Mock Test Paper - Series II: August, 2024

Date of Paper: 16th August, 2024

Time of Paper: 10.30 A.M. to 1.30 P.M.

FOUNDATION COURSE

PAPER – 1: ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) (i) False: Such wages being related to capital asset should be debited to the machinery account.

(ii) True: Since the temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised.

(iii) False: If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.

(iv) True: In case of the promissory note, it is generally the maker who makes the payment, but in case of the bill of exchange, the person accepting the bill shall be liable to make the payment to the holder of the bill.

(v) False: The business of the partnership firm can be carried on by all the partners or by any one of them acting for all.

(vi) False: Debenture interest is payable before the payment of any dividend on shares.

(b) Cash and mercantile system: Cash system of accounting is a system by which a transaction is recognized only if cash is received or paid. In cash system of accounting, entries are made only when cash is received or paid, no entry being made when a payment or receipt is merely due. Cash system is normally followed by professionals, educational institutions or non-profit making organizations.

On the other hand, mercantile system of accounting is a system of classifying and summarizing transactions into assets, liabilities, equity (owner's fund), costs, revenues and recording thereof. A transaction is recognized when either a liability is created/ impaired and an asset is created/impaired. A record is made on the basis of amounts having become due for payment or receipt irrespective of the fact whether payment is made or received actually.

Mercantile system of accounting is generally accepted accounting system by business entities

(c) Using the Accounting Equation:

Assets = Capital + Liabilities

(i) 37,50,000

(ii) 6,75,000

(iii) 2,25,000

(iv) 1,79,40,000

2. (a) **Savin &Co.**

Dr. **Machinery Account** Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.4.2021	To Bank A/c	1,00,000	31.3.2022	By Balance c/d	1,00,000
		1,00,000			1,00,000
1.4.2022	To Balance b/d	1,00,000			
1.10.2022	To Bank A/c	1,50,000	31.03.2023	By Balance c/d	2,50,000
		2,50,000			2,50,000
1.4.2023	To Balance b/d	2,50,000	31.03.2024	By Machinery Disposal A/c	1,00,000
			31.03.2024	By Balance c/d	1,50,000
		2,50,000			2,50,000
1.4.2024	To Balance b/d	1,50,000			

Dr. **Provision for Depreciation Account** Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.03.2022	To Balance c/d	15,000	31.03.2022	By Depreciation A/c	15,000
		15,000			15,000
31.03.2023	To Balance c/d	39,000	1.4.2022	By Balance b/d	15,000
			31.03.2023	By Depreciation A/c (₹ 12,750+₹11,250)	24,000
		39,000			39,000
31.03.2024	To Machinery Disposal A/c [100000-61,413]	38,587	1.4.2023	By Balance b/d	39,000
31.03.2024	To Balance c/d	32,063	31.03.2024	By Depreciation A/c	20,813
			31.03.2024	By Depreciation- Machinery disposed	10,837
		70,650			70,650
			1.4.2024	By Balance b/d	32,063

Dr. **Machinery Disposal Account** Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.03.2024	To Machinery A/c	1,00,000	31.03.2024	By Provision for Depreciation A/c	38,587
			31.03.2024	By Bank A/c	50,000
			31.03.2024	By Profit & Loss A/c (Loss on Sale)	11,413
		1,00,000			1,00,000

Working Notes:

1. Depreciation for the machine purchased on 1.10.2022.

   For the year 2022-23 (used for 6 months) = ₹ 1,50,000 x 15% x $\frac{6}{12}$

   = ₹ 11,250

   For the year 2023-24 (used for full year) = ₹ 1,38,750 x15 % = ₹ 20,813

2. Depreciation for the machine purchased on 1.4.2021.

   Depreciation = ₹ 1,00,000 x 15% = ₹ 15,000

   So, Depreciation for 2^{nd} year = ₹ 85,000 x15% = ₹ 12,750

   Depreciation for 3^{rd} year = ₹ 72,250x15% = ₹ 10,837

(b) **Bank Reconciliation Statement of Ms. Suman**

	Balance as per Cash Book			(1,97,400)
Add:	Cheques issued but not presented for payment		14,800	
	Crossed Cheque issued to Abdul not presented for payment		3,000	
	Amounts collected by Bank on our behalf but not entered in the Cash Book			
	Dividend	600		
	Insurance claim	3,200		
		3,800		
	(-) Bank Commission	400	3,400	
	Amount paid in A/c No. 2 credited by the			
	Bank wrongly to this A/c		2,000	23,200
				(1,74,200)

