

MOCK TEST PAPER 1

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) (i) **True:** Conservatism states that the accountant / entity should not anticipate any future income. However, they should provide for all possible / probable losses. Imprudent use of concept of conservatism may lead to understatement of Income and Assets.
- (ii) **True:** Since the temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised.
- (iii) **False:** Account current statement is running transaction between two parties to ascertain the amount payable along with interest. A Current Account is an account type to be maintained with the bank. In both the cases interest is calculated, with the help of different methods.
- (iv) **True:** In case the due date of a bill falls after the date of closing the account, then no interest is allowed for that. However, interest from the date of closing to such due date is written in "Red-Ink" in the appropriate side of the 'Account current'. This interest is called Red-Ink interest.
- (v) **False:** On the death of a partner, the firm receives full value of the sum assured of the joint life policy.
- (vi) **False:** Even if the company incurs losses, it has to pay interest on debentures. Debentures being debts on the company & debenture holders are not concerned with the profit or loss of the company, the interest is to be paid at the rate fixed on it at the time of issue of debenture.
- (b) Accounting Standards are selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The Accounting Standards Board of the Institute of Chartered Accountants of India (ICAI) formulates Accounting Standards to be established by the Council of the ICAI. The main objective of Accounting Standards is to establish standards which have to be complied with, to ensure that financial statements are prepared in accordance with generally accepted accounting principles. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India.

(c) **Purchase Returns Book**

| Date | Debit Note No. | Name of supplier | L.F. | Amount (₹) |
|---------|----------------|---------------------------------|------|---------------|
| 2023 | | | | |
| Jan. 4 | 501 | Duggal Furniture's, Jaipur | | 25,000 |
| Jan. 16 | 502 | Khanna Furniture's, Bangalore | | <u>22,500</u> |
| Jan. 31 | | Purchases Returns Account (Cr.) | | <u>47,500</u> |

2. (a) (a) Fair Value : ₹ 1,05,00,000/-

Since this is an upward revaluation and group had a balance in revaluation surplus (i.e. there was an upward movement earlier), hence this will result in additional credit of ₹ 5,00,000/- to Revaluation Surplus and hence total Revaluation Surplus Balance (part of other comprehensive income in Equity) shall increase to ₹ 15,00,000/-

The journal entry shall be:

| | | |
|-----------------------------------|--------------|----------|
| Property, Plant and Machinery A/c | Dr. 5,00,000 | |
| To Revaluation Surplus A/c | | 5,00,000 |

(b) Fair Value : ₹ 85,00,000/-

Since this is a downward revaluation and group had a balance in revaluation surplus (i.e, there was an upward movement earlier), hence this will result in a reduction or a debt to Revaluation Surplus to the extent of balance therein and any excess shall be debited to Profit & Loss A/c. In this case, there is a reduction in fair value of ₹ 15,00,000 (₹ 1,00,00,000 – ₹ 85,00,000). Hence, the Revaluation Surplus A/c shall be debited by ₹ 10,00,000 and the balance ₹5,00,000 shall be debited to Profit & Loss A/c. Hence total Revaluation surplus balance (part of other comprehensive income in Equity) shall become NIL.

The journal entry shall be :

| | | |
|--------------------------------------|---------------|-----------|
| Revaluation Surplus A/c | Dr. 10,00,000 | |
| Profit & Loss A/c | Dr. 5,00,000 | |
| To Property, Plant and Machinery A/c | | 15,00,000 |

(b)

