FOUNDATON EXAMINATION

(REVISED SYLLABUS - 2008)

Paper - 2 : ACCOUNTING

Section I : Financial Accounting

1. Answer the following questions:

(a) The sundry debtors of M/s Sona-dana & Co. includes a balance of ₹ 80,000 to the debit of Hira – Moti Traders in respect of which it has been negotiated and settled to receive from the party after allowing a discount of 2.5% . The settled amount was received by a cheque. What transaction will be recorded in the books of M/s Sona-dana & Co..

(b) Accounting record of Banana leaf Ltd. indicated the following information:

	₹
Opening Inventory	5,00,000
Purchase during 2011-2012	25,00,000
Sales during 2011-2012	32,00,000

A physical inventory taken on 31st March, 2012 , resulted in an ending inventory of ₹ 5,75,000. Company's gross profit on sales has remained constant at 25%. The management of the company suspects some inventory may have been taken by new employee. What is the estimated cost of missing inventory on the last day of the financial year?

(c) Consider the following data pertaining to M/s. sun Ltd. for the month of March 2012:

Particulars	₹
Purchase of goods for resale	2,10,000
Freight in	30,000
Freight out	25,000
Returns outward	22,000

What is the Cost of goods available for sale?

(d) M/s Vinay Ltd. follows Perpetual Inventory System. On March 31st every year, the company undertakes physical stock verification. On March 31st, 2012, the value of stock as per the records differed from the value as per physical stock . On scrutiny, the following differences were noticed:

- **Stock register was overcast by ₹ 6,000**
- **Goods purchased for ₹ 10,000 were received and included in physical stock but no entry was made in the books**
- **Goods costing ₹30,000 was sold and entered in the books but the stock is yet to be delivered**
- **Goods worth ₹ 5,000 is returned to the suppliers but is omitted to be recorded.**

If the inventory is valued in the books at ₹ 1,50,000, the value of the physical stock is what?

(e) The following information is taken from the books of a trader :

	₹
Opening balance of debtors	8,000
Opening balance of creditors	7,000
Closing Balance of Debtors	9,000
Closing Balance of Creditors	8,000
Payment made during the year	9,000
Credit sales	19,000
Cash sales	4,000

What is the amount of Payment received from the debtors and total net sales during the year?

(f) A is in need for funds approaches B. B unable to find the money, agrees to accept a bill of Exchange for ₹ 5,000 drawn on him at 3 months for accommodation. The bill was drawn, accepted and discounted with bank at 6 % p.a. On the due date A remits the required amount to B . Give the entry for remittance of the amount.

Based on the following information answer question 1. (g) to 1. (i)

A firm had the following balances on April 01, 2012

	₹
Provision for bad and doubtful debts	**50,000**
Provision for discount on debtors	**2,400**

During the period 2012-2013, the bad debt amounted to ₹40,000 and Discount allowed were ₹2,000. If the debtors on March 31, 2012 before writing off bad debts but after allowing discount amount to ₹ 7,00,000.

(g) What will be the closing balance in provision for bad and doubtful debts account if the firm maintains a provision of 5% against bad and doubtful debts ?

(h) What will be the closing balance in Provision for discount on debtors account if the firm maintains a provision of 2% for discount on debtors?

(i) What amount will be debited to Profit and Loss A/c in respect of both the provision?

(j) Purchase price machine ₹ 8,90,000; Freight and Cartage ₹ 7,000; Installation charges ₹ 30,000; Insurance charges ₹ 20,000; Residual Value of machine is ₹ 40,000; Estimated useful life 5 years. Calculate the amount of annual depreciation under straight line method.

Answer 1. (a)

In the books of M/s Sona-Dana & Co.
Journals

Particulars		**Debit** ₹	**Credit** ₹
Bank A/c	Dr.	78,000	
Discount A/c	Dr.	2,000	
To, Hira – Moti Traders A/c			80,000

Answer 1. (b)

Closing inventory = Opening inventory + Purchases + Gross profit- sales

= ₹5,00,000+ ₹ 25,00,000+ ₹8,00,000- ₹ 32,00,000 = ₹6,00,000

Missing Inventory = ₹6,00,000- ₹5,75,000= ₹25,000

Answer 1. (c)

Cost of goods available for sale

= Purchases – Return outward + Freight inward = ₹ 2,10,000 – ₹22,000 + ₹ 30,000 = ₹ 2,18,000

Answer 1. (d)

Computation of Inventory

Particulars	₹	₹
Inventory Value as per books		1,50,000
Add: Purchases received but not accounted	10,000	
Sales yet to be delivered	30,000	40,000
		1,90,000
Less: Returns outward	5,000	
Amount overcast in stock sheet	6,000	11,000
Inventory as per physical stock		1,79,000

Answer 1. (e)

Payment received from Debtors

= Opening Debtors + Credit Sales – Closing Debtors = ₹ 8,000 + ₹ 19,000 – ₹ 9,000 = ₹ 18,000

Total net sales during the year

= Credit sales + Cash sales = ₹ 19,000 + ₹ 4,000 = ₹23,000.

Answer 1. (f)

The bill drawn was to accommodate only A , so the proceeds were fully used by A. Hence on the due date, the whole amount should be remitted by A to B. So the right journal entry is

Particulars		*Dr.*	*Cr.*
B's A/c	Dr.	5,000	
To, Cash A/c			5,000

Answer 1. (g)

Provision for Bad and Doubtful debts

Dr. ***Cr.***

Particulars	Amount ₹	Particulars	Amount ₹
To Bad Debts	40,000	By Opening Balance b/f	50,000
To Closing Balance (5% on ₹7,00,000)	33,000	By P&L A/c	23,000
	73,000		73,000

The closing balance of provision should be made after writing off the discount allowed and the bad debts incurred for the period. Since the bad debts incurred of ₹40,000 have not been written off in the amount of ₹ 7,00,000, after writing off closing debtors amount to ₹6,60,000.

Answer 1. (h)

Provision for Discount on Debtors

Dr. ***Cr.***

Particulars	Amount ₹	Particulars	Amount ₹
To Discount allowed	2,000	By Opening Balance b/f	2,400
To Closing Balance (2% on ₹6,27,000)	12,540	By P&L A/c	12,140
	14,540		14,540

Provision for discount on debtors is made on closing debtors less closing provision on bad and doubtful debts, since no discount is to be allowed or provided for in respect of bad debts expected. Hence closing debtors after writing off actual bad debts incurred as in earlier explanation is ₹ 6,60,000 less ₹ 33,000 = ₹ 6,27,000.

Answer 1. (i)

The total amount debited to profit and loss account in respect of both the provisions = ₹ 23,000 + ₹12,140= ₹ 35,140.

Answer 1. (j)

Annual Depreciation = $\frac{₹\ 8,90,000 + 7,000 + 30,000 - 40,000}{5} = \frac{₹\ 8,87,000}{5}$ =₹ 1,77,400

Q. 2. Select the Correct Answer :

(i) Book of original entries is known as

(a) Invoice book

(b) Journal

(c) Debit/ Credit notebook

(d) Ledger

(ii) Function(s) of Accounting is/are….
(a) To help in decision making
(b) To help in measurement
(c) To help in forecasting
(d) All of above

(iii) For assets the Increase side is the
(a) Debit side
(b) Credit side
(c) Balance amount
(d) None

(iv) Which of the following is an example of current liability
(a) Bills Payable
(b) Furniture
(c) Closing Stock
(d) Equity Share Capital

(v) Current liabilities means
(a) Which are payable within 12 months
(b) Which are payable within 5 years
(c) Which are less than ₹ 1 lakhs
(d) Only which are payable immediately

(vi) Which of these information is not available in the Financial Statements of a company
(a) Total sales
(b) Total Profit and Loss
(c) Capital
(d) Cost of Production

(vii) Money owed to an outsider is a/an
(a) Asset
(b) Liability
(c) Profit
(d) Capital

(viii) Accounting Standard on 'The Effect of Changees in foreign exchange rates' is
(a) AS-11
(b) AS-13
(c) AS-18
(d) None of these

(ix) Noting charges are paid by
(a) Acceptor
(b) Payee
(c) Drawee
(b) None of the above

(x) The profit is 25 % of selling price then it is _____ of cost price.
(a) 25%
(b) 50%
(c) 33⅓%
(d) 10%

Answer 2.

(i) - (b) Journal
(ii) - (d) All of above
(iii) - (a) Debit side
(iv) - (a) Bills Payable
(v) - (a) Which are payable within 12 months

(vi) - (d) Cost of Production
(vii) (vii)- (b) Liability
(viii) (viii)- (a) AS-11
(ix) – (c) Drawee
(x) – 33⅓%

Q. 3. (a) State the following statements are *True* or *False* :

(i) Salary paid to Amrita will be debited to Amrita's Personal account.
(ii) Statement of Affairs is a Statement of Assets and Liabilities.
(iii) Credit balance of the Pass Book indicates favourable balance.
(iv) Balances on personal accounts are carried forward to the next year.
(v) Wages paid for installation should be debited to wages account.
(vi) Income received in advance is an asset.
(vii) Accumulated depreciation can be located in the debit side of the trial balance.
(viii) Reserve for discount on creditors has a credit balance.
(ix) Profit prior to incorporation is capital profit.
(x) Amount set apart to meet loss due to bad- debts is a provision.

(b) Match the following :

	I	II
(i)	AS-3	A. Construction Contracts
(ii)	AS-6	B. Cash Flow Statement
(iii)	AS-7	C. Accounting for Fixed Assets
(iv)	AS-16	D. Depreciation Accounting
(v)	AS - 10	E. Borrowing Costs

Answer 3. (a)

(i) False
(ii) True
(iii) True
(iv) True
(v) False
(vi) False
(vii) False
(viii) True
(ix) True
(x) True

Answer 3. (b)

Match the following :

(i) - B
(ii) - D
(iii) - A
(iv) - E
(v) – C

Q. 4. (a) Adbhut Ltd. which depreciates its machinery at 10% p.a. under the Straight line method, had on January 1, 2012, ₹ 9,60,000 to the debit of Machinery Account. During the year 2012, a part of the machinery purchased on January 1, 2010 for ₹ 80,000 was sold for ₹ 45,000 on July 1, 2012 and a new machinery at a cost of ₹ 1,50,000 was purchased and installed on the same date, the installation charges being ₹ 8,000. Except the first purchase of machinery on January 1, 2010, no other purchase was made during 2010 and 2011. Show the machinery Account for the year 2012.

