

Mock Test Paper - Series II: January, 2025

Date of Paper: 31st December, 2024

Time of Paper: 10.30 A.M. to 1.30 P.M.

**FOUNDATION COURSE
PAPER – 1: ACCOUNTING
ANSWERS**

1. (a) (i) **False:** Depreciation is a charge against profit and not an appropriation of profit. Therefore, depreciation has to be provided for, even in case of loss in a financial year.
- (ii) **False:** At the end of the accounting year, all the nominal accounts of the ledger book are totalled and transferred to Profit & Loss A/c.
- (iii) **False:** Amount spent for replacement of any worn- out part of a machine is revenue expense since it is part of its maintenance cost.
- (iv) **False:** In case of admission of new partner in a partnership firm, profit/loss on revaluation account is transferred to old partners in their old profit-sharing ratio.
- (v) **False:** The debit notes issued are used to prepare purchases return book.
- (vi) **False:** Debentures Suspense Account appears on asset side of Balance Sheet under Non-Current Asset.
- (b) Accounting Standards are selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The Accounting Standards Board of the Institute of Chartered Accountants of India (ICAI) formulates Accounting Standards to be established by the Council of the ICAI. The main objective of Accounting Standards is to establish standards which have to be complied with, to ensure that financial statements are prepared in accordance with generally accepted accounting principles. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India.
- (c) **Corrected Trial Balance of Mr. Govind as on 31st March, 2024**

Particulars	Dr. Amount ₹	Cr. Amount ₹
Govind 's Capital		14,004
Govind 's Drawings	5,076	
Leasehold Premises	6,750	
Sales		24,750
Due from customers	4,770	
Purchases	11,331	

Purchases Returns		2,376
Loan from Bank		2,304
Trade expenses	6,300	
Trade Payable		4,752
Bills payable		900
Salaries and Wages	5,400	
Cash at Bank	2,034	
Opening Inventory (1.4.2023)	2,376	
Rent and rates	4,167	
Sales return	882	
	49,086	49,086

Reasons:

1. Due from customers is an asset, so its balance will be a debit balance.
2. Purchases return account always shows a credit balance because assets goes out.
3. Trade Payable is a liability, so its balance will be a credit balance.
4. Bills payable is a liability, so its balance will be a credit balance.
5. Inventory (opening) represents assets, so it will have a debit balance.
6. Sales return account always shows a debit balance because assets come in.

2. (a) Valuation of Physical Stock as at March 31, 2024

		₹
Stock at cost on 31 st December,2023		80,000
<i>Add:</i> (1) Undercasting of a page total	200	
(2) Goods purchased and delivered during January – March, 2024		
₹ (70,000 – 3,000 + 4,000)	71,000	
(3) Cost of sales return ₹ (1,000 – 200)	<u>800</u>	<u>72,000</u>
		1,52,000
<i>Less:</i> (1) Overcasting of a page total	1,000	
₹ (6,000 – 5,000)		
(2) Goods sold and dispatched during January – March, 2024		
₹ (90,000 – 5,000 + 4,000)	89,000	
<i>Less: Profit margin</i> $\left(89,000 \times \frac{25}{125}\right)$	<u>17,800</u>	<u>71,200</u>
Value of stock as on 31st March, 2024		<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, therefore ₹ 4,000 goods delivered in March 2024 for which invoice was received in April, 2024, would be treated as purchases of the accounting year 2024-2025 and thus excluded. Similarly, goods dispatched in March, 2024 but invoiced in April, 2024 would be excluded and treated as sale of the year 2024-2025.

(b) Bank Reconciliation Statement of Ramesh Traders as on 31st March, 2024

Particulars	Amount (₹)	Amount (₹)
Balance as per Cash Book		8,24,400
Add:		
Mistake in bringing forward ₹ 37,000/- debit balance as credit balance on 22nd March	74,000	
Cheques issued but not presented Issued = ₹ 84,000 less cashed ₹ 57,000 = ₹ 27,000/-	27,000	
Dividend directly collected but not entered in cash book	70,000	
Cheques recorded twice in the cash book	2,58,000	
Wrongly credited cheque by bank	50,000	
Discount amount wrongly entered in bank column	1,000	4,80,000
Less:		
Wrong casting in cash book on 12th March, 2024	24,000	
Cheque issued and not entered in the Bank Column	1,70,000	
Fire Insurance premium paid directly by bank	40,000	
Cheque dishonored not recorded in books	10,000	
Credit card payment not recorded in cash book	5,000	
Cheque wrongly deposited by bank in savings account	4,000	
Bank charges debited not recorded in cash book	400	2,53,400
Balance as per the Passbook		10,51,000

Note : No effects of cheque deposit directly and dishonored in the same Month. Alternatively amount of ₹ 64,000/- can be added as well as deducted from balance as per cash book.

