

MOCK TEST PAPER II
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:
- i. Overhauling expenses of the engine of a truck to get better fuel efficiency is revenue expenditure.
 - ii. Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
 - iii. The sale value of by-product is credited to Trading Account.
 - iv. When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital ratio.
 - v. Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.
 - vi. In Not for Profit (NPO) organizations, the excess of total assets over total outside liabilities is known as Capital Fund. **(6 Statements x 2 Marks = 12 Marks)**
- (b) "Change in accounting policy may have a material effect on the items of financial statements." Explain the statement with the help of an example. **(4 Marks)**
- (c) From the following particulars, prepare a Bank Reconciliation Statement for Vinayak Ltd. as on 31.3.2023
- (1) Balance as per cash book is ₹ 4,80,000.
 - (2) Cheques issued but not presented in the bank amounts to ₹ 2,72,000.
 - (3) Bank charges amounts to ₹ 1,200.
 - (4) Interest credited by bank amounts to ₹ 6,000. **(4 Marks)**
2. (a) The following mistakes were located in the books of a concern after its books were closed and a Suspense Account was opened in order to get the Trial Balance agreed:
- (i) A Bill Receivable for ₹ 4,650 was passed through Bills Payable Book. The Bill was given by Krishan.
 - (ii) Cash received from Manan was debited to Suman ₹ 16,000.
 - (iii) General expenses ₹ 3,900 was posted in the General Ledger as ₹ 9,300.
 - (iv) Sales Day Book was overcast by ₹ 15,000.

- (v) Legal Expenses ₹ 23,010 paid to Mr. Badri was debited to her personal account.
- (vi) A sale of ₹ 75,000 to Neha was wrongly debited to the Account of Megha.
- (vii) While carrying forward the total of one page of the Purchases Book to the next, the amount of ₹ 1,690 was written as ₹ 1,960.
- (viii) ₹ 21,000 due to Mr. Madan was omitted to be taken to trial balance.

Find out the nature and amount of the Suspense Account and Pass entries (including narration) for the rectification of the above errors in the subsequent year's books. **(10 Marks)**

- (b) The M/s PT Transport purchased 10 trucks at ₹ 45,00,000 each on 1st April 2019. On October 1st, 2021, one of the trucks is involved in an accident and is completely destroyed and ₹ 27,00,000 is received from the insurance in full settlement. On the same date, another truck is purchased by the company for the sum of ₹ 50,00,000. The company write off 20% on the original cost per annum. The company observe the calendar year as its financial year.

You are required to prepare the Truck account for two year ending 31 Dec, 2022. **(10 Marks)**

- 3. (a) Mr. Y accepted a bill for ₹ 50,000 drawn on him by Mr. X on 1st August, 2022 for 3 months. This was for the amount which Y owed to X. On the same date Mr. X got the bill discounted at his bank for ₹ 49,000.

On the due date, Y approached X for renewal of the bill. Mr. X agreed on condition that ₹ 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 Y should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2022, Y became insolvent and his estate paid 40%.

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

- (b) Satyam accepted the following bills drawn by Shivam:

On 8th March, 2022 ₹ 12,000 for 4 months.

On 16th March, 2022 ₹ 15,000 for 3 months.

On 7th April, 2022 ₹ 18,000 for 5 months.

On 17th May, 2022 ₹ 15,000 for 3 months.

He wants to pay all the bills on a single day. Find out this date. Interest is charged @ 9 % p.a. and Satyam wants to save ₹ 471 by way of interest. Calculate the date on which he has to effect the payment to save interest of ₹ 471. **(5 Marks)**

- (c) On 1st January, 2023, X's account in Y's ledger showed a debit balance of ₹ 5,000. The following transactions took place between Y and X during the quarter ended 31st March, 2023:

2023			₹
Jan.	11	Y sold goods to X	6,000
Jan.	24	Y received a promissory note from X due after 3 months	5,000
Feb.	01	X sold goods to Y	10,000
Feb.	04	Y sold goods to X	8,200
Feb.	07	X returned goods to Y	1,000
March	01	X sold goods to Y	5,600

March	18	Y sold goods to X	9,200
March	23	X sold goods to Y	4,000

Accounts were settled on 31st March, 2023 by means of a cheque. Prepare an Account Current to be submitted by Y to X as on 31st March, 2023, taking interest into account @ 10% per annum. Calculate interest to the nearest multiple of a rupee. **(5 Marks)**

4. (a) Atul and Aman are partners in a firm, sharing Profits and Losses in the ratio of 3 : 2. The Balance Sheet of Atul and Aman as on 1.1.2023 was as follows:

Liabilities	Amount ₹	Assets		Amount ₹
Sundry Creditors	51,600	Building		1,04,000
Bill Payable	16,400	Furniture		23,200
Bank Overdraft	36,000	Stock-in-Trade		85,600
Capital Account:		Debtors	1,40,000	
Atul 1,76,000		Less: Provision	<u>800</u>	1,39,200
Aman <u>1,44,000</u>	3,20,000	Investment		10,000
	<u>4,24,000</u>	Cash		<u>62,000</u>
				<u>4,24,000</u>

