

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

ANSWERS

1. (a) (i) **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
- (ii) **False:** Consignment account is a nominal account
- (iii) **False-** The Sales book is a register specially kept to record credit sales of goods dealt in by the firm, cash sales are entered in the cash book and not in the sales book.
- (iv) **False-** While calculating the average due date, any transaction date may be taken as the base date.
- (v) **True-** If a partner retires, his share of profit or loss will be shared by the other partners in their profit sharing ratio.
- (vi) **False:** Net income is determined by preparing income and expenditure in case of persons practicing vocation.
- (b) Limitations which must be kept in mind while evaluating the Financial Statements are as follows:
- The factors which may be relevant in assessing the worth of the enterprise don't find place in the accounts as they cannot be measured in terms of money.
 - Balance Sheet shows the position of the business on the day of its preparation and not on the future date while the users of the accounts are interested in knowing the position of the business in the near future and also in long run and not for the past date.
 - Accounting ignores changes in some money factors like inflation etc.
 - There are occasions when accounting principles conflict with each other.
 - Certain accounting estimates depend on the sheer personal judgement of the accountant.
 - Different accounting policies for the treatment of same item adds to the probability of manipulations.
- (c) (i) Error of Principle.
 (ii) Error of Omission.
 (iii) Error of Commission.
 (iv) Error of Omission.
 (v) Error of Commission

2. (a) **Quarry Lease Account**

Dr.		Rs.			Cr. Rs.
2016			2016		
Jan.	To Bank A/c	2,00,00,000	Dec. 31	By Depreciation A/c [(4,000/4,00,000) ×	2,00,000

				Rs. 2,00,00,000]	
			Dec. 31	By Balance c/d	1,98,00,000
		2,00,00,000			2,00,00,000
2017			2017		
Jan. 1	To Balance b/d	1,98,00,000	Dec. 31	By Depreciation A/c	10,00,000
			Dec. 31	By Balance c/d	1,88,00,000
		1,98,00,000			1,98,00,000
2018			2018		
Jan. 1	To Balance b/d	1,88,00,000	Dec. 31	By Depreciation A/c	15,00,000
			Dec. 31	By Balance c/d	1,73,00,000
		1,88,00,000			1,88,00,000

Depreciation Account

Dr.		Rs.			Cr. Rs.
2016			2016		
Dec. 31	To Quarry lease A/c	2,00,000	Dec. 31	By Profit & Loss A/c	2,00,000
		2,00,000			2,00,000
2017			2017		
Dec. 31	To Quarry lease A/c	10,00,000	Dec. 31	By Profit & Loss A/c	10,00,000
		10,00,000			10,00,000
2018			2018		
Dec. 31	To Quarry lease A/c	15,00,000	Dec. 31	By Profit & Loss A/c	15,00,000
		15,00,000			15,00,000

(b) (i) **Cash Book (Bank Column)**

Date	Particulars	Amount	Date	Particulars	Amount
2017		Rs.	2017		Rs.
Sept. 30			Sept. 30		
	To Party A/c	32,000		By Balance b/d	8,124
	To Customer A/c (Direct deposit)	2,34,800		By Bank charges	1,160
	To Balance c/d	22,484		By Customer A/c (B/R dishonoured)	2,80,000
		2,89,284			2,89,284

(ii) **Bank Reconciliation Statement as on 30th September, 2017**

Particulars	Amount
	Rs.
Overdraft as per Cash Book	22,484
Add: Cheque deposited but not collected upto 30 th Sept., 2017	26,28,000
	26,50,484

Less: Cheques issued but not presented for payment upto 30 th Sept., 2017	(26,52,000)
Credit by Bank erroneously on 6 th Sept.	(40,000)
Overdraft as per bank statement	41,516

Note: Bank has credited Neel by 40,000 in error on 6th September, 2017. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with Rs. 26,52,000 resulting in debit balance of Rs. 1,516 as per pass-book.

3. (a)

In the books of Gagan

Consignment to Kumar of Chennai Account

Particulars	Rs.	Particulars		Rs.
To Goods sent on Consignment	20,00,000	By Kumar (Sales)		19,60,000
To Bank (Expenses)	1,00,000	By Loss in Transit 100 cases @ Rs. 1,050 each		1,05,000
To Kumar (Expenses)	63,000	By Consignment Inventories In hand 300 @ Rs. 1,060 each	3,18,000	
To Kumar (Commission)	1,96,000	In transit 200 @ Rs. 1,050 each	2,10,000	5,28,000
To Profit on Consignment to Profit & Loss A/c	2,34,000			
	25,93,000			25,93,000

Kumar's Account

Particulars	Rs.	Particulars	Rs.
To Consignment to Chennai A/c	19,60,000	By Consignment A/c (Expenses)	63,000
		By Consignment A/c (Commission)	1,96,000
		By Balance c/d	17,01,000
	19,60,000		19,60,000

Working Notes:

- Consignor's expenses on 2,000 cases amounts to Rs. 1,00,000; it comes to Rs. 50 per case. The cost of cases lost will be computed at Rs. 1,050 per case.
- Kumar has incurred Rs. 17,000 on clearing 1,700 cases, i.e., Rs. 10 per case; while valuing closing inventories with the agent Rs. 10 per case has been added to cases in hand with the agent.
- It has been assumed that balance of Rs. 17,01,000 is not yet paid.

