1st January 2019 was sold for ` 2,50,000. Another machinery was purchased and installed on 30th September 2021 for ` 60,000.

Under existing practice, the company provides for depreciation @10% p.a. on Original cost. However, from the year 2022 it decided to adapt WDV method and charge the depreciation @ 15% p.a. You are required to show the Machinery Account for the years 2021 and 2022 considering the books of accounts are closed on 31st December each year. **(10 +10 = 20 Marks)**

3. (a) On 1st January 2023, Rajat draws two bills of exchange for ` 32,000 and ` 50,000.

The bill of exchange for ` 32,000 is for two months while the bill of exchange for ` 50,000 is for three months. These bills are accepted by Vishal. On 4th March, 2023, Vishal requests Rajat to renew the first bill with interest at 15% p.a. for a period of two months. Rajat agreed to this proposal. On 25th March, 2023, Vishal retires the acceptance for ` 50,000, the interest rebate i.e. discountbeing ` 500. Before the due date of the renewed bill, Vishal becomes insolvent and only 50 paisa in a rupee could be recovered from his estate.

Show the Journal Entries (with narrations) in the books of Rajat.

(b) Kiran had accepted bills payable to Divya, falling due on different dates. The details of billsare as follows:

Date of bill	Amount	Usance of bill
9th April 2022	` 3,000	for 4 months
18th April 2022	` 5,500	for 3 months
25th May 2022	` 3,000	for 6 months
5th June 2022	` 6,000	for 3 months

On 1st July, it was agreed that these bills should be withdrawn and that Kiran should accept on that day two bills, one for ` 10,000 due in 4 months and the other for the balance with interest, due in 6 months. Calculate the amount of the second bill taking interest @ 10% p.a. Take 365 days in year 2022-2023.

(c) From the following transactions in the books of Mr. Lee, prepare an Account Current, by means of product to be sent by him to Mr. Cooper for the quarter ending 31st March, 2023. Interest is to be charged and/or allowed @ 12% p.a. (Take 365 days in year)

2023		`
January 1	Balance in Cooper's Account (Credit)	3,500
January 12	Sold goods to Cooper (due 1st February)	30,000
January 31	Sold goods to Cooper (due 15th February)	27,500
February 15	Cash received	40,000
February 20	Cash received	7,500
March 10	Goods returned by Cooper	7,000
March 25	Cash received	6,500

(10 +5 + 5 = 20 Marks)

4. (a) The Balance Sheet of a Partnership Firm M/s Pigeon & Associates consisted of two partners P and Q who were sharing Profits and Losses in the ratio of 5 : 3 respectively. The position as on 31-03-2023 was as follows:

Liabilities	`	*Assets*	`
P's Capital	4,10,000	Land & Building	3,80,000
Q's Capital	3,30,000	Plant & Machinery	1,70,000
Profit & Loss *A/c*	1,12,000	Furniture	1,09,480
Trade Creditors	54,800	Stock	1,45,260
		Sundry debtors	60,000
		Cash at Bank.	42,060
	9,06,800		9,06,800

On the above date, R was admitted as a partner on the following terms:

(a) R should get 1/5th of share of profits.

(b) R brought ` 2,40,000 as his capital and ` 32,000 for his share of Goodwill.

(c) Plant and Machinery would be depreciated by 15% and Land & Buildings would be appreciated by 40%.

(d) A provision for doubtful debts to be created at 5% on sundry debtors.

(e) An unrecorded liability of ` 6,000 for repairs to Buildings would be recorded in the books of accounts.

(f) Immediately after R's admission, Goodwill brought by him would be adjusted among old partners. Thereafter, the capital accounts of old partners would be adjusted through the current accounts of partners in such a manner that the capital accounts of all the partners would be in their profit sharing ratio.

Prepare Revaluation A/c, Capital Accounts of the partners, New profit sharing ratio and Balance Sheet of the Firm after the admission of R.

(b) The following are the balances as at 31st March, 2023 extracted from the books of Mr. Kamal.

