CA FOUNDATION NOV'19

SUBJECT- ACCOUNTS

Test Code – CFN 9217

(Date :)

(Marks - 100)

Question No. **1** is compulsory.

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

QUESTION NO.1

A. State with reasons whether the following statements are True or False:

a. Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.

b. 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.

c. When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with calls in arrear of shares forfeited.

d. Accrual concept implies accounting on cash basis.

e. The debit notes issued are used to prepare Sales Return Book.

f. In Account Current, Red Ink Interest is treated as negative interest.

(6 Statements x 2 Marks = 12 Marks)

B. Explain Cash and Mercantile system of accounting. **(4 Marks)**

C. Classify the following errors under the three categories – Errors of Omission, Errors of Commission and Errors of Principle.

a. Sale of furniture credited to Sales Account.

b. Purchase worth Rs. 500 from M not record in subsidiary books.

c. Credit sale wrongly passed through the Purchase Book.

d. Machinery sold on credit to Mohan record in Journal Proper but omitted to be posted.

e. Goods worth Rs. 5000 purchased on credit from Ram recorded in the Purchase Book as Rs. 500. **(4 Marks)**

QUESTION NO.2

A. On 30th September, 2017, 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 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, 2017 was credited by the bank only on 3rd October, 2017

2. A payment by cheque for Rs. 32,000 has been entered twice in the Cash Book.

3. On 29th September, 2017, 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, 2017.

4. Bank charges amounting to Rs. 1,160 had not been entered in the Cash Book.

5. On 6th September, 2017, 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, 2017 but no entry had been made in the books of Neel.

7. Cheques issued upto 30th September, 2017 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, 2017 and

(b) to prepare a bank reconciliation statement as on that date.

(10 Marks)

B. Anil draws a bill of Rs. 90,000 on Sanjay on 1st April, for 3 months. After Sanjay's acceptance, Anil discounts it with his Bank for Rs. 88,200 and remits 1/3rd of the amount to Sanjay. On the due date, Anil fails to remit has amount due to Sanjay, but he accepts a bill for Rs. 1,26,000 for 3 months, which Sanjay discounts for Rs. 1,23,300 and remits Rs. 22,200 to Anil.

Before the maturity of the new bill, Anil becomes insolvent and only 40% was realized from his estate on 15th October. **Pass necessary Journal Entries in the books of Anil.**

(10 Marks)

QUESTION NO.3

A. Gagan of Mumbai consigns 2,000 cases of goods costing Rs. 1,000 each to Kumar of Chennai. Gagan pays the following expenses in connection with consignment:

	Rs.
Carriage	20,000
Freight	60,000
Loading charges	20,000

Kumar sells 1,400 cases at Rs. 1,400 per case and incurs the following expenses:

Clearing charges	17,000
Warehousing and storage	34,000
Packing and selling expenses	12,000

It is found that 100 cases have been lost in transit and 200 cases are still in transit.

Kumar is entitled to a commission of 10% on gross sales. **<u>You are required to prepare the Consignment Account and Kumar's Account in the books of Gagan</u>**.

(10 Marks)

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

a. Purchases for the year included Rs. 30,000 paid for new electric fittings for the shop.

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

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

d. In March, 2017 goods of Rs. 4,00,000 sold and delivered were taken in the sales for April, 2017.

e. Goods costing Rs. 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.

<u>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</u>.

(10 Marks)

QUESTION NO.4

Smith Library Society showed the following position on 31st March, 2018:

Balance Sheet as on 31st March, 2018

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	25,000
	8,00,000		8,00,000

The receipts and payment account for the year ended on 31st March, 2019 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 25,000	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	11,300
	3,09,500		3,09,500

You are required to prepare income and expenditure account for the year ended 31 st March, 2019 and a balance sheet as at 31st, March, 2019 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 1.10.2018 for Rs. 40,000.

(20 Marks)

QUESTION NO.5

A. The Balance Sheet of a Partnership Firm M/s AB & Co consisted of two partners A and B who were sharing Profits and Losses in the ratio of 5 : 3 respectively. The position as on 31 -03-2018 was as follows:

Liabilities	*Rs.*	*Assets*	*Rs.*
A's Capital	4,10,000	Land & Building	3,80,000
B's Capital	3,30,000	Plant & Machinery	1,70,000
Profit & Loss *A/c*	1,12,000	Furniture	1,09,480
Trade Creditors	54,800	Stock	1,45,260
		Sundry debtors	60,000
		Cash at Bank.	42,060
	9,06,800		9,06,800

On the above date, C was admitted as a partner on the following terms:

(a) C should get 1/5th of share of profits.

(b) C brought Rs. 2,40,000 as his capital and Rs. 32,000 for his share of Goodwill.

