

**Mock Test Paper - Series II: January,2025**

**Date of Paper: 31<sup>st</sup> December, 2024**

**Time of Paper: 10.30 A.M. to 1.30 P.M.**

**FOUNDATION COURSE**

**PAPER – 1: 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:
- Depreciation cannot be provided in case of loss, in a financial year.
  - At the end of the accounting year, all the nominal accounts of the ledger book are balanced.
  - Any amount spent for replacement of worn out part of a machine is capital expenditure.
  - In case of admission of a new partner in a partnership firm, the profit/loss on revaluation account is transferred to all partners in their new profit sharing ratio.
  - The debit notes issued are used to prepare Sales Return Book.
  - Debentures Suspense Account appears on the liability side of the Balance Sheet of a Company.

**(6 Statements x 2 Marks = 12 Marks)**

- (b) Explain the objective of "Accounting Standards" in brief. **(4 Marks)**
- (c) One of your clients Mr. Govind asked you to finalize his account for the year ended 31<sup>st</sup> March,2024. As a basis for audit, Mr. Govind furnished you with the following statement:

	Dr.	Cr.
Govind 's Capital		14,004
Govind 's Drawings	5,076	
Leasehold Premises	6,750	
Sales		24,750
Due from customers		4,770
Purchases	11,331	
Purchase Return	2,376	

Loan from Bank		2,304
Trade Expense	6,300	
Trade Payable	4,752	
Bills Payable	900	
Salaries and Wages	5,400	
Cash at Bank	2,034	
Opening Inventory		2,376
Rent and Rates	4,167	
Sales Return		882
	49,086	49,086

The closing inventory was ₹ 5,166. Mr. Govind claims that he has recorded every transaction correctly as the trial balance is tallied. Check the accuracy of the above trial balance and give reasons for the errors, if any. **(4 Marks)**

**(12 + 4 + 4 = 20 Marks)**

2. (a) Sunshine Ltd. keeps no stock records but a physical inventory of stock is made at the end of each quarter and the valuation is taken at cost. The company's year ends on 31<sup>st</sup> March, 2024 and their accounts have been prepared to that date. The stock valuation taken on 31<sup>st</sup> March, 2024 was however, misleading and you have been advised to value the closing stocks as on 31<sup>st</sup> March, 2024 with the stock figure as on 31<sup>st</sup> December, 2023 and some other information is available to you:
- The cost of stock on 31<sup>st</sup> December, 2023 as shown by the inventory sheet was ₹ 80,000.
  - On 31<sup>st</sup> December, stock sheet showed the following discrepancies:
    - A page total of ₹ 5,000 had been carried to summary sheet as ₹ 6,000.
    - The total of a page had been undercast by ₹ 200.
  - Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2024 totalled ₹ 70,000. Out of this ₹ 3,000 related to goods received prior to 31<sup>st</sup> December, 2023. Invoices entered in April 2024 relating to goods received in March, 2024 totalled ₹ 4,000.
  - Sales invoiced to customers totalled ₹ 90,000 from January to March, 2024. Of this ₹ 5,000 related to goods dispatched before 31<sup>st</sup> December, 2023. Goods dispatched to customers before 31<sup>st</sup> March, 2024 but invoiced in April, 2024 totalled ₹ 4,000.
  - During the final quarter, credit notes at invoiced value of ₹ 1,000 had been issued to customers in respect of goods returned during

that period. The gross margin earned by the company is 25% of cost.

You are required to prepare a statement showing the amount of stock at cost as on 31<sup>st</sup> March, 2024. **(10 Marks)**

- (b) Prepare a Bank Reconciliation statement for Ramesh Traders as on 31<sup>st</sup> March, 2024.