Less:	Cheques deposited in the bank but no cleared (₹ 5,200 + ₹ 1,000)		6,200	
	Payments made by Bank on our behalf but not entered in the Cash Book			
	Interest	1,280		
	Premium	640		
	Second call	2,400	4,320	
	Cheques issued against A/c No. 2 but wrongly debited by the Bank to this A/c		1,200	(11,720)
	Overdraft as per Pass Book			1,85,920

3. (a) Corrected Receipts and Payments Account of Gold Smith Club for the year ended 31st March, 2024

	Receipts	₹	Amount ₹		Payments	Amount ₹
To	Balance b/d		9,000	By	Expenses (₹ 1,26,000 – ₹ 54,000)	72,000
To	Subscription			By	Sports Material	54,000
	Annual Income	91,800		By	Balance c/d (Cash in Hand and at Bank)	18,14,400
	Less: Receivable as on 31.3.2024	5,400				
	Add: Advance received for the year 2024–2025	1,800				
	Add: Receivable as on 31.3.2023	3,600				
	Less: Advance received as on 31.3.2023	1,800	90,000			
To	Other Fees		36,000			
To	Donation for Building		18,00,000			
To	Sale of Furniture		5,400			
			19,40,400			19,40,400

Income and Expenditure Account of Gold Smith Club
for the year ended 31st March, 2024

Expenditure		₹	Amount ₹	Income		Amount ₹
To	Sundry Expenses		72,000	By	Subscription	91,800
To	Sports Material			By	Other fees	36,000
	Balance as on 1.4.2023	1,33,200		By	Interest on investment (5% on ₹ 5,40,000)	27,000
	Add: Purchases	54,000		By	Deficit: Excess of Expenditure over Income	72,000
	Less: Balance as on 31.3.2024	36,000	1,51,200			
	Loss on sale of Furniture		3,600			
			2,26,800			2,26,800

Balance Sheet of Gold Smith Club
as on 31st March, 2024

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital Fund (W N)	7,20,000		Furniture	36,000	
Less: Excess of Expenditure over Income	72,000	6,48,000	Less: Sold	9,000	27,000
			5% Investment		5,40,000
Building Fund		18,00,000	Interest Accrued on Investment		27,000
Subscription Received in advance		1,800	Sports Material		36,000
			Subscription Receivable		5,400
			Cash in Hand and at Bank		18,14,400
		24,49,800			24,49,800

Working Note:

Balance Sheet of Gold Smith Club as on 1st April, 2023

Liabilities	Amount ₹	Assets	Amount ₹
Subscription Received in Advance	1,800	Furniture	36,000
		Investment	5,40,000
Capital Fund (Balancing Figure)	7,20,000	Sports Material	1,33,200
		Subscription Receivable	3,600
		Cash in Hand and at Bank	9,000
	7,21,800		7,21,800

(b) (i) If Guarantee is given by firm

Profit and Loss Appropriation Account for the year ending on 31st March, 2024

Particulars	₹	Particulars	₹
To P's Capital A/c (3/5 of ₹ 1,30,00,000)	78,00,000	By Profit and Loss A/c	1,80,00,000
To Q's Capital A/c (2/5 of ₹ 1,30,00,000)	52,00,000		
To R's Capital A/c (1/6 of ₹ 1,80,00,000 or ₹ 50,000,000 whichever is more	50,00,000		
	1,80,00,000		1,80,00,000

(ii) If Guarantee is given by P and Q equally

Profit and Loss Appropriation Account for the year ending on 31st March, 2024

Particulars		₹	Particulars	₹
To P's Capital A/c (3/6 of ₹ 1,80,00,000)	90,00,000		By Profit and Loss, A/c (net profits)	1,80,00,000
Less: Deficiency borne for R (1/2 of 20,00,000)	(10,00,000)	80,00,000		
To Q's Capital A/c (2/6 of ₹ 1,80,00,000)	60,00,000			
Less: Deficiency borne for R (1/2 of 20,00,000)	(10,00,000)	50,00,000		
To R's Capital A/c (1/6 of ₹ 1,80,00,000)	30,00,000			
Add: Deficiency Recovery from P	10,00,000			
Add: Deficiency Recovery from Q	10,00,000	50,00,000		
		1,80,00,000		1,80,00,000

