

Mock Test Paper - Series II: August, 2025

Date of Paper: 25th August, 2025

Time of Paper: 2 P.M. to 5 P.M.

FOUNDATION COURSE

PAPER – 1: ACCOUNTING

ANSWERS

1. (a) (i) **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.
- (ii) **False:** Warehouse rent 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.
- (iii) **True:** The financial statements must disclose all the relevant and reliable information in accordance with the full Disclosure Principle.
- (iv) **False:** In case of admission of new partner in a partnership firm, profit/loss on revaluation account is transferred to old partners in their old profit-sharing ratio.
- (v) **False:** The debit notes issued are used to prepare purchases return book.
- (vi) **True:** According to Section 53 of the Companies Act, 2013, a company cannot issue shares at a discount except in the case of issue of sweat equity shares (issued to employees and directors).
- (b) (i) Accounting conventions emerge out of accounting practices, commonly known as accounting principles, adopted by various organizations over a period of time. These conventions are derived by usage and practice. The accountancy bodies of the world may change any of the convention to improve the quality of accounting information. Accounting conventions need not have universal application.
- (ii) **Contingent Asset**
- An asset the existence, ownership or value of which may be known or determined only on the occurrence or non-occurrence of one or more uncertain future events.

Contingent Liability

An obligation relating to an existing condition or situation which may arise in future depending on the occurrence or non-occurrence of one or more uncertain future events.

(c) **Rectification entries in the books of M/s Samar Steels**

	Particulars	L.F.	Dr. ₹	Cr. ₹
1.	Profit and Loss Adjustment A/c Dr. To Building A/c (Repairs amounting ₹ 37,500 wrongly debited to building account, now rectified)		37,500	37,500
2.	Profit and Loss Adjustment A/c Dr. To Suspense A/c (Addition of freight column in purchase journal was under casted, now rectification entry made)		4,500	4,500
3.	Suspense Account Dr. To Alas & Co. (Goods returned by Alas & Co. had been posted wrongly to the debit of her account, now rectified)		6,300	6,300
4.	Profit and Loss Adjustment A/c Dr. To Furniture A/c (Being sale of furniture wrongly entered in sales book, now rectified)		90,000	90,000

2. (a) **Profit and Loss Adjustment A/c**

	₹		₹
To Advertisement (samples)	3,20,000	By Net profit	32,00,000
To Sales (goods approved in April to be taken as April sales)	8,00,000	By Electric fittings	1,20,000
		By Samples	3,20,000
To Adjusted net profit	67,20,000	By Stock (Purchases of March not included in stock)	20,00,000

		By Sales (goods sold in March wrongly taken as April sales)	16,00,000
		By Stock (goods sent on approval basis not included in stock)	6,00,000
	<u>78,40,000</u>		<u>78,40,000</u>

Calculation of value of inventory on 31st March, 2025

	₹
Stock on 31 st March, 2025 (given)	30,00,000
Add: Purchases of March, 2025 not included in the stock	20,00,000
Goods lying with customers on approval basis	<u>6,00,000</u>
	<u>56,00,000</u>

(b) Plant and Machinery Account for the year ended 31st March, 2025

		₹			₹
01-04-24	To Balance b/d	95,00,000	01-09-24	By Bank (Sales)	3,75,000
01-09-24	To Bank (14,00,000 + 44,600)	14,44,600	01-09-24	By Depreciation (on sold machine)	73,811
			01-09-24	By Loss on sale	13,22,659
			01-09-24	By Loss on scrapping the machine	18,84,562
			01-09-24	By Depreciation (on Scrapped machinery)	81,938
			31-03-25	By Depreciation (Note iii)	6,60,471
			31-03-25	By Balance c/d	65,46,159
		<u>109,44,600</u>			<u>109,44,600</u>

Working Note:

(i)	Calculation of loss on sale of machine on 01-09-2024		₹
	Cost on 1-4-2022		21,87,000
	Less: Depreciation @ 10% on ₹ 21,87,000		(2,18,700)
	W.D.V. on 31-03-2023		19,68,300
	Less: Depreciation @ 10% on ₹ 19,68,300		(1,96,830)
	W.D.V. on 31-03-2024		17,71,470
	Less: Depreciation @ 10% on ₹ 17,71,470 for 5 months		(73,811)
			16,97,659
	Less: Sale proceeds on 01-09-2024		(3,75,000)
	Loss		13,22,659
(ii)	Calculation of loss on scrapped machine		
	Cost on 1-4-2023		21,85,000
	Less: Depreciation @ 10% on ₹ 21,85,000		(2,18,500)
	W.D.V. on 31-3-2024		19,66,500
	Less: Depreciation @ 10% on ₹ 19,66,500 for 5 months		(81,938)
(iii)	Loss		18,84,562
	Depreciation		
	Balance of machinery account on 1-4-2024		95,00,000
	Less: W.D.V of machinery sold	17,71,470	
	W.D.V. of machinery scrapped	19,66,500	(37,37,970)
	Balance of other machinery after sale and scrap on 1-4-2024		57,62,030
	Depreciation @ 10% on ₹ 57,62,030 for 12 months		5,76,203
	Depreciation @ 10% on ₹ 14,44,600 for 7 months		84,268
			6,60,471

Note: The figures are rounded off to nearest rupee.

