Mock Test Paper - Series I: August, 2025

Date of Paper: 11th August, 2025

Time of Paper: 2 P.M. to 5 P.M.

FOUNDATION COURSE

PAPER – 1: ACCOUNTING

ANSWERS

1. (a) (i) **False:** Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations other than for prompt payment.

(ii) **False:** Renovation of cabins increased the number of cabins. This has an effect on the future revenue generating capability of the business. Thus the renovation expense is capital expenditure in nature.

(iii) **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.

(iv) **False:** The drawer and payee may be same person in case of bill of exchange whereas in promissory note maker and payee can't be same person.

(v) **False:** Surviving partners may continue to carry on the business in case of partnership.

(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) 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.

(vii) Other services like secretarial work, share registration work, company formation receiverships, arbitrations etc.

(c) Depreciation per year for first 4 years = ₹ 60,00,000 / 10 = ₹ 6,00,000

Thus, WDV of the Machinery at end of the 4th year = ₹ 60,00,000 – (₹ 6,00,000 x 4) = ₹ 36,00,000

Revalued Amount i.e. New Depreciable Amount shall be = ₹ 36,00,000 + ₹ 2,40,000 = ₹ 38,40,000

Original remining useful life is (10-4) = 6 Years whereas it is reassessed as 8 Years.

Hence, depreciation for 5th Year = ₹ 38,40,000 / 8 = ₹ 4,80,000

2. **(a)**

	Particulars		***L.F.***	***Dr.*** ₹	***Cr.*** ₹
(i)	Suspense A/c	Dr.		936	
	To Profit and Loss Adjustment A/c				936
	(Correction of error by which Purchase Account was over debited last year)				
(ii)	Profit & Loss Adjustment A/c	Dr.		180	
	Customer's A/c	Dr.		1,104	
	To Suspense A/c				1,284
	(Correction of the entry by which (a) Sales A/c was over credited by ₹ 180 (b) customer was credited by ₹ 642 instead of being debited by ₹ 462)				

(iii)	Suspense A/c	Dr.		10,840	
	To Profit & Loss Adjustment A/c				10,840
	(Correction of error by which Returns Inward Account was debited by ₹ 5,420 instead of Returns Outwards Account being credited by ₹ 5,420)				
(iv)	Suspense A/c	Dr.		2,840	
	To Sita A/c				1,420
	To Geeta A/c				1,420
	(Removal or wrong debit to Geeta and giving credit to Sita from whom cash was received)				
(v)	Customer's A/c	Dr.		1,400	
	To Profit & Loss Adjustment A/c				1,400
	(Rectification of the error arising from non-preparation of invoice for goods delivered)				
(vi)	Profit & Loss Adjustment A/c	Dr.		3,200	
	To Customer's A/c				3,200
	(The Customer's A/c credited with goods not yet purchased by him)				
(vii)	Inventory A/c	Dr.		2,560	
	To Profit & Loss Adjustment A/c				2,560
	(Cost of goods debited to inventory and credited to Profit & Loss Adjustment A/c)				
(viii)	Trade receivable/ Sam's Account	Dr.		500	
	To Suspense A/c				500
	(₹ 500 due by Sam not taken into trial balance, now rectified)				
(ix)	Manoj's account/Trade receivable A/c	Dr.		16,000	
	To Profit & Loss Adjustment A/c				16,000
	(Sales to Manoj's omitted, now rectified)				

(x)	Profit & Loss Adjustment A/c Dr.		28,356	
	To Kamal's Capital A/c			28,356
	(Transfer of the Profit & Loss Adjustment A/c balance to the Capital Account)			
	Komal A/c Dr.		12,832	
	To Suspense A/c			12,832
	(Transfer of the Suspense A/c balance to the Capital Account)			

(b) **Bank Reconciliation Statement**

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) Trading and Profit and Loss Account for the year ended 31.3.25

Particulars	₹	Particulars			₹
To Opening stock	9,15,000	By Sales			
To Purchases (bal fig)	1,25,97,000	Cash	1,10,70,000		
		Credit	28,60,000		1,39,30,000
To Gross Profit @ 10%	13,93,000	By Closing stock			9,75,000
	1,49,05,000				1,49,05,000
To Expenses(WN 2)	9,18,750	By Gross Profit			13,93,000
To Discount Allowed	54,000	By Discount Received			42,500
To Depreciation	22,500				
To Net profit*	4,40,250				
	14,35,500				14,35,500

