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Accounting – Logical Reasoning – ICAI Module – Final Accounts

2. Pick up the correct answer from the given choices(only one correct answer):

(i) The balance of the petty cash is

(a) an expense, (b) income, (c) an asset. (d) liability

Ans. (c) an Asset

Petty Cash A/c is the account created for the cash kept aside for petty cash expense, so it is the part of cash balance hence it is an asset.

(ii) Fixed assets are

(a) kept in the business for use over a long time for earning income

(b) meant for resale

(c) meant for conversion into cash as quickly as possible

(d) All of the above

Ans. (a) Kept in the business for use over a long time for earning income.

A long-term asset held for business use and not expected to be converted to cash in the current or upcoming fiscal year, such as manufacturing equipment, real estate, and furniture. also called plant is a fixed asset.

(iii) Goodwill is

(a) a current asset (b) an intangible fixed asset

(c) a tangible fixed asset (d) an investment.

Ans. (b) an intangible fixed asset

An asset which cannot be felt by the senses of human being is treated as intangible asset, which does not exist physically but the value for the same appear in books of accounts.

Goodwill is an intangible asset which provides a competitive advantage, such as a strong brand, reputation, or high employee morale. In an acquisition, goodwill appears on the balance sheet of the acquirer.

(iv) Stock is

(a) included in the category of fixed assets

(b) an investment.

(c) a part of current assets

(d) an intangible fixed asset.

Ans. (c) a part of current assets

Stock is the amount of goods held for resale in a short period of time; a current asset is the one which is held for a short period of time and to be converted to cash within that period, generally less than a year.

(v) The manufacturing account is prepared:

(a) to ascertain the profit or loss on the goods produced

(b) to ascertain the cost of the manufactured goods

(c) to show the sale proceeds from the goods produced during the year

(d) both (b) and (c).

Ans. (b) to ascertain the cost of the manufactured goods produced.

A manufacturing account is prepared by the manufacturer for to record the costs incurred for producing the goods during the specified period. The sale proceeds of goods produced is recorded in the trading account and hence the ascertainment of profit/loss on goods produced is also found through trading account.

3. (i) A new firm commenced business on 1st January, 2006 and purchased goods costing Rs. 90,000 during the year. A sum of Rs. 6,000 was spent on freight inwards. At the end of the year the cost of goods still unsold was Rs. 12,000. Sales during the year Rs. 1,20,000. What is the gross profit earned by the firm?

(a) Rs. 36,000 (b) Rs. 30,000 (c) Rs. 42,000 (d) Rs. 38,000

Ans. (a) Rs. 36000

Trading A/c			
Particulars	**Amount**	**Particulars**	**Amount**
To Purchases	90000		
To Freight	6000	By sales	120000
To Gross Profit	**36000**	By Closing Stock	12000
	132000		132000

(ii) From the following figures ascertain the gross profit:

	Rs.
Opening Stock (1.1.2006)	25,000
Goods Purchased during 2006	1,30,000
Freight and packing on above	5,000
Closing Stock (31.12.2006)	15,000
Sales	1,90,000
Selling expenses on sales	9,000

(a) Rs.36,000 (b) Rs. 45,000 (c) Rs. 50,000 (d) Rs.59,000

Ans. (b) Rs. 45000

Calculation is done same as above, expenses on selling are not considered as the same are indirect expenses and hence form part of profit and loss account.

(iii) A prepayment of insurance premium will appear in the Balance Sheet and in the Insurance Account respectively as:

(a) a liability and a debit balance. (b) an asset and a debit balance.

(c) an asset and a credit balance. (d) None of the above

Ans. (b) an asset and a debit balance

(iv) Under-statement of closing work in progress in the period will

(a) Understate cost of goods manufactured in that period.

(b) Overstate current assets.

(c) Overstate gross profit from sales in that period.

(d) Understate net income in that period.

Ans. (d) Understate net income in that period.

- Under statement of closing work in progress, will result in higher cost of goods manufactured, which will be transferred to trading account,
- Due to above the gross profit will get reduced, which is transferred to profit & loss A/c
- Hence, due to the reduced gross profit, the income of the period will get understated.

4. (i) If sales revenues are Rs. 4,00,000; cost of goods sold is Rs. 3,10,000 and operating expenses are Rs.60,000, the gross profit is

(a) Rs. 30,000. (b) Rs. 90,000. (c) Rs. 3,40,000. (d) Rs. 60,000

Ans. (b) Rs. 90000

Gross Profit = Sales – Cost of goods sold

So, Gross profit = Rs. 400000 – Rs. 310000 i.e. Rs. 90000

Note: Operating expenses has no relevance here (MBKL)

(ii) Sales are equal to

(a) Cost of goods sold – Gross profit. (b) Cost of goods sold + Gross profit.

(c) Gross profit – Cost of goods sold. (d) Cost of goods sold + Net profit.

