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 not the sub-field of accounting?
- (a) Management Accounting
- (b) Cost Accounting
- (c) Financial Accounting
- (d) Book – keeping

(ii) Accounting is based on a careful and efficient_______ system.
- (a) Book keeping
- (b) Recording
- (c) Classifying
- (d) Communicating

(iii) Accrual system of Accounting is also known as -
- (a) Cash system of accounting
- (b) Mercantile system of accounting
- (c) Cost system of accounting
- (d) None of the above

(iv) Modern financial accounting is based on
- (a) Dual Aspect Concept
- (b) Cost Concept
- (c) Accrual Concept
- (d) Going Concern Concept

(v) Accounting Conventions are established by ----
- (a) Law
- (b) Rules
- (c) Regulation
- (d) Common Accounting Practices

(vi) Going concern Concept is not followed
- (a) By banks
- (b) By Co-operative Societies
- (c) Joint venture Accounting
- (d) Depreciation Accounting

(vii) The practice of appending note regarding contingent liabilities in the accounting statements is in pursuant to -
- (a) Convention of Consistency

(b) **Money Measurement Concept**
(c) **Convention of Disclosure**
(d) **Convention of Going Concern**

(viii) Which of the following statements explain prudence concept most closely?
(a) **All legislation and accounting standards have been complied with.**
(b) **Understatement of assets or gains and overstatement of liabilities or losses.**
(c) **Revenue and profit are not recognized until realized and provision is made for all known liabilities.**
(d) **The application of a degree of caution in exercising judgment under conditions of uncertainty**

(ix) Objective of Accounting Standard is __________
(a) **To help the Government for raising the taxes.**
(b) **To standardize the diverse accounting policies and practices.**
(c) **To make the account simple.**
(d) **None of the above.**

(x) Accounting policies followed by the companies are ________
(a) **Different from year to year.**
(b) **Frequently changes as per the situation.**
(c) **The same as notes to accounts**
(d) **Consistently followed from year to year.**

(xi) Journal records all transactions in __________
(a) **Alphabetical order**
(b) **Random manner**
(c) **Chronological order**
(d) **None of the above**

(xii) A journal records ________________
(a) **Only debit part of a transaction.**
(b) **Only credit part of a transaction**
(c) **Both debit part and credit part of a transaction without narration.**
(d) **Both debit part and credit part of a transaction with narration.**

(xiii) The process of transferring the accounts from the journal to the ledger is called __________.
(a) **Journalising**
(b) **Posting**
(c) **Balancing**
(d) **Casting**

(xiv) A Cash book ___________.

(a) **Performs the functions of both Journal and ledger at the same time.**
(b) **Records only one aspect of transaction i. e. cash.**

(c) Records all cash transactions chronologically.
(d) All of the above

(xv) Imprest system is used in ___________.
(a) Journal
(b) Ledger
(c) Cash book
(d) Petty cash book

(xvi) Which of the following is not true for trade discount?
(a) It represents an allowance which is made by the manufacturer to wholesales.
(b) It is usually deducted from the catalogue price.
(c) Special journal entry is required to record it.
(d) No account is opened in the ledger.

(xvii) Which of the following will not be entered in the Cash Book?
(a) Dishonored cheques
(b) Post-dated cheques
(c) Notes and coins received
(d) Crossed cheques

(xviii) Journal proper is meant for recording __________
(a) Credit purchase of fixed assets for recording.
(b) Returns of goods.
(c) All such transactions for which no special journal has been kept by the business.
(d) None of these.

(xix) A credit balance in the sum of ₹93 has been omitted from the list of balances extracted from the sales ledger. What is the effect on the trial balance?
(a) The credit side is understated by ₹93
(b) The credit side is overstated by ₹93
(c) The debit side is understated by ₹93
(d) The debit side is overstated by ₹93.

(xx) Which of the following statements is/are true?
(a) Entering wrong amount in the subsidiary book affects the agreement of the trial balance
(b) Under casting or overcasting of a subsidiary book is an example of error of commission
(c) Errors of principle do not affect the agreement of trial balance
(d) Both (b) and (c) above

(xxi) Which of the following errors is an error of omission?
(a) Purchase of ₹2,000 has been recorded in the sales return book
(b) Repairs to machinery has been debited to machinery accounts

(c) The total of purchase journal has not been posted to the purchase account
(d) Legal charges paid to Mr. Lawyer have been debited to his account

(xxii) Which of the following is a capital expenditure?
(a) Compensation paid for breach of a contract of supply of goods.
(b) Interest on borrowing during the period of construction of works.
(c) Loss of stock by theft
(d) Loss due to embezzlement by the manager.