4. (a) **Revaluation Account**

	₹		₹
To Plant & Machinery (3,40,000 x 15%)	51,000	By Land & Building A/c	3,04,000
To Provision for Bad & Doubtful Debts (1,20,000 x 5%)	6,000		
To Outstanding Repairs to Building	12,000		
To Albert's Capital A/c (5/8)	1,46,875		
To Andrew's Capital A/c (3/8)	88,125		
	3,04,000		3,04,000

Capital Accounts of Partners

	Albert	Andrew	David		Albert	Andrew	David
To Albert's Capital A/c	-	-	40,000	By Balance b/d	8,20,000	6,60,000	-
To Andrew's Capital A/c			24,000	By Revaluation A/c	1,46,875	88,125	-
To Andrew's Current A/c	-	1,36,125		By Profit & Loss A/c	1,40,000	84,000	-
To Balance c/d	12,00,000	7,20,000	4,80,000	By Bank			5,44,000
				By David's Capital A/c	40,000	24,000	
				By Albert's Current A/c	53,125		
	12,00,000	8,56,125	5,44,000		12,00,000	8,56,125	5,44,000

Calculation of New Profit Sharing Ratio and gaining ratio:

David's Share of Profit = 1/5 = 2/10

Remaining Share = 1 – 1/5 = 4/5

Albert's Share = 5/8 x 4/5 = 20/40 = 5/10

Andrew's Share = 3/8 x 4/5 = 12/40 = 3/10

New Profit sharing Ratio = 5:3:2

Gaining ratio = 5:3 (same as old profit sharing ratio among old partners)

Balance sheet of Thomas & Associates as on 31.3.2024

Liabilities		₹	Assets		
Capital Accounts:			Land & Buildings		10,64,000
Albert	12,00,000		Plant & Machinery	3,40,000	
Andrew	7,20,000		Less: Depreciation	51,000	2,89,000

David	4,80,000	24,00,000	Furniture		2,18,960
Andrew's Current A/c		1,36,125	Stock		2,90,520
Trade Creditors		1,09,600	Sundry Debtors	1,20,000	
Outstanding Repairs to Building		12,000	*Less*: Provision	6,000	1,14,000
			Cash at Bank		6,28,120
			Albert's current A/c		53,125
		26,57,725			26,57,725

Working Note:

Required Balance of Capital Accounts

David's Capital after writing off Goodwill = 5,44,000 – 64,000 = 4,80,000

David's Share of Profit = 1/5

Thus, Capital of the firm shall be = 4,80,000 x 5 = 24,00,000

Albert's Capital = 24,00,000 x 5/10 = 12,00,000 and

Andrew's Capital = 24,00,000 x 3/10 = 7,20,000

(b) (i) Amount of salaries to be charged to P & L A/c for the year ended 31st December, 2023

Employees = 9 x ₹ 1,32,000 x 12 = ₹ 1,42,56,000

Trainees = 2 x ₹ 63,000 x 6 = ₹ 7,56,000

Salaries charged to P & L A/c ₹ 1,50,12,000

(ii) Amount actually paid as salaries during 2023

Employees = 9 x ₹ 1,32,000 x 11 + 9 x ₹ 1,20,000 = ₹ 1,41,48,000

Trainees = 2 x ₹ 63,000 x 5 = ₹ 6,30,000

Amount paid as salaries ₹ 1,47,78,000

(iii) Outstanding salaries as on 31.12.2023

Employees = 9 x ₹ 1,32,000 = ₹ 11,88,000

Trainees = 2 x ₹ 63,000 = ₹ 1,26,000

Outstanding salaries ₹ 13,14,000

5. (a) Trading and Profit & Loss Account for the year ended 31-03-2024

	₹	₹		₹
To Opening stock		38,600	By Sales	8,54,000
To Purchases		6,13,750	By Closing stock	55,700
To Gross profit c/d (b.f.)		2,57,350		
		9,09,700		9,09,700

