

## **Paper 2- Fundamentals of Accounting**

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Full Marks: 100

Time allowed: 3 hours

**Section - A**

I. Choose the correct answer from the given four alternatives: [6×1=6]

1. Accounting function does not include
  - (a) Recording
  - (b) Classification
  - (c) Staffing
  - (d) Summarization
2. Example to Nominal Account
  - (a) Machinery A/c
  - (b) Bank A/c
  - (c) Discount A/c
  - (d) Supplier ABC Ltd
3. A Trial Balance shows
  - (a) Honesty of accountants
  - (b) Only Arithmetical accuracy of accounts
  - (c) Accuracy of account
  - (d) None of the above
4. The Cash book records
  - (a) All cash receipts
  - (b) All cash payments
  - (c) All cash receipts and payments
  - (d) None of the above
5. Bank reconciliation statement shows the reconciliation of
  - (a) Cash Book and Bank Pass book balances
  - (b) Pass Book
  - (c) Subsidiary Book
  - (d) None of the above
6. Depreciation refers to the process of
  - (a) Asset Re-Valuation
  - (b) Allocation of Cost of the Asset over the period of its life
  - (c) Verification of Asset
  - (d) Increasing the value of asset

**Solution:**

1. — (c)
2. — (c)
3. — (b)
4. — (c)
5. — (a)
6. — (b)

II. State whether the following statements are True (or) False: [6×1=6]

## Answer to MTP\_Foundation\_Syllabus 2012\_Dec2016\_Set 1

1. Under Diminishing balance (WDV) method, the depreciation of an asset decreases every year.
2. Bill of Exchange is prepared to reconcile the Bank balance as per Pass book with Cash Book
3. Receipts and Payments account shows the financial position of a Non-trading concern.
4. Delcredere commission is paid to the consignee for increasing the Cash sales.
5. Final accounts are prepared at the end of the accounting year.
6. Capital is equal to Assets – Liabilities.

**Solution:**

1. True;
2. False;
3. False;
4. False;
5. True;
6. True.

**III. Journalize the following transactions:**

**[3×2=6]**

1. Bought Machinery for ₹ 50,000 with Cash.
2. Rent received ₹ 10,000.
3. Cash drawn by the Proprietor for personal use ₹ 20,000.

**Solution:**

	Particulars	L. F	Dr. Amount ₹	Cr. Amount ₹
1.	Machinery A/c Dr. To, Cash A/c (Being machinery bought for cash)		50,000	50,000
2.	Cash A/c Dr. To, Rent A/c (Being rent received)		10,000	10,000
3.	Drawings A/c Dr. To, Cash A/c (Being cash drawn by proprietor for personal use)		20,000	20,000

**IV. Fill in the blanks:**

**[6×2=12]**

1. \_\_\_\_\_ is the difference between Sales and Cost of Sales.
2. Balance Sheet is prepared to know \_\_\_\_\_ of the organization at the end of the year.
3. Incomplete records of accounting system is also known as \_\_\_\_\_.
4. Cash Account is \_\_\_\_\_ type of account.
5. Credit Purchases is recorded in \_\_\_\_\_ book.
6. In Income and Expenditure account Subscriptions received for the year is shown under \_\_\_\_\_ side.

**Solution:**

1. Profit 'or' loss

## Answer to MTP\_Foundation\_Syllabus 2012\_Dec2016\_Set 1

2. Financial Position
3. Single Entry
4. Real Account
5. (Subsidiary book) purchase
6. Credit (income)

**V. Match the following**

[6×1=6]

	Column 'A'		Column 'B'
1.	Patents and Copy Rights	A	Income
2.	Land	B	Current Liability
3.	Interest Received	C	Fixed Asset
4.	Bank Overdraft	D	Trading Account - Credit
5.	Closing Stock	E	Current Asset
6.	Sundry Debtors	F	Intangible assets

