TEST SERIES: OCTOBER, 2020
MOCK TEST PAPER
CA FOUNDATION PAPER 1
ACCOUNTING

ANSWER TO Q.1.(A)

1. **False,** 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 amount received on shares forfeited.

2. **True,** Discount at the time of retirement of a bill is a gain for the drawee.

3. **False,** Receipts and payments account highlights cash receipts and payments.

4. **False,** The correct equation is:

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

5. **False,** According to Partnership Act, in the absence of any agreement, profits and losses are to be shared equally among partners.

6. **False,** Accrual concept implies accounting on ‘accrual’ basis.

ANSWER TO Q.1.(B)

Journal Entries in the books of Symphony Bros.

	Particulars		**Dr. Amount Rs.**	**Cr. Amount Rs.**
(i)	Salaries A/c To Purchase A/c (Being inventory taken by employees)	Dr.	7,500	 7,500
(ii)	Advertisement A/c To Purchases A/c (Being goods distributed as free samples)	Dr.	2,000	 2,000
(iii)	Drawings A/c To Petty Cash A/c (Being the income tax of proprietor paid out of business money)	Dr.	1,400	 1,400
(iv)	Purchase A/c To Cash A/c To Discount Received A/c (Being the goods purchased from Naveen for Rs. 2,000 @ 10% trade discount and cash discount of Rs. 50)	Dr.	1,800	 1,750 50

ANSWER TO Q.1.(C)

LIMITATIONS OF ACCOUNTING

1. Due to money measurement concept, the Balance sheet cannot reflect the value of certain factors like loyalty and skill of the personnel which are the most valuable asset of an enterprise.

2. 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.

3. Accounting is based on estimates and certain accounting estimates depend on the sheer personal judgement of the accountant, e.g., provision for doubtful debts, method of depreciation adopted etc.

4. Different accounting policies for the treatment of same item adds to the probability of manipulations. Accounting principles sometimes conflict with each other. Accounting ignores changes in some factors like inflation.

ANSWER TO Q.2.(A)

Statement of Valuation of Stock on 30th June, 2020

Particulars		**Amount (In Rs.)**
Value of stock as on June 14		96,00,000
Add: Stock of the goods sent on consignment		4,80,000
Add: Purchases during the period from 14 June to 30 June: Goods Received Goods in transit		 4,80,000 3,20,000
Add: Cost of goods sent on approval basis (6,40,000 x 50% = 3,20,000) (Cost price = 3,20,000 – 3,20,000 x 20% = 2,56,000)		2,56,000
Less: Cost of sales		
Sales (Rs. 27,20,000 - Rs. 3,20,000) Less: Gross profit Normal sales = 24,00,000 – 2,40,000 = 21,60,000 Profit = 21,60,000 x 20% = 4,32,000 Abnormal sales = 2,40,000 Loss = 4,80,000 – 2,40,000 = 2,40,000 Gross profit = 4,32,000 – 2,40,000	24,00,000 1,92,000	 22,08,000
Value of stock as on 30th June		89,28,000

ANSWER TO Q.NO.2 (B)

Dr. **Adjusted Cash Book (Bank column)** **Cr.**

Particulars	Amount Rs.	Particulars	Amount Rs.
To Party/creditors	16,000	By Balance b/d	4,062
To customer/debtor (direct deposit)	1,17,400	By bank charges	580
To Balance c/d	11,242	By customer (B/R dishonoured)	1,40,000
	1,44,642		**1,44,642**

Bank reconciliation statement as on 31st March

Particulars	Amount (Rs.)
Bank Overdraft as per adjusted cash book	11,242
Less: Cheques deposited, but not cleared	13,14,000
Add: cheques issued but not encashed	13,26,000
Add: Wrong credit by bank	20,000
Bank balance as per pass book	20,758

ANSWER TO Q.NO.3 (A)

Books of Gagandeep

Consignment to Mandeep (Ludhiana) Account

Particulars	₹	***Particulars***	₹
To Goods sent on Consignment A/c	1,87,500	By Goods sent on Consignment A/c (loading)	37,500
To Cash A/c	15,000	By Abnormal Loss	16,500
To Mandeep (Expenses)	12,000	By Mandeep (Sales)	1,50,000
To Mandeep (Commission)	16,406	By Inventories on Consignment A/c	30,375
To Inventories Reserve A/c	5,625	By General Profit & Loss A/c	2,156
	2,36,531		2,36,531

Working Notes:

1. **Calculation of value of goods sent on consignment:**

   Abnormal Loss at Invoice price = ₹ 18,750

   Abnormal Loss as a percentage of total consignment = 10%

   Hence the value of goods sent on consignment

   = ₹18,750 X 100/ 10 = ₹1,87,500

   Loading of goods sent on consignment

   = ₹1,87,500 X 1/5 = ₹ 37,500

2. **Calculation of abnormal loss (10%):**

   Abnormal Loss at Invoice price = ₹18,750.

