

FOUNDATION EXAMINATION

(SYLLABUS 2008)

SUGGESTED ANSWERS TO QUESTIONS

JUNE 2012

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 two 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) GAAP stands for
 - (A) Generally Adopted Accounting Process
 - (B) Generally Accepted Accounting Principle
 - (C) Generally Accepted Auditing Procedure
 - (D) None of the above
- (ii) Which of the following errors is an error of principle?
 - (A) Rent paid ₹ 6,000, posted as ₹ 600
 - (B) Repairs of machinery have been debited to machinery account
 - (C) The total of purchases return book has not been posted to the purchases return account
 - (D) None of the above
- (iii) How many days are added as days of grace for calculating the date of maturity of a term bill?
 - (A) 4 days
 - (B) 3 days
 - (C) 2 days
 - (D) None of the above

2 ♦ *Suggested Answers to Question — ACT*

- (iv) In case of credit sales, special commission payable to the consignee for taking over risk of bad debts is called as
 - (A) Over-riding commission
 - (B) Ordinary commission
 - (C) Del-credre commission
 - (D) All of the above
- (v) Interest paid on loan taken for purchase of asset should be debited to
 - (A) Interest A/c
 - (B) Asset A/c
 - (C) Profit and Loss A/c
 - (D) Trading A/c
- (vi) Identify Personal Account from the following :
 - (A) Furniture A/c
 - (B) Bank of India A/c
 - (C) Rent A/c
 - (D) Investment A/c
- (vii) Which one is correct?
 - (A) $\text{Asset} + \text{Liability} = \text{Owner's Equity}$
 - (B) $\text{Asset} - \text{Liability} = \text{Owner's Equity}$
 - (C) $\text{Owners Equity} + \text{Asset} = \text{Liability}$
 - (D) None of the above
- (viii) Which of the following is a deferred revenue expenditure?
 - (A) Repairs and maintenance
 - (B) Free samples of a new product
 - (C) Office equipment
 - (D) Rent paid in advance
- (ix) Which of the following will appear in the Balance Sheet?
 - (A) Wages paid
 - (B) Outstanding wages
 - (C) Wages deducted for strike
 - (D) Wages not due
- (x) Which of the following is a temporary form of business organization?
 - (A) Firm
 - (B) Company
 - (C) Consignment
 - (D) Joint-venture

(b) Fill in the blanks :

[1×4=4]

- (i) Trade Mark is a _____ asset.
- (ii) Closing stock is valued at cost or net realizable value, whichever is less, is based on _____ concept.
- (iii) The _____ discount is never entered in the books of accounts.
- (iv) The withdrawal of money by the owner of business is called _____ .

(c) State with reasons whether the following statements are True or False :

[2×8=16]

- (i) Accounting policies can be changed from year to year.
- (ii) Prudence is the concept to anticipate and recognize losses.
- (iii) Agreement of trial balance would also assure accounting accuracy.
- (iv) Income received in advance is an asset.
- (v) Purchase Book records all purchases of goods.
- (vi) Account sale is the statement sent by the consignor to the consignee.
- (vii) Temporary shed put up at project site to house material is a capital expenditure.
- (viii) The debts written off as bad, if recovered subsequently, are credited to debtor's personal account.

Answer 1. (a)

- (i) — (B)
- (ii) — (B) Error of principle occurs when one or both of the entries are made in the wrong class or category of account.
- (iii) — (B)
- (iv) — (C)
- (v) — (B)
- (vi) — (B) The elements or accounts which represent persons & organisations are called Personal A/c.
- (vii) — (B) The difference between the asset and the liabilities is known as equity or the net assets or the net worth or capital of the company.
- (viii) — (B) In some cases, the benefit of a revenue expenditure may be available for period of two or three or even more years. Such expenditure is then known as “**Deferred Revenue Expenditure**” and is written off over a period of a few years and not wholly in the year in which it is incurred.
Free sample of a new product is to capture a position in the market. The benefit of this will last quite a few years. It will be better to write off the expenditure in there or four and not in the first year.
- (ix) — (B) The amount of expenditure outstanding is to be Shown as a liability on the liabilities side of the balance sheet.
- (x) — (D) A joint venture is not a business organization in the sense of a proprietorship, partnership, or corporation. It is an agreement between parties for a particular purpose and usually a defined timeframe.

