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## OUR CA RANKERS

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| SHUBHAM JAIN | ANUSHA KEDIA | KHUSHI KUMARI | SWASTIKA CHETANI | RAGHAV MUNDRA | AKSHAT JAIN | PRITEE AGRAWAL | AMAN AGARWAL | KRISHNA AGARWAL | SAHELI MUKHERJEE | KESHAV JAIN |
| 350 | 345 | 339 | 337 | 336 | 336 | 331 | 327 | 325 | 324 | 324 |
| RAHUL RANJAN | ABHAY GUPTA | ANCHAL JAIN | JAY AGARWAL | SIDHI JAIN | KUSHAGRA JAIN | SUMIT AGARWAL | RIDHI JAIN | RASHMI AGARWAL | SRISHTI BINDAL | ROHIT JAIN |
| 324 | 323 | 323 | 322 | 322 | 321 | 321 | 319 | 318 | 318 | 318 |
| NAHAR AGARWAL | AKANSHA AGARWAL | ANKUR KUMAR | SIDDHANT KASHNIWAL | PRATHAM CHAUDHARY | HARSH KEDIA | RAHUL JAIN | RITIK JAIN | AAYESHA AGARAWAL | RAUNAK BAGARIA | HONEY SHROFF |
| 317 | 315 | 315 | 312 | 310 | 310 | 308 | 308 | 307 | 306 | 306 |
| PRIYAL KEDIA | TANYA AGARWAL | UMANG JAIN | KUSHI KAUR MAGO | SABAL KUMAR | AYUSH JALAN | RACHIT AGARWAL | | | | |
| 306 | 305 | 303 | 303 | 302 | 301 | 301 | | | | |

AIR 1

ABHINAV PRAKASH MISHRA, IPCC May-2019

## OUR CMA RANKERS

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| UMESH AGARWALA | AMISHA CHOUDHARY | LATA BAJAJ | SANGITA SHARMA | SHUBHAM YADAV | CHIRAG HAZRA | ANUP GOYAL | RISHAB AGARWALA | VARUN AGARWAL | LIKHIT AGARWALA | KHUSHI DALMIA |
| 348 | 346 | 346 | 342 | 342 | 342 | 338 | 336 | 334 | 332 | 328 |
| TITHI KHAWAS | SANWLI KUMARI | ASHUTOSH BAJAJ | SUBHASH CHANDRA | SATYAM KUMAR | SNEHA SHAW | Chandan Chaudhary | PRATIK KUMAR BHAWSINGHKA | SACHIN KUMAR ROY | ANKIT GUPTA | SATWIKA SRIVASTAVA |
| 322 | 322 | 322 | 320 | 320 | 318 | 316 | 316 | 316 | 312 | 312 |
| BARUN AGARWAL | PRIYAL KEDIA | PRIYANSHU PAWAN | UJJWAL KUMAR GUPTA | SANJEET BARNWAL | RIYA RAJAK | DEVRAT DALMIA | SONAM KUMARI | SANJANA PRASAD | PRATYUSH GUPTA | KSHITIZ KUMAR |
| 312 | 312 | 310 | 310 | 310 | 310 | 308 | 306 | 306 | 306 | 305 |

**AND MANY MORE....**

72, GIRISH PARK (NORTH), ABOVE AMIT AGARWAL BLIND SCHOOL, 2ND FLOOR, KOLKATA-700 006
CONTACT: 9830564405/9830620852

**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. rectification

   (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:

dep

| 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 credit 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.

BRS

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 |

CONSIGN

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.

BOE

(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 Mody's acceptance to him (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:

PARTNERSHIP

(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 |

NPO

| | | | |
|---|---|---|---|
| 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 |

FA

(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:



STOCK TAKING

(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, 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. JE **(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 on 5th 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. Stock

(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. BRS
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. CONSIGN

(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 |

NPO

(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 |

PARTNER

'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. DEP

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 debtors | 2,750 | Printing and Stationery | 2,500 |
| | | 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 |

FA

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:

COM

(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 capital of 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 of accounting involves recognition of revenues and costs as and when they accrue irrespective of 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 20/100 x ₹ 21,60,000 | | 4,32,000 |
| | 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 | | | March 31 | | |
| | To Party A/c | 16,000 | | By Balance b/d | 4,062 |
| | To Customer A/c | | | By Bank charges | 580 |
| | (Direct deposit) | 1,17,400 | | By Customer A/c | 1,40,000 |
| | To Balance c/d | 11,242 | | (B/R dishonoured) | |
| | | 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 | | |
| 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. 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<br>To Bank Loan A/c (See Note)<br>(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: 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.

T/F

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.

FA

**(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 :

RE

(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.



DEP

(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 31st 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. STOCK

(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 to 31st 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 that for 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. BOE **(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. JE **(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 | 550 | Nov. 13 |
| Nov. 5 | 800 | Dec. 10 |

BOE

**(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: | | | By | Rent and rates (Rs. 150 for 2021) | | 1,000 |
| | For building | | 40,000 | | | | |
| | 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. | |

NPO

**(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 |

FA

| | | | |
|---|---|---|---|
| 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 31$^{st}$ 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 |

COM

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.

COM

(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<br>Debit Soni A/c with Rs. 3200 | Soni & Co. A/c Dr. 3200<br>To Suspense A/c 3200 | Soni & Co. A/c Dr. 3200<br>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. | | 50,000 | |

| | | | | |
|---|---|---|---|---|
| | | To Bank Account<br>(Being the Z's acceptance is to be renewed) | | 50,000 |
| November | 4 | Z A/c Dr<br>To Interest Account<br>(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.<br>Bills Receivable A/c Dr.<br>To Z A/c<br>(Being amount and acceptance of new bill received from Z) | 11,200<br>40,000 | 51,200 |
| December | 31 | Z A/c Dr.<br>To Bills Receivable A/c<br>(Being Z became insolvent) | 40,000 | 40,000 |
| December | 31 | Cash A/c Dr.<br>Bad debts A/c Dr.<br>To Z A/c<br>(Being the amount received and written off on Z's insolvency) | 16,000<br>24,000 | 40,000 |

**(b)** **Journal Entries**

| **Date**<br>2021 | **Particulars** | | **Dr.**<br>Rs. | **Cr.**<br>Rs. |
|---|---|---|---|---|
| 31st March | Sales A/c<br>To Sapan A/c<br>(Being cancellation of entry for sale of goods, not yet approved) | Dr. | 30,000 | 30,000 |
| | Inventories with customers A/c (Refer W.N.)<br>To Trading A/c<br>(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 |

**Working 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 |

| | | Rs. |
|---|---|---|
| **(2)** | **Value of Building** | |
| | 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<br>Share Allotment A/c<br>To Share Capital A/c<br>(The allotment of 10 lakh shares : payable on application Rs. 10 share and Rs. 30 on allotment as per Directors' resolution no... dated...) | Dr.<br>Dr. | 100<br>300 | <br><br>400 |
| June 1 | Bank A/c<br>To Shares Allotment A/c<br>To Calls in Advance A/c<br>[Receipt of money due on allotment @ Rs. 30, also the two calls (Rs. 30 and Rs. 30) on 15,000 shares.] | Dr. | 309 | <br>300<br>9 |
| Nov. 1 | Share First Call A/c<br>To Share Capital A/c<br>(The amount due on 10 lakh shares @ Rs. 30 on first call, as per Directors, resolution no... dated...) | Dr. | 300 | <br>300 |
| | Bank A/c<br>Calls in Advance A/c<br>To Share First Call A/c<br>(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.<br>Dr. | 295.5<br>4.5 | <br><br>300 |
| 2021<br>March 1 | Share Final Call A/c<br>To Share Capital A/c<br>(The amount due on Final Call on 10 lakh shares @ Rs. 30 per share, as per Directors' resolution no... dated...) | Dr. | 300 | <br>300 |
| March1 | Bank A/c<br>Calls in Advance A/c<br>To Share Final Call A/c<br>(Receipt of the moneys due on final call on 9.85 lakhs shares, the balance having been previously received.) | Dr.<br>Dr. | 295.5<br>4.5 | <br><br>300 |
| March 1 | Interest on calls in Advance A/c<br>To Shareholder A/c<br>(Being interest on call in advance made due) | Dr. | 0.63 | <br>0.63 |
| March 1 | Shareholder A/c<br>To Bank A/c<br>(Being interest paid) | Dr. | 0.63 | <br>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: 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: T/F

   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. DEP **(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. RECTI

   (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.

   (vi) A sale of Rs. 25,000 to Tina was wrongly debited to the Account of Hina.

(vii) 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.

(viii) 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 showed a 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. BRS

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. CONSIGN

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. BOE

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. SOA

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: PARTNER

(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 | |

MFG ACC

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 |

NPO

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 |

JE

| | |
|---|---|
| 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 |

COM

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. COM **(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.

THEORY

**(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 | Dr. | 15,000 | |
| | To Manan | | | 7,500 |

| | | | | |
|---|---|---|---|---|
| | To Tapan<br>(Removal of wrong debit to Tapan and giving credit to Manan from whom cash was received) | | | 7,500 |
| (iii) | Suspense A/c<br>To P & L Adjustment A/c<br>(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<br>To Suspense<br>(Correction of error by which Sales account was overcast last year) | Dr. | 5,000 | 5,000 |
| (v) | P & L Adjustment A/c<br>To Mr. Gupta<br>(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<br>To Hina<br>(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<br>To P&L Adjustment A/c<br>(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<br>To Suspense A/c<br>(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 | | | Sept. 30 | | |
| | To Party A/c | 64,000 | | By Balance b/d | 16,248 |
| | To Customer A/c (Direct deposit) | 4,69,600 | | By Bank charges | 2,320 |
| | To Balance c/d | 44,968 | | By Customer A/c (B/R dishonoured) | 5,60,000 |
| | | 5,78,568 | | | 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 | 9,000 |
| | | | | | | Commission | 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 $\frac{(`1,500 \times 50)}{500}$ | 150 |
| Proportionate expenses paid by Devender $\frac{(`750 \times 50)}{500}$ | 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 |

$$\text{Average Due Date} = \text{Base date} + \frac{\text{Total of Product}}{\text{Total of Amount}}$$

= 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 |

**(iii)** **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<br>To Purchases A/c<br>(Being the transfer of returns to purchases account) | Dr. | 2,16,000 | <br>2,16,000 |
| | Sales A/c<br>To Returns Inward A/c<br>(Being the transfer of returns to sales account) | Dr. | 3,00,000 | <br>3,00,000 |
| . | Sales A/c<br>To Trading A/c<br>(Being the transfer of balance of sales account to trading account) | Dr. | 30,00,000 | <br>30,00,000 |
| | Trading A/c<br>To Opening Inventory A/c<br>To Purchases A/c<br>To Wages A/c<br>To Carriage Inwards A/c<br>(Being the transfer of balances of opening inventory, purchases, carriage inwards and wages accounts) | Dr. | 23,40,000 | <br>3,00,000<br>18,00,000<br>1,50,000<br>90,000 |
| | Closing Inventory A/c<br>To Trading A/c<br>(Being the incorporation of value of closing Inventory) | Dr. | 6,00,000 | <br>6,00,000 |
| | Trading A/c<br>To Gross Profit<br>(Being the amount of gross profit) | Dr. | 12,60,000 | <br>12,60,000 |
| | Gross profit<br>To Profit and Loss A/c<br>(Being the transfer of gross profit to Profit and Loss Account) | Dr. | 12,60,000 | <br>12,60,000 |