(xxiii) A benefit arising for five years because of expenses incurred on advertising campaign is a -------
(a) Capital expenditure
(b) Revenue expenditure
(c) Deferred revenue expenditure
(d) None of the above

(xxiv) The bank reconciliation Statement is prepared ------
(a) To rectify the mistakes in the cash book
(b) To rectify the mistakes in the bank book
(c) To arrive at the cash balance
(d) To bring out the reasons for the differences between the balance as per cash book and the balance as per bank statement

(xxv) Bank balance as per pass book (Dr.) ₹1,000. Cheque deposited worth ₹2,000 but dishonored, no entry for dishonor has been made in the cash book. Find the bank balance as per CASH BOOK
(a) CASH BOOK (Dr.) ₹1,000
(b) CASH BOOK (Cr.) ₹1,000
(c) CASH BOOK (Dr.) ₹3,200
(d) CASH BOOK (Cr.) ₹3,000

(xxvi) What is the purpose of charging depreciation in accounts?
(a) To allocate the cost less residual value of a fixed asset over the accounting periods expected to be benefitted from its use.
(b) To ensure that funds are available for the eventual replacement of the asset.
(c) To reduce the cost of the asset in the balance sheet to its estimated market value.
(d) To company with the prudence concept.

(xxvii) The amount of depreciation under Annuity method is -----
(a) Uniform
(b) Fixed
(c) Not uniform
(d) Not fixed

(xxviii) Change in the method of depreciation is change in -----------.
- **(a) Accounting estimate.**
- **(b) Accounting policy.**
- **(c) Measurement discipline.**
- **(d) None of the above.**

(xxix) The statement collectively known as Final Account -------
- **(a) Income Statement**
- **(b) Position Statement**
- **(c) Either (a) or (b)**
- **(d) Both (a) and (b)**

(xxx) Discount A/c will always have -----
- **(a) Only debit balance**
- **(b) Only credit balance**
- **(c) Debit or credit balance**
- **(d) Nil balance**

Answer:

(i)	(d)	Book – keeping
(ii)	(a)	Book keeping
(iii)	(b)	Mercantile system of accounting
(iv)	(a)	Dual Aspect Concept
(v)	(d)	Common Accounting Practices
(vi)	(c)	Joint venture Accounting
(vii)	(c)	Convention of Disclosure
(viii)	(d)	The application of a degree of caution in exercising judgment under conditions of uncertainty
(ix)	(b)	To standardize the diverse accounting policies and practices.
(x)	(d)	Consistently followed from year to year.
(xi)	(c)	Chronological order
(xii)	(d)	Both debit part and credit part of a transaction with narration.
(xiii)	(b)	Posting
(xiv)	(d)	All of the above
(xv)	(d)	Petty cash book
(xvi)	(c)	Special journal entry is required to record it.
(xvii)	(b)	Post-dated cheques
(xviii)	(c)	All such transactions for which no special journal has been kept by the business.
(xix)	(a)	The credit side is understated by ₹93
(xx)	(d)	Both (b) and (c) above
(xxi)	(c)	The total of purchase journal has not been posted to the purchase account
(xxii)	(a)	Compensation paid for breach of a contract of supply of goods.
(xxiii)	(c)	Deferred revenue expenditure
(xxiv)	(d)	To bring out the reasons for the differences between the balance as per cash book and the balance as per bank statement

(xxv) (a) CASH BOOK (Dr.) ₹1 ,000

(xxvi) (a) To allocate the cost less residual value of a fixed asset over the accounting periods expected to be benefitted from its use.

(xxvii) (a) Uniform

(xxviii) (b) Accounting policy.

(xxix) (d) Both (a) and (b)

(xxx) (a) Only debit balance

(b) State whether the following statements are True (or) False. [12×1=12]

(i) Consistency is one of the accounting concepts.

(ii) Goods valued at invoice price refers to valued at lower price than its original cost.

(iii) Double accounting system owes its origin to Luca pacioli.

(iv) The periodic total of sales day book is posted to sales return Account.

(v) After preparation of ledgers, the next is the preparation of trial balance.

