Mock Test Paper - Series II : August, 2026

Date of Paper: 20th August 2026

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

FOUNDATION COURSE

PAPER – 1: 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) (i) **False:** Such wages being related to capital asset hence should be debited to the machinery account.

(ii) **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.

(iii) **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.

(iv) **True:** In case of the promissory note, it is generally the maker who makes the payment, but in case of the bill of exchange, the person accepting the bill shall be liable to make the payment to the holder of the bill.

(v) **False:** The business of partnership may not end on death of a partner if the partnership deed provides clause for continuation of the business by the surviving partners.

(vi) **False:** Debenture interest is payable before the payment of any dividend on shares.

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

a. **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. Therefore, the nature of business is a very important criterion in separating expenditure between capital and revenue.

b. **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. Monthly salary or rent is the example of revenue expenditure as they are incurred every month while purchase of assets is not the transaction done regularly therefore, classified as capital expenditure unless materiality criteria defines it as revenue expenditure.

c. **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.

d. **Effect on revenue generating capacity of business:** The expenses which help to generate income/revenue in the current period are revenue in nature and should be matched against the revenue earned in the current period. On the other hand, if expenditure helps to generate revenue over more than one accounting period, it is generally called capital expenditure.

e. **Materiality of the amount involved:** Relative proportion of the amount involved is another important consideration in distinction between revenue and capital.

(c) **Journal**

	Particulars	**L.F.**	**Dr. ₹**	**Cr. ₹**
(1)	Ramesh	Dr.	14,000	
	To Bad Debts Recovered A/c			14,000
	(Correction of wrong credit to Personal A/c in respect of recovery of previously written off bad debts)			

(2)	Vimal	Dr.	10,400	
	To Purchases A/c			5,200
	To Sales A/c			5,200
	(Correction of wrong entry in the Purchases Book of a credit sale of goods to Vimal)			
(3)	Advertisement expenses or Sales Promotion or Free Samples A/c	Dr.	25,000	
	To Purchases A/c			25,000
	(Entry of the goods distributed as free samples omitted from records)			
(4)	Returns Inwards /Sales Return A/c	Dr.	1,500	
	To Green			1,500
	(Entry of goods returned by Green omitted from records)			

2. (a) Statement of Valuation of Stock on 30th June, 2026

Particulars		₹
Value of stock as on 23rd June, 2026		48,00,000
Add: Unsold stock out of the goods sent on consignment	2,40,000	
Purchases during the period from 23rd June, 2026 to 30th June, 2026	2,40,000	
Goods in transit on 30th June, 2026	1,60,000	
Cost of goods sent on approval basis (80% of ₹ 1,60,000)	1,28,000	7,68,000
		55,68,000
Less: Cost of sales during the period from 23rd June, 2026 to 30th June, 2026		
Sales (₹ 13,60,000-₹ 1,60,000)	12,00,000	
Less: Gross profit	96,000	
		(11,04,000)
Value of stock as on 30th June, 2026		44,64,000

Working Notes

1.	Calculation of normal sales:	₹	₹
	Actual sales		13,60,000
	Less: Abnormal sales	1,20,000	
	Return of goods sent on approval	1,60,000	2,80,000
			10,80,000
2.	Calculation of gross profit:		
	Gross profit or normal sales 20/100 x ₹ 10,80,000		2,16,000
	Less: Loss on sale of particular (abnormal) goods (2,40,000 less 1,20,000)		1,20,000
	Gross profit		96,000

(b) **Bank Reconciliation Statement of Ms. Daman**

		₹	₹	₹
	Balance as per Cash Book			(1,97,400)
Add:	Cheques issued but not presented for payment		14,800	
	Crossed Cheque issued to Abdul not presented for payment		3,000	
	Amounts collected by Bank on our behalf but not entered in the Cash Book			
	Dividend	600		
	Insurance claim	3,200		
		3,800		
	(-) Bank Commission	(400)	3,400	
	Amount paid in A/c No. 2 credited by the			
	Bank wrongly to this A/c		2,000	23,200
				(1,74,200)
Less:	Cheques deposited in the bank but no cleared		6,200	
	(₹ 5,200 + ₹ 1,000)			

