

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 To Purchase A/c (Being entry made for stock taken by employees)	15,000	15,000
(ii)	Machinery A/c To Cash A/c (Being wages paid for erection of machinery)	16,000	16,000

(iii)	Drawings A/c To Petty Cash A/c (Being the income tax of proprietor paid out of business money)	3,400	3,400
(iv)	Purchase A/c To Cash A/c To Discount Received A/c (Being the goods purchased from Naveen for ₹ 4,000 @ 10% trade discount and cash discount of ₹ 100)	3,600	3,500 100

2. (a) **Statement of Valuation of Stock on 30th April, 2023**

		₹
Value of stock as on 23 rd April, 2023		48,00,000
Add: Unsold stock out of the goods sent on consignment	2,40,000	
Purchases during the period from 23 rd April, 2023 to 30 th April, 2023	2,40,000	
Goods in transit on 30 th April, 2023	1,60,000	
Cost of goods sent on approval basis (80% of ₹ 1,60,000)	<u>1,28,000</u>	<u>7,68,000</u>
		55,68,000
Less: Cost of sales during the period from 23 rd April, 2023 to 30 th April, 2023		
Sales (₹ 13,60,000 - ₹ 1,60,000)	12,00,000	
Less: Gross profit	<u>96,000</u>	<u>11,04,000</u>
Value of stock as on 30 th April, 2023		<u>44,64,000</u>

Working Notes:

		₹	₹
1.	Calculation of normal sales:		
	Actual sales		13,60,000
	Less: Abnormal sales	1,20,000	
	Return of goods sent on approval	<u>1,60,000</u>	<u>2,80,000</u>
			<u>10,80,000</u>
2.	Calculation of gross profit:		
	Gross profit or normal sales		2,16,000
	20/100 x ₹ 10,80,000		
	Less: Loss on sale of particular (abnormal) goods (2,40,000 - 1,20,000)		<u>1,20,000</u>
	Gross profit		<u>96,000</u>

(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
		<u>5,16,000</u>			<u>5,16,000</u>
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
		<u>1,78,500</u>			<u>1,78,500</u>

Working Note: Calculation of Book Value of Machines under SLM

	Machine 1	Machine 2	Machine 3
	(in ₹)	(in ₹)	(in ₹)
<u>Date of Purchase</u>	01.01.2019	01.07.2019	30.09.2021
Original Cost	4,00,000	1,60,000	60,000
Depreciation for 2019 (SLM)	<u>(40,000)</u>	<u>(8,000)</u>	
WDV on 31.12.2019	3,60,000	1,52,000	
Depreciation for 2020 (SLM)	<u>(40,000)</u>	<u>(16,000)</u>	
WDV on 31.12.2020	3,20,000	1,36,000	
Depreciation for 2021 (SLM)	<u>(20,000)</u>	<u>(16,000)</u>	<u>(1,500)</u>
WDV on 31.12.2021 (30 th June for Machine1)	3,00,000	1,20,000	58,500
Sale Proceeds	<u>(2,50,000)</u>		
Loss on Sale	50,000		
Depreciation for 2022 (WDV @ 15%)	-	<u>(18,000)</u>	<u>(8,775)</u>
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 Bills receivable (No. 2) A/c To Vishal A/c (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)	Dr. Dr.	32,000 50,000	82,000
March 4	Vishal's A/c To Bills receivable (No.1) A/c (Being the reversal entry for bill No.1 on renewal)	Dr.	32,000	32,000

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

(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
			<u>17,500</u>		<u>7,50,000</u>

$$\text{Average Due Date} = 21\text{st July} + \frac{7,50,000}{17,500} = 21.7.2022 + 43 \text{ days} = 2.09.2022.$$

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					Mar. 10	By Sales returns	Mar. 10	7,000	21	1,47,000
	x $\frac{12}{100}$					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
			<u>64,500</u>		<u>29,50,000</u>				<u>64,500</u>		<u>29,50,000</u>

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		
	<u>1,52,000</u>		<u>1,52,000</u>

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 = $5/8 \times 4/5 = 20/40 = 5/10$

Q's Share = $3/8 \times 4/5 = 12/40 = 3/10$

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	<u>25,500</u>	1,44,500
R	<u>2,40,000</u>	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	<u>3,000</u>	57,000
			Cash at Bank		3,14,060
			P's current A/c		<u>26,562</u>
		<u>13,28,862</u>			<u>13,28,862</u>

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 = $2,40,000 \times 5 = 12,00,000$

P's Capital = $12,00,000 \times 5/10 = 6,00,000$ and

Q's Capital = $12,00,000 \times 3/10 = 3,60,000$

(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	<u>5,150</u>	4,22,000
Less: Purchases return	<u>3,450</u>	3,02,750	By Closing stock		2,50,000
To Carriage inward		2,250	(₹ 1,60,000 ×		
To Wages		23,430	$\frac{100}{80} \times \frac{100}{80}$)		
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. Kamal as on 31st March, 2023

Liabilities	(₹)	Amount (₹)	Assets	(₹)	Amount (₹)
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 disc on debtors	<u>5,700</u>
		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>

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	<u>32,000</u>		
	<u>1,28,200</u>		<u>1,28,200</u>

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	<u>1,00,000</u>	2,80,000
Over Expenditure	<u>32,000</u>	1,30,600	Hospital Equipment :		
Building Fund :			Opening balance	68,000	
Opening balance	1,60,000		Addition	<u>34,000</u>	1,02,000
Add : Govt. Grant	<u>1,60,000</u>	3,20,000	Furniture		12,000
Subscriptions received in advance		4,800	Investments-		
			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
	<u>4,55,400</u>		<u>4,55,400</u>

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	<u>14,400</u>	Cash in hand	<u>1,600</u>
	<u>2,73,000</u>		<u>2,73,000</u>
(2) Value of Building			₹
Balance on 31st Dec. 2022			2,80,000
Paid during the year			<u>(1,00,000)</u>
Balance on 31st Dec. 2021			<u>1,80,000</u>
(3) Value of Equipment			
Balance on 31st Dec. 2022			1,02,000
Paid during the year			<u>(34,000)</u>
Balance on 31st Dec. 2021			<u>68,000</u>
(4) Subscription due for 2021			
Receivable on 31st Dec. 2021			13,000
Received in 2022			<u>(10,200)</u>
Still Receivable for 2022			<u>2,800</u>

6. (a) Journal of V Kohli. Ltd.

2022			Dr. ₹ in lakhs	Cr. ₹ in lakhs
June 1	Bank A/c To Shares Application A/c (Receipt of applications for 15 lakh shares along with application money of ₹ 20 per share.)	Dr.	300	300
June 1	Share Application A/c Share Allotment A/c To Share Capital A/c (The allotment of 15 lakh shares : payable on application ₹ 20 share and ₹ 30 on allotment as per Directors' resolution no... dated...)	Dr. Dr.	300 450	750
June 1	Bank A/c To Shares Allotment A/c	Dr.	465	450

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