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TEST-3

CA FOUNDATION

(13-03-2022)

PAPER 1 – PRINCIPLES AND PRACTICE OF ACCOUNTING

TOPICS COVERED:

1. BANK RECONCILIATION STATEMENTS
2. CONCEPT AND ACCOUNTING OF DEPRECIATION
3. COMPANY ACCOUNTS
4. INVENTORY
5. FINAL ACCOUNTS OF PROPRIETOR
6. BILL OF EXCHANGE
7. AVERAGE DUE DATE

Roll No

Total No. of Question: 6

Time allowed: 3 hours

Total No. of Printed Pages: 7

Maximum Marks: 100

Question No. 1 is compulsory.

Candidates are required to answer any four questions from the remaining five questions.

Working notes should form part of the answer.

Whenever necessary, suitable assumptions may be made and indicated in the answer by the candidates.

Question 1 (a)

(12 Marks)

State with reasons, whether the following statements are True or False.

1. Finished goods are normally valued at cost or market price whichever is higher.
2. When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with Calls in arrear of shares forfeited.
3. Discount at the time of retirement of a bill is a gain for the drawee.
4. Bills receivable and bills payable books are type of subsidiary books.

5. Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
6. Bank reconciliation statement is prepared to arrive at the bank balance.

Question 1 (b)**(4 Marks)**

Explain difference between **Bill of Exchange and Promissory Note**.

Question 1 (c)**(4 Marks)**

Distinguish between Calls-in-Arrears and Calls-in-advance.

Question 2 (a)**(12 Marks)**

Sky Ltd. keeps no stock records but a physical inventory of stock is made at the end of each quarter and the valuation is taken at cost. The company's year ends on 31st March, 2022 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2022 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2022 with the stock figure as on 31st December, 2021 and some other information is available to you:

- (i) The cost of stock on 31st December, 2021 as shown by the inventory sheet was ₹ 80,000.
- (ii) On 31st December, stock sheet showed the following discrepancies:
 - (a) A page total of ₹ 5,000 had been carried to summary sheet as ₹ 6,000.
 - (b) The total of a page had been undercast by ₹ 200.
- (iii) Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2022 totalled ₹ 70,000. Out of this ₹ 3,000 related to goods received prior to 31st December, 2021. Invoices entered in April 2022 relating to goods received in March, 2022 totalled ₹ 4,000.
- (iv) Sales invoiced to customers totalled ₹ 90,000 from January to March, 2022. Of this ₹ 5,000 related to goods dispatched before 31st December, 2021. Goods dispatched to customers before 31st March, 2022 but invoiced in April, 2022 totalled ₹ 4,000.
- (v) During the final quarter, credit notes at invoiced value of ₹ 1,000 had been issued to customers in respect of goods returned during that period. The gross margin earned by the company is 25% of cost.

You are required to prepare a statement showing the amount of stock at cost as on 31st March, 2022. Transfer of ownership takes place at the time of delivery of goods.

Question 2 (b)**(8 Marks)**

Rakesh had the following bills receivable and bills payable against Mukesh.

Date	Bills Receivable	Tenure	Date	Bills Payable	Tenure
1 st June	3,400	3 month	29 th May	2,500	2 month
5 th June	2,900	3 month	3 rd June	3,400	3 month
9 th June	5,800	1 month	9 th June	5,700	1 month
12 th June	1,700	2 month			
20 th June	1,900	3 month			

15th August was a public holiday. However, 6th September, was also declared as sudden holiday.

Calculate the average due date, when the payment can be received or made without any loss of interest to either party.

Question 3**(20 marks)**

The following is the trial balance of Manan as at 31st March 2021:

	<i>Dr.</i>	<i>Cr.</i>
	₹	₹
Manan's capital account	-	1,53,380
Stock 1 st April, 2020	93,600	-
Sales	-	7,79,200
Returns inward	17,200	-
Purchases	6,43,400	-
Returns outward	-	11,600
Carriage inwards	39,200	-
Rent & taxes	9,400	-
Salaries & wages	18,600	-
Sundry debtors	48,000	-
Sundry creditors	-	29,600
Bank loan @ 14% p.a.	-	40,000
Bank interest	2,200	-
Printing and stationary expenses	28,800	-
Bank balance	16,000	-

Discount earned	-	8,880
Furniture & fittings	10,000	-
Discount allowed	3,600	-
General expenses	22,900	-
Insurance	2,600	-
Postage & telegram expenses	4,660	-
Cash balance	760	-
Travelling expenses	1740	-
Drawings	<u>60,000</u>	
	<u>10,22,660</u>	<u>10,22,660</u>

The following adjustments are to be made:

- (1) Included amongst the debtors is ₹ 6,000 due from Rahul and included among the creditors ₹ 2,000 due to him.
- (2) Provision for bad and doubtful debts be created at 5% and for discount @ 2% on sundry debtors.
- (3) Depreciation on furniture & fittings @ 10% shall be written off.
- (4) Personal purchases of Manan amounting to ₹ 1200 had been recorded in the purchases day book.
- (5) Interest on bank loan shall be provided for the whole year.
- (6) A quarter of the amount of printing and stationary expenses is to be carried forward to the next year.
- (7) Credit purchase invoice amounting to ₹ 800 had been omitted from the books.
- (8) Stock on 31st March 2022 was ₹ 1,57,200.

