

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) Wages paid for erection of machinery are debited to Profit and Loss Account.
 - (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) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.
 - (iv) In the calculation of average due date, only the due date of first transaction must be taken as the base date.
 - (v) The business of partnership must be carried on by all the partners.
 - (vi) Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend. **(6 Statements x 2 Marks = 12 Marks)**
- (b) What services can a Chartered Accountant provide to the society? **(4 Marks)**
- (c) Calculate the missing amount for the following.

	Assets	Liabilities	Capital	
(a)	45,00,000	7,50,000	?	
(b)	?	4,50,000	2,25,000	
(c)	43,50,000	?	41,25,000	
(d)	1,71,00,000	(8,40,000)	?	(4 Marks)

2. (a) M/s Krishna took lease of a quarry on 1-1-2019 for ₹ 6,00,00,000. As per technical estimate the total quantity of mineral deposit is 12,00,000 tonnes. Depreciation was charged on the basis of depletion method. Extraction pattern is given in the following table:

Year	Quantity of Mineral extracted
2019	12,000 tonnes
2020	60,000 tonnes
2021	90,000 tonnes

Required

Show the Quarry Lease Account and Depreciation Account for each year from 2019 to 2021.

- (b) On 30th June, 2021, Cash Book of Ms. Suman (Bank Column of Account No. 1) shows a Bank Overdraft of ₹ 1,97,400. On going through the Bank Pass book for reconciling the Balance, she found the following:
- Out of cheques drawn on 26th June, those for ₹ 14,800 were cashed by the bankers on 2nd July.
 - A crossed cheque for ₹ 3000 given to Abdul was returned by him and a bearer cheque was issued to him in lieu on 1st July.
 - Cash and cheques amounting to ₹ 13,600 were deposited in the Bank on 29th June., but cheques worth ₹ 5,200 were cleared by the Bank on 1st July., and one cheque for ₹ 1,000 was returned by them as dishonoured on the latter date.
 - According to Suman's standing instructions, the bankers have on 30th June, paid ₹ 1,280 as interest to her creditors, paid quarterly premium on her policy amounting to ₹ 640 and have paid a second call of ₹ 2,400 on shares held by her and lodged with the bankers for safe custody. They have also received ₹ 600 as dividend on her shares and recovered an Insurance Claim of ₹ 3,200, as their charges and commission charged on the above being ₹ 400. On receipt of information of the above transaction, she has passed necessary entries in her Cash Book on 1st July.
 - Bankers seem to have given a wrong credit for ₹ 2,000 paid in by her in No. 2 account and wrong debit in respect of a cheque for ₹ 1,200 drawn against her No. 2 account.

Prepare a Bank Reconciliation Statement as on 30th June, 2021. **(10 + 10 = 20 Marks)**

3. (a) Nishant of Noida consigned 15,000 kgs of Sugar at ₹ 30 per kg to his agent Raja at Gurgaon. He spent ₹ 5 per kg as freight and insurance for sending the Sugar at Gurgaon. 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.

Raja sold 7,500 kgs. at ₹ 60 per kg. He spent ₹ 33,000 on advertisement and recurring expenses.

You are required to calculate:

- The amount of abnormal loss
 - Value of stock at the end and
 - Prepare Consignment account showing profit or loss on consignment, if Raja is entitled to 5% commission on sales.
- (b) On 1st January, 2021, Aditi account in Deepti ledger showed a debit balance of ₹ 7,500. The following transactions took place between Deepti and Aditi during the quarter ended 31st March, 2021:

2021		₹
Jan. 11	Deepti sold goods to Aditi	9,000
Jan. 24	Deepti received a promissory note from Aditi due after 3 months	7,500
Feb. 01	Aditi sold goods to Deepti	15,000
Feb. 04	Deepti sold goods to Aditi	12,300
Feb. 07	Aditi returned goods to Deepti	1,500
March 01	Aditi sold goods to Deepti	8,400
March 18	Deepti sold goods to Aditi	13,800
March 23	Aditi sold goods to Deepti	6,000

Accounts were settled on 31st March, 2020 by means of a cheque. Prepare an Account Current to be submitted by Deepti to Aditi as on 31st March, 2021, taking interest into account @ 10% per annum. Calculate interest to the nearest multiple of a rupee.

- (c) Mr. Somnath sends goods to his customers on Sale or Return. The following transactions took place during the month of December, 2021.