6. (a) **In the books of Daniel Ltd.**

**Journal Entries**

| | | Dr. Rs. | Cr. Rs. |
|---|---|---|---|
| Bank A/c<br>To Equity Share Application A/c<br>(Being the application money received for 1,50,000 shares at Rs. 6 per share) | Dr. | 9,00,000 | <br>9,00,000 |
| Equity Share Application A/c<br>To Equity Share Capital A/c (1,00,000 x Rs. 6)<br>To Share allotment A/c<br>(Being share allotment made for 1,00,000 shares and excess adjusted towards allotment) | Dr. | 9,00,000 | <br>6,00,000<br>3,00,000 |

| | | | |
|---|---|---|---|
| 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) | Dr. | 60,000 | |
| To Forfeited shares A/c (3,000 x Rs. 16) | | | 48,000 |
| To Calls in arrears A/c (3,000 x Rs. 4) | | | 12,000 |
| (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..) | | | |
| Bank A/c (2,500 x Rs.16) | Dr. | 40,000 | |
| Forfeited shares A/c (2,500 x Rs.4) | | 10,000 | |
| To Equity Share Capital A/c (2,500 x Rs. 20) | | | 50,000 |
| (Being re-issue of 2,500 shares @ Rs. 16) | | | |
| Forfeited share A/c (2,500 x Rs. 12) | | 30,000 | |
| To capital reserve A/c (2,500 x Rs. 12) | | | 30,000 |
| (Being profit on re-issue transferred to capital reserve) | | | |

**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 | 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)** **(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 15$^{th}$ 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 unconditional 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: 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: T/F

(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? CAPITAL AND REVENUE **(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. RECTIFICATION

(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:

BRS

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 |

DEP

**(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 |

BOE

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.

BOE

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:

NPO

**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

PARTNER

(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 |

JE

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 ₹ 60 per share paid-up as ₹ 70 per share. **(10 Marks)**

COM

(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.

COM

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)**

THEORY

**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) <u>Nature of business</u>: 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) <u>Recurring nature of expenditure:</u> 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) <u>Purpose of expenses:</u> 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) <u>Materiality of the amount involved:</u> 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 $\frac{\text{Total of products}}{\text{Total amount}}$

$= 4^{th}$ May, 2021 + $\frac{₹\ 31,12,500}{88,750}$ = $4^{th}$ May, 2021 + 35 days = $8^{th}$ 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<br>To Wages A/c<br>To Carriage Inwards A/c<br>(Being the transfer of balances of opening inventory, purchases and wages accounts) | | | 18,00,000<br>1,50,000<br>90,000 |
| | Closing Inventory A/c<br>To Trading A/c<br>(Being the incorporation of value of closing Inventory) | Dr. | 6,00,000 | <br>6,00,000 |
| | Trading A/c<br>To Gross Profit<br>(Being the amount of gross profit) | Dr. | 12,60,000 | <br>12,60,000 |
| | Gross profit<br>To Profit and Loss A/c<br>(Being the transfer of gross profit to Profit and Loss Account) | Dr. | 12,60,000 | <br>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) 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 (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 = ₹ 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 Dr.<br>Goodwill A/c (Bal. fig) Dr.<br>To Universe Ltd. A/c<br>To Sundry Liabilities A/c<br>(Being Asset and liabilities taken over for a net Consideration of ₹ 4,40,000) | 4,50,000<br>50,00 | <br><br>4,40,000<br>60,000 |
| | Universe Ltd. A/c Dr.<br>To Debentures A/c<br>To Securities Premium Reserve A/c<br>(Being 4000; 8% Debenture of ₹ 100 each Issued at a premium of 10%) | 4,40,000 | <br>4,00,000<br>40,000 |
| | Bank A/c Dr.<br>To Debenture Application A/c<br>(Being the application money receive for 3000, 8% Debenture) | 90,000 | <br>90,000 |
| | Debenture Application A/c Dr.<br>To 8% Debenture A/c<br>(Being 3000; 8% Debenture allotted) | 90,000 | <br>90,000 |
| | Debentures allotment A/c Dr.<br>Loss on issue of debenture A/c Dr.<br>To 8% Debentures A/c | 1,80,000<br>45,000 | <br><br>2,10,000 |

| | | | |
|---|---|---|---|
| | To Premium on redemption of debentures A/c<br>(Being allotment money due on 3000; 8% Debentures at 10% discount and redeemable at 5% premium) | | 15,000 |
| | Bank A/c Dr.<br>To Debentures Allotment A/c<br>(Being the allotment money received) | 1,80,000 | <br>1,80,000 |
| 2021 March, 31 | Securities Premium Reserve A/c Dr.<br>Profit and Loss A/c Dr.<br>To Loss on issue of Debenture A/c<br>(Being the Loss on issue of debenture written off) | 40,000<br>5,000 | <br><br>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

**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: 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. BRS

(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.



RECTI

(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. DEP

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 |

CONSIGN

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)**

SOA

(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.

BOE

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.

(ii) 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 |

PARTNER

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 |

NPO

(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 |

FA

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 (a) (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

1 (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** | **₹** |
|---|---|
| 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. ₹ | Cr. ₹ |
|---|---|---|---|---|
| (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 . 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 ₹ 360 was wrongly posted as ₹ 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 ₹ 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 | Dr. | 90 | |
| | To P&L Adjustment A/c | | | 90 |
| | (Correction of error by which Purchase A/c was excess debited by ₹ 90/-, i.e.: ₹ 1,325 – ₹ 1,235) | | | |

**Suspense A/c**

| | ₹ | | ₹ |
|---|---|---|---|
| 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 |

**2. (b) In the books of Anirudh and Associates**

**Machinery Account**

| | | ₹ | | | ₹ |
|---|---|---|---|---|---|
| 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 (₹ 10,800 + ₹ 1,500) | 12,300 |
| 1.7.2018 | To Bank A/c | 20,000 | 31.12.2018 | By Balance c/d (₹. 60,400+₹ 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 (₹ 4,590 + ₹ 2,775 + ₹ 3,750) | 11,115 |
| | | | | By Balance c/d (₹ 15,725 +₹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 (₹ 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* ₹ | *Machine II* ₹ | *Machine III* ₹ |
|---|---|---|---|
| Cost of all machinery | 80,000 | 20,000 | 50,000 |
| (Machinery cost for 2017) | | | |
| 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** | **₹** | **Particulars** | **₹.** |
|---|---|---|---|
| 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 @ ₹ 3,300 each | 1,65,000 |
| To Sandeep (Expenses: 36,000+Rs.50,000+14,000) | 1,00,000 | By Consignment Inventories: In hand 50 @ ₹ 3,390 each (WN2) | 1,69,500 |
| To Sandeep (Commission) | 1,47,000 | By Consignment Inventories: | |
| To Profit on Consignment transfered to Profit & Loss A/c | 72,500 | In transit 50 @ ₹ 3,300 each (WN3) | 1,65,000 |
| | 19,69,500 | | 19,69,500 |

**Sandeep's Account**

| Particulars | ₹ | Particulars | `₹. |
|---|---|---|---|
| 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 ₹ 1,50,000; it comes to ₹. 300 per case. The cost of cases lost will be computed at ₹ 3,300 per case i.e. 3,000+300.
2. Sandeep has incurred ₹ 36,000 on clearing 400 cases, i.e., ₹ 90 per case; while valuing closing inventories with the agent ₹ 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 ₹ 12,23,000 is not yet paid.

**3 (b)** **Journal Entries**

| ***Date*** 2020 | ***Particulars*** | | ***Dr.*** ₹ | ***Cr.*** ₹ |
|---|---|---|---|---|
| 31st Dec. | Sales A/c | Dr. | 18,000 | |
| | To Mansi's A/c | | | 18,000 |
| | (Being cancellation of entry for sale of goods, not yet approved) | | | |
| | Inventories with customers A/c (Refer W.N.) | Dr. | 13,500 | |
| | To Trading A/c | | | 13,500 |
| | (Being Inventories with customers recorded at market price) | | | |

**Working Note:**

Calculation of cost and market price of Inventories with customer

| | |
|---|---|
| Sale price of goods sent on approval | ₹18,000 |
| *Less*: Profit (3,000 x 20/120) | ₹ 3000 |
| Cost of goods | ₹ 15,000 |

Market price = 15,000 - (15,000 x 10%) = ₹ 13,500.

**3 (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 $= \text{Base date} + \dfrac{\text{Total of Product}}{\text{Total of Amount}}$

= 19.6.2021 + ₹ 35,84,000/ .80,000

= 19.6.2021 + 44.8 days (or 45 days approximately)

= 3.8.2021

Amar wants to save interest of ₹ 628. The yearly interest is ₹ 80,000 × 18%

= ₹ 14,400.

Assume that days corresponding to interest of ₹ 628 are Y.

Then, 14,400 × Y/365 = ₹ 628

or Y = 628 × 365/14,400 = 15.9 days or 16 days (Approx.)

Hence, if Amar wants to save ₹ 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 | | | ₹ | ₹ | 2020 | 2020 | | | ₹. | ₹. |
| 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 $= \dfrac{1{,}81{,}600 \times 10 \times 1}{100 \times 365} =$ ₹ 50 (approx.)

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

| | ₹ | | ₹ |
|---|---|---|---|
| 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 ₹. | Danial ₹. | Spinny ₹. | | Moscow ₹ | Danial ₹ | Spinny ₹. |
|---|---|---|---|---|---|---|---|
| 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 | ₹ | Assets | ₹. |
|---|---|---|---|
| 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**

| | | ₹. |
|---|---|---|
| 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 |

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

| | Moscow | Danial | Total |
|---|---:|---:|---:|
| | ₹ | ₹. | ₹. |
| 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 ₹.30,000.

**2. Capital brought in by Spinny**

| | ₹. |
|---|---:|
| 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

| | | ₹. |
|---|---:|---:|
| 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

| | ₹. |
|---|---:|
| 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* | *₹* | *Assets* | *₹* |
|---|---|---|---|
| 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 | ₹. | ₹. | | Particulars | ₹. | ₹. |
|---|---|---|---|---|---|---|---|
| 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 | ₹. | ₹ | Particulars | ₹. | ₹. |
|---|---|---|---|---|---|
| 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 | | 5,000 | Less: Provision on bad debts | (2,000) | 8,000 |
| Outstanding expenses: | | | | | |
| 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 | 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 ₹ 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)** **Journal Entries**

| | | | *Dr. (₹)* | *Cr. (₹)* |
|---|---|---|---|---|
| 1-1-2020 | Bank A/c | Dr. | 9,50,000 | |
| | 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 | | | 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 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: 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 the payment 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 depletion method. Extraction pattern is given in the following table:

DEP

| 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.

