

FOUNDATION COURSE

MOCK TEST PAPER - 2

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:
- 1 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.
  2. Accrual concept implies accounting on cash basis.
  - 3 Fixed Assets Turnover ratio indicates the firm's ability of generating sales per rupee of long term investment
  - 4 Capital + Long Term Liabilities= Fixed Assets + Current Assets + Cash- Current Liabilities.
  - 5 Partners can share profits or losses in their capital ratio, when there is no agreement.
  6. Consignment account is of the nature of real account.

(6 statements x 2 Marks= 12 Marks)

- (b) "Change in accounting policy may have a material effect on the items of financial statements." Explain the statement with the help of an example. (4 Marks)

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

- (i) Sale of furniture credited to Sales Account.
- (ii) Purchase worth Rs. 500 from M not recored in subsidiary books.
- (iii) Credit sale wrongly passed through the Purchase Book.
- (iv) Machinery sold on credit to Mohan recored in Journal Proper but omitted to be posted.
- (v) Goods worth Rs. 5000 purchased on credit from Ram recorded in the Purchase Book as Rs. 500. (4 Marks)

- 2 (a) M/s Ram took lease of a quarry on 1-1-2016 for Rs. 2,00,00,000. As per technical estimate the total quantity of mineral deposit is 4,00,000 tonnes. Depreciation was charged on the basis of depletion method. Extraction pattern is given in the following table:

Year	Quantity of Mineral extracted
2016	4,000 tonnes
2017	20,000 tonnes
2018	30,000 tonnes

**Required**

Show the Quarry Lease Account and Depreciation Account for each year from 2016 to 2018.

- (b) Physical verification of stock in a business was done on 23<sup>rd</sup> June, 2018. The value of the stock was Rs. 48,00,000. The following transactions took place between 23<sup>rd</sup> June to 30<sup>th</sup> June, 2018:
- Out of the goods sent on consignment, goods at cost worth Rs. 2,40,000 were unsold.
  - Purchases of Rs. 4,00,000 were made out of which goods worth Rs. 1,60,000 were delivered on 5<sup>th</sup> July, 2018.
  - Sales were Rs. 13,60,000, which include goods worth Rs. 3,20,000 sent on approval. Half of these goods were returned before 30<sup>th</sup> June, 2018, but no information is available regarding the remaining goods.
  - Goods are sold at cost plus 25%. However goods costing Rs. 2,40,000 had been sold for Rs. 1,20,000.

You are required to determine the value of stock on 30<sup>th</sup> June, 2018.

**(10 Marks + 10 Marks = 20 Marks)**

- 3 (a) From the following details calculate the average due date:

Date of Bill	Amount (Rs.)	Usance of Bill
28 <sup>th</sup> January, 2018	5,000	1 month
20 <sup>th</sup> March, 2018	4,000	2 months
12 <sup>th</sup> July, 2018	7,000	1 month
10 <sup>th</sup> August, 2018	6,000	2 months

**(5 Marks)**

- (b) Deepak and Om enter into a joint venture to take a building contract for Rs. 12,00,000. They provide the following information regarding the expenditure incurred by them:

	Deepak Rs.	Om Rs.
Materials	3,40,000	2,50,000
Cement	65,000	85,000
Wages	-	1,35,000
Architect's fees	50,000	-
License fees	-	25,000
Plant	-	1,00,000

Plant was valued at ₹ 50,000 at the end of the contract and Om agreed to take it at that value. Contract amount ₹ 12,00,000 was received by Deepak. Profits or losses to be shared equally. You are asked to show:

- Joint Venture Account and Om's Account in the books of Deepak.
- Joint Venture Account and Deepak's Account in the books of Om..

**(15 Marks)**

4. (a) The Balance Sheet of Amitabh, Abhishek and Amrish as at 31.12.2017 stood as follows:

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Capital:		Land & Buildings	74,000
Amitabh	60,000	Investments	10,000
Abhishek	40,000	Advertisement suspense	37,800

Amrish	<u>40,000</u>	1,40,000	Life Policy (at surrender value):		
Creditors		25,800	Amitabh		2,500
General Reserve		8,000	Abhishek		2,500
Investment Fluctuation Reserve		2,400	Amrish		1,000
			Stock		20,000
			Debtors	20,000	
			Less: Provision for doubtful debts	<u>(1,600)</u>	18,400
			Cash & bank balance		<u>10,000</u>
		<u>1,76,200</u>			<u>1,76,200</u>

Amrish died on 31 March, 2018, due to this reason the following adjustments were agreed upon:

- Land and Buildings be appreciated by 50%.
- Investment be valued at 6% less than the cost.
- All debtors (except 20% which are considered as doubtful) were good.
- Stock to be reduced to 94%.
- Goodwill to be valued at 1 year's purchase of the average profits of the past five years.
- Amrish's share of profit to the date of death be calculated on the basis of average profits of the three completed years immediately preceding the year of death.

