Paper 2- Fundamentals of Accounting

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Full Marks : 100 **Time allowed: 3 hours**

Section – A

I. Choose the correct answer from the given four alternatives: [6 ×1 = 6]

(i) Cost of goods purchased for resale is an example of –
- **(a) Capital expenditure**
- **(b) Revenue expenditure**
- **(c) Deferred revenue expenditure**
- **(d) none of these**

(ii) From the following details estimate the capital as on 31.03.2017, Capital as on 01.04.2016 ₹ 4,10,000. Drawings ₹ 40,000, Profit during the year ₹ 50,000
- **(a) ₹ 4,10,000**
- **(b) ₹ 4,50,000**
- **(c) ₹ 4,20,000**
- **(d) ₹ 4,00,000**

(iii) A credit purchase of ₹850 from Sudhir was recorded in purchases book as ₹580. The rectification entry is __
- **(a) purchases account will be debited by ₹270**
- **(b) sudhir will be credited by ₹580**
- **(c) purchases account will be debited by ₹850**
- **(d) sudihir will be credited by ₹850**

(iv) A and B purchased a piece of land for ₹ 40,000 and sold it for ₹ 90,000 in 2015. Originally A had contributed ₹ 24,000 and B ₹ 16,000. The profit on venture will be :
- **(a) ₹ 50,000**
- **(b) ₹ 66,000**
- **(c) ₹ 74,000**
- **(d) Nil**

(v) Drawings will result in ______ in the owners capital.
- **(a) Reduction**
- **(b) Increase**
- **(c) No change**
- **(d) None of the above**

(vi) Kuntal draws a bill on shyam for ₹ 7,000 kuntal endorsed it to Ram. Ram endorsed it to Rahim. The payee of the bill will be:
- **(a) Kuntal**
- **(b) Ram**
- **(c) Shyam**
- **(d) Rahim**

Answer:

(i) — (b)
(ii) — (c)
(iii) — (a)

(iv) — (a)
(v) — (a)
(vi) — (d)

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

(i) Oral bill of exchange is also valid.
(ii) Double entry principle means writing twice the same entry.
(iii) Rent Account is a Nominal Account.
(iv) Journal is the book of final entry.
(v) Salaries due for the month will appear nowhere in cash book.
(vi) Depreciation is a process of allocation and not of valuation.

Answer:

(i) False;
(ii) False;
(iii) True;
(iv) False;
(v) True;
(vi) True.

III. Journalise the following transactions: [3×2=6]

1. Bought Machinery for ₹ 1,60,000 with Cash.
2. Rent received ₹ 10,000.
3. Cash drawn by the Proprietor for personal use ₹ 20,000.

Answer:

	Particulars	L. F	Dr. Amount ₹	Cr. Amount ₹
1.	Machinery A/c Dr. To, Cash A/c (Being machinery bought for cash)		1,60,000	 1,60,000
2.	Cash/ Bank A/c Dr. To, Rent A/c (Being rent received)		10,000	 10,000
3.	Drawings A/c Dr. To, Cash A/c (Being cash drawn by proprietor for personal use)		20,000	 20,000

IV. Fill in the Blanks: [6×2=12]

(i) The __________ discount is never entered in the books of accounts.
(ii) In a credit transaction, the buyer is given a _________ facility.
(iii) ₹ 2,400 paid as wages for erecting a machine should be debited to __________ A/c.
(iv) _________ means a state of deterioration due to old age or long use to a building or other property during tenancy.
(v) A ________ bill is drawn to settle a trade transaction.
(vi) In case of Consignment ________ is the agent to whom goods are sent for selling.

