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TEST-2

CA FOUNDATION

(05-02-2023)

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. CONSIGNMENT ACCOUNTING
5. ACCOUNTING PROCESS – JOURNAL & LEDGER

Roll No

Total No. of Question: 6

Total No. of Printed Pages: 8

Time allowed: 3 hours

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. The amount of depreciation remains same in written down value method.
2. Godown rent shall not be proportionately added while computing the value of goods lost in consignee's godown.
3. Purchase of machinery on credit shall be recorded in purchase book.
4. Double entry system was invented by Alfred Marshall.
5. Accounting standard 2 is titled as "Valuation for fixed Assets".
6. Income tax of sole proprietor is considered as drawings.

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

Write short notes on:

1. Documents in consignment
2. Change in method of depreciation

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

Pass Journal Entries (without narration) for the following transactions in the books of Gamma Bros:

1. Employees had taken inventory worth ₹ 1,00,000 (Cost price ₹ 75,000) on the eve of Deepawali and the same was deducted from their salaries in the subsequent month.
2. Wages paid for erection of Machinery ₹ 18,000.
3. Income tax liability of proprietor ₹ 1,17,000 was paid out of petty cash.
4. Purchase of goods from Naveen of the list price of ₹ 2,00,000. He allowed 10% trade discount, ₹ 5,000 cash discount was also allowed for quick payment.

Question 2**(20 Marks)**

The following are the balances extracted from the books of Shri Raghuram as on 31.03.2018, who carries on business under the name and style of M/s Raghuram and Associates, at Chennai :

Particulars	Debit (₹)	Credit (₹)
Capital A/c		14,11,400
Purchases	12,00,000	
Purchase Returns		18,000
Sales		15,00,000
Sales Returns	24,000	
Freight Inwards	62,000	
Carriage Outwards	8,500	
Rent of Godown	55,000	
Rates and Taxes	24,000	
Salaries	72,000	
Discount allowed	7,500	
Discount received		12,000
Drawings	20,000	
Printing and Stationery	6,000	
Insurance premium	48,000	
Electricity charges	14,000	
General expenses	11,000	
Bank charges	3,800	
Bad debts	12,200	
Repairs to Motor vehicle	13,000	
Interest on loan	4,400	
Provision for Bad debts		10,000
Loan from Mr. Rajan		60,000
Sundry creditors		62,000
Motor vehicles	1,00,000	
Land and Buildings	5,00,000	
Office equipment	2,00,000	
Furniture and Fixtures	50,000	

Stock as on 31.03.2017	3,20,000		
Sundry debtors	2,80,000		
Cash at Bank	22,000		
Cash in Hand	16,000		
Total	30,73,400		30,73,400

Prepare Trading and Profit and Loss Account for the year ended 31.03.2018 and the Balance Sheet as at that date after making provision or the following:

- Depreciate Building by 5%, Furniture and Fixtures by 10%, Office Equipment by 15% and Motor Car by 20%.
- Value of stock at the close of the year was ₹ 4,10,000.
- One month rent godown is outstanding.
- Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2017.
- Reserve for bad debts is to be maintained at 5% of Sundry debtors.
- Insurance premium includes ₹ 42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 01.04.2017 to 30.06.2018.

Question 3 (a)

(8 Marks)

Mr. Surya runs a factory, which produces detergents. Following details were available in respect of his manufacturing activities for the year ended 31-03-2022.

Opening work-in-progress (27,000 units)	78,000
Closing work-in-progress (42,000 units)	1,44,000
Opening inventory of Raw Materials	7,80,000
Closing inventory of Raw Materials	9,60,000
Purchases	24,60,000
Hire charges of Machinery @ ₹ 0.70 per unit manufactured	
Hire charges of factory	7,80,000
Direct wages-contracted @ ₹ 0.80 per unit manufactured and @ ₹ 0.40 per unit of closing W.I.P.	
Repairs and maintenance	5,40,000
Units produced - 15,00,000 units	

You are required to prepare a Manufacturing Account of Mr. Surya for the year ended 31-03-2022.