The cash book of Ramesh Traders shows a debit balance of ₹ 8,24,400 at bank as on 31<sup>st</sup> March, 2024, 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, 2024 the payment side of the Cash Book was under cast by ₹ 24,000/-
2. A cheque of ₹ 1,70,000 issued on 20th March, 2024 was not taken in the bank column.
3. On 22nd March, 2024 the debit balance of ₹ 37,000 as on the previous day, was brought forwards as credit balance.
4. Out of the total cheques amounting to ₹ 84,000 issued in, the last week of March, 2024, cheques aggregating ₹ 57,000 were encashed in March, 2024.
5. Dividends of ₹ 70,000 collected by the Bank and Fire insurance premium of ₹ 40,000 paid by it were not recorded in the cash book.
6. One cheque issued to a creditor of ₹ 2,58,000 was recorded twice in the Cash book.
7. A debtor Mr. Sahid has deposited the Cheque for ₹ 64,000 into the bank directly in the month of March, 2024 without intimating to Ramesh 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 ₹ 10,000 was deposited in bank on 28th March, 2024 but was dishonored and advice received from bank on 3rd April, 2024.
9. Bank paid credit card bill of ₹ 5,000 which is not recorded in cash book.
10. Bank wrongly credited cheque of ₹ 50,000 of other customer in our account.
11. Bank credited cheque of ₹ 4,000 in savings account of proprietor of Ramesh Traders instead of crediting cheque in current account of Ramesh Traders.
12. ₹ 1,000 discount received wrongly entered in bank column in cash book.

13. Bank debited charges ₹ 400 on 25<sup>th</sup> March for which no intimation received till 31<sup>st</sup> March **(10 Marks)**

**(10 +10 = 20 Marks)**

3. (a) Summary of Receipts and Payments of Natures Beauty Society for the year ended 31st March, 2024 are as follows:

Receipts	Amount	Payments	Amount
Subscription Received	5,00,000	Payment for Medicine Supply	3,00,000
Donation Raised for meeting revenue expenditure	1,50,000	Honorarium to Doctors	1,00,000
Interest on Investments @ 9% p.a.	90,000	Salaries	2,80,000
Charity Show Collection	1,25,000	Sundry Expenses	10,000
		Equipment Purchase	1,50,000
		Charity Show Expenses	15,000

Additional Information:

Particulars	01.04.2023	31.03.2024
Subscription due	15,000	22,000
Subscription received in advance	12,000	7,000
Stock of medicine	1,00,000	1,50,000
Amount due for medicine supply	90,000	1,30,000
Value of equipment	2,10,000	3,00,000
Value of building	5,00,000	4,80,000
Cash Balance	80,000	90,000
Opening Balance of Capital Fund	18,03,000	

You are required to prepare:

(i) Income and Expenditure Account for the year ended 31<sup>st</sup> March, 2024.

(ii) Balance Sheet as on 31<sup>st</sup> March, 2024. **(10 Marks)**

(b) A, B and C shared profits and losses in the ratio of 5:3:2. They took out a Joint Life Policy in 2020 for ₹ 50,000, a premium of ₹ 3,000 being paid annually on 10th June. The surrender value of the policy on 31st December of various years was as follows:

2020	Nil
2021	₹ 900
2022	₹ 2,000
2023	₹ 3,600

A retired on 15<sup>th</sup> April, 2024 and the policy was surrendered. You are required to prepare Joint Life Policy Account from 2020 to 2024 (assuming the Policy Account is maintained at surrendered value basis).

**(5 Marks)**

- (c) Mr. Nikhil gives the following particulars in respect of business carried on by him:

Particulars	Amount (₹)
Capital Invested in business	9,00,000
Market rate of interest on investment	8%
Rate of risk return on capital invested in business	3%
Remuneration per annum from alternative employment of proprietor if he was not engaged in business	36,000

The business earned profits of ₹ 2,40,000, ₹ 2,16,000 and ₹ 3,00,000 in the years 2020, 2021 and 2023 respectively but made a loss of ₹ 36,000 in the year 2022.

Compute the value of Goodwill on the basis of 6 years' purchase of super profits of the business, calculated on the basis of average profit of last four years.

