MITKARY SIR'S CAPS ACADEMY

CA Foundation - Test Series – Dec. 2021

Marks: 100 **SUBJECT - PRINCIPLES & PRACTICE OF ACCOUNTING** **Time: 3 hrs.**

INSTRUCTIONS TO CANDIDATES

1. Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be valued.
2. Question No. 1 is compulsory
3. Candidates are also required to answer any **four** questions from the remaining **five** questions.
4. Working notes should form part of the respective answers.

1. (a) State with reasons, whether the following statements are True or False:

(i) Selection of accounting policy doesn't impact financial performance and financial position of the business.

(ii) Trial balance agrees in case of compensating errors.

(iii) Valuation of inventory, at cost or net realizable value, whichever is less, is based on the principle of Conservatism.

(iv) Debenture holder are the owners of the company.

(v) The Receipts and payment account for a non-profit organization follows the accrual concept of accounting.

(vi) Interest has to be paid by the party making payment exactly on the average due date.

(6 x 2 = 12 Marks)

1. (b) Good Pictures Ltd. constructs a cinema house and incurs the following expenditure during the first year ending 31st March, 2020.

(i) Second-hand furniture worth Rs. 9,000 was purchased; repainting of the furniture costs Rs. 1,000. The furniture was installed by own workmen, wages for this being Rs. 200.

(ii) Expenses in connection with obtaining a license for running the cinema worth Rs. 20,000. During the course of the year the cinema company was fined Rs. 1,000, for contravening rules. Renewal fee Rs.2,000 for next year also paid.

(iii) Fire insurance, Rs. 1,000 was paid on 1st October, 2019 for one year.

(iv) Temporary huts were constructed costing Rs. 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 of expenses. **(4 Marks)**

1. (c) The Machinery Account of a Factory showed a balance of Rs. 19,00,000 on 1st January, 2019. Its accounts were made up on 31st December each year and depreciation is written off at 10% p.a. under the Diminishing Balance Method.

On 1st June 2019, a new machinery was acquired at a cost of Rs. 2,80,000 and installation charges incurred in erecting the machine works out to Rs. 8,920 on the same date. On 1st June, 2019 a machine which had cost Rs. 4,37,400 on 1st January 2017 was sold for Rs. 75,000. Another machine which had cost Rs. 4,37,000 on 1st January, 2018 was scrapped on the same date and it realised nothing.

Write a plant and machinery account for the year 2019, allowing the same rate of depreciation as in the past calculating depreciation to the nearest multiple of a Rupee. **(4 Marks)**

2. (a) Mr. Roy was unable to agree the Trial Balance last year and wrote off the difference to the Profit and Loss Account of that year. Next Year, he appointed a Chartered Accountant who examined the old books and found the following mistakes:

(1) Purchase of a scooter was debited to conveyance account Rs. 3,000.
(2) Purchase account was over-cast by Rs. 10,000.
(3) A credit purchase of goods from Mr. P for Rs. 2,000 entered as a sale.
(4) Receipt of cash from Mr. A was posted to the account of Mr. B Rs. 1,000.
(5) Receipt of cash from Mr. C was posted to the debit of his account, Rs. 500.
(6) Rs. 500 due by Mr. Q was omitted to be taken to the trial balance.
(7) Sale of goods to Mr. R for Rs. 2,000 was omitted to be recorded.
(8) Amount of Rs. 2,395 of purchase was wrongly posted as Rs. 2,593.

