

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

$$\text{Equity} + \text{Long Term Liabilities} = \text{Fixed Assets} + \text{Current Assets} - \text{Current Liabilities}$$
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 To Purchase A/c (Being entry made for stock taken by employees)	7,500	7,500
(ii)	Advertisement Expenses A/c To Purchases A/c (Being distribution of goods by the way of free samples)	2,000	2,000
(iii)	Drawings A/c To Petty Cash A/c (Being the income tax of proprietor paid out of business money)	1,400	1,400
(iv)	Purchase A/c To Cash A/c To Discount Received A/c (Being the goods purchased from Naveen for ₹ 2,000 @ 10% trade discount and cash discount of ₹ 50)	1,800	1,750 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 14 th June, 2020		96,00,000
Add: Unsold stock out of the goods sent on consignment	4,80,000	
Purchases during the period from 14 th June, 2020 to 30 th June, 2020	4,80,000	
Goods in transit on 30 th June, 2020	3,20,000	
Cost of goods sent on approval basis (80% of ₹ 3,20,000)	<u>2,56,000</u>	<u>15,36,000</u>
		1,11,36,000
Less: Cost of sales during the period from 14 th June, 2020 to 30 th June, 2020		
Sales (₹ 27,20,000-₹ 3,20,000)	24,00,000	
Less: Gross profit	<u>1,92,000</u>	<u>22,08,000</u>
Value of stock as on 30 th June, 2020		<u>89,28,000</u>

Working Notes:

1.	Calculation of normal sales:	₹	₹
	Actual sales		27,20,000
	Less: Abnormal sales	2,40,000	
	Return of goods sent on approval	<u>3,20,000</u>	<u>5,60,000</u>
			<u>21,60,000</u>
2.	Calculation of gross profit:		
	Gross profit or normal sales		4,32,000
	20/100 x ₹ 21,60,000		
	Less: Loss on sale of particular (abnormal) goods (4,80,000 less 2,40,000)		2,40,000
	Gross profit		<u>1,92,000</u>

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

Date	Particulars	Amount	Date	Particulars	Amount
2020		₹	2020		₹
March 31	To Party A/c	16,000	March 31	By Balance b/d	4,062
	To Customer A/c			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 31 st March, 2020	13,14,000
	13,25,242
Less: Cheques issued but not presented for payment upto 31 st March, 2020	(13,26,000)
Credit by Bank erroneously on 6 th 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 27 th 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	<u>15,750</u>	<u>(49,500)</u>
		10,75,500
Add: Subscription receivable on 31.3.2020	49,500	
Add: Subscription received in advance on 1.4.2019	<u>27,000</u>	<u>76,500</u>
Amount of Subscription appearing in Income & Expenditure Account		<u>11,52,000</u>

Sports material consumed during the year end 31.3.2020

	₹
Payment for Sports material	6,75,000
Less: Amounts due for sports material on 1.4.2019	<u>(2,02,500)</u>
	4,72,500
Add: Amounts due for sports material on 31.3.2020	<u>2,92,500</u>
Purchase of sports material	<u>7,65,000</u>
Sports material consumed:	
Stock of sports material on 1.4.2019	2,25,000
Add: Purchase of sports material during the year	<u>7,65,000</u>
	9,90,000
Less: Stock of sports material on 31.3.2020	<u>(3,37,500)</u>
Amount of Sports Material appearing in Income & Expenditure Account	<u>6,52,500</u>

(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	<u>3,120</u>			
		<u>10,100</u>			<u>10,100</u>

(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	—	—
					By	Goodwill A/c (Working Note)	<u>54,000</u>	<u>36,000</u>
		<u>142,000</u>	<u>108,000</u>	<u>50,000</u>		<u>142,000</u>	<u>108,000</u>	<u>50,000</u>

(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 <u>50,000</u>	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 (<u>3,500</u>)	66,500
Sundry creditors (25,800-2,800)	23,000	Investment (5,000 + 900)	5,900
Outstanding wages	<u>3,120</u>	Cash (31,000 + 50,000)	<u>81,000</u>
	<u>3,52,320</u>		<u>3,52,320</u>

