Test Series: November, 2022

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) If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.

   (ii) Accrual concept implies accounting on cash basis.

   (iii) Consignment account is of the nature of real account.

   (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) When there is no partnership deed prevails, the interest on loan of a partner to be paid @ 6%.

   (vi) 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 Calls in arrear of shares forfeited.

   (6 Statements x 2 Marks = 12 Marks)

   (b) "Change in accounting policy may have a material effect on the items of financial statements." Explain the statement with the help of an example. **(4 Marks)**

   (c) Classify the following errors under the three categories – Errors of Omission, Errors of Commission and Errors of Principle.

   (i) Credit sale wrongly passed through the Purchase Book.

   (ii) Machinery sold on credit to Mohan recorded in Journal Proper but omitted to be posted.

   (iii) Purchase from M not recorded in subsidiary books.

   (iv) Goods worth ₹ 1,520 purchased on credit from Ram recorded in the Purchase Book as ₹ 1,250.

   (v) Sale of furniture credited to Sales Account. **(4 Marks)**

2. (a) The Plant and Machinery Account of a Factory shed showed a balance of ₹21,15,250 on 1st April, 2020. Its accounts were made up on 31st March every year and depreciation is written off @ 10% p.a. under the Diminishing Balance Method.

   On 1st July, 2020 a new machinery was acquired at a cost of ₹4,35,000 and installation charges incurred in erecting the machine works out to ₹9,800 on the same date. On 1st July,2020, a machine which had cost ₹4,16,200 on 1st April 2017, having become obsolete, was sold off for ₹90,000. Another machine which had cost ₹2,38,000 on 1st April, 2018 was scrapped on the same date and it realized nothing. On 1st September,2020, a new machinery was purchased for ₹2,50,000.

Write a plant and machinery account for the accounting year 2020-21, allowing the same rate of depreciation as in the past, calculating depreciation to the nearest multiple of a Rupee.

(b) Prepare the Bank Reconciliation Statement of M/s. Singh Brothers on 30th June 2022 from the particulars given below:

(i) The Bank Pass Book had a debit balance of ₹ 75,000 on 30th June, 2022.

(ii) A cheque worth ₹ 1,200 directly deposited into Bank by customer but no entry was made in the Cash Book.

(iii) Out of cheques issued worth ₹ 1,02,000, cheques amounting to ₹ 60,000 only were presented for payment till 30th June, 2022.

(iv) A cheque for ₹ 12,000 received and entered in the Cash Book but it was not sent to the Bank.

(v) Cheques worth ₹ 60,000 had been sent to Bank for collection but the collection was reported by the Bank as under.

(1) Cheques collected before 30th June, 2022, ₹ 42,000

(2) Cheques collected on 10th July, 2022, ₹ 12,000

(3) Cheques collected on 12th July, 2022, ₹ 6,000.

(vi) The Bank made a direct payment of ₹ 1,800 which was not recorded in the Cash Book.

(vii) Interest on Overdraft charged by the bank ₹ 4,800 was not recorded in the Cash Book.

(viii) Bank charges worth ₹ 240 have been entered twice in the cash book whereas Insurance charges for ₹ 210 directly paid by Bank was not at all entered in the Cash Book.

(ix) The credit side of bank column of Cash Book was under cast by ₹ 6,000.

(x) A bill for ₹ 3000(discounted with bank in May, 2022) dishonored on 30th June ,2022 and noting charges of Rs 100 paid by bank. **(10 + 10 = 20 Marks)**

3. (a) Hari of Bangalore consigns 2,000 cases of goods costing ₹ 1,000 each to Om of Hyderabad. Hari pays the following expenses in connection with consignment:

	₹
Carriage	20,000
Freight	60,000
Loading charges	20,000

Om sells 1,400 cases at ₹ 1,400 per case and incurs the following expenses:

Clearing charges	17,000
Warehousing and storage	34,000
Packing and selling expenses	12,000

It is found that 100 cases have been lost in transit and 200 cases are still in transit.

