

**MOCK TEST PAPER 1**  
**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 concepts of conservatism when applied to the Balance Sheet results in understatement of assets.
  - (ii) Amount spent for the construction of temporary huts, which were necessary for construction of the Cinema House and were demolished when the Cinema House was ready, is capital expenditure.
  - (iii) Current Account and Account Current are one and the same.
  - (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) On death of a partner, the firm gets surrender value of the joint life policy .
  - (vi) Company A is incurring huge losses, the Board of Directors are of the opinion that in case of losses, there is no need to pay interest on debenture holders.
- (6 Statements x 2 Marks = 12 Marks)**
- (b) Explain the objective of “Accounting Standards” in brief. **(4 Marks)**
- (c) From the following transactions, prepare the Purchases Returns Book of Sampat & Co., a furniture dealer and post them to ledger :

Date	Debit Note No.	Particulars
04.01.2023	501	Returned to Duggal Furniture’s, Jaipur – 5 Tables @ ₹ 5,000.
09.01.2023		Chopra Furniture’s, Kota – accepted the return of Centre Tables (which were purchased for cash) – 5 Centre Tables @ ₹ 4,400.
16.01.2023	502	Returned to Khanna Furniture’s, Bangalore –5 Dining Table @ ₹ 4,500.
30.01.2023		Returned one Printer (being defective) @ ₹ 10,000 to B & Co.

**(4 Marks)**

2. (a) Mangalam group had Property, Plant and Machinery with a book value of ₹ 1,00,00,000/- on 31st December, 2022. The balance in Revaluation Surplus on that date was ₹ 10,00,000/-. As part of regular practice of revaluing the assets on yearly basis, another valuation was carried out on 31st December, 2022. Evaluate the impact of Revaluation, if the fair market value as a result of Revaluation done on 31st December, 2022 was (a) ₹ 1,05,00,000/- and (b) 85,00,000/-. You are required to explain with reason the accounting treatment with Journal Entries.

(b) Prepare a Bank Reconciliation statement for Krishna Traders as on 31<sup>st</sup> March, 2023.

The cash book of Krishna Traders shows a debit balance of ₹ 8,24,400 at bank as on 31<sup>st</sup> March, 2023, 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, 2023 the payment side of the Cash Book was under cast by ₹ 24,000/-
2. A cheque of ₹ 1,70,000 issued on 20th March, 2023 was not taken in the bank column.
3. On 22nd March, 2023 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, 2023, cheques aggregating ₹ 57,000 were encashed in March, 2023.
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. A has deposited the Cheque for ₹ 64,000 into the bank directly in the month of March, 2023 without intimating to Krishna 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, 2023 but was dishonored and advice received from bank on 3rd April, 2023.
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 Krishna Traders instead of crediting cheque in current account of Krishna 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.

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

3. (a) Kamal of Gwalior consigned 15,000 kgs of Sugar at ₹ 30 per kg to his agent Vimal at Delhi. He spent ₹ 5 per kg as freight and insurance for sending the Sugar at Delhi. On the way 100 kgs. of sugar was lost due to the leakage (which is to be treated as normal loss) and 400 kgs. of sugar was destroyed in transit. ₹ 9,000 was paid to consignor directly by the Insurance company as Insurance claim. Vimal sold 7,500 kgs. at ₹ 60 per kg. He spent ₹ 33,000 on advertisement and recurring expenses.

You are required to calculate:

- (i) The amount of abnormal loss
- (ii) Value of stock at the end and
- (iii) Prepare Consignment account showing profit or loss on consignment, if Vimal is entitled to 5% commission on sales.

- (b) Mr. Aryan owed ₹ 4,000 on 1st January, 2023 to Mr. Abram. The following transactions took place between them. It is agreed between the parties that interest @ 10% p.a. is to be calculated on all transactions.

	₹
15 January, 2023 Mr. Abram sold goods to Mr. Aryan	2,230
29 January, 2023 Mr. Abram bought goods from Mr. Aryan	1,200

10 February, 2023 Mr. Aryan paid cash to Mr. Abram	1,000
13 March, 2023 Mr. Aryan accepted a bill drawn by Mr. Abram for one month	2,000

They agree to settle their complete accounts by one single payment on 15th March, 2023.

