

**MOCK TEST PAPER 2**  
**FOUNDATION COURSE**  
**PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING**

**SUGGESTED ANSWERS/HINTS**

1. (a) (i) **False:** The provision for bad debts is debited to Profit and loss Account, in Balance Sheet it is either shown on liability side or deducted from the head debtors.
- (ii) **True:** Discount column is totalled and transferred to the discount allowed or received account.
- (iii) **False:** They are recorded as sales irrespective of whether the customer might accept or reject the goods at the end of the period given for the approval.
- (iv) **True:** In case the due date of a bill falls after the date of closing the account, then no interest is allowed for that. However, interest from the date of closing to such due date is written in "Red-Ink" in the appropriate side of the 'Account current'. This interest is called Red-Ink interest.
- (v) **False:** Surviving partners may continue to carry on the business in case of partnership.
- (vi) **False:** A share on which only a fixed rate of dividend is paid every year, without any accompanying additional rights in profits and in the surplus on winding-up, is called 'Non-participating Preference Shares. Non-participating preference shareholders do not enjoy voting rights.
- (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) **Printing Press**

**Calculation of the value of Inventory as on 31-3-2023**

	Receipts			Issues			Balance		
Date	Units	Rate	Amount	Units	Rate	Amount	Units	Rate	Amount
		₹	₹	₹	₹	₹	₹	₹	₹
1-1-2023	Balance							Nil	
1-1-2023	100	300	30,000				100	300	30,000
15-1-2023				50	300	15,000	50	300	15,000

1-2-2023	200	400	80,000				250	380	95,000
15-2-2023				100	380	38,000	150	380	57,000
20-2-2023				100	380	38,000	50	380	19,000

Therefore, the value of Inventory as on 31-3-2023 = 50 units @ ₹380 = ₹19,000

2. (a)

	Particulars		Dr. (₹)	Cr. (₹)
(i)	Bills Receivable A/c Bills Payable A/c To Hament A/c (Correction of error by which bill receivable of ₹ 1,550 was wrongly passed through Bills Payable book)	Dr. Dr.	1,550 1,550	3,100
(ii)	Nidhi A/c To Vidhi A/c (Correction of error by which sale of ₹ 25,000 to Nidhi was wrongly debited to Vidhi's account)	Dr.	25,000	25,000
(iii)	Suspense A/c To P & L Adjustment A/c (Correct of error by which general expenses of ₹ 360 was wrongly posted as ₹ 630)	Dr.	270	270
(iv)	P & L Adjustment A/c To Suspense A/c (Correction of error by which sales account was overcast last year)	Dr.	5,000	5,000
(v)	Suspense A/c To Aman A/c To Vimal A/c Removal of wrong debit to Vimal and giving credit to Aman from whom cash was received)	Dr.	6,400	3,200 3,200
(vi)	P & L Adjustment A/c To Mr. Mohan (Correction of error by which legal expenses paid to Mr. Mohan was wrongly debited to her personal account)	Dr.	2,910	2,910
(vii)	Suspense A/c To P&L Adjustment A/c (Correction of error by which Purchase A/c was excess debited by ₹90/-, i.e.: ₹1,325 – ₹1,235)	Dr.	90	90

**Suspense A/c**

	₹		₹
To P & L Adjustment A/c	270	By P & L Adjustment A/c	5,000
To Aman A/c	3,200	By Difference in Trial Balance (Balancing figure)	1,760

To Vimal A/c	3,200		
To P&L Adjustment A/c	90		
	6,760		6,760

(b) **Bank Reconciliation Statement as on 30<sup>th</sup> June 2023**

	Particulars	Amount (₹)	Amount (₹)
	Overdraft as per Pass Book (Dr. Balance)		25,000
Add:	Cheques issued but not presented ₹ (34,000-20,000)	14,000	
	Cheques deposited into the Bank by Customer but not entered in Cash Book	400	
	Bank charges written twice in Cash Book	<u>80</u>	<u>14,480</u>
			39,480
Less:	Cheques received, recorded in cash Book but not sent to the Bank	4,000	
	Cheques sent to the Bank but not collected	6,000	
	Direct payment made by the bank not recorded in the Cash book	600	
	Interest on Overdraft charged by Bank	1,600	
	Insurance charges not entered in Cash Book	70	
	Credit side of bank column of Cash Book was undercast	<u>2,000</u>	<u>14,270</u>
	Balance as per Cash Book		25,210

3. (a) **In the books of Ram**

**Consignment to Jaipur Account**

Particulars	₹	Particulars	₹
To Goods sent on Consignment A/c	1,87,500	By Goods sent on Consignment A/c (loading)	37,500
To Cash A/c	15,000	By Abnormal Loss	16,500
To Shiv (Expenses)	12,000	By Shiv (Sales)	1,50,000
To Shiv (Commission)	16,406	By Inventories on Consignment A/c	30,375
To Inventories Reserve A/c	5,625	By General Profit & Loss A/c	2,156
	<u>2,36,531</u>		<u>2,36,531</u>