To Salaries (75,000 + 14,000 - 12,000)		77,000	By Gross Profit b/d	2,57,350
To Rent and taxes		11,800	By Interest on investment	10,200
To General expenses		22,500	(9,750+450)	
To Depreciation:				
Machinery @ 10%	8,500			
Furniture @ 10%	2,450	10,950		
To Bad Debts	7,200			
To Provision for doubtful debts	7,000	14,200		
To Balance being profit carried to Capital A/c (b.f.)		1,31,100		
		2,67,550		2,67,550

Balance Sheet as on 31st March, 2024

Liabilities	₹	₹	Assets	₹	₹
Prakash's Capital			Machinery	85,000	
on 1st April, 2023	3,32,150		*Less:* Depreciation	(8,500)	76,500
Add: Fresh Capital	50,000		Furniture	24,500	
Add: Profit for the year	1,31,100		*Less:* Depreciation	(2,450)	22,050
	5,13,250				
Less: Drawings	(96,000)	4,17,250	Inventory-in-trade		55,700
			Sundry debtors	3,50,000	
Sundry creditors		2,08,200	*Less:* Provision for		
Outstanding expenses		14,000	Doubtful debts	(7,000)	3,43,000
			Investment (including accrued interest ₹ 450)		85,450
			Cash at bank		36,600
			Cash in hand		20,150
		6,39,450			6,39,450

Working Notes:

1. Balance sheet as on 1-4-2023

	₹		₹
Sundry creditors	60,200	Machinery	85,000
Capital (balancing figure)	3,32,150	Furniture	24,500
		Inventory	38,600
Outstanding salaries	12,000	Sundry debtors	1,55,000
		12% Investments	85,000
		Bank balance (from Cash statement)	16,250
	4,04,350		4,04,350

2. Total Debtors Account

		₹			₹
1.4.23	To Balance b/d	1,55,000	31.3.24	By Cash	4,81,000
31.3.24	To Credit sales (1,70,800/20x80)	6,83,200	31.3.24	By Bad debts	7,200
				By Balance c/d (Bal. Fig.)	3,50,000
		8,38,200			8,38,200

3. Total Creditors Account

		₹			₹
31.3.24	To Cash	3,43,000	1.4.23	By Balance b/d	60,200
31.3.24	To Balance c/d (Bal. Fig.)	2,08,200	31.3.24	By Credit Purchases (1,22,750/20x80)	4,91,000
		5,51,200			5,51,200

(b) Journal Entries in the books of Snowberry Ltd.

2024		Dr. ₹ in lakhs	Cr. ₹ in lakhs
April 2	Equity Share Final Call A/c Dr.	2,000	
	To Equity Share Capital A/c		2,000
	(Final call of ₹ 2 per share on 10 crore equity shares made due)		
	Bank A/c Dr.	2,000	
	To Equity Share Final Call A/c		2,000
	(Final call money on 10 crore equity shares received)		

June 1	Capital Redemption Reserve A/c	Dr.	1,000	
	Securities Premium A/c	Dr.	2,000	
	Capital Reserve A/c	Dr.	485	
	General Reserve A/c	Dr.	515	
	To Bonus to Shareholders A/c			4,000
	(Bonus issue of two shares for every five shares held, by utilising various reserves as per Board's resolution dated…….)			
	Bonus to Shareholders A/c	Dr.	4,000	
	To Equity Share Capital A/c			4,000
	(Capitalisation of profit)			

Notes to Accounts

			₹ in lakhs
1.	Share Capital		
	Authorised share capital		
	20 crore shares of ₹ 10 each		20,000
	Issued, subscribed and fully paid up share capital		
	14 crore Equity shares of ₹ 10 each, fully paid up		14,000
	(Out of the above, 4 crore equity shares @ ₹ 10 each were issued by way of bonus)		
	2 crore, 11% Cumulative Preference share capital of ₹ 10 each, fully paid up		2,000
			16,000
2.	Reserves and Surplus		
	Capital Reserves	485	
	Less: Utilized for bonus issue	(485)	-
	Capital Redemption reserve	1,000	
	Less: Utilized for bonus issue	(1,000)	-
	Securities Premium	2,000	
	Less: Utilized for bonus issue	(2,000)	-
	General Reserve	1,040	
	Less: Utilized for bonus issue	(515)	525
	Surplus (Profit and Loss Account)		273
	Total		798

6. (a) (i) Journal Entries in the books of Gama Ltd.