	Payments made by Bank on our behalf but not entered in the Cash Book			
	Interest	1,280		
	Premium	640		
	Second call	2,400	4,320	
	Cheques issued against A/c No. 2 but wrongly debited by the Bank to this A/c		1,400	(11,920)
	Overdraft as per Pass Book			1,86,120

3. (a) **Fly High sports club**

Receipts and Payments Account for the year ended 31st December, 2025

Receipts	₹	Payments	₹
To Balance b/d	1,08,000	By Salaries (W.N. 7)	2,30,000
To Subscriptions (W.N. 3)	2,24,000	By Stationery (W.N 2)	32,500
To Interest	90,000	By Rent & taxes	5,000
To Donation	40,000	By Insurances	2,000
To Misc. receipts	3,000	By Office expenses	8,000
		By Furniture (W.N 5)	1,000
		By Sports Equipment (W.N 6)	5,000
		By Balance c/d (balancing figure)	1,81,500
	4,65,000		4,65,000

Balance Sheet as on December 31, 2025

Liabilities		₹	Assets	₹
Opening capital (W.N.1)	40,24,000		Govt. securities	18,00,000
Add: Surplus for 2025	63,300	40,87,300	Subscription Outstanding	1,00,000
Advance subscription		6,000	furniture	19,800
Salaries Outstanding		15,000	Land & building (WN.4)	19,62,500

		Sports Equipment	39,000
		Stationary stock	5,500
		Cash/ Bank	1,81,500
	41,08,300		41,08,300

Working Notes:

1. Balance Sheet as on 31st December, 2025

Liabilities	₹	Assets	₹
Opening capital (bal. fig.)	40,24,000	Govt. securities	18,00,000
Advance subscription	2,000	Subscription Outstanding	70,000
Salaries Outstanding	10,000	Furniture	20,000
		Land & building	20,00,000
		Sports Equipment	35,000
		Stationary stock	3,000
		Cash/ Bank	1,08,000
	40,36,000		40,36,000

2. Stationery A/c

	₹		₹
To Balance b/d	3,000	By Income & exp	30,000
To Receipt & payment	32,500	By Balance c/d	5,500
	35,500		35,500

3. Subscription A/c

	₹		₹
To Outstanding as on 31-12-24	70,000	By Advance as on 31-12-24	2,000
To Income & exp	2,50,000	By Receipt & payment (bal. fig)	2,24,000
To Advance as on 31-12-25	6,000	By Outstanding as on 31-12-25	1,00,000
	3,26,000		3,26,000

4. Land and Building A/c

	₹		₹
To Balance b/d	20,00,000	By Depreciation	37,500
		By Balance c/d	19,62,500
	20,00,000		20,00,000

5. Furniture A/c.

	₹		₹
To Balance b/d	20,000	By Depreciation	1,200
To Bank (bal.fig.)	1,000	By Balance c/d	19,800
	21,000		21,000

6. Sports Equipment A/c

	₹		₹
To Balance b/d	35,000	By Depreciation	1,000
To Bank (bal.fig.)	5,000	By Balance c/d	39,000
	40,000		40,000

7. Salary A/c

	₹		₹
To Receipts & payment A/c	2,30,000	By Outstanding for 2024	10,000
To Outstanding for 2025	15,000	By Income and expenditure A/c	2,35,000
	2,45,000		2,45,000

(b) Amar's Capital Account

Date 2025	Particulars	₹	Date 2025	Particulars	₹
Sep. 30	To Amar's current Account	3,840	Sep. 30	By bal. b/d	43,200
Sep. 30	To Amar's Executor A/c	2,01,604	Sep. 30	By Akbar Capital A/c and Anthony Capital A/c (Share of goodwill)	1,62,244
		2,05,444			2,05,444

Amar's executor Account

Date	Particulars	₹	Date	Particulars	₹
31.3.2026	To Bank A/c	55,441	1.10.2025	By Capital A/c	2,01,604
	(50,401+5,040)		31.3.2026	By Interest	5,040
31.3.2026	To Balance c/d	1,51,203		(2,01,604 x 2.5%)	
		2,06,644			2,06,644
30.9.2026	To bank A/c	54,181	1.4.2026	By Balance b/d	1,51,203
	(50,401+3,780)		30.9.2026	By Interest	3,780
31.3.2027	To bank A/c (50,401+2,520)	52,921		(1,51,203 x 2.5%)	
			30.3.2027	By Interest	2,520
31.3.2027	To balance c/d	50,401		(50,401 x 2) x 2.5%	
		1,57,503			1,57,503
30.9.2027	To bank A/c	51,661	1.4.2027	By balance b/d	50,401
	(50,401+1,260)		30.9.27	By Interest	1,260
				(50,401 x 2.5%)	
		51,661			51,661

