MOCK TEST PAPER 2

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. (a) (i) False: Prior Period Items should be separately disclosed in the current statement of profit and loss together with their nature and amount in a manner that their impact on current profit or loss can be perceived.

(ii) False: The right hand side of the equation includes cash twice- once as a part of current assets and another separately. The basic accounting equation is

Equity + Long Term Liabilities = Fixed Assets + Current Assets - Current Liabilities

(iii) False: The sale value of the by product is credited to Manufacturing Account so as to reduce to that extent, the cost of manufacture of main product.

(iv) True: Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

(v) True: If a partner retires, his share of profit or loss will be shared by the other partners in their profit sharing ratio.

(vi) False: Net income is determined by preparing income and expenditure in case of persons practicing vocation.

(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) Trade receivables= Sales- Amount received during the Year

= ₹ (13,75,000-13,15,000)

= ₹ 60,000

Since, we know Assets= Capital+ Liabilities

Therefore, balance of assets is also ₹ 12,25,000 and Cash balance will be computed as under:

Particulars	**Amount (₹)**
Total Assets	12,25,000
Less: Machinery	(10,00,000)
Less: Inventory	(56,000)
Less: Cash at bank	(75,000)

Less: Trade receivables	(60,000)
Cash in hand	34,000

Computation of Closing Capital:

Particulars	Amount (₹)
Opening Capital Add: Introduced during the year Add: Profit during the year	7,50,000 1,00,000 45,000
Closing Capital	8,95,000

Computation of Amount of Loans:

Loans= Total Liabilities and capital - Closing capital - Trade payables

= ₹ (12,25,000 - 8,95,000 - 70,000)

= ₹ 2,60,000

2. (a) Quarry Lease Account

Dr.		₹			Cr. ₹
01.04.2019	To Bank A/c	2,00,00,000	31.03.2019	By Depreciation A/c [(4,000/4,00,000) × ₹ 2,00,00,000]	2,00,000
			31.03.2019	By Balance c/d	1,98,00,000
		2,00,00,000			2,00,00,000
01.04.2020	To Balance b/d	1,98,00,000	31.03.2021	By Depreciation A/c	10,00,000
			31.03.2021	By Balance c/d	1,88,00,000
		1,98,00,000			1,98,00,000
01.04.2021	To Balance b/d	1,88,00,000	31.03.2022	By Depreciation A/c	15,00,000
			31.03.2022	By Balance c/d	1,73,00,000
		1,88,00,000			1,88,00,000

Depreciation Account

Dr.		₹			Cr. ₹
31.03.2020	To Quarry lease A/c	2,00,000	31.03.2020	By Profit & Loss A/c	2,00,000
		2,00,000			2,00,000
31.03.2021	To Quarry lease A/c	10,00,000	31.03.2021	By Profit & Loss A/c	10,00,000
		10,00,000			10,00,000
31.03.2022	To Quarry lease A/c	15,00,000	31.03.2022	By Profit & Loss A/c	15,00,000
		15,00,000			15,00,000

(b) (i) **Profit and Loss Adjustment Account**

	₹		₹
To Advertisement (samples)	3,20,000	By Net profit	32,00,000
To Sales	8,00,000	By Electric fittings	1,20,000
(goods approved in April to be taken as April sales)		By Samples	3,20,000
To Adjusted net profit	67,20,000	By Stock (Purchases of March not included in stock)	20,00,000
		By Sales (goods sold in March wrongly taken in April sales)	16,00,000
		By Stock (goods sent on approval basis not included in stock)	6,00,000
	78,40,000		78,40,000

Calculation of value of inventory on 31st March, 2022

	₹
Stock on 31st March, 2022 (given)	30,00,000
Add: Purchases of March, 2022 not included in the stock	20,00,000
Goods lying with customers on approval basis	6,00,000
	56,00,000

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

Date		*Particulars*	*L.F.*	*Dr. Amount ₹*	*Cr. Amount ₹*
2021					
August	1	Bills Receivable A/c	Dr.	50,000	
		To Y			50,000
		(Being the acceptance received from B to settle his account)			
August	1	Bank A/c	Dr.	49,000	
		Discount A/c	Dr.	1,000	
		To Bills Receivable A/c			50,000
		(Being the bill discounted for ₹ 49,000 from bank)			
November	4	Y	Dr.	50,000	
		To Bank A/c			50,000
		(Being the Y's acceptance is to be renewed)			
November	4	Y	Dr.	1,200	
		To Interest Account			1,200
		(Being the interest due from Y for 3 months i.e., 40,000 x 3/12 × 12% = 1,200)			
November	4	Bank A/c	Dr.	11,200	
		Bills Receivable A/c	Dr.	40,000	
		To Y			51,200
		(Being amount and acceptance of new bill received from Y)			

