

MOCK TEST PAPER 1

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

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** - In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high in the initial period and reduces continuously in the later periods. Thus, depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset
- (iii) **True** - Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.
- (iv) **False** -If individual life policies are taken in the name of the partners and premium is paid from the firm, then retiring partner is entitled to surrender value of all the partners policies.
- (v) **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.
- (vi) **False** -Goods taken by the proprietor for personal use should be credited to Purchases Account as less goods are left in the business for sale.
- (b) The basic considerations in distinction between capital and revenue expenditures are:
- (i) Nature of business: For a trader dealing in furniture, purchase of furniture is revenue expenditure but for any other trade, the purchase of furniture should be treated as capital expenditure and shown in the balance sheet as asset.
- (ii) Recurring nature of expenditure: If the frequency of an expense is quite often in an accounting year then it is said to be an expenditure of revenue nature while non-recurring expenditure is infrequent in nature and do not occur often in an accounting year.
- (iii) Purpose of expenses: Expenses for repairs of machine may be incurred in course of normal maintenance of the asset. Such expenses are revenue in nature. On the other hand, expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature.
- (iv) Materiality of the amount involved: Relative proportion of the amount involved is another important consideration in distinction between revenue and capital.
- (c) (i) Error of Principle.
- (ii) Error of Omission.
- (iii) Error of Commission.
- (iv) Error of Omission.
- (v) Error of Commission

2. (a)

<b>Bank Reconciliation Statement of Satyam Traders as on 31<sup>st</sup> March, 2021</b>		
Particulars	Amount	Amount
Balance as per Cash Book		4,12,200
Add:		
Mistake in bringing forward ₹18,500/-debit	37,000	
Balance as credit balance on 22nd March		
Cheques issued but not presented	13,500	
Issued = ₹42,000 less cashed ₹ 28,500 = ₹13,500/-		
Dividend directly collected but not entered in cash book	35,000	
Cheques recorded twice in the cash book	1,29,000	
Wrongly credited cheque by bank	25,000	
Discount amount wrongly entered in bank column	500	
<b>TOTAL</b>		<b>2,40,000</b>
Less:		
Wrong casting in cash book on 12th March, 2021	12,000	
Cheque issued and not entered in the Bank Column	85,000	
Fire Insurance premium paid directly by bank	20,000	
Cheque dishonored not recorded in books	5,000	
Credit card payment not recorded in cash book	2,500	
Cheque wrongly deposited by bank in savings account	2,000	
Bank charges debited not recorded in cash book	200	
<b>TOTAL</b>		<b>1,26,700</b>
<b>Balance as per the Passbook</b>		<b>5,25,500</b>
<i>No effects of cheque deposit directly and dishonored in the same Month. Alternatively figure of ₹32,000/- can be added as well as deducted from balance as per cash book.</i>		

**(b) Calculation of depreciation for 5<sup>th</sup> year**

Depreciation per year charged for four years = ₹ 50,00,000 / 10 = ₹ 5,00,000

WDV of the machine at the end of fourth year = ₹ 50,00,000 – ₹ 5,00,000 × 4 = ₹ 30,00,000.

Depreciable amount after revaluation = ₹ 30,00,000 + ₹ 2,00,000 = ₹ 32,00,000

Remaining useful life as per previous estimate = 6 years

Remaining useful life as per revised estimate = 8 years

Depreciation for the fifth year and onwards = ₹ 32,00,000 / 8 = ₹ 4,00,000.

3. (a)

**Calculation of Average Due Date**  
(Taking 4<sup>th</sup> May, 2021 as the base date)

Date of bill	Term	Due date	Amount ₹	No. of days from the base date i.e. May 4, 2021	Product ₹
2021		2021			
1 <sup>st</sup> March	2 months	4 <sup>th</sup> May	20,000	0	0
10 <sup>th</sup> March	3 months	13 <sup>th</sup> June	15,000	40	6,00,000
5 <sup>th</sup> April	2 months	8 <sup>th</sup> June	10,000	35	3,50,000
23 <sup>rd</sup> April	1 month	26 <sup>th</sup> May	18,750	22	4,12,500
10 <sup>th</sup> May	2 months	13 <sup>th</sup> July	<u>25,000</u>	70	<u>17,50,000</u>
			<u>88,750</u>		<u>31,12,500</u>

Average due date = Base date + Days equal to  $\frac{\text{Total of products}}{\text{Total amount}}$

$$= 4^{\text{th}} \text{ May, 2021} + \frac{₹ 31,12,500}{88,750} = 4^{\text{th}} \text{ May, 2021} + 35 \text{ days} = 8^{\text{th}} \text{ June, 2021}$$

(b)