Prepare Mr. Aryan in Account Current with Mr. Abram and ascertain the amount to be paid. Ignore days of grace.

- (c) Mr. Gupta sends goods to his customers on Sale or Return. The following transactions took place during the month of December 2022.

December 2<sup>nd</sup> - Sent goods to customers on sale or return basis at cost plus 25% - ₹ 2,40,000

December 10<sup>th</sup> - Goods returned by customers ₹ 1,05,000

December 17<sup>th</sup> - Received letters from customers for approval ₹ 1,05,000

December 23<sup>rd</sup> - Goods with customers awaiting approval ₹ 45,000

Mr. Gupta records sale or return transactions as ordinary sales. You are required to pass the necessary Journal Entries in the books of Mr. Gupta assuming that the accounting year closes on 31<sup>st</sup> Dec. 2022. Considered that the transaction values are at involve price (including profit margin).

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

4. (a) Planting & Associates. is a partnership firm with partners Seed, Plant and Flower, sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31st March, 2023 is as under:

Liabilities		₹	Assets	₹
Capitals:			Land	30,000
Seed	2,40,000		Buildings	6,00,000
Plant	60,000		Machinery	3,90,000
Flower	90,000	3,90,000	Furniture	1,29,000
Reserves			Investments	36,000
(un-appropriated profit)		60,000	Inventories	3,90,000
Long Term Debt		9,00,000	Trade receivables	4,17,000
Bank Overdraft		1,32,000		
Trade payables		5,10,000		
		19,92,000		19,92,000

It was mutually agreed that Plant will retire from partnership and in his place Leaf will be admitted as a partner with effect from 1<sup>st</sup> April, 2023. For this purpose, the following adjustments are to be made:

- (a) Goodwill is to be valued at ₹3 lakh but the same will not appear as an asset in the books of the reconstituted firm.
- (b) Buildings and Machinery are to be depreciated by 5% and 20% respectively. Investments are to be taken over by the retiring partner at ₹45,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.
- (c) In the reconstituted firm, the total capital will be ₹ 6 lakhs which will be contributed by Seed Flower and Leaf in their new profit sharing ratio, which is 2:2:1.
- (i) The surplus funds, if any, will be used for repaying bank overdraft.
- (ii) The amount due to retiring partner shall be transferred to his loan account.

You are required to prepare

- (a) Revaluation account;
  - (b) Partners' capital accounts; and
  - (c) Bank account;
- (b) The following are the balances as at 31<sup>st</sup> March, 2023 extracted from the books of Mr. Shyam.

	₹		₹
Plant and Machinery	39,100	Bad debts recovered	900
Furniture and Fittings	20,500	Salaries	45,100
Bank Overdraft	1,60,000	Salaries payable	4,900
Capital Account	1,30,000	Prepaid rent	600
Drawings	16,000	Rent	8,600
Purchases	3,20,000	Carriage inward	2,250
Opening Stock	64,500	Carriage outward	2,700
Wages	24,330	Sales	4,30,600
Provision for doubtful debts	6,400	Advertisement Expenses	6,700
Provision for Discount on		Printing and Stationery	2,500
debtors	2,750	Cash in hand	2,900
Sundry Debtors	2,40,000	Cash at bank	6,250
Sundry Creditors	95,000	Office Expenses	20,320
Bad debts	2,200	Interest paid on loan	6,000

Additional Information:

1. Purchases include sales return of ₹5,150 and sales include purchases return of ₹ 3,450.
2. Goods withdrawn by Mr. Shyam for own consumption ₹ 7,000 included in purchases.
3. Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
4. Free samples distributed for publicity costing ₹ 1,650.
5. Wages paid in the month of April for installation of plant and machinery amounting to ₹ 900 were included in wages account.
6. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2023 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.
7. Depreciation is to be provided on plant and machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.

