

**MOCK TEST PAPER 1**

**FOUNDATION COURSE**

**PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING**

**ANSWERS**

1. (a) (i) **True:** Salary paid in advance relates to the coming accounting period. It has nothing to do with the current period. Hence it is not taken in the Profit and Loss Account as an expense. It is shown as a Current Asset in the Balance Sheet.
- (ii) **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.
- (iii) **True:** If closing stock appears in the trail balance, it depicts that one aspect of the double entry has been completed.
- (iv) **True:** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.
- (v) **False:** According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.
- (vi) **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.

(b) **Cash and mercantile system:** Cash system of accounting is a system by which a transaction is recognized only if cash is received or paid. In cash system of accounting, entries are made only when cash is received or paid, no entry being made when a payment or receipt is merely due. Cash system is normally followed by professionals, educational institutions or non-profit making organizations.

On the other hand, mercantile system of accounting is a system of classifying and summarizing transactions into assets, liabilities, equity (owner's fund), costs, revenues and recording thereof. A transaction is recognized when either a liability is created/ impaired and an asset is created /impaired. A record is made on the basis of amounts having become due for payment or receipt irrespective of the fact whether payment is made or received actually.

Mercantile system of accounting is generally accepted accounting system by business entities

(c) **Journal Entries in the books of Annamalai Bros.**

	<i>Particulars</i>	<i>Dr. Amount (₹)</i>	<i>Cr. Amount (₹)</i>
(i)	Salaries A/c To Purchase A/c (Being entry made for stock taken by employees)	15,000	15,000
(ii)	Machinery A/c To Cash A/c (Being wages paid for erection of machinery)	16,000	16,000

(iii)	Drawings A/c To Petty Cash A/c (Being the income tax of proprietor paid out of business money)	3,400	3,400
(iv)	Purchase A/c To Cash A/c To Discount Received A/c (Being the goods purchased from Naveen for ₹ 4,000 @ 10% trade discount and cash discount of ₹ 100)	3,600	3,500 100

2. (a) **Statement of Valuation of Stock on 30<sup>th</sup> April, 2023**

		₹
Value of stock as on 23 <sup>rd</sup> April, 2023		48,00,000
<i>Add:</i> Unsold stock out of the goods sent on consignment	2,40,000	
Purchases during the period from 23 <sup>rd</sup> April, 2023 to 30 <sup>th</sup> April, 2023	2,40,000	
Goods in transit on 30 <sup>th</sup> April, 2023	1,60,000	
Cost of goods sent on approval basis (80% of ₹ 1,60,000)	<u>1,28,000</u>	<u>7,68,000</u>
		55,68,000
<i>Less:</i> Cost of sales during the period from 23 <sup>rd</sup> April, 2023 to 30 <sup>th</sup> April, 2023		
Sales (₹ 13,60,000 - ₹ 1,60,000)	12,00,000	
<i>Less:</i> Gross profit	<u>96,000</u>	
		<u>11,04,000</u>
Value of stock as on 30 <sup>th</sup> April, 2023		<u>44,64,000</u>

**Working Notes:**

		₹	₹
<b>1. Calculation of normal sales:</b>			
Actual sales			13,60,000
Less: Abnormal sales	1,20,000		
Return of goods sent on approval	<u>1,60,000</u>	<u>2,80,000</u>	
			<u>10,80,000</u>
<b>2. Calculation of gross profit:</b>			
Gross profit or normal sales			2,16,000
20/100 x ₹ 10,80,000			
Less: Loss on sale of particular (abnormal) goods (2,40,000 - 1,20,000)		<u>1,20,000</u>	
Gross profit			<u>96,000</u>

(b)

## In the books of M/s Mazars

## Machinery A/c

Date	Account	(in ₹)	Date	Account	(in ₹)
01.01.2021	To Balance b/d	4,56,000	01.07.2021	By Bank A/c	2,50,000
				By P&L A/c – Loss on Sale	50,000
30.09.2021	To Bank A/c	60,000	31.12.2021	By Depreciation	37,500
				By Balance c/d	1,78,500
		<u>5,16,000</u>			<u>5,16,000</u>
01.01.2022	To Balance b/d	1,78,500	31.12.2022	By Depreciation	26,775
			31.12.2022	By Balance c/d	1,51,725
		<u>1,78,500</u>			<u>1,78,500</u>

