

## MOCK TEST PAPER 1

## FOUNDATION COURSE

## PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

## SUGGESTED ANSWERS/HINTS

1. (a) (i) **True:** Conservatism states that the accountant / entity should not anticipate any future income. However, they should provide for all possible / probable losses. Imprudent use of concept of conservatism may lead to understatement of Income and Assets.
- (ii) **True:** Since the temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised.
- (iii) **False:** Account current statement is running transaction between two parties to ascertain the amount payable along with interest. A Current Account is an account type to be maintained with the bank. In both the cases interest is calculated, with the help of different methods.
- (iv) **True:** In case the due date of a bill falls after the date of closing the account, then no interest is allowed for that. However, interest from the date of closing to such due date is written in "Red-Ink" in the appropriate side of the 'Account current'. This interest is called Red-Ink interest.
- (v) **False:** On the death of a partner, the firm receives full value of the sum assured of the joint life policy.
- (vi) **False:** Even if the company incurs losses, it has to pay interest on debentures. Debentures being debts on the company & debenture holders are not concerned with the profit or loss of the company, the interest is to be paid at the rate fixed on it at the time of issue of debenture.
- (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) **Purchase Returns Book**

Date	Debit Note No.	Name of supplier	L.F.	Amount (₹)
2023				
Jan. 4	501	Duggal Furniture's, Jaipur		25,000
Jan. 16	502	Khanna Furniture's, Bangalore		<u>22,500</u>
Jan. 31		Purchases Returns Account (Cr.)		<u>47,500</u>

2. (a) (a) Fair Value : ₹ 1,05,00,000/-

Since this is an upward revaluation and group had a balance in revaluation surplus (i.e. there was an upward movement earlier), hence this will result in additional credit of ₹ 5,00,000/- to Revaluation Surplus and hence total Revaluation Surplus Balance (part of other comprehensive income in Equity) shall increase to ₹ 15,00,000/-

The journal entry shall be:

Property, Plant and Machinery A/c	Dr.	5,00,000	
To Revaluation Surplus A/c			5,00,000

(b) Fair Value : ₹ 85,00,000/-

Since this is a downward revaluation and group had a balance in revaluation surplus (i.e, there was an upward movement earlier), hence this will result in a reduction or a debt to Revaluation Surplus to the extent of balance therein and any excess shall be debited to Profit & Loss A/c. In this case, there is a reduction in fair value of ₹ 15,00,000 (₹ 1,00,00,000 – ₹ 85.00.000). Hence, the Revaluation Surplus A/c shall be debited by ₹ 10,00,000 and the balance ₹5,00,000 shall be debited to Profit & Loss A/c. Hence total Revaluation surplus balance (part of other comprehensive income in Equity) shall become NIL.

The journal entry shall be :

Revaluation Surplus A/c	Dr.	10,00,000	
Profit & Loss A/c	Dr.	5,00,000	
To Property, Plant and Machinery A/c			15,00,000

(b)

Bank Reconciliation Statement of Krishna Traders as on 31 <sup>st</sup> March, 2023		
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	
TOTAL		4,80,000
Less:		
Wrong casting in cash book on 12th March, 2023	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	
TOTAL		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) **Consignment Account**

	₹		₹
To Goods sent on consignment A/c (15,000 kg x ₹ 30)	4,50,000	By Consignee's A/c-Sales (7,500 kg x ₹ 60)	4,50,000
To Cash A/c (Expenses 15,000 kg x ₹ 5)	75,000	By Abnormal Loss A/c (Insurance claim – WN-1)	9,000
To Consignee's A/c: Advertisement & Recurring expenses	33,000	Add: Abnormal Loss (WN-1) (Profit and Loss Account)	<u>5,000</u> 14,000
Commission @ 5% on ₹4,50,000	22,500	By Consignment Stock A/c (WN-2)	2,46,690
To Profit and loss A/c (Profit on Consignment)	1,30,190		
	<u>7,10,690</u>		<u>7,10,690</u>

**Working Notes:**

1. Abnormal Loss:

Cost of goods lost: 400 kg

Total cost (400 x ₹ 30) 12,000

Add: expenses incurred by the consignor @ ₹5 per kg 2,000

Gross Amount of abnormal loss 14,000

Less: Insurance claim (9,000)

Net abnormal loss 5,000

2. Valuation of Inventories

	Quantity (Kgs)	Amount (₹)
Total Cost (15,000 kg x ₹30)	15,000	4,50,000
Add: Expenses incurred by the consignor		75,000
Less: Value of Abnormal Loss – 400 kgs (WN 1)	<u>(400)</u>	<u>(14,000)</u>
	14,600	5,11,000
Less: Normal Loss	<u>(100)</u>	
	14,500	5,11,000
Less: Quantity of Sugar sold	<u>(7,500)</u>	
Quantity of Closing Stock	7,000	
Value of 7,000 kgs – (5,11,000/14,500) x 7,000		<u>2,46,690</u>

(b) **Mr. Aryan in Account Current with Mr. Abram**

(Interest upto 15<sup>th</sup> March, 2023 @ 10% p.a.)