BRS

(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 an Insurance 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. He spent ₹ 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

CONSIGN

(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 |



BOE

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 SOA

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:

PARTNER

(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 |

FA

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

NPO

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.

COM

(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.

COM

(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)**

THEORY

**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:**

$$\text{Interest} = \frac{11{,}96{,}400}{365} \times \frac{10}{100} = ₹\ 328 \text{ (approx.)}$$

**(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<br>To Trade receivables A/c<br>(Being the goods returned by customers to whom goods were sent on sale or return basis) | Dr. | | 70,000 | 70,000 |
| Dec. 27 | Sales A/c<br>To Trade receivables A/c<br>(Being the cancellation of original entry of sale in respect of goods on sale or return basis) | Dr. | | 30,000 | 30,000 |
| Dec. 31 | Inventories with customers on Sale or Return A/c<br>To Trading A/c (Note 2)<br>(Being the adjustment for cost of goods lying with customers awaiting approval) | Dr. | | 24,000 | 24,000 |

**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<br>January 1 | Fixed assets A/c<br>To Revaluation A/c<br>(Revaluation of fixed assets) | Dr. | 1,02,000 | 1,02,000 |
| | Revaluation A/c<br>To Stock A/c<br>To Provision for doubtful debts A/c<br>(Reduction in the value of stock and provision @ 5% on sundry debtors created for doubtful debts) | Dr. | 22,000 | 16,000<br>6,000 |
| | Kamal's capital A/c<br>Tamal's capital A/c<br>To Amal's capital A/c<br>(Adjustment for goodwill and joint life policy (W.N.1)) | Dr.<br>Dr. | 21,000<br>42,000 | 63,000 |
| | Revaluation A/c<br>To Amal's capital A/c<br>To Kamal's capital A/c<br>To Tamal's capital A/c<br>(Transfer of profit on revaluation) | Dr. | 80,000 | 40,000<br>25,000<br>15,000 |
| | General reserve A/c<br>To Amal's capital A/c<br>To Kamal's capital A/c<br>To Tamal's capital A/c<br>(Transfer of general reserve) | Dr. | 1,60,000 | 80,000<br>50,000<br>30,000 |

**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 Printing and stationary | 36,000 | | | | |
| *Less:* Prepaid (1/4) | 9,000 | 27,000 | | | |
| To Discount allowed | | 4,500 | | | |
| To General expenses | | 28,625 | | | |
| To Insurance | | 3,250 | | | |
| To Postage & telegram expenses | | 5,825 | | | |
| To Travelling expenses | | 2,175 | | | |

| | | | | | |
|---|---|---|---|---|---|
| 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 31.3.2020 | 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 | Dr. | 1,60,000 | |
| To Capital Reserve A/c (Note 1) | | | 1,60,000 |
| (Being profit on re-issue transferred to Capital/Reserve) | | | |

**Working Note:**

Calculation of amount to be transferred to Capital Reserve

| | | |
|---|---|---|
| Forfeited amount per share =₹ 3,00,000/10,000 | = | ₹ 30 |
| Loss on re-issue =₹ 70 – ₹ 60 | = | <u>₹ 10</u> |
| Surplus per share re-issued | | <u>₹ 20</u> |
| 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 | Dr. | 22,50,000 | |
| | To Debentures Application A/c | | | 22,50,000 |
| | (Being the application money received on 10,000 debentures @ ₹ 225 each) | | | |
| | Debentures Application A/c | Dr. | 22,50,000 | |
| | Discount on issue of Debentures A/c | Dr. | 2,50,000 | |
| | To 8% Debentures A/c | | | 25,00,000 |
| | (Being the issue of 10,000 8% Debentures @ 90% as per Board's Resolution No….dated….) | | | |
| (b) | Fixed Assets A/c | Dr. | 10,00,000 | |
| | To Vendor A/c | | | 10,00,000 |
| | (Being the purchase of fixed assets from vendor) | | | |
| | Vendor A/c | Dr. | 10,00,000 | |
| | Discount on Issue of Debentures A/c | Dr. | 2,50,000 | |
| | To 8% Debentures A/c | | | 12,50,000 |
| | (Being the issue of debentures of ₹ 12,50,000 to vendor to satisfy his claim) | | | |
| (c) | Bank A/c | Dr. | 10,00,000 | |
| | To Bank Loan A/c (See Note) | | | 10,00,000 |
| | (Being a loan of ₹ 10,00,000 taken from bank by issuing debentures of ₹12,50,000 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)** **(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.

JE

(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.

STOCK

(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)** DEP

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 | | | |

BOE

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. SOA

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.

BOE

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 |

PARTNER

'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 related to 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:

NPO

| | ₹ | | ₹ |
|---|---|---|---|
| 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. COM

(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. COM

(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. BRS

(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.

THEORY **(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 (goods approved in April to be taken as April sales) | 6,00,000 | By Electric fittings | 90,000 |
| To Adjusted net profit | 50,40,000 | By Samples | 2,40,000 |
| | | 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 | By, Depreciation A/c | 20,813 |
| | | | 31.12.2021 | By Depreciation | 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% = ₹ 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 $\frac{9,08,400}{12,300}$ = 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. Expenditure | ₹ | ₹ | Income | ₹ | Cr. ₹ |
|---|---|---|---|---|---|
| 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 (W.N.2) | 16,000 | |
| Furniture | 10,000 | | | | |
| 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 | = | ₹ 1,42,56,000 |
| Trainees | = 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<br>To Equity Share Application A/c<br>(Money received on application for 4,000 shares @ ₹ 25 per share) | Dr. | 1,00,000 | 1,00,000 |
| Equity Share Application A/c<br>To Equity Share Capital A/c<br>(Transfer of application money on 4,000 shares to share capital) | Dr. | 1,00,000 | 1,00,000 |
| Equity Share Allotment A/c<br>To Equity Share Capital A/c<br>(Amount due on the allotment of 4,000 shares @ ₹ 30 per share) | Dr. | 1,20,000 | 1,20,000 |
| Bank A/c<br>To Equity Share Allotment A/c<br>(Allotment money received) | Dr. | 1,20,000 | 1,20,000 |
| Equity Share First Call A/c | Dr. | 80,000 | |

| | | | |
|---|---|---|---|
| To Equity Share Capital A/c<br>(First call money due on 4,000 shares @ ₹ 20 per share) | | | 80,000 |
| 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. RECTI

(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.

DEP

Write a plant and machinery account for the accounting year 2020-21, allowing the same rate of depreciation 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.

BRS

(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 |

CONSIGN

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 |

BOE

| | | |
|---|---|---|
| 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 |

BOE

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 Reserve | | 2,400 | Sameer | | 1,000 |
| | | | 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%.

PARTNER

(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 |

FA

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 |

NPO

| | 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 |

JOURNAL

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.

COM

(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.

COM

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)**

CAPITAL
REVENUE

**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 irrespective of 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 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 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 | |
| | Discounted bill dishonored & noting charges Paid (WN) | 3,100 | 46,540 |
| | | | 1,21,540 |
| *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 | 42,810 |
| | Balance as per Cash Book | | 78,730 |

**Working Note:** Bill amount of Rs 3,100 were debited by bank. However, it is not been recorded in the Cash Book. So to arrive at the cash balance, Rs 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 | 12,000 |
| To Rent and taxes (WN 3) | 54,000 | Investments (W.N.2) | |
| To Newspapers and | 11,800 | By Sundry receipts | 3,000 |
| Periodicals (WN 3) | | | |
| To Miss expenses | 54,000 | | |
| To Depreciation on fixed | 50,000 | | |
| Assets (W N 4) | | | |
| To Excess of income over | 95,200 | | |
| Expenditure (Transferred to | | | |
| Capital fund) | | | |
| | 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 | 90,000 | |
| Add: Surplus | 95200 | | Fixtures | | |
| Add: Donations | 1,00,000 | | Sports goods | 80,000 | |
| | | 10,55,200 | Library books | 1,80,000 | |
| | | | | | 3,50,000 |
| Outstanding | | | Investment Govt | | |
| Expenses: (W.N.3) | | | Securities | | 5,00,000 |
| Salaries | 20,000 | | Accrued interest | | 6,000 |
| Newspapers and | 5,000 | | Subscriptions | | |
| Periodicals | | | Receivable | | 1,20,000 |
| Electricity charges | 10,000 | | Cash and bank | | 1,20,200 |
| Rent and taxes | 6,000 | 41,000 | Balance | | |
| | | 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 2022 | Particulars | | Amount ₹ | Amount ₹ |
|---|---|---|---|---|
| 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<br>(Being the transfer of returns to sales account) | | | 1,00,000 |
| . | Sales A/c<br>To Trading A/c<br>(Being the transfer of balance of sales account to trading account) | Dr. | 10,00,000 | <br>10,00,000 |
| | Trading A/c<br>To Opening Inventory A/c<br>To Purchases A/c<br>To Wages A/c<br>To Carriage Inwards A/c<br>To Factory Rent<br>(Being the transfer of balances of opening inventory, purchases, wages, Carriage Inward and factory rent accounts) | Dr. | 8,50,000 | <br>1,00,000<br>6,00,000<br>50,000<br>30,000<br>70,000 |
| | Closing Inventory A/c<br>To Trading A/c<br>(Being the incorporation of value of closing Inventory) | Dr. | 2,00,000 | <br>2,00,000 |
| | Trading A/c<br>To Gross Profit<br>(Being the amount of gross profit) | Dr. | 3,50,000 | <br>3,50,000 |
| | Gross profit<br>To Profit and Loss A/c<br>(Being the transfer of gross profit to Profit and Loss Account) | Dr. | 3,50,000 | <br>3,50,000 |

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

| *Date* | | | *Dr.* ₹ | *Cr.* ₹ |
|---|---|---|---|---|
| (a) | Equity Share Capital A/c | Dr. | 6,000 | |
| | To Equity Share Allotment money A/c (600 x ₹ 3) | | | 1,800 |
| | To Equity Share Final Call A/c (600 x ₹ 4) | | | 2,400 |
| | To Forfeited Shares A/c (600 x ₹ 3) | | | 1,800 |
| | (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……………..) | | | |
| (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<br>(Being the profit on re-issue, transferred to capital reserve) | | | 600 |

**(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<br>To Debenture redemption premium A/c<br>(Being call made consequent upon allotment of debentures issued at discount and redeemable at premium) | | | 1,50,000<br>15,000 |
| | Bank A/c<br>To Debenture Allotment A/c<br>(Being allotment amount received) | Dr. | 1,32,000 | <br>1,32,000 |

**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: 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 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 |
|---|---|
| 2019-20 | 4,000 tonnes |
| 2020-21 | 20,000 tonnes |
| 2021-22 | 30,000 tonnes |

DEP

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 BOE

(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 |

BOE

(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)

SOA

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:

PARTNER

| *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 31st 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 | | | |
| Add: Outstanding of last year received this year | 3,600 | | By Loss on Sale of Furniture (cost price ₹ 9,000) | 3,600 |
| | 95,440 | | By Balance c/d | 18,09,000 |
| 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:

NPO

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. RECTI

(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 by 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) COM

(b) On $1^{st}$ January, 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 $30^{th}$ June and $31^{st}$ 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 year 2021. COM (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)

THEORY

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
(Set up by an Act of Parliament)

**Board of Studies**
**The Institute of Chartered Accountants of India**

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## CORRIGENDUM

**Corrigendum to Mock Test Paper (Series II) of Foundation Paper 1: Principles and Practice of Accounting**

In Question 6(b), the date given in the first line of the question 1st April,2021 to be read as 1st January,2021.

