Test Series: March, 2021

MOCK TEST PAPER - 1

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF 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) Discuss the limitations which must be kept in mind while evaluating the Financial Statements.

(4 Marks)

(c) The following errors were committed by the Accountant of Hari Om Toys.

(i) Purchase of Rs. 1620 from Anupam & Co. passed through Sales Day Book as Rs. 1260

(ii) Credit sale of Rs. 1600 to Soni & Co. was posted to the credit of their account.

How would you rectify the errors assuming that :

(a) they were detected before preparation of Trial Balance.

(b) they were detected after preparation of Trial Balance but before preparing Final Accounts, the difference was taken to Suspense A/c.

(c) they were detected after preparing Final Accounts. **(4 Marks)**

2. (a) M/s. JP Wires Co. purchased a second-hand machine on 1st January, 2017 for Rs. 3,20,000. Overhauling and erection charges amounted to Rs. 80,000.

Another machine was purchased for Rs. 1,60,000 on 1st July, 2017.

On 1st July, 2019, the machine installed on 1st January, 2017 was sold for Rs. 1,60,000. Another machine amounted to Rs. 60,000 was purchased and was installed on 30th September, 2019.

Under the existing practice the company provides depreciation @ 20% p.a. on original cost. However, from the year 2020 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2017 to 2020.

(b) Universe 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 31st March, 2021 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2021 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2021 with the stock figure as on 31st December, 2020 and some other information is available to you:

(i) The cost of stock on 31st December, 2020 as shown by the inventory sheet was Rs. 2,40,000.

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

(a) A page total of Rs. 15,000 had been carried to summary sheet as Rs. 18,000.

(b) The total of a page had been undercast by Rs. 600.

(iii) Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2021 totalled Rs. 2,10,000. Out of this Rs. 9,000 related to goods received prior to 31st December, 2020. Invoices entered in April, 2021 relating to goods received in March, 2021 totalled Rs. 12,000.

(iv) Sales invoiced to customers totalled Rs. 2,70,000 from January to March, 2021. Of this Rs. 15,000 related to goods dispatched before 31st December, 2020. Goods dispatched to customers before 31st March, 2021 but invoiced in April, 2021 totalled Rs. 12,000.

(v) During the final quarter, credit notes at invoiced value of Rs. 3,000 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 31st March, 2021. **(10 +10 = 20 Marks)**

3. (a) Mr. Z accepted a bill for Rs. 50,000 drawn on him by Mr. Y on 1st August, 2020 for 3 months. This was for the amount which Z owed to Y. On the same date Mr. Y got the bill discounted at his bank for Rs. 49,000.

On the due date, Z approached Y for renewal of the bill. Mr. Y agreed on condition that Rs. 10,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance Z should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2020, Z became insolvent and his estate paid 40%.

Prepare Journal Entries in the books of Mr. Y. **(10 Marks)**

(b) On 31st March, 2021 goods sold at a sale price of Rs. 30,000 were lying with customer, Sapan to whom these goods were sold on 'sale or return basis' were recorded as actual sales. Since no consent has been received from Sapan, you are required to pass adjustment entries presuming goods were sent on approval at a profit of cost plus 25%. Present market price is 20% less than the cost price. **(5 Marks)**

(c) Meera purchases goods on credit. His due dates for payments are given below. You are required to calculate average due date.

Transaction Date	*Rs.*	*Due Date*
August 5	600	Sept. 08
Sept. 15	400	Oct. 18
Oct. 10	550	Nov. 13
Nov. 5	800	Dec. 10

(5 Marks)

4. From the following data, prepare an Income and Expenditure Account for the year ended 31st December 2020, and Balance Sheet as at that date of the New Max Hospital:

Receipts and Payments Account for the year ended 31 December, 2020

	RECEIPTS	Rs.			PAYMENTS		Rs.
To	Balance b/d			By	Salaries:		
	Cash	400			(Rs. 3,600 for 2019)		15,600
	Bank	2,600	3,000	By	Hospital Equipment		8,500
To	Subscriptions:			By	Furniture purchased		3,000
	For 2019		2,550	By	Additions to Building		25,000
	For 2020		12,250	By	Printing and Stationery		1,200
	For 2021		1,200	By	Diet expenses		7,800
To	Government Grant: For building		40,000	By	Rent and rates (Rs. 150 for 2021)		1,000
	For maintenance		10,000	By	Electricity and water charges		1,200
	Fees from sundry Patients		2,400	By	Office expenses		1,000
				By	Investments		10,000
To	Donations (not to be capitalized)		4,000	By	Balances:		
					Cash	700	
To	Net collections from benefit shows		3,000		Bank	3,400	4,100
			78,400				78,400

