

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]

- (i) Commission will be shared by
(a) consignor and consignee
(b) **only consignee**
(c) only consignor
(d) third party
- (ii) Retirement of bill means:
(a) **making payment before the due date**
(b) cancellation of the bill
(c) sending the bill for collection
(d) None of the above
- (iii) 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
- (iv) 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
- (v) 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.
- (vi) 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

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

1. **After preparation of ledgers, the next is the preparation of trial balance.**
2. **Bank pass book is also known as bank statement.**
3. **A person by whom the bill is endorsed is called endorser.**
4. **Account sales is a statement furnished by consignor to consignee.**
5. **Trial balance is required to prepare the Bank Reconciliation.**
6. **Income earned but not received are called accrued incomes.**

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Answer:

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

III. Journalise the following transactions:

[3×2=6]

1. Sold goods for cash ₹ 50,000.
2. Paid Advertisement Expenses ₹ 10,000 by cash.
3. Goods Returned from Ravi ₹ 5,000.

Answer:

Journal Entries

Date	Particulars	L. F.	Debit ₹	Credit ₹
1.	Cash A/c Dr. To Sales (Being goods sold for cash)		50,000	50,000
2.	Advertisement Expenses A/c Dr. To Cash A/c (being Expenses paid)		10,000	10,000
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. Balance in consignment account shows _____ or _____ on consignment
2. Cash Balance is shown in the _____ side of Balance Sheet.
3. When an asset is purchased _____ account is debited.
4. Debts for which there is neither any possibility of becoming bad nor any doubt about its realization, will arise in future is called _____.
5. Credit note is sent by _____.
6. Date on which the payment of the bill is to be made is known as _____ date.

Answer:

1. Profit, Loss;
2. Assets;
3. Asset;
4. Good Debts;
5. Seller;
6. Due.

V. Match the following:

[6×1=6]

	Column 'A'		Column 'B'
1.	Asset	A.	Revenue receipts
2.	Sale of goods	B.	Artificial personal account
3.	State Bank of India	C.	Real account
4.	Contra Transaction	D.	Personal account
5.	Harish Account	E.	Credit side of cash book

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6. Debit balance of pass book is	F.	Cash Book
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Answer:

Column 'A'		Column 'B'	
1. Asset		C.	Real account
2. Sale of goods		A.	Revenue receipts
3. State Bank of India		B.	Artificial personal account
4. Contra Transaction		F.	Cash Book
5. Harish Account		D.	Personal account
6. Debit balance of pass book is		E.	Credit side of cash book

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

[3×8=24]

1. Let us see an illustration for the following cash and bank 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 dishonoured by the Bank

[8]

Answer:

In the Books of Mr. Abhishek

Dr.						Cr.					
Receipts						Payments					
Date	Particulars	L.F	Cash (₹)	Bank (₹)	Dis Allowed (₹)	Date	Particulars	L.F	Cash (₹)	Bank (₹)	Dis received (₹)
1-Jan	Opening Balance		3,800	27,500		4-Jan	Wages paid		1,500		
5-Jan	Recd from KBK			19,800	200	7-Jan	Consultancy fees			7,500	
10-Jan	Cash withdrawn	C	2,500			10-Jan	Cash withdrawn	C		2,500	
12-Jan	Mr. X			4,500	500	15-Jan	Mr. X			4,500	500
							Closing balance		4,800	37,300	
			6,300	51,800	700				6,300	51,800	500

2. A machine is purchased for ₹ 14,00,000. Expenses incurred on its cartage and installation ₹ 6,00,000. Calculate the amount of depreciation @ 20% p.a. according to Straight Line Method for the first year ending on 31st March, 2015, if this machine is purchased on:

- (a) 1st April, 2014 (b) 1st July, 2014 (c) 1st October, 2014 (d) 1st January, 2015 **[8]**

Answer:

Here, Total Cost of Asset = Purchased Price + Cost of Cartage and Installation
 = ₹ 14,00,000 + ₹ 6,00,000 = ₹ 20,00,000
 = Total Cost of Asset × Rate of Depreciation ×
Period from the date of purchase of date od closing accounts

