

Mock Test Paper - Series II: May 2025

Date of Paper: 5th May 2025

Time of Paper: 2 PM to 5 PM

FOUNDATION COURSE

PAPER – 1: 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. Warehouse rent paid for storage of finished inventory should be included in the cost of finished inventory.
 2. Cash book is a subsidiary book as well as a principal book.
 3. Subscriptions received for the current year shall be shown in the balance sheet as a current asset.
 4. Company A is incurring huge losses, the Board of Directors are of the opinion that in case of losses, there is no need to pay interest on debenture holders.
 5. On death of a partner, the firm gets surrender value of the joint life policy.
 6. The concept of conservatism when applied to the Balance Sheet results in understatement of assets. **(6 statements x 2 Marks = 12 Marks)**
- (b) Explain the objective of "Accounting Standards" in brief? **(4 Marks)**
- (c) The balance of Machinery Account of a firm on 1st April, 2024 was ₹ 42,81,000. Out of this, a plant having book value of ₹ 3,24,000 as on 1st April, 2024 was sold on 1st July, 2024 for ₹ 1,23,000. On the same date a new plant was purchased for ₹ 6,87,000 and ₹ 33,000 was spent on its erection. On 1st November, 2024 a new machine was purchased for ₹ 8,40,000. Depreciation is written off @ 15%

per annum under the diminishing balance method. Calculate the depreciation for the year ended 31st March, 2025. **(4 Marks)**

(12 + 4 + 4 = 20 Marks)

2. (a) Mr. Kunal was unable to agree the Trial Balance last year and wrote off the difference to the Profit and Loss Account of that year. Next year, he appointed a Chartered Accountant who examined the old books and found the following mistakes:

- (i) Purchase of a scooter was debited to conveyance account ₹ 1,00,000. Mr. Kunal charges 10% depreciation on scooter.
- (ii) Purchase account was overcast by ₹ 2,00,000.
- (iii) A credit purchase of goods from Mr. Sandeep for ₹ 20,000 was entered as sale.
- (iv) Receipt of cash from Mr. Parag was posted to the account of Mr. Prem ₹ 10,000.
- (v) Receipt of cash amounting to ₹ 5,000 from Mr. C was posted to the debit of his account.
- (vi) ₹ 5,000 due by Mr. Ramesh was omitted to be taken to the Trial Balance.
- (vii) Sale of goods to Mr. Ram for ₹ 20,000 was omitted to be recorded.
- (viii) Amount of ₹ 53,950 of purchase was wrongly posted as ₹ 55,930 in purchase account.

Suggest the necessary rectification entries. **(10 Marks)**

- (b) From the following information, ascertain the Cash Book balance of Mr. Patil as on 31st March, 2025:
- (i) Debit balance as per Bank Pass Book ₹ 5,250.
 - (ii) A cheque amounting to ₹ 3,750 deposited on 15th March, but the same was returned by the Bank on 24th March for which no entry was passed in the Cash Book.
 - (iii) During March 2025, two bills amounting to ₹ 3,750 and ₹ 750 were collected by the Bank but no entry was made in the Cash Book.
 - (iv) A bill for ₹ 7,500 due from Mr. Sahil previously discounted for ₹ 7,200 was dishonored. The Bank debited the account, but no entry was passed in the Cash Book.

(v) A Cheque for ₹ 2,250 was debited twice in the cash book. **(5 Marks)**

(c) From the following information, calculate the historical cost of closing inventories using adjusted selling price method:

Purchase during the year	-	₹ 7,50,000	
Sales during the year	-	₹ 11,25,000	
Opening Inventory	-	Nil	
Closing Inventory at selling price	-	₹ 1,50,000	(5 Marks)

(10+5+5 = 20 Marks)

3. (a) The following are the balances as at 31st March, 2025 extracted from the books of Mr. Govind.