3. (a) **In the books of Natures Beauty Society**

**Income and Expenditure Account
for the year ending 31st March, 2024**

Expenditure	₹	Income	₹
To Medicine	2,90,000	By Subscription	5,12,000
To Honorarium	1,00,000	By donation	1,50,000
To Salaries	2,80,000	By Interest on investment	90,000
To Sundry expenses	10,000	By Charity show	1,25,000
To Depreciation		Less: Charity show expenses	(15,000)
Equipment	60,000		1,10,000
Building	20,000		
To Surplus	<u>1,02,000</u>		
	<u>8,62,000</u>		<u>8,62,000</u>

**Balance Sheet of Natures Beauty Society
as on 31st March, 2024**

Liabilities	₹	₹	Assets	₹	₹
Capital Fund:			Equipment	2,10,000	
Opening balance	18,03,000		Add: Purchases.	<u>1,50,000</u>	
Add: Surplus	<u>1,02,000</u>	19,05,000		3,60,000	
Advance subscription		7,000	Less: dep. (bal. fig)	<u>(60,000)</u>	3,00,000
Creditors (medicine)		1,30,000	Building	5,00,000	
			Less: dep. (bal. fig)	<u>(20,000)</u>	4,80,000
			Investment (₹ 90,000/9%)		10,00,000
			Outstanding Subscription		22,000
			Closing stock(medicine)		1,50,000
			Cash		<u>90,000</u>
		<u>20,42,000</u>			<u>20,42,000</u>

Working Note:

(i) Subscription for the year ended 31st March, 2024

Particulars	Amount
Subscription Received during the year	5,00,000
Less: Subscription outstanding as on 1 st April, 2023	(15,000)
Add: Subscription outstanding as on 31 st March, 2024	22,000
Add: Subscription received in advance as on 1 st April, 2023	12,000

Less: Subscription received in advance as on 31 st March, 2024	(7,000)
Total	5,12,000

(ii) Medicines purchased during the year ended 31st March, 2024

Particulars	Amount
Opening due for medical supply	90,000
Less: Payment made during the year	(3,00,000)
Less: Closing due for medical supply	(1,30,000)
Medicines purchased during the year	3,40,000

(iii) Medicines consumed during the year ended 31st March, 2024

Particulars	Amount
Opening stock	1,00,000
Add: Purchase during the year	3,40,000
Less: Closing Stock	(1,50,000)
Medicines consumed during the year	2,90,000

(iv) Depreciation on Equipment

Particulars	Amount
Opening Balance	2,10,000
Add: Purchase during the year	1,50,000
Less: Closing Balance	(3,00,000)
Depreciation for the year	60,000

(b) Joint Life Policy Account

		₹			₹
10 th June, 2020	To Bank Account	3,000	31 st Dec., 2020	By Profit and Loss A/c	3,000
10 th June, 2021	To Bank Account	3,000	31 st Dec., 2021	By Profit and Loss A/c	2,100
			31 st Dec., 2021	By Balance c/d	900
		3,000			3,000
1 st January, 2022	To Balance b/d	900	31 st Dec., 2022	By Profit and Loss A/c	1,900
10 th June, 2022	To Bank Account	3,000	31 st Dec., 2022	By Balance c/d	2,000
		3,900			3,900
1 st January, 2023	To Balance b/d	2,000	31 st Dec., 2023	By Profit and Loss A/c	1,400

10 th June, 2023	To Bank Account	3,000	31 st Dec., 2023	By Balance c/d	3,600
		5,000			5,000
1 st January, 2024	To Balance b/d	3,600	15 th April, 2024	By Bank	3,600
		3,600			3,600

(c) (ii) Computation of Goodwill of Mr. Nikhil

Average maintainable profits:		₹
Trading profit during	2020	2,40,000
	2021	2,16,000
	2023	3,00,000
		7,56,000
Less: Loss during	2022	(36,000)
Total		7,20,000
Average Profits (₹ 7,20,000 / 4)		1,80,000
Less: Remuneration for the proprietor		(36,000)
Average maintainable Profit		1,44,000
Less: Normal Profit (11% on capital employed of ₹ 9,00,000)		(99,000)
Super Profit		45,000
Goodwill at 6 year's purchase of Super Profit		2,70,000