Answer:

(i) Trade;
(ii) Credit;
(iii) Machine;
(iv) Dilapidation;
(v) Trade;
(vi) Consignee;

V. Match the following: **[6×1=6]**

	Column 'A'		Column 'B'
1.	**Expenses incurred by co-venture are**	A.	**Honour before due date**
2.	**Retirement**	B.	**The net amount due by consignee to**
3.	**Account sales indicate**	C.	**Joint Venture Account**
4.	**Bank reconciliation statement is a**	D.	**Charging a revenue item to capital**
5.	**Error of principle**	E.	**No depreciation**
6.	**Land**	F.	**Memorandum statement**

Answer:

	Column 'A'		Column 'B'
1.	Expenses incurred by co-venture are debited to	C.	Joint Venture Account
2.	Retirement	A.	Honour before due date
3.	Account sales indicate	B.	The net amount due by consignee
4.	Bank reconciliation statement is a	F.	Memorandum statement
5.	Error of principle	D.	Charging a revenue item to capital
6.	Land	E.	No depreciation

VI. Answer any three questions. Each question carries 8 marks. **[3×8=24]**

1. From the following information given by Mr. J, prepare a Bank Reconciliation Statement as on 31st December,2016: **[8]**

Particulars	₹
Bank Overdraft balance as per Pass Book	**33,000**
Cheques issued but not presented for payment	**8,750**
Cheques recorded in Cash Book but not sent to the Bank for collection	**4,000**
Bank charges debited in the Pass Book	**300**
Premium on Life Policy of Mr. J paid by the Bank on standing instruction of Mr. J	**3,960**
Amount transferred from fixed deposit A/c into the current A/c, appeared only in Pass Book	**3,000**

Answer:

Bank reconciliation statement as on 31.12.2016

Particulars	₹	₹
Bank OD as per Pass Book		33,000
Add:		

Cheques issued but not presented for payment	8,750	
Amount transferred from fixed deposit A/c into the current A/c, appeared only in Pass Book	3,000	
		44,750
Less:		
Cheques recorded in Cash Book but not sent to the Bank for collection	4,000	
Bank charges debited in the Pass Book	300	
Premium on Life Policy of Mr. J paid by the Bank on standing instruction of Mr. J	3,960	8,260
Bank overdraft balance as per Cash Book		36,490

2. Sonu owed Anu ₹ 80,000. Anu draws a bill on Sonu for that amount for 3 months on 1st April 2016. Sonu accepts it and returns it to Anu. On 15th April 2016, Anu discounts it with CD Bank at a discount of 12% p.a. On the due date the bill was dishonoured, the bank paid noting charges of ₹ 100. Anu settles the bank's claim along with noting charges in cash. Sonu accepted another bill for 3 months for the amount due plus interest of ₹ 3,000 on 1st July 2016. Before the new bill became due, Sonu retires the bill with a rebate of ₹ 500. Show journal entries in books of Anu. [8]

Answer:

Journal entries in the books of Anu

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2016 April 1	Bills Receivables A/c Dr To Sonu's A/c (Being acceptance by Sonu)		80,000	 80,000
2016 April 15	Bank A/c Dr Discount A/c Dr To, Bills Receivables A/c (Being discounting of the bill @ 12% p.a. & discounting charges for 2.5 months)		78,000 2,000	 80,000
2016 June 30	Sonu's A/c Dr To, Bank A/c (Being dishonour of the bill & noting charges paid by bank)		80,100	 80,100
2016 June 30	Bank A/c Dr To, Cash A/c (Being cash paid to bank)		80,100	 80,100
2015 July 1	Sonu's A/c Dr To, Interest A/c (Being interest due from Sonu)		3,000	 3,000
2015 July 1	Bills Receivables A/c Dr To, Sonu's A/c (Being new acceptance by Sonu for ₹80,100 & interest of ₹3,000)		83,100	 83,100
2015 July 1	Bank A/c Dr Rebate A/c Dr To, Bills Receivables A/c (Being the amount received on retirement of the bill)		82,600 500	 83,100