Answer 4. (a)

Machinery Account

Dr. ***Cr.***

Date	Particulars	₹	Date	Particulars	₹
01.01.2012	To, Balance b/d	9,60,000	01.07.2012	By ,Depreciation A/c	4,000
01.07.2012	To, Bank A/c	1,50,000		By, Bank A/c	45,000
	To, Bank A/c	8,000		By, P& L A/c	15,000
	(Expenses)			By, Depreciation A/c	
				On Old Machine	1,12,000
				On New Machine	7,900
				By, Balance c/d	9,34,100
		11,18,000			11,18,000

Working Notes :

(i) Book Value of Machine Sold = $₹\,80{,}000 - \left(₹\,80{,}000 \times \frac{10}{100} \times 2\frac{1}{2}\right) = ₹\,60{,}000$

(ii) Loss on Sale of Machinery= ₹ 60,000 – ₹ 45,000 = ₹ 15,000

(iii) Total Cost of Machine on 1.1.2010 be X

Then, X- 10% of X -10% of X = ₹9,60,000

X-0.2X = ₹9,60,000

X = ₹ 9,60,000/0.8 = ₹12,00,000

(iv) Depreciation on unsold old machine= 10% of (₹ 12,00,000 - ₹ 80,000)= ₹1,12,000

(v) Depreciation on new machine= $₹\,1{,}58{,}000 \times \frac{10}{100} \times \frac{6}{12} = ₹\,7{,}900$

Q. 4. (b) A company purchase a plant for ₹ 40,000 on January 1,2010. It purchased another plant on April 1 ,2011 For ₹ 24,000. On September 1, 2011 the plant purchased on January 1, 2011 was sold for ₹35,000. A new plant was purchased for ₹ 27,000 on some date. Depreciation was provided @ 10% on WDV method. Prepare Plant Account till the year eding 31st March, 2012.

Answer 4. (b)

Dr. **Plant Account** ***Cr.***

Date	Particulars	Amount	Date	Particulars	Amount
2010 Jan 1	To, Bank A/c (I)	40,000	2010 March,31	By, Depreciation A/c	1,000
				By, Balance c/d	39,000
		40,000			**40,000**
2011 April 1	To, Balance b/d	39,000	2011 September 1	By, Depreciation (I)	1,625
				By, Bank A/c (Sale)	35,000
	To, Bank A/c (II)	24,000			
				By, P&L A/c (Loss)	2,375
Sept. 1	To, Bank A/c (III)	27,000			
			2012 March,31	By, Depreciation c/d	
				I- ₹ 2,400	

				II- ₹ 1,575 By, Balance c/d I- ₹ 21,600 II- ₹25,425	3,975 47,025
		90,000			**90,000**
2010 April 1	To, Balance b/d II-₹ 21,600 II- ₹25 ,425	 47,025			

Working Note :

Depreciation on Plant I	$\frac{40{,}000 \times 10}{100}$.	Rs. 4,000 p.a
Depreciation on Plant II	$\frac{24{,}000 \times 10}{100}$.	Rs. 2,400 p.a
Calculation of gain/Loss on sale of Plant I Depreciation on 5 months on Plant – I till date of sale $= \frac{39{,}000 \times 10}{100} \times \frac{5}{12}$ = ₹ 1,625 Depreciated value (Book Value) on date of sale = ₹39,000-₹1,625= ₹ 37,375 Loss on sale = ₹ 37,375 - ₹ 35,000 (Sale Value) = ₹ 2,375		

Q. 5. The book value of plant and machinery on 1/1/2010 was ₹ 2,00,000. New machinery for ₹ 10,000 was purchased on 1/10/2010 and for ₹ 20,000 on 1/7/2010. On 1/4/2012 at machinery whose book value had been ₹ 30,000 on 1/1/2010 was sold for ₹16,000 . Depreciation was charged @ 10% p.a. on straight line method. It was decided on 13/12/2012 that depreciation should be charged @ 20% on WDV method with retrospective effect since 1/1/2010 . Show machinery A/c from 1/1/2010 to 31/12/2012.

Answer 5.

Plant and Machinery Account

Dr. ***Cr.***

Date	Particulars	Amount	Date	Particulars	Amount
2010 Jan 1 Oct 1	 To, Balance b/d To, Bank A/c	 2,00,000 10,000	2010 March,31	 By, Depreciation A/c (20,000 +250) By, Balance c/d	 20,250 1,89,750
		2,10,000			**2,10,000**
2011 Jan 1 July 1	 To, Balance b/d To, Bank A/c	 1,89,750 20,000	2011 Dec. 31	 By, Depreciation (20,000+1,000+1,000) By, Balance c/d	 22,000 1,87,750
		2,09,750			**2,09,750**
2012 Jan 1	To, Balance b/d	1,87,750	2012 April 1 Dec.31	By, Depreciation (3 months) By, Bank A/c (Sale) By, P&L A/c (Loss) By, Depreciation c/d (Additional) By, Depreciation (for the year 2011) By, Balance c/d	750 16,000 7,250 29,350 26,880 1,07,520
		1,87,750			1,87,750

Working Notes:

(i) Calculation of loss on Machinery sold

				₹
Cost of the Machine				30,000
Less: Depreciation	2010		3,000	
	2011		3,000	
	2012	(3 months)	750	(6,750)
				23,750
Less: Sale Price				(16,000)
Loss on sale of Machinery				7,250

(ii) Calculation of additional depreciation:

	SML	WDV
Depreciation for 2010	17,250	34,500
Depreciation for 2011	19,000	31,100
	36,250	65,600

Additional depreciation : ₹ 65,000 - ₹ 36,250 = ₹ 29,350

(iii) Depreciation for 2010

	₹
Written Down Value of Machinery	
Value of machinery as on 1-1-2010	1,80,0000
Less: Depreciation for the year 2010	(34,500)
	1,45,500
Add: Purchase during the year	20,000
	1,65,500
Less: Depreciation for the year 2011	(31,100)
	1,34,400

Depreciation for the year 2010 on ₹ 1,34,400 @ 20% p.a ₹26,880

Q. 6. (a) On 30th Sept. 2012 my Cash Book (Bank Column of Account No. 1448870) showed a bank Overdraft of ₹ 49,350. On going through the Bank Pass Book for reconciling the Balance, I found the following :

Out of cheques drawn on 26th Sept. those for ₹3,700 were cashed by the bankers on 2nd October.

(i) A crossed cheque for ₹ 750 given to Amrita was returned by her and a bearer cheque was issued to her in lieu on 1st Oct.

(ii) Cash and cheques amounting to ₹ 3,400 were deposited in the bank on 29th Sept, but cheques worth ₹ 1,300 were cleared by the Bank on 1st Oct., and one cheque for ₹ 250 returned by him as dishonoured on the latter date.

(iii) According to my standing instructions, the bankers have on 30th Sept. , paid ₹320 as interest to my creditors, paid quarterly premium on my policy amounting to ₹160 and have paid a second call of ₹600 on shares held by me and loged with the bankers for safe custody. They have also received ₹ 150 as dividend on my shares and recovered an insurance claim of ₹ 800 as their charges and commission on the above being ₹ 15. On receipt of the above transaction, I have passed necessary entries in my Cash Book on 1st Oct.

(iv) My bankers seem to have given me wrong credit for ₹500 paid in by me in No.1226650 account and a wrong debt in respect of a cheque for ₹300 drawn against my No. 1226650 account.

Prepare Bank Reconciliation Statement as on 31st September, 2012

Answer 6. (a)

Bank Reconciliation Statement as at 30.09.2012

Particulars	Plus Items ₹	Minus Items ₹
A. Overdraft as per Cash Book		49,350
B. Cheques deposited in the bank but not cleared (₹1,300+₹250)		1,550
Payments made by the bank on our behalf but not entered in the Cash Book:		
Interest ₹320		
Premium ₹160		
Second call ₹600		1,080
Cheques issued against A/c No. 1226650 but wrongly debited by the bank to this A/c		300
C. Cheques issued but not presented for payment	3,700	
Crossed cheque issued to Amrita not presented for payment	750	
Amounts collected by the bank on our behalf but not entered in the Cash Book:		
Dividend ₹ 150		
Insurance Claim ₹ 800		
₹ 950	935	
Less: Bank Commission ₹ 15	500	
Amount paid in A/c No 1226650 by the bank wrongly to this A/c		
	5,885	52,280
D. Overdraft as per Pass Book		46,395

Q. 6. (b) Jack's Cash Book shows an overdrawn position of ₹3,630 on 31st March 2011 although the Bank Statement shows only ₹3,378 overdrawn. Detailed examination of two records revealed the following :

(i) A cheque for ₹ 1,560 in favour of Apurva Associates had been omitted by the Bank from its statements, the chaque having debited to another customer's account

(ii) The debit side his own book had been undercast by ₹ 300.

(iii) A cheque for ₹ 182 drawn in payment of Electricity charges had been entered in the Cash Book as ₹ 128

(iv) The Bank had debited a cheque frr ₹ 126 to Jack's Account in error. It should been debited to Suhas's A/c

(v) A dividend of ₹ 90 on Jack's holding of Equity Shares has Been directly collected by the Bank, but no entry had been made in Cash Book

(vi) A lodgement of ₹ 1,080 on 31.03.2011 had not been credited by Bank

(vii) Interest of ₹ 228 had been directly debited by Bank not recorded in the Cash Book .

Prepare a Bank Reconciliation Statement after necessary amendments in the Cash Book as on 31st March, 2011.

Answer 6. (b)

Dr. **Cash Book (With amended Bank Column)** *Cr.*

Particulars	₹	Particulars	₹
To Dividend	90	By Balance b/d (as given)	3,630
To Undercasting in debit side	300	By Electricity Charges cheque Drawn for ₹182 wrongly recorded as ₹128, (₹182-128)	54
To Balance c/d	3,522	By Bank Interest on Overdraft	228
	3,912		3,912

Bank Reconciliation Statement of Jack as at 31.03.2011

Particulars	Plus Items ₹	Minus Items ₹
(i) Overdraft as per Cash Book (as Amended) (ii) Less: A cheque for ₹ 126 wrongly debited by Bank (iii) Less: A lodgement no credited by Bank (iv) Add: A cheque in favour of Apurva Associates not debited by Bank	1,560	3,912 126 1,080
	1,560	5,118
Overdraft as per Pass Book		3,558

Q. 7. The Balance Sheet of Wooden Furniture Co. as on 31st March 2012 is given below :

Liabilities	Amount ₹	Assets	Amount ₹
Capital	**1,00,000**	**Cash**	**42,000**
General Reserve	**19,000**	**Sundry Debtors**	**90,000**
Sundry Creditors	**25,000**	**Inventory**	**10,000**
		Prepaid Rent	**2,000**
	1,44,000		**1,44,000**

Following is the summary of transactions that occurred during April 2012:

(a)	**Collection from debtors**	**88,000**
(b)	**Payments to Creditors**	**24,000**
(c)	**Acquisition of inventory on credit**	**80,000**
(d)	**Inventory costing ₹70,000 was sold on Credit for**	**85,000**
(e)	**Recognition of Rent Expenses for April**	**1,000**
(f)	**Wages paid in cash for April**	**8,000**

Required :

A. Prepare all ledger accounts after including opening balances as on 31st March 2012. (Journal entries are not required)

B. Prepare the Trial Balance as on 30th April 2012 from the ledger accounts.

Answer 7.

