

MOCK TEST PAPER 1
FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

Question No. 1 is compulsory.

*Answer 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)

(100 Marks)

1. (a) State with reasons whether the following statements are True or False:
- (i) "Salary paid in advance" is not an expense because it neither reduces assets nor increases liabilities.
 - (ii) Accrual concept implies accounting on cash basis.
 - (iii) Stock at the end, if appears in the Trial Balance, is taken only to the Balance Sheet.
 - (iv) Discount at the time of retirement of a bill is a gain for the drawee.
 - (v) Partners can share profits or losses in their capital ratio, when there is no agreement.
 - (vi) Receipts and Payments Account highlights total income and expenditure.
- (6 Statements x 2 Marks = 12 Marks)**
- (b) Explain Cash and Mercantile system of accounting. **(4 Marks)**
- (c) Prepare Journal Entries for the following transactions in the books of Annamalai Bros.
- (i) Employees had taken stock worth ₹ 20,000 (Cost price ₹ 15,000) on the eve of Deepawali and the same was deducted from their salaries in the subsequent month.
 - (ii) Wages paid for erection of Machinery ₹ 16,000.
 - (iii) Income tax liability of proprietor ₹ 3,400 was paid out of petty cash.
 - (iv) Purchase of goods from Naveen of the list price of ₹ 4,000. He allowed 10% trade discount, ₹ 100 cash discount was also allowed for quick payment. **(4 Marks)**
2. (a) Physical verification of stock in a business was done on 23rd April, 2023. The value of the stock was ₹ 48,00,000. The following transactions took place between 23rd April to 30th April, 2023:
- (i) Out of the goods sent on consignment, goods at cost worth ₹ 2,40,000 were unsold.
 - (ii) Purchases of ₹ 4,00,000 were made out of which goods worth ₹ 1,60,000 were delivered on 5th May, 2023.
 - (iii) Sales were ₹ 13,60,000, which include goods worth ₹ 3,20,000 sent on approval. Half of these goods were returned before 30th May, 2023, but no information is available regarding the remaining goods.
 - (iv) Goods are sold at cost plus 25%. However goods costing ₹ 2,40,000 had been sold for ₹ 1,20,000.

You are required to determine the value of stock on 30th April, 2023

- (b) M/s Mazars purchased a brand new machinery on 1st January 2019 for ₹ 3,20,000 and also incurred ₹ 80,000 on its installation. Another machinery was purchased on 1st July 2019 for ₹ 1,60,000. On 1st July 2021, the machinery purchased on 1st January 2019 was sold for ₹ 2,50,000. Another machinery was purchased and installed on 30th September 2021 for ₹ 60,000.

Under existing practice, the company provides for depreciation @ 10% p.a. on Original cost. However, from the year 2022 it decided to adapt WDV method and charge the depreciation @ 15% p.a. You are required to show the Machinery Account for the years 2021 and 2022 considering the books of accounts are closed on 31st December each year. **(10 +10 = 20 Marks)**

3. (a) On 1st January 2023, Rajat draws two bills of exchange for ₹ 32,000 and ₹ 50,000.

The bill of exchange for ₹ 32,000 is for two months while the bill of exchange for ₹ 50,000 is for three months. These bills are accepted by Vishal. On 4th March, 2023, Vishal requests Rajat to renew the first bill with interest at 15% p.a. for a period of two months. Rajat agreed to this proposal. On 25th March, 2023, Vishal retires the acceptance for ₹ 50,000, the interest rebate i.e. discount being ₹ 500. Before the due date of the renewed bill, Vishal becomes insolvent and only 50 paise in a rupee could be recovered from his estate.

Show the Journal Entries (with narrations) in the books of Rajat.

- (b) Kiran had accepted bills payable to Divya, falling due on different dates. The details of bills are as follows:

Date of bill	Amount	Usance of bill
9th April 2022	₹ 3,000	for 4 months
18th April 2022	₹ 5,500	for 3 months
25th May 2022	₹ 3,000	for 6 months
5th June 2022	₹ 6,000	for 3 months

On 1st July, it was agreed that these bills should be withdrawn and that Kiran should accept on that day two bills, one for ₹ 10,000 due in 4 months and the other for the balance with interest, due in 6 months. Calculate the amount of the second bill taking interest @ 10% p.a. Take 365 days in year 2022-2023.

- (c) From the following transactions in the books of Mr. Lee, prepare an Account Current, by means of product to be sent by him to Mr. Cooper for the quarter ending 31st March, 2023. Interest is to be charged and/or allowed @ 12% p.a. (Take 365 days in year)

2023		₹
January 1	Balance in Cooper's Account (Credit)	3,500
January 12	Sold goods to Cooper (due 1st February)	30,000
January 31	Sold goods to Cooper (due 15th February)	27,500
February 15	Cash received	40,000
February 20	Cash received	7,500
March 10	Goods returned by Cooper	7,000
March 25	Cash received	6,500

(10 +5 + 5 = 20 Marks)

4. (a) The Balance Sheet of a Partnership Firm M/s Pigeon & Associates consisted of two partners P and Q who were sharing Profits and Losses in the ratio of 5 : 3 respectively. The position as on 31-03-2023 was as follows:

Liabilities	₹	Assets	₹
P's Capital	4,10,000	Land & Building	3,80,000
Q's Capital	3,30,000	Plant & Machinery	1,70,000
Profit & Loss A/c	1,12,000	Furniture	1,09,480
Trade Creditors	54,800	Stock	1,45,260
		Sundry debtors	60,000
		Cash at Bank.	42,060
	9,06,800		9,06,800

On the above date, R was admitted as a partner on the following terms:

- R should get 1/5th of share of profits.
- R brought ₹ 2,40,000 as his capital and ₹ 32,000 for his share of Goodwill.
- Plant and Machinery would be depreciated by 15% and Land & Buildings would be appreciated by 40%.
- A provision for doubtful debts to be created at 5% on sundry debtors.
- An unrecorded liability of ₹ 6,000 for repairs to Buildings would be recorded in the books of accounts.
- Immediately after R's admission, Goodwill brought by him would be adjusted among old partners. Thereafter, the capital accounts of old partners would be adjusted through the current accounts of partners in such a manner that the capital accounts of all the partners would be in their profit sharing ratio.

