

**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                  |
- 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.

- (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 30<sup>th</sup> 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 30<sup>th</sup> 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.
  - (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.

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:

<b>Purchases by Bosco from Ben:</b>	<b>₹</b>
6 <sup>th</sup> January, 2023	60,000
2 <sup>nd</sup> February, 2023	28,000
31 <sup>st</sup> March, 2023	20,000

**Sales by Bosco to Ben:**

6 <sup>th</sup> January, 2023	66,000
9 <sup>th</sup> March, 2023	24,000
20 <sup>th</sup> March, 2023	5,000

You are asked to ascertain the average due date taking base date as 6<sup>th</sup> 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 31<sup>st</sup> 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:

- Land and Building be valued at ₹ 1,75,000
- Debtors were all good, no provision is required
- Stock is valued at ₹ 13,500
- 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.
- Pawan's share of profit from 1<sup>st</sup> 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 1<sup>st</sup> 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 1<sup>st</sup> 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 1 <sup>st</sup> 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 31<sup>st</sup> 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

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 31<sup>st</sup> 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

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 1<sup>st</sup> 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.

- (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 31<sup>st</sup> March, 2022 of ₹ 33,000 and 31<sup>st</sup> 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

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. Afterward 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)**