

Mock Test Paper - Series II: May, 2025

Date of Paper: 5th May, 2025

Time of Paper: 2 PM to 5 PM

FOUNDATION COURSE

PAPER – 1: ACCOUNTING

ANSWERS

1. (a) 1. **False:** Warehousing costs related to finished goods are expensed when incurred and are not included in inventory costs unless storage is incurred for getting the inventory ready for sale i.e. until and unless storage is required as a part of process of production of inventory like in case of wine.
2. **True:** Cash transactions are straightaway recorded in the Cash Book and on the basis of such a record, ledger accounts are prepared. Therefore, the Cash Book is a subsidiary book. But the Cash Book itself serves as the cash account and the bank account; the balances are entered in the trial balance directly. The Cash Book therefore, is part of the ledger also. Hence, it has also to be treated as a principal book. The Cash Book is thus both a subsidiary book and a principal book.
3. **False:** Current year subscription shall be shown in the credit side of the income and expenditure account and not in the Balance Sheet, as it is not a capital item.
4. **False:** Even if the company incurs losses, it has to pay interest on debentures. Debentures being debts on the company & debenture holders are not concerned with the profit or loss of the company, the interest is to be paid at the rate fixed on it at the time of issue of debenture.
5. **False:** On the death of a partner, the firm receives full value of the sum assured of the joint life policy.
6. **True:** Conservatism states that the accountant / entity should not anticipate any future income. However, they should provide for all possible / probable losses. Imprudent use of concept of conservatism may lead to understatement of Income and Assets.
- (b) Accounting Standards are selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The Accounting Standards Board of the Institute of Chartered Accountants of India

(ICAI) formulates Accounting Standards to be established by the Council of the ICAI. The main objective of Accounting Standards is to establish standards which have to be complied with, to ensure that financial statements are prepared in accordance with generally accepted accounting principles. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India.

(c) **Calculation of depreciation for the year ended 31.3.25**

	Machine I (42,81,000 - 3,24,000) ₹	Machine II Purchased on 1 st July ₹	Machine III Purchased on 1 st Nov ₹	Depreciation on sold machine IV ₹
Book value as on 1 st April, 2024	39,57,000	7,20,000	8,40,000	3,24,000
Depreciation @15%	5,93,550 (for full year)	81,000 (for 9 months)	52,500 (for 5 months)	12,150 (for 3 months)

Total depreciation (I + II + III + IV) ₹ 7,39,200

2. (a)

Date	Particulars	Dr. ₹	Cr. ₹
(1)	Scooter A/c Dr. To Profit and Loss Adjustment A/c (Purchase of scooter wrongly debited to conveyance account now rectified-capitalization of ₹90,000, i.e., ₹1,00,000 less 10% depreciation)	90,000	90,000
(2)	Suspense A/c Dr. To Profit & Loss Adjustment A/c (Purchase Account overcast in the previous year error now rectified).	2,00,000	2,00,000
(3)	Profit & Loss Adjustment A/c Dr. To Sandeep's A/c (Credit purchase from Sandeep's ₹20,000, entered as sales last year, now rectified)	40,000	40,000

(4)	Prem's A/c To Parag's A/c (Amount received from Mr. Parag's wrongly posted to the account of Mr. Prem; now rectified)	Dr.	10,000	10,000
(5)	Suspense A/c To C's A/c (₹ 5,000 received from C wrongly debited to his account; now rectified)	Dr.	10,000	10,000
(6)	Trade receivables (Ramesh) / Ramesh A/c To Suspense A/c (₹5,000 due by Mr. Ramesh not taken into trial balance now rectified)	Dr.	5,000	5,000
(7)	Ram's A/c To Profit & Loss Adjustment A/c (Sales to Ram omitted last year; now adjusted)	Dr.	20,000	20,000
(8)	Suspense A/c To Profit & Loss Adjustment A/c (Excess posting to purchase account last year, ₹55,930, instead of ₹53,950, now adjusted)	Dr.	1,980	1,980
(9)	Profit & Loss Adjustment A/c To Kunal's Capital A/c (Balance of Profit & Loss Adjustment A/c transferred to Capital Account)	Dr.	2,71,980	2,71,980
(10)	Kunal's Capital A/c To Suspense A/c (Balance of Suspense Account transferred to Capital Account)	Dr.	2,06,980	2,06,980

(b) **Bank Reconciliation Statement as on 31st March, 2025**

Particulars	Amount ₹
Balance as per Pass Book	5,250
Add: Bill discounted by bank (3,750+750)	4,500