Balance Sheet as on 31.3.2025

Liabilities	₹	₹	Assets	₹	₹
Capital A/c			Furniture	1,50,000	
Opening balance	6,75,000		(-) Depreciation	(22,500)	1,27,500
(+) Profit	4,40,250		Debtors (WN 3)		3,43,000
	11,15,250		Stock		9,75,000
(-) Drawings	(3,60,000)	7,55,250	Cash		1,90,950
Creditors (WN 1)		8,29,000	Prepaid Insurance		3,000
Outstanding exp		55,200			
		16,39,450			16,39,450

W.N. 1: **Creditors A/C**

Liabilities	₹	Assets	₹
		By Bal b/d	7,57,500
To Bank	1,24,83,000	By Purchase	1,25,97,000
To Discount	42,500		
To Bal c/d (bal fig)	8,29,000		
	1,33,54,500		1,33,54,500

W.N. 2: **Expenses A/c (Incl. insurance)**

Particulars	₹	Particulars	₹
To Prepaid	3,000	By Payable	67,500
To Bank	9,31,050	By P&L (bal fig)	9,18,750*
To Payable	55,200	By Prepaid (9,000*4/12)	3,000
	9,89,250		9,89,250

W.N. 3: **Debtors A/c**

Particulars	₹	Particulars	₹
To Bal b/d	3,12,000	By Cash	27,75,000
To Sales (bal fig)	28,60,000	By Discount	54,000
		By Bal c/d (bal fig)	3,43,000
	31,72,000		31,72,000

(b) **Revaluation Account**

2025		₹	2025		₹
July 1	To Building	55,000	July 1	By Investments (2,30,000 – 2,10,000)	20,000
	To Plant and Machinery	4,00,000		By Partners' Capital A/cs	
	To Trade receivable (Bad Debts)	1,19,250		(loss on revaluation)	
				X (3/10) 1,66,275	
				Y (2/10) 1,10,850	
				Z (5/10) 2,77,125	5,54,250
		5,74,250			5,74,250

Dr. **Partners' Capital Accounts** *Cr.*

	X ₹	Y ₹	Z ₹	P ₹		X ₹	Y ₹	Z ₹	P ₹
To Revaluation A/c	1,66,275	1,10,850	2,77,125		By Balance b/d	6,20,000	4,80,000	8,00,000	-
To Y's and Z's capital A/cs	–			4,50,000	By P's Capital A/c (W.N.1)		3,00,000	1,50,000	–
To Investments A/c	–	2,30,000			By Bank A/c (bal fig)	1,46,275		1,27,125	10,50,000
To Y's loan A/c	–	4,39,150							

To Balance c/d (W.N. 2)	6,00,000		8,00,000	6,00,000					
	7,66,275	7,80,000	10,77,125	10,50,000		7,66,275	7,80,000	10,77,125	10,50,000

Working Notes:

1. Adjustment of goodwill

Goodwill of the firm is valued at ₹ 15 lakhs

Sacrificing ratio:

X 3/10 - 3/10 = 0

Y 2/10 - 0 = 2/10

Z 5/10 - 4/10 = 1/10

Hence, sacrificing ratio of Y and Z is 2:1. X has not sacrificed any share in profits after retirement of Y and admission of P in his place.

Adjustment of P's share of goodwill through existing partners' capital accounts in the profit sacrificing ratio:

			₹
Y:	4,50,000 x 2/3	=	3,00,000
Z:	4,50,000 x 1/3	=	1,50,000
			4,50,000

2. Capital of partners in the reconstituted firm:

	₹
Total capital of the reconstituted firm (given)	20,00,000
X (3/10)	6,00,000
Z (4/10)	8,00,000
P (3/10)	6,00,000

4. (a) Statement of Distribution of Cash by 'Maximum Loss Method'

	Creditors ₹	*Arav's Loan* ₹	*Arav* ₹	*Nirav* ₹	*Bharat* ₹
Balance due	2,40,000	60,000	3,00,000	90,000	2,70,000

