FOUNDATION COURSE

MOCK TEST PAPER

PAPER –1: PRINCIPLES AND PRACTICE OF ACCOUNTING Marks-100

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.

1. (a) State with reasons whether the following statements are True or False:

(i) "Change in accounting policy may have a material effect on the items of financial statements."

(ii) Even if the trial balance agrees, some errors may remain.

(iii) Accrual concept implies accounting on cash basis

(iv) When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital ratio.

(v) "Ratio Analysis is a study of relationship among various financial factors in a business".

(vi) In Account Current, Red Ink Interest is treated as negative interest.

(6x2=12 Marks)

(b) Explain the need of convergence rather adoption of IFRS as Global Standards.

(4 Marks)

(c) Journalise the following transactions. Also state the nature of each account involved in the Journal entry. **(4 Marks)**

M/s Suman & Co. find the following errors in their books of account before preparation of Trial Balance. You are required to pass necessary journal entries:

(i)A purchase of Rs 5,600 from M/s Mintu & Co. was recorded in the accounts of M/s Mintu & Co. as Rs 6,500. Day Book entry has also been passed incorrectly.

(ii)A sale of Rs 9,800 to M/s Bantu Bros. was recorded in M/s Bindu & Co.'s account as Rs 8,900. Day Book entry has also been incorrectly passed.

(iii)Discount allowed Rs 560 (as per Cash Book) has been posted to Commission Account. But the Cash Book total should be Rs 650, because discount allowed of Rs90 to M/s Bantu Bros. has been omitted.

(iv) A cheque of Rs 9,700 drawn by M/s Bantu Bros. has been dishonoured, but wrongly debited to M/s Bhakt & Co. Should the Trial Balance tally without rectification of errors?

(12+4+4=20 Marks)

2.(a) The Cash-book of M/s ABC shows Rs 27,570 as the balance at Bank as on 31st March, 2018. But this does not agree with balance as per the Bank Statement. On scrutiny following discrepancies were found:

(i)Subsidy Rs10,250 received from the government directly by the bank, but not advised to the company.

(ii) On 15thMarch, 2018 the payments side of the Cash-book was under cast by Rs 350.

(iii) On 20thMarch, 2018 the debit balance of Rs 2,156 as on the previous day, was brought forward as credit balance in Cash-book.

(iv) A customer of the M/s ABC, who received a cash discount of 5% on his account ofRs2,000, paid to M/s ABC a cheque on 24thMarch, 2018. The cashier erroneously entered the gross amount in the Cash-Book.

(v) On 10thMarch, 2018a bill for Rs 5,700 was discounted from the bank, entered in Cash-book, but proceeds credited in Bank Statement amounted to Rs 5,500 only.

(vi) A cheque issued amounting to Rs 1,725 returned marked 'out of date'. No entry made in Cash-book.

(vii) Insurance premium Rs 756 paid directly by bank under a standing order. No entry made in cash-book.

(viii) A bill receivable for Rs1,530 discounted for Rs1,500 with the bank had been dishonoured on 30thMarch, 2018, but advice was received on 1stApril, 2018.

(ix) Bank recorded a Cash deposit of Rs1,550 as Rs1,505.

Prepare Bank Reconciliation Statement on 31stMarch, 2018.

(**b)** Explain Cash and Mercantile system of accounting.

(c) Mr. P who was the holder of 2,500 preference shares of Rs100 each, on which Rs70 per share has been called up could not pay his dues on Allotment and First call each at Rs 20per share. The Directors forfeited the above shares and reissued 2,000 of such shares to Mr. Q at Rs 60per share paid-up as Rs 70 per share. You are required to prepare the Journal Entries to record the above forfeiture and re-issue in the books of the company.

(10+5+5 =20 Marks)

3. (a) Working capital of a company is Rs 6,00,000. Its Current Ratio is 2.5:1. You are required to calculate value of (i) Current Liabilities, (ii) Current Assets, and (iii) Liquid Ratio/Quick Ratio/Acid Test Ratio, assuming inventories of Rs. 4,00,000.

(b) Neha & Co. is a partnership firm with partners Mr. P, Mr. Q and Mr. R, sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31stMarch, 2018 is as under

Liabilities			Assets	
Capitals			Land	10,000
P	80,000		Buildings	2,00,000
Q	20,000		Plant and machinery	1,30,000
R	30,000	1,30,000	Furniture	43,000
Reserves			Investments	12,000
(un-appropriation profit)		20,000	Inventories	1,30,000
Long-term debt		3,00,000	Trade receivable	1,39,000
Bank over draft		44,000		
Trade payable		1,70,000		
		6,64,000		6,64,000

It was mutually agreed that Mr. Q will retire from partnership and in his place Mr. T will be admitted as a partner with effect from 1stApril, 2018. For this purpose, the following adjustments are to be made:

(a)Goodwill is to be valued at Rs 1 lakh but the same will not appear as an asset in the books of the reconstituted firm

b) Buildings and plant and machinery are to be depreciated by 5% and 20% respectively. Investments are to be taken over by the retiring partner at Rs15,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.

(c)In the reconstituted firm, the total capital will be Rs 2 lakhs which will be contributed by Mr. P, Mr. R and Mr. T in their new profit sharing ratio, which is 2:2:1

(i)The surplus funds, if any, will be used for repaying bank overdraft.

(ii)The amount due to retiring partner shall be transferred to his loan account.