Ans. (b) Cost of Goods Sold + Gross Profit

Gross Profit = Sales – Cost of Goods sold

So, we can say: Sales = Cost of goods sold + Gross Profit

(iii) A Company wishes to earn a 20% profit margin on selling price. Which of the following is the profit mark up on cost, which will achieve the required profit margin?

(a) 33%. (b) 25%. (c) 20%. (d) None of the above.

Ans. (b) 25%

Let us assume Selling Price be 100

Profit margin on above @ 20% 20

So, Cost of goods sold 80

Now, (Cross Multiplication) Mark up on cost = 20/80 x 100 i.e. 25%

(iv) If sales are Rs. 2,000 and the rate of gross profit on cost of goods sold is 25%, then the cost of goods sold will be

(a) Rs. 2,000. (b) Rs. 1,500. (c) Rs. 1,600. (d) None of the above.

Ans. (c) Rs. 1600

Let us assume the cost of goods sold be 100

Add: Gross Profit @ rate of 25% 25

Selling Price 125

Cost of Goods Sold = Sales – Gross Profit

Or Cost of Goods Sold = Rs. 2000 x 100/125 i.e. Rs. 1600

(v) Sales for the year ended 31st March, 2005 amounted to Rs. 10,00,000. Sales included goods sold to Mr. A for Rs. 50,000 at a profit of 20% on cost. Such goods are still lying in the godown at the buyer's risk. Therefore, such goods should be treated as part of

(a) Sales. (b) Closing stock. (c) Goods in transit. (d) Sales return.

Ans. (a) Sales

When a contract of sale of goods is entered into, the ownership of the goods gets transferred from seller to the buyer, and afterwards the goods cannot be recorded in the books of seller. Hence as in the given case although the goods are lying in sellers godown, these are only possessed by the seller and not owned hence, the amount of transaction will be part of sales.

5. (i) The capital of a sole trader would change as a result of:

(a) a creditor being paid his account by cheque.

(b) raw materials being purchased on credit.

(c) fixed assets being purchased on credit.

(d) wages being paid in cash.

Ans. (d) Wages being paid in cash

For the wages being paid in cash the amount of profit will change which is added to the capital account, in all other cases the impact is to increase/decrease an asset and a liability.

(ii) Rent paid on 1 October, 2004 for the year to 30 September, 2005 was Rs. 1,200 and rent paid on 1 October, 2005 for the year to 30 September, 2006 was Rs. 1,600. Rent payable, as shown in the profit and loss account for the year ended 31 December 2005, would be:

(a) Rs. 1,200. (b) Rs. 1,600. (c) Rs. 1,300. (d) Rs. 1,500.

Ans. (c) Rs. 1300

Rent for the period from 01.01.2005 to 30.09.2005	9 months @ Rs. 100	900
Rent for the period from 01.10.2005 to 31.12.2005	1600 x 3mnths/12 mnths	400
Total Rent payable for 2005		1300

(iii) A decrease in the provision for doubtful debts would result in:

(a) an increase in liabilities. (b) a decrease in working capital.

(c) a decrease in net profit. (d) an increase in net profit.

Ans. (d) an increase in net profit

As the balance of Provision for doubtful is transferred to Profit and loss account, so when there is a decrease in provision the resultant net profit will increase.

II. From the given information, choose the most appropriate answer:

1.

Sales Rs.	Opening Stock Rs.	Purchases Rs.	Closing Stock Rs.	Cost of goods sold Rs.	Gross Profit Rs.	Trading Expenses Rs.	Net Profit Rs.
15,000	6,000	10,000	?	9,000	?	4,000	?

(i) The value of closing stock is

(a) Rs. 9,000 (b) Rs.4,000 (c) Rs.8,000 (d) Rs. 7,000

(ii) Gross profit will be

(a) Rs. 6,000 (b) Rs. 5,000 (c) Rs.8,000 (d) Rs. 7,000

(iii) Net profit will be

(a) Rs. 6,000 (b) Rs. 5,000 (c) Rs. 2,000 (d) Rs. 7,000

i. Ans. (d) Rs. 7000

Cost of Goods Sold = Opening Stock + Purchases – Closing Stock

Or, Rs. 9000 = 6000 + 10000 - Closing Stock

Hence, Closing Stock = Rs. 16000 – Rs. 9000 i.e. **Rs. 7000**

ii. Ans.: (a) Rs. 6000

Gross Profit = Sales – Cost of Goods Sold

= Rs. 15000 – Rs. 9000 i.e. **Rs. 6000**

iii. Ans.: (c) Rs. 2000

Net Profit = Gross Profit – Trading Expenses

= Rs. 6000 – Rs. 4000 i.e. **Rs. 2000**

2.

Opening Capital Rs.	Investment By Proprietor Rs.	Drawing Rs.	Capital at the end of the year Rs.	Net Profit (Loss) Rs.
16,000	Nil	3,000	13,500	?

