Test Series: March, 2018

FOUNDATION COURSE

MOCK TEST PAPER

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) Goods worth ₹ 600 taken by the proprietor for personal use should be credited to Capital Account.

   (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) When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with calls in arrear of shares forfeited.

   (vi) Quick ratio is also known as Cash Ratio. ***(6 statements x 2 Marks= 12 Marks)***

   (b) **Explain**, in brief, the basic considerations for distinguishing between capital and revenue expenditures? ***(4 Marks)***

   (c) From the following particulars, **prepare** a Bank Reconciliation Statement for Pathak Ltd. As on 31.3.2017

   (1) Balance as per cash book is ₹ 1,20,000.

   (2) Cheques issued but not presented in the bank amounts to ₹ 68,000.

   (3) Bank charges amounts to ₹ 300.

   (4) Interest credited by bank amounts to ₹ 1,500. ***(4 Marks)***

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

2017		₹
April 1	Received ₹ 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) M/s Kedar, Profit and loss account showed a net profit of ₹ 8,00,000, after considering the closing stock of ₹ 7,50,000 on 31st March, 2017. Subsequently the following information was obtained from scrutiny of the books:

(i) Purchases for the year included ₹ 30,000 paid for new electric fittings for the shop.

(ii) M/s Kedar gave away goods valued at ₹ 80,000 as free samples for which no entry was made in the books of accounts.

(iii) Invoices for goods amounting to ₹ 5,00,000 have been entered on 27th March, 2017, but the goods were not included in stock.

(iv) In March, 2017 goods of ₹ 4,00,000 sold and delivered were taken in the sales for April, 2017.

(v) Goods costing ₹ 1,50,000 were sent on sale or return in March, 2017 at a margin of profit of 33-1/3% on cost. Though approval was given in April, 2017 these were taken as sales for March, 2017.

You are required to **determine** the adjusted net profit for the year ended on 31.3.2017 and calculate the value of stock on 31st March, 2017. ***(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 ₹ 15,000. The account sales received by Manoj shows that Kiran has effected sales amounting to ₹ 1,50,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were ₹ 12,000. 10% of consignment goods of the value of ₹ 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 ₹ 3,75,000 in favour of B, and on 4.7.2017, **the latter** purchased 200 sets each at a cost of ₹ 3,000 each. The sets were sent to A by lorry under freight "to pay" for ₹ 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:

(i) Joint Venture with B A/c; and

(ii) Memorandum Joint Venture A/c. ***(10 Marks)***

4. From the following data, **prepare** an Income and Expenditure Account for the year ended 31st December 2017, and Balance Sheet as at that date of the Jeevan Hospital:

Receipts and Payments Account for the

year ended 31 December, 2017

	RECEIPTS	₹			PAYMENTS		₹
To	Balance b/d			By	Salaries:		
	Cash	800			(₹ 7,200 for 2016)		31,200
	Bank	5,200	6,000	By	Hospital Equipment		17,000
To	Subscriptions:			By	Furniture purchased		6,000
	For 2016		5,100	By	Additions to Building		50,000
	For 2017		24,500	By	Printing and Stationery		2,400
	For 2018		2,400				
To	Government Grant:			By	Diet expenses		15,600
	For building		80,000	By	Rent and rates		
	For maintenance		20,000		(₹ 300 for 2018)		2,000
	Fees from sundry			By	Electricity and water		
	Patients		4,800		charges		2,400
To	Donations (not to be		8,000	By	office expenses		2,000
	capitalized)			By	Investments		20,000
To	Net collections from			By	Balances:		
	benefit shows		6,000		Cash	1,400	
					Bank	6,800	8,200
			1,56,800				1,56,800

Additional information :	₹
Value of building under construction as on 31.12.2017	1,40,000
Value of hospital equipment on 31.12.2017	51,000
Building Fund as on 1.1. 2017	80,000
Subscriptions in arrears as on 31.12.2016	6,500
Investments in 8% Govt. securities were made on 1st July, 2017.	

(20 Marks)

5 (a) The following is the Balance Sheet of M/s. LMN Bros as at 31st December, 2017, they share profit equally:

Balance Sheet as at 31st December, 2017

Liabilities		₹	Assets		₹
Capital	L	8,200	Machinery		10,000
	M	8,200	Furniture		5,600
	N	9,000	Fixture		4,200
General Reserve		3,000	Cash		3,000
Trade payables		4,700	Inventories		1,900
			Trade receivables	9,000	
			Less: Provision for Doubtful debts	600	8,400
		33,100			33,100

N died on 3rd January, 2018 and the following agreement was to be put into effect.

(a) Assets were to be revalued: Machinery to ₹ 11,700; Furniture to ₹ 4,600; Inventory to₹ 1,500.

(b) Goodwill was valued at ₹ 6,000 and was to be credited with his share, without using a Goodwill Account

(c) ₹ 2,000 was to be paid away to the executors of the dead partner on 5th January, 2018.

(d) After death of N, L and M share profit equally.

You are required to prepare:

(i) Journal Entry for Goodwill adjustment.

(ii) Revaluation Account and Capital Accounts of the partners.

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

Equity and Liabilities			Assets	₹
Shareholder's Funds		1,12,500	Current Assets	1,50 ,000
Current Liabilities	1,50,000		Fixed Assets	2,25,000
Long Term Liabilities	1,12,500	2,62,500		
		3,75,000		3,75,000

Net sales	5,62,500
Interest Expense	6,000
Net Profit	39,375

On Dec 31st 2016, Total Assets were ₹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) Mohan Ltd. invited applications for 15 lakhs shares of ₹ 100 each payable as follows :

	₹
On Application	20
On Allotment (on 1st June, 2017)	30
On First Call (on 1st Nov., 2017)	30
On Final Call (on 1st March., 2018)	20

All the shares were applied for and allotted. A shareholder holding 30,000 shares paid the whole of the amount due along with allotment.

You are required to **prepare** the journal entries for the above-mentioned transactions, assuming all sums due were received. Interest was paid to the shareholder concerned on 1st March, 2018.

(10 Marks)

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

Going concern and Cost concept. ***(5 Marks)***