(vi) In case of mineral resources depreciation is not provided, but depletion is charged.

(vii) Recording a transaction in a wrong book of original entry with wrong amount will affect the trial balance.

(viii) A credit balance in the pass book indicates excess of deposits over withdrawals.

(ix) Foreign trade is facilitated with the help of foreign bills of exchange.

(x) The transactions regarding transfer of goods from one venturer to another venturer will affect book-keeping entries.

(xi) All revenue receipts and expenditure are shown in trading and profit & loss account.

(xii) Any subscriptions received in advance are treated as capital receipts and are therefore taken to the liabilities side of the balance sheet.

Answer:

(i) False

(ii) False

(iii) True

(iv) False

(v) True

(vi) True

(vii) False

(viii) True

(ix) True

(x) False

(xi) True

(xii) False

(c) Match the following: **[6×1=6]**

	Column 'A'		Column 'B'
1.	Debit balance of cash book is equal to	A.	Nominal account
2.	Renewal of bill	B.	Debit of P & L A/c
3.	Promissory note	C.	includes interest
4.	Joint venture account is	D.	Entertainment programme, stage shows funds raising programs
5.	Freight outward	E.	Indian currency
6.	Non-trading concerns collect funds through	F.	Credit side of pass book

Answer:

1. F.
2. C.
3. E.
4. A.
5. B.
6. D.

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

2.

1. **Ram started business by introducing the following assets:**

Cash	₹ 10,000
Furniture	₹ 20,000
Plant	₹ 30,000
Goods	₹ 20,000

2. **He purchased goods of the invoice value of ₹10,000 at 10% trade discount from Suresh.**
3. **He supplied goods costing ₹1,000 to Ramesh at a invoice price of 10% above cost at a trade discount of 5%.**
4. **He installed further machinery of ₹20,000 and paid wages for installation ₹2,000. The machinery was supplied by M/s Surya Brothers.**
5. **He purchased stationery for business purposes ₹500.**
6. **He sold goods to Sidharth for ₹5,000.**
7. **He withdrew goods for personal use costing ₹5,000 (sale value ₹6,000).**

8. **He distributed goods costing ₹2,000 (sale value ₹2,500 as free samples).**
9. **Sidharth became insolvent and the whole money due from him was considered as a bad debt.**
10. **He sold goods for cash ₹20,000.**
11. **Salaries paid `10,000 after deduction ₹1,000 as income tax, ₹1,500 as employee's share of provident fund but before employer's share of provident fund ₹1,500.**
12. **Amount due from Sidharth earlier written off bad debts recovered in full.**
13. **Amount paid to Suresh ₹8,500 in full satisfaction.**
14. **Income tax liability of Ram ₹l,000 paid in cash.**

You are required to pass the necessary journal entries for the above transactions. [8]

Answer:

Journal

SL. No	Date	Particulars		L. F.	Debit ₹	Credit ₹
1.		Cash A/c	Dr.		10,000	
		Furniture A/c	Dr.		20,000	
		Plant A/c	Dr.		30,000	
		Purchases (Goods)A/c	Dr.		20,000	
		To Ram's Capital A/c (Being commencement of business with cash and other assets)				80,000
2.		Purchases A/c	Dr.		9,000	
		To Suresh A/c (Being purchase of goods from Suresh) (Invoice price ₹10,000 less Trade Discount 10%)				9,000
3.		Ramesh A/c	Dr.		1,045	
		To Sales A/c (Being goods sold invoice price of ₹1,100 less trade discount of 5%)				1,045
4.		Machinery A/c	Dr.		22,000	
		To Cash A/c				2,000
		To Surya Brothers A/c				20,000

		(Being cost of machinery purchased ₹20,000; installation charges incurred ₹2,000)				
5.		Stationery A/c	Dr.		500	
		To Cash A/c (Being stationery purchased for business purposes)				500
6.		Sidharth A/c	Dr.		5,000	
		To Sales A/c (Being sale of goods to Sidharth)				5,000
7.		Drawings A/c	Dr.		5,000	
		To Purchases A/c (Being goods withdrawn for personal use)				5,000
8.		Advertisement A/c	Dr.		2,000	
		To Purchases A/c (Being goods distributed by way of free samples)				2,000
9.		Bad Debts A/c	Dr.		5,000	
		To Sidharth A/c (Being money due from Sidharth written off as bad debts)				5,000
10.		Cash A/c	Dr.		20,000	
		To Sales A/c (Being sale of goods for cash)				20,000
11.		Salaries A/c	Dr.		14,000	
		To Cash A/c				10,000
		To Tax Deducted at Source A/c				1,000
		To Employees Provident Fund A/c (Being payment of salary after deduction of tax at source and employer's and employees contribution to provident Fund)				3,000
12.		Cash A/c	Dr.		5,000	
		To Bad Debts Recovered A/c				5,000