	`		`
Plant and Machinery	39,100	Bad debts recovered	900
Furniture and Fittings	20,500	Salaries	45,100
Bank Overdraft	1,60,000	Salaries payable	4,900
Capital Account	1,30,000	Prepaid rent	600
Drawings	16,000	Rent	8,600
Purchases	3,20,000	Carriage inward	2,250
Opening Stock	64,500	Carriage outward	2,700
Wages	24,330	Sales	4,30,600
Provision for doubtful debts	6,400	Advertisement Expenses	6,700
Provision for Discount on		Printing and Stationery	2,500
debtors	2,750	Cash in hand	2,900
Sundry Debtors	2,40,000	Cash at bank	6,250
Sundry Creditors	95,000	Office Expenses	20,320
Bad debts	2,200	Interest paid on loan	6,000

Additional Information:

1. Purchases include sales return of `5,150 and sales include purchases return of ` 3,450.
2. Goods withdrawn by Mr. Kamal for own consumption ` 7,000 included in purchases.
3. Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
4. Free samples distributed for publicity costing ` 1,650.
5. Wages paid in the month of April for installation of plant and machinery amounting to ` 900 were included in wages account.
6. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2023 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.
7. Depreciation is to be provided on plant and machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2023 and a Balance Sheet as on that date. **(10 + 10 = 20 Marks)**

5. From the following data, prepare an Income and Expenditure Account for the year ended 31st December 2022, and Balance Sheet as at that date of the Pushp Speciality Hospital:

Receipts and Payments Account for the year ended 31 December, 2022

	RECEIPTS	`	`		PAYMENTS	`	`
To	Balance b/d			By	Salaries:		
	Cash	1,600			(` 14,400 for 2021)		62,400
	Bank	10,400	12,000	By	Hospital Equipment		34,000
To	Subscriptions:			By	Furniture purchased		12,000
	For 2021		10,200	By	Additions to Building		1,00,000
	For 2022		49,000	By	Printing and Stationery		4,800
	For 2023		4,800				
To	Government Grant:			By	Diet expenses		31,200
	For building		1,60,000	By	Rent and rates		
	For maintenance		40,000		(` 600 for 2023)		4,000
	Fees from sundry			By	Electricity and water		
	Patients		9,600		charges		4,800
To	Donations (not to be		16,000	By	office expenses		4,000
	capitalized)			By	Investments		40,000
To	Net collections from			By	Balances:		
	benefit shows		12,000		Cash	2,800	
					Bank	13,600	16,400
			3,13,600				3,13,600

Additional information :	`
Value of building under construction as on 31.12.2022	2,80,000
Value of hospital equipment on 31.12.2022	1,02,000
Building Fund as on 1.1. 2022	1,60,000

Subscriptions in arrears as on 31.12.2021 Investments in 8% Govt. securities were made on 1st July, 2022.	13,000

(20 Marks)

6. (a) V Kohli Ltd. invited applications for 15 lakhs shares of ` 100 each payable as follows :

	`
On Application	20
On Allotment (on 1st June, 2022)	30
On First Call (on 1st Nov., 2022)	30
On Final Call (on 1st March, 2023)	20

All the shares were applied for and allotted. A shareholder holding 30,000 shares paid the whole of the amount due along with allotment.

You are required to prepare the journal entries for the above-mentioned transactions, assuming all sums due were received. Interest was paid to the shareholder concerned on 1st March, 2023.

(b) Suman Limited issued 40,000 14% Debentures of the nominal value of ` 2,00,00,000 as follows:

(a) To sundry persons for cash at 90% of nominal value of ` 100,00,000.

(b) To the banker as collateral security for a loan of ` 40,00,000 – ` 50,00,000 nominal value.

(c) To a vendor for purchase of fixed assets worth ` 40,00,000 – ` 50,00,000 nominal value.

You are required to prepare necessary journal entries Journal Entries.

(c) Classify the following errors under the three categories - Errors of Omission, Errors of Commission and Errors of Principle.

