Mock Test Paper - Series I: April, 2024

Date of Paper: 29th April, 2024

Time of Paper: 2 P.M. to 5 P.M.

FOUNDATION COURSE

PAPER – 1: ACCOUNTING

ANSWERS

1. (a) (i) **False -** Accounting Standards for non-corporate entities in India are issued by the Institute of Chartered Accountants of India (ICAI)..

(ii) **True -** Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt because it has no effect on improvement of future capability of business in revenue generation.

(iii) **True -** In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high in the initial period and reduces continuously in the later periods. Thus, depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.

(iv) **True -** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

(v) **False -** Surviving partners may continue to carry on the business in case of partnership.

(vi) **False -** Receipts and payments account is a classified summary of cash receipts and payments over a certain period together with cash and bank balances at the beginning and close of the period.

(b) Limitations which must be kept in mind while evaluating the Financial Statements are as follows:

- The factors which may be relevant in assessing the worth of the enterprise don't find place in the accounts as they cannot be measured in terms of money.
- Balance Sheet shows the position of the business on the day of its preparation and not on the future date while the users of the accounts are interested in knowing the position of the business in the near future and also in long run and not for the past date.
- Accounting ignores changes in some money factors like inflation etc.
- There are occasions when accounting principles conflict with each other.

- Certain accounting estimates depend on the sheer personal judgement of the accountant.
- Different accounting policies for the treatment of same item adds to the probability of manipulations.

(c) Calculation of depreciation for the year ended 31.3.24

	Machine I (28,54,000 - 2,16,000) ₹	Machine II Purchased on 1st July ₹	Machine III Purchased on 1st Nov ₹	Depreciation on sold machine IV ₹
Book value as on 1st April, 2023	26,38,000	4,80,000	5,60,000	2,16,000
Depreciation @15%	3,95,700 (for full year)	54,000 (for 9 months)	35,000 (for 5 months)	8,100 (for 3 months)

Total depreciation (I + II + III + IV) ₹ 4,92,800

2. (a)

	Particulars		***L.F.***	***Dr.*** ₹	***Cr.*** ₹
(i)	Suspense Account	Dr.		936	
	To Profit and Loss Adjustment A/c				936
	(Correction of error by which Purchase Account was over debited last year)				
(ii)	Profit & Loss Adjustment A/c	Dr.		180	
	Customer's Account	Dr.		1,104	
	To Suspense Account				1,284
	(Correction of the entry by which (a) Sales A/c was over credited by ₹ 180 (b) customer was credited by ₹642 instead of being debited by ₹ 462)				
(iii)	Suspense Account	Dr.		600	
	To Profit & Loss Adjustment A/c				600
	(Correction of error by which Returns Inward Account was				

	debited by ₹ 300 instead of Returns Outwards Account being credited by ₹ 300)				
(iv)	Suspense Account To Geet Account To Meet Account (Removal or wrong debit to Meet and giving credit to Geet from whom cash was received)	Dr.		1,790	 895 895
(v)	Customer's Account To Profit & Loss Adjustment A/c (Rectification of the error arising from non-preparation of invoice for goods delivered)	Dr.		1,400	 1,400
(vi)	Profit & Loss Adjustment A/c To Customer's Account (The Customer's A/c credited with goods not yet purchased by him)	Dr.		1600	 1,600
(vii)	Inventory A/c To Profit & Loss Adjustment A/c (Cost of goods debited to inventory and credited to Profit & Loss Adjustment A/c)	Dr.		1280	 1280
(viii)	Trade receivable/ Manas's Account To Suspense Account (₹500 due by Manas not taken into trial balance, now rectified)	Dr.		500	 500
(ix)	Deep's account/Trade receivable To Profit & Loss Adjustment A/c (Sales to Deep omitted, now rectified)	Dr.		6,000	 6,000
(x)	Profit & Loss Adjustment A/c To Bhatt's Capital Account (Transfer of the Profit & Loss Adjustment A/c balance to the Capital Account)	Dr.		8,436	 8,436

(b) Bank Reconciliation Statement as on 31st March, 2024

Particulars	***₹***
Bank balance (Debit i.e. overdraft) as per Bank Pass book	1,34,300