		(being amount earlier written off as bad debts and now recovered)				
13.		Suresh A/c	Dr.		9,000	
		To Cash A/c				8,500
		To Discount A/c (being amount paid to Suresh and earned ₹500 as cash discount)				500
14.		Drawings A/c	Dr.		1,000	
		To Cash A/c (Being Income tax paid)				1,000
		Total			**1,78,545**	**1,78,545**

Notes:

3. Trade discount is not recorded in the books. Goods are recorded at the net price.
9. Goods written off for personal use are recorded at cost. The sales value has no significance.
11. Employer's contribution to Provident Fund is taken as a part of Salary and debited to Salaries A/c. Later on both the employee's and employer's contribution to provident fund are deposited with the Provident Fund Authorities by the employer.
12. The money earlier written off as bad debt now recovered is to be credited to a separate account, *i.e.,* bad debts recovered account. It has not to be credited to debtor's account since it has already been closed.
14. Personal tax liability of the proprietor is taken as his drawings.

3. From the following data, you are required to show the Fixed Asset and Depreciation Account.

- **Cost of Machine = ₹75 lakhs, Useful = 7 years. Estimated residual Value = ₹5 lakhs.**
- **The company adopts SLM Method of Depreciation, and credits the same to Provision for Depreciation A/c.**
- **In the middle of the 5th year, the Machine was sold for ₹26,00,000. [8]**

Answer:

Depreciation under Straight Line Method = (75 – 5) ÷ 7 = **₹10 Lakhs annum**

Dr. **1. Machinery Account** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
Year 1 Begin	To Bank / Asset Vendor	75,00,000	Year 1 End	By balance c/d	75,00,000
Year 2 Begin	To balance b/d	75,00,000	Year 2 End	By balance c/d	75,00,000
Year 3 Begin	To balance b/d	75,00,000	Year 3 End	By balance c/d	75,00,000
Year 4 Begin	To balance b/d	75,00,000	Year 4 End	By balance c/d	75,00,000
Year 5 Begin	To balance b/d	75,00,000	Year 5 End	By M/c Disposal A/c - tfr	75,00,000

Dr. **2. Provision for Depreciation Account** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
Year 1 End	To balance c/d	10,00,000	Year 1 End	By Profit and Loss A/c	10,00,000
	Total	**10,00,000**		**Total**	**10,00,000**
Year 2 End	To balance c/d	20,00,000	Year 2 Beginning	By balance b/d	10,00,000
			End	By Profit and Loss A/c	10,00,000
	Total	**20,00,000**		**Total**	**20,00,000**
Year 3 End	To balance c/d	30,00,000	Year 3 Beginning	By balance b/d	20,00,000
			End	By Profit and Loss A/c	10,00,000
	Total	**30,00,000**		**Total**	**30,00,000**
Year 4 End	To balance c/d	40,00,000	Year 4 Beginning	By balance b/d	30,00,000
			End	By Profit and Loss A/c	10,00,000
	Total	**40,00,000**		**Total**	**40,00,000**
Year 5 End	To M/c Disposal A/c - tfr	**45,00,000**	Year 5 Beginning	By balance b/d	40,00,000
			End	By P&L A/c(dep for half-yr)	5,00,000
	Total	**45,00,000**		**Total**	**45,00,000**

Dr. **3. Machinery Disposal Account** **Cr.**

Date		₹	Date	Particulars	₹
Year 5			Year 5		
End	To Machinery (Cost Tfr)	75,00,000	Middle	By Bank (Sale Proceeds)	26,00,000
			End	By Provision for Deprn (tfr)	45,00,000
			End	By P&L A/c (Loss on Sale)	**4,00,000**
	Total	**75,00,000**		**Total**	**75,00,000**

Note: When asset is sold, the Cost of Asset and Accumulated Depreciation thereon is transferred to the Machinery Disposal A/c, and the net Profit / Loss on sale is transferred to P&L Account.