In the books of Wooden Furniture Co.

Dr. **Cash Account** ***Cr.***

Date	Particulars	Amount	Date	Particulars	Amount
2012 April 1	To, Balance b/d To, Sundry Debtors A/c	42,000 88,000	2012 ? April 30	By, Sundry Creditors A/c By, Wages A/c By, Balance c/d	24,000 8,000 98,000
		1,30,000			1,30,000
2012 May 1	To, Balance b/d	98,000			

Dr. **Sundry Debtors Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
2012 April ?	To, Balance b/d To, Sales A/c	90,000 85,000	2012 ? April 30	By, Cash A/c By, Balance c/d	88,000 87,000
		1,75,000			1,75,000
2012 May 1	To, Balance b/d	87,000			

Dr. **Sundry Creditors Account** *Cr.*

Date	Particulars	Amount	Date	Particulars	Amount
2012 ? April 30	To, Cash A/c To, Balance c/d	24,000 81,000	2012 April ?	By, Balance b/d By, Purchase A/c	25,000 80,000
		1,05,000			1,05,000
			2012 May 1	To, Balance b/d	80,000

Dr. **Purchase Account** *Cr.*

Date	Particulars	Amount	Date	Particulars	Amount
2012 ?	To, Sundry Creditors A/c	80,000	2012 April 30	By, Balance c/d	80,000
		80,000			80,000
2012 May 1	To, Balance b/d	80,000			

Dr. **Sales Account** *Cr.*

Date	Particulars	Amount	Date	Particulars	Amount
2012 April 30	To, Balance c/d	85,000	2012 April ?	By, Sundry Debtors A/c	85,000
		85,000			85,000
			2012 May 1	By, Balance b/d	85,000

Dr. **Inventory Account** Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2012 April	To, Balance b/d	10,000	2012 April 30	By, Balance c/d	10,000
		10,000			10,000
2012 May 1	To, Balance	10,000			

Dr. **Prepaid Rent Account** Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2012 April ?	To, Balance b/d	2,000	2012 April 30	By,Rent A/c By, Balance c/d	1,000 1,000
		2,000			2,000
2012 May 1	To, Balance b/d	1,000			

Dr. **Rent Account** Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2012 April 30	To, Prepaid Rent A/c	1,000	2012 April 30	By, Balance c/d	1,000
		1,000			1,000
2012 May 1	To, Balance b/d	1,000			

Dr. **Capital Account** Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2012 April 30	To, Balance c/d	1,00,000	2012 April 1	By, Balance b/d	1,00,000
		1,00,000			1,00,000
			2012 May 1	By, Balance b/d	1,00,000

Dr. **General Reserve Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
2012 April 30	To, Balance c/d	19,000	2012 April 1	By, Balance b/d	19,000
		19,000			19,000
			2012 May 1	By, Balance b/d	19,000

Dr. **Wages Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
?	To, Cash A/c	8,000	2012 April 30	By, Balance c/d	8,000
		8,000			8,000
2012 May 1	To, Balance	8,000			

Trial Balance
As at 30th April, 2012

Heads of Accounts	L.F	Debit ₹	Credit ₹
Cash A/c		98,000	--
Sundry Debtors A/c		87,000	--
Sundry Creditors A/c		--	81,000
Purchase A/c		80,000	--
Sales A/c		--	85,000
Inventory A/c		10,000	--
Prepaid Rent A/c		1,000	--
Rent A/c		1,000	--
Capital A/c		--	1,00,000
General Reserve A/c		--	19,000
Wages A/c		8,000	--
		2,85,000	2,85,000

Q. 8. (a) Urvashi Ltd. makes provision for doubtful debts at the end of each year against specific debtors.
On 31.12.2011, the following debtors' balances were considered doubtful and provided for :

	₹
A	**3,000**
B	**800**
C	**500**

Following are the particulars for the year ended 31.12.2012:
(A) Bad Debt written off:

	₹
A	**2,400**
D	**600**
E	**400**

(B) Amount realized against debts written-off in earlier years:

	₹
F	**1,400**
G	**1,200**
H	**1,000**

(C) Debts considered Doubtful at the end of the year:

	₹
I	**1,600**
J	**1,800**
K	**2,000**

(D) Debtors considered doubtful at the commencement of the 2012 were either realized or written off as bad
Write –up Provision for Doubtful Debts Account, Bad Debts Account, and the relevant amounts in the Profit and Loss Account for the year ended 31.12.2012.

Answr 8. (a)

In the books of Urvashi Ltd.
Provision for Doubtful Debts Account

Dr. **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
2011 Dec.31	To, Bad Debt A/c (₹2,400+₹600+ ₹400) To, Balance c/d (₹1,600+₹1,800+ ₹2,000)	3,400 5,400	2011 Jan. 1 Dec.31	By, Balance b/d (₹3,000+₹800+₹500) By Profit and Loss A/c (Further provision required)	4,300 4,500
		8,800			**8,800**

Bad Debts Account

Dr. **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
2012 Dec.31	To, Sundry Debtors A/c (A+D+E)	3,400	2011 Jan. 1 Dec.31	Provision For Doubtful debts A/c-Transfer	3,400
		3,400			**3,400**

Profit and Loss Account (Extracts)
Dr. **For the year ended 31.12.2011** **Cr.**

	₹	₹		₹
To, Prov . for Doubtful Debts: Bad Debts Add: New Provision Less: Existing Provision (Old Reserve)	 3,400 <u>5,400</u> 8,800 <u>4,300</u>	 4,500	By, Bad Debts recovered (₹1,400+₹1,200+₹1,000)	3,600

Q. 8.(b) A trader maintained Provision for Doubtful Debts @ 5% , a Provision for Discount @ 2% on Debtors and Reserve for Discount @ 2% on Creditors which on 1.1.2011 stood at ₹1,500, ₹ 500 and ₹400, respectively.

His balance on 31.12.2011 and on 31.12.2012 were :

	31.12.11	31.12.12
	₹	₹
Bad Debts written-off	**1,800**	**300**
Discount Allowed	**600**	**200**
Sundry Debtors	**20,000**	**6,000**
Discount Received	**300**	**50**
Sundry Creditors	**15,000**	**10,000**

Show necessary accounts in the ledger.

Answer 8. (b) **In the books of …..**

Bad Debts Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2011 Dec.31	To, Sundry Debtors A/c	1,800	2011 Dec.31	By, Prov for Bad Debts A/c	1,800
		1,800			1,800
2012 Dec. 31	To, Sundry Debtors A/c	300	2012 Dec.31	By, Prov for Bad Debts A/c	300
		300			300

Dr. **Discount Allowed Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
2012 Dec.31	To, Sundry Debtors A/c	600	2011 Dec.31	Provision for Discount on Debtors A/c	600
		600			600
2012 Dec. 31	To, Sundry Debtors A/c	200	2012 Dec.31	Provision for Discount on Debtors A/c	200
		200			200

Dr. **Discount Received Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
2011 Dec 31	To, Provision for Discount on Creditors A/c	300	2011 Dec.31	By, Sundry Creditors A/c	300
		300			300
2012 Dec.31	To, To, Provision for Discount on Creditors A/c	50	2012 Dec. 31	By, Sundry Creditors A/c	50
		50			50

Dr. Provision for Bad Debts Account Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2011 Dec.31	To, Bad Debts A/c (provision found in excess) To, Balance c/d	1,800 1,000	2011 Jan.1 Dec.31	By, Balance b/d By, Profit and Loss A/c (further provision required)	1,500 1,300
		2,800			2,800
2012 Dec. 31	To, Bad Debts A/c To, Profit and Loss A/c (provision found in excess) To, Balance c/d	300 400 300	2012 Jan 1	By, Balance b/d	1,000
		1,000			**1,000**

Dr. Provision for Discount on Debtors Account Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2011 Dec.31	To, Discount Allowed A/c To, Balance c/d (2% on Rs. 19,000)	600 380	2011 Jan 1 Dec 31	By, Balance b/d By, Profit and Loss A/c (further provision required)	500 480
		980			980
2012 Dec. 31	To, Discount Allowed A/c To, Profit and Loss A/c (provision found in excess) To, Balance c/d	200 66 114	2012 Jan.1	By, Balance b/d	380
		380			380

Dr. Provision for Discount on Debtors Account Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2011 Jan.1	To, Balance b/d To, Profit and Loss A/c (further provision required)	400 200	2011 Dec.31	By, Discount Received A/c By, Balance c/d (2% of ₹ 1,500)	300 300
		600			600
2012 Jan.1	To, Balance b/d	300	2012 Dec.31	By, Discount Received A/c By, Profit and loss A/c (provision found in excess) By, Balance c/d (2% on ₹ 10,000)	50 50 200
		300			300

Q. 9. (a) A and B, who are sharebrokers agree to enter into Joint Venture to underwrite 5,00,000 equity shares of ₹10 each of Tips and Toes Ltd. agrees to allot as fully paid 4,000 shares in the company in consideration of the underwriting arrangement. In connection with the venture, the following expenses are incurred :

A: Printing and Stationery (₹5,000) ; Postage (₹ 1,000) ; Advertisement (₹3,000)

B: Postage (₹750) ; Solicitor's fee (₹3,500); Entertainment expenses (₹4,000)

The public subscription was for 4,80,000 shares only and the underwriters were forced to take up the balance and pay for them. To enable them to do so, the two persons approached the bank which, on the security of the shares, advanced the required sum on 1st July, @ 15% interest p.a. The underwriters paid for the shares, on the same day and were also allotted the 4,000 shares by Tips and Toes Ltd. The underwriters through the Bank unloaded their lot of holdings in the market in equal lots and realized 90% of the face value of the first lot on 30th September and 85% for the second lot on 31st October. The sale proceeds were applied in full to discharge the bank loan and the relative interest on the same dates. Shares transfer fees of ₹1,006.25 was met from the Joint Venture Bank Account.

