

FOUNDATION COURSE

MOCK TEST PAPER 2

PAPER – 1: PRINCIPLES AND PRACTICE OF 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:
- (i) Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.
 - (ii) Amount paid to Management company for consultancy to reduce the working expenses is capital expenditure if the reduced working expenses will generate long term benefits to the entity.
 - (iii) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.
 - (iv) When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital ratio.
 - (v) Goods worth Rs. 600 taken by the proprietor for personal use should be credited to Capital Account.
 - (vi) Quick ratio is also known as Cash Ratio. **(6 statements x 2 Marks = 12 Marks)**
- (b) Explain in brief objective and advantages of setting Accounting Standards. **(4 Marks)**
- (c) A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15th April, 2018 on which date the total cost of goods in his godown came to Rs. 50,000. The following facts were established between 31st March and 15th April, 2018.
- (i) Sales Rs. 41,000 (including cash sales Rs. 10,000)
 - (ii) Purchases Rs. 5,034 (including cash purchases Rs. 1,990)
 - (iii) Sales Return Rs. 1,000.
 - (iv) On 15th March, goods of the sale value of Rs. 10,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April, approving the rest; the customer was billed on 16th April.
- Goods are sold by the trader at a profit of 20% on sales.
- You are required to ascertain the value of Inventory as on 31st March, 2018. **(4 Marks)**

2. (a) Prepare a Petty Cash Book on the Imprest System from the following:

2017			Rs.
April	1	Received Rs. 20,000 for petty cash	
"	2	Paid auto fare	500
"	3	Paid cartage	2,500
"	4	Paid for Postage & Telegrams	500
"	5	Paid wages	600
"	5	Paid for stationery	400
"	6	Paid for the repairs to machinery	1,500
"	6	Bus fare	100
"	7	Cartage	400
"	7	Postage and Telegrams	700
"	8	Cartage	3,000
"	9	Stationery	2,000
"	10	Sundry expenses	5,000

- (b) On 30th Sept. 2018 my Cash Book (Bank Column of Account No. 1) shows a Bank Overdraft of Rs. 49,350. On going through the Bank Pass book for reconciling the Balance, I found the following:

- Out of cheques drawn on 26th Sept, those for Rs. 3,700 were cashed by the bankers on 2nd October.
- A crossed cheque for Rs. 750 given to Abdul was returned by him and a bearer cheque was issued to him in lieu on 1st Oct.
- Cash and cheques amounting to Rs. 3,400 were deposited in the Bank on 29th Sept., but cheques worth Rs. 1,300 were cleared by the Bank on 1st Oct., and one cheque for Rs. 250 was returned by them as dishonoured on the latter date.
- According to my standing instructions, the bankers have on 30th Sept, paid Rs. 320 as interest to my creditors, paid quarterly premium on my policy amounting to Rs. 160 and have paid a second call of Rs. 600 on shares held by me and lodged with the bankers for safe custody. They have also received Rs. 150 as dividend on my shares and recovered an Insurance Claim of Rs. 800, as their charges and commission on the above being Rs. 15. On receipt of information of the above transaction, I have passed necessary entries in my Cash Book on 1st Oct.
- My bankers seem to have given me a wrong credit for Rs. 500 paid in by me in No. 2 account and wrong debit in respect of a cheque for Rs. 300 drawn against my No. 2 account.

Prepare a Bank Reconciliation Statement as on 30th September, 2018.

(10 Marks + 10 Marks= 20 Marks)

- 3 (a) Manoj of Noida consigned to Kiran of Jaipur, goods to be sold at invoice price which represents 125% of cost. Kiran is entitled to a commission of 10% on sales at invoice price and 25% of any excess realised over invoice price. The expenses on freight and insurance incurred by Manoj were Rs. 15,000. The account sales received by Manoj shows that Kiran has effected sales amounting to Rs. 1,50,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were Rs. 12,000. 10% of consignment goods of the value of Rs. 18,750 were destroyed in fire at the Jaipur godown. Kiran remitted the balance in favour of Manoj.

You are required to prepare consignment account in the books of Manoj along with the necessary calculations. **(10 Marks)**

- (b) A and B entered into a joint venture to buy and sell mobile sets, on 1st July, 2017.

On 1.7.2017, A sent a draft for Rs. 3,75,000 in favour of B, and on 4.7.2017, the latter purchased 200 sets each at a cost of Rs. 3,000 each. The sets were sent to A by lorry under freight "to pay" for Rs. 3,000 and were cleared by A on 15.7.2017.

A effected sales in the following manner:

Date	No. of sets	Sale price per set	Discount on sale price
16.7.2017	3	4,500	10%
31.7.2017	80	4,200	-
15.8.2017	80	4,050	5%

On 25.8.2017, A settled the account by sending a draft in favour of B, profits being shared equally. B does not maintain any books.