**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 |
| | | By Stock (Purchases of March not included in stock) | 20,00,000 |
| To Adjusted net profit | 67,20,000 | 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 | Dr. | 10,500 | |
| | To Shama's A/c | | | 10,500 |
| | (Being cancellation of entry for sale of goods, not yet approved) | | | |
| | Inventories with customers A/c (Refer W.N.) | Dr. | 7,875 | |
| | To Trading A/c | | | 7,875 |
| | (Being Inventories with customers recorded at market price) | | | |

**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 | 18,14,400 |
| | Less: Receivable as on 31.3.2022 | 5,400 | | | (Cash in Hand and at Bank) | |
| | 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 Expenditure over Income | 72,000 | 6,48,000 | Less: Sold | 9,000 | 27,000 |
| | | | 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 |
| Capital Fund (Balancing Figure) | 7,20,000 | Investment | 5,40,000 |
| | | 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<br>To Suspense A/c<br>(Correction of error by which Sales account was overcast last year) | Dr. | 7,000 | 7,000 |
| (ii) | P & L Adjustment A/c<br>To Mr. Bansal<br>(Correction of error by which legal expenses paid to Mr. Bansal was wrongly debited to his personal account) | Dr. | 7,670 | 7,670 |
| (iii) | Suspense A/c<br>To P & L Adjustment A/c<br>(Correct of error by which general expenses of ₹ 4,900 was wrongly posted as ₹ 9,400) | Dr. | 4,500 | 4,500 |
| (iv) | Bills Receivables A/c<br>Bills Payable A/c<br>To Jai A/c<br>(Correction of error by which Bills Receivable account of ₹ 1,550 was wrongly posted through Bills Payable book) | Dr.<br>Dr. | 1,550<br>1,550 | 3,100 |
| (v) | Suspense A/c<br>To Deepak<br>To Vivek<br>(Removal of wrong debit to Vivek and giving credit to Deepak from whom cash was received) | Dr. | 15,000 | 7,500<br>7,500 |
| (vi) | Reema A/c<br>To Shikha A/c<br>(Correction of error by which sale of ₹ 25,000 to Reema was wrongly debited to Shikha's account) | Dr. | 25,000 | 25,000 |
| (vii) | Suspense A/c<br>To P&L Adjustment A/c<br>(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<br>To Suspense A/c<br>(₹ 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<br>To Equity Share Application A/c<br>(Money received on application for 2,000 shares @ ₹ 25 per share) | Dr. | 50,000 | 50,000 |
| Equity Share Application A/c<br>To Equity Share Capital A/c<br>(Transfer of application money on 2,000 shares to share capital) | Dr. | 50,000 | 50,000 |
| Equity Share Allotment A/c<br>To Equity Share Capital A/c<br>(Amount due on the allotment of 2,000 shares @ ₹ 30 per share) | Dr. | 60,000 | 60,000 |
| Bank A/c<br>To Equity Share Allotment A/c<br>(Allotment money received) | Dr. | 60,000 | 60,000 |
| Equity Share First Call A/c<br>To Equity Share Capital A/c<br>(First call money due on 2,000 shares @ ₹ 20 per share) | Dr. | 40,000 | 40,000 |
| Bank A/c<br>Calls-in-Arrears A/c<br>To Equity Share First Call A/c<br>To Calls-in-Advance A/c<br>(First call money received on 1,800 shares and calls-in-advance on 100 shares @ ₹ 25 per share) | Dr.<br>Dr. | 38,500<br>4,000 | <br><br>40,000<br>2,500 |

**(b) In the Books of Peanut Ltd.**

**Journal Entries**

| | | | *Dr. (₹)* | *Cr. (₹)* |
|---|---|---|---|---|
| 1-1-2021 | 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) | | | |
| 30-6-2021 | Debenture Interest A/c | Dr. | 2,40,000 | |
| | To Debenture holders A/c | | | 2,16,000 |
| | To Tax Deducted at Source A/c | | | 24,000 |
| | (For interest payable) | | | |
| | Debenture holders A/c | Dr. | 2,16,000 | |
| | Tax Deducted at Source A/c | Dr. | 24,000 | |
| | To Bank A/c | | | 2,40,000 |
| | (For payment of interest and TDS) | | | |
| 31-12-2021 | Debenture Interest A/c | Dr. | 2,40,000 | |
| | To Debenture holders A/c | | | 2,16,000 |
| | To Tax Deducted at Source A/c | | | 24,000 |
| | (For interest payable) | | | |
| 31-12-2021 | Debenture holders A/c | Dr. | 2,16,000 | |
| | Tax Deducted at Source A/c | Dr. | 24,000 | |
| | To Bank A/c | | | 2,40,000 |
| | (For payment of interest and tax) | | | |
| 31-12-2021 | Profit and Loss A/c | Dr. | 4,80,000 | |
| | To Debenture Interest A/c | | | 4,80,000 |
| | (For transfer of debenture interest to profit and loss account at the end of the year) | | | |
| 31-13-2021 | Profit and Loss A/c | Dr. | 1,20,000 | |
| | To Discount/Loss on issue of debenture A/c | | | 1,20,000 |
| | (For proportionate debenture discount and premium on redemption written off, i.e., 6,00,000 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: 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 :

SUBSIDERY BOOK

| 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.

BRS

**(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:

CONSIGN

(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 |



BOE

| | |
|---|---|
| 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 SOA

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

PARTNER

(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 |

FA

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 |



NPO

| | | | |
|---|---|---|---|
| | | 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)

STOCK

(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.

COM

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. COM

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.

THEORY

**(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<br>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 | | 2,46,690 |
| To Profit and loss A/c | 1,30,190 | (WN-2) | | |
| (Profit on Consignment) | | | | |
| | 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 $\left(\frac{₹\ 3,98,570 \times 10 \times 1}{100 \times 365}\right)$ | 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. | 1,650 | |
| | To Purchases A/c | | | 1,650 |
| | (Being free samples distributed for publicity out of purchases, now rectified) | | | |

### 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 | | $\left(₹\ 1,60,000 \times \frac{100}{80} \times \frac{100}{80}\right)$ | | 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

   BRS

   (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.



RECTI

(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 by the 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. DEP

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%. BOE

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. BOE

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:

PARTNER

(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 |



MFG ACC

| | |
|---|---|
| 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 |

NPO

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 2023 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 related to 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 |

COM

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.

COM

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.

THEORY

(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 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.

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 | Dr. | 4,650 | |
| | Bills Payable A/c | Dr. | 4,650 | |

| | | | | |
|---|---|---|---|---|
| | To Krishan A/c<br>(Correction of error by which Bills Receivable account of ₹ 4,650 was wrongly posted through Bills Payable book) | | | 9,300 |
| (ii) | Suspense A/c<br>To Manan A/c<br>To Suman A/c<br>(Removal of wrong debit to Suman and giving credit to Manan from whom cash was received) | Dr. | 32,000 | <br><br>16,000<br>16,000 |
| (iii) | Suspense A/c<br>To P & L Adjustment A/c<br>(Correct of error by which general expenses of ₹ 3,900 was wrongly posted as ₹ 9,300) | Dr. | 5,400 | <br>5,400 |
| (iv) | P&L Adjustment A/c<br>To Suspense A/c<br>(Correction of error by which Sales account was overcast last year) | Dr. | 15,000 | <br>15,000 |
| (v) | P & L Adjustment A/c<br>To Mr. Badri<br>(Correction of error by which legal expenses paid to Mr. Badri was wrongly debited to his personal account) | Dr. | 23,010 | <br>23,010 |
| (vi) | Neha A/c<br>To Megha A/c<br>(Correction of error by which sale of ₹ 75,000 to Neha was wrongly debited to Megha's account) | Dr. | 75,000 | <br>75,000 |
| (vii) | Suspense A/c<br>To P&L Adjustment A/c<br>(Correction of error by which Purchase A/c was excess debited by ₹270 i.e. ₹1,960 – ₹1,690) | Dr. | 270 | <br>270 |
| (vii) | Trade Receivable A/c<br>To Suspense A/c<br>(₹ 21,000 due by Mr. Madan not taken into trial balance now rectified) | Dr. | 21,000 | <br>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<br>To Bank Account<br>(Being the Y's acceptance is to be renewed) | 50,000 | 50,000 |
| November | 4 | Y A/c Dr.<br>To Interest Account<br>(Being the interest due from Y for 3 months i.e., 40,000x3/12× 12%=1,200) | 1,200 | 1,200 |
| November | 4 | Cash A/c Dr.<br>Bills Receivable A/c Dr.<br>To Y A/c<br>(Being amount and acceptance of new bill received from Y) | 11,200<br>40,000 | 51,200 |
| December | 31 | Y A/c Dr.<br>To Bills Receivable A/c<br>(Being Y became insolvent) | 40,000 | 40,000 |
| December | 31 | Cash A/c Dr.<br>Bad debts A/c Dr.<br>To Y A/c<br>(Being the amount received and written off on Y's insolvency) | 16,000<br>24,000 | 40,000 |

**(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:**

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

**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: | | | |
| Atul 1,91,432 | | Building (1,04,000 + 12,800) | 1,16,800 |

| | | | |
|---|---|---|---|
| Aman 1,54,288 | | Furniture (23,200 – 3,480) | 19,720 |
| Atif 70,000 | 4,15,720 | Stock-in-trade (85,600 – 8,560) | 77,040 |
| Bills Payable | 16,400 | Debtors 1,40,000 | |
| Bank Overdraft | 36,000 | Less: Provision for bad debts (7,000) | 1,33,000 |
| Sundry creditors (51,600-5,600) | 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: | | | |
| Atul 1,91,860 | | Building (1,04,000 + 12,800) | 1,16,800 |

| | | | | |
|---|---|---|---|---|
| Aman 1,54,573 | | Furniture (23,200 – 3,480) | | 19,720 |
| Atif 69,287 | 4,15,720 | Stock-in-trade (85,600 – 8,560) | | 77,040 |
| Bills Payable | 16,400 | Debtors | 1,40,000 | |
| Bank Overdraft | 36,000 | Less: Provision for bad debts | (7,000) | 1,33,000 |
| Sundry creditors (51,600-5,600) | 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 (Balancing Figure) | 3,60,000 |
| 31.3.23 | 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** |

