

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) Cash book does not record
(a) Credit purchases
(b) credit sales
(c) Outstanding expenses
(d) All the above transactions
- (ii) Which of the following is an example of Personal Account?
(a) Machinery
(b) Rent
(c) Cash
(d) Mrs. Madhuri Sen
- (iii) 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
- (iv) 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
- (v) Prepaid rent is a
(a) Nominal A/c
(b) representative personal A/c
(c) tangible assets account
(d) none
- (vi) Whenever errors are noticed in the accounting records, they should be rectified _____.
(a) At the time of preparation of trial balance
(b) without waiting the accounting year to end
(c) After the preparation of final accounts
(d) in the next accounting year
- (vii) 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

- (viii) The rent paid to landlord is credited to
(a) Landlord's A/c
(b) Rent A/c
(c) Cash A/c
(d) None
- (ix) 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
- (x) _____ 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
- (xi) Which one of the following is not prepared by non-profit organizations
(a) Profit and loss account
(b) Income & Expenditure account
(c) receipts and payments account
(d) Balance sheet
- (xii) 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.
- (xiii) 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
- (xiv) Rebate is given in case of _____ of a bill.
(a) Maturity
(b) Retirement
(c) Discounting
(d) None of the above
- (xv) For charging depreciation, on which of the following assets, the depletion method is adopted?
(a) plant & machinery
(b) land & building
(c) goodwill
(d) Wasting assets like mines and quarries
- (xvi) Accumulated depreciation is an example of
(a) A liability

Answer to MTP_Foundation_Syllabus 2016_Jun2018_Set 2

- (b) An expense
 - (c) An income
 - (d) An unrecorded revenue
- (xvii) The determination of expenses for an accounting period is based on the concept of
- (a) Objectivity
 - (b) Materiality
 - (c) Matching
 - (d) Periodicity
- (xviii) Decrease in the amount of creditors results in
- (a) increase in cash
 - (b) decrease in cash
 - (c) increase in assets
 - (d) no change in assets
- (xix) Accounting does not record non-financial transactions because of
- (a) Entity Concept
 - (b) Accrual Concept
 - (c) Cost Concept
 - (d) Money Measurement Concept
- (xx) Income tax of the sole trader paid is shown
- (a) Debited to P & L Account
 - (b) Debited to Trading Account
 - (c) Debited to his Capital Account
 - (d) None of the above
- (xxi) Narration are given at the end of
- (a) Final Accounts
 - (b) Each Ledger Account in Trial Balance
 - (c) Each Ledger Account
 - (d) Each Journal Entry
- (xxii) Life membership fees received by a club is a
- (a) Revenue Expenditure
 - (b) Capital Expenditure
 - (c) Deferred Revenue Expenditure
 - (d) Capital Receipt
- (xxiii) Import duty of raw material purchased is a
- (a) Revenue Expenditure
 - (b) Capital Expenditure
 - (c) Deferred Revenue Expenditure
 - (d) None of the above
- (xxiv) A bad debt recovered during the year will be
- (a) Capital Expenditure
 - (b) Revenue Expenditure
 - (c) Capital Receipt
 - (d) Revenue Receipt
- (xxv) Nominal Account represents
- (a) Profit & Gain
 - (b) Loss/Expenses
 - (c) Both (a) and (b)
 - (d) None of the above

Answer to MTP_Foundation_Syllabus 2016_Jun2018_Set 2

- (xxvi) The periodical total of the Sales Return Book is posted to the
 (a) Debit of Sales Account
 (b) Debit of Return Account
 (c) Credit of Sales Return Account
 (d) Debit of Debtors Account
- (xxvii) Purchases book is used to record
 (a) All purchases of goods
 (b) All credit purchase
 (c) All credit purchases of goods
 (d) All credit purchases of assets other than goods
- (xxviii) The source document or voucher used for recording entries in Sales Book is
 (a) invoice received
 (b) invoice sent out
 (c) credit notes sent out
 (d) debit notes received
- (xxix) Trade discount allowed at the time of sale of goods is
 (a) recorded in Sales Book
 (b) recorded in Cash Book
 (c) recorded in Journal
 (d) not recorded in Books of Accounts
- (xxx) If A co-venturer takes away goods under memorandum joint venture method then he will debit these goods in his books to
 (a) Joint venture account
 (b) personal account
 (c) Purchases account
 (d) sales account

Answer:

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

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

[12 × 1 = 12]

- (i) Sale of old materials must be credited to capital fund in the balance sheet.
 (ii) Under diminishing balance method, depreciation decrease every year.
 (iii) If del credere commission is paid to the consignee profit and loss on consignment is retained /borne by consignor.