(b) **Calculation of Average Due Date**

(Taking 3rd March, 2018 as base date)

Date of bill 2018	Term	Due date 2018	Amount (Rs.)	No. of days from the base date i.e. 3 rd March, 2018 (Rs.)	Product (Rs.)
28 th January	1 month	3 rd March	5,000	0	0

20 th March	2 months	23 rd May	4,000	81	3,24,000
12 th July	1 month	14 th Aug.	7,000	164	11,48,000
10 th August	2 months	13 th Oct.	<u>6,000</u>	224	<u>13,44,000</u>
			<u>22,000</u>		<u>28,16,000</u>

Average due date = Base date + Days equal to $\frac{\text{Sum of Products}}{\text{Sum of Amounts}}$

$$= 3^{\text{rd}} \text{ March, 2018} + \frac{28,16,000}{22,000}$$

$$= 3^{\text{rd}} \text{ March, 2018} + 128 \text{ days} = 9^{\text{th}} \text{ July, 2018}$$

Working Note:

Bill dated 12th July, 2018 has the maturity period of one month, due date (after adding 3 days of grace) falls on 15th August, 2018. 15th August being public holiday, due date would be preceding date i.e. 14th August, 2018.

(c)

Books of K. Katrak

Journal Entries

			Dr. Rs.	Cr. Rs.
(i)	Bills Payable Account	Dr.	2,500	
	Interest Account	Dr.	50	
	To Cash A/c			1,000
	To Bills Payable Account			1,550
	(Bills Payable to Basu discharged by cash payment of Rs. 1,000 and a new bill for Rs.1,550 including Rs. 50 as interest)			
(ii)	(a) G. Gupta	Dr.	4,020	
	To M. Mehta			4,020
	(G. Gupta's acceptance for Rs. 4,000 endorsed to M. Mehta dishonoured, Rs. 20 paid by M. Mehta as noting charges)			
(ii)	(b) M. Mehta	Dr.	4,020	
	To Bank Account			4,020
	(Payment to M. Mehta on withdrawal of bill earlier received from Mr. G. Gupta)			
(iii)	Bank Account	Dr.	1,990	
	Discount Account	Dr.	10	
	To Bills Receivable Account			2,000
	(Payment received from D. Dalal against his acceptance for Rs. 2,000. Allowed him a discount of Rs. 10)			
(iv)	Bills Payable Account	Dr.	5,000	
	To Bills Receivable Account			5,000
	(Bills Receivable from Mody endorsed to Patel in settlement of bills payable issued to him earlier)			

4.

In the books of M/s ABC

Journal Entries

Date	Particulars		Dr. (Rs.)	Cr.(Rs.)
2019 January 1	Fixed assets A/c To Revaluation A/c (Revaluation of fixed assets)	Dr.	51,000	51,000
	Revaluation A/c To Stock A/c To Provision for doubtful debts A/c (Reduction in the value of stock and provision @ 5% on sundry debtors created for doubtful debts)	Dr.	11,000	8,000 3,000
	B's capital A/c C's capital A/c To A's capital A/c (Adjustment for goodwill and joint life policy(W.N.1))	Dr. Dr.	10,500 21,000	31,500
	Revaluation A/c To A's capital A/c To B's capital A/c To C's capital A/c (Transfer of profit on revaluation)	Dr.	40,000	20,000 12,500 7,500
	General reserve A/c To A's capital A/c To B's capital A/c To C's capital A/c (Transfer of general reserve)	Dr.	80,000	40,000 25,000 15,000

Balance Sheet (revised)

as on 1st January, 2019

Liabilities		Amount Rs.	Assets		Amount Rs.
Sundry creditors		1,50,000	Cash		40,000
Partners' loan A/cs:			Bills receivable		50,000
A	40,000		Sundry debtors	60,000	
B	<u>30,000</u>	70,000	Less: Provision	<u>3,000</u>	57,000
Partners' capital A/cs: (W.N.2)			Stock		1,12,000
A	1,91,500		Fixed assets		3,31,000
B	1,07,000				
C	<u>71,500</u>	<u>3,70,000</u>			
		<u>5,90,000</u>			<u>5,90,000</u>

Working Notes:

(1) Adjustment for goodwill and joint life policy

	Rs.
Average profit of last five years	20,000
Add: Insurance premium per annum	<u>10,000</u>
Average profit before charging premium	<u>30,000</u>
Value of goodwill (3x Rs. 30,000)	90,000
Add: Surrender value of joint life policy	<u>78,000</u>
Total amount for adjustment	<u>1,68,000</u>

	A	B	C
	Rs.	Rs.	Rs.
Raised in old profit sharing ratio (8:5:3)	84,000	52,500	31,500
Written off in new profit sharing ratio (5:6:5)	<u>52,500</u>	<u>63,000</u>	<u>52,500</u>
Net effect in capital accounts	<u>31,500</u>	<u>10,500</u>	<u>21,000</u>
	(Cr.)	(Dr.)	(Dr.)

