

MOCK TEST PAPER 1
FOUNDATION COURSE
PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) (i) **False:** If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.
- (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) **False:** Consignment account is a nominal account.
- (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) **True:** When there is no partnership deed then the provisions of the Indian Partnership Act are to be applied for settling the dispute. Interest on loan is payable @ 6% p.a. as per Indian Partnership Act.
- (vi) **False:** 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 amount received on shares forfeited.

- (b) Change in accounting policy may have a material effect on the items of financial statements. For example, if cost formula used for inventory valuation is changed from weighted average to FIFO, or if interest is capitalized which was earlier not in practice, or if proportionate amount of interest is changed to inventory which was earlier not the practice, all these may increase or decrease the net profit. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts. Therefore, it is necessary to quantify the effect of change on financial statement items like assets, liabilities, profit/loss.

The examples in this regard may be given as follows:

Omega Enterprises revised its accounting policy relating to valuation of inventories to include applicable production overheads.

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

2. (a) Plant and Machinery Account

Date (2020-21)	Particulars	Amount (₹)	Date (2020-21)	Particulars	Amount (₹)
Apr-01	To Balance b/d	21,15,250	Jul -01	By Bank (Sales)	90,000

Jul -01	To Bank (4,35,000 + 9800)	4,44,800		By Deprecation (on machine sold)	7,585
Sep -01	To Bank	2,50,000		By Loss on sale	2,05,825
				By Depreciation on Scrapped machine	4,820
				By loss on scrapping the machine	1,87,960
			Mar-31	By Deprecation	2,09,849
			Mar-31	By Balance c/d	21,04,011
		28,10,050			28,10,050

Working Notes:

1. Calculation of loss on sale of machine

Cost on 1-4-2017	4,16,200
Less: Depreciation @ 10% on ₹ 4,16,200	(41,620)
W.D.V. on 31.3.2018	3,74,580
Less: Depreciation @10% on ₹ 3,74,580	(37,458)
W.D.V. on 31.3.2019	3,37,122
Less: Depreciation @10% on ₹ 3,37,122	(33,712)
W.D.V on 31.3.2020	3,03,410
Less: Depreciation @ 10% on ₹ 3,03,410 for 3 months	(7,585)
	2,95,825
Less: Sale proceeds on 1-7-2020	(90,000)
Loss on sale of machine	2,05,825

2. Calculation of loss on scrapped machine

Cost on 1-4-2018	2,38,000
Less: Depreciation @10%	(23,800)
W.D.V. on 31.3.2019	2,14,200
Less: Depreciation @10%	(21,420)
W.D.V. on 31.3.2020	1,92,780
Less: Depreciation @ 10% for 3 months	(4,820)
Loss on scrapping the machine	1,87,960

3. Calculation of Depreciation

Balance of Machinery A/c on 1.4.2020	21,15,250
Less: W.D.V. of Machinery Sold	(3,03,410)
Less: W.D.V of Machinery Scrapped	(1,92,780)
W.D.V of other Machinery on 1.4.2020	16,19,060
Depreciation @10% on ₹ 16,19,060 for 12 Months	1,61,906
Depreciation @10% on ₹ 4,44,800 for 9 Months	33,360

Depreciation @10% on ₹ 2,50,000 for 7 Months	14,583
Total Depreciation to be charged on 31.3.2021	2,09,849

(b) **Bank Reconciliation Statement as on 30th June 2022**

	Particulars	Amount	Amount
	Overdraft as per Pass Book (Dr. Balance)		75,000
<i>Add:</i>	Cheques deposited into the Bank by Customer but not entered in Cash Book	1,200	
	Cheques issued but not presented ₹ (1,02,000-60,000)	42,000	
	Bank charges written twice in Cash Book	240	
	Discounted bill dishonored & noting charges Paid (WN)	3,100	<u>46,540</u>
			1,21,540
<i>Less:</i>	Cheques received, recorded in cash Book but not sent to the Bank	12,000	
	Cheques sent to the Bank but not collected	18,000	
	Direct payment made by the bank not recorded in the Cash book	1,800	
	Interest on Overdraft charged by Bank	4,800	
	Insurance charges not entered in Cash Book	210	
	Credit side of bank column of Cash Book was undercast	<u>6,000</u>	<u>42,810</u>
	Balance as per Cash Book		78,730

Working Note: Bill amount of Rs 3,100 were debited by bank. However, it is not been recorded in the Cash Book. So to arrive at the cash balance, Rs 3,100 was added.