Mr. Roy used 10% depreciation on vehicles. Suggest the necessary rectification entries. **(10 Marks)**

2. (b) According to the cash book of Gopi, there was a balance of Rs. 44,50,000 in his bank on 30th June, 2019. On investigation you find that:

   (i) Cheques amounting to Rs. 6,00,000 issued to creditors have not been presented for payment till the date.
   (ii) Cheques paid into bank amounting to Rs. 11,05,000 out of which cheques amounting to Rs. 5,50,000 only collected by the bank up to 30th June 2019.
   (iii) A dividend of Rs. 40,000 and rent amounting to Rs. 6,00,000 received by the bank and entered in the passbook but not recorded in the cash book.
   (iv) Insurance premium (up to 31st December, 2019 paid by the bank Rs. 27,000 not entered in the cash book.
   (v) The payment side of the cash book had been under casted by Rs. 5,000.
   (vi) Bank charges Rs. 1,500 shown in the passbook had not been entered in the cash book.
   (vii) A bill payable of Rs. 2,00,000 had been paid by the bank but was not entered in the cash book and bill receivable for Rs. 60,000 had been discounted with the bank at a cost of Rs. 1,000 which had also not been recorded in cash book.

   Required:

   (a) To make the appropriate adjustments in the cash book, and
   (b) To prepare a statement reconciling it with the bank passbook. **(5 Marks)**

2. (c) Submarine Ltd. keeps no stock records but a physical inventory of stock is made half yearly and the valuation is taken at cost. The company's year ends on 31st March, 2021 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2021 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2021 with the stock figure as on 30th September, 2020 and some other information is available to you:

   (i) The cost stock on 30th September, 2020 as shown by the inventory sheet was Rs. 2,40,000.
   (ii) On 30th September, stock sheet showed the following discrepancies:
      (a) A page total of Rs.15,000 had been carried to summary sheet as Rs. 16,000.
      (b) The total of a page had been undercast by Rs. 600.
   (iii) Invoice of purchases entered in the Purchase Book during the quarter from October, 2020 to March, 2021 totaled Rs. 2,10,000. Out of this Rs. 9,000 related to goods received prior to 30th September, 2020. Invoices entered in April, 2021 relating to goods received in March, 2021 totaled Rs. 12,000.
   (iv) Sales invoiced to customers totaled Rs. 2,70,000 from September, 2020 to March, 2021. Of this Rs. 15,000 related to goods dispatched before 30th September, 2020. Goods dispatched to customers before 31st March, 2021 but invoiced in April, 2021 totaled Rs. 12,000.
   (v) During the final quarter, credit notes at invoice value of Rs. 3,000 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, 2021. **(5 Marks)**

3. (a) On 1st January, 2020, Kamal's account in Vimal's ledger showed a debit balance of Rs. 15,000. The following transactions took place between Vimal and Kamal during the quarter ended 31st March, 2020:

2020			**Rs.**
Jan	11	Vimal sold goods to Kamal	18,000
Jan.	24	Vimal received a promissory note form Kamal due after 3 months	15,000
Feb.	01	Kamal sold goods to Vimal	30,000
Feb.	04	Vimal sold goods to Kamal	24,600
Feb.	07	Kamal returned goods to Vimal	3,000
March	01	Kamal sold goods to Vimal	16,800
March	18	Vimal sold goods to Kamal	27,600
March	23	Kamal sold goods to Vimal	12,000

Accounts were settled on 31st March, 2020 by means of a cheque. Prepare an Account Current to be submitted by Vimal to Kamal as on 31st March, 2020, taking interest into account @ 10% per annum. Calculate interest to the nearest multiple of a rupee. **(5 Marks)**

3.(b) Ms. Madhu has supplied goods on sale or return basis to customers, the particulars of which are as under.

Date of dispatch	Party's name	Amount Rs.	Remarks
01.03.2020	M/s. Piya	20,000	Awaiting approval from customers as on 31.03.2020
08.03.2020	M/s. Riya	25,000	Returned on 16.03.2020
15.03.2020	M/s. Ciya	24,000	Goods worth Rs. 4,000 returned on 20.03.2020
19.03.2020	M/s. Diya	22,500	Goods accepted on 24.03.2020
25.03.2020	M/s. Tiya	18,250	Good accepted on 28.03.2020
30.03.2020	M/s. Bhavya	23,000	Awaiting approval from customers as on 31.03.2020