**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. | 8,00,000 | |
| To Equity Share Capital A/c | | | 8,00,000 |
| (Being first and final call amount due on 2,00,000 equity shares at ₹ 4 per share as per Directors' resolution no... dated...) | | | |

| | | |
|---|---|---|
| Bank A/c Dr.<br>Calls in arrears A/c<br>To Equity Share first and final call A/c<br>(Being final call received on 1,94,000 shares) | 7,76,000<br>24,000 | <br><br>8,00,000 |
| Share capital A/c (6,000 x ₹ 20) Dr.<br>To Forfeited shares A/c (6,000 x ₹ 16)<br>To Calls in arrears A/c (6,000 x ₹ 4)<br>(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 | <br>96,000<br>24,000 |
| Bank A/c (5,000 x ₹16) Dr.<br>Forfeited shares A/c (5,000 x ₹4)<br>To Equity Share Capital A/c (5,000 x ₹ 20)<br>(Being re-issue of 2,500 shares @ ₹ 16) | 80,000<br>20,000 | <br><br>1,00,000 |
| Forfeited share A/c (5,000 x ₹ 12)<br>To capital reserve A/c (5,000 x ₹ 12)<br>(Being profit on re-issue transferred to capital reserve) | 60,000 | <br>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) | | | 4 |
| Surplus per share | | | 12 |
| Transfer to capital reserve | ₹ 12 x 5,000 | ₹ 60,000 | |

**(b)** **Journal of Alpha Ltd.**

| Date | Particulars | Dr. | Cr. |
|---|---|---|---|
| 2022<br>April,1 | Sundry Assets A/c Dr.<br>Goodwill A/c (Bal. fig) Dr.<br>To Beta Ltd. A/c<br>To Sundry Liabilities A/c<br>(Being Asset and liabilities taken over for a net Consideration of ₹ 4,40,000) | 4,50,000<br>50,000 | <br><br>4,40,000<br>60,000 |
| | Beta Ltd. A/c Dr.<br>To 8% Debentures A/c<br>To Securities Premium Reserve A/c<br>(Being 4,000; 8% Debenture of ₹ 100 each Issued at a premium of 10%) | 4,40,000 | <br>4,00,000<br>40,000 |
| | Bank A/c Dr.<br>To Debenture Application A/c | 90,000 | <br>90,000 |

| | | | |
|---|---|---|---|
| | (Being the application money receive for 3000, 8% Debenture) | | |
| | Debenture Application A/c Dr.<br>To 8% Debenture A/c<br>(Being 3,000; 8% Debenture allotted) | 90,000 | <br>90,000 |
| | Debentures allotment A/c Dr.<br>Loss on issue of debenture A/c Dr.<br>To 8% Debentures A/c<br>To Premium on redemption of debentures A/c<br>(Being allotment money due on 3000; 8% Debentures at 10% discount and redeemable at 5% premium) | 1,80,000<br>45,000 | <br><br>2,10,000<br>15,000 |
| | Bank A/c Dr.<br>To Debentures Allotment A/c<br>(Being the allotment money received) | 1,80,000 | <br>1,80,000 |
| 2023 March, 31 | Securities Premium Reserve A/c Dr.<br>To Loss on issue of Debenture A/c<br>(Being the Loss on issue of debenture written off) | 9,000 | <br>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.<br>Profit and Loss A/c Dr.<br>To Loss on issue of Debenture A/c<br>(Being the Loss on issue of debenture written off) | 40,000<br>5,000 | <br><br>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 control of 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. JOURNAL

   (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 STOCK

(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. DEP

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. discount being ₹ 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. BOE

(b) Kiran had accepted bills payable to Divya, falling due on different dates. The details of bills are 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 |

BOE

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 |

PARTNER

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 |

FA

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 | 13,000 |
| Investments in 8% Govt. securities were made on 1st July, 2022. | |

**(20 Marks)**

NPO

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 |

COM

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. COM

(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. RECTI

(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 | | | 32,000 |
| | (Being the reversal entry for bill No.1 on renewal) | | | |

| | | | | |
|---|---|---|---|---|
| March 4 | Bills receivable (No. 3) A/c | Dr. | 32,800 | |
| | To Interest A/c | | | 800 |
| | To Vishal 's A/c | | | 32,000 |
| | (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) | | | |
| March 25 | Bank A/c | Dr. | 49,500 | |
| | Discount A/c | Dr. | 500 | |
| | To Bills receivable (No. 2) A/c | | | 50,000 |
| | (Being the amount received on retirement of bills No.2 before the due date) | | | |
| May 7 | Vishal's A/c | Dr. | 32,800 | |
| | To Bills receivable (No. 3) A/c | | | 32,800 |
| | (Being the amount due from Vishal on dishonour of his acceptance on presentation on the due date) | | | |
| May 7 | Bank A/c | Dr. | 16,400 | |
| | To Vishal's A/c | | | 16,400 |
| | (Being the amount received from official assignee of Vishal at 50 paise per rupee against dishonoured bill) | | | |
| May 7 | Bad debts A/c | Dr. | 16,400 | |
| | To Vishal's A/c | | | 16,400 |
| | (Being the balance 50% debt in Vishal's Account arising out of dishonoured bill written off as bad debts) | | | |

**(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 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 |
| | $3,96,500/365 \times \frac{12}{100}$ | | | | | 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:**

Required Balance of Capital Accounts

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 | $\left(₹\ 1,60,000 \times \frac{100}{80} \times \frac{100}{80}\right)$ | | 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 | | | 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., 2022**

| 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. 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 | | | 300 |
| | (Receipt of applications for 15 lakh shares along with application money of ₹ 20 per share.) | | | |
| June 1 | Share Application 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<br>[Receipt of money due on allotment @ ₹ 30, also the two calls (₹ 30 and ₹ 20) on 30,000 shares.] | | | 15 |
| Nov. 1 | Share First Call A/c<br>To Share Capital A/c<br>(The amount due on 15 lakh shares @ ₹ 30 on first call, as per Directors, resolution no... dated...) | Dr. | 450 | 450 |
| | Bank A/c<br>Calls in Advance A/c<br>To Share First Call A/c<br>(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.<br>Dr. | 441<br>9 | <br><br>450 |
| 2023<br>March 1 | Share Final Call A/c<br>To Share Capital A/c<br>(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<br>Calls in Advance A/c<br>To Share Final Call A/c<br>(Receipt of the moneys due on final call on 14.7 lakhs shares, the balance having been previously received.) | Dr.<br>Dr. | 294<br>6 | <br><br>300 |
| March 1 | Interest on calls in Advance A/c<br>To Shareholder A/c<br>(Being interest on call in advance made due) | Dr. | 0.99 | 0.99 |
| March 1 | Shareholder A/c<br>To Bank A/c<br>(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<br>To Debentures Application A/c | Dr. | 90,00,000 | <br>90,00,000 |

| | | | | |
|---|---|---|---|---|
| | (Being the application money received on 20,000 debentures @ ₹ 450 each) | | | |
| | Debentures Application A/c | Dr. | 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.

**Test Series: December,2023**

**MOCK TEST PAPER 2**

**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 provision for bad debts is debited to sundry debtors account.

(ii) Discount column of the cash book is never balanced.

(iii) Goods sold on approval or return basis are not recorded as credit sales initially when they are sent-out.

(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) Business of partnership comes to an end on death of a partner.

(vi) Non-participating preference shareholders enjoy voting rights.

**(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 are the details of the spare parts of a Printing Press:

| | | |
|---|---|---|
| 1-1-2023 | Opening Inventory | Nil |
| 1-1-2023 | Purchases | 100 units @ ₹ 300 per unit |
| 15-1-2023 | Issued for consumption | 50 units |
| 1-2-2023 | Purchases | 200 units @ ₹ 400 per unit |
| 15-2-2023 | Issued for consumption | 100 units |
| 20-2-2023 | Issued for consumption | 100 units |

INVENTORY

Find out the value of Inventory as on 31.3.2023, if the company follows Weighted Average Method.

**(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 ₹ 1,550 was passed through Bills Payable Book. The Bill was given by Hament.

(ii) A sale of ₹ 25,000 to Nidhi was wrongly debited to the Account of Vidhi.

(iii) General expenses ₹ 360 was posted in the General Ledger as ₹ 630.

(iv) Sales Day Book was overcast by ₹ 5,000.



RECTI

(v) Cash received from Aman was debited to Vimal ₹ 3,200.

(vi) Legal Expenses ₹ 2,910 paid to Mr. Mohan was debited to her personal account.

(vii) While carrying forward the total of one page of the Purchases Book to the next, the amount of ₹ 1,235 was written as ₹ 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) Prepare the Bank Reconciliation Statement of M/s. Nath Associates on 30th June 2023 from the particulars given below:

(i) The Bank Pass Book had a debit balance of ₹ 25,000 on 30th June, 2023.

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

(iii) Out of cheques issued worth ₹ 34,000, cheques amounting to ₹ 20,000 only were presented for payment till 30th June, 2023.

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

(v) Cheques worth ₹ 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, 2023, ₹ 14,000

(2) Cheques collected on 10th July, 2023, ₹ 4,000

(3) Cheques collected on 12th July, 2023, ₹ 2,000.

BRS

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

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

(viii) Bank charges worth ₹ 80 have been entered twice in the cash book whereas Insurance charges for ₹ 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 ₹ 2,000.

**(10 + 10 = 20 Marks)**

3. (a) Ram of Lucknow consigned to Shiv of Jaipur, goods to be sold at invoice price which represents 125% of cost. Shiv 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 Ram were ₹ 15,000. The account sales received by Ram shows that Shiv 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 Jaipur godown. Shiv remitted the balance in favour of Ram.

CONSIGN

You are required to prepare consignment account in the books of Ram along with the necessary calculations.

(b) Mr. Bosco and Mr. Ben had the following mutual dealings. They desired to settle their account on the average due date:

| **Purchases by Bosco from Ben:** | **₹** |
|---|---|
| 6th January, 2023 | 60,000 |
| 2nd February, 2023 | 28,000 |
| 31st March, 2023 | 20,000 |

BOE

**Sales by Bosco to Ben:**

| | |
|---|---|
| 6th January, 2023 | 66,000 |
| 9th March, 2023 | 24,000 |
| 20th March, 2023 | 5,000 |

You are asked to ascertain the average due date taking base date as 6th January 2023.

