



Course: CA Foundation

Paper: Accounts

Test: Prelim

Marks: 100

Time Allowed: 3 Hours

**Question No. 1 is compulsory.**

**Attempt any four questions from the remaining five questions.**

**Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.**

**Working Notes should form part of the answer.**

**Q1) Answer the following:**

a) State with reasons, whether the following statements are true or false:

- (i) Overhauling expenses for the engine of motor car to get better fuel efficiency is revenue expenditure.
- (ii) Depreciation is a non-cash expense and does not result in any cash outflow.
- (iii) Fees received for Life Membership is a revenue receipt as it is of recurring nature.
- (iv) If Closing Stock appears in the Trial Balance:  
The closing inventory is then not entered in Trading Account. It is shown only in the balance sheet.
- (v) If the bank column is showing the opening balance on credit side, it is an overdraft.
- (vi) Profit under single entry system is always correct and accurate.

**Marks 12**

b) Classify each of the following transactions into capital or revenue transactions:

- Complete repair of existing building.
- Installation of a new central heating system.
- Repainting of a delivery van.
- Providing drainage for a new piece of water-extraction equipment.

**Marks 4**

c) X purchased a machinery on 1st January 2017 for Rs. 4,80,000 and spent Rs. 20,000 on its installation. On July 1, 2017 another machinery costing Rs. 2,00,000 was purchased. On 1st July, 2018 the machinery purchased on 1st January, 2017 having become scrapped and was sold for Rs. 2,90,000 and on the same date fresh machinery was purchased for Rs. 5,00,000. Depreciation is provided annually on 31st December at the rate of 10% p.a. on written down value. Prepare Machinery account for the years 2017 and 2018.

**Marks 4**

**Q2) Answer the following:**

a) On 30th September, 2019, the bank account of Neel, according to the bank column of the Cash- Book, was overdrawn to the extent of Rs. 8,124. On the same date the bank statement showed a debit balance of Rs. 41,516 in favour of Neel. An examination of the Cash Book and Bank Statement reveals the following:

1. A cheque for Rs. 26,28,000 deposited on 29th September, 2019 was credited by the bank only on 3rd October, 2019
2. A payment by cheque for Rs. 32,000 has been entered twice in the Cash Book.
3. On 29th September, 2019, the bank credited an amount of Rs. 2,34,800 received from a customer of Neel, but the advice was not received by Neel until 1st October, 2019.
4. Bank charges amounting to Rs. 1,160 had not been entered in the Cash Book.
5. On 6th September, 2019, the bank credited Rs. 40,000 to Neel in error.
6. A bill of exchange for Rs. 2,80,000 was discounted by Neel with his bank. This bill was dishonoured on 28th September, 2019 but no entry had been made in the books of Neel.
7. Cheques issued upto 30th September, 2019 but not presented for payment upto that date totalled Rs. 26,52,000.

You are required:

- (a) to show the appropriate rectifications required in the Cash Book of Neel, to arrive at the correct balance on 30th September, 2019 and
- (b) to prepare a bank reconciliation statement as on that date.

**Marks 10**

b) Smith Library Society showed the following position on 31st March, 2019:  
Balance Sheet as on 31st March, 2019

Liabilities	Rs.	Assets	Rs.
Capital fund	7,93,000	Electrical fittings	1,50,000
Expenses payable	7,000	Furniture	50,000
		Books	4,00,000
		Investment in securities	1,50,000
		Cash at bank	25,000
		Cash in hand	<u>25,000</u>
	<u>8,00,000</u>		<u>8,00,000</u>

The receipts and payment account for the year ended on 31st March, 2020 is given below:

	Rs.		Rs.
To Balance b/d		By Electric charges	7,200
Cash at bank      25,000		By Postage and stationary	5,000
Cash in hand <u>25,000</u>	50,000	By Telephone charges	5,000
To Entrance fee	30,000	By Books purchased	60,000
To Membership subscription	2,00,000	By Outstanding expenses paid	7,000
To Sale proceeds of old papers	1,500	By Rent	88,000
To Hire of lecture hall	20,000	By Investment in securities	40,000
To Interest on securities.	8,000	By Salaries	66,000
		By Balance c/d	
		Cash at bank	20,000
		Cash in hand	<u>11,300</u>
	<u>3,09,500</u>		<u>3,09,500</u>

You are required to prepare income and expenditure account for the year ended 31st March, 2020 after making the following adjustments:

Membership subscription included Rs. 10,000 received in advance. Provide for outstanding rent Rs. 4,000 and salaries Rs. 3,000.

Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.

75% of the entrance fees is to be capitalized.

Interest on securities is to be calculated @ 5% p.a. including purchases made on 1.10.2019 for Rs. 40,000.

**Marks 10**

**Q3) Answer the following:**

a) Mr. Anup runs a wholesale business where in all purchases and sales are made on credit. He furnishes the following closing balances:

	31 <sup>st</sup> March 2021	31 <sup>st</sup> March 2022
Sundry debtors	70,000	92,000
Bills receivable	15,000	6,000
Bills payable	12,000	14,000
Sundry creditors	40,000	56,000
Inventory	1,10,000	1,90,000
Bank	90,000	87,000
Cash	5,200	5,300

Summary of cash transactions during the year 2021- 2022:

- (i) Deposited to bank after payment of shop expenses @ Rs. 600 p.m., salary @ Rs. 9,200 p.m. and personal expenses @ Rs. 1,400 p.m. Rs. 7,62,750.
- (ii) Cash Withdrawn from bank Rs. 1,21,000.
- (iii) Cash payment to suppliers Rs. 77,200 for supplies and Rs. 25,000 for furniture.
- (iv) Cheques collected from customers but dishonoured Rs. 5,700.
- (v) Bills accepted by customers Rs. 40,000.
- (vi) Bills endorsed Rs. 10,000.
- (vii) Bills discounted Rs. 20,000, discount Rs. 750.
- (viii) Bills matured and duly collected Rs. 16,000.
- (ix) Bills accepted Rs. 24,000.
- (x) Paid suppliers by cheque Rs. 3,20,000.
- (xi) Received Rs. 20,000 on maturity of one LIC policy of the proprietor by cheque.
- (xii) Rent received Rs. 14,000 by cheque for the premises owned by proprietor.
- (xiii) A building was purchased on 30-11-2021 for opening a branch for Rs. 3,50,000 and some expenses were incurred on this building, details of which are not maintained.
- (xiv) Electricity and telephone bills paid by cash Rs. 18,700, due Rs. 2,200.

**Other transactions:**

- (i) Claim against the firm for damage Rs. 1,55,000 is under legal dispute. Legal expenses Rs. 17,000. The firm anticipates defeat in the suit.
- (ii) Goods returned to suppliers Rs. 4,200.
- (iii) Goods returned by customers Rs. 1,200.
- (iv) Discount offered by suppliers Rs. 2,700.
- (v) Discount offered to the customers Rs. 2,400.
- (vi) The business is carried on at the rented premises for an annual rent of Rs. 20,000 which is outstanding at the year end.

Prepare Trading and Profit & Loss Account of Mr. Anup for the year ended 31st March 2022 and Balance Sheet as on that date. **Marks 20**

**Q4) Answer the following:**

a) Miss Daisy was unable to agree the Trial Balance last year and wrote off the difference to the profit and loss account of that year. On verifying the old books by a Chartered Accountant next year, the following mistakes were found.

- (i) Purchase account was undercast by Rs.8,000.
- (ii) Sale of goods to Mr. Rahim for Rs.2,500 was omitted to be recorded.
- (iii) Receipt of cash from Mr. Asok was posted to the account of Mr. Anbu Rs.1,200.
- (iv) Amount of Rs. 4,167 of sales was wrongly posted as Rs.4,617.
- (v) Repairs to Machinery was debited to Machinery Account Rs.1,800.
- (vi) A credit purchase of goods from Mr. Paul for Rs. 3,000 entered as sale.

Suggest the necessary rectification entries.

**Marks 10**

b) Stock taking of XYZ Stores for the year ended 31st March, 2019 was completed by 10th April, 2019, the valuation of which showed a stock figure of Rs. 1,67,500 at cost as on the completion date. After the end of the accounting year and till the date of completion of stock taking, sales for the next year were made for Rs. 6,875, profit margin being 33.33 percent on cost. Purchases for the next year included in the stock amounted to Rs.

9,000 at cost less trade discount 10 percent. During this period, goods were added to stock of the mark-up price of Rs. 300 in respect of sales returns. After stock taking it was found that there were certain very old slow moving items costing Rs. 1,125 which should be taken at Rs. 525 to ensure disposal to an interested customer. Due to heavy floods, certain goods costing Rs. 1,550 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be Rs. 1,250 on 31st March, 2019.

