

# Accountancy and Auditing Part-I.

## Section - I

### Question No. 2:-

Required:-

- 1) Income statement for the year ended Dec 31st, 2000.
- 2) Statement of owner's equity at Dec 31, 2000.
- 3) Balance Sheet as at Dec 31st, 2000.

### Answer No. 1 :-

Part (a):-

Income Statement for the Year Ended Dec 31st, 2000

The Best Agency

Income Statement

For the Year Ended December 31, 2000

Revenue:

Comissions Earned

125,000

Expenses:

Operating Expenses

(105,000)

Net Income

20,000

Part (b):-

Statement of Owner's Equity at Dec 31st, 2000

This statement shows the changes in the owner's equity over the year.

The Best Agency  
Statement of Owner's Equity  
At December 31st, 2000

Owner's Equity at Beginning of Year	300,000 (Saudia initial investment)
Add:	
Additional Investment	100,000 (loan from local bank)
Net Income	20,000
Less:	
Withdrawal	(5,000)
Owner equity at the end of year	<u>415,000</u>

Part (c) :-

Balance Sheet as a Dec 31, 2000

(PTO)

The Best Agency  
Balance Sheet  
as at December 31st, 2000

Assets:	
Cash	125,000
A/C Receivable	15,000
Land	50,000
Building	100,000
Furniture & Fixture	<u>130,000</u>
Total Assets	<u>420,000</u>
Liabilities:	
A/C Payable	50,000
Bank loan	100,000
Total liabilities	150,000
Owner's Equity	
Saadig, capital	295,000
Total owner's Equity	270,000
Total liabilities & Owner's equity	<u>420,000</u>

Part (b):-

A corporation had to stockholder's equity  
2,500,000.

Required: Prepare journal entries to record ..

**Answer :-**

Transaction 1: Issued 100,000 shares of common stock  
for cash at \$25 per share.

Question no. 3 Part (a):-

Determined the machine's second-year method

**Answer :-**

We need to calculate annual depreciation

Straight-line depreciation is:-

$$\text{Depreciation per year} = \frac{\text{Cost of machine} - \text{salvage value}}{\text{Useful life in years}}$$

putting given values

$$\begin{aligned} \text{Depreciation per year} &= \frac{42300 - 6000}{10} \\ &= \frac{36300}{10} = 3630 \end{aligned}$$

now for 2nd year depreciation

$$\text{2nd-year dep} = \frac{\text{Dep per year} \times \text{unit produced in 2nd year}}{\text{Total estimated units over useful life}}$$

Units produced in the second year = 35000  
Total estimated units over useful life = 363000

$$\text{Second-year dep} = \frac{10}{1210} \times \frac{363000}{363000} \times 35000$$

$$\text{2nd-year dep} = 10 \times 35$$
$$\text{Second-year depreciation} = 350\$$$

Question No. 3 Part (b):-

1) Current Ratio:-

$$\text{Current Ratio} = \frac{\text{current Assets}}{\text{current Liabilities}}$$

