

**MOCK TEST PAPER 2**  
**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) Expenses in connection with obtaining a license for running the Cinema Hall is Revenue Expenditure.
  - (ii) If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.
  - (iii) Stock at the end, if appears in the Trial Balance, is taken only to the Balance Sheet.
  - (iv) Consignment account is of the nature of real account.
  - (v) Partners can share profits or losses in their capital ratio, when there is no agreement.
  - (vi) Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.
- (6 Statements x 2 Marks = 12 Marks)**
- (b) Explain Cash and Mercantile system of accounting. **(4 Marks)**
- (c) Give journal entries (narrations not required) to rectify the following:
- (i) Purchase of Furniture on credit from Samay for ₹ 4,300 posted to Vipin account as ₹ 3,400.
  - (ii) A Sales Return of ₹ 15,000 to Palash was not entered in the financial accounts though it was duly taken in the stock book.
  - (iii) Investments were sold for ₹ 75,000 at a profit of ₹ 15,000 and passed through Sales account.
  - (iv) An amount of ₹ 37,000 withdrawn by the proprietor (Sukhdeep) for his personal use has been debited to Trade Expenses account. **(4 Marks)**
2. (a) M/s Sam, Profit and loss account showed a net profit of ₹ 24,00,000, after considering the closing stock of ₹ 22,50,000 on 31<sup>st</sup> March, 2022. Subsequently the following information was obtained from scrutiny of the books:
- (i) Purchases for the year included ₹ 90,000 paid for new electric fittings for the shop.
  - (ii) M/s Sam gave away goods valued at ₹ 2,40,000 as free samples for which no entry was made in the books of accounts.
  - (iii) Invoices for goods amounting to ₹ 15,00,000 have been entered on 27<sup>th</sup> March, 2022, but the goods were not included in stock.
  - (iv) In March, 2022 goods of ₹ 12,00,000 sold and delivered were taken in the sales for April, 2022.

- (v) Goods costing ₹ 4,50,000 were sent on sale or return in March, 2022 at a margin of profit of 33-1/3% on cost. Though approval was given in April, 2022 these were taken as sales for March, 2022.

You are required to determine the adjusted net profit for the year ended on 31.3.2022 and calculate the value of stock on 31<sup>st</sup> March, 2022.

- (b) S & Co. purchased a machine for ₹1,00,000 on 1.1.2019 Another machine costing ₹1,50,000 was purchased on 1.7.2020. On 31.12.2021 the machine purchased on 1.1.2019 was sold for ₹50,000. The company provides depreciation at 15% on Written Down Value Method. The company closes its accounts on 31st December every year. Prepare – (i) Machinery Account, (ii) Machinery Disposal Account and (iii) Provision for Depreciation Account. **(10 +10 = 20 Marks)**

3. (a) Ramesh had the following bills receivable and bills payable against Ravi.

Date	Bills Receivable	Tenure	Date	Bills Payable	Tenure
1 <sup>st</sup> June	10,200	3 month	29 <sup>th</sup> May	7,500	2 month
5 <sup>th</sup> June	8,700	3 month	3 <sup>rd</sup> June	10,200	3 month
9 <sup>th</sup> June	17,400	1 month	9 <sup>th</sup> June	17,100	1 month
12 <sup>th</sup> June	5,100	2 month			
20 <sup>th</sup> June	5,700	3 month			

15<sup>th</sup> August was a public holiday. However, 6<sup>th</sup> September, was also declared as sudden holiday.

Calculate the average due date, when the payment can be received or made without any loss of interest to either party.

- (b) Attempt any **one** of the following two sub-parts i.e. Either (i) or (ii).

- (i) From the following particulars prepare an account current, as sent by Mr. AB to Mr. XY as on 31<sup>st</sup> October, 2021 by means of product method charging interest @ 5% p.a.

Date	Particulars	(₹)
1 <sup>st</sup> July	Balance due from XY	1,500
20 <sup>th</sup> August	Sold goods to XY	2,500
28 <sup>th</sup> August	Goods returned by XY	400
25 <sup>th</sup> September	XY paid by cheque	1,600
20 <sup>th</sup> October	Received cash form XY	1,000

- (ii) Ms. Sangeeta sends out goods on approval to few customers and includes the same in the Sales Account. On 31.03.2022, the Trade Receivables balance stood at ₹ 1,50,000 which included ₹13,000 goods sent on approval against which no intimation was received during the year. These goods were sent out at 30% over and above cost price and were sent to- Ms. Mansi ₹ 7,800 and Ms. Divya ₹ 5,200.

Ms. Mansi sent intimation of acceptance on 25<sup>th</sup> April, 2022 and Ms. Divya returned the goods on 15<sup>th</sup> April, 2022.

Make the adjustment entries and show how these items will appear in the Balance Sheet as on 31<sup>st</sup> March, 2022. Show also the entries to be made during April, 2022. Value of Closing Inventories as on 31<sup>st</sup> March, 2022 was ₹ 1,00,000.

- (c) Ravi draws a bill for ₹45,000 on Rishi on 15<sup>th</sup> April, 2021 for 3 months, which is returned by Rishi to Ravi after accepting the same. Ravi gets it discounted with the bank for ₹ 44,100 on 18<sup>th</sup> April, 2021 and remits one-third amount to Rishi. On the due date Ravi fails to remit the amount due to Rishi, but he accepts bill of ₹ 52,500 for 3 months, which Rishi discounts for ₹51,300 and remits ₹ 8,475 to Ravi. Before the maturity of the renewed bill Ravi becomes insolvent and only 50% was realized from his estate on 31<sup>st</sup> October, 2021.

