

# 12

## **MATERIAL, LABOUR AND OVERHEADS**

### **STRUCTURE :**

- 12.0 Objective
- 12.1 Introduction to Material
- 12.2 Storage of Materials
- 12.3 Issue of Materials
- 12.4 Inventory Control
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- 12.6 Storage Records
- 12.7 Introduction to Labour Control & Documents
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- 12.12 Overheads and classification
- 12.13 Collection and codification of overheads
- 12.14 Allocation of overheads
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## 12.0 OBJECTIVES

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This unit will help you to

- Identify the characteristics of Material Labour and Overheads.
- Prepare and maintain documents needed for control of these costs.
- define and distinguish between direct and indirect materials, purchase, storage and issue of materials.
- Define material control, procedure and documents
- Explain direct and indirect labour, time keeping
- Discuss methods of payments, idle time, overtime
- Define and classify overheads
- Discuss methods of allocation and apportionment of overheads.

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## 12.1 INTRODUCTION

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Materials and labour are the two major elements of costs. Hence, the ascertainment and control of these costs are important aspects. Proper accounting and control over material purchase, consumption and inventories are important aspects of effective management. Labour is also an essential factor of production. Therefore, it is necessary to use different methods of time keeping, time booking, wage payments and pay roll accounting and treatment of idle time and overtime in cost accounts. Factory overheads are opening costs of a business enterprise which cannot be traced directly to a particular unit of output. It is the aggregate of indirect materials. Labour and expenses.

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## 12.2 STORAGE MATERIALS

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Materials refer to raw materials used for production, sub-assemblies and fabricated parts. The term materials and stores are used in the same sense. However, stores is a wider term and comprises many other items besides raw materials. It includes tools, equipment's maintenance and repairs items, factory supplies, components, jigs, fixtures etc.

### DIRECT AND INDIRECT MATERIALS

Materials can be classified as direct and indirect materials. The materials which can be easily identified and attributed to the individual units are known as direct materials.

For example, leather used in manufacture of shoes. These materials form part of the finished goods. All costs, which are incurred to obtain direct materials are also known as direct materials for example carriage inward, octroi etc.

Indirect materials on the other hand, do not form part of the finished product and cannot be conveniently and accurately allocated to a particular unit of product. For example, consumable stores, cotton waste, lubricating oil etc. Cost associated with indirect materials are also included in the cost of indirect materials. The grouping of materials into direct and indirect sometimes, become a matter of convenience.

### PURCHASE OF MATERIALS

There is a purchase department which carries out the function of purchases of materials. The purchase manager is responsible for ensuring the items ordered are of the standard quality, lower cost and received in time. The purchase procedure vary with different business firms. The purchase procedure is given below:

**a) Purchase Requisition:**

Purchase requisition is the formal request made by the storekeeper to the purchase department for giving order of raw materials or stores. It serves the dual purpose of authorizing the purchase department to make purchases and provides a record of the description and quantity of materials required. It also fixes the responsibility of the department or personnel making purchase requisition.

**b) Purchase order:-**

After receiving the duly approved requisition, the purchase department has to place an order with a supplier. It is an offer to buy certain materials at stated price and terms. For routine purchases, the order is placed through established supplies. In other cases, the purchase department may ask for bids or send out request for quotation before placing an order. The purchase order is a formal contract for the supply of materials. Copies of the purchase order are sent to the departments concerned.

**c) Receiving and Inspection of materials:**

The stores department is responsible for taking delivery of packages and to get a physical verification of the contents. When the materials are received, the stores official gets the packages, open them and make a detailed verification of the contents. After the contents of the packages are checked, the details are entered into a Goods Received Note. Copies of the G.R.Note are issued to the supplier, purchase and accounts department, where the factory has to test the materials received for quality and specifications. It has to ensure that the quality of materials is as per purchase order.

**d) Approval of Invoices and Payment**

Invoice received by the purchase department is forwarded to the Accounts department for payment with their recommendation. Accounts department has to check the authenticity, arithmetical accuracy and G. R. Note in order to make sure that the goods are as per purchase order.

When it is found that everything is in order, it is passed for payment by the Accountant. Then the cashier will draw the cheque as per terms and conditions of the purchase order and invoice and finally payment is made to the supplier.

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### 12.3 STORAGE OF MATERIALS

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After purchase, receipt and inspection of materials, the next important step is storage of materials. It is known as storekeeping. It is physical storage of materials. The storekeeper is appointed to look after this work in the stores department. The storekeeper should have the technical knowledge and experience in stores routine and storekeeping. He has to ensure regular supply event overstocking and under stocking and minimize the cost of materials. The storekeeper has to perform the following functions:

- i) Receipts of materials.
- ii) Issue purchase requisitions.
- iii) Maintain proper record of receipt, issue and balance stock of materials.
- iv) Placing and arranging materials at proper place.
- v) Issue of materials against proper authorization.
- vi) Minimizing storage handling and maintaining costs.
- vii) Ensure that the stock neither exceed maximum level or go below the minimum level.