Working notes

1.	Ascertainment of Value of Goodwill	
	Profits for the year	
	2021-2022	1,40,800
	2022-2023	1,12,640
	2023-2024	96,320
	2024-2025	34,816
	Total Profit for 4 years	3,84,576
	Average Profit	96,144
	Goodwill	
	Purchase of Average Profit (3 years)	2,88,432
	Amar's Share of goodwill	
	(9/16 of ₹ 2,88,432)	1,62,244

* Profit sharing ratio between Amar, Akbar, Anthony = 9:4:3, Therefore Amar's share of Profit = 9/16

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

4. (a) **Revaluation Account**

	₹		₹
To Plant & Machinery (3,40,000 x 15%)	51,000	By Land & Building A/c	3,04,000
To Provision for Bad & Doubtful Debts (1,20,000 x 5%)	6,000		
To Outstanding Repairs to Building	12,000		
To Rohan's Capital A/c (5/8)	1,46,875		
To Kunal's Capital A/c (3/8)	88,125		
	3,04,000		3,04,000

Capital Accounts of Partners

	Rohan	Kunal	Rohit		Rohan	Kunal	Rohit
To Rohan's Capital A/c	-	-	40,000	By Balance b/d	8,20,000	6,60,000	-
To Kunal's Capital A/c			24,000	By Revaluation A/c	1,46,875	88,125	-
To Kunal's Current A/c	-	1,36,125		By Profit & Loss A/c	1,40,000	84,000	-
To Balance c/d	12,00,000	7,20,000	4,80,000	By Bank			5,44,000
				By Rohit's Capital A/c	40,000	24,000	
				By Rohan's Current A/c	53,125		
	12,00,000	8,56,125	5,44,000		12,00,000	8,56,125	5,44,000

Calculation of New Profit Sharing Ratio and gaining ratio:

Rohit's Share of Profit = 1/5 = 2/10

Remaining Share = 1 – 1/5 = 4/5

Rohan's Share = 5/8 x 4/5 = 20/40 = 5/10

Kunal's Share = 3/8 x 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 Batra & Associates as on 31.3.2026

Liabilities		₹	Assets		₹
Capital Accounts:			Land & Buildings		10,64,000
Rohan	12,00,000		Plant & Machinery	3,40,000	
Kunal	7,20,000		Less: Depreciation	51,000	2,89,000
Rohit	4,80,000	24,00,000	Furniture		2,18,960
Kunal's Current A/c		1,36,125	Stock		2,90,520
Trade Creditors		1,09,600	Sundry Debtors	1,20,000	
Outstanding Repairs to Building		12,000	Less: Provision	6,000	1,14,000
			Cash at Bank		6,28,120
			Rohan's current A/c		53,125
		26,57,725			26,57,725

Working Note:

Required Balance of Capital Accounts

Rohit's Capital after writing off Goodwill = 5,44,000 – 64,000 = 4,80,000

Rohit's Share of Profit = 1/5

Thus, Capital of the firm shall be = 4,80,000 x 5 = 24,00,000

Rohan's Capital = 24,00,000 x 5/10 = 12,00,000 and

Kunal's Capital = 24,00,000 x 3/10 = 7,20,000

(b) Balance Sheet of Gagan as on 31st March, 2026

Liabilities		₹	Assets	₹
Capital	22,00,000		Cash at Bank	5,50,000
Add: Net Profit (WN.1)	6,50,000		Trade receivables (WN. 2)	12,61,000
	28,50,000		Vehicles (WN.3)	2,70,000
Add: Introduction of capital	3,00,000		Furniture & Fixtures	6,50,000
		31,50,000	Inventories	5,85,000
Outstanding commission		35,000	Prepaid expenses	15,000
Trade payables		1,46,000		
		33,31,000		33,31,000