Goods are sent on the terms of 10 days return window from the date of dispatch, failing which it will be treated as sales. The books of Madhu are closed on the 31st March, 2020.
Prepare the following accounts in the books of Madhu.
(a) Goods on "sales or return, sold and returned day books."
(b) Goods on sales or return total account. **(5 Marks)**

3. (c) D of Delhi appointed A of Agra as his selling agent on the following terms:
Goods to be sold at invoice price or over.
A to be entitled to a commission of 7.5% on the invoice price and 20% of any surplus price realized over invoice price.
The principles to draw on the agent a 30 days bill for 80% of the invoice price.
On 1st February, 2020, 1,000 cycles were consigned to A, each cycle costing Rs. 640 including freight and invoiced at Rs. 800.
Before 31st March, 2020, (when the principal's books are closed) A met his acceptance on the due date; sold off 820 cycles at an average price of Rs. 930 per cycle, the sale expenses being Rs. 12,500; and remitted the amount due by means of Bank draft.
Twenty of the unsold cycles were shop-spoiled and were to be valued at a depreciation of 50% of cost.
Show by means of ledger accounts how these transactions would be recorded in the books of A and find out the value of closing inventory with A to be recorded in the books of D at cost.
(10 Marks)

4. (a) From the following particulars extracted from the books of Ganguli, prepare trading and profit and loss account and balance sheet as at 31st March, 2020 after making the necessary adjustments:

	Rs.		Rs.
Ganguli's capital account (Cr.)	5,40,500	Interest received	72,500
Stock on 1.4.2019	2,34,000	Cash with Traders Bank Ltd.	40,000
Sales	14,48,000	Discounts received	14,950
Sales return	43,000	Investments (at 5%) as on 1.4.2019	25,000
Purchases	12,15,500	Furniture as on 1-4-2019	9,000
Purchases return	29,000	Discounts allowed	37,700
Carriage inwards	93,000	General expenses	19,600
Rent	28,500	Audit fees	3,500
Salaries	46,500	Fire insurance premium	3,000
Sundry debtors	1,20,000	Travelling expenses	11,650
Sundry creditors	74,000	Postage and telegrams	4,350
Loan from Dena Bank Ltd. (at 12%)	1,00,000	Cash in hand	1,900
Interest paid	4,500	Deposits at 10% as on 1-4-2019 (Dr.)	1,50,000
Printing and stationery	17,000	Drawings	50,000
Advertisement	56,000		

Adjustments:
(1) Value of stock as on 31st March, 2020 is Rs. 3,93,000. This includes goods returned by customers on 31st March, 2020 to the value of Rs. 15,000 for which no entry has been passed in the books.
(2) Purchases include furniture purchased on 1st January, 2020 for Rs. 10,000.
(3) Depreciation should be provided on furniture at 10% per annum.

(4) The loan account from Dena bank in the books of Ganguli appears as follows:

	Rs.		Rs.
31.3.2020 To Balance c/d	1,00,000	1.4.2019 By Balance b/d 31.3.2020 By Bank	50,000 50,000
	1,00,000		1,00,000

(5) Sundry debtors include Rs. 20,000 due from Robert and sundry creditors include Rs. 10,000 due to him.

(6) Interest paid include Rs. 3,000 paid to Dena bank.

(7) Interest received represents Rs. 1,000 from the sundry debtors and the balance on investments and deposits.

(8) Provide for interest payable to Dena bank and for interest receivable on investments and deposits.

(9) Make provision for doubtful debts at 5% on the balance under sundry debtors. No such provision need to be made for the deposits. **(10 Marks)**

4.(b) The following is the Receipts and Payments Account of Lion Club for the year ended 31st March, 2020.