Om is entitled to a commission of 10% on gross sales. You are required to prepare the Consignment Account and Om's Account in the books of Hari.

(b) From the following details calculate the average due date:

Date of Bill	*Amount (₹)*	*Usance of Bill*
28th January, 2021	10,000	1 month
20th March, 2021	8,000	2 months

12th July, 2021	14,000	1 month
10th August, 2021	12,000	2 months

(c) On 1st January, 2022, P's account in Q's ledger showed a debit balance of ₹ 5,000. The following transactions took place between Q and P during the quarter ended 31st March, 2022:

2022			₹
Jan.	11	Q sold goods to P	6,000
Jan.	24	Q received a promissory note from P due after 3 months	5,000
Feb.	01	P sold goods to Q	10,000
Feb.	04	Q sold goods to P	8,200
Feb.	07	P returned goods to Q	1,000
March	01	P sold goods to Q	5,600
March	18	Q sold goods to P	9,200
March	23	P sold goods to Q	4,000

Accounts were settled on 31st March, 2022 by means of a cheque. Prepare an Account Current to be submitted by Q to P as on 31st March, 2022, taking interest into account @ 10% per annum. Calculate interest to the nearest multiple of a rupee. **(10 + 5 + 5 = 20 Marks)**

4. (a) The Balance Sheet of Sam, Saif and Sameer as at 31.12.2021 stood as follows:

Liabilities		**Amount (₹)**	**Assets**		**Amount (₹)**
Capital:			Land & Buildings		74,000
Sam	60,000		Investments		10,000
Saif	40,000		Advertisement suspense		37,800
Sameer	40,000	1,40,000	Life Policy (at surrender value):		
Creditors		25,800	Sam		2,500
General Reserve		8,000	Saif		2,500
Investment Fluctuation Reserve		2,400	Sameer		1,000
			Stock		20,000
			Debtors	20,000	
			Less: Provision for doubtful debts	(1,600)	18,400
			Cash & bank balance		10,000
		1,76,200			1,76,200

Sameer died on 31st March, 2022, due to this reason the following adjustments were agreed upon:

(i) Land and Buildings to be appreciated by 50%.

(ii) Investment to be valued at 6% less than the cost.

(iii) All debtors (except 20% which are considered as doubtful) were good.

(vi) Stock to be reduced to 94%.

(v) Goodwill to be valued at 1 year's purchase of the average profits of the past five years.

(vi) Sameer's share of profit to the date of death be calculated on the basis of average profits of the three completed years immediately preceding the year of death.

The profits of the last five years are as follows:

Year	**₹**
2017	23,000
2018	28,000
2019	18,000
2020	16,000
2021	20,000
	1,05,000

The life policies have been shown at their surrender values representing 10% of the sum assured in each case. The annual premium of ₹1,000 is payable every year on 1st August.

You are required to pass necessary Journal Entries in the books of account of the reconstituted firm.

(b) Following particulars are extracted from the books of Mr. Purav for the year ended 31st March, 2022.

Particulars	**Amount**	**Particulars**	**Amount**
Debit Balances:	**₹**	**Credit Balances:**	**₹**
Cash in hand	15,000	Capital	1,60,000
Purchase	1,20,000	Bank overdraft	20,000
Sales return	10,000	Sales	90,000
Salaries	25,000	Purchase return	20,000
Tax and Insurance	5,000	Provision for Bad debts	10,000
Bad debts	5,000	Creditors	20,000
Debtors	50,000	Commission	5,000
Investments	40,000	Bills payable	25,000
Opening stock	14,000		
Drawings	20,000		
Furniture	16,000		
Bills receivables	30,000		
	3,50,000		3,50,000

Other information :

(i) Closing stock was valued at ₹ 45,000.