## Working Note: Calculation of Book Value of Machines under SLM

	Machine 1	Machine 2	Machine 3
	(in ₹)	(in ₹)	(in ₹)
Date of Purchase	01.01.2019	01.07.2019	30.09.2021
Original Cost	4,00,000	1,60,000	60,000
Depreciation for 2019 (SLM)	<u>(40,000)</u>	<u>(8,000)</u>	
WDV on 31.12.2019	3,60,000	1,52,000	
Depreciation for 2020 (SLM)	<u>(40,000)</u>	<u>(16,000)</u>	
WDV on 31.12.2020	3,20,000	1,36,000	
Depreciation for 2021 (SLM)	<u>(20,000)</u>	<u>(16,000)</u>	<u>(1,500)</u>
WDV on 31.12.2021 (30 <sup>th</sup> June for Machine1)	3,00,000	1,20,000	58,500
Sale Proceeds	<u>(2,50,000)</u>		
Loss on Sale	50,000		
Depreciation for 2022 (WDV @ 15%)	-	<u>(18,000)</u>	<u>(8,775)</u>
WDV on 31.12.2022	-	1,02,000	49,725

3. (a)

## Journal Entries in the books of Rajat

2023			Dr. (₹)	Cr. (₹)
Jan. 1	Bills receivable (No. 1) A/c	Dr.	32,000	
	Bills receivable (No. 2) A/c	Dr.	50,000	
	To Vishal A/c			82,000
	(Being drawing of bills receivable No. 1 due for maturity on 4.3.2023 and bills receivable No. 2 due for maturity on 4.4.2023)			
March 4	Vishal's A/c	Dr.	32,000	
	To Bills receivable (No.1) A/c			32,000
	(Being the reversal entry for bill No.1 on renewal)			

March 4	Bills receivable (No. 3) A/c To Interest A/c To Vishal 's A/c  (Being the drawing of bill of exchange no. 3 due for maturity on 7.5.2023 together with interest at 15%p.a. in lieu of the original acceptance of Vishal)	Dr.	32,800	800 32,000
March 25	Bank A/c Discount A/c To Bills receivable (No. 2) A/c  (Being the amount received on retirement of bills No.2 before the due date)	Dr. Dr.	49,500 500	50,000
May 7	Vishal's A/c To Bills receivable (No. 3) A/c  (Being the amount due from Vishal on dishonour of his acceptance on presentation on the due date)	Dr.	32,800	32,800
May 7	Bank A/c To Vishal's A/c  (Being the amount received from official assignee of Vishal at 50 paise per rupee against dishonoured bill)	Dr.	16,400	16,400
May 7	Bad debts A/c To Vishal's A/c  (Being the balance 50% debt in Vishal's Account arising out of dishonoured bill written off as bad debts)	Dr.	16,400	16,400

(b)

**Calculation of Average Due Date**

**Taking Base Date 21.07.2022**

<b>Date of bill</b>	<b>Period</b>	<b>Due Date</b>	<b>Amount</b>	<b>Number of Days from Base Date</b>	<b>Product</b>
			₹		₹
9.4.2022	4 months	12.08.2022	3,000	22	66,000
18.4.2022	3 months	21.07.2022	5,500	0	0
25.5.2022	6 months	28.11.2022	3,000	130	3,90,000
5.6.2022	3 months	8.09.2022	<u>6,000</u>	49	<u>2,94,000</u>
			<u>17,500</u>		<u>7,50,000</u>

$$\text{Average Due Date} = 21\text{st July} + \frac{7,50,000}{17,500} = 21.7.2022 + 43 \text{ days} = 2.09.2022.$$

Since two new bills will be drawn, their due dates will be as follows:

First Bill- 1.7.2022 + 4 months = 4.11.2022;

Second Bill- 1.7.2022+ 6 months = 4.1.2023.

Interest to be charged in respect of the above bills:

- 1<sup>st</sup> bill = Interest will be charged on ₹ 10,000 @ 10% p.a. for 63 days (2.09.2022 to 4.11.2022)  
= ₹ 10,000 x 10% x 63/365 = ₹ 172.60
- 2<sup>nd</sup> bill = Interest will be charged on ₹ 7,500 (₹ 17,500 - 10,000) @ 10% p.a. for 124 days (2.09.2022 to 4.1.2023)  
= ₹ 7,500 x 10% x 124/365 = ₹ 254.80.