Dr.										Cr.
Date	Particulars	Amount	Days	Product	Date	Particulars	Amount	Days	Product	
2023					2023					
Jan. 01	To Balance b/d	4,000	74	2,96,000	Jan. 29	By Purchase A/c	1,200	45	54,000	
Jan. 15	To Sales A/c	2,230	59	1,31,570	Feb. 10	By Cash A/c	1,000	33	33,000	

Mar. 13	To	Red Ink product (₹ 2,000 × 29)		58,000	Mar. 13	By	Bills Receivable A/c	2,000	
Mar. 15	To	Interest A/c $(\frac{₹ 3,98,570 \times 10 \times 1}{100 \times 365})$	109.20		Mar. 15	By	Balance of product		3,98,570
						By	Balance c/d (amount to be paid)	<u>2,139.20</u>	
			<u>6,339.20</u>	<u>4,85,570</u>				<u>6,339.20</u>	<u>4,85,570</u>

(c)

In the books of Mr. Gupta

## Journal Entries

Date	Particulars	L.F.	Dr. (in ₹)	Cr. (in ₹)
2022 Dec. 2	Trade receivables A/c To Sales A/c (Being the goods sent to customers on sale or return basis)	Dr.	2,40,000	2,40,000
Dec. 10	Return Inward A/c To Trade receivables A/c (Being the goods returned by customers to whom goods were sent on sale or return basis)	Dr.	1,05,000	1,05,000
Dec. 23	Sales A/c To Trade receivables A/c (Being the cancellation of original entry of sale in respect of goods on sale or return basis)	Dr.	45,000	45,000
Dec. 31	Inventories with customers on Sale or Return A/c To Trading A/c (Note 2) (Being the adjustment for cost of goods lying with customers awaiting approval)	Dr.	36,000	36,000

## Working Note:

- (1) No entry is required for receiving letter of approval from customer.
- (2) Cost of goods with customers = ₹ 45,000 × 100/125 = ₹ 36,000

4 (a)

## Revaluation Account

	₹		₹
To Buildings A/c	30,000	By Investments A/c	9,000
To Machinery A/c	78,000	By Loss to Partners:	
To Provision for Doubtful Debts A/c	83,400	Seed	91,200
		Plant	54,720
		Flower	<u>36,480</u>
	<u>1,91,400</u>		<u>1,82,400</u>
			<u>1,91,400</u>

### Partners' Capital Account

Particulars	Seed	Plant	Flower	Leaf	Particulars	Seed	Plant	Flower	Leaf
	₹	₹	₹	₹		₹	₹	₹	₹
To Revaluation A/c	91,200	54,720	36,480	-	By Balance b/d	2,40,000	60,000	90,000	-
To Investments A/c	-	45,000	-	-	By Reserves A/c	30,000	18,000	12,000	-
To Plant Loan A/c	-	68,280	-	-	By Flower and Leaf Capital A/c	30,000	90,000	-	-
To Seed and Plant's Capital A/c	-	-	60,000	60,000	By Bank A/c (balancing figure)	31,200	-	2,34,480	1,80,000
To Balance c/d	2,40,000	-	2,40,000	1,20,000		-	-	-	-
	<u>3,31,200</u>	<u>1,68,000</u>	<u>3,36,480</u>	<u>1,80,000</u>		<u>3,31,200</u>	<u>1,68,000</u>	<u>3,36,480</u>	<u>1,80,000</u>

### Bank Account

		₹			₹
To Seed's capital A/c		31,200	By Bank Overdraft A/c		1,32,000
To Flower's capital A/c		2,34,480	By Balance c/d		3,13,680
To Leaf's capital A/c		1,80,000			
		<u>4,45,680</u>			<u>4,45,680</u>

(b)

### Rectification Entries

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

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

Dr.			Cr.			
		Amount			Amount	
		₹	₹			
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		$(₹ 1,60,000 \times \frac{100}{80} \times \frac{100}{80})$	2,50,000
To	Wages		23,430			
To	Gross profit c/d		2,79,070			
			<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. Shyam as on 31st March, 2023**

		Amount			Amount
		₹	₹		
<b>Liabilities</b>			<b>Assets</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 bad debts	<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>			<u>5,34,500</u>

5. (a)

