

**MOCK TEST PAPER 2**  
**FOUNDATION COURSE**  
**PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING**

**ANSWERS**

1. (a) (i) **False:** The Cinema Hall could not be started without license. Expenditure incurred to obtain the license is pre-operative expense which is capitalized. Such expenses are not revenue and amortized over a period of time.
- (ii) **False:** If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.
- (iii) **True:** If closing stock appears in trail balance, it depicts that one aspect of the double entry has been completed, hence it is taken only to Balance Sheet.
- (iv) **False:** Consignment account is a nominal-cum-personal account
- (v) **False:** According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.
- (vi) **True:** As per Perpetual Existence company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.
- (b) **Cash and mercantile system:** Cash system of accounting is a system by which a transaction is recognized only if cash is received or paid. In cash system of accounting, entries are made only when cash is received or paid, no entry being made when a payment or receipt is merely due. Cash system is normally followed by professionals, educational institutions or non-profit making organizations.

On the other hand, mercantile system of accounting is a system of classifying and summarizing transactions into assets, liabilities, equity (owner's fund), costs, revenues and recording thereof. A transaction is recognized when either a liability is created/ impaired and an asset is created/impaired. A record is made on the basis of amounts having become due for payment or receipt irrespective of the fact whether payment is made or received actually.

Mercantile system of accounting is generally accepted accounting system by business entities

(c) **Journal Entries**

	<b>Particulars</b>	<b>L.F.</b>	<b>Dr.</b> <b>(₹)</b>	<b>Cr.</b> <b>(₹)</b>
(i)	Vipin A/c Furniture A/c To Samay A/c	Dr. Dr.	900 3,400	4,300
(ii)	Sales Returns A/c To Palash A/c	Dr.	15,000	15,000
(iii)	Sales A/c To P & L A/c (Gain on sale of investments) To Investments A/c	Dr.	75,000	15,000 60,000
(iv)	Drawings A/c To Trade Expenses A/c	Dr.	37,000	37,000

2. (a) **Profit and Loss Adjustment Account**

	₹		₹
To Advertisement (samples)	2,40,000	By Net profit	24,00,000
To Sales	6,00,000	By Electric fittings	90,000
(goods approved in April to be taken as April sales)		By Samples	2,40,000
To Adjusted net profit	50,40,000	By Stock (Purchases of March not included in stock)	15,00,000
		By Sales (goods sold in March wrongly taken as April sales)	12,00,000
		By Stock (goods sent on approval basis not included in stock)	4,50,000
	<u>58,80,000</u>		<u>58,80,000</u>

**Calculation of value of inventory on 31<sup>st</sup> March, 2022**

	₹
Stock on 31 <sup>st</sup> March, 2022 (given)	22,50,000
Add: Purchases of March, 2022 not included in the stock	15,00,000
Goods lying with customers on approval basis	<u>4,50,000</u>
	<u>42,00,000</u>

(b) **S & Co.**

**Dr. Machinery Account Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.1.2019	To, Bank A/c	1,00,000	31.12.2019	By Balance c/d	1,00,000
		1,00,000			1,00,000
1.1.2020	To, Balance b/d	1,00,000			
1.7.2020	To, Bank A/c	1,50,000	31.12.2020	By Balance c/d	2,50,000
		2,50,000			2,50,000
1.1.2021	To, Balance b/d	2,50,000	31.12.2021	By, Machinery Disposal A/c	1,00,000
			31.12.2021	By Balance c/d	1,50,000
		2,50,000			2,50,000
1.1.2022	To, Balance b/d	1,50,000			

**Dr. Provision for Depreciation Account Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.12.2019	To, Balance c/d	15,000	31.12.2019	By, Depreciation A/c	15,000
		15,000			15,000
31.12.2020	To, Balance c/d	39,000	1.1.2020	By, Balance b/d	15,000
			31.12.2020	By, Depreciation A/c (₹ 12,750+₹11,250)	24,000
		39,000			39,000

31.12.2021	To, Machinery Disposal A/c [100000-61,413]	38,587	1.1.2021	By, Balance b/d	39,000
31.12.2021	To, Balance c/d	32,063	31.12.2021	By, Depreciation A/c	20,813
		70,650	31.12.2021	By Depreciation	10,837
			1.1.2022	By, Balance b/d	32,063

**Dr. Machinery Disposal Account Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.12.2021	To, Machinery A/c	1,00,000	31.12.2021	By, Provision for Depreciation A/c	38,587
			31.12.2021	By, Bank A/c	50,000
			31.12.2021	By, Profit & Loss A/c (Loss on Sale)	11,413
		1,00,000			1,00,000

**Working Notes:**

- Depreciation for the machine purchased on 1.7.2020.  
 For the year 2020 (Used for 6 months) = ₹ 1,50,000 x 15% x  $\frac{6}{12}$  = ₹ 11,250  
 For the year 2021 (Used for full year) = ₹ 1,38,750 x 15% = ₹ 20,813
- Depreciation for the machine purchased on 1.1.2019.  
 Depreciation = ₹ 1,00,000 x 15% = ₹ 15,000  
 So, Depreciation for 2<sup>nd</sup> year = ₹ 85,000 x 15% = ₹ 12,750
- (a) Let us take 12.07.2021 as Base date.