(i) Goods worth ` 5,000 purchased on credit from Ram recorded in the Purchase Book as ` 500.

(ii) Purchase worth ` 500 from Vipin not recorded in subsidiary books.

(iii) Credit sale wrongly passed through the Purchase Book.

(iv) Machinery sold on credit to Mohan recorded in Journal Proper but omitted to be posted.

(v) Sale of furniture credited to Sales Account. **(10 + 5 + 5 = 20 Marks)**

Test Series: November, 2023

MOCK TEST PAPER 1

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. (a) (i) True: Salary paid in advance relates to the coming accounting period. It has nothing to do with the current period. Hence it is not taken in the Profit and Loss Account as an expense. It is shown as a Current Asset in the Balance Sheet.

(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) True: If closing stock appears in the trail balance, it depicts that one aspect of the double entry has been completed.

(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 transactions 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

(c) Journal Entries in the books of Annamalai Bros.

	Particulars	*Dr. Amount (`)*	*Cr. Amount (`)*
(i)	Salaries A/c	15,000	
	To Purchase A/c		15,000
	(Being entry made for stock taken by employees)		
(ii)	Machinery A/c	16,000	
	To Cash A/c		16,000
	(Being wages paid for erection of machinery)		

(iii)	Drawings A/c	3,400	
	To Petty Cash A/c		3,400
	(Being the income tax of proprietor paid out of business money)		
(iv)	Purchase A/c	3,600	
	To Cash A/c		3,500
	To Discount Received A/c		100
	(Being the goods purchased from Naveen for ` 4,000 @ 10% trade discount and cash discount of ` 100)		

2. (a) Statement of Valuation of Stock on 30th April,2023

		`
Value of stock as on 23rd April, 2023		48,00,000
Add: Unsold stock out of the goods sent on consignment	2,40,000	
Purchases during the period from 23rd April, 2023 to 30th April, 2023	2,40,000	
Goods in transit on 30th April, 2023	1,60,000	
Cost of goods sent on approval basis (80% of ` 1,60,000)	1,28,000	7,68,000
		55,68,000
Less: Cost of sales during the period from 23rd April, 2023 to 30th April,2023		
Sales (` 13,60,000-` 1,60,000)	12,00,000	
Less: Gross profit	96,000	
		11,04,000
Value of stock as on 30th April, 2023		44,64,000

Working Notes:

		`	`
1.	**Calculation of normal sales:**		
	Actual sales		13,60,000
	Less: Abnormal sales	1,20,000	
	Return of goods sent on approval	1,60,000	2,80,000
			10,80,000
2.	**Calculation of gross profit:**		
	Gross profit or normal sales 20/100 x ` 10,80,000		2,16,000
	Less: Loss on sale of particular (abnormal) goods (2,40,000 - 1,20,000)		1,20,000
	Gross profit		96,000

(b) **In the books of M/s Mazars**

Machinery A/c

Date	Account	(in `)	Date	Account	(in `)
01.01.2021	To Balance b/d	4,56,000	01.07.2021	By Bank A/c	2,50,000
				By P&L A/c – Loss on Sale	50,000
30.09.2021	To Bank A/c	60,000	31.12.2021	By Depreciation	37,500
				By Balance c/d	1,78,500
		5,16,000			5,16,000
01.01.2022	To Balance b/d	1,78,500	31.12.2022	By Depreciation	26,775
			31.12.2022	By Balance c/d	1,51,725
		1,78,500			1,78,500

Working Note: Calculation of Book Value of Machines under SLM

	Machine 1	Machine 2	Machine 3
	(in `)	(in `)	(in `)
Date of Purchase	01.01.2019	01.07.2019	30.09.2021
Original Cost	4,00,000	1,60,000	60,000
Depreciation for 2019 (SLM)	(40,000)	(8,000)	
WDV on 31.12.2019	3,60,000	1,52,000	
Depreciation for 2020 (SLM)	(40,000)	(16,000)	
WDV on 31.12.2020	3,20,000	1,36,000	
Depreciation for 2021 (SLM)	(20,000)	(16,000)	(1,500)
WDV on 31.12.2021 (30th June for Machine1)	3,00,000	1,20,000	58,500
Sale Proceeds	(2,50,000)		
Loss on Sale	50,000		
Depreciation for 2022 (WDV @ 15%)	-	(18,000)	(8,775)
WDV on 31.12.2022	-	1,02,000	49,725

