Skillshort

Self-Study Preparation Pack

CA FOUNDATION

Paper 1: Accounting

Mock Test 2 – Full Paper with Detailed Solutions

Exam pattern: 100 marks · 3 hours · Q1 compulsory + any 4 of Q2–Q6 · Original Skillshort questions

Time: 3 hours | Max marks: 100 | Solutions with working notes

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This subject pack has 6 parts

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Prepared by Skillshort for self-study. Original explanations and questions; not an official ICAI/ICMAI/ICSI publication. Items marked VERIFY should be checked against the latest official material.

Question Paper

Instructions: Question No. 1 is compulsory. Attempt **any four** of the remaining five questions. Working notes should form part of the answer. Time: 3 hours. Maximum marks: 100.

QUESTION Question 1 (compulsory)

(a) State with reasons whether the following are True or False: (6 × 2 = 12 marks)

(i) Receipts and Payments Account is a nominal account.

(ii) Trade discount allowed to a customer is recorded in the books of account.

(iii) A bank overdraft as per the cash book is shown as a credit balance.

(iv) Revaluation reserve can be used to issue fully paid bonus shares.

(v) In the absence of an agreement, partners are entitled to interest on capital @ 6% p.a.

(vi) Under AS 2, inventories are valued at the lower of cost and net realisable value.

(b) Explain the four generally accepted measurement bases (valuation principles). (4 marks)

(c) Prepare the Sales Book of M/s Fashion Hub for March 2026: (4 marks)

5 Mar – Sold to Riya Stores on credit 40 shirts @ ₹500 and 20 jeans @ ₹900, less trade discount 10%.

12 Mar – Sold to Mehta & Sons for cash 10 jackets @ ₹1,200.

18 Mar – Sold to Kapoor Traders on credit 50 T-shirts @ ₹300, less trade discount 5%; packing charged ₹500.

25 Mar – Sold an old sewing machine to Ajay on credit for ₹6,000.

QUESTION Question 2

(a) Kiran Ltd. bought machine M1 on 1-4-2022 for ₹6,00,000 and machine M2 on 1-10-2023 for ₹2,00,000, depreciating both @ 20% p.a. on WDV. From 1-4-2025 the company changed to the straight-line method, estimating the remaining useful life of each machine at 5 years with nil residual value. M2 was sold on 1-10-2025 for ₹1,10,000. Prepare the Machinery A/c for 2025-26 and explain the accounting treatment of the change. (10 marks)

(b) On 1 January 2026 X sold goods to Y for ₹60,000 and drew a bill at 3 months, which Y accepted. On 4 January X endorsed the bill to his creditor Z in full settlement of ₹60,000. On maturity the bill was dishonoured and Z paid noting charges of ₹300. Y paid ₹20,300 in cash and accepted a new bill for the balance with interest @ 15% p.a. for 2 months. Before maturity of the new bill Y became insolvent and 40% of the amount due was received from his estate. Pass journal entries in X's books and state the due dates. (10 marks)

QUESTION Question 3

(a) From the Income & Expenditure A/c of **Sunrise Club** for the year ended 31-3-2026 and the information given, prepare the Receipts & Payments A/c for the year and the Balance Sheet as on 31-3-2026. (12 marks)

I&E A/c – Expenditure: Salaries 60,000; Rent 18,000; Electricity 9,000; Depreciation on equipment 12,000; Loss on sale of furniture 3,000; Surplus 40,000 (total 1,42,000). Income: Subscriptions 1,10,000; Entrance fees 12,000; Interest on investments 8,000; Donations 12,000 (total 1,42,000).

Item	1-4-2025 ₹	31-3-2026 ₹
Subscriptions outstanding	9,000	14,000
Subscriptions received in advance	3,000	5,000
Salaries outstanding	5,000	7,000
Rent prepaid	2,000	1,000
Accrued interest on investments	1,000	3,000
Equipment	80,000	? (₹40,000 bought during the year)
Furniture (sold during the year)	15,000	–
Investments	1,00,000	1,00,000
Cash in hand	25,000	?

