

## Test Paper -II

**Time Allowed : 3 hours**

**Full Marks : 100**

*Answer question one which is compulsory. Answer any five from the rest.*

**Q. 1.**

**(1) Please choose the correct answer from the alternatives given (1 x 10 marks)**

- a) The time period principle assumes that an organization's activities can be divided into specific time periods including:
- (i) Months
  - (ii) Quarters
  - (iii) Years
  - (iv) All of above
- b) The accounting principle that requires revenue to be reported when earned is the:
- (i) Matching principle
  - (ii) Revenue recognition principle
  - (iii) Accounting period principle
  - (iv) Going concern principle
- c) Adjusting entries
- (i) Affect only income statements
  - (ii) Affect only balance sheet accounts
  - (iii) Affect both income statements and balance sheet accounts
  - (iv) Affect cash flow statements
- d) The recurring steps performed each accounting period, starting with analyzing and recording transactions in the journal and continuing through the post-closing trial balance, is referred to as the:
- (i) Accounting period
  - (ii) Operating cycle
  - (iii) Closing cycle
  - (iv) Accounting cycle
- e) If a company failed to make an adjusting entry at the end of its accounting period to record depreciation for this period, the omission will cause:
- (i) An understatement of expenses
  - (ii) An overstatement of revenues

- (iii) An understatement of assets
- (iv) An overstatement of liabilities
- f) Which of the following assets is not depreciated?
  - (i) Fixtures
  - (ii) Motor car
  - (iii) Land
  - (iv) Machinery
- g) If furniture is bought on account, it will result into
  - (i) Increase in asset & decrease in liability
  - (ii) Increase in liability and increase in asset
  - (iii) Decrease in asset & decrease in liability
  - (iv) Increase in liability and decrease in asset
- h) Which of the following is an item of expense
  - (i) Charges paid for installation of machinery
  - (ii) Recovery of electricity bills paid for employees
  - (iii) Payment of electricity deposit
  - (iv) Payment of electricity bill
- i) Material was purchased for Rs 25000 and freight was paid for Rs 5000 for bringing it to the warehouse. Half of it was sold for Rs 25000. The company maintains the policy of selling at 66.67% above cost. The value of closing stock will be
  - (i) Rs 12500
  - (ii) Rs 15000
  - (iii) Rs 20875
  - (iv) Can't say
- j) The prepaid expenses account showed an opening balance of Rs 10000 and closing balance of Rs 17500. The effect of this will mean
  - (i) Decrease in profit by Rs 10000
  - (ii) Increase in profit by Rs 17500
  - (iii) Increase in profit by Rs 7500
  - (iv) Decrease in profit by Rs 7500

**(2) Classify the following into asset, liability, expense or income (5 marks)**

- a. Rent received in advance
- b. Prepaid insurance
- c. Provision for doubtful debt

- d. Deposit with government office
- e. Commission received
- f. Cash received from customer
- g. Employer's contribution to provident fund
- h. Unsold material
- i. Carriage inwards
- j. Free samples distributed

**(3) Please choose the correct answer from the alternatives given. Show your calculations (3X5 marks)**

- a) The annual fixed costs of a company are Rs 60000. It manufactures a product which it sells at Rs 20 each. The contribution to sales ratio is 40 per cent. The breakeven point in units is
- (i) 1200
  - (ii) 3000
  - (iii) 7500
  - (iv) 5000
- b) The selling price of a product is Rs 9 per unit with variable cost of Rs 6 each and the fixed costs are Rs 54000 per month. In a period when actual sales are Rs 180000, the margin of safety in units is:
- (i) 2000
  - (ii) 14000
  - (iii) 18000
  - (iv) 20000
- c) A company had opening stock of raw material A as Rs 90000. The purchases during the period were Rs 270000. The closing stock was valued at Rs 110000. The inventory turnover ratio is:
- (i) 2.45
  - (ii) 2.50
  - (iii) 3.00
  - (iv) 1.22
- d) P Ltd had an opening stock of Rs 2640 (300 units valued at Rs 8.80 each) on 1<sup>st</sup> April. The following receipts and issues were recorded during April

10 <sup>th</sup> April	Receipt	1000 units	Rs 8.60 per unit
23 <sup>rd</sup> April	Receipt	600 units	Rs 9.00 per unit
29 <sup>th</sup> April	Issues	1700 units	

Under LIFO method, what was the total value of issues on 29<sup>th</sup> April?

- (i) Rs 14840
- (ii) Rs 14880
- (iii) Rs 14888
- (iv) Rs 15300

e) The following data relates to stock item A452:

Average usage	100 units per day
Minimum usage	60 units per day
Maximum usage	130 units per day
Lead time	20-26 days
EOQ	4000 units

The maximum stock level is:

- (i) 4780 units
- (ii) 5080 units
- (iii) 5380 units
- (iv) 6180 units

**Q. 2.** The following is the trial balance of M/s Futuristic trading as On 31-03-2007:

Particulars	Amount Dr	Amount Cr
Cash in Hand	28,000	
Bank balance	52,000	
Stock as on 1st April 2006	1,240,000	
Debtors	1,720,000	
Furniture	428,000	
Office equipment	322,000	
Building	1,200,000	
Motor Car	400,000	
Creditors		860,000
Loan from HDFC bank		600,000
Reserve for bad debt		60,000
Purchases	2,800,000	
Sales		4,600,000
Purchase returns		52,000
Sales returns	84,000	
Salaries	220,000	
Motor car expenses	72,000	
Godown rent	110,000	
Interest on loan	54,000	
Rates & taxes	42,000	
Discount Allowed	48,000	
Discount received		32,000
Freight	24,000	
Carriage outwards	40,000	
Drawings	240,000	
Printing & stationery	36,000	
Electricity	44,000	
Insurance premium	110,000	
General expenses	60,000	
Bad debts	40,000	
Bank charges	30,000	
Capital of Mr. Roy		3,240,000
	<b>9,444,000</b>	<b>9,444,000</b>