Prepare a Trading and Profit and Loss Account for the year ended 31<sup>st</sup> March, 2023 and a Balance Sheet as on that date. Also show the rectification entries. **(8 + 12 = 20 Marks)**

5. (a) Roxy Library Society showed the following position on 31<sup>st</sup> March, 2022:

**Balance Sheet as on 31<sup>st</sup> March, 2022**

Liabilities	₹	Assets	₹
Capital fund	31,72,000	Electrical fittings	6,00,000
Expenses payable	28,000	Furniture	2,00,000

		Books	16,00,000
		Investment in securities	6,00,000
		Cash at bank	1,00,000
		Cash in hand	<u>1,00,000</u>
	<u>32,00,000</u>		<u>32,00,000</u>

The receipts and payment account for the year ended on 31<sup>st</sup> March, 2023 is given below:

	₹		₹
To Balance b/d		By Electric charges	28,800
Cash at bank    1,00,000		By Postage and stationary	20,000
Cash in hand <u>1,00,000</u>	2,00,000	By Telephone charges	20,000
To Entrance fee	1,20,000	By Books purchased	2,40,000
To Membership subscription	8,00,000	By Outstanding expenses paid	28,000
To Sale proceeds of old papers	6,000	By Rent	3,52,000
To Hire of lecture hall	80,000	By Investment in securities	1,60,000
To Interest on securities	32,000	By Salaries	2,64,000
		By Balance c/d	
		Cash at bank	80,000
		Cash in hand	<u>45,200</u>
	<u>12,38,000</u>		<u>12,38,000</u>

You are required to prepare Income and Expenditure account for the year ended 31<sup>st</sup> March, 2023 after making the following adjustments:

Membership subscription included ₹ 40,000 received in advance.

Provide for outstanding rent ₹ 16,000 and salaries ₹ 12,000.

Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.

75% of the entrance fees is to be capitalized.

Interest on securities is to be calculated @ 5% p.a. including purchases made on 1.10.2022 for ₹ 1,60,000.

(b) A trader prepared his accounts on 31<sup>st</sup> March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15<sup>th</sup> April, 2023 on which date the total cost of goods in his godown came to ₹ 50,000. The following facts were established between 31<sup>st</sup> March and 15<sup>th</sup> April, 2023.

(i) Sales ₹ 41,000 (including cash sales ₹ 10,000)

(ii) Purchases ₹ 5,034 (including cash purchases ₹ 1,990)

(iii) Sales Return ₹ 1,000.

- (iv) On 15<sup>th</sup> March, goods of the sale value of ₹ 10,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10<sup>th</sup> April, approving the rest; the customer was billed on 16<sup>th</sup> April.
- (v) The trader had also received goods costing ₹ 8,000 in March, for sale on consignment basis; 20% of the goods had been sold by 31<sup>st</sup> March, and another 50% by 15<sup>th</sup> April. These sales are not included in above sales.

Goods are sold by the trader at a profit of 20% on sales.

You are required to ascertain the value of Inventory as on 31<sup>st</sup> March, 2023. **(15 + 5 = 20 Marks)**

6. (a) Ashish applies for 2,000 shares of ₹ 10 each at a premium of ₹ 2.50 per share. He was allotted 1,000 shares. After having paid ₹ 3 per share on application, he did not pay the allotment money of ₹ 4.50 per share (including premium) and on his subsequent failure to pay the first call of ₹ 2 per share, his share were forfeited. These share were reissued at ₹ 8 per share, his shares were forfeited.

At the time of re-issue of forfeited shares of Mr. Ashish, final call money amount all other shareholders were duly called up.

You are required to pass journal entries to record forfeiture and reissue of shares.

- (b) Perfect Ltd. issues 3,00,000 12% Debentures of ₹ 10 each at ₹ 9.40 on 1<sup>st</sup> January, 2023. Under the terms of issue, the Debentures are redeemable at the end of 5 years from the date of issue. Calculate the amount of discount to be written-off in each of the 5 years.
- (c) Explain in brief objectives of preparing Trial Balance.

**Or**

What are the rules of posting of journal entries into the Ledger? Explain in brief.

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