Therefore, the value of the two bills:

First bill = ₹ 10,000

Second bill = ₹ (7,500+ 172.60+ 254.80) = ₹ 7,927.4

(c)

In the books of Mr. Lee

Mr. Cooper in Account Current with Mr. Lee

(Interest to 31<sup>st</sup> March, 2023 @ 12% p.a.)

(By means of product)

Date 2023	Particulars	Due Date	Amount ₹	Days	Product	Date 2023	Particulars	Due Date	Amount ₹	Days	Product
Jan 12	To Sales A/c	Feb. 1	30,000	58	17,40,000	Jan. 1	By Balance b/d	Jan. 1	3,500	90	3,15,000
Jan 31	To Sales A/c	Feb. 15	27,500	44	12,10,000	Feb. 15	By Cash A/c	Feb. 15	40,000	44	17,60,000
Mar. 31	To Interest		130			Feb. 20	By Cash A/c	Feb. 20	7,500	39	2,92,500
	3,96,500/365					Mar. 10	By Sales returns	Mar. 10	7,000	21	1,47,000
	x $\frac{12}{100}$					Mar. 25	By Cash A/c	Mar. 25	6,500	6	39,000
Mar. 31	To Balance c/d		6,870			Mar. 31	By Balance of products				3,96,500
			<u>64,500</u>		<u>29,50,000</u>				<u>64,500</u>		<u>29,50,000</u>

4. (a)

Revaluation Account

	₹		₹
To Plant & Machinery (1,70,000 x 15%)	25,500	By Land & Building A/c	1,52,000
To Provision for Bad & Doubtful Debts (60,000 x 5%)	3,000		
To Outstanding Repairs to Building	6,000		
To P's Capital A/c (5/8)	73,438		
To Q's Capital A/c (3/8)	44,062		
	<u>1,52,000</u>		<u>1,52,000</u>

Partners Capital Account

	P	Q	R		P	Q	R
To P's Capital A/c	-	-	20,000	By Balance b/d	4,10,000	3,30,000	-

To Q's Capital A/c			12,000	By Revaluation A/c	73,438	44,062	-
To Q's Current A/c	-	68,062		By Profit & Loss A/c	70,000	42,000	-
To Balance c/d	6,00,000	3,60,000	2,40,000	By Bank	-	-	2,72,000
				By R's Capital A/c	20,000	12,000	-
				By P's Current A/c	26,562	-	-
	6,00,000	4,28,062	2,72,000		6,00,000	4,28,062	2,72,000

Calculation of New Profit Sharing Ratio and gaining ratio:

R's Share of Profit =  $1/5 = 2/10$

Remaining Share =  $1 - 1/5 = 4/5$

P's Share =  $5/8 \times 4/5 = 20/40 = 5/10$

Q's Share =  $3/8 \times 4/5 = 12/40 = 3/10$

New Profit sharing Ratio = 5:3:2

Gaining ratio = 5:3 (same as old profit sharing ratio among old partners)

**Balance sheet of M/s Pigeon and Associates as on 31.3.2023**

Liabilities		₹	Assets		
Capital Accounts:			Land & Buildings		5,32,000
P	6,00,000		Plant & Machinery	1,70,000	
Q	3,60,000		Less: Depreciation	<u>25,500</u>	1,44,500
R	<u>2,40,000</u>	12,00,000	Furniture		1,09,480
Q's Current A/c		68,062	Stock		1,45,260
Trade Creditors		54,800	Sundry Debtors	60,000	
Outstanding Repairs to Building		6,000	Less: Provision	<u>3,000</u>	57,000
			Cash at Bank		3,14,060
			P's current A/c		<u>26,562</u>
		<u>13,28,862</u>			<u>13,28,862</u>

**Working Note:**

Required Balance of Capital Accounts

R's Capital after writing off Goodwill =  $2,72,000 - 32,000 = 2,40,000$

R's Share of Profit =  $1/5$

Thus Capital of the firm shall be =  $2,40,000 \times 5 = 12,00,000$

P's Capital =  $12,00,000 \times 5/10 = 6,00,000$  and

Q's Capital =  $12,00,000 \times 3/10 = 3,60,000$

(b)