3. (a) **In the books of Hari**

Consignment to Om of Hyderabad Account

Particulars	₹	Particulars	₹
To Goods sent on Consignment	20,00,000	By Om (Sales)	19,60,000
To Bank (Expenses)	1,00,000	By Loss in Transit 100 cases @ ₹ 1,050 each	1,05,000
To Om (Expenses)	63,000	By Consignment Inventories In hand 300 @ ₹ 1,060 each	3,18,000
To Om (Commission)	1,96,000	In transit 200 @ ₹ 1,050 each	2,10,000
To Profit on Consignment to Profit & Loss A/c	2,34,000		
	<u>25,93,000</u>		<u>25,93,000</u>

Om's Account

Particulars	₹	Particulars	₹
To Consignment A/c	19,60,000	By Consignment A/c (Expenses)	63,000
		By Consignment A/c	-

		(Commission)	1,96,000
		By Balance c/d	<u>17,01,000</u>
	<u>19,60,000</u>		19,60,000

Working Notes:

- Consignor's expenses on 2,000 cases amounts to ₹ 1,00,000; it comes to ₹ 50 per case. The cost of cases lost will be computed at ₹ 1,050 per case.
- Om has incurred ₹ 17,000 on clearing 1,700 cases, i.e., ₹ 10 per case; while valuing closing inventories with the agent ₹ 10 per case has been added to cases in hand with the agent.
- It has been assumed that balance of ₹ 17,01,000 is not yet paid.

**(b) Calculation of Average Due Date
(Taking 3rd March, 2021 as base date)**

Date of bill 2021	Term	Due date 2021	Amount (₹)	No. of days from the base date i.e. 3 rd March, 2021 (₹)	Product (₹)
28 th January	1 month	3 rd March	10,000	0	0
20 th March	2 months	23 rd May	8,000	81	6,48,000
12 th July	1 month	14 th Aug.	14,000	164	22,96,000
10 th August	2 months	13 th Oct.	<u>12,000</u>	224	<u>26,88,000</u>
			<u>44,000</u>		<u>56,32,000</u>

Average due date = Base date + Days equal to $\frac{\text{Sum of Products}}{\text{Sum of Amounts}}$

$$= 3^{\text{rd}} \text{ March, 2021} + \frac{56,32,000}{44,000}$$

$$= 3^{\text{rd}} \text{ March, 2021} + 128 \text{ days} = 9^{\text{th}} \text{ July, 2021}$$

Working Note: Bill dated 12th July, 2021 has the maturity period of one month, due date (after adding 3 days of grace) falls on 15th August, 2021. 15th August being public holiday, due date would be preceding date i.e. 14th August, 2021.

**(c) In the books of Q
P in Account Current with Q**

(Interest to 31st March, 2022 @ 10% p.a)

Date	Particulars	Amount	Days	Product	Date	Particulars	Amount	Days	Product
2022		₹		₹	2022		₹		₹
Jan. 1	To Balance b/d	5,000	90	4,50,000	Jan. 24	By Promissory Note (due date 27 th April)	5,000	(27)	(1,35,000)
Jan. 11	To Sales	6,000	79	4,74,000	Feb. 1	By Purchases	10,000	58	5,80,000
Feb. 4	To Sales	8,200	55	4,51,000	Feb. 7	By Sales Return	1,000	52	52,000
Mar. 18	To Sales	9,200	13	1,19,600	Mar. 1	By Purchases	5,600	30	1,68,000
Mar. 31	To Interest	219			Mar. 23	By Purchases	4,000	8	32,000
					Mar. 31	By Balance of Products			7,97,600
					Mar. 31	By Bank	3,019		
		<u>28,619</u>		<u>14,94,600</u>			<u>28,619</u>		<u>14,94,600</u>

Working Note:**Calculation of interest:**

$$\text{Interest} = \frac{7,97,600}{365} \times \frac{10}{100} = ₹ 219 \text{ (approx.)}$$

4 (a)

