FOUNDATION COURSE

MOCK TEST PAPER

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1 (a) (i) 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.

(ii) False: Finished goods are normally valued at cost or net realizable value whichever is lower.

(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: The firm will receive full value of sum assured of the joint life policy on the death of the partner.

(v) True: When in case of trading activities for a Non- Profit -Organisation, the profit/loss from such activity is to be transferred to the Income Expenditure Account at the time of consolidation.

(vi) 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

1 (b) Difference between Provision and Contingent liability

	Provision	***Contingent liability***
(1)	Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation.	A Contingent liability is a possible obligation that may or may not crystallise depending on the occurrence or non-occurrence of one or more uncertain future events.
(2)	A provision meets the recognition criteria.	A contingent liability fails to meet the same.
(3)	Provision is recognized when (a) an enterprise has a present obligation arising from past events; an outflow of resources embodying economic benefits is probable, and (b) a reliable estimate can be made of the amount of the obligation.	Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that settlement of those obligations will require outflow of economic benefits, or the amount cannot be reliably estimated.
(4)	If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognises a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow from the firm to settle the obligation, it discloses the obligation as a contingent liability.

(c) Ayodhya Ltd.

Bank Reconciliation Statement as on 31.3.2021

Particulars	**₹**
Balance as per cash book	3,60,000
Add : Cheque issued but not presented	2,04,000
Interest credited	4,500
	5,68,500
Less : Bank charges	(900)
Balance as per pass book	5,67,600

2. (a)

	Particulars		Dr. ₹	Cr. ₹
(i)	P & L Adjustment A/c	Dr.	5,000	
	To Suspense A/c			5,000
	(Correction of error by which sales account was overcast last year)			
(ii)	Ram A/c	Dr.	25,000	
	To Shyam A/c			25,000
	(Correction of error by which sale of . 25,000 to Ram was wrongly debited to Shyam's account)			
(iii)	Suspense A/c	Dr.	270	
	To P & L Adjustment A/c			270
	(Correct of error by which general expenses of ₹ 360 was wrongly posted as ₹ 630)			
(iv)	Bills Receivable A/c	Dr.	1,550	
	Bills Payable A/c	Dr.	1,550	
	To Hari			3,100
	(Correction of error by which bill receivable of ₹ 1,550 was wrongly passed through Bills Payable book)			
(v)	P & L Adjustment A/c	Dr.	2,910	
	To Mrs. Neetu			2,910
	(Correction of error by which legal expenses paid to Mrs. Neetu was wrongly debited to her personal account)			
(vi)	Suspense A/c	Dr.	6,400	
	To Aman A/c			3,200
	To Vimal A/c			3,200
	(Removal of wrong debit to Vimal and giving credit to Aman from whom cash was received)			
(vii)	Suspense A/c	Dr.	90	
	To P&L Adjustment A/c			90
	(Correction of error by which Purchase A/c was excess debited by ₹ 90/-, i.e.: ₹ 1,325 – ₹ 1,235)			

Suspense A/c

	₹		₹
To P & L Adjustment A/c	270	By P & L Adjustment A/c	5,000
To Ram A/c	3,200	By Difference in Trial Balance (Balancing figure)	1,760
To Shyam A/c	3,200		
To P&L Adjustment A/c	90		
	6,760		6,760