4. On comparing the Cash Book of Ganesh, with his Bank Pass Book, the following discrepancies were noted:

- **Out of ₹ 20,500 paid into Bank on 27th March through cash and cheque, Cheques amounting to ₹ 7,500 were collected on 7th April.**
- **Cheque and Cash amounting to ₹4,800 were deposited in Bank on 26th March but credit was given for ₹3,800 only. Out of Cheques amounting to ₹ 7,800 drawn on 26th March, a Cheque for ₹ 2,500 was encashed on 3rd April. Cheques issued to Creditor amounting to ₹ 20,000 on 25th March of which cheques worth ₹ 3,000 were only presented to Bank upto 31st March.**
- **A Cheque for ₹ 1,000 entered in Cash Book was omitted to be banked before 31st March.**
- **A Cheque for ₹ 600 deposited into Bank but omitted to be recorded in Cash Book and was collected by the Bank on 30th March.**
- **A Bill Receivable for ₹ 520 previously discounted (Discount ₹ 20) with the Bank had been dishonoured but advice was received on 1st April.**
- **A Bill Payable for ₹ 10,000 was retired /paid by the Bank at ₹ 9,850 but the full amount of the Bill was credited in the Bank Column of the Cash Book.**
- **A Cheque of ₹1,080 credited in the Pass Book on 25th March being dishonoured is debited again in the Pass Book on 1st April. There was no entry in the Cash Book about the dishonour of the cheque until 15th April. A cheque of ₹ 200 drawn on this Bank A/c has been shown as drawn on another Bank A/c, in the Cash Book.**

Prepare a BRS as at 31st March, if the Balance as per Cash Book on 31st March was ₹ 39,570.

[8]

Answer:

Bank Reconciliation Statement as on 31st March

Particulars	Action	₹
Balance as per Cash Book (Normal Balance) (Given)	Start	39,570
Cheques deposited into Bank but collected on 7th April (i.e. subsequently)	Less	-7,500
Cheques deposited but not cleared till 31st March (4,800 - 3,800)	Less	-1,000
Cheques issued / drawn, but presented / encashed on 3rd April	Add	+ 2,500
Cheques issued, but not presented / encashed till 31st March (20,000 - 3,000)	Add	+ 17,000
Cheque received as per Cash Book, but omitted to be deposited in Bank	Less	-1,000
Cheque received and banked, but omitted in Cash Book	Add	+ 600
Bills Receivable dishonoured and debited by Bank	Less	-520
Rebate on Bills Payable not considered in Cash Book (10,000 - 9,850)	Add	+ 150
Wrong Entry in Cash Book, relating to Cheque issued	Less	-200
Balance as per Pass Book (Favourable Balance)	**Result**	**49,600**

Note: Cheque dishonoured is reversed by the Bank only on 1 April (i.e. after BRS date). Hence, it will not affect the BRS.

5. Arjuna and Bheema entered into a Joint Venture for the production and sale of "Mahabharat" CDs during a festival season. Arjuna contributed ₹ 3,00,000 and Bheema 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. Bheema directly received the sale proceeds of 2,500 CDs out of the above 16,000 CDs.

Arjuna 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 and Ledger Accounts in the books of the Joint Venture. [8]

Answer:

1. Journal Entries

	Particulars		Dr.	Cr.
1.	Joint Bank Account To Arjuna A/c To Bheema 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 A/c - (a) Payment to Artists, etc. ₹ 2,80,000, (b) Hire Charges etc. - ₹1,20,000, (c) CD Making, Packing & Promotion - ₹ 75,000)	Dr.	4,75,000	 4,75,000
3.	Joint Bank Account 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.	Bheema A/c To Joint Venture A/c (Being collections directly received by Bheema 2500 CDs at ₹ 45)	Dr.	1,12,500	 1,12,500
5.	Arjuna 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 Arjuna A/c To Bheema A/c (Being profit on JV distributed in ratio of 3:2)	Dr.	3,20,000	 1,92,000 1,28,000
7.	Arjuna A/c Bheema 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

Dr. 2. Joint Bank Account Cr.

Particulars	₹	Particulars	₹
To Arjuna A/c (Capital) To Bheema A/c (Capital) To Joint Venture A/c (Sales Collections)	3,00,000 2,00,000 6,07,500	By Joint Venture A/c – Exps incurred By Bheema A/c (final settlement) By Arjuna A/c (final settlement)	4,75,000 2,15,500 4,17,000
Total	**11,07,500**	**Total**	**11,07,500**

Dr. 3. Joint Venture Account Cr.

