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) **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:** In Consignment sale, ownership of the goods rests with the consignor till they are sold by the consignee. The consignee does not become the owner of the goods even though goods are in his possession. He acts only as agent of the consignor.

(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:** A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale as they have already been allotted earlier.

(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*
2020				
Jan. 4	101	Goyal Mills, Surat		500
Jan. 16	102	Mittal Mills, Bangalore		1,300
Jan. 31		Purchases Returns Account (Cr.)		1,800

2. (a) **Statement of Valuation of Stock on 31st March, 2020**

	Rs.	*Rs.*
Value of stock as on 15th April, 2020		50,000

Add:	Cost of sales during the period from 31st March, 2020 to 15th April, 2020		
	Sales (Rs. 41,000 – Rs. 1,000)	40,000	
	Less: Gross Profit (20% of Rs. 40,000)	8,000	32,000
	Cost of goods sent on approval basis (80% of Rs. 6,000)		4,800
			86,800
Less:	Purchases during the period from 31st March, 2020 to 15th April, 2020	5,034	
	Unsold stock out of goods received on consignment basis (30% of Rs. 8,000)	2,400	7,434
			79,366

(b) Calculation of depreciation for 5th year

Depreciation per year charged for four years = Rs. 10,00,000 / 10 = Rs. 1,00,000

WDV of the machine at the end of fourth year = Rs. 10,00,000 – Rs. 1,00,000 × 4 = Rs. 6,00,000.

Depreciable amount after revaluation = Rs. 6,00,000 + Rs. 40,000 = Rs. 6,40,000

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 = Rs. 6,40,000 / 8 = Rs. 80,000.

(c) Bank Reconciliation Statement as on 30th June 2020

	Particulars	Amount	Amount
	Overdraft as per Pass Book (Dr. Balance)		25,000
Add:	Cheques issued but not presented Rs. (34,000-20,000)	14,000	
	Cheques deposited into the Bank by Customer but not entered in Cash Book	400	
	Bank charges written twice in Cash Book	80	14,480
			39,480
Less:	Cheques received, recorded in cash Book but not sent to the Bank	4,000	
	Cheques sent to the Bank but not collected	6,000	
	Direct payment made by the bank not recorded in the Cash book	600	
	Interest on Overdraft charged by Bank	1,600	
	Insurance charges not entered in Cash Book	70	
	Credit side of bank column of Cash Book was undercast	2,000	14,270
	Balance as per Cash Book		25,210

3. (a) Consignment Account

	Rs.			*Rs.*
To Goods sent on consignment A/c (15,000 kg x Rs. 30)	4,50,000	By Consignee's A/c-Sales (7,500 kg x Rs. 60)		4,50,000

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

Working Notes:

1. Abnormal Loss:

Cost of goods lost: 400 kg	
Total cost (400 x Rs. 30)	12,000
Add: expenses incurred by the consignor @ Rs.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 (Rs.)
Total Cost (15,000 kg x Rs.30)	15,000	4,50,000
Add: Expenses incurred by the consignor		75,000
Less: Value of Abnormal Loss – 400 kgs (WN 1)	(400)	(14,000)
	14,600	5,11,000
Less: Normal Loss	(100)	
	14,500	5,11,000
Less: Quantity of ghee sold	(7,500)	
Quantity of Closing Stock	7,000	
Value of 7,000 kgs – (5,11,000/14,500) x 7,000		**2,46,690**

(b) **Mr. A in Account Current with Mr. X**

(Interest upto 15th March, 2020 @ 10% p.a.)

Dr.											Cr.
Date		*Particulars*	*Amount*	*Days*	*Product*	*Date*		*Particulars*	*Amount*	*Days*	*Product*
2020						2020					
Jan. 01	To	Balance b/d	4,000	75	3,00,000	Jan. 29	By	Purchase account	1,200	46	55,200
Jan. 15	To	Sales account	2,230	60	1,33,800	Feb. 10	By	Cash account	1,000	34	34,000
Mar. 13	To	Red Ink product (Rs. 2,000 × 29)			58,000	Mar. 13	By	Bills Receivable account	2,000		
Mar. 15	To	Interest account $\left(\frac{\text{Rs.}4{,}02{,}600\times10\times1}{100\times366}\right)$	110			Mar. 15	By	Balance of product			4,02,600
							By	Balance c/d (amount to be paid)	2,140		
			6,340		4,91,800				6,340		4,91,800

