MOCK TEST PAPER - 1

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. (a) 1. **True -** The balance represents the cash physically in existence and is therefore an asset.

2. **False -** Finished goods are normally valued at cost or net realizable value whichever is lower.

3. **False -** Current year subscription shall be shown in the credit side of the income and expenditure account and not in the balance sheet, as it is not a capital item.

4. **False -** 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 amount received on shares forfeited.

5. **True -** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

6. **True -** Yes they are types of subsidiary books which is alternate to the journals.

(b) Limitations which must be kept in mind while evaluating the Financial Statements are as follows:

- The factors which may be relevant in assessing the worth of the enterprise don't find place in the accounts as they cannot be measured in terms of money.
- Balance Sheet shows the position of the business on the day of its preparation and not on the future date while the users of the accounts are interested in knowing the position of the business in the near future and also in long run and not for the past date.
- Accounting ignores changes in some money factors like inflation etc.
- There are occasions when accounting principles conflict with each other.
- Certain accounting estimates depend on the sheer personal judgement of the accountant.
- Different accounting policies for the treatment of same item adds to the probability of manipulations.

(c) (i) Purchase of Rs. 1,620 is wrongly recorded through sales day book as Rs. 1,260.

Correct Entry			Entry Made Wrongly		
Purchase A/c	Dr. 1,620		Anupam & Co.	Dr. 1,260	
To Anupam & Co.		1,620	To Sales		1,260

Rectification Entry

Before Trial Balance			After Trial Balance			After Final Accounts	
Sales A/c	Dr.	1,260	Sales A/c	Dr.	1,260	Profit & Loss Adj. A/c	Dr. 2,880
Purchase A/c	Dr.	1,620	Purchase A/c	Dr.	1,620	To Anupam & Co.	2,880
To Anupam & Co.		2,880	To Anupam & Co.		2,880		

(ii) This is one sided error. Soni & Co. account is credited instead of debit. Amount posted to the wrong side and therefore while rectifying the account, double the amount (Rs. 3200) will be taken.

Before Trial Balance	After Trial Balance	After Final Accounts
No Entry Debit Soni A/c with Rs. 3200	Soni & Co. A/c Dr. 3200 To Suspense A/c 3200	Soni & Co. A/c Dr. 3200 To Suspense A/c 3200

2. (a) In the books of M/s. JP Wires Co.

Machinery Account

Date		Particulars	Amount Rs.	Date		Particulars	Amount Rs.
1.1.2017	To	Bank A/c	3,20,000	31.12.2017	By	Depreciation A/c	96,000
	To	Bank A/c	80,000			(Rs.80,000+ Rs. 16,000)	
		(Erection charges)		31.12.2017	By	Balance c/d	4,64,000
1.7.2017	To	Bank A/c	1,60,000			(Rs.3,20,000+ Rs.1,44,000)	
			5,60,000				5,60,000
01.01.18	To	Balance b/d	4,64,000	31.12.2018	By	Depreciation A/c (Rs.80,000+ Rs. 32,000)	1,12,000
				31.12.2018	By	Balance c/d	3,52,000
						(Rs.2,40,000+Rs. 1,12,000)	
			4,64,000				4,64,000
01.01.19	To	Balance b/d	3,52,000	01.07.2019	By	Bank A/c	1,60,000
30.9.19	To	Bank A/c	60,000		By	Profit and Loss A/c	40,000
						(Loss on Sale – W.N.)	
				31.12.2019	By	Depreciation A/c	75,000
						(Rs. 40,000 + Rs. 32,000 + Rs. 3,000)	
					By	Balance c/d	1,37,000
						(Rs. 80,000 + Rs. 57,000)	
			4,12,000				4,12,000
01.01.20	To	Balance b/d	1,37,000	31.12.2020	By	Depreciation A/c	20,550
						(Rs. 12,000 + Rs. 8,550)	
					By	Balance c/d	1,16,450
						(Rs. 68,000 + Rs. 48,450)	
			1,37,000				1,37,000

Working Notes:

Book Value of machines (Straight line method)

	Machine I	Machine II	Machine III
	Rs.	Rs.	Rs.
Cost	4,00,000	1,60,000	60,000
Depreciation for 2017	80,000	16,000	

Written down value as on 31.12.2017	3,20,000	1,44,000	
Depreciation for 2018	80,000	32,000	
Written down value as on 31.12.2018	2,40,000	1,12,000	
Depreciation for 2019	40,000	32,000	3,000
Written down value as on 31.12.2019	2,00,000	80,000	57,000
Sale proceeds	1,60,000		
Loss on sale	40,000		

