MODEL TEST PAPER 2
FOUNDATION COURSE
PAPER – 1: 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) Amount spent for the construction of temporary huts, which were necessary for construction of the Cinema House and were demolished when the Cinema House was ready, is capital expenditure.

(ii) Accrual concept implies accounting on cash basis.

(iii) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

(iv) Discount at the time of retirement of a bill is a gain for the drawee.

(v) 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 his policy only.

(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) Differentiate between Book-keeping and Accounting. **(4 Marks)**

(c) On 31st March 2024, the Bank Pass Book of Sita showed a balance of ₹ 3,00,000 to her credit while balance as per cash book was ₹ 2,55,500. On scrutiny of the two books, she ascertained the following causes of difference:

(i) She has issued cheques amounting to ₹ 1,60,000 out of which only ₹ 64,000 were presented for payment.

(ii) She received a cheque of ₹ 10,000 which she recorded in her cash book but forgot to deposit in the bank.

(iii) A cheque of ₹ 44,000 deposited by her has not been cleared yet.

(iv) Bank has credited an interest of ₹ 3,000 while charging ₹ 500 as bank charges.

Prepare a bank reconciliation statement **(4 Marks)**

(12 + 4 + 4 = 20 Marks)

2. (a) Ambiance ltd. keeps no stock records but a physical inventory of stock is made at the end of each quarter and the valuation is taken at cost. The company's year ends on 31^{st} March, 2024 and their accounts have been prepared to that date. The stock valuation taken on 31^{st} March, 2024 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2024 with the stock figure as on 31st December, 2023 and some other information is available to you:

(i) The cost of stock on 31st December, 2023 as shown by the inventory sheet was ₹ 80,000.

(ii) On 31st December, stock sheet showed the following discrepancies:

(a) A page total of ₹ 5,000 had been carried to summary sheet as ₹ 6,000.

(b) The total of a page had been undercast by ₹ 400.

(iii) Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2024 totalled ₹ 70,000. Out of this ₹ 6,000 related to goods received prior to 31st December, 2023. Invoices entered in April 2024 relating to goods received in March, 2024 totalled ₹ 7,000.

(iv) Sales invoiced to customers totalled ₹ 90,000 from January to March, 2024. Of this ₹ 5,000 related to goods dispatched before 31st December, 2023. Goods dispatched to customers before 31st March, 2024 but invoiced in April, 2024 totalled ₹ 4,000.

(v) During the final quarter, credit notes at invoiced value of ₹ 1,500 had been issued to customers in respect of goods returned during that period. The gross margin earned by the company is 25% of cost.

You are required to prepare a statement showing the amount of stock at cost as on 31^{st} March, 2024. **(10 Marks)**

(b) M/s. Surya Lights purchased a second-hand machine on 1st January, 2020 for ₹ 3,20,000. Overhauling and erection charges amounted to ₹ 80,000.

Another machine was purchased for ₹ 1,60,000 on 1^{st} July, 2020.

On 1st July, 2022, the machine installed on 1st January, 2020 was sold for ₹ 1,60,000. Another machine amounted to ₹ 60,000 was purchased and was installed on 30^{th} September, 2022.

Under the existing practice the company provides depreciation @ 20% p.a. on original cost. However, from the year 2023 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2020 to 2023. **(10 Marks)**

(10 +10 = 20 Marks)

3. (a) The details of Assets and Liabilities of Mr. Jalaj as on 31-3-2022 and 31-3-2023 are as follows:

Particulars	31-3-2023 (₹)	31-3-2024 (₹)
Assets:		
Furniture	62,500	
Building	1,25,000	
Stock	1,25,000	3,12,500
Sundry Debtors	75,000	1,37,500
Cash in hand	14,000	16,500
Cash at Bank	75,000	93,750
Liabilities:		
Loans	1,12,500	87,500
Sundry Creditors	62,500	1,00,000

Mr. Jalaj decided to provide depreciation on building by 2.5% and furniture by 10% for, the period ended on 31-3-2023. Mr. Jalaj purchased jewellery for ₹30,000 for his daughter in December 2022. He sold his car on 30-3-2023 and the amount of ₹50,000 is retained in the business.

You are required to :

(i) Prepare statement of affairs as on 31-3-2023 & 31-3-2024.