Answer 1. (b)

- (i) Intangible
- (ii) Conservatism
- (iii) Trade
- (iv) Drawings

Answer 1. (c)

- (i) **False** — The principle of consistency refers to the practice of using same accounting policies for similar transactions in all accounting periods. However, an accounting policy can be changed if it is required (a) by a statute (b) by an accounting standard (c) for appropriate presentation of financial statements.
- (ii) **True** — In view of uncertainty associated with future events, Profits are not anticipated but losses are provided as a matter of conservatism. The exercise of prudence in selection of accounting policies ensure (i) profits and assets are not overstated (ii) losses and liabilities are not understated.
- (iii) **False** — According to concept “every debit has equal corresponding credit”, the arithmetical accuracy of basic entries, ledger posting and balancing is ensured., However, it does not guarantee that the entries are correct in all respect. There are certain types of errors that will not affect in tallying of the trial balance i.e., it will tally but there will be errors like error of omission, compensating errors, error of principle, error of duplication, etc. All those types of errors to be rectified to assure accounting accuracy.
- (iv) **False** — Incomes and expenses must be taken in Income and Expenditure Account on the basis of accrual concept. The account should reflect only items those are pertaining to current period. Previous and subsequent year items are to be excluded. So, pre-received i.e., income received in respect of subsequent years will be accounted for in the next year by crediting income and debiting liability, which is to be created in current year. So, pre-received income is not an asset, but a liability to the organization.
- (v) **False** — Purchase book records only credit purchases of goods.
- (vi) **False** — Account sale is sent by the consignee to the consignor.
- (vii) **True** — This expenditure is treated as part of cost of project.
- (viii) **False** — Recovery of bad-debts is credited to bad-debts recovered account, not to debtor’s personal account.

Q. 2. (a) Journalise the following transactions in the books of a trader :

[1×4=4]

- (i) 1st March 2012, paid quarterly interest on borrowed amount of ₹ 20,000 at 12% p.a.
- (ii) 10th March 2012, Goods destroyed by fire for ₹ 6,000, for which there is no insurance coverage.
- (iii) 15th March 2012, Received commission for ₹ 5,000.
- (iv) 21 st March 2012, paid transportation charges for machinery of ₹ 1,000 and installation charges for ₹ 1,500.

- (b) Purchases price of a machine ₹ 1,80,000; Freight charges ₹ 30,000; Installation charges ₹ 10,000; Residual value ₹ 16,000; and useful life 5 years. Calculate the depreciation for third year under the straight line method. [2]
- (c) Goods costing ₹ 6,30,000 were sent out to consignee at a profit of 20 percent on invoice price. Consignee sold 2/3rd goods for ₹ 6,00,000. Consignee was entitled to an ordinary commission of 3 percent on sales at invoice price and over-riding commission of 20 percent of any surplus realized. Calculate the amount of consignee's commission and give the journal entry for it in the books of the consignor. [4]

Answer 2. (a)

	Date	Particulars	L.F	Dr.	Cr.
				Amount ₹	Amount ₹
(i)	2012 March 1	Interest Account To Cash Account (Being the amount paid as quarterly interest on borrowed Amount of ₹ 20,000 @ 12% p.a.)	Dr.	600	600
(ii)	March 10	Loss By Fire Account To Purchase Account (Being the un-insured goods lost by fire)	Dr.	6,000	6,000
(iii)	March 15	Cash Account To Commission Account (Being the commission received)	Dr.	5,000	5,000
(iv)	March 21	Machinery Account To Cash Account (Being the transportation and installation charges on Machinery paid in cash)	Dr.	2,500	2,500

Answer 2. (b)