putting values

$$2.0 = \frac{\text{Current Assets}}{100,000}$$

$$2 \times 100,000 = \text{Current Assets}$$

$$\text{Current Assets} = 200,000$$

2) Quick Ratio:-

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

putting values given

$$1.4 = \frac{200000 - \text{Inventory}}{100000}$$

$$1.4 \times 100,000 = 200,000 - \text{Inventory}$$

$$140,000 = 200,000 - \text{Inventory}$$

$$\text{Inventory} = 200,000 - 140,000$$

$$\boxed{\text{Inventory} = 60,000}$$

Inventory Turnover:-

$$\text{Inventory Turn} = \frac{\text{COGS}}{\text{Average Inventory}}$$

$$\text{Inventory Turnover} \times \text{Avg Inventory} = \text{COGS}$$

$$\text{COGS} = \text{Inventory Turnover} \times \frac{\text{Inventory}}{2}$$

$$\text{COGS} = \frac{3}{2} \times 60,000$$

$$\text{COGS} = 180,000$$

now

$$\text{Gross Profit margin} = \frac{\text{Gross Profit}}{\text{Sales}}$$

$$\text{here Gross Profit margin} = 0.20 (20\%)$$

$$\text{and Gross Profit} = \text{Sales} - \text{COGS}$$

$$0.20 = \frac{(\text{Sales} - \text{COGS})}{\text{Sales}}$$

$$0.20 = \frac{\text{Sales} - 180,000}{\text{Sales}}$$

$$0.20 \text{ Sales} = \text{Sales} - 180,000$$

$$180,000 = \text{Sales} - 0.20 \text{ Sales}$$

$$180,000 = (1 - 0.20) \text{ Sales}$$

$$180,000 = 0.80 \text{ Sales}$$

$$\text{Sales} = \frac{180,000}{0.80} \times 100$$

$$\text{Sales} = 225,000$$

So firm's sale is 225,000

## Section II

### Question No. 8:-

Following are ----- per unit cost of goods manufactured:

**Answer:-**

a) Calculate all missing figures

Direct labour

Work in Process (ending) 30 units

Work in Process (beginning) 25 units

Cost of goods manufactured 800,000

\* Cost of goods manufactured (COGM):-

as, COGM is 8/15 of sales, so,

$$\text{COGM} = \frac{8}{15} (\text{Sales Revenue})$$

$$\text{COGM} = \frac{8}{15} (1,500,000)$$

$$\text{COGM} = 800,000$$

In order to find Beginning W-I-P, Ending W-I-P and Direct labour we need to find

Unit manufactured :-

unit in Beginning of W-I-P = 25 units

units in Ending W-I-P = 60 units

units completed = 1000 units (Sales revenue)

unit manufactured = units completed + units in Ending W-I-P -  
Beginning W-I-P

Units Manufactured =  $1000 + 60 - 25$

Units Manufactured = 1035 units.

\* Beginning Work in Process :-

= Ending work in Process - (Units manufactured -  
units completed)

Beginning work in Process =  $60 - (1035 - 1000)$

=  $60 - 35$

Beginning work in Process = 25 units

\* Ending work in Process units :-

= Beginning work in Process + (units manufactured - units  
completed)

=  $25 + (1035 - 1000)$

=  $25 + 35$

Ending work in Process = 60 units



Direct labour = ?

$$= (\text{COGM} + \text{Ending Work in Process}) - (\text{Direct material} + \text{Factory Overhead})$$

$$= (800,000 + 60) - (20,000 + 140,000)$$

$$= 800060 - 160000$$

Direct labor = 639940

2) Prepare statement of COGS

Beginning Finished goods Inventory	30,000
COGM	800,000
Ending Finished goods Inventory	(80,000)
Cost of Goods Sold	750,000

3) Income Statement

Income Statement  
for Year Dec 31<sup>st</sup>, 2007

Sales Revenue	1,500,000
Cost of goods Sold	(750,000)
Gross Profit	750,000
Admin and general exp	(210,000)
Marketing & selling exp	(20,000)
Net Income	520,000

4) Units Manufactured:-

as solved

Units Manufactured = 1035 units

5) Per Units Cost of goods Manufactured :-

$$\text{Per units cost of goods Manufactured} = \frac{\text{COGM}}{\text{units manufactured}}$$

$$= \frac{800,000}{1035}$$

$$= 772.95 \text{ units}$$

Per units cost of goods manufactured = 772.95 units -

6) Gross Profit Per Unit Sold :-

$$= \frac{(\text{Sales Revenue} - \text{COGS})}{\text{units manufactured}}$$

$$= \frac{1500,000 - 750,000}{1035}$$

$$= \frac{750,000}{1035}$$

$$= 723.19 \text{ per units}$$

$$= 723.19 \text{ per units}$$