(i) The net profit will be

(a) Rs. 600 (b) Rs. 500 (c) Rs. 550 (d) Rs. 700

(ii) If in the given information, Net Loss is Rs. 1,000, then the investment made by the proprietor during the year will be

(a) Rs.1,500 (b) Rs. 2,000 (c) Rs. 1,200 (d) Rs. 1,700

Ans.: i. (b) Rs. 500

Opening Capital + Investment – Drawings + Profit = Closing Capital

Rs. 16000 + 0 – 3000 + x = 13500 i.e. **Profit is Rs. 500**

ii. (a) Rs. 1500

Again putting the figures in formula above:

16000 + x – 3000 – 1000 = 13500 i.e. Capital Invested = Rs. 1500

3.

	Rs.		Rs.
Opening Stock	20,000	Carriage on sales	3,000
Closing Stock	18,000	Rent of Office	5,000
Purchases	85,800	Sales	1,40,700
Carriage on purchases	2,300		

(i) Gross profit will be

(a) Rs. 50,000 (b) Rs. 47,600 (c) Rs. 42,600 (d) Rs. 50,600

(ii) Net profit will be

(a) Rs. 42,600 (b) Rs. 50,600 (c) Rs. 45,600 (d) Rs. 47,600

Ans. i. (d) Rs. 50600
ii. (a) Rs. 42600

Trading, Profit & Loss A/c

Particulars	**Amount**	**Particulars**	**Amount**
To Opening Stock	20000		
To Purchases	85800	By Sales	140700
To Carriage on Pur.	2300	By Closing Stock	18000
To Gross Profit	**50600**		
	158700		158700
		To Gross Profit b/d	50600
To Carriage on Sales	3000		
To Rent	5000		
To Net Profit	**42600**		
	50600		50600

4. The Zed Company, a whole seller estimates the following sales for the indicated months:

	June 2006 Rs.	July 2006 Rs.	August 2006 Rs.
Opening stock	4,08,000	4,34,400	4,60,800
Credit Sales	15,00,000	16,00,000	17,00,000
Cash Sales	2,00,000	2,10,000	2,20,000
Total Sales	17,00,000	18,10,000	19,20,000

Selling price is 125% of the purchase price.

(i) The cost of goods sold for the month of June, 2006 is:

(a) Rs. 15,20,000 (b) Rs. 14,02,500 (c) Rs. 12,75,000 (d) Rs. 13,60,000

Ans. (d) Rs. 1360000

It is given Selling Price is 125% of Purchase Price, i.e. the cost of goods sold. Assuming Cost as 100 Selling price will be 125,

So, Cost of Goods sold for June = Total Sales x 100/125
= Rs. 170000 x 100/125 i.e. Rs. 1360000

(ii) Stock purchased in July, 2006 is :

(a) Rs. 16,05,000 (b) Rs. 14,74,400 (c) Rs. 14,40,000 (d) Rs. 13,82,500

Ans. (b) Rs. 1474400

Cost of Goods Sold = Opening Stock + Purchases – Closing Stock

Cost of Goods sold for July = Rs. 1810000 x 100/125 i.e. Rs. 1448000

Now, applying formula, Rs. 1448000 = Rs. 434400 + x -460800

Or, x = Rs. 1448000 + 460800 – 434400 i.e. **Rs. 1474400/-**

5. Considering the following information, answer the question given below:

	1st January	*31st December*
	Rs.	*Rs.*
Stock of raw materials	17,400	18,100
Work-in-progress	11,200	11,400
Stock of finished goods	41,500	40,700

During the year manufacturing overhead expenses amounted to Rs. 61,100, manufacturing wages to Rs. 40,400 and purchase of raw materials to Rs. 91,900. There were no other direct expenses.

(i) The cost of raw materials consumed, issued and used were:

(a) Rs. 1,09,300 (b) Rs. 91,200 (c) Rs. 91,900 (d) Rs. 92,600.

(ii) The manufacturing cost of finished goods produced were:

(a) Rs. 1,31,600 (b) Rs. 1,93,300 (c) Rs. 1,91,900 (d) Rs. 1,92,500.

(iii) The manufacturing cost of finished goods sold was:

(a) Rs. 1,91,700 (b) Rs. 1,92,500 (c) Rs. 1,94,000 (d) Rs. 1,93,300.

Ans. i. (b) Rs. 91200

Cost of Raw Material Consumed = Opening Stock + Purchases – Closing Stock

= 17400 + 91900 – 18100 i.e. **Rs. 91200**

ii. (d) Rs. 192500

Manufacturing, Trading A/c

Particulars	**Amount**	**Particulars**	**Amount**
To Opening- RM	17400		
To Opening WIP	11200		
To Purchase - RM	91900	By Closing - RM	18100
To Manu. Overheads	61100	By Closing - WIP	11400
To Manu. Wages	40400		
		To Manu. Cost	**192500**
		Finished Cost	
	222000		222000

iii. (d) Rs. 193300

Manu. Cost of Goods Sold = Opening Stock + Manu cost of Finished Goods – Closing Stock

= Rs. 41500 + 192500 – 40700

= Rs. 193300

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