Required : **Draw a Memorandum Joint Venture account, the account of a as appearing in B's Books and the account of B as appearing in A's Books and also the settlement of account between the parties.**

Answer 9. (a)

Dr. **Memorandum Joint Venture Account** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To, A (Expenses):		By, Bank A/c:	
Printing and Stationary	5,000.00	(Sales proceeds of shares):	
Postage	1,000.00	Sept 30 ₹1,08,000	
Advertisement	3,000.00	Oct. 31 ₹1,02,000	2,10,000
To, B (Expenses):		By, Loss transferred to :	
Postage	750.00	A	8,500
Solicitor's fees	3,500.00	B	8,500
Entertainment	4,000.00		
To, Bank A/c (loan for purchase)	2,00,000.00		
To, Bank A/c (Interest on Bank Loan)	8,743.75		
To, Bank A/c (Shares Transfer Fees)	1,006.25		
	2,27,000		**2,27,000**

Working Notes:

	₹
(i) Sale proceeds: On 30th Sept. 12,000 shares at ₹9 per share	1,08,000
On 31st Oct. 12,000 shares at ₹8.50 per share	1,02,000
	2,10,000
(ii)Interest on Loan:	
On ₹ 2,00,000 for 3 months @ 15% p.a.	7,500.00
On ₹99,500, (i.e ₹ 2,07,500 – ₹ 1,08,000) for 1 month @ 15 % p.a.	1,243.75
	8,743.75
(iii) Joint venture Bank Account	
A. Sales proceeds of shares	2,10,000
B. Less: Loan 2,00,000	
Interest and share transfer fee 9,750	2,09,750
C. Balance given to A	250

Dr. Joint Venture with B Account in the books of A Cr.

Particulars	₹	Particulars	₹
To, Bank A/c (Expenses)	9,000	By, Profit & Loss a/c (Share of loss) By Joint Venture Bank A/c By Bank A/c(Balance received from B)	8,500 250 250
	9,000		9,000

Dr. Joint Venture with A Account in the books of B
Cr.

Particulars	₹	Particulars	₹
To, Bank A/c (Expenses) To, Bank A/c (balance paid to A)	8,250 250	By, Profit & Loss a/c (Share of loss)	8,500
	8,500		8,500

Q. 9. (b) Munni of Mumbai and Chunni of Chennai entered into a Joint Venture of purchase and sale of Jute and Cotton .They agreed to share profits and losses in the ratio 3:2 and also to be entitled to an interest of 10% p.a. (on monthly basis) on Capital invested by each of them.

The following transactions took place :

On 1st July 2012, Munni purchased 800 bales of Cotton @ ₹ 424 per bale, tha brokerage being ₹ 12,800 and dispatched to Chunni incurring ₹ 6,400 as freight and insurance.

On 15th July 2012 , Chunni purchased 1,200 bales of Jute @ ₹ 192 per bale, Brokerage being ₹8 per bale and despached to Munni incurring ₹4,800 as freight and insurance.

On 1st August 2012, Chunni sold 300 bales of Cotton @ ₹ 576 per bale, brokerage being ₹ 16 per bale.

On 1st September 2012, Chunni sold 450 bales of Cotton @ ₹ 580 per bale, brokerage being ₹ 12 per bale.

On 15th August 2012, M sold 400 bales of Jute @ ₹ 288 per bale, brokerage being ₹ 8 per bale and on 15th September 2012, sold 700 bales of Jute @ ₹ 292 per bale brokerage being ₹4 per bale. Each partner took unsold stock in his hand at cost plus 12½ % on 30th September 2012, on which date venture was closed.

Unsold Jute held by Munni and Unsold stock held by Chunni.

And

Interest on capital invested for both Munni and Chunni.

Answer 9. (b)

(i) Valuation of Unsold stock taken by the venture

Unsold Jute held by Munni :

	₹
Total quantity (1,200 – 400 – 700) 100 bales @ ₹192	19,200
Add: Proportionate Brokerage (100 × ₹8)	800
Add: Proportionate Freight and Insurance (₹ 4,800 × $\frac{100}{1,200}$)	400
Value at Cost Add: Profit @ 12 $\frac{1}{2}$ % on Cost i.e./ on ₹ 20,400	20,400 2,550
	22,950

Unsold Jute held by Chunni :

	₹
Total quantity (800– 300 – 450) 50 bales @ ₹424	21,200
Add: Proportionate Brokerage (12,800 × ₹ $\frac{50}{800}$)	800
Add: Proportionate Freight and Insurance (₹ 6,400 × $\frac{50}{800}$)	400
Value at Cost Add: Profit @ 12 $\frac{1}{2}$% on Cost i.e., on ₹ 22,400	22,400 2,800
	25,200

(ii) Interest on Capital Invested

For Munni:

	₹
On 1.7.2012: Munni invested (₹3,39,200+₹12,800+₹ 6,400) 15.8.2012: Amount already realized from sale proceeds	3,58,400 1,12,000
 On 15.9.2012 : Amount again realised	2,46,400 2,01,600
Since final settlement was made on 30.9.2012	
Interest will be calculated as: On ₹ 3,58,400 for 2 months (from 1.7.2012 to 31.8.2012) $=\left(\text{Rs.}3{,}58{,}400\times\frac{10}{100}\times\frac{1}{12}\right)$ On ₹ 2,46,400 for 1 month (from 1.9.2012 to 30.9.2012) $=\left(\text{Rs.}2{,}46{,}400\times\frac{10}{100}\times\frac{1}{12}\right)$	5,973 2,053
	8,026

For Chunni:

	₹
On 15.7.2012: Chunni invested (₹2,40,000 + ₹4,800) 1.8.2012: Amount already realized from sale proceeds	2,44,800 1,68,000
 On 1.9.2012 : Amount again realised	76,800 2,55,600
Since final settlement was made on 30.9.2012	
Interest will be calculated as: On ₹ 2,44,800 for 1 months (from 1.7.2012 to 1.8.2012) $=\left(\text{Rs.}2{,}44{,}800\times\frac{10}{100}\times\frac{1}{12}\right)$ On ₹ 76,800 for 1 month (from 1.8.2012 to 1.9.2012) $=\left(\text{Rs.}76{,}800\times\frac{10}{100}\times\frac{1}{12}\right)$	2,040 640
	2,680

Q. 10. (a) From the following transactions, show the necessary journal entries :

(i) Cash purchases of goods from A & Co. for ₹2,000, Less Cash Discount @ 20% and paid by cheque.

(ii) Cash Sales of goods to B & co. for ₹ 10,000, less Cash Discount and the amount received by cheque.

(iii) The cheque which was received from B & Co. returned dishonoured due to lack of funds.

(iv) The cheque which was issued to A & Co. was dishonoured on technical ground.

Answer 10. (a)

In the books of

Journal

Date	Particulars	L.F	Debit	Credit
?	Purchase A/c Dr. To, Bank A/c To, Discount Received A/c (Purchase of goods at a discount of 20% and paid by cheque)		2,000	 1,600 400
?	Bank A/c Dr. Discount Allowed A/c Dr. To, Sales A/c (Sold goods at a discount of 10% and received a cheque)		9,000 1,000	 10,000
?	B & Co. A/c Dr. To, Bank A/c To, Discount Received A/c (Cheque dishonoured)		10,000	 9,000 1,000
?	Bank A/c Dr. Discount Received A/c Dr. To, A& Co. A/c (Cheque dishonoured)		1,600 400	 2,000

Q. 10. (b) On 1.1.2012, Amrita drew a bill on Bipasha for goods sold to her for ₹ 1,000 for 3 months. Bipasha accepted the bill and returned to Amrita. Amrita deposited the bill to the bank as security and took a loan for ₹ 800 at 12% p.a. The bill was duly honoured by Bipasha on due date. The banker remitted the balance of the proceeds after deciding the advances together with interest. Show the entries in the books of Amrita.

Answer 10. (b)

In the books of Amrita

Journal

Date	Particulars	L.F	Debit ₹	Credit ₹
2012 Jan 1	Bipasha A/c Dr. To, Sales A/c (Goods sold to Bipasha on credit)		1,000	 1,000
	Bills Receivable A/c Dr. To, Bipasha A/c (Bill drawn on Bipasha for 3 months)		1,000	 1,000
	Bank A/c Dr. To, Advance on Bill A/c (Loan taken from bank at 12% p.a. on security of the bill)		800	 800
April 4	Advance on Bill A/c Dr. To, Bills Receivable A/c (Bills collected by Bank on maturity)		1,000	 1,000
"	Bank A/c Dr. Interest A/c To, Advance on Bills A/c (Balance of the proceeds received from the bank after adjusting loan together with interest)		176 24	 200

Q. 11. Rectify the following errors :

- **(i) A machinery purchased for ₹40,000 on 1st April ,2012 was wrongly debited to Furniture Account**
- **(ii) Goods to the value of ₹1,400 , returned by Mr. A , were included in the closing stock, but no entry was made in the books.**
- **(iii) Sold old furniture for ₹ 1,000, wrongly credited to Sales Accounts.**
- **(iv) Purchase of goods for the consumption of the proprietor was debited to Purchase Account for ₹ 800**
- **(v) Purchased goods from Uday ₹15,000 but entered into Sales Book.**
- **(vi) An item of ₹ 3,500 relating to prepaid rent account was omitted to brought forward.**
- **(vii) Bills received from Anushka for repairs done to plant ₹ 2,500 and plant supplied for ₹45,000 were entered in the Purchase Book as ₹ 46,000.**
- **(viii) Repairs made to Motor Car amounting to ₹ 480 had been debited to Motor Car Account.**
- **(ix) Purchase Return book total on a folio was carried forward as ₹ 221, instead of ₹112.**
- **(x) ₹ 2,000, salary paid to Mr. B, stands debited to his Personal A/c.**

Answer 11.

Journal Entries

	Particulars	**Dr.** ₹	**Cr.** ₹
i)	Machinery A/c Dr. To, Furniture A/c (Being the short Provision for	40,000	40,000
ii)	Return Inward A/c Dr. To, Mr. A's A/c (Goods returned by Mr. A not recorded in the books at all, now rectified)	1,400	1,400
iii)	Sales A/c Dr. To, Furniture A/c (Being correction of sales return omitted from books)	1,000	1,000
iv)	Drawings A/c Dr. To, Purchase A/c (Goods purchased for private consumption , wrongly debited to Purchase Account, Now rectified)	800	800
v)	Purchase A/c Dr. Sales A/c Dr. To, Uday A/c (Purchases were wrongly entered into Sales Books, now rectified)	15,000 15,000	30,000
vi)	Prepaid rent A/c Dr. To, Suspense A/c (Prepaid Rent was omitted to be brought forward , now rectified)	3,500	3,500
vii)	Repairs A/c Dr. Plant A/c Dr. To, Purchase A/c	2,500 45,000	46,000

	To, Suspense A/c (Wrong recording for repairs and cost of plant purchased in the Purchase Book, Now rectified)		1,500
viii)	Repairs A/c Dr. To, Motor Car A/c (Repairs made to Motor Car amounting to ₹ 480 had been debited to Motor Car Account, now rectified)	480	480
ix)	Return Outward A/c Dr. To, Suspense A/c (Total of purchase return book was carried forward as ₹ 221 instead of ₹112 , now rectified)	109	109
x)	Salary A/c Dr. To, Mr. B A/c (Salary paid to Mr. B, wrongly debited to his account , now rectified)	2,000	2,000

Q. 12. (a) From the following particulars , show the entries in the books of Consignor:
Goods sent on Consignment 150 Books ₹200.