3. (a)

Manufacturing A/c

Particulars	₹	Particulars	₹
To Raw Material Consumed (Balancing Figure)	27,45,000	By Trading A/c (W.N. 4)	54,96,000
To Wages (W.N. 2)	9,45,000		
To Depreciation (W.N. 1)	11,85,000		
To Direct Expenses (W.N. 3)	6,21,000		
	54,96,000		54,96,000

Raw Material A/c

Particulars	₹	Particulars	₹
To Opening Stock A/c	3,81,000	By Raw Material Consumed (from Manufacturing A/c above)	27,45,000
To Creditors A/c (W.N. 5)	43,20,000	By Closing Stock A/c (Balancing Figure)	19,56,000
	47,01,000		47,01,000

Working Notes:

- (1) Since purchase of Machinery worth ₹ 36,00,000 has been omitted.
So, depreciation omitted from being charged = $36,00,000 \times 15\%$
= ₹ 5,40,000
Correct total depreciation expense = ₹ (6,45,000+5,40,000)
= 11,85,000
- (2) Wages worth ₹ 1,50,000 will be excluded from manufacturing account as they pertain to office and hence will be charged P&L A/c. So the revised wages amounting ₹ 9,45,000 will be shown in manufacturing account.
- (3) Expenses to be excluded from direct expenses:

Office Electricity Charges (2,40,000 X 25%)	60,000
Delivery Charges to Customers	<u>66,000</u>
Total expenses not part of Direct Expenses	<u>1,26,000</u>

$$\begin{aligned}\Rightarrow \text{Revised Direct Expenses} &= ₹ (7,47,000 - 1,26,000) \\ &= ₹ 6,21,000\end{aligned}$$

Fuel charges are related to factory expenses and also freight inwards are incurred for bringing goods to factory/ godown so they are part of direct expenses.

(4) Revised Balance to be transferred to Trading A/c:

Particulars	₹
Current Balance transferred	52,32,000
Add: Depreciation charges not recorded earlier	5,40,000
Less: Wages related to Office	-1,50,000
Less: Office Expenses	<u>-1,26,000</u>
Revised balance to be transferred	<u>54,96,000</u>

(5) Creditors A/c

Particulars	₹	Particulars	₹
To Bank A/c	70,50,000	By Balance b/d	47,10,000
To Balance c/d	<u>19,80,000</u>	By Raw Materials A/c (Bal. figure)	<u>43,20,000</u>
	90,30,000		90,30,000

(b)

Particulars	Amar	Akbar	Anthony	Total Profit of firm
I. Amount already credited: Share of profit (in the ratio of 1:1:1) (2023-24, 2024-25)	4,68,000	4,68,000	4,68,000	14,04,000
II. Amount which should have been credited: Anthony's Salary (2023-24, 2024-25)			1,80,000	
Interest on Capital (2023-24, 2024-25)	90,000	45,000	45,000	
Share of Profit	5,22,000	2,61,000	2,61,000	10,44,000
	6,12,000	3,06,000	4,86,000	
Net effect (I - II)	(1,44,000)	1,62,000	(18,000)	-

The necessary journal entry will be:

Particulars	Debit (₹)	Credit (₹)
Akbar's Current A/c	1,62,000	
To Amar's Current A/c		1,44,000
To Anthony's Current A/c		18,000
(Salary to Anthony, Interest on capital charged and profit shared among partners in the ratio of capital)		

(c) Total Profit for 3 years = (₹ 17,000) + ₹ 50,000 + ₹ 75,000 = ₹ 1,08,000.

$$\text{Average profits} = \frac{\text{Total Profit}}{\text{No. of years}} \times \frac{₹ 1,08,000}{3} = ₹ 36,000$$

