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TEST-4

CA FOUNDATION

(25-09-2022)

PAPER 1 – PRINCIPLES AND PRACTICE OF ACCOUNTING

TOPICS COVERED:

1. BANK RECONCILIATION STATEMENT
2. CONCEPT AND ACCOUNTING OF DEPRECIATION
3. PREPARATION OF FINAL ACCOUNTS OF SOLE PROPRIETOR
4. COMPANY ACCOUNTS
5. CONSIGNMENT ACCOUNTING
6. SALE OF GOODS ON APPROVAL OR RETURN BASIS
7. BILLS OF EXCHANGE
8. AVERAGE DUE DATE

Roll No ...624387.....

Total No. of Question: 6

Time allowed: 3 hours

Total No. of Printed Pages: 8

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 respective answers.

Question 1 (a)**(6 x 2 = 12 Marks)****State with reasons, whether the following statements are True or False.**

1. Bills of exchange discounted with bank is a contingent liability if the date of maturity is expired.
2. While calculating the average due date, only the earliest date shall be taken as base date.
3. The payment side of the Cash Book was undercast by ₹10,000. If we start with pass book balance, 10,000 shall be added.
4. Depreciation method can be changed at the end of every year.
5. If the debit side of the trading account exceeds its credit side then the balance is termed as gross profit.
6. Value of the abnormal loss is debited to the consignment account

Question 1 (b)**(2 x 2 = 4 Marks)**

Good Pictures Ltd., constructs a cinema house and incurs the following expenditure during the first year ending 31st March, 2022.

- (i) Second-hand furniture worth ₹ 9,000 was purchased; repainting of the furniture costs ₹1,000. The furniture was installed by own workmen, wages for this being ₹200.
- (ii) Expenses in connection with obtaining a license for running the cinema worth ₹20,000. During the course of the year the cinema company was fined ₹1,000, for contravening rules. Renewal fee ₹2,000 for next year also paid.
- (iii) Fire insurance, ₹1,000 was paid on 1st October, 2021 for one year.
- (iv) Temporary huts were constructed costing ₹1,200. They were necessary for the construction of the cinema. They were demolished when the cinema was ready.

Point out how you would classify the above items.

Question 1 (c)**(2 x 2 = 4 Marks)**

Journalise the following transactions (without narration):

1. Make journal entry in the books of consignee for recording and writing off bad debts of ₹20,000. Consignee was paid ordinary and del- credere commission amounting to ₹27,000
2. Make journal entry for transferring amount to Capital reserve if A holds 2,000 shares of ₹10 each on which he has paid ₹2 as application money. B holds 4,000 shares of ₹10 each on which he has paid ₹ 2 per share as application money and ₹ 3 per share as allotment money. C holds 3,000 shares of ₹10 each and has paid ₹ 2 on application, ₹ 3 on allotment and ₹3 for the first call. They all fail to pay their arrears on the second and final call and the directors, therefore, forfeited their shares. The shares are re-issued subsequently for ₹12 per share fully paid-up.

Question 2 (a)**(10 Marks)**

On 30th September, 2021, the bank account of X, according to the bank column of the Cash- Book, was overdrawn to the extent of ₹4,062. On the same date the bank statement showed a credit balance of ₹20,758 in favour of X. An examination of the Cash Book and Bank Statement reveals the following:

1. A cheque for ₹13,14,000 deposited on 29th September, 2021 was credited by the bank only on 3rd October, 2021
2. A payment by cheque for ₹16,000 has been entered twice in the Cash Book.
3. On 29th September, 2021, the bank credited an amount of ₹1,17,400 received from a customer of X, but the advice was not received by X until 1st October, 2021.
4. Bank charges amounting to ₹580 had not been entered in the Cash Book.
5. On 6th September, 2021, the bank credited ₹20,000 to X in error.
6. A bill of exchange for ₹1,40,000 was discounted by X with his bank. This bill was dishonoured on 28th September, 2021 but no entry had been made in the books of X.
7. Cheques issued upto 30th September, 2021 but not presented for payment upto that date totalled ₹13,26,000.

