

MOCK TEST PAPER II
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. "Salary paid in advance" is not an expense because it neither reduces assets nor increases liabilities.
 - ii. Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
 - iii. The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.
 - iv. When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital ratio.
 - v. Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.
 - 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) Change in accounting policy may have a material effect on the items of financial statements." Explain the statement with the help of an example. **(4 Marks)**
- (c) A Plant & Machinery costing Rs. 40,00,000 is depreciated on straight line basis assuming 10 year working life and zero residual value, for four years. At the end of the fourth year, the machinery was revalued upwards by Rs. 1,60,000. The remaining useful life was reassessed at 8 years. Calculate Depreciation for the fifth year. **(4 Marks)**
2. (a) The following mistakes were located in the books of a concern after its books were closed and a Suspense Account was opened in order to get the Trial Balance agreed:
- (i) A Bill Receivable for Rs. 1,550 was passed through Bills Payable Book. The Bill was given by Ram.
 - (ii) Cash received from Manan was debited to Tapan Rs. 7,500.
 - (iii) General expenses Rs. 2600 was posted in the General Ledger as Rs. 6200.
 - (iv) Sales Day Book was overcast by Rs. 5,000.
 - (v) Legal Expenses Rs. 7,670 paid to Mr. Gupta was debited to her personal account.
 - (vi) A sale of Rs. 25,000 to Tina was wrongly debited to the Account of Hina.

(vii) While carrying forward the total of one page of the Purchases Book to the next, the amount of Rs. 1,690 was written as Rs. 1,960.

(viii) Rs 7,000 due to Mr. Somdev was omitted to be taken to trial balance.

Find out the nature and amount of the Suspense Account and Pass entries (including narration) for the rectification of the above errors in the subsequent year's books.

(b) On 30th September, 2020, the bank account of Sameer, according to the bank column of the Cash-Book, was overdrawn to the extent of Rs. 16,248. On the same date the bank statement showed a credit balance of Rs. 83,032 in favour of Sameer. An examination of the Cash Book and Bank Statement reveals the following:

1. A cheque for Rs. 52,56,000 deposited on 29th September, 2020 was credited by the bank only on 3rd October, 2020
2. A payment by cheque for Rs. 64,000 has been entered twice in the Cash Book.
3. On 29th September, 2020, the bank credited an amount of Rs. 4,69,600 received from a customer of Sameer, but the advice was not received by Sameer until 1st October, 2020.
4. Bank charges amounting to Rs. 2,320 had not been entered in the Cash Book.
5. On 6th September, 2020, the bank credited Rs. 80,000 to Sameer in error.
6. A bill of exchange for Rs. 5,60,000 was discounted by Sameer with his bank. This bill was dishonoured on 28th September, 2020 but no entry had been made in the books of Sameer.
7. Cheques issued upto 30th September, 2020 but not presented for payment upto that date totalled Rs. 53,04,000.

You are required :

(a) to show the appropriate rectifications required in the Cash Book of Sameer, to arrive at the correct balance on 30th September, 2020 and

(b) to prepare a bank reconciliation statement as on that date. **(10 +10 = 20 Marks)**

3. (a) Mr. Devender of Dehradun sent on 16th February, 2020 a consignment of 500 Pen drives to Mr. Satender of Bengal costing Rs. 100 each. Expenses of Rs. 750 were met by the consignor. Satender spent Rs. 1,500 for clearance and selling expenses were Rs. 20 per Pen Drive.

Satender sold on 15th March, 2020, 300 Pen drives @ Rs. 160 per Pen drive and again on 20th May, 2020, 150 Pen drives @ Rs. 170 each.

Satender is entitled to a commission of Rs. 25 per Pen drive sold plus $\frac{1}{4}$ of the amount by which the gross sale proceeds less total commission thereon exceeded a sum calculated @ Rs. 125 per Pen drive sold. Satender sent the amount due to Devender on 30th September, 2020.

You are required to prepare the consignment account and Satender's account in the books of Devender.

(b) Hari accepted the following bills drawn by Vinny:

On 8th March, 2020 Rs. 12,000 for 4 months.

On 16th March, 2020 Rs. 15,000 for 3 months.

On 7th April, 2020 Rs. 18,000 for 5 months.

On 17th May, 2020 Rs. 15,000 for 3 months.

He wants to pay all the bills on a single day. Find out this date. Interest is charged @ 9 % p.a. and Hari wants to save Rs. 471 by way of interest. Calculate the date on which he has to effect the payment to save interest of Rs. 471.

- (c) A firm sends good on "Sale or Return basis. Customers have the choice of returning the goods within a month. During October,2020 the following are the details of goods sent:

Date (Oct)	2	8	12	18	20	27
Customers	U	V	W	X	Y	Z
Value (Rs.)	10,000	15,000	18,000	5,500	2,000	21,000

Within the stipulated time, U and W returned the goods and V, X and Y signified that they have accepted the goods.