Under Straight Line method, the depreciation for each year

$$= \frac{\text{Cost of machines} + \text{Repairs} + \text{Installation} - \text{Residual value}}{\text{Useful life}}$$

Hence, the depreciation for the third year

$$= ₹ \frac{1,80,000 + 30,000 + 10,000 - 16,000}{5} = ₹ 40,800$$

Answer 2. (c)

$$\text{Invoice value of goods sold} = 6,30,000 \times \frac{2}{3} \times \frac{100}{(100 - 20)} = ₹ 5,25,000$$

$$\text{Surplus of Sale value over invoice value} = 6,00,000 - 5,25,000 = ₹ 75,000$$

Consignee Commission :

		₹	
Ordinary	₹ 5,25,000 × $\frac{3}{100}$	= 15,750	
Over-riding	₹ 75,000 × $\frac{20}{100}$	= 15,000	
Total Commission		= 30,750	

In the Books of the Consignor

Consignee Commission :

Consignment A/c	Dr.	30,750	
To Consignee's A/c			30,750

Q. 3. (a) Calculate the amount of Salary to be shown in the Income and Expenditure Account for the year ending 31st March 2011 from the following information :

	₹	
(i) Salary paid as per Receipt and Payment A/c	63,000	
(ii) Salary unpaid on 31.3.2010	6,000	
(iii) Salary Prepaid on 31.3.2010	5,000	
(iv) Salary unpaid on 31.3.2011	7,000	
(v) Salary prepaid on 31.3.2011	8,000	[3]

(b) A company purchased some machineries for ₹ 1,00,000 on 1st April 2007. It charges depreciation @ 10% p.a. on reducing balance method every year. On 30th September 2011, a part of machinery was sold for ₹ 14,000, the original cost of the machine was ₹ 20,000. Calculate the Profit or Loss on Sale of Machinery. [3]

(c) Recognize the accounting concept in the following : [1×4=4]

- The transactions are recorded at their original cost.
- The business will run for an indefinite period.
- Every transaction has two effects to be recorded in the books of accounts.
- Accounting treatment once decided should be followed period after period.

Answer 3. (a)

Particulars	Amount ₹	Amount ₹
Salary Paid during 2010-2011		63,000
Add : Salary prepaid on 31.3.2010	5,000	
Salary unpaid on 31.3.2011	7,000	12,000
		<u>75,000</u>
Less : Salary unpaid on 31.3.2010	6,000	
Salary prepaid on 31.3.2011	8,000	14,000
Salary to be shown in Income & Expenditure A/c		<u>61,000</u>

Answer 3. (b)

Particulars	Amount ₹	Amount ₹
Original cost of the machines as on 1.4.2007		20,000
Less : Depreciation for the year 2007-08	2,000	
2008-09	1,800	
2009-10	1,620	
2010-11	1,458	
2011-12 (upto 30-9-2011)	656	7,534
Written Down value as on 30-9-2011		12,466
Sales Price		14,000
Profit on Sale of Machinery		1,534

Answer 3. (c)

Accounting Concept :

- (i) Historical Cost concept
- (ii) Going Concern concept
- (iii) Dual aspect concept
- (iv) Consistency concept

Q. 4. (a) From the following particulars of M/s. Narayan Trading Company, prepare a bank reconciliation statement as on 31.3.2012 :

- (i) Bank balance as per cash book as on 31.3.2012 was ₹ 9,620.
- (ii) A cheque amounting to ₹ 1,270 issued to supplier on 10th March 2012, was entered by mistake as a receipt in the cash book.
- (iii) Out of three cheques deposited in bank for ₹ 18,000, only one cheque of ₹ 6,400 was cleared till 31st March 2012.
- (iv) An amount of ₹ 15,000 transferred to current A/c from matured value of a fixed deposit not entered in the cash book.
- (v) A cheque amounting to ₹ 10,200 issued to a supplier on 28th March 2012, but not presented till 31.3.2012.
- (vi) Dividend collected by bank for ₹ 750 was wrongly entered as ₹ 570 in the cash book. [6]

