Test Series: March, 2022

MOCK TEST PAPER 1

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) (i) False: Such wages being related to capital Asset should be debited to the machinery account.

(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: The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.

(iv) False: Due date may be the due date of the first transaction or the due date of the last transaction or any other due date between the first and the last but preferably earlier due date may be taken.

(v) False: The business of the partnership firm can be carried on by all the partners or by any one of them acting for all.

(vi) False: Debenture interest is payable before the payment of any dividend on shares.

(b) The practice of accountancy has crossed its usual domain of preparation of financial statements, interpretation of such statements and audit thereof. Chartered Accountants are presently taking active role in company laws and other corporate legislation matters, in taxation laws matters (both direct and indirect) and in general management problems.

Some of the services rendered by chartered accountants to the society are briefly mentioned hereunder:

(i) Maintenance of books of accounts;

(ii) Statutory audit;

(iii) Internal Audit;

(iv) Taxation;

(v) Management accounting and consultancy services;

(vi) Financial advice and financial investigations etc.

Other services like secretarial work, share registration work, company formation receiverships, arbitrations etc.

(c) Using the Accounting Equation:

Assets = Capital + Liabilities

(i) 37,50,000

(ii) 6,75,000

(iii) 2,25,000

(iv) 1,79,40,000

2. (a) **Quarry Lease Account**

Dr. Date	Particulars	Amount ₹	Date	Particulars	**Cr.** ₹
2019			2019		
Jan.	To Bank A/c	6,00,00,000	Dec. 31	By Depreciation A/c [(12,000/12,00,000) × ₹ 6,00,00,000]	6,00,000
			Dec. 31	By Balance c/d	5,94,00,000
		6,00,00,000			6,00,00,000
2020			2020		
Jan. 1	To Balance b/d	5,94,00,000	Dec. 31	By Depreciation A/c	30,00,000
			Dec. 31	By Balance c/d	5,64,00,000
		5,94,00,000			5,94,00,000
2021			2021		
Jan. 1	To Balance b/d	5,64,00,000	Dec. 31	By Depreciation A/c	45,00,000
			Dec. 31	By Balance c/d	5,19,00,000
		5,64,00,000			5,64,00,000

Depreciation Account

Dr.		₹			**Cr.** ₹
2019			2019		
Dec. 31	To Quarry lease A/c	6,00,000	Dec. 31	By Profit & Loss A/c	6,00,000
		6,00,000			6,00,000
2020			2020		
Dec. 31	To Quarry lease A/c	30,00,000	Dec. 31	By Profit & Loss A/c	30,00,000
		30,00,000			30,00,000
2021			2021		
Dec. 31	To Quarry lease A/c	45,00,000	Dec. 31	By Profit & Loss A/c	45,00,000
		45,00,000			45,00,000

(b)

	Balance as per Cash Book			(1,97,400)
Add :	Cheques issued but not presented for payment		14,800	
	Crossed Cheque issued to Abdul not presented for payment		3,000	
	Amounts collected by Bank on our behalf but not entered in the Cash Book			
	Dividend	600		
	Insurance claim	3,200		
		3,800		

	(-) Bank Commission	400	3,400	
	Amount paid in A/c No. 2 credited by the Bank wrongly to this A/c		2,000	23,200
				(1,74,200)
Less :	Cheques deposited in the bank but no cleared (₹ 5,200 + ₹ 1,000)		6,200	
	Payments made by Bank on our behalf but not entered in the Cash Book			
	Interest	1,280		
	Premium	640		
	Second call	2,400	4,320	
	Cheques issued against A/c No. 2 but wrongly debited by the Bank to this A/c		1,200	(11,720)
	Overdraft as per Pass Book			1,85,920

3. (a) **In the Books of Nishant**

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 (WN-1)	5,000
		By Insurance claim	9,000
To Consignee's A/c:		By Consignment Stock A/c (WN-2)	2,46,690
Advertisement & Recurring expenses	33,000		
Commission @ 5% on ₹4,50,000	22,500		
To Profit and loss A/c (Profit on Consignment)	1,30,190		
	7,10,690		7,10,690

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	2,000
Gross Amount of abnormal loss	14,000
Less: Insurance claim	(9,000)
Net abnormal loss	5,000

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)	(400)	(14,000)
	14,600	5,11,000
Less: Normal Loss	(100)	
	14,500	5,11,000
Less: Quantity of Sugar sold	(7,500)	
Quantity of Closing Stock	7,000	
Value of 7,000 kgs – (5,11,000/14,500) x 7,000		**2,46,690**