Expenses incurred by consignor		**Expenses incurred by consignee**	
Freight	**₹4,000**	**Clearing**	**₹4,000**
Insurances	**₹2,000**	**Storage**	**₹1,000**

Consignee sold 123 books and he informed that a deficiency of 3 units disclosed by his actual physical stock taking.

Answer 12. (a)

Valuation of Unsold Stock

	₹
Total Cost	30,000
Add: Consignor's expenses	6,000
Add: Consignees non recurring exp	4,000
Cost Price of 150 books	40,000

∴**Value of Stock =** $\text{Rs.}40{,}000 \times \frac{24}{150} = 6{,}400$

Value of Deficiency of stock= $\text{Rs.}40{,}000 \times \frac{3}{150} = 800$

Journal

Date	Particulars	L.F	Debit	Credit
	Stock on Consignment A/c Dr. To, Consignment A/c		6,400	6,400
	Stock Deficiency A/c Dr. To, Consignment A/c		800	800
	Profit and Loss A/c Dr. To, Stock Deficiency		800	800

Q. 12. (b) Suresh consigned 2,000 MT of chemicals at a cost of ₹ 800 per to Ramesh . Suresh paid freight and insurance charges of ₹ 20,000. Of the above, 500 MT of chemicals were destroyed by fire during the transit. Ramesh cleared the balance of 1,500 Mt of chemicals and sold 1,000 Mt at an average price of ₹ 1,000 per MT. Ramesh incurred the following expenses : Godown rent ₹5,000, Insurance ₹ 3,000, Clearing charges ₹4,500 . Insurance claim received against fire ₹ 4,00,000 after admitting the salvage value of stock destroyed by fire at ₹ 10,000. Ramesh was entitled to a commission of 10% on sale proceeds. Ramesh sends

the balance to Suesh after adjusting his commission and expenses out of the sale proceeds. Prepare Consignment Account.

Answer 12.(b) Solution.

In the books of Suresh

Dr. Consignment Account Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
?	To, Goods Sent on Consignment A/c	16,00,000	?	By, Ramesh's A/c- Sales - 1,000 MT @ ₹ 1,000 per MT	10,00,000
	To, Bank A/c – Freight & Insurance	20,000		By, Abnormal Loss A/c	
	To, Ramesh's A/c – Commission	1,00,000		Consignment Stock A/c	3,95,000*
	Ramesh's A/c Godown Rent 5 ,000 Insurance 3,000 Clearing Charges 4,500	12,500		Cost of 500 MT	4,16,500**
	To, Profit and Loss A/c- Profit on Consignment trans.	79,000			
		18,11,500			**18,11,500**

Working Notes:

A. Valuation of Goods Destroyed by Fire –in –transit and Unsold Stock

	₹
Total cost of 2,000 MT	16,00,000
Add: Consignor's Expenses	20,000
	16,20,000
Less: Lost-in-transit $\left(\frac{500}{2,000} \times \text{Rs.}16,20,000\right)$	4,05,000
(Actual Loss ₹4,05,000-Salvage ₹10,000) = ₹3,95,000	12,15,000
Add: Non-recurring Expenses of Consignee	4,500
Cost of 1,500 MT	12,19,500

B.

	₹
Value of unsold Stock = ₹ $\frac{12,19,500 \times 500\text{MT}}{1,500\text{MT}}$	4,06,500
Add: Salvage value of goods	10,000
	4,16,500

Q. 13. On 1.1.2012, X draws a bill at 3 months on Y for ₹2,000. Y accepts it. X immediately discounts the bill at 5% p.a. On 15.3.2012, Y being unable to meet the bill offers X ₹ 1,500 and requests him to draw on him another bill for 3 months for the balance including interest therein @ 7½%. X accepts the agreement and, on maturity, Y meets the bill.
Show the journal entries in the books of Y.

Answer 13.

Date	Particulars	L.F	Debit	Credit
2012 Jan. 1	X A/c Dr. To, Bills Payable A/c (Bill accepted by Y for 3 months)		2,000	2,000
Mar. 15	Bills Payable A/c Dr. To, X A/c (Bill discounted on maturity)		2,000	2,000

"	X A/c Dr. To, Cash A/c (Cash paid to X as a part payment of the bill dishonoured)		1,500	1,500
"	Interest A/c Dr. To, X A/c (Interest payable to X on ₹ 500 @ $7\frac{1}{2}$ % p.a. for 3 months)		9.37	9.37
"	X A/c Dr. To, Bills Payable A/c (Fresh bill accepted for the balance plus interest fot 3 months)		509.37	509.37
June 18	Bills Payable A/c Dr. To, Cash A/c (Fresh bill honoured at maturity)		509.37	509.37

Q. 14. On 1st Jan 2011 Mr. A , for the temporary and mutual accommodation of himself and Mr. B, draws upon the latter a bill of exchange at 3 months for ₹2,000. On 4th Jan Mr. A discounts the bill @ 6% p.a. and hands half the proceeds to Mr. B . At maturity Mr. A remits the amount due to Mr. B who meets the bill. Pass Journal entries in the books of both the parties.

Answer 14.

Mr. A's Journal

Date	Particulars	L.F	Debit	Credit
Jan. 1	Bills Receivable A/c Dr. To, Mr. B A/c (Being the acceptance of bill received from Mr. B)		2,000	2,000
Jan. 4	Bank A/c Dr. Discount A/c Dr. To, Bills Receivable A/c (Being the bill discounted with Bank @ 6 p.a.)		1,970 30	2,000
Jan. 4	Mr. B A/c Dr. To, Cash A/c To, Bills Receivable A/c (Being half the proceeds remitted to Mr. B was also debited with half the discount))		1,000	985 15
April . 4	Mr. B A/c Dr. To, Cash A/c (Being remaining half amount of the bill now remitted to Mr. A to enable him to meet it)		1,000	1,000

Mr. B's Journal

Date	Particulars	L.F	Debit	Credit
Jan. 1	Mr. A A/c Dr. To, Bills Payable A/c (Bing the acceptance given in favour of Mr. A)		2,000	2,000
Jan. 4	Cash A/c Dr. Discount A/c Dr. To, Mr. A A/c (Being half the proceeds from Mr. A who is also credited with half the discount)		985 15	1,000

April . 4	Cash A/c Dr. To, Mr. A A/c (Being the Amount Retained by Mr. A now received from him)		1,000	1,000
April . 4	Bills Payable A/c Dr. To, Cash A/c (Being the bill discharged)		2,000	2,000

Q. 15.(a) The Receipts and Payments Account of Mumbai Club prepared on 31st March 2012 is:

Receipts and Payments Accounts

Receipts	₹	Amount ₹	Payments	Amount
To, Balance b/d		450	By, Expenses (including Payment for sports material ₹ 2,700)	6,300
To, Annual income from Subscription:	4,590		By, Loss on Sale of Furniture (Cost price ₹450)	180
Add: Outstanding of last year received this year	180		By, Balance c/d	90,450
	4,770			
Less: Prepaid of Last Year	90	4,680		
To, Other Fees		1,800		
To, Donation for Building		90,000		
		96,930		96,930

Additional Information :

Mumbai Club had balances as on 1.4.2011:

Sports material ₹6,660; Furniture ₹1,800;Investment at 5% ₹ 27,000

Balance as on 31.03.2012: Subscription receivable ₹ 270;

Subscription received in advance ₹ 90;

Stock of Sports Material ₹ 1,800

Do you agree with the above Receipts and Payments Accounts? If not , Prepare Corrected Receipts and Payments Account and Income and Expenditure account for the year ended 31st March 2012 . Calculate the Capital Fund as on 1st April 2011 also.

Answer 15. (a)

In the books of Mumbai Club

Corrected Receipts and Payment Account for the year ended 31st March 2012

Date	Receipts	Amount ₹	Date	Payment	Amount ₹
	To, Balance b/d	450		By, Expenses (₹6,300-₹2,700)	3,600
	To, Subscription	4,500*		By, Sports Material	2,700
	To, Other Fees	1,800		By, Balance c/d (Cash in hand and at Bank)	90,720
	To, Donation for Building	90,000			
	To, Sale of Furniture	270**			
		90,720			**90,720**

Dr. Income and Expenditure Account for the year ended 31st March, 2012 Cr.

Expenditure	Amount (₹)	Income	Amount (₹)
To, Sundry Expenses	3,600	By ,Subscription	4,590
To, Consumptions of Sports Materials	7,560***	By, Other Fees	1,800
To, Loss on Sale of Furniture	180	By, Interest on Investment (95% on ₹27,000)	1,350
		By, Deficit- Excess of Expenditure over Income	3,600
	11,340		**11,340**

Computation of Capital Fund as on 1st April, 2011.
Balance Sheet as on 1st April 2011.

Liabilities	Amount ₹	Assets	Amount ₹
Subscription Received in advance	90	Furniture	1,800
Capital Fund (Balancing figure)	36,000	Investment	27,000
		Sports Material	6,660
		Subscription receivable	180
		Cash in hand and at Bank	450
	36,090		**36,090**

***1.**

Subscription Received	₹
Subscription (Annual Income)	4,590
Less: Receivable as on 31.03.2012	270
	4,320
Add: Advance received for the year 2012-13	90
	4,410
Add: Receivable on 31.03.2011	180
	4,590
Less: Advance Received as on 31.03.2011	90
	4,500

****2.**

Sale of Furniture	₹
Cost of Furniture	450
Less: Loss on sale	180
∴Sale of Furniture	270

*****3.**

Consumption of Sports Material
Consumption= Opening Stock+ Purchase- Closing Stock
= ₹6,660+ ₹2,700- ₹1,800=₹ 7,560

Q. 15. (b) The Income and Expenditure Account of Barisha Club for the year 2012 is :

Dr. Cr.