   Abnormal Loss at cost = ₹18,750 X 100/125 = 15,000

   Add: Proportionate expenses of Gagandeep (10 % of ₹15,000) = 1,500

   Total 16,500

3. **Calculation of closing Inventories:**

   Value of closing Inventories at I.P. = 15% of ₹ 1,87,500 = 28,125

   Add: Proportionate expenses = 15% of 15,000 = 2,250

₹30,375

Loading in closing Inventories = ₹28,125 x 1/5 = ₹5,625

4. Calculation of commission:

Invoice price of the goods sold

= 75% of ₹1,87,500 = ₹1,40,625

Excess of selling price over invoice price

= ₹9,375 (₹1,50,000 - ₹1,40,625)

Total commission

= 10% of ₹1,40,625 + 25% of ₹9,375

= ₹14,062.5 + ₹2,343.75 = ₹16,406

ANSWER TO Q.NO.3 (B)

In the books of Varun
Ankur in Account Current with Varun
(Interest to 31st March, 2020 @ 10% p.a)

Date	*Particulars*	*Amount*	*Days*	*Product*	*Date*	*Particulars*	*Amount*	*Days*	*Product*
2020		₹		₹	*2020*		₹		₹
Jan.1	To Bal b/d	2,500	90	2,25,000	Jan.24	By Promisory Note (due date 27th April)	2,500	(27)	(67500)
J 11	To Sales	3,000	79	2,37,000	Feb. 1	By Purchases	5,000	58	2,90,000
Feb. 4	To Sales	4,100	55	2,25,500	Feb. 7	By Sales Return	500	52	26,000
M 18	To Sales	4,600	13	59,800	Mar. 1	By Purchases	2,800	30	84,000
M 31	To Interest	110			Mar. 23	By Purchases	2,000	8	16,000
					Mar. 31	By Balance of Products			3,98,800
					Mar. 31	By Bank	1,510		
		14,310		7,47,300			14,310		7,47,300

Working Note:

Calculation of interest: $\frac{3,98,800}{365} \times \frac{10}{100} =$ ₹110 (approx.)

ANSWER TO Q.NO.4 (a)

Subscription for the year ended 31.3.2020

		₹
Subscription received during the year		11,25,000
Less: Subscription receivable on 1.4.2019	33,750	
Less: Subscription received in advance on 31.3.2020	15,750	(49,500)
		10,75,500
Add: Subscription receivable on 31.3.2020	49,500	
Add: Subscription received in advance on 1.4.2019	27,000	76,500
Amount of Subscription appearing in Income & Expenditure Account		11,52,000

Sports material consumed during the year end 31.3.2020

	₹
Payment for Sports material	6,75000
Less: Amounts due for sports material on 1.4.2019	(2,02,500)
	4,72,500
Add: Amounts due for sports material on 31.3.2020	2,92,500
Purchase of sports material	7,65,000
Sports material consumed:	
Stock of sports material on 1.4.2019	2,25,000
Add: Purchase of sports material during the year	7,65,000
Less: Stock of sports material on 31.3.2020	(3,37,500)
Amount of Sports Material appearing in Income & Expenditure Account	6,52,500

ANSWER TO Q.NO.4 (B)

Revaluation Account

		₹		₹
	To Furniture	1,740	By Building	6,400
	To Stock	2,140	By Sundry creditors	2,800
	To Provision of doubtful debts (₹3,500 – ₹400)	3,100	By Investment	900
	To Outstanding wages	3,120		
		10,100		10,100

Partners' Capital Accounts

		P	Q	R			P	Q	R
		₹	₹	₹			₹	₹	₹
	To Bal c/d	142,000	108,000	50,000		By Bal b/d	88,000	72,000	–
						By Cash A/c	–	–	50,000
						By Goodwill A/c (WN)	54,000	36,000	
		142,000	108,000	50,000			142,000	108,000	50,000

