

Paper 2- Fundamentals of Accounting

Paper 2- Fundamentals of Accounting

Full Marks : 100

Time allowed: 3 hours

Section - A

- I. Choose the correct answer from the given four alternatives: [6×1=6]
1. To compute the surplus or deficit for the year Non-trading concerns we prepare
 - (a) Income and Expenditure A/c
 - (b) Royalty A/c
 - (c) Non-Government A/c
 - (d) Charity A/c
 2. Identify the Example to Capital Expenditure
 - (a) Purchase of Raw material for Production
 - (b) Salesmen Salary
 - (c) Purchase of Furniture
 - (d) Payment of Electricity Bill
 3. Purchase of Fixed Asset by payment of Cash of ₹ 10,000 results in —
 - (a) Increase fixed asset by ₹ 10,000 Decrease Cash Balance by ₹ 10,000.
 - (b) Increase cash by ₹ 10,000 reduce capital by ₹ 10,000
 - (c) Reduce cash by ₹ 10,000 reduce other current liability by ₹ 10,000.
 - (d) Reduce fixed assets by ₹ 10,000 increase cash in hand by ₹ 10,000.
 4. The process of recording business transactions in a book of original entry is known as
 - (a) Journal
 - (b) Balance
 - (c) Posting
 - (d) None of the above
 5. Sales Returns Book is used to record
 - (a) Returns of Fixed Asset sold on credit
 - (b) Return of Inventory to Supplier
 - (c) Sale of goods on credit
 - (d) Return of goods received from Customers
 6. A Debit balance in the Bank column of the Cash Book indicates
 - (a) Debit balance in the Pass Book
 - (b) Credit balance in the Pass Book
 - (c) An overdrawn balance on Bank Statement
 - (d) None of the above.

Solution:

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

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

1. Trial balance is required to prepare the Bank Reconciliation.
2. Owner of the goods sent on consignment is Consignor.
3. Bill of exchange is accepted by the drawer.
4. Incomplete records system of accounting is known as Single Entry system also.
5. In a Partnership firm only one partner is the owner, remaining partners are employees.
6. Fixed Assets are kept in the business for use over a longer period.

Solution:

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

III. Journalise the following transactions: [3×2=6]

1. Sold goods for cash ₹ 25,000.
2. Paid Advertisement Expenses ₹ 8,000 by cash.
3. Goods Returned from Ravi ₹ 5,000.

Solution:

Journal Entries

Date	Particulars	L. F.	Debit ₹	Credit ₹
1.	Cash A/c Dr. To Sales (Being goods sold for cash)		25,000	25,000
2.	Advertisement Expenses A/c Dr. To Cash A/c (being Expenses paid)		8,000	8,000
3.	Sales Returns A/c Dr. To Ravi A/c (Being goods returned)		5,000	5,000

IV. Fill in the blanks: [6×2=12]

1. Discount given to Customers account will have _____ balance.
2. Excess of income over the expenditure is called _____ .
3. Cash Balance is shown in the _____ side of Balance Sheet
4. _____ method is used as charging depreciation for mines, oil wells, quarries and other wasting assets.
5. When an asset is purchased _____ account is debited.
6. When the consignor sends goods to consignee he prepares a _____ .

Solution:

1. Debit;
2. Surplus;
3. Assets;
4. Depletion unit method;

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5. Asset;
6. Proforma invoice.

V. Match the following:

[6×1=6]

	Column 'A'		Column 'B'
1.	Purchases	A	Personal Account
2.	Co-Owners	B	Trading Account
3.	Customer Mr. X Account	C	Income and Expenditure Account
4.	Subscriptions of a Club	D	Joint Ventures
5.	Goodwill	E	Depreciation
6.	Written Down Value Method	F	Intangible Asset

Solution:

	Column 'A'		Column 'B'
1.	Purchases	B	Trading Account
2.	Co-Owners	D	Joint Ventures
3.	Customer Mr. X Account	A	Personal Account
4.	Subscriptions of a Club	C	Income and Expenditure Account
5.	Goodwill	F	Intangible Asset
6.	Written Down Value Method	E	Depreciation

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

[3×8=24]

1. On 31.12.13, P. Roy's Bank Balance as shown by the Cash Book was ₹ 75,000. On receipt of Bank Statement it was found that:

- (i) Three cheques of ₹3,000, ₹4,000 and ₹1,500 drawn in favour of suppliers respectively on 28th, 29th and 30th December, 2013 had been debited in the Bank Statement on 2nd January 2014.
- (ii) The Bank had credited ₹ 8,000 on 30th December, 2013, in respect of collection made by Bank directly from a customer, the intimation not having yet been received.
- (iii) Two cheques of ₹5,000 and ₹6,000 were deposited into Bank on 30th December, 2013 had been credited in the Bank statement on 4th January, 2014.
- (iv) The Bank had debited ₹30 as incidental charges on 30th December, 2013 but not entered in the Cash Book.

