

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) $\text{Capital} + \text{Long Term Liabilities} = \text{Fixed Assets} + \text{Current Assets} + \text{Cash} - \text{Current Liabilities}$.

(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.
 - (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.

- (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.

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

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)

- (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.

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 31 st 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 31 st March)	15,000	10,000	18,000	12,000
Incomes not taken into account (as at 31 st 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

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

(2) Subscription received during the year Rs. 11,25,000

(3) Payments for Sports Material during the year Rs. 6,75,000

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

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)