Working Note 1 **Profit and Loss Account (Revised)**

Particulars	₹	Particulars	₹
To Outstanding Commission	35,000	By Balance b/d	6,70,000
To Net profit	6,50,000	By Prepaid expenses	15,000
	6,85,000		6,85,000

Working Note 2 **Trade Receivables**

Particulars	₹	Particulars	₹
To Balance b/d	13,00,000	By Provision for Doubtful Debts	39,000
		By Balance c/d (b/f)	12,61,000
	13,00,000		13,00,000

Working Note 3 **Vehicles A/c**

Particulars	₹	Particulars	₹
To Balance b/d	2,75,000	By Depreciation	55,000
To Bank A/c	50,000	By Balance c/d (b/f)	2,70,000
	3,25,000		3,25,000

* Since the new vehicle is purchased for ₹ 50,000, no depreciation is charged on new Vehicle.

5. **(a)** **Trading Account for the year ended 31-03-2026**

	₹		₹
To Opening stock	38,600	By Sales	8,54,000
To Purchases	6,13,750	By Closing stock	55,700
To Gross profit c/d (b.f.)	2,57,350		
	9,09,700		9,09,700

Profit & Loss Account for the year ended 31-03-2026

	₹	₹		₹
To Salaries (75,000 + 14,000 - 12,000)		77,000	By Gross Profit b/d	2,57,350

To Rent and taxes		11,800	By Interest on investment	10,200
To General expenses		22,500	(9,750 + 450)	
To Depreciation:				
Machinery @ 10%	8,500			
Furniture @ 10%	2,450	10,950		
To Bad Debts	7,200			
To Provision for doubtful debts	7,000	14,200		
To Balance being profit carried to Capital A/c (b.f.)		1,31,100		
		2,67,550		2,67,550

Balance Sheet as on 31st March, 2026

Liabilities	₹	₹	Assets	₹	₹
Prakash's Capital			Machinery	85,000	
on 1st April, 2025	3,32,150		Less: Depreciation	(8,500)	76,500
Add: Fresh Capital	50,000		Furniture	24,500	
Add: Profit for the year	1,31,100		Less: Depreciation	(2,450)	22,050
	5,13,250				
Less: Drawings	(96,000)	4,17,250	Inventory-in-trade		55,700
			Sundry debtors	3,50,000	
Sundry creditors		2,08,200	Less: Provision for		
Outstanding salaries		14,000	Doubtful debts	(7,000)	3,43,000
			Investment (including accrued interest ₹ 450)		85,450
			Cash at bank		36,600

			Cash in hand		20,150
		6,39,450			6,39,450

Working Notes:

1. Balance Sheet as on 1-4-2025

	₹		₹
Sundry creditors	60,200	Machinery	85,000
Capital	3,32,150	Furniture	24,500
(balancing figure)		Inventory	38,600
Outstanding salaries	12,000	Sundry debtors	1,55,000
		12% Investments	85,000
		Bank balance (from Cash statement)	16,250
	4,04,350		4,04,350

2. Total Debtors Account

		₹			₹
1.4.25	To Balance b/d	1,55,000	31.3.26	By Cash	4,81,000
31.3.26	To Credit sales (1,70,800/20x80)	6,83,200	31.3.26	By Bad debts	7,200
				By Balance c/d (Bal. Fig.)	3,50,000
		8,38,200			8,38,200

3. Total Creditors Account

		₹			₹
31.3.26	To Cash	3,43,000	1.4.25	By Balance b/d	60,200
31.3.26	To Balance c/d (Bal. Fig.)	2,08,200	31.3.26	By Credit Purchases (1,22,750/20x80)	4,91,000
		5,51,200			5,51,200

(b) Journal Entries in the Books of Blossom 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	
To Debenture Redemption Reserve Investment			54,000
(for DRR Investment realised)			

Debenture holders A/c	Dr.	3,70,800	
To Bank A/c			3,70,800
(Amount paid to debenture holders on redemption)			