15th April 2025 realised ₹ 1,80,000					
Paid to creditors	1,80,000	-	-	-	-
Balance due	60,000	60,000	3,00,000	90,000	2,70,000
1st May, 2025 realised ₹ 4,38,000					
Paid to creditors (₹ 60,000)	60,000	-	-	-	-
Paid to Arav's loan (₹ 60,000)	-	60,000	-	-	-
Balance due (1)	Nil	Nil	3,00,000	90,000	2,70,000
Balance ₹ 3,18000					
Maximum Loss (3,00,000 + 90,000 + 2,70,000 - 3,18,000) = ₹ 3,42,000 shared in Profit & Loss ratio 5:3:2			(1,71,000)	(1,02,600)	(68,400)
			1,29,000	(12,600)	2,01,600
Nirav's deficiency shared by Arav & Bharat in capital ratio 100:90			(6,630)	12,600	(5,970)
Cash paid [2]			1,22,370	-	1,95,630
Balance due (3) [1-2]			1,77,630	90,000	74,370
31st May 2025 realised ₹ 2,82,000					
Maximum Loss [1,77,630 + 90,000 + 74,370 – 2,82,000] = ₹ 60,000 shared in 5:3:2			(30,000)	(18,000)	(12,000)
Cash paid (4)			1,47,630	72,000	62,370
Balance/Loss* on realisation (3-4)			30,000	18,000	12,000

(b) **Receipts and Payments A/c**

for the year ending 31st March, 2025

Receipt	₹	Payments		₹
To Balance b/d (bal fig)	16,126	By Upkeep of Ground (WN 1)		11,660
To Subscriptions:	19,052	By Printing (WN 2)		1,364
To Sale of Newspapers	286	By Salaries		11,100
To Lectures (Fee)	1,650	By Furniture:	9,900	
To Entrance Fee (WN 3)	2,860	(+) Depreciation	1,100	11,000
To Miscellaneous Income	440	By Rent		1,660
To Interest	1,100	By Prizes distribution		2,200

		By Balance c/d	2,530
	41,514		41,514

Subscription A/c

Particulars	₹	Particulars	₹
To Outstanding for the year 2023-24	880	By Subscription received in advance for the year 2024-25	220
To Income & Expenditure A/c	19,052	By Bank A/c (Bal fig)	19,052
To Subscription received in Advance for the year 2025-26	110	By Subscription outstanding as on 2024-25	770
	20,042		20,042

Working Note 1: Upkeep of Ground A/c

Particulars	**₹**	**Particulars**	**₹**
		By outstanding expense of 2023-24	660
To Bank A/c (bal fig)	11,660	By Income & Expenditure A/c	11,000
	11,660		11,660

Working Note 2 : Printing A/c

Particulars	**₹**	**Particulars**	**₹**
		By Outstanding expenses	264
To Bank A/c (bal fig)	1,364	By Income & Expenditure A/c	1,100
	1,364		1,364

Working Note 3 : Entrance fees adjustment

$1/4^{th}$ of the entrance fees capitalized by transferred to general fund = 715

∴ Total entrance fees received = 4 × 715

= 2,860

₹ 2,860 will be posted to debit of receipt & Payment A/c

5. (a) **Trial Balance as on 31st March, 2025**

Particulars	Dr. ₹	Cr. ₹
Provision for Doubtful Debts	–	1,000
Cash credit account (Bank overdraft)	–	6,616
Capital	–	18,364
Trade payables	–	6,548
Dues from customers	11,932	–
Discount Received	–	1,008
Discount allowed	2932	–
Drawings	4,800	–
Office furniture	8,620	–
Carriage inward	3,316	–
Carriage outward	2,320	
Purchases	43,692	–
Returns Inward	2,320	–
Rent & Rates	1256	–
Salaries	10,080	–
Inventory*	9,672	–
Provision for Depreciation on Furniture	–	1,456
Sales	–	67,528
Suspense Account (Balancing figure)	1,310	–
Total	1,02,250	1,02,250

* considered as opening inventory.

(b) (i) (a) Weighted Average basis

Calculation of the value of Inventory as on 31-5-2025

	Receipts			Issues			Balance		
Date	Units	Rate	Amount (₹)	Units	Rate	Amount	Units	Rate	Amount (₹)
1-5-25	Balance						100	15	1,500
2-5-25	300	21	6,300				400	19.5	7,800
5-5-25				250	19.5	4,875	150	19.5	2,925
16-5-25	500	22.8	11,400				650	22.04	14,326
21-5-25				100	22.04	2,204	550	22.04	12,122
25-5-25				450	22.04	9,918	100	22.04	2,204

Therefore, the value of Inventory is as follows:

