CA - FOUNDATION

PRINCIPLES AND PRACTICE ACCOUNTING

SERIES – 1

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CA FOUNDATION
PRINCIPLES AND PRACTICE OF ACCOUNTING
SERIES - 1

Time : 3 Hours | **M. Marks: 100**
(100% Course) | **Date : 10.04.2023**
Vol.: 27 & 28 | **(JUNE - 2024)**

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Questions 1 is compulsory.
Attempt any 4 from the remaining

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1(a) State with reasons whether the following statements are True or False: **2×6 = 12**

(i) Legal fees to acquire property is Capital Expenditure.

(ii) Abnormal amounts of wasted materials, labour or other production overheads expenses are included in the costs of inventories.

(iii) Imprest system is part of single column cash Book.

(iv) Expenses in connection with obtaining a license for running the cinema is Capital Expenditure.

(v) Useful Life of Asset can be measured in Time Only.

(vi) The rationale behind the opening of a suspense account is to tally the trial balance.

(b) Write short notes on the following: **4**
Fundamental Accounting Assumptions.

(c) Give journal entries (with narrations) to rectify the following errors located in the books of a Trader after preparing the Trial Balance: **4**

(i) An amount of ₹ 4,500 received on account of Interest was credited to Commission account.

(ii) A sale of ₹ 2,760 was posted from Sales Book to the Debit of M/s Sobhag Traders at ₹2,670

(iii) ₹35,000 paid for purchase of Air conditioner for the personal use of proprietor debited to Machinery A/c.

(iv) Goods returned by customer for ₹ 5,000. The same have been taken into stock but no entry passed in the books of accounts.

2(a) M/s Kedar, Profit and loss account showed a net profit of ₹ 8,00,000, after considering the closing stock of ₹ 7,50,000 on 31st March, 2017. Subsequently the following information was obtained from scrutiny of the books: **8**

(i) Purchases for the year included ₹ 30,000 paid for new electric fittings for the shop.

(ii) M/s Kedar gave away goods valued at ₹ 80,000 as free samples for which no entry was made in the books of accounts.

(iii) Invoices for goods amounting to ₹ 5,00,000 have been entered on 27th March, 2017, but the goods were not included in stock.

(iv) In March, 2017 goods of ₹ 4,00,000 sold and delivered were taken in the sales for April, 2017.

(v) Goods costing ₹ 1,50,000 were sent on sale or return in March, 2017 at a margin of profit of 33-1/3% on cost. Though approval was given in April, 2017 these were taken as sales for March, 2017.

You are required to determine the adjusted net profit for the year ended on 31.3.2017 and calculate the value of stock on 31st March, 2017.

(b) The following are the balances as at 31st March, 2017 extracted from the books of Mr. XYZ. **12**

	₹		₹
Plant and Machinery	19,550	Bad debts recovered	450
Furniture and Fittings	10,250	Salaries	22,550
Bank Overdraft	80,000	Salaries payable	2,450
Capital Account	65,000	Prepaid rent	300
Drawings	8,000	Rent	4,300
Purchases	1,60,000	Carriage inward	1,125
Opening Stock	32,250	Carriage outward	1,350
Wages	12,165	Sales	2,15,300
Provision for doubtful	3,200	Advertisement Expenses	3,350
Provision for Discount on		Printing and Stationery	1,250
debtors	1,375	Cash in hand	1,450
Sundry Debtors	1,20,000	Cash at bank	3,125
Sundry Creditors	47,500	Office Expenses	10,160
Bad debts	1,100	Interest paid on loan	3,000

Additional Information:

1. Purchases include sales return of ₹ 2,575 and sales include purchases return of ₹ 1,725.
2. Goods withdrawn by Mr. XYZ for own consumption ₹ 3,500 included in purchases.
3. Wages paid in the month of April for installation of plant and machinery amounting to ₹ 450 were included in wages account.
4. Free samples distributed for publicity costing ₹ 825.
5. Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
6. Depreciation is to be provided on plant and machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.

7. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2017 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2017, and a Balance Sheet as on that date. Also show the rectification entries.

3(a) On 30th Sept. 2018 my Cash Book (Bank Column of Account No. 1) shows a Bank Overdraft of Rs. 49,350. Ongoing through the Bank Pass book for reconciling the Balance, I found the following: **10**

(a) Out of cheques drawn on 26th Sept, those for Rs. 3,700 were cashed by the bankers on 2nd October.

(b) A crossed cheque for Rs. 750 given to Abdul was returned by him and a bearer cheque was issued to him in lieu on 1st Oct.

(c) Cash and cheques amounting to Rs. 3,400 were deposited in the Bank on 29th Sept., but cheques worth Rs. 1,300 were cleared by the Bank on 1st Oct., and one cheque for Rs. 250 was returned by them as dishonoured on the latter date.