**Trading and Profit and Loss Account of Mr. Kamal**  
for the year ended 31st March, 2023

	<i>Dr.</i>		<i>Cr.</i>	
	<i>Amount</i>		<i>Amount</i>	
	₹	₹	₹	₹
To Opening stock		64,500	By Sales	4,27,150
To Purchases	3,06,200		Less: Sales return	<u>5,150</u>
Less: Purchases return	<u>3,450</u>	3,02,750	By Closing stock	
To Carriage inward		2,250	(₹ 1,60,000 ×	2,50,000
To Wages		23,430	$\frac{100}{80} \times \frac{100}{80}$ )	
To Gross profit c/d		<u>2,79,070</u>		
		<u>6,72,000</u>		<u>6,72,000</u>
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	<u>6,400</u>	5,600		
To Provision for discount on debtors				
2.5% of ₹ 2,28,000	5,700			
Less: Existing provision	<u>2,750</u>	2,950		
To Depreciation:				
Plant and machinery	6,000			
Furniture and fittings	<u>2,050</u>	8,050		
To Office expenses		20,320		
To Interest on loan		6,000		
To Net profit (Transferred to capital account)		<u>1,67,600</u>		
		<u>2,79,970</u>		<u>2,79,970</u>

**Balance Sheet of Mr. Kamal as on 31st March, 2023**

<b>Liabilities</b>		<b>Amount</b>	<b>Assets</b>		<b>Amount</b>
	(₹)	(₹)		(₹)	(₹)
Capital account	1,30,000		Plant and machinery	40,000	
Add: Net profit	<u>1,67,600</u>		Less: Depreciation	<u>6,000</u>	34,000
	2,97,600		Furniture and fittings	20,500	
Less: Drawings	<u>23,000</u>	2,74,600	Less: Depreciation	<u>2,050</u>	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 disc on debtors	<u>5,700</u>	2,22,300
		Prepaid rent		600
		Cash in hand		2,900
		Cash at bank		<u>6,250</u>
	<u>5,34,500</u>			5,34,500

5.

**Pushp Speciality Hospital**  
**Income & Expenditure Account**  
**for the year ended 31 December, 2022**

Expenditure	(₹)	Income	(₹)
To Salaries	48,000	By Subscriptions	49,000
To Diet expenses	31,200	By Govt. Grants (Maintenance)	40,000
To Rent & Rates	3,400	By Fees, Sundry Patients	9,600
To Printing & Stationery	4,800	By Donations	16,000
To Electricity & Water-charges	4,800	By Benefit shows (net collections)	12,000
To Office expenses	4,000	By Interest on Investments	1,600
To Excess of Income over expenditure transferred to Capital Fund	<u>32,000</u>		
	<u>1,28,200</u>		<u>1,28,200</u>

**Balance Sheet as at 31st Dec., 2022**

Liabilities	₹	₹	Assets	₹	₹
Capital Fund :			Building :		
Opening balance	98,600		Opening balance	1,80,000	
Excess of Income Over Expenditure	<u>32,000</u>	1,30,600	Addition	<u>1,00,000</u>	2,80,000
Building Fund :			Hospital Equipment :		
Opening balance	1,60,000		Opening balance	68,000	
Add : Govt. Grant	<u>1,60,000</u>	3,20,000	Addition	<u>34,000</u>	1,02,000
Subscriptions received in advance		4,800	Furniture		12,000
			Investments-		
			8% Govt. Securities		40,000
			Subscriptions receivable		2,800
			Accrued interest		1,600
			Prepaid expenses (Rent)		600



