FOUNDATION EXAMINATION

(SYLLABUS 2008)

SUGGESTED ANSWERS TO QUESTIONS

DECEMBER 2011

Paper-2 : ACCOUNTING

Time Allowed : 3 Hours **Full Marks :** 100

The figures in the margin on the right side indicate full marks.

SECTION - I

Answer **Question No. 1**, *which is compulsory and* **any five** *questions from Section I.*

Q. 1.(a) In each of the following one of the alternatives is correct, indicate the correct one : [1×10=10]

(i) International Accounting standards are issued by the
- (A) International Accounting Board
- (B) International Accounting Standards Committee
- (C) Institute of Chartered Accountants of India
- (D) Accounting Standards Council of America

(ii) A transaction affects three accounts, one account is debited by ` 7,500, another account is credited by ` 9,000. Third account will be
- (A) Credited by ` 7,500
- (B) Debited by ` 9,000
- (C) Credited by ` 1,500
- (D) Dedited by ` 1,500

(iii) Shiva who was a creditor for ` 47,000, his account was settled for ` 45,850. At the time of settlement, Shiva's account would be debited by
- (A) ` 45,850
- (B) ` 47,000
- (C) ` 1,150
- (D) None of the above

(iv) Which of the following is a transaction of contra entry?

(A) Purchased goods from X ` 10,000

(B) Cash deposited into Bank ` 15,000

(C) Paid to Y ` 4,800 in full settlement of ` 5,000

(D) Shop rent of ` 6,000, paid by cheque

(v) Which of the following is not a business transaction?

(A) Rent paid to Landlord ` 5,000

(B) Goods purchased from Z ` 20,000

(C) Placed an order to Chandra & Co. for purchasing the goods for ` 35,000

(D) Received interest from Bank ` 2,000

(vi) External liabilities are the

(A) Excess of capital over the fixed assets

(B) Excess of capital over the assets

(C) Excess of assets over the capital

(D) Excess of assets over current liabilities

(vii) Festival advance of ` 25,000 was given to employees at the time of Deepawali. It is a

(A) Revenue Expenditure

(B) Capital Expenditure

(C) Deferred Revenue Expenditure

(D) Not an Expense

(viii) Which of the following is an uncertain liability?

(A) Long Term

(B) Contingent

(C) Current

(D) Fixed

(xi) Cash column of cash book can never have

(A) Credit balance

(B) Debit balance

(C) Zero balance

(D) None of the above

(x) Wages paid for installation of Machinery debited to wages account. This is an error of

(A) Omission

(B) Principle

(C) Commission

(D) Duplication

(b) Fill up the blanks : [1×4=4]

(i) Goodwill is a _________ asset.

(ii) Patent Right is in the nature of _________ Account.

(iii) Bill of exchange is a _________ instrument.

(iv) Payment of Royalties is _________ expenditure.

(c) State with reasons whether the following statements are True or False : [2×8=16]

(i) Profit and Loss Account shows the financial position of the concern.

(ii) Live Stock Account is a nominal account.

(iii) Goods lost by fire are debited to Goods Account.

(iv) Rectification entries are passed in ledger.

(v) Capital is treated as internal liability.

(vi) Closing Stock is valued at cost price or market price, whichever is higher.

(vii) Depreciation increases the value of asset.

(viii) Joint Venture is a permanent partnership.

Answer 1. (a)

(i) — (B) International Accounting Standard Committee.

(ii) — (D) Debited by ` 1,500

(iii) — (B) ` 47,000

(iv) — (B) Cash deposited into Bank ` 15,000

(v) — (C) Placed an order to Chandra & Co. for purchasing the goods for ` 35,000

(vi) — (C) Excess of assets over the capital

(vii) — (D) Not an Expense

(viii) — (B) Contingent

(ix) — (A) Credit balance

(x) — (B) Principle

Answer 1. (b)

(i) Intangible

(ii) Real

(iii) Negotiable

(iv) Revenue

Answer 1. (c)

(i) **False** — Profit and Loss Account shows the financial performance of the concern.

(ii) **False** — It is a Real Account.

(iii) **False** — It is credited to Goods account.

(iv) **False** — They are passed in Journal Proper.

(v) **True** — Because it is the contribution by the owners of company.