**Mr. Lalit in Account Current with Mr. Sumit**  
(Interest upto 15<sup>th</sup> March, 2021 @ 10% p.a.)

Dr.					Cr.				
Date	Particulars	Amount	Days	Product	Date	Particulars	Amount	Days	Product
2021					2021				
Jan. 01	To Balance b/d	4,000	74	2,96,000	Jan. 29	By Purchase account	1,200	45	54,000
Jan. 15	To Sales account	2,230	59	1,31,570	Feb. 10	By Cash account	1,000	33	33,000
Mar. 13	To Red Ink product (₹ 2,000 × 29)			58,000	Mar. 13	By Bills Receivable account	2,000		
Mar. 15	To Interest account $\left(\frac{₹ 3,98,570 \times 10 \times 1}{100 \times 365}\right)$	109			Mar. 15	By Balance of product			3,98,570
						By Balance c/d (amount to be paid)	<u>2,139</u>		
		<u>6,339</u>		<u>4,85,570</u>			<u>6,339</u>		<u>4,85,570</u>

(c)

**Journal Entries in the Books of Mr. P**

Date	Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
2020 August	1 Bills Receivable A/c To Q	Dr.	10,000	10,000

August	1	(Being the acceptance received from Q to settle his account)			
		Bank A/c	Dr.	9,800	
		Discount A/c	Dr.	200	
		To Bills Receivable			10,000
		(Being the bill discounted for ₹ 9,800 from bank)			
November	4	Q	Dr.	10,000	
		To Bank Account			10,000
		(Being the Q's acceptance is to be renewed)			
November	4	Q	Dr.	240	
		To Interest Account			240
		(Being the interest due from Q for 3 months i.e., $8000 \times 3/12 \times 12\% = 240$ )			
November	4	Cash A/c	Dr.	2,240	
		Bills Receivable A/c	Dr.	8,000	
		To Q			10,240
		(Being amount and acceptance of new bill received from Q)			
December	31	Q A/c	Dr.	8,000	
		To Bills Receivable A/c			8,000
		(Being Q became insolvent)			
December	31	Cash A/c	Dr.	3,200	
		Bad debts A/c	Dr.	4,800	
		To Q			8,000
		(Being the amount received and written off on Q's insolvency)			

4.

**Rex Speciality Hospital**  
**Income & Expenditure Account**  
**for the year ended 31 December, 2020**

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	32,000		
	<u>1,28,200</u>		<u>1,28,200</u>

**Balance Sheet as at 31st Dec., 2020**

<b>Liabilities</b>	<b>₹</b>	<b>₹</b>	<b>Assets</b>	<b>₹</b>	<b>₹</b>
Capital Fund :			Building :		
Opening balance	98,600		Opening balance	1,80,000	
Excess of Income			Addition	<u>1,00,000</u>	2,80,000
Over Expenditure	<u>32,000</u>	1,30,600	Hospital Equipment :		
Building Fund :			Opening balance	68,000	
Opening balance	1,60,000		Addition	<u>34,000</u>	1,02,000
Add : Govt. Grant	<u>1,60,000</u>	3,20,000	Furniture		12,000
Subscriptions received in advance		4,800	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., 2020**

<b>Liabilities</b>	<b>₹</b>	<b>Assets</b>	<b>₹</b>
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>			<b>₹</b>
Balance on 31st Dec. 2020			2,80,000
Paid during the year			<u>1,00,000</u>
Balance on 31st Dec. 2019			<u>1,80,000</u>
<b>(3) Value of Equipment</b>			
Balance on 31st Dec. 2020			1,02,000
Paid during the year			<u>(34,000)</u>
Balance on 31st Dec. 2019			<u>78,000</u>
<b>(4) Subscription due for 2019</b>			
Receivable on 31st Dec. 2019			13,000
Received in 2020			<u>10,200</u>
Still Receivable for 2019			<u>2,800</u>

5. (a)

**Revaluation Account**

	₹		₹
To Buildings A/c	10,000	By Investments A/c	3,000
To Plant and Machinery A/c	26,000	By Loss to Partners:	
To Provision for Doubtful Debts A/c	27,800	Sam	30,400
		Tim	18,240
		Lee	<u>12,160</u>
	63,800		60,800
			<u>63,800</u>

**Capital Accounts of Partners**

Particulars	Sam	Tim	Lee	Ben	Particulars	Sam	Tim	Lee	Ben
	₹	₹	₹	₹		₹	₹	₹	₹
To Revaluation A/c	30,400	18,240	12,160	-	By Balance b/d	80,000	20,000	30,000	-
To Investments A/c	-	15,000	-	-	By Reserves A/c	10,000	6,000	4,000	-
To Tim Loan A/c	-	22,760	-	-	By Lee and Ben Capital A/c	10,000	30,000	-	-
To P and Q's Capital A/c			20,000	20,000	By Bank A/c (balancing figure)	10,400	-	78,160	60,000
To Balance c/d	<u>80,000</u>	<u>-</u>	<u>80,000</u>	<u>40,000</u>					
	<u>1,10,400</u>	<u>56,000</u>	<u>1,12,160</u>	<u>60,000</u>		<u>1,10,400</u>	<u>56,000</u>	<u>1,12,160</u>	<u>60,000</u>

