

Accountancy and Auditing

Q2. **Income Statement for the year ended December 31, 2000**

Commission earning	125,000
Less: Operating expenses	<u>(105,000)</u>
Net income	<u>20,000</u>

Statement of owner's equity at December 31, 2000

Owner's equity at the beginning	
Owner's capital contribution	300,000
Add: Net Income	<u>20,000</u>
Subtotal	320,000

Subtract	
Owner's drawings	<u>(5,000)</u>
Owner's equity at the end	315,000

Balance Sheet as at December 31,

2000	
Assets	Rs
Non-current Assets	
Land	50,000

Building	100,000
Office furniture and fixture	80,000
Furniture and fixture	50,000

Current Assets

Cash	¹² 230,000
Accounts Receivable	15,000

Total Assets

415,000

Liabilities

Long-term liability-
bank loan

100,000

owner's equity

315,000

Total liabilities and
equity

415,000

(B) Journal Entries

	Dr	Cr
Cash	6,000,000	
Common Stock		6,000,000
Cash	1,000,000	
Paid-in capital in excess of par value		1,000,000
Income Summary	2,500,000	
Retained Earnings		2,500,000

Q-3

Manufacturing machine \$ 42,300
Useful life 10 years

363,000 units of product
Salvage value = \$ 6000

2nd year production = 35,000 units
of product

Units of production depreciation formula.

Machine's second year
depreciation under the
straight line method

$$\text{Depreciation per unit} = \frac{42,300 - 6000}{363,000}$$

$$= 0.1$$

$$\begin{aligned}\text{Depreciation expense} &= 0.1 \times 35,000 \\ &= \$3,500 \text{ Ans} //\end{aligned}$$

B

$$\begin{aligned}\text{Gross profit margin formula} \\ &= \frac{\text{Gross Profit} \times 100}{\text{Net Sales}}\end{aligned}$$

$$\text{Inventory Turnover} = \frac{\text{Cost of goods sold}}{\text{Average Inventory}}$$

$$\text{Current Ratio} = 2.0$$

$$2.0 = \frac{\text{CA}}{100,000}$$

$$\text{CA} = \text{Rs. } 200,000$$

Quick Ratio

$$= \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

$$1.4 = \frac{200,000 - X}{100,000}$$

$$200,000 - X = 1.4 \times 100,000$$

$$200,000 - 140,000 = X$$

$$60,000 = X \rightarrow \text{Inventory}$$

$$6 = \frac{\text{COGS}}{60,000}$$

$$\text{COGS} = 60,000 \times 6$$

$$\text{COGS} = 360,000$$

$$\text{Gross Profit margin} = 0.20 = \frac{\text{Sales} - \text{COGS}}{\text{Sales}} \times 100$$

$$0.20 = \frac{X - 360,000}{X}$$

$$0.20X = X - 360,000$$

$$360,000 = X - 0.20X$$

$$360,000 = 0.80X$$

$$\frac{360,000}{0.80} = X$$

$$\text{Sales} = \text{Rs. } 450,000 \text{ Ans//}$$

1. Sales budget and schedule of expected cash collections

	1st	2nd	3rd	4th
Budgeted unit sales	16,000	15,000	14,000	15,000
Budgeted sales	352,000	330,000	308,000	330,000
Expected cash collection	264,000	247,500	231,000	247,500
Accounts Receivable	66,000	70,400	66,000	66,000
Total expected cash collection	<u>330,000</u>	<u>317,900</u>	<u>297,000</u>	<u>309,000</u>

Selling price per unit = \$22 per unit

Beginning balance of AR = \$66,000

Start of first quarter = 32,000 units

Finished goods inventory

Ending finished goods inventory = 34,000

the fourth quarter

Section - II

Q. 5

A. Break - event point in units = $\frac{50,000}{\text{contribution margin per unit}}$

$$= \frac{50,000}{600 - 400}$$
$$= \frac{50,000}{200}$$

= 250 units
↳ sets of clubs

B. Production budget for the upcoming fiscal year

	1st q	2nd q	3rd q	4th q
Beginning inventory	3,300	3,000	2,800	3,000
Total Production of units	13,800	14,800	14,200	15,400
Ending Inventory	3,000	2,800	3,000	3,400

Q6

Income Statement under absorption costing

	Rs	Rs
Sales		1320,000
Production cost:		
Direct material	300,000	
Direct Labour	450,000	
Variable manufacturing costs	225,000	
Fixed manufacturing costs	180,000	
Less: Closing inventory (231,000)		
Full production cost of sales		<u>(924,000)</u>
		396,000
Non-production overheads		
marketing expenses		
Profit		<u>(220,000)</u>
		<u>176,000</u>

Income Statement under marginal costing

	Rs	Rs
Sales		1320,000
Variable production costs:		
Direct materials	300,000	
Direct Labour	450,000	
Variable production overhead	225,000	
Less: variable cost of closing inventory	(195,000)	
Variable production cost of sales	(780,000)	
Variable marketing expense	(120,000)	
Variable cost of Sales		<u>(900,000)</u>
Contribution margin		420,000
Fixed costs :		

	Rs	Rs
Fixed production overheads	180,000	
Fixed marketing expense	100,000	
		(280,000)
Profit		140,000
		<u>140,000</u>

B The budget allowance

↓ Budget allowance = Applied factory overhead + Idle capacity variance

$$= 16,234 + 1,266 = \text{Rs } 17,500 \text{ Ans,}$$

2) The actual factory overhead

Actual factory overhead = Budget allowance - Spending variance

$$\begin{aligned} \text{Actual factory overhead} &= \text{Rs } 17,500 \\ - \text{Rs } 879 &= \text{Rs } 16,621 \text{ Ans,} \end{aligned}$$