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TEST-1

CA FOUNDATION

(02-01-2022)

PAPER 1 – PRINCIPLES AND PRACTICE OF ACCOUNTING

TOPICS COVERED:

1. BANK RECONCILIATION STATEMENTS
2. CONCEPT AND ACCOUNTING OF DEPRECIATION

Roll No

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 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. When the causes of differences between pass book balance and cash book is not known, then the bank reconciliation statement can be prepared by matching the two books.
2. If the equipment account has a balance of ₹ 12,50,000 and the accumulated depreciation account has a balance of ₹ 4,00,000, the written down value of same shall be ₹ 16,50,000.
3. Cash book shows a debit balance of ₹ 50,000 and the only difference from the balance as shown in pass book relates to cheques issued for ₹ 60,000 but not yet presented for payment. The balance as per pass book should be ₹ 1,10,000
4. Sum of the years digit method is an example of accelerated method of charging depreciation.
5. While preparing the bank reconciliation statement starting with debit balance as per pass book or bank statement, the deposited cheques that are not yet cleared need not be adjusted.
6. Over the life of an asset subject to depreciation, the accelerated method will result in less Depreciation Expense in early years and more depreciation in later years of its life.

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

State the causes of difference between the balance shown by the passbook and the cash book.

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

State **any four** differences between Straight Line Method and Diminishing Balance Method of Depreciation

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

Following are the relevant pass book and cash book:

Messer's Tall & Short, Faiz Bazar, New Delhi-110002 in account with Punjab National Bank, Daryaganj, New Delhi-110002

PASS-BOOK

Date		Particulars	Withdrawals ₹	Deposits ₹	Dr. or Cr.	Balance ₹
2021 Jan.	1	By Cash		4,00,000	Cr.	4,00,000
	4	To Furniture Dealers Ltd.	60,000		Cr.	3,40,000
	4	To Das & Co.	1,25,000		Cr.	2,15,000
	10	By J. Johnson & Co.'s cheque		35,000	Cr.	2,50,000
	12	To Roy & James	1,00,000		Cr.	1,50,000
	15	By B. Babu & Co's cheque		76,000	Cr.	2,26,000

	16	By Cash		30,000	Cr.	2,56,000
	20	To Cash	50,000		Cr.	2,06,000
	26	By J. Rai & Bros cheque		43,000	Cr.	2,49,000
	31	To Premium paid as per standing instructions	25,000		Cr.	2,24,000
	31	To Bank Charges	1,000		Cr.	2,23,000
	31	By Interest collected on Government Securities		20,000	Cr.	2,43,000

CASH-BOOK (Bank column only)

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
2021			2021		
Jan. 1	To Cash	4,00,000	Jan. 2	By Furniture	
Jan. 2	To J. Johnson & Co.	35,000		Dealers Ltd.	60,000
Jan. 8	To B. Babu & Co.	76,000	Jan. 2	By Roy & James	1,00,000
Jan. 10	To Cash	30,000	Jan. 2	By Das & Co.	1,25,000
Jan. 16	To J. Rai & Bros.	43,000	Jan. 4	By K. Nagpal & Co.	73,000
Jan. 20	To M. Mohan & Co.	1,05,000	Jan. 17	By Cash	50,000
Jan. 22	To N. Nandy & Sons	34,000	Jan. 20	By B. Babu & Co.	78,000
			Jan. 31	By Balance c/d	2,37,000
		7,23,000			7,23,000

Prepare bank reconciliation.

Question 2 (b)

(10 Marks)

A Firm purchased an old Machinery for ₹ 37,000 on 1st January, 2021 and spent ₹ 3,000 on its overhauling. On 1st July 2022, another machine was purchased for ₹ 10,000. On 1st July 2023, the machinery which was purchased on 1st January 2021, was sold for ₹ 28,000 and the same day a new machinery costing ₹25,000 was purchased. On 1st July, 2024, the machine which was purchased on 1st July, 2022 was sold for ₹2,000.

Depreciation is charged @ 10% per annum on straight line method. The firm changed the method and adopted diminishing balance method with effect from 1st January, 2022 and the rate was increased to 15% per annum. The books are closed on 31st December every year.

Prepare Machinery account for four years from 1st January, 2021.