6. (a) (i) **Journal Entries in the books of Sigma Ltd.**

Date			Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c	Dr.	2,70,000	
	To Equity Share Allotment money A/c (27000 x ₹ 3)			81,000
	To Equity Share Final Call A/c (27,000 x ₹ 4)			1,08,000
	To Forfeited Shares A/c (27,000 x ₹ 3)			81,000
	(Being the forfeiture of 27,000 equity shares of ₹ 10 each for non-payment of allotment money and final call, held by Sameer as per Board's resolution No……………dated……………..)			
(b)	Bank A/c (27,000 x 8)	Dr.	2,16,000	
	Forfeited Shares A/c (27,000x 2)	Dr.	54,000	
	To Equity Share Capital A/c			2,70,000
	(Being the re-issue of 27,000 forfeited shares @ ₹ 8 each as fully paid up to Arjun as per Board's resolution No…….dated…….)			
(c)	Forfeited Shares A/c	Dr.	27,000	
	To Capital Reserve A/c			27,000
	(Being the profit on re-issue, transferred to capital reserve)			

(ii) **Journal Entries in the book of Mr. Umesh**

		Dr. ₹	Cr. ₹
Preference Share Capital A/c (10,000 x ₹ 70)	Dr.	7,00,000	
To Preference Share Allotment A/c (10,000 x ₹ 20)			2,00,000
To Preference Share First Call A/c (10,000 x ₹ 20)			2,00,000

To Forfeited Share A/c			3,00,000
(Being the forfeiture of 10,000 preference shares ₹ 70 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated.....)			
Bank A/c (8,000 x ₹60)	Dr.	4,80,000	
Forfeited Shares A/c (8,000 x ₹10)	Dr.	80,000	
To Preference Share Capital A/c			5,60,000
(Being re-issue of 8,000 shares at ₹ 60 per share paid-up as ₹ 70 as per Board's Resolution No.....dated....)			
Forfeited Shares A/c	Dr.	1,60,000	
To Capital Reserve A/c (Refer WN)			1,60,000
(Being profit on re-issue transferred to Capital/Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share = ₹ 3,00,000/10,000	= ₹ 30
Loss on re-issue =₹ 70 – ₹ 60	= ₹ 10
Surplus per share re-issued	₹ 20
Transferred to capital Reserve ₹ 20 x 8,000	= ₹ 1,60,000

(b) **In the books of Surya chemicals Ltd.**

Journal Entries

		₹	₹
7% Preference Share Capital A/c	Dr.	3,00,000	
To Calls in Arrears A/c			60,000
To Shares Forfeited A/c			2,40,000
(For Shares Forfeited because of non-payment of calls as holders are unknown)			
Bank A/c (Refer W N)	Dr.	6,00,000	
To Equity Share Capital A/c			6,00,000

(Being the issue of 60,000 Equity Shares of ₹ 10 each at par as per Board's Resolution No….dated….)			
General Reserve A/c	Dr.	21,00,000	
To Capital Redemption Reserve A/c			21,00,000
(For transfer to CRR for the amount not covered by the proceeds of fresh issue of equity shares)			
7% Preference Share Capital A/c	Dr.	27,00,000	
To Preference Shareholders A/c			27,00,000
(For amount payable to preference shareholders)			
Preference Shareholders A/c	Dr.	27,00,000	
To Bank A/c			27,00,000
(For amount paid to preference shareholders)			

Working Note:

Number of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed	27,00,000
Less: Profit available for distribution as dividend:	
General Reserve	21,00,000
	6,00,000
Therefore, number of shares to be issued = ₹ 6,00,000/ ₹ 10 = 60,000 shares.	

(c) Cost of Property, Plant and Equipment comprise of any cost directly attributable to bring the asset to the location and condition necessary for it to be capable of operating in a manner intended by the enterprise.

Examples of directly attributable costs are:

(a) cost of employee benefits arising directly from acquisition or construction of an item of property, plant and equipment.

(b) cost of site preparation

(c) initial delivery and handling costs

(d) installation and assembly costs

(e) cost of testing whether the asset is functioning properly, after deducting the net proceeds from selling the items produced while testing (such as samples produced while testing)

(f) professional fees e.g., engineers hired for helping in installation of a machine

(g) transportation cost

(h) trial run expenses

Thus, all the expenses which are necessary for asset to bring it in condition and location for desired use will become part of cost of the asset.

Or

(c) (i) Revenue Expenditure.

(ii) Capital Expenditure.

(iii) Capital Expenditure.

(iv) Revenue Expenditure.

(v) Capital Expenditure.