

**CA Foundation Test 1****Chapters – Basics, BRS, Depreciation & Capital Revenue****Total Marks – 50****Time – 2 hours****Question 1** State whether the following statements are true or false with proper reasons:

- a. Amount paid to Management company for consultancy to reduce the working expenses is capital expenditure if the reduced working expenses will generate long term benefits to the entity.
- b. “Salary paid in advance” is not an expense because it neither reduces assets nor increases liabilities.
- c. Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
- d. The value of human resources is generally shown as assets in the Balance Sheet.
- e. The debit notes issued are used to prepare Sales Return Book.

**[2 marks \* 5 = 10 | .5 for correct T or F & 1.5 for proper reason]****Question 2** Classify the following expenditures as capital or revenue expenditure:

- (i) Amount spent on making a few more exists in a Cinema Hall to comply with Government orders.
- (ii) Travelling expenses of the directors for trips abroad for purchase of capital assets.
- (iii) Amount spent to reduce working expenses.
- (iv) Amount paid for removal of stock to a new site.
- (v) Cost of repairs on second-hand car purchased to bring it into working condition.

**[1 marks \* 5 = 5 | .5 for correct identification & .5 for proper reason]**

**Question 3**

On 30th November, 2018, the Cash Book of Mr. Hari showed an overdrawn position of ₹ 4,480 although his Bank Statement showed only ₹ 3,200 overdrawn. An examination of the two records showed the following errors:

- (i) The debit side of the Cash Book was undercast by ₹ 400.
- (ii) A cheque for ₹ 1,600 in favour of Y suppliers Ltd. was omitted by the bank from the statement, the cheque was debited to another customer's Account.
- (iii) A cheque for ₹ 172 drawn for payment of telephone bill was recorded in the Cash Book as ₹ 127 but was shown correctly in the Bank Statement.
- (iv) A cheque for ₹ 425 from Mr. Pal paid into bank was dishonoured and shown as such on the Bank Statement, although no entry relating to the dishonoured cheque was made in the Cash Book.
- (v) The Bank had debited a cheque for ₹ 150 to Mr. Hari's Account by mistake, it should have been debited by them to Mr. Kar's Account.
- (vi) A dividend of ₹ 100 was collected by the bank but not entered in the Cash Book.
- (vii) Cheques totalling ₹ 1,300 drawn on November was not presented for payment.
- (viii) Cheque for ₹ 1,200 deposited on 30th November was not credited by the Bank.
- (ix) Interest amounting to ₹ 300 was debited by the Bank but yet to be entered in the Cash Book.

You are required to prepare a Bank Reconciliation Statement on 30<sup>th</sup> November, 2018.

**[10 marks | 1 for format & 1 for each adjustment]**

**Question 4**

M/s. Green Channel purchased a second-hand machine on 1st January, 2015 for ₹ 1,60,000. Overhauling and erection charges amounted to ₹ 40,000. Another machine was purchased for ₹ 80,000 on 1<sup>st</sup> July, 2015. On 1st July, 2017, the machine installed on 1st January, 2015 was sold for ₹ 1,00,000. Another machine amounted to ₹ 30,000 was purchased and was installed on 30<sup>th</sup> September, 2017.

Under the existing practice the company provides depreciation @ 10% p.a. on original cost. However, from the year 2018 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2015 to 2018.

**[10 marks | 1 for format, 3 for workings & 2 for each year's account]**

**Question 5**

A Plant & Machinery costing ₹ 10,00,000 is depreciated on straight line assuming 10 year working life and zero residual value, for four years. At the end of the fourth year, the machinery was revalued upwards by ₹ 40,000. The remaining useful life was reassessed at 8 year. Calculate Depreciation for the fifth year.

**[5 marks | 2 for Book value as per current estimates & 3 for new depreciation]**

**Question 6**

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

1. A cheque for ₹ 26,28,000 deposited on 29th September, 2019 was credited by the bank only on 3rd October, 2019
2. A payment by cheque for ₹ 32,000 has been entered twice in the Cash Book.
3. On 29th September, 2019, the bank credited an amount of ₹ 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 ₹ 1,160 had not been entered in the Cash Book.
5. On 6th September, 2019, the bank credited ₹ 40,000 to Neel in error.
6. A bill of exchange for ₹ 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 ₹ 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.

**[10 marks | 5 for Adjusted Cash book & 5 for BRS]**