Answer to MTP_Foundation_Syllabus 2016_Jun2018_Set 2

- (iv) The main objective of cash book is to know the cash and bank balance of the business.
- (v) Depreciation is a charge against profit.
- (vi) Capital account is a real account.
- (vii) The portion of the acquisition of cost of the asset, yet to be allocated is known as written down value.
- (viii) Capital receipts are shown in Assets side of balance sheet.
- (ix) Cheque deposited and cleared on the same date will not affect bank and cash balance.
- (x) Debit is derived from the latin word – debitum, which means “what we will have to pay”.
- (xi) Ledger records transactions as and when it happens.
- (xii) An error in wrong casting of the sales day book will not affect the personal account of debtors.

Answer:

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

(c) Match the following:

[6×1=6]

	Column 'A'		Column 'B'
1.	Fixed Asset	A.	Nominal account
2.	Modern Academy	B.	Purchases book
3.	Salary account	C.	Plant and Machinery
4.	Credit purchase of goods	D.	Artificial personal account
5.	Building	E.	Accountant
6.	Cash book is prepared by	F.	Depreciation

Answer:

	Column 'A'		Column 'B'
1.	Fixed Asset	C.	Plant and Machinery
2.	Modern Academy	D.	Artificial personal account
3.	Salary account		Nominal account
4.	Credit purchase of goods	B.	Purchase book
5.	Building	F.	Depreciation
6.	Cash book is prepared by	E.	Accountant

Answer to MTP_Foundation_Syllabus 2016_Jun2018_Set 2

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

2. Pass closing entries for the following particulars as on 31st March 2015 presented by X Ltd.

Particulars	Amount (₹)
Opening stock	10,000
Purchases	50,000
Wages	5,000
Returns outward	5,000
Sales	1,00,000
Returns inward	10,000
Salaries	8,000
Insurance	1,000
Bad debts	3,000
Interest received	3,000
Discount allowed	4,000
Discount received	3,000
Closing stock	15,000

[8]

Answer:

In the Books of X Ltd.
Journal

Dr.	Particulars	LF	Amount(₹)	Cr. Amount(₹)
Date 2015 March 31 st				
	Trading A/c Dr.		75,000	
	To, Opening Stock A/c			10,000
	To, Purchases A/c			50,000
	To, Wages A/c			5,000
	To, Returns inward A/c			10,000
	(Transfer to balances for closing the latter accounts)			
	Sales A/c Dr		1,00,000	
	Returns outward A/c Dr.		5,000	
	Closing Stock A/c Dr.		15,000	
	To, Trading A/c			1,20,000
	(Transfer of balances for closing the former accounts)			
	Trading A/c Dr.		45,000	
	To, Profit and Loss A/c			45,000
	(Gross profit transferred)			
	Profit and Loss A/c Dr.		16,000	
	To, Salaries A/c			8,000
	To, Insurance A/c			1,000
	To, Bad Debts A/c			3,000
	To, Discount allowed A/c			4,000
	(Transfer of balances for closing the latter accounts)			
	Interest received A/c Dr.		3,000	
	Discount received A/c Dr.		3,000	
	To, Profit and Loss A/c			6,000
	(Transfer of balances for closing the former accounts)			
	Profit and Loss A/c Dr.		35,000	

Answer to MTP_Foundation_Syllabus 2016_Jun2018_Set 2

	To, Capital A/c		35,000
	(Net profit transferred to Capital A/c)		

3. On 1st January 2012 Siva & Co purchased a second hand machinery for ₹ 34,000 and spent ₹6,000 on its repairs and installed the same. On 31st December 2014 the machinery was sold for ₹ 26,000. The books are closed on 31st December every year. Depreciation is provided @ 10% p.a. on Reducing balance method. Show the machinery A/c. [8]

Answer:

Machinery Account

Dr.				Cr.			
Date	Particulars	L. F	Amount ₹	Date	Particulars	L. F	Amount ₹
2012 1 st Jan	To Cash A/c		40,000	2012 31 st Dec	By Depreciation A/c By Balance c/d		4,000 36,000
			40,000				40,000
2013 1 st Jan	To Balance b/d		36,000	2013 31 st Dec. "	By Depreciation A/c $\left(36,000 \times \frac{10}{100}\right)$ By Balance c/d		3,600 32,400
			36,000				36,000
2014 1 st Jan	To Balance b/d		32,400	2014 31 st Dec " " "	By Depreciation A/c $\left(32,400 \times \frac{10}{100}\right)$ By Cash /Bank A/c By P & L A/c (Loss)		3,240 26,00 3,160
			32,400				32,400