(b) Valuation of Physical Stock as at March 31, 2021

		Rs.
Stock at cost on 31.12.2020		2,40,000
Add: (1) Undercasting of a page total	600	
(2) Goods purchased and delivered during January – March, 2021 Rs. (2,10,000 – 9,000 + 12,000)	2,13,000	
(3) Cost of sales return Rs. (3,000 – 600)	2,400	
		2,16,000
		4,56,000
Less:(1) Overcasting of a page total Rs. (18,000 – 15,000)	3,000	
(2) Goods sold and dispatched during January – March, 2021 Rs. (2,70,000 – 15,000 + 12,000) 2,67,000		
Less: Profit margin $2,67,000 \times \frac{25}{125}$ 53,400	2,13,600	
		(2,16,600)
Value of stock as on 31st March, 2021		2,39,400

Note: In the above solution, transfer of ownership is assumed to take place at the time of delivery of goods. If it is assumed that transfer of ownership takes place on the date of invoice, then Rs. 12,000 goods delivered in March 2021 for which invoice was received in April, 2021, would be treated as purchases of the accounting year 2020-2021 and thus excluded. Similarly, goods dispatched in March, 2021 but invoiced in April, 2021 would be excluded and treated as sale of the year 2020-2021.

3. (a) Journal Entries in the Books of Mr. Y

Date		*Particulars*	*L.F.*	*Dr. Amount Rs.*	*Cr. Amount Rs.*
2020					
August	1	Bills Receivable A/c Dr.		50,000	
		To Z A/c			50,000
		(Being the acceptance received from Z to settle his account)			
August	1	Bank A/c Dr.		49,000	
		Discount A/c Dr.		1,000	
		To Bills Receivable			50,000
		(Being the bill discounted for Rs. 49,000 from bank)			
November	4	Z A/c Dr.		50,000	

		To Bank Account (Being the Z's acceptance is to be renewed)		50,000
November	4	Z A/c Dr To Interest Account (Being the interest due from Z for 3 months i.e., 40,000x3/12× 12%=12,000)	1,200	1,200
November	4	Cash A/c Dr. Bills Receivable A/c Dr. To Z A/c (Being amount and acceptance of new bill received from Z)	11,200 40,000	51,200
December	31	Z A/c Dr. To Bills Receivable A/c (Being Z became insolvent)	40,000	40,000
December	31	Cash A/c Dr. Bad debts A/c Dr. To Z A/c (Being the amount received and written off on Z's insolvency)	16,000 24,000	40,000

(b) **Journal Entries**

Date 2021	Particulars		Dr. Rs.	Cr. Rs.
31st March	Sales A/c To Sapan A/c (Being cancellation of entry for sale of goods, not yet approved)	Dr.	30,000	30,000
	Inventories with customers A/c (Refer W.N.) To Trading A/c (Being Inventories with customers recorded at market price)	Dr.	19,200	19,200

Working Note:

Calculation of cost and market price of Inventories with customer

Sale price of goods sent on approval	Rs.30,000
Less: Profit (30,000 x 25/125)	Rs. 6,000
Cost of goods	Rs.24,000

Market price = 24,000 - (24,000 x 20%) = Rs. 19,200.

(c) **Calculation of average due date (Base date: 8th September)**

Due Date	Amount	No. of days from base date	Product
	Rs.		Rs.
8th September	600	0	0
18th October	400	40	16,000
13th November	550	66	36,300

10th December	800	93	74,400
	2,350		1,26,700

$$\text{Average due date} = \text{Base date} \pm \frac{\text{Total Product}}{\text{Total Amount}}$$

= 8th September + 1,26,700/2,350

= 8th September + 54 days = 1st November

4. (a) **New Max Hospital**

Income & Expenditure Account
for the year ended 31 December, 2020

Expenditure	(Rs.)	Income	(Rs.)
To Salaries	12,000	By Subscriptions	12,250
To Diet expenses	7,800	By Govt. Grants (Maintenance)	10,000
To Rent & Rates	850	By Fees, Sundry Patients	2,400
To Printing & Stationery	1,200	By Donations	4,000
To Electricity & Water-charges	1,200	By Benefit shows (net collections)	3,000
To Office expenses	1,000	By Interest on Investments	400
To Excess of Income over expenditure transferred to Capital Fund	8,000		
	32,050		32,050

Balance Sheet as at 31st Dec., 2020

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital Fund :			Building :		
Opening balance	24,650		Opening balance	45,000	
Excess of Income			Addition	25,000	70,000
Over Expenditure	8,000	32,650	Hospital Equipment :		
Building Fund :			Opening balance	17,000	
Opening balance	40,000		Addition	8,500	25,500
Add : Govt. Grant	40,000	80,000	Furniture		3,000
Subscriptions			Investments-		
received in advance		1,200	8% Govt. Securities		10,000
			Subscriptions receivable		700
			Accrued interest		400
			Prepaid expenses (Rent)		150
			Cash at Bank		3,400
			Cash in hand		700
		1,13,850			1,13,850