(b) **In the books of Deepti**

Aditi in Account Current with Deepti

(Interest to 31st March, 2021 @ 10% p.a)

Date	*Particulars*	*Amount*	*Days*	*Product*	*Date*	*Particulars*	*Amount*	*Days*	*Product*
2021		*₹*		*₹*	*2021*		*₹*		*₹*
Jan.1	To Balance b/d	7,500	90	6,75,000	Jan.24	By Promissor Varun Note (due date 27th April)	7,500	(27)	(2,02,500)
Jan. 11	To Sales	9,000	79	7,11,000	Feb. 1	By Purchases	15,000	58	8,70,000
Feb. 4	To Sales	12,300	55	6,76,500	Feb. 7	By Sales Return	1,500	52	78,000
Mar. 18	To Sales	13,800	13	1,79,400	Mar. 1	By Purchases	8,400	30	2,52,000
Mar. 31	To Interest	328			Mar. 23	By Purchases	6,000	8	48,000
					Mar. 31	By Balance of Products			11,96,400
					Mar. 31	By Bank	4,528		
		42,928		22,41,900			42,928		22,41,900

Working Note:

Calculation of interest:

Interest = $\frac{11,96,400}{365} \times \frac{10}{100}$ = ₹ 328 (approx.)

(c) **In the books of Mr. Somnath**

Journal Entries

Date	***Particulars***		***L.F.***	***Dr. (in ₹)***	***Cr. (in ₹)***
2021 Dec. 12	Trade receivables A/c To Sales A/c (Being the goods sent to customers on sale or return basis)	Dr.		1,60,000	1,60,000

Dec. 20	Return Inward A/c	Dr.		70,000	
	To Trade receivables A/c				70,000
	(Being the goods returned by customers to whom goods were sent on sale or return basis)				
Dec. 27	Sales A/c	Dr.		30,000	
	To Trade receivables A/c				30,000
	(Being the cancellation of original entry of sale in respect of goods on sale or return basis)				
Dec. 31	Inventories with customers on Sale or Return A/c	Dr.		24,000	
	To Trading A/c (Note 2)				24,000
	(Being the adjustment for cost of goods lying with customers awaiting approval)				

Working Note:

(1) No entry is required for receiving letter of approval from customer.

(2) Cost of goods with customers = ₹ 30,000 x 100/125 = ₹ 24,000

4. (a) In the books of M/s Amal, Kamal and Tamal

Journal Entries

Date	*Particulars*		*Dr. (₹)*	*Cr.(₹)*
2022	Fixed assets A/c	Dr.	1,02,000	
January 1	To Revaluation A/c			1,02,000
	(Revaluation of fixed assets)			
	Revaluation A/c	Dr.	22,000	
	To Stock A/c			16,000
	To Provision for doubtful debts A/c			6,000
	(Reduction in the value of stock and provision @ 5% on sundry debtors created for doubtful debts)			
	Kamal's capital A/c	Dr.	21,000	
	Tamal's capital A/c	Dr.	42,000	
	To Amal's capital A/c			63,000
	(Adjustment for goodwill and joint life policy (W.N.1))			
	Revaluation A/c	Dr.	80,000	
	To Amal's capital A/c			40,000
	To Kamal's capital A/c			25,000
	To Tamal's capital A/c			15,000
	(Transfer of profit on revaluation)			
	General reserve A/c	Dr.	1,60,000	
	To Amal's capital A/c			80,000
	To Kamal's capital A/c			50,000
	To Tamal's capital A/c			30,000
	(Transfer of general reserve)			

Balance Sheet (revised)

as on 1st January, 2021

Liabilities		*Amount* ₹	*Assets*		*Amount* ₹
Sundry creditors		3,00,000	Cash		80,000
Partners' loan A/cs:			Bills receivable		1,00,000
Amal	80,000		Sundry debtors	1,20,000	
kamal	60,000	1,40,000	*Less:* Provision	6,000	1,14,000
Partners' capital A/cs: (W.N.2)			Stock		2,24,000
			Fixed assets		6,62,000
Amal	3,83,000				
Kamal	2,14,000				
Tamal	1,43,000	7,40,000			
		11,80,000			11,80,000

Working Notes:

