

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

(100 Marks)

(Time allowed: 3 Hours)

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.

1. (a) State with reasons whether the following statements are True or False:
- Inventory Turnover Ratio indicates the firm's ability of generating sales per rupee of long term investment.
  - The Sales book is kept to record both cash and credit sales.
  - In the calculation of average due date, only the due date of first transaction must be taken as the base date
  - If a partner retires, then other partners have a gain in their profit sharing ratio.
  - 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 calls in arrear of shares forfeited.
  - Accrual concept implies accounting on cash basis. **(6 Statements x 2 Marks = 12 Marks)**

- (b) Discuss the limitations which must be kept in mind while evaluating the Financial Statements.

**(4 Marks)**

- (c) Calculate the missing amount for the following.

	Assets	Liabilities	Capital
(a)	30,00,000	5,00,000	?
(b)	?	3,00,000	1,50,000
(c)	29,00,000	?	27,50,000
(d)	1,14,00,000	(5,60,000)	?

**(4 Marks)**

2. (a) The M/s LG Transport purchased 10 trucks at Rs. 45,00,000 each on 1st April 2014. On October 1<sup>st</sup>, 2016, one of the trucks is involved in an accident and is completely destroyed and Rs. 27,00,000 is received from the insurance in full settlement. On the same date, another truck is purchased by the company for the sum of Rs. 50,00,000. The company write off 20% on the original cost per annum. The company follows the calendar year as its financial year. You are required to prepare the motor truck account for two year ending 31 Dec, 2017.
- (b) On 30th September, 2017, the bank account of Neel, according to the bank column of the Cash-Book, was overdrawn to the extent of Rs. 8,124. On the same date the bank statement showed a debit balance of Rs. 41,516 in favour of Neel. An examination of the Cash Book and Bank.

Statement reveals the following:

1. A cheque for Rs. 26,28,000 deposited on 29th September, 2017 was credited by the bank only on 3rd October, 2017
2. A payment by cheque for Rs. 32,000 has been entered twice in the Cash Book.
3. On 29th September, 2017, the bank credited an amount of Rs. 2,34,800 received from a customer of Neel, but the advice was not received by Neel until 1st October, 2017.
4. Bank charges amounting to Rs. 1,160 had not been entered in the Cash Book
5. On 6th September, 2017, the bank credited Rs. 40,000 to Neel in error
6. A bill of exchange for Rs. 2,80,000 was discounted by Neel with his bank. This bill was dishonoured on 28th September, 2017 but no entry had been made in the books of Neel.
7. Cheques issued upto 30th September, 2017 but not presented for payment upto that date totalled Rs. 26,52,000.

You are required

- (a) to show the appropriate rectifications required in the Cash Book of Neel, to arrive at the correct balance on 30th September, 2017 and
- (b) to prepare a bank reconciliation statement as on that date.

(10 Marks +10 Marks= 20 Marks)

3. (a) Gagan of Mumbai consigns 2,000 cases of goods costing Rs. 1,000 each to Kumar of Chennai. Gagan pays the following expenses in connection with consignment:

	Rs
Carriage	20,000
Freight	60,000
Loading charges	20,000
Kumar sells 1,400 cases at Rs. 1,400 per case and incurs the following expenses:	
Clearing charges	17,000
Warehousing and storage	34,000
Packing and selling expenses	12,000

It is found that 100 cases have been lost in transit and 200 cases are still in transit.

Kumar is entitled to a commission of 10% on gross sales. You are required to prepare the Consignment Account and Kumar's Account in the books of Gagan.

- (b) A and B entered into a joint venture agreement to share the profits and losses in the ratio of 2:1. A supplied goods worth Rs. 60,000 to B incurring expenses amounting to Rs. 2,000 for freight and insurance. During transit goods costing Rs. 5,000 became damaged (having no residual value) and a sum of Rs. 3,000 was recovered from the insurance company. B reported that 90% of the remaining goods were sold at a profit of 30% of their original cost. Towards the end of the venture, a fire occurred and as a result the balance inventories lying unsold with B was damaged. The goods were not insured and B agreed to compensate A by paying in cash 80% of the aggregate of the original cost of such goods plus proportionate expenses incurred by A. Apart from the share of profit of the joint venture, B was also entitled under the agreement to a commission of 5% of net profits of joint venture after charging such commission. Selling expenses incurred by B totalled

Rs. 1,000. B had earlier remitted an advance of Rs. 10,000. B duly paid the balance due to A by Bank Draft.

You are required to prepare the following accounts in A's books:

(i) Joint Venture Account and

(10 + 10 = 20 Marks)

(ii) B's Account.

4. Laurel and Hardy are partners of the firm LH & Co., from 1.4.2013. Initially both of them contributed Rs. 1,00,000 each as capital. They did not contribute any capital thereafter. They maintain accounts of the firm on mercantile basis. They were sharing profits and losses in the ratio of 5:4. After the accounts for the year ended 31.3.2017 were finalized, the partners decided to share profits and losses equally with effect from 1.4.2013.

