

MODEL TEST PAPER 5
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:
- 1 The balance in petty cash book represents an asset.
 - 2 Finished goods are normally valued at cost or market price whichever is higher.
 - 3 Subscriptions received for the current year shall be shown in the balance sheet as a current asset.
 - 4 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 Calls in arrear of shares forfeited.
 - 5 Discount at the time of retirement of a bill is a gain for the drawee.
 - 6 Bills receivable and bills payable books are type of subsidiary books.
- (6 statements x 2 Marks = 12 Marks)**
- (b) What services can a Chartered Accountant provide to the society?
- (4 Marks)**
- (c) One of your clients Mr. X asked you to finalize his account for the year ended 31st March, 2024. As a basis for audit, Mr. X furnished you with the following statement:

| | Dr. | Cr. |
|--------------------|-------|-------|
| X's Capital | | 4,668 |
| X's Drawings | 1,692 | |
| Leasehold Premises | 2,250 | |
| Sales | | 8,250 |
| Due from customers | | 1,590 |
| Purchases | 3,777 | |
| Purchase Return | 792 | |
| Loan from Bank | | 768 |
| Trade Expense | 2,100 | |
| Trade Payable | 1,584 | |
| Bills Payable | 300 | |

| | | |
|--------------------|--------|--------|
| Salaries and Wages | 1,800 | |
| Cash at Bank | 678 | |
| Opening Inventory | | 792 |
| Rent and Rates | 1,389 | |
| Sales Return | | 294 |
| | 16,362 | 16,362 |

The closing inventory was ₹1,722. Mr. X claims that he has recorded every transaction correctly as the trial balance is tallied. Check the accuracy of the above trial balance and give reasons for the errors, if any. **(4 Marks)**

(12 + 4 + 4 = 20 Marks)

2. (a) Mr. Manas was unable to agree the Trial Balance last year and wrote off the difference to the Profit and Loss Account of that year. Next year, he appointed a Chartered Accountant who examined the old books and found the following mistakes:

- (i) Purchase of a scooter was debited to conveyance account ₹ 30,000. Mr. Manas charges 10% depreciation on scooter.
- (ii) Purchase account was over cast by ₹ 1,00,000.
- (iii) A credit purchase of goods from Mr. Sam for ₹ 20,000 was entered as sale.
- (iv) Receipt of cash from Mr. Anand was posted to the account of Mr. Bhaskar ₹ 10,000.
- (v) Receipt of cash from Mr. Paras was posted to the debit of his account, ₹ 5,000.
- (vi) ₹ 5,000 due by Mr. Ramesh was omitted to be taken to the Trial Balance.
- (vii) Sale of goods to Mr. Ram for ₹ 20,000 was omitted to be recorded.
- (viii) Amount of ₹ 23,950 of purchase was wrongly posted as ₹ 25,930.

Suggest the necessary rectification entries. **(10 Marks)**

- (b) M/s Dheeraj, Profit and loss account showed a net profit of ₹ 8,00,000, after considering the closing stock of ₹ 7,50,000 on 31st March, 2024. Subsequently the following information was obtained from scrutiny of the books:

- (i) Purchases for the year included ₹ 30,000 paid for new electric fittings for the shop.
- (ii) M/s Dheeraj gave away goods valued at ₹ 80,000 as free samples for which no entry was made in the books of accounts.
- (iii) Invoices for goods amounting to ₹ 5,00,000 have been entered on 27th March, 2024, but the goods were not included in stock.

- (iv) In March, 2024 goods of ₹ 4,00,000 sold and delivered were taken in the sales for April, 2024.
- (v) Goods costing ₹ 1,50,000 were sent on sale or return in March, 2024 at a margin of profit of 33-1/3% on cost. Though approval was given in April, 2024 these were taken as sales for March, 2024.

You are required to determine the adjusted net profit for the year ended on 31.3.2024 and calculate the value of stock on 31st March, 2024.

(10 Marks)

(10 +10 = 20 Marks)

3. (a) The trial balance of Saurav as at 31st March, 2024 is as follows:

| Particulars | Dr. | Cr. |
|-----------------------------------|-----------|-----------|
| | ₹ | ₹ |
| Saurav's capital account | - | 1,91,725 |
| Stock 1 st April, 2023 | 1,17,000 | - |
| Sales | - | 9,74,000 |
| Returns inward | 21,500 | - |
| Purchases | 8,04,250 | - |
| Returns outward | - | 14,500 |
| Carriage inwards | 49,000 | - |
| Rent & taxes | 11,750 | - |
| Salaries & wages | 23,250 | - |
| Sundry debtors | 60,000 | - |
| Sundry creditors | - | 37,000 |
| Bank loan @ 14% p.a. | - | 50,000 |
| Bank interest | 2,750 | - |
| Printing and stationery expenses | 36,000 | - |
| Bank balance | 20,000 | - |
| Discount earned | - | 11,100 |
| Furniture & fittings | 12,500 | - |
| Discount allowed | 4,500 | - |
| General expenses | 28,625 | - |
| Insurance | 3,250 | - |
| Postage & telegram expenses | 5,825 | - |
| Cash balance | 950 | - |
| Travelling expenses | 2,175 | - |
| Drawings | 75,000 | - |
| | 12,78,325 | 12,78,325 |