Working Notes:

(1) **Balance sheet as at 31st Dec., 2019**

Liabilities	Rs.	Assets	Rs.
Capital Fund		Building	45,000
(Balancing Figure)	24,650	Equipment	17,000
Building Fund	40,000	Subscription Receivable	3,250
Creditors for Expenses :		Cash at Bank	2,600
Salaries payable	3,600	Cash in hand	400
	68,250		68,250

(2)	**Value of Building**	Rs.
	Balance on 31st Dec. 2020	70,000
	Paid during the year	(25,000)
	Balance on 31st Dec. 2019	45,000
(3)	**Value of Equipment**	
	Balance on 31st Dec. 2020	25,500
	Paid during the year	(8,500)
	Balance on 31st Dec. 2019	17,000
(4)	**Subscription due for 2019**	
	Receivable on 31st Dec. 2019	3,250
	Received in 2020	2,550
	Still Receivable for 2019	700

5. (a) Trading and Profit and Loss Account of Mr. Vijay

for the year ended 31st March, 2021

Dr. Cr.

	Particulars		Amount		Particulars		Amount
		Rs.	Rs.			Rs.	Rs.
To	Opening stock		64,500	By	Sales	4,27,150	
To	Purchases	3,06,200			Less: Sales return	5,150	4,22,000
	Less: Purchases return	3,450	3,02,750	By	Closing stock		2,50,000
To	Carriage inward		2,250				
To	Wages		23,430				
To	Gross profit c/d		2,79,070				
			6,72,000				6,72,000
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 Rs. 2,40,000	12,000					
	Less: Existing provision	6,400	5,600				
To	Provision for discount on debtors						
	2.5% of Rs. 2,28,000	5,700					
	Less: Existing provision	2,750	2,950				
To	Depreciation:						
	Plant and machinery	6,000					
	Furniture and fittings	2,050	8,050				
To	Office expenses		20,320				
To	Interest on loan		6,000				
To	Net profit						
	(Transferred to capital account)		1,67,600				
			2,79,970				2,79,970

Balance Sheet of Mr. Vijay as on 31st March, 2021

Liabilities	Rs.	Amount *Rs.*	*Assets*	Rs.	Amount Rs.
Capital account	1,30,000		Plant and machinery	40,000	
Add: Net profit	1,67,600		Less: Depreciation	6,000	34,000
	2,97,600		Furniture and fittings	20,500	
Less: Drawings	23,000	2,74,600	Less: Depreciation	2,050	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	
			Less: Provision for bad debts	5,700	2,22,300
			Prepaid rent		600
			Cash in hand		2,900
			Cash at bank		6,250
		5,34,500			5,34,500

(b) (i) **Journal Entry in the books of the M/s Krishna**

Date	Particulars		Dr. Rs.	Cr. Rs.
April, 1 2021	Amit's Capital A/c	Dr.	3,000	
	Lalit's Capital A/c	Dr.	3,000	
	To Sumit's Capital A/c			6,000
	(Being the required adjustment for goodwill through partner's capital accounts)			

(ii) **Revaluation Account**

Dr. Particulars	Rs.	Particulars	Cr. Rs.
To Furniture A/c (Rs. 16,800 – 13,800)	3,000	By Machinery A/c (Rs. 35,100 - 30,000)	5,100
To Inventory A/c (Rs 5,700 – 4,500)	1,200		
To Partners' Capital A/cs (Amit - Rs. 300, Lalit - Rs. 300, Sumit - Rs. 300)	900		
	5,100		5,100

Partners' Capital Accounts

Particulars	Amit	Lalit	Sumit	Particulars	Amit	Lalit	Sumit
To Sumit (Goodwill)	3,000	3,000	–	By Balance b/d	24,600	24,600	27,000
To Cash A/c	–	–	6,000	By General Reserve A/c	3,000	3,000	3,000
To Executors A/c	–	–	30,300	By Revaluation A/c (Profit)	300	300	300
To Balance C/d	24,900	24,900	–	By Amit (Goodwill)	–	–	3,000
				By Lalit (Goodwill)	–	–	3,000
	27,900	27,900	36,300		27,900	27,900	36,300

Working Note:

Statement showing the Required Adjustment for Goodwill

Particulars	Amit	Lalit	Sumit
Right of goodwill before death	1/3	1/3	1/3
Right of goodwill after death	1/2	1/2	–
Gain / (Sacrifice)	(+) 1/6	(+) 1/6	(-) 1/3

6. (a) **Journal of Deepak Chemicals Ltd.**

2020			Dr. Rs. in lakhs	Cr. Rs. in lakhs
June 1	Bank A/c	Dr.	100	
	To Shares Application A/c			100
	(Receipt of applications for 10 lakh shares along with application money of Rs. 10 per share.)			

