



CMA FOUNDATION JUNE-2025 EXAMINATION

PAPER-02 Fundamental of Financial and Cost Accounting

SUGGESTED ANSWER BY FCMA ABHISHEK JAIN SIR

1. What is the primary purpose of financial accounting?

- (A) Providing financial information to stakeholders
- (B) To minimize taxes
- (C) To maintain details of assets and liabilities
- (D) All of the above

Explanation: Financial accounting focuses on generating reports like the balance sheet, income statement, and cash flow statement. These reports offer a transparent picture of a company's financial health and performance. This information is crucial for external stakeholders such as investors, creditors, analysts, and government regulators. They use this data to make informed decisions about the company's investment potential, creditworthiness, and overall financial viability.

2. _____ is a science and art of correctly recording in the books of accounts all those transactions that result in transfer of money or money's worth.

- (A) Accounting
- (B) Accountancy
- (C) Journalizing
- (D) Book-keeping

Explanation: Book-keeping specifically refers to the process of recording business transactions in a systematic manner within the books of accounts, while accounting encompasses a broader range of activities including analyzing, interpreting, and reporting financial information.



3. In accounting, _____ provides a common set of rules and guidelines which is used to measure, recognise, present, and disclose the information appearing in an entity's financial statement.

- (A) framework
- (B) concepts
- (C) regulations
- (D) principles

Explanation: An **accounting framework** provides a common set of rules and guidelines for preparing financial statements, ensuring consistency, accuracy, and comparability. Concepts, principles, and regulations are all components or types of frameworks, but the overarching structure that contains them is called a framework.

4. Identify the Personal Account from the following:

- (A) Salary Payable Account
- (B) Taxes paid account
- (C) Investment Account
- (D) Trademark Account

5. _____ approach of determining debit and credit aspects of a transaction is based on conventional classification of accounts.

- (A) Diamond rule
- (B) Silver rule
- (C) Tron rule
- (D) Golden rule

6. The book(s) of accounts in which transactions of a specific type viz. credit purchases, credit sales etc. is/are initially recorded is called _____.

- (A) General Ledger
- (B) Special Ledger



(C) Subsidiary Books

(D) Journal

7. Expenses incurred for removal of inventories to a new site is by nature a

(A) Revenue Expenditure

(B) Capital Expenditure

(C) Deferred Revenue Expenditure

(D) None of the above

Explanation: because they are a normal part of business operations and do not enhance the value or life of an asset. Unlike capital expenditures that acquire or improve long-term assets, these are recurring costs that maintain the current state of the business's inventory.

8. Which of the following is/are true about Bank Book?

(A) It is a subsidiary book of account.

(B) It is also known as Bank Journal.

(C) Usually, large organizations with substantial volume of bank transactions maintain this book of account.

(D) All of the above

9. Ledger contains various _____ in it.

(A) transactions

(B) entries

(C) accounts

(D) None of the above

Explanation: A ledger is a collection of accounts, where each account tracks specific financial transactions.

10. Which of the following is not a feature of the Trial Balance?

(A) It is only a statement of debit and credit balances of accounts.

(B) It is a list of debit and credit balances which are extracted from various ledger accounts.



(C) It is the part of financial statements.
(D) All of the above

Explanation: A trial balance is a statement summarizing the debit and credit balances from ledger accounts, verifying the mathematical accuracy of transactions recorded. It's used to prepare financial statements but is not considered a part of them. It's a tool to check for errors before moving on to creating the final financial statements.

11. Consider the following statements:

Statement 1: Adjustment entries are recorded by an organisation in the General Journal.

Statement 2: Adjustment entries are passed to comply with the accounting principles.

(A) Both statements are true.
(B) Only Statement 1 is true.
(C) Only Statement 2 is true.
(D) Both statements are false.

Explanation:

- **Statement 1:** Adjustment entries are recorded by an organisation in the General Journal. In a traditional accounting system, adjusting entries for items like depreciation, accruals, and deferrals are recorded in the general journal (or a specific journal voucher in accounting software).
- **Statement 2:** Adjustment entries are passed to comply with the accounting principles. The primary purpose of adjusting entries is to adhere to key accounting principles, specifically the accrual basis of accounting, the revenue recognition principle, and the matching principle. These principles ensure that revenues and expenses are recorded in the correct accounting period, regardless of when cash is received or paid.

12. _____ occurs only in case of wasting assets.