Average Profits for Goodwill = ₹ 36,000 – Proprietor Remuneration

$$= ₹ 36,000 - ₹ 6,000 = ₹ 30,000$$

Normal Profit = Interest on Capital employed

$$= ₹ 20,000 \text{ (i.e. } ₹ 2,00,000 \times 10/100) = ₹ 20,000$$

$$\text{Super Profit} = \text{Average Profit} - \text{Normal Profit} = ₹ 30,000 - ₹ 20,000 = ₹ 10,000$$

$$\text{Goodwill} = \text{Super Profit} \times \text{No of years purchases} = ₹ 10,000 \times 2 = ₹ 20,000$$

4. (a) **Revaluation A/c**

	₹		₹
To Plant & Machinery (1,70,000 x 15%)	25,500	By Land & Building A/c	1,52,000
To Provision for Bad & Doubtful Debts (60,000 x 5%)	3,000		
To Outstanding Repairs to Building	6,000		
To Revaluation Profit			
A's Capital A/c (5/8)	73,438		
B's Capital A/c (3/8)	44,062		
	1,52,000		1,52,000

Partners' Capital A/c

	A	B	C		A	B	C
To A's Capital A/c	-	-	20,000	By Balance b/d	4,10,000	3,30,000	-

To B's Capital A/c			12,000	By Revaluation A/c	73,438	44,062	-
To B's Current A/c	-	68,062		By Profit & Loss A/c	70,000	42,000	-
To Balance c/d	6,00,000	3,60,000	2,40,000	By Bank	-	-	2,72,000
				By C's Capital A/c	20,000	12,000	-
				By A's Current A/c	26,562	-	-
	6,00,000	4,28,062	2,72,000		6,00,000	4,28,062	2,72,000

Calculation of New Profit Sharing Ratio and gaining ratio:

C's Share of Profit = $1/5 = 2/10$

Remaining Share = $1 - 1/5 = 4/5$

A's Share = $5/8 \times 4/5 = 20/40 = 5/10$

B,s Share = $3/8 \times 4/5 = 12/40 = 3/10$

New Profit sharing Ratio = 5:3:2

Gaining ratio = 5:3 (same as old profit sharing ratio among old partners)

Balance sheet of Genesis and Associates as on 31.3.2025

Liabilities		₹	Assets		
Capital Accounts:			Land & Buildings		5,32,000
A	6,00,000		Plant & Machinery	1,70,000	
B	3,60,000		Less: Depreciation	<u>25,500</u>	1,44,500
C	<u>2,40,000</u>	12,00,000	Furniture		1,09,480
B's Current A/c		68,062	Stock		1,45,260
Trade Creditors		54,800	Sundry Debtors	60,000	
Outstanding		6,000	Less: Provision	<u>3,000</u>	57,000
Repairs to Building			Cash at Bank		3,14,060
			A's current A/c		<u>26,562</u>
		<u>13,28,862</u>			<u>13,28,862</u>

Working Note:

Required Balance of Capital Accounts

C's Capital after writing off Goodwill = $2,72,000 - 32,000 = 2,40,000$

C's Share of Profit = $1/5$

Thus Capital of the firm shall be = $2,40,000 \times 5 = 12,00,000$

A's Capital = 12,00,000 x 5/10 = 6,00,000 and

B's Capital = 12,00,000 x 3/10 = 3,60,000

(b)

In the books of Sky Ltd.

Journal Entries

			Dr.	Cr.
April 1	Capital Redemption Reserve A/c	Dr.	1,20,000	10,80,000
	Securities Premium A/c	Dr.	75,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c (b.f.)	Dr.	5,25,000	
	To Bonus to Equity Shareholders A/c			
	(Being bonus issue @ two shares for every five shares held by utilizing various reserves as per Board's Resolution dated...)			
	Bonus to Shareholders A/c	Dr.	10,80,000	10,80,000
	To Equity Share Capital A/c			
	(Being bonus shares issued)			

Balance Sheet (Extract) as on 1st April, 2025 (after bonus issue)

		Particulars	Notes	Amount (₹)
1		Equity and Liabilities		
		Shareholders' funds		
	a	Share capital	1	40,20,000
	b	Reserves and Surplus	2	75,000

Notes to Accounts

1	Share Capital	(₹)
	Authorized share capital:	
	3,78,000* Equity shares of ₹ 10 each	37,80,000*
	25,000 10% Preference shares of ₹ 10 each	2,50,000
	Total	40,30,000

2	Issued, subscribed and fully paid share capital:		
	3,78,000 Equity shares of ₹ 10 each, fully paid (Out of above, 1,08,000 equity shares @ ₹ 10 each were issued by way of bonus)		37,80,000
	24,000 10% Preference shares of ₹ 10 each		2,40,000
	Total		<u>40,20,000</u>
	Reserves and Surplus		
	Capital Redemption Reserve	1,20,000	Nil
	Less: Utilized	<u>1,20,000</u>	
	Securities Premium	75,000	
	Less: Utilised for bonus issue	<u>(75,000)</u>	Nil
	General reserve	3,60,000	
	Less: Utilised for bonus issue	<u>(3,60,000)</u>	Nil
	Profit & Loss Account	6,00,000	
	Less: Utilised for bonus issue	<u>(5,25,000)</u>	<u>75,000</u>
	Total		<u>75,000</u>

Note: *Authorized capital has been increased by the minimum required amount i.e. ₹ 7,80,000 (37,80,000 – 30,00,000) in the above solution.