3. (a) **Journal Entries in the books of Rajat**

2023			*Dr.* (`)	*Cr.* (`)
Jan. 1	Bills receivable (No. 1) A/c	Dr.	32,000	
	Bills receivable (No. 2) A/c	Dr.	50,000	
	To Vishal A/c			82,000
	(Being drawing of bills receivable No. 1 due for maturity on 4.3.2023 and bills receivable No. 2 due for maturity on 4.4.2023)			
March 4	Vishal's A/c	Dr.	32,000	

	To Bills receivable (No.1) A/c (Being the reversal entry for bill No.1 on renewal)			32,000
March 4	Bills receivable (No. 3) A/c To Interest A/c To Vishal 's A/c (Being the drawing of bill of exchange no. 3 due for maturity on 7.5.2023 together with interest at 15%p.a. in lieu of the original acceptance of Vishal)	Dr.	32,800	 800 32,000
March 25	Bank A/c Discount A/c To Bills receivable (No. 2) A/c (Being the amount received on retirement of bills No.2 before the due date)	Dr. Dr.	49,500 500	 50,000
May 7	Vishal's A/c To Bills receivable (No. 3) A/c (Being the amount due from Vishal on dishonour of his acceptance on presentation on the due date)	Dr.	32,800	 32,800
May 7	Bank A/c To Vishal's A/c (Being the amount received from official assignee of Vishal at 50 paise per rupee against dishonoured bill)	Dr.	16,400	 16,400
May 7	Bad debts A/c To Vishal's A/c (Being the balance 50% debt in Vishal's Account arising out of dishonoured bill written off as bad debts)	Dr.	16,400	 16,400

(b) **Calculation of Average Due Date**

Taking Base Date 21.07.2022

Date of bill	***Period***	***Due Date***	***Amount***	***Number of Days from Base Date***	***Product***
			`		`
9.4.2022	4 months	12.08.2022	3,000	22	66,000
18.4.2022	3 months	21.07.2022	5,500	0	0
25.5.2022	6 months	28.11.2022	3,000	130	3,90,000
5.6.2022	3 months	8.09.2022	6,000	49	2,94,000
			17,500		7,50,000

$$\text{Average Due Date} = \text{21st July} + \frac{7,50,000}{17,500} = 21.7.2022 + 43 \text{ days} = 2.09.2022.$$

Since two new bills will be drawn, their due dates will be as follows:

First Bill- 1.7.2022 + 4 months = 4.11.2022;

Second Bill- 1.7.2022+ 6 months = 4.1.2023.

Interest to be charged in respect of the above bills:

1st bill = Interest will be charged on ` 10,000 @ 10% p.a. for 63 days (2.09.2022 to 4.11.2022)

= ` 10,000 x 10% x 63/365 = ` 172.60

2nd bill = Interest will be charged on ` 7,500 (` 17,500 - 10,000) @ 10% p.a. for 124 days (2.09.2022 to 4.1.2023)

= ` 7,500 x 10% x 124/365 = ` 254.80.

Therefore, the value of the two bills:

First bill = ` 10,000

Second bill = ` (7,500+ 172.60+ 254.80) = ` 7,927.4

(c) **In the books of Mr. Lee**

Mr. Cooper in Account Current with Mr. Lee
(Interest to 31st March, 2023 @ 12% p.a.)
(By means of product)