**Working Notes:**

1. **Calculation of value of goods sent on consignment:**

Abnormal Loss at Invoice price = ₹ 18,750

Abnormal Loss as a percentage of total consignment = 10%

Hence the value of goods sent on consignment = ₹ 18,750 X 100/ 10 = ₹ 1,87,500

Loading of goods sent on consignment = ₹ 1,87,500 X 25/125 = ₹ 37,500

**2. Calculation of abnormal loss (10%):**

Abnormal Loss at Invoice price = ₹ 18,750.

Abnormal Loss at cost = ₹ 18,750 X 100/125 = ₹ 15,000

Add: Proportionate expenses of Ram (10 % of ₹ 15,000) = ₹ 1,500  
₹ 16,500

**3. Calculation of closing Inventories (15%):**

Ram's Basic Invoice price of consignment= ₹ 1,87,500

Ram's expenses on consignment = ₹ 15,000

₹ 2,02,500

Value of closing Inventories = 15% of ₹ 2,02,500 = ₹ 30,375

Loading in closing Inventories = ₹ 37,500 x 15/100 = ₹ 5,625

Where ₹ 28,125 (15% of ₹ 1,87,500) is the basic invoice price of the goods sent on consignment remaining unsold.

**4. Calculation of commission:**

Invoice price of the goods sold = 75% of ₹ 1,87,500 = ₹ 1,40,625

Excess of selling price over invoice price = ₹ 9,375 (1,50,000 - 1,40,625)

Total commission = 10% of ₹ 1,40,625 + 25% of ₹ 9,375

= ₹ 14,062.5 + ₹ 2,343.75

= ₹ 16,406

**(b) Calculation of Average due date**

Taking 6<sup>th</sup> January, 2023 as base date

Due date	Amount ₹	No. of days from the base date i.e. 6 <sup>th</sup> Jan. 2023	Product ₹
For Bosco's payments 2023			
6 <sup>th</sup> January	60,000	0	0
2 <sup>nd</sup> February	28,000	27	7,56,000
31 <sup>st</sup> March	20,000	84	16,80,000
Total	1,08,000		24,36,000
For Ben's payment 2023			
6 <sup>th</sup> January	66,000	0	0
9 <sup>th</sup> March	24,000	62	14,88,000
20 <sup>th</sup> March	5,000	73	3,65,000
Total	95,000		18,53,000

Excess of Bosco's products over Ben's = ₹ 24,36,000 – ₹ 18,53,000 = ₹ 5,83,000

= ₹ 1,08,000 – ₹ 95,000 = ₹ 13,000

Number of days from the base date to the date of settlement is ₹5,83,000 / ₹13,000 = 45 days (approx)

Hence, the date of settlement of the balance amount is 45 days after 6<sup>th</sup> January i.e. on 20<sup>th</sup> February.

On 20<sup>th</sup> February, 2023, Bosco has to pay Ben ₹ 13,000 to settle the account.

(c)

## In the books of P

## Q in Account Current with P

(Interest to 31<sup>st</sup> March, 2023 @10%p.a.)

Date	Due date	Particulars	No. of days till 31.3.23	Amt.	Product	Date	Due date	Particulars	No. of days till 31.3.23	Amt.	Product
2022	2022			₹	₹	2022	2022			₹	₹
Oct 1,	Oct 1,	To Balance b/d	182	3,000	5,46,000	Nov 16	Nov 26	By Purchases	125	4,000	5,00,000
Oct 18,	Oct 18	To Sales	164	2,500	4,10,000	Dec 7	Dec. 17	By Purchases	104	3,500	3,64,000
2023	2023					2023	2023				
Jan 3	Apr 6	To Bills payable	(6)	5,000	(30,000)	Mar 28	Apr 8	By Purchases	(8)	2,700	(21,600)
Feb 4	Feb 4	To Cash	55	1,000	55,000	Mar 31	Mar 31	By Balance of product			1,81,600
Mar 21	Mar. 21	To Sales	10	4,300	43,000			By Balance c/d		5,650	
Mar 31	Mar 31	To Interest		50	-						
				15,850	10,24,000					15,850	10,24,000

$$\text{Interest for the period} = \frac{1,81,600 \times 10 \times 1}{100 \times 365} = ₹ 50 \text{ (approx.)}$$

4 (a)

## Revaluation Account

Particulars	₹	Particulars	₹
To Stock	1,500	By Land & Building	25,000
To Partners:		By Provision for doubtful debt	2,000
(Revaluation Profit)			
Inder	8,500		
Anil	8,500		
Pawan	8,500		
	27,000		27,000