**Solution:**

	Column 'A'		Column 'B'
1.	Patents and Copy Rights	F	Intangible asset
2.	Land	C	Fixed Asset
3.	Interest Received	A	Income
4.	Bank Overdraft	B	Current Liability
5.	Closing Stock	D	Trading Account – Credit
6.	Sundry Debtors	E	Current Asset

**VI. Answer any three questions. Each question carries 8 marks.**

[3×8=24]

1. Prepare Three Column Cash Book from the following transactions:

In the books of Mr. Abhishek

January 1 - Opening cash balance was ₹ 3,800 and bank balance was ₹ 27,500

January 4 - Wages paid in cash ₹ 1,500

January 5 - Received cheque of ₹19,800 from KBK enterprises after allowing discount of ₹ 200

January 7 - Paid to consultancy charges by cheque for ₹ 7,500

January 10 - Cash of ₹ 2,500 withdrawn from bank

January 12 - Received a cheque for ₹ 4,500 in full settlement of the account of Mr. X at a discount of 10% and deposited the same into the Bank.

January 15 - X's cheque returned dishonored by the Bank.

**Solution:**

In the books of Mr. abhishek

Cash Book

Dr.						Cr.					
Date	Particulars	L. F	Cash	Bank	Discount Allowed	Date	Particulars	L. F	Cash	Bank	Discount Received
1 <sup>st</sup> Jan	To Balance b/d		3,800	27,500	--	4 <sup>th</sup> Jan	By Wages A/c		1,500	--	--
5 <sup>th</sup> Jan	To KBK enterprise		--	19,800	200	7 <sup>th</sup> Jan	By Consultancy fees A/c		--	7,500	--
10 <sup>th</sup> Jan	To Bank	'c'	2,500	--	--	10 <sup>th</sup> Jan	By Cash	'c'	--	2,500	--

## Answer to MTP\_Foundation\_Syllabus 2012\_Dec2016\_Set 1

12nd Jan	To Mr. 'X'		--	4,500	500	15 <sup>th</sup> jan	By Mr. 'X'		--	4,500	500
			--	--	--	15 <sup>th</sup> Jan	By Balance c/d		4,800	37,300	--
			<b>6,300</b>	<b>51,800</b>					<b>6,300</b>	<b>51,800</b>	
16 <sup>th</sup> Jan	To Balance b/d		4,800	37,300	--						

2. On 25<sup>th</sup> April Bhagavan sold goods for ₹13,000 to Lakshman and drew upon him a bill of exchange for 3 months for the same amount. Lakshmana accepted the bill and sent the same to Bhagavan. Bhagava endorsed the bill in favour of his creditor Raman. On the due date the bill was dishonored and Raman paid ₹90 as noting charges. Pass the necessary journal entries in the books of Bhagava.

**Solution:**

### Journal entries in the books of Bhagavan

Date	Particulars	L. F	Dr. Amount ₹	Cr. Amount ₹
April 25 <sup>th</sup>	Lakshman A/c Dr. To Sales A/c (Being goods sold on credit)		13,000	13,000
April 25 <sup>th</sup>	Bills Receivable A/c Dr. To Lakshman A/c (Being 3 <sup>rd</sup> months acceptance received)		13,000	13,000
April 25 <sup>th</sup>	Raman A/c Dr. To Bills Receivable A/c (Being the bill endorsed)		13,000	13,000
July – 28 <sup>th</sup>	Lakshman A/c Dr. To Ramana A/c (Being endorsed bill dishonoured with noting charges)		13,090	13,090

3. On 1<sup>st</sup> January 2012 Siva & Co purchased a second hand machinery for ₹ 34,000 and spent ₹6,000 on its repairs and installed the same. On 31<sup>st</sup> December 2014 the machinery was sold for ₹ 26,000. The books are closed on 31<sup>st</sup> December every year. Depreciation is provided @ 10% p.a. on Reducing balance method. Show the machinery A/c.