December 12th - Sent goods to customers on sale or return basis at cost plus 25% - ₹ 1,60,000

December 20th - Goods returned by customers ₹ 70,000

December 22nd - Received letters from customers for approval ₹ 70,000

December 27th - Goods with customers awaiting approval ₹ 30,000

Mr. Somnath records sale or return transactions as ordinary sales. You are required to pass the necessary Journal Entries in the books of Mr. Somnath assuming that the accounting year closes on 31st Dec., 2021. Considered that the transaction values are at involve price (including profit margin) **(10 + 5 + 5 = 20 Marks)**

4. (a) Amal, Kamal and Tamal are partners in a firm sharing profits and losses as 8:5:3. Their balance sheet as at 31st December, 2021 was as follows:

<i>Particulars</i>	₹	<i>Particulars</i>	₹
Sundry creditors	3,00,000	Cash	80,000
General reserve	1,60,000	Bills receivable	1,00,000
Partners' loan accounts:		Sundry debtors	1,20,000
Amal	80,000	Stock	2,40,000
Kamal	60,000	Fixed assets	5,60,000
Partners' capital accounts:			
Amal	2,00,000		
Kamal	1,60,000		
Tamal	<u>1,40,000</u>		
	<u>11,00,000</u>		<u>11,00,000</u>

From 1st January, 2022 they agreed to alter their profit-sharing ratio as 5:6:5. It is also decided that:

- (a) The fixed assets should be valued at ₹ 6,62,000;
 (b) A provision of 5% on sundry debtors to be made for doubtful debts;
 (c) Goodwill of the firm at this date be valued at three years' purchase of the average net profits of the last five years before charging insurance premium; and
 (d) Stock be reduced to ₹ 2,24,000.

There is a joint life insurance policy for ₹ 4,00,000 for which an annual premium of ₹ 20,000 is paid, the premium being charged to profit and loss account. The surrender value of the policy on 31st December, 2021 was ₹ 1,56,000.

The net profits of the firm for the last five years were ₹ 28,000, ₹ 34,000, ₹ 40,000, ₹ 44,000 and ₹ 54,000.

Goodwill and the surrender value of the joint life policy was not to appear in the books.

Draft journal entries necessary to adjust the capital accounts of the partners and prepare the revised balance sheet. **(20 Marks)**

5. (a) The trial balance of Sahil as at 31st March, 2021 is as follows:

	Dr.	Cr.
	₹	₹
Sahil's capital account	-	1,91,725
Stock 1 st April, 2020	1,17,000	-
Sales	-	9,74,000
Returns inward	21,500	-
Purchases	8,04,250	-
Returns outward	-	14,500
Carriage inwards	49,000	-
Rent & taxes	11,750	-
Salaries & wages	23,250	-
Sundry debtors	60,000	-
Sundry creditors	-	37,000
Bank loan @ 14% p.a.	-	50,000
Bank interest	2,750	-
Printing and stationary expenses	36,000	-
Bank balance	20,000	-
Discount earned	-	11,100
Furniture & fittings	12,500	-
Discount allowed	4,500	-
General expenses	28,625	-
Insurance	3,250	-
Postage & telegram expenses	5,825	-
Cash balance	950	-
Travelling expenses	2,175	-
Drawings	75,000	-
	12,78,325	12,78,325

The following adjustments are to be made:

- (1) Provision for bad and doubtful debts be created at 5% and for discount @ 2% on sundry debtors.
- (2) Personal purchases of Sahil amounting to ₹ 1,500 had been recorded in the purchases day book.
- (3) Depreciation on furniture & fittings @ 10% shall be written off.
- (4) Included amongst the debtors is ₹ 7,500 due from Sunder and included among the creditors ₹ 2,500 due to him.
- (5) A quarter of the amount of printing and stationary expenses is to be carried forward to the next year.

- (6) Credit purchase invoice amounting to ₹ 1,000 had been omitted from the books.
 (7) Stock on 31.03.2021 was ₹ 1,96,500.
 (8) Interest on bank loan shall be provided for the whole year.

You are required to prepare Trading & profit and loss account for the year ended 31.03.2021.

- (b) The following information of M/s. Badminton Club are related for the year ended 31st March, 2021:

(1)

Balances	As on 01-04-2020 (₹)	As on 31-3-2021 (₹)
Stock of Sports Material	4,50,000	6,75,000
Amount due for Sports Material	4,05,000	5,85,000
Subscription due	67,500	99,000
Subscription received in advance	54,000	31,500

- (2) Subscription received during the year ₹ 22,50,000
 (3) Payments for Sports Material during the year ₹ 13,50,000

You are required to:

- (A) Ascertain the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2021 and
 (B) Also show how these items would appear in the Balance Sheet as on 31.03.2021.

(15 + 5 = 20 Marks)

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

- (i) Akhil Pvt. Ltd. forfeited 9,000 shares of ₹ 10 each fully called up, held by Aditya 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 Katen for ₹ 8 per share.
 (ii) Mr. C, who was the holder of 10,000 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 8,000 of such shares to Mr. D at ₹ 60 per share paid-up as ₹ 70 per share.

- (b) Galaxy Limited issued 10,000 8% Debentures of the nominal value of ₹1,00,00,000 as follows:

- (a) To sundry persons for cash at 90% of nominal value of ₹ 25,00,000.
 (b) To a vendor for purchase of fixed assets worth ₹ 10,00,000 – ₹ 12,50,000 nominal value.
 (c) To the banker as collateral security for a loan of ₹ 10,00,000 – ₹ 12,50,000 nominal value

You are required to prepare necessary Journal Entries.

- (c) Write short notes on:

- (i) Adjusted Selling Price method of determining cost of stock.
 (ii) Principal methods of ascertainment of cost of inventory.

(10 + 5 + 5 = 20 Marks)