

Mock Test Paper - Series III: June, 2024

Date of Paper: 5th June, 2024

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

FOUNDATION COURSE

PAPER – 1: 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:
- Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt.
 - If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.
 - The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.
 - Limited Liability Partnership (LLP) is governed by Indian Partnership Act, 1932.
 - Nominal Accounts are kept under Single Entry System.
 - A person holding preference shares of a company cannot hold equity shares of the same company.

(6 Statements x 2 Marks = 12 Marks)

(b) Differentiate between provision and contingent liability. (4 Marks)

(c) Give journal entries to rectify the following errors located in the books of a trader after preparing the trial balance:

- An amount of ₹ 13,500 received on account of interest was credited to commission account.
- A sale of ₹ 5,920 was posted from sales book to the debit of M/sKamal traders at ₹ 5,290.
- ₹ 44,000 paid for purchase of Air conditioner for the personal use of proprietor debited to Machinery A/c.
- Goods returned by customer for ₹ 20,000. The same have been taken into stock but no entry passed in the books of accounts.

(4 Marks)

2. (a) A Firm purchased an old Machinery for ₹ 37,000 on 1st January, 2020 and spent ₹ 3,000 on its overhauling. On 1st July 2021, another machine was purchased for ₹ 10,000. On 1st July 2022, the machinery which was purchased on 1st January 2020, was sold for ₹ 28,000 and the same day a new machinery costing ₹ 25,000 was purchased. On 1st July, 2023, the machine which was purchased on 1st July, 2021 was sold for ₹ 2,000.

Depreciation is charged @ 10% per annum on straight line method. The firm changed the method and adopted diminishing balance method with effect from 1st January, 2021 and the rate was increased to 15% per annum. The books are closed on 31st December every year.

Prepare Machinery account for four years from 1st January, 2020.

(10 Marks)

- (b) Ram Setu 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, 2024 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2024 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2024 with the stock figure as on 31st December, 2023 and some other information is available to you:

- (i) The cost of stock on 31st December, 2023 as shown by the inventory sheet was ₹ 7,20,000.
- (ii) On 31st December, stock sheet showed the following discrepancies:
- (a) A page total of ₹ 45,000 had been carried to summary sheet as ₹ 54,000.
- (b) The total of a page had been undercast by ₹1,800.
- (iii) Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2024 totalled ₹ 6,30,000. Out of this ₹ 27,000 related to goods received prior to 31st December, 2023. Invoices entered in April, 2024 relating to goods received in March, 2024 totalled ₹ 36,000.
- (iv) Sales invoiced to customers totalled ₹ 8,10,000 from January to March, 2024. Of this ₹ 45,000 related to goods dispatched before 31st December, 2023. Goods dispatched to customers before 31st March, 2024 but invoiced in April, 2024 totalled ₹ 36,000.
- (v) During the final quarter, credit notes at invoiced value of ₹ 9,000 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, 2024.

(10 Marks)

(10 +10 = 20 Marks)

3. (a) Dr. Gulleria started private practice on 1st April, 2023 with ₹ 2,00,000 of his own fund and ₹ 3,00,000 borrowed at an interest of 12 p.a. 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:

Receipts	₹	Payments	₹
Own Capital	2,00,000	Medicines Purchased	2,45,000
Loan	3,00,000	Surgical Equipment	2,50,000
Prescription Fees	6,60,000	Motor Car	3,20,000
Visiting Fees	2,50,000	Motor Car Expenses	1,20,000
Lecture Fees	24,000	Wages and Salaries	1,05,000
Pension Received	3,00,000	Rent of Clinic	60,000
		General Charges	49,000
		Household Expenses	1,80,000
		Household Furniture	25,000
		Expenses on Daughter's college admission	2,15,000
		Interest on Loan	36,000
		Balance at Bank	1,10,000
		Cash in Hand	19,000
	17,34,000		17,34,000

1/3rd of the motor car expenses may be treated as applicable to the private use of car and ₹ 30,000 of salaries are in respect of domestic servants. The stock of medicines in hand on 31st March, 2024 was valued at ₹ 95,000.

You are required to prepare his private practice income and expenditure account and capital account for the year ended 31st March, 2024. Ignore depreciation on fixed assets. **(8 Marks)**

- (b) P Q and R are partners sharing profits in the ratio of 3:2:1. Their Balance Sheet as at 31st March, 2024 stood as:

Liabilities	₹	Assets	₹
Capital Accounts		Building	10,00,000
P	8,00,000	Furniture	2,40,000
Q	4,20,000	Office equipments	2,80,000
R	<u>4,00,000</u>	Stock	2,50,000
Sundry Creditors	3,70,000	Sundry debtors	3,00,000
General Reserves	3,60,000	Less: Provision for Doubtful debts	<u>30,000</u>
			2,70,000

		Cash at Bank	3,10,000
	23,50,000		23,50,000

Q retired on 1st April, 2024 subject to the following conditions:

- (i) Office Equipments revalued at ₹ 3,27,000.
- (ii) Building revalued at ₹ 15,00,000. Furniture is written down by ₹ 40,000 and Stock is reduced to Rs,2,20,000.
- (iii) Provision for doubtful debts is to be created @ 5% on debtors.
- (iv) Goodwill was to be valued at 3 years purchase of average 4 years profit which were:

Year	₹
2020	90,000
2021	1,40,000
2022	1,20,000
2023	1,30,000

- (v) Amount due to Q is to be transferred to his Loan Account.