Value as per Weighted Method as on 31-5-2025: 100 units @ ₹ 22.04 = ₹ 2,204

(b) First-in-First out basis

Calculation of the value of Inventory as on 31-5-2025

	Receipts			Issues			Balance		
Date	**Units**	**Rate**	**Amount (₹)**	**Units**	**Rate**	**Amount**	**Units**	**Rate**	**Amount (₹)**
1-5-25	Balance						100	15	1,500
2-5-25	300	21	6,300				100	15	1,500
							300	21	6,300
5-5-25				100	15	1,500			
				150	21	3,150	150	21	3,150
16-5-25	500	22.8	11,400				150	21	3,150
							500	22.8	11,400
21-5-25				100	21	2,100	50	21	1,050
							500	22.8	11,400
25-5-25				50	21	1,050			
				400	22.8	9,120	100	22.8	2,280

Therefore, the value of Inventory as on 31-5-2025 will be as follows:

Value of Inventory as per FIFO Method: 100 units @ ₹ 22.8 = ₹ 2,280

Working Note:

(i) Per unit cost of raw material purchased on May 2,2025

$$= \frac{300 \times 18 + 600 + 300}{300} = ₹\ 21$$

(ii) Per unit cost of raw material purchased on May 16,2025

$$= \frac{500 \times 21 + 600 + 300}{500} = ₹\ 22.8$$

Note:

Freight and unloading charges are directly attributable cost and are necessary to bring the inventory into present location and condition hence are included in the cost of inventory.

OR

(ii) In the Books of Mr. Viom

Manufacturing Account for the Year ended 31.03.2025

Particulars		Units	Amount ₹	Particulars	Units	Amount ₹
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 – 15,00,000 units @ ₹0.80 = ₹ 12,00,000

42,000 units @ ₹0.40 = ₹ 16,800

₹ 12,16,800

(2) Hire charges on Machinery – 15,00,000 units @ ₹ 0.70 = ₹ 10,50,000

(c) In the Books of XYZ Ltd

Journal Entries

		₹	₹
8% Preference Share Final Call A/c	Dr.	30,00,000	

To 8% Preference Share Capital A/c			30,00,000
(For final call made on preference shares @ ₹ 30 each to make them fully paid up)			
Bank A/c	Dr.	30,00,000	
To 8% Preference Share Final Call A/c			30,00,000
(For receipt of final call money on preference shares)			
Bank A/c	Dr.	20,00,000	
To Equity Share Application A/c			20,00,000
(For receipt of application money on 1,00,000 equity shares @ ₹ 20 per share)			
Equity Share Application A/c	Dr.	20,00,000	
To Equity Share Capital A/c			20,00,000
(For capitalisation of application money received)			
Equity Share Allotment A/c	Dr.	35,00,000	
To Equity Share Capital A/c			25,00,000
To Securities Premium A/c			10,00,000
(For allotment money due on 1,00,000 equity shares @ ₹ 35 per share including a premium of ₹ 10 per share)			
Bank A/c	Dr.	35,00,000	
To Equity Share Allotment A/c			35,00,000
(For receipt of allotment money on equity shares)			
General Reserve A/c	Dr.	55,00,000	
To Capital Redemption Reserve A/c			55,00,000
(For transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 1,00,00,000 - 20,00,000 - 25,00,000)			
8% Preference Share Capital A/c	Dr.	1,00,00,000	
Premium on Redemption of Preference Shares A/c	Dr.	5,00,000	
To Preference Shareholders A/c			1,05,00,000
(For amount payable to preference shareholders on redemption at 5% premium)			
Preference Shareholders A/c	Dr.	1,05,00,000	
To Bank A/c			1,05,00,000
(For amount paid to preference shareholders)			

General Reserve A/c	Dr.	5,00,000	
To Premium on Redemption A/c (For writing off premium on redemption of preference shares)			5,00,000

Note: On the redemption of redeemable preference shares out of accumulated divisible profits, it will be necessary to transfer to the Capital Redemption Reserve Account an amount equal to the amount repaid on the redemption of preference shares on account of face value less proceeds of a fresh issue of shares made for the purpose of redemption.

6. (a) In the books of Divis Pharma Ltd.