It was also discovered that in ascertaining the results in the earlier years certain adjustments, details of which are given below, had not been noted.

Year ended 31 <sup>st</sup> March	2014	2015	2016	2017
	Rs.	Rs.	Rs.	Rs.
Profit as per accounts prepared and finalized	1,40,000	2,60,000	3,20,000	3,60,000
Expenses not provided for (as at 31 <sup>st</sup> March)	30,000	20,000	36,000	24,000
Incomes not taken into account (as at 31 <sup>st</sup> March)	18,000	15,000	12,000	21,000

The partners decided to admit Chaplin as a partner with effect from 1.4.2017. It was decided that Chaplin would be allotted 20% share in the firm and he must bring 20% of the combined capital of Laurel and Hardy.

Following is the Balance sheet of the firm as on 31.3.2017 before admission of Chaplin and before adjustment of revised profits between Laurel and Hardy.

Balance Sheet of LH & Co. as at 31.3.2017

Liabilities	Rs.	Assets	Rs.
Capital Accounts:		Plant and machinery	60,000
Laurel	2,11,500	Cash on hand	10,000
Hardy	1,51,500	Cash at bank	5,000
Trade Payables	2,27,000	Stock in trade	3,10,000
		Trade Receivables	2,05,000
	5,90,000		5,90,000

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You are required to prepare:

- Profit and Loss Adjustment account;
- Capital accounts of the partners; and
- Balance Sheet of the firm after the admission of Chaplin.

(20 Marks)

5. (a) Smith Library Society showed the following position on 31<sup>st</sup> March, 2017:

Balance Sheet as on 31<sup>st</sup> March, 2017

Liabilities	Rs.	Assets	Rs.
Capital fund	7,93,000	Electrical fittings	1,50,000
Expenses payable	7,000	Furniture	50,000
		Books	4,00,000
		Investment in securities	1,50,000

		Cash at bank	25,000
		Cash in hand	25,000
	<u>8,00,000</u>		<u>8,00,000</u>

The receipts and payment account for the year ended on 31<sup>st</sup> March, 2018 is given below:

	Rs.		Rs.
To Balance b/d		By Electric charges	7,200
Cash at bank	25,000	By Postage and stationery	5,000
Cash in hand	<u>25,000</u>	By Telephone charges	5,000
To Entrance fee	30,000	By Books purchased	60,000
To Membership subscription	2,00,000	By Outstanding expenses paid	7,000
To Sale proceeds of old papers	1,500	By Rent	88,000
To Hire of lecture hall	20,000	By Investment in securities	40,000
To Interest on securities	8,000	By Salaries	66,000
		By Balance c/d	
		Cash at bank	20,000
		Cash in hand	<u>11,300</u>
	<u>3,09,500</u>		<u>3,09,500</u>

You are required to prepare income and expenditure account for the year ended 31<sup>st</sup> March, 2018 after making the following adjustments:

Membership subscription included Rs. 10,000 received in advance.

Provide for outstanding rent Rs. 4,000 and salaries Rs. 3,000.

Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.

75% of the entrance fees is to be capitalized.

Interest on securities is to be calculated @ 5% p.a. including purchases made on 1.10.2017 for Rs. 40,000.

(b) (i)

Share capital	18,00,000
Preference shareholders	10,00,000
10% debentures	4,00,000
Loan from bank	24,00,000
Reserves	8,00,000

You are required to compute the Capital Gearing Ratio.

(ii) From the following information, calculate inventory turnover ratio:

Inventory in the beginning	108,000	Inventory at the end	1,32,000
Net purchases	2,76,000	Carriage inwards	24,000
Wages	84,000		

(12 + 4+4 = 20 Marks)

6. (a) On 1st June, 2017, Suraj Ltd. issued 86,000 shares of Rs. 100 each payable as follows:

Rs. 20 on application;

Rs. 20 on allotment;

First call of Rs. 30 on 1<sup>st</sup> Dec, 2017; and

Second and final call of Rs. 30 on 1<sup>st</sup> March, 2018.

By 20th July, 80,000 shares were applied for and all applications were accepted. Allotment was made on 1st Aug. All sums due on allotment were received on 15th Sept; those on 1st call were received on 20th Dec.

You are required to journalise the transactions when accounts were closed on 31<sup>st</sup> March, 2018. **(10 Marks)**

(b) Pihu Ltd. issued 50,00,000, 9% debentures of Rs. 100 each at a discount of 10% redeemable at par at the end of 10th year. Money was payable as follows :

Rs. 40 on application

Rs. 50 on allotment

Record necessary journal entries regarding issue of debenture. **(5 Marks)**

(c) Explain in brief objectives of preparing Trial Balance.

Or

What are the rules of posting of journal entries into the Ledger? Explain in brief. **(5 Marks)**