Prepare the Revaluation Account, Partners' Capital Accounts and the Balance Sheet immediately after Q's retirement. **(12 Marks)**

(8 + 12= 20 Marks)

4. (a) The following is the Balance Sheet of A, B, C on 31st December, 2023 when they decided to dissolve the partnership:

Liabilities	₹	Assets	₹
Creditors	3,000	Sundry Assets	72,750
A's Loan	7,500	Cash	750
Capital Accounts:			
A	22,500		
B	27,000		
C	13,500		
	73,500		73,500

The assets realized the following sums in installments:

Inst.	₹
I	1,500
II	4,500
III	5,850
IV	9,000
V	30,150
	51,000

The expenses of realization were expected to be ₹750 but ultimately amounted to ₹600 only. Show how at each stage the cash received should be distributed between partners. They share profits in the ratio of 2:2:1. **(8 Marks)**

- (b) The following are the balances as at 31st March, 2024 extracted from the books of Mr. Chauhan.

Particulars	₹	Particulars	₹
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:

- Purchases include sales return of ₹ 5,150 and sales include purchases return of ₹ 3,450.
- Free samples distributed for publicity costing ₹ 1,650.
- Wages paid in the month of April for installation of plant and machinery amounting to ₹ 900 were included in wages account.
- Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
- Depreciation is to be provided on plant and machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.
- Closing stock as on 31st March, 2024 is ₹ 2,50,000.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2024, and a Balance Sheet as on that date. **(12 Marks)**

(8+12= 20 Marks)

5. (a) Bharat owed ₹50,000 to Katen. On 1st October, 2023, Bharat accepted a bill drawn by Katen for the amount at 3 months. Katen got the bill discounted with his bank for ₹ 49,500 on 3rd October, 2023. Before the due date, Bharat approached Katen for renewal of the bill. Katen agreed on the conditions that ₹25,000 be paid immediately together with interest on the remaining amount at 12% per annum for 3 months and for the balance, Bharat should accept a new bill at three months. These arrangements were carried out. But afterwards, Bharat became insolvent and 40% of the amount could be recovered from his estate.

Pass journal entries in the books of Katen.

(5 Marks)

- (b) Attempt any ONE out of the two sub parts i.e. either (i) or (ii).

- (i) Ms. Manisha is engaged in business of selling magazines. Several of her customers pay money in advance for subscribing his magazines. Information related to year ended 31st March, 2024 has been given below:

On 1.4.2023 he had a balance of ₹6,00,000 advance from customers of which ₹4,50,000 is related to year 2023-24 while remaining pertains to year 2024-25. During the year 2023-24 she made cash sales of ₹ 15,00,000. You are required to compute:

- (i) Total income for the year 2023-24.

- (ii) Total money received during the year if the closing balance in Advance from customers Account is ₹ 5,10,000.

(5 Marks)

OR

- (ii) Samuel & Co. employs a team of 9 workers who were paid ₹ 1,20,000 per month each in the year ending 31st December, 2022. At the start of 2023, the company raised salaries by 10% to ₹ 1,32,000 per month each.

On 1 July, 2023 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 31st December, 2023.

- (ii) Amount actually paid as salaries during 2023.

- (iii) Outstanding salaries as on 31st December, 2023.

(5 Marks)

- (c) Following is the extract of the Balance Sheet of Puri Ltd. as at 31st March, 2024

Authorised capital:	₹
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15,000 12% Preference shares of ₹ 10 each	1,50,000
1,50,000 Equity shares of ₹ 10 each	<u>15,00,000</u>
	<u>16,50,000</u>
Issued and Subscribed capital:	
12,000 12% Preference shares of ₹ 10 each fully paid	1,20,000
1,35,000 Equity shares of ₹ 10 each, ₹ 8 paid up	10,80,000
Reserves and surplus:	
General Reserve	1,80,000
Capital Reserve (profit realized on sale of plant)	60,000
Securities premium	37,500
Profit and Loss Account	3,00,000

On 1st April, 2024, the Company has made final call @ ₹ 2 each on 1,35,000 equity shares. The call money was received by 20th April, 2024. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held. Company decides to use Capital Reserve for bonus issue as it has been realized in cash.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2024 after bonus issue.

(10 Marks)

(5 +5+ 10= 20 Marks)

6. (a) Devis Ltd. invited applications for issuing 3,00,000 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 4,50,000 shares and pro-rata allotment was made to all the applicants. Money overpaid on application was adjusted towards allotment money. X, who was allotted 9,000 shares, failed to pay the first and final call money. His shares were forfeited. Out of the forfeited shares, 7,500 shares were reissued as fully paid-up @ ₹ 16 per share.

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

(10 Marks)

- (b) On 1st April, 2023 Universe Ltd. issued 12% debentures of the face value of ₹ 40,00,000 at 10% discount. Debenture interest after deducting tax at source @10% was payable on 30th September and 31st March every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium.

Pass necessary journal entries for the financial year 2023-24.

(5 Marks)

- (c) Prepare Bank Reconciliation Statement and Adjusted Cash Book from the following particulars as on 31st December, 2023:

Particulars	₹
Bank Balance as per Cash Book (Debit)	1,98,000
Bank Charges debited by the bank not recorded in Cash Book	34,000
Received from debtors vide RTGS on 31 st December, 2023 not recorded in Cash Book	1,00,000
Cheque issued but not presented for payment	45,000
Cheque deposited but not cleared	25,000
Cheque received and deposited but dishonoured. Entry for dishonour not made in the Cash Book	5,000
Instruction for payment given to the bank on 31 st December, 2023 but the same effected by the Bank on 01 st January, 2024	4,000

(5 Marks)

(10 +5+ 5= 20 Marks)

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Sign of Trust