(c) The following are the transactions that took place between P and Q during the period from 1st October, 2022 to 31st March, 2023:

| 2022 | | ₹ |
|---|---|---|
| Oct.1 | Balance due to P by Q | 3,000 |
| Oct 18 | Goods sold by P to Q | 2,500 |
| Nov. 16 | Goods sold by Q to P (invoice dated November, 26) | 4,000 |
| Dec.7 | Goods sold by Q to P (invoice dated December, 17) | 3,500 |
| **2023** | | **₹** |
| Jan. 3 | Promissory note given by P to Q, at three months | 5,000 |
| Feb. 4 | Cash paid by P to Q | 1,000 |
| Mar. 21 | Goods sold by P to Q | 4,300 |
| Mar.28 | Goods sold by Q to P (invoice dated April, 8) | 2,700 |

Draw up an Account Current up to March 31st, 2023 to be rendered by P to Q, charging interest at 10% per annum. Interest is to be calculated to the nearest rupee. **(10 + 5 + 5 = 20 Marks)**

4. (a) Inder, Anil and Pawan are in partnership, sharing profits and losses equally. Pawan died on 30th June 2023.

The Balance Sheet of Firm as at 31st March 2023 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 |
| Inder | 1,00,000 | Trade receivables | 35,000 | |
| Anil | 75,000 | Less: Provision for doubtful debt | (2,000) | 33,000 |
| Pawan | 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 Pawan, it was mutually agreed that:

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

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

PARTNER

(iii) Stock is valued at ₹ 13,500

(iv) Goodwill will be valued at one year's purchase of the average profit of the past five years. Pawan's share of goodwill be adjusted in the account of Inder and Anil.

(v) Pawan's share of profit from 1st April 2023, 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:

| 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| 25,000 | 20,000 | 22,500 | 35,000 | 28,750 |

You are required to prepare Revaluation account and Capital accounts of the partners as at 1st July 2023.

(b) The trial balance of Chawla as at 31st December, 2022 is as follows:

| | Dr. | Cr. |
|---|---|---|
| | ₹ | ₹ |
| Chawla's capital account | - | 38,345 |
| Stock 1st January, 2022 | 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 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 Chawla amounting to ₹ 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 ₹ 1,500 due from Dyal and included among the creditors ₹ 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 ₹ 200 had been omitted from the books.

(7) Stock on 31.12.2022 was ₹ 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 31.12.2022.

**(8 + 12 = 20 Marks)**

5. (a) The following information of M/s. Freelancer Club are related for the year ended 31st March, 2023:

(1)

| Balances | As on 01-04-2022 (₹) | As on 31-3-2023 (₹) |
|---|---|---|
| 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

NPO

You are required to:

(A) Ascertain the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2023 and

(B) Also show how these items would appear in the Balance Sheet as on 31.03.2023.

(b) Following information is provided for M/s. Shrikant Traders for the year ended 31st March, 2023:

| | ₹ |
|---|---|
| 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 |

JOURNAL

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

(c) A, B and C are partners in a firm. On 1st April 2021 their fixed capital stood at ₹ 50,000, ₹ 25,000 and ₹ 25,000 respectively.

As per the provision of partnership deed:

(1) C was entitled for salary of ₹5,000 p.a.

PARTNER

(2) All the partners were entitled to interest on capital at 5% p.a.

(3) Profits and losses were to be shared in the ratio of Capitals of the partners.

Net Profit for the year ended 31st March, 2022 of ₹ 33,000 and 31st March,2023 of ₹ 45,000 was divided equally without providing for the above adjustments.

You are required to pass an adjustment journal entry to rectify the above errors.

**(10 +5 +5 = 20 Marks)**

6. (a) Pony and Pal Garments Ltd invited applications for issuing 20,000 Equity Shares of ₹ 10 each. The amount was payable as follows:

| | | |
|---|---|---|
| (i) | On Application | ₹ 1 per share |
| (ii) | On Allotment | ₹ 2 per share |
| (iii) | On First call | ₹ 3 per share |
| (iv) | On Second and final Call | ₹ 4 per share |

COM

The issue was fully subscribed. Ram to whom 200 shares were allotted, failed to pay the allotment money and his shares were forfeited immediately after the allotment. Shyam to whom 300 shares were allotted, failed to pay the first call. His shares were also forfeited after the first call. Afterwards the second and final call was made. Mohan to whom 100 shares were allotted failed to pay the second and final call. His 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 Pony and Pal Garments Ltd.

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

(i) Amount spent to reduce working expenses.

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

(iii) Amount spent on making a few more exits in the Cinema Hall to comply with Government orders.

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

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

**(15 + 5 = 20 Marks)**

CAPITAL REVENUE

**Test Series: December,2023**

**MOCK TEST PAPER 2**

**FOUNDATION COURSE**

**PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING**

**SUGGESTED ANSWERS/HINTS**

**1. (a) (i) False:** The provision for bad debts is debited to Profit and loss Account, in Balance Sheet it is either shown on liability side or deducted from the head debtors.

**(ii) True:** Discount column is totalled and transferred to the discount allowed or received account.

**(iii) False:** They are recorded as sales irrespective of whether the customer might accept or reject the goods at the end of the period given for the approval.

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

**(vi) False:** A share on which only a fixed rate of dividend is paid every year, without any accompanying additional rights in profits and in the surplus on winding-up, is called 'Non-participating Preference Shares. Non-participating preference shareholders do not enjoy voting rights.

**(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) Printing Press**

**Calculation of the value of Inventory as on 31-3-2023**

| | Receipts | | | Issues | | | Balance | | |
|---|---|---|---|---|---|---|---|---|---|
| **Date** | **Units** | **Rate** | **Amount** | **Units** | **Rate** | **Amount** | **Units** | **Rate** | **Amount** |
| | | ₹ | ₹ | ₹ | ₹ | ₹ | ₹ | ₹ | ₹ |
| 1-1-2023 | Balance | | | | | | | Nil | |
| 1-1-2023 | 100 | 300 | 30,000 | | | | 100 | 300 | 30,000 |
| 15-1-2023 | | | | 50 | 300 | 15,000 | 50 | 300 | 15,000 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1-2-2023 | 200 | 400 | 80,000 | | | | 250 | 380 | 95,000 |
| 15-2-2023 | | | | 100 | 380 | 38,000 | 150 | 380 | 57,000 |
| 20-2-2023 | | | | 100 | 380 | 38,000 | 50 | 380 | 19,000 |

Therefore, the value of Inventory as on 31-3-2023 = 50 units @ ₹380 = ₹19,000

**2. (a)**

| | Particulars | | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|
| (i) | Bills Receivable A/c<br>Bills Payable A/c<br>To Hament A/c<br>(Correction of error by which bill receivable of ₹ 1,550 was wrongly passed through Bills Payable book) | Dr.<br>Dr. | 1,550<br>1,550 | <br><br>3,100 |
| (ii) | Nidhi A/c<br>To Vidhi A/c<br>(Correction of error by which sale of ₹ 25,000 to Nidhi was wrongly debited to Vidhi's account) | Dr. | 25,000 | <br>25,000 |
| (iii) | Suspense A/c<br>To P & L Adjustment A/c<br>(Correct of error by which general expenses of ₹ 360 was wrongly posted as ₹ 630) | Dr. | 270 | <br>270 |
| (iv) | P & L Adjustment A/c<br>To Suspense A/c<br>(Correction of error by which sales account was overcast last year) | Dr. | 5,000 | <br>5,000 |
| (v) | Suspense A/c<br>To Aman A/c<br>To Vimal A/c<br>Removal of wrong debit to Vimal and giving credit to Aman from whom cash was received) | Dr. | 6,400 | <br>3,200<br>3,200 |
| (vi) | P & L Adjustment A/c<br>To Mr. Mohan<br>(Correction of error by which legal expenses paid to Mr. Mohan was wrongly debited to her personal account) | Dr. | 2,910 | <br>2,910 |
| (vii) | Suspense A/c<br>To P&L Adjustment A/c<br>(Correction of error by which Purchase A/c was excess debited by ₹90/-, i.e.: ₹1,325 – ₹1,235) | Dr. | 90 | <br>90 |

**Suspense A/c**

| | ₹ | | ₹ |
|---|---|---|---|
| To P & L Adjustment A/c | 270 | By P & L Adjustment A/c | 5,000 |
| To Aman A/c | 3,200 | By Difference in Trial Balance (Balancing figure) | 1,760 |

| | | | |
|---|---|---|---|
| To Vimal A/c | 3,200 | | |
| To P&L Adjustment A/c | 90 | | |
| | 6,760 | | 6,760 |

**(b) Bank Reconciliation Statement as on 30th June 2023**

| | Particulars | Amount (₹) | Amount (₹) |
|---|---|---|---|
| | Overdraft as per Pass Book (Dr. Balance) | | 25,000 |
| *Add:* | Cheques issued but not presented ₹ (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) In the books of Ram**

**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 Shiv (Expenses) | 12,000 | By Shiv (Sales) | 1,50,000 |
| To Shiv (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 Ram (10 % of ₹ 15,000) = ₹ 1,500

₹ 16,500

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

Ram's Basic Invoice price of consignment= ₹ 1,87,500

Ram'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) Calculation of Average due date**

**Taking 6th January, 2023 as base date**

| Due date | Amount ₹ | No. of days from the base date i.e. 6th Jan. 2023 | Product ₹ |
|---|---|---|---|
| For Bosco's payments 2023 | | | |
| 6th January | 60,000 | 0 | 0 |
| 2nd February | 28,000 | 27 | 7,56,000 |
| 31st March | 20,000 | 84 | 16,80,000 |
| Total | 1,08,000 | | 24,36,000 |
| For Ben's payment 2023 | | | |
| 6th January | 66,000 | 0 | 0 |
| 9th March | 24,000 | 62 | 14,88,000 |
| 20th March | 5,000 | 73 | 3,65,000 |
| Total | 95,000 | | 18,53,000 |

Excess of Bosco's products over Ben's = ₹ 24,36,000 – ₹ 18,53,000 = ₹ 5,83,000

= ₹ 1,08,000 – ₹ 95,000 = ₹ 13,000

Number of days from the base date to the date of settlement is ₹5,83,000 / ₹13,000 = 45 days (approx)

Hence, the date of settlement of the balance amount is 45 days after 6th January i.e. on 20th February.

On 20th February, 2023, Bosco has to pay Ben ₹ 13,000 to settle the account.

(c) **In the books of P**

**Q in Account Current with P**

**(Interest to 31st March,2023 @10%p.a.)**

| Date | Due date | Particulars | No. of days till 31.3.23 | Amt. | Product | Date | Due date | Particulars | No. of days till 31.3.23 | Amt. | Product |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2022 | 2022 | | | ₹ | ₹ | 2022 | 2022 | | | ₹ | ₹ |
| 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 |
| 2023 | 2023 | | | | | 2023 | 2023 | | | | |
| 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 = $\frac{1,81,600 \times 10 \times 1}{100 \times 365}$ = ₹ 50 (approx.)