Particulars	₹	Particulars	₹
To Joint Bank A/c (Expenses incurred) To Co-Venturers' Accounts - Profit Arjuna (3/5) 1,92,000 Bheema (2/5) 1,28.000	4,75,000 3,20,000	By Joint Bank A/c (Sales Collections) By Bheema A/c (Direct Collections) By Arjuna A/c (CDs taken over)	6,07,500 1,12,500 75,000
Total	**7,95,000**	**Total**	**7,95,000**

Dr. **4. Co-Venturer's Accounts** **Cr.**

Particulars	Arjuna	Bheema	Particulars	Arjuna	Bheema
To Joint Venture (direct colln)	–	1,12,500	By Joint Bank A/c (Capital)	3,00,000	2,00,000
To Joint Venture (taken over)	75,000		By Joint Venture (Profit)	1,92,000	1,28,000
To Joint Bank (settlement)	**4,17,000**	**2,15,500**			
Total	**4,92,000**	**3,28,000**	**Total**	**4,92,000**	**3,28,000**

6. Following is the Trial Balance of M/s kasturi Agencies as on 31st March, 2015. Prepare Trading, Profit and Loss Account for the year ended 31st March, 2015 and a Balance Sheet on that date.

Particulars	₹	₹
Capital		**1,00,000**
Buildings	**15,000**	
Drawings	**18,000**	
Furniture & Fittings	**7,500**	
Motor van	**25,000**	
Loan from Hari @ 12% interest		**15,000**
Interest paid on above	**900**	
Sales		**1,00,000**
Purchases	**75,000**	
Opening stock	**25,000**	
Establishment expenses	**15,000**	

Wages	**2,000**	
Insurance	**1,000**	
Commission received		**4,500**
Sundry debtors	**28,100**	
Bank balance	**20,000**	
Sundry creditors		**10,000**
Interest		**3,000**
	2,32,500	**2,32,500**

Adjustments: **(a) The value of stock on 31-3-2015 was ₹ 32,000. (b) outstanding wages ₹ 500 (c) Prepaid Insurance ₹ 300. (d) Commission received in advance ₹ 1,300 (e) Allow interest on capital @ 10%. (f) Depreciate building 2½%. Furniture & Fitting 10%, Motor van 10%. (g) charge interest on drawings ₹500. (h) Accrued Interest ₹500. [8]**

Answer:

Trading and Profit and Loss Account of Kasturi Agency for the year ending 31.3.2015

Dr. **Cr.**

	₹	₹		₹	₹
To Opening Stock		25,000	By Sales		1,00,000
To Purchases		75,000	By Closing Stock		32,000
To Wages	2,000				
Add: Outstanding	500	2,500			
To Gross Profit c/d		29,500			
		1,32,000			1,32,000
To Insurance	1,000		By Gross profit		29,500
Less: Prepaid	300	700	By Commission	4,500	
To Interest on loan	900		Less: Received in Advance	1,300	3,200
Add: Outstanding	900	1,800	By Interest	3,000	
To Establishment expenses		15,000	Add: Accrued interest	500	3,500

To Depreciation			By Interest on drawings		500
Buildings	375				
Furniture & Fittings	750				
Motor van	2,500	3,625			
To Interest on capital		10,000			
To Net profit transferred to capital A/c		5,575			
		36,700			**36,700**

Balance sheet

as on 31st March, 2015

Liabilities	₹	₹	Assets	₹	₹
Outstanding wages		500	Cash at bank		20,000
Commission received in advance		1,300	Sundry debtors		28,100
Sundry creditors		10,000	Closing stock		32,000
Loan from Hari	15,000		Prepaid insurance		300
Add: Outstanding Interest	900	15,900	Buildings	15,000	
Capital	1,00,000		Less: Depreciation	375	14,625
Add: Net profit	5,575		Furniture & Fittings	7,500	
Add: Interest on Capital	10,000		Less: Depreciation	750	6,750
	1,15,575		Motor Van	25,000	
Less: Drawings 18,000			Less: Depreciation	2,500	22,500
Interest on drawings 500	18,500	97,075	Accrued Interest		500
		1,24,775			**1,24,775**

7. Ashok sends goods on consignment basis to Srinivas. The terms are that Srinivas will receive the 10% commission on Invoice price and 20% on price realized over and

above the Invoice price. Srinivas will meet his expenses himself. Ashok sent goods whose cost was ₹ 16,000 at a proforma Invoice price cost plus 25% and spent ₹ 1,500 on freight charges. Srinivas accepted a bill for 16,000 immediately on receiving the consignment. His expenses were ₹ 200 as rent and ₹100 as insurance. Srinivas sold ¾ of goods for ₹ 19,500. Part of sales were on credit and one customer failed to pay ₹ 400. Pass journal entries in the books of Ashok.

