Test Series: October, 2020

MOCK TEST PAPER

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. (a) 1 **False-** 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 amount received on shares forfeited.

2. **True -** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

3 **False-** Receipts and payments account is a classified summary of cash receipts and payments over a certain period together with cash and bank balances at the beginning and close of the period.

4 **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

5 **False -** According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.

6. **False-** Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.

(b) Journal Entries in the books of Symphony Bros.

	Particulars	*Dr.*	*Cr.*
		Amount (₹)	*Amount (₹)*
(i)	Salaries A/c	7,500	
	To Purchase A/c		7,500
	(Being entry made for stock taken by employees)		
(ii)	Advertisement Expenses A/c	2,000	
	To Purchases A/c		2,000
	(Being distribution of goods by the way of free samples)		
(iii)	Drawings A/c	1,400	
	To Petty Cash A/c		1,400
	(Being the income tax of proprietor paid out of business money)		
(iv)	Purchase A/c	1,800	
	To Cash A/c		1,750
	To Discount Received A/c		50
	(Being the goods purchased from Naveen for ₹ 2,000 @ 10% trade discount and cash discount of ₹ 50)		

(c) 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.

2. (a) Statement of Valuation of Stock on 30th June, 2020

		₹
Value of stock as on 14th June, 2020		96,00,000
Add: Unsold stock out of the goods sent on consignment	4,80,000	
Purchases during the period from 14th June, 2020 to 30th June, 2020	4,80,000	
Goods in transit on 30th June, 2020	3,20,000	
Cost of goods sent on approval basis (80% of ₹ 3,20,000)	2,56,000	15,36,000
		1,11,36,000
Less: Cost of sales during the period from 14th June, 2020 to 30th June, 2020		
Sales (₹ 27,20,000-₹ 3,20,000)	24,00,000	
Less: Gross profit	1,92,000	
		22,08,000
Value of stock as on 30th June, 2020		89,28,000

Working Notes:

1.	**Calculation of normal sales:**	₹	₹
	Actual sales		27,20,000
	Less: Abnormal sales	2,40,000	
	Return of goods sent on approval	3,20,000	5,60,000
			21,60,000
2.	**Calculation of gross profit:**		
	Gross profit or normal sales 20/100 x ₹ 21,60,000		4,32,000
	Less: Loss on sale of particular (abnormal) goods (4,80,000 less 2,40,000)		2,40,000
	Gross profit		1,92,000

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

Date		Particulars	Amount	Date		Particulars	Amount
2020			₹	2020			₹
March 31				March 31			
	To	Party A/c	16,000		By	Balance b/d	4,062
	To	Customer A/c			By	Bank charges	580
		(Direct deposit)	1,17,400		By	Customer A/c	1,40,000
	To	Balance c/d	11,242			(B/R dishonoured)	
			1,44,642				1,44,642

(ii) **Bank Reconciliation Statement as on 31st March,2020**

Particulars	Amount
	₹
Overdraft as per Cash Book	11,242
Add: Cheque deposited but not collected upto 31st March,2020	13,14,000
	13,25,242
Less: Cheques issued but not presented for payment upto 31st March,2020	(13,26,000)
Credit by Bank erroneously on 6th March,2020	(20,000)
Overdraft as per bank statement	20,758

Note: Bank has credited Chandan by 20,000 in error on 6th March, 2020. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with ₹ 13,26,000 resulting in debit balance of ₹ 758 as per pass-book.

3. (a) **Books of Gagandeep**

Consignment to Ludhiana Account

Particulars	₹	*Particulars*	₹
To Goods sent on Consignment A/c	1,87,500	By Goods sent on Consignment A/c (loading)	37,500
To Cash A/c	15,000	By Abnormal Loss	16,500
To Mandeep (Expenses)	12,000	By Mandeep (Sales)	1,50,000
To Mandeep (Commission)	16,406	By Inventories on Consignment A/c	30,375
To Inventories Reserve A/c	5,625	By General Profit & Loss A/c	2,156
	2,36,531		2,36,531

Working Notes:

1. **Calculation of value of goods sent on consignment:**

   Abnormal Loss at Invoice price = ₹ 18,750

   Abnormal Loss as a percentage of total consignment = 10%

   Hence the value of goods sent on consignment = ₹ 18,750 X 100/ 10 = ₹ 1,87,500

   Loading of goods sent on consignment = ₹ 1,87,500 X 25/125 = ₹ 37,500

2. **Calculation of abnormal loss (10%):**

Abnormal Loss at Invoice price = ₹ 18,750.