(b) Match the following :

[1×4=4]

- | | |
|-------------|-------------------------------|
| (i) AS-17 | (A) Related Party Transaction |
| (ii) AS-18 | (B) Segment Reporting |
| (iii) AS-19 | (C) Earning Per Share |
| (iv) AS-20 | (D) Accounting For Leases |

Answer 4. (a)

Particulars	₹	₹
Bank Balance as per cash book as on 31.3.2012		9,620
Add : Cheque issued but not presented till 31.3.2012	10,200	
Transfer from fixed deposit	15,000	
Dividend collected, but short recorded in cash book	180	25,380
		<u>35,000</u>
Less : Cheque issued but recorded as receipt now corrected (with double the amount)	2,540	
Cheque deposited but not credited by bank	11,600	14,140
Balance as per Pass Book as on 31.3.2012		<u>20,860</u>

Answer 4. (b) Match the following :

- (i) — (B)
- (ii) — (A)
- (iii) — (D)
- (iv) — (C)

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 :

[1×10=10]

- (i) Which method of costing is used for determination of costs for printing industry?
 - (A) Process Costing
 - (B) Operating Costing
 - (C) Batch Costing
 - (D) Job Costing
- (ii) Costs are classified into Fixed costs, Variable costs and Semi-variable costs, it is known as
 - (A) Functional Classification
 - (B) Behavioural Classification
 - (C) Elementwise Classification
 - (D) Classification according to controllability
- (iii) Prime cost plus factory overheads is known as
 - (A) Factory on cost
 - (B) Conversion cost

- (C) Factory cost
 - (D) Marginal cost
- (iv) Which of the following document gives quantitative record of material movement to and from stores?
- (A) Bin Card
 - (B) Stores Ledger
 - (C) Both above (A) and (B)
 - (D) None of the above
- (v) Which of the following pricing methods is suitable in case material suffers loss in weight due to natural or climatic factors?
- (A) FIFO Method
 - (B) LIFO Method
 - (C) Standard Price Method
 - (D) Inflated Price Method
- (vi) Time lost due to power failure is called
- (A) Productive time
 - (B) Normal Idle time
 - (C) Abnormal Idle time
 - (D) Absent time
- (vii) An important feature of a cost center is that
- (A) It uses only monetary information
 - (B) It must be an area of business through which product would pass
 - (C) It has clearly defined borders
 - (D) It must be one specific location only
- (viii) Which of the following is not a pre-requisite for successful application of “Just-in-time” (JIT) approach?
- (A) Transportation facilities
 - (B) Sufficient Storage Space
 - (C) Robust Computerised System
 - (D) Trained Workers and Staff
- (ix) Which of the following cannot be treated as normal idle time?
- (A) Preventive Maintenance
 - (B) Training Programme
 - (C) Tea, Lunch etc.
 - (D) Waiting for Instruction.

10 ♦ *Suggested Answers to Question — ACT*

- (x) Re-ordering Level of inventory may be fixed by
 (A) Maximum usage × Maximum Lead time
 (B) Maximum usage × Minimum Lead time
 (C) Minimum usage × Maximum Lead time
 (D) Average usage × Maximum Lead time

(b) Match the following :

[1×4=4]

<i>Business</i>	<i>Cost Unit</i>
(i) Tele-Marketing	(A) Accounts Handled
(ii) Power	(B) Chargeable Hours
(iii) B.P.O. Service	(C) Killowatt Hour
(iv) Professional Service	(D) Customer Calls Made

(c) State with reasons whether the following statements are True or False :

[2×8= 16]

- (i) Process costing method is suitable for coal industry.
 (ii) Carriage outward is the part of production overhead.
 (iii) LIFO method is considered suitable in time of falling prices.
 (iv) Normal losses are controllable.
 (v) Time rate system of wages is useful when the quality of the product is extremely important.
 (vi) Generally high value and high number of items are classified as “A” category in ABC Analysis Technique.
 (vii) Cost sheet ends with determination of “cost of goods manufactured”.
 (viii) Overheads are common costs that are not specifically related to cost unit.