December	31	Y A/c Dr. To Bills Receivable A/c (Being Y became insolvent)	40,000	40,000
December	31	Bank A/c Dr. Bad debts A/c Dr. To Y (Being the amount received and written off on Y's insolvency)	16,000 24,000	40,000

(b) Calculation of Average Due Date

(Taking 3rd March, 2022 as base date)

Date of bill 2022	*Term*	*Due date 2022*	*Amount (₹)*	*No. of days from the base date i.e. 3rd March,2022 (₹)*	*Product (₹)*
28th January	1 month	3rd March	5,000	0	0
20th March	2 months	23rd May	4,000	81	3,24,000
12th July	1month	14th Aug.	7,000	164	11,48,000
10th August	2 months	13th Oct.	6,000	224	13,44,000
			22,000		28,16,000

Average due date = Base date + Days equal to $\frac{\text{Sum of Products}}{\text{Sum of Amounts}}$

= 3rd March, 2022 + $\frac{28,16,000}{22,000}$

= 3rd March, 2022 + 128 days = 9th July, 2022

Working Note:

Bill dated 12th July, 2022 has the maturity period of one month, due date (after adding 3 days of grace) falls on 15th August, 2022. 15th August being public holiday, due date would be preceding date i.e. 14th August, 2022.

(c) Journal Entries

Date 2021	***Particulars***		***Dr.* ₹**	***Cr.* ₹**
31st Dec.	Sales A/c To Shama's A/c (Being cancellation of entry for sale of goods, not yet approved)	Dr.	10,500	10,500
	Inventories with customers A/c (Refer W.N.) To Trading A/c (Being Inventories with customers recorded at market price)	Dr.	7,875	7,875

Working Note:

Calculation of cost and market price of Inventories with customer

Sale price of goods sent on approval ₹ 10,500

Less: Profit (10,500 x 20/120) ₹1,750
Cost of goods ₹8,750

Market price = 8,750 - (8,750 x 10%) = ₹ 7,875

4. (a) Revaluation Account

	₹		₹
To Plant & Machinery (3,40,000 x 15%)	51,000	By Land & Building A/c	3,04,000
To Provision for Bad & Doubtful Debts (1,200,000 x 5%)	6,000		
To Outstanding Repairs to Building	12,000		
To Anil's Capital A/c (5/8)	1,46,875		
To Bharat's Capital A/c (3/8)	88,125		
	3,04,000		3,04,000

Capital Accounts of Partners

	Anil	Bharat	Dev		Anil	Bharat	Dev
To Anil's Capital A/c	-	-	40,000	By Balance b/d	8,20,000	6,60,000	-
To Bharat's Capital A/c			24,000	By Revaluation A/c	1,46,875	88,125	-
To Bharat's Current A/c	-	1,36,125		By Profit & Loss A/c	1,40,000	84,000	-
To Balance c/d	12,00,000	7,20,000	4,80,000	By Bank			5,44,000
				By Dev's Capital A/c	40,000	24,000	
				By Anil's Current A/c	53,125		
	12,00,000	8,56,125	5,44,000		12,00,000	8,56,125	5,44,000

Calculation of New Profit Sharing Ratio and gaining ratio:

Dev's Share of Profit = 1/5 = 2/10

Remaining Share = 1 – 1/5 = 4/5

Anil's Share = 5/8 x 4/5 = 20/40 = 5/10

Bharat's Share = 3/8 x 4/5 = 12/40 = 3/10

New Profit sharing Ratio = 5:3:2

Gaining ratio = 5:3 (same as old profit sharing ratio among old partners)

Balance sheet of Pradeep & Associates as on 31.3.2022

Liabilities		₹	*Assets*		
Capital Accounts:			Land & Buildings		10,64,000
Anil	12,00,000		Plant & Machinery	3,40,000	
Bharat	7,20,000		Less: Depreciation	51,000	2,89,000