3. **A company purchased some machineries for ₹1,00,000 on 1st April, 2011. It charges depreciation @ 10% p.a. on reducing balance method every year. On 30th September, 2015 a part of machinery was sold for ₹14,000, the original cost of the machine was ₹20,000. Calculate the profit or loss on sale of machinery. [8]**

Answer:

Particulars	Amt. (₹)	Amt. (₹)
Original cost of the machines as on 1.4.2011		20,000
(-) Depreciation for the year 2011-12	2,000	
2012-13	1,800	
2013-14	1,620	
2014-15	1,458	
2015-16	656	(7,534)
Written down value as on 30-9-2015		12,466
Sales price		14,000
Profit on sale of machinery		1,534

4. **Write out the Journal Entries to rectify the following errors, using a Suspense Account.**
   (1) Credit sales of ₹3,60,000 made to Munmun is correctly recorded in Sales Book, but posted as ₹3,00,000 in Munmun's Account.
   (2) Rent paid by cash ₹20,000, posted to the debit side of Rent Received A/c as ₹2,00,000
   (3) Sale of old machinery ₹50,000 has been recorded in Sales Book.
   (4) Return Inward Book has been overcast by ₹75,000. [4×2=8]

Answer:

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	Particulars	L. F.	Dr. ₹	Cr. ₹
(1)	Munmun's A/c Dr. To, Suspense A/c (Being wrong posting of Munmun's A/c as ₹3,00,000 instead of ₹3,60,000, rectified)		60,000	 60,000
(2)	Rent Paid A/c Dr. Suspense A/c Dr. To, Rent Received A/c (Being wrong posting of amount paid as rent, rectified)		20,000 1,80,000	 2,00,000
(3)	Sales A/c Dr. To, Machinery A/c (Being sale of old machinery, wrongly recorded in Sales Book, now rectified)		50,000	 50,000
(4)	Suspense A/c Dr. To, Sales Returns A/c (Being, wrong overcastting of Sales Returns Book, Now rectified)		75,000	 75,000

5. **Prepare Trading and Profit and Loss Account of M/s Udayan & Sons for the year ending 31st December, 2016 from following information:**

	₹		₹
Stock (1-1-2016)	**4,00,000**	**Salaries**	**67,000**
Purchases	**5,10,500**	**Rent, rates & taxes**	**24,000**

Wages	2,01,000	Depreciation	6,000
Carriage	10,000	Repairs	12,000
Purchases returns	25,500	Discount allowed	25,000
Export duty	18,000	Bad debts	18,000
Sales	11,50,000	Advertisement	5,000
Coal & coke	50,000	Gas & water	3,000
Sales returns	19,000	Factory lighting	5,000
Printing & stationery	4,500	General expenses	8,000
Stock (31-12-2016)	6,00,000		

[8]

Answer:

Trading and Profit and Loss Accounts of
M/s Udayan and Sons
For the year ending 31st December, 2016

Dr. **Cr.**

Particulars		₹	Particulars		₹
To Stock (1-1-2016)		4,00,000	By Sales	11,50,000	
To Purchases	5,10,500		Less: Sales returns	19,000	11,31,000
Less: Purchases Return	25,500	4,85,000	By Stock (31-12-2016)		6,00,000
To Wages		2,01,000			
To Carriage		10,000			
To Coal and coke		50,000			
To Gas and water		3,000			
To Factory lighting		5,000			
To Gross profit c/d		5,77,000			
		17,31,000			**17,31,000**
To Salaries		67,000	By Gross profit b/d		5,77,000
To Rent, rates & taxes		24,000			
To Printing & stationery		4,500			
To Depreciation		6,000			
To Repairs		12,000			
To Export duty		18,000			
To Discount allowed		25,000			
To Bad Debts		18,000			
To Advertisement		5,000			
To General expenses		8,000			
To Net profit transferred to capital account		3,89,500			
		5,77,000			**5,77,000**