Show the reconciliation of the Bank Balance as per Cash Book with the Bank Balance as per Bank Statement as on 31st December, 2013.

Answer:

Particulars	Amount ₹	Amount ₹
Bank balance as per Cash Book		75,000
Add:		
Cheques issued but not presented for payment	8,500	
Collection by bank from a custom not recorded in Cash Book	8,000	<u>16,500</u>
		91,500
Less:		
Cheque deposited but not credited in passbook.	11,000	
Bank charges not recorded in Cash Book	30	<u>11,030</u>
Balance as per Pass Book		80,470

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2. On 01.01.2009 Sudha of Srinagar consigned goods value of ₹20,000 to Indira of Warangal. Sudha paid cartage and other expenses ₹1,500. On 01.04.2009 Indira sent account sales with following information:

- a) 50% of goods sold for ₹ 15,000.
- b) Indira incurred expenses amounting to ₹ 750.
- c) Indira is entitled to receive commission @ 5% on sales.

Bank draft was enclosed for the balance due. Prepare the necessary ledger accounts in the books of Sudha.

Solution:

Consignment Account

Dr.			Cr.		
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
01/01/2009	To Goods sent on Consignment A/c	20,000	01/04/2009	By Indira (Sales)	15,000
01/01/2009	To Bank /Cash A/c	1,500	01/04/2009	By Closing Stock	10,750
01/04/2009	To Indira (Exp.)	750			
01/04/2009	To Indira (Com)	750			
	To P/L A/c (profit)	2750			
		25,750			25,750

W. N: - Total goods sent	100%	Cost of goods	20,000
(-) Sold	50%	(+) Consignor exp.	1,500
Remaining	50%		21,500
		100%	21,500
		50%	21,500 × 50% = 10,750

CONSIGNEE Account

Dr.			Cr.		
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
01/04/2009	To Consignment A/c	15,000	01/04/2009	By consignment(Exp.)	15,000
			01/04/2009	By Consignment(Exp.)	10,750
				By Bank A/c (B. F)	13,500
		15,000			15,000

Goods Sent on Consignment A/c

Dr.			Cr.		
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
01/01/2009	To Trading A/c	20,000	01/01/2009	By consignment	20,000
		20,000			20,000

3. Madan & Company purchased machinery on 01.01.2011 for ₹80,000 and spent ₹ 4,000 for its installation. The estimated life of the machinery is 10 years with a scrap value of ₹ 4,000. Books are closed on 31st December every year. Calculate the amount of annual depreciation under the straight line method and prepare machinery account for first 3 years.

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Solution:

$$\text{Annual Depreciation} = \frac{\text{Cost Asset} - \text{Scrapvalue}}{\text{Life period of Asset}}$$

$$\text{Depreciation} = \frac{80,000 + 4,000 - 4,000}{10}$$

$$\text{Depreciation} = 8,000$$

Machinery Account

Dr.			Cr.		
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
01/01/11	To Bank A/c	84,000	31/12/11	By Depreciation	8,000
				By Balance c/d	76,000
		84,000			84,000
01/01/12	To Balance b/d	76,000	31/12/12	By Depreciation	8,000
				By Balance c/d	68,000
		76,000			76,000
01/01/13	To Balance b/d	68,000	31/12/13	By Depreciation	8,000
				By balance c/d	60,000
		68,000			68,000
01/01/14	To Balance b/d	60,000			

4. Sunil owed Anil ₹ 80,000. Anil draws a bill on Sunil for that amount for 3 months on 1st April 2013. Sunil accepts it and returns it to Anil. On 15th April 2013, Anil discounts it with Citi 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 2013. Before the new bill became due, Sunil retires the bill with a rebate of ₹ 500. Show journal entries in books of Anil.

