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.*

*Attempt 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 **Maximum Marks: 100**

1. (a) State with reasons, whether the following statements are true or false:

(i) Wages paid for erection of machinery are debited to Profit and Loss Account.

(ii) Warehouse rent paid for storage of finished inventory should be included in the cost of finished inventory.

(iii) Cash book is a subsidiary book as well as a principal book.

(iv) Promissory note is different from bill of exchange because the amount is paid by the maker in case of former and by the acceptor in the later.

(v) Business of partnership comes to an end on death of a partner.

(vi) Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.

(6 Statements x 2 Marks = 12 Marks)

(b) Discuss the basic considerations in distinguishing between capital and revenue expenditure. **(4 Marks)**

(c) Pass the Journal entries to rectify the following errors detected during preparation of the Trial Balance:

(i) An amount of ₹ 14,000 due from Ramesh which had been written off as a bad debt in the previous year was unexpectedly recovered and has been posted to the personal account of Ramesh.

(ii) A credit sale of goods ₹ 5,200 to Vimal has been wrongly passed through the Purchase Book.

(iii) Goods (Cost being ₹ 25,000 and Sales price being ₹ 26,000) distributed as free samples among prospective customers were not recorded anywhere.

(iv) Goods worth ₹ 1,500 returned by Green have not been recorded anywhere. **(4 Marks)**

(12 + 4 + 4 = 20 Marks)

2. (a) Physical verification of stock in a business was done on 23rd June, 2026. The value of the stock was ₹ 48,00,000. The following transactions took place between 23rd June to 30th June, 2026:

(i) Out of the goods sent on consignment, goods at cost worth ₹ 2,40,000 were unsold.

(ii) Purchases of ₹ 4,00,000 were made out of which goods worth ₹ 1,60,000 were delivered on 5th July, 2026.

(iii) Sales were ₹ 13,60,000, which include goods worth ₹ 3,20,000 sent on approval. Half of these goods were returned before 30th June, 2026, but no information is available regarding the remaining goods.

(iv) Goods are sold at cost plus 25%. However goods costing ₹ 2,40,000 had been sold for ₹ 1,20,000.

You are required to determine the value of stock on 30th June, 2026. **(10 Marks)**

(b) On 31st July. 2026, Cash Book of Ms. Daman (Bank Column of Account No. 1) shows a Bank Overdraft of ₹ 1,97,400. On going through the Bank Pass book for reconciling the Balance, she found the following:

(a) Out of cheques drawn on 26th July, those for ₹ 14,800 were cashed by the bankers on 2nd August.

(b) A crossed cheque for ₹ 3000 given to Abdul was returned by him and a bearer cheque was issued to him in lieu on 1st August.

(c) Cash and cheques amounting to ₹ 13,600 were deposited in the Bank on 29th July, but cheques worth ₹ 5,200 were cleared by the Bank on 1st August., and one cheque for ₹ 1,000 was returned by them as dishonoured on the latter date.

(d) According to Daman's standing instructions, the bankers have on 30th July, paid ₹ 1,280 as interest to her creditors, paid quarterly premium on her policy amounting to ₹ 640 and have paid a second call of ₹ 2,400 on shares held by her and lodged with the bankers for safe custody. They have also received ₹ 600 as dividend on her shares and recovered an Insurance Claim of ₹ 3,200, as their charges and commission charged on the above being ₹ 400. On receipt of information of the above transaction, she has passed necessary entries in her Cash Book on 1st August.

(e) Bankers seem to have given a wrong credit for ₹ 2,000 paid in by her in No. 2 account and wrong debit in respect of a cheque for ₹ 1,400 drawn against her No. 2 account.

Prepare a Bank Reconciliation Statement as on 31st July, 2026. **(10 Marks)**

(10 + 10 = 20 Marks)

3. (a) Fly high sports club had the following Income and Expenditure account for the year ended 31st Dec 2025.

Income and Expenditure Account for the year ended 31, Dec 2025

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Salaries	2,35,000	By Subscriptions	2,50,000
To Stationery Expenses	30,000	By Interest	90,000
To Rent and Taxes	5,000	By Donations	40,000
To Insurance	2,000	By Misc. Receipts	3,000
To Office Expenses	8,000		
To Depreciation			
Building	37,500		
Furniture	1,200		
Sports Equipment	1,000		
To Excess of Income over Expenses	63,300		
	3,83,000		3,83,000

Additional information:

	31-12-2024 ₹	**31-12-2025 ₹**
Govt. Securities	18,00,000	18,00,000
Subscription outstanding	70,000	1,00,000
Subscription received in advance	2,000	6,000

Salaries unpaid	10,000	15,000
Furniture	20,000	19,800
Land and Building	20,00,000	19,62,500
Sports Equipment	35,000	39,000
Stock of stationary	3,000	5,500

Cash in hand and Cash at bank as on 31-12-2024 is ₹ 1,08,000.