Section – B

I. Choose the correct answer from the given four alternatives: **[6×1=6]**

(i) Fixed cost per unit ____with increasing output.
(a) Decreases
(b) Increases
(c) Remains same

(d) None of the above

(ii) Directors fees is a —
(a) Fixed Expense
(b) Variable Expense
(c) Semi-Fixed Expense
(d) None of the above

(iii) Which method of costing is followed in Insurance Industries?
(a) Job Costing
(b) Operations Costing
(c) Batch Costing
(d) None of the above

(iv) _________ ________ is the process of booking costs against a particular cost account code under a particular cost centre or directly under a cost unit.
(a) Cost Collection
(b) Cost Accumulation
(c) Cost Cutting
(d) None of the above

(v) _______ _________indicates the gap between the sales level and the BEP level.
(a) Margin of safety
(b) Variable Cost
(c) Fixed Cost
(d) P/V Ratio

(vi) The cost of overtime worked for a specific job at the request of the customer is booked as ________ _________.
(a) Direct labour cost
(b) Over head
(c) Both (a) and (b)
(d) None of the above

Answer:

(i) — (a)
(ii) — (a)
(iii) — (b)
(iv) — (a)
(v) — (a)
(vi) — (a)

II. Fill in the blanks: **[6×1=6]**

(i) Fixed Cost of a Company are ₹ 20,000 and Contribution per unit is ₹2 then the Break even no. of units are __________.
(ii) _______ _______ = Normal Usage × Lead Time for Emergency Purchases.
(iii) ________ ________lists all material items required for making a complete product unit inclusive of all components or sub-assemblies.

(iv) ________ costing is used in the service industries and the costs are ascertained for generating services.
(v) Profit = Contribution - __________ _________.
(vi) Cost of special design or layout is an example of __________ expenses.

Answer:

(i) 10,000;
(ii) Danger Level;
(iii) Bill of Material;
(iv) Service;
(v) Fixed Cost
(vi) Direct.

III. Match the following: [6×1=6]

	Column 'A'		Column 'B'
1.	**Flux Method**	A	**is a very powerful tool which suggests the ordering quantity which will minimize the overall inventory management costs.**
2.	**Basis of Allocation of Office Building Rent**	B	**This is the cost of commodities and materials used by the organization.**
3.	**EOQ**	C	**Labour Turnover**
4.	**CAS - 18**	D	**Direct (Material+Labour+Expenses)**
5.	**Prime Cost**	E	**Floor space occupied by each department**
6.	**Material Cost**	F	**Research and Development Costs**

Answer:

	Column 'A'		Column 'B'
1.	Flux Method	C	Labour Turnover
2.	Basis of Allocation of Office Building Rent	E	Floor space occupied by each department
3.	EOQ	A	is a very powerful tool which suggests the ordering quantity which will minimize the overall inventory management costs.
4.	CAS - 18	F	Research and Development Costs
5.	Prime Cost	D	Direct (Material+Labour+Expenses)
6.	Material Cost	B	This is the cost of commodities and materials used by the organization.

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

(i) For decision making, absorption costing is more suitable than marginal costing.

(ii) Overhead and conversion cost are inter-changeable terms.

(iii) Financial accounts provide information for determination of profit or loss.

(iv) Profit Volume Ratio is the ratio of Contributions to sales.

(v) Secondary packing is the minimum necessary without which a product cannot be handled.

(vi) Repeated Distribution Method is a continuous distribution of overhead costs over all departments.

Answer:

(i) — False;

(ii) — False;

(iii) — True;

(iv) — True;

(v) — False;

(vi) — True.