## Partners' Capital Accounts

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

$$\text{*Profit and Loss Adjustment} = [(25,000 + 20,000 + 22,500)/3] \times 3/12 \times 1/3 = 1,875$$

**Working Note:****Calculation of goodwill and Pawan's share**Average of last five year's profits and losses for the year ended on 31<sup>st</sup> March

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

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

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

= ₹ 8,750

Which is contributed by Inder and Anil in their gaining Ratio

Inder = ₹ 8,750X1/2 = ₹ 4,375

Anil = ₹ 8,750X1/2 = ₹ 4,375

**(b) Trading and Profit and Loss Account of Mr. Chawla**  
**for the year ended 31<sup>st</sup> December, 2022**

	₹	₹		₹	₹
To Opening stock		23,400	By Sales	1,94,800	
To Purchases	1,60,850		Less: Returns	<u>4,300</u>	1,90,500
Add: Omitted invoice	<u>200</u>		By Closing stock		39,300
	1,61,050				
Less: Returns	<u>2,900</u>				
	1,58,150				
Less: Drawings	<u>300</u>	1,57,850			
To Carriage Inwards		9,800			
To Gross profit c/d		<u>38,750</u>			
		<u>2,29,800</u>			<u>2,29,800</u>
To Rent and taxes		2,350	By Gross profit b/d		38,750
To Salaries and wages		4,650	By Discount		2,220
To Bank interest	550				
Add: Due	<u>850</u>	1,400			
To Printing and stationary	7,200				
Less: Prepaid (1/4)	<u>1,800</u>	5,400			
To Discount allowed		900			
To General expenses		5,725			
To Insurance		650			
To Postage expenses		1,165			
To Travelling expenses		435			

To Provision for bad debts [W.N.]	575		
To Provision for discount on debtors [W.N.]	219		
To Depreciation on furniture & fittings	250		
To Net profit	<u>17,251</u>		
	<u>40,970</u>		<u>40,970</u>

**Working Note:**

Provision for bad & doubtful debts:

@ 5% on ₹ 11,500 575

Provision for discount:

2% on ₹ 10,925 (11,500 - 575) 219

**5. (a) Subscription for the year ended 31.3.2023**

		₹
Subscription received during the year		22,50,000
Less: Subscription receivable on 1.4.2022	67,500	
Less: Subscription received in advance on 31.3.2023	<u>31,500</u>	<u>(99,000)</u>
		21,51,000
Add: Subscription receivable on 31.3.2023	99,000	
Add: Subscription received in advance on 1.4.2022	<u>54,000</u>	<u>1,53,000</u>
Amount of Subscription appearing in Income & Expenditure Account		<u>23,04,000</u>

**Sports material consumed during the year end 31.3.2023**

	₹
Payment for Sports material	13,50,000
Less: Amounts due for sports material on 1.4.2022	<u>(4,05,000)</u>
	9,45,000
Add: Amounts due for sports material on 31.3.2023	<u>5,85,000</u>
Purchase of sports material	<u>15,30,000</u>
Sports material consumed:	
Stock of sports material on 1.4.2022	4,50,000
Add: Purchase of sports material during the year	<u>15,30,000</u>
	19,80,000
Less: Stock of sports material on 31.3.2023	<u>(6,75,000)</u>
Amount of Sports Material appearing in Income & Expenditure Account	<u>13,05,000</u>

**Balance Sheet of M/s Freelancer Club For the year ended 31<sup>st</sup> March, 2023(An extract)**

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Unearned Subscription	31,500	Subscription receivable	99,000
Amount due for sports material	5,85,000	Stock of sports material	6,75,000

**(b) Journal Proper in the Books of M/s. Shrikant Traders**

<b>Date 2023</b>	<b>Particulars</b>		<b>Amount ₹</b>	<b>Amount ₹</b>
Mar. 31	Returns outward A/c To Purchases A/c (Being the transfer of returns to purchases account)	Dr.	72,000	72,000
	Sales A/c To Returns Inward A/c (Being the transfer of returns to sales account)	Dr.	1,00,000	1,00,000
	Sales A/c To Trading A/c (Being the transfer of balance of sales account to trading account)	Dr.	10,00,000	10,00,000
	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.	7,80,000	1,00,000 6,00,000 50,000 30,000
	Closing Inventory A/c To Trading A/c (Being the incorporation of value of closing Inventory)	Dr.	2,00,000	2,00,000
	Trading A/c To Gross Profit (Being the amount of gross profit)	Dr.	4,20,000	4,20,000
	Gross profit To Profit and Loss A/c (Being the transfer of gross profit to Profit and Loss Account)	Dr.	4,20,000	4,20,000

