

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

Question No. 1 is compulsory.

*Attempt 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

Maximum Marks: 100

1. (a) State with reasons, whether the following statements are true or false:
- (i) Wages paid for erection of machinery are debited to Profit and Loss Account.
 - (ii) Amount spent for the construction of temporary huts, which were necessary for construction of the Cinema House and were demolished when the Cinema House was ready, is capital expenditure.
 - (iii) If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.
 - (iv) Promissory note is different from bill of exchange because the amount is paid by the maker in case of former and by the acceptor in the later.
 - (v) The business of partnership must be carried on by all the partners.
 - (vi) Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.

(6 Statements x 2 Marks = 12 Marks)

- (b) Explain Cash and Mercantile system of accounting? **(4 Marks)**
- (c) Calculate the missing amount for the following.

	Assets	Liabilities	Capital	
(a)	45,00,000	7,50,000	?	
(b)	?	4,50,000	2,25,000	
(c)	43,50,000	?	41,25,000	
(d)	1,71,00,000	(8,40,000)	?	(4 Marks)

(12 + 4 + 4 = 20 Marks)

2. (a) Savin & Co. purchased a machine for ₹ 1,00,000 on 1.4.2021 Another machine costing ₹1,50,000 was purchased on 1.10.2022. On 31.3.2024 the machine purchased on 1.4.2021 was sold for ₹50,000. The company provides depreciation at 15% on Written Down Value Method. Prepare – (i) Machinery Account, (ii) Machinery Disposal Account and (iii) Provision for Depreciation Account. **(10 Marks)**
- (b) On 30th June. 2024, Cash Book of Ms. Suman (Bank Column of Account No. 1) shows a Bank Overdraft of ₹ 1,97,400. On going through the Bank Pass book for reconciling the Balance, she found the following:
- (a) Out of cheques drawn on 26th June, those for ₹ 14,800 were cashed by the bankers on 2nd July.
- (b) A crossed cheque for ₹ 3000 given to Abdul was returned by him and a bearer cheque was issued to him in lieu on 1st July.
- (c) Cash and cheques amounting to ₹ 13,600 were deposited in the Bank on 29th June, but cheques worth ₹ 5,200 were cleared by the Bank on 1st July., and one cheque for ₹ 1,000 was returned by them as dishonoured on the latter date.
- (d) According to Suman's standing instructions, the bankers have on 30th June, paid ₹ 1,280 as interest to her creditors, paid quarterly premium on her policy amounting to ₹ 640 and have paid a second call of ₹ 2,400 on shares held by her and lodged with the bankers for safe custody. They have also received ₹ 600 as dividend on her shares and recovered an Insurance Claim of ₹ 3,200, as their charges and commission charged on the above being ₹ 400. On receipt of information of the above transaction, she has passed necessary entries in her Cash Book on 1st July.
- (e) Bankers seem to have given a wrong credit for ₹ 2,000 paid in by her in No. 2 account and wrong debit in respect of a cheque for ₹ 1,200 drawn against her No. 2 account.

Prepare a Bank Reconciliation Statement as on 30th June, 2024.

(10 Marks)

(10 + 10 = 20 Marks)

3. (a) The Receipts and Payments account of Gold Smith Club prepared on 31st March, 2024 is as follows:

Receipts and Payments Account

Receipts	₹	Amount ₹	Payments	Amount ₹
To Balance b/d		9,000	By Expenses (including Payment for sports material ₹ 54,000)	1,26,000
To Annual Income from Subscription	91,800			

Add: Outstanding of last year received this year	<u>3,600</u> 95,400		By Loss on Sale of Furniture (cost price ₹ 9,000)	3,600
			By Balance c/d	18,09,000
Less: Prepaid of last year	1,800	93,600		
To Other fees		36,000		
To Donation for Building		18,00,000		
		<u>19,38,600</u>		<u>19,38,600</u>

Additional information:

Gold Smith Club had balances as on 1.4.2023:

Furniture ₹ 36,000; Investment at 5% ₹ 5,40,000;

Sports material ₹ 1,33,200;

Balance as on 31.3.2024: Subscription Receivable ₹ 5,400;

Subscription received in advance ₹ 1,800;

Stock of sports material ₹ 36,000.

Do you agree with above Receipts and Payments account? If not, prepare correct Receipts and Payments account and Income and Expenditure account for the year ended 31st March, 2024 and Balance Sheet on that date. **(15 Marks)**

- (b) P and Q were partners in a firm, sharing profit and losses in the ratio of 3: 2. They admit R for 1/6th share in profits and guaranteed that his share of profits will not be less than 50,00,000. Total profits of the firm for the year ended 31st March, 2024 were 1,80,00,000.

Calculate share of profit for each partner when:

(i) Guarantee is given by firm

(ii) Guarantee is given by P and Q equally. **(5 Marks)**

(15 + 5 = 20 Marks)

4. (a) The Balance Sheet of a Partnership Firm M/s Thomas & Associates consisted of two partners Albert and Andrew who were sharing Profits and Losses in the ratio of 5 : 3 respectively. The position as on 31-03-2024 was as follows:

Liabilities	₹	Assets	₹
Albert's Capital	8,20,000	Land & Building	7,60,000
Andrew's Capital	6,60,000	Plant & Machinery	3,40,000
Profit & Loss A/c	2,24,000	Furniture	2,18,960
Trade Creditors	1,09,600	Stock	2,90,520

	Sundry debtors	1,20,000
	Cash at Bank	84,120
18,13,600		18,13,600

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

- David should get $\frac{1}{5}$ th of share of profits.
- David brought ₹ 4,80,000 as his capital and ₹ 64,000 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 ₹ 12,000 for repairs to Buildings would be recorded in the books of accounts.
- Immediately after David'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 David.