Prepare (i) Trading & profit and loss account for the year ended 31.3.2022 and (ii) Balance sheet as on 31st March, 2022.

Question 4 (a)

(8 Marks)

Calculate the Rate of Depreciation under Straight Line Method (SLM) in each of the following:-

Machine No.	Cost of Machine (₹)	Expenses incurred at the time of purchase to be capitalized (₹)	Estimated Residual Value (₹)	Expected Useful Life in years
1	90,000	10,000	20,000	8
2	24,000	7,000	3,100	6
3	1,05,000	20,000	12,500	3
4	2,50,000	30,000	56,000	5

Question. 4. (b)**(12 Marks)**

Radha Ltd., a dealer in cosmetics, records its inventory under first-in-first-out method, so as to minimize accumulation of outdated stock. The opening stock as on September 01, 2021 is 150 units at the rate of ₹ 20 per unit. The purchases and sales made during the month are:

Date	No. of units	Cost price per unit
04-09-2021	200 purchased	₹ 25
14-09-2021	100 purchased	₹ 22
03-09-2021	100 sold	
10-09-2021	150 sold	

With effect from September 01, 2021, the company decided to change the method of inventory valuation from the FIFO method to LIFO method. What is the change in the value of closing inventory consequent upon the change in the method of valuation?

Question 5 (a)**(12 Marks)**

On 1st July, 2021 Gorge drew a bill for ₹ 1,80,000 for 3 months on Harry for mutual accommodation. Harry accepted the bill of exchange. Gorge had purchased goods worth ₹ 1,81,000 from Jack on the same date. Gorge endorsed Harry's acceptance to Jack in full settlement. On 1st September, 2021, Jack purchased goods worth ₹ 1,90,000 from Harry. Jack endorsed the bill of exchange received from Gorge to Harry and paid ₹ 9,000 in full settlement of the amount due to Harry. On 1st October, 2021, Harry purchased goods worth ₹ 2,00,000 from Gorge. Harry paid the amount due to Gorge by cheque. Give the necessary Journal Entries in the books of Harry and Gorge.

Question 5 (b)**(8 Marks)**

Mr. Yash and Mr. Harsh are partners in a firm. They had drawn the following amounts from the firm during the year ended 31.03.2022:

Date	Amount ₹	Drawn by ₹
01.05.2021	75,000	Mr. Yash
02.07.2021	20,000	Mr. Yash
15.08.2021	60,000	Mr. Harsh
31.12.2021	50,000	Mr. Harsh
04.03.2022	75,000	Mr. Harsh
31.03.2022	15,000	Mr. Yash

Interest is charged @ 10% p.a. on all drawings. Calculate interest chargeable from each partner by using Average due date system. (Consider 1st May as base date) (1 year = 365 days)

Question 6 (a)**(15 Marks)**

A Limited is a company with an authorised share capital of ₹ 1,00,00,000 in equity shares of ₹ 10 each, of which 6,00,000 shares had been issued and fully paid up on 31st March, 2021. The company proposes to make a further issue of 1,35,000 of these ₹ 10 shares at a price of ₹ 14 each, the arrangement of payment being :

- (i) ₹ 2 per share payable on application, to be received by 31st May, 2021;
- (ii) Allotment to be made on 10th June, 2021 and a further ₹ 5 per share (including the premium to be payable);
- (iii) The final call for the balance to be made, and the money received by 31st December, 2021.

Applications were received for 5,60,000 shares and dealt with as follows:

- (1) Applicants for 10,000 shares received allotment in full;
- (2) Applicants for 50,000 shares received allotment of 1 share for every 2 applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;
- (3) Applicants for 5,00,000 shares received an allotment of 1 share for every 5 shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and
- (4) The money due on final call was received on the due date.

You are required to record these transactions (including bank transactions) in the Journal Book of A Limited.

Question 6 (b)**(5 Marks)**

Y Company Limited issue 10,000 12% Debentures of the nominal value of ₹ 60,00,000 as follows:

- (i) To a vendor for purchase of fixed assets worth ₹ 13,00,000 - ₹ 15,00,000 nominal value.
- (ii) To sundry persons for cash at 90% of nominal value of ₹ 30,00,000.
- (iii) To the banker as collateral security for a loan of ₹ 14,00,000 - ₹ 15,00,000 nominal value,

You are required to pass necessary Journal Entries.

SPACE FOR ROUGH WORK