The profits of the last five years are as follows:

Year	Rs.
2013	23,000
2014	28,000
2015	18,000
2016	16,000
2017	<u>20,000</u>
	<u>1,05,000</u>

The life policies have been shown at their surrender values representing 10% of the sum assured in each case. The annual premium of Rs.1,000 is payable every year on 1<sup>st</sup> August.

You are required to pass necessary Journal Entries in the books of account of the reconstituted firm.

- (b) The following information of M/s. TT Club are related for the year ended 31<sup>st</sup> March, 2018:

(1)

Balances	As on 01-04-2017 (Rs. )	As on 31-3-2018 (Rs. )
Stock of Sports Material	75,000	1,12,500
Amount due for Sports Material	67,500	97,500
Subscription due	11,250	16,500
Subscription received in advance	9,000	5,250

- Subscription received during the year Rs. 3,75,000
- Payments for Sports Material during the year Rs. 2,25,000

You are required to:

- (A) Ascertain the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2018 and  
 (B) Also show how these items would appear in the Balance Sheet as on 31.03.2018.

**(12 + 8 = 20 Marks)**

- 5 (a) The trial balance of Kumar as at 31st December, 2017 is as follows:

	Dr.	Cr.
	Rs.	Rs.
Kumar's capital account	-	38,345
Stock 1 <sup>st</sup> January, 2017	23,400	-
Sales	-	1,94,800
Returns inward	4,300	-
Purchases	1,60,850	-
Returns outward	-	2,900
Carriage inwards	9,800	-
Rent & taxes	2,350	-
Salaries & wages	4,650	-
Sundry debtors	12,000	-
Sundry creditors	-	7,400
Bank loan @ 14% p.a.	-	10,000
Bank interest	550	-
Printing and stationary expenses	7,200	-
Bank balance	4,000	-
Discount earned	-	2,220
Furniture & fittings	2,500	-
Discount allowed	900	-
General expenses	5,725	-
Insurance	650	-
Postage & telegram expenses	1,165	-
Cash balance	190	-
Travelling expenses	435	-
Drawings	15,000	-
	2,55,665	2,55,665

The following adjustments are to be made:

- (1) Provision for bad and doubtful debts be created at 5% and for discount @ 2% on sundry debtors.
- (2) Personal purchases of Kumar amounting to Rs. 300 had been recorded in the purchases day book.
- (3) Depreciation on furniture & fittings @ 10% shall be written off.
- (4) Included amongst the debtors is Rs. 1,500 due from Dyal and included among the creditors Rs. 500 due to him.

- (5) A quarter of the amount of printing and stationary expenses is to be carried forward to the next year.
- (6) Credit purchase invoice amounting to Rs. 200 had been omitted from the books.
- (7) Stock on 31.12.2017 was Rs. 39,300.
- (8) Interest on bank loan shall be provided for the whole year.

You are required to prepare Trading & profit and loss account for the year ended 31.12.2017.

- (b) With the help of the following information complete the Balance Sheet of MNOP Ltd.:

Equity share capital	Rs. 1,00,000
The relevant ratios of the company are as follows:	
Current debt to total debt	0.40
Total debt to owner's equity	0.60
Fixed assets to owner's equity	0.60
Total assets turnover	2 Times
Inventory turnover	8 Times

**(12 + 8 = 20 Marks)**

6. (a) On 1st April, 2017, A Ltd. issued 43,000 shares of Rs. 100 each payable as follows:  
 Rs. 20 on application;  
 Rs. 30 on allotment;  
 Rs. 25 on 1st October, 2017; and  
 Rs. 25 on 1st February, 2018.

By 20th May, 40,000 shares were applied for and all applications were accepted. Allotment was made on 1st June. All sums due on allotment were received on 15th July; those on 1st call were received on 20th October. Journalise the transactions when accounts were closed on 31st March, 2018.

**(10 Marks)**

- (b) Simmons Ltd. issued 1,00,000, 12% Debentures of Rs.100 each at par payable in full on application by 1st April, Application were received for 1,10,000 Debentures. Debentures were allotted on 7th April. Excess money refunded on the same date.

You are required to pass necessary Journal Entries (including cash transactions) in the books of the company.

**(5 Marks)**

- (c) State the causes of difference between the balance shown by the pass book and the cash book.

OR

Which subsidiary books are normally used in a business?

**(5 Marks)**