4 (a) **Revaluation Account**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Stock | 1,500 | By Land & Building | 25,000 |
| To Partners: | | By Provision for doubtful debt | 2,000 |
| (Revaluation Profit) | | | |
| Inder | 8,500 | | |
| Anil | 8,500 | | |
| Pawan | 8,500 | | |
| | 27,000 | | 27,000 |

**Partners' Capital Accounts**

| Particulars | Inder | Anil | Pawan | Particulars | Inder | Anil | Pawan |
|---|---|---|---|---|---|---|---|
| To Pawan | 4,375 | 4,375 | - | By Bal b/d. | 1,00,000 | 75,000 | 75,000 |
| To Pawan's Executor | - | - | 98,125 | By General reserve | 4,000 | 4,000 | 4,000 |
| | | | | By Inder & Anil | - | - | 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 Pawan's share**

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

| | |
|---|---|
| 31.3.2019 | 28,750 |
| 31.3.2020 | 35,000 |
| 31.3.2021 | 22,500 |
| 31.3.2022 | 20,000 |
| 31.3.2023 | 25,000 |
| Total | 1,31,250 |
| Average profit | 26,250 |

Goodwill at 1 year purchase = ₹ 26,250 x 1 = ₹ 26,250

Pawan's Share of Goodwill = ₹ 26,250X1/3

= ₹ 8,750

Which is contributed by Inder and Anil in their gaining Ratio

Inder = ₹ 8,750X1/2 = ₹ 4,375

Anil = ₹ 8,750X1/2 = ₹ 4,375

**(b)** **Trading and Profit and Loss Account of Mr. Chawla**

**for the year ended 31st December, 2022**

| | ₹ | ₹ | | ₹ | ₹ |
|---|---|---|---|---|---|
| To Opening stock | | 23,400 | By Sales | 1,94,800 | |
| To Purchases | 1,60,850 | | *Less:* Returns | 4,300 | 1,90,500 |
| *Add:* Omitted invoice | 200 | | By Closing stock | | 39,300 |
| | 1,61,050 | | | | |
| *Less:* Returns | 2,900 | | | | |
| | 1,58,150 | | | | |
| *Less:* Drawings | 300 | 1,57,850 | | | |
| To Carriage Inwards | | 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 expenses | | 1,165 | | | |
| To Travelling expenses | | 435 | | | |

| | | | | | |
|---|---|---|---|---|---|
| To Provision for bad debts [W.N.] | | 575 | | | |
| 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 ₹ 11,500 575

Provision for discount:

2% on ₹ 10,925 (11,500 -575) 219

**5. (a) Subscription for the year ended 31.3.2023**

| | | ₹ |
|---|---|---|
| Subscription received during the year | | 22,50,000 |
| *Less:* Subscription receivable on 1.4.2022 | 67,500 | |
| *Less:* Subscription received in advance on 31.3.2023 | 31,500 | (99,000) |
| | | 21,51,000 |
| *Add:* Subscription receivable on 31.3.2023 | 99,000 | |
| *Add:* Subscription received in advance on 1.4.2022 | 54,000 | 1,53,000 |
| Amount of Subscription appearing in Income & Expenditure Account | | 23,04,000 |

**Sports material consumed during the year end 31.3.2023**

| | ₹ |
|---|---|
| Payment for Sports material | 13,50,000 |
| *Less:* Amounts due for sports material on 1.4.2022 | (4,05,000) |
| | 9,45,000 |
| Add: Amounts due for sports material on 31.3.2023 | 5,85,000 |
| Purchase of sports material | 15,30,000 |
| Sports material consumed: | |
| Stock of sports material on 1.4.2022 | 4,50,000 |
| Add: Purchase of sports material during the year | 15,30,000 |
| | 19,80,000 |
| Less: Stock of sports material on 31.3.2023 | (6,75,000) |
| Amount of Sports Material appearing in Income & Expenditure Account | 13,05,000 |

**Balance Sheet of M/s Freelancer Club For the year ended 31st March, 2023(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 |

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

| Date 2023 | Particulars | | Amount ₹ | Amount ₹ |
|---|---|---|---|---|
| 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 | | | 1,00,000 |
| | (Being the transfer of returns to sales account) | | | |
| . | Sales A/c | Dr. | 10,00,000 | |
| | To Trading A/c | | | 10,00,000 |
| | (Being the transfer of balance of sales account to trading account) | | | |
| | Trading A/c | Dr. | 7,80,000 | |
| | To Opening Inventory A/c | | | 1,00,000 |
| | To Purchases A/c | | | 6,00,000 |
| | To Wages A/c | | | 50,000 |
| | To Carriage Inwards A/c | | | 30,000 |
| | (Being the transfer of balances of opening inventory, purchases and wages accounts) | | | |
| | Closing Inventory A/c | Dr. | 2,00,000 | |
| | To Trading A/c | | | 2,00,000 |
| | (Being the incorporation of value of closing Inventory) | | | |
| | Trading A/c | Dr. | 4,20,000 | |
| | To Gross Profit | | | 4,20,000 |
| | (Being the amount of gross profit) | | | |
| | Gross profit | Dr. | 4,20,000 | |
| | To Profit and Loss A/c | | | 4,20,000 |
| | (Being the transfer of gross profit to Profit and Loss Account) | | | |

**(c)**

| **Particulars** | **A** | **B** | **C** | **Total Profit of firm** |
|---|---|---|---|---|
| I. Amount already credited: | | | | |
| Share of profit (in the ratio of 1:1:1) (2021-22,2022-23) | 26,000 | 26,000 | 26,000 | 78,000 |

| | | | | |
|---|---|---|---|---|
| II. Amount which should have been credited: | | | | |
| C's Salary (2021-22,2022-23) | | | 10,000 | |
| Interest on Capital (2021-22, 2022-23) | 5,000 | 2,500 | 2,500 | |
| Share of Profit | 29,000 | 14,500 | 14,500 | 58,000 |
| | 34,000 | 17,000 | 27,000 | |
| Net effect (I-II) | (8,000) | 9,000 | (1,000) | - |

The necessary journal entry will be:

| Particulars | Debit (₹) | Credit (₹) |
|---|---|---|
| B's Current A/c | 9,000 | |
| To A's Current A/c | | 8,000 |
| To C's Current A/c | | 1,000 |
| (Salary to C, Interest on capital charged and profit shared among partners in the ratio of capital) | | |

**6. (a)** **In the books of Pony and Pal Garments Ltd.**

**Journal Entries**

| Particulars | | L.F. | Debit Amount (₹) | Credit Amount (₹) |
|---|---|---|---|---|
| Bank A/c | Dr. | | 20,000 | |
| To Equity Share Application A/c | | | | 20,000 |
| (Money received on applications for 20,000 shares @ ₹ 1 per share) | | | | |
| Equity Share Application A/c | Dr. | | 20,000 | |
| To Equity Share Capital A/c | | | | 20,000 |
| (Transfer of application money on 20,000 shares to share capital) | | | | |
| Equity Share Allotment A/c | Dr. | | 40,000 | |
| To Equity Share Capital A/c | | | | 40,000 |
| (Amount due on the allotment of 20,000 shares @ ₹ 2 per share) | | | | |
| Bank A/c | Dr. | | 39,600 | |
| To Equity Share Allotment A/c | | | | 39,600 |
| (Allotment money received on 19,800 shares) | | | | |
| **OR** | | | | |
| Bank A/c | Dr. | | 39,600 | |
| Calls in arrears A/c | Dr. | | 400 | |
| To Equity Share Allotment A/c | | | | 40,000 |
| (Allotment Amount received except 200 shares) | | | | |
| Equity Share Capital A/c | Dr. | | 600 | |
| To Share Forfeiture A/c | | | | 200 |
| To Equity Shares Allotment A/c | | | | 400 |
| (200 Shares of Ram forfeited) | | | | |

| | | | |
|---|---|---|---|
| **OR** | | | |
| Equity Share Capital A/c | Dr. | 600 | |
| To Shares Forfeiture A/c | | | 200 |
| To Calls in arrears A/c | | | 400 |
| (200 shares forfeited due to non-payment of allotment money) | | | |
| Equity Share First Call A/c | Dr. | 59,400 | |
| To Equity Share Capital A/c | | | 59,400 |
| (First call made due on 19,800 shares at ₹ 3 per share) | | | |
| Bank A/c | Dr. | 58,500 | |
| To Equity Share First Call A/c | | | 58,500 |
| (First call money received on 19,500 shares at ₹ 3 per share) | | | |
| **OR** | | | |
| Bank A/c | Dr. | 58,500 | |
| Calls in arrears A/c | Dr. | 900 | |
| To Equity Share First Call A/c | | | 59,400 |
| (First Call money received except 300 shares) | | | |
| Equity Share Capital A/c | Dr. | 1,800 | |
| To Share Forfeiture A/c | | | 900 |
| To Equity Share First Call A/c | | | 900 |
| (300 Shares of Shyam forfeited) | | | |
| **OR** | | | |
| Equity Share Capital A/c | Dr. | 1,800 | |
| To Share Forfeiture A/c | | | 900 |
| To Calls in arrears A/c | | | 900 |
| (300 shares forfeited due to non - payment of First call money) | | | |
| Equity Share Second and Final Call A/c | Dr. | 78,000 | |
| To Equity Share Capital A/c | | | 78,000 |
| (Second and Final call made due on 19,500 shares at ₹ 4 per share) | | | |
| Bank A/c | Dr. | 77,600 | |
| To Equity Share Second and Final Call A/c | | | 77,600 |
| (Second and Final call money received on 19,400 shares at ₹ 4 per share) | | | |
| **OR** | | | |
| Bank A/c | Dr. | 77,600 | |
| Calls in arrears A/c | Dr. | 400 | |
| To Equity Shares Second and Final call A/c | | | 78,000 |
| (Second and Final call money received except100 shares) | | | |
| Equity Share Capital A/c | Dr. | 1,000 | |
| To Share Forfeiture A/c | | | 600 |
| To Equity Share Second and Final Call A/c | | | 400 |
| (100 Shares of Mohan forfeited) | | | |

| | | | |
|---|---|---|---|
| **OR** | | | |
| Equity Share Capital A/c Dr. | | 1,000 | |
| To Shares Forfeiture A/c | | | 600 |
| To Calls in arrears A/c | | | 400 |
| (100 shares forfeited due to non-payment of Second and final call money) | | | |
| Bank A/c Dr. | | 5,400 | |
| Share Forfeiture A/c Dr. | | 600 | |
| To Equity Share Capital A/c | | | 6,000 |
| (600 shares reissued at ₹ 9 per share) | | | |
| Share Forfeiture A/c Dr. | | 1,100 | |
| To Capital Reserve A/c (W.N.1) | | | 1,100 |
| (Profit on re-issue transferred to Capital Reserve) | | | |