The following adjustments are to be made:

- (1) Provision for bad and doubtful debts be created at 5% and for discount @ 2% on sundry debtors.
- (2) Personal purchases of Saurav amounting to ₹ 1,500 had been recorded in the purchases day book.
- (3) Depreciation on furniture & fittings @ 10% shall be written off.
- (4) Included amongst the debtors is ₹ 7,500 due from Sunder and included among the creditors ₹ 2,500 due to him.
- (5) A quarter of the amount of printing and stationary expenses is to be carried forward to the next year.
- (6) Credit purchase invoice amounting to ₹ 1,000 had been omitted from the books.
- (7) Stock on 31.03.2024 was ₹ 1,96,500.
- (8) Interest on bank loan shall be provided for the whole year.

You are required to prepare Trading & Profit and Loss Account for the year ended 31.03.2024. **(12 Marks)**

- (b) The following is the Balance Sheet of M/s. Vivek Bros as at 31st March, 2024, they share profit and losses equally:

Balance Sheet as at 31st March, 2024

| Liabilities | | ₹ | Assets | ₹ |
|-----------------|--------|--------|------------------------------------|--------------|
| Capital | Amit | 24,600 | Machinery | 30,000 |
| | Puneet | 24,600 | Furniture | 16,800 |
| | Sumit | 27,000 | Fixture | 12,600 |
| General Reserve | | 9,000 | Cash | 9,000 |
| Trade payables | | 14,100 | Inventories | 5,700 |
| | | | Trade receivables | 27,000 |
| | | | Less: Provision for Doubtful debts | <u>1,800</u> |
| | | | | 25,200 |
| | | 99,300 | | 99,300 |

Sumit died on 1st April, 2024 and the following agreement was to be put into effect.

- (a) Assets were to be revalued: Machinery to ₹ 35,100; Furniture to ₹ 13,800; Inventory to ₹ 4,500.
- (b) Goodwill was valued at ₹ 18,000 and was to be credited with his share, without using a Goodwill Account.

- (c) ₹ 6,000 is to be paid to the executors of the dead partner on 5th April, 2023.
- (d) After death of Sumit, Amit and Puneet share profit equally.

You are required to prepare:

- (i) Journal Entry for Goodwill adjustment.
- (ii) Revaluation Account and Capital Accounts of the partners.

(8 Marks)

(12 + 8 = 20 Marks)

4. (a) A and B are partners in a firm, sharing Profits and Losses in the ratio of 3 : 2. The Balance Sheet of A and B as on 31.3.2024 was as follow:

| Liabilities | Amount ₹ | Assets | | Amount ₹ |
|-------------------|-----------------|-----------------|------------|-----------------|
| Sundry Creditors | 25,800 | Building | | 52,000 |
| Bill Payable | 8,200 | Furniture | | 11,600 |
| Bank Overdraft | 18,000 | Stock-in-Trade | | 42,800 |
| Capital Accounts: | | Debtors | 70,000 | |
| A 88,000 | | Less: Provision | <u>400</u> | 69,600 |
| B <u>72,000</u> | 1,60,000 | Investment | | 5,000 |
| | | Cash | | <u>31,000</u> |
| | <u>2,12,000</u> | | | <u>2,12,000</u> |

'C' was admitted to the firm on the above date on the following terms:

- (i) He is admitted for 1/6th share in future profits and to introduce a Capital of ₹ 50,000.
- (ii) The new profit sharing ratio of A, B and C will be 3 : 2 : 1 respectively.
- (iii) 'C' is unable to bring in cash for his share of goodwill, they decide to calculate goodwill on the basis of C's share in the profits and the capital contribution made by him to the firm.
- (iv) Furniture is to be written down by ₹ 1,740 and Stock to be depreciated by 5%. A provision is required for Debtors @ 5% for Bad Debts. A provision would also be made for outstanding wages for ₹ 3,120. The value of Buildings having appreciated be brought upto ₹ 58,400. The value of investment is increased by ₹ 900.
- (v) It is found that the creditors included a sum of ₹ 2,800, which is not to be paid off.

Prepare the following:

- (i) Revaluation Account.
- (ii) Partners' Capital Accounts.
- (iii) Balance Sheet of New Partnership firm after admission of 'C'.

(12 Marks)

- (b) The following information of M/s. Football Club are related for the year ended 31st March, 2024:

(1)

| Balances | As on 01-04-2023 (₹) | As on 31-3-2024 (₹) |
|----------------------------------|----------------------------|---------------------------|
| Stock of Sports Material | 4,50,000 | 6,75,000 |
| Amount due for Sports Material | 4,05,000 | 5,85,000 |
| Subscription due | 67,500 | 99,000 |
| Subscription received in advance | 54,000 | 31,500 |

(2) Subscription received during the year ₹ 22,50,000

(3) Payments for Sports Material during the year ₹ 13,50,000

You are required to:

(A) Ascertain the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2024 and

(B) Also show how these items would appear in the Balance Sheet as on 31.03.2024.