You are required :

- (a) to show the appropriate rectifications required in the Cash Book of X, to arrive at the correct balance on 30th September, 2021 and
- (b) to prepare a bank reconciliation statement as on that date.

Question 2 (b)**(5 Marks)**

On April 01, 2021 the debit balance of the machinery account of Niranjana Ltd. was ₹5,67,000. The machine was purchased on April 01, 2019. The company charged depreciation at the rate of 10% per annum under diminishing balance method. On October 01, 2021, the company acquired a new machine at a cost of ₹60,000 and incurred ₹6,000 for installation of the new machine.

The company decided to change the system of providing depreciation from the diminishing balance method to the straight-line method. The remaining life was reassessed to be 5 years for the assets purchased before April 1, 2021 and 10 years for assets purchased thereafter with no scrap value. Calculate the depreciation to be charged to Profit & loss account for current year.

Question 2 (c)**(5 Marks)**

Mr. Purshottam purchased machinery on 01.01.21 for ₹20,00,000. Estimated useful life is 10 years and scrap value is ₹2,00,000. On 01.01.23 the machine was revalued upward by 20%, scrap estimated at ₹2,80,000 and years of useful life are 13 years. The company follows WDV method.

Calculate depreciation for 2023 and the amount to be credited to revaluation reserve account.

Question 3**(20 Marks)**

Following is the Trial Balance of Shri Arihant as at 31st December, 2021:

Particulars	Dr.(₹)	Cr.(₹)
Capital		14,00,000
Drawings	75,000	
Opening Stock	80,000	
Purchases	16,20,000	
Freight on Purchases	15,000	
Wages	1,10,000	
Sales		25,00,000
Travelling Expenses	23,000	
Salaries	1,00,000	
Miscellaneous Expenses	35,000	
Printing and Stationery	27,000	
Advertisement Expenses	25,000	
Postage and Telegram	13,000	
Discounts	7,600	14,500
Bad Debts written off (after adjustment recovery of bad debts of ₹6,000 written off in 2013)	14,000	
Building	10,00,000	
Machinery	75,000	
Furniture	40,000	
Debtors	1,50,000	
Provision for Doubtful Debts		19,000
Creditors		1,60,000
Investment (12% Purchases on 1 st Oct., 2021)	6,00,000	
Bank Balance	83,900	
	40,93,500	40,93,500

- Closing Stock ₹2,25,000 and goods Worth ₹5,000 were taken for personal use.
- Machinery worth ₹35,000 purchased on 1st January, 2019 was wrongly written off against Profit and Loss account. This asset is to be brought into account on 1st January, 21 taking depreciation at 10% p.a. on Straight Line Basis upto 31st December, 2020.
- Depreciate Building at 2.5% p.a., machinery at 10% p.a. and Furniture at 10% p.a. and make provision for Doubtful Debts at 6% on Debtors.
- Manager's commission is 5% of Net Profit after charging his commission.

Prepare the Trading and Profit and Loss Account and a Balance Sheet as at that date.

Question 4 (a)**(5 Marks)**

X supplied goods on sale or return basis to customers, the particulars of which are as under:

Date of dispatch	Party's name	Amount ₹	Remarks
10.12.2021	M/s ABC Co.	10,000	No information till 31.12.2021
12.12.2021	M/s DEF Co	15,000	Returned on 16.12.2021
15.12.2021	M/s GHI Co	12,000	Goods worth ₹ 2,000 returned on 20.12.2021
20.12.2021	M/s DEF Co	16,000	Goods Retained on 24.12.2021
25.12.2021	M/s ABC Co	11,000	Good Retained on 28.12.2021
30.12.2021	M/s GHI Co	13,000	No information till 31.12.2021

Goods are to be returned within 15 days from the dispatch, failing which it will be treated as sales. The books of 'X' are closed on the 31st December, 2021.