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- (a) The machine was purchased on 1st April, 2014:
Amount of Depreciation = ₹ 20,00,000 × 20% × $\frac{12}{12}$ = ₹ 4,00,000
- (b) 1st July, 2014
Amount of Depreciation = ₹ 20,00,000 × 20% × $\frac{9}{12}$ = ₹ 3,00,000
- (c) 1st October, 2014
Amount of Depreciation = ₹ 20,00,000 × 20% × $\frac{6}{12}$ = ₹ 2,00,000
- (d) 1st January, 2015
Amount of Depreciation = ₹ 20,00,000 × 20% × $\frac{3}{12}$ = ₹ 1,00,000

3. On 01.01.2015 Mita of Srinagar consigned goods value of ₹40,000 to Rita of Warangal. Mita paid cartage and other expenses ₹3,000. On 01.04.2015 Rita sent account sales with following information:

- a) 50% of goods sold for ₹ 30,000.
- b) Rita incurred expenses amounting to ₹ 1,500.
- c) Rita 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 Mita. [8]

Answer:

Consignment Account

Dr.			Cr.		
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
01/01/2015	To Goods sent on Consignment A/c	40,000	01/04/2015	By Rita (Sales)	30,000
01/01/2015	To Bank /Cash A/c	3,000	01/04/2015	By Closing Stock	21,500
01/04/2015	To Rita (Exp.)	1,500			
01/04/2015	To Rita (Com)	1,500			
	To P/L A/c (profit)	5,500			
		51,500			51,500

W. N: - Total goods sent	100%	Cost of goods	40,000
(-) Sold	50%	(+) Consignor exp.	3,000
Remaining	50%		43,000
		100%	43,000
		50%	43,000 × 50% = 21,500

Consignee Account

Dr.			Cr.		
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
01/04/2015	To Consignment A/c	30,000	01/04/2015	By Consignment(Exp.)	1,500
			01/04/2015	By Consignment(Com.)	1,500
				By Bank A/c (B. F)	27,000
		30,000			30,000

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Goods Sent on Consignment Account

Dr.			Cr.		
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
01/01/2015	To Trading A/c	40,000	01/01/2015	By Consignment	40,000
		40,000			40,000

4. From the following particulars, prepare Income and Expenditure Account.

	₹
Fees Collected (including ₹3,000 on account of last year)	28,000
Meeting Expenses	2,000
Travelling & Conveyance	800
Fees for the year outstanding	5,000
Salary paid (including ₹300 on account of last year)	2,400
Salary outstanding	400
Entertainment Expenses	500
Tournament Expenses	1,000
Purchase of Books and Periodicals (includes ₹2,000 for purchase of books)	3,000
Rent	1,200
Postage, Telephone and Telegram charges	1,700
Printing & Stationery	500
Donations received	800

[8]

Answer:

Income and Expenditure Account					
Dr.			Cr.		
Expenditure	Amount (₹)	Amount (₹)	Income	Amount (₹)	Amount (₹)
To Salaries	2,400		By Fees	28,000	
			Add: O/s Current Year	5,000	
Less: O/s last year	(300)		Less Last Year	(3,000)	
Add: O/s Current Year	400				30,000
		2,500	By Donation Received		800
To Entertainment Exp		500			
To Tournament Exp		1,000			
To Meeting Exp.		2,000			
To Travelling Exp.		800			
To Cost of Periodicals (₹3,000 - ₹2,000)		1,000			
To Rent		1,200			
To Postage, Telephone and Telegram charges		1,700			
To Printing & Stationery		500			
To Surplus		19,600			
		30,800			30,800

5. A and B enter into joint venture sharing profit 3/5th and 2/5th. A is to purchase timber in Madhya Pradesh and forward it to B in Delhi. A purchases timber worth ₹ 10,000 and pays ₹ 1,000 as expenses. B received the consigned and immediately accepted A's draft for ₹ 8,000. A gets discounted for ₹ 7,850. B sold the timber for ₹ 16,000. He had to spend

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₹ 350 for fire insurance and ₹ 300 for other expenses. Under the agreement he is entitled to a commission of 5% sales.

Give ledger accounts in the books of A and B.