	₹		₹
Plant and Machinery	1,17,300	Bad debts recovered	2,700
Furniture and Fittings	61,500	Salaries	1,35,300
Bank Overdraft	4,80,000	Salaries payable	14,700
Capital Account	3,90,000	Prepaid rent	1,800
Drawings	48,000	Rent	25,800
Purchases	9,60,000	Carriage inward	6,750
Opening Stock	1,93,500	Carriage outward	8,100
Wages	72,990	Sales	12,41,800
Provision for doubtful debts	19,200	Advertisement Expenses	20,100
Provision for Discount on Debtors	8,250	Printing and Stationery	7,500
Sundry Debtors	7,20,000	Cash in hand	8,700
Sundry Creditors	2,85,000	Cash at bank	18,750
Bad debts	6,600	Office Expenses	60,960
		Interest paid on loan	18,000

Additional Information:

- Purchases include sales return of ₹ 15,450 and sales include purchases return of ₹ 10,350.
- Goods withdrawn by Mr. Govind for own consumption ₹ 21,000 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 ₹ 4,950.
5. Wages paid in the month of April for installation of plant and machinery amounting to ₹ 2,700 were included in wages account.
6. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2025 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, 2025 and a Balance Sheet as on that date. **(12 Marks)**

- (b) It was provided under the Partnership Agreement between Ram, Laxman and Bharat that in the event of death of a partner, the survivors would have to purchase his share in the firm on the following terms:
- (i) Goodwill is to be valued at 3 year's purchase of simple average profits of last 4 completed years.
 - (ii) Outstanding amount due to the representative of a deceased partner shall be paid in 4 equal half yearly instalments commencing 6 months after the death plus interest @ 5% p.a. on the outstanding dues.

They shared profit and loss in the ratio 9:4:3.

Ram died on 30th September 2024 and Partner's Capital account balances on that date were: Ram - ₹ 43,200, Laxman - ₹ 25,600 and Bharat - ₹ 14,400. Ram's current account on 30th September, 2024 after crediting his share of profit to that date, however showed a debit balance of ₹ 3,840.

Firm profits were for the year ended

- 31 st March, 2021	₹ 1,40,800
- 31 st March, 2022	₹ 1,12,640
- 31 st March, 2023	₹ 96,320
- 31 st March, 2024	₹ 34,816

Show Ram's Capital Account and Executor's Account (of Ram) till full payment is made to Ram's Executor. (8 Marks)

(12 + 8 = 20 Marks)

4. (a) Thomson & Associates. is a partnership firm with partners Tim, Sam and Ben, sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31st March, 2025 is as under:

Liabilities		₹	Assets		₹
Capitals:			Land		90,000
Tim	7,20,000		Buildings		18,00,000
Sam	1,80,000		Machinery		11,70,000
Ben	2,70,000	11,70,000	Furniture		3,87,000
Reserves			Investments		1,08,000
(un-appropriated profit)		1,80,000	Inventories		11,70,000
Long Term Debt		27,00,000	Trade receivables		12,51,000
Bank Overdraft		3,96,000			
Trade payables		15,30,000			
		59,76,000			59,76,000

It was mutually agreed that Sam will retire from partnership and in his place Dan will be admitted as a partner with effect from 1st April, 2025. For this purpose, the following adjustments are to be made:

- Goodwill is to be valued at ₹9 lakh but the same will not appear as an asset in the books of the reconstituted firm.
- Buildings and Machinery are to be depreciated by 5% and 20% respectively. Investments are to be taken over by the retiring partner at ₹1,35,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.
- In the reconstituted firm, the total capital will be ₹ 18 lakhs which will be contributed by Tim, Ben and Dan in their new profit sharing ratio, which is 2:2:1.
 - The surplus funds, if any, will be used for repaying bank overdraft.
 - 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;

(12 Marks)

- (b) Summary of Receipts and Payments of ABC Society for the year ended 31st March, 2025 are as follows:

Receipts	Amount	Payments	Amount
Subscription Received	12,50,000	Payment for Medicine Supply	7,50,000
Donation Raised for meeting revenue expenditure	3,75,000	Honorarium to Doctors	2,50,000
Interest on Investments @ 9% p.a.	225,000	Salaries	7,00,000
Charity Show Collection	3,12,500	Sundry Expenses	25,000
		Equipment Purchase	3,75,000
		Charity Show Expenses	37,500

Additional Information:

Particulars	01.04.2024	31.03.2025
Subscription due	37,500	55,000
Subscription received in advance	30,000	17,500
Stock of medicine	2,50,000	3,75,000
Amount due for medicine supply	2,25,000	3,25,000
Value of equipment	5,25,000	7,50,000
Value of building	12,50,000	12,00,000
Cash Balance	2,00,000	2,25,000
Opening Balance of Capital Fund	45,07,500	

You are required to prepare Income and Expenditure Account and Balance Sheet for the year ended 31st March, 2025.