Dev	4,80,000	24,00,000	Furniture		2,18,960
Bharat's Current A/c		1,36,125	Stock		2,90,520
Trade Creditors		1,09,600	Sundry Debtors	1,20,000	
Outstanding Repairs to Building		12,000	*Less*: Provision	6,000	1,14,000
			Cash at Bank		6,28,120
			Anil's current A/c		53,125
		26,57,725			26,57,725

Working Note:

Required Balance of Capital Accounts

Dev's Capital after writing off Goodwill = 5,44,000 – 64,000 = 4,80,000

Dev's Share of Profit = 1/5

Thus, Capital of the firm shall be = 4,80,000 x 5 = 24,00,000

Anil's Capital = 24,00,000 x 5/10 = 12,00,000 and

Bharat's Capital = 24,00,000 x 3/10 = 7,20,000

(b) (i) Computation of Income for the year 2021-22:

	₹
Money received during the year related to 2021-22	7,50,000
Add: Money received in advance during previous years	2,25,000
Total income of the year 2021-22	9,75,000

(ii) Advance from Customers A/c

Date	Particulars	₹	Date	Particulars	₹
	To Sales A/c (Advance related to current year transferred to sales)	2,25,000	1.4.2021	By Balance b/d	3,00,000
				By Bank A/c	1,80,000
31.3.22	To Balance c/d	2,55,000		(Balancing Figure)	
		4,80,000			4,80,000

So, total money received during the year is:

	₹
Cash Sales during the year	7,50,000
Add: Advance received during the year	1,80,000
Total money received during the year	9,30,000

5. (a) Corrected Receipts and Payments Account of Silver Stitch Club

for the year ended 31st March, 2022

	Receipts	₹	Amount ₹		Payments	Amount ₹
To	Balance b/d		9,000	By	Expenses	
To	Subscription				(₹ 1,26,000 – ₹ 54,000)	72,000

	Annual Income	91,800		By	Sports Material	54,000
				By	Balance c/d	18,14,400
	Less: Receivable as on 31.3.2022	5,400			(Cash in Hand and at Bank)	
	Add: Advance received for the year 2022–2023	1,800				
	Add: Receivable as on 31.3.2021	3,600				
	Less: Advance received as on 31.3.2021	1,800	90,000			
To	Other Fees		36,000			
To	Donation for Building		18,00,000			
To	Sale of Furniture		5,400			
			19,40,400			19,40,400

Income and Expenditure Account of Silver Stitch Club for the year ended 31st March, 2022

Expenditure		₹	Amount ₹	Income		Amount ₹
To	Sundry Expenses		72,000	By	Subscription	91,800
To	Sports Material			By	Other fees	36,000
	Balance as on 1.4.2021	1,33,200		By	Interest on investment (5% on ₹ 5,40,000)	27,000
	Add: Purchases	54,000		By	Deficit: Excess of Expenditure over Income	72,000
	Less: Balance as on 31.3.2022	36,000	1,51,200			
	Loss on sale of Furniture		3,600			
			2,26,800			2,26,800

Balance Sheet of Silver Stitch Club as on 31st March, 2022

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital Fund	7,20,000		Furniture	36,000	
Less: Excess of Expenditure over Income	72,000	6,48,000	Less: Sold	9,000	27,000
			5% Investment		5,40,000
Building Fund		18,00,000	Interest Accrued on Investment		27,000
Subscription Received in Advance		1,800	Sports Material		36,000
			Subscription Receivable		5,400
			Cash in Hand and at Bank		18,14,400
		24,49,800			24,49,800

Working Note:

Balance Sheet of Silver Stitch Club
as on 1st April, 2021

Liabilities	Amount ₹	Assets	Amount ₹
Subscription Received in Advance	1,800	Furniture	36,000
		Investment	5,40,000
Capital Fund (Balancing Figure)	7,20,000	Sports Material	1,33,200
		Subscription Receivable	3,600
		Cash in Hand and at Bank	9,000
	7,21,800		7,21,800

(b)

