VIDYA SAGAR
CAREER INSTITUTE LIMITED

Foundation Major Test – 1 (Series -3) Nov - 20
"Principles and Practice of Accounting"

Time : 3 Hours | **Maximum Marks: 100**
Course : 100% | **Date : 14.09.2020**

Questions 1 is compulsory, attempt any 4 from the remaining

1(a) **State with reasons whether the following statements are True or False:** **2x6 = 12**

(i) Accounting can be viewed as an information system which has its input processing methods and output.
(ii) Depreciation is a non-cash expense and does not result in any cash outflow.
(iii) Re-issue of forfeited shares is allotment of shares but not a sale.
(iv) There are two ways of preparing an account current.
(v) Valuation of inventory, at cost or net realizable value, whichever less, is based on principle of Conservatism.
(vi) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.

1(b) Distinguish between Money measurement concept and matching concept. **4**

1(c) Prepare Journal Entries for the following transactions in the books of Gamma Bros. **4**

(i) Employees had taken stock worth Rs. 10,000 (Cost price Rs. 7,500) on the eve of Deepawali and the same was deducted from their salaries in the subsequent month.
(ii) Wages paid for erection of Machinery Rs. 8,000.
(iii) Income tax liability of proprietor Rs. 1,700 was paid out of petty cash.
(iv) Purchase of goods from Naveen of the list price of Rs. 2,000. He allowed 10% trade discount, Rs. 50 cash discount was also allowed for quick payment.

2(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 ₹ 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: **10**

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.

2(b) A, B and C are partners in a firm sharing profits and losses as 8:5:3. Their balance sheet as at 31st December, 2018 was as follows: **10**

	Rs.		Rs.
Sundry creditors	1,50,000	Cash	40,000
General reserve	80,000	Bills receivable	50,000
Partners' loan accounts:		Sundry debtors	60,000
A	40,000	Stock	1,20,000
B	30,000	Fixed assets	2,80,000
Partners' capital accounts:			
A	1,00,000		
B	80,000		
C	70,000		
	5,50,000		**5,50,000**

From 1st January, 2019 they agreed to alter their profit-sharing ratio as 5:6:5. It is also decided that:

(a) the fixed assets should be valued at Rs. 3,31,000;

(b) a provision of 5% on sundry debtors to be made for doubtful debts;

(c) the goodwill of the firm at this date be valued at three years' purchase of the average net profits of the last five years before charging insurance premium; and

(d) the stock be reduced to Rs. 1,12,000.

There is a joint life insurance policy for Rs. 2,00,000 for which an annual premium of Rs. 10,000 is paid, the premium being charged to profit and loss account.

The surrender value of the policy on 31st December, 2018 was Rs. 78,000.

The net profits of the firm for the last five years were Rs. 14,000, Rs. 17,000, Rs. 20,000, Rs. 22,000 and Rs. 27,000.

Goodwill and the surrender value of the joint life policy was not to appear in the books.

Draft journal entries necessary to adjust the capital accounts of the partners and prepare the revised balance sheet.

3(a) On 1.1.2018, Mr. Jill of Mumbai consigned to Mr. Jack of Chennai goods for sale at invoice price. Mr. Jack is entitled to a commission of 5% on sales at invoice price and 20% of any surplus price realized over and above the invoice price. Goods costing ₹ 1,00,000 were consigned to Chennai at the invoice price of ₹ 1,50,000. The direct expenses of the consignor amounted to ₹ 10,000. On 31.3.2018, an account sales was received by Mr. Jill from Mr. Jack showing that he had effected sales of ₹ 1,20,000 in respect of 4/5th of the quantity of goods consigned to him. His actual expenses were ₹ 3,000. Mr. Jack accepted a bill drawn by Mr. Jill for ₹ 1,00,000 and remitted the balance due in cash. **10**

You are required to prepare the consignment account and the account of Mr. Jack in the books of Mr. Jill.

(b) A, B and C entered into partnership on 1.1.2017 to share profits and losses in the ratio of 5 : 3 : 2. A personally guaranteed that C's share of profit after charging interest on capitals at 5% p.a. would not be less than ₹ 30,000 in any year. Capitals of A, B and C were ₹ 3,20,000, ₹ 2,00,000 and ₹ 1,60,000 respectively. **5**

Profits for the year ending 31.12.2017 before providing for interest on partners capital was ₹ 1,59,000.

You re required to prepare the Profit and Loss Appropriation Account.

(c) 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.