Journal Entries

Particulars		Amount	Amount
1. Insurance Company's A/c To Life Policy A/c (Being the policy on the life of Sameer matured on his death)	Dr.	10,000	10,000
2. Life Policy A/c To Sam's Capital A/c To Saif's Capital A/c To Sameer's Capital A/c (Being the transfer of balance in life policy account to all partners' capital accounts)	Dr.	9,000	3,000 3,000 3,000
3. Sam's Capital A/c Saif's Capital A/c Sameer's Capital A/c To Advertisement suspense A/c (Being Advertisement suspense standing in the books written off fully)	Dr. Dr. Dr.	12,600 12,600 12,600	37,800
4. Land & Buildings A/c To Revaluation A/c (Being an increase in the value of assets recorded)	Dr.	37,000	37,000
5. Investment Fluctuation Reserve A/c To Investment A/c (Being reduction in the cost of investment adjusted through Investment Fluctuation Reserve)	Dr.	600	600
6. Revaluation A/c To Stock A/c To Provision for Doubtful Debts A/c (Being the fall in value of assets recorded)	Dr.	3,600	1,200 2,400
7. Sam's Capital A/c Saif's Capital A/c To Sameer's Capital A/c (Being the share of Sameer's revalued goodwill adjusted through capital accounts of the remaining partners)	Dr. Dr.	3,500 3,500	7,000
8. Profit & Loss Suspense A/c	Dr.	1,500	

	To Sameer's Capital A/c (Being Sameer's Share of profit to date of death credited to his account)			1,500
9.	Revaluation A/c	Dr.	33,400	
	To Sam's Capital A/c			11,133
	To Saif's Capital A/c			11,133
	To Sameer's Capital A/c			11,134*
	(Being the transfer of profit on revaluation)			
10.	General Reserve A/c	Dr.	8,000	
	Investment Fluctuation Reserve A/c (₹ 2,400 - ₹ 600)	Dr.	1,800	
	To Sam's Capital A/c			3,267
	To Saif's Capital A/c			3,267
	To Sameer's Capital A/c			3,266
	(Being the transfer of accumulated profits to capital accounts)			
11.	Sameer's Capital A/c	Dr.	53,300	
	To Sameer's Executor's A/c			53,300
	(Being the transfer of Sameer's Capital A/c to his Executor's A/c)			

Working Notes:

Calculation of Sameer's Share of Profits

Total profit for last three years ₹ 18,000 + ₹ 16,000 + ₹ 20,000 = ₹ 54,000

Average profit 54,000/3 = ₹ 18,000

Profit for 3 months = 18,000 x 3/12 = ₹ 4,500

Sameer's share of Profit = 4,500 x 1/3 = ₹ 1,500

Calculation of Goodwill

Total profits for last five years ₹ 1,05,000

Average profit 1,05,000/5 = ₹ 21,000

Goodwill at one year's purchase ₹ 21,000 x 1 = ₹ 21,000

**(b) Trading & Profit and Loss Account of
Mr. Purav for the year ended 31st March, 2022**

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		14,000	By Sales	90,000	
To Purchase	1,20,000		Less: Sales return	(10,000)	80,000
Less: Purchase return	(20,000)	1,00,000	By Closing stock		45,000
To Gross Profit		<u>11,000</u>			
		<u>1,25,000</u>			<u>1,25,000</u>

* Rounded off.

To Salaries	25,000		By Gross Profit	11,000
Add: Outstanding salary	<u>1,000</u>	26,000	By Commission	5,000
To Tax & Insurance	5,000		By Accrued interest	2,100
Add: Outstanding	2,000		By Net Loss	29,000
Prepaid insurance	<u>(500)</u>	6,500		
To Provision for Bad debt (W N)		10,000		
To Interest on overdraft		3,000		
To Depreciation on furniture		1,600		
		<u>47,100</u>		<u>47,100</u>

Balance Sheet of Mr. Purav as on 31.3.2022

Particulars	₹	₹	Particulars	₹	₹
Capital	1,60,000		By Furniture	16,000	
Less: drawing	(20,000)		Less: Depreciation	<u>(1,600)</u>	14,400
Net loss	<u>(29,000)</u>	1,11,000	Bill receivable		30,000
Bank overdraft	20,000		Investment	40,000	
Add: interest	<u>3000</u>	23,000	Add: accrued interest	<u>2,100</u>	42,100
Creditors		20,000	Debtors	50,000	
Bills payable		25,000	Less: Provision on bad debts	<u>(15,000)</u>	35,000
Outstanding expenses:			Closing stock		45,000
Salary	1,000		Cash in hand		15,000
Tax	<u>2,000</u>	3,000	Prepaid insurance		500
		<u>1,82,000</u>			<u>1,82,000</u>