You are required to prepare in A's books:

- Joint Venture with B A/c; and
- Memorandum Joint Venture A/c.

(10 Marks)

4. Smith Library Society showed the following position on 31st March, 2018:

Balance Sheet as on 31st March, 2018

Liabilities	Rs.	Assets	Rs.
Capital fund	7,93,000	Electrical fittings	1,50,000
Expenses payable	7,000	Furniture	50,000
		Books	4,00,000
		Investment in securities	1,50,000
		Cash at bank	25,000
		Cash in hand	25,000
	<u>8,00,000</u>		<u>8,00,000</u>

The receipts and payment account for the year ended on 31st March, 2019 is given below:

	Rs.		Rs.
To Balance b/d		By Electric charges	7,200
Cash at bank	25,000	By Postage and stationary	5,000
Cash in hand	<u>25,000</u>	By Telephone charges	5,000
To Entrance fee	30,000	By Books purchased	60,000
To Membership subscription	2,00,000	By Outstanding expenses paid	7,000
To Sale proceeds of old papers	1,500	By Rent	88,000
To Hire of lecture hall	20,000	By Investment in securities	40,000
To Interest on securities.	8,000	By Salaries	66,000
		By Balance c/d	
		Cash at bank	20,000
		Cash in hand	11,300
	<u>3,09,500</u>		<u>3,09,500</u>

You are required to prepare income and expenditure account for the year ended 31st March, 2019 and a balance sheet as at 31st, March, 2019 after making the following adjustments:

Membership subscription included Rs. 10,000 received in advance.

Provide for outstanding rent Rs. 4,000 and salaries Rs. 3,000.

Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.

75% of the entrance fees is to be capitalized.

Interest on securities is to be calculated @ 5% p.a. including purchases made on 1.10.2018 for Rs. 40,000. **(20 Marks)**

- 5 (a) 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 31st March, 2019 is as under:

Liabilities		Rs.	Assets	Rs.
Capitals:			Land	10,000
Mr. P	80,000		Buildings	2,00,000
Mr. Q	20,000		Plant and machinery	1,30,000
Mr. R	30,000	1,30,000	Furniture	43,000
Reserves			Investments	12,000
(un-appropriated profit)		20,000	Inventories	1,30,000
Long Term Debt		3,00,000	Trade receivables	1,39,000
Bank Overdraft		44,000		
Trade payables		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 1st April, 2019. For this purpose, the following adjustments are to be made:

- 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.
- 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 Rs.15,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.
- 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.
 - The surplus funds, if any, will be used for repaying bank overdraft.
 - The amount due to retiring partner shall be transferred to his loan account.

You are required to prepare

- Revaluation account;
- Partners' capital accounts;
- Bank account; and

(b) The following information of Hari Ltd. as on Dec 31st 2017 is given as below:

Equity and Liabilities		Assets		Rs.
Shareholder's Funds		1,12,500	Current Assets	1,50,000
Current Liabilities	1,50,000		Fixed Assets	2,25,000
Long Term Liabilities	<u>1,12,500</u>	<u>2,62,500</u>		
		<u>3,75,000</u>		<u>3,75,000</u>
Net sales				5,62,500
Interest Expense				6,000
Net Profit				39,375

On Dec 31st 2016, Total Assets were Rs.3,00,000 and the tax rate is 40%.

You are required to compute the following ratios of Hari Ltd. as on Dec. 31st 2017.

- (i) Long Term Debt to Total Assets Ratio
- (ii) Net Profit Ratio
- (iii) Return on Average Total Assets
- (iv) Return on Equity
- (v) Net Sales to Total Assets.

(10 + 10 = 20 Marks)

6. (a) Abhijeet who was the holder of 4,000 preference shares of Rs. 100 each, on which Rs. 75 per share has been called up could not pay his dues on Allotment and First call each at Rs. 25 per share. The Directors forfeited the above shares and reissued 3,000 of such shares to Mr. X at Rs. 65 per share paid-up as Rs.75 per share.

You are required to prepare journal entries to record the above forfeiture and re-issue in the books of the company. **(10 Marks)**

- (b) Pihu Ltd. issued 300 lakh 8% debentures of Rs.100 each at a discount of 6%, redeemable at a premium of 5% after 3 years payable as : Rs. 50 on application and Rs. 44 on allotment.

You are required to prepare the necessary journal entries for issue of debentures. **(5 Marks)**

- (c) Explain the differences between Money measurement concept and Matching Concept

Or

Explain, in brief, the basic considerations for distinguishing between capital and revenue expenditures? **(5 Marks)**