

Bisma (348)

LMS 30688.

Question No 7:

a: Cost of Goods Sold:

direct raw material		
Opening raw material	100,000	
+ raw material purchased	230,000	
- closing raw material	(30,000)	
		300,000
Direct labor cost		100,000
Prime cost.		400,000
Add Factory overheads:		
Indirect labor	5,000	
Electric supply exp	2,000	
Heat & lightning	4,000	
compensation	3,000	
Factory insurance	1,000	
Supervision exp	2,000	
Wages + Rent	8,000	
Miscellaneous exp	1,000	
Factory supplies purchased	3,000	
Tool exp	2,000	
		29,000
Total manufacturing cost		429,000
Cost of goods Manufactured		
opening WIP	50,000	
- closing WIP	12,000	35,000
		464,000
Cost of goods sold.		
opening Finished goods	0	
closing Finished goods	165,000	(165,000)
Cost of Good sold.		299,000

b: Income Statement for year 2011.

Sales	1,650,000
CGS	(299,000)
Gross profit	1,351,000
Less: Electric exp	(2000)
Heat + lightning compensation	(4000)
Factor Insurance	(1000)
Super-vision exp	(2000)
Wages + Rent.	(8000)
Misc exp	(1000)
Tool exp.	(2000)
Net profit	1,328,000

Question No 4:

A: K pays for good will in cash.

i. Calculate av. profit:

$$\text{av. profit} = \frac{\text{Total profit}}{\text{No. of years.}}$$

$$= \frac{15000 + 12000 + 18000 + 19000}{4} = \frac{64000}{4}$$

$$\Rightarrow 16000$$

ii. Calculate goodwill:

$$\text{Goodwill} = \text{av. profit} \times \text{No. of yrs' purchase.}$$

$$16000 \times 3 = 48000$$

iii. Journal entries:

a: K's capital A/c dr 30000
cash cr 30000

b: Goodwill a/c dr 48000
A's capital a/c cr 36000
B's capital a/c cr 12000