		Cash at Bank	13,600
		Cash in hand	2,800
	<u>4,55,400</u>		<u>4,55,400</u>

**Working Notes:**

**(1) Balance sheet as at 31st Dec., 2022**

Liabilities	₹	Assets	₹
Capital Fund		Building	1,80,000
(Balancing Figure)	98,600	Equipment	68,000
Building Fund	1,60,000	Subscription Receivable	13,000
Creditors for Expenses :		Cash at Bank	10,400
Salaries payable	<u>14,400</u>	Cash in hand	<u>1,600</u>
	<u>2,73,000</u>		<u>2,73,000</u>
<b>(2) Value of Building</b>			₹
Balance on 31st Dec. 2022			2,80,000
Paid during the year			<u>(1,00,000)</u>
Balance on 31st Dec. 2021			<u>1,80,000</u>
<b>(3) Value of Equipment</b>			
Balance on 31st Dec. 2022			1,02,000
Paid during the year			<u>(34,000)</u>
Balance on 31st Dec. 2021			<u>68,000</u>
<b>(4) Subscription due for 2021</b>			
Receivable on 31st Dec. 2021			13,000
Received in 2022			<u>(10,200)</u>
Still Receivable for 2022			<u>2,800</u>

**6. (a) Journal of V Kohli. Ltd.**

2022			Dr. ₹ in lakhs	Cr. ₹ in lakhs
June 1	Bank A/c	Dr.	300	
	To Shares Application A/c			300
	(Receipt of applications for 15 lakh shares along with application money of ₹ 20 per share.)			
June 1	Share Application A/c	Dr.	300	
	Share Allotment A/c	Dr.	450	
	To Share Capital A/c			750
	(The allotment of 15 lakh shares : payable on application ₹ 20 share and ₹ 30 on allotment as per Directors' resolution no... dated...)			
June 1	Bank A/c	Dr.	465	
	To Shares Allotment A/c			450

	To Calls in Advance A/c [Receipt of money due on allotment @ ₹ 30, also the two calls (₹ 30 and ₹ 20) on 30,000 shares.]			15
Nov. 1	Share First Call A/c To Share Capital A/c (The amount due on 15 lakh shares @ ₹ 30 on first call, as per Directors, resolution no... dated...)	Dr.	450	450
	Bank A/c Calls in Advance A/c To Share First Call A/c (Receipt of the first call on 14.7 lakh shares, the balance having been previously received and now debited to call in advance account.)	Dr. Dr.	441 9	450
2023 March 1	Share Final Call A/c To Share Capital A/c (The amount due on Final Call on 15 lakh shares @ ₹ 20 per share, as per Directors' resolution no... dated...)	Dr.	300	300
March 1	Bank A/c Calls in Advance A/c To Share Final Call A/c (Receipt of the moneys due on final call on 14.7 lakhs shares, the balance having been previously received.)	Dr. Dr.	294 6	300
March 1	Interest on calls in Advance A/c To Shareholder A/c (Being interest on call in advance made due)	Dr.	0.99	0.99
March 1	Shareholder A/c To Bank A/c (Being interest paid)	Dr.	0.99	0.99

**Working Note:**

The interest on calls in advance paid @ 12% on :	₹
₹ 9,00,000 (first call) from 1st June to 1st Nov., 2022–5 months	45,000
₹ 6,00,000 (final call) from 1st June to 1st March., 2023–9 months	54,000
Total Interest Amount Due	99,000

(b)

In the books of Suman Company Ltd.

**Journal Entries**

Date	Particulars		Dr. ₹	Cr. ₹
(a)	Bank A/c To Debentures Application A/c	Dr.	90,00,000	90,00,000

	(Being the application money received on 20,000 debentures @ ₹ 450 each)			
	Debentures Application A/c	Dr.	90,00,000	
	Discount on issue of Debentures A/c	Dr.	10,00,000	
	To 14% Debentures A/c			1,00,00,000
	(Being the issue of 20,000 14% Debentures @ 90% as per Board's Resolution No....dated....)			
(b)	Bank A/c	Dr.	40,00,000	
	To Bank Loan A/c (See Note)			40,00,000
	(Being a loan of ₹ 40,00,000 taken from bank by issuing debentures of ₹50,00,000 as collateral security)			
(c)	Fixed Assets A/c	Dr.	40,00,000	
	To Vendor A/c			40,00,000
	(Being the purchase of fixed assets from vendor)			
	Vendor A/c	Dr.	40,00,000	
	Discount on Issue of Debentures A/c	Dr.	10,00,000	
	To 14% Debentures A/c			50,00,000
	(Being the issue of debentures of ₹ 50,00,000 to vendor to satisfy his claim)			

**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) (i) Error of Commission.  
(ii) Error of Omission.  
(iii) Error of Commission.  
(iv) Error of Omission.  
(v) Error of Principle.