

**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:
- 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 Discount at the time of retirement of a bill is a gain for the drawee.
  - 3 Receipts and Payments Account highlights total income and expenditure.
  - 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 Accrual concept implies accounting on cash basis. **(6 Statements x 2 Marks = 12 Marks)**
- (b) Prepare Journal Entries for the following transactions in the books of Symphony Bros. for the year ending 31<sup>st</sup> March, 2020
- (i) Employees had taken stock worth ₹ 10,000 (Cost price ₹ 7,500) on the eve of Deepawali and the same was deducted from their salaries in the subsequent month.
  - (ii) Goods distributed by way of free samples ₹ 2,000.
  - (iii) Income tax liability of proprietor ₹ 1,400 was paid out of petty cash.
  - (iv) Purchase of goods from Naveen of the list price of ₹ 2,000. He allowed 10% trade discount, ₹ 50 cash discount was also allowed for quick payment. **(4 Marks)**
- (c) Discuss the limitations which must be kept in mind while evaluating the Financial Statements. **(4 Marks)**
2. (a) Physical verification of stock in a business was done on 14<sup>th</sup> June, 2020. The value of the stock was ₹96,00,000. The following transactions took place between 14<sup>th</sup> June to 30<sup>th</sup> June, 2020:
- (i) Out of the goods sent on consignment, goods at cost worth ₹ 4,80,000 were unsold.
  - (ii) Purchases of ₹ 8,00,000 were made out of which goods worth ₹ 3,20,000 were delivered on 5<sup>th</sup> July, 2020.
  - (iii) Sales were ₹27,20,000, which include goods worth ₹ 6,40,000 sent on approval. Half of these goods were returned before 30<sup>th</sup> June, 2020, but no information is available regarding the remaining goods.

- (iv) Goods are sold at cost plus 25%. However goods costing ₹ 4,80,000 had been sold for ₹ 2,40,000.

You are required to determine the value of stock on 30<sup>th</sup> June, 2020.

- (b) On 31<sup>st</sup> March 2020, the bank account of Chandan, according to the bank column of the Cash-Book, was overdrawn to the extent of ₹ 4,062. On the same date the bank statement showed a debit balance of ₹ 20,758 in favour of Chandan. An examination of the Cash Book and Bank statement reveals the following:

1. A cheque for ₹ 13,14,000 deposited on 29<sup>th</sup> March, 2020 was credited by the bank only on 4<sup>th</sup> April, 2020
2. A payment by cheque for ₹ 16,000 has been entered twice in the Cash Book.
3. On 29<sup>th</sup> March, 2020, the bank credited an amount of ₹ 1,17,400 received from a customer of Chandan, but the advice was not received by Chandan until 1<sup>st</sup> April, 2020.
4. Bank charges amounting to ₹ 580 had not been entered in the Cash Book.
5. On 6<sup>th</sup> March, 2020, the bank credited ₹ 20,000 to Chandan in error.
6. A bill of exchange for ₹ 1,40,000 was discounted by Chandan with his bank. This bill was dishonoured on 28<sup>th</sup> March, 2020 but no entry had been made in the books of Chandan.
7. Cheques issued upto 31<sup>st</sup> March, 2020 but not presented for payment upto that date totalled ₹ 13,26,000.

You are required :

- (a) to show the appropriate rectifications required in the Cash Book of Chandan, to arrive at the correct balance on 31<sup>st</sup> March, 2020 and
- (b) to prepare a bank reconciliation statement as on that date. **(10 +10 = 20 Marks)**

- 3 (a) Gagandeep of Delhi consigned to Mandeep of Ludhiana, goods to be sold at invoice price which represents 125% of cost. Mandeep is entitled to a commission of 10% on sales at invoice price and 25% of any excess realised over invoice price. The expenses on freight and insurance incurred by Gagandeep were ₹ 15,000. The account sales received by Gagandeep shows that Mandeep has effected sales amounting to ₹ 1,50,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were ₹ 12,000. 10% of consignment goods of the value of ₹ 18,750 were destroyed in fire at the Ludhiana godown. Mandeep remitted the balance in favour of Gagandeep.

You are required to prepare consignment account in the books of Gagandeep along with the necessary calculations.

- (b) On 1<sup>st</sup> January, 2020, Ankur account in Varun ledger showed a debit balance of ₹ 2,500. The following transactions took place between Varun and Ankur during the quarter ended 31<sup>st</sup> March, 2020:

2020		₹
Jan. 11	Varun sold goods to Ankur	3,000
Jan. 24	Varun received a promissory note from Ankur due after 3 months	2,500
Feb. 01	Ankur sold goods to Varun	5,000
Feb. 04	Varun sold goods to Ankur	4,100
Feb. 07	Ankur returned goods to Varun	500

March 01	Ankur sold goods to Varun	2,800
March 18	Varun sold goods to Ankur	4,600
March 23	Ankur sold goods to Varun	2,000

Accounts were settled on 31<sup>st</sup> March, 2020 by means of a cheque. Prepare an Account Current to be submitted by Varun to Ankur as on 31<sup>st</sup> March, 2020, taking interest into account @ 10% per annum. Calculate interest to the nearest multiple of a rupee. **(12 + 8 = 20 Marks)**

4. (a) The following information of M/s. Rose Club are related for the year ended 31<sup>st</sup> March, 2020:

(1)

Balances	As on 01-04-2019 (₹)	As on 31-3-2020 (₹)
Stock of Sports Material	2,25,000	3,37,500
Amount due for Sports Material	2,02,500	2,92,500
Subscription due	33,750	49,500
Subscription received in advance	27,000	15,750

(2) Subscription received during the year ₹ 11,25,000

(3) Payments for Sports Material during the year ₹ 6,75,000

You are required to ascertain the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2020.