Prepare the final account for the year ended 31<sup>st</sup> March 2007 after considering the following:

- 1) Depreciate building used for business by 5%, furniture by 10%, office equipment by 15% and motor car by 20%
- 2) A steel table purchased during the year for Rs 28000 was sold for the same price, but sale proceeds were credited to sales account.
- 3) A printer purchased during the year for Rs 8000 was wrongly debited to purchase account.
- 4) Closing stock was valued at Rs 880000
- 5) One month's salary and one month's rent are outstanding.
- 6) The loan from HDFC bank was taken on 1<sup>st</sup> July 2006 @ 12% pa.
- 7) The reserve for bad debts is to be maintained at 5% on debtors
- 8) Insurance premium included Rs 8000 paid towards the life policy of Mr. Roy and the balance of the insurance was paid for the period 1<sup>st</sup> July 2006 to 30<sup>st</sup> June 2007
- 9) Half of the building is used for residential purpose of Mr. Roy. **(14 marks)**

**Q. 3.**

**(a)**

- i) From the following details of bank column of the cash book, find out the collection from debtors being the balancing figure:

Opening balance	Rs 8000
Closing balance	Rs 4000
Payment to creditors	Rs 160000
Bills receivables encashed	Rs 18000
Bills payable paid	Rs 12000
Drawings	Rs 24000
Expenses	Rs 36000

- ii) From the following details of the creditors account, find out the figure of credit purchases being the balancing figure:

Opening balance	Rs 160000
Closing balance	Rs 190000
Payments by cheques	Rs 940000
Payments by bills payable	Rs 100000
Payments by cash	Rs 20000
Discount received	Rs 10000
Purchase returns	Rs 20000

**(3X2 marks)**

**(b)**

Mr. Patel sold goods to Mr. Shah and drew a bill of exchange for Rs 10000 which the later accepted. Show journal entries in the books of Mr. Patel for each of the following independent situations:

- (i) Here retains the bill till due date and then realized the money.
- (ii) He discounts the bill with the bank paying Rs 750 as discounting charges & bill is honoured.

(iii) He endorses the bill to Mr. Surana against amount due to him for Rs 10200, & the bill is honoured.

(iv) He sent the bill to the bank for collection and the bill is honoured.

**(2X4 Marks)**

**Q. 4.**

(a) On 1<sup>st</sup> April 2006, the balance in Machinery account of a company stood at Rs 567000/-. The company had the system of providing depreciation at 10% pa on diminishing balance. Now it is contemplating to change the method to straight line with retrospective effect from 1<sup>st</sup> April 2004, keeping the rate of depreciation same. Show machinery account for the years 2004-05, 2005-06 & 2006-07. The company had purchased a new machine for Rs 60000 on 1<sup>st</sup> October 2006.

**(7 marks)**

(b) Mohan and Sohan entered into a joint venture agreeing to share profits or losses in the ratio of 2:1. The following transactions took place during the tenure of the venture:

	<b>Mohan</b>	<b>Sohan</b>
Cash deposited in joint bank a/c	50000	25000
Goods bought in	10000	5000
Expenses incurred	5000	2500

The joint transactions were:

Goods bought for cash Rs 20000 and on credit from Mr. Sahani Rs 40000. Expenses paid Rs 1800. Goods sold to Mr. Roy Rs 40000 against immediate cheque and to Mr. Ray for Rs 50000 on 3 months' credit. Mr. Ray accepted a bill for this amount which was discounted at 18% pa. Mohan agreed to take over the balance stock at the value of Rs 2700. Mr. Sahani was paid Rs 39400 in full settlement. Show Joint Venture a/c, Joint bank a/c and the co-venturers a/c assuming that the venture was closed by settling the amount to the co-venturers.

**(7 marks)**

**Q. 5.**

(a) In a factory, a machine is considered to work for 208 hours in a month. It includes maintenance time of 8 hours and set-up time of 20 hours. The expense data are given below:

Cost of machine is Rs 500000 & it has life of 10 years with a salvage value of Rs 20000 at the end of life.

Repairs & maintenance Rs 60480 pa, consumables & stores Rs 47520 pa, Rent of the building Rs 72000 pa, the machine occupies 1/6<sup>th</sup> of the area.

Supervisors' salary (common to three machines) Rs 6000 pm, operators wages per machine Rs 2500 pm, General lighting charges per month allocated to the machine Rs 1000, power consumption is 25 units per hour at Rs 2 per unit. The supervisor and operators are permanent. Consumables and stores vary with the running of machine.



**Q. 7.**

A company has decided to install a new machine for manufacturing a new product. The maximum possible sales are Rs 50 lacs. The company is considering two models M1 and M2 for which the following details are available:

	M1	M2
Maximum sales per year	Rs 50 Lacs	Rs 50 Lacs
Fixed cost per year	Rs 5 Lacs	Rs 8 Lacs
Estimated profit for maximum sales	Rs 15 Lacs	Rs 17 Lacs

Calculate the break-even sales for both the models of the machine. Calculate the sales level at which both machines will give same amount of profit. Based on the computations, which model will be more profitable than the other over a range of sales?

**(4+6+4 marks)**

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