**Solution:**

### Machinery Account

Dr.				Cr.			
Date	Particulars	L. F	Amount ₹	Date	Particulars	L. F	Amount ₹
2012 1 <sup>st</sup> Jan	To Cash A/c		40,000	2012 31 <sup>st</sup> Dec	By Depreciation A/c By Balance c/d		4,000 36,000
			<b>40,000</b>				<b>40,000</b>
2013 1 <sup>st</sup> Jan	To Balance b/d		36,000	2013 31 <sup>st</sup> Dec.	By Depreciation A/c $\left(36,000 \times \frac{10}{100}\right)$		3,600
				"	By Balance c/d		32,400
			<b>36,000</b>				<b>36,000</b>
2014 1 <sup>st</sup> Jan	To Balance b/d		32,400	2014 31 <sup>st</sup>	By Depreciation A/c		3,240

## Answer to MTP\_Foundation\_Syllabus 2012\_Dec2016\_Set 1

				Dec	$\left( 32,400 \times \frac{10}{100} \right)$		
				"	By Cash /Bank A/c		26,00
				"	By P & L A/c (Loss)		3,160
			<b>32,400</b>				<b>32,400</b>

4. On 31<sup>st</sup> December 2012, a club had subscription in arrears of ₹ 16,000 and in advance ₹4,000. During the year ended 31-12-2013, the club received subscription of ₹ 2,08,000 of which ₹10,400 was related to 2014. On 31<sup>st</sup> December 2013, there were 4 members who had not paid subscription for 2013 @ ₹1,600 per person. Write up Subscription Account for the year 2013.

Answer:

### Subscription Account (2013)

Dr.

Cr.

Date	Particulars	L. F	Amount ₹	Date	Particulars	L. F	Amount ₹
2013 1 <sup>st</sup> Jan	To Balance b/d (Arrear)		16,000	2013 1 <sup>st</sup> Jan	By Balanced b/d (Adv)		4,000
31 <sup>st</sup> Dec.	To Income & Expenditure A/c		1,92,000	31 <sup>st</sup> Dec.	By receipts & Payment A/c (rec.)		2,08,000
31 <sup>st</sup> Dec.	To Balance c/d (Adv.)		10,400	31 <sup>st</sup> Dec.	By balance c/d (Arrear)		6,400
			<b>2,18,400</b>				<b>2,18,400</b>
	To balance b/d		6,400		By balance b/d		10,400

5. From the following particulars, prepare Final Accounts

Debit Balances	₹	Credit Balances	₹
Opening Stock	1,100	Capital	25,000
Purchases	10,500	Sales	7,000
Machinery	10,000	Purchase Returns	1,000
Carriage	1,000	Discount Received	1,000
Rent	1,200	Interest Received	1,500
Advertisement Expenses	800		
Customs Duty	500		
Bad Debts	600		
Debtors	2,000		
Insurance	800		
Carriage Outwards	400		
Salaries	900		
Trade Expenses	700		
Investments	5,000		
	<b>35,500</b>		<b>35,500</b>

Adjustments:

- (a) Closing stock ₹ 6,000.
- (b) Prepaid insurance ₹ 200.
- (c) Outstanding salaries ₹ 600.
- (d) Accrued Interest ₹ 500.

Answer:

### Trading and Profit & Loss Account for the year ended

Dr.

Cr.

Debit Balances	₹	Credit Balances	₹
To Opening Stock A/c	1,100	By Sales	7,000

## Answer to MTP\_Foundation\_Syllabus 2012\_Dec2016\_Set 1

To Purchases	10,500		By Closing stock A/c	6,000
To (-) Purchases returns	<u>1,000</u>	9,500		
To Carriage A/c		1,000		
To Gross Profit c/d		1,400		
		<b>13,000</b>		<b>13,000</b>
To Rent A/c		1,200	By Gross profit b/d	1,400
To Trade expenses A/c		700	By Discount received	1,000
To Advertisement Expenses A/c		800	By interest	1,500
To Customs Duty A/c		500	(+) O/s interest	<u>500</u>
To Bad Debts A/c		600		2,000
To Insurance	800		By Net loss (transferred to capital)	1,900
(-) Prepaid insurance	<u>200</u>	600		
To Carriage Outwards A/c		400		
To Salaries	900			
(+) O/s Salaries	<u>600</u>	1,500		
		6,300		6,300