June 1	Share Application and Allotment A/c Share Allotment A/c To Share Capital A/c (The allotment of 10 lakh shares : payable on application Rs. 10 share and Rs. 30 on allotment as per Directors' resolution no... dated...)	Dr. Dr.	100 300	 400
June 1	Bank A/c To Shares Allotment A/c To Calls in Advance A/c [Receipt of money due on allotment @ Rs. 30, also the two calls (Rs. 30 and Rs. 30) on 15,000 shares.]	Dr.	309	 300 9
Nov. 1	Share First Call A/c To Share Capital A/c (The amount due on 10 lakh shares @ Rs. 30 on first call, as per Directors, resolution no... dated...)	Dr.	300	 300
	Bank A/c Calls in Advance A/c To Share First Call A/c (Receipt of the first call on 9.85 lakh shares, the balance having been previously received and now debited to call in advance account.)	Dr. Dr.	295.5 4.5	 300
2021 March 1	Share Final Call A/c To Share Capital A/c (The amount due on Final Call on 10 lakh shares @ Rs. 30 per share, as per Directors' resolution no... dated...)	Dr.	300	 300
March1	Bank A/c Calls in Advance A/c To Share Final Call A/c (Receipt of the moneys due on final call on 9.85 lakhs shares, the balance having been previously received.)	Dr. Dr.	295.5 4.5	 300
March 1	Interest on calls in Advance A/c To Shareholder A/c (Being interest on call in advance made due)	Dr.	0.63	 0.63
March 1	Shareholder A/c To Bank A/c (Being interest paid)	Dr.	0.63	 0.63

Working Note:

The interest on calls in advance paid @ 12% on :	Rs.
Rs. 4,50,000 (first call) from 1st June to 1st Nov., 2020–5 months	22,500
Rs. 4,50,000 (final call) from 1st June to 1st March., 2021–9 months	40,500
Total Interest Amount Due	63,000

(b) **In the books of Tim Tim Ltd.**

Journal Entries

Date	Particulars		Dr. Rs.	Cr. Rs.
(a)	Bank A/c	Dr.	4,50,000	
	To Debentures Application A/c			4,50,000
	(Being the application money received on 5,000 debentures @ Rs. 90 each)			
	Debentures Application A/c	Dr.	4,50,000	
	Discount on issue of Debentures A/c	Dr.	50,000	
	To 8% Debentures A/c			5,00,000
	(Being the issue of 5,000 8% Debentures @ 90% as per Board's Resolution No.…dated.…)			
(b)	Fixed Assets A/c	Dr.	2,00,000	
	To Vendor A/c			2,00,000
	(Being the purchase of fixed assets from vendor)			
	Vendor A/c	Dr.	2,00,000	
	Discount on Issue of Debentures A/c	Dr.	50,000	
	To 8% Debentures A/c			2,50,000
	(Being the issue of debentures of Rs. 2,50,000 to vendor to satisfy his claim)			
(c)	Bank A/c	Dr.	2,00,000	
	To Bank Loan A/c (See Note)			2,00,000
	(Being a loan of Rs. 2,00,000 taken from bank by issuing debentures of Rs.2,50,000 as collateral security)			

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) The difference between the balance shown by the passbook and the cashbook may arise on account of the following:

(i) Cheques issued but not yet presented for payment.

(ii) Cheques deposited into the bank but not yet cleared.

(iii) Interest allowed by the bank.

(iv) Interest and expenses charged by the bank.

(v) Interest and dividends collected by the bank.

(vi) Direct payments by the bank.

(vii) Direct deposits into the bank by a customer.

(viii) Dishonour of a bill discounted with the bank.

(ix) Bills collected by the bank on behalf of the customer.

(x) An error committed by the bank etc.

OR

(c) Normally, the following subsidiary books are used in a business:

(i) Cash book to record receipts and payments of cash, including receipts into and payments out of the bank.

(ii) Purchases book to record credit purchases of goods dealt in or of the materials and stores required in the factory.

(iii) Purchase Returns Books to record the returns of goods and materials previously purchased.

(iv) Sales Book to record the sales of the goods dealt in by the firm.

(v) Sale Returns Book to record the returns made by the customers.

(vi) Bills receivable books to record the receipts of promissory notes or hundies from various parties.

(vii) Bills Payable Book to record the issue of the promissory notes or hundies to other parties.

(viii) Journal (proper) to record the transactions which cannot be recorded in any of the seven books mentioned above.