(1) Adjustment for goodwill and joint life policy

	₹
Average profit of last five years	40,000
Add: Insurance premium per annum	20,000
Average profit before charging premium	60,000
Value of goodwill (3x ₹ 60,000)	1,80,000
Add: Surrender value of joint life policy	1,56,000
Total amount for adjustment	3,36,000

	Amal	*Kamal*	*Tamal*
	₹	₹	₹
Raised in old profit sharing ratio (8:5:3)	1,68,000	1,05,000	63,000
Written off in new profit sharing ratio (5:6:5)	1,05,000	1,26,000	1,05,000
Net effect in capital accounts	63,000 (Cr.)	21,000 (Dr.)	42,000 (Dr.)

Alternatively, the net effect in partners' capital accounts due to adjustment for goodwill and joint life policy can be shown on the basis of profit sacrificing ratio. Profit sacrificing ratios are:

Amal = (8/16) - (5/16) = 3/16

Kamal = (5/16) - (6/16) = (1/16)

Tamal = (3/16) - (5/16) = (2/16)

Therefore, adjustments in partner's capital account:

Amal = 3/16 x ₹ 3,36,000 = ₹ 63,000 (Cr.)

Kamal = (1/16) x ₹ 3,36,000 = ₹ 21,000 (Dr.)

Tamal = (2/16) x ₹ 3,36,000 = ₹ 42,000 (Dr.)

(2) Partners' Capital Accounts

		Amal	Kamal	Tamal			Amal	Kamal	Tamal
2021		₹	₹	₹	2021		₹	₹	₹
Jan 1	To Amal's capital A/c	-	21,000	42,000	Jan 1	By Balance b/d	2,00,000	1,60,000	1,40,000
	To Balance c/d	3,83,000	2,14,000	1,43,000		By Kamal and Tamal's capital A/c (as per contra)	63,000	-	-
						By Revaluation A/c (revaluation profit)	40,000	25,000	15,000
						By General reserve	80,000	50,000	30,000
		3,83,000	2,35,000	1,85,000			3,83,000	2,35,000	1,85,000

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

for the year ended 31st March, 2021

	₹	₹		₹	₹
To Opening stock		1,17,000	By Sales	9,74,000	
To Purchases	8,04,250		*Less:* Returns	21,500	9,52,500
Add: Omitted invoice	1,000		By Closing stock		1,96,500
	8,05,250				
Less: Returns	14,500				
	7,90,750				
Less: Drawings	1,500	7,89,250			
To Carriage Inwards		49,000			
To Gross profit c/d		1,93,750			
		11,49,000			11,49,000
To Rent and taxes		11,750	By Gross profit b/d		1,93,750
To Salaries and wages		23,250	By Discount received		11,100
To Bank interest	2,750				
Add: Due	4,250	7,000			
To Printing and stationary	36,000				
Less: Prepaid (1/4)	9,000	27,000			
To Discount allowed		4,500			
To General expenses		28,625			
To Insurance		3,250			
To Postage & telegram expenses		5,825			
To Travelling expenses		2,175			

To Provision for bad debts [W.N.]		2,875			
To Provision for discount on debtors [W.N.]		1,093			
To Depreciation on furniture & fittings		1,250			
To Net profit		86,257			
		2,04,850			2,04,850

Working Note:

Provision for bad & doubtful debts:

@ 5% on ₹ 57,500 **2,875**

Provision for discount:

2% on ₹ 54,625 (57,500 -2,875) **1,093**

(b) Subscription for the year ended 31.3.2021

		₹
Subscription received during the year		22,50,000
Less: Subscription receivable on 1.4.2020	67,500	
Less: Subscription received in advance on 31.3.2021	31,500	(99,000)
		21,51,000
Add: Subscription receivable on 31.3.2020	99,000	
Add: Subscription received in advance on 1.4.2021	54,000	1,53,000
Amount of Subscription appearing in Income & Expenditure Account		23,04,000

Sports material consumed during the year end 31.3.2021

	₹
Payment for Sports material	13,50,000
Less: Amounts due for sports material on 1.4.2020	(4,05,000)
	9,45,000
Add: Amounts due for sports material on 31.3.2021	5,85,000
Purchase of sports material	15,30,000
Sports material consumed:	
Stock of sports material on 1.4.2020	4,50,000
Add: Purchase of sports material during the year	15,30,000
	19,80,000
Less: Stock of sports material on 31.3.2021	(6,75,000)
Amount of Sports Material appearing in Income & Expenditure Account	13,05,000

Balance Sheet of M/s Badminton Club For the year ended 31st March, 2021 (An extract)

Liabilities	₹	*Assets*	₹
Unearned Subscription	31,500	Subscription receivable	99,000
Amount due for sports material	5,85,000	Stock of sports material	6,75,000

6. (a) (i) Journal Entries in the books of Akhil Ltd.