(8 Marks)

(12+8=20 Marks)

5. (a) On 31st March 2024, the Bank Pass Book of Swati showed a balance of ₹ 1,50,000 to her credit while balance as per cash book was ₹ 1,12,050. On scrutiny of the two books, she ascertained the following causes of difference:

- She has issued cheques amounting to ₹ 80,000 out of which only ₹ 32,000 were presented for payment.
- She received a cheque of ₹ 5,000 which she recorded in her cash book but forgot to deposit in the bank.
- A cheque of ₹ 22,000 deposited by her has not been cleared yet.
- Mr. Gupta deposited an amount of ₹ 15,700 in her bank which has not been recorded by her in Cash Book yet.
- Bank has credited an interest of ₹ 1,500 while charging ₹ 250 as bank charges.

Prepare a bank reconciliation statement.

(5 Marks)

- (b) The Income Tax Officer, on assessing the income of Xavier for the financial years 2021-2022 and 2022-2023 feels that Xavier has not disclosed the full income. He gives you the following particulars of assets and liabilities of Xavier's on 1st April, 2021 and 1st April, 2023.

| | | | ₹ |
|----------|--------|----------------|--------|
| 1-4-2021 | Assets | : Cash in hand | 25,500 |
| | | Inventory | 56,000 |

| | | | |
|----------|---------------|---------------------------|----------|
| | | Sundry debtors | 41,500 |
| | | Land and Building | 1,90,000 |
| | | Wife's Jewellery | 75,000 |
| | Liabilities : | Owing to Xavier's Brother | 40,000 |
| | | Sundry creditors | 35,000 |
| 1-4-2023 | Assets : | Cash in hand | 16,000 |
| | | Inventory | 91,500 |
| | | Sundry debtors | 52,500 |
| | | Land and Building | 1,90,000 |
| | | Motor Car | 1,25,000 |
| | | Wife's Jewellery | 1,25,000 |
| | | Loan to Xavier's Brother | 20,000 |
| | Liabilities : | Sundry creditors | 55,000 |

During the two years the domestic expenditure was ₹ 4,000 p.m. The declared incomes of the financial years were ₹ 1,05,000 for 2021-2022 and ₹ 1,33,000 for 2022-2023 respectively.

State whether the Income-tax Officer's contention is correct. Explain by giving your workings. **(5 Marks)**

- (c) Safari Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) provides the following information as at 31st March, 2024:

| Particulars | ₹ |
|---|----------|
| Shareholder's Funds | |
| (a) Share Capital | |
| Authorized share capital: | |
| 45,000 equity shares of ₹ 10 each fully paid | 4,50,000 |
| Issued and subscribed share capital: | |
| 30,000 equity shares of ₹ 10 each fully paid | 3,00,000 |
| (b) Reserves and Surplus | |
| Profit & Loss Account | 1,62,000 |
| Debenture Redemption Reserve | 18,000 |
| Non-current liabilities | |
| (a) Long term borrowings | |
| 12% Debentures | 1,80,000 |
| Current Liabilities | |
| (a) Trade payables | 1,72,500 |
| Non-current assets | |
| (a) Property, Plant and Equipment (Freehold property) | 1,72,500 |
| (b) Non-current Investment: DRR Investment | 27,000 |

| | |
|-----------------------------|----------|
| Current assets | |
| (a) Inventories | 2,02,500 |
| (b) Trade receivables | 1,12,500 |
| (c) Cash and bank balances: | |
| Cash at bank | 2,73,000 |
| Cash in hand | 45,000 |

At the Annual General Meeting on 1.4.2024, it was resolved:

- (a) To give existing shareholders the option to purchase one ₹ 10 share at ₹ 15 for every four shares (held prior to the bonus distribution). This option was taken up by all the shareholders.
- (b) To issue one bonus share for every five shares held.
- (c) To repay the debentures at a premium of 3%.

Give the necessary journal entries for these transactions. **(10 Marks)**

(5 + 5 + 10 = 20 Marks)

6. (a) X Limited invited applications for issuing 75,000 equity shares of ₹ 10 each at a premium of ₹ 5 per share. The total amount was payable as follows:

- ₹ 9 per share (including premium) on application and allotment
- Balance on the First and Final Call

Applications for 3,00,000 equity shares were received. Applications for 2,00,000 equity shares were rejected and money refunded. Shares were allotted on pro-rata basis to the remaining applicants. The first and final call was made. The amount was duly received except on 1,500 shares applied by Mr. Raj. His shares were forfeited. The forfeited shares were re-issued at a discount of ₹ 4/- per share.

Pass necessary journal entries for the above transactions in the books of X Limited. **(15 Marks)**

- (c) State the causes of difference between the balance shown by the pass book and the cash book.

OR

Which subsidiary books are normally used in a business? **(5 Marks)**

(15 + 5 = 20 Marks)