**Bills receivable**

Due date	No. of days from 12.07.2021	Amount	Product
04/09/2021	54	10,200	5,50,800
08/09/2021	58	8,700	5,04,600
12/07/2021	0	17,400	0
14/08/2021	33	5,100	1,68,300
23/09/2021	73	<u>5,700</u>	<u>4,16,100</u>
		<u>47,100</u>	<u>16,39,800</u>

**Bills payable**

Due date	No. of days from 12.07.2021	Amount	Product
01/08/2021	20	7,500	1,50,000
07/09/2021	57	10,200	5,81,400
12/07/2021	0	<u>17,100</u>	<u>0</u>
		<u>34,800</u>	<u>7,31,400</u>

Excess of products of bills receivable over bills payable = 16,39,800 - 7,31,400 = 9,08,400

Excess of bills receivable over bills payable = 47,100 - 34,800 = 12,300

Number of days from the base date to the date of settlement is  $\frac{9,08,400}{12,300}$   
= 73.85 (approx.)

Hence date of settlement of the balance amount is 74 days after 12<sup>th</sup> July i.e. 24<sup>th</sup> September.

On 24<sup>th</sup> September, 2021 Ravi has to pay Ramesh ₹ 12,300 to settle the account.

**(b) (i) XY in Account Current with AB as on 31<sup>st</sup> Oct, 2021**

		(₹)	Days	Product (₹)			(₹)	Days	Product (₹)
01.07.21	To Bal. b/d	1,500	123	1,84,500	28.08.21	By Sales Returns	400	64	25,600
20.8.21	To Sales	2,500	72	1,80,000	25.09.21	By Bank	1,600	36	57,600
31.10.21	To Interest	37			20.10.21	By Cash	1,000	11	11,000
					20.10.21	By Balance of Products			2,70,300
					31.10.21	By Bal. c/d	1,037		
		<u>4,037</u>		<u>3,64,500</u>			<u>4,037</u>		<u>3,64,500</u>

**Note:**

$$\text{Interest} = ₹ 2,70,300 \times \frac{5}{100} \times \frac{1}{365} = ₹ 37 \text{ (approx.)}$$

**(ii) In the Books of Ms. Sangeeta**

**Journal Entries**

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
2022 March 31	Sales A/c To Trade receivables A/c (Being the cancellation of original entry for sale in respect of goods lying with customers awaiting approval)	Dr.		13,000	13,000
March 31	Inventories with Customers on Sale or Return A/c To Trading A/c (Note 1) (Being the adjustment for cost of goods lying with customers awaiting approval)	Dr.		10,000	10,000
April 25	Trade receivables A/c To Sales A/c (Being goods costing worth ₹ 7,800 sent to Ms. Mansi on sale or return basis has been accepted by her)	Dr.		7,800	7,800

**Balance Sheet of Ms. Sangeeta as on 31st March, 2022 (Extracts)**

<b>Liabilities</b>	<b>₹</b>	<b>Assets</b>	<b>₹</b>	<b>₹</b>
		Trade receivables (₹ 1,50,000 - ₹ 13,000)		1,37,000
		Inventories-in-trade	1,00,000	
		Add: Inventories with customers on Sale or Return	10,000	<u>1,10,000</u>
				<u>2,47,000</u>

**Notes:**

- (1) Cost of goods lying with customers =  $100/130 \times ₹ 13,000 = ₹ 10,000$
- (2) No entry is required on 15<sup>th</sup> April, 2022 for goods returned by Ms. Divya. Goods should be included physically in the Inventories

(c)

**In the books of Ravi**

**Journal Entries**

<b>Date</b>	<b>Particulars</b>		<b>Debit Amount</b>	<b>Credit Amount</b>
2021			₹	₹
April 15	Bills receivable account To Rishi's account (Being acceptance received from Rishi for mutual accommodation)	Dr.	45,000	45,000
April 18	Bank account Discount account To Bills receivable account (Being bill discounted with bank)	Dr. Dr.	44,100 900	45,000
April 18	Anup's account To Bank account To Discount account (Being one-third proceeds of the bill sent to Rishi)	Dr.	15,000	14,700 300
July 18	Rishi's account To Bills payable account (Being Acceptance given)	Dr.	52,500	52,500
July 18	Bank account Discount account (1,200 x 3/4) To Anup's account (Being proceeds of second bill received from Rishi)	Dr. Dr.	8,475 900	9,375
Oct.21	Bills payable account To Rishi's account (Being bill dishonoured due to insolvency)	Dr.	52,500	52,500
Oct.31	Anup's account (30,000+9,375)	Dr.	39,375	