**(c)**

<b>Particulars</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>Total Profit of firm</b>
I. Amount already credited:				
Share of profit (in the ratio of 1:1:1) (2021-22,2022-23)	26,000	26,000	26,000	78,000



II. Amount which should have been credited:				
C's Salary (2021-22,2022-23)			10,000	
Interest on Capital (2021-22, 2022-23)	5,000	2,500	2,500	
Share of Profit	29,000	14,500	14,500	58,000
	34,000	17,000	27,000	
Net effect (I-II)	(8,000)	9,000	(1,000)	-

The necessary journal entry will be:

Particulars	Debit (₹)	Credit (₹)
B's Current A/c	9,000	
To A's Current A/c		8,000
To C's Current A/c		1,000
(Salary to C, Interest on capital charged and profit shared among partners in the ratio of capital)		

6. (a) **In the books of Pony and Pal Garments Ltd.**

**Journal Entries**

Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Bank A/c Dr. To Equity Share Application A/c (Money received on applications for 20,000 shares @ ₹ 1 per share)		20,000	20,000
Equity Share Application A/c Dr. To Equity Share Capital A/c (Transfer of application money on 20,000 shares to share capital)		20,000	20,000
Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Amount due on the allotment of 20,000 shares @ ₹ 2 per share)		40,000	40,000
Bank A/c Dr. To Equity Share Allotment A/c (Allotment money received on 19,800 shares)		39,600	39,600
<b>OR</b>			
Bank A/c Dr. Calls in arrears A/c Dr. To Equity Share Allotment A/c (Allotment Amount received except 200 shares)		39,600 400	40,000
Equity Share Capital A/c Dr. To Share Forfeiture A/c To Equity Shares Allotment A/c (200 Shares of Ram forfeited)		600	200 400

<b>OR</b>				
Equity Share Capital A/c	Dr.	600		
To Shares Forfeiture A/c			200	
To Calls in arrears A/c			400	
(200 shares forfeited due to non-payment of allotment money)				
Equity Share First Call A/c	Dr.	59,400		
To Equity Share Capital A/c			59,400	
(First call made due on 19,800 shares at ₹ 3 per share)				
Bank A/c	Dr.	58,500		
To Equity Share First Call A/c			58,500	
(First call money received on 19,500 shares at ₹ 3 per share)				
<b>OR</b>				
Bank A/c	Dr.	58,500		
Calls in arrears A/c	Dr.	900		
To Equity Share First Call A/c			59,400	
(First Call money received except 300 shares)				
Equity Share Capital A/c	Dr.	1,800		
To Share Forfeiture A/c			900	
To Equity Share First Call A/c			900	
(300 Shares of Shyam forfeited)				
<b>OR</b>				
Equity Share Capital A/c	Dr.	1,800		
To Share Forfeiture A/c			900	
To Calls in arrears A/c			900	
(300 shares forfeited due to non - payment of First call money)				
Equity Share Second and Final Call A/c	Dr.	78,000		
To Equity Share Capital A/c			78,000	
(Second and Final call made due on 19,500 shares at ₹ 4 per share)				
Bank A/c	Dr.	77,600		
To Equity Share Second and Final Call A/c			77,600	
(Second and Final call money received on 19,400 shares at ₹ 4 per share)				
<b>OR</b>				
Bank A/c	Dr.	77,600		
Calls in arrears A/c	Dr.	400		
To Equity Shares Second and Final call A/c			78,000	
(Second and Final call money received except 100 shares)				
Equity Share Capital A/c	Dr.	1,000		
To Share Forfeiture A/c			600	
To Equity Share Second and Final Call A/c			400	
(100 Shares of Mohan forfeited)				

OR			
Equity Share Capital A/c	Dr.	1,000	
To Shares Forfeiture A/c			600
To Calls in arrears A/c			400
(100 shares forfeited due to non-payment of Second and final call money)			
Bank A/c	Dr.	5,400	
Share Forfeiture A/c	Dr.	600	
To Equity Share Capital A/c			6,000
(600 shares reissued at ₹ 9 per share)			
Share Forfeiture A/c	Dr.	1,100	
To Capital Reserve A/c (W.N.1)			1,100
(Profit on re-issue transferred to Capital Reserve)			

**Working Note-1:** Calculation of amount to be transferred to Capital Reserve:

Surplus out of 200 shares of Ram forfeited	₹ 200
Surplus out of 300 shares of Shyam forfeited	₹ 900
Surplus out of 100 shares of Mohan forfeited	₹ <u>600</u>
	₹ 1,700
Less: Loss on Reissue	( <u>6,00</u> )
Net Amount to be transferred to Capital Reserve	₹ <u>1,100</u>

- (b) (i) Revenue Expenditure.  
(ii) Capital Expenditure.  
(iii) Revenue Expenditure.  
(iv) Revenue Expenditure.  
(v) Capital Expenditure.