Question 3 (b)**(6 Marks)**

Max & Co. employs a team of 9 workers who were paid ₹ 40,000 per month each in the year ending 31st December, 2020. At the start of 2021, the company raised salaries by 10% to ₹44,000 per month each.

On 1 July, 2021 the company hired 2 trainees at salary of ₹ 21,000 per month each. The work force are paid salary on the first working day of every month, one month in arrears, so that the employees receive their salary for January on the first working day of February, etc.

You are required to calculate :

- (i) Amount of salaries which would be charged to the profit and loss account for the year ended 31st December, 2021.
- (ii) Amount actually paid as salaries during 2021.
- (iii) Outstanding salaries as on 31st December, 2021.

Question 3 (c)**(6 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 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 4 (a)**(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 4 (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 5 (a)**(15 Marks)**

Prepare a Bank Reconciliation statement for Satyam Traders after preparing adjusted cash book as on 31st March, 2021

The cash book of Satyam Traders shows a debit balance of ₹ 4,12,200 at bank as on 31st March, 2021, but you find that it does not agree with the balance as per Pass Book. After checking you find the following:

1. On 12th March, 2021 the payment side of the Cash Book was under cast by ₹ 12,000/-
2. A cheque of ₹85,000 issued on 20th March, 2021 was not taken in the bank column.
3. On 22nd March, 2021 the debit balance of ₹ 18,500 as on the previous day, was brought forwards as credit balance.
4. Out of the total cheques amounting to ₹42,000 issued in, the last week of March, 2021, cheques aggregating ₹28,500 were encashed in March, 2021.
5. Dividends of ₹35,000 collected by the Bank and Fire insurance premium of ₹20,000 paid by it were not recorded in the cash book.
6. One cheque issued to a Creditor of ₹1,29,000 was recorded twice in the Cash book.
7. A debtor Mr. A has deposited the Cheque for ₹32,000 into the bank directly in the month of March, 2021 without intimating to Satyam Traders and the same cheque was dishonored by the bank due to insufficient funds in the month of March itself.
8. A cheque from customer for ₹5,000 was deposited in bank on 28th March, 2021 but was dishonored and advice received from bank on 3rd April, 2021.
9. Bank paid credit card bill of ₹2,500 which is not recorded in cash book.
10. Bank wrongly credited cheque of ₹25,000 of other customer in our account.
11. Bank credited cheque of ₹ 2,000 in savings account of proprietor of Satyam Traders instead of crediting cheque in current account of Satyam Traders.
12. ₹ 500 discount received wrongly entered in bank column in cash book.
13. Bank debited charges ₹ 200 on 25th March for which no intimation received till 31st March.

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

Write a short note on accounting policies

Question 6**(20 Marks)**

A firm's plant and machinery account at 31st December, 2021 and the corresponding depreciation provision account, broken down by year of purchase are as follows:

Year of Purchase	Plant and Machinery at cost	Depreciation Provision
	₹	₹
2004	2,00,000	2,00,000
2010	3,00,000	3,00,000
2011	10,00,000	9,50,000
2012	7,00,000	5,95,000
2019	5,00,000	75,000
2020	3,00,000	15,000
	30,00,000	21,35,000

Depreciation is at the rate of 10% per annum on cost. It is the Company's policy to assume that all purchases, sales or disposal of plant occurred on 30th June in the relevant year for the purpose of calculating depreciation, irrespective of the precise date on which these events occurred.

During 2021 the following transactions took place:

1. Purchase of plant and machinery amounted to ₹ 15,00,000
2. Plant that had been bought in 2010 for ₹ 170,000 was scrapped.
3. Plant that had been bought in 2011 for ₹ 90,000 was sold for ₹ 5,000.
4. Plant that had been bought in 2012 for ₹ 2,40,000 was sold for ₹ 15,000.

You are required to:

Calculate the provision for depreciation of plant and machinery for the year ended 31st December, 2021. In calculating this provision you should bear in mind that it is the company's policy to show any profit or loss on the sale or disposal of plant as a completely separate item in the Profit and Loss Account. You are also required to prepare the following ledger accounts during 2021.

- (i) Plant and machinery at cost;
- (ii) Depreciation provision;
- (iii) Sales or disposal of plant and machinery.

SPACE FOR ROUGH WORK