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

- He is admitted for 1/6th share in future profits and to introduce a Capital of ₹ 1,00,000.
- The new profit sharing ratio of Atul, Aman and Atif will be 3 : 2 : 1 respectively.
- 'Atif' is unable to bring in cash for his share of goodwill, partners therefore, decide to raise goodwill account in the books of the firm. They further decide to calculate goodwill on the basis of 'Atif's share in the profits and the capital contribution made by him to the firm. Later, the goodwill was written off among all the partners in the new profit sharing ratio.
- Furniture is to be written down by ₹ 3,480 and Stock to be depreciated by 10%. A provision is required for Debtors @ 5% for Bad Debts. A provision would also be made for outstanding wages for ₹ 6,240. The value of Buildings having appreciated be brought upto ₹ 1,16,800. The value of investment is increased by ₹ 1,800.
- It is found that the creditors included a sum of ₹ 5,600, which is not to be paid off.

Prepare the following:

- Revaluation Account.
- Partners' Capital Accounts.
- Balance Sheet of New Partnership firm after admission of 'Atif'. **(15 Marks)**

- (b) Mr. Zen runs a factory, which produces detergents. Following details were available in respect of his manufacturing activities for the year ended 31-03-2023.

Opening work-in-progress (81,000 units)	2,34,000
Closing work-in-progress (1,26,000 units)	4,32,000
Opening inventory of Raw Materials	23,40,000

Closing inventory of Raw Materials	28,80,000
Purchases	73,80,000
Hire charges of Machinery @ ₹ 0.70 per unit manufactured	
Hire charges of factory	23,40,000
Direct wages-contracted @ ₹ 0.80 per unit manufactured and @ ₹ 0.40 per unit of closing W.I.P.	
Repairs and maintenance	16,20,000
Units produced - 45,00,000 units	

You are required to prepare a Manufacturing Account of Mr. Zen for the year ended 31-03-2023.

(5 Marks)

5. (a) From the following information supplied by The new Hockey club, prepare Receipts and Payments Account and Income and Expenditure Account for the year ended 31st March 2023.

	01.04.2022 ₹	31.03.2023 ₹
Outstanding subscription	70,000	1,00,000
Advance subscription	12,500	15,000
Outstanding salaries	7,500	9,000
Cash in Hand and at Bank	55,000	?
10% Investment	70,000	35,000
Furniture	14,000	7,000
Machinery	5,000	10,000
Sports goods	7,500	12,500

Subscription for the year amount to ₹ 1,50,000/-. Salaries paid ₹ 30,000. Face value of the Investment was ₹ 87,500, 50% of the Investment was sold at 80% of Face Value. Interest on investments was received ₹ 7,000. Furniture was sold for ₹ 4000 at the beginning of the year. Machinery and Sports Goods purchased and put to use at the last date of the year. Charge depreciation @ 15% p.a. on Machinery and Sports goods and @10% p.a. on Furniture.

Following Expenses were made during the year:

Sports Expenses:	₹ 25,000	
Rent:	₹ 12,000 out of which ₹ 1,000 outstanding	
Misc. Expenses:	₹ 2,500	(15 Marks)

- (b) Mr. Magan is engaged in business of selling magazines. Several of his customers pay money in advance for subscribing his magazines. Information related to year ended 31st March 2023 has been given below:

On 1.4.2022 he had a balance of ₹6,00,000 advance from customers of which ₹4,50,000 is related to year 2022-23 while remaining pertains to year 2023-24. During the year 2022-23 he made cash sales of ₹ 15,00,000. You are required to compute:

- (i) Total income for the year 2022-23.
(ii) Total money received during the year if the closing balance in Advance from customers Account is ₹ 5,10,000. **(5 Marks)**

6. (a) FCI Ltd. invited applications for issuing 2,00,000 equity shares of ₹ 20 each.

The amounts were payable as follows:

On application	- ₹ 6 per share
On allotment	- ₹ 10 per share
On first and final call	- ₹ 4 per share

Applications were received for 3,00,000 shares and pro-rata allotment was made to all the applicants. Money overpaid on application was adjusted towards allotment money. Ajeet, who was allotted 6,000 shares, failed to pay the first and final call money. His shares were forfeited. Out of the forfeited shares, 5,000 shares were reissued as fully paid-up @ ₹ 16 per share.

Pass necessary Journal entries to record the above transactions in the books of FCI Ltd.

(10 Marks)

- (b) On 1st April, 2022, Alpha Ltd. took over assets of ₹ 4,50,000 and liabilities of ₹ 60,000 of Beta Ltd. for the purchase consideration of ₹ 4,40,000. It paid the purchase consideration by issuing 8% debentures of ₹ 100 each at 10% premium. On the same date it issued another 3,000, 8% debentures of ₹ 100 at discount of 10% redeemable at the premium of 5% after 5 years. According to the terms of the issue ₹ 30 is payable on application and the balance on the allotment of debenture.

You are required to pass journal entries in the books of Alpha Ltd. for financial year 2022-23.

(5 Marks)

- (c) Write short notes on any two of the following:

- (i) Double entry system.
- (ii) Importance of bank reconciliation to an industrial unit.
- (iii) Del-credere commission.
- (iv) LIFO and FIFO basis of costing of stock.

(5 Marks)