Alternative:

₹

Total profit (₹ 2,40,000+₹ 2,16,000+₹ 3,00,000-₹ 36,000)	=	7,20,000
Normal Profit (11% on capital employed of ₹ 9,00,000)	=	(99,000)
Remuneration for the proprietor	=	<u>(36,000)</u>
		(1,35,000)
Average Profits (₹ 7,20,000 / 4)		<u>1,80,000</u>
Super Profit		45,000
Goodwill at 6 year's purchase of Super Profit	=	2,70,000

4. (a) Revaluation A/c

	₹		₹
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	
	1,52,000	1,52,000

Partners Capital A/c

	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:

$$R's \text{ Share of Profit} = 1/5 = 2/10$$

$$\text{Remaining Share} = 1 - 1/5 = 4/5$$

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

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

$$\text{New Profit sharing Ratio} = 5:3:2$$

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

Balance sheet of M/s Dutch and Associates as on 31.3.2024

Liabilities		₹	Assets		₹
Capital Accounts:			Land & Buildings	3,80,000	
			Add: Appreciation	1,52,000	5,32,000
P	6,00,000		Plant & Machinery	1,70,000	
Q	3,60,000		Less: Depreciation	25,500	1,44,500
R	2,40,000	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	3,000	57,000
			Cash at Bank		3,14,060
			P's current A/c		26,562
		13,28,862			13,28,862

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 x 5 = 12,00,000

P's Capital = 12,00,000 x 5/10 = 6,00,000 and

Q's Capital = 12,00,000 x 3/10 = 3,60,000

(b) In the books of Sameer Distributors
Trading and Profit and Loss Account
for the year ended 31st March, 2024

Particulars	Amount (₹)	Amount (₹)		Amount (₹)	Amount (₹)
To Opening Stock		5,12,400	By Sales		
To Purchases			Cash	30,67,200	
Cash	28,45,200		Credit (W.N. 1)	<u>2,60,68,800</u>	2,91,36,000
Credit (W.N. 2)	<u>2,28,31,200</u>	2,56,76,400	By Closing stock		6,94,800
To Gross profit c/d (12.5% of 2,91,36,000)		36,42,000	(bal fig)		
		<u>2,98,30,800</u>			<u>2,98,30,800</u>
To Rent & taxes		7,54,800	By Gross profit b/d		36,42,000
To Salaries (W.N. 3)		12,55,800	By Discount received		1,05,000
To Sundry expenses		4,15,200	By Interest on investment		10,800
To Discount allowed		1,87,500			
To Depreciation (10% on (3,30,000 & 2,20,500))	33,000 <u>22,050</u>	55,050			
To Net Profit (b.f.)		10,89,450			
		<u>37,57,800</u>			<u>37,57,800</u>

Balance Sheet as at 31st March, 2024

Liabilities		Amount	Assets	Amount
Capital			Motor vehicle	3,30,000
Opening balance	18,15,000		Less: Depreciation (33,000)	2,97,000
Less: Drawings	<u>(7,20,000)</u>		Furniture	2,20,500
	10,95,000		Less: Depreciation (22,050)	1,98,450
Add: Net profit for the years	<u>10,89,450</u>	21,84,450	Closing Stock	6,94,800
Trade creditors		3,16,800	Trade receivable	6,61,500
Outstanding salary		44,400	6% Investment	1,80,000
			Cash in hand & at bank	5,13,900
		<u>25,45,650</u>		<u>25,45,650</u>

Working Notes:**1. Trade Debtors Account**

	₹		₹
To Balance b/d	4,36,200	By Cash/Bank	2,56,56,000
To Credit sales (Bal. fig.)	260,68,800	By Discount allowed	1,87,500
		By Balance c/d	6,61,500
	265,05,000		265,05,000

2. Trade Creditors Account

	₹		₹
To Cash/Bank	226,35,000	By Balance b/d	2,25,600
To Discount received	1,05,000	By Credit purchases (bal fig)	2,28,31,200
To Balance c/d	3,16,800		
	230,56,800		230,56,800

3. Computation of salary to be charged to Profit & Loss A/c

	₹
Salary expenses paid (as per cash book)	12,38,400
Less: Outstanding expenses as on 31.3.2023	(27,000)
	12,11,400
Add: Outstanding expenses as on 31.3.2024	44,400
	12,55,800