Balance Sheet of New Partnership Firm (after admission of R) as on 31.3.2020

Liabilities	₹	Assets		₹
Capital Accounts:		Goodwill		90,000
P 1,42,000		Building (52,000 + 6,400)		58,400
Q 1,08,000		Furniture (11,600 – 1,740)		9,860
R 50,000	3,00,000	Stock-in-trade (42,800 – 2,140)		40,660
Bills Payable	8,200	Debtors	70,000	
Bank Overdraft	18,000	Less: Provision for bad Debts	(3,500)	66,500
Sundry creditors (25,800-2,800)	23,000	Investment (5,000 + 900)		5,900
Outstanding wages	3,120	Cash (31,000 + 50,000)		81,000
	3,52,320			3,52,320

Working Note:

Calculation of goodwill

R's contribution of ₹50,000 consists only 1/6th of capital.
Therefore, total capital of firm should be ₹50,000 × 6 = ₹ 3,00,000.

But combined capital of P, Q and R amounts ₹88,000 + 72,000 + 50,000 = ₹ 2,10,000. Thus Hidden goodwill is ₹90,000 (₹3,00,000 – ₹2,10,000).

Goodwill A/c Dr. 90,000
    To P's capital A/c 54,000
    To Q's capital A/c 36,000
(being goodwill raised in old partners in old ratio)

ANSWER TO Q.NO.5 (A)

Date	Particulars	Amount	Date	Particulars	Amount
2019			2019		
Jan-01	To balance b/d (WN 1)	29,25,000	Oct-01	By Bank A/c	2,70,000
Oct-01	To Profit & Loss A/c (Profit on settlement of Car)	45,000	Oct-01	By Depreciation on lost assets (WN 2)	67,500
Oct-01	To Bank A/c	5,00,000	Oct-01	By Depreciation A/c 4,50,000 x 9 cars x 20% 5,00,000 x 20% x 3/12	8,35,000
			Dec-31	By Balance c/d	22,97,500
		34,70,000			**34,70,000**
2020			2020		
Jan-01	To balance b/d	22,97,500	Dec-31	By Depreciation A/c 4,50,000 x 9 cars x 20% 5,00,000 x 20%	9,10,000
			Dec-31	By Balance c/d	13,87,500
		22,97,500			**22,97,500**

Working Note:

1. Balance b/d in Innova cars A/c:

   Cost Price on 01.04.17 = 4,50,000 x 10 = 45,00,000
   Depreciation for 2017 = 45,00,000 x 20% x 9/12 = 6,75,000
   Depreciation for 2018 = 45,00,000 x 20% = 9,00,000
   Balance = 29,25,000

2.
To find out loss on Profit on settlement of car

	Rs.
Original cost as on 1.4.2017	4,50,000
Less: Depreciation for 2017	(67,500)
Less: Depreciation for 2018	(90,000)
Less: Depreciation for 2019 (9 months)	(67,500)
	2,25,000
Less: Amount received from Insurance company	(2,70,000)
Profit	**45,000**

ANSWER TO Q.NO.5 (B)

Trading and Profit and Loss Account of Mr.Sanjeev

for the year ended 31st March, 2020

Dr. *Cr.*

Particulars	*Amount* ₹	Particulars	*Amount* ₹
To Opening stock	64,500	By Sales 4,30,600 Less: 3,450 4,27,150 *Less*: Sales return 5,150	4,22,000
To Purchases 3,06,200 (WN 1) *Less*: Purchases return 3,450	3,02,750	By Closing stock (160000 x 100/80 x 100/80)	2,50,000
To Carriage inward	2,250		
To Wages 24,330 Less: 900	23,430		
To Gross profit c/d	2,79,070		
	6,72,000		**6,72,000**
To Salaries	45,100	By Gross profit b/d	2,79,070
To Rent	8,600	By Bad debts recovered	900
To Advertisement expenses (6,700 + 1,650)	8,350		
To Printing and stationery	2,500		
To Carriage outward	2,700		
To Provision for doubtful debts (WN 3)	7,800		
To Provision for discount on debtors (WN 2)	2,950		
To Depreciation: Plant and machinery 6,000 Furniture and fittings 2,050	8,050		
To Office expenses	20,320		
To Interest on loan	6,000		
To Net profit	1,67,600		
	2,79,970		**2,79,970**