To Bank account		19,687.50
To Deficiency account (Being insolvent, only 50% amount paid to Rishi)		19,687.50

4. (a) (i) **Revaluation Account**

		₹			₹
To	Furniture	3,480	By	Building	12,800
To	Stock	4,280	By	Sundry creditors	5,600
To	Provision of doubtful debts (₹ 7,000 – ₹ 800)	6,200	By	Investment	1800
To	Outstanding wages	<u>6,240</u>			
		<u>20,200</u>			<u>20,200</u>

(ii) **Partners' Capital Accounts**

	Mercury	Venus	Mars		Mercury	Venus	Mars
	₹	₹	₹		₹	₹	₹
To Balance c/d	284,000	216,000	1,00,000	By Balance b/d	1,76,000	1,44,000	–
				By Cash A/c	–	–	1,00,000
				By Goodwill A/c (Working Note)			
	<u>284,000</u>	<u>216,000</u>	<u>1,00,000</u>		<u>1,08,000</u>	<u>72,000</u>	
					284,000	216,000	1,00,000

(iii) **Balance Sheet of New Partnership Firm**

(after admission of Mars) as on 31.3.2022

Liabilities	₹	Assets	₹
Capital Accounts:		Goodwill	1,80,000
Mercury 2,84,000		Building (1,04,000 + 12,800)	1,16,800
Venus 2,16,000		Furniture (23,200 – 3,480)	19,720
Mars <u>1,00,000</u>	6,00,000	Stock-in-trade (85,600 – 4,280)	81,320
Bills Payable	16,400	Debtors 1,40,000	
Bank Overdraft	36,000	Less: Provision for bad Debts ( <u>7,000</u> )	1,33,000
Sundry creditors (51,600-5,400)	46,000	Investment (10,000 + 1,800)	11,800
Outstanding wages	<u>6,240</u>	Cash (62,000 + 1,00,000)	<u>1,62,000</u>
	<u>7,04,640</u>		<u>7,04,640</u>

**Working Note:**

**Calculation of goodwill**

Mars's contribution of ₹ 1,00,000 consists only 1/6th of capital.

Therefore, total capital of firm should be ₹ 1,00,000 × 6 = ₹ 6,00,000.

But combined capital of Mercury, Venus and Mars amounts ₹ 1,76,000 + 1,44,000 + 1,00,000 = ₹ 4,20,000.

Thus Hidden goodwill is ₹ 1,80,000 (₹ 6,00,000 – ₹ 4,20,000).

(b) (i) **Computation of Income for the year 2020-21:**

	₹
Money received during the year related to 2020-21	15,00,000
Add: Money received in advance during previous years	4,50,000
<b>Total income of the year 2020-21</b>	<b>19,50,000</b>

(ii) **Advance from Customers A/c**

Date	Particulars	₹	Date	Particulars	₹
	To Sales A/c (Advance related to current year transferred to sales)	4,50,000	1.4.2020	By Balance b/d	6,00,000
31.3.21	To Balance c/d	5,10,000		By Bank A/c (Balancing Figure)	3,60,000
		9,60,000			9,60,000

So, total money received during the year is:

	₹
Cash Sales during the year	15,00,000
Add: Advance received during the year	3,60,000
<b>Total money received during the year</b>	<b>18,60,000</b>

5. (a)

**New State Society**  
**Income and Expenditure Account**  
**for the year ended 31<sup>st</sup> March, 2022**

Dr.					Cr.
Expenditure	₹	₹	Income		₹
To Electric charges		14,400	By Entrance fee (25% of ₹ 60,000)		15,000
To Postage and stationary		10,000			
To Telephone charges		10,000	By Membership subscription	4,00,000	
To Rent				<u>20,000</u>	3,80,000
Add: Outstanding	1,76,000	1,84,000	Less: Received in advance		
	<u>8,000</u>				
To Salaries			By Sale proceeds of old papers		3,000
Add: Outstanding	1,32,000	1,38,000	By Hire of lecture hall		40,000
	<u>6,000</u>				
To Depreciation (W.N.1)			By Interest on securities (W.N.2)	16,000	
Electrical fittings	30,000				
Furniture	10,000		Add: Receivable	<u>1,000</u>	17,000
Books		1,32,000	By Deficit- excess of expenditure over income		33,400
	<u>92,000</u>				
		<u>4,88,400</u>			<u>4,88,400</u>