(ii) Calculate the profit received by Mr. Jalaj during the year ended 31-3- 2024. **(8 Marks)**

(b) X,Y and Z are partners sharing profits in the ratio of 3:2:1. Their Balance Sheet as at 31st March, 2024 stood as:

Liabilities	₹		Assets	₹	
Capital Accounts			Building		10,00,000
X	8,00,000		Furniture		2,40,000
Y	4,20,000		Office equipments		2,80,000
Z	4,00,000	16,20,000	Stock		2,50,000
Sundry Creditors		3,70,000	Sundry debtors	3,00,000	
General Reserves		3,60,000	Less: Provision for Doubtful debts	30,000	2,70,000
			Joint life policy		1,60,000
			Cash at Bank		1,50,000
		23,50,000			23,50,000

Y retired on 1st April, 2024 subject to the following conditions:

(i) Office Equipments revalued at ₹ 3,27,000.

(ii) Building revalued at ₹ 15,00,000. Furniture is written down by ₹ 40,000 and Stock is reduced to Rs,2,00,000 .

(iii) Provision for Doubtful Debts is to be created @ 5% on Debtors.

(iv) The surrender value of Joint Life Policy is ₹ 1,50,000

(v) Goodwill was to be valued at 3 years purchase of average 4 years profit which were:

Year	₹
2020	90,000
2021	1,40,000
2022	1,20,000
2023	1,30,000

(vi) Amount due to Y is to be transferred to his Loan Account.

Prepare the Revaluation Account, Partners' Capital Accounts and the Balance Sheet immediately after Y's retirement. **(12 Marks)**

(8 + 12 = 20 Marks)

4. (a) P, Q, and R are partners sharing profits and losses as to 2:2:1. Their Balance Sheet as on 31st March, 2023 is as follows:

Liabilities		₹	Assets	₹
Capital accounts			Plant and Machinery	1,08,000
P	1,20,000		Fixtures	24,000
Q	48,000		Stock	60,000
R	24,000	1,92,000	Sundry debtors	48,000
Reserve Fund		60,000	Cash	60,000
Creditors		48,000		
		3,00,000		3,00,000

They decided to dissolve the business. The following are the amounts realized:

Particulars	₹
Plant and Machinery	1,02,000
Fixtures	18,000
Stock	84,000
Sundry debtors	44,400

Creditors allowed a discount of 5% and realization expenses amounted to ₹ 1,500. There was an unrecorded asset of ₹ 6,000 which was taken over by Q at ₹ 4,800. An amount of ₹ 4,200 due for GST had come to notice during the course of realization and this was also paid.

You are required to prepare:

(i) Realization Account.

(ii) Partners' Capital Accounts.

(iii) Cash Account. **(8 Marks)**

(b) From the following balances and particulars of Navel College, prepare Income & Expenditure Account for the year ended March, 2024 and a Balance Sheet as on the date :

Particulars	Amount (₹)	Amount (₹)
Security Deposit - Students	-	1,55,000
Capital Fund	-	13,08,000
Building Fund		19,10,000
Tuition Fee Received		8,10,000
Government Grants		5,01,000
Interest & Dividends on Investments	-	1,75,000
Hostel Room Rent	-	1,65,000
Mess Receipts (Net)		2,05,000
College Stores - Sales	-	7,60,000
Outstanding expenses	-	2,35,000
Stock of Stores and Supplies (opening)	3,10,000	-
Purchases - Stores & Supplies	8,20,000	-
Salaries - Teaching	8,75,000	-
Salaries - Research	1,25,000	-
Scholarships	85,000	-
Students Welfare expenses	37,000	-
Games & Sports expenses	52,000	-
Other investments	12,75,000	-
Land	1,50,000	-
Building	15,50,000	-
Plant and Machinery	8,50,000	-
Furniture and Fittings	5,40,000	-
Motor Vehicle	2,40,000	-
Provision for Depreciation :		-
Building	-	4,90,000
Plant & Equipment	-	5,05,000
Furniture & Fittings	-	3,26,000

Cash at Bank	3,16,000	-
Library	3,20,000	
	75,45,000	75,45,000

Adjustments :

(a) Materials & Supplies consumed (From college stores):

