Paper 2- Fundamentals of Accounting
Section A

I. Choose the correct answer from the given four alternatives: [10 ×1 = 10]

(i) Liability A/c has balance
   (a) Debit
   (b) Credit
   (c) No balance
   (d) Either (a) or (b)

(ii) Accounting does not record non-financial transactions because of
     (a) Entity concept
     (b) Accrual Concept
     (c) Cost Concept
     (d) Money Measurement Concept

(iii) Retirement of bill means _____
     (a) making payment before the due date
     (b) cancellation of the bill
     (c) sending the bill for collection
     (d) endorsing the bill in favour of third party

(iv) In case of Consignment Commission will be shared by
     (a) consignor and consignee
     (b) only consignee
     (c) only consignor
     (d) third party

(v) Which of the following is the internal causes for depreciation?
    (a) wear and tear
    (b) depletion or exhaustion
    (c) both a & b
    (d) none of the above

(vi) Amrita A/c is _____
     (a) Personal A/c
     (b) Real A/c
     (c) Nominal A/c
     (d) None of the above

(vii) Which one of the equation is correct?
    (a) Total Assets – Liabilities = Capital – Profit
    (b) Total Assets – Liabilities = Capital + Profit
    (c) Total Assets + Liabilities = Capital + Liabilities
    (d) Total Assets + Liabilities = Capital – Profit

(viii) GAAP stands for ______
     (a) Generally Adopted Accounting Process
     (b) Generally Accepted Accounting Principles
     (c) Generally Accepted Auditing principles
     (d) None of the above

(ix) Which of the following is deferred revenue expenditure?
     (a) Repairs and Maintenance
     (b) Free samples of a new product
(c) Office equipment  
(d) Rent paid in advance

(x) Accounting does not record non-financial transactions because of ______
(a) Entity concept  
(b) Accrual concept  
(c) Cost concept  
(d) Money Measurement concept

II. State whether the following statements are True (or) False. [10 × 1 = 10]
(i) Debit side of the bank pass book corresponds to credit side of the cash book.
(ii) Error of omission arises when a particular transaction is completely or partly omitted to be recorded in books of accounts.
(iii) The cost of asset is spread over in equal proportions during its useful economic life under straight line method of depreciation.
(iv) Insurance prepaid is shown as fixed asset.
(v) Depreciation is an out of pocket cost.
(vi) Variable cost per unit varies with increase or decrease in volume of output.
(vii) Joint venture has a definite life.
(viii) Purchase of machinery for sale revenue expenditure.
(ix) Joint venture follows the going concern concepts.
(x) Land is a depreciable asset.

III. Fill in the blanks: [6×2= 12]
(i) The withdrawal of money by the owner from business is called ____.
(ii) Live stock is treated as a/an ____.
(iii) Inauguration expenses incurred on the opening of new manufacturing unit in an existing business is ____.
(iv) Trade mark is an ____ asset.
(v) Error of principle will have ____ effect on trial balance.
(vi) Income received in advance is a ________ A/c.

IV. Journalise the following transactions: [4 × 2 = 8]
(i) Rent received by Mr. Bose `12,000.
(ii) Bought goods from M/S Bhandari Bros. `3,000 at 10% trade discount.
(iii) ‘X’ invested `10,000 in a firm.
(iv) Wages paid `5,000.

V. Match the following: [8×1=8]

<table>
<thead>
<tr>
<th>Column ‘A’</th>
<th>Column ‘B’</th>
</tr>
</thead>
<tbody>
<tr>
<td>Memorandum Joint Venture</td>
<td>Revenue expenditure</td>
</tr>
<tr>
<td>Donations</td>
<td>Negotiable Instrument</td>
</tr>
<tr>
<td>Goodwill</td>
<td>Capital Expenditure</td>
</tr>
<tr>
<td>Cost of Copyright</td>
<td>Intangible Asset</td>
</tr>
<tr>
<td>Sales Book</td>
<td>3 days</td>
</tr>
<tr>
<td>Bills of Exchange</td>
<td>Receipts &amp; Payments A/c</td>
</tr>
<tr>
<td>Royalties</td>
<td>Co-venturer</td>
</tr>
<tr>
<td>Grace days</td>
<td>Subsidiary book</td>
</tr>
</tbody>
</table>

VI. Answer any two questions. Each question carries 16 Marks. [16×2 = 32]

A. (i) Lokesh of Meerat consigned 100 sewing machines to Govind of Ranchi to be sold on his risk. The cost of one sewing machine was `150 but the invoice price was `200. Lokesh paid freight `600 and insurance in transit `200.
Govind sent a bank draft to Lokesh for `10,000 as advance payment and later sent an Account Sales showing that 80 sewing machines were sold at 220 each. Expenses incurred by Govind were: Carriage Inward `25, Octroi `75, godown rent `500 and advertisement `300. Govind is entitled to a commission of 5% on sales. Prepare consignment account and find profit. [8]

(ii) The Bank Pass Book of Mr. Anil showed an overdraft of `8,000 on 31.12.2015. Prepare the Bank Reconciliation Statement based on the following details:
(a) Cheques issued but not presented upto 31.12.2015, `5,500
(b) Cheques deposited but not credited upto 31.12.2015, `9,000
(c) Bank commission `30 was entered only in the Pass Book.
(d) A cheque for `6,500 issued in settlement of a debt was encashed on 28.12.2015 but entered in the Cash Book as `8,500. [8]