(A) Depletion



(B) Amortization

(C) Obsolescence

(D) Depreciation

Explanation:

- **Depletion:** The accounting process of allocating the cost of natural resources as they are physically consumed or extracted.
- **Amortization:** The process of expensing the cost of intangible assets (e.g., patents, copyrights, trademarks) over their useful life.
- **Obsolescence:** The decline in asset value due to new inventions, improved technology, or changes in demand, making the existing asset outdated, which can affect both tangible and intangible assets.
- **Depreciation:** The systematic allocation of the cost of tangible fixed assets (e.g., machinery, buildings, vehicles) over their useful life due to wear and tear, effluxion of time, or obsolescence.

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13. Which of the following is not an internal factor causing depreciation?

(A) Wear and tear of asset

(B) Expiry of legal life of asset

(C) Physical deterioration of asset

(D) Exhaustion of asset

Explanation: Depreciation is the process of allocating the cost of an asset over its useful life. Internal factors are those related to the asset itself and its usage. They include wear and tear, physical deterioration, and exhaustion. "Expiry of legal life of asset" refers to the legal limitations on the asset's use, which is an external factor.

14. Bank balance as per Pass Book (Cr.) ₹1,000. Cheque deposited worth ₹2,000 but not yet collected. Find the bank balance as per Cash Book.

(A) Cash Book (Dr.) ₹1,000

(B) Cash Book (Cr.) ₹ 1,000



- (C) Cash Book (Dr.) ₹3,000
- (D) Cash Book (Cr.) ₹3,000

15. Gross profit is the difference between

- (A) sales and cost of goods sold.
- (B) sales and operating expenses.
- (C) sales and non-operating expenses.
- (D) sales and purchase.

16. In consignment business, the commission allowed by consignor to consignee for bearing the risk of bad debts arising out of credit sales is called

- (A) Ordinary Commission.
- (B) Extra Ordinary Commission.
- (C) Over-riding Commission.
- (D) Del credere Commission.

17. In a consignment accounting, the loading on opening stock of goods lying with consignee is accounted for by debiting _____ and crediting _____.

- (A) Consignment A/c; Consignment Stock Reserve A/c
- (B) Consignment Stock Reserve A/c; Consignment A/c
- (C) Opening Stock A/c; Consignment Stock Reserve A/c
- (D) Consignment Stock Reserve A/c Opening Stock A/c

18. J of Jammu consigned 3000 kg. apples to K of Kolkata, the cost being ₹60 per kg. plus ₹12,000 for freight. It is estimated that 20% loss of the goods is unavoidable. The value per kg. of apple at Kolkata will be

- (A) ₹80 per kg.
- (B) ₹64 per kg.
- (C) ₹75 per kg.
- (D) ₹60 per kg.



19. Aarti and Bharti enter into a joint venture sharing profits and losses equally. Aarti purchased 10000 kg. of rice @ ₹50 per kg. Bharti purchased 2000 kg. of millet @ ₹60 per kg.

Aarti sold 2000 kg. of millet ₹70 per kg., while Bharti sold 10000 kg. of rice @ ₹60 per kg.

Given that same set of books are maintained to record the joint venture transactions, the share of profit of Bharti is

- (A) ₹2,20,000
- (B) ₹1,20,000
- (C) ₹60,000
- (D) ₹55,000

20. For co-venturer's capital contribution, in case of separate sets of books

- (A) Joint Bank A/c is to be debited and Joint Venture A/c is to be credited.
- (B) Co-venturer's A/c is to be debited and Joint Bank A/c is to be credited.
- (C) Joint Venture A/c is to be debited and Co-venturer's A/c is to be credited.
- (D) Joint Bank A/c is to be debited and Co-venturer's A/c is to be credited.

21. On 10.02.2025, Gopal draws a bill of ₹2,00,000 on Murari for 3 months. What will be the due date of the bill if the government declared a sudden holiday on 13.05.2025?

- (A) 10.05.2025
- (B) 12.05.2025
- (C) 13.05.2025
- (D) 14.05.2025

Explanation: Under the Negotiable Instruments Act, 1881, if an unforeseen or sudden emergency holiday is declared on the date of maturity, the due date is the next working day. This differs from a *known* public holiday (like Republic Day or Christmas), for which the due date is the *preceding* business day.