You are required to calculate the value of stock for inclusion in the final accounts for the year ended 31st March, 2019. Closing stock is valued by XYZ Stores on generally accepted accounting principles. **Marks 5**

c) Journalise the following transactions in K. Katrak's books.

- (i) Katrak's acceptance to Basu for Rs. 2,500 discharged by a cash payment of Rs. 1,000 and a new bill for the balance plus Rs. 50 for interest.
- (ii) G. Gupta's acceptance for Rs. 4,000 which was endorsed by Katrak to M. Mehta was dishonoured. Mehta paid Rs. 20 noting charges. Bill withdrawn against cheque.
- (iii) D. Dalal retires a bill for Rs. 2,000 drawn on him by Katrak for Rs.10 discount.
- (iv) Katrak's acceptance to Patel for Rs. 5,000 and Mody's acceptance to Katrak for a similar amount were duly discharged.

**Marks 5**

**Q5) Answer the following:**

a) Dalal, Banerji and Mallick are partners in a firm sharing profits and losses in the ratio 2:2:1. Their Balance Sheet as on 31st March, 2022 is as below:

Liabilities		Rs.	Assets	Rs.
Trade payables		12,850	Land and Buildings	25,000
Outstanding Liabilities		1,500	Furniture	6,500
General Reserve		6,500	Inventory of goods	11,750
Capital Account :			Trade receivables	5,500
Mr. Dalal	12,000		Cash in hand	140
Mr. Banerji	12,000		Cash at Bank	960
Mr. Mallick	5,000	29,000		
		49,850		49,850

The partners have agreed to take Mr. Mistri as a partner with effect from 1st April, 2022 on the following terms:

- (1) Mr. Mistri shall bring Rs. 5,000 towards his capital.
- (2) The value of Inventory should be increased by Rs. 2,500 and Furniture should be depreciated by 10%.
- (3) Reserve for bad and doubtful debts should be provided at 10% of the Trade receivables.
- (4) The value of land and buildings should be enhanced by 20%.
- (5) The value of the goodwill be fixed at Rs. 15,000.
- (6) General Reserve will be transferred to the Partners' Capital Accounts.
- (7) The new profit sharing ratio shall be: Mr. Dalal 5/15, Mr. Banerji 5/15, Mr. Mallick 3/15 and Mr. Mistri 2/15.

The outstanding liabilities include Rs. 1,000 due to Mr. Sen which has been paid by Mr. Dalal. Necessary entries were not made in the books.

Prepare (i) Revaluation Account, (ii) The Capital Accounts of the partners, (iii) Balance Sheet of the firm after admission of Mr. Mistri. **Marks 12**

b) On 1st April, 2017, Pehal Ltd. issued 64,500 shares of Rs. 100 each payable as follows:

Rs. 30 on application, Rs. 30 on allotment, Rs. 20 on 1st October, 2017; and Rs. 20 on 1st February, 2018. By 20th May, 60,000 shares were applied for and all applications were accepted. Allotment was made on 1st June. All sums due on allotment were received on 15th July; those on 1st call were received on 20th October.

You are required to prepare the Journal entries to record the transactions when accounts were closed on 31 st March, 2018.

**Marks 8**

**Q6) Answer the following:**

**a) Pass Journal Entries in the following circumstances:**

- (i) A Limited company with subscribed capital of Rs. 5,00,000 consisting of 50,000 Equity shares of Rs. 10 each; called up capital Rs. 7.50 per share. A bonus of Rs. 1,25,000 declared out of General Reserve to be applied in making the existing shares fully paid up.
- (ii) A Limited company having fully paid up capital of Rs. 50,00,000 consisting of Equity shares of Rs. 10 each, had General Reserve of Rs. 9,00,000. It was resolved to capitalize Rs. 5,00,000 out of General Reserve by issuing 50,000 fully paid bonus shares of Rs. 10 each, each shareholder to get one such share for every ten shares held by him in the company.

**Marks 5**

**b) 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 (Rs. )	Credit (Rs. )
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 the 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 Building	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	
<b>Total</b>	<b>30,73,400</b>	<b>30,73,400</b>

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 for the following:

- (a) Depreciate Building by 5%, Furniture and Fixtures by 10%, Office Equipment by 15% and Motor Car by 20%.
- (b) Value of stock at the close of the year was Rs. 4,10,000.
- (c) One month rent for godown is outstanding.
- (d) Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2017
- (e) Provision for bad debts is to be maintained at 5% of Sundry debtors.
- (f) Insurance premium includes Rs. 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.

**Marks 15**