(vi) **False** — Closing stock is valued at cost price or market price whichever is lower as per concept of conservatism.

(vii) **False** — It reduces the value due to wear and tear, extrusion or passage of time.

(viii) **False** — It is a temporary partnership which gets over with the completion of the venture.

Q. 2. (a) Journalise the following transactions in the books of a trader : [1×5=5]

2011

Nov.	1	Mr. Dutta was declared insolvent and a sum of ` 5,600 would be received instead of ` 8,000.
Nov.	4	An old machinery was sold to Rakesh for ` 15,000.
Nov.	8	Goods costing ` 2,500 (sale price ` 3,000) withdrawn from business for personal use.
Nov.	12	Purchased furniture from Vikas for shop ` 25,000.
Nov.	15	Deposited ` 80,000 in SBI account.

(b) Calculate the amount of subscription to be shown in the Income and Expenditure Account for the year ending 31st March, 2011 from the following information : [3]

(i) Subscription received during 2010-11—` 31,500.

(ii) Arrears of subscription on 31.03.2010—` 3,400.

(iii) Subscription received in advance on 31.03.2010—` 2,100.

(iv) Arrears of subscription on 31.03.2011—` 4,700.

(v) Subscription received in advance on 31.03.2011—` 2,150.

(c) Following were the profits for the last 4 years ended 31st December :

31.12.07 = ` 27,000; 31.12.08 = ` 25,200; 31.12.09 ` = ` 28,800 and 31.12.10 = ` 30,000.

Calculate goodwill at 2½ years purchase of the average profit of last 3 years. [2]

Answer 2. (a)

Journal Entries

Date	Particulars		*Dr.* Amount `	*Cr.* Amount `
2011				
Nov. 1	Cash A/c	Dr.	5,600	
	Bad debts A/c	Dr.	2,400	
	To Mr. Dutta's A/c			8,000
Nov. 4	Rakesh's A/c	Dr.	15,000	
	To Machinery A/c			15,000
Nov. 8	Drawings A/c	Dr.	2,500	
	To Purchases A/c			2,500
Nov. 12	Furniture A/c	Dr.	25,000	
	To Vikas's A/c			25,000
Nov. 15	Bank Account	Dr.	80,000	
	To Cash A/c			80,000

Answer 2. (b)

Particulars	`	`
Subscription received in 2010-11		31,500
Add : Subscription received in advance on 31.3.10		2,100
Add : Arrears of subscription on 31.3.11		4,700
		38,300
Less : Arrears of subscription on 31.3.10	3,400	
Less : Subscription received in advance on 31.3.11	2,150	5,550
The amount of subscription to be shown in the Income and Expenditure Account for 2010-11		32,750

Answer 2. (c)

Calculation of Goodwill :

Average Profit of last three years = (25,200 + 28,800 + 30,000)/ 3 = 28,000

Goodwill at 2½ years purchase of average profit of last 3 years = 28,000 × 2.5 = ` 70,000.

Q. 3. (a) Mr. Sinha draws a bill on 1st January, 2009 on Mr. Mane for ` 36,000/- for 4 months period. Mane accepts the bill on 2nd January, 2009 and returns it to Sinha. Sinha discounts the bill @ 8% p.a. Before due date Mane requests Sinha to accept ` 24,000/- in cash and draws a second bill for the balance. Sinha draws a new bill for the balance plus interest @ 12% p.a. for two months, on 4th May as per the request. The bill is sent to the Bank for collection and honoured on due date. Pass journal entries in the books of Mr. Sinha. [6]

(b) Opening stock is 80 per cent of the closing stock and average stock is ` 36,000, calculate the amount of opening stock and closing stock. [2]

(c) A and B purchased 20 old computers for ` 7,250 each in a joint venture and spent ` 42,500 on repairs. 17 computers were sold for ` 1,95,500 and selling expenses amounted to ` 2,125. Unsold computers were taken by A at cost price. Calculate profit on joint venture. [2]

Answer 3. (a)