Prepare Revaluation A/c, Capital Accounts of the partners, New profit sharing ratio and Balance Sheet of the Firm after the admission of R.

- (b) The following are the balances as at 31st March, 2023 extracted from the books of Mr. Kamal.

	₹		₹
Plant and Machinery	39,100	Bad debts recovered	900
Furniture and Fittings	20,500	Salaries	45,100
Bank Overdraft	1,60,000	Salaries payable	4,900
Capital Account	1,30,000	Prepaid rent	600
Drawings	16,000	Rent	8,600
Purchases	3,20,000	Carriage inward	2,250
Opening Stock	64,500	Carriage outward	2,700
Wages	24,330	Sales	4,30,600
Provision for doubtful debts	6,400	Advertisement Expenses	6,700
Provision for Discount on debtors	2,750	Printing and Stationery	2,500
Sundry Debtors	2,40,000	Cash in hand	2,900
Sundry Creditors	95,000	Cash at bank	6,250
Bad debts	2,200	Office Expenses	20,320
		Interest paid on loan	6,000

Additional Information:

- Purchases include sales return of ₹5,150 and sales include purchases return of ₹ 3,450.
- Goods withdrawn by Mr. Kamal for own consumption ₹ 7,000 included in purchases.

3. Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
4. Free samples distributed for publicity costing ₹ 1,650.
5. Wages paid in the month of April for installation of plant and machinery amounting to ₹ 900 were included in wages account.
6. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2023 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.
7. Depreciation is to be provided on plant and machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2023 and a Balance Sheet as on that date. **(10 + 10 = 20 Marks)**

5. From the following data, prepare an Income and Expenditure Account for the year ended 31st December 2022, and Balance Sheet as at that date of the Pushp Speciality Hospital:

**Receipts and Payments Account for the
year ended 31 December, 2022**

RECEIPTS	₹	₹	PAYMENTS	₹	₹
To Balance b/d			By Salaries:		
Cash	1,600		(₹ 14,400 for 2021)		62,400
Bank	<u>10,400</u>	12,000	By Hospital Equipment		34,000
To Subscriptions:			By Furniture purchased		12,000
For 2021		10,200	By Additions to Building		1,00,000
For 2022		49,000	By Printing and Stationery		4,800
For 2023		4,800	By Diet expenses		31,200
To Government Grant:			By Rent and rates		4,000
For building		1,60,000	(₹ 600 for 2023)		
For maintenance		40,000	By Electricity and water charges		4,800
Fees from sundry Patients		9,600	By office expenses		4,000
To Donations (not to be capitalized)		16,000	By Investments		40,000
To Net collections from benefit shows		12,000	By Balances:		
		<u>12,000</u>	Cash	2,800	
		<u>3,13,600</u>	Bank	<u>13,600</u>	<u>16,400</u>
					<u>3,13,600</u>
Additional information :					₹
Value of building under construction as on 31.12.2022					2,80,000
Value of hospital equipment on 31.12.2022					1,02,000
Building Fund as on 1.1. 2022					1,60,000
Subscriptions in arrears as on 31.12.2021					13,000
Investments in 8% Govt. securities were made on 1st July, 2022.					

(20 Marks)

6. (a) V Kohli Ltd. invited applications for 15 lakhs shares of ₹ 100 each payable as follows :

	₹
On Application	20
On Allotment (on 1st June, 2022)	30
On First Call (on 1st Nov., 2022)	30
On Final Call (on 1st March, 2023)	20

All the shares were applied for and allotted. A shareholder holding 30,000 shares paid the whole of the amount due along with allotment.

You are required to prepare the journal entries for the above-mentioned transactions, assuming all sums due were received. Interest was paid to the shareholder concerned on 1st March, 2023.

- (b) Suman Limited issued 40,000 14% Debentures of the nominal value of ₹ 2,00,00,000 as follows:

- (a) To sundry persons for cash at 90% of nominal value of ₹ 100,00,000.
- (b) To the banker as collateral security for a loan of ₹ 40,00,000 – ₹ 50,00,000 nominal value.
- (c) To a vendor for purchase of fixed assets worth ₹ 40,00,000 – ₹ 50,00,000 nominal value.

You are required to prepare necessary journal entries Journal Entries.

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

- (i) Goods worth ₹ 5,000 purchased on credit from Ram recorded in the Purchase Book as ₹ 500.
- (ii) Purchase worth ₹ 500 from Vipin not recorded in subsidiary books.
- (iii) Credit sale wrongly passed through the Purchase Book.
- (iv) Machinery sold on credit to Mohan recorded in Journal Proper but omitted to be posted.
- (v) Sale of furniture credited to Sales Account.

(10 + 5 + 5 = 20 Marks)