

MOCK TEST PAPER 1
FOUNDATION COURSE
PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

Question No. 1 is compulsory.

*Answer any **four** questions from the remaining **five** questions.*

*Wherever necessary, suitable assumptions should be made and disclosed
by way of note forming part of the answer.*

Working Notes should form part of the answer.

(Time allowed: 3 Hours)

(100 Marks)

1. (a) State with reasons whether the following statements are True or False:
- (i) The concept of conservatism when applied to the balance sheet results in understatement of assets.
 - (ii) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
 - (iii) Discount at the time of retirement of a bill is a gain for the drawee.
 - (iv) If individual life policies are taken in the name of the partners and premium is paid from the firm, then retiring partner is entitled to surrender value of his policy only.
 - (v) When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with calls in arrear of shares forfeited.
 - (vi) Goods worth ₹ 600 taken by the proprietor for personal use should be credited to Capital Account. **(6 statements x 2 Marks = 12 Marks)**
- (b) Explain, in brief, the basic considerations for distinguishing between capital and revenue expenditures? **(4 Marks)**
- (c) Classify the following errors under the three categories – Errors of Omission, Errors of Commission and Errors of Principle.
- (i) Sale of furniture credited to Sales Account.
 - (ii) Purchase worth ₹ 500 from M not recorded in subsidiary books.
 - (iii) Credit sale wrongly passed through the Purchase Book.
 - (iv) Machinery sold on credit to Mohan recorded in Journal Proper but omitted to be posted.
 - (v) Goods worth ₹ 5000 purchased on credit from Ram recorded in the Purchase Book as ₹ 500. **(4 Marks)**
2. (a) Prepare a Bank Reconciliation statement for Satyam Traders as on 31st March, 2021
- The cash book of Satyam Traders shows a debit balance of ₹ 4,12,200 at bank as on 31st March, 2021, but you find that it does not agree with the balance as per Pass Book. After checking you find the following:
- 1. On 12th March, 2021 the payment side of the Cash Book was under cast by ₹ 12,000/-
 - 2. A cheque of ₹ 85,000 issued on 20th March, 2021 was not taken in the bank column.

3. On 22nd March, 2021 the debit balance of ₹ 18,500 as on the previous day, was brought forwards as credit balance.
 4. Out of the total cheques amounting to ₹ 42,000 issued in, the last week of March, 2021, cheques aggregating ₹ 28,500 were encashed in March, 2021.
 5. Dividends of ₹ 35,000 collected by the Bank and Fire insurance premium of ₹ 20,000 paid by it were not recorded in the cash book.
 6. One cheque issued to a Creditor of ₹ 1,29,000 was recorded twice in the Cash book.
 7. A debtor Mr. A has deposited the Cheque for ₹ 32,000 into the bank directly in the month of March, 2021 without intimating to Satyam Traders and the same cheque was dishonored by the bank due to insufficient funds in the month of March itself.
 8. A cheque from customer for ₹ 5,000 was deposited in bank on 28th March, 2021 but was dishonored and advice received from bank on 3rd April, 2021.
 9. Bank paid credit card bill of ₹ 2,500 which is not recorded in cash book.
 10. Bank wrongly credited cheque of ₹ 25,000 of other customer in our account.
 11. Bank credited cheque of ₹ 2,000 in savings account of proprietor of Satyam Traders instead of crediting cheque in current account of Satyam Traders.
 12. ₹ 500 discount received wrongly entered in bank column in cash book.
 13. Bank debited charges ₹ 200 on 25th March for which no intimation received till 31st March.
- (b) A Plant & Machinery costing ₹ 50,00,000 is depreciated on straight line assuming 10 year working life and zero residual value, for four years. At the end of the fourth year, the machinery was revalued upwards by ₹ 2,00,000. The remaining useful life was reassessed at 8th year. Calculate Depreciation for the fifth year. **(15 Marks +5 Marks= 20 Marks)**

- 3 (a) Calculate average due date from the following information:

Date of bill	Term	Amount (₹)
1st March, 2021	2 months	20,000
10th March, 2021	3 months	15,000
5th April, 2021	2 months	10,000
23rd April, 2021	1 months	18,750
10th May, 2021	2 months	25,000

(5 Marks)

- (b) Mr. Lalit owed ₹ 4,000 on 1st January, 2021 to Mr. Sumit. The following transactions took place between them. It is agreed between the parties that interest @ 10% p.a. is to be calculated on all transactions.