2. (b) In the books of Anirudh and Associates

Machinery Account

		₹			₹
1.1.2017	To Bank A/c	74,000	31.12.2017	By Depreciation A/c	8,000
	To Bank A/c (overhauling charges)	6,000	31.12.2017	By Balance c/d	72,000
		80,000			80,000
1.1.2018	To Balance b/d	72,000	31.12.2018	By Depreciation A/c (₹ 10,800 + ₹ 1,500)	12,300
1.7.2018	To Bank A/c	20,000	31.12.2018	By Balance c/d (₹. 60,400+₹ 18,500)	79,700
		92,000			92,000
1.1.2019	To Balance b/d	79,700	1.7.2019	By Bank A/c(sale)	56,000
1.7.2019	To Bank A/c	50,000	1.7.2019	By Profit and Loss A/c- (Loss on Sale – W.N. 1)	610
			31.12.2019	By Depreciation A/c (₹ 4,590 + ₹ 2,775 + ₹ 3,750)	11,115
				By Balance c/d (₹ 15,725 +₹46,250)	61,975
		1,29,700			1,29,700
1.1.2020	To Balance b/d	61,975	1.7.2020	By Bank A/c (sale)	4,000
			1.7.2020	By Profit and Loss A/c (Loss on Sale – W.N. 1)	10,545
			31.12.2020	By Depreciation A/c (₹ 1,180 + Rs. 6,938)	8,118
			31.12.2020	By Balance c/d	39,312
		61,975			61,975

Working Note:

Book Value of machines

	Machine I ₹	*Machine II* ₹	*Machine III* ₹
Cost of all machinery	80,000	20,000	50,000
(Machinery cost for 2017)			
Depreciation for 2017	8,000	-	
Written down value as on 31.12.2017	72,000		
Purchase 1.7.2018 (6 months)		20,000	
Depreciation for 2018	10,800	1500	-
Written down value as on 31.12.2018	61,200	18,500	
Depreciation for 6 months (2019)	4,590	-	
Written down value as on 1.7.2019	56,610		
Sale proceeds	56,000	-	
Loss on sale	610	-	
Purchase 1.7.2019			50,000
Depreciation for 2019 (6 months)		2,775	3,750
Written down value as on 31.12.2019		15,725	46,250
Depreciation for 6 months in 2020		1180	-
Written down value as on 1.7.2020		14,545	
Sale proceeds		4,000	-
Loss on sale		10,545	-
Depreciation for 2020			6,938
Written down value as on 31.12.2020			39,312

3. (a) In the books of Deepankar

Consignment to Sandeep of Udaipur Account

Particulars	**₹**	**Particulars**	**₹.**
To Goods sent on Consignment	15,00,000	By Sandeep (Sales)	14,70,000
To Bank (Expenses: 30,000+90,000+30,000)	1,50,000	By Goods lost in Transit 50 cases @ ₹ 3,300 each	1,65,000
To Sandeep (Expenses: 36,000+Rs.50,000+14,000)	1,00,000	By Consignment Inventories: In hand 50 @ ₹ 3,390 each (WN2)	1,69,500
To Sandeep (Commission)	1,47,000	By Consignment Inventories: In transit 50 @ ₹ 3,300 each (WN3)	1,65,000
To Profit on Consignment transfered to Profit & Loss A/c	72,500		
	19,69,500		19,69,500

Sandeep's Account

Particulars	₹	Particulars	`₹.
To Consignment to Udaipur A/c	14,70,000	By Consignment A/c (Expenses)	1,00,000
		By Consignment A/c(Commission)	1,47,000
		By Balance c/d	12,23,000
	14,70,000		14,70,000

Working Notes:

1. Consignor's expenses on 500 cases amounts to ₹ 1,50,000; it comes to ₹. 300 per case. The cost of cases lost will be computed at ₹ 3,300 per case i.e. 3,000+300.
2. Sandeep has incurred ₹ 36,000 on clearing 400 cases, i.e., ₹ 90 per case; while valuing closing inventories with the agent ₹ 90 per case has been added to cases in hand with the agent i.e. 3,000+300+90.
3. The goods in transit (50 cases) have not yet been cleared. Hence the proportionate clearing charges on those goods have not been included in their value i.e. 3,000+300 =3,300.
4. It has been assumed that balance of ₹ 12,23,000 is not yet paid.