Abnormal Loss at cost = ₹ 18,750 X 100/125	= ₹ 15,000
Add: Proportionate expenses of Gagandeep (10 % of ₹ 15,000)	= ₹ 1,500
	₹ 16,500

3. **Calculation of closing Inventories (15%):**

Gagandeep's Basic Invoice price of consignment=	₹ 1,87,500
Gagandeep's expenses on consignment	= ₹ 15,000
	₹ 2,02,500
Value of closing Inventories = 15% of ₹ 2,02,500	= ₹ 30,375
Loading in closing Inventories = ₹ 37,500 x 15/100	= ₹ 5,625

Where ₹ 28,125 (15% of ₹ 1,87,500) is the basic invoice price of the goods sent on consignment remaining unsold.

4. **Calculation of commission:**

Invoice price of the goods sold	= 75% of ₹ 1,87,500 = ₹ 1,40,625
Excess of selling price over invoice price	= ₹ 9,375 (₹ 1,50,000 - ₹ 1,40,625)
Total commission	= 10% of ₹ 1,40,625 + 25% of ₹ 9,375
	= ₹ 14,062.5 + ₹ 2,343.75
	= ₹ 16,406

(b) **In the books of Varun**

Ankur in Account Current with Varun

(Interest to 31st March, 2020 @ 10% p.a)

Date	*Particulars*	*Amount*	*Days*	*Product*	*Date*	*Particulars*	*Amount*	*Days*	*Product*
2020		*₹*		*₹*	*2020*		*₹*		*₹*
Jan.1	To Balance b/d	2,500	90	2,25,000	Jan.24	By Promissor Varun Note (due date 27th April)	2,500	(27)	(67500)
Jan. 11	To Sales	3,000	79	2,37,000	Feb. 1	By Purchases	5,000	58	2,90,000
Feb. 4	To Sales	4,100	55	2,25,500	Feb. 7	By Sales Return	500	52	26,000
Mar. 18	To Sales	4,600	13	59,800	Mar. 1	By Purchases	2,800	30	84,000
Mar. 31	To Interest	110			Mar. 23	By Purchases	2,000	8	16,000
					Mar. 31	By Balance of Products			3,98,800
					Mar. 31	By Bank	1,510		
		14,310		7,47,300			14,310		7,47,300

Working Note:

Calculation of interest: $\frac{3,98,800}{365} \times \frac{10}{100}$= ₹ 110 (approx.)

4. (a) **Subscription for the year ended 31.3.2020**

		₹
Subscription received during the year		11,25,000
Less: Subscription receivable on 1.4.2019	33,750	
Less: Subscription received in advance on 31.3.2020	15,750	(49,500)
		10,75,500
Add: Subscription receivable on 31.3.2020	49,500	
Add: Subscription received in advance on 1.4.2019	27,000	76,500
Amount of Subscription appearing in Income & Expenditure Account		11,52,000

Sports material consumed during the year end 31.3.2020

	₹
Payment for Sports material	6,75000
Less: Amounts due for sports material on 1.4.2019	(2,02,500)
	4,72,500
Add: Amounts due for sports material on 31.3.2020	2,92,500
Purchase of sports material	7,65,000
Sports material consumed:	
Stock of sports material on 1.4.2019	2,25,000
Add: Purchase of sports material during the year	7,65,000
	9,90,000
Less: Stock of sports material on 31.3.2020	(3,37,500)
Amount of Sports Material appearing in Income & Expenditure Account	6,52,500

(b) (i) **Revaluation Account**

		₹			₹
To	Furniture	1,740	By	Building	6,400
To	Stock	2,140	By	Sundry creditors	2,800
To	Provision of doubtful debts (₹ 3,500 – ₹ 400)	3,100	By	Investment	900
To	Outstanding wages	3,120			
		10,100			10,100