| Bank Reconciliation Statement of Krishna Traders as on 31 st March, 2023 | | |
|---|------------|------------|
| Particulars | Amount (₹) | Amount (₹) |
| Balance as per Cash Book | | 8,24,400 |
| Add: | | |
| Mistake in bringing forward ₹37,000/- debit balance as credit balance on 22nd March | 74,000 | |
| Cheques issued but not presented | | |
| Issued = ₹84,000 less cashed ₹ 57,000 = ₹27,000/- | 27,000 | |
| Dividend directly collected but not entered in cash book | 70,000 | |
| Cheques recorded twice in the cash book | 2,58,000 | |
| Wrongly credited cheque by bank | 50,000 | |
| Discount amount wrongly entered in bank column | 1,000 | |
| TOTAL | | 4,80,000 |
| Less: | | |
| Wrong casting in cash book on 12th March, 2023 | 24,000 | |
| Cheque issued and not entered in the Bank Column | 1,70,000 | |
| Fire Insurance premium paid directly by bank | 40,000 | |
| Cheque dishonored not recorded in books | 10,000 | |
| Credit card payment not recorded in cash book | 5,000 | |
| Cheque wrongly deposited by bank in savings account | 4,000 | |
| Bank charges debited not recorded in cash book | 400 | |
| TOTAL | | 2,53,400 |
| Balance as per the Passbook | | 10,51,000 |

Note : No effects of cheque deposit directly and dishonored in the same Month. Alternatively amount of ₹ 64,000/- can be added as well as deducted from balance as per cash book.

3. (a) **Consignment Account**

| | ₹ | | ₹ |
|--|-----------------|--|-----------------|
| To Goods sent on consignment A/c (15,000 kg x ₹ 30) | 4,50,000 | By Consignee's A/c-Sales (7,500 kg x ₹ 60) | 4,50,000 |
| To Cash A/c (Expenses 15,000 kg x ₹ 5) | 75,000 | By Abnormal Loss A/c (Insurance claim – WN-1) | 9,000 |
| To Consignee's A/c: Advertisement & Recurring expenses | 33,000 | Add: Abnormal Loss (WN-1) (Profit and Loss Account) | <u>5,000</u> |
| Commission @ 5% on ₹4,50,000 | 22,500 | By Consignment Stock A/c (WN-2) | 2,46,690 |
| To Profit and loss A/c (Profit on Consignment) | 1,30,190 | | |
| | <u>7,10,690</u> | | <u>7,10,690</u> |

Working Notes:

1. Abnormal Loss:

| | |
|---|----------------|
| Cost of goods lost: 400 kg | |
| Total cost (400 x ₹ 30) | 12,000 |
| Add: expenses incurred by the consignor @ ₹5 per kg | <u>2,000</u> |
| Gross Amount of abnormal loss | 14,000 |
| Less: Insurance claim | <u>(9,000)</u> |
| Net abnormal loss | <u>5,000</u> |

2. Valuation of Inventories

| | Quantity (Kgs) | Amount (₹) |
|--|----------------|-----------------|
| Total Cost (15,000 kg x ₹30) | 15,000 | 4,50,000 |
| Add: Expenses incurred by the consignor | | 75,000 |
| Less: Value of Abnormal Loss – 400 kgs (WN 1) | <u>(400)</u> | <u>(14,000)</u> |
| | 14,600 | 5,11,000 |
| Less: Normal Loss | <u>(100)</u> | |
| | 14,500 | 5,11,000 |
| Less: Quantity of Sugar sold | <u>(7,500)</u> | |
| Quantity of Closing Stock | 7,000 | |
| Value of 7,000 kgs – (5,11,000/14,500) x 7,000 | | <u>2,46,690</u> |

(b) **Mr. Aryan in Account Current with Mr. Abram**

(Interest upto 15th March, 2023 @ 10% p.a.)

| Dr. | | | | | | | | | | Cr. |
|---------|----------------|--------|------|----------|---------|-----------------|--------|------|---------|-----|
| Date | Particulars | Amount | Days | Product | Date | Particulars | Amount | Days | Product | |
| 2023 | | | | | 2023 | | | | | |
| Jan. 01 | To Balance b/d | 4,000 | 75 | 3,00,000 | Jan. 29 | By Purchase A/c | 1,200 | 46 | 55,200 | |
| Jan. 15 | To Sales A/c | 2,230 | 60 | 1,33,800 | Feb. 10 | By Cash A/c | 1,000 | 34 | 34,000 | |

| | | | | | | | | | |
|---------|----|--|-----------------|-----------------|---------|----|---------------------------------------|-----------------|-----------------|
| Mar. 13 | To | Red Ink product (₹ 2,000 × 29) | | 58,000 | Mar. 13 | By | Bills Receivable A/c | 2,000 | |
| Mar. 15 | To | Interest A/c ($\frac{₹ 4,02,600 \times 10 \times 1}{100 \times 365}$) | 110.30 | | Mar. 15 | By | Balance of product | | 4,02,600 |
| | | | | | | By | Balance c/d (amount to be paid) | <u>2,140.30</u> | |
| | | | <u>6,340.30</u> | <u>4,91,800</u> | | | | <u>6,340.30</u> | <u>4,91,800</u> |