Receipts	Rs.	Payments	Rs.
Opening balance:		Salaries	1,20,000
Cash	10,000	Creditors	15,20,000
Bank	3,850	Printing and stationary	70,000
Subscription received	2,02,750	Postage	40,000
Entrance donation	1,00,000	Telephones and telex	52,000
Interest received	58,000	Repairs and maintenance	48,000
Sale of assets	8,000	Glass and table linen	12,000
Miscellaneous income	9,000	Crockery and cutlery	14,000
Receipts at		Garden upkeep	8,000
Coffee room	10,70,000	Membership fees	4,000
Soft drinks	5,10,000	Insurance	5,000
Swimming pool	80,000	Electricity	28,000
Tennis court	1,02,000	Closing balance:	
		Cash	8,000
		Bank	2,24,600
	21,53,600		21,53,600

The assets and liabilities as on 1.4.2019 were as follows:

	Amount (Rs.)
Fixed assets (net)	5,00,000
Stock	3,80,000
Investment in 12% Government Securities	5,00,000
Outstanding subscription	12,000
Prepaid insurance	1,000
Sundry creditors	1,12,000
Subscription received in advance	15,000
Entrance donation received pending membership	1,00,000
Gratuity fund	1,50,000

The following adjustments are to be made while drawing up the accounts:

(i) Subscription received in advance as on 31st March, 2020 was Rs. 18,000.

(ii) Outstanding subscription as on 31st March, 2020 was Rs. 7,000.

(iii) Outstanding expenses are salaries Rs. 8,000 and electricity Rs. 15,000.

(iv) 50% of the entrance donation was to be capitalized. There was no pending membership as on 31st March, 2020.

(v) The cost of assets sold net as on 1.4.2019 was Rs. 10,000.

(vi) Depreciation is to be provided at the rate of 10% on assets.

(vii) A sum of Rs. 20,000 received in October 2019 as entrance donation from an applicant was to be refunded as he has not fulfilled the requisite membership qualifications. The refund was made on 3.6.2016.

(viii) Purchases made during the year amounted Rs. 15,00,000.

(ix) The value of closing stock was Rs. 2,10,000.

(x) The club as a matter of policy, charges off to income and expenditure account all purchases made on account of crockery, cutlery, glass and linen in the year of purchase.

You are required to prepare an Income and Expenditure Account for the year ended 31st March, 2020 and the Balance Sheet as on 31st March, 2020 along with necessary workings. **(10 Marks)**

5. (a) Enter the following transactions in Sales Book of M/s. Pranat Engineers Ltd., Delhi.

2020

Jan. 2. Sold to M/s. Ajanta Electricals, Delhi 5 pieces of Ovens @ Rs. 6,000/- each less Trade discount @ 10%

8 Sold to M/s. Ajanta Electricals Plaza, 10 pieces to Tablets @ Rs. 8,000/- each less trade discount 5%.

15 Sold to M/s. Haryana Traders, 5 pieces of Juicers @ Rs. 3,500/- each less trade discount @ 10%. **(5 Marks)**

5. (b) (i) Antoo, Bantoo and Chintoo were in partnership sharing profits and losses 3:4:3 respectively. The accounts of the firm are made up to 31st March every year. The partnership provided, interalia, that on the retirement of a partner the goodwill was to be valued at three years' purchase of average profits of the past four years up to the date of the retirement after deducting interest @ 12% p.a. on capital employed and remuneration of Rs. 2,000 p.m. to each partner. On 1st April 2020, Antoo retired and it was agreed on his retirement to adjust goodwill in the capital accounts without showing any amount of goodwill in the Balance Sheet. It was agreed that the capital employed would be Rs. 6,50,000. Bantoo and Chintoo were to continue the partnership, sharing profits and losses equally after the retirement of Antoo. The following were the amounts of profits of earlier years before charging salary to partners and interest on capital employed.

Year	Profit
2016-17	2,60,000
2017-18	2,75,000
2018-19	2,65,000
2019-20	2,80,000

You are required to compute the value of goodwill and show the adjustment thereof in the books of the firm. **(5 Marks)**

OR

(ii) Mr. Pankaj runs a factory which produces motor spares of export quality. The following details were obtained about his manufacturing expenses for the year ended on 31.3.2020.