Solution:

Journal Entries in Books of Anil

Date	Particulars	L. F.	Debit ₹	Credit ₹
01/04/13	Bills Receivable A/c To Sunil A/c (Being acceptance By Sunil)	Dr.	80,000	80,000
15/04/13	Bank A/c Discount A/c To Bills Receivable A/c (Being discounting of bill)	Dr. Dr.	78,000 2,000	80,000
30/06/13	Sunil A/c To Bank A/c (Being dishonor bill including noting charges)	Dr.	80,100	80100
30/06/13	Bank A/c To Cash A/c (Being cash paid to bank)	Dr.	80,100	80,100
01/07/13	Sunil A/c To Interest A/c (Being interest due from Sunil)	Dr.	3,000	3000
01/07/13	Bills Receivable A/c To Sunil A/c (Being new acceptance)	Dr.	83,100	83,100

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01/07/13	Bank A/c Rebate A/c To Bills Receivable b/c A/c (Being amount received on retirement)	Dr. Dr.		82,600 500		83,100
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5. From the following information Prepare Trading and Profit & Loss Account of Mr.ABC for the year ended 31-Dec-2016
- (a) Sales for the year ₹ 5,00,000
 - (b) Closing Stock value ₹ 1,00,000
 - (c) Purchases during the year ₹ 1,75,000
 - (d) Opening Stock ₹ 1,25,000
 - (e) Direct Wages ₹ 100000
 - (f) Salaries ₹ 50,000
 - (g) Administrative Expenses ₹ 12,000
 - (h) Compute the Gross Profit and Net Profit of Mr.ABC.

Solution:

Dr.		Trading and P/L Account of ABC for year 31.2.2016		Cr.	
Particulars	Amount	Particulars	Amount		
To Opening Stock	1,25,000	By Sales	5,00,000		
To Purchases	1,75,000	By Closing Stock	1,00,000		
To Direct wages	1,00,000				
To Gross profit c/d	2,00,000				
	6,00,000			6,00,000	
To Salaries	50,000	By Gross profit b/d	2,00,000		
To Ad. Expenses	12,000				
To Net Profit (Transfer to Capital)	1,38,000				
	2,00,000			2,00,000	

Section - B

- I. Choose the correct answer from the given four alternatives: [6×1=6]
1. Maximum Consumption X Maximum lead time is the formula for
 - (a) Lead time
 - (b) Re-order level
 - (c) Maximum Consumption
 - (d) Danger Level
 2. Fixed Costs are also known as
 - (a) Period Costs
 - (b) Direct Costs
 - (c) Marginal Costs
 - (d) Semi Fixed Costs
 3. Which of the following is not an Inventory issue valuation method?
 - (a) FIFO
 - (b) LIFO
 - (c) Weighted Average
 - (d) Bin card
 4. Which of the following item is not included in Factory Overheads?

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- (a) Indirect material cost
 - (b) Indirect labour cost
 - (c) Power and fuel
 - (d) Direct material cost
5. BEP is found by the following formula:
- (a) Fixed cost per unit divided by the total contribution
 - (b) Total fixed cost divided by the contribution per unit
 - (c) Total sales divided by the contribution per unit
 - (d) None of the above
6. The main purpose of cost accounting is to
- (a) Recording costs
 - (b) Help in inventory valuation
 - (c) Provide information to management for decision making
 - (d) All of the above.

Solution:

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

II. Fill in the blanks:

[6×1=6]

1. All the indirect costs related to indirect material, indirect labour and indirect expenses are termed as overheads.
2. Fixed Cost of a Company are ₹ 10,000 and Contribution per unit is ₹2 then the Break even no. of units are 5,000.
3. Bin card Shows the quantitative information of the Inventory.
4. Change in Labour force of an organization during a period is known as labour Cost .
5. The combination of direct material and direct labour is Prime Cost.
6. Cost is amount of expenditure incurred upon a given thing.