<u>Balance Sheet of Mr. Sanjeev as on 31st March, 2020</u>

Liabilities	Amount (in Rs.)	Assets	Amount (in Rs.)
Capital account 1,30,000 *Add*: Net profit 1,67,600 *Less*: Drawings 23,000	2,74,600	Plant and machinery 40,000 *Less*: Depreciation 6,000	34,000
Bank overdraft	1,60,000	Furniture and fittings 20,500 *Less*: Depreciation 2,050	18,450
Sundry creditors	95,000	Closing stock	2,50,000
Payable salaries	4,900	Sundry debtors 2,40,000 *Less*: Provision for bad debts 12,000 Less: Provision for discount 5,700	2,22,300
		Prepaid rent	600
		Cash in hand	2,900
		Cash at bank	6,250
	5,34,500		5,34,500

Working Note:

1. **Purchases 3,20,000**
   Less: Drawings 7,000
   Less: Advertisement expense 1,650
   Less: Sales return 5,150

2. **Provision for Discount on debtors**

Particulars	Amount Rs.	Particulars	Amount Rs.
		By Balance b/d	2,750
To Balance c/d { Debtors 2,40,000 Less: Provision for doubtful debt 12,000 2,28,000 Provision for discount = 2,28,000 x 2.5 % = 5,700	5,700	By Profit and Loss A/c (Balancing Figure)	2,950
	14,200		**14,200**

3. Provision for Doubtful Debts Account

	Rs.		Rs.
To Bad Debts Account	2,200	By Balance b/d	6,400
To Balance c/d (5% x 2,40,000)	12,000	By Profit and Loss A/c (Balancing Figure)	7,800
	14,200		**14,200**

ANSWER TO Q.NO.6 (A)
Books of Alpha Limited

Bank A/c	Dr.	25,000	
To Equity Share Application A/c			25,000
(Money received on application for 1,000 shares @ ₹25 per share)			
Equity Share Application A/c	Dr.	25,000	
To Equity Share Capital A/c			25,000
(Transfer of application money on 1,000 shares to share capital)			
Equity Share Allotment A/c	Dr.	30,000	
To Equity Share Capital A/c			30,000
(Amount due on the allotment of 1,000 shares @ ₹30 per share)			
Bank A/c	Dr.	30,000	
To Equity Share Allotment A/c			30,000
(Allotment money received)			
Equity Share First Call A/c	Dr.	20,000	
To Equity Share Capital A/c			20,000
(First call money due on 1,000 shares @ ₹20 per share)			
Bank A/c	Dr.	18,500	
Calls-in-Arrears A/c	Dr.	4,000	
To Equity Share First Call A/c			20,000
To Calls-in-Advance A/c			2,500
(First call money received on 800 shares and calls-in-advance on 100 shares @ ₹25 per share)			

ANSWER TO Q.NO.6 (B)
Books of Aditya Limited

Date	Particulars		Rs.	Rs.
(a)	Bank A/c	Dr.	45,00,000	
	To Debentures Application A/c			45,00,000
	(Application money received on 10,000 debentures @ 450 each))			
	Debentures Application A/c	Dr.	45,00,000	
	Discount on issue of Debentures A/c	Dr.	5,00,000	
	To 9% Debentures A/c			50,00,000

	(Being the issue of 10,000 9% debentures as per Board's Resolution No….dated…)		
(b)	Fixed Assets A/c Dr.	20,00,000	
	To Vendor A/c		20,00,000
	(Being the purchase of fixed assets from vendor)		
	Vendor A/c Dr.	20,00,000	
	Discount on Issue of Debentures A/c Dr.	5,00,000	
	To 9% Debentures A/c		25,00,000
	(Being the issue of debentures of Rs. 25,00,000 to vendor to satisfy his claim)		
(c)	Bank A/c Dr.	20,00,000	
	To Bank Loan A/c (See Note)		20,00,000
	(Being a loan of Rs.20,00,000 taken from bank by issuing debentures of Rs.25,00,000 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 Balance Sheet the fact that the debentures being issued as collateral security and outstanding are shown under the respective liability.

ANSWER TO Q.NO.6 (C)

Distinction between Money Measurement concept and Matching concept:
As per Money Measurement concept, only those transactions, which can be measured in terms of money are recorded. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money should be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

In Matching concept, all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.