(d) According to my standing instructions, the bankers have on 30th Sept, paid Rs. 320 as interest to my creditors, paid quarterly premium on my policy amounting to Rs. 160 and have paid a second call of Rs. 600 on shares held by me and lodged with the bankers for safe custody. They have also received Rs. 150 as dividend on my shares and recovered an Insurance Claim of Rs. 800, as their charges and commission on the above being Rs. 15. On receipt of information of the above transaction, I have passed necessary entries in my Cash Book on 1st Oct.

(e) My bankers seem to have given me a wrong credit for Rs. 500 paid in by me in No. 2 account and wrong debit in respect of a cheque for Rs. 300 drawn against my No. 2 account.

Prepare a Bank Reconciliation Statement as on 30th September, 2018.

(b) Mr. B accepted a bill for ₹ 10,000 drawn on him by Mr. A on 1st August, 2017 for 3 months. This was for the amount which B owed to A. On the same date Mr. A got the bill discounted at his bank for ₹ 9,800. **5**

On the due date, B approached A for renewal of the bill. Mr. A agreed on condition that ₹2,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance B should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2017, B became insolvent and his estate paid 40%.

Prepare Journal Entries in the books of Mr. A

(c) A company issued 12% debentures of the face value of ₹10,00,000 at 10% discount on 1-1-2017. Debenture interest after deducting tax at source @ 10% was payable on 30th June and 31st of December every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium. **5**

Pass journal entries for the accounting year 2020.

OR

(c) Mr. Aman is running a business of readymade garments. He does not maintain his books of accounts under double entry system. While assessing the income of Mr. Aman for the financial year 2018-19, Income Tax Officer feels that he has not disclosed the full income earned by him from his business. He provides you the following information: **5**

On 31st March, 2018	
Sundry Assets	₹16,65,000
Liabilities	₹4,13,000
On 31st March, 2019	
Sundry Assets	₹28,40,000
Liabilities	₹5,80,000
Mr. Aman's drawings for the year 2018-19	₹32,000 per month
Income declared to the Income Tax Officer	₹9,12,000

During the year 2018-19, one life insurance policy of Mr. Aman was matured and amount received ₹ 50,000 was retained in the business. State whether the Income Tax Officer's contention is correct. Explain by giving your working.

4(a) **A, B, C and D has been carrying on business in Partnership, sharing Profit and Losses in the ratio 3 : 2 : 1 : 1. They decide to dissolve the Partnership on the basis of the following** **15**

Balance Sheet as on 31st March

Equity & Liabilities	Rs	Assets	Rs
Capital A/c:		Premises	1,20,000
- A 1,00,000		FurnitureStock	40,000
- B 60,000	1,60,000	Debtors	1,00,000
General Reserve	56,000	Cash	40,000
Capital Reserve	14,000	Capital Overdrawn:	8,000
Sundry Creditors	20,000	C 10,000	
Mortgage Loan	80,000	D 12,000	
		Total	22,000
Total	**3,30,000**		**3,30,000**

Other Information:

1. Assets realized as under: (a) Debtors- Rs24,000, (b) Stock-in-Trade – Rs60,000, (c) Furniture – Rs16,000, and (d) Premises Rs90,000.
2. Expenses of Dissolution amounted to Rs4,000. Further Creditors of Rs12,000 had to be met.

You are required to draw up the Realization A/c, Partners Capital A/c and the Cash A/c assuming that C became insolvent and nothing was realized from his private Estate. Apply the principles laid down in garner v/s Murray.

(b) Libra Limited recently made a public issue in respect of which the following information is available: **5**

(a) No. of partly convertible debentures issued- 2,00,000; face value and issue price 100 per debenture.

(b) Convertible portion per debenture- 60%, date of conversion- on expiry of 6 months from the date of closing of issue.

(c) Date of closure of subscription lists- 1.5.20X1, date of allotment- 1.6.20X1, rate of interest on debenture- 15% payable from the date of allotment, value of equity share for the purpose of conversion- 60 (Face Value 10).

(d) Underwriting Commission- 2%.

(e) No. of debentures applied for- 1,50,000.
(f) Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 20X2 (including cash and bank entries).

5(a) M/s. JP Wires Co. purchased a second-hand machine on 1st January, 2017 for Rs. 3,20,000. Overhauling and erection charges amounted to Rs. 80,000. **10**

Another machine was purchased for Rs. 1,60,000 on 1st July, 2017.

On 1st July, 2019, the machine installed on 1st January, 2017 was sold for Rs. 1,60,000. Another machine amounted to Rs. 60,000 was purchased and was installed on 30th September, 2019.

Under the existing practice the company provides depreciation @ 20% p.a. on original cost. However, from the year 2020 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2017 to 2020.