B. (i) Prepare Income and Expenditure account and find surplus or deficit.

<table>
<thead>
<tr>
<th>Dr.</th>
<th>Receipts</th>
<th>Cr.</th>
<th>Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>To balance b/d (1-4-2014)</td>
<td>11,500</td>
<td>By Salaries</td>
<td>800</td>
</tr>
<tr>
<td>To subscriptions</td>
<td>6,500</td>
<td>By Rent</td>
<td>1,500</td>
</tr>
<tr>
<td>To Interest</td>
<td>500</td>
<td>By Stationery</td>
<td>500</td>
</tr>
<tr>
<td>To sale of old furniture</td>
<td>800</td>
<td>By Government Bonds</td>
<td>6,000</td>
</tr>
<tr>
<td>To Entrance Fees</td>
<td>4,000</td>
<td>By balance c/d (31-3-2015)</td>
<td>7,300</td>
</tr>
<tr>
<td></td>
<td>23,300</td>
<td></td>
<td>23,300</td>
</tr>
</tbody>
</table>

Adjustments:
(a) Subscriptions include `500 received for last year.
(b) Rent includes `300 paid for last year.
(c) Book value of furniture sold `1,000. [8]

(ii) Sunil owed Anil `80,000. Anil draws a bill on Sunil for that amount for 3 months on 1st April 2015. Sunil accepts it and returns it to Anil. On 15th April 2015, Anil discounts it with CD Bank at a discount of 12% p.a. On the due date the bill was dishonoured, the bank paid noting charges of `100. Anil settles the bank’s claim along with noting charges in cash. Sunil accepted another bill for 3 months for the amount due plus interest of `3,000 on 1st July 2015. Before the new bill became due, Sunil retires the bill with a rebate of `500. Show journal entries in books of Anil. [8]

C. John and Smith entered into a joint venture business to buy and sale garments to share profits or losses in the ratio of 5:3. John supplied 400 bales of shirting at `500 each and also paid `18,000 as carriage & insurance. Smith supplied 500 bales of suiting at `480 each and paid `22,000 as advertisement & carriage. John paid `50,000 as advance to Smith. John sold 500 bales of suiting at `600 each for cash and also all 400 bales of shirting at `650 each for cash. John is entitled for commission of 2.5% on total sales plus an allowance of `2,000 for looking after business. The joint venture was closed and the claims were settled. Prepare Joint Venture Account and Smith’s Account in the books of John and John’s Account in the books of Smith. [16]

Section – B

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

(i) Directors remuneration and expenses form a part of
(a) Production overhead
(b) Administration overhead
(c) Selling overhead
(d) Distribution overhead

(ii) Prime cost plus factory overheads is known as
(a) Factory on cost
(b) Conversion cost
(c) Factory cost
(d) Marginal cost

(iii) Advertisements are treated as
(a) Direct expenses
(b) Cost of production
(c) Selling overheads
(d) Distribution overheads

(iv) The segment of business that generates both revenue and cost is called as
(a) Cost centre
(b) Profit centre
(c) Cost drain
(d) All of the above

(v) Costs are classified into fixed costs, variable costs and semi-variable costs, it is known as
(a) Functional classification
(b) Behavioral classification
(c) Element wise classification
(d) Classification according to controllability

(vi) Interest on own capital is
(a) Cash cost
(b) Notional cost
(c) Sunk cost
(d) Part of Prime Cost

II. Fill in the blanks: [6×1=6]
(i) Any expenditure over and above prime cost is known as ___.
(ii) In ___ the cost of a group of products is ascertained.
(iii) Wages of delivery van driver is a ___.
(iv) Factory overheads are also known as ___ overheads.
(v) Chargeable expenses are an example ___ cost.
(vi) ___ cost are cost which are ascertained after they have been incurred.

III. Answer any One questions. Each question carries 8 marks. [8×1=8]

A.

From the following particulars, prepare cost statement showing the component of total cost and the profit for the year ended 31st December, 2015.

<table>
<thead>
<tr>
<th></th>
<th>1-1-2001(‘)</th>
<th>31-12-2001(‘)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock of finished goods</td>
<td>6,000</td>
<td>15,000</td>
</tr>
<tr>
<td>Stock of raw materials</td>
<td>40,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Work-in-progress</td>
<td>15,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Purchase of raw materials</td>
<td>4,75,000</td>
<td>32,500</td>
</tr>
<tr>
<td>Carriage inward</td>
<td>12,500</td>
<td>8,60,000</td>
</tr>
<tr>
<td>Wages</td>
<td>1,75,000</td>
<td>500</td>
</tr>
<tr>
<td>General expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales for the year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income tax</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Academics Department, The Institute of Cost Accountants of India (Statutory Body under an Act of Parliament) Page 5
<table>
<thead>
<tr>
<th></th>
<th>1-1-2015($)</th>
<th>31-12-2015($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw material</td>
<td>60,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Work-in-progress</td>
<td>24,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Finished goods</td>
<td>1,20,000</td>
<td>1,10,000</td>
</tr>
<tr>
<td>Purchase of materials during the year</td>
<td></td>
<td>9,00,000</td>
</tr>
<tr>
<td>Wages paid</td>
<td></td>
<td>5,00,000</td>
</tr>
<tr>
<td>Factory overheads</td>
<td></td>
<td>2,00,000</td>
</tr>
<tr>
<td>Administration overheads</td>
<td></td>
<td>50,000</td>
</tr>
<tr>
<td>Selling and distribution overheads</td>
<td></td>
<td>30,000</td>
</tr>
<tr>
<td>Sales</td>
<td></td>
<td>20,00,000</td>
</tr>
</tbody>
</table>

B. Prepare a statement of cost from the following data to show material consumed, Prime cost, factory cost, Cost of goods sold and profit.