

Paper 2- Fundamentals of Accounting

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Full Marks : 100

Time allowed: 3 hours

Section - A

1. (a) Choose the correct answer from the given four alternatives: [30 × 1 = 30]
- (i) Which of the following is an example of Personal Account?
(a) Machinery
(b) Rent
(c) Cash
(d) Mrs. Madhuri Sen
- (ii) Purchase of computer for use in the business should be treated as a Capital Expenditure.
(a) Capital Expenditure
(b) Revenue Expenditure
(c) Capital Receipt
(d) Revenue Receipt
- (iii) Nominal account represents
(a) Profit & gain
(b) Loss/ Expenses
(c) None
(d) Both (a) and (b)
- (iv) Prepaid rent is a
(a) Nominal A/c
(b) representative personal A/c
(c) tangible assets account
(d) none
- (v) A cash book with discount and bank column is called
(a) Single column cash book
(b) Two column cash book
(c) Three column cash book
(d) petty cash book
- (vi) Obsolescence means decline in the value due to
(a) physical wear and tear
(b) efflux of time
(c) fall in market price
(d) innovations and inventions
- (vii) Under which of the following concepts shareholders are treated as creditors for the amount they paid on the shares they subscribed to?
(a) Cost Concept
(b) Duality Concept
(c) Entity Concept

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- (d) Since the shareholders own the business, they are not treated as creditors
- (viii) Under casting or overcasting of a subsidiary book is an example of
- (a) Error of commission
 - (b) Error of omission
 - (c) Error of Principle
 - (d) None of the above
- (ix) _____ debts are impossible to collect and it should be treated as a business loss
- (a) Bad
 - (b) Doubtful
 - (c) Good
 - (d) None of the above
- (x) Which of the following are/is a current asset?
- (a) Sundry Creditors
 - (b) Provision for taxation
 - (c) Prepaid insurance
 - (d) Both (a) and (b)
- (xi) Which of these types of errors are not detected during bank reconciliation?
- (a) Cash embezzlement by the cashier
 - (b) cheque deposited but not credited by bank
 - (c) Casting mistakes in bank column of cash book
 - (d) Interest or commission charged by the bank but not accounted for in cash book.
- (xii) Assets appearing in the books having no real value are known as —
- (a) Fictitious assets
 - (b) Tangible Asset
 - (c) Current Asset
 - (d) None of the Above
- (xiii) Rebate is given in case of ____ of a bill.
- (a) Maturity
 - (b) Retirement
 - (c) Discounting
 - (d) None of the above
- (xiv) Which of the following term is true above consignment?
- (a) sale of goods
 - (b) hypothecation of goods
 - (c) shipment of goods
 - (d) mortgage of goods
- (xv) A debit note issued to a creditor for goods returned by us is to be recorded in the
- (a) bills receivable book
 - (b) purchases book
 - (c) journal proper (general journal)
 - (d) purchases returns book
- (xvi) Import duty payable on raw material purchased
- (a) Capital expenditure
 - (b) Revenue expenditure
 - (c) Deferred revenue expenditure