22. Kabir drew a bill on Suresh for ₹6,00,000. Kabir endorsed it to Amar, who further endorsed it to Prem. On the date of maturity, the payee of this bill will be



- (A) Kabir
- (B) Prem
- (C) Suresh
- (D) Amar

Explanation: On the date of maturity, the person legally entitled to receive the payment is the final endorsee and current holder of the bill, which is Prem [1]. Suresh, the acceptor, is the one who is liable to pay the amount to Prem.

23. Mudit draws a bill on Saurav for ₹6,00,000 on February 1, 2025 for 3 months. At maturity, the bill was dishonored and noting charges incurred was ₹ 6,000. 40 paise in a rupee was recovered from Saurav's estate. The amount of deficiency to be recorded on insolvency in the books of Saurav will be

- (A) ₹2,40,000
- (B) ₹2,42,400
- (C) ₹3,63,600
- (D) ₹3,66,000

24. Which of the following is not a component of the financial statements of a business organization?

- (A) Trial Balance
- (B) Balance Sheet
- (C) Trading Account
- (D) Profit & Loss Appropriation Account

25. 'Income Tax paid' of the proprietor appearing in Trial Balance (Debit column) will get reflected in

- (A) Debit-side of Profit & Loss A/c.
- (B) Asset-side of Balance Sheet as a separate item.
- (C) Liabilities-side of Balance Sheet as a separate item.
- (D) Liabilities-side of Balance Sheet as deduction from balance of Capital A/c.



26. Ascertain the Gross profit of Arjun Stores, a sole proprietorship business, given that:

Cost of Goods sold ₹7,75,000, Sales ₹9,20,000, Returns outwards ₹20,000 and Closing inventories ₹50,000.

- (A) ₹1,75,000
- (B) ₹1,25,000
- (C) ₹1,45,000
- (D) ₹1,95,000

27. Profit & loss account is drafted for determination of

- (A) balance of capital a/c
- (B) net profit or net loss
- (C) owner's equity
- (D) gross profit or gross loss

28. At the time of finalisation of accounts, 'Loss on Sale of Fixed Assets A/c' is closed by transfer to

- (A) Debit-side of Profit & Loss Alc.
- (B) Credit-side of Profit & Loss A/c.
- (C) Debit-side of Trading A/c.
- (D) Debit-side of Profit & Loss Appropriation A/c.

29. Which of the following is/are item(s) reflected under Current Liabilities in the Balance Sheet?

- (A) Accounts payable
- (B) Outstanding expenses
- (C) Advances from customers
- (B) All of the above

30. Elka's Trial Balance consists of the following information:



Bad Debts ₹10,000; Provision for Doubtful Debts (opening balance) ₹16,000.

At the time of finalisation, it is desired to maintain the balance of Provision for Doubtful Debts A/c at ₹11,000. For that purpose,

- (A) Profit & Loss A/c is to be debited with ₹17,000.**
- (B) Profit & Loss A/c is to be debited with ₹15,000.**
- (C) Profit & Loss A/c is to be debited with ₹5,000.**
- (D) Profit & Loss A/c is to be credited with ₹5,000.**

31. The capital of a non-profit seeking organisation is generally known as

- (A) Equity**
- (B) Capital Fund**
- (C) Finance Reserve**
- (D) Cash Fund**



32. Which of the following is/are not true about Income & Expenditure Account?

- (A) It is by nature a real account.**
- (B) It deals with transactions of capital nature only.**
- (C) It is drafted on cash basis.**
- (D) All of the above**

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33. Consider the following statements:

Statement 1: In Receipts and Payments Account, transactions are recorded on accrual basis.

Statement 2: In Income & Expenditure Account, incomes/gains get credited and expenses/losses are recorded in the debit side.

- (A) Only Statement 1 is true.**
- (B) Only Statement 2 is true.**
- (C) Both statements are true.**
- (D) Both statements are false.**

34. Proceeds from sale of old magazines, newspapers etc. by a social club is



- (A) shown in the right-side of Receipts & Payments A/c.
- (B) shown as expenditure in the Income & Expenditure A/c.
- (C) shown as income in the Income & Expenditure A/c.
- (D) None of the above

35. Expenses incurred to obtain license for starting a factory is _____ Expenditure.

- (A) Prepaid
- (B) Capital
- (C) Revenue
- (D) Deferred Revenue

36. _____ involves maintenance of records of all costs from their incurrence to their charge to cost centres and ultimately to products and services.