	₹
15 January, 2021 Mr. Sumit sold goods to Mr. Lalit	2,230
29 January, 2021 Mr. Sumit bought goods from Mr. Lalit	1,200
10 February, 2021 Mr. Lalit paid cash to Mr. Sumit	1,000
13 March, 2021 Mr. Lalit accepted a bill drawn by Mr. Sumit for one month	2,000

They agree to settle their complete accounts by one single payment on 15th March, 2021.

Prepare Mr. Lalit in Account Current with Mr. Sumit and ascertain the amount to be paid. Ignore days of grace. **(5 Marks)**

- (c) Mr. Q accepted a bill for ₹ 10,000 drawn on him by Mr. P on 1st August, 2020 for 3 months. This was for the amount which Q owed to P. On the same date Mr. P got the bill discounted at his bank for ₹ 9,800.

On the due date, Q approached P for renewal of the bill. Mr. P agreed on condition that ₹ 2,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance Q should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2020, Q became insolvent and his estate paid 40%.

Prepare Journal Entries in the books of Mr. P **(10 Marks)**

4. From the following data, prepare an Income and Expenditure Account for the year ended 31st December 2020, and Balance Sheet as at that date of the Rex Speciality Hospital:

**Receipts and Payments Account for the
year ended 31 December, 2020**

RECEIPTS	₹		PAYMENTS		₹
To Balance b/d			By Salaries:		
Cash	1,600		(₹ 14,400 for 2019)		62,400
Bank	<u>10,400</u>	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	By Diet expenses		31,200
To Government Grant:			By Rent and rates		4,000
For building		1,60,000	(₹ 600 for 2021)		
For maintenance		40,000	By Electricity and water charges		4,800
Fees from sundry Patients		9,600	By office expenses		4,000
To Donations (not to be capitalized)		16,000	By Investments		40,000
To Net collections from benefit shows		12,000	By Balances:		
		<u>12,000</u>	Cash	2,800	
		<u>3,13,600</u>	Bank	<u>13,600</u>	<u>16,400</u>
					<u>3,13,600</u>
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 (un-appropriated profit)		20,000	Investments	12,000
Long Term Debt		3,00,000	Inventories	1,30,000
Bank Overdraft		44,000	Trade receivables	1,39,000
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:

- Goodwill is to be valued at ₹1 lakh but the same will not appear as an asset in the books of the reconstituted firm.
- 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.
- 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.
 - The surplus funds, if any, will be used for repaying bank overdraft.
 - The amount due to retiring partner shall be transferred to his loan account.

You are required to prepare

- Revaluation account;
 - Partners' capital accounts; and
 - Bank account;
- (b) Following information is provided for M/s. Rishi traders for the year ended 31st March, 2021:

	₹
Opening Inventory	3,00,000
Purchases	20,16,000
Carriage Inwards	90,000
Wages	1,50,000
Sales	33,00,000
Returns inward	3,00,000
Returns outward	2,16,000
Closing Inventory	6,00,000

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

(15 + 5 = 20 Marks)

6. (a) Give necessary journal entries for the forfeiture and re-issue of shares:
- (i) Suresh Ltd. forfeited 300 shares of ₹ 10 each fully called up, held by Ramesh for non-payment of allotment money of ₹ 3 per share and final call of ₹ 4 per share. He paid the application money of ₹ 3 per share. These shares were re-issued to Mahesh for ₹ 8 per share.
 - (ii) Mr. P, who was the holder of 2,500 preference shares of ₹ 100 each, on which ₹ 70 per share has been called up, could not pay his dues on Allotment and First call each at ₹ 20 per share. The Directors forfeited the above shares and reissued 2,000 of such shares to Mr. Q at ₹ 60 per share paid-up as ₹ 70 per share. **(10 Marks)**
- (b) On 1st April, 2020, Sky Ltd. took over assets of ₹ 4,50,000 and liabilities of ₹ 60,000 of Universe Ltd. for the purchase consideration of ₹ 4,40,000. It paid the purchase consideration by issuing 8% debentures of ₹ 100 each at 10% premium. On the same date it issued another 3,000, 8% debentures of ₹ 100 at discount of 10% redeemable at the premium of 5% after 5 years. According to the terms of the issue ₹ 30 is payable on application and the balance on the allotment of debenture.
- You are required to pass journal entries in the books of Sky Ltd. for financial year 2020-21. **(5 Marks)**
- (c) Explain in brief objectives of preparing Trial Balance.

Or

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