(i) No adjustment required as there would be no difference on 31.3.24	
(ii) *Add:* No entry in Cash book for interest collection by Bank	11,200
(iii) *Less:* Amount debited in cash book for pending cheques in collection but not credited in Pass Book	(30,000)
(iv) *Add:* Cheque credited in cash book but not debited in pass book	10,000
(v) *Add:* Reversal of wrong Credit	2,000
Less: Reversal of wrong debit	(1,200)
(vi) *Less:* Cheque of ₹ 1,000 entered in cash book but omitted to be banked	(4,000)
(vii) *Less:* Discounted dishonored but no entry in Cash book	(20,800)
(viii) *Add:* Rebate on bill retired not entered in cash book	700
(viii) *Add:* Cheques deposited in bank not yet recorded in cash book	9,600
Balance (Cr. i.e. overdraft) as per Cash book	1,11,800

Note: A cheque of ₹ 4,320 credited in Pass Book on 28th March, 2024 and later debited in Pass Book on 1st April, 2024 has no effect on Bank Reconciliation statement as at 31st March, 2024.

3. (a) Trading and Profit and Loss Account

for the year ended 31st December, 2023

		Amount			*Amount*
		₹			₹
To	Opening stock	50,000	By	Sales (₹ 2,60,000 × 125/ 100)	3,25,000
To	Purchases (balancing figure)	2,72,500	By	Closing stock	62,500
To	Gross profit c/d (₹ 2,60,000 × 25/ 100)	65,000			
		3,87,500			3,87,500
To	Expenses	49,250	By	Gross profit b/d	65,000
To	Loss on sale of fixed assets	750			
To	Depreciation on fixed assets (W.N.1)	1,000			
To	Net profit	14,000			
		65,000			65,000

Balance Sheet as on 31st December, 2023

		Amount		*Amount*
Liabilities		₹	*Assets*	₹
Capital (W.N. 5)	1,69,000		Fixed assets	9,000
Add: Additional capital	5,000		Debtors (W.N. 3)	87,500
Net profit	14,000		Stock	62,500
	1,88,000		Bank balance	50,000
Less: Drawings	(25,000)	1,63,000		
Creditors		46,000		
		2,09,000		2,09,000

Working Notes:

1. Fixed assets account

	₹		₹
To Balance b/d	7,500	By Bank (sale)	1,750
To Bank	5,000	By Loss on sale of fixed asset (2,500-1,750)	750
		By Depreciation (balancing figure)	1,000
		By Balance c/d	9,000
	12,500		12,500

2. Bank account

	₹		₹
To Balance b/d (balancing figure)	62,500	By Creditors	2,80,000
To Debtors	3,40,000	By Expenses	49,250
To Capital	5,000	By Drawings	25,000
To Sale of fixed assets	1,750	By Fixed assets	5,000
		By Balance c/d	50,000
	4,09,250		4,09,250

3. Debtors account

	₹		₹
To Balance b/d	1,02,500	By Bank	3,40,000
To Sales (₹ 2,60,000 $\times \frac{125}{100}$)	3,25,000	By Balance c/d (balancing figure)	87,500
	4,27,500		4,27,500

4. Creditors account

	₹		₹
To Bank	2,80,000	By Balance b/d (balancing figure)	53,500
To Balance c/d	46,000	By Purchases (from trading account)	2,72,500
	3,26,000		3,26,000

5. Balance Sheet as on 1st January, 2023

Liabilities	₹	*Assets*	₹
Creditors (W.N. 4)	53,500	Fixed assets	7,500
Capital (balancing figure)	1,69,000	Debtors	1,02,500
		Stock	50,000
		Bank balance (W.N. 2)	62,500
	2,22,500		2,22,500

(b) Revaluation Account

Particulars	₹	Particulars	₹
To Stock	1,500	By Land & Building	25,000
To revaluation profit		By Provision for doubtful debt	2,000
Arun	8,500		
Varun	8,500		
Tarun	8,500		
	27,000		27,000

Partners' Capital Accounts

Particulars	Arun	Varun	Tarun	Particulars	Arun	Varun	Tarun
To Tarun	4,375	4,375	-	By Bal b/d	1,00,000	75,000	75,000
To Tarun's Executor	-	-	98,125	By General reserve	4,000	4,000	4,000
				By Arun & Varun	-	-	8,750
To Bal. c/d	1,08,125	83,125		By Profit and Loss Adjustment* (suspense) A/c	-	-	1,875
				By Revaluation	8,500	8,500	8,500
	1,12,500	87,500	98,125		1,12,500	87,500	98,125