Expenditure	₹	Income	₹
To, Salaries	**1,20,000**	**By, Subscription**	**1,70,000**
To, Printing & Stationery	**6,000**	**By, Entrance Fees**	**4,000**
To, Postage	**500**	**By, Contribution of Dinner**	**36,000**
To, Telephone	**1,500**		
To, General Expenses	**12,000**		
To, Interest and Bank Charges	**5,500**		
To, Audit Fees	**2,500**		

To, Annual Dinner Expenses **To, depreciation** **To, Surplus**	**25,000** **7,000** **30,000**		
	2,10,000		**2,10,000**

The account has been prepared after the following adjustments:

	₹
Subscription outstanding 31.12.2011	**16,000**
Subscription outstanding 31.12.2012	**18,000**
Subscription received in advance on 31.12.2011	**13,000**
Subscription received in advance on 31.12.2012	**8,400**
Salaries outstanding 31.12.2011	**6,000**
Salaries outstanding 31.12.2012	**8,000**
Audit Fees from 2011 paid during 2012	**2,000**
The club owned a building since 2011	**1,90,000**
The club had sports equipments on 31.12.2011 valued at	**52,000**
At the end of the year after depreciation of ₹7,000, Equipment amounted to	**63,000**
In 2011 the club had raised a Bank Loan which is still unpaid	**30,000**
Cash in hand on 31.12.2012	**28,500**
Audit Fees for 2012 not paid	**2,500**

Compute the amount of (i) Subscription Received as on 31st Dec, 2012
(ii) Salary Paid as on 31st Dec, 2012
(iii) Purchase of sports Equipment as on 31st Dec, 2012

Answer 15. (b)
(i)

Subscription Received	₹
Subscription (As per Income & Expenditure A/c) Add: Outstanding on 31.12.11	1,70,000 16,000
 Less: Outstanding for 2012	1,86,000 18,000
 Add: Received in Advance for 2013	1,68,000 8,400
 Less: Received in Advance for 2012	1,76,400 13,000
	1,63,400

(ii)

Salaries Paid	₹
Salaries (As per Income & Expenditure A/c) Less: Outstanding for 2011	1,20,000 8,000
 Add: Outstanding for 2011	1,12,000 6,000
	1,18,000

(iii)

Purchase of Sports Equipment	
(₹ 63,000+ ₹ 7,000+ ₹ 52,000)	₹18,000

Section II : Cost Accounting

Q. 16. (i) Contract Price ₹6,00,000, 7/10th of the contract was completed. However, architect gave certificate only for 50% of the contract price on which 80% was paid. Cost incurred to date ₹ 3,50,000. Calculate the value of work certified, the cost of work uncertified and payment received from contractee.

Answer 16. (i)

(a) Value of work certified = Proportion of work done and certified × Contract Price

= 50% of ₹ 6,00,000 = ₹ 3,00,000

(b) Cost of Work Uncertified =

$$\frac{\text{\% of work Uncertified}}{\text{\% of Total Work done till date}} \times \text{Total cost incurred till date} = \frac{20}{70} \times \text{Rs.}3{,}50{,}000 = \text{Rs.}1{,}00{,}000$$

(c) Payment received from contractee = Work certified × % of Cash received = ₹ 3,00,000 × 80%

= ₹2,40,000

Q. 16. (ii) From the following information, calculate the (a) Effective kilometer p.a; (b) Effective Passenger kilometers p.a ; (c) Total fuel consumption ; and (d) Total cost of fuel; (e) Cost of fuel kilometer

Distance of one way route	**40 kilometers**
Round trips per day	**3**
Days operated in a month	**25**
Seating capacity	**50 passengers**
Seating capacity occupied	**80%**
Fuel Consumption	**1 litre per 6 kms**
Rate of Fuel	**₹15 per litre**

Answer 16. (ii)

(a) Effective kilometers distance covered one way × No. of trips per day × No. of days operated × No. of months operated = 40 × (3 × 2) × 25× 12=72,000

(b) Effective Passenger kilometers = Effective kilometers × Seating capacity × Seating capacity occupied= 72,000 × 50 × 80%= 28,80,000

(c) Total fuel consumption= $\frac{\text{Distance Covered}}{\text{Mileage Litre}} = \frac{72{,}000}{6} = 12{,}000\text{ Litres}$

(d) Total cost of fuel= fuel consumption × Rate of Fuel = 12,000 × ₹ 15 = ₹ 1,80,000

(e) Cost of fuel per kilometer = $\frac{\text{Total cost of fuel}}{\text{Total Distance Covered}} = \frac{1{,}80{,}000}{72{,}000} = \text{Rs.}2.50\text{ per km.}$

Q. 16. (iii) About 50 items are required every day for a machine. A fixed cost of ₹ 50 per order is incurred for placing an order . The inventory carrying cost per item amounts to ₹ 0.02 per day.

The lead period is 32 days . Compute:

(a) EOQ

(b) Re- order level

Answer 16. (iii)

(a) EOQ= $\sqrt{\frac{2(50 \times 360 \times 50)}{0.02 \times 360}} = \sqrt{2{,}50{,}000} = 500\text{units}$

(b) Re- order level-

16. (iv) The following information is given by Bhimsen Ltd.

Selling Price per unit ₹ 10, Variable Cost per unit ₹6 , Fixed Costs ₹ 24,000

Calculate- P/V Ratio .

Answer 16.(iv)

$$\text{Profit Volume Ratio} = \frac{\text{Selling Price - Variable Cost}}{\text{Selling Price}} X100 = Rs.\frac{(10-6)}{10} X100 = 40\%$$

Q. 16. (v) P/ V ratio 40%, Margin of Safety 20% , Break even point ₹ 200 crores. Calculate Total Sales.
Answer 16. (v)

$$\text{Total sales} = \frac{\text{Break Even Sales (unit)}}{100\text{ - M/S Ratio}} = \frac{\text{Rs.200 Crores}}{100\% - 20\%} = \text{Rs.250crores}$$

Q. 17. State whether the following are 'True' of 'False'

(i) (i)Variable cost per unit will always change.
(ii) An increase in fixed Cost will result in increase in break even level.
(iii) BEP indicates Contribution=Fixed Cost
(iv) Re-order level indicates – the level when a replenishment order is placed.
(v) Cost of normal waste of material under contract costing is debited to Contract A/c
(vi) There is no difference between marginal cost and differential cost.
(vii) Difference between time keeping and time booking is called Idle time.
(viii) P/V Ratio = $\frac{\text{Sales - Variable Cost}}{\text{Sales}} X100$
(ix) Objective of Cost Accounting is to link cost to the cost centre
(x) Marginal costing does not differ from direct costing at all.

Answer 17.

(i) False
(ii) True
(iii) True
(iv) True
(v) True
(vi) False
(vii) True
(viii) True
(ix) rue
(x) False

Q. 18. (a) Calculate the material cost per unit :

Quantity	**Particulars**	**Rate ₹**	**Amount ₹**
300 Kgs	**Material A**	**20.00 per Kg**	**6,000**
200 Kgs	**Material B**	**24.00 per Kg**	**4,800**
			10,800
Less: Trade Discount			**360**
			10,440
Add: Cost of containers (capacity of each 25 Kgs)			**240**
Cartage and Carriage			**300**
Octroi duty @ 1 %			**108**
			11,088

Terms :

(i) 5% cash discount for payment within a week.

(ii) Return value of containers ₹9 each

Answer 18. (a)
Statement showing the Calculation of Material Cost

Particulars	Material A	Material B
A. Invoice Price	6,000	4,800
B. Less: Discount (divided in the ratio of invoice price i.e. 5:4)	200	160
	5,800	4,640
C. Add: Cost of containers (divided in the ratio of quantity 300:200)	144	96
D. Total Invoice Value	5,944	4,736
E. Add: Cartage and carriage (divided in the ratio of quantity i.e. 300:200)	180	120
Octroi Duty (in the ratio of invoice price)	60	48
F. Total Cost	6,184	4,904
G. Less: Credit for Return of Containers	108	72
H. Net Cost of Materials purchased	6,076	4,832
I . Quantity purchased	300 Kgs	200 Kgs
J. Cost per kg (Total Cost/ Qty)	₹20.25	₹24.16

Notes:
(i) Cash discount being a financial item, has been ignored.
(ii) It has been assumed that containers have been returned.

Q.18. (b) From the details given below, calculate:

(i) Re-ordering level
(ii) Maximum level
(iii) Minimum level
(iv) Danger level

Re-ordering quantity is to be considered on the basis of the following information:
Cost of placing a purchase order is ₹ 20
Number of units to be purchased during the year is 5,000
Purchase price per unit inclusive of transportation cost is ₹ 50
Annual cost of storage per unit is ₹ 5
Details of lead time: Average 10 days, maximum :15 days, minimum :6 days
For emergency purchases: 4 days
Rate of consumption: Average :15 units per day, maximum :20 units per day

Answer 18. (b)

$$\text{EOQ}= \sqrt{\frac{2\times \text{RU}\times \text{CO}}{\text{CC per unit}}} = \sqrt{\frac{2\times 5{,}000\times 20}{5}} = 200 \text{ units}$$

(i) Re-order level= Max. re-order period × Max. usage = 15×20units or 300 units
(ii) Maximum level = Re-order level + Re-order quantity – (Min. usage× Min. re-order period)
= 300+200- (6×10)=440 units
(iii) Minimum level = Re-order level- (normal usage × Normal re-order period)
=300-(10×15)=150 units
(iv) Danger level = Normal usage ×Re-order period for emergency purchases
= 15×4 or 60 units

Notes :

A. Minimum usage = 2× Average usage – Maximum usage
= 2×15 – 20 or 10 units

B. Re-order quantity is not necessarily equal to EOQ. However, it is desirable to fix re-order quantity equal to EOQ . Therefore, in absence of information on re-order quantity, it is assumed that EOQ is the re-order quantity.

Q. 19. From the following particulars work out the issue rate per 1,000 each of first class and second class brick:

(i) Paid for supply at the kiln site for 30 lakh first class bricks @ ₹ 30 per 1,000
(ii) Paid for supply at the kiln site for 60 lakh second class bricks @ ₹ 25 per 1,000
(iii) Paid carriage charges for carrying all bricks from kiln to store yard @ ₹ 1.50 per 1,000
(iv) Paid unloading charges ₹90 (lump sum)
(v) Paid for staking in the store yard ₹180 (lump sum).
(vi) Breakage in handling: 1% for first class bricks, 2% for second class bricks.

Answer 19.

	Total First Class Bricks	**Cost (₹) Second Class Bricks**
Amount paid towards the cost of bricks:	90,000	1,50,000
Carriage charges @ ₹ 1.50 per 1,000	4,500	9,000
Unloading charges (apportioned in the Ratio of Quantity, i.e., 30:60)	30	60
Paid for stacking in the store yard (apportioned in the ratio of Quantity, i.e., 30:60)	60	120
	94,590	**1,59,180**

Cost per 1,000 = $\frac{\text{Total}}{(\text{Total number in'000 - Normal loss})}$

First Class Bricks	**Second Class Bricks**
$= \frac{\text{Rs. } 94{,}590}{(3{,}000 - 1\% \text{ of } 3{,}000)}$ =₹31.8485	$= \frac{\text{Rs.} 1{,}59{,}180}{(6{,}000 - 2\% \text{ of } 6{,}000)}$ =₹ 27.0714

Thus, A. Issue rate per 1,000 first class bricks ₹31.8485
B. Issue rate per 1,000 second class bricks ₹27.0714

Q. 20. (a) The firm employs five workers at an hourly rate of ₹ 2.00 During the week , they worked for four days for total period for 40 hours each and completed a job for which the standard time was 48 hours for each worker. Calculate the labour cost under the Halsey method and Rowan method of incentive plan payments.