Teaching	₹ 52,000
Research -	₹ 1,45,000
Students Welfare -	₹ 78,000
Games or Sports -	₹ 24,000

(b) Stores selling prices are fixed to give a net profit of 15% on selling price:

(c) Depreciation is provided on straight line basis at the following rates:

Building	5%
Plant & Machinery	10%
Furniture & Fittings	10%
Motor Vehicle	20%

(12 Marks)

(8 + 12 = 20 Marks)

5\. (a) M/s. Mangrove Arts were unable to agree the Trial Balance as on 31st March, 2024 and have raised a suspense account for the difference. Next year the following errors were discovered:

(i) Repairs made during the year were wrongly debited to the building A/c - ₹ 52,500.

(ii) The addition of the 'Freight' column in the purchase journal was short by ₹ 9,000.

(iii) Goods to the value of ₹ 6,150 returned by a customer, Leena., had been posted to the debit of Leena. and also to sales returns.

(iv) Sundry items of furniture sold for ₹ 1,80,000 had been entered in the sales book, the total of which had been posted to sales account.

(v) A bill of exchange (received from Lucky & Co.) for ₹ 45,000 had been returned by the bank as. dishonoured and had been credited to the bank and debited to bills receivable account.

You are required to pass journal entries to rectify the above mistakes.

(5 Marks)

(b) Attempt any ONE out of the two sub parts i.e. either (i) or (ii).

(i) Following information is provided for M/s. Vikram traders for the year ended 31st March, 2024:

	₹
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. Vikram traders.

OR

(ii) Mr. Mandeep runs a factory which produces motor spares of export quality. The following details were obtained about his manufacturing expenses for the year ended on 31.3.2024.

			₹
W.I.P.	- Opening		3,90,000
	- Closing		5,07,000
Raw Materials	- Purchases		12,10,000
	- Opening		3,02,000
	- Closing		3,10,000
	- Returned		18,000
	- Indirect material		16,000
Wages	- direct		2,10,000
	- indirect		48,000
Direct expenses	- Royalty on production		1,30,000
		- Repairs and maintenance	2,30,000
		- Depreciation on factory shed	40,000
		- Depreciation on plant & machinery	60,000
By-product at selling price			20,000

You are required to prepare Manufacturing Account of Mr. Mandeep for the year ended on 31.3.2024 **(5 Marks)**

(c) Following notes pertain to the Balance Sheet of Verma Ltd. as at 31st March, 2023

	₹
Share capital:	
Authorised capital:	
30,000 12% Preference shares of ₹ 10 each	3,00,000
3,00,000 Equity shares of ₹ 10 each	30,00,000
	33,00,000
Issued and Subscribed capital:	
24,000 12% Preference shares of ₹ 10 each fully paid	2,40,000
2,70,000 Equity shares of ₹ 10 each, ₹ 8 paid up	21,60,000
Reserves and surplus:	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 2023, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by 20th April, 2023. Thereafter, the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held. Preference dividend for the year 2022-2023 has already been paid by the entity.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2023 after bonus issue. **(10 Marks)**

(5 + 5 + 10 = 20 Marks)

6. (a) Woodland Mills Ltd invited applications for issuing 10,000 Equity Shares of ₹ 10 each. The amount was payable as follows:

(i)	On Application	₹ 1 per share
(ii)	On Allotment	₹ 2 per share
(iii)	On First call	₹ 3 per share
(iv)	On Second and final Call	₹ 4 per share

The issue was fully subscribed. Amar to whom 100 shares were allotted, failed to pay the allotment money and his shares were forfeited immediately after the allotment. Kabir to whom 150 shares were allotted, failed to pay the first call. His shares were also forfeited after the first call. Afterwards the second and final call was made. Dilip to whom 50 shares were allotted failed to pay the second and final call.

His shares were also forfeited. All the forfeited shares were re-issued at ₹ 9 per share fully paid-up.

Pass necessary Journal entries in the books of Woodland Mills Ltd.

(15 Marks)

(b) (i) What are the rules of posting of journal entries into the Ledger?

(ii) Explain any 2 differences between Bill of Exchange and Promissory Notes. **(5 Marks)**

(15 + 5 = 20 Marks)