*Profit and Loss Adjustment = [(25,000 + 20,000 + 22,500)/3] x 3/12 x 1/3 = 1,875

Balance Sheet of Firm as on 1st July,2024

Particulars	₹	Particulars	₹
Arun	1,08,125	Land & Building	1,75,000
Varun	83,125	Investment	65,000
Tarun Executor	98,125	Stock	13,500
Creditors	20,000	Trade receivable	35,000
		Profit & Loss Adjustment	1,875
		Cash in hand	7,000
		Cash at bank	12,000
	3,09,375		3,09,375

Calculation of goodwill and Tarun's share

Average of last five year's profits and losses for the year ended on 31st March

31.3.2019	28,750
31.3.2020	35,000
31.3.2021	22,500
31.3.2022	20,000
31.3.2023	25,000
Total	1,31,250
Average profit	26,250

Goodwill at 1 year purchase = ₹ 26,250 x 1 = ₹ 26,250

Tarun's Share of Goodwill = ₹ 26,250X1/3

= ₹ 8,750

Which is contributed by Arun and Varun in their gaining Ratio

Arun = ₹ 8,750X1/2 =₹ 4375

Varun =₹ 8,750X1/2 = ₹ 4375

4. (a) **Statement of Distribution of Cash by 'Maximum Loss Method'**

		Creditors ₹	*Amar's Loan* ₹	*Amar* ₹	*Akbar* ₹	*Antony* ₹
Balance due		80,000	20,000	1,00,000	30,000	90,000
15th April 2024 realised	₹ 60,000					
Paid to creditors		(60,000)	-	-	-	-
Balance due		20,000	20,000	1,00,000	30,000	90,000
1st May, 2024 realised	₹ 1,46,000					
Paid to creditors	(₹ 20,000)	20,000	-	-	-	-
Paid to Amar's loan	(₹ 20,000)	-	20,000	-	-	-
Balance due (1)		Nil	Nil	1,00,000	30,000	90,000
Balance	₹ 1,06,000					

Maximum Loss (1,00,000 + 30,000 + 90,000 - 1,06,000) = ₹ 1,14,000 shared in Profit & Loss ratio 5:3:2			(57,000)	(34,200)	(22,800)
			43,000	(4,200)	67,200
Akbar's deficiency shared by Amar & Antony in capital ratio 100:90			(2,210)	4,200	(1,990)
Cash paid [2]			40,790	-	65,210
Balance due (3) [1-2]			59,210	30,000	24,790
31st May 2024 realised ₹ 94,000					
Maximum Loss [59,210 + 30,000 + 24,790 - 94,000] = ₹ 20,000 shared in 5:3:2			(10,000)	(6,000)	(4,000)
Cash paid (4)			49,210	24,000	20,790
Balance/Loss* on realisation (3-4)			10,000	6,000	4,000

(b) Subscription for the year ended 31.3.2024

		₹
Subscription received during the year		33,75,000
Less: Subscription receivable on 1.4.2023	1,01,250	
Less: Subscription received in advance on 31.3.2024	47,250	(1,48,500)
		32,26,500
Add: Subscription receivable on 31.3.2024	1,48,500	
Add: Subscription received in advance on 1.4.2023	81,000	2,29,500
Amount of Subscription appearing in Income & Expenditure Account		34,56,000

Sports material consumed during the year end 31.3.2024

	₹
Payment for Sports material	20,25,000
Less: Amounts due for sports material on 1.4.2023	(6,07,500)
	14,17,500
Add: Amounts due for sports material on 31.3.2024	8,77,500
Purchase of sports material	22,95,000
Sports material consumed:	
Stock of sports material on 1.4.2023	6,75,000
Add: Purchase of sports material during the year	22,95,000
	29,70,000
Less: Stock of sports material on 31.3.2024	(10,12,500)
Amount of Sports Material appearing in Income & Expenditure Account	19,57,500

Balance Sheet of M/s Zara Club For the year ended 31st March, 2024(An extract)

Liabilities	₹	Assets	₹
Unearned Subscription	47,250	Subscription receivable	1,48,500
Amount due for sports material	8,77,500	Stock of sports material	10,12,500

