

MOCK TEST PAPER
FOUNDATION COURSE
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:
- i. Capital + Long Term Liabilities = Fixed Assets + Current Assets + Cash - Current Liabilities.
 - ii. Consignment account is of the nature of real account.
 - iii. The Sales book is kept to record both cash and credit sales.
 - iv. In the calculation of average due date, only the due date of first transaction must be taken as the base date.
 - v. If a partner retires, then other partners have a gain in their profit sharing ratio.
 - vi. Net income in case of persons practicing vocation is determined by preparing profit and loss account. **(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) 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 recorded in subsidiary books.
 - (iii) Credit sale wrongly passed through the Purchase Book.
 - (iv) Machinery sold on credit to Mohan recorded in Journal Proper but omitted to be posted.
 - (v) Goods worth Rs. 5,000 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) 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 charges	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) From the following details calculate the average due date:

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

- (c) Prepare Journal entries for the following transactions in K. Katrak's books.
- Katrak's acceptance to Basu for Rs. 2,500 discharged by a cash payment of Rs. 1,000 and a new bill for the balance plus Rs. 50 for interest.
 - G. Gupta's acceptance for Rs. 4,000 which was endorsed by Katrak to M. Mehta was dishonoured. Mehta paid Rs. 20 noting charges. Bill withdrawn against cheque.
 - D. Dalal retires a bill for Rs. 2,000 drawn on him by Katrak for Rs. 10 discount.
 - Katrak's acceptance to Patel for Rs. 5,000 discharged by Patel Mody's acceptance to Katrak for a similar amount.
- (10 + 5 + 5 = 20 Marks)**

4. A, B and C are partners in a firm sharing profits and losses as 8:5:3. Their balance sheet as at 31st December, 2018 was as follows:

	Rs.		Rs.
Sundry creditors	1,50,000	Cash	40,000
General reserve	80,000	Bills receivable	50,000
Partners' loan accounts:		Sundry debtors	60,000
A	40,000	Stock	1,20,000
B	30,000	Fixed assets	2,80,000
Partners' capital accounts:			
A	1,00,000		
B	80,000		
C	<u>70,000</u>		
	<u>5,50,000</u>		<u>5,50,000</u>

From 1st January, 2019 they agreed to alter their profit-sharing ratio as 5:6:5. It is also decided that:

- the fixed assets should be valued at Rs. 3,31,000;
- a provision of 5% on sundry debtors to be made for doubtful debts;
- the goodwill of the firm at this date be valued at three years' purchase of the average net profits of the last five years before charging insurance premium; and
- the stock be reduced to Rs. 1,12,000.

There is a joint life insurance policy for Rs. 2,00,000 for which an annual premium of Rs. 10,000 is paid, the premium being charged to profit and loss account. The surrender value of the policy on 31st December, 2018 was Rs. 78,000.

The net profits of the firm for the last five years were Rs. 14,000, Rs. 17,000, Rs. 20,000, Rs. 22,000 and Rs. 27,000.

Goodwill and the surrender value of the joint life policy was not to appear in the books.

Draft journal entries necessary to adjust the capital accounts of the partners and prepare the revised balance sheet. **(20 Marks)**

5. (a) From the following receipts and payments account of Mumbai Club, prepare income and expenditure account for the year ended 31.12.2018 and its balance sheet as on that date:

Receipts	Rs.	Payments	Rs.
Cash in hand	4,000	Salary	2,000
Cash at bank	10,000	Repair expenses	500

Donations	5,000	Purchase of furniture	6,000
Subscriptions	12,000	Misc. expenses	500
Entrance fees	1,000	Purchase of investments	6,000
Interest on investments	100	Insurance premium	200
Interest received from bank	400	Billiard table	8,000
Sale of old newspaper	150	Paper, ink etc.	150
Sale of drama tickets	1,050	Drama expenses	500
		Cash in hand (closing)	2,650
		Cash at bank (closing)	<u>7,200</u>
	<u>33,700</u>		<u>33,700</u>

Information:

- Subscriptions in arrear for 2018 Rs. 900 and subscriptions in advance for 2019 Rs. 350.
 - Insurance premium outstanding Rs. 40.
 - Misc. expenses prepaid Rs. 90.
 - 50% of donation is to be capitalized.
 - Entrance fees are to be treated as revenue income.
 - 8% interest has accrued on investment for five months.
 - Billiard table costing Rs. 30,000 was purchased during the last year and Rs. 22,000 were paid for it.
- (b) From the below mentioned information, prepare a Trading Account of M/s. Ketan Traders for the year ended 31st March, 2019:

	Rs.
Opening Inventory	1,50,000
Purchases	10,08,000
Carriage Inwards	45,000
Wages	75,000
Sales	16,50,000
Returns inward	1,50,000
Returns outward	1,08,000
Closing Inventory	3,00,000

- (c) Sky Ltd. keeps no stock records but a physical inventory of stock is made at the end of each quarter and the valuation is taken at cost. The company's year ends on 31st March, 2018 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2018 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2018 with the stock figure as on 31st December, 2017 and some other information is available to you:
- The cost of stock on 31st December, 2017 as shown by the inventory sheet was Rs. 80,000.
 - On 31st December, stock sheet showed the following discrepancies:

- (a) A page total of Rs. 5,000 had been carried to summary sheet as Rs. 6,000.
- (b) The total of a page had been undercast by Rs. 200.
- (iii) Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2018 totalled Rs. 70,000. Out of this Rs. 3,000 related to goods received prior to 31st December, 2017. Invoices entered in April 2018 relating to goods received in March, 2018 totalled Rs. 4,000.
- (iv) Sales invoiced to customers totalled Rs. 90,000 from January to March, 2018. Of this Rs. 5,000 related to goods dispatched before 31st December, 2017. Goods dispatched to customers before 31st March, 2018 but invoiced in April, 2018 totalled Rs. 4,000.
- (v) During the final quarter, credit notes at invoiced value of Rs. 1,000 had been issued to customers in respect of goods returned during that period. The gross margin earned by the company is 25% of cost.

You are required to prepare a statement showing the amount of stock at cost as on 31st March, 2018. **(12 + 4+4 = 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)**