

FOUNDATION COURSE

MOCK TEST PAPER

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) 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.
 - (iii) Accrual concept implies accounting on cash basis.
 - (iii) Finished goods are normally valued at cost or market price whichever is higher.
 - (iv) Discount at the time of retirement of a bill is a gain for the drawee.
 - (v) Partners can share profits or losses in their capital ratio, when there is no agreement.
 - (vi) Receipts and Payments Account highlights total income and expenditure.
- (6 Statements x 2 Marks = 12 Marks)**
- (b) Explain Cash and Mercantile system of accounting. **(4 Marks)**
- (c) Prepare Journal Entries for the following transactions in the books of Gamma Bros.
- (i) Employees had taken stock worth Rs. 10,000 (Cost price Rs. 7,500) on the eve of Deepawali and the same was deducted from their salaries in the subsequent month.
 - (ii) Wages paid for erection of Machinery Rs. 8,000.
 - (iii) Income tax liability of proprietor Rs. 1,700 was paid out of petty cash.
 - (iv) Purchase of goods from Naveen of the list price of Rs. 2,000. He allowed 10% trade discount, Rs. 50 cash discount was also allowed for quick payment. **(4 Marks)**
2. (a) M/s Kedar, Profit and loss account showed a net profit of Rs. 8,00,000, after considering the closing stock of Rs. 7,50,000 on 31st March, 2017. Subsequently the following information was obtained from scrutiny of the books:
- (i) Purchases for the year included Rs. 30,000 paid for new electric fittings for the shop.
 - (ii) M/s Kedar gave away goods valued at Rs. 80,000 as free samples for which no entry was made in the books of accounts.
 - (iii) Invoices for goods amounting to Rs. 5,00,000 have been entered on 27th March, 2017, but the goods were not included in stock.
 - (iv) In March, 2017 goods of Rs. 4,00,000 sold and delivered were taken in the sales for April, 2017.
 - (v) Goods costing Rs. 1,50,000 were sent on sale or return in March, 2017 at a margin of profit of 33-1/3% on cost. Though approval was given in April, 2017 these were taken as sales for March, 2017.

You are required to **determine** the adjusted net profit for the year ended on 31.3.2017 and calculate the value of stock on 31st March, 2017.

- (b) The M/s LG Transport purchased 10 trucks at Rs. 45,00,000 each on 1st April 2014. On October 1st, 2016, one of the trucks is involved in an accident and is completely destroyed and Rs. 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 Rs. 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 motor truck account for two year ending 31 Dec, 2017.

(10 Marks +10 Marks = 20 Marks)

3. (a) On 1st January, 2018, X's account in Y's ledger showed a debit balance of Rs. 5,000. The following transactions took place between Y and X during the quarter ended 31st March, 2018:

2018			Rs.
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, 2018 by means of a cheque. Prepare an Account Current to be submitted by Y to X as on 31st March, 2018, taking interest into account @ 10% per annum. Calculate interest to the nearest multiple of a rupee.

- (b) Mr. B accepted a bill for Rs. 10,000 drawn on him by Mr. A on 1st August, 2017 for 3 months. This was for the amount which B owed to A. On the same date Mr. A got the bill discounted at his bank for Rs. 9,800.

On the due date, B approached A for renewal of the bill. Mr. A agreed on condition that Rs. 2,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance B should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2017, B became insolvent and his estate paid 40%.

Prepare Journal Entries in the books of Mr. A

(10 Marks +10 Marks = 20 Marks)

4. (a) The Balance Sheet of a Partnership Firm M/s AB & Co consisted of two partners A and B who were sharing Profits and Losses in the ratio of 5 : 3 respectively. The position as on 31-03-2018 was as follows:

Liabilities	Rs.	Assets	Rs.
A's Capital	4,10,000	Land & Building	3,80,000
B's Capital	3,30,000	Plant & Machinery	1,70,000
Profit & Loss A/c	1,12,000	Furniture	1,09,480
Trade Creditors	54,800	Stock	1,45,260
		Sundry debtors	60,000
		Cash at Bank.	42,060
	9,06,800		9,06,800

On the above date, C was admitted as a partner on the following terms:

- C should get $\frac{1}{5}$ th of share of profits.
- C brought Rs. 2,40,000 as his capital and Rs. 32,000 for his share of Goodwill.
- Plant and Machinery would be depreciated by 15% and Land & Buildings would be appreciated by 40%.