- (b) P and Q are partners in a firm, sharing Profits and Losses in the ratio of 3 : 2. The Balance Sheet of P and Q as on 31.3.2020 was as follow:

Liabilities	Amount ₹	Assets	Amount ₹
Sundry Creditors	25,800	Building	52,000
Bill Payable	8,200	Furniture	11,600
Bank Overdraft	18,000	Stock-in-Trade	42,800
Capital Accounts:		Debtors	70,000
P 88,000		Less: Provision	<u>400</u>
Q <u>72,000</u>	1,60,000	Investment	5,000
		Cash	<u>31,000</u>
	<u>2,12,000</u>		<u>2,12,000</u>

'R' was admitted to the firm on the above date on the following terms:

- He is admitted for 1/6th share in future profits and to introduce a Capital of ₹ 50,000.
- The new profit sharing ratio of P, Q and R will be 3 : 2 : 1 respectively.
- 'R' is unable to bring in cash for his share of goodwill, partners therefore, decide to raise goodwill account in the books of the firm. They further decide to calculate goodwill on the basis of 'R's share in the profits and the capital contribution made by him to the firm.
- Furniture is to be written down by ₹ 1,740 and Stock to be depreciated by 5%. A provision is required for Debtors @ 5% for Bad Debts. A provision would also be made for outstanding wages for ₹3,120. The value of Buildings having appreciated be brought upto ₹ 58,400. The value of investment is increased by ₹ 900.

(v) It is found that the creditors included a sum of ₹ 2,800, which is not to be paid off.

Prepare the following:

(i) Revaluation Account.

(ii) Partners' Capital Accounts.

(iii) Balance Sheet of New Partnership firm after admission of 'R'. **(5+15= 20 Marks)**

- 5 (a) M/s Surya Transport purchased 10 Innova cars at ₹ 4,50,000 each on 1<sup>st</sup> April 2017. On October 1<sup>st</sup> 2019, one of the car is involved in an accident and is completely destroyed and ₹ 2,70,000 is received from the insurance in full settlement. On the same date, another car is purchased by the company for the sum of ₹ 5,00,000. The company writes off 20% on the original cost per annum. The company observe the calendar year as its financial year.

You are required to prepare the Innova cars account for years ended 31<sup>st</sup> Dec, 2019 and 31<sup>st</sup> Dec. 2020.

- (b) The following are the balances as at 31<sup>st</sup> March, 2020 extracted from the books of Mr. Sanjeev.

	₹		₹
Plant and Machinery	39,100	Bad debts recovered	900
Furniture and Fittings	20,500	Salaries	45,100
Bank Overdraft	1,60,000	Salaries payable	4,900
Capital Account	1,30,000	Prepaid rent	600
Drawings	16,000	Rent	8,600
Purchases	3,20,000	Carriage inward	2,250
Opening Stock	64,500	Carriage outward	2,700
Wages	24,330	Sales	4,30,600
Provision for doubtful debts	6,400	Advertisement Expenses	6,700
Provision for Discount on debtors	2,750	Printing and Stationery	2,500
Sundry Debtors	2,40,000	Cash in hand	2,900
Sundry Creditors	95,000	Cash at bank	6,250
Bad debts	2,200	Office Expenses	20,320
		Interest paid on loan	6,000

Additional Information:

- Purchases include sales return of ₹ 5,150 and sales include purchases return of ₹ 3,450.
- Goods withdrawn by Mr. Sanjeev for own consumption ₹ 7,000 included in purchases.
- Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
- Free samples distributed for publicity costing ₹ 1,650.
- Wages paid in the month of April for installation of plant and machinery amounting to ₹ 900 were included in wages account.
- Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2020 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.

7. Depreciation is to be provided on plant and machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.

Prepare a Trading and Profit and Loss Account for the year ended 31<sup>st</sup> March, 2020 and a Balance Sheet as on that date. **(6 + 14 = 20 Marks)**

6. (a) Alpha Limited registered with an authorized equity capital of ₹ 4,00,000 divided into 2,000 shares of ₹ 100 each, issued for subscription of 1,000 shares payable at ₹ 25 per share on application, ₹ 30 per share on allotment, ₹ 20 per share on first call and the balance as and when required. Application money on 1,000 shares was duly received and allotment was made to them. The allotment amount was received in full, but when the first call was made, two shareholders failed to pay the amount on 100 shares each held by them and another shareholder with 100 shares, paid the entire amount on his shares. The company did not make any other call. Give the necessary journal entries in the books of the company to record these transactions.
- (b) Aditya Limited issued 20,000 9% Debentures of the nominal value of ₹1,00,00,000 as follows:
- (a) To sundry persons for cash at 90% of nominal value of ₹ 50,00,000.
  - (b) To a vendor for purchase of fixed assets worth ₹ 20,00,000 – ₹ 25,00,000 nominal value.
  - (c) To the banker as collateral security for a loan of ₹ 20,00,000 – ₹ 25,00,000 nominal value.
- You are required to prepare necessary journal entries Journal Entries.
- (c) Distinguish between Money Measurement concept and Matching concept.

**(10 + 5 + 5 = 20 Marks)**