**Solution to Mid Term Paper**

**Accounting Fundamentals – Batch 2019-21**

**Q1. Attempt the following questions based on Accounting Concepts and Conventions**

**A**. Identify the accounting concept or conventions that describes each situation below. Do not use any concept or convention more than once.

1. Indicates that personal and business record keeping should be separately maintained.
2. Requires recognition of expenses in the same period as related revenues
3. Separates financial information into time periods for reporting purposes. **(3 Marks)**

Answer 1A. a) Business Entity concept

b) Accrual

c) Accounting Period

**B**. Identify the concept and comment whether Human Capital is an asset or not? **(1 Marks)**

Answer B. Money Measurement

**C**. Why pre-paid expenses are treated as asset and not expenses and which concept of accounting is applicable for this? **(1 Marks)**

Ans C. Future benefit so asset. Accrual Concept

**D**. Give your decision in the following situations: **(2 Marks)**

1. A business has unsold stock at the end of year. The cost price is Rs.260000 and the market price is Rs 250000. At which price the unsold stock be recorded?
2. A businessman anticipates that it may not be possible to collect Rs.10000 from one of his debtors. will he record this transaction in books of account and at what value?

Answer D

(i) cost price i.e. Rs.260000

(iii) Yes, as a bad debt Rs.10000

**E**. Draft the accounting equation for the following transaction. **(3 Marks)**

Ganesh started a new venture with cash – Rs. 30,000

Bought goods from Raj – Rs. 15,000

Ganesh withdrew from the company – Rs. 8,000

Answer E:

Assets = Liabilities + Capital

Cash Stock Creditors Capital

30,000 30,000

15,000 15,000

-8,000 -8,000

**Q2**. Attempt the following Questions based on individual items to understand financial statements

**A**. The Delta company uses a [periodic inventory system](https://www.accountingformanagement.org/periodic-inventory-system/). The beginning balance of inventory and purchases made by the company during the month of July, 2019 are given below:

* July 01: Beginning inventory, 500 units @ Rs.20 per unit.
* July 18: Inventory purchased, 800 units @ Rs.24 per unit.
* July 25: Inventory purchased, 700 units @ Rs.26 per unit.

The Delta company sold 1,400 units during the month of July.

**Required:** What should be the value of inventory on July 31, 2019 and cost of goods sold for the month of July using following inventory costing methods:

1. First in, first out (FIFO) method **(2 Marks)**

**Answer 2 A.**

**Number of units in ending inventory:**

Ending inventory = Beginning inventory + Purchases made during the month – Units sold during the month

= 500 units + \*1,500 units – 1,400 units

= 600 units

\*800 units + 700 units = 1,500

### (1) First in, first out (FIFO) method:

**a. Computation of inventory on July 31, 2019 ( i, e., ending inventory) under FIFO:**

**600 units @ Rs 26 per unit – Rs. 15600**

**B**. M/s. Bharat and sons purchased a machine on 1 Apr 2014 for ₹400000 from ABC & Co. and paid ₹100000 on its installation. The useful life of the machine is 4 years and its estimated residual value is ₹40000. On 31st March 2018, M/s. Bharat and sons sold the machinery for 250000. If M/S Bharat and Sons charged depreciation as per the W.D.V. method @40 % p.a. then was he able to write off his machine fully or not? Justify **(2 Marks)**

Answer B:

|  |  |  |  |
| --- | --- | --- | --- |
| WDV | Depr |   |   |
| 500000 | 200000 |   |   |
| 300000 | 120000 |   |   |
| 180000 | 72000 |   |   |
| 108000 | 43200 |   |   |
|   | 435200 | 25000 | 460200 |
|   |   | Profit/Loss | -39800 |

**C**. What should be the cost of goods sold based on the following information:

Opening stock – Rs. 10000

Closing stock – Rs. 8000

Purchases – Rs. 80000

Carriage on purchases - Rs.3000

Purchase Return – Rs. 1000

Wages – Rs. 6600 **(1 Mark)**

Answer C :

Cost of goods sold = opening stock + net purchases + direct expenses (carriage on purchases + wages) – closing stock

= Rs. [10000 + (80000-1000) + 8600 (i.e. 2000 + 6600) – 8000]

= Rs. 90600

|  |
| --- |
| **D**. Transfer the following balances of ABC & Co. into Trial Balance, Income Statement and Balance Sheet after considering the adjustment given at the end so as to understand whether correct posting of transactions are made and to know the Income and position statement  |
| **Debit Balalnces:** |   |   |   |  |  |
| Drawings | 1700 | Rent | 450 |  |  |
| Plant & Machinery | 12000 | Misc. Expenses | 150 |  |  |
| Horses & Carts | 2600 | Bad Debts | 500 |  |  |
| Debtors | 3600 | Carriage Inwards | 160 |  |  |
| Purchases | 2000 | **Credit Balances:** |   |  |  |
| Wages | 800 | Creditors | 2000 |  |  |
| Cash at Bank | 2600 | Sales | 4200 |  |  |
| Salaries | 800 | Interest | 1350 |  |  |
| Repairs | 190 | Commission | 1600 |  |   |
| Opening Stock | 1600 | Capital | 20000 |  |  |
|  |  |  |  |  |  |
| **Adjustments:** |  |  |  |  |  |
| Closing Stock is Rs. 1600 |  |  |  |  |
| Depreciate Plant & Machinery by 10%, horses & carts 15%. |  |  |
| Rs. 150 is due for wages. **(5 Marks**) |  |  |  |  |
|  |  |  |  |  |
| **D**. Transfer the following balances of ABC & Co. into Trial Balance, Income Statement and Balance Sheet after considering the adjustment given at the end so as to understand whether correct posting of transactions are made and to know the Income and position statement  |  |  |  |  |
| **Answer D**

|  |
| --- |
| Income Statement |
| P | Dr | P | Cr |
| Opening Stock | 1600 | Sales | 4200 |
| Purchases | 2000 | Closing Stock | 1600 |
| Wages | 950 | Interest | 1350 |
| Salaries | 800 | Commission | 1600 |
| Repairs | 190 |   |   |
| Rent | 450 |   |   |
| Misc. Expenses | 150 |   |   |
| Bad Debts | 500 |   |   |
| Carriage Inwards | 160 |   |   |
| Dep P&M | 1200 |   |   |
| D on H& C | 390 |   |   |
| NP | 360 |   |   |
| Total | 8750 | Total | 8750 |
|  |  |  |  |
| Balance Sheet |
| L | Amt | A | Amt |
| Capital | 20000 |   |   |
| Drawings | -1700 | Plant & Machinery | 10800 |
| NP | 360 | Horses & Carts | 2210 |
| Creditors | 2000 | Debtors | 3600 |
| O?S Wages | 150 | Cash at Bank | 2600 |
|   |   | Closing Stock | 1600 |
|   | 20810 |   | 20810 |

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