Additional information :	Rs.
Value of building under construction as on 31.12.2020	70,000
Value of hospital equipment on 31.12.2020	25,500
Building Fund as on 1.1. 2020	40,000
Subscriptions in arrears as on 31.12.2019	3,250
Investments in 8% Govt. securities were made on 1st July, 2020.	

(20 Marks)

5. (a) The following are the balances as at 31st March, 2021 extracted from the books of Mr. Vijay.

Particulars	Rs.	Particulars	Rs.
Plant and Machinery	39,100	Bad debts recovered	900
Furniture and Fittings	20,500	Salaries	45,100
Bank Overdraft	1,60,000	Salaries payable	4,900
Capital Account	1,30,000	Prepaid rent	600
Drawings	16,000	Rent	8,600
Purchases	3,20,000	Carriage inward	2,250
Opening Stock	64,500	Carriage outward	2,700
Wages	24,330	Sales	4,30,600
Provision for doubtful debts	6,400	Advertisement Expenses	6,700

Provision for Discount on debtors	2,750	Printing and Stationery	2,500
Sundry Debtors	2,40,000	Cash in hand	2,900
Sundry Creditors	95,000	Cash at bank	6,250
Bad debts	2,200	Office Expenses	20,320
		Interest paid on loan	6,000

Additional Information:

1. Purchases include sales return of Rs. 5,150 and sales include purchases return of Rs. 3,450.
2. Free samples distributed for publicity costing Rs. 1,650.
3. Goods withdrawn by Mr. Vijay for own consumption Rs. 7,000 included in purchases.
4. Wages paid in the month of April for installation of plant and machinery amounting to Rs. 900 were included in wages account.
5. Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
6. Depreciation is to be provided on plant and machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.
7. Closing stock as on 31st March, 2021 is Rs. 2,50,000.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2021, and a Balance Sheet as on that date.

(b) The following is the Balance Sheet of M/s. Krishna Bros as at 31st March, 2021, they share profit and losses equally:

Balance Sheet as at 31st March, 2021

Liabilities		**Rs.**	**Assets**		**Rs.**
Capital	Amit	24,600	Machinery		30,000
	Lalit	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	1,800	25,200
		99,300			99,300

Sumit died on 1st April, 2021 and the following agreement was to be put into effect.

(a) Assets were to be revalued: Machinery to Rs. 35,100; Furniture to Rs. 13,800; Inventory to Rs. 4,500.

(b) Goodwill was valued at Rs. 18,000 and was to be credited with his share, without using a Goodwill Account.

(c) Rs. 6,000 is to be paid to the executors of the dead partner on 5th April, 2021.

(d) After death of Sumit, Amit and Lalit share profit equally.

You are required to prepare:

(i) Journal Entry for Goodwill adjustment.

(ii) Revaluation Account and Capital Accounts of the partners. **(12 + 8 = 20 Marks)**

6. (a) Deepak Chemicals Ltd. invited applications for 10 lakhs shares of Rs. 100 each payable as follows:

	Rs.
On Application	10
On Allotment (on 1st June, 2020)	30
On First Call (on 1st Nov., 2020)	30
On Final Call (on 1st March., 2021)	30

All the shares were applied for and allotted. A shareholder holding 15,000 shares paid the whole of the amount due along with allotment.

You are required to prepare the journal entries for the above-mentioned transactions, assuming all sums due were received. Interest was paid to the shareholder concerned on 1st March, 2021.

(10 Marks)

(b) Tim Tim Limited issued 10,000 8% Debentures of the nominal value of Rs.10,00,000 as follows:

(a) To sundry persons for cash at 90% of nominal value of Rs. 5,00,000.

(b) To a vendor for purchase of fixed assets worth Rs. 2,00,000 – Rs. 2,50,000 nominal value.

(c) To the banker as collateral security for a loan of Rs. 2,00,000 – Rs. 2,50,000 nominal value.

You are required to prepare necessary Journal Entries. **(5 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)**