Date 2023	Particulars	Due Date	Amount `	Days	Product	Date 2023	Particulars	Due Date	Amount `	Days	Product
Jan 12	To Sales A/c	Feb. 1	30,000	58	17,40,000	Jan. 1	By Balance b/d	Jan. 1	3,500	90	3,15,000
Jan 31	To Sales A/c	Feb. 15	27,500	44	12,10,000	Feb. 15	By Cash A/c	Feb. 15	40,000	44	17,60,000
Mar. 31	To Interest		130			Feb. 20	By Cash A/c	Feb. 20	7,500	39	2,92,500
	3,96,500/365 x $\frac{12}{100}$					Mar. 10	By Sales returns	Mar. 10	7,000	21	1,47,000
						Mar. 25	By Cash A/c	Mar. 25	6,500	6	39,000
Mar. 31	To Balance c/d		6,870			Mar. 31	By Balance of products				3,96,500
			64,500		29,50,000				64,500		29,50,000

4. **(a)** **Revaluation Account**

	`		`
To Plant & Machinery (1,70,000 x 15%)	25,500	By Land & Building A/c	1,52,000
To Provision for Bad & Doubtful Debts (60,000 x 5%)	3,000		
To Outstanding Repairs to Building	6,000		

To P's Capital A/c (5/8)	73,438		
To Q's Capital A/c (3/8)	44,062		
	1,52,000		1,52,000

Partners Capital Account

	P	*Q*	*R*		*P*	*Q*	*R*
To P's Capital A/c	-	-	20,000	By Balance b/d	4,10,000	3,30,000	-
To Q's Capital A/c			12,000	By Revaluation A/c	73,438	44,062	-
To Q's Current A/c	-	68,062		By Profit & Loss A/c	70,000	42,000	-
To Balance c/d	6,00,000	3,60,000	2,40,000	By Bank	-	-	2,72,000
				By R's Capital A/c	20,000	12,000	-
				By P's Current A/c	26,562	-	-
	6,00,000	4,28,062	2,72,000		6,00,000	4,28,062	2,72,000

Calculation of New Profit Sharing Ratio and gaining ratio:

R's Share of Profit = 1/5 = 2/10

Remaining Share = 1 – 1/5 = 4/5

P's Share = 5/8 x 4/5 = 20/40 = 5/10

Q's Share = 3/8 x 4/5 = 12/40 = 3/10

New Profit sharing Ratio = 5:3:2

Gaining ratio = 5:3 (same as old profit sharing ratio among old partners)

Balance sheet of M/s Pigeon and Associates as on 31.3.2023

Liabilities		`	*Assets*		
Capital Accounts:			Land & Buildings		5,32,000
P	6,00,000		Plant & Machinery	1,70,000	
Q	3,60,000		Less: Depreciation	25,500	1,44,500
R	2,40,000	12,00,000	Furniture		1,09,480
Q's Current A/c		68,062	Stock		1,45,260
Trade Creditors		54,800	Sundry Debtors	60,000	
Outstanding Repairs to Building		6,000	*Less*: Provision	3,000	57,000
			Cash at Bank		3,14,060
			P's current A/c		26,562
		13,28,862			13,28,862

Working Note:

<u>Required Balance of Capital Accounts</u>

R's Capital after writing off Goodwill = 2,72,000 – 32,000 = 2,40,000

R's Share of Profit = 1/5

Thus Capital of the firm shall be = 2,40,000 x 5 = 12,00,000

P's Capital = 12,00,000 x 5/10 = 6,00,000 and

Q's Capital = 12,00,000 x 3/10 = 3,60,000

(b) **Trading and Profit and Loss Account of Mr. Kamal**

for the year ended 31st March, 2023

Dr. *Cr.*

		Amount			*Amount*
	`	`		`	`
To Opening stock		64,500	By Sales	4,27,150	
To Purchases	3,06,200		*Less*: Sales return	5,150	4,22,000
Less: Purchases return	3,450	3,02,750	By Closing stock		
To Carriage inward		2,250	(` 1,60,000 × $\frac{100}{80} \times \frac{100}{80}$)		2,50,000
To Wages		23,430			
To Gross profit c/d		2,79,070			
		6,72,000			6,72,000
To Salaries		45,100	By Gross profit b/d		2,79,070
To Rent		8,600	By Bad debts recovered		900
To Advertisement expenses		8,350			
To Printing and stationery		2,500			
To Bad debts		2,200			
To Carriage outward		2,700			
To Provision for doubtful debts					
5% of ` 2,40,000 12,000					
Less: Existing provision 6,400		5,600			
To Provision for discount on debtors					
2.5% of ` 2,28,000 5,700					
Less: Existing provision 2,750		2,950			
To Depreciation:					
Plant and machinery	6,000				
Furniture and fittings	2,050	8,050			
To Office expenses		20,320			
To Interest on loan		6,000			
To Net profit					