You are required to prepare Receipts and Payments Account for the period ending 31.12.2025 and Balance Sheet as on 31.12.2025. **(12 Marks)**

(b) It was provided under the Partnership Agreement between Amar, Akbar and Anthony that in the event of death of a partner, the survivors would have to purchase his share in the firm on the following terms:

(i) Goodwill is to be valued at 3 year's purchase of simple average profits of last 4 completed yea

(ii) Outstanding amount due to the representative of a deceased partner shall be paid in 4 equal half yearly instalments commencing 6 months after the death plus interest @ 5% p.a. on the outstanding dues.

They shared profit and loss in the ratio 9:4:3.

Amar died on 30th September, 2025 and Partner's Capital account balances on that date were: Amar - ₹ 43,200, Akbar - ₹ 25,600 and Anthony -₹ 14,400. Amar's current account on 30th September, 2025 after crediting his share of profit to that date, however showed a debit balance of ₹ 3,840. Firm profits were for the year ended 31st March, 2022 ₹ 1,40,800 31st March, 2023 ₹ 1,12,640 31st March, 2024 ₹ 96,320 31st March, 2025 ₹ 34,816 Show Amar's Capital Account and Executor's Account (of Amar) till full payment is made to Amar's Executor.

(8 Marks)

(12 + 8 = 20 Marks)

4. (a) The Balance Sheet of a Partnership Firm M/s Batra & Associates consisted of two partners Rohan and Kunal who were sharing Profits and Losses in the ratio of 5 : 3 respectively. The position as on 31-03-2026 was as follows:

Liabilities	**₹**	**Assets**	**₹**
Rohan's Capital	8,20,000	Land & Building	7,60,000
Kunal's Capital	6,60,000	Plant & Machinery	3,40,000
Profit & Loss A/c	2,24,000	Furniture	2,18,960

Trade Creditors	1,09,600	Stock	2,90,520
		Sundry debtor	1,20,000
		Cash at Bank	84,120
	18,13,600		18,13,600

On the above date, Rohit was admitted as a partner on the following terms:

(a) Rohit should get 1/5th of share of profits.

(b) Rohit brought ₹ 4,80,000 as his capital and ₹ 64,000 for his share of Goodwill.

(c) Plant and Machinery would be depreciated by 15% and Land & Buildings would be appreciated by 40%.

(d) A provision for doubtful debts to be created at 5% on sundry debtors.

(e) An unrecorded liability of ₹ 12,000 for repair to Buildings would be recorded in the books of accounts.

(f) Immediately after Rohit's admission, Goodwill brought by him would be adjusted among old partners. Thereafter, the capital accounts of old partner would be adjusted through the current accounts of partnership in such a manner that the capital accounts of all the partnership would be in their profit-sharing ratio.

Prepare Revaluation A/c, Capital Accounts of the partners, new profit-sharing ratio and Balance Sheet of the Firm after the admission of Rohit. **(12 Marks)**

(b) The balance sheet of Gagan on 1st April, 2025 was as follows:

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
Trade Payables	6,50,000	Furniture and Fixtures	6,50,000
Expenses Payable	75,000	Vehicle	2,75,000
Capital	22,00,000	Trade Receivable	11,00,000
		Cash at Bank	4,75,000
		Inventories	4,25,000
	29,25,000		29,25,000

During 2025-26, his profit and Loss Account revealed a net profit of ₹ 6,70,000. This was after allowing for the following:

(i) Commission paid to selling agent ₹ 65,000

(ii) Discount received from creditor ₹ 75,000

(iii) Purchased a vehicle of ₹ 50,000 on 31st March, 2026 and Depreciation on Vehicle @ 20%

(iv) A provision for doubtful debts @ 3% of the trade receivables as at 31st March, 2026

But while preparing the Profit and Loss Account he had forgotten to provide for

(1) prepaid expenses ₹ 15,000 and

(2) outstanding commission ₹ 35,000.

His current assets and liabilities on 31st March, 2026 were: Inventories ₹ 5,85,000. Trade Receivables ₹ 13,00,000 (before provision for doubtful debts), cash at Bank ₹ 5,50,000 and Trade Payables ₹ 1,46,000.

During the year he introduced further capital of ₹ 3,00,000 into the business.