(i)	P&L Adjustment A/c	Dr.	7,000	
	To Suspense A/c			7,000
	(Correction of error by which Sales account was overcast last year)			
(ii)	P & L Adjustment A/c	Dr.	7,670	
	To Mr. Bansal			7,670
	(Correction of error by which legal expenses paid to Mr. Bansal was wrongly debited to his personal account)			
(iii)	Suspense A/c	Dr.	4,500	
	To P & L Adjustment A/c			4,500
	(Correct of error by which general expenses of ₹ 4,900 was wrongly posted as ₹ 9,400)			
(iv)	Bills Receivables A/c	Dr.	1,550	
	Bills Payable A/c	Dr.	1,550	
	To Jai A/c			3,100
	(Correction of error by which Bills Receivable account of ₹ 1,550 was wrongly posted through Bills Payable book)			
(v)	Suspense A/c	Dr.	15,000	
	To Deepak			7,500
	To Vivek			7,500
	(Removal of wrong debit to Vivek and giving credit to Deepak from whom cash was received)			
(vi)	Reema A/c	Dr.	25,000	
	To Shikha A/c			25,000
	(Correction of error by which sale of ₹ 25,000 to Reema was wrongly debited to Shikha's account)			
(vii)	Suspense A/c	Dr.	270	
	To P&L Adjustment A/c			270
	(Correction of error by which Purchase A/c was excess debited by ₹ 270 i.e. ₹ 21,960 – ₹ 21,690)			

(viii)	Trade Receivable A/c To Suspense A/c (₹ 7,000 due by Mr. Surya not taken into trial balance now rectified)	Dr.	7,000	 7,000

Suspense A/c

	₹		₹
To P & L Adjustment A/c	4,500	By P & L Adjustment A/c	7,000
To Deepak	7,500	By Trade Receivable (Mr. Surya)	7,000
To Vivek	7,500	By Difference in Trial Balance (Balancing figure)	5,770
To P&L Adjustment A/c	270		
	19,770		19,770

6. (a) In the Books of Hari Om Ltd.

Bank A/c To Equity Share Application A/c (Money received on application for 2,000 shares @ ₹ 25 per share)	Dr.	50,000	 50,000
Equity Share Application A/c To Equity Share Capital A/c (Transfer of application money on 2,000 shares to share capital)	Dr.	50,000	 50,000
Equity Share Allotment A/c To Equity Share Capital A/c (Amount due on the allotment of 2,000 shares @ ₹ 30 per share)	Dr.	60,000	 60,000
Bank A/c To Equity Share Allotment A/c (Allotment money received)	Dr.	60,000	 60,000
Equity Share First Call A/c To Equity Share Capital A/c (First call money due on 2,000 shares @ ₹ 20 per share)	Dr.	40,000	 40,000
Bank A/c Calls-in-Arrears A/c To Equity Share First Call A/c To Calls-in-Advance A/c (First call money received on 1,800 shares and calls-in-advance on 100 shares @ ₹ 25 per share)	Dr. Dr.	38,500 4,000	 40,000 2,500

(b) In the Books of Peanut Ltd.

Journal Entries

			Dr. (₹)	*Cr. (₹)*
1-4-2021	Bank A/c Discount/Loss on Issue of Debentures A/c	Dr. Dr.	36,00,000 6,00,000	

	To 12% Debentures A/c			40,00,000
	To Premium on Redemption of Debentures A/c			2,00,000
	(For issue of debentures at discount redeemable at premium)			
30-9-2020	Debenture Interest A/c	Dr.	4,80,000	
	To Debenture holders A/c			4,32,000
	To Tax Deducted at Source A/c			48,000
	(For interest payable)			
	Debenture holders A/c	Dr.	4,32,000	
	Tax Deducted at Source A/c	Dr.	48,000	
	To Bank A/c			4,80,000
	(For payment of interest and TDS)			
31-03-2020	Debenture Interest A/c	Dr.	4,80,000	
	To Debenture holders A/c			4,32,000
	To Tax Deducted at Source A/c			48,000
	(For interest payable)			
	Debenture holders A/c	Dr.	4,32,000	
	Tax Deducted at Source A/c	Dr.	48,000	
	To Bank A/c			4,80,000
	(For payment of interest and tax)			
	Profit and Loss A/c	Dr.	9,60,000	
	To Debenture Interest A/c			9,60,000
	(For transfer of debenture interest to profit and loss account at the end of the year)			
	Profit and Loss A/c	Dr.	80,000	
	To Discount/Loss on issue of debenture A/c			80,000
	(For proportionate debenture discount and premium on redemption written off, i.e., 4,00,000 x 1/5)			

(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.