Required: Prepare

(a)Revaluation account

(b)Partners' capital accounts

(c)Bank account; and

(d)Balance sheet of the reconstituted firm as on 1st April, 2018

(c) M/s. Green Channel purchased a second-hand machine on 1st January, 2015 for Rs1,60,000. Overhauling and erection charges amounted to Rs 40,000. Another machine was purchased for Rs 80,000 on 1stJuly, 2015.On 1st July, 2017, the machine installed on 1st January, 2015 was sold for Rs 1,00,000. Another machine amounted to Rs30,000 was purchased and was installed on 30thSeptember, 2017.Under the existing practice the company provides depreciation @ 10% p.a. on original cost. However, from the year 2018it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years2015 to 2018.

(5+10+5=20 Marks)

4.(a) Write short notes on:
(i) Noting Charges.
(ii) Fundamental Accounting Assumptions.
(iii) Retirement of bills of exchange.
(iv) Over-riding Commission.
(v) Importance of bank reconciliation to an industrial unit.

(5x2=10 Marks)

(b) On 1.1.2018, Mr. Jill of Mumbai consigned to Mr. Jack of Chennai goods for sale at invoice price. Mr. Jack is entitled to a commission of 5% on sales at invoice price and 20% of any surplus price realized over and above the invoice price. Goods costing Rs 1,00,000 were consigned to Chennai at the invoice price of Rs1,50,000. The direct expenses of the consignor amounted to Rs10,000. On 31.3.2018, an account sales was received by Mr. Jill from Mr. Jack showing that he had effected sales of Rs1,20,000 in respect of 4/5th of the quantity of goods consigned to him. His actual expenses were Rs 3,000. Mr. Jack accepted a bill drawn by Mr. Jill for Rs1,00,000 and remitted the balance due in cash. You are required to prepare the consignment account and the account of Mr. Jack in the books of Mr. Jill. (**10 Marks)**

(10+10= 20 Marks)

5.(a) (a)Mr. H and Mr. S entered into a joint venture to buy and sell Computer monitors on 1st August, 2017.
On 1.8.2017 H sent a draft for Rs 5,00,000 in favour of S and on 5.8.2017S purchased 250 Monitors at a cost of`4,000 each. The monitors were sent to Mr. H by Truck under ‘freight to pay’ for Rs 8,000 and were cleared by him on 12.08.2017.H effected sales in the following manner

Date	Nos. of units	Sale price per unit (Rs)	Discount on sales price
13.08.2017	50	4,700	400 per unit
30.09.2017	100	5,000	10%
30.10.2017	100	4,600	5%

On 15.11.2017, Mr. H settled the account by sending a draft in favour of Mr. S. Profits being shared equally. S does not maintain any books. You are required to prepare in H's books:

(i)Joint venture with Mr. S Account; and

(ii)Memorandum Joint Venture Account.

(b) A grants a mine on lease to B on 31.3.13 a royalty of Rs 2 per tone of the coal produced. The following is the quantum of output for each year :

For the year ended 31stMarch,	2014	6,000 tones
	2015	6,400 tones
	2016	8,000 tones
	2017	10,000 tones

The minimum rent is fixed at Rs14,000 and short-workings recoupment is allowable throughout the period of lease. You are required to calculate the amount of royalty payable for the years ended 31stMarch, 2014, 2015, 2016 and 2017.

(c) The profits and losses for the previous years are: 2015 Profit Rs10,000, 2016 Loss Rs17,000, 2017 Profit Rs 50,000, 2018 Profit Rs75,000. The average Capital employed in the business is Rs 2,00,000. The rate of interest expected from capital invested is 10%. T he remuneration from alternative employment of the proprietor Rs 6,000 p.a. Calculate the value of goodwill on the basis of 2 years' purchases of Super Profits based on the average of 3 years.

(10+5+5=20 Marks)

6. (a) The following is the trial balance of Hari as at 31st December, 2017

	Dr	Cr
	Rs	RS
Hari's capital account	-	76,690
Stock 1stJanuary, 2017	46,800	-
Sales	-	3,89,600
Returns inward	8,600	-
Purchases	3,21,700	-
Returns outward	-	5,800
Carriage inwards	19,600	-

Rent & taxes	4,700	-
Salaries & wages	9,300	-
Sundry debtors	24,000	-
Sundry creditors	-	14,800
Bank loan @ 14% p.a	-	20,000
Bank interest	1,100	-
Printing and stationary expenses	14,400	-
Bank balance	8,000	-
Discount earned	-	4,440
Furniture & fittings	5,000	-
Discount allowed	1,800	-
General expenses	11,450	-
Insurance	1,300	-
Postage & telegram expenses	2,330	-
Cash balance	380	-
Travelling expenses	870	-
Drawings	30,000	
	5,11,330	5,11,330

The following adjustments are to be made:

(1)Included amongst the debtors is Rs 3,000 due from Ram and included among the creditors Rs 1,000 due to him.

(2)Provision for bad and doubtful debts be created at 5% and for discount @ 2% on sundry debtors.

(3)Depreciation on furniture & fittings @ 10% shall be written off.

(4)Personal purchases of Hari amounting to Rs 600 had been recorded in the purchases day book.

(5)Interest on bank loan shall be provided for the whole year.

(6)A quarter of the amount of printing and stationary expenses is to be carried forward to the next year.

(7)Credit purchase invoice amounting to Rs 400 had been omitted from the books.

(8)Stock on 31.12.2017 was Rs 78,600.

Prepare (i) Trading & profit and loss account for the year ended 31.12.2017and (ii) Balance sheet as on 31stDecember, 2017.

(b) Define Accounting Policies in brief. Identify few areas wherein different accounting policies are frequently encountered.

(c) Discuss the limitations which must be kept in mind while evaluating the Financial Statements.

(10+5+5= 20 marks)