Date			Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c	Dr.	90,000	
	To Equity Share Allotment money A/c (9000 x ₹ 3)			27,000
	To Equity Share Final Call A/c (9000 x ₹ 4)			36,000
	To Forfeited Shares A/c (9000 x ₹ 3)			27,000
	(Being the forfeiture of 9000 equity shares of ₹ 10 each for non-payment of allotment money and final call, held by Varun as per Board's resolution No…………….dated ....)			
(b)	Bank A/c (9,000 x 8)	Dr.	72,000	
	Forfeited Shares A/c (9,000x 2)	Dr.	18,000	
	To Equity Share Capital A/c			90,000
	(Being the re-issue of 9,000 forfeited shares @ ₹ 8 each as fully paid up to Katen as per Board's resolution No……….dated ....)			
(c)	Forfeited Shares A/c	Dr.	9,000	
	To Capital Reserve A/c			9,000
	(Being the profit on re-issue, transferred to capital reserve)			

(ii) Journal Entries in the book of Mr. Y

		Dr. ₹	Cr. ₹
Preference Share Capital A/c (10,000 x ₹ 70)	Dr.	7,00,000	
To Preference Share Allotment A/c (10,000 x ₹ 20)			2,00,000
To Preference Share First Call A/c (10,000 x ₹ 20)			2,00,000
To Forfeited Share A/c			3,00,000
(Being the forfeiture of 10,000 preference shares ₹ 70 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated)			
Bank A/c (8,000 x ₹60)	Dr.	4,80,000	
Forfeited Shares A/c (8,000 x ₹10)	Dr.	80,000	

To Preference Share Capital A/c (Being re-issue of 8,000 shares at ₹ 60 per share paid-up as ₹ 70 as per Board's Resolution No…..dated….)			5,60,000
Forfeited Shares A/c	Dr.	1,60,000	
To Capital Reserve A/c (Refer WN)			1,60,000
(Being profit on re-issue transferred to Capital/Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =₹ 3,00,000/10,000	=	₹ 30
Loss on re-issue =₹ 70 – ₹ 60	=	₹ 10
Surplus per share re-issued		₹ 20
Transferred to capital Reserve ₹ 20 x 8,000	=	₹ 1,60,000

(b) **In the books of Shell chemicals Ltd.**

Journal Entries

		₹	₹
9% Preference Share Capital A/c	Dr.	1,00,000	
To Calls in Arrears A/c			20,000
To Shares Forfeited A/c			80,000
(For Shares Forfeited because of non-payment of calls as holders are unknown)			
Bank A/c (Refer W N)	Dr.	2,00,000	
To Equity Share Capital A/c			2,00,000
(Being the issue of 20,000 Equity Shares of ₹ 10 each at par as per Board's Resolution No…..dated….)			
General Reserve A/c	Dr.	7,00,000	
To Capital Redemption Reserve A/c			7,00,000
(For transfer to CRR for the amount not covered by the proceeds of fresh issue of equity shares)			
9% Preference Share Capital A/c	Dr.	9,00,000	
To Preference Shareholders A/c			9,00,000
(For amount payable to preference shareholders)			

Preference Shareholders A/c To Bank A/c (For amount paid to preference shareholders)	Dr.	9,00,000	 9,00,000

Working Note:

Number of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed	9,00,000
Less: Profit available for distribution as dividend:	
General Reserve	7,00,000
	2,00,000
Therefore, number of shares to be issued = ₹ 2,00,000/ ₹ 10 = 20,000 shares.	

(c) (i) Adjusted selling method is also called retail inventory method. It is used widely in retail business or in business where the inventory comprises of items, the individual costs of which are not readily ascertainable. The historical cost of inventory is estimated by calculating it in the first instance at selling price and then deducting an amount equal to the estimated gross margin of profit on such stocks.

(ii) The specific identification method, First-In–First-Out (FIFO) and weighted average cost formulae are the principal methods of ascertaining the cost of inventory. The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned by specific identification of their individual costs under the specific identification method.

Or

(c) (i) Revenue Expenditure.

(ii) Capital Expenditure.

(iii) Revenue Expenditure.

(iv) Revenue Expenditure.

(v) Capital Expenditure.