(15 Marks)

- Hari Om & 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:

- Amount of salaries which would be charged to the profit and loss account for the year ended 31st December, 2023.
- Amount actually paid as salaries during 2023.
- Outstanding salaries as on 31st December, 2023

(5 Marks)

(15+5 =20 Marks)

5. (a) Mr. Prakash furnishes following information for his readymade garments business:

(i) Receipts and Payments during 2023-24:

Receipts	Amount ₹	Payments	Amount ₹
Bank Balance as on 1-4-2023	16,250	Payment to Sundry creditors	3,43,000
Received from Sundry debtors	4,81,000	Salaries	75,000
Cash sales	1,70,800	General expenses	22,500
Capital brought in the business during the year	50,000	Rent and taxes	11,800
Interest on Investment received	9,750	Drawings	96,000
		Cash purchases	1,22,750
		Balance at bank on 31-03-2024	36,600
		Cash in hand on 31-03-2024	20,150
	7,27,800		7,27,800

(ii) Particulars of other Assets and Liabilities are as follows:

	1 st April, 2023	31 st March, 2024
	(₹)	(₹)
Machinery	85,000	85,000
Furniture	24,500	24,500
Trade Debtors	1,55,000	?
Trade Creditors	60,200	?
Inventory	38,600	55,700
12% Investment	85,000	85,000
Outstanding Salaries	12,000	14,000

(iii) Additional information:

- (1) 20% of total sales and 20% of total purchases are in cash.
- (2) Of the debtors, a sum of ₹ 7,200 should be written off as Bad debt and further a provision for doubtful debts is to be provided @2%.
- (3) Provide depreciation @10% p.a. on machinery and furniture

You are required to prepare Trading and Profit & Loss Account for the year ended 31st March, 2024, and Balance Sheet as on that date.

(10 Marks)

- (b) The following notes pertain to Snowberry Ltd.'s Balance Sheet as on 31st March, 2024:

Notes	₹ in Lakhs
(1) Share Capital	
Authorised :	
20 crore shares of ₹ 10 each	<u>20,000</u>
Issued and Subscribed:	
10 crore Equity Shares of ₹ 10 each	10,000
2 crore 11% Cumulative Preference Shares of ₹ 10 each	2,000
Total	12,000
Called and paid up:	
10 crore Equity Shares of ₹ 10 each, ₹ 8 per share called and paid up	8,000
2 crore 11% Cumulative Preference Shares of ₹ 10 each, fully called and paid up	2,000
Total	10,000
(2) Reserves and Surplus :	
Capital Reserve (profit on fixed assets realized in cash)	485
Capital Redemption Reserve	1,000
Securities Premium	2,000
General Reserve	1,040
Surplus i.e. credit balance of Profit & Loss Account	273
Total	4,798

On 2nd April 2024, the company made the final call on equity shares @ ₹ 2 per share. The entire money was received in the month of April, 2024.

On 1st June 2024, the company decided to issue to equity shareholders bonus shares at the rate of 2 shares for every 5 shares held and for this purpose, it decided to utilize the capital reserves to the maximum possible extent.

Pass journal entries for all the above mentioned transactions. Also prepare the notes on Share Capital and Reserves and Surplus relevant to the Balance Sheet of the company immediately after the issue of bonus shares. **(10 Marks)**

(10+10 = 20 Marks)

6. (a) Give necessary journal entries for the forfeiture and re-issue of shares:
- (i) Gama Pvt. Ltd. forfeited 9,000 shares of ₹ 10 each fully called up, held by Varun for non-payment of allotment money of ₹ 3 per share and final call of ₹ 4 per share. He paid the application money of ₹ 3 per share. These shares were re-issued to Katen for ₹ 8 per share.

- (ii) Mr. Y, who was the holder of 10,000 preference shares of ₹ 100 each, on which ₹ 70 per share has been called up, could not pay his dues on Allotment and First call each at ₹ 20 per share. The Directors forfeited the above shares and reissued 8,000 of such shares to Mr. Z at ₹ 60 per share paid-up as ₹ 70 per share.

(10 Marks)

- (b) Given below are the extracts of Balance Sheet of Shell Chemicals Limited as on 31st March, 2024:

Particulars	Amount in ₹
9% Redeemable Preference Share Capital	10,00,000
Calls in arrears (Redeemable Preference Shares)	20,000
General Reserve	7,00,000
Securities Premium	80,000

It is provided that:

- Preference Shares are of 100 each fully-called, due for immediate redemption.
- Calls-in-arrears are on account of final call on 1000 Preference shares held by four members whose whereabouts are not known.
- Balance of General Reserve to be fully utilised for the purposes of redemption and the shortfall to be made good by issue of equity shares of ₹ 10 each at par.
- The redemption of preference shares was duly carried out.

You are required to pass the necessary journal entries to give effect to the above redemption. **(5 Marks)**

- (c) Write short notes on:

- (i) Adjusted Selling Price method of determining cost of stock.
- (ii) Principal methods of ascertainment of cost of inventory.

Or

Classify the following expenditures as capital or revenue expenditure:

- (i) Amount spent on making a few more exists in a Cinema Hall to comply with Government orders.
- (ii) Travelling expenses of the directors for trips abroad for purchase of capital assets.
- (iii) Amount spent to reduce working expenses.
- (iv) Amount paid for removal of stock to a new site.
- (v) Cost of repairs on second-hand car purchased to bring it into working condition. **(5 Marks)**

(10 + 5 + 5 = 20 Marks)