3 (b) **Journal Entries**

Date 2020	*Particulars*		*Dr.* ₹	*Cr.* ₹
31st Dec.	Sales A/c	Dr.	18,000	
	To Mansi's A/c			18,000
	(Being cancellation of entry for sale of goods, not yet approved)			
	Inventories with customers A/c (Refer W.N.)	Dr.	13,500	
	To Trading A/c			13,500
	(Being Inventories with customers recorded at market price)			

Working Note:

Calculation of cost and market price of Inventories with customer

Sale price of goods sent on approval	₹18,000
Less: Profit (3,000 x 20/120)	₹ 3000
Cost of goods	₹ 15,000

Market price = 15,000 - (15,000 x 10%) = ₹ 13,500.

3 (c) (i) Taking 19.6.2021 as a Base date

Transaction Date	Due Date	Amount	No of days	Amount
8.3.2021	11.7.2021	16,000	22	3,52,000
16.3.2021	19.6.2021	20,000	0	0
7.4.2021	10.9.2018	24,000	83	19,92,000

17.5.2021	20.8.2018	20,000	62	12,40,000
		80,000		35,84,000

Average Due Date = $\text{Base date} + \dfrac{\text{Total of Product}}{\text{Total of Amount}}$

= 19.6.2021 + ₹ 35,84,000/ .80,000

= 19.6.2021 + 44.8 days (or 45 days approximately)

= 3.8.2021

Amar wants to save interest of ₹ 628. The yearly interest is ₹ 80,000 × 18%

= ₹ 14,400.

Assume that days corresponding to interest of ₹ 628 are Y.

Then, 14,400 × Y/365 = ₹ 628

or Y = 628 × 365/14,400 = 15.9 days or 16 days (Approx.)

Hence, if Amar wants to save ₹ 628 by way of interest, she should prepone the payment of amount involved by 16 days from the Average Due Date. Hence, she should make the payment on 18.7.2021 (3.8.2021 – 16 days)

(ii) In the books of A

B in Account Current with A
(interest to 31st March,2021@10%p.a.)

Date	Due date	Particulars	No. of days till 31.3.21	Amt.	Product	Date	Due date	Particulars	No. of days till 31.3.21	Amt.	Product
2020	2020			₹	₹	2020	2020			₹.	₹.
Oct 1,	Oct 1,	To Balance b/d	182	3,000	5,46,000	Nov 16	Nov 26	By Purchases	125	4,000	5,00,000
Oct 18,	Oct 18	To Sales	164	2,500	4,10,000	Dec 7	Dec. 17	By Purchases	104	3,500	3,64,000
2021	2021					2021	2021				
Jan 3	Apr 6	To Bills payable	(6)	5,000	(30,000)	Mar 28	Apr 8	By Purchases	(8)	2,700	(21,600)
Feb 4	Feb 4	To Cash	55	1,000	55,000	Mar 31	Mar 31	By Balance of product			1,81,600
Mar 21	Mar. 21	To Sales	10	4,300	43,000			By Balance c/d		5,650	
Mar 31	Mar 31	To Interest		50	-						
				15,850	10,24,000					15,850	10,24,000

Interest for the period = $\dfrac{1,81,600 \times 10 \times 1}{100 \times 365}$ = ₹ 50 (approx.)

4. (i) Profit and Loss Adjustment Account*

	₹		₹
To Expenses not provided for (years 2018-2021)	55,000	By Income not considered (for years 2018-2021)	33,000
		By Partners' capital accounts (loss)	
		Moscow	11,000
		Danial	11,000
	55,000		55,000

(ii) Partners' Capital Accounts

		Moscow ₹.	Danial ₹.	Spinny ₹.			Moscow ₹.	Danial ₹	Spinny ₹.
To	P & L Adjustment A/c	11,000	11,000	-	By	Balance b/d	1,05,750	75,750	-
To	Danial	30,000			By	Moscow	-	30,000	-
To	Balance c/d	64,750	94,750	31,900	By	Cash	-	-	31,900
		1,05,750	1,05,750	31,900			1,05,750	1,05,750	31,900
					By	Balance b/d	64,750	94,750	31,900