(b) Ms. Asha keeps incomplete records. For 2025-26: opening debtors ₹40,000, creditors ₹30,000, stock ₹50,000, cash ₹10,000; closing debtors ₹55,000, creditors ₹36,000, stock ₹62,000. Cash summary: collections from debtors ₹2,80,000; cash sales ₹60,000; paid to creditors ₹2,10,000; cash purchases ₹20,000; expenses ₹48,000; drawings ₹24,000. Other: discount allowed ₹5,000; discount received ₹3,000; bad debts ₹2,000; returns inward ₹4,000; returns outward ₹2,500. Find credit sales and credit purchases and prepare the Trading and P&L A/c. Also find the closing cash. (8 marks)

QUESTION Question 4

(a) P, Q and R share profits 2 : 2 : 1. Balance sheet on 31-3-2026: Liabilities – Creditors 50,000; General reserve 20,000; Capitals P 1,20,000, Q 1,00,000, R 80,000 (total 3,70,000). Assets – Land & building 1,50,000; Plant 80,000; Stock 60,000; Debtors 50,000; Cash 30,000 (total 3,70,000).

Q retires on 1-4-2026. Terms: (i) goodwill of the firm ₹60,000 – no goodwill account to be raised; (ii) land & building appreciated by 20%; plant reduced by ₹8,000; stock reduced by 5%; provision for doubtful debts @ 4% on debtors; (iii) ₹20,000 paid to Q in cash and the balance transferred to his loan account; (iv) P and R will share future profits 3 : 2. Prepare the Revaluation A/c, Partners' Capital A/cs and the Balance Sheet after retirement. (12 marks)

(b) M and N (3 : 2) dissolve their firm. Balance sheet: Creditors 40,000; M's loan 10,000; Capitals M 60,000, N 40,000 (total 1,50,000); Machinery 70,000; Stock 30,000; Debtors 35,000; Cash 15,000 (total 1,50,000). Machinery realised ₹62,000; M took over stock at ₹25,000; debtors realised ₹32,000; creditors were paid at a 2% discount; realisation expenses ₹1,800. Prepare the Realisation A/c, Partners' Capital A/cs and Cash A/c. (8 marks)

QUESTION Question 5

(a) From the following balances of Nova Manufacturers for 2025-26, prepare the Manufacturing A/c, Trading A/c and Profit & Loss A/c: Opening stock – raw materials 40,000, WIP 25,000, finished goods 60,000; closing stock – raw materials 35,000, WIP 30,000, finished goods 70,000; purchases of raw materials 3,20,000; carriage on raw materials 6,000; direct wages 1,40,000; factory power 30,000; factory rent 24,000; depreciation of plant 20,000; sale of factory scrap 3,000; office salaries 48,000; selling expenses 22,000; sales 7,20,000; interest received 4,000. (10 marks)

(b) Attempt **either** (i) **or** (ii): (5 marks)

(i) Opening inventory 200 units @ ₹50. Purchases: 5 Jan 300 units @ ₹55; 15 Jan 500 units @ ₹60. Issues: 10 Jan 400 units; 25 Jan 300 units. Find the value of closing inventory under FIFO and the periodic weighted average method.

OR (ii) Explain the imprest system of petty cash and compute the reimbursement for a week where the imprest is ₹5,000 and expenses are: postage ₹420, stationery ₹780, travelling ₹1,150, cartage ₹590, sundries ₹360.

(c) Kappa Ltd. has 2,00,000 equity shares of ₹10 each, ₹8 paid up. Reserves: general reserve ₹8,00,000; securities premium ₹1,50,000; capital redemption reserve ₹1,00,000. The company decides (1) to make the shares fully paid by a final call of ₹2 met out of general reserve, and (2) then to issue fully paid bonus shares in the ratio 1 : 4, using CRR and securities premium first. Pass journal entries. (5 marks)

QUESTION Question 6

(a) Zeta Ltd. (an unlisted company, not an NBFC/HFC/bank/AIFI) issued on 1-4-2025 10,000, 12% debentures of ₹100 each at a discount of 5%, redeemable at a premium of 10% on 31-3-2028. Interest is paid annually on 31 March. The loss on issue is written off equally over the life of the debentures. The required Debenture Redemption Reserve is created in 2025-26, and the required investment is made on 30-4-2027. Pass journal entries for 2025-26 (issue, interest, write-off, DRR) and for the investment and redemption. (12 marks)

(b) Distinguish between: (i) a partnership firm and an LLP; (ii) Profit & Loss A/c and Income & Expenditure A/c. (4 + 4 = 8 marks)

Solutions and Working Notes

SOLUTION Q1(a)

(i) **False** – R&P A/c is a summary of the cash book – a **real account**.