Alternatively, the net effect in partners' capital accounts due to adjustment for goodwill and joint life policy can be shown on the basis of profit sacrificing ratio. Profit sacrificing ratios are:

$$A = (8/16) - (5/16) = 3/16$$

$$B = (5/16) - (6/16) = (1/16)$$

$$C = (3/16) - (5/16) = (2/16)$$

Therefore, adjustments in partner's capital account:

$$A = 3/16 \times \text{Rs. } 1,68,000 = \text{Rs. } 31,500 \text{ (Cr.)}$$

$$B = (1/16) \times \text{Rs. } 1,68,000 = \text{Rs. } 10,500 \text{ (Dr.)}$$

$$C = (2/16) \times \text{Rs. } 1,68,000 = \text{Rs. } 21,000 \text{ (Dr.)}$$

(2) **Partners' Capital Accounts**

		A	B	C			A	B	C
		Rs.	Rs.	Rs.			Rs.	Rs.	Rs.
2019					2019				
Jan 1	To A' capital A/c	-	10,500	21,000	Jan 1	By Balance b/d	1,00,000	80,000	70,000
	To Balance c/d	1,91,500	1,07,000	71,500		By B and C's capital A/c (as per contra)	31,500	-	-
						By Revaluation A/c (revaluation profit)	20,000	12,500	7,500
						By General reserve	<u>40,000</u>	<u>25,000</u>	<u>15,000</u>
		<u>1,91,500</u>	<u>1,17,500</u>	<u>92,500</u>			<u>1,91,500</u>	<u>1,17,500</u>	<u>92,500</u>

5. (a)

**Income and Expenditure Account of Mumbai Club
for the year ended 31st December, 2018**

<i>Dr.</i>					<i>Cr.</i>
<i>Expenditure</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Income</i>	<i>Rs.</i>	<i>Rs.</i>
To Salary		2,000	By Donation	5,000	
To Repair expenses		500	Less: Capitalised (50%)	<u>2,500</u>	2,500
To Misc. expenses	500		By Subscriptions	12,000	
Less: Prepaid	<u>90</u>	410	Add: Outstanding	<u>900</u>	
To Insurance premium	200			12,900	
Add: Outstanding	<u>40</u>	240	Less: Advance for 2019	<u>350</u>	12,550
To Paper, ink etc.		150	By Entrance fees		1,000
To Drama expenses		500	By Interest on investment		300
To Surplus-excess of income over expenditure		14,150	[100+8/100x6,000x5/12]		
			By Interest received from bank		400
			By Sale of old newspapers		150
			By Sale of drama tickets		<u>1,050</u>
		<u>17,950</u>			<u>17,950</u>

**Balance Sheet of Mumbai Club
as on 31st December, 2018**

<i>Liabilities</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Capital fund			Billiard table	30,000
Opening balance	36,000		Furniture	6,000
Add: Surplus	14,150		Investments	6,000
Donations	<u>2,500</u>	52,650	Interest accrued	200
Outstanding insurance premium		40	Prepaid expenses	90
Subscription received in advance		350	Subscriptions receivable	900
			Cash in hand	2,650
			Cash at bank	<u>7,200</u>
		<u>53,040</u>		<u>53,040</u>

Working Note:

**Balance Sheet of Mumbai Club
as on 31st December, 2017**

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Capital fund	36,000	Billiard table	30,000
(balancing figure)		Cash in hand	4,000
Creditors for billiard table	<u>8,000</u>	Cash at bank	<u>10,000</u>
	<u>44,000</u>		<u>44,000</u>

(b)

In the books of M/s. Ketan Traders

Trading Account for the year ended 31st March, 2019

Particulars	Rs.	Amount Rs.	Particulars	Rs.	Amount Rs.
To Opening Inventory		1,50,000	By Sales	16,50,000	
To Purchases	10,08,000		Less: Returns Inward	(1,50,000)	15,00,000
Less: Returns outward	(1,08,000)	9,00,000	By Closing Inventory		3,00,000
To Carriage Inwards		45,000			
To Wages		75,000			
To Gross profit		6,30,000			
		18,00,000			18,00,000