(iii) Balance Sheet of MD & Co. as on 1.4.2021

(After admission of Spinny)

Liabilities	₹	Assets	₹.
Capital accounts:		Plant and machinery	30,000
Moscow	64,750	Trade receivables	1,02,500
Danial	94,750	Stock in trade	1,55,000
Spinny	31,900	Accrued income	33,000
Trade payables	1,13,500	Cash on hand (5,000 + 31,900)	36,900
Outstanding expenses	55,000	Cash at bank	2,500
	3,59,900		3,59,900

Working Notes:

1. Computation of Profit and Loss distributed among partners

		₹.
Profit for the year ended	31.3.2018	70,000
	31.3.2019	1,30,000
	31.3.2020	1,60,000
	31.3.2021	1,80,000
Total Profit		5,40,000

* It is assumed that expenses and incomes not taken into account in earlier years were fully ignored.

	Moscow	Danial	Total
	₹	₹.	₹.
Profit shared in old ratio i.e 5:4	3,00,000	2,40,000	5,40,000
Profit to be shared as per new ratio i.e. 1:1	2,70,000	2,70,000	5,40,000
Excess share	30,000		
Deficit share		(30,000)	

Moscow to be debited by Rs. 30,000 and Danial to be credited by ₹.30,000.

2. Capital brought in by Spinny

	₹.
Capital to be brought in by Spinny must be equal to 20% of the combined capital of Moscow and Danial	
Capital of Moscow (1,05,750 – 11,000 – 30,000)	64,750
Capital of Danial (75,750 – 11,000 + 30,000)	94,750
Combined Capital	1,59,500
20% of the combined capital brought in by Spinny (20% of Rs. 1,59,500)	31,900

5. (a) Subscription for the year ended 31.3.2021

		₹.
Subscription received during the year		11,25,000
Less: Subscription receivable on 1.4.2020	33,750	
Less: Subscription received in advance on 31.3.2021	15,750	(49,500)
		10,75,500
Add: Subscription receivable on 31.3.2021	49,500	
Add: Subscription received in advance on 1.4.2020	27,000	76,500
Amount of Subscription appearing in Income & Expenditure Account		11,52,000

Sports material consumed during the year end 31.3.2021

	₹.
Payment for Sports material	6,75,000
Less: Amounts due for sports material on 1.4.2020	(2,02,500)
	4,72,500
Add: Amounts due for sports material on 31.3.2021	2,92,500
Purchase of sports material	7,65,000
Sports material consumed:	
Stock of sports material on 1.4.2020	2,25,000
Add: Purchase of sports material during the year	7,65,000
	9,90,000
Less: Stock of sports material on 31.3.2021	(3,37,500)
Amount of Sports Material appearing in Income & Expenditure Account	6,52,500

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

Liabilities	*₹*	*Assets*	*₹*
Unearned Subscription	15,750	Subscription receivable	49,500
Amount due for sports material	2,92,500	Stock of sports material	3,37,500

(b) **Trading & Profit and Loss Account of Mr. Vaid for the year ended 31st March, 2021**

	Particulars	₹.	₹.		Particulars	₹.	₹.
To	Opening Stock		2,800	By	Sales	18,000	
To	Purchase	20,000			Less: Sales return	(2,000)	16,000
	Less: Purchase return	(4,000)	16,000	By	Closing stock		9,000
To	Gross Profit		6,200				
			25,000				25,000
To	Salary	5,000		By	Gross Profit		6,200
	Add: Outstanding salary	200	5,200	By	Commission	1,000	
					Less: Advance	(200)	800
To	Tax & Insurance	1000		By	Accrued interest		420
	Add: Outstanding	400		By	Net Loss		1,000
	Prepaid insurance	(100)	1,300				
To	Bad debt	1000					
	Opening provision	(2,000)					
	Closing provision	2,000	1,000				
To	Interest on overdraft		600				
To	Depreciation on furniture		320				
			8,420				8,420