(ii) **Partners' Capital Accounts**

		P	Q	R			P	Q	R
		₹	₹	₹			₹	₹	₹
To	Balance c/d	142,000	108,000	50,000	By	Balance b/d	88,000	72,000	–
					By	Cash A/c	–	–	50,000
					By	Goodwill A/c (Working Note)	54,000	36,000	
		142,000	108,000	50,000			142,000	108,000	50,000

(iii) Balance Sheet of New Partnership Firm

(after admission of R) as on 31.3.2020

Liabilities		₹	Assets		₹
Capital Accounts:			Goodwill		90,000
P	1,42,000		Building (52,000 + 6,400)		58,400
Q	1,08,000		Furniture (11,600 – 1,740)		9,860
R	50,000	3,00,000	Stock-in-trade (42,800 – 2,140)		40,660
Bills Payable		8,200	Debtors	70,000	
Bank Overdraft		18,000	Less: Provision for bad Debts	(3,500)	66,500
Sundry creditors (25,800-2,800)		23,000	Investment (5,000 + 900)		5,900
Outstanding wages		3,120	Cash (31,000 + 50,000)		81,000
		3,52,320			3,52,320

Working Note:

Calculation of goodwill

R's contribution of ₹ 50,000 consists only 1/6th of capital.

Therefore, total capital of firm should be ₹ 50,000 × 6 = ₹ 3,00,000.

But combined capital of P, Q and R amounts ₹ 88,000 + 72,000 + 50,000 = ₹ 2,10,000.

Thus Hidden goodwill is ₹ 90,000 (₹ 3,00,000 – ₹ 2,10,000).

5. (a) Innova Cars A/c

Date	Particulars	Amount	Date	Particulars	Amount
2019			2019		
Jan-01	To balance b/d	29,25,000	Oct-01	By bank A/c	2,70,000
Oct-01	To Profit & Loss A/c (Profit on settlement of car)	45,000	Oct-01	By Depreciation on lost assets	67,500
Oct-01	To Bank A/c	5,00,000	Dec-31	By Depreciation A/c	8,35,000
			Dec-31	By balance c/d	22,97,500
		34,70,000			34,70,000
2020			2020		
Jan-01	To balance b/d	22,97,500	Dec-31	By Depreciation A/c	9,10,000
			Dec-31	By balance c/d	13,87,500
		22,97,500			22,97,500

Working Note:

1. To find out loss on Profit on settlement of Innova Car

	₹
Original cost as on 1.4.2017	4,50,000
Less: Depreciation for 2017	67,500
	3,82,500

Less: Depreciation for 2018	90,000
	2,92,500
Less: Depreciation for 2019 (9 months)	67,500
	2,25,000
Less: Amount received from Insurance company	2,70,000
	45,000

(b) Trading and Profit and Loss Account of Mr. Sanjeev

for the year ended 31st March, 2020

.Dr. *Cr.*

			Amount				*Amount*
		₹	₹			₹	₹
To	Opening stock		64,500	By	Sales	4,27,150	
To	Purchases	3,062,00			*Less*: Sales return	5,150	4,22,000
	Less: Purchases return	3,450	3,02,750	By	Closing stock		
To	Carriage inward		2,250		$\left(₹1,60,000 \times \frac{100}{80} \times \frac{100}{80}\right)$		2,50,000
To	Wages		23,430				
To	Gross profit c/d		2,79,070				
			6,72,000				6,72,000
To	Salaries		45,100	By	Gross profit b/d		2,79,070
To	Rent		8,600	By	Bad debts recovered		900
To	Advertisement expenses		8,350				
To	Printing and stationery		2,500				
To	Bad debts		2,200				
To	Carriage outward		2,700				
To	Provision for doubtful debts						
	5% of ₹ 2,40,000 12,000						
	Less: Existing provision 6,400		5,600				
To	Provision for discount on debtors						
	2.5% of ₹ 2,28,000 5,700						
	Less: Existing provision 2,750		2,950				
To	Depreciation:						
	Plant and machinery	6,000					
	Furniture and fittings	2,050	8,050				
To	Office expenses		20,320				
To	Interest on loan		6,000				
To	Net profit						
	(Transferred to capital account)		1,67,600				
			2,79,970				2,79,970