**Roxy Library Society**

**Income and Expenditure Account**

**for the year ended 31<sup>st</sup> March, 2023**

Dr.					Cr.
Expenditure	₹	₹	Income		₹
To Electric charges		28,800	By Entrance fee (25% of ₹ 1,20,000)		30,000
To Postage and stationary		20,000			
To Telephone charges		20,000	By Membership subscription	8,00,000	
To Rent	3,52,000		Less: Received in advance	<u>40,000</u>	7,60,000
Add: Outstanding	<u>16,000</u>	3,68,000			
To Salaries	2,64,000		By Sale proceeds of old papers		6,000
Add: Outstanding	<u>12,000</u>	2,76,000			
To Depreciation (W.N.1)			By Hire of lecture hall		80,000
Electrical fittings	60,000		By Interest on securities (W.N.2)	32,000	
Furniture	20,000		Add: Receivable	<u>2,000</u>	34,000
Books	<u>1,84,000</u>	2,64,000	By Deficit- excess of expenditure over income		66,800
		<u>9,76,800</u>			<u>9,76,800</u>

**Working Notes:**

1. Depreciation	₹	
Electrical fittings 10% of ₹ 6,00,000	60,000	
Furniture 10% of ₹ 2,00,000	20,000	
Books 10% of ₹ 18,40,000	1,84,000	
2. Interest on Securities		
Interest @ 5% p.a. on ₹ 6,00,000 for full year	30,000	
Interest @ 5% p.a. on ₹ 1,60,000 for half year	<u>4,000</u>	34,000
Less: Received		<u>(32,000)</u>
Receivable		<u>2,000</u>

(b)

**Statement of Valuation of Stock on 31<sup>st</sup> March, 2023**

	₹	₹
Value of stock as on 15th April, 2023		50,000

<i>Add:</i>	Cost of sales during the period from 31 <sup>st</sup> March, 2023 to 15 <sup>th</sup> April, 2023		
	Sales (₹ 41,000 – ₹ 1,000)	40,000	
	Less: Gross Profit (20% of ₹ 40,000)	<u>8,000</u>	32,000
	Cost of goods sent on approval basis (80% of ₹ 6,000)		<u>4,800</u>
			86,800
<i>Less:</i>	Purchases during the period from 31 <sup>st</sup> March, 2023 to 15 <sup>th</sup> April, 2023	5,034	
	Unsold stock out of goods received on consignment basis (30% of ₹ 8,000)	<u>2,400</u>	<u>7,434</u>
			<u>79,366</u>

6. (a)

**Journal**

		Dr.	Cr.
Share Capital A/c	Dr.	7,000	
Securities Premium Reserve A/c	Dr.	1,500	
To Forfeited Share A/c			5,000
To Share Allotment A/c			1,500
To Share First Call A/c			2,000
(Being 1000 shares forfeited for non-payment of allotment money and first call)			
Bank A/c	Dr.	8,000	
Forfeited Shares A/c	Dr.	2,000	
To Share Capital A/c			10,000
(Being 1000 forfeited shares reissued as fully paid up for Rs 8 per share)			
Forfeited Shares A/c	Dr.	3,000	
To Capital Reserve A/c			3,000
(Being the transfer of gain on reissue)			

**Working Note:**

Calculation of the amount due but not paid on allotment	₹
(a) Total No. of Shares applied	2,000
(b) Total money paid of application (2,000x 3)	6,000
(c) Excess application money (₹ 6000-(1,000x3))	3,000
(d) Total amount due on allotment (1,000x 4.50)	4,500
(e) Amount due but not paid (₹4,500- ₹3,000)	1,500
Out of the allotment amount of ₹ 4,500, ₹ 2,000 are for Share Capital and ₹ 2,500 are for Securities Premium Reserve. Out of excess application money of ₹3,000, ₹2000 are adjusted towards allotment as share capital and ₹ 1,000 are adjusted towards allotment as securities premium reserve. Therefore, Securities Premium Reserve of ₹ 1,500 (i.e. ₹ 2,500- 1,000) is not received. Hence securities Premium Reserve is debited by ₹ 1,500.	



- (b) Total amount of discount comes to ₹ 1,80,000 (₹ 0.6 X 3, 00,000). The amount of discount to be written-off in each year is calculated as under:

Year end	Debentures Outstanding	Ratio in which discount to be written-off	Amount of discount to be written-off
1st	₹ 30, 00,000	1/5	1/5th of ₹ 1,80,000 = ₹ 36,000
2nd	₹ 30, 00,000	1/5	1/5th of ₹ 1,80,000 = ₹ 36,000
3rd	₹ 30, 00,000	1/5	1/5th of ₹ 1,80,000 = ₹ 36,000
4th	₹ 30, 00,000	1/5	1/5th of ₹ 1,80,000 = ₹ 36,000
5th	₹ 30, 00,000	1/5	1/5th of ₹ 1,80,000 = ₹ 36,000

- (c) The preparation of trial balance has the following objectives:

- 1. Checking of the arithmetical accuracy of the accounting entries:** Trial Balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish the arithmetical accuracy of the books.
- 2. Basis for preparation of financial statements:** Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarized form for a particular period. In case, the Trial Balance is not prepared, it will be almost impossible to prepare the financial statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.
- 3. Summarized ledger:** Trial Balance contains the ledger balances on a particular position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required.

Or

#### Rules regarding posting of entries in the ledger

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective account accordingly.
2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger.
3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.