In the Books of Mr. Sinha
Journal Entries

Date	Particulars		L.F	*Dr.* Amount `	*Cr.* Amount `
2009 Jan. 1	Bills Receivable A/c To Mane's A/c (Being bill drawn on and accepted by Mane)	Dr.		36,000	 36,000
Jan. 2	Bank A/c Discount A/c To Bills Receivable A/c (Being Mane's acceptance discounted with the bank)	Dr. Dr.		35,040 960	 36,000
May 4	Mane's A/c To Bank A/c (Being the bill dishonored on due date)	Dr.		36,000	 36,000
May 4	Mane's A/c To Interest A/c (Being Interest on renewal charged)	Dr.		240	 240
May 4	Bill Receivable A/c Cash A/c To Mane's A/c (Being part payment and accepted bill with interest received from Mane)	Dr. Dr.		12,240 24,000	 36,240
May 4	Bill sent to Bank for collection A/c To Bills Receivable A/c (Being Mane's new accepted bill sent to bank for collection)	Dr.		12,240	 12,240
July 7	Bank A/c To Bill sent to bank for collection A/c (Being Mane's new acceptance honoured on due date)	Dr.		12,240	 12,240

Answer 3. (b)

Let Closing Stock be x

$$\therefore \quad \text{Opening Stock} = \frac{80}{100}x$$

$$\text{Average Stock} = \frac{x + \frac{80}{100}x}{2}$$

$$\therefore \quad \frac{x + \frac{80}{100}x}{2} = ₹\ 36{,}000$$

$$\text{or} \quad x + \frac{80}{100}x = ₹\ 72{,}000$$

$$\text{or} \quad \frac{100x + 80x}{100} = ₹\ 72{,}000$$

$$\text{or} \quad 180x = ₹\ 72{,}000 \times 100$$

$$\text{or} \quad x = \frac{₹\ 72{,}000 \times 100}{180}$$

$$= ₹\ 40{,}000$$

$$\therefore \quad \text{Closing Stock} = ₹\ 40{,}000$$

$$\text{Opening Stock} = \frac{80}{100} \times ₹\ 40{,}000$$

$$= ₹\ 32{,}000.$$

Answer 3. (c)

		₹
Sale value of 17 computers		1,95,500
Less : Cost of purchases (₹ 7,250 × 17)	1,23,250	
Cost of repairs (₹ 42,500/20 × 17)	36,125	
Selling expenses	2,125	1,61,500
Profit on Joint Venture		34,000

Q. 4. (a) Classify the following expenses into capital and revenue expenditure : [$\frac{1}{2}$×8=4]

(i) White-washing of the factory building ₹ 10,000.

(ii) Re-building expenses incurred for ₹ 25,000.

(iii) Payment of import duty on purchase of raw material.

(iv) ₹ 500 paid for removal of stock to a new site.

(v) Expenses incurred. in connection with obtaining a licence to start the factory.

(vi) An amount of ` 5,000 spent as legal charges for abuse of Trade-Mark.
(vii) The cost of registration of a newly formed company.
(viii) Amount spent on construction of animal-huts.

(b) Match the following : [1×4=4]

I	II
(i) AS-3	(A) Accounting for Investments
(ii) AS-13	(B) Earnings per share
(iii) AS-16	(C) Cash flow statements
(iv) AS-20	(D) Borrowing costs

(c) Goods sent to consignee costing ` 4,50,000. Consignor's expenses were ` 30,000. 1/5th of the goods were broken in transit and it was treated as normal loss. 4/5th of the remaining goods were sold by consignee. Calculate the value of consignment stock. [2]

Answer 4. (a)

Revenue Expenditure — (i), (iii), (iv), (vi)
Capital Expenditure — (ii), (v), (vii), (viii)

Answer 4. (b)

I			II
(i) AS-3	—	(C)	Cash flow statements
(ii) AS-13	—	(A)	Accounting for Investments
(iii) AS-16	—	(D)	Borrowing costs
(iv) AS-20	—	(B)	Earnings per share

Answer 4. (c)

Cost of goods sent on consignment	= ` 4,50,000
Consignor's expenses	= ` 30,000
Total Cost	= ` 4,80,000
Goods less normal loss	$= 1 - \frac{1}{5} = \frac{4}{5}$
Stock sold on consignment	$= \frac{4}{5}$ of $\frac{4}{5} = \frac{16}{25}$
Value of Closing stock on consignment	$= \frac{1}{5}$ of 4/5 $= \frac{4}{25} \times 4{,}80{,}000$
	= ` 76,800