- (d) None of these
- (xvii) Which of the following is/are special journal
- (a) Purchase Day Book
 - (b) Sales day Book
 - (c) Returns Inward Book
 - (d) All of the above
- (xviii) A withdrawal of cash from business by the proprietor should be credited to
- (a) Drawing A/c
 - (b) Capital A/c
 - (c) Cash A/c
 - (d) Purchase A/c
- (xix) Which of the following is not a step of Accounting Cycle?
- (a) Recording of Transactions
 - (b) Maintaining of Cost Records
 - (c) Ledger
 - (d) Trial Balance
- (xx) Which of the following statement is true?
- (a) There is no difference between joint venture and partners
 - (b) Consignment and joint venture is same
 - (c) There is not separate act for joint venture
 - (d) None of the above
- (xxi) Transaction means an event which
- (a) Can be measured in terms of money
 - (b) Changes the financial position of a person
 - (c) Can be recorded in Books of Accounts
 - (d) All of the Above
- (xxii) Which of the following is not a part of financial statement?
- (a) Profit and Loss Account
 - (b) Balance Sheet
 - (c) Cash Flow Statement
 - (d) Trial Balance
- (xxiii) A bank reconciliation statement is a statement prepared to reconcile
- (a) Trail Balance
 - (b) Profit as per books of account with the profit as per Income-Tax returns
 - (c) Cash balances per cash book with bank balance as per pass book
 - (d) Bank balance as per cash book with bank balance as per bank pass book
- (xxiv) Bank overdraft as per Cash Book ₹13,500. Cheque deposited but not credited ₹3,000, cheque issued but not presented ₹6,000. Overdraft as per Bank statement will be —
- (a) ₹10,500
 - (b) ₹10,000
 - (c) ₹11,000
 - (d) None of the above
- (xxv) Gross Profit is equal to
- (a) Sales – Cost of goods sold
 - (b) Sales – Closing Stock + Purchases
 - (c) Opening Stock + Purchases – Closing Stock

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(d) None of the above

(xxvi) A sends goods costing ₹1,00,000 on consignment to yield a profit of 20% on cost. What is the invoice price

- (a) ₹1,37,500
- (b) ₹1,25,000
- (c) ₹1,20,000
- (d) ₹None

(xxvii) At the time of preparation of financial accounts, bad debts recovered account will be transferred to

- (a) Debtors A/c
- (b) Profit & Loss A/c
- (c) Profit & loss Adjustment A/c
- (d) Profit & loss Appropriation A/c

(xxviii) A formed a joint venture with B, Purchased goods costing ₹2,00,000. B sold 80% of the goods for ₹ 2,50,000. Balance of goods were taken over by B at cost less 25%. Find out profit on venture?

- (a) ₹80,000
- (b) ₹90,000
- (c) ₹50,000
- (d) None of these

(xxix) The determination of expenses for an accounting period is based on the concept of

- (a) Objectivity
- (b) Materiality
- (c) Matching
- (d) Periodicity

(xxx) Which of the following is an external cause for depreciation

- (a) Obsolescence
- (b) Wear and Tear
- (c) Depletion
- (d) All of the above

Answer:

(i)	(d)	(xi)	(a)	(xxi)	(d)
(ii)	(a)	(xii)	(a)	(xxii)	(d)
(iii)	(d)	(xiii)	(b)	(xxiii)	(d)
(iv)	(b)	(xiv)	(c)	(xxiv)	(a)
(v)	(c)	(xv)	(d)	(xxv)	(a)
(vi)	(d)	(xvi)	(b)	(xxvi)	(c)
(vii)	(c)	(xvii)	(d)	(xxvii)	(b)
(viii)	(a)	(xviii)	(c)	(xxviii)	(a)
(ix)	(a)	(xix)	(b)	(xxix)	(d)
(x)	(c)	(xx)	(c)	(xxx)	(a)

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(b) State whether the following statements are True (or) False:

[12 × 1 = 12]

- (i) Financial statements are part of Accounting.
- (ii) Capital receipts are shown in Assets side of balance sheet.
- (iii) Real accounts related to assets or properties or possessions.
- (iv) Debit is derived from the latin word – debitum, which means “what we will have to pay”.
- (v) Ledger records transactions as and when it happens.
- (vi) Overcasting of purchases journal would affect purchases account.
- (vii) Receipts are recorded on the credit side of cash book.
- (viii) In straight line method physical wear and tear are more important than economic obsolescence.
- (ix) It is easy to detect fraud than to error.
- (x) While preparing bank reconciliation statement from debit balance of cash book cheques paid into bank but not yet cleared are deducted.
- (xi) A person by whom the bill is endorsed is called endorsee.
- (xii) Balance in consignment account shows profit and loss on consignment.