5. (a) Trial Balance of Shri. Hari Om as on 31st March, 2024

Particulars	Dr. Amount ₹	Cr. Amount ₹
Capital		4,20,000
Purchases	1,08,000	
Discount Allowed	3,600	
Carriage Inward	26,100	
Carriage Outwards	6,900	
Sales		1,80,000
Return Inward	900	
Return Outwards		2,100
Rent and taxes	3,600	
Plant and Machinery	2,42,100	
Stock on 1st April,2023	46,500	
Sundry Debtors	60,600	
Sundry Creditors		36,000
Investments	10,800	
Commission Received		5,400
Cash in Hand	300	
Cash at Bank	30,300	
Motor Cycle	1,03,800	
	6,43,500	6,43,500

Note: Stock as on 31st March,2024 will not appear in trail balance.

(b) (i) (1) Journal Proper in the Books of M/s. VS Wires

Date 2024	Particulars		Amount ₹	Amount ₹
Mar. 31	Returns outward A/c	Dr.	4,32,000	
	To Purchases A/c			4,32,000
	(Being the transfer of returns to purchases account)			
	Sales A/c	Dr.	6,00,000	
	To Returns Inward A/c			6,00,000
	(Being the transfer of returns to sales account)			

.	Sales A/c To Trading A/c (Being the transfer of balance of sales account to trading account)	Dr.	60,00,000	 60,00,000
	Trading A/c To Opening Inventory A/c To Purchases A/c To Wages A/c To Carriage Inwards A/c (Being the transfer of balances of opening inventory, purchases and wages accounts)	Dr.	46,80,000	 6,00,000 36,00,000 3,00,000 1,80,000
	Closing Inventory A/c To Trading A/c (Being the incorporation of value of closing Inventory)	Dr.	12,00,000	 12,00,000
	Trading A/c To Gross Profit (Being the amount of gross profit calculated)	Dr.	25,20,000	 25,20,000
	Gross profit To Profit and Loss A/c (Being the transfer of gross profit to Profit and Loss Account)	Dr.	25,20,000	 25,20,000

OR

(ii) In the Books of Mr. Mandeep

Manufacturing Account for the Year ended 31.03.2024

Particulars		Units	Amount ₹	Particulars	Units	Amount ₹
To Opening Work-in-Process		27,000	78,000	By Closing Work-in-Process	42,000	1,44,000
To Raw Materials Consumed:				By Trading A/c – Cost of finished goods transferred	15,00,000	58,00,800
Opening Inventory	7,80,000					
Add: Purchases	24,60,000					
	32,40,000					

Closing Inventory	(9,60,000)		22,80,000			
To Direct Wages – W.N. (1)			12,16,800			
To Direct expenses: Hire charges on Machinery – W.N. (2)			10,50,000			
To Indirect expenses: Hire charges of Factory			7,80,000			
Repairs & Maintenance			5,40,000			
			59,44,800			59,44,800

Working Notes:

(1) Direct Wages – 1,500,000 units @ ₹0.80 = ₹ 12,00,000

42,000 units @ ₹0.40 = ₹ 16,800

₹ 12,16,800

(2) Hire charges on Machinery – 15,00,000 units @ ₹ 0.70 = ₹ 10,50,000

(c)

Sr. No.	Particulars		Dr (₹)	Cr (₹)
(i)	Bank A/c	Dr.	2,25,000	
	To Equity Share Capital A/c			1,50,000
	To Securities Premium A/c			75,000
	(Being 15,000 Equity Shares Issued at a premium of ₹ 5)			
(ii)	Securities Premium A/c	Dr	75,000	
	Profit & Loss A/c	Dr	75,000	
	To Bonus to Equity Shareholders A/c			1,50,000
	(Being amount transferred for issue of Bonus Shares to ESH in the ratio of 1:5)			
(iii)	Bonus to Equity Shareholders A/c	Dr.	1,50,000	
	To Equity Share Capital A/c			1,50,000
	(Being bonus shares issued)			
(iv)	12% Debentures A/c	Dr	3,60,000	
	Premium on Redemption A/c	Dr	10,800	

	To Debenture Holders A/c (Being amount payable to debenture holders)			3,70,800
(v)	Profit & Loss A/c To Premium on Redemption A/c (Being premium on redemption transferred to P&L)	Dr	10,800	10,800
(vi)	Debenture Redemption Reserve A/c To General Reserve (Being DRR transferred to General Reserve)	Dr	36,000	36,000
(vii)	Bank A/c To DRR Investment A/c (Being DRR Investment sold)	Dr	54,000	54,000
(viii)	Debenture Holders A/c To Bank A/c (Being Debenture Holders paid)		3,70,800	3,70,800