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	<u>67,500</u>
	3,82,500

Less: Depreciation for 2018	90,000
	<u>2,92,500</u>
Less: Depreciation for 2019 (9 months)	67,500
	<u>2,25,000</u>
Less: Amount received from Insurance company	2,70,000
	<u>45,000</u>

(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	<u>5,150</u>	4,22,000
	Less: Purchases return	<u>3,450</u>	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				
			<u>6,72,000</u>				<u>6,72,000</u>
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	<u>6,400</u>	5,600				
To	Provision for discount on debtors						
	2.5% of ₹ 2,28,000	5,700					
	Less: Existing provision	<u>2,750</u>	2,950				
To	Depreciation:						
	Plant and machinery	6,000					
	Furniture and fittings	<u>2,050</u>	8,050				
To	Office expenses		20,320				
To	Interest on loan		6,000				
To	Net profit						
	(Transferred to capital account)		<u>1,67,600</u>				
			<u>2,79,970</u>				<u>2,79,970</u>

Balance Sheet of Mr. Sanjeev as on 31st March, 2020

		Amount			Amount
<i>Liabilities</i>	₹	₹	<i>Assets</i>	₹	₹
Capital account	1,30,000		Plant and machinery	40,000	
Add: Net profit	<u>1,67,600</u>		Less: Depreciation	<u>6,000</u>	34,000
	2,97,600		Furniture and fittings	20,500	
Less: Drawings	<u>23,000</u>	2,74,600	Less: Depreciation	<u>2,050</u>	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	<u>5,700</u>	2,22,300
			Prepaid rent		600
			Cash in hand		2,900
			Cash at bank		<u>6,250</u>
		<u>5,34,500</u>			<u>5,34,500</u>

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 To Equity Share Application A/c (Money received on application for 1,000 shares @ ₹ 25 per share)	Dr.	25,000	25,000
Equity Share Application A/c To Equity Share Capital A/c (Transfer of application money on 1,000 shares to share capital)	Dr.	25,000	25,000
Equity Share Allotment A/c To Equity Share Capital A/c (Amount due on the allotment of 1,000 shares @ ₹ 30 per share)	Dr.	30,000	30,000
Bank A/c To Equity Share Allotment A/c (Allotment money received)	Dr.	30,000	30,000
Equity Share First Call A/c To Equity Share Capital A/c (First call money due on 1,000 shares @ ₹ 20 per share)	Dr.	20,000	20,000
Bank A/c Calls-in-Arrears A/c To Equity Share First Call A/c To Calls-in-Advance A/c (First call money received on 800 shares and calls-in-advance on 100 shares @ ₹ 25 per share)	Dr. Dr.	18,500 4,000	20,000 2,500

(b)

In the books of Aditya Company Ltd.

Journal Entries

Date	Particulars		Dr. ₹	Cr. ₹
(a)	Bank A/c To Debentures Application A/c (Being the application money received on 10,000 debentures @ ₹ 450 each)	Dr.	45,00,000	45,00,000
	Debentures Application A/c Discount on issue of Debentures A/c To 9% Debentures A/c (Being the issue of 10,000 9% Debentures @ 90% as per Board's Resolution No....dated....)	Dr. Dr.	45,00,000 5,00,000	50,00,000
(b)	Fixed Assets A/c To Vendor A/c (Being the purchase of fixed assets from vendor)	Dr.	20,00,000	20,00,000
	Vendor A/c Discount on Issue of Debentures A/c To 9% Debentures A/c	Dr. Dr.	20,00,000 5,00,000	25,00,000

(c)	(Being the issue of debentures of ₹ 25,00,000 to vendor to satisfy his claim)			
	Bank A/c To Bank Loan A/c (See Note) (Being a loan of ₹ 20,00,000 taken from bank by issuing debentures of ₹25,00,000 as collateral security)	Dr.	20,00,000	20,00,000

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

(c) Distinction between Money Measurement concept and Matching concept

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

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