(c) **In the books of Mr. Badhri**

Journal Entries

Date	*Particulars*		*L.F.*	*Dr. (in Rs.)*	*Cr. (in Rs.)*
2019 Dec. 2	Trade receivables A/c	Dr.		80,000	
	To Sales A/c				80,000
	(Being the goods sent to customers on sale or return basis)				
Dec. 10	Return Inward A/c (Note 1)	Dr.		35,000	
	To Trade receivables A/c				35,000
	(Being the goods returned by customers to whom goods were sent on sale or return basis)				
Dec. 23	Sales A/c	Dr.		15,000	
	To Trade receivables A/c				15,000
	(Being the cancellation of original entry of sale in respect of goods on sale or return basis)				
Dec. 31	Inventories with customers on Sale or Return A/c	Dr.		12,000	
	To Trading A/c (Note 3)				12,000
	(Being the adjustment for cost of goods lying with customers awaiting approval)				

Working Note:

1 No entry is required for receiving letter of approval from customer.

(2) Cost of goods with customers = Rs. 15,000 x 100/125 = Rs. 12,000

4 (a) **Revaluation Account**

Particulars	Rs.	Particulars	Rs.
To Stock	1,500	By Land & Building	25,000
To Partners: (Revaluation Profit)		By Provision for doubtful debt	2,000
Monika	8,500		
Yedhant	8,500		
Zoya	8,500		
	27,000		27,000

Partners' Capital Accounts

Particulars	Monika	Yedhant	Zoya	Particulars	Monika	Yedhant	Zoya
To Zoya	4,375	4,375	-	By Bal b/d.	1,00,000	75,000	75,000
To Zoya's Executor	-	-	98,125	By General reserve	4,000	4,000	4,000
				By Monika & Yedhant	-	-	8,750
To Bal. c/d	1,08,125	83,125		By Profit and Loss Adjustment* (suspense) A/c	-	-	1,875

				By Revaluation A/c	8,500	8,500	8,500
	1,12,500	87,500	98,125		1,12,500	87,500	98,125

*Profit and Loss Adjustment = [(25,000 + 20,000 + 22,500)/3] x 3/12 x 1/3 = 1,875

Working Note:

Calculation of goodwill and Zoya's share

Average of last five year's profits and losses for the year ended on 31st March

31.3.2016	28,750
31.3.2017	35,000
31.3.2018	22,500
31.3.2019	20,000
31.3.2020	25,000
Total	1,31,250
Average profit	26,250

Goodwill at 1 year purchase = Rs. 26,250 x 1 = Rs. 26,250

Zoya's Share of Goodwill = Rs. 26,250X1/3

= Rs. 8,750

Which is contributed by Monika and Yedhant in their gaining Ratio

Monika = Rs. 8,750X1/2 = Rs. 4,375

Yedhant = Rs. 8,750X1/2 = Rs. 4,375

(b) Trading & Profit and Loss Account of

Mr. Sandeep for the year ended 31st December, 2020

	Particulars	Rs.	Rs.		Particulars	Rs.	Rs.
To	Opening Stock		1,400	By	Sales	9,000	
To	Purchase	12,000			*Less*: Sales return	(1,000)	8,000
	Less: Purchase return	(2,000)	10,000	By	Closing stock		4,500
To	Gross Profit		1,100				
			12,500				12,500
To	Salary	2,500		By	Gross Profit		1,100
	Add: Outstanding salary	100	2,600	By	Commission	500	
					Less: Advance	(100)	400
To	Tax & Insurance	500		By	Accrued interest		210
	Add: Outstanding	200		By	Net Loss		2,500
	Prepaid insurance	(50)	650				
To	Bad debt	500					
	Opening provision	(1,000)					
	Closing provision	1,000	500				
To	Interest on overdraft		300				
To	Depreciation on furniture		160				
			4,210				4,210

Balance Sheet of Mr. Sandeep as on 31.3.2020

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
Capital	16,000		By Furniture	1,600	
Less: drawing	(2,000)		*Less*: Depreciation	(160)	1,440
Net loss	(2,500)	11,500	Bill receivable		3,000
Bank overdraft	2,000		Investment	4,000	
Add: interest	300	2,300	*Add:* accrued interest	210	4,210
Creditors		2,000	Debtors	5,000	
Bills payable Outstanding expenses:		2,500	*Less:* Provision on bad debts	(1,000)	4,000
Salary	100		Closing stock		4,500
Tax	200	300	Cash in hand		1,500
Commission received in advance		100	Prepaid insurance		50
		18,700			18,700

5. (a)