(ii) **False** – trade discount is deducted on the invoice itself and **not recorded**; only cash discount is recorded.

(iii) **True** – in the cash book, an overdraft (amount owed to the bank) is a **credit** balance.

(iv) **False** – bonus shares cannot be issued out of **revaluation reserve** (s.63(1) proviso).

(v) **False** – in the absence of agreement, **no interest on capital** is allowed (s.13(c), Partnership Act); interest @ 6% p.a. is allowed only on a partner's **loan/advance**.

(vi) **True** – AS 2: lower of cost and NRV, generally item-by-item.

SOLUTION Q1(b) Measurement bases

(1) **Historical cost** – assets at cash paid or fair value of consideration at acquisition; liabilities at proceeds received. (2) **Current cost** – assets at the amount needed to acquire them now; liabilities at the undiscounted amount needed to settle now. (3) **Realisable (settlement) value** – assets at the amount obtainable by orderly sale now; liabilities at undiscounted settlement amount. (4) **Present value** – discounted future net cash flows (inflows for assets, outflows for liabilities).

SOLUTION Q1(c) Sales Book of M/s Fashion Hub

Date	Particulars	Details ₹	Amount ₹
5 Mar	Riya Stores: 40 shirts @ 500 = 20,000; 20 jeans @ 900 = 18,000	38,000	
	Less: trade discount 10%	(3,800)	34,200
18 Mar	Kapoor Traders: 50 T-shirts @ 300	15,000	
	Less: trade discount 5%	(750)	
	Add: packing	500	14,750
31 Mar	Sales A/c Cr (total)		**48,950**

Not recorded in the sales book: cash sale of 12 March (cash book) and sale of the old sewing machine (an asset – journal proper).

SOLUTION Q2(a) Kiran Ltd.

WDV on 1-4-2025: M1: 6,00,000 → 4,80,000 → 3,84,000 → **3,07,200**. M2: 2,00,000 − 20,000 (6 months) = 1,80,000 → **1,44,000**. Total **4,51,200**.

SLM from 2025-26: M1 = 3,07,200 ÷ 5 = 61,440 p.a.; M2 = 1,44,000 ÷ 5 = 28,800 p.a. → 6 months = 14,400. Book value of M2 on 1-10-2025 = 1,29,600; sale 1,10,000 → **loss ₹19,600**.

Machinery A/c 2025-26: Dr – Balance b/d 4,51,200. Cr – Depreciation (M2) 14,400; Bank 1,10,000; P&L (loss) 19,600; Depreciation (M1) 61,440; Balance c/d **2,45,760**. Total 4,51,200 ✔. Total depreciation charged = **₹75,840**.

Treatment: under AS 10 a change in depreciation method is a change in accounting estimate – applied **prospectively**; the carrying amount on 1-4-2025 is depreciated over the remaining life; no adjustment of earlier years.

SOLUTION Q2(b) X's journal

Due dates: first bill 1 Jan + 3 months = 1 April + 3 days grace = **4 April 2026**; new bill from 4 April for 2 months → 4 June + 3 = **7 June 2026**.

Date	Entry	Dr ₹	Cr ₹
1 Jan	Y Dr; To Sales	60,000	60,000
1 Jan	B/R Dr; To Y	60,000	60,000
4 Jan	Z Dr; To B/R	60,000	60,000
4 Apr	Y Dr; To Z (bill 60,000 + noting 300)	60,300	60,300
4 Apr	Cash Dr; To Y	20,300	20,300
4 Apr	Y Dr; To Interest (40,000 × 15% × 2/12)	1,000	1,000
4 Apr	B/R Dr; To Y	41,000	41,000
Insolvency	Y Dr; To B/R	41,000	41,000
Final	Cash Dr 16,400; Bad Debts Dr 24,600; To Y	41,000	41,000

SOLUTION Q3(a) Sunrise Club

Workings: Subscriptions received = 1,10,000 + 9,000 − 14,000 − 3,000 + 5,000 = **1,07,000**. Salaries paid = 60,000 + 5,000 − 7,000 = **58,000**. Rent paid = 18,000 − 2,000 + 1,000 = **17,000**. Interest received = 8,000 + 1,000 − 3,000 = **6,000**. Sale of furniture = 15,000 − 3,000 = **12,000**.