5. (a) Rectification entries in the books of M/s Satya Paul Steels

	Particulars	L.F.	Dr. ₹	Cr. ₹
1.	Profit and Loss Adjustment A/c Dr. To Building Account (Repairs amounting ₹ 37,500 wrongly debited to building account, now rectified)		37,500	37,500
2.	Profit and Loss Adjustment A/c Dr. To Suspense Account (Addition of freight column in purchase journal was under casted, now rectification entry made)		4,500	4,500
3.	Suspense A/c Dr. To Parth		6,500	6,500

	(Goods returned by Parth had been posted wrongly to the debit of his account, now rectified)			
4.	Profit and Loss Adjustment A/c To Furniture account (Being sale of furniture wrongly entered in sales book, now rectified)	Dr.	50,000	50,000
5.	Comfort & Co. To Bills receivable A/c (Bill receivable dishonoured debited to Bills receivable account instead of customer account, now rectified)	Dr.	60,000	60,000

(b) In the Books of Mr. Sanjay

Manufacturing Account for the year ended on March 31, 2024

Particulars	₹	Amount ₹	Particulars	Amount ₹
To Opening W.I.P.		18,75,000	By Closing W-I-P	21,45,000
To Raw Material Consumed:			By Sale of Scrap	1,08,000
Opening inventory	17,55,000		By Trading A/c-	95,46,000
Purchases	56,22,000		Cost of finished goods transferred	
	73,77,000			
Less: Returns	(2,85,000)			
	70,92,000			
Less: Closing inventory	(14,10,000)	56,82,000		
To Carriage Inwards		8,10,000		
To Direct Wages		11,91,000		
To Manufacturing Overhead:				
Power and Electricity	5,28,000			
Repairs & Maintenance	7,95,000			
Depreciation on Factory Shed	4,32,000			
Depreciation on Plant & Machinery	4,86,000	22,41,000		
		1,17,99,000		1,17,99,000

(c) In the books of Rishab Limited

Journal Entries

Particulars		Dr. (₹)	Cr. (₹)
12% Redeemable Preference Share Capital A/c	Dr.	3,60,000	
Premium on Redemption of Preference Shares A/c	Dr.	72,000	

To Preference Shareholders A/c (Being the amount payable on redemption of 36,000 12% Redeemable Preference Shares transferred to Shareholders Account)			4,32,000
Preference Shareholders A/c To Bank A/c (Being the amount paid on redemption of 35,800 preference shares)	Dr.	4,29,600	4,29,600
Bank A/c To Equity Shares Capital A/c To Securities Premium A/c (Being the issue of 6,000 Equity Shares of ₹ 10 each at a premium of 10% as per Board's Resolution No..... Dated.....)	Dr.	66,000	60,000 6,000
General Reserve A/c Profit & Loss A/c To Capital Redemption Reserve A/c (Working Note) (Being the amount transferred to Capital Redemption Reserve A/c as per the requirement of the Act.)	Dr. Dr.	2,40,000 60,000	3,00,000
Capital Redemption Reserve A/c To Bonus to Shareholders A/c (Being the amount appropriated for issue of bonus share in the ratio of 5:2 as per shareholders Resolution No..... dated...)	Dr.	2,40,000	2,40,000
Bonus to Shareholders A/c To Equity Share Capital A/c (Being the utilisation of bonus dividend for issue of 24,000 equity shares of ₹ 10 each fully paid)	Dr.	2,40,000	2,40,000
Profit & Loss A/c To Premium on Redemption of Preference Shares A/c (Being premium on redemption of preference shares adjusted against to Profit & Loss Account)	Dr.	72,000	72,000

Working Note:

- (1) Partly paid-up preference shares cannot be redeemed.
- (2) Amount to be Transferred to Capital Redemption Reserve Account

Face value of share to be redeemed	₹ 3,60,000
Less: Proceeds from fresh issue (excluding premium)	(₹ 60,000)
	<u>₹ 3,00,000</u>
- (3) No bonus shares on 6,000 equity shares issued for redemption.

Note: Bonus shares does not result in receipt of cash, and hence the increase in share capital on account of bonus issue cannot be considered in determination of amount to be transferred to Capital Redemption Reserve.