(c)

Valuation of Physical Stock as at March 31, 2018

		Rs.
Stock at cost on 31.12.2017		80,000
Add: (1) Undercasting of a page total	200	
(2) Goods purchased and delivered during January – March, 2018 Rs. (70,000 – 3,000 + 4,000)	71,000	
(3) Cost of sales return Rs. (1,000 – 200)	<u>800</u>	<u>72,000</u>
		1,52,000
Less: (1) Overcasting of a page total Rs. (6,000 – 5,000)	1,000	
(2) Goods sold and dispatched during January – March, 2018 Rs. (90,000 – 5,000 + 4,000)	89,000	
Less: Profit margin $\left(89,000 \times \frac{25}{125}\right)$	<u>17,800</u>	<u>(72,200)</u>
Value of stock as on 31st March, 2018	<u>71,200</u>	<u>79,800</u>

Note: In the above solution, transfer of ownership is assumed to take place at the time of delivery of goods. If it is assumed that transfer of ownership takes place on the date of invoice, then Rs. 4,000 goods delivered in March 2018 for which invoice was received in April, 2018, would be treated as purchases of the accounting year 2017-2018 and thus excluded. Similarly, goods dispatched in March, 2018 but invoiced in April, 2018 would be excluded and treated as sale of the year 2017-2018

6. (a)

A Ltd.

Journal

2017			Dr. Rs.	Cr. Rs.
May 20	Bank Account	Dr.	8,00,000	
	To Share Application A/c (Application money on 40,000 shares at Rs. 20 per share received.)			8,00,000
June 1	Share Application A/c	Dr.	8,00,000	

	To Share Capital A/c (The amount transferred to Capital Account on 40,000 shares Rs. 20 on application. Directors' resolution no..... dated			8,00,000
July 15	Share Allotment A/c To Share Capital A/c (Being share allotment made due at Rs. 30 per share. Directors' resolution no..... dated	Dr.	12,00,000	12,00,000
	Bank Account To Share Application and Allotment A/c (The sums due on allotment received.)	Dr.	12,00,000	12,00,000
Oct. 1	Share First Call Account To Share Capital Account (Amount due from members in respect of first call-on 40,000 shares at Rs. 25 as per Directors, resolution no... dated...)	Dr.	10,00,000	10,00,000
Oct. 20	Bank Account To Share First Call Account (Receipt of the amounts due on first call.)	Dr.	10,00,000	10,00,000
2018 Feb. 1	Share Second and Final Call A/c To Share Capital A/c (Amount due on 40,000 share at Rs. 25 per share on second and final call, as per Directors resolution no... dated...)	Dr.	10,00,000	10,00,000
Mar. 31	Bank Account To Share Second & Final Call A/c (Amount received against the final call on 40,000 shares at Rs.25 per share.)	Dr.	10,00,000	10,00,000

(b) **In the books of Simmons Limited**

Date	Particulars		Rs. '000	Rs. '000
April 1	Bank A/c To 12% Debentures Application A/c (Being money received on 1,10,000 debentures)	Dr.	11,000	11,000
April 7	12% Debentures Application A/c To Bank A/c (Being money on 10,000 debentures refunded as per Board's Resolution No.....dated...)	Dr.	1,000	1,000
April 7	12% Debentures Application A/c To 12% Debentures A/c (Being the allotment of 1,00,000 debentures of Rs. 100 each at par, as per Board's Resolution No....dated...)	Dr.	10,000	10,000

- (c) The difference between the balance shown by the passbook and the cashbook may arise on account of the following:
- (i) Cheques issued but not yet presented for payment.
 - (ii) Cheques deposited into the bank but not yet cleared.
 - (iii) Interest allowed by the bank.
 - (iv) Interest and expenses charged by the bank.
 - (v) Interest and dividends collected by the bank.
 - (vi) Direct payments by the bank.
 - (vii) Direct deposits into the bank by a customer.
 - (viii) Dishonour of a bill discounted with the bank.
 - (ix) Bills collected by the bank on behalf of the customer.
 - (x) An error committed by the bank etc.

OR

- (c) Normally, the following subsidiary books are used in a business:
- (i) Cash book to record receipts and payments of cash, including receipts into and payments out of the bank.
 - (ii) Purchases book to record credit purchases of goods dealt in or of the materials and stores required in the factory.
 - (iii) Purchase Returns Books to record the returns of goods and materials previously purchased.
 - (iv) Sales Book to record the sales of the goods dealt in by the firm.
 - (v) Sale Returns Book to record the returns made by the customers.
 - (vi) Bills receivable books to record the receipts of promissory notes or hundies from various parties.
 - (vii) Bills Payable Book to record the issue of the promissory notes or hundies to other parties.
 - (viii) Journal (proper) to record the transactions which cannot be recorded in any of the seven books mentioned above.