(Transferred to capital account)		1,67,600			
		2,79,970			2,79,970

Balance Sheet of Mr. Kamal as on 31st March, 2023

Liabilities	(`)	Amount (`)	Assets	(`)	Amount (`)
Capital account	1,30,000		Plant and machinery	40,000	
Add: Net profit	1,67,600		Less: Depreciation	6,000	34,000
	2,97,600		Furniture and fittings	20,500	
Less: Drawings	23,000	2,74,600	Less: Depreciation	2,050	18,450
Bank overdraft		1,60,000	Closing stock		2,50,000
Sundry creditors		95,000	Sundry debtors	2,40,000	
Payable salaries		4,900	Less: Provision for doubtful debts	12,000	
			Provision for disc on debtors	5,700	2,22,300
			Prepaid rent		600
			Cash in hand		2,900
			Cash at bank		6,250
		5,34,500			5,34,500

5. **Pushp Speciality Hospital**

Income & Expenditure Account
for the year ended 31 December, 2022

Expenditure	(`)	Income	(`)
To Salaries	48,000	By Subscriptions	49,000
To Diet expenses	31,200	By Govt. Grants (Maintenance)	40,000
To Rent & Rates	3,400	By Fees, Sundry Patients	9,600
To Printing & Stationery	4,800	By Donations	16,000
To Electricity & Water-charges	4,800	By Benefit shows (net collections)	12,000
To Office expenses	4,000	By Interest on Investments	1,600
To Excess of Income over expenditure transferred to Capital Fund	32,000		
	1,28,200		1,28,200

Balance Sheet as at 31st Dec., 2022

Liabilities	`	`	Assets	`	`
Capital Fund :			Building :		
Opening balance	98,600		Opening balance	1,80,000	

Excess of Income Over Expenditure	32,000	1,30,600	Addition	1,00,000	2,80,000
Building Fund :			Hospital Equipment :		
Opening balance	1,60,000		Opening balance	68,000	
Add : Govt. Grant	1,60,000	3,20,000	Addition	34,000	1,02,000
Subscriptions received in advance		4,800	Furniture		12,000
			Investments- 8% Govt. Securities		40,000
			Subscriptions receivable		2,800
			Accrued interest		1,600
			Prepaid expenses (Rent)		600
			Cash at Bank		13,600
			Cash in hand		2,800
		4,55,400			4,55,400

Working Notes:(1) Balance sheet as at 31st Dec., 2022

Liabilities	`	**Assets**	`
Capital Fund (Balancing Figure)	98,600	Building	1,80,000
		Equipment	68,000
Building Fund	1,60,000	Subscription Receivable	13,000
Creditors for Expenses :		Cash at Bank	10,400
Salaries payable	14,400	Cash in hand	1,600
	2,73,000		2,73,000

		`
(2)	**Value of Building**	
	Balance on 31st Dec. 2022	2,80,000
	Paid during the year	(1,00,000)
	Balance on 31st Dec. 2021	1,80,000
(3)	**Value of Equipment**	
	Balance on 31st Dec. 2022	1,02,000
	Paid during the year	(34,000)
	Balance on 31st Dec. 2021	68,000
(4)	**Subscription due for 2021**	
	Receivable on 31st Dec. 2021	13,000
	Received in 2022	(10,200)
	Still Receivable for 2022	2,800