**(5 Marks)**

**(10 + 5 + 5 = 20 Marks)**

4. (a) The Balance Sheet of a Partnership Firm M/s Dutch and Associates consisted of two partners P and Q who were sharing Profits and Losses in the ratio of 5 : 3 respectively. The position as on 31<sup>st</sup> March, 2024 was as follows:

Liabilities	₹	Assets	₹
P's Capital	4,10,000	Land & Building	3,80,000
Q's Capital	3,30,000	Plant & Machinery	1,70,000
Profit & Loss A/c	1,12,000	Furniture	1,09,480
Trade Creditors	54,800	Stock	1,45,260
		Sundry debtors	60,000
		Cash at Bank	42,060
	9,06,800		9,06,800

On the above date, R was admitted as a partner on the following terms:

- R should get 1/5<sup>th</sup> of share of profits.
- R brought ₹ 2,40,000 as his capital and ₹ 32,000 for his share of Goodwill.
- Plant and Machinery would be depreciated by 15% and Land & Buildings would be appreciated by 40%.

- (d) A provision for doubtful debts to be created at 5% on sundry debtors.
- (e) An unrecorded liability of ₹ 6,000 for repairs to Buildings would be recorded in the books of accounts.
- (f) Immediately after R's admission, Goodwill brought by him would be adjusted among old partners. Thereafter, the capital accounts of old partners would be adjusted through the current accounts of partners in such a manner that the capital accounts of all the partners would be in their profit sharing ratio.

Prepare revaluation A/c, capital Accounts of the partners, new profit sharing ratio and Balance Sheet of the firm after the admission of R.

**(10 Marks)**

- (b) Sameer Distributors are carrying on the retail business of electrical goods. They keep their books of account under single entry system. The Balance Sheet as on 31<sup>st</sup> March, 2023 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/c	18,15,000	Motor Vehicle	3,30,000
Trade Creditors	2,25,600	Furniture	2,20,500
Salary payable	27,000	Stock in trade	5,12,400
		Trade Debtors	4,36,200
		6% Investments	1,80,000
		Cash in hand & at Bank	3,88,500
	20,67,600		20,67,600

The summary of Cash and Bank Book for the year ended 31<sup>st</sup> March, 2024 was given as below:

Receipts	Amount (₹)	Payments	Amount (₹)
Cash in hand & at Bank on 1 <sup>st</sup> April, 2023	3,88,500	Cash Purchases	28,45,200
Cash Sales	30,67,200	Payment to Trade Creditors	2,26,35,000
Receipts from Trade Debtors	2,56,56,000	Salaries	12,38,400
Interest on investments	10,800	Rent & taxes	7,54,800
		Sundry Expenses	4,15,200
		Drawings	7,20,000
		Cash in hand & at Bank on 31 <sup>st</sup> March, 2024	5,13,900
	2,91,22,500		2,91,22,500

Additional Information:

- (i) Gross Profit ratio of 12.5% on Sales is maintained throughout the year.

- (ii) During the year, discount allowed to Trade debtors was for ₹ 1,87,500 and discount received from Trade Creditors amounted to ₹ 1,05,000.
- (iii) As on 31<sup>st</sup> March, 2024. The closing balances to Trade Debtors and Trade Creditors were ₹6,61,500 and ₹ 3,16,800 respectively.
- (iv) On 31<sup>st</sup> March, 2024 an amount of ₹ 44,400 was outstanding towards Salary.
- (v) Depreciation @ 10% p.a. to be charged on Motor Vehicle and Furniture.

You are required to prepare Trading and Profit & Loss account for the year ended 31<sup>st</sup> March, 2024 and Balance Sheet on at that date.