Less: Cheques deposited but returned on 24 th March, 2025	(3,750)
Discounted bill from Mr. Sahil dishonoured	(7,500)
Wrong debit in passbook	(2,250)
Balance as per Cash book (Dr. / Favourable)	(3,750)

(c) Sales	11,25,000
Add: Closing inventory (at selling price)	<u>1,50,000</u>
Selling price of goods available for sale:	12,75,000
Less: Cost of goods available for sale	<u>(7,50,000)</u>
Gross margin	<u>5,25,000</u>

$$\text{Rate of gross margin} = \frac{5,25,000}{12,75,000} \times 100 = 41.18\%$$

Cost of closing inventory = 1,50,000 less 41.18% of ₹1,50,000 = ₹ 88,230

*This rate may also be considered as 41.176% in that case, the closing inventory will be valued at ₹ 88,236

OR as 41.17% in that case, the closing inventory will be valued at ₹ 88,245

3. (a) **Trading and Profit and Loss Account of Mr. Govind**
for the year ended 31st March, 2025

Dr.				Cr.			
		Amount			Amount		
	₹	₹			₹	₹	
To Opening stock		1,93,500	By Sales	12,81,450			
To Purchases	9,18,600		Less: Sales return	<u>15,450</u>	12,66,000		
Less: Purchases return	<u>10,350</u>	9,08,250	By Closing stock				
To Carriage inward		6,750	(₹ 480,000 × $\frac{100}{80}$ × $\frac{100}{80}$)			750,000	
To Wages		70,290					
To Gross profit c/d		<u>8,37,210</u>					
		<u>20,16,000</u>				<u>20,16,000</u>	
To Salaries		1,35,300	By Gross profit b/d			8,37,210	
To Rent		25,800	By Bad debts recovered			2,700	
To Advertisement expenses		25,050					
To Printing and stationery		7,500					
To Bad debts		6,600					
To Carriage outward		8,100					

To	Provision for doubtful debts					
	5% of ₹ 7,20,000	36,000				
	Less: Existing provision	<u>19,200</u>	16,800			
To	Provision for discount on debtors	17,100				
	2.5% of ₹ 6,84,000					
	Less: Existing provision	<u>8,250</u>	8,850			
To	Depreciation:					
	Plant and machinery	18,000				
	Furniture and fittings	<u>6,150</u>	24,150			
To	Office expenses		60,960			
To	Interest on loan		18,000			
To	Net profit (Transferred to capital account)		5,02,800			
			<u>8,39,910</u>			<u>8,39,910</u>

Balance Sheet of Mr. Govind as on 31st March, 2025

Liabilities	₹	Amount ₹	Assets	₹	Amount ₹
Capital account	390,000		Plant and machinery	1,20,000	
Add: Net profit	<u>5,02,800</u>		Less: Depreciation	<u>18,000</u>	1,02,000
	8,92,800		Furniture and fittings	61,500	
Less: Drawings	<u>69,000</u>	8,23,800	Less: Depreciation	<u>6,150</u>	55,350
Bank overdraft		480,000	Closing stock		7,50,000
Sundry creditors		285,000	Sundry debtors	720,000	
Payable salaries		14,700	Less: Provision for doubtful debts	36,000	
			Provision for bad debts	<u>17,100</u>	6,66,900
			Prepaid rent		1,800
			Cash in hand		8,700
			Cash at bank		<u>18,750</u>
		<u>16,03,500</u>			<u>16,03,500</u>

(b) Ram's Capital Account

Date 2024	Particulars	₹	Date 2024	Particulars	₹
Sep. 30	To Ram's current Account	3,840	Sep. 30	By bal b/d	43,200
Sep. 30	To Ram's Executor A/c	2,01,604	Sep. 30	By Bharat Capital A/c and Laxman Capital A/c (Share of goodwill)	1,62,244
		<u>2,05,444</u>			<u>2,05,444</u>

Ram's executor Account

Date	Particulars	₹	Date	Particulars	₹
31.3.2025	To Bank A/c (50,401+5,040)	55,441	1.10.2024	By Capital A/c	2,01,604
31.3.2025	To Balance c/d	1,51,203	31.3.2025	By Interest (2,01,604 x 2.5%)	5,040
		2,06,644			2,06,644
30.9.2025	To bank A/c (50,401+3,780)	54,181	1.4.2025	By Balance b/d	1,51,203
31.3.2026	To bank A/c (50,401+2,520)	52,921	30.9.2025	By Interest (1,51,203 x 2.5%)	3,780
31.3.2026	To balance c/d	50,401	30.3.2026	By Interest (50,401 x 2) x 2.5%	2,520
		1,57,503			1,57,503
30.9.2026	To bank A/c (50,401+1,260)	51,661	1.4.2026	By balance b/d	50,401
		51,661	30.9.26	By Interest (50,401 x 2.5%)	1,260
					51,661