(c)

In the books of Mr. Gupta

Journal Entries

| Date | Particulars | L.F. | Dr. (in ₹) | Cr. (in ₹) |
|----------------|--|------|---------------|---------------|
| 2022 Dec. 2 | Trade receivables A/c To Sales A/c (Being the goods sent to customers on sale or return basis) | Dr. | 2,40,000 | 2,40,000 |
| Dec. 10 | Return Inward A/c To Trade receivables A/c (Being the goods returned by customers to whom goods were sent on sale or return basis) | Dr. | 1,05,000 | 1,05,000 |
| Dec. 23 | Sales A/c To Trade receivables A/c (Being the cancellation of original entry of sale in respect of goods on sale or return basis) | Dr. | 45,000 | 45,000 |
| Dec. 31 | Inventories with customers on Sale or Return A/c To Trading A/c (Note 2) (Being the adjustment for cost of goods lying with customers awaiting approval) | Dr. | 36,000 | 36,000 |

Working Note:

- (1) No entry is required for receiving letter of approval from customer.
- (2) Cost of goods with customers = ₹ 45,000 × 100/125 = ₹ 36,000

4 (a)

Revaluation Account

| | ₹ | | ₹ |
|-------------------------------------|-----------------|----------------------|-----------------|
| To Buildings A/c | 30,000 | By Investments A/c | 9,000 |
| To Machinery A/c | 78,000 | By Loss to Partners: | |
| To Provision for Doubtful Debts A/c | 83,400 | Seed | 91,200 |
| | | Plant | 54,720 |
| | | Flower | <u>36,480</u> |
| | <u>1,91,400</u> | | <u>1,82,400</u> |
| | | | <u>1,91,400</u> |

Partners' Capital Account

| Particulars | Seed | Plant | Flower | Leaf | Particulars | Seed | Plant | Flower | Leaf |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|--------------------------------|-----------------|-----------------|-----------------|-----------------|
| | ₹ | ₹ | ₹ | ₹ | | ₹ | ₹ | ₹ | ₹ |
| To Revaluation A/c | 91,200 | 54,720 | 36,480 | - | By Balance b/d | 2,40,000 | 60,000 | 90,000 | - |
| To Investments A/c | - | 45,000 | - | - | By Reserves A/c | 30,000 | 18,000 | 12,000 | - |
| To Plant Loan A/c | - | 68,280 | - | - | By Flower and Leaf Capital A/c | 30,000 | 90,000 | - | - |
| To Seed and Plant's Capital A/c | - | - | 60,000 | 60,000 | By Bank A/c (balancing figure) | 31,200 | - | 2,34,480 | 1,80,000 |
| To Balance c/d | 2,40,000 | - | 2,40,000 | 1,20,000 | | - | - | - | - |
| | <u>3,31,200</u> | <u>1,68,000</u> | <u>3,36,480</u> | <u>1,80,000</u> | | <u>3,31,200</u> | <u>1,68,000</u> | <u>3,36,480</u> | <u>1,80,000</u> |

Bank Account

| | | ₹ | | | ₹ |
|-------------------------|--|-----------------|-----------------------|--|-----------------|
| To Seed's capital A/c | | 31,200 | By Bank Overdraft A/c | | 1,32,000 |
| To Flower's capital A/c | | 2,34,480 | By Balance c/d | | 3,13,680 |
| To Leaf's capital A/c | | 1,80,000 | | | |
| | | <u>4,45,680</u> | | | <u>4,45,680</u> |

(b)