### Balance Sheet

Liabilities		₹	Assets	₹
Capital	25,000		Machinery	10,000
(-) Net Loss	<u>1,900</u>	23,100	Debtors	2,000
O/s salary		600	Investments	5,000
			Prepaid insurance	200
			Closing Stock	6,000
			Accrued interest	500
		23,700		23,700

### Section - B

- I. Choose the correct answer from the given four alternatives: [6×1=6]
1. Irrespective of level of output Variable Cost Per Unit is:
    - (a) Fixed
    - (b) Variable
    - (c) Semi-Fixed
    - (d) Semi-Variable
  2. The Cost of Opportunity foregone is called
    - (a) Historical Cost
    - (b) Sunk Cost
    - (c) Avoidable Cost
    - (d) Opportunity Cost
  3. Wages paid for no work is done is called
    - (a) Idle time wages
    - (b) Overtime Wages
    - (c) Bonus
    - (d) Incentive
  4. A worker is paid ₹ 0.50 per unit and he produces 18 units in 7 hours. Keeping in view the piece rate system, the total wages of the worker would be:
    - (a)  $18 \times 0.50 = ₹ 9$
    - (b)  $18 \times 7 = ₹ 126$
    - (c)  $7 \times 0.5 = ₹ 3.50$
    - (d)  $18 \times 7 \times 0.50 = ₹ 63$

## Answer to MTP\_Foundation\_Syllabus 2012\_Dec2016\_Set 1

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5. A firm sells bags for ₹14 each, the variable cost for each unit is ₹8. What is the contribution margin per unit?
- (a) ₹ 6  
(b) ₹ 12  
(c) ₹ 14  
(d) ₹ 8
6. Example for Semi-Variable Expenses
- (a) Landline Telephone Bill  
(b) Rent of Office Building  
(c) Depreciation of Machine  
(d) Direct Material Cost

**Solution:**

1. — (a)
2. — (d)
3. — (a)
4. — (a)
5. — (a)
6. — (a)

**II. Fill in the blanks:**

**[6×1=6]**

1. Material, Labour and Expenses are known as \_\_\_\_\_ of Cost.
2. Direct Material Cost+ Direct Labour Cost+ Direct Expenses = \_\_\_\_\_.
3. At break-even point the profit will be \_\_\_\_\_.
4. Costing is a Technique and Process of \_\_\_\_\_.
5. To ascertain the Cost Per Unit of a Product, we should prepare the statement of \_\_\_\_\_.
6. When the budgeted overheads for the month are ₹ 20,000 and budgeted machine hours for the month are 5000 then the Overhead recovery rate per machine hour is \_\_\_\_\_.

**Solution:**

1. Elements;
2. Prime Cost;
3. No Profit/ No Loss;
4. Ascertaining cost;
5. Cost Sheet;
6. ₹4.

**III. Match the following:**

**[6×1=6]**

	Column 'A'		Column 'B'
1.	Halsey Bonus Plan	A	Inventory valuation
2.	Elements of Cost	B	Unproductive Time
3.	Overheads	C	Labour Incentive
4.	FIFO	D	Allocation & Apportionment
5.	Profit Volume Ratio	E	Material, Labour & Overhead
6.	Idle Time	F	Break- Even Analysis



## Answer to MTP\_Foundation\_Syllabus 2012\_Dec2016\_Set 1

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**Solution:**

	Column 'A'		Column 'B'
1.	Halsey Bonus Plan	C	Labour Incentive
2.	Elements of Cost	E	Material, Labour & Overheads
3.	Overheads	D	Allocation & Apportionment
4.	FIFO	A	Inventory valuation
5.	Profit Volume Ratio	F	Break – even Analysis
6.	Idle Time	B	Unproductive Time

**IV. State whether the following statements are True (or) False.**

**[6 × 1 = 6]**

1. Depreciation is a Semi Variable Cost
2. A Cost Center may be a Person or Equipment.
3. Bin Card is an Accounting record
4. High labour turnover is very good for the growth of the organization.
5. At BEP, Total Sales and Variable Cost are same.
6. The PV Ratio = Profit / Margin of Safety.