Working notes

1.	Ascertainment of Value of Goodwill	
	2021	1,40,800
	2022	1,12,640
	2023	96,320
	2024	34,816
	Total Profit for 4 years	3,84,576
	Average Profit	96,144
	Goodwill	
	Purchase of Average Profit (3 years)	2,88,432
	Ram's Share of goodwill (9/16 of ₹2,88,432)	1,62,244
	*Profit sharing ratio between Ram, Laxman and Bharat = 9:4:3, Therefore Ram's share of Profit = 9/16	

2. Calculation of amount of each instalment (without interest) = ₹ 2,01,604 / 4 = 50,401

4. (a) (i) **Revaluation Account**

	₹		₹
To Buildings A/c	90,000	By Investments A/c	27,000
To Machinery A/c	2,34,000	By Loss to Partners:	
To Provision for Doubtful Debts A/c	2,50,200	Tim	2,73,600
		Sam	1,64,160
		Ben	<u>1,09,440</u>
	5,74,200		5,47,200
			<u>5,74,200</u>

Partners' Capital Account

Particulars	Tim	Sam	Ben	Dan	Particulars	Tim	Sam	Ben	Dan
	₹	₹	₹	₹		₹	₹	₹	₹
To Revaluation A/c	2,73,600	1,64,160	1,09,440	-	By Balance b/d	7,20,000	1,80,000	2,70,000	-
To Investments A/c		1,35,000	-	-	By Reserves A/c	90,000	54,000	36,000	-
To Sam Loan A/c		2,04,840	-	-	By Ben and Dan Capital A/c	90,000	2,70,000	-	-
To Tim and Sam's Capital A/c			1,80,000	1,80,000	By Bank A/c (balancing figure)	93,600	-	7,03,440	5,40,000
To Balance c/d	<u>7,20,000</u>		<u>7,20,000</u>	<u>3,60,000</u>					
	9,93,600	5,04,000	10,09,440	5,40,000		9,93,600	5,04,000	10,09,440	5,40,000

Bank Account

	₹		₹
To Tim's capital A/c	93,600	By Bank Overdraft A/c	3,96,000
To Ben's capital A/c	7,03,440	By Balance c/d	9,41,040
To Dan's capital A/c	5,40,000		
	<u>13,37,040</u>		<u>13,37,040</u>

Calculation for adjustment of Amount of Goodwill

Partner	Old share	New share	Gain	Sacrifice
Tim	$\frac{5}{10}$	$\frac{4}{10}$		$\frac{1}{10}$
Sam	$\frac{3}{10}$			$\frac{3}{10}$

Ben	$\frac{2}{10}$	$\frac{4}{10}$	$\frac{2}{10}$	
Dan		$\frac{2}{10}$	$\frac{2}{10}$	

Ben's capital Dr. 1,80,000

Dan's capital Dr. 1,80,000

To Tim's capital 90,000

To Sam's capital 2,70,000

(b) Income and Expenditure Account for the year ending 31st March, 2025

Expenditure	₹	₹	Income	₹	₹
To Medicine		7,25,000	By Subscription		12,80,000
To Honorarium		2,50,000	By Donation		375,000
To Salaries		7,00,000	By Interest on investment		2,25,000
To Sundry expenses		25,000	By Charity show	3,12,500	
To Depreciation			Less: Charity show expenses	(37,500)	2,75,000
Equipment		1,50,000			
Building		50,000			
To Surplus		<u>2,55,000</u>			
		<u>21,55,000</u>			<u>21,55,000</u>

**Balance Sheet of ABC society
as on 31st March, 2025**

Liabilities	₹	₹	Assets	₹	₹
Capital Fund:			Equipments	5,25,000	
Opening balance	45,07,500		Add: Purchases.	<u>3,75,000</u>	
Add: Surplus	<u>2,55,000</u>	47,62,500		9,00,000	
Adv subscription		17,500	Less: dep. (bal. fig)	(1,50,000)	7,50,000
Creditors (medicine)		3,25,000	Building	12,50,000	
			Less: dep. (bal. fig)	(50,000)	12,00,000
			Investment		25,00,000
			(₹ 2,25,000/9%)		
			Closing outstanding subscription		55,000

		Closing stock (medicine)	3,75,000
		Cash	225,000
	<u>51,05,000</u>		<u>51,05,000</u>

Working Note:

(i) Subscription for the year ended 31st March, 2025

Particulars	Amount
Subscription Received during the year	12,50,000
Less: Subscription outstanding as on 1 st April, 2024	(37,500)
Add: Subscription outstanding as on 31 st March, 2025	55,000
Add: Subscription received in advance as on 1 st April, 2024	30,000
Less: Subscription received in advance as on 31 st March, 2025	(17,500)
Total	12,80,000

(ii) Medicines purchased during the year ended 31st March, 2025

Particulars	Amount
Opening due for medical supply	2,25,000
Less: Payment made during the year	(7,50,000)
Less: Closing due for medical supply	(3,25,000)
Medicines purchased during the year	8,50,000

(iii) Medicines consumed during the year ended 31st March, 2025

Particulars	Amount
Opening stock	2,50,000
Add: Purchase during the year	8,50,000
Less: Closing Stock	(3,75,000)
Medicines consumed during the year	7,25,000

(iv) Depreciation on Equipment

Particulars	Amount
Opening Balance	5,25,000
Add: Purchase during the year	3,75,000
Less: Closing Balance	(7,50,000)
Depreciation for the year	1,50,000

5. (a)

Purchases book

Date	Particulars		L.F.	Amount ₹
(i)	Red & Co. 30 pairs of black shoes @ ₹ 800 15 pairs of Brown shoes @ ₹ 900	24,000 <u>13,500</u> 37,500		
	Less: 10% trade discount	<u>(3,750)</u>		33,750
(ii)	Blue & Co. 15 pairs of black shoes @ ₹ 700 45 pairs of Brown shoes @ ₹ 100	10,500 <u>4,500</u> 15,000		
	Less: 15% trade discount	<u>(2,250)</u>		12,750
	Total			46,500

Note:

Purchase of computer cannot be entered in the Purchase Book but entered in journal proper.

(b)

(i)

Joint Life Policy A/c

		₹			₹
10 th June, 2021	To Bank A/c	12,000	31 st Dec., 2021	By Profit and Loss A/c	12,000
10 th June, 2022	To Bank A/c	12,000	31 st Dec., 2022	By Profit and Loss A/c	8,400
				By Balance c/d	3,600
		12,000			12,000
1 st January, 2023	To Balance b/d	3,600	31 st Dec., 2023	By Profit and Loss A/c	7,600
10 th June, 2023	To Bank A/c	12,000	31 st Dec., 2023	By Balance c/d	8,000
		15,600			15,600
1 st January, 2024	To Balance b/d	8,000	31 st Dec., 2024	By Profit and Loss A/c	5,600
10 th June, 2024	To Bank A/c	12,000	31 st Dec., 2023	By Balance c/d	14,400
		20,000			20,000
1 st January, 2025	To Balance b/d	14,400	15 th April, 2025	By Bank	14,400
		14,400			14,400

(ii) (a) Transfer to provisions - (i), (iv)

(b) Transfer to reserves - (ii)

(c) Neither related to provisions nor reserves - (iii), (v).

(c)

Journal Entries in the Books of Lol Ltd.

		Dr. ₹	Cr. ₹
Bank A/c	Dr.	2,25,000	
To Equity Shareholders A/c			2,25,000
(Application money received on 15000 shares @ ₹ 15 per share to be issued as rights shares in the ratio of 1:4)			
Equity Shareholders A/c	Dr.	2,25,000	
To Equity Share Capital A/c			1,50,000
To Securities Premium A/c			75,000
(Share application money on 15,000 shares @ ₹ 10 per share transferred to Share Capital Account, and ₹ 5 per share to Securities Premium Account vide Board's Resolution dated...)			
Securities Premium A/c	Dr.	75,000	
Profit & Loss A/c	Dr.	75,000	
To Bonus to Shareholders A/c			1,50,000
(Amount transferred for issue of bonus shares to existing shareholders in the ratio of 1:5 vide General Body's resolution dated...)			
Bonus to Shareholders A/c	Dr.	1,50,000	
To Equity Share Capital A/c			1,50,000
(Issue of bonus shares in the ratio of 1 for 5 vide Board's resolution dated....)			
12% Debentures A/c	Dr.	3,60,000	
Premium Payable on Redemption A/c	Dr.	10,800	
To Debenture holders A/c			3,70,800
(Amount payable to debentures holders)			
Profit and loss A/c	Dr.	10,800*	
To Premium Payable on Redemption A/c			10,800
(Premium payable on redemption of debentures charged to Profit & Loss A/c)			
Debenture Redemption Reserve A/c	Dr.	36,000	
To General Reserve			36,000
(For DRR transferred to general reserve)			

Bank A/c	Dr.	54,000	54,000
To Debenture Redemption Reserve Investment (for DRR Investment realised)			
Debenture holders A/c	Dr.	3,70,800	3,70,800
To Bank A/c (Amount paid to debenture holders on redemption)			

* In the absence of details of the term of debentures (redemption period), the entire redemption premium was charged to profit & loss A/c of the year

6. (a)

In the books of Riya Closet Ltd.