Show in the books of the firm, the Sale or Return Account and Customer W for Sale or Return Account as on 15th November 2020. **(10 + 5 + 5 = 20 Marks)**

4. (a) Alpha and Beta are partners in a firm, sharing Profits and Losses in the ratio of 3 : 2. The Balance Sheet of Alpha and Beta as on 1.1.2021 was as follows:

Liabilities	Amount Rs.	Assets		Amount Rs.
Sundry Creditors	25,800	Building		52,000
Bill Payable	8,200	Furniture		11,600
Bank Overdraft	18,000	Stock-in-Trade		42,800
Capital Account:		Debtors	70,000	
Alpha 88,000		Less: Provision	<u>400</u>	69,600
Beta <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>

'Gama' 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 Rs. 50,000.
- The new profit sharing ratio of Alpha, Beta and Gama will be 3 : 2 : 1 respectively.
- 'Gama' 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 'Gama's share in the profits and the capital contribution made by him to the firm. Later, the goodwill was written off among all the partners in the new profit sharing ratio.
- Furniture is to be written down by Rs. 1,740 and Stock to be depreciated by 10%. A provision is required for Debtors @ 5% for Bad Debts. A provision would also be made for outstanding wages for Rs. 3,120. The value of Buildings having appreciated be brought upto Rs. 58,400. The value of investment is increased by Rs. 900.
- It is found that the creditors included a sum of Rs. 2,800, which is not to be paid off.

Prepare the following:

- Revaluation Account.
- Partners' Capital Accounts.

(iii) Balance Sheet of New Partnership firm after admission of 'Gama'.

- (b) Mr. Surya runs a factory, which produces detergents. Following details were available in respect of his manufacturing activities for the year ended 31-03-2021.

Opening work-in-progress (27,000 units)	78,000
Closing work-in-progress (42,000 units)	1,44,000
Opening inventory of Raw Materials	7,80,000
Closing inventory of Raw Materials	9,60,000
Purchases	24,60,000
Hire charges of Machinery @ Rs. 0.70 per unit manufactured	
Hire charges of factory	7,80,000
Direct wages-contracted @ Rs. 0.80 per unit manufactured and @ Rs. 0.40 per unit of closing W.I.P.	
Repairs and maintenance	5,40,000
Units produced - 15,00,000 units	

You are required to prepare a Manufacturing Account of Mr. Surya for the year ended 31-03-2021.

(15+5= 20 Marks)

5. (a) From the following information supplied by New Punjabi Bagh Club, prepare Receipts and Payments account and Income and Expenditure Account for the year ended 31st March 2021.

	01.04.2020 Rs.	31.03.2021 Rs.
Outstanding subscription	70,000	1,00,000
Advance subscription	12,500	15,000
Outstanding salaries	7,500	9,000
Cash in Hand and at Bank	55,000	?
10% Investment	70,000	35,000
Furniture	14,000	7,000
Machinery	5,000	10,000
Sports goods	7,500	12,500

Subscription for the year amount to Rs. 1,50,000/-. Salaries paid Rs. 30,000. Face value of the Investment was Rs. 87,500, 50% of the Investment was sold at 80% of Face Value. Interest on investments was received Rs. 7,000. Furniture was sold for Rs. 4000 at the beginning of the year. Machinery and Sports Goods purchased and put to use at the last date of the year. Charge depreciation @ 15% p.a. on Machinery and Sports goods and @10% p.a. on Furniture.

Following Expenses were made during the year:

Sports Expenses:	Rs. 25,000
Rent:	Rs. 12,000 out of which Rs. 1,000 outstanding
Misc. Expenses:	Rs. 2,500

- (b) Following information is provided for M/s. Ritu Manufacturers for the year ended 31st Dec, 2020:

	Rs.
Opening Inventory	3,00,000

Purchases	20,16,000
Carriage Inwards	90,000
Wages	1,50,000
Sales	33,00,000
Returns inward	3,00,000
Returns outward	2,16,000
Closing Inventory	6,00,000

You are required to pass necessary closing entries in the journal proper of M/s. Ritu Manufacturers.

(15 + 5 = 20 Marks)

6. (a) Daniel Ltd. invited applications for issuing 1,00,000 equity shares of Rs. 20 each.

The amounts were payable as follows:

On application	- Rs. 6 per share
On allotment	- Rs. 10 per share
On first and final call	- Rs. 4 per share

Applications were received for 1,50,000 shares and pro-rata allotment was made to all the applicants. Money overpaid on application was adjusted towards allotment money. X, who was allotted 3,000 shares, failed to pay the first and final call money. His shares were forfeited. Out of the forfeited shares, 2,500 shares were reissued as fully paid-up @ Rs. 16 per share.

Pass necessary Journal entries to record the above transactions in the books of Daniel Ltd.

(10 Marks)

- (b) On 1st January 2020 Pigeon Ltd. issued 12% debentures of the face value of Rs. 40,00,000 at 10% discount. Debenture interest after deducting tax at source @10% was payable on 30th June and 31st December every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium.

Pass necessary journal entries for the accounting year 2020.

(5 Marks)

- (c) Write short notes on any two of the following:

- (i) Double entry system.
- (ii) Importance of bank reconciliation to an industrial unit.
- (iii) Bill of exchange and the various parties to it.
- (iv) Retirement of bills of exchange.

(5 Marks)