Answer:

- (i) — True
- (ii) — False
- (iii) — True
- (iv) — False
- (v) — False
- (vi) — True
- (vii) — False
- (viii) — True
- (ix) — False
- (x) — True
- (xi) — False
- (xii) — True

(c) Match the following:

[6×1=6]

	Column 'A'		Column 'B'
1.	Live Stock	A.	Revenue Receipt
2.	Received interest	B.	Asset
3.	Patent	C.	Credit side of pass book
4.	Debit balance of cash book is	D.	Amortisation
5.	Renewal of bill	E.	Total sales
6.	Del. credere commission is calculated on	F.	includes interest

Answer:

	Column 'A'		Column 'B'
1.	Live Stock	B.	Asset
2.	Received Interest	A.	Revenue Receipt
3.	Patent	D.	Amortisation
4.	Debit balance of cash book is	C.	Credit side of pass book
5.	Renewal of bill	F.	includes interest
6.	Del. credere commission is calculated on	E.	Total sales

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Answer any four questions out of six questions [4×8=32]

2. The total of debit side of Trial Balance of a larger boot and shoe repairing firm as on 31.12.2017 is ₹ 1,66,590 and that of the credit side is ₹ 42,470. After several checking and re-checking the mistakes are discovered: [8]

Items of Account	Correct Figure (as it would be) ₹	Figures as it appear in the Trial Balance ₹	
Opening Stock	14,900	14,800	
Repairs (outstanding)	61,780	61,780	(appear in the Debit side)
Rent & Taxes	2,160	2,400	
Sundry Creditors	6,070	5,900	
Sundry Debtors	8,060	8,310	

Ascertain the correct total of the Trial Balance.

Answer:

Particulars	Debit (₹)	Credit (₹)
Total as per Trail Balance	1,66,590	42,470
Opening Stock understated (14,900-14,800)	+100	-
Repairs being credit balance, but shown as debit balance	-61,780	+61,780
Rent & Taxes overstated (2,400-2,160)	-240	-
Sundry Creditors understated (6,070-5,900)	-	+170
Sundry Debtors overstated (8,310-8,060)	-250	-
Total	1,04,420	1,04,420

3. Calculate the Rate of Depreciation under Straight Line Method (SLM) in each of the following:- [8]

Machine No.	Cost of Machine (₹)	Expenses incurred at the time of purchase to be capitalized (₹)	Estimated Residual Value (₹)	Expected Useful Life in years
1	1,80,000	20,000	40,000	8
2	24,000	7,000	3,100	6
3	1,05,000	20,000	12,500	5
4	2,50,000	30,000	56,000	10

Answer:

Machine No	Cost of Machine (₹)	Expenses incurred at the time of purchase to be capitalized (₹)	Depreciation = (d-e)/f (₹)	Total Cost of Asset = (b+c) (₹)	Estimated Residual Value (₹)	Expected Useful Life in years	Rate of Depreciation under SLM = (g/d)×100
a	b	c	g	d	e	f	h
1	1,80,000	20,000	20,000	2,00,000	40,000	8	10%
2	24,000	7,000	4,650	31,000	3,100	6	15%
3	1,05,000	20,000	22,500	1,25,000	12,500	5	18%
4	2,50,000	30,000	22,400	2,80,000	56,000	10	8%

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4. On 31.12.16, S. Roy's Bank Balance as shown by the Cash Book was ₹ 1,05,000. 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, 2016 had been debited in the Bank Statement on 2nd January 2017.
- (ii) The Bank had credited ₹10,000 on 30th December, 2016, in respect of collection made by Bank directly from a customer, the intimation not having yet been received.
- (iii) Two cheques of ₹7,000 and ₹6,000 were deposited into Bank on 30th December, 2016 had been credited in the Bank statement on 4th January, 2017.