Answer 5. (a)

- (i) — (D)
 (ii) — (B)
 (iii) — (C)
 (iv) — (A)
 (v) — (D)
 (vi) — (C)
 (vii) — (B)
 (viii) — (B)
 (ix) — (D)
 (x) — (A)

Answer 5. (b)

- (i) — (D)
- (ii) — (C)
- (iii) — (A)
- (iv) — (B)

Answer 5. (c)

- (i) **False** — Suitable costing method for coal industry is unit or output costing.
- (ii) **False** — Carriage outward is the part of selling and distribution overhead.
- (iii) **False** — LIFO is suitable during the period of rising prices.
- (iv) **False** — Normal losses are inherent in every situation, hence, these are not controllable.
- (v) **True** — In time rate system, no relation between quantity and wages. Hence, workers are motivated to maintain the quality.
- (vi) **False** — Technique of inventory levels are to be set up for the items individually. Setting up of these is a very complex task. It is always worthwhile to adopt an extensive control mechanism for all items. The cost of control should not be more than the cost of item itself. So to adopt this technique, high value and low number of items are generally categorized as 'A' type.
- (vii) **False** — Cost sheet ends with determination of cost of sales, which includes prime cost, production overheads, administrative overheads, selling and distribution overheads and net of opening and closing stock of work-in-progress and finished goods.
- (viii) **True** — Overheads are expenditure on material, labour or services which can not be economically identified with a specific saleable cost per unit. It can be observed that all indirect costs form overheads. These overheads comprise of all costs that cannot be directly linked to cost unit.

Q. 6. (a) A company sells a single product for ₹ 12 per unit. The variable cost per unit is ₹ 9 and the fixed cost ₹ 2,85,000 per annum. Calculate the margin of safety in rupees, when the sales are ₹ 14,40,000 for an accounting year. [3]

(b) Calculate average stock holding period for a material, if—

Opening Stock = ₹ 12,000

Purchase during the year = ₹ 53,000

Closing Stock = ₹ 10,000

(Assume 365 days in a year)

[3]

12 ♦ Suggested Answers to Question — ACT

- (c) A firm's basic labour rate is ₹ 5 per hour and overtime rates are one and half times for working late during the week and double the rate for working on weekends. Following details are given for two jobs :

Hours Recorded	Job A	Job B
Normal Time	620	310
Overtime during the week	110	60
Overtime on weekends	30	65

Calculate the labour cost chargeable to the jobs, when overtime is worked at the customer's request for early completion. [4]

Answer 6. (a)

$$P/V \text{ Ratio} = \frac{\text{Contribution}}{\text{Sales}} \times 100 = \frac{12-9}{12} \times 100 = \frac{3}{12} \times 100 = 25\%$$

$$BEP = \frac{\text{Fixed Cost}}{P/V \text{ Ratio}} = \frac{\text{₹ } 2,85,000}{25\%} = \text{₹ } 11,40,000$$

$$\text{Margin of safety} = \text{Actual Sales} - \text{BEP Sales} = \text{₹ } 14,40,000 - \text{₹ } 11,40,000 = \text{₹ } 3,00,000$$

Answer 6. (b)

$$\text{Inventory consumed} = (12,000 + 53,000 - 10,000) = \text{₹ } 55,000$$

$$\text{Average Stock} = (12,000 + 10,000)/2 = \text{₹ } 11,000$$

$$\begin{aligned} \text{Inventory Turnover Ratio} &= \text{Inventory consumed} / \text{Average inventory} \\ &= 55,000/11,000 \\ &= 5 \text{ times} \end{aligned}$$

$$\therefore \text{Average Stock holding period} = 365/5 = 73 \text{ days.}$$

Answer 6. (c)

Particulars	JOB-A		JOB-B	
	Hour × Rate	Amount (₹)	Hour × Rate	Amount (₹)
Normal Time	620×5	3,100	310×5	1,550
Evening Time	110×7.50	825	60×7.50	450
Weekend Time	30×10	300	65×10	650
Total		4,225		2,650

- Q. 7. (a)** In a year, a company allows 7 holidays and all Sundays as weekly off. It works 8 hours a day from Monday to Friday and 4 hours on Saturday. The machine room works on a 95% capacity and normal maintenance time is assumed to be 10%. The following are the estimated expenses for 50 machines in the year.