**(10 Marks)**

**(10 + 10 = 20 Marks)**

5. (a) M/s. Satya Paul steels were unable to agree the Trial Balance as on 31<sup>st</sup> March, 2024 and have raised a suspense account for the difference. Next year the following errors were discovered:
- (i) Repairs made during the year were wrongly debited to the building A/c - ₹ 37,500.
  - (ii) The addition of the 'Freight' column in the purchase journal was short by ₹ 4,500.
  - (iii) Goods to the value of ₹ 3,250 returned by a customer Parth., had been posted to the debit of Parth and also to sales returns.
  - (iv) Sundry items of furniture sold for ₹ 50,000 had been entered in the sales book, the total of which had been posted to sales account.
  - (v) A bill of exchange (received from Comfort & Co.) for ₹ 60,000 had been returned by the bank as. dishonoured and had been credited to the bank and debited to bills receivable account.

You are required to pass journal entries to rectify the above mistakes.

**(5 Marks)**

- (b) Mr. Sanjay runs a factory which produces tyres. The following details were obtained about his manufacturing expenses for the year ended 31<sup>st</sup> March 2024:

	Amount (₹)
Opening Work-in – Progress	18,75,000
Closing Work–in Progress	21,45,000
Opening Inventory of Raw material	17,55,000
Closing Inventory of Raw material	14,10,000
Purchases	56,22,000
Purchase Returns	2,85,000

Carriage Inward	8,10,000
Direct Wages	11,91,000
Power & Electricity	5,28,000
Repairs and Maintenance	7,95,000
Depreciation on Factory Shed	4,32,000
Depreciation on Plant & Machinery	4,86,000
Sale of scrap	1,08,000

You are required to prepare Manufacturing Account for the year ended 31<sup>st</sup> March, 2024. **(5 Marks)**

- (c) The books of Rishab Ltd. showed the following balance on 31<sup>st</sup> December, 2024:

60,000 Equity Shares of ₹ 10 each fully paid; 36,000 12% Redeemable Preference Shares of ₹ 10 each fully paid; 4,000 10% Redeemable Preference Shares of ₹ 10 each, ₹ 8 paid up (all shares issued on 1<sup>st</sup> April, 2024).

Undistributed Reserve and Surplus stood as: Profit and Loss Account ₹ 1,60,000; General Reserve ₹ 2,40,000; Securities Premium Account ₹ 30,000 and Capital Reserve ₹ 42,000.

For redemption, 6,000 equity shares of ₹10 each are issued at 10% premium. At the same time, 12% Preference shares are redeemed on 1<sup>st</sup> January, 2024 at a premium of ₹2 per share. The whereabouts of the holders of 200 shares of ₹10 each fully paid are not known.

A bonus issue of equity share was made at par, two shares being issued for every five held on that date out of the Capital Redemption Reserve Account. However, equity shares, issued for redemption are not eligible for bonus.

Show the necessary Journal Entries to record the transactions. (Ignore date column) **(10 Marks)**

**(5 + 5 + 10 = 20 Marks)**

6. (a) Samuel Limited issued a prospectus inviting applications for 1,20,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share payable as follows:

On Application	-	₹ 3 per share
On Allotment	-	₹ 5 per share (including premium)
On First and Final Call	-	₹ 4 per share

Applications were received for 3,60,000 equity shares. Applications for 80,000 shares were rejected and the money refunded. Shares allotted to remaining applications as follows:

Category	No. of shares Applied	No. of shares Allotted
I	1,60,000	80,000
II	1,20,000	40,000

Excess money received with applications was adjusted towards sums due on allotment and the balance amount returned to the applicants. All calls were made duly received except the final call by a shareholder belonging to Category I who has applied for 680 shares. His shares were forfeited. The forfeited shares were reissued at ₹ 13 per share fully paid-up.

Pass necessary journal entries for the above transactions in the books of Samuel Ltd. Open call in arrears account whenever required.

**(15 Marks)**

- (b) Write short notes on any two of the following:
- Bill of exchange and the various parties to it.
  - Retirement of bills of exchange.

OR

What are the advantages of Subsidiary Books?

**(5 Marks)**

**(15 + 5 = 20 Marks)**



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