[8]

Answer:

In the books of A				
Dr.		Joint Venture Account		Cr.
Particulars	₹	Particulars	₹	
To Bank: (purchase of timber)	10,000	By B's A/c (Sales)		16,000
To Bank (Expenses)	1,000			
To Bills Receivable A/c (Discount)	150			
To B's A/c:				
Fire Insurance	350			
Expenses	300			
Commission	800		1,450	
To Profit & Loss A/c	2,040			
To B's A/c	1,360		3,400	
	16,000			16,000

In the books of B				
Dr.		B's Account		Cr.
Particulars	₹	Particulars	₹	
To Joint Venture A/c	16,000	By Bills Receivable A/c		8,000
		By Joint Venture A/c (Expenses & Commission)		1,450
		By Joint Venture A/c (profit)		1,360
		By Bank A/c		5,190
	16,000			16,000

In the books of B				
Dr.		Joint Venture Account		Cr.
Particulars	₹	Particulars	₹	
To A's A/c: Purchase of timber	10,000	By bank A/c (sales)		16,000
Expenses	1,000			
B/R (discount)	150			
To Bank: Fire Insurance	350			
Expenses	300		650	
To Commission			800	
To A's A/c (profit)	2,040			
To P & L A/c	1,360		3,400	
			16,000	16,000

In the books of A				
Dr.		A's Account		Cr.
Particulars	₹	Particulars	₹	
To Bills Payable A/c	8,000	By Joint Venture A/c		11,150
To Bank A/c	5,190	By Joint Venture A/c (profit)		2,040
	13,190			13,190

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Section - B

I. (a) Choose the correct answer from the given four alternatives:

[6×1=6]

(i) Fixed Costs are also known as

- (a) Period Costs
- (b) **Direct Costs**
- (c) Marginal Costs
- (d) Semi Fixed Costs

(ii) Average inventory is :

- (a) Opening inventory
- (b) Closing inventory
- (c) Opening inventory + closing inventory
- (d) **None of the above**

(iii) In Prime Cost factory overhead is added to calculate....

- (a) Cost of goods sold
- (b) **Work Cost**
- (c) Prime Cost
- (d) Profit

(iv) "(Actual hours worked x ₹Rate per hour) + (Time saved ₹50% rate per hour)". Out of the following in which system the amount of wages is calculated?

- (a) **Halsey plan**
- (b) Rowan plan
- (c) Piece Rate System
- (d) Taylor's plan

(v) CAS stands for...

- (a) Cost Audit Statutory
- (b) **Cost Accounting Standard**
- (c) Cost Account Standard
- (d) Cost Audit

(vi) Contribution is ₹ 300,000 and sales is ₹ 1,500,000. Compute P/V ratio.

- (a) 15%
- (b) **20%**
- (c) 22%
- (d) 17.5%

(b) Fill in the blanks:

[6×1=6]

(i) Bin card Shows the _____ information of the Inventory.

(ii) Under _____ employees receive a constant proportion of value added.

(iii) For identifying slow moving stocks, it is necessary to compute the _____
_____ ratio.

(iv) Contribution earned on Break-even sales equals to _____ of the firm.

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(v) When time saved is equal to time taken then earnings of a worker under Halsey Plan and Rowan Plan are the _____.

(vi) To ascertain the Cost per Unit of a Product, we should prepare the statement of _____.

Answer:

- (i) Quantitative
- (ii) Rucker Plan
- (iii) Inventory Turnover / Stock Turnover
- (iv) Fixed Costs
- (v) Same
- (vi) Cost Sheet

(c) Match the following:

[6×1=6]

	Column 'A'		Column 'B'
1.	Angle of Incidence	A	Material, Labour & Overheads
2.	Conversion Cost	B	Profit Volume Ratio
3.	Store Ledger	C	BEP Chart
4.	Elements of Cost	D	accounting record
5.	F W Taylor	E	Labour cost plus Factory overhead
6.	Break – even Analysis	F	Labour Incentive Plan

Answer:

	Column 'A'		Column 'B'
1.	Angle of Incidence	C	BEP Chart
2.	Conversion Cost	E	Labour cost plus Factory overhead
3.	Store Ledger	D	accounting record
4.	Elements of Cost	A	Material, Labour & Overheads
5.	F W Taylor	F	Labour Incentive Plan
6.	Break – even Analysis	B	Profit Volume Ratio

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

[6 × 1 = 6]

- (i) Activity Based Costing is a traditional method of charging overhead.
- (ii) Stores Ledger shows quantity and value of stores/materials.
- (iii) Abnormal Costs are uncontrollable.
- (iv) Royalty based on units produced is considered as direct expenses.
- (v) An increase in variable cost increases contribution.
- (vi) Under-absorption of overhead results in higher amount of profit.