- (A) Cost ascertainment
- (B) Cost control
- (C) Cost book-keeping
- (D) Cost reporting

Explanation: Cost book-keeping involves the maintenance of records of all costs from when they are incurred (or "insurance" in the context of the prompt, likely meaning 'incurrence' or 'incidence') to their charge to cost centres and ultimately to products and services

- **Cost ascertainment:** The process of determining costs, which is an objective achieved through cost accounting and costing techniques.
- **Cost control:** The process of managing and regulating costs by comparing actual costs with set standards or budgets to identify variances and take corrective action.
- **Cost reporting:** The process of presenting cost data and reports to management for decision-making and performance evaluation.

37. CAS 19 deals with _____.

- (A) Material Cost



- (B) Cost of Utilities
- (C) Direct Expenses
- (D) Joint Costs

38. Which method of costing is appropriate for advertising industry?

- (A) Process Costing
- (B) Job Costing
- (C) Multiple Costing
- (D) Contract Costing

Explanation: Advertising agencies work on specific, tailor-made projects or campaigns for individual clients, rather than mass-producing a uniform product or service. Each job has unique requirements, materials, and labor costs, making it necessary to track expenses for each project separately to determine its accurate cost and profitability.

39. Direct material and direct labour are ₹2,05,000 and ₹2,32,000 respectively. If the factory overhead is 50% of direct labour, then factory cost will be

- (A) ₹5,60,000
- (B) ₹5,46,600
- (C) ₹5,53,000
- (D) ₹4,37,000

40. In the context of decision making, _____ costs are considered to be pertinent.

- (A) Relevant
- (B) Sunk
- (C) Imputed
- (D) None of the above

Explanation:

Relevant costs are future costs that differ between the alternatives available in a decision-making situation. In contrast:



- **Sunk costs** are past costs that have already been incurred and cannot be changed by any future decision, so they are not pertinent to current decision making .
- **Imputed costs (or implicit costs)** are costs that are not actual cash outlays but are relevant for economic decision making, such as the opportunity cost of using owned resources [5, 6]. While often pertinent in an *economic* sense, the most direct and broadly applicable term for costs that are pertinent to *any* managerial decision is "relevant costs".

41. Which of the following is not a part of 'Prime Cost'?

- (A) Direct Materials
- (B) Direct Expenses
- (C) Direct Labour
- (D) Power



42. Appropriate composite cost unit for the transport sector is

- (A) per tonne
- (B) per passenger
- (C) per passenger-km
- (D) number of vehicles

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43. Calculate the profit per unit.

Given that: Number of units produced and sold is 16000; Cost of Production is ₹ 4/unit; Selling & Distribution overheads is ₹1/unit; Selling price is ₹10/unit.

- (A) ₹3
- (B) ₹5
- (C) ₹8
- (D) ₹10

44. The costs which vary disproportionately with change in activity level are called

- (A) Behavioral costs



(B) Variable costs

(C) Indirect costs

(D) Semi-variable costs

Explanation: Semi-variable costs have a fixed component and a variable component, meaning they partially change with activity levels. While they don't directly vary in proportion like variable costs, they do change as activity levels change, just not at a constant rate.

45. The costs of common resources used for producing two or more products or rendering two or more services simultaneously are called

(A) Joint costs

(B) Batch costs

(C) Process costs

(D) Research costs



46. Which of the following is the classification of cost 'by traceability to cost object'?

(A) Fixed costs, Variable costs & Semi-variable costs

(B) Normal costs & Abnormal costs

(C) Controllable & costs Non-controllable costs

(D) Direct costs & Indirect costs

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47. Variable cost are fixed

(A) for a period

(B) depending upon the unit.

(C) for a process of production.

(D) per unit.

48. Given that, Gross Factory Cost is ₹2,03,000; Net Factory Cost is ₹1,89,000, Opening Stock of work-in-progress is ₹28,000, determine the value of Closing Stock of work-in-progress.

(A) ₹3,000

(B) ₹14,000



- (C) ₹42,000
- (D) ₹54,000

49. Which of the following is included in financial accounts, but not in cost accounts?

- (A) Dividend Paid
- (B) Interest on Loan
- (C) Provision for Bad Debts
- (D) All of the above

50. ‘Interest on capital’ to owners is a

- (A) Cash cost
- (B) Sunk cost
- (C) Prime cost
- (D) Notional cost



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