			Rs.
W.I.P.	- Opening		3,90,000
	- Closing		5,07,000
Raw Materials	- Purchases		12,10,000
	- Opening		3,02,000
	- Closing		3,10,000
	- Returned		18,000
	- Indirect material		16,000
Wages	- direct		2,10,000
	- indirect		48,000
Direct expenses	- Royalty on production		1,30,000
		- Repairs and maintenance	2,30,000
		- Depreciation on factory shed	40,000
		- Depreciation on plant & machinery	60,000
By – product at Selling price			20,000

You are required to prepare Manufacturing Account of Mr. Pankaj for the year ended on 31.3.2020. **(5 Marks)**

5. (c) Gopal and Govind are partners sharing profits and losses in the ratio 60:40. The firm's balance sheet as on 31.03.2020 was as follows:

Liabilities	**Rs.**	**Assets**	**Rs.**
Capital accounts:			
Gopal	1,20,000	Fixed assets	3,00,000
Govind	80,000	Investments	50,000
Long term loan	2,00,000	Current assets	2,00,000
Current liabilities	2,50,000	Loans and advances	1,00,000
	6,50,000		6,50,000

Due to financial difficulties, they have decided to admit Guru as partner in the firm from 01.04.2020 on the following terms:

Guru will be paid 40% of the profits.

Guru will bring in cash Rs. 1,00,000 as capital. It is agreed that goodwill of the firm will be valued at 2 years' purchase of 3 years' normal average profits of the firm and Guru will bring in cash his share of goodwill. It was also decided that the partners will not withdraw their share of goodwill nor will the goodwill appear in the books of account.

The profits of the previous three years were as follows:

For the year ended 31.3.2018; profit Rs. 20,000 (includes insurance claim received of Rs. 40,000).

For the year ended 31.3.2019; loss Rs. 80,000 (includes voluntary retirement compensation paid Rs. 1,10,000).

For the year ended 31.3.2020; profit of Rs. 1,05,000 (includes a profit of Rs. 25,000 on the sale of assets).

It was decided to revalue the assets on 31.3.2020 as follows:

	Rs.
Fixed assets (net)	4,00,000
Investments	Nil
Current assets	1,80,000
Loans and advances	1,00,000

The new profit sharing ratio after the admission of Guru was 35:25:40.

Pass journal entries on admission, show goodwill calculation and prepare revaluation account, partners' capital accounts and balance sheet as on 01.04.2020 after the admission of Guru.

(10 Marks)

6. (a) Daniel Ltd. invited applications for issuing 1,00,000 equity shares of Rs. 20 each.

The amounts were payable as follows:

On application	- Rs. 6 per share
On allotment	- Rs. 10 per share
On first and final call	- Rs. 4 per share

Applications were received for 1,50,00 shares and pro-rata allotment was made to all the applicant. Money overpaid on application was adjusted towards allotment money. X, who was allotted 3,000 shares, failed to pay the first and final call money. His shares were forfeited. Out of the forfeited shares, 2,500 shares were reissued as fully paid-up @ Rs. 16 per share.

Pass necessary Journal entries to record the above transactions in the books of Daniel Ltd.

(10 Marks)

6. (b) On 1 January 2020 Pigeon Ltd. issued 12% debentures of the face value of Rs. 40,00,000 at 10% discount. Debenture interest after deducting tax at source @ 10% was payable on 30th June and 31st December every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium.

Pass necessary journal entries for the accounting year 2020. **(5 Marks)**

6. (c) Write short notes on any two of the following:

(i) Double entry system.

(ii) Importance of bank reconciliation to an industrial unit.

(iii) Bill of exchange and the various parties to it.

(iv) Retirement of bills of exchange. **(5 Marks)**

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