**Solution:**

1. False;
2. True;
3. False;
4. False;
5. False;
6. False.

**V. Answer any three questions. Each question carries 8 marks.**

**[2 × 8 = 16]**

1. **A manufacturing company uses 2400 units of a steel pipe per annum. The pipes are bought from a supplier on a regular basis. The cost of placing and receiving one order is ₹100. The cost of carrying is ₹12 per annum per unit. Find out the EOQ.**

**Solution:**

$$EOQ = \sqrt{\frac{2.A.O}{C}}$$

$$\begin{aligned} A &= \text{Annual consumption} && = 2,400 \\ O &= \text{Ordering Cost} && = 100 \\ C &= \text{Carrying Cost} && = 12 \end{aligned}$$

$$= \sqrt{\frac{2 \times 2,400 \times 100}{12}} = 200.$$

2. **Calculate the total wages earned by a workman for a working day of 8 hours under Halsey and Rowan plans: Standard Production per hours 20 Hours and Actual Production 200 units for the day. Wage Rate per Hour is ₹ 30.**

**Answer:**

$$\begin{aligned} \text{Halsey plan} &= \text{Time taken} \times \text{Hourly rate} + 50\% (\text{Standard time} - \text{time taken}) \times \text{Hourly rate.} \\ &= 8 \times 30 + 50\% (10 - 8) \times 30 \\ &= 240 + 30 \\ &= ₹ 270 \end{aligned}$$

Rowan Plan

## Answer to MTP\_Foundation\_Syllabus 2012\_Dec2016\_Set 1

$$\begin{aligned}
 &= \text{Time taken} \times \text{Hourly rate} + \left( \frac{\text{Standard time} - \text{Time taken}}{\text{Standard time}} \right) \times \text{Time taken} \times \text{Hourly rate.} \\
 &= 8 \times 30 + 50\% (10 - 8/2) \times 8 \times 30 \\
 &= 240 + 48 \\
 &= 288
 \end{aligned}$$

Working Notes: - Standard time  
 20 units – 1 hours  
 200 its 200/20 = 10 Hours

- 3. Prime Cost is ₹41,000. Direct labour cost consists of skilled labour ₹6,000 and unskilled labour ₹2,000. Variable works overhead is 100% of direct wages and Fixed works overhead is 60% of direct wages. Sale of scrap is ₹1,800. Find works cost.**

**Solution:**

Calculation of Works Cost	41,000
Prime cost (Given)	
Add: overheads	
Variable OH's (100 % of direct wages)	8,000
Fixed OH's (60% of direct Wages)	4,800
Less: sale of Scrap	-1,800
Works cost	52,000

**Working Notes: -**

Direct wages	= Skilled labour	= 6,000
	(+ ) unskilled labour	= <u>2,000</u>
	Direct wages	<u>8,000</u>

- 4. A company purchased 1200 kg of raw material @ ₹20 per kg. from a supplier. A trade discount of 20% on above price was applicable. Total freight paid was ₹240 and insurance was 2.5% on the net value paid by the purchaser. Calculate the total cost of material purchased and the per kg material cost.**

**Answer:**

**Calculations of Cost of material purchased and per kg**

	Material Cost
Raw material (1,200 × 20)	24,000
(-) trade discount @ 20%	4,800
	19,200
(+) Insurance @ 2.5	480
	19,680
(+) freight	240
Cost of material	19,920

$$\text{Per kg material} = \frac{19,920}{1,200} = ₹16.60$$