Prepare the following account in the books of 'X'.

1. Goods on "sales or return, sold and returned day books".
2. Goods on sales or return total account.

Question 4 (b)**(5 Marks)**

Calculate average due date from the following information:

Date of bill	Term	Amount (₹)
1 st March, 2021	2 months	20,000
10 th March, 2021	3 months	15,000
5 th April, 2021	2 months	10,000
23 rd April, 2021	1 months	18,750
10 th May, 2021	2 months	25,000

Question 4 (c)**(10 Marks)**

Anand of Bangalore consigned to Raj of Pune, goods to be sold at invoice price which represents 125% of cost. Raj is entitled to a commission of 10% on sales at invoice price and 25% of any excess realized over invoice price. The expenses on freight and insurance incurred by Anand were ₹12,000. The account sales received by Anand shows that Raj has effected sales amounting to ₹1,20,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were ₹9,600 10% of consignment goods of the value of ₹15,000 were destroyed in fire at the Pune godown and the insurance company paid ₹12,000 net of salvage. Raj remitted the balance in favour of Anand.

You are required to prepare Consignment Account and the account of Raj in the books of Anand along with the necessary calculations.

Question 5 (a)**(10 Marks)**

Journalize the following in the books of Don:

- Bob informs Don that Ray's acceptance for ₹ 3,000 has been dishonoured and noting charges are ₹40. Bob accepts ₹ 1,000 cash and the balance as bill at three months at interest of 10%. Don accepts from Ray his acceptance at two months plus interest @ 12% p.a.
- James owes Don ₹ 3,200; he sends Don's own acceptance in favour of Ralph for ₹3,160; in full settlement.
- Don meets his acceptance in favour of Singh for ₹ 4,500 by endorsing John's acceptance for ₹ 4,450 in full settlement.
- Ray's acceptance in favour of Don retired one month before due date, interest is taken at the rate of 6% p.a.

Question 5 (b)**(10 Marks)**

Nike sports Co. of New Delhi consigned 100 shoes to Adidas Co. of Ahmedabad costing ₹ 1,500 each, invoiced at ₹ 2,000 each. The consignor paid freight ₹ 10,000 and insurance in transit ₹ 1,500. During transit, 10 shoes were totally damaged.

Adidas Co took delivery of remaining shoes and paid ₹ 1,530 for octroi duty. Adidas co. sent a bank draft to Nike sports Co. for Rs 50,000 as advance and later on sent an account sales showing that 80 shoes had been sold @ ₹ 2,200 each. Expenses incurred by Adidas Co. on godown rent were ₹ 2,000. Adidas Co. is entitled to a commission of 5% on invoice price and 25% on any surplus of sale price over invoice price. Insurance claim was settled at ₹ 14,000.

Prepare consignment account and the related working notes account in the books of the Nike sports Co.

Question 6 (a)**(13 Marks)**

JHP Limited is a company with an authorised share capital of 10,00,000 in equity shares of ₹10 each, of which 6,00,000 shares had been issued and fully paid on 30th June, 2021. The company proposed to make a further issue of 1,00,000 of these ₹10 shares at a price of ₹14 each, the arrangements for payment being:

1. ₹2 per share payable on application, to be received by 1st July, 2021;
2. Allotment to be made on 10th July, 2021 and a further ₹5 per share (including the premium) to be payable;
3. The final call for the balance to be made on 30th April, 2022.

Applications were received for 3,55,000 shares and were dealt with as follows:

1. Applicants for 5,000 shares received allotment in full;
2. Applicants for 30,000 shares received an allotment of one share for every two 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 3,20,000 shares received an allotment of one share for every four applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and

The money due on final call was received on the due date

You are required to record these transactions (including cash items) in the Journal of JHP Limited

Question 6 (b)**(7 Marks)**

Write short notes on various kinds of debentures.

SPACE FOR ROUGH WORK