6. (a)

In the books of Samuel Limited

Journal Entries

Particulars	Dr. (₹)	Cr. (₹)
Bank A/c (Note 1 – Column 3) Dr. To Equity Share Application A/c (Being application money received on 3,60,000 shares @ ₹ 3 per share)	10,80,000	10,80,000
Equity Share Application A/c Dr. To Equity Share Capital A/c To Equity Share Allotment A/c (Note 1 Column 5) To Bank A/c (Note 1 – Column 6) (Being application money on 1,20,000 shares transferred to Equity Share Capital Account; out of the excess application money received, ₹4,40,000 is adjusted towards allotment and ₹ 2,80,000 refunded as per Board's Resolution No.....dated...)	10,80,000	3,60,000 4,40,000 2,80,000
Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium a/c (Being allotment money due on 1,20,000 shares @ ₹ 5 each including premium at ₹ 4 each as per Board's Resolution No....dated....)	6,00,000	3,60,000 2,40,000
Bank A/c (Note 1 – Column 8) Dr. To Equity Share Allotment A/c (Being balance allotment money received)	1,60,000	1,60,000
Equity Share First and Final Call A/c Dr. To Equity Share Capital A/c (Being final call money due on 1,20,000 shares @ ₹ 4 per share as per Board's Resolution No.....dated....)	4,80,000	4,80,000
Bank A/c Dr. Calls in Arrears A/c Dr. To Equity Share First and Final Call A/c	4,78,640 1,360	4,80,000

(Being final call money on 1,19,660 shares @ ₹ 4 each received)			
Equity Share Capital A/c	Dr.	3,400	
To Calls in Arrears A/c			1,360
To Forfeited Shares A/c			2,040
Being forfeiture of 340 equity shares for non-payment of call money as per Board's Resolution No.....dated)			
Bank A/c	Dr.	4,420	
To Equity Shares Capital A/c			3,400
To Securities Premium A/c			1,020
Being re-issue of 340 shares @ ₹13 each as per Board's Resolution No.....dated.....)			
Forfeited Shares A/c	Dr	2,040	
To Capital Reserve A/c			2,040
(Being profit on re-issue transferred to Capital Reserve)			

Working Note:

Calculation for Adjustment and Refund

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application	Amount Required on Application	Amount adjusted on Allotment	Refund [3 - 4 + 5]	Amount due on Allotment	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Rejected	80,000	Nil	2,40,000	Nil	Nil	2,40,000	Nil	Nil
(i)	1,60,000	80,000	4,80,000	2,40,000	2,40,000	Nil	4,00,000	1,60,000
(ii)	1,20,000	40,000	3,60,000	1,20,000	2,00,000	40,000	2,00,000	Nil
TOTAL	3,60,000	1,20,000	10,80,000	3,60,000	4,40,000	2,80,000	6,00,000	1,60,000

Also,

- (i) Amount Received on Application (3) = No. of shares applied for (1) x ₹ 3
- (ii) Amount Required on Application (4) = No. of shares allotted (2) x ₹ 3
- (b) (i) A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money to or to the order of certain person or to the bearer of the instrument. When such an order is accepted by the drawee on the face of the order itself, it becomes a valid bill of exchange.

There are three parties to a bill of exchange:

- (i) The drawer, who draws the bill, that is, the creditor to whom the money is owing;
 - (ii) The drawee, the person to whom the bill is addressed or on whom it is drawn and who accepts the bill that is, the debtor; and
 - (iii) The payee, the person who is to receive the payment. The drawer in many cases is also the payee.
- (ii) Retirement of bills of exchange:** Sometimes, the acceptor of a bill of exchange has spare funds much before the maturity date of the bill of exchange accepted by him. He may, therefore, desire to pay the bill before the due date. In such a circumstance, the acceptor shall ask the payee or the holder of the bill to accept cash before the maturity date. If the payee agrees, the acceptor may be allowed a rebate or discount on such early payment. This rebate is generally the interest at an agreed rate for the period between the date of payment and date of maturity. The interest/rebate/discount becomes the income of the acceptor and expense of the payee. It is a consideration for premature payment. When a bill is paid before due date, it is said to be retired under rebate.

OR

Advantages of Subsidiary Books

The use of subsidiary books affords the under mentioned advantages:

- (i) **Division of work:** Since in the place of one journal there will be so many subsidiary books, the accounting work may be divided amongst a number of clerks.
- (ii) **Specialization and efficiency:** When the same work is allotted to a particular person over a period of time, he acquires full knowledge of it and becomes efficient in handling it. Thus the accounting work will be done efficiently.
- (iii) **Saving of the time:** Various accounting processes can be undertaken simultaneously because of the use of a number of books. This will lead to the work being completed quickly.
- (iv) **Availability of information:** Since a separate register or book is kept for each class of transactions, the information relating to each transactions will be available at one place.
- (v) **Facility in checking:** When the trial balance does not agree, the location of the error or errors is facilitated by the existence of separate books. Even the commission of errors and frauds will be checked by the use of various subsidiary books.