Items	₹
Foreman's Salary	7,20,000
Lubricant and consumables	77,000
Power consumed	9,00,000
Lighting	1,20,000
Depreciation	3,75,000
Repairs & Maintenance	8,60,000
Total	<u>30,52,000</u>

Calculate the Machine Hour Rate.

[6]

- (b)** State how the following independent situations will affect Break Even Point?

[1×4=4]

- Increase in Angle of Incidence;
- 15% increase in selling price and variable cost;
- Decrease in contribution margin by ₹ 3 per unit;
- Selling price increase by 10%.

Answer 7. (a)

Machine hour rate :

Total hours worked :		
Total number of days in a year		365
Less : Holidays		7
Sundays		52
Saturdays		52
Net full days		254
Number of hours available on full days	254×8	2032
Add : 4 hours on Saturdays	52×4	208
Total available hours		2240
Hours of operating capacity @ 95%		2128
Less : normal maintenance @ 10%		213
Net hours available per machine		1915

Total cost for 50 machine	₹ 30,52,000
Cost per machine	₹ 61,040
Hours per machine	1915
So, Machine hour rate	₹ 31.87

Answer 7. (b)

- (i) Decrease in the BEP level
- (ii) No change in BEP
- (iii) BEP will increase
- (iv) BEP will reduce.

Q. 8. (a) A factory has two production departments (P_1 , P_2) and one service departments. The following overheads and other information are extracted from the books for the month of December 2011 :

Overheads	Amount in ₹		
Rent	12,000		
Repairs	7,200		
Depreciation	5,400		
Lighting	1,200		
Supervision	18,000		
Fire Insurance for stock	6,000		
P.F. Contribution	1,800		
Electricity	10,800		

Particulars	P_1	P_2	S
Area occupied in sq. ft.	600	400	200
No. of workers	100	50	30
Wages (₹)	60,000	60,000	60,000
Value of Plant (₹)	72,000	36,000	36,000
Stock value (₹)	35,000	25,000	—
Horse Power of Plant	600	400	200

You are to required to apportion the overheads among the various departments on a suitable basis. [8]

- (b)** Daily requirement of material 'X' is 200 units and price per unit ₹ 60. Ordering cost ₹ 200 per order and inventory carrying cost is 10% on average inventory. Calculate the Economic Order Quantity, if the normal working days in a month are 25. [2]

Answer 8. (a)

Overheads	Total (₹)	Basis	P ₁ (₹)	P ₂ (₹)	S (₹)
Rent	12,000	Area	6,000	4,000	2,000
Repairs	7,200	Plant value	3,600	1,800	1,800
Depreciation	5,400	Plant value	2,700	1,350	1,350
Lighting	1,200	Area	600	400	200
Supervision	18,000	Number of workers	10,000	5,000	3,000
Fire Insurance for Stock	6,000	Stock value	3,500	2,500	—
P. F. Contribution	1,800	Wages	600	600	600
Electricity	10,800	H.P.	5,400	3,600	1,800
	62,400	-	32,400	19,250	10,750

Answer 8. (b)

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

$$= \frac{\sqrt{2 \times 60,000 \times 200}}{6}$$

$$= \sqrt{40,00,000}$$

$$= 2000 \text{ units.}$$

$$A \text{ or Annual consumption} = 200 \times 25 \times 12 = 60,000$$

$$O \text{ or Ordering cost} = ₹ 200$$

$$C \text{ or Carrying cost per unit} = 10\% \text{ of } ₹ 60 = ₹ 6$$