**Bank Account**

	₹		₹
To Sam's capital A/c	10,400	By Bank Overdraft A/c	44,000
To Lee's capital A/c	78,160	By Balance c/d	1,04,560
To Ben's capital A/c	60,000		
	<u>1,48,560</u>		<u>1,48,560</u>

(b) **Journal Proper in the Books of M/s. Rishi Traders**

Date 2021	Particulars		Amount ₹	Amount ₹
Mar. 31	Returns outward A/c To Purchases A/c (Being the transfer of returns to purchases account)	Dr.	2,16,000	2,16,000
	Sales A/c To Returns Inward A/c (Being the transfer of returns to sales account)	Dr.	3,00,000	3,00,000
	Sales A/c To Trading A/c (Being the transfer of balance of sales account to trading account)	Dr.	30,00,000	30,00,000
	Trading A/c To Opening Inventory A/c	Dr.	23,40,000	3,00,000

	To Purchases A/c To Wages A/c To Carriage Inwards A/c (Being the transfer of balances of opening inventory, purchases and wages accounts)			18,00,000 1,50,000 90,000
	Closing Inventory A/c To Trading A/c (Being the incorporation of value of closing Inventory)	Dr.	6,00,000	6,00,000
	Trading A/c To Gross Profit (Being the amount of gross profit)	Dr.	12,60,000	12,60,000
	Gross profit To Profit and Loss A/c (Being the transfer of gross profit to Profit and Loss Account)	Dr.	12,60,000	12,60,000

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

Date			Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c To Equity Share Allotment money A/c (300 x ₹ 3) To Equity Share Final Call A/c (300 x ₹ 4) To Forfeited Shares A/c (300 x ₹ 3) (Being the forfeiture of 300 equity shares of ₹ 10 each for non-payment of allotment money and final call, held by Ramesh as per Board's resolution No.....dated.....)	Dr.	3,000	900 1,200 900
(b)	Bank Account (300 x 8) Forfeited Shares Account (300x 2) To Equity Share Capital Account (Being the re-issue of 300 forfeited shares @ ₹ 8 each as fully paid up to Mahesh as per Board's resolution No.....dated.....)	Dr. Dr.	2,400 600	3,000
(c)	Forfeited Shares Account To Capital Reserve Account (Being the profit on re-issue, transferred to capital reserve)	Dr.	300	300

**(ii)**

		Dr. ₹	Cr. ₹
Preference Share Capital A/c (2,500 x ₹ 70) To Preference Share Allotment A/c (2,500 x ₹ 20)	Dr.	1,75,000	50,000

To Preference Share First Call A/c (2,500 x ₹ 20)			50,000
To Forfeited Share A/c			75,000
(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.....)			
Bank A/c (2,000 x ₹60)	Dr.	1,20,000	
Forfeited Shares A/c (2,000 x ₹10)	Dr.	20,000	
To Preference Share Capital A/c			1,40,000
(Being re-issue of 2,000 shares at ₹ 60 per share paid-up as ₹ 70 as per Board's Resolution No.....dated.....)			
Forfeited Shares A/c	Dr.	40,000	
To Capital Reserve A/c (Note 1)			40,000
(Being profit on re-issue transferred to Capital/Reserve)			

**Working Note:**

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share = ₹ 75,000/2500	= ₹ 30
Loss on re-issue = ₹ 70 – ₹ 60	= <u>₹ 10</u>
Surplus per share re-issued	<u>₹ 20</u>
Transferred to capital Reserve ₹ 20 x 2000	= ₹ 40,000.

(b)

**Journal of Sky Ltd.**

Date	Particulars	Dr.	Cr.
2020 April, 1	Sundry Assets A/c	Dr.	4,50,000
	Goodwill A/c (Bal. fig)	Dr.	50,00
	To Universe Ltd. A/c		4,40,000
	To Sundry Liabilities A/c		60,000
	(Being Asset and liabilities taken over for a net Consideration of ₹ 4,40,000)		
	Universe Ltd. A/c	Dr.	4,40,000
	To Debentures A/c		4,00,000
	To Securities Premium Reserve A/c		40,000
	(Being 4000; 8% Debenture of ₹ 100 each Issued at a premium of 10%)		
	Bank A/c	Dr.	90,000
	To Debenture Application A/c		90,000
	(Being the application money receive for 3000, 8% Debenture)		
	Debenture Application A/c	Dr.	90,000
	To 8% Debenture A/c		90,000
	(Being 3000; 8% Debenture allotted)		
	Debentures allotment A/c	Dr.	1,80,000
	Loss on issue of debenture A/c	Dr.	45,000
	To 8% Debentures A/c		2,10,000



	To Premium on redemption of debentures A/c (Being allotment money due on 3000; 8% Debentures at 10% discount and redeemable at 5% premium)		15,000
	Bank A/c Dr. To Debentures Allotment A/c (Being the allotment money received)	1,80,000	1,80,000
2021 March, 31	Securities Premium Reserve A/c Dr. Profit and Loss A/c Dr. To Loss on issue of Debenture A/c (Being the Loss on issue of debenture written off)	40,000 5,000	45,000

(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.