Rectification Entries

| | Particulars | Dr. | Cr. |
|-------|--|------------|----------------|
| | | Amount | Amount |
| | | ₹ | ₹ |
| (i) | Returns Inward A/c Sales A/c To Purchases A/c To Returns Outward A/c (Being sales return and purchases return wrongly included in purchases and sales respectively, now rectified) | Dr. Dr. | 5,150 3,450 |
| | | | 5,150 3,450 |
| (ii) | Drawings A/c To Purchases A/c (Being goods withdrawn for own consumption included in purchases, now rectified) | Dr. | 7,000 |
| | | | 7,000 |
| (iii) | Plant and machinery A/c To Wages A/c (Being wages paid for installation of plant and machinery wrongly debited to wages, now rectified) | Dr. | 900 |
| | | | 900 |
| (iv) | Advertisement expenses A/c To Purchases A/c (Being free samples distributed for publicity out of purchases, now rectified) | Dr. | 1,650 |
| | | | 1,650 |

**Trading and Profit and Loss Account of Mr. Shyam
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> |
| | Less: Purchases return | <u>3,450</u> | 3,02,750 | By | Closing stock | |
| To | Carriage inward | | 2,250 | | $(₹ 1,60,000 \times \frac{100}{80} \times \frac{100}{80})$ | 2,50,000 |
| To | Wages | | 23,430 | | | |
| 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. Shyam as on 31st March, 2023

| | | Amount | | | Amount |
|--------------------|-----------------|----------|------------------------------------|--------------|----------|
| | | ₹ | ₹ | | |
| Liabilities | | | Assets | | |
| 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 bad debts | <u>5,700</u> | 2,22,300 |
| | | 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. (a) **Roxy Library Society**
Income and Expenditure Account
for the year ended 31st March, 2023

| Dr. | | | | | Cr. |
|---------------------------|-----------------|-----------------|---|---------------|-----------------|
| Expenditure | ₹ | ₹ | Income | | ₹ |
| To Electric charges | | 28,800 | By Entrance fee (25% of ₹ 1,20,000) | | 30,000 |
| To Postage and stationary | | 20,000 | | | |
| To Telephone charges | | 20,000 | By Membership subscription | 8,00,000 | |
| To Rent | 3,52,000 | | Less: Received in advance | <u>40,000</u> | 7,60,000 |
| Add: Outstanding | <u>16,000</u> | 3,68,000 | | | |
| To Salaries | 2,64,000 | | By Sale proceeds of old papers | | 6,000 |
| Add: Outstanding | <u>12,000</u> | 2,76,000 | | | |
| To Depreciation (W.N.1) | | | By Hire of lecture hall | | 80,000 |
| Electrical fittings | 60,000 | | By Interest on securities (W.N.2) | 32,000 | |
| Furniture | 20,000 | | Add: Receivable | <u>2,000</u> | 34,000 |
| Books | <u>1,84,000</u> | 2,64,000 | By Deficit- excess of expenditure over income | | 66,800 |
| | | <u>9,76,800</u> | | | <u>9,76,800</u> |

Working Notes:

| | | |
|--|--------------|-----------------|
| 1. Depreciation | ₹ | |
| Electrical fittings 10% of ₹ 6,00,000 | 60,000 | |
| Furniture 10% of ₹ 2,00,000 | 20,000 | |
| Books 10% of ₹ 18,40,000 | 1,84,000 | |
| 2. Interest on Securities | | |
| Interest @ 5% p.a. on ₹ 6,00,000 for full year | 30,000 | |
| Interest @ 5% p.a. on ₹ 1,60,000 for half year | <u>4,000</u> | 34,000 |
| Less: Received | | <u>(32,000)</u> |
| Receivable | | <u>2,000</u> |