Show the reconciliation of the Bank Balance as per Cash Book with the Bank Balance as per Bank Statement as on 31st December, 2016. [8]

Answer:

Bank Reconciliation Statement of Mr. S. Roy as on 31st December, 2016

Particulars	Amount (₹)	Amount (₹)
Bank Balance as per Cash Book (Dr.)		1,05,000
Add:		
(i) Cheques issued but not presented for payment ₹3,000, ₹4,000 & ₹1,500 respectively.	8,500	
(ii) Collection by Bank from a Customer not recorded in the Cash Book	10,000	18,500
		1,23,500
Less:		
(i) Cheques deposited but not credited in the Pass Book on 31.12.16 ₹7,000 + ₹6,000 respectively.		13,000
Balance as per Pass Book (Cr.)		1,10,500

5. Sita and Gita entered into a Joint Venture for the production and sale of "Mahalaya" CDs during a festival season. Sita contributed ₹3,00,000 and Gita contributed ₹2,00,000 to the venture. They incurred the following expenses towards Joint Venture –

- (a) Payment to Artists and Technicians - ₹2,80,000,
- (b) Hire Charges for Equipment, Lab Fees, etc. - ₹1,20,000,
- (c) CD Making, Packing and Promotion Expenses - ₹75,000.

They made 20,000 CDs and sold 16,000 CDs during the festival season at ₹45 per CD. Gita directly received the sale proceeds of 2,500 CDs out of the above 16,000 CDs.

Sita took over 3,000 CDs at an agreed cost of ₹25 per CD. 1,000 CDs were found defective at the end of the season and had to be scrapped.

Separate books were maintained for the Venture, and the profits were divided in the ratio 3:2. Give Journal Entries. [8]

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Answer:

1. Journal Entries

	Particulars		Dr.	Cr.
1.	Joint Bank A/c To Sita A/c To Gita A/c (Being Initial Contribution by Co-Venturers in Joint Bank Account)	Dr.	5,00,000	3,00,000 2,00,000
2.	Joint Venture A/c To Joint Bank A/c (Being Expenses paid out of Joint Bank Account – (a) Payment to Artists and Technicians - ₹2,80,000, (b) Hire Charges for Equipment, Lab Fees, etc. - ₹1,20,000, (c) CD Making, Packing and Promotion - ₹75,000.)	Dr.	4,75,000	4,75,000
3.	Joint Bank A/c To Joint Venture A/c (Being Sales made = 16000 - 2500 = 13,500 CDs at ₹45 per CD)	Dr.	6,07,500	6,07,500
4.	Gita A/c To Joint Venture A/c (Being collections directly received by Gita 2500 CDs at ₹45)	Dr.	1,12,500	1,12,500
5.	Sita A/c To Joint Venture A/c (Being 3,000 CDs taken over at agreed cost of ₹25)	Dr.	75,000	75,000
6.	Joint Venture A/c To Sita A/c To Gita A/c (Being profit on JV distributed in ratio of 3:2)	Dr.	3,20,000	1,92,000 1,28,000
7.	Sita A/c Gita A/c To Joint Bank Account (Being final settlement to Co-Venturers, on closure of Joint Bank A/c)	Dr. Dr.	4,17,000 2,15,500	6,32,500

6. From the following Receipts and Payments Account and other details of Ummid Memorial Trust, which commences its working from 1st January, 2015 with a capital of ₹40,000 in cash and furniture ₹20,000, prepare Income & Expenditure Account and Balance Sheet.

Dr.	Receipts and Payments Account		Cr.
Receipts	Amount (₹)	Payments	Amount (₹)
To Balance b/d	40,000	By Salaries	15,000
To Donations	60,000	By Conveyance	6,000
To Legacies	16,000	By Rent	12,000
To Subscriptions	14,000	By Subscriptions to Journals	5,400
To Furniture Sold (on 31.12.2014)	6,000	By Stationery	1,000
		By Books	4,000
		By Buildings (Purchased on 1.1.2014)	68,000
		By Balance	24,600
	1,36,000		1,36,000

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Additional information:

- a) Provide for depreciation on Furniture @10% and on Buildings @10% and on Books ₹1,000
- b) Outstanding subscriptions at the end of the year 2014 ₹15,000 and subscriptions received in advance for 2015 were ₹5,000
- c) Outstanding expenses: Rent ₹1,000; Salary ₹2,000

[8]

Answer:

Ummid Memorial Trust
Income and Expenditure Account for the year ended 31.12.2014

Dr.					Cr.
Expenditure	Amount (₹)	Amount (₹)	Income	Amount (₹)	Amount (₹)
To Salaries	15,000		By Donations		60,000
Add: Outstanding	2,000	17,000	By Subscriptions	14,000	
To Conveyance		6,000	Add: Outstanding Subscription	15,000	
				29,000	
To Rent	12,000		Less: Received in Adv.	5,000	24,000
Add: Outstanding rent	1,000	13,000			
To Subscriptions to Journals		5,400			
To Stationery		1,000			
To Depreciation on:					
-Furniture @10%	2,000				
-Building @10%	6,800				
-Books	1,000	9,800			
To Loss on sale of Furniture (20000-2000-6000)		12000			
To Surplus –Excess of Income over Expenditure		19,800			
		84,000			84,000

7. Punit consigned 10,000 litres of Oil to Amrit at a cost of ₹55 per litre. The following further details are available -

- Punit incurred transportation and insurance cost of ₹7,500.
- During transit, 250 liters were expected to be lost by way of evaporation.
- Amrit received only 9,000 litres and incurred ₹9,900 towards taking delivery of goods, ₹12,500 towards advertising and selling expenses. It was found that 750 litres of oil were lost in transit due to accident.
- Amrit is entitled to a Commission of 10%. As per the Account Sales, Amrit had sold 7000 litres at ₹75 per litre.
- Amrit also reported that there was a loss of 500 litres of oil in his godown, due to leakage of packets. This loss was not covered by Insurance.

Compute the value of Closing Stock and Abnormal Loss.

[8]

Answer:

1. Computation of Average Rate per litre

	Particulars	Amount	Relevant Qty (litres)	Average Rate per litre
1.	Goods sent by Consignor (₹55 x 10,000 litres)	₹5,50,000	10,000 - 250 = 9,750 litres	₹56.41

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2.	Direct Expenses of Consignor (Transport & Insurance)	₹7,500	10,000 - 250 = 9,750 litres	₹0.77
3.	Direct Expenses of Consignee (taking delivery)	₹9,900	Received Qty = 9,000 litres	₹1.10
Total				₹58.28

Note: Advertising, Selling and Commission Expenses are not includible in Stock Valuation.

2. Valuation of Closing Stock and Abnormal Loss

Particulars	Abnormal Loss during Transit	Abnormal Loss in Consignee's Godown	Closing Stock
1. Quantity involved	Given = 750	Given = 500 litres	Received - Sold - Lost = 9000 - 7000 - 500 = 1,500
2. Rate per litre	56.41 + 0.77 = ₹57.18	(as above) = ₹58.28	(as above) = ₹58.28
3. Value (lx 2)	₹42,885	₹29,140	₹87,420

Note: Direct Expenses of Consignee have **not** been included for valuation of Loss in Transit, since that cost has **not been incurred at that stage**.

Section – B

8. Choose the correct answer:

[12×1=12]

(i) 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

(ii) Prime cost may be correctly termed as

- (a) the sum of direct material and labour cost with all other costs excluded
- (b) the total of all cost items which can be directly charged to product units
- (c) The total costs incurred in producing a finished unit
- (d) the sum of the large cost there in a product cost

(iii) Direct expenses are also known as

- (a) Overhead expenses
- (b) process expenses
- (c) chargeable expenses
- (d) None

(iv) Prime cost plus factory overheads is known as

- (a) Factory on cost
- (b) Conversion cost
- (c) Factory cost
- (d) Marginal cost