Pass necessary Journal entries for the above transactions in the books of Ravi.

**(5 + 5 + 10 = 20 Marks)**

4. (a) Venus and Mercury are partners in a firm, sharing Profits and Losses in the ratio of 3 : 2. The Balance Sheet of Mercury and Venus as on 31.3.2022 was as follow:

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	
Mercury 1,76,000		Less: Provision	<u>800</u>	1,39,200
Venus <u>1,44,000</u>	3,20,000	Investment		10,000
		Cash		<u>62,000</u>
	<u>4,24,000</u>			<u>4,24,000</u>

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

- He is admitted for 1/6<sup>th</sup> share in future profits and to introduce a Capital of ₹ 1,00,000.
- The new profit sharing ratio of Venus, Mercury and Mars will be 3 : 2 : 1 respectively.
- 'Mars' 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 'Mars's share in the profits and the capital contribution made by him to the firm.
- Furniture is to be written down by ₹ 3,480 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 ₹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 'Mars'.
- (b) Ms. Nidhi is engaged in business of selling magazines. Several of her customers pay money in advance for subscribing his magazines. Information related to year ended 31<sup>st</sup> March 2022 has been given below:

On 1.4.2021 he had a balance of ₹6,00,000 advance from customers of which ₹4,50,000 is related to year 2020-21 while remaining pertains to year 2021-22. During the year 2020-21 she made cash sales of ₹ 15,00,000. You are required to compute:

- (i) Total income for the year 2020-21.  
(ii) Total money received during the year if the closing balance in Advance from customers Account is ₹ 5,10,000. **(15 + 5 = 20 Marks)**

5. (a) New State Society showed the following position on 31<sup>st</sup> March, 2021:

Balance Sheet as on 31<sup>st</sup> March, 2021

Liabilities	₹	Assets	₹
Capital fund	15,86,000	Electrical fittings	3,00,000
Expenses payable	14,000	Furniture	1,00,000
		Books	8,00,000
		Investment in securities	3,00,000
		Cash at bank	50,000
		Cash in hand	<u>50,000</u>
	<u>16,00,000</u>		<u>16,00,000</u>

The receipts and payment account for the year ended on 31<sup>st</sup> March, 2022 is given below:

	₹		₹
To Balance b/d		By Electric charges	14,400
Cash at bank 50,000		By Postage and stationary	10,000
Cash in hand <u>50,000</u>	1,00,000	By Telephone charges	10,000
To Entrance fee	60,000	By Books purchased	1,20,000
To Membership subscription	4,00,000	By Outstanding expenses paid	14,000
To Sale proceeds of old papers	3,000	By Rent	1,76,000
To Hire of lecture hall	40,000	By Investment in securities	80,000
To Interest on securities.	16,000	By Salaries	1,32,000
		By Balance c/d	
		Cash at bank	40,000
		Cash in hand	<u>22,600</u>
	<u>6,19,000</u>		<u>6,19,000</u>

You are required to prepare Income and Expenditure account for the year ended 31<sup>st</sup> March, 2022 after making the following adjustments:

Membership subscription included ₹ 20,000 received in advance.

Provide for outstanding rent ₹ 8,000 and salaries ₹ 6,000.

Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.

75% of the entrance fees is to be capitalized.

Interest on securities is to be calculated @ 5% p.a. including purchases made on 1.10.2021 for ₹ 80,000.

- (b) Xavier & Co. employs a team of 9 workers who were paid ₹ 1,20,000 per month each in the year ending 31<sup>st</sup> December, 2020. At the start of 2021, the company raised salaries by 10% to ₹ 1,32,000 per month each.

On 1 July, 2021 the company hired 2 trainees at salary of ₹ 63,000 per month each. The work force are paid salary on the first working day of every month, one month in arrears, so that the employees receive their salary for January on the first working day of February, etc.

You are required to calculate:

- (i) Amount of salaries which would be charged to the profit and loss account for the year ended 31<sup>st</sup> December, 2021.
- (ii) Amount actually paid as salaries during 2021.
- (iii) Outstanding salaries as on 31<sup>st</sup> December, 2021. **(15 + 5 = 20 Marks)**

6. (a) Hari Om Ltd. registered with an authorised equity capital of ₹ 16,00,000 divided into 8,000 shares of ₹ 100 each, issued for subscription of 4,000 shares payable at ₹ 25 per share on application, ₹ 30 per share on allotment, ₹ 20 per share on first call and the balance as and when required. Application money on 4,000 shares was duly received and allotment was made to them. The allotment amount was received in full, but when the first call was made, two shareholders failed to pay the amount on 400 shares each held by them and another shareholder with 400 shares, paid the entire amount on his shares. The company did not make any other call. Give the necessary journal entries in the books of the company to record these transactions.
- (b) Sampati Ltd. issued 300 lakh 8% debentures of ₹100 each at a discount of 6%, redeemable at a premium of 5% after 3 years payable as : ₹ 50 on application and ₹ 44 on allotment.

You are required to prepare the necessary journal entries for issue of debentures.

- (c) From the following particulars, prepare a Bank Reconciliation Statement for Adam Ltd. As on 31.3.2022
- (1) Balance as per cash book is ₹ 6,00,000.
- (2) Cheques issued but not presented in the bank amounts to ₹ 3,40,000.
- (3) Bank charges amounts to ₹ 1,500.
- (4) Interest credited by bank amounts to ₹ 7,500.

**OR**

- (c) Explain in brief objective and advantages of setting Accounting Standards.

**(10 + 5 + 5 = 20 Marks)**