(b) Aarav, Nirav and Purav are partners sharing profits and losses in the ratio of 3:2:1 **10**

Their Balance Sheet as on 31st March 2020 was as follows:

BALANCE SHEET AS ON 31st March 2020

Liabilities	₹	**Assets**	₹
Capital: Aarav	80,000	Building	50,000
Nirav	50,000	Machinery	67,500
Purav	35,000	Debtors	65,000
General Reserve	60,000	Stock	80,000
Trade Creditors	50,000	Cash in hand	12,500
	2,75,000		2,75,000

Purav retired from the business on 1st April 2020 on the following terms:

1. Goodwill was to be valued at 2 years purchase of average profit of past 3 years.
   31st March 2018 Rs. 39,000
   31st March 2019 Rs. 50,000
   31st March 2020 Rs. 55,000
2. Goodwill was not to be raised in the books of accounts.
3. RDD was to be created on debtors at 5%.
4. Machinery is to be depreciated by 10% and stock is revalued at Rs. 71,000.
5. Building to be appreciated by 20%.
6. Aarav and Nirav to bring in additional capital of Rs. 35,000 and Rs.25,000 respectively.
7. Balance payable to Purav must be paid immediately.

You are required to prepare:

1. Revaluation account
2. Partners capital accounts.
3. Bank account.
4. Balance Sheet after retirement.

6(a) From the following information relating to Mukta Social Club, you are required to prepare: **15**

(a) An Income and Expenditure Account (including profit or loss on bar) for the year ended 31st March 2011; and
(b) A Balance Sheet at that date.

(i) A summary of cash book for the year 2010-2011 is as follows:

	₹		₹
Bank balance	8,360	Bar supplies	1,34,610
Annual subscriptions	36,680	Bar wages	10,990
Bar takings	1,53,920	Salaries and wages	13,650
Hire of rooms	1,460	Office expenses	4,240
Income from investments	3,150	Lighting and heating	3,720
Sale of investments	3,280	Rates and insurance	2,870
		Miscellaneous expenses	3,030
		Investments	14,000
		Furniture (purchased on 01.10.2010)	9,000
		Bank balance	10,740
	2,06,850		2,06,850

(ii) The balance at bank on 1st April, 2010 represented ₹ 3,360 on current account and ₹ 5,000 on deposit account. All the receipts shown in the above summary were paid into the Current Account except for₹ 510 deposit account interest (included in income from investment) and all payments were made from the Current Account.

During 2010-2011, ₹ 3,000 were transferred from the Current Account to the Deposit Account.

(iii) The following items were outstanding on 31st March:

	31.03.2010 ₹	31.03.2011 ₹
Subscriptions in arrears	790	980
Salaries and wages accrued	330	410
Creditors for bar supplies	12,170	13,250
Stock of stationery (included in office expenses)	560	650
Subscription in advance	140	260
Telephone bill outstanding (included in expenses)	290	370
Electricity charges unpaid	310	440
Debtors for bar sales	120	490
Outstanding repairs account (included miscellaneous expenses)	90	530
Bar wages accrued	210	230
Stock of coal	400	570
Rates and insurance prepaid	620	730
Stock of bar supplies	14,220	19,890

(iv) At March 31, 2010, the club owned the following assets which are shown at cost. On March 31, 2010, they had been in the ownership of the club for the number of years indicated:

	₹	₹
Freehold premises	60,000	12 years
Furniture	10,000	12 years
Furniture	8,000	5 years
Investments	30,000	4 years

(v) The club is providing for the depreciation on freehold premise at 2.5% per annum and on furniture at 10% per annum both rates being calculated on original cost.

(b) Sidharatha Trading Co. Ltd. has an Authorized Capital of ₹ 16,00,000 divided in to : **5**

20,000 6% Preference Shares of Rs. 10 each

40,000 7% Preference Shares of Rs. 10 each; and

30,000 Equity Shares of Rs. 10 each.

On 1st January, 2011, the whole of the two classes of preference shares and 30,000 equity shares stood in the books as fully paid. The securities premium account as on that date showed at balance of Rs. 40,000. The balance of profit was Rs. 64,000. On 1st July, 2011 is was decided to redeem the whole of 6% preference shares at a premium of Rs. 1 per share and for this specific purpose, the company issued for cash 16,000 equity shares of Rs. 10 each at a premium of Rs. 2 per share, payable full on allotment. All the above shares were taken up. The cost of issue of shares amounted to Rs. 6,000 adjusted by security premium account. On 1st October, 2011, the company issued to all equity shareholders one bonus shares of Rs. 10 fully paid for each five held. It is the intention of the directors that minimum reduction should be made in revenue reserve account which stood at Rs. 2,50,000.

Give necessary journal entries.

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