(v) The works cost plus administration expenses

- (a) Total Cost
- (b) Cost of production
- (c) cost of sales
- (d) Factory cost

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- (vi) Which of the following is not a relevant cost?
(a) Replacement cost
(b) Sunk cost
(c) Marginal cost
(d) standard cost
- (vii) Cost units of Hospital Industry is
(a) Tonne
(b) Student per year
(c) Kilowatt Hour
(d) Patient Day
- (viii) Depreciation is a example of
(a) Fixed Cost
(b) Variable Cost
(c) Semi Variable Cost
(d) None of these
- (ix) Cost which can be identified easily is called as
(a) Indirect cost
(b) Direct cost
(c) variable cost
(d) fixed cost
- (x) Notional cost is also known as
(a) Imputed cost
(b) Opportunity cost
(c) Out of pocket cost
(d) Variable cost
- (xi) Statement showing break-up of costs is known as
(a) cost-sheet
(b) statement of profit
(c) production account
(d) Tender
- (xii) Those costs which do not vary with the change in the volume of production up to a given range, is called _____
(a) Opportunity Cost
(b) Fixed Cost
(c) Variable Cost
(d) Semi-Variable Cost

Answer:

(i)	(b)	(v)	(b)	(ix)	(b)
(ii)	(b)	(vi)	(b)	(x)	(a)
(iii)	(c)	(vii)	(d)	(xi)	(a)
(iv)	(c)	(viii)	(a)	(xii)	(b)

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Answer any one question out of two questions [1×8=8]

9. The following data pertains to a company for the month of March 2016:

- (i) Direct Material used ₹8,470;
- (ii) Opening Stock of Finished Goods?
- (iii) Closing Stock of Finished Goods ₹940;
- (iv) Direct Labour Cost ₹3,890;
- (v) Manufacturing Overhead ?
- (vi) Cost of Goods Produced ₹18,780;
- (vii) Cost of Goods Sold?
- (viii) Cost of Goods available for sale ₹19,490.

Find out the missing items.

[8]

Answer:

Computation of Manufacturing Overheads:

Cost of Goods Produced = Direct material + Direct Labour + Manufacturing Overheads
 Or, ₹18,780 = ₹8,470 + ₹3,890 + Manufacturing Overheads
 ∴ Manufacturing Overheads = ₹18,780 - ₹(8,470+3,890) = ₹6,420.

Computation of Opening Stock:

Cost of Goods available for Sale = Opening Stock of Finished Goods + Cost of Goods Produced
 Or, ₹19,490 = Opening Stock of Finished Goods + ₹18,780
 ∴ Opening Stock of Finished Goods = ₹19,490 - ₹18,780 = ₹710.

Computation of Cost of Goods Sold:

Cost of Goods Sold = Cost of Goods available for Sale – Closing Stock of Finished Goods
 = ₹(19,490 - ₹940) = ₹18,550

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

	1-1-2016(₹)	31-12-2016(₹)
Raw material	1,50,000	1,25,000
Work-in-progress	60,000	75,000
Finished goods	3,00,000	2,75,000
Purchase of materials during the year		22,50,000
Wages paid		12,50,000
Factory overheads		5,00,000
Administration overheads		1,25,000
Selling and distribution overheads		75,000
Sales		50,00,000

[8]

Answer:

Statement of cost and profit

Particulars	₹	₹
Opening stock of raw materials	1,50,000	
Add: purchase of raw materials	22,50,000	

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	24,00,000	
Less: Closing stock of raw materials	1,25,000	
Materials consumed		22,75,000
Wages paid		12,50,000
Prime cost		35,25,000
Factory overheads		5,00,000
Add: opening stock or WIP		60,000
		40,85,000
Less: closing stock of WIP		75,000
Factory cost		40,10,000
Administrative overheads		1,25,000
Add: opening stock of finished goods		3,00,000
		44,35,000
Less: closing stock of finished goods		2,75,000
Cost of goods sold		41,60,000
Selling and distribution overheads		75,000
Cost of sales		42,35,000
Profit		7,65,000
Sales		50,00,000