Working Note:

Provision for Bad Debts A/c

Particulars	₹	Particulars	₹
To Bad Debts	5,000	By bal b/d	10,000
To bal c/d	15,000	By P& L A/c (Bal fig.)	10,000
	<u>20,000</u>		<u>20,000</u>

5. (a) **Balance Sheet of Ankit Sports Club as on 1st April,2021**

Liabilities	₹	₹	Assets	₹
Capital fund (bal.fig)		8,60,000	Library books	1,00,000
Outstanding expenses:			Sports goods	80,000
Salaries	10,000		Furniture and Fixtures	1,00,000
Newspapers and			Subscriptions Receivable	50,000
Periodicals	4,000		Investment Govt. Securities	5,00,000
Electricity charges	8,000		Accrued interest	6,000

Rent and taxes	6,000	28,000	Cash and Bank balances	52,000
		8,88,000		8,88,000

Income and Expenditure Account
for the year ended on 31st March,2022

Expenditure	₹	Income	₹
To Salaries (WN 3)	1,60,000	By subscription (W.N.I)	4,18,000
To Electricity charges (WN 3)	8,000	By Interest on	12,000
To Rent and taxes (WN 3)	54,000	Investments (W.N.2)	
To Newspapers and Periodicals (WN 3)	11,800	By Sundry receipts	3,000
To Miss expenses	54,000		
To Depreciation on fixed Assets (W N 4)	50,000		
To Excess of income over Expenditure (Transferred to Capital fund)	95,200		
	4,33,000		4,33,000

Balance Sheet of Ankit Sports Club as on 31st March,2022

Liabilities	₹	₹	Assets	₹	₹
Capital fund			Fixed assets (W.N.4)		
Opening balance	8,60,000		Furniture and	90,000	
Add: Surplus	95200		Fixtures		
Add: Donations	1,00,000		Sports goods	80,000	
		10,55,200	Library books	1,80,000	
Outstanding					3,50,000
Expenses: (W.N.3)			Investment Govt		
Salaries	20,000		Securities		5,00,000
Newspapers and	5,000		Accrued interest		6,000
Periodicals			Subscriptions		
Electricity charges	10,000		Receivable		1,20,000
Rent and taxes	6,000	41,000	Cash and bank		1,20,200
		10,96,200	Balance		
					10,96,200

Working Notes:

(1) Subscriptions for the year ended 31st March,2022:

	₹
Subscription received during the year	3,48,000
Add: Subscriptions receivable on 31.3.2022	1,20,000

	4,68,000
Less: Subscriptions receivable on 31.3.2021	(50,000)
	4,18,000

(2) Interest on investments for the year ended 31st March,2022:

	₹
Interest received during the year	12,000
Add: Accrued interest on 31.3.2022	6,000
	18,000
Less: Accrued interest on 31.3.2021	(6,000)
	12,000

(3) Expenses for the year ended 31st March,2022:

Expenses	Salaries	Electricity	Rent and taxes	Newspapers and periodicals
	₹	₹	₹	₹
Paid during the year	1,50,000	6,000	54,000	10,800
Add: Outstanding (as on 31.3.2022)	20,000	10,000	6,000	5,000
	1,70,000	16,000	60,000	15,800
Less: Outstanding (as on 31.3.2021)	(10,000)	(8,000)	(6,000)	(4,000)
	1,60,000	8,000	54,000	11,800

(4) Depreciation on Fixed assets

Assets	Book value as on 31.3.2021	Additions during the year	Total	Rate of depreciation	Depreciation	W.D.V.as on 31.3.2022
Furniture and fixtures	1,00,000		1,00,000	10%	10,000	90,000
Sports Goods	80,000	20,000	1,00,000	20%	20,000	80,000
Library Books	1,00,000	1,00,000	2,00,000	10%	20,000	1,80,000
Total					50,000	3,50,000

(b) Journal Proper in the Books of M/s. Diana Fiber

Date 2022	Particulars		Amount ₹	Amount ₹
Mar. 31	Returns outward A/c To Purchases A/c (Being the transfer of returns to purchases account)	Dr.	72,000	72,000
	Sales A/c	Dr.	1,00,000	