Balance Sheet of Mr. Vaid as on 31.3.2021

Particulars	₹.	₹	Particulars	₹.	₹.
Capital	32,000		By Furniture	3,200	
Less: drawing	(8,000)		Less: Depreciation	(320)	2,880
Net loss	(1,000)	23,000	Bill receivable		6,000
Bank overdraft	4,000		Investment	8,000	
Add: interest	600	4,600	Add: accrued interest	420	8,420
Creditors		4,000	Debtors	10,000	
Bills payable		5,000	Less: Provision on bad debts	(2,000)	8,000
Outstanding expenses:					
Salary	200		Closing stock		9,000
Tax	400	600	Cash in hand		3,000
Commission received in advance		200	Prepaid insurance		100
		37,400			37,400

6. (a) Journal

		Dr.	Cr.
Share Capital A/c	Dr.	7,000	
Securities Premium Reserve A/c	Dr.	1,500	
To Forfeited Share A/c			5,000
To Share Allotment A/c			1,500
To Share First Call A/c			2,000
(Being 1000 shares forfeited for non-payment of allotment money and first call)			
Bank A/c	Dr.	8,000	
Forfeited Shares A/c	Dr.	2,000	
To Share Capital A/c			10,000
(Being 1000 forfeited shares reissued as fully paid up for Rs 8 per share)			
Forfeited Shares A/c	Dr.	3,000	
To Capital Reserve A/c			3,000
(Being the transfer of gain on reissue)			

Working Note:

Calculation of the amount due but not paid on allotment	₹
(a) Total No. of Shares applied	2,000
(b) Total money paid of application (2,000x 3)	6,000
(c) Excess application money (₹ 6000-(1,000x3))	3,000
(d) Total amount due on allotment (1,000x 4.50)	4,500
(e) Amount due but not paid (₹ 4,500 - ₹ 3,000)	1,500
Out of ₹ 4,500, ₹ 2,000 are for Share Capital and ₹ 2,500 are for Securities Premium Reserve. Out of excess application money of ₹ 3,000, ₹ 2000 are adjusted towards allotment as share capital and ₹ 1,000 are adjusted towards allotment as securities premium reserve. Therefore, Securities Premium Reserve of ₹ 1,500 (i.e. ₹ 2,500- 1,000) is not received. Hence securities Premium Reserve is debited by ₹ 1,500.	

(b) **Journal Entries**

			Dr. (₹)	*Cr. (₹)*
1-1-2020	Bank A/c	Dr.	9,50,000	
	Discount/Loss on Issue of Debentures A/c	Dr.	1,50,000	
	To 10% Debentures A/c			10,00,000
	To Premium on Redemption of Debentures A/c			50,000
	(For issue of debentures at discount redeemable at premium)			

30-6-2020	Debenture Interest A/c	Dr.	50,000	
	To Debenture holders A/c			45,000
	To Tax Deducted at Source A/c			5,000
	(For interest payable)			
	Debenture holders A/c	Dr.	45,000	
	Tax Deducted at Source A/c	Dr.	5,000	
	To Bank A/c			50,000
	(For payment of interest and TDS)			
31-12-2020	Debenture Interest A/c	Dr.	50,000	
	To Debenture holders A/c			45,000
	To Tax Deducted at Source A/c			5,000
	(For interest payable)			
	Debenture holders A/c	Dr.	45,000	
	Tax Deducted at Source A/c	Dr.	5,000	
	To Bank A/c			50,000
	(For payment of interest and tax)			
	Profit and Loss A/c	Dr.	1,00,000	
	To Debenture Interest A/c			1,00,000
	(For transfer of debenture interest to profit and loss account at the end of the year)			
	Profit and Loss A/c	Dr.	30,000	
	To Discount/Loss on issue of debenture A/c			30,000
	(For proportionate debenture discount and premium on redemption written off, i.e., 50,000 x 1/5)			