SECTION - II

Answer **Question No. 5**, *which is compulsory and* **any two** *questions from Section II.*

Q. 5. (a) In each of the following one of the alternatives is correct, indicate the correct one : [1×9=9]

(i) Conversion cost is equal to the total of the
- (A) Direct material cost and direct labour cost
- (B) Direct material cost and factory overheads
- (C) Direct material cost, direct labour cost and factory overheads
- (D) Direct labour cost and factory overheads

(ii) The variable cost per unit is
- (A) Variable in nature
- (B) Fixed in nature
- (C) Semi-variable in nature
- (D) None of the above

(iii) Bincard contains
- (A) The value and quantity of material lying in the Bin
- (B) The value of material lying in the Bin
- (C) The quantity of all kind of materials of stores
- (D) The quantity of material lying in the Bin

(iv) Selling price ` 48 per unit; variable cost ` 40 per unit and fixed cost ` 6,00,000. The Breake Point in units will be
- (A) 15,000 units
- (B) 12,500 units
- (C) 1,25,000 units
- (D) 75,000 units

(v) Profit-volume Ratio (P/V Ratio) for the firm is 40 per cent and variable cost of a product is ` 720 unit. Its selling price per unit will be
- (A) ` 1,008
- (B) ` 1,200
- (C) ` 1,800
- (D) ` 1,080

(vi) Contribution is a sum of
- (A) Fixed cost and profit
- (B) Variable cost and profit
- (C) Variable cost and fixed cost
- (D) None of the above

(vii) Labour turnover is measured by
  (A) Separation Method
  (B) Replacement Method
  (C) Flux Method
  (D) All of the above

(viii) Which of the following items is excluded from cost accounts?
  (A) Income tax
  (B) Interest on debentures
  (C) Cash discount
  (D) All of the above

(ix) Idle time is a
  (A) Time spent on production
  (B) Unproductive time
  (C) Time of work done beyond normal working hours
  (D) Time taken by casual labourers/workers

(b) Fill in the blanks : [1×5=5]

(i) At the level of Break-even-sales the profit will be _________ .

(ii) All the indirect costs related to indirect material, indirect labour and indirect expenses are termed as _________ .

(iii) Factory cost plus administrative overheads is known as _________ .

(iv) When the amount of overhead absorbed is less than the amount of overhead incurred, it is called _________ of overhead.

(v) For the goods transport company _________ is the suitable cost unit.

(c) State with reasons whether the following statements are True or False : [2×8= 16]

(i) Chargeable expenses is an example of fixed cost.

(ii) Costs which are ascertained after they have been incurred, are known as historical costs.

(iii) The total ordering cost and the total carrying cost would be same, if order size is kept at economic order quantity.

(iv) The items consisting of only a small percentage of the total items handled by the stores, but requiring heavy investment, are kept in 'C' category under ABC Analysis.

(v) A well satisfied team of workers can raise productivity to a large extent.

(vi) Overtime worked on account of abnormal conditions should be charged to cost of production.

(vii) The P/V Ratio = Profit/Margin of Safety.

(viii) At BEP, Total sales and variable costs are same.

Answer 5. (a)

(i) (D) – Direct labour cost and factory overheads.
(ii) (B) – Fixed in nature.
(iii) (D) – The quantity of material lying in the Bin.
(iv) (D) – 75,000 units
(v) (B) – ` 1,200
(vi) (A) – Fixed cost and profit.
(vii) (D) – All of the above.
(viii) (D) – All of the above.
(ix) (B) – Unproductive time.

Answer 5. (b)

(i) Nil
(ii) Overheads
(iii) Cost of production
(iv) Under recovery
(v) Ton – Kilometers

Answer 5. (c)

(i) **False** — It is direct cost, hence, it is an example of variable cost.
(ii) **True** — Due to past in nature.
(iii) **True** — These are minimum as well as same.
(iv) **False** — These are kept in Category 'A'.
(v) **True** — Satisfaction motivates to do more production.
(vi) **False** — Abnormal overtime cost is charged to costing P & L Account.
(vii) **True** — P/V Ratio is calculated by contribution/sales as well as profit/M.S.
(viii) **False** — At BEP, Total sales and Total costs are the same.