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:		

Answer to MTP_Foundation_Syllabus 2016_Jun2018_Set 2

" 30	10%				
	" Profit on Venture:				
	X ($\frac{2}{3}$)	3,970			
	Y ($\frac{1}{3}$)	<u>1,985</u>	5,955		
			47,750		47,750

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 31.12.2015)	6,000	By Stationery	1,000
		By Books	4,000
		By Buildings (Purchased on 1.1.2015)	68,000
		By Balance	24,600
	1,36,000		1,36,000

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 2015 ₹15,000 and subscriptions received in advance for 2016 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 31.12.2015

Dr.	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)		12,000			
To Surplus –Excess of Income over Expenditure		19,800			

Answer to MTP_Foundation_Syllabus 2016_Jun2018_Set 2

		84,000			84,000
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7. Usha sent goods costing ₹75,50,000 on consignment basis to Gayathri on 1.2.2015 @8.5% commission, ₹8,25,000 was spent on transportation by Usha. Gayathri spent ₹5,25,000 on unloading. 80% of the goods received were sold for ₹90,00,000, 10% of the goods for ₹10,00,000 and the balance was taken over by Gayathri @10% below the cost price. She has sent a demand draft to Usha for the amount due show in Usha's Books.

(i) Consignment Account

(ii) Gayathri's Account.

[8]

Answer:

In the Books of Usha Consignment Account

Dr.	Particulars	Amount (₹)	Cr.	Particulars	Amount (₹)
	To Goods sent on Consignment A/c	75,50,000		By Gayathri A/c (W.N.- 1)	1,01,35,900
	To Bank A/c – Transportation	8,25,000			
	To Gayathri A/c – Unloading Expenses	5,25,000			
	To Gayathri A/c –Commission (W. N.- 2)	8,61,551			
	To Profit and Loss on Consignment A/c	3,74,349			
		1,01,35,900			1,01,35,900

Gayathri's Account

Dr.	Particulars	Amount (₹)	Cr.	Particulars	Amount (₹)
	To Consignment A/c	1,01,35,900		By Consignment A/c -Expenses	5,25,000
				By Consignment A/c –Commission	8,61,551
				By Bank a/c (Balancing Figure)	87,40,349
		1,01,35,900			1,01,35,900

Working Note:

1. Computation of Amount of Sales by Gayathri

Goods Sent on consignment Basis	75,50,000
88% of the Goods Received, Sold for	90,00,000
10% of the Goods Received, Sold for	10,00,000
2% of the goods Received Taken Over (₹75,50,000 x 2%) x 90%	1,35,900
Total Amount of Sales	1,01,35,900

2. Computation of Commission

Commission = Total Sales Proceeds × Rate of Commission = 1,01,35,900 × 8.5% = ₹8,61,551

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) Advertisements are treated as
- (a) direct expenses
 - (b) cost of production
 - (c) selling overheads
 - (d) distribution overheads
- (iii) Direct expenses are also known as
- (a) Overhead expenses
 - (b) process expenses
 - (c) chargeable expenses
 - (d) None
- (iv) Interest on own capital is
- (a) Cash cost
 - (b) Notional cost
 - (c) Sunk cost
 - (d) Part of Prime Cost
- (v) The works cost plus administration expenses
- (a) Total Cost
 - (b) Cost of production
 - (c) cost of sales
 - (d) Factory cost
- (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 an 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

Answer to MTP_Foundation_Syllabus 2016_Jun2018_Set 2

- (xi) Which cost system description applies to the manufacture of 20 engraved doors for the new club house at a golf course?
 (a) contract
 (b) process
 (c) Batch
 (d) service
- (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)	(c)	(vi)	(b)	(x)	(a)
(iii)	(c)	(vii)	(d)	(xi)	(c)
(iv)	(b)	(viii)	(a)	(xii)	(b)

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

9. Prepare a statement of cost from the following data to show material consumed, Prime cost, factory cost, Cost of goods sold and profit. [8]

	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

Answer:

Statement of cost and profit

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

Answer to MTP_Foundation_Syllabus 2016_Jun2018_Set 2

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

10. 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