Receipts & Payments A/c for 2025-26: Receipts – Balance b/d 25,000; Subscriptions 1,07,000; Entrance fees 12,000; Donations 12,000; Interest 6,000; Sale of furniture 12,000 → **1,74,000**. Payments – Salaries 58,000; Rent 17,000; Electricity 9,000; Equipment 40,000; **Balance c/d 50,000** → 1,74,000.

Opening capital fund: assets 9,000 + 2,000 + 1,000 + 80,000 + 15,000 + 1,00,000 + 25,000 = 2,32,000 less liabilities (3,000 + 5,000) = **2,24,000**.

Balance Sheet on 31-3-2026: Liabilities – Capital fund 2,24,000 + surplus 40,000 = 2,64,000; Subscriptions in advance 5,000; Salaries outstanding 7,000 → **2,76,000**. Assets – Equipment (80,000 + 40,000 − 12,000) 1,08,000; Investments 1,00,000; Subscriptions outstanding 14,000; Prepaid rent 1,000; Accrued interest 3,000; Cash 50,000 → **2,76,000** ✔.

SOLUTION Q3(b) Ms. Asha

Credit sales = 55,000 + 2,80,000 + 5,000 + 2,000 + 4,000 − 40,000 = **3,06,000**. Credit purchases = 36,000 + 2,10,000 + 3,000 + 2,500 − 30,000 = **2,21,500**.

Trading A/c: Dr – Opening stock 50,000; Purchases (2,21,500 + 20,000 − 2,500) 2,39,000; **GP 1,35,000** → 4,24,000. Cr – Sales (3,06,000 + 60,000 − 4,000) 3,62,000; Closing stock 62,000 → 4,24,000.

P&L A/c: GP 1,35,000 + discount received 3,000 = 1,38,000; less expenses 48,000, discount allowed 5,000, bad debts 2,000 → **Net profit ₹83,000**.

Closing cash = 10,000 + 2,80,000 + 60,000 − 2,10,000 − 20,000 − 48,000 − 24,000 = **₹48,000**.

SOLUTION Q4(a) Retirement of Q

Revaluation A/c: Dr – Plant 8,000; Stock 3,000; Provision for doubtful debts 2,000; profit P 6,800, Q 6,800, R 3,400. Cr – Land & building 30,000.

Gaining ratio: P 3/5 − 2/5 = 1/5; R 2/5 − 1/5 = 1/5 → 1 : 1. Q's goodwill share = 60,000 × 2/5 = 24,000 → P and R debited 12,000 each; Q credited 24,000.

Capital A/cs	P	Q	R
Balance b/d	1,20,000	1,00,000	80,000
General reserve (2:2:1)	8,000	8,000	4,000
Revaluation profit	6,800	6,800	3,400
Goodwill adjustment	(12,000)	24,000	(12,000)
Cash paid	–	(20,000)	–
Transferred to Q's loan	–	(1,18,800)	–
Balance c/d	**1,22,800**	–	**75,400**

Balance Sheet: Liabilities – Creditors 50,000; Q's loan 1,18,800; Capitals P 1,22,800, R 75,400 → **3,67,000**. Assets – Land & building 1,80,000; Plant 72,000; Stock 57,000; Debtors 50,000 − 2,000 = 48,000; Cash 10,000 → **3,67,000** ✔.

SOLUTION Q4(b) Dissolution of M & N

Realisation A/c: Dr – Machinery 70,000; Stock 30,000; Debtors 35,000; Cash (creditors 40,000 − 2%) 39,200; Cash (expenses) 1,800 → 1,76,000. Cr – Creditors 40,000; Cash (machinery) 62,000; M (stock) 25,000; Cash (debtors) 32,000; **Loss: M 10,200, N 6,800** → 1,76,000.

Cash A/c: Dr – Balance 15,000; Realisation 62,000 + 32,000 → 1,09,000. Cr – Creditors 39,200; Expenses 1,800; M's loan 10,000; M 24,800; N 33,200 → 1,09,000.

Capital A/cs: M: 60,000 − stock 25,000 − loss 10,200 = **24,800** paid; N: 40,000 − 6,800 = **33,200** paid.