Balance Sheet of Mr. Sanjeev as on 31st March, 2020

		Amount			*Amount*
Liabilities	₹	₹	*Assets*	₹	₹
Capital account	1,30,000		Plant and machinery	40,000	
Add: Net profit	1,67,600		*Less*: Depreciation	6,000	34,000
	2,97,600		Furniture and fittings	20,500	
Less: Drawings	23,000	2,74,600	*Less*: Depreciation	2,050	18,450
Bank overdraft		1,60,000	Closing stock		2,50,000
Sundry creditors		95,000	Sundry debtors	2,40,000	
Payable salaries		4,900	*Less*: Provision for doubtful debts	12,000	
			Provision for bad debts	5,700	2,22,300
			Prepaid rent		600
			Cash in hand		2,900
			Cash at bank		6,250
		5,34,500			5,34,500

Working Note:

Rectification Entries

	Particulars		*Dr.*	*Cr.*
			Amount	*Amount*
			₹	₹
(i)	Returns inward account	Dr.	5,150	
	Sales account	Dr.	3,450	
	To Purchases account			5,150
	To Returns outward account			3,450
	(Being sales return and purchases return wrongly included in purchases and sales respectively, now rectified)			
(ii)	Drawings account	Dr.	7,000	
	To Purchases account			7,000
	(Being goods withdrawn for own consumption included in purchases, now rectified)			
(iii)	Plant and machinery account	Dr.	900	
	To Wages account			900
	(Being wages paid for installation of plant and machinery wrongly debited to wages, now rectified)			
(iv)	Advertisement expenses account	Dr.	1,650	
	To Purchases account			1,650
	(Being free samples distributed for publicity out of purchases, now rectified)			

6. (a)

Bank A/c	Dr.	25,000	
To Equity Share Application A/c			25,000
(Money received on application for 1,000 shares @ ₹ 25 per share)			
Equity Share Application A/c	Dr.	25,000	
To Equity Share Capital A/c			25,000
(Transfer of application money on 1,000 shares to share capital)			
Equity Share Allotment A/c	Dr.	30,000	
To Equity Share Capital A/c			30,000
(Amount due on the allotment of 1,000 shares @ ₹ 30 per share)			
Bank A/c	Dr.	30,000	
To Equity Share Allotment A/c			30,000
(Allotment money received)			
Equity Share First Call A/c	Dr.	20,000	
To Equity Share Capital A/c			20,000
(First call money due on 1,000 shares @ ₹ 20 per share)			
Bank A/c	Dr.	18,500	
Calls-in-Arrears A/c	Dr.	4,000	
To Equity Share First Call A/c			20,000
To Calls-in-Advance A/c			2,500
(First call money received on 800 shares and calls-in-advance on 100 shares @ ₹ 25 per share)			

(b) **In the books of Aditya Company Ltd.**

Journal Entries

Date	*Particulars*		*Dr.* ₹	*Cr.* ₹
(a)	Bank A/c	Dr.	45,00,000	
	To Debentures Application A/c			45,00,000
	(Being the application money received on 10,000 debentures @ ₹ 450 each)			
	Debentures Application A/c	Dr.	45,00,000	
	Discount on issue of Debentures A/c	Dr.	5,00,000	
	To 9% Debentures A/c			50,00,000
	(Being the issue of 10,000 9% Debentures @ 90% as per Board's Resolution No….dated….)			
(b)	Fixed Assets A/c	Dr.	20,00,000	
	To Vendor A/c			20,00,000
	(Being the purchase of fixed assets from vendor)			
	Vendor A/c	Dr.	20,00,000	
	Discount on Issue of Debentures A/c	Dr.	5,00,000	
	To 9% Debentures A/c			25,00,000

(c)	(Being the issue of debentures of ₹ 25,00,000 to vendor to satisfy his claim)			
	Bank A/c	Dr.	20,00,000	
	To Bank Loan A/c (See Note)			20,00,000
	(Being a loan of ₹ 20,00,000 taken from bank by issuing debentures of ₹25,00,000 as collateral security)			

Note: No entry is made in the books of account of the company at the time of making issue of such debentures. In the "Notes to Accounts" of Balance Sheet, the fact that the debentures being issued as collateral security and outstanding are shown by a note under the liability secured.

(c) Distinction between Money Measurement concept and Matching concept

As per **Money Measurement concept**, only those transactions, which can be measured in terms of money are recorded. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money should be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

In **Matching concept**, all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.