5. (a) **Bank Reconciliation Statement as on 31st March, 2025**

Particulars	Details (₹)	Amount (₹)
Balance as per Pass Book (Cr.)		7,50,000
Add: Cheque deposited but not yet cleared	1,10,000	
Cheque recorded in Cash Book but not yet deposited	25,000	
Bank Charges debited by bank	1,250	1,36,250
Less: Cheque issued but not yet presented	2,40,000	
Less: Amount deposited but not recorded in Cash Book	78,500	
Less: Interest allowed by bank	7,500	(3,26,000)
Balance as per Cash Book		5,60,250

(b) Receipts and Payments Account for the year ended 31-03-2025

Receipts	₹	Payments	₹
To balance b/d		By Salaries	30,000
Cash and bank	55,000	By Purchase of sports goods	5,000
To Subscription received (W.N.1)	1,22,500	₹ (12,500 - 7,500)	
To Sale of investments (W.N.2)	35,000	By Purchase of machinery	5,000
To Interest received on investment	7,000	₹ (10,000-5,000)	
To Sale of furniture	4,000	By Sports expenses	25,000
		By Rent paid	11,000
		₹ (12,000 -1,000)	
		By Miscellaneous expenses	2,500
		By Balance c/d	
		Cash and bank	<u>1,45,000</u>
	<u>2,23,500</u>		<u>2,23,500</u>

Income and Expenditure account for the year ended 31-03-2025

Expenditure	₹	₹	Income	₹	₹
To Salaries			By Subscription		1,50,000
Salaries Paid	30,000		By Interest on Investment		
Add: Outstanding for 2025	<u>9,000</u>		Received	7,000	
	39,000		Accrued (W.N.5)	<u>1,750</u>	8,750
Less: Outstanding for 2024	<u>(7,500)</u>	31,500			
To Sports expenses		25,000			
To Rent		12,000			
To Miscellaneous exp.		2,500			
To Loss on sale of furniture (W.N.3)		3,000			
To Depreciation (W.N.4)					
Furniture	700				
Machinery	750				
Sports goods	<u>1,125</u>	2,575			
To Surplus		<u>82,175</u>			
		<u>1,58,750</u>			<u>1,58,750</u>

Working Notes:**1. Calculation of Subscription received during the year 2024-25**

	₹
Subscription due for 2024-25	1,50,000
Add: Outstanding of 2024	70,000
Less: Outstanding of 2025	(1,00,000)
Add: Subscription of 2025 received in advance	15,000
Less: Subscription of 2024 received in advance	(12,500)
	<u>1,22,500</u>

2. Calculation of Sale price and profit on sale of investment

Face value of investment sold: ₹ 87,500 × 50% = ₹ 43,750

Sales price: ₹ 43,750 × 80% = ₹ 35,000

Cost price of investment sold: ₹ 70,000 × 50% = ₹ 35,000

Profit/loss on sale of investment: ₹ 35,000 - ₹ 35,000 = NIL

3. Loss on sale of furniture

	₹
Value of furniture as on 01-04-2024	14,000
Value of furniture as on 31-03-2025	<u>7,000</u>
Value of furniture sold at the beginning of the year	7,000
Less: Sales price of furniture	(4,000)
Loss on sale of furniture	<u>3,000</u>

4. Depreciation

Furniture -	₹ 7,000 × 10%	=	700
Machinery -	₹ 5,000 × 15%	=	750
Sports goods -	₹ 7,500 × 15%	=	1,125

5. Interest accrued on investment

	₹
Face value of investment on 01-04-2024	87,500
Interest @ 10%	8,750
Less: Interest received during the year	(7,000)
Interest accrued during the year	<u>1,750</u>

Note: It is assumed that the sale of investment has taken place at the end of the year.

6. (a)

Journal Entries in the books of Raghwan Ltd.