(8 Marks)

(12 + 8 = 20 Marks)

5. (a) From the following information prepare the Purchase Book of M/s Pawan & Company:
- (i) Purchased from Red & Company on credit:
30 pairs of black shoes.@ ₹ 800 per pair.

15 pairs of brown shoes @ 900 per pair

Less: Trade Discount @ 10%

(ii) Purchased Computer from M/s. Rahul. Enterprises on credit for ₹ 1,20,000.

(iii) Purchased from Blue & Company on credit:

15 pairs of black shoes @ ₹ 700 per pair

45 pairs of brown shoes @ ₹ 100 per pair

Less: Trade Discount @ 15%.

(5 Marks)

(b) Attempt any ONE of the following two sub-parts i.e. either (i) or (ii):

(i) Sam, Sarthak, Sara shared profits and losses in the ratio of 5:3:2. They took out a Joint Life Policy in 2021 for ₹ 2,00,000, a premium of ₹ 12,000 being paid annually on 10th June. The surrender value of the policy on 31st December of various years was as follows:

2021	Nil
2022	₹ 3,600
2023	₹ 8,000
2024	₹ 14,400

Sam retired on 15th April, 2025 and the policy was surrendered. You are required to prepare Joint Life Policy Account from 2021 to 2025 (assuming the Policy Account is maintained at surrendered value basis).

OR

(ii) PQR Limited's Profit and Loss account for the year ended 31st March, 2025 includes the following information:

(1)	Liability for Income Tax	₹ 40,000
(2)	Retained Profit	₹ 2,00,000
(3)	Proposed Dividend	₹ 20,000
(4)	Increase in Provision for Doubtful Debts	₹ 25,000
(5)	Bad Debts written off	₹ 20,000

State which one of the items above is - (a) transfer to provisions; (b) transfer to reserves; and (c) neither related to provisions nor reserves.

(5 Marks)

- (c) Lol Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) provides the following information as at 31st March, 2025:

Particulars	₹
Shareholder's Funds	
(a) Share Capital	
Authorized Share Capital:	
90,000 equity shares of ₹ 10 each fully paid	9,00,000
Issued and subscribed share capital:	
60,000 equity shares of ₹ 10 each fully paid	6,00,000
(b) Reserves and Surplus	
Profit & Loss Account	3,24,000
Debenture Redemption Reserve	36,000
Non-current liabilities	
(a) Long term borrowings	
12% Debentures	3,60,000
Current Liabilities	
(a) Trade payables	3,45,000
Non-current assets	
(a) Property, Plant and Equipment (Freehold property)	3,45,000
(b) Non-current Investment: DRR Investment	54,000
Current assets	
(a) Inventories	4,05,000
(b) Trade receivables	2,25,000
(c) Cash and bank balances:	
Cash at bank	5,46,000
Cash in hand	90,000

At the Annual General Meeting on 1.4.2025, it was resolved:

- (a) To give existing shareholders the option to purchase one ₹ 10 share at ₹ 15 for every four shares (held prior to the bonus distribution). This option was taken up by all the shareholders.
- (b) To issue one bonus share for every five shares held.

- (c) To repay the debentures at a premium of 3%. The DRR Investments realised at par as per existing Book value.

Give the necessary journal entries for these transactions. **(10 Marks)**

(5 + 5 + 10 = 20 Marks)

6. (a) Riya Closet Ltd invited applications for issuing 10,000 Equity Shares of ₹ 10 each. The amount was payable as follows:

On Application	₹ 1 per share
On Allotment	₹ 2 per share
On First call	₹ 3 per share
On Second and final Call	₹ 4 per share

The issue was fully subscribed. Meena to whom 100 shares were allotted, failed to pay the allotment money and her shares were forfeited immediately after the allotment. Seema to whom 150 shares were allotted, failed to pay the first call. Her shares were also forfeited after the first call. Afterwards the second and final call was made. Mohan to whom 50 shares were allotted failed to pay the second and final call. Her shares were also forfeited. All the forfeited shares were re-issued at ₹ 9 per share fully paid-up.

Pass necessary Journal entries in the books of Riya Closet Ltd. **(15 Marks)**

- (b) 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)

(15 + 5 = 20 Marks)