Date			*Dr.* ₹	*Cr.* ₹
(a)	Equity Share Capital A/c	Dr.	90,000	
	To Equity Share Allotment money A/c (9000 x ₹ 3)			27,000
	To Equity Share Final Call A/c (9000 x ₹ 4)			36,000
	To Forfeited Shares A/c (9000 x ₹ 3)			27,000
	(Being the forfeiture of 9000 equity shares of ₹ 10 each for non-payment of allotment money and final call, held by Aditya as per Board's resolution No…………..dated……………..)			
(b)	Bank Account (9,000 x 8)	Dr.	72,000	
	Forfeited Shares Account (9,000x 2)	Dr.	18,000	
	To Equity Share Capital Account			90,000
	(Being the re-issue of 9,000 forfeited shares @ ₹ 8 each as fully paid up to Katen as per Board's resolution No……….dated……………..)			
(c)	Forfeited Shares Account	Dr.	9,000	
	To Capital Reserve Account			9,000
	(Being the profit on re-issue, transferred to capital reserve)			

(ii)

		Dr. ₹	***Cr.*** ₹
Preference Share Capital A/c (10,000 x ₹ 70)	Dr.	7,00,000	
To Preference Share Allotment A/c (10,000 x ₹ 20)			2,00,000
To Preference Share First Call A/c (10,000 x ₹ 20)			2,00,000
To Forfeited Share A/c			3,00,000
(Being the forfeiture of 10,000 preference shares ₹ 70 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated.....)			
Bank A/c (8,000 x ₹60)	Dr.	4,80,000	
Forfeited Shares A/c (8,000 x ₹10)	Dr.	80,000	
To Preference Share Capital A/c			5,60,000
(Being re-issue of 8,000 shares at ₹ 60 per share paid-up as ₹ 70 as per Board's Resolution No…..dated….)			
Forfeited Shares A/c	Dr.	1,60,000	
To Capital Reserve A/c (Note 1)			1,60,000
(Being profit on re-issue transferred to Capital/Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =₹ 3,00,000/10,000 = ₹ 30

Loss on re-issue =₹ 70 – ₹ 60 = ₹ 10

Surplus per share re-issued ₹ 20

Transferred to capital Reserve ₹ 20 x 8,000 = ₹ 1,60,000.

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

Journal Entries

Date	Particulars		Dr. ₹	Cr. ₹
(a)	Bank A/c	Dr.	22,50,000	
	To Debentures Application A/c			22,50,000
	(Being the application money received on 10,000 debentures @ ₹ 225 each)			
	Debentures Application A/c	Dr.	22,50,000	
	Discount on issue of Debentures A/c	Dr.	2,50,000	
	To 8% Debentures A/c			25,00,000
	(Being the issue of 10,000 8% Debentures @ 90% as per Board's Resolution No….dated….)			
(b)	Fixed Assets A/c	Dr.	10,00,000	
	To Vendor A/c			10,00,000
	(Being the purchase of fixed assets from vendor)			
	Vendor A/c	Dr.	10,00,000	
	Discount on Issue of Debentures A/c	Dr.	2,50,000	
	To 8% Debentures A/c			12,50,000
	(Being the issue of debentures of ₹ 12,50,000 to vendor to satisfy his claim)			
(c)	Bank A/c	Dr.	10,00,000	
	To Bank Loan A/c (See Note)			10,00,000
	(Being a loan of ₹ 10,00,000 taken from bank by issuing debentures of ₹12,50,000 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) **(i)** Adjusted selling method is also called retail inventory method. It is used widely in retail business or in business where the inventory comprises of items, the individual costs of which are not readily ascertainable. The historical cost of inventory is estimated by calculating it in the first instance at selling price and then deducting an amount equal to the estimated gross margin of profit on such stocks.

(ii) The specific identification method, First-In–First-Out (FIFO) and weighted average cost formulae are the principal methods of ascertaining the cost of inventory. The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned by specific identification of their individual costs under the specific identification method.