SOLUTION Q5(a) Nova Manufacturers

Manufacturing A/c: Raw materials consumed = 40,000 + 3,20,000 + 6,000 − 35,000 = 3,31,000; add wages 1,40,000, power 30,000, factory rent 24,000, depreciation 20,000, opening WIP 25,000; less closing WIP 30,000, scrap 3,000 → **cost of production ₹5,37,000**.

Trading A/c: Opening FG 60,000 + COP 5,37,000 = 5,97,000; Sales 7,20,000 + closing FG 70,000 = 7,90,000 → **GP ₹1,93,000**.

P&L A/c: GP 1,93,000 + interest 4,000 − office salaries 48,000 − selling expenses 22,000 = **Net profit ₹1,27,000**.

SOLUTION Q5(b) Either/or

(i) Units available 1,000; issued 700 → closing **300 units**. **FIFO:** 300 @ ₹60 = **₹18,000**. **Periodic weighted average:** (10,000 + 16,500 + 30,000) ÷ 1,000 = ₹56.50 → 300 × 56.50 = **₹16,950**.

(ii) Under the **imprest system** the petty cashier receives a fixed sum (imprest); at the end of the period he is reimbursed exactly the amount spent, restoring the imprest. Spent = 420 + 780 + 1,150 + 590 + 360 = **₹3,300** → reimbursement ₹3,300; balance restored to ₹5,000. Advantages: control over small payments, analytical columns, periodic check.

SOLUTION Q5(c) Kappa Ltd.

Entry	Dr ₹	Cr ₹
General Reserve Dr; To Bonus to Shareholders (2,00,000 × ₹2)	4,00,000	4,00,000
Equity Share Final Call Dr; To Equity Share Capital	4,00,000	4,00,000
Bonus to Shareholders Dr; To Equity Share Final Call	4,00,000	4,00,000
CRR Dr 1,00,000; Securities Premium Dr 1,50,000; General Reserve Dr 2,50,000; To Bonus to Shareholders	5,00,000	5,00,000
Bonus to Shareholders Dr; To Equity Share Capital (50,000 shares × ₹10)	5,00,000	5,00,000

General reserve left = 8,00,000 − 4,00,000 − 2,50,000 = ₹1,50,000.

SOLUTION Q6(a) Zeta Ltd.

Loss on issue = discount 50,000 + premium on redemption 1,00,000 = 1,50,000 → written off ₹50,000 per year. DRR = 10% × 10,00,000 = 1,00,000. DRI = 15% × 10,00,000 = 1,50,000.

Date	Entry	Dr ₹	Cr ₹
1-4-2025	Bank Dr 9,50,000; Loss on Issue of Debentures Dr 1,50,000; To 12% Debentures 10,00,000; To Premium on Redemption 1,00,000	11,00,000	11,00,000
31-3-2026	Debenture Interest Dr; To Bank (10,00,000 × 12%)	1,20,000	1,20,000
31-3-2026	Statement of P&L Dr; To Debenture Interest	1,20,000	1,20,000
31-3-2026	Statement of P&L Dr; To Loss on Issue of Debentures	50,000	50,000
31-3-2026	Surplus (P&L) Dr; To DRR	1,00,000	1,00,000
30-4-2027	Debenture Redemption Investment Dr; To Bank	1,50,000	1,50,000
31-3-2028	Bank Dr; To DRI	1,50,000	1,50,000
31-3-2028	12% Debentures Dr 10,00,000; Premium on Redemption Dr 1,00,000; To Debenture holders	11,00,000	11,00,000
31-3-2028	Debenture holders Dr; To Bank	11,00,000	11,00,000
31-3-2028	DRR Dr; To General Reserve	1,00,000	1,00,000

SOLUTION Q6(b)

(i) Partnership vs LLP: law (1932 Act vs LLP Act 2008); legal status (no separate entity vs body corporate); liability (unlimited vs limited to contribution); registration (optional vs compulsory); perpetual succession (no vs yes); maximum partners (50 vs no limit); audit (not under the Act vs compulsory above ₹40 lakh turnover / ₹25 lakh contribution).

(ii) P&L vs I&E: prepared by profit-making entities vs NPOs; result is net profit/loss vs surplus/deficit; transferred to capital vs capital fund; follows a trading account vs may follow trading A/c only for specific activities (canteen, bar); aim – profit vs service.