Question 3 (a)**(10 Marks)**

The cash book of Ms. Anaya showed the balance of ₹ 2,30,000 as on 31st March but you find that it does not agree with the balance as per the Bank Pass Book due to the following discrepancies:

1. Bill of exchange worth ₹ 2,000 was discounted with bank and was dishonoured on 28th March but no entry has been made in the cash book.
2. Cheques worth ₹ 7,000 issued but not presented.
3. A cheque for ₹ 30,000 has been dishonoured but it does not appear in cash book.
4. Bank has credited ₹7,000 by mistake.
5. Trade subscription of ₹ 15,000 has been paid vide banker's order.
6. Cheque for ₹ 20,000 drawn by Ms. Ananya has been wrongly charged to Ms. Anaya's account.

Calculate the balance of adjusted cash book and then prepare a Bank Reconciliation Statement.

Question 3 (b)**(10 Marks)**

M/s. Green Channel purchased a second-hand machine on 1st January, 2018 for ₹1,60,000. Overhauling and erection charges amounted to ₹ 40,000.

Another machine was purchased for ₹ 80,000 on 1st July, 2018.

On 1st July, 2020, the machine installed on 1st January, 2018 was sold for ₹ 1,00,000. Another machine amounted to ₹ 30,000 was purchased and was installed on 30th September, 2020.

Under the existing practice the company provides depreciation @ 10% p.a. on original cost. However, from the year 2021 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2018 to 2021.

Question 4 (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. 4. (b)

(10 Marks)

A new machine costing ₹1,00,000 was purchased by a company to manufacture a special product. Its useful life is estimated to be 5 years and scrap value at ₹10,000. The production plan for the next 5 years using the above machine is as follows:

Year 1	5,000 units
Year 2	10,000 units
Year 3	12,000 units
Year 4	20,000 units
Year 5	25,000 units

Calculate depreciation for first, second, third and fourth year under units of production method.

Question 5 (a)

(10 Marks)

D's Cash Book shows an overdrawn position of ₹ 3,630 on 31.3. though the Bank Statement shows only ₹3,378 overdrawn. Detailed examination of two records revealed the following:

1. A cheque for ₹ 1,560 in favour of Rath Associates has been omitted by the Bank from its statement, thus, cheque having been debited to another customer's account.
2. The debit side of owned book has been under caste by ₹ 300.
3. A cheque for ₹ 182 drawn in payment of electricity amount had been entered in the Cash Book on ₹128 & was shown correctly in the Bank statement.
4. A cheque for ₹ 210 from S. Gupta having been paid into Bank, was dishonoured & shown as such on Bank statement, although no entry relating to dishonoured had been made in Cash Book.
5. The Bank had debited a cheque for ₹ 126 to D's Account in error. It should have been debited to Sukhal's Account.
6. A dividend of ₹ 90 on D's holding of equity shares has been duly shown by Bank, no entry has been made in Cash Book.
7. A lodgement of ₹ 1,080 on 31.3. had not been credited by Bank.
8. Interest on ₹ 228 had been directly debited by Bank not recorded in Cash Book.

You are required to prepare a Bank Reconciliation Statement after necessary amendment in Cash Book as on 31.3.

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

Acquired a machine on 1st July, 2021 at a cost of ₹14,00,000 and spent ₹1,00,000 on its installation. The firm writes off depreciation at 10% p.a. of the original cost every year. The books are closed on 31st December every year. Show the Machinery Account and Depreciation Account for the year 2021 and 2022.

Question 6 (a)**(10 Marks)**

The bank account of Mukesh was balanced on 31st March, 2021. It showed an overdraft of ₹ 5,000. This did not agree with the balance shown by bank statement of Mukesh. You are required to prepare a bank reconciliation statement taking the following into account:

1. Cheques issued but not presented for payment till 31.3.2021 ₹12,00,000.
2. Cheques deposited but not collected by bank till 31.3.2021 ₹ 20,00,000.
3. Interest on term-loan ₹10,00,000 debited by bank on 31.3.2021 but not accounted in Mukesh's book.
4. Bank charges ₹ 2,500 was debited by bank during March, 2021 but accounted in the books of Mukesh on 4.4.2021.
5. An amount of ₹ 30,68,000 representing collection of Murukesh's cheque was wrongly credited to the account of Mukesh by the bank in their bank statement.

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

What are the objectives for providing depreciation.

Question 6 (c)**(5 Marks)**

Discuss the factors taken into consideration for calculation of depreciation.

*****All the Best*****

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