Q. 6. (a) Calculate the labour cost chargeable to Job No. 102 in respect of an employee, by using the following details, who is paid according to [3]

(i) Halsey 50% scheme;

(ii) Rowan Scheme:

Time allowed	:	7 hours 30 minutes
Time taken	:	6 hours 45 minutes
Wage rate	:	` 45 per hour

(b) The cost analysis of manufacturing 4,000 units of a product is as follows:

Material ` 80,000; Labour ` 50,000; Overhead charges (fixed and variable) ` 30,000.

The company produces and sells 6,000 units @ ` 45 each and is making a profit of ` 35,000.

You are required to find out the

(i) Total amount of fixed overheads and

(ii) Variable overheads per unit. [2×2= 4]

(c) Price per unit of material X ` 15; annual consumption 60,000 units; ordering cost ` 400 per order and annual carrying cost 20 per cent of material cost. Calculate the Economic Order Quantity. [2]

(d) In a factory, daily consumption of a component is 300 to 350 units and re-order period is 6 to 10 days. Calculate the re-order level for the component. [1]

Answer 6. (a)

(i) Under Halsey 50% Plan :

Normal Wages = 6.75 hours × ` 45	= ` 303.75
Time Saved = 7½ – 6¾ = 3/4 hours	
Bonus = 3/4 hours × ` 45 × 50%	= ` 16.88
Total Labour Cost	= ` 320.63

(ii) `

Under Rowan Plan : Normal wages = $6\frac{3}{4}$ Hrs. × ` 45 = 303.75

Bonus = $\frac{\text{Time Saved}}{\text{Std. Time}} \times$ Actual Hrs. × Hrly Rate = $\frac{\frac{3}{4}}{7\frac{1}{2}} \times 6\frac{3}{4} \times 45$ = 30.38

Total Labour Cost = 334.13

Answer 6. (b)

(i) Calculation of the amount of total overheads – fixed & variable at the level of 6000 units :

		`
Sales :	6000 × ` 45	2,70,000
Less :	Material = ` 80000 × 6000/4000 = ` 1,20,000	
	Labour = ` 50000 × 6000/4000 = ` 75,000	1,95,000
Amount of Profit & overheads		75,000
Less :	Profit	35,000
	Total overheads	40,000

(ii) Variable Overhead per unit $= \dfrac{\text{Change in overheads}}{\text{Change in output}}$

$$= \frac{\text{` }40000 - \text{` }30000}{6000\text{ units} - 4000\text{ units}}$$

$$= \frac{\text{` }10000}{2000\text{ units}} = \text{` }5 \text{ per unit}$$

Fixed overhead = ` 30000 – (` 5 × 4000)
= ` 10,000

Answer 6. (c)

$$EOQ = \sqrt{\frac{2 \times \text{Annual Consumption} \times \text{Ordering Cost per order}}{\text{Cost of carrying one unit of inventory for 1 year}}}$$

$$= \sqrt{\frac{2 \times 60000 \times \text{` }400}{20\% \text{ of ` }15}} = \sqrt{\frac{2 \times 60000 \times 400}{\text{` }3}}$$

= 4000 units.

Answer 6. (d)

Re-order level = Max. Consumption × Max. Re-order period
= 350 units × 10 = 3500 units.

Q. 7. (a) The following figures are available from the records of Aastha Ltd. as at 31st March:

Particulars	2010 (` lakhs)	2011 (` lakhs)
Sales	150	200
Profit	30	50

Calculate :

(i) The P/V ratio and total fixed expenses.

(ii) The Break-even level of sales.

(iii) Sales required to earn a profit of ` 90 lakhs.

(iv) Profit or Loss that would arise, if the sales were ` 280 lakhs. [1×4=4]

(b) The following details are available to you :

Direct materials ` 4,00,000

Productive wages ` 3,00,000

Factory overheads are recovered @ 40 per cent on productive wages and administrative overheads are recovered @ 10 per cent of factory cost

If the actual factory expenses are ` 1,15,000 and administrative expenses are ` 85,000, find out the under/over recovery of overheads.