Journal Entries

Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Bank A/c	Dr.	10,000	10,000
To Equity Share Application A/c (Money received on applications for 10,000 shares @ ₹ 1 per share)			
Equity Share Application A/c	Dr.	10,000	10,000
To Equity Share Capital A/c (Transfer of application money on 10,000 shares to share capital)			
Equity Share Allotment A/c	Dr.	20,000	20,000
To Equity Share Capital A/c (Amount due on the allotment of 10,000 shares @ ₹ 2 per share)			
Bank A/c	Dr.	19,800	19,800
To Equity Share Allotment A/c (Allotment money received on 9,900 shares)			
OR			
Bank A/c	Dr.	19,800	
Calls in arrears A/c	Dr.	200	
To Equity Share Allotment A/c (Allotment Amount received except 100 shares)			20,000
Equity Share Capital A/c	Dr.	300	
To Share Forfeiture A/c			100

To Equity Shares Allotment A/c (100 Shares of Meena forfeited)			200
OR			
Equity Share Capital A/c Dr.	300		
To Shares Forfeiture A/c		100	
To Calls in arrears A/c		200	
(100 shares forfeited due to non-payment of allotment money)			
Equity Share First Call A/c Dr.	29,700		
To Equity Share Capital A/c		29,700	
(First call made due on 9,900 shares at ₹ 3 per share)			
Bank A/c Dr.	29,250		
To Equity Share First Call A/c		29,250	
(First call money received on 9,750 shares at ₹ 3 per share)			
OR			
Bank A/c Dr.	29,250		
Calls in arrears A/c Dr.	450		
To Equity Share First Call A/c		29,700	
(First Call money received except 150 shares)			
Equity Share Capital A/c Dr.	900		
To Share Forfeiture A/c		450	
To Equity Share First Call A/c		450	
(150 Shares of Seema forfeited)			
OR			
Equity Share Capital A/c Dr.	900		
To Share Forfeiture A/c		450	
To Calls in arrears A/c		450	
(150 shares forfeited due to non - payment of First call money)			
Equity Share Second and Final Call A/c Dr.	39,000		
To Equity Share Capital A/c		39,000	
(Second and Final call made due on 9,750 shares at ₹ 4 per share)			

Bank A/c	Dr.	38,800	
To Equity Share Second and Final Call A/c			38,800
(Second and Final call money received on 9,700 shares at ₹ 4 per share)			
OR			
Bank A/c	Dr.	38,800	
Calls in arrears A/c	Dr.	200	
To Equity Shares Second and Final Call A/c			39,000
(Second and Final call money received except 50 shares)			
Equity Share Capital A/c	Dr.	500	
To Share Forfeiture A/c			300
To Equity Share Second and Final Call A/c			200
(50 Shares of Mohan forfeited)			
OR			
Equity Share Capital A/c			
To Shares Forfeiture A/c	Dr.	500	
To Calls in arrears A/c			300
(50 shares forfeited due to non-payment of Second and final call money)			
Bank A/c	Dr.	2,700	
Share Forfeiture A/c	Dr.	300	
To Equity Share Capital A/c			3,000
(300 shares reissued at ₹ 9 per share)			
Share Forfeiture A/c	Dr.	550	
To Capital Reserve A/c (W.N.1)			550
(Profit on re-issue transferred to Capital Reserve)			

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

Surplus out of 100 shares of Meena forfeited	₹ 100
Surplus out of 150 shares of Seema forfeited	₹ 450
Surplus out of 50 shares of Mohan forfeited	₹ <u>300</u>
	₹ 850
Less: Loss on re-issue of shares	₹ <u>300</u>
Transferred to Capital Reserve	₹ <u>550</u>

(c) The preparation of trial balance has the following objectives:

1. **Checking of the arithmetical accuracy of the accounting entries:** Trial Balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish the arithmetical accuracy of the books.
2. **Basis for preparation of financial statements:** Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarized form for a particular period. In case, the Trial Balance is not prepared, it will be almost impossible to prepare the financial statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.
3. **Summarized ledger:** Trial Balance contains the ledger balances on a particular position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required.

Or

Rules regarding posting of entries in the ledger

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective account accordingly.
2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger.
3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.