(b) **Statement of Valuation of Stock on 31st March, 2023**

| | ₹ | ₹ |
|---------------------------------------|---|--------|
| Value of stock as on 15th April, 2023 | | 50,000 |

| | | | |
|--------------|---|--------------|---------------|
| <i>Add:</i> | Cost of sales during the period from 31 st March, 2023 to 15 th April, 2023 | | |
| | Sales (₹ 41,000 – ₹ 1,000) | 40,000 | |
| | Less: Gross Profit (20% of ₹ 40,000) | <u>8,000</u> | 32,000 |
| | Cost of goods sent on approval basis (80% of ₹ 6,000) | | <u>4,800</u> |
| | | | 86,800 |
| <i>Less:</i> | Purchases during the period from 31 st March, 2023 to 15 th April, 2023 | 5,034 | |
| | Unsold stock out of goods received on consignment basis (30% of ₹ 8,000) | <u>2,400</u> | <u>7,434</u> |
| | | | <u>79,366</u> |

6. (a)

Journal

| | | Dr. | Cr. |
|---|-----|-------|--------|
| Share Capital A/c | Dr. | 7,000 | |
| Securities Premium Reserve A/c | Dr. | 1,500 | |
| To Forfeited Share A/c | | | 5,000 |
| To Share Allotment A/c | | | 1,500 |
| To Share First Call A/c | | | 2,000 |
| (Being 1000 shares forfeited for non-payment of allotment money and first call) | | | |
| Bank A/c | Dr. | 8,000 | |
| Forfeited Shares A/c | Dr. | 2,000 | |
| To Share Capital A/c | | | 10,000 |
| (Being 1000 forfeited shares reissued as fully paid up for Rs 8 per share) | | | |
| Forfeited Shares A/c | Dr. | 3,000 | |
| To Capital Reserve A/c | | | 3,000 |
| (Being the transfer of gain on reissue) | | | |

Working Note:

| | |
|--|-------|
| Calculation of the amount due but not paid on allotment | ₹ |
| (a) Total No. of Shares applied | 2,000 |
| (b) Total money paid of application (2,000x 3) | 6,000 |
| (c) Excess application money (₹ 6000-(1,000x3)) | 3,000 |
| (d) Total amount due on allotment (1,000x 4.50) | 4,500 |
| (e) Amount due but not paid (₹4,500- ₹3,000) | 1,500 |
| Out of the allotment amount of ₹ 4,500, ₹ 2,000 are for Share Capital and ₹ 2,500 are for Securities Premium Reserve. Out of excess application money of ₹3,000, ₹2000 are adjusted towards allotment as share capital and ₹ 1,000 are adjusted towards allotment as securities premium reserve. Therefore, Securities Premium Reserve of ₹ 1,500 (i.e. ₹ 2,500- 1,000) is not received. Hence securities Premium Reserve is debited by ₹ 1,500. | |

- (b) Total amount of discount comes to ₹ 1,80,000 (₹ 0.6 X 3, 00,000). The amount of discount to be written-off in each year is calculated as under:

| Year end | Debentures Outstanding | Ratio in which discount to be written-off | Amount of discount to be written-off |
|----------|------------------------|---|--------------------------------------|
| 1st | ₹ 30, 00,000 | 1/5 | 1/5th of ₹ 1,80,000 = ₹ 36,000 |
| 2nd | ₹ 30, 00,000 | 1/5 | 1/5th of ₹ 1,80,000 = ₹ 36,000 |
| 3rd | ₹ 30, 00,000 | 1/5 | 1/5th of ₹ 1,80,000 = ₹ 36,000 |
| 4th | ₹ 30, 00,000 | 1/5 | 1/5th of ₹ 1,80,000 = ₹ 36,000 |
| 5th | ₹ 30, 00,000 | 1/5 | 1/5th of ₹ 1,80,000 = ₹ 36,000 |

- (c) The preparation of trial balance has the following objectives:

- 1. Checking of the arithmetical accuracy of the accounting entries:** Trial Balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish the arithmetical accuracy of the books.
- 2. Basis for preparation of financial statements:** Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarized form for a particular period. In case, the Trial Balance is not prepared, it will be almost impossible to prepare the financial statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.
- 3. Summarized ledger:** Trial Balance contains the ledger balances on a particular position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required.

Or

Rules regarding posting of entries in the ledger

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective account accordingly.
2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger.
3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.