6. (a) **Journal of V Kohli. Ltd.**

2022			Dr. ` in lakhs	Cr. ` in lakhs
June 1	Bank A/c	Dr.	300	

	To Shares Application A/c (Receipt of applications for 15 lakh shares along with application money of ` 20 per share.)			300
June 1	Share Application A/c Share Allotment A/c To Share Capital A/c (The allotment of 15 lakh shares : payable on application ` 20 share and ` 30 on allotment as per Directors' resolution no... dated...)	Dr. Dr.	300 450	 750
June 1	Bank A/c To Shares Allotment A/c To Calls in Advance A/c [Receipt of money due on allotment @ ` 30, also the two calls (` 30 and ` 20) on 30,000 shares.]	Dr.	465	 450 15
Nov. 1	Share First Call A/c To Share Capital A/c (The amount due on 15 lakh shares @ ` 30 on first call, as per Directors, resolution no... dated...)	Dr.	450	 450
	Bank A/c Calls in Advance A/c To Share First Call A/c (Receipt of the first call on 14.7 lakh shares, the balance having been previously received and now debited to call in advance account.)	Dr. Dr.	441 9	 450
2023 March 1	Share Final Call A/c To Share Capital A/c (The amount due on Final Call on 15 lakh shares @ ` 20 per share, as per Directors' resolution no... dated...)	Dr.	300	 300
March1	Bank A/c Calls in Advance A/c To Share Final Call A/c (Receipt of the moneys due on final call on 14.7 lakhs shares, the balance having been previously received.)	Dr. Dr.	294 6	 300
March 1	Interest on calls in Advance A/c To Shareholder A/c (Being interest on call in advance made due)	Dr.	0.99	 0.99
March 1	Shareholder A/c To Bank A/c (Being interest paid)	Dr.	0.99	 0.99

Working Note:

The interest on calls in advance paid @ 12% on :	`
` 9,00,000 (first call) from 1st June to 1st Nov., 2022–5 months	45,000
` 6,00,000 (final call) from 1st June to 1st March., 2023–9 months	54,000
Total Interest Amount Due	99,000

(b) **In the books of Suman Company Ltd.**

Journal Entries

Date	***Particulars***		***Dr.*** `	***Cr.*** `
(a)	Bank A/c	**Dr.**	90,00,000	
	Debentures Application A/c	**Dr.**	90,00,000	
	To Debentures Application A/c			90,00,000
	Discount on issue of Debentures A/c	Dr.	10,00,000	
	To 14% Debentures A/c			1,00,00,000
	(Being the issue of 20,000 14% Debentures @ 90% as per Board's Resolution No....dated....)			
(b)	Bank A/c	Dr.	40,00,000	
	To Bank Loan A/c (See Note)			40,00,000
	(Being a loan of ` 40,00,000 taken from bank by issuing debentures of `50,00,000 as collateral security)			
(c)	Fixed Assets A/c	Dr.	40,00,000	
	To Vendor A/c			40,00,000
	(Being the purchase of fixed assets from vendor)			
	Vendor A/c	Dr.	40,00,000	
	Discount on Issue of Debentures A/c	Dr.	10,00,000	
	To 14% Debentures A/c			50,00,000
	(Being the issue of debentures of ` 50,00,000 to vendor to satisfy his claim)			

Note: No entry is made in the books of account of the company at the time of making issue of such debentures. In the "Notes to Accounts" of Balance Sheet, the fact that the debentures being issued as collateral security and outstanding are shown by a note under the liability secured.

(c) (i) Error of Commission.

(ii) Error of Omission.

(iii) Error of Commission.

(iv) Error of Omission.

(v) Error of Principle.

ABOUT OUR FACULTY

Niraj Agarwal is a Chartered Accountant, Company Secretary, Cost & Management Accountant. He is an All India Rank Holder in all the 3 courses. He has graduated from St. Xavier's College, Kolkata and holds a Master's degree in Commerce too. He believes that learning is a continuous process and hence he is also a ICAI certified IFRS professional, an Associate from Insurance Institute of India and completed 5 papers of Actuarial Science. He is also a visiting Faculty at ICAS, Kolkata

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