**Working Notes:****1. Depreciation** ₹

Electrical fittings 10% of ₹ 3,00,000	30,000
Furniture 10% of ₹ 1,00,000	10,000
Books 10% of ₹ 9,20,000	92,000

**2. Interest on Securities**

Interest @ 5% p.a. on ₹ 3,00,000 for full year	15,000	
Interest @ 5% p.a. on ₹ 80,000 for half year	<u>2,000</u>	17,000
Less: Received		<u>(16,000)</u>
Receivable		<u>1,000</u>

**(b) (i) Amount of salaries to be charged to P & L A/c for the year ended 31<sup>st</sup>December, 2021**

Employees	= 9 x ₹ 1,32,000 x 12	= ₹ 1,42,56,000
Trainees	= 2 x ₹ 63,000 x 6	= ₹ <u>7,56,000</u>
Salaries charged to P & L A/c		₹ <u>1,50,12,000</u>

**(ii) Amount actually paid as salaries during 2021**

Employees	= 9 x ₹ 1,32,000 x 11 + 9 x ₹ 1,20,000	= ₹ 1,41,48,000
Trainees	= 2 x ₹ 63,000 x 5	= ₹ <u>6,30,000</u>
Amount paid as salaries		₹ <u>1,47,78,000</u>

**(iii) Outstanding salaries as on 31.12.2021**

Employees	= 9 x ₹ 1,32,000	= ₹ 11,88,000
Trainees	= 2 x ₹ 63,000	= ₹ <u>1,26,000</u>
Outstanding salaries		₹ <u>13,14,000</u>

**6. (a) In the Books of HariOm**

Bank A/c To Equity Share Application A/c (Money received on application for 4,000 shares @ ₹ 25 per share)	Dr.	1,00,000	1,00,000
Equity Share Application A/c To Equity Share Capital A/c (Transfer of application money on 4,000 shares to share capital)	Dr.	1,00,000	1,00,000
Equity Share Allotment A/c To Equity Share Capital A/c (Amount due on the allotment of 4,000 shares @ ₹ 30 per share)	Dr.	1,20,000	1,20,000
Bank A/c To Equity Share Allotment A/c (Allotment money received)	Dr.	1,20,000	1,20,000
Equity Share First Call A/c	Dr.	80,000	



To Equity Share Capital A/c (First call money due on 4,000 shares @ ₹ 20 per share)			80,000
Bank A/c	Dr.	74,000	
Calls-in-Arrears A/c	Dr.	16,000	
To Equity Share First Call A/c			80,000
To Calls-in-Advance A/c (First call money received on 3,200 shares and calls-in-advance on 400 shares @ ₹ 25 per share)			10,000

(b) **Books of Sampati Ltd.**

**Journal Entries**

Date	Particulars	L.F.	Debit Amount (₹ Lakhs)	Credit Amount (₹ Lakhs)
	Bank A/c To Debenture Application A/c (Debentures application money received)	Dr.	15,000	15,000
	Debenture Application A/c To 8% Debentures A/c (Application money transferred to 8% debentures account)	Dr.	15,000	15,000
	Debenture Allotment A/c Loss on issue of debenture A/c To 8% Debentures A/c To Debenture redemption premium A/c (Call made consequent upon allotment of debentures issued at discount and redeemable at premium)	Dr. Dr.	13,200 3,300	15,000 1,500
	Bank A/c To Debenture Allotment A/c (Allotment amount received)	Dr.	13,200	13,200

**Working Notes :**

Loss on issue of debentures =

(Amount of discount on issue + Premium payable on redemption) x No. of Debentures

= (6% of ₹100 + 5% of ₹ 100) x 300 lakh

= (₹ 6 + ₹ 5) x 300 lakh

= ₹ 3,300 lakh

(c) **Adam Ltd.**

**Bank Reconciliation Statement as on 31.3.2022**

Particulars	₹
Balance as per cash book	6,00,000
Add : Cheque issued but not presented	3,40,000

Interest credited	<u>7,500</u>
	9,47,500
Less: Bank charges	<u>(1,500)</u>
Balance as per pass book	<u>9,46,000</u>

**Or**

- (c) **Objective and Advantages of Accounting Standards:** An Accounting Standard is a selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The Accounting Standards Board formulates Accounting Standards to be established by the Council of the Institute of Chartered Accountants of India.

The main objective of Accounting Standards is to establish standards which have to be complied with to ensure that financial statements are prepared in accordance with generally accepted accounting standards. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India.

The main advantage of setting accounting standards is that the adoption and application of Accounting Standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements.

The other advantages are as follows:

- (i) Reduction in variations.
- (ii) Disclosure beyond that required by law.
- (iii) Facilities comparison.