Journal Entries

Date	***Particulars***		**Dr.** ₹	**Cr.** ₹
	Bank A/c	Dr.	1,50,000	
	To Equity Share Application A/c			1,50,000
	(Application money on 50,000 shares @ ₹ 3 per share received.)			
	Equity Share Application A/c	Dr.	1,50,000	
	To Equity Share Capital A/c			1,50,000
	(Transfer of application money to Equity Share Capital on 50,000 shares @ ₹ 3 per share as per Directors resolution no… dated…)			
	Equity Share Allotment A/c	Dr.	2,50,000	
	To Equity Share Capital A/c			1,50,000
	To Securities Premium A/c			1,00,000
	(Amount due from members in respect of allotment on 50,000 shares @ ₹ 5 per share including premium ₹ 2 per share as per Directors resolution no… dated…)			
	Bank A/c	Dr.	2,45,000	
	To Equity Share Allotment A/c			2,45,000
	(Amount received against allotment on 49,000 shares @ ₹ 5 per share including premium ₹ 2 per share.)			
	Equity Share Call A/c	Dr.	2,00,000	
	To Equity Share Capital A/c			2,00,000
	(Amount due from members in respect of call on 50,000 shares @ ₹ 4 per share as per Directors resolution no… dated…)			

	Bank A/c To Equity Share Call A/c (Amount received against the call on 47,000 shares @ ₹ 4 per share.)	Dr.	1,88,000	 1,88,000
	Equity Share Capital A/c (3,000 x ₹ 10) Securities Premium A/c (1,000 x ₹ 2) To Equity Share Allotment A/c (1,000 X ₹ 5) To Equity Share Call A/c (3,000 X ₹ 4) To Forfeited Shares A/c (Being forfeiture of 3,000 equity shares for non-payment of allotment and call money on 1,000 shares and for non-payment of call money on 2,000 shares as per Board's Resolution No…..dated ….)	Dr. Dr.	30,000 2,000	 5,000 12,000 15,000
	Bank A/c Forfeited Shares A/c To Equity Share Capital A/c (Being re-issue of 2,500 shares @ ₹8 each as per Board's Resolution No…..dated….)	Dr. Dr.	20,000 5,000	 25,000
	Forfeited Shares A/c (WN 1) To Capital Reserve A/c (Being profit on re-issue transferred to Capital Reserve)	Dr.	7,000	 7,000

Balance Sheet of Divis Pharma Limited as at……

Particulars	Notes No.	₹
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital	1	4,98,000
Reserves and Surplus	2	1,05,000
Total		6,03,000
ASSETS		
Current assets		
Cash and cash equivalents (bank)		6,03,000*
Total		6,03,000

*(5,83,000 +20,000)

Notes to accounts

		₹	₹
1.	**Share Capital**		
	Equity share capital		
	Issued share capital		
	50,000 Equity shares of ₹ 10 each	5,00,000	
	Subscribed, called up and paid up share capital		
	49,500 Equity shares of ₹ 10 each	4,95,000	
	Add: Forfeited shares	3,000	4,98,000
2.	**Reserves and Surplus**		
	Securities Premium	98,000	
	Capital Reserve	7,000	1,05,000

Working Notes:

(1) Calculation of Amount to be Transferred to Capital Reserve

Amount forfeited per share of X	₹ 3	Amount forfeited per share of Y	₹ 6
Less: Loss on re-issue per share	(₹ 2)	Less: Loss on re-issue per share	(₹ 2)
Surplus	₹ 1	Surplus	₹ 4

Transferred to Capital Reserve: X share (1,000 x ₹ 1)	₹ 1,000
Y's Share (1,500 x ₹ 4)	₹ 6,000
Total	₹ 7,000

(2) Balance of Security Premium:

Total Premium amount receivable on allotment	=	1,00,000
Less: Amount reversed on forfeiture	=	(2,000)
Balance remaining	=	98,000

(b) Cost of Property, Plant and Equipment comprises:

(a) its purchase price, including non-refundable import duties and purchase taxes, after deducting trade discounts and rebates.

(b) any cost directly attributable to bring the asset to the location and condition necessary for it to be capable of operating in a manner intended by the enterprise.

(c) the initial estimate of the costs of dismantling, removing, the item and restoring the site on which an asset is located.

Examples of directly attributable costs are:

(a) cost of employee benefits arising directly from acquisition or construction of an item of property, plant and equipment.

(b) cost of site preparation

(c) initial delivery and handling costs

(d) installation and assembly costs

(e) cost of testing whether the asset is functioning properly, after deducting the net proceeds from selling the items produced while testing (such as samples produced while testing)

(f) professional fees e.g. engineers hired for helping in installation of a machine

Thus, all the expenses which are necessary for the asset to bring it in condition and location of desired use will become part of cost of the asset. However, following expenses should not become part of cost of asset:

(a) costs of opening new facility or business, such as inauguration costs;

(b) cost of introducing new product or service (for example cost of advertisement or promotional activities).

(c) cost of conducting business in a new location or with a new class of customer (including cost of staff training); and

(d) administration and other general overhead costs.