(c) Classify the following costs into fixed, semi-variable and variable costs :

(i) Depreciation of Building

(ii) Power

(iii) Water and Gas

(iv) Salary of Works Manager

(v) Commission to salesman as a percentage of sales

(vi) Showroom expenses

Answer 7. (a)

(i) P.V. Ratio $= \frac{\text{Change in profit}}{\text{Change in sales}} \times 100$

$$= \frac{(50-30)}{(200-150)} \times 100 = 40\%$$

$$\frac{\text{FC} + \text{Profit}}{\text{Sales}} = \frac{\text{P}}{\text{V}} \text{ Ratio}$$

or $\frac{\text{FC}+50}{200} = \frac{40}{100}$

or 100FC + 5000 = 8000

or 100 FC = 3000

or FC = ` 30 lacs

(ii) BEP = $\frac{\text{FC}}{\text{PVR}} = \frac{30}{40\%}$ = ` 75 Lacs.

(iii) Sales to reach Desired Profit :

$$= \frac{\text{FC} + \text{Desired Profit}}{\text{P. V. Ratio}}$$

$$= \frac{30+90}{40\%}$$

= 300 lacs

(iv) Profit/Loss, if sales were ` 280 Lacs.

$\frac{\text{FC}+\text{P}}{\text{Sales}}$ = P/V Ratio

$\frac{\text{` 30 lacs} + \text{P}}{\text{` 280 lacs}} = \frac{40}{100}$

` 3000 lacs + 100P = ` 11,200 lacs

or P = $\frac{8200}{100}$ lacs

or P = ` 82 lacs

Answer 7. (b)

Factory overhead recovered = 40% of productive wages

= 40% of ` 300000 = ` 120000

Over-recovery of factory overhead = ` 120000 – Actual ` 115000

= ` 5000

Administrative overhead recovered = 10% of factory cost

= (Direct Material ` 400000 + Wages ` 300000 + Factory Overhead ` 120000)

= ` 820000 × 10%

= 82000

Hence, under recovery of administrative overhead =

Actual ` 85000 – ` 82000 = ` 3000.

Answer 7. (c)

Fixed Cost — (i), (iv)

Variable — (ii), (iii), (v)

Semi-variable — (vi)

Q. 8. (a) Z Ltd. produced 500 units of a product and the following costs were incurred :

	`
Material consumed	20,000
Wages paid	30,000
Chargeable expenses	2,000
Factory overheads	26,000
Office overheads	20,000
Selling and distribution overheads	10,000

450 units were sold at cost plus 25 per cent on sales. Prepare a statement showing the

(i) Prime cost;

(ii) Factory cost;

(iii) Cost of production;

(iv) Cost of Goods sold;

(v) Profit; and

(vi) Sales. [1×6=6]

(b) If the Opening Stock of finished goods is 3,000 units, the production during the period is 30,000 units, Closing Stock of finished goods is 5,000 units and if ` 5 per unit is spent on every unit sold, then find out the total selling expenses. [2]

(c) If the prime cost is ` 4,00,000 and factory cost is ` 6,40,000 and office overheads are $33\frac{1}{3}$ per cent of the factory overheads, what would be the cost of production? [2]

Answer 8. (a)

Statement of Cost, Profit and Sales

		Output : 500 units `
Material consumed		20,000
Wages paid		30,000
Chargeable Expenses		2,000
Prime Cost –	(i)	52,000
Factory overhead		26,000
Factory Cost –	(ii)	78,000
Office overhead		20,000
Cost of Production –	(iii)	98,000
Less : Closing stock : 500 – 450 = 50 units		
= ` 98,000 × $\frac{50}{500}$		9,800
Cost of goods sold –	(iv)	88,200
Selling and Distribution overhead		10,000
Cost of sales		98,200
Add : Profit : 25% on sales or 33$\frac{1}{3}$ % on cost	(v)	32,733
Sales –	(vi)	1,30,933

Answer 8. (b)

Units sold = Opening stock + production – closing stock
= 3000 + 30,000 – 5000 = 28000 units

Selling expenses @ ` 5 per unit sold
= 28000 × ` 5
= ` 140000

Answer 8. (c)

Factory overhead = Factory cost – Prime cost
= ` 6,40,000 – ` 4,00,000
= ` 2,40,000

Office overhead = Factory Overhead × 33$\frac{1}{3}$%
= ` 2,40,000 × 33$\frac{1}{3}$%
= ` 80,000

Cost of production = Factory cost + Office overhead
= ` 6,40,000 + ` 80,000
= ` 7,20,000.