Particulars	**Halsey**	**Rowan**
Actual Hours Worked (AH) [40×5]	**200**	**200**
Standard Hours (SH) [48×5]	**240**	**240**
Hourly Rate wages (AH × Rate)= [200× ₹ 2]	**400**	
Bonus	$\frac{1}{2}\times(\text{SH-AH})\times\text{R}$	$\frac{AH}{SH}\times(\text{SH} - \text{AH})\times\text{R}$
Total Labour Cost [C+D]		

(b) The cost accountant of Yummi Ltd. has computed labour turnover rates for the quarter ended 31st March,2011 as 10% ,5% and 3% respectively under 'Flux Method', 'Replacement Method' and 'Separation method'. If the number of workers replaced during the quarter is 30, find the number of (i) workers recruited and joined, and (ii) workers left and discharged.

Answr 20. (b)

Using Replacement method, labour turnover rate= No. of replacements/ Average workers on roll

Hence, 5/100=30/Average workers on roll

Therefore, average workers on roll = 600

Using Separation method, labour turnover rate = No. of replacement/ Average workers on roll
Hence 3/100 = Separation /600
Therefore, separation during the period=18

Flux method, labour turnover rate = (Separation + Accession)/Average workers on roll
Hence 10/100 =(18 + Accession) /600
Therefore Accession during the period =42

(i) Workers recruited and joined (Accession) =42
(ii) Workers left and discharged (Separation) = 18

Q. 21. (a) A direct worker is paid ₹ 800 per month on basic wages, and ₹200 as dearness allowance per month. His contribution to provident fund is 10% of his basic pay and dearness allowance per month and his E.S.I contribution is 5%. Cost of non-monetary benefits to him is estimated as ₹100. Actual number of working days (of ₹ 8 hours work per day) after adjustment for weekly off, holidays and leave entitlement are estimated at 250 per year. Normal idle time is 10% .
Calculate wage rate per hour for costing purpose.

Answer 21. (a)

Total labour cost per month	₹
Basic wages	800
D.A	200
P.F Contribution @10% of ₹ 1,000	100
E.S.I Contribution @ 5%	50
Nonmonetary benefits	100
Total	1,250
Labour cost per annum: ₹1,250 × 12	15,000

Normal productive hours per annum	
Total working hours	=Working days × hours per day =250 × 8=2000 hrs
Normal idle –time 10% of 2,000 hours	200 hours
Normal productive hours	1,800 hours
Wages rate per hour for costing purpose	$= \frac{\text{Labour cost per annum}}{\text{Normal productive hours per annum}}$ $= \frac{\text{Rs.}15{,}000}{1{,}800} = \text{Rs.}8.333$ per hour

Q. 21. (b) The management of Sunrise Ltd. wants to have an idea of the profit lost/ foregone as a result of labour turnover last year.
Last year sales accounted to ₹ 66,00,000 and the P/V Ratio was 20%. The total number of actual hours worked by the direct labour force was 3.45 lakhs. As a result of the delays by the Personnel Department in filling vacancies due to labour turnover. 75,000 potentially productive hours were lost. The actual direct labour hours included 30,000 hours attributable to training new recruits , out of which half of the hours were unproductive. The costs incurred consequent on labour turnover revealed on analysis the following:

	₹
Settlement cost due to leaving	**27,420**
Recruitment cost	**18,725**
Selection cost	**12,750**
Training cost	**16,105**

Assuming that the potential production lost due to labour turnover could have been sold at prevailing prices, ascertain the profit foregone/ lost last year on account of labour turnover.

Answer 21. (b)

Computation profit foregone/ lost last year on account of labour turnover:

	₹
Settlement cost	27,420
Recruitment cost	18,725
Selection cost	12,750
Training cost	16,105
Loss contribution due to labour turnover (66,00,000/3,30,000) 75,000 × 20%	3,00,000
	3,75,000

Q. 22. W 40 Ltd provides you the following information for the year 2011:

Margin of Safety ₹ 64,000, Total Cost ₹ 62,400, Margin of Safety 6,400 Units , Break- Even Sales 1,600 units. During the next year 2012, the Selling Price is expected to be reduced by 10% and Variable Costs and Fixed Costs are to be increased by 12.5% and 20% respectively.

Required:

Estimate the Profit if Sales Units are expected to increase by 20%.
Estimate the Sales in order to increase Profit by 20%.
Estimate the sales in so as to earn 20% on sales.
Estimate the Sales so as to earn a Profit of ₹ 2 Per Unit.
Estimate the BEP for the next year 2012.

Answer 22.

(a)

	₹	
A. Sales	86,400	(₹ 80,000*120%*90%)
B.Less: Variable Cost	43,200	(₹ 32,000*120%*112.5%)
C. Contribution(A-B)	43,200	
D. Less: Fixed Cost	11,520	(₹ 9,600*120%)
E. Profit (C-D)	31,680	

(b) Desired Sales =(New Fixed cost +Expected Profit)/New P/V Ratio
= [(₹ 9,600*120%)+ (₹ 38,400*120%)]/50% = ₹1,15,200

(c) Desired Sales = (New Fixed Cost + Expected Profit)/ New P/V Ratio
Let Sales be x, x = [(₹9,600*120%)+0.20×]/50%
or, x = ₹11,520/0.03=₹ 38,400

(d) Desired Sales (Unit) = (New Fixed Costs +Expected Profit)/ Contribution Per Unit
Let Sales be x, x = [(₹9,600*120%) + 0.02x]/(₹9-₹4.5) = 4,608 Units

Desired Sales (₹) = 4,608 Units * ₹ 9 = ₹ 41,472

(e) New BEP= New Fixed Cost/ (New P/V Ratio) = (₹9,600*120%)/50%=₹23,040

Working Notes:

(i) Margin of Safety (%) = Margin of Safety (Units) × 100/Actual Sales(Units**)**

= 6,400 × 100/ (6,400 + 1,600)=80%

(ii) Total Sales =Margin of Safety (₹)/Margin of Safety (%)=₹64,000/80%= ₹ 80,000

(iii) Profit= Total Sales- Total Cost=₹80,000-₹41,600=₹38,400

(iv)P/V Ratio= Profit×100/Margin of Safety=₹38,400 × 100/₹64,000=60%

(v)Break- Even Sales= Total Sales ×(100-Margin of Safety %)=₹ 80,000 × 20% = ₹16,000

(vi) Fixed Costs=BEP × P/V Ratio=₹16,000 × 60%=₹9,600

(vii)New P/V Ratio = (New Selling Price-New Variable Cost) × 100/New Selling Price

=[(₹₹10-10% of ₹10)-(₹4+12.5%of ₹4)] × 100/(₹10-10%of ₹10) = (₹9-₹4.5) × 100/₹9 = 50%

Q. 23. (a) From the data given below find out :

(i) P/V Ratio
(ii) Sales , and
(iv) Margin of safety

	₹
Fixed Cost	**4,00,000**
Profit	**2,00,000**
B.E. Point	**8,00,000**

Answer 23. (a)

(i) P/V Ratio= Fixed Cost/ Break Even Sales

= ₹4,00,000/₹8,00,000 or 50%

(ii) Sales= Contribution/ P/V Ratio

= (₹ 4,00,000+ ₹2,00,000)/50%

= (₹ 6,00,000 X 100)/50

= ₹ 12,00,000

(v) Margin of safety= ₹ 12,00,000- ₹ 8,00,000= ₹4,00,000

Q. 23. (b) The trading results of Day Light Ltd. for two years have been:

	Sales ₹	**Profits** ₹
2010	**10,80,000**	**24,000**
2011	**12,00,000**	**60,000**

Compute the following:
(i)P/V Ratio
(ii) Fixed Cost
(vi) Break Even Sales
(iv) Margin of safety at a profit of ₹ 96,000
(v) Variable costs during the two year.

Answer 23. (b)

(i) P/V Ratio=₹ (60,000- 24,000) / ₹ (12,00,000-10,80,000)=30%

(ii) Variable Cost = 70% of sale

	₹
Sales (2011)	12,00,000
(-)Profit	60,000
Total Cost	11,40,000
(-)Variable Cost	8,40,000
Fixed Cost	3,00,000

(iii)B.E.P (₹)= $\frac{\text{Rs. }3,00,000}{30\%}$ =₹10,00,000

(iv) Margin of Safety = $\frac{\text{Rs. }96,000}{30\%}$ = ₹3,20,000

(v)Variable Cost = 70% of Sales

2010 = ₹ 7,56,000

2011 = ₹8,40,000

Q. 24. Calculate the machine- hour rate to recover the overhead expenses indicated below:

	Per hour	Per annum
Electricity power	**90P**	
Steam	**20P**	
Water	**5P**	
Repairs		**₹730**
Rent		**₹370**
Running hours		**2,000**
Original cost	**₹12,000**	
Book value	**₹2,800**	
Present replacement value	**₹11,000**	
Depreciation (on original cost)		**7.5% per annum**

Answer 24. Computation of Machine Hour Rate

Fixed Charges:	₹
- Repairs	730
- Rent	370
- Depreciation (₹12,000×7.5%)	900
Total Fixed Charges	**2,000**
Effective hrs.	2,000
Fixed Charges per hr.	1.00
(+) Variable Charges per hr.	
- Steam	0.20
- Water	0.05
- Power	0.90
Machine Hour Rate	**2.15**

Q. 25. (a) Q Ltd. which absorbs overhead at a pre-determined rate, provides you the following information :

Overheads Actually incurred	**₹ 60,000**
Overheads absorbed	**₹ 40,000**
Goods sold	**300 Units**
Stock of Finished Goods	**275 Units**

Stock of Work-in-progress	**205 Units (20% completed)**
Unabsorbed overheads were due to rising price levels.	

How would under-absorbed overheads be treated in cost account?

Answer 25. (a)

Under Absorbed Overhead = Actual Overhead – Absorbed Overhead = ₹ 60,000 – ₹ 40,000 =₹ 20,000

Total Equivalent unit =300 +275 + (20% of 250 units) = 625 units

Supplementary Rate = $\frac{\text{Under Absorbed Overhead}}{\text{Total Equivalent unit}}$ $\frac{\text{Rs. 20,000}}{625}$ = ₹32 per unit

Charging by Supplementary Rate :

	₹
Cost of Sales (300units × ₹32) Stock of Finished Goods (275 units × ₹32) Stock of Work-in-progress (50 units × ₹32)	9,600 8,800 1,600
	20,000

Journal entries

Date	**Particulars**		**L.F.**	**Amount ₹**	**Amount ₹**
	Cost of Sales A/c Finished Goods Ledger Control A/c Work-in-progress Ledger Control A/c To Overheads Control A/c	Dr. Dr. Dr.		9,600 8,800 1,600	 20,000

Q. 25. (b) During the year ended 31st March,2012 the factory overhead costs of two production department of an organization are as under :

P- ₹ 1,29,000 **Q- ₹ 1,95,800**

The basis of apportionment of overhead is as under :
Department **P – ₹ 12 per piece for 10,000 pieces.** **Q - ₹ 20 per machine hour for 10,000 hours**

Calculate department wise under or over-absorption of overheads.