A provision for doubtful debts to be created at 5% on sundry debtors.

An unrecorded liability of Rs. 6,000 for repairs to Buildings would be recorded in the books of accounts.

- Immediately after C's admission, Goodwill brought by him would be adjusted among old partners. Thereafter, the capital accounts of old partners would be adjusted through the current accounts of partners in such a manner that the capital accounts of all the partners would be in their profit sharing ratio.

Prepare Revaluation A/c, Capital Accounts of the partners, New profit sharing ratio and Balance Sheet of the Firm after the admission of C.

- Mr. Kotriwal 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 2017 has been given below:

On 1.4.2016 he had a balance of Rs.2,00,000 advance from customers of which Rs.1,50,000 is related to year 2016-17 while remaining pertains to year 2017-18. During the year 2016-17 he made cash sales of Rs. 5,00,000. You are required to compute:

- Total income for the year 2016-17.
- Total money received during the year if the closing balance in Advance from customers Account is Rs. 1,70,000. **(12 Marks + 8 Marks = 20 Marks)**

- A doctor, after retiring from govt. service, started private practice on 1st April, 2017 with Rs. 20,000 of his own and Rs. 30,000 borrowed at an interest of 15% per annum on the security of his life policies. His accounts for the year were kept on a cash basis and the following is his summarized cash account:

	Rs.		Rs.
Own capital	20,000	Medicines purchased	24,500
Loan	30,000	Surgical equipments	25,000
Prescription fees	52,500	Motor car	32,000
Gifts from patients	13,500	Motor car expenses	12,000
Visiting fees	25,000	Wages and salaries	10,500
Fees from lectures	2,400	Rent of clinic	6,000
Pension received	30,000	General charges	4,900
		Household expenses	18,000
		Household Furniture	2,500
		Expenses on daughter's marriage	21,500
		Interest on loan	4,500
		Balance at bank	11,000
		Cash in hand	<u>1,000</u>
	<u>1,73,400</u>		<u>1,73,400</u>

You are required to prepare his capital account and income and expenditure account for the year ended 31st March, 2018 and balance sheet as on that date. One-third of the motorcar expense may be treated as applicable to the private use of car and Rs. 3,000 of the wages and salaries are in respect of domestic servants.

The stock of medicines in hand on 31st March, 2018 was valued at Rs. 9,500.

- (b) From the information given below, calculate (i) Current Ratio and (ii) Debt to Equity Ratio:

Net Profit of the year Rs. 80,000, Fixed Assets Rs. 2,00,000; Closing Inventory Rs. 10,000; Other Current Assets Rs. 1,00,000; Current Liabilities Rs. 30,000; Share Capital Rs. 1,70,000; 12% Debenture Rs. 60,000. **(15 Marks + 5 Marks = 20 Marks)**

6. (a) Mohan Ltd. invited applications for 15 lakhs shares of Rs. 100 each payable as follows :

	Rs.
On Application	20
On Allotment (on 1st June, 2017)	30
On First Call (on 1st Nov., 2017)	30
On Final Call (on 1st March., 2018)	20

All the shares were applied for and allotted. A shareholder holding 30,000 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, 2018.

- (b) Riya Limited issued 20,000 14% Debentures of the nominal value of Rs.1,00,00,000 as follows:

- To sundry persons for cash at 90% of nominal value of Rs. 50,00,000.
- To a vendor for purchase of fixed assets worth Rs. 20,00,000 – Rs. 25,00,000 nominal value.
- To the banker as collateral security for a loan of Rs. 20,00,000 – Rs. 25,00,000 nominal value.

You are required to prepare necessary journal entries Journal Entries.

- (c) From the following particulars, **prepare** a Bank Reconciliation Statement for Pathak Ltd. As on 31.3.2017

- Balance as per cash book is Rs. 1,20,000.
- Cheques issued but not presented in the bank amounts to Rs. 68,000.
- Bank charges amounts to Rs. 300.
- Interest credited by bank amounts to Rs. 1,500.

(10 + 5 + 5 = 20 Marks)

OR

- (c) Difference between Going Concern Concept and Cost Concept.