6. (a) Journal of Avent Limited

Date 2023	*Particulars*		*Dr.* ₹	*Cr.* ₹
May 31	Bank A/c (Note 1 – Column 3) To Equity Share Application A/c (Being application money received on 5,60,000 shares @ ₹ 2 per share)	Dr.	11,20,000	11,20,000
June 10	Equity Share Application A/c To Equity Share Capital A/c To Equity Share Allotment A/c (Note 1 - Column 5) To Bank A/c (Note 1– Column 6) (Being application money on 1,35,000 shares transferred to Equity Share Capital Account; on 2,75,000 shares	Dr.	11,20,000	2,70,000 5,50,000 3,00,000

	adjusted with allotment and on 1,50,000 shares refunded as per Board's Resolution No…..dated…)			
	Equity Share Allotment A/c	Dr.	6,75,000	
	To Equity Share Capital A/c			1,35,000
	To Securities Premium A/c			5,40,000
	(Being allotment money due on 1,35,000 shares @ ₹ 5 each including premium at ₹4 each as per Board's Resolution No….dated….)			
	Bank A/c (Note 1 – Column 8)	Dr.	1,25,000	
	To Equity Share Allotment A/c			1,25,000
	(Being balance allotment money received)			
Dec. 31	Equity Share Final Call A/c	Dr.	9,45,000	
	To Equity Share Capital A/c			9,45,000
	(Being final call money due on 1,35,000 shares @₹ 7 per share as per Board's Resolution No…..dated….)			
	Bank A/c	Dr.	9,45,000	
	To Equity Share Final Call A/c			9,45,000
	(Being final call money on 1,35,000 shares @ ₹ 7 each received)			

Working Note:

Calculation for Adjustment and Refund

Cate-gory	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application	Amount Required on Application	Amount adjusted on Allotment	Refund [3 – (4 + 5)]	Amount due on Allotment	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(i)	10,000	10,000	20,000	20,000	Nil	Nil	50,000	50,000
(ii)	50,000	25,000	1,00,000	50,000	50,000	Nil	1,25,000	75,000
(iii)	5,00,000	1,00,000	10,00,000	2,00,000	5,00,000	3,00,000	5,00,000	Nil
TOTAL	5,60,000	1,35,000	11,20,000	2,70,000	5,50,000	3,00,000	6,75,000	1,25,000

Also,

(i) Amount Received on Application (3) = No. of shares applied for (1) X ₹2

(ii) Amount Required on Application (4) = No. of shares allotted (2) X ₹ 2

(b) Following factors are taken into consideration for calculation of depreciation.

1. **Cost of asset** including expenses for installation, commissioning, trial run etc.- Cost of a depreciable asset represents its money outlay or its equivalent in connection with its acquisition, installation and commissioning as well as for additions to or improvement thereof for the purpose of increase in efficiency.

2. **Estimated useful life of the asset** - Useful Life' is either (i) the period over which a depreciable asset is expected to be used by the enterprise or (ii) the number of production or similar units expected to be obtained from the use of the asset by the enterprise. Determination of the useful life is a matter of estimation and is normally based on various factors including experience with similar type of assets. Several other factors like estimated working hours, production capacity, repairs and renewals, etc. are also taken into consideration on demanding situation.

3. **Estimated scrap value** (if any) is calculated at the end of useful life of the asset. If such value is considered as insignificant, it is normally regarded as nil. On the other hand, if the residual value is likely to be significant, it is estimated at the time of acquisition/installation, or at the time of subsequent revaluation of asset.

Or

(b) Bills of Exchange are usually drawn to facilitate trade transmission, that is, bills are meant to finance actual purchase and sale of goods. But the mechanism of bill can be utilised to raise finance also. When bills are used for such a purpose, they are known as accommodation bills.

When the acceptor of a bill finds himself in financial straits to honour the bill on the due date, then he may request the drawer to cancel the original bill and draw on him a fresh bill for another period. And if the drawer agrees, a new bill in place of the original bill may be accepted by the drawee for another period. This is called the renewal of bill.