Answer 25. (b)

Total amount of overhead absorbed

Department	**Amount**	**Basis of absorption**
P	₹ 1,20,000	₹ 12 per piece for 10,000 pieces
Q	₹ 2,00,000	₹ 20 per machine hour for 10,000 hours

Department wise under or over-absorption of overheads

Department	**Incurred** ₹	**Absorbed** ₹	**Under-absorption** ₹	**Over-absorption** ₹
P	1,29,000	1,20,000	9,000	--
Q	1,95,800	2,00,000	—	4,200
	3,24,800	3,20,000	9,000	4,200

Reconciliation :

	₹
Under-absorption of Overhead	9,000
Over-absorption of Overhead	4,200
Net Under - absorption of Overhead	4,800

The unabsorbed overhead amount will be written off to the Costing Profit & Loss Account, this will reduce the profit by ₹ 2,400.

Q. 26. The following information is available:

	1st April, 2011 to 30th June,2011	**1st July,2011 to 31st March, 2012**
Output	**10,000 units**	**35,000 units**
Total overheads	**₹40,000**	**Rs,1,35,000**

You are required to calculate the amount of variable overhead per unit and amount of total fixed overheads for whole the year 2011-12.

Answer 26.
Let, variable Overhead per unit is 'x' and Fixed Overhear per month is 'y'.
Total Overheads:

For first 3 months:	$10{,}000x + 3y = 40{,}000$	....(i)
For last 9 months:	$35{,}000x + 9y = 1{,}35{,}000$	.....(ii)
(i) multiple by 3 and minus from (ii):	$30{,}000x + 9y = 1{,}20{,}000$	.....(iii)
	$5{,}000x = ₹\ 15{,}000$	
	Or $x = ₹\ 3$	
	$Y = \frac{\text{Rs.}(40{,}000 - 10{,}000 \times 3)}{3} = \frac{\text{Rs.}10{,}000}{3}$	

Thus, the Variable Overhead per unit is ₹ 3.

Total Fixed overhead for the year is $\frac{\text{Rs.}10{,}000}{3} \times 12 = \text{Rs.}40{,}000$

Q. 27. A transport service company is running five buses between two towns which are 50 kilometers apart. Seating capacity of each bus is 50 passengers. The following particulars were obtained from their books for April,2011:

Wages of drivers, conductors and cleaners	**₹24,000**
Salaries of office staff	**₹10,000**
Diesel oil and other oil	**₹35,000**
Repairs and maintenance	**₹8,000**
Taxation, insurance etc.	**₹16,000**
Depreciation	**₹26,000**
Interest and other expenses	**₹20,000**
	1,39,000

Actually, passengers carried were 75% of seating capacity. All buses run on all days of the month. Each bus made one round trip per day. Find out the cost per passenger km.

Answer 27.

Operating costing sheet for the month ended April, 2011

Particulars	**Amount (₹)**
Wages of drivers, conductors and cleaners	24,000
Salaries of office staff	10,000
Diesel oil and other oil	35,000
Repairs and maintenance	8,000
Taxation , insurance etc.	16,000

Depreciation	26,000
Interest and other expenses	20,000
A. Total Costs	**1,39,000**
B. Total effective passenger kilometer generated	**5,62,500**
Cost / Passenger Km. (A/B)	**0.2471**

Working Notes: No. 1

Total Effective Passenger – Kilometers Generated

Passenger Kilometers = No. of buses × Distance in one round trip × seating capacity of each bus × No. of days in a month=5×50×2×50×30= 7,50,000 Passenger Kilometers

Effective Passenger Kilometers

= Total Passenger Kilometers × Capacity actually used= 7,50,000×75% = 5,62,500 Passenger Kilometers.

Q. 28. Iron ore is transported from two mines P and Q and unloaded at plots in a railway station. P is at distance of 10 km. and Q is at a distance of 15 km. from the rail head plots. A fleets of lories of 5 tones carrying capacity is used for the transport of ore from the mines. Records reveal that lories average speed of 30 km. per hour when running and regularly take 10 minutes to unload at the rail head. At mine P loading time average is 30minutes per load while at mine Q loading time average is 20 minutes per load. Driver's wages, depreciation, insurance and taxes and found to cost ₹9 per hour operated . Fuel, oil, tyres, repairs and maintenance cost ₹1.20 per km. Draw up a statement showing the cost per tonne kilometer of carrying iron ore from each mine.

Answer 28.

	Mine P	**Mine Q**
Distance (km)	10	15
Ton Kilometers (Distance × Weight)	50	75
Time per trip (minutes)		
Loading time	30	20
Unloading time	10	10
Running time	40	60
Total (minutes)	80	90
	₹	₹
Fixed cost per km		
Driver's wages , depreciation , insurance & taxes	12.00	13.50
Variable cost per km.		
Fuel, oil, tyres, repairs etc.	24.00	36.00
	36.00	49.50
Operating cost per ton km.	36/50=₹ 0.72	49.50/75= ₹ 0.66

Working Notes:

1. Driver wages etc. are ₹ 9 per hour

For Mine P = ₹ 9 X $\frac{80\text{minutes}}{60\text{minutes}} = \text{Rs.}12$

2. Fuel, Oil etc. per K,. = ₹ 1.20

For Mine P 20 K,. of return journey

=20 km. × ₹1.20= ₹ 24

For Mine Q =30 km. × ₹1.20= ₹ 36

Q. 29. (a) A contract expected to be completed in year 4, exhibits the following information:

End of year	Value of work certified (₹)	Cost of work to date (₹)	Cost of work not yet certified(₹)	Cash received (₹)
1.	**0**	**1,00,000**	**1,00,000**	**0**
2.	**6,00,000**	**4,60,000**	**20,000**	**5,50,000**
3.	**16,00,000**	**13,20,000**	**40,000**	**15,00,000**

The contract price is ₹ 20,00,000 and the estimated profit is 20%. You are required to calculate, how much profit should have been credited to the Profit and Loss A/c by the end of years 1,2 and 3.

Answr 29. (a)

End of Year	Value of work certified	Cost of work certified*	Notional Profit**	Amount that should have been credited to Profit and Loss A/c by the end of the Year
1	0	0	0	0
2	6,00,000	4,40,000	1,60,000	1/3×1,60,000×(5,50,000/6,00,000) =48,889
3	16,00,000	12,80,000	3,20,000	2/3 X 3,20,000 X (15,00,000/16,00,000) =2,00,000

Working Notes:

End of Year	Completion of contract	Profit credited to P&L Account
Year 1	Less than 25%	No profit credited
Year 2	25% or more than 25% But less than 50%	Cumulative profit =1/3*notional profit* (cash received/Value of work certified)
Year 3	50% or more than 50% But less than 90%	Cumulative Profit =2/3*notional profit* (cash received/Value of work certified)

- ***Cost of work certified = Cost of work to date-Cost of work not yet certified**
- **** Notional profit = Value of work certified - (Cost of work not yet certified)**

Q. 29. (b) A company manufacturing widgets to order and has the following budgeted overheads for the year, based on normal activity levels.

Department	Budgeted Overheads ₹	Budgeted activity (Total labour Hours)
Welding	**6,000**	**1,500 labour hours**
Assembly	**10,000**	**1,000 labour hours**

Selling and administrative overheads are 20% of factory cost. An order for 250 widgets type A 208, made as Batch 5999, incurred the following costs.

Materials	**₹12,000**
Labour	**100 hours welding shop at ₹ 10 per hour**

200 hours assembly shop at ₹ 8 hour
₹500 were paid for the hire of special X-ray equipment for testing the welds.

Required: Calculate the cost per unit for Batch 5999.

Answer 29. (b)

The first step is to calculate the overhead absorption rate for the production departments.

Welding = $\frac{\text{Rs.}6{,}000}{1{,}500} = \text{Rs.}4 \text{ per labour hour}$

Assembly = $\frac{\text{Rs.}10{,}000}{1{,}000} = \text{Rs.}10 \text{ per labour hour}$

Total cost- Batch No.5999

	₹	₹
Direct material Direct expenses Direct labour 100 × 10.00= 200 × 8.00=	 1,000 1,600	12,000 500 2,600
 Prime cost Overheads 100 × 4= 200 × 10=	 400 2,000	15,100 2,400
Factory cost Selling & administration cost (20% of factory cost)		17,500 3,500
Total cost		21,000

Cost per unit = $\frac{\text{Rs.}\,21{,}000}{250} = \text{Rs.}8{,}400$

Q. 30. (a) Krishna & Co. undertook a contract for ₹3,20,000 constructing a building. The following is the information concerning the contract during the year 2012:

Particulars	**₹**
Materials Purchased	**80,000**
Labour engaged on site	**60,000**
Plant installed at site at cost	**20,000**
Direct expenditure	**2,400**
Other charges	**4,000**
Materials sent to site	**72,000**
Materials returned to store	**500**
Work certified	**1,90,000**
Value of plant as on 31st Dec. 2012	**12,000**
Cost of work not yet certified	**4,000**
Materials at site 31st Dec.2012	**1,500**
Wages accrued on 31st Dec. 2012	**2,000**
Direct expenditure accrued 31st Dec. 2012	**600**
Cash received from contractee	**1,52,000**

Prepare contract account in the books of Krishna & Co. for the year ending 31st Dec., 2011 and show

(i) The total profit and

(ii) profit to be carried over to Profit and Loss A/c

Answer 30. (a)

Krishna & Co.

Contract A/c for the year ending 31st Dec. 2012				
To, Materials	80,000	By, WIP:		
To, Labour	60,000	Work Certified	1,90,000	
To, Plant	20,000	Work Uncertified	4,000	1,94,000
To, Direct Expenses	2,400	By, Plant at site		12,000
To, Other Charges	4,000	By, Material Return		500
To, Wages Accrued	2,000	By, Material at Site		1,500
To, Direct Expenses Accrued	600			
To, Balance c/d	39,000			
	2,08,000			2,08,000
To, P&L *	26,000	By, Balance b/d		39,000
To, WIP**	13,000			
	29,000			29,000

Working Note:

$$*P\&L = \frac{₹\ 1,52,000}{₹\ 1,90,000} \times ₹\ 39,000 \times \frac{2}{3} = ₹26,000$$

$$**WIP = \frac{₹\ 1,52,000}{₹\ 1,90,000} \times ₹\ 39,000 \times \frac{1}{3} = ₹13,000$$