V. Answer any two questions out of four questions: [8×2=16]

1. Rare engineering manufactures a product called as 'The Best'. The following data is collected for the year:

(a) Monthly demand for Unique – 1000 units
(b) Cost of placing order – ₹ 100
(c) Annual carrying cost – ₹ 15 per unit
(b) Normal usage per week – 50 units
(c) Minimum usage per week – 25 units
(d) Maximum usage per week – 75 units
(e) Reorder period is 4 to 6 weeks. Calculate various stock levels. [8]

Answer:

In this case the re-order quantity is not given. The same will be calculated as EOQ form the given information as:
Annual usage = 1000 × 12 = 12,000 units
Ordering cost per unit = ₹ 100 and
Carrying cost per unit = ₹ 15

$$EOQ = \sqrt{\frac{2 \times 12000 \times 100}{15}}$$

Thus EOQ = 400 units
Now the stock levels are calculated as follows:

Reorder level = Maximum usage x Maximum lead time
= 75 x 6 = 450 units

Maximum level = Reorder level + Reorder quantity – (Minimum usage x Minimum lead time)
= 450 + 400 – (25 x 4) = 750 units

Minimum level = Reorder level – (Normal usage x Normal lead time)
= 450 – (50 x 5) = 200 units

Average level = (Maximum level + Minimum level) / 2
= (750+200) / 2 = 475 units.

2. State which product you would recommend to manufacture where labour time is the key factor.

Particulars	**Product A ₹**	**Product B ₹**
Direct Material	**30**	**15**
Direct labour @ ₹4.5 per hour	**9**	**13.5**
Direct Overhead @₹6 per hour	**12**	**18**
Selling Price	**135**	**150**
Standard Time	**2 hrs**	**3 hrs**

[8]

Answer:

Particulars	Product A ₹	Product B ₹
Selling Price	135	150
Less: Variable Cost		
Direct Material	30	15
Direct Labour	9	13.5
Direct Overhead	12	18
Contribution	84	103.5
Contribution per labour hour	84/2=42	103.5/3=34.5
When labour hour is the key factor Product A, should be recommended as its contribution per labour hour is greater than that of Product B.		

3. From the following data, compute margin of safety: **[8]**

Sales	**₹50,00,000**
Fixed Cost	**₹15,00,000**
Profit	**₹10,00,000**

Answer:

Contribution = Fixed Cost + Profit
= ₹15,00,000 + ₹10,00,000
= ₹25,00,000.

P/V ratio = Contribution ÷ Sales
= ₹25,00,000/₹50,00,000 = 50%

Break Even Sales = Fixed Cost ÷ P / V ratio
= 15,00,000/ 50% = ₹30,00,000.

Margin of safety = Actual Sales – Break Even Sales
= ₹(50,00,000 – 30,00,000) = ₹20,00,000.

4. Mr. Krishna furnishes the following data relating to the manufacture of a standard product during the month of April, 2017:

Raw materials consumed	**₹ 80,000**
Direct labour charges	**₹ 48,000**

Machine hours worked	**8,000**
Machine hour rate	**4**
Administrative overheads	**10% on works cost**
Selling overheads	**₹1.50 per unit**
Units produced	**4,000**
Units sold	**3,600 at ₹ 50 per unit**

You are required to prepare a cost sheet from the above, showing: (a) the cost per unit (b) profit per unit sold and profit for the period. [8]

Answer:

Statement of Cost

Particulars	₹	Per unit
Raw materials consumed	80,000	
Direct labour charges	48,000	
Prime cost	1,28,000	
Factory expenses (8,000 hrs, @ ₹ 4 per hr)	32,000	
Works cost	1,60,000	
Administrative overheads (10% on works cost)	16,000	
Cost of production	1,76,000	44.00 = (₹ 1,76,000 ÷ 4,000)

Statement of Profit

Particulars	₹
Cost of production of 3,600 units @ ₹ 44.00 per unit	1,58,400
Selling overheads @ ₹1.50 per unit for 3,600 units	5,400
Cost of sales	1,63,800
Profit for the period	16,200
Sales (3,600 units @ ₹ 50 unit)	1,80,000
Profit per unit sold = ₹16,200 / 3,600 = ₹4.50	