Answer:

- (i) False
- (ii) True
- (iii) False
- (iv) True
- (v) False
- (vi) True

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II. Answer any two questions out of four questions

[8×2=16]

1. A company had 500 workers on its roll on 1st April 2016 and 600 on 30th June 2016. During the quarter, 5 workers left, 20 were discharged and 75 workers were recruited. Of these 10 workers were recruited as replacements for people leaving, while the rest were for expansion. Calculate the labour turnover rate under (a) Flux Method, (b) Replacement Method and (c) Separation Method.

Answer:

The average number of people working = $(500+600)/2 = 550$

Labour Turnover Rate under Flux Method

$$\text{LT rate} = \frac{1}{2} \times \frac{(\text{No. of Separation} + \text{No. of accession})}{\text{Av. manpower in the period}} \times 100$$

$$\text{LT Rate} = [1/2 (5+20+10)]/550 \times 100 = 3.18\%$$

Labour turnover rate under Replacement method

$$\begin{aligned} \text{LT rate} &= \frac{\text{No. of replacement during the period}}{\text{Av. manpower in the period}} \times 100 \\ &= (10/550) \times 100 \\ &= 1.82\% \end{aligned}$$

Labour turnover rate under Separation method

$$\begin{aligned} \text{LT rate} &= \frac{\text{No. of separation during the period}}{\text{Av. manpower in the period}} \times 100 \\ &= 25/550 \times 100 = 4.54\% \end{aligned}$$

2. A company maintains a margin of safety of 25% on its current sales and earns a profit of ₹ 30 lakhs per annum. If the company has a profit volume (P/V) ratio of 40%, find current sales amount.

Answer:

Margin of safety = Profit/ P/V Ratio

$$= ₹30/0.40$$

$$= ₹75 lakhs$$

0.25 of sales = ₹ 75 lakhs

Hence, Sales = $75/0.25$

$$= ₹ 300 lakhs$$

3. Cost of Sales = ₹37,416. Advertisement Expenses = ₹600. Discount on sales = 50% of Advertisement Expenses. Find Cost of Goods Sold.

Answer:

We Know, Cost of Goods Sold + Selling and Distribution Overheads = Cost of Sales.

Both Advertisement Expenses and Discount on sales together constitutes Selling and Distribution Overhead

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Particulars	₹
Cost of Sales	37,416
Less: Selling and Distribution Overheads	
Advertisement Expenses	600
Discount on sales(50% of ₹600)	300
Cost of Goods Sold	36,516

4. Consider the following data pertaining to the production of a company for a particular month :

Opening stock of raw material	₹ 11,570
Closing stock of raw material	₹ 10,380
Purchase of raw material during the month	₹ 1,28,450
Total manufacturing cost charged to product	₹ 3,39,165

Factory overheads are applied at the rate of 45% of direct labour cost.
What is the amount of factory overheads applied to production?

Answer:

$$\begin{aligned}\text{Raw material used} &= \text{Op. Stock} + \text{Purchases} - \text{Cl. Stock} \\ &= ₹ 11,570 + ₹ 1,28,450 - ₹ 10,380 \\ &= ₹ 1,29,640\end{aligned}$$

$$\text{Manufacturing cost} = \text{Raw material used} + \text{Direct labour} + \text{Factory overhead}$$

$$₹ 3,39,165 = ₹ 1,29,640 + \text{Direct labour} + 45\% \text{ of Direct labour}$$

$$1.45 \text{ Direct labour} = ₹ 2,09,525$$

$$\text{Direct labour} = ₹ 1,44,500$$

$$\text{The amount of factory overhead} = 45\% \text{ of } ₹ 1,44,500 = ₹ 65,025$$