Solution:

1. Overheads;
2. 5,000;
3. Quantitative;
4. labour cost;
5. Prime Cost;
6. Expenditure.

III. Match the following:

[6×1=6]

	Column 'A'		Column 'B'
1.	ABC Analysis	A	Labour Incentive Plan
2.	F W Taylor	B	Charge to Costing P & L
3.	Abnormal Loss	C	Selling & Distribution Overheads
4.	Advertisement Expense	D	Inventory Control
5.	Canteen Expenditure Apportionment	E	Job under Process

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6.	Work in Progress	F	Number of Employees in each department
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Solution:

	Column 'A'		Column 'B'
1.	ABC Analysis	D	Inventory Control
2.	F W Taylor	A	Labour Incentive Plan
3.	Abnormal Loss	B	Charge to Costing P& L
4.	Advertisement Expense	C	Selling & Distribution Overheads
5.	Canteen Expenditure Apportionment	F	Number of Employees in each department
6.	Work in Progress	E	Job under Process

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

1. Total Contribution is a sum of Fixed Cost and Profit.
2. Cost Accounting and Financial Accounting are one and the same.
3. Merrick plan is used to monitor the Inventory in an organization.
4. Machine hour rate indicates the time spent on a machine by the worker.
5. Direct labour cost is a part of Factory overhead expenses.
6. FIFO and LIFO are used to value the issue of Materials.

Solution:

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

V. Answer any two questions. Each question carries 8 marks. [2×8=16]

1. Following transactions are given in the books of a company for the month of March 2014. Write up a stores ledger using FIFO method and show the break-up of value of closing stock.

March 1	Opening balance 500 units @ ₹ 6 per unit
March 5	Purchased 100 units @ ₹ 7 per unit
March 7	Issued 400 units
March 15	Purchased 200 Units @ ₹ 6.5 per unit

Solution:

Stores Ledger (FIFO)

Date	Receipts (Purchas)			Issues			Balance		
	Qty	Rate	Value	Qty	Rate	Value	Qty	Rate	Value
01/03/14	-	-	-	-	-	-	500	6	3,000
05/03/14	100	7	700	-	-	-	500	6	3,000
							100	7	700
07/03/14	-	-	-	400	6	2,400	100	6	600
							100	7	700
15/03/14	20	6.5	1,300	-	-	-	100	6	600
							100	7	7000
							200	6.5	1,300

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∴ Closing Stock is ₹2,600.

2. A company imported mechanical seals and the following information is available: 1000 pieces were received at the CIF Mumbai price of \$30 per piece. Customs duty was paid @ 12% on invoice value after converting it at ₹ 38 to a dollar. Clearing charges were ₹1,800. Freight of ₹ 1,400 was paid by the company for transporting the material from Mumbai port to the factory site. Find the total landed cost of 1000 seals.

Answer:

Calculation of landed cost

Particulars	Amount ₹
Basic cost price (1,000 × 38 × 30)	11,40,000
Add: Customs Duty @ 12%	1,36,800
Clearing Charges	1,800
Transportation	1,400
Total landed cost of 1,000	12,80,000

3. Direct materials cost is ₹ 80,000. Direct labour cost is ₹ 60,000. Factory overhead is ₹ 90,000. Beginning goods in process were ₹ 15,000. Compute the Cost of Goods Manufactured?

Solution:

Particulars	Amount ₹
Direct Material	80,000
Direct Labour	60,000
Prime Cost	1,40,000
(+) Factory Overhead	90,000
(+) Opening WIP	15,000
(-) Closing WIP	-
Cost of Goods Manufactured	2,45,000

4. 2 hours allowed to a worker to produce 5 units and wages has been paid @ ₹ 25 per hour. In a 48 hours week the worker produced 170 units. You are required to calculate the total earnings and effective hourly rate of earnings of the worker under the following incentive wage systems:
(i) Emerson's efficiency system;
(ii) Barth system.

Answer:

Emerson's:

$$\begin{aligned}\text{Efficiency Percentage} &= (\text{Actual output}/\text{Standard output}) \times 100 \\ &= (170/120) \times 100 \\ &= 141.67\%\end{aligned}$$

$$\begin{aligned}\text{Time wages} &= 48 \times 25 &= 1,200.00 \\ (+) \text{ Bonus (100\% @ (20\% + 41.67\%))} &= \underline{740.04} \\ \text{Total earning} &= \underline{1,940.04}\end{aligned}$$

$$\text{Effective hourly rate} = \frac{1,940.04}{48} = 40.42 \text{ per hour.}$$

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Barth:

$$\begin{aligned}\text{Total Earning} &= \text{Hourly rate} \times \sqrt{\text{Standard hours} \times \text{hours}} \\ &= 25 \times \sqrt{68 \times 48} = 1,428.28\end{aligned}$$

$$\begin{aligned}\text{Effectively hourly rate of earning} & \\ &= \frac{1,428.28}{48} = 29.76 \text{ per hour.}\end{aligned}$$