(ii) Salary of ₹ 1,000, and Tax of ₹ 2,000 are outstanding whereas insurance ₹ 500 is prepaid.

(iii) Interest accrued on investment is ₹ 2,100. Interest on overdraft is unpaid ₹ 3000.

(iv) Provision for bad debts is to be kept at ₹ 15,000.

(v) Depreciation on furniture is to be charged @ 10%.

You are required to prepare the final accounts after making above adjustments.

(10 + 10 = 20 Marks)

5. (a) Ankit Sports club gives the following Receipts and Payments account for the year ended March 31,2022:

Receipts and Payments Account

Receipts	₹	Payments	₹
To Opening cash and bank balances	52,000	By Salaries	1,50,000
To Subscription	3,48,000	By Rent and taxes	54,000
To Donations	1,00,000	By Electricity charges	6,000
To Interest on investments	12,000	By Sports goods	20,000
To Sundry receipts	3,000	By Library books	1,00,000
		By Newspapers and periodicals	10,800
		By Miscellaneous expenses	54,000
		By Closing cash and bank balances	1,20,200
	5,15,000		5,15,000

	As on 31.3.2021 (₹)	As on 31.3.2022 (₹)
Liabilities		
Outstanding expense:		
Salaries	10,000	20,000
Newspapers and periodicals	4,000	5,000
Rent and taxes	6,000	6,000
Electricity charges	8,000	10,000
Assets		
Library Books	1,00,000	-
Sports goods	80,000	-
Furniture and fixtures	1,00,000	-
Subscription receivable	50,000	1,20,000
Investment government securities	5,00,000	-
Accrued interest	6,000	6,000

Provide depreciation on Furniture and fixtures @ 10% , Sports goods @ 20%, Library books @ 10%. Provide full depreciation on additions.

Donations are to be capitalised.

You are required to prepare Club's opening Balance Sheet as on 1.4.2021, Income and expenditure Account for the year ended on 31.3.2022 and Balance sheet as on that date.

(b) Following information is provided for M/s. Diana fiber for the year ended 31st March, 2022:

	₹
Opening Inventory	1,00,000
Purchases	6,72,000

Carriage Inwards	30,000
Wages	50,000
Sales	11,00,000
Returns inward	1,00,000
Returns outward	72,000
Closing Inventory	2,00,000
Factory Rent	70,000

You are required to pass necessary closing entries in the journal proper of M/s. Diana fiber.

(15 + 5 = 20 Marks)

6. (a) Give necessary journal entries for the forfeiture and re-issue of shares:

   (i) Azar Ltd. forfeited 600 shares of ₹ 10 each fully called up, held by Ali for non-payment of allotment money of ₹ 3 per share and final call of ₹ 4 per share. He paid the application money of ₹ 3 per share. These shares were re-issued to Kaif for ₹ 8 per share.

   (ii) Mr. X, who was the holder of 2,500 preference shares of ₹ 100 each, on which ₹ 70 per share has been called up, could not pay his dues on Allotment and First call each at ₹ 20 per share. The Directors forfeited the above shares and reissued 2,000 of such shares to Mr. Y at ₹ 60 per share paid-up as ₹ 70 per share.

   (b) Symphony Ltd. issued 300 lakh 8% debentures of ₹1000 each at a discount of 6%, redeemable at a premium of 5% after 3 years payable as : ₹ 500 on application and ₹ 440 on allotment.

   You are required to prepare the necessary journal entries for issue of debentures.

   (c) Classify the following expenditures as capital or revenue expenditure:

   (i) Amount spent for replacement of a petrol driven engine by CNG kits.

   (ii) Travelling expenses of the directors for trips abroad for purchase of capital assets.

   (iii) Amount spent to reduce working expenses.

   (iv) Insurance claim received on account of inventory damaged by fire.

   (v) Expenses incurred on the repairs and white washing for the first time on purchase of an old factory. **(10 + 5 + 5 = 20 Marks)**