[8]

Answer:

Journal entries in the books of Ashok

	Particulars	**(₹)**	**(₹)**
1	Consignment A/c Dr. To Goods sent on consignment A/c (Being the invoice value of the goods sent on consignment)	20,000	20,000
2	Consignment A/c Dr. To Bank A/c (Being the expenses incurred on consignment)	15,00	15,00
3.	Consignment A/c Dr. To Srinivas A/c (Being the expenses incurred by Srinivas)	300	300
4.	Bill Receivable A/c Dr. To Srinivas A/c (Being the bill drawn as an advance)	16,000	16,000
5.	Srinivas A/c Dr. To Consignment A/c (Being the sales made by srinivas)	19,500	19,500
6.	Consignment A/c Dr. To Srinivas A/c (Being the commision due to srinivas)	2,400	2,400
7.	Consignment stock A/c Dr. To Consignment A/c (Being the value of ¼ of the goods left unsold)	5,375	5,375
8.	Goods sent on consignment A/c Dr. To Consignment A/c (Being the excess of invoice price over cost price in stock adjusted)	4,000	4,000
9.	Consignment A/c Dr. To Consignment stock reserve A/c (Being the excess of invoice price over cost price in stock adjusted)	1,000	1,000

10.	Consignment A/c Dr. To Srinivas A/c (Being the bad debts on the credit sale made by Srinivas)	400	400
11.	Consignment A/c Dr. To Profit and Loss A/c (Being the profit on consignment transferred to P & L A/c	3,575	3,575
12.	Goods sent on consignment A/c Dr. To Trading A/c (being the transfer of goods sent on consignment account)	16,000	16,000

Working Notes:

1. Calculation of commission

10% on invoice price (i.e., 10% on 15,000 ×3/5)	1,500
20% on excess of invoice price (i.e., 20% on 19,500 – 15,000)	900
Total commission :	**2,400**

2. Closing stock:

<u>Invoice price of ¼ of the goods-</u> Left unsold, i.e., ¼ x 20,000	5,000
Add: ¼ of freight ¼ x 1,500	375
Total Closing stock :	**5,375**

Section – B

8. Choose the correct answer: [12×1=12]

(i) ___________ costs are the result of inevitable consequences of commitments previously made or are incurred to maintain certain facilities and cannot be quickly eliminated.
- **(a) Committed**
- **(b) Discretionary**
- **(c) Step**
- **(d) None of the above**

(ii) Example for Semi-Variable Expenses
- **(a) Landline Telephone Bill**
- **(b) Rent of Office Building**
- **(c) Depreciation of Machine**
- **(d) Direct Material Cost**

(iii) Which of the following costing method is suitable for Soap industry?
- **(a) contract costing**
- **(b) process costing**
- **(c) job costing**
- **(d) batch costing**

(iv) CAS-19 is related to
- **(a) Cost Accounting Standard on Depreciation and Amortisation**
- **(b) Cost Accounting Standard on Joint Costs**
- **(c) Cost Accounting Standard on Quality Control**
- **(d) Cost Accounting Standard on Overburden Removal Cost**

(v) On the basis of "Relationship with accounting period" costs are classified as
- **(a) Historical costs and Pre-determined costs.**
- **(b) Capital costs and Revenue costs.**
- **(c) Capital costs and Commercial costs.**
- **(d) Product costs and Period costs.**

(vi) Which of the following is not a technique of costing?
- **(a) Budgetary Costing**
- **(b) Marginal Costing**
- **(c) Standard Costing**
- **(d) Process Costing**

(vii) The method of costing used in foundries is ___________.
- **(a) Process costing**
- **(b) Job costing**
- **(c) Batch costing**
- **(d) Operating costing**