(c) Plant and Machinery would be depreciated by 15% and Land & Buildings would be appreciated by 40%.

A provision for doubtful debts to be created at 5% on sundry debtors.

An unrecorded liability of Rs. 6,000 for repairs to Buildings would be recorded in the books of accounts.

(d) Immediately after C's admission, Goodwill brought by him would be adjusted among old partners. Thereafter, the capital accounts of old partners would be adjusted through the current accounts of partners in such a manner that the capital accounts of all the partners would be in their profit sharing ratio.

Prepare Revaluation A/c, Capital Accounts of the partners, New profit sharing ratio and Balance Sheet of the Firm after the admission of C.

(10 Marks)

B. The trial balance of Kumar as at 31st December, 2017 is as follows:

	Dr.	Cr.
	Rs.	Rs.
Kumar's capital account	-	38,345
Stock 1st January, 2017	23,400	-
Sales	-	1,94,800
Returns inward	4,300	-
Purchases	1,60,850	-
Returns outward	-	2,900
Carriage inwards	9,800	-
Rent & taxes	2,350	-
Salaries & wages	4,650	-
Sundry debtors	12,000	-
Sundry creditors	-	7,400
Bank loan @ 14% p.a.	-	10,000
Bank interest	550	-
Printing and stationary expenses	7,200	-
Bank balance	4,000	-
Discount earned	-	2,220
Furniture & fittings	2,500	-
Discount allowed	900	-
General expenses	5,725	-
Insurance	650	-
Postage & telegram expenses	1,165	-
Cash balance	190	-
Travelling expenses	435	-
Drawings	15,000	-
	2,55,665	2,55,665

The following adjustments are to be made:

(1) Provision for bad and doubtful debts be created at 5% and for discount @ 2% on sundry debtors.

(2) Personal purchases of Kumar amounting to Rs. 300 had been recorded in the purchases day book.

(3) Depreciation on furniture & fittings @ 10% shall be written off.

(4) Included amongst the debtors is Rs. 1,500 due from Dyal and included among the creditors Rs. 500 due to him.

(5) A quarter of the amount of printing and stationary expenses is to be carried forward to the next year.

(6) Credit purchase invoice amounting to Rs. 200 had been omitted from the books.

(7) Stock on 31.12.2017 was Rs. 39,300.

(8) Interest on bank loan shall be provided for the whole year.

<u>You are required to prepare Trading & profit and loss account for the year ended 31.12.2017</u>.

(10 Marks)

QUESTION NO.6

A. Ekamranath Ltd. had issued 50,000 Equity Share of Rs. 50 each at a discount of Rs. 4 per share, the amount payable as Rs. 25 on Application, Rs. 6 on Allotment, Rs. 10 on First Call and Rs. 5 on Second Call. Applications were received for all the Shares. The Company had made the allotment to all applicants and calls made on the due dates.

The company received all amounts except the following –

- First Call – on 1,200 Shares. (These were forfeited before making the Second Call)
- Second Call – On 2,000 shares. (These were forfeited after making the Second Call)

3,000 of the Forfeited Shares (including the 1,200 Shares forfeited at First Call Stage) were re – issued at Rs. 15 per share.

You are required to pass Journal Entries in the Company's Books, for the above.

(10 Marks)

B. Pihu Ltd. issued 50,00,000, 9% debentures of Rs. 100 each at a discount of 10% redeemable at par at the end of 10th year. Money was payable as follows :

Rs. 40 on application

Rs. 50 on allotment

<u>Record necessary journal entries regarding issue of debenture</u>.

(5 Marks)

OR

On 1st January, 2018, X's account in Y's ledger showed a debit balance of Rs. 5,000. The following transactions took place between Y and X during the quarter ended 31st March, 2018:

2018			Rs.
Jan.	11	Y sold goods to X	6,000
Jan.	24	Y received a promissory note from X due after 3 months	5,000
Feb.	01	X sold goods to Y	10,000
Feb.	04	Y sold goods to X	8,200
Feb.	07	X returnd goods to Y	1,000
March	01	X sold goods to Y	5,600
March	18	Y sold goods to X	9,200
March	23	X sold goods to Y	4,000

Accounts were settled on 31st March, 2018 by means of a cheque. Prepare an Account Current to be submitted by Y to X as on 31st March, 2018, taking interest into account @ 10% per annum (Product method)

Calculate interest to the nearest multiple of a rupee.

(5 Marks)

C. Explain, in brief, the basic considerations for distinguishing between capital and revenue expenditures? **(5 Marks)**

OR

What are the rules of posting of journal entries into the Ledger? Explain in brief.

(5 Marks)