To Returns Inward A/c (Being the transfer of returns to sales account)			1,00,000
Sales A/c To Trading A/c (Being the transfer of balance of sales account to trading account)	Dr.	10,00,000	10,00,000
Trading A/c To Opening Inventory A/c To Purchases A/c To Wages A/c To Carriage Inwards A/c To Factory Rent (Being the transfer of balances of opening inventory, purchases, wages, Carriage Inward and factory rent accounts)	Dr.	8,50,000	1,00,000 6,00,000 50,000 30,000 70,000
Closing Inventory A/c To Trading A/c (Being the incorporation of value of closing Inventory)	Dr.	2,00,000	2,00,000
Trading A/c To Gross Profit (Being the amount of gross profit)	Dr.	3,50,000	3,50,000
Gross profit To Profit and Loss A/c (Being the transfer of gross profit to Profit and Loss Account)	Dr.	3,50,000	3,50,000

6. (a) (i) **Journal Entries in the books of Azar Ltd.**

Date			Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c To Equity Share Allotment money A/c (600 x ₹ 3) To Equity Share Final Call A/c (600 x ₹ 4) To Forfeited Shares A/c (600 x ₹ 3) (Being the forfeiture of 600 equity shares of ₹ 10 each for non-payment of allotment money and final call, held by Ali as per Board's resolution No.....dated.....)	Dr.	6,000	1,800 2,400 1,800
(b)	Bank Account (600 x 8) Forfeited Shares Account (600x 2) To Equity Share Capital Account (Being the re-issue of 600 forfeited shares @ ₹ 8 each as fully paid up to Kaif as per Board's resolution No.....dated.....)	Dr. Dr.	4,800 1,200	6,000
(c)	Forfeited Shares Account	Dr.	600	

To Capital Reserve Account (Being the profit on re-issue, transferred to capital reserve)			600
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(ii)

		Dr. ₹	Cr. ₹
Preference Share Capital A/c (2,500 x ₹ 70) To Preference Share Allotment A/c (2,500 x ₹ 20) To Preference Share First Call A/c (2,500 x ₹ 20) To Forfeited Share A/c (Being the forfeiture of 2,500 preference shares ₹ 70 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated.....)	Dr.	1,75,000	50,000 50,000 75,000
Bank A/c (2,000 x ₹60) Forfeited Shares A/c (2,000 x ₹10) To Preference Share Capital A/c (Being re-issue of 2,000 shares at ₹ 60 per share paid-up as ₹ 70 as per Board's Resolution No.....dated.....)	Dr. Dr.	1,20,000 20,000	1,40,000
Forfeited Shares A/c To Capital Reserve A/c (Working Note) (Being profit on re-issue transferred to Capital/Reserve)	Dr.	40,000	40,000

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share = ₹ 75,000/2,500 = ₹ 30

Loss on re-issue = ₹ 70 – ₹ 60 = ₹ 10

Surplus per share re-issued ₹ 20

Transferred to capital Reserve ₹ 20 x 2000 = ₹ 40,000.

(b)

Books of Symphony Ltd.

Journal Entries

Date	Particulars	L.F.	Debit Amount (' Lakhs)	Credit Amount (' Lakhs)
	Bank A/c To Debenture Application A/c (Being Debentures application money received)	Dr.	1,50,000	1,50,000
	Debenture Application A/c To 8% Debentures A/c (Being application money transferred to 8% debentures account)	Dr.	1,50,000	1,50,000
	Debenture Allotment A/c Loss on issue of debenture A/c	Dr. Dr.	1,32,000 33,000	

	To 8% Debentures A/c			1,50,000
	To Debenture redemption premium A/c			15,000
	(Being call made consequent upon allotment of debentures issued at discount and redeemable at premium)			
	Bank A/c	Dr.	1,32,000	
	To Debenture Allotment A/c			1,32,000
	(Being allotment amount received)			

Working Notes :

Loss on issue of debentures =

(Amount of discount on issue + Premium payable on redemption) x No. of Debentures

= (6% of ₹1000 + 5% of ₹1000) x 300 lakh

= (₹ 60+ ₹ 50) x 300 lakh

= ₹ 33,000 lakh

- (c) (i) Capital Expenditure.
(ii) Capital Expenditure.
(iii) Capital Expenditure.
(iv) Revenue Expenditure.
(v) Capital Expenditure.