Entry No.	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
1	Bank A/c Dr. To Equity Share Application A/c (Money received on applications for 60,000 shares @ ₹ 2 per share)		1,20,000	1,20,000
2	Equity Share Application A/c Dr. To Equity Share Capital A/c (Transfer of application money on 60,000 shares to share capital)		1,20,000	1,20,000
3	Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Amount due on the allotment of 60,000 shares @ ₹ 3 per share and Securities Premium @ ₹1 per share)		2,40,000	1,80,000 60,000
4	Bank A/c Dr. To Equity Share Allotment A/c (Allotment money received)		2,40,000	2,40,000
5	Equity Share First Call A/c Dr. To Equity Share Capital A/c (Being first call made due on 60,000 shares at ₹ 2 per share)		1,20,000	1,20,000
6	Bank A/c Dr. To Equity Share First Call A/c To Calls in Advance A/c (Being first call money received along with calls in advance on 6,000 shares at ₹ 3 per share)		1,38,000	1,20,000 18,000

7	Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Being final call made due on 60,000 shares at ₹ 3 each)		1,80,000	1,80,000
8	Bank A/c Dr. Calls in Advance A/c Dr. Calls in Arrears A/c Dr. To Equity Share Final Call A/c (Being final call received for 53,100 shares, calls in advance for 6,000 shares and calls in arrears on 900 shares adjusted)		1,59,300 18,000 2,700	1,80,000
9	Interest on Calls in Advance A/c Dr. To Shareholders A/c (Being interest made due on calls in advance of ₹18,000 at the rate of 12% p.a.)		720	720
10	Shareholders A/c Dr. To Bank A/c (Being payment of interest made to shareholder)		720	720
11	Shareholders A/c Dr. To Interest on Calls in Arrears A/c (Being interest on calls in arrears made due at the rate of 10%)		45	45
12	Bank A/c Dr. To Calls in Arrears A/c To Shareholders A/c (Being money received from shareholder having 200 shares for calls in arrears and interest thereupon)		1,845	1,800 45
13	Shareholders A/c Dr. To Interest on Calls in Arrears A/c (Being interest on calls in arrears made due at the rate of 10%)		30	30

14	Bank A/c	Dr.	930	
	To Calls in Arrears A/c			90
	To Shareholders A/c			30
	(Being money received from shareholder having 300 share for calls in arrears and interest thereupon)			

Calculation of Interest on Calls in Advance & Calls in Arrears:

Interest on Calls in Advance = ₹ 18,000 x 12% x 4 / 12 = ₹ 720

Interest on Calls in Arrears ₹ 1,800 x 10% x 3 / 12 = ₹ 45

Interest on Calls in Arrears ₹ 900 x 10% x 4 / 12 = ₹ 30

Table F of The Companies Act, 2013 prescribes 10% and 12% p.a. as the maximum rates respectively for calls in arrears and calls in advance. Accordingly, these rates have been considered while passing the above entries,

- (b) (i) A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money to or to the order of certain person or to the bearer of the instrument. When such an order is accepted by the drawee on the face of the order itself, it becomes a valid bill of exchange.

There are three parties to a bill of exchange:

- (i) The drawer, who draws the bill, that is, the creditor to whom the money is owing;
 - (ii) The drawee, the person to whom the bill is addressed or on whom it is drawn and who accepts the bill that is, the debtor; and
 - (iii) The payee, the person who is to receive the payment. The drawer in many cases is also the payee.
- (ii) **Retirement of bills of exchange:** Sometimes, the acceptor of a bill of exchange has spare funds much before the maturity date of the bill of exchange accepted by him. He may, therefore, desire to pay the bill before the due date. In such a circumstance, the acceptor shall ask the payee or the holder of the bill to accept cash before the maturity date. If the payee agrees, the acceptor may be allowed a rebate or discount on such early payment. This rebate is generally the interest at an agreed rate for the period between the date of payment and date of maturity. The interest/rebate/discount becomes the income of the acceptor and expense

of the payee. It is a consideration for premature payment. When a bill is paid before due date, it is said to be retired under rebate.

OR

The basic considerations in distinction between capital and revenue expenditures are:

- (i) Nature of business: For a trader dealing in furniture, purchase of furniture is revenue expenditure but for any other trade, the purchase of furniture should be treated as capital expenditure and shown in the balance sheet as asset.
- (ii) Recurring nature of expenditure: If the frequency of an expense is quite often in an accounting year then it is said to be an expenditure of revenue nature while non-recurring expenditure is infrequent in nature and do not occur often in an accounting year.
- (iii) Purpose of expenses: Expenses for repairs of machine may be incurred in course of normal maintenance of the asset. Such expenses are revenue in nature. On the other hand, expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature.
- (iv) Materiality of the amount involved: Relative proportion of the amount involved is another important consideration in distinction between revenue and capital.