You are required to prepare the Balance Sheet as of March 31, 2026. **(8 Marks)**

(12+8 =20 Marks)

5. (a) Mr. Prakash furnishes following information for his readymade garments business:

(i) Receipts and Payments during 2025-26:

Receipts	**Amount ₹**	**Payments**	**Amount ₹**
Bank Balance as on 1-4-2025	16,250	Payment to Sundry creditor	3,43,000
Received from Sundry debtor	4,81,000	Salaries	75,000
Cash sales	1,70,800	General expenses	22,500
Capital brought in the business during the year	50,000	Rent and taxes	11,800
Interest on Investment received	9,750	Drawings	96,000
		Cash purchases	1,22,750
		Balance at bank on 31-03-2026	36,600
		Cash in hand on 31-03-2026	20,150
	7,27,800		7,27,800

(ii) Particulars of other Assets and Liabilities are as follows:

	1st April, 2025	31st March, 2026
	(₹)	(₹)
Machinery	85,000	85,000
Furniture	24,500	24,500
Trade Debtors	1,55,000	?
Trade Creditors	60,200	?
Inventory	38,600	55,700
12% Investment	85,000	85,000
Outstanding Salaries	12,000	14,000

(iii) Additional information:

(1) 20% of total sales and 20% of total purchases are in cash.

(2) Of the debtors, a sum of ₹ 7,200 should be written off as Bad debt and further a provision for doubtful debts is to be provided @2%.

(3) Provide depreciation @10% p.a. on machinery and furniture

You are required to prepare Trading and Profit & Loss Account for the year ended 31st March, 2026, and Balance Sheet as on that date. **(10 Marks)**

(b) Blossom Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) provides the following information as at 31st March, 2026:

	Particulars	₹
Shareholder's Funds		
(a)	Share Capital	
	Authorized Share Capital:	
	90,000 equity shares of ₹ 10 each fully paid	9,00,000
	Issued and subscribed share capital:	
	60,000 equity shares of ₹ 10 each fully paid	6,00,000
(b)	Reserves and Surplus	
	Profit & Loss Account	3,24,000
	Debenture Redemption Reserve	36,000

Non-current liabilities	
(a) Long term borrowings	
12% Debentures	3,60,000
Current Liabilities	
(a) Trade payables	3,45,000
Non-current assets	
(a) Property, Plant and Equipment (Freehold property)	3,45,000
(b) Non-current Investment: DRR Investment	54,000
Current assets	
(a) Inventories	4,05,000
(b) Trade receivables	2,25,000
(c) Cash and bank balances:	
Cash at bank	5,46,000
Cash in hand	90,000

At the Annual General Meeting on 1.4.2026, it was resolved:

(a) To give existing shareholders the option to purchase one ₹ 10 share at ₹ 15 for every four shares (held prior to the bonus distribution). This option was taken up by all the shareholders.

(b) To issue one bonus share for every five shares held.

(c) To repay the debentures at a premium of 3%. The DRR Investments realised at par as per existing Book value.

Give the necessary journal entries for these transactions. **(10 Marks)**

(10+10 = 20 Marks)

6. (a) Give necessary journal entries for the forfeiture and re-issue of shares:

(i) Sigma Ltd. forfeited 27,000 shares of ₹ 10 each fully called up, held by Sameer for non-payment of allotment money of ₹ 3 per share and final call of ₹ 4 per share. He had paid the application money of ₹ 3 per share. These shares were re-issued to Arjun for ₹ 8 per share**.**

(ii) Mr. Umesh, who was the holder of 10,000 preference shares of ₹ 100 each, on which ₹ 70 per share has been called up, could not pay his dues on Allotment and First call each at ₹ 20 per share. The Directors forfeited the above shares and reissued 8,000 of such shares to Mr. Suresh at ₹ 60 per share paid-up as ₹ 70 per share. **(10 Marks)**

(b) Given below are the extracts of Balance Sheet of Surya Chemicals Limited as on 31st March, 2026:

Particulars	**Amount in ₹**
7% Redeemable Preference Share Capital	30,00,000
Calls in arear (Redeemable Preference Shares)	60,000
General Reserve	21,00,000
Securities Premium	2,40,000

It is provided that:

– Preference Shares are of 100 each fully-called, due for immediate redemption.

– Calls-in-arrears are on account of final call on 3,000 Preference shares held by four member whose whereabouts are not known.

– Balance of General Reserve to be fully utilised for the purposes of redemption and the shortfall to be made good by issue of equity shares of ₹ 10 each at par.

– The redemption of preference shares was duly carried out.

You are required to pass the necessary journal entries to give effect to the above redemption. **(5 Marks)**

(c) "The cost of Property, Plant and Equipment comprises 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". Give any five examples of such 'directly attributable costs'.

Or

Classify the following expenditures as capital or revenue expenditure:

(i) Amount spent on making a few more exits in a Cinema Hall to comply with Government order

(ii) Travelling expenses of the directors for trips abroad for purchase of capital assets.

(iii) Amount spent to reduce working expenses.

(iv) Amount paid for removal of stock to a new site.

(v) Cost of repairs on second-hand car purchased to bring it into working condition. **(5 Marks)**

(10 + 5 + 5 = 20 Marks)