(viii) The process of finding cost is known as __________.
- **(a) Costing**
- **(b) Accounting**
- **(c) Managing**
- **(d) Auditing**

(ix) Factory overheads are also known as ________overheads.
- **(a) Works**
- **(b) Administration**
- **(c) Selling**
- **(d) None of the above**

(x) Which of the following is appropriate Cost Unit for timber industry?
- **(a) per tonne**
- **(b) per article**
- **(c) per kg**
- **(d) per foot**

(xi) Cost accounting is a separate __________ of accounting.
- **(a) Branch**
- **(b) Method**
- **(c) Both (a) and (b)**
- **(d) None of the above**

(xii) By nature or element cost can be classified in ______ categories.
- **(a) 2**
- **(b) 4**
- **(c) 3**
- **(d) none of the above**

Answer:

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

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

9. PG Ltd. a manufacturing company, incurred the following expenses during a certain period. You are required to prepare a statement showing the sub-division of total cost.

	₹		₹
Materials used on jobs	12,05,400	Depreciation of plant	38,000
Wages traceable to jobs	8,66,500	Depreciation of delivery vans	16,000
Wages paid to men on maintenance work	1,26,000	Insurance on finished goods	25,000
Salesmen's salaries	1,51,000	Lubricating oil	2,500
Director's fees	1,00,000	Bad debts	3000
Carriage on raw materials	8,600	Commission to salesmen	28,500
Carriage outwards	28,000	Cost of idle time in factory	5,100
Factory rent and rates	83,000	Auditor's fees	38,000

Works salaries	**2,04,000**	**Dividends paid**	**68,000**
Hire of crane for jab no. 132	**13,000**	**Lighting of showroom**	**15,000**
Consumable stores	**3,400**	**Office salaries and expenses**	**70,000**
		Income tax	**86,000**

[8]

Answer:

STATEMENT OF COST

Particulars	**(₹)**	**(₹)**
Direct materials	12,05,400	
Add: carriage inwards	8,600	12,14,000
Direct wages		8,66,500
Direct expenses(hire of crane for job no. 132)		13,000
Prime cost		20,93,500
Works overhead:		
Wages paid to men on maintenance work	1,26,000	
Factory rent and rates	83,000	
Works salaries	2,04,000	
Consumable stores	3,400	
Depreciation of plant	38,000	
Lubricating oil	2,500	
Cost of idle time in factory(see note 1)	5,100	4,62,000
Works cost		25,55,500
Administration overhead:		
Director's fees	1,00,000	

Auditor's fees	38,000	
Office salaries and expenses	70,000	2,08,000
Cost of production		27,63,500
Selling and distribution overhead:		
Salesmen's salaries	1,51,000	
Carriage outwards	28,000	
Depreciation of delivery vans	16,000	
Insurance of finished goods	25,000	
Commission to salesman	28,500	
Lighting of showroom	15,000	
Bad debts (see note 2)	3,000	2,66,500
Total cost		**30,30,000**

NOTES:

1. Assumed that the idle time and bad debt are within normal limits.
2. dividend paid ₹ 6,800 and income-tax ₹ 8,600 have not been included in the statement of cost, because these are appropriation of profits and not expenses of the business.

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

	1-1-2015 (₹)	**31-12-2015 (₹)**
Raw material	**60,000**	**50,000**
Work-in-progress	**24,000**	**30,000**
Finished goods	**1,20,000**	**1,10,000**
Purchase of materials during the year		**9,00,000**
Wages paid		**5,00,000**
Factory overheads		**2,00,000**

Administration overheads		**50,000**
Selling and distribution overheads		**30,000**
Sales		**20,00,000**

[8]

Answer:

Statement of Cost and Profit

Particulars	₹	₹
Opening stock of raw materials	60,000	
Add: purchase of raw materials	9,00,000	
	9,60,000	
Less: Closing stock of raw materials	50,000	
Materials consumed		9,10,000
Wages paid		5,00,000
Prime cost		14,10,000
Factory overheads		2,00,000
Add: opening stock or WIP		24,000
		16,34,000
Less: closing stock of WIP		30,000
Factory cost		16,04,000
Administrative overheads		50,000
Add: opening stock of finished goods		1,20,000
		17,74,000
Less: closing stock of finished goods		1,10,000
Cost of goods sold		16,64,000
Selling and distribution overheads		30,000
Cost of sales		16,94,000
Profit		3,06,000
Sales		20,00,000