**Working Note-1:** Calculation of amount to be transferred to Capital Reserve:

| | |
|---|---|
| Surplus out of 200 shares of Ram forfeited | ₹ 200 |
| Surplus out of 300 shares of Shyam forfeited | ₹ 900 |
| Surplus out of 100 shares of Mohan forfeited | ₹ 600 |
| | ₹ 1,700 |
| Less: Loss on Reissue | (6,00) |
| Net Amount to be transferred to Capital Reserve | ₹ 1,100 |

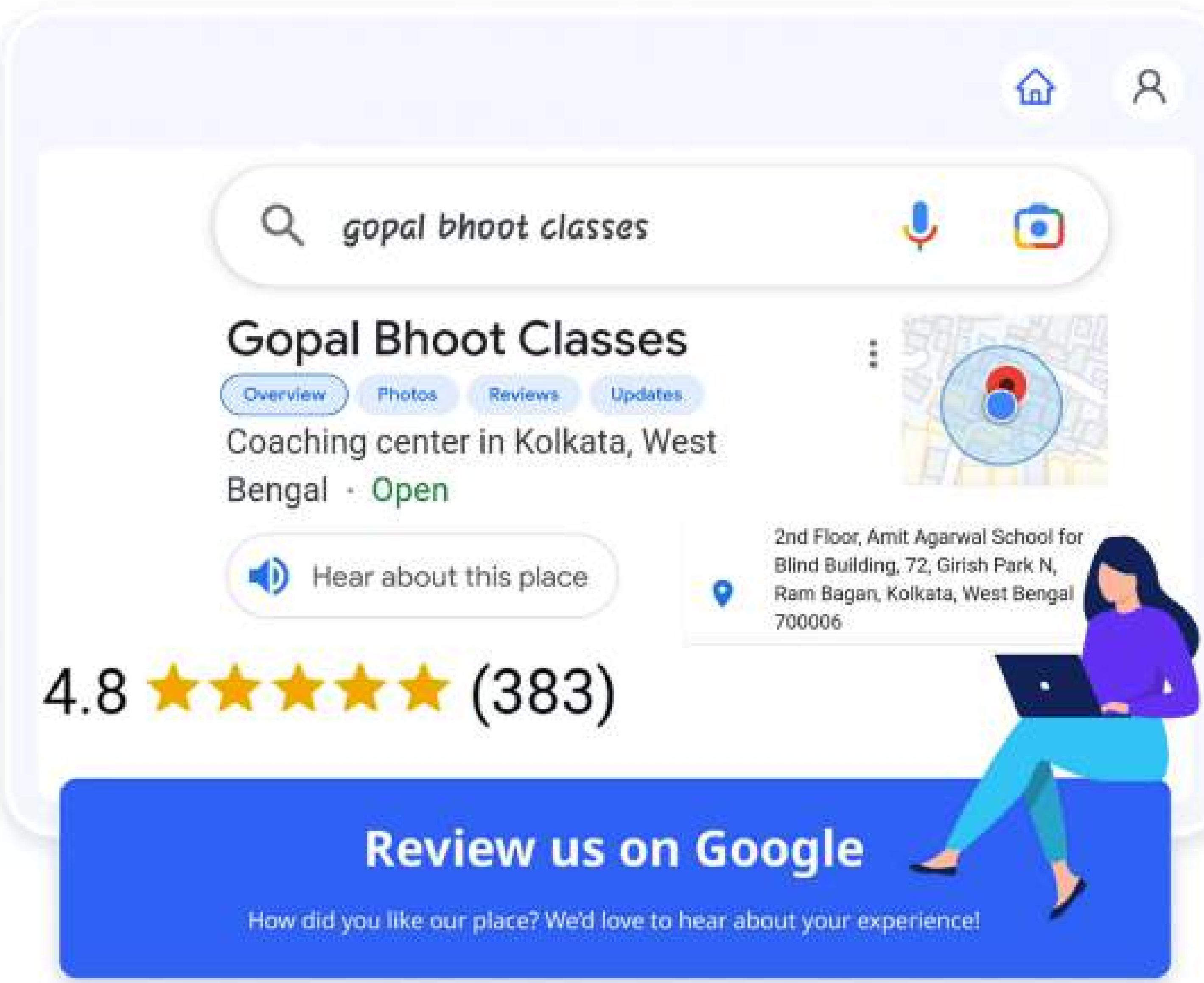
**(b)** (i) Revenue Expenditure.

(ii) Capital Expenditure.

(iii) Revenue Expenditure.

(iv) Revenue Expenditure.

(v) Capital Expenditure.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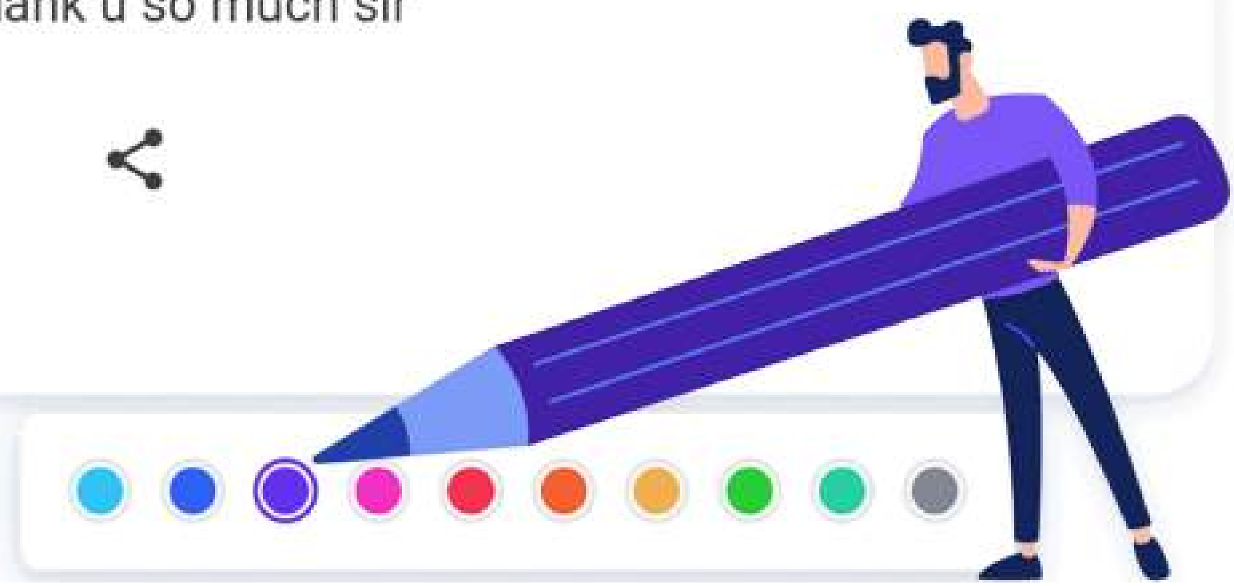

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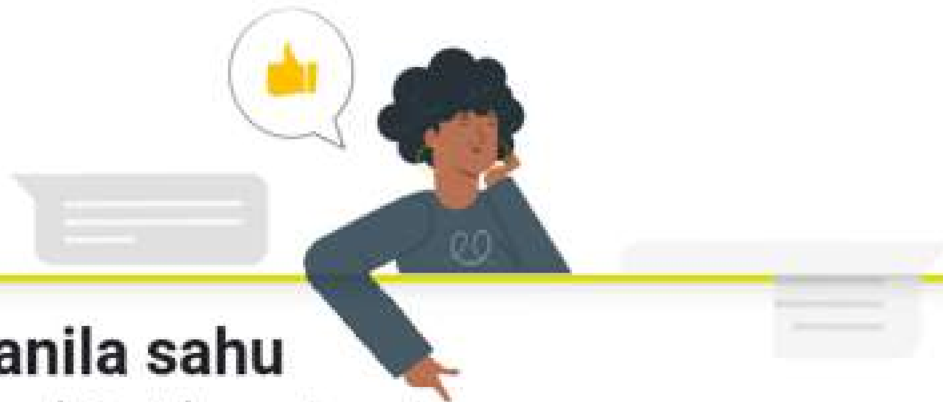

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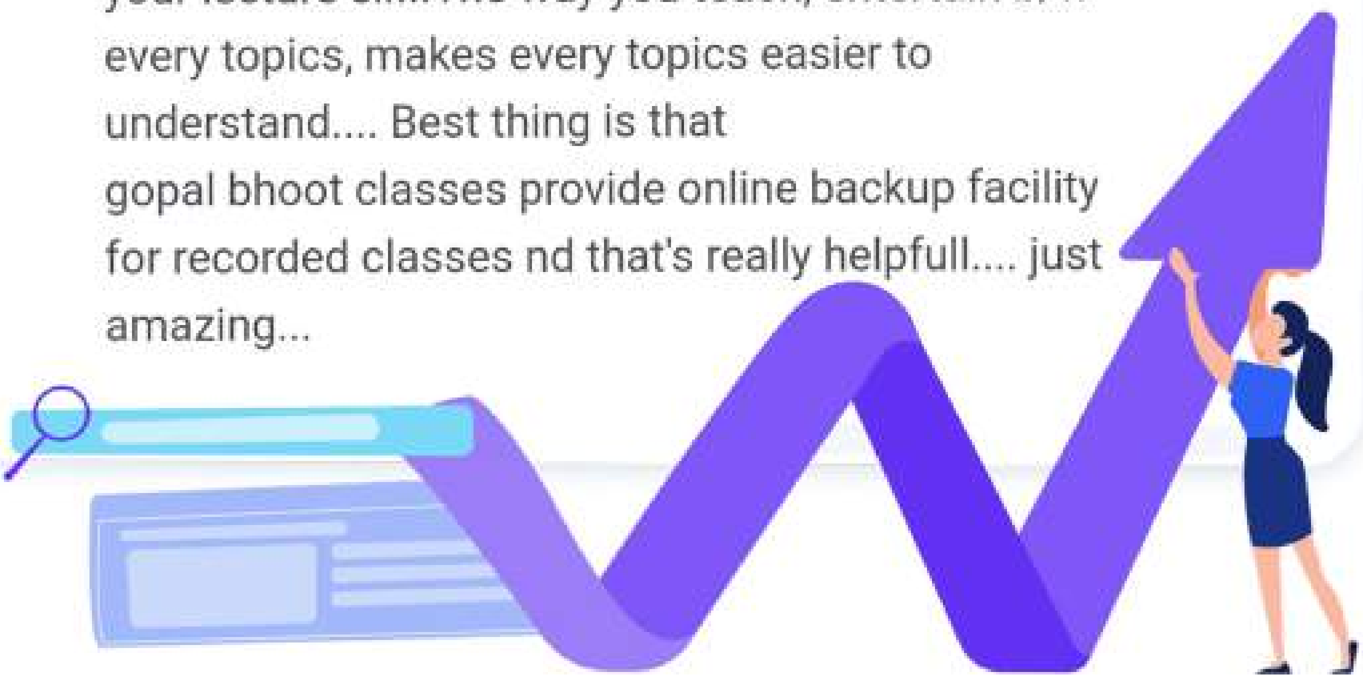

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