Or

(c) From the following details calculate the average due date: **5**

Date of Bill	Amount (Rs.)	Usance of Bill
28th January, 2018	5,000	1 month
20th March, 2018	4,000	2 months
12th July, 2018	7,000	1 month
10th August, 2018	6,000	2 months

4(a) On 1st April, 2017, A Ltd. issued 43,000 shares of Rs. 100 each payable as follows: **10**

Rs. 20 on application;

Rs. 30 on allotment;

Rs. 25 on 1st October, 2017; and

Rs. 25 on 1st February, 2018.

By 20th May, 40,000 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. Journalise the transactions when accounts were closed on 31st March, 2018.

4(b) 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. **10**

(i) Purchase account was undercast by ₹ 8,000.

(ii) Sale of goods to Mr. Rahim for ₹ 2,500 was omitted to be recorded.

(iii) Receipt of cash from Mr. Asok was posted to the account of Mr. Anbu ₹ 1,200.

(iv) Amount of ₹ 4,167 of sales was wrongly posted as ₹ 4,617.

(v) Repairs to Machinery was debited to Machinery Account ₹ 1,800.

(vi) A credit purchase of goods from Mr. Paul for ₹ 3,000 entered as sale.

Suggest the necessary rectification entries.

5(a) M/s Kedar, Profit and loss accountshowed 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: 5

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

(ii) 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.

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

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

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.

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.

5(b) Mr. B accepted a bill for Rs. 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 Rs. 9,800. **5**

On the due date, B approached A for renewal of the bill. Mr. A agreed on condition that Rs. 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

5(c) The balance sheet of Mittal on 1st January, 2018 was as follows: **10**

Liabilities	**Amount₹**	**Assets**	**Amount₹**
Trade payables	16,00,000	Plant & Machinery	31,00,000
Expenses payable	2,50,000	Furniture & Fixture	4,00,000
Capital	51,00,000	Trade receivables	14,50,000
		Cash at bank	7,00,000
		Inventories	13,00,000
	69,50,000		69,50,000

During 2018, his profit and loss account revealed a net profit of ₹ 15,10,000. This was after allowing for the following:

(i) Interest on capital @ 6% p.a.

(ii) Depreciation on plant and machinery @ 10% p.a. and on Furniture and Fixtures @ 5% p.a..

(iii) A provision for Doubtful debts @ 5% of the trade receivables as at 31st December 2018.

But while preparing the profit and loss account he had forgotten to provide for

(1) outstanding expenses totalling ₹ 1,85,000 and

(2) prepaid insurance to the extent of ₹ 25,000.

His current assets and liabilities on 31st December, 2018 were:

Trade receivables ₹ 21,00,000; Cash at bank ₹ 5,20,000 and Trade payables ₹ 13,84,000. During the year he withdrew ₹ 6,20,000 for domestic use. Closing inventories is equal to net trade receivables at the year-end.

You are required to draw up revised Profit and Loss account and Balance Sheet at the end of the year.

6(a) The Receipts and Payments account of Trustwell Club prepared on 31 st March, 2018 is as follows: **15**

Receipts and Payments Account

Receipts	₹	Amt.	Payments	Amt.
To Balance b/d		450	By Expenses (including payment for sports material ₹ 2700)	6,300
To Annual Income from Subscription	4590		By Loss on sale of Furniture	
Add: Outstanding of last year received this year	180		Cost price ₹ 450	180
	4770		By Balance c/d	90,450
Less: Prepaid of last year	90	4680		
To Other fees		1,800		
To Donation for Building		90,000		
		96,930		**96,930**

Additional information:

Trustwell club had balances as on 1.4.2017 : -
Furniture ₹ 1,800; Investment at 5% ₹ 27,000; Sports material ₹ 6,660;
Balance as on 31.3.2018 : Subscription Receivable ₹ 270;
Subscription received in advance ₹ 90;
Stock of sports material ₹ 1,800.

Do you agree with above Receipts and Payments account? If not, prepare correct Receipts and Payments account and Income and Expenditure account for the year ended 31st March, 2018 and Balance Sheet on that date.

6(b) From the following prepare an account current, as sent by Avinash to Bhuvanesh on 31st March, 2018 by means of products method charging interest @ 5% per annum: **5**

Date	Particulars	Amount (₹)
2018 January 1	Balance due from Bhuvanesh	1,800
January 10	Sold goods to Bhuvanesh	1,500
January 15	Bhuvanesh returned goods	650
February 12	Bhuvanesh paid by cheque	1,000
February 20	Bhuvanesh accepted a bill Drawn by Avinash for one month	1,500
March 11	Sold goods to Bhuvanesh	720
March 14	Received cash from Bhuvanesh	800

Write you following details on answers sheet and mail id before sending your answer sheet.

Name : ________________ ***Ph :*** ___________________ ***e-mail :*** ________________________ ***City :*** ____________

12th % ________________ **10th %** _________________

e-mail id for submit your answer sheet : vsifounov20guest@gmail.com