Smith Library Society

Income and Expenditure Account

for the year ended 31st March, 2020

Dr.					Cr.
Expenditure	Rs.	Rs.	Income		Rs.
To Electric charges		7,200	By Entrance fee (25% of Rs. 30,000)		7,500
To Postage and stationary		5,000			
To Telephone charges		5,000	By Membership subscription	2,00,000	
To Rent	88,000		Less: Received in advance	10,000	1,90,000
Add: Outstanding	4,000	92,000			
To Salaries	66,000		By Sale proceeds of old papers		1,500
Add: Outstanding	3,000	69,000			
To Depreciation (W.N.1)			By Hire of lecture hall		20,000
Electrical fittings	15,000		By Interest on securities (W.N.2)	8,000	
Furniture	5,000				
Books	46,000	66,000	Add: Receivable	500	8,500
			By Deficit- excess of expenditure over income		16,700
		2,44,200			2,44,200

Working Notes:

1. **Depreciation** **Rs.**

	Rs.
Electrical fittings 10% of Rs. 1,50,000	15,000
Furniture 10% of Rs. 50,000	5,000
Books 10% of Rs. 4,60,000	46,000

2. Interest on Securities

Interest @ 5% p.a. on Rs. 1,50,000 for full year	7,500	
Interest @ 5% p.a. on Rs. 40,000 for half year	1,000	8,500
Less: Received		(8,000)
Receivable		500

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

Date 2019	Particulars		Amount Rs.	Amount Rs.
Mar. 31	Returns outward A/c	Dr.	72,000	
	To Purchases A/c			72,000
	(Being the transfer of returns to purchases account)			
	Sales A/c	Dr.	1,00,000	
	To Returns Inward A/c			1,00,000
	(Being the transfer of returns to sales account)			
.	Sales A/c	Dr.	10,00,000	
	To Trading A/c			10,00,000
	(Being the transfer of balance of sales account to trading account)			
	Trading A/c	Dr.	7,80,000	
	To Opening Inventory A/c			1,00,000
	To Purchases A/c			6,00,000
	To Wages A/c			50,000
	To Carriage Inwards A/c			30,000
	(Being the transfer of balances of opening inventory, purchases and wages accounts)			
	Closing Inventory A/c	Dr.	2,00,000	
	To Trading A/c			2,00,000
	(Being the incorporation of value of closing Inventory)			
	Trading A/c	Dr.	4,20,000	
	To Gross Profit			4,20,000
	(Being the amount of gross profit)			
	Gross profit	Dr.	4,20,000	
	To Profit and Loss A/c			4,20,000
	(Being the transfer of gross profit to Profit and Loss Account)			

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

Date			*Dr.* Rs.	*Cr.* Rs.
(a)	Equity Share Capital A/c	Dr.	3,000	
	To Equity Share Allotment money A/c (300 x Rs. 3)			900

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

(ii)

		Dr. Rs.	***Cr. Rs.***
Preference Share Capital A/c (2,500 x Rs. 70)	Dr.	1,75,000	
To Preference Share Allotment A/c (2,500 x Rs. 20)			50,000
To Preference Share First Call A/c (2,500 x Rs. 20)			50,000
To Forfeited Share A/c			75,000
(Being the forfeiture of 2,500 preference shares Rs. 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 Rs.60)	Dr.	1,20,000	
Forfeited Shares A/c (2,000 x Rs.10)	Dr.	20,000	
To Preference Share Capital A/c			1,40,000
(Being re-issue of 2,000 shares at Rs. 60 per share paid-up as Rs. 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 =Rs. 75,000/2500	=	Rs. 30
Loss on re-issue =Rs. 70 – Rs. 60	=	Rs. 10
Surplus per share re-issued		Rs. 20
Transferred to capital Reserve Rs. 20 x 2000	=	Rs. 40,000.

(b) Total amount of discount comes to Rs. 60,000 (Rs. 0.6 X 1, 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	Rs. 10, 00,000	1/5	1/5th of Rs. 60,000 = Rs. 12,000
2nd	Rs. 10, 00,000	1/5	1/5th of Rs. 60,000 = Rs. 12,000
3rd	Rs. 10, 00,000	1/5	1/5th of Rs. 60,000 = Rs. 12,000
4th	Rs. 10, 00,000	1/5	1/5th of Rs. 60,000 = Rs. 12,000
5th	Rs. 10, 00,000	1/5	1/5th of Rs. 60,000 = Rs. 12,000

(c) (i) Revenue Expenditure.

(ii) Capital Expenditure.

(iii) Revenue Expenditure.

(iv) Revenue Expenditure.

(v) Capital Expenditure.