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### 12.4 ISSUE OF MATERIALS

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All materials in the stores are meant for issue to various departments. The procedure for the issue is normally laid down by the management. The storekeeper issues materials to various department against material requisition note, the specimen of which is given below:-

### Specimen of Materials Requisition

MATERIAL REQUISITION							
Department .....				Serial No.....			
Job No. ....				Date .....			
Code No.	Description	Quantity	Weight	Bin Card No.	Stores Ledger Folio	Rate	Amount
							Rs.
Authorised by .....				Received by.....			
Storekeeper's Signature .....				Checked by .....			

On receipt of material requisition, the storekeeper issues the necessary materials after obtaining the signature of the person receiving the materials. Materials requisitioned from the storekeeper and not needed or found to be defective are returned to the storeroom and a returned materials report is prepared by the concerned person upon receipt of the materials. Sometimes, it is necessary to return any rejected, excess or damaged materials to the supplier after making correct entries in the stores ledger.

Materials are issued from stores on properly prepared and approved materials requisition. It is a written order to the storekeeper to deliver materials to the place and the department. The materials requisition note includes date, requisition number, department charged, name of the stores, ledger account to be credited, description of materials, quantity, unit price, total value, delivery point and the signature of the person requisitioning the material and signature of the departments executive approving the requisition or comparatively fixed list of materials generally use a special form of material requisition which is called as 'bill of materials'. Materials requisitioned from the stores and not required or found to be defective are returned to the stores, where a returned material report is prepared by the concerned person. The amount and value of materials returned to the stores are deducted from total value of materials issued. Similarly, the amount shown by materials returned is deducted from the total amount charged to each department. It may be necessary

to return any rejected, excess or damage materials to the supplier. This also requires some correction entries in the stores ledger.

### **PRICING OF MATERIALS ISSUED:**

When materials are purchased they are recorded at price at which they are purchased after asking necessary adjustments for discounts, transportation charges, cost of containers etc. But, when it comes to the issue of materials, the problem arises with regard to the price at which each issue should be recorded because the different quantities of materials are purchased at different prices. For this purpose, a number of methods of pricing the issue of materials are used which are as follows:-

**a) FIFO Method :-** The first in first out method is used when the materials received but are to be issued first. The price of the earliest lot/ quantity is taken first and then for the next lot. The value of closing stock confirms more or less, to the current market price. This method is suitable for falling price.

**b) LIFO Method :** - The last in first out method, is used when materials received last are issued first. The storekeeper will charge the cost price of the latest lot purchased. This is suitable in the times of rising prices.

**d) Average Rate Method:-** Under this method the materials are issued at a price which is an average price of materials purchased. The simple average is an average of prices without having regard to the quantities involved. Weighted average price is used in order to avoid fluctuation in price and reduce the number of calculations. Weighted average of the total cost and total quantities of materials purchased. is calculated each time a purchase is made.

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## 12.5 INVENTORY CONTROL

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In manufacturing organizations inventories include raw materials, work in progress and finished goods. In trading concerns, inventories consist of merchandise held for sale and packing and other supplies. Inventory control is the technique of maintaining inventory items at desired levels. It is a system which ensures the required quantity of inventories of the required quality, at the required time and with the minimum price. The function of inventory turnover is to obtain maximum inventory turnover with the sufficient stock to meet all requirements. Inventory control is of great importance in almost all types of business organizations. If inventories are kept at high levels due to over production or slow demand, capital is tied up which cannot be used for other productive purposes. Alternatively, production is likely to suffer due to inadequate inventory on hand.

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## 12.6 MATERIAL LOSSES

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Some material losses are bound to occur during manufacturing operations due to the nature of materials. These losses may be in the form of scrap, spoilage, defectives or wastage. Scrap is residue for manufacturing operations that has measurable but relatively minor recovery value. It is saleable material resulting from the primary manufacturing operations. Scrap should be accounted for in some manner not only from the point of view of efficiency but because scrap is often a tempting source of theft. If the value of scrap is very insignificant, it is not considered in the cost accounts, on the other hand, if the value of scrap is significant it deducted from the material cost.

Spoilage can be defined as the materials which in the process of manufacture are badly damaged or have developed some imperfection which cannot be economically correct and thus the goods should be sold as seconds. The loss due to spoilage may be charged to a specific product or job on which the spoilage occurred, if it is clearly traceable to the work done on that order. The normal spoilage loss may be charged to factory overhead and thus spread over the cost of all jobs or products. The cost of abnormal spoilage is transferred to the costing profit and loss account. Abnormal loss is unexpected and should have been avoided by the management.



Defectives are such semi-finished or finished products which in the process of manufacture have developed some imperfection, but which unlike spoiled materials can be made into imperfect finished articles with additional labour and materials. The accounting treatment for defectives is similar to that relating to spoiled goods.

Wastage generally, refers to that portion of raw materials which are lost in storing, handling and in manufacturing process. It does not possess any recovery of realizable value. Waste can be classified as normal and abnormal waste. Normal waste is expected and uncontrollable. It is valued like good output. Its cost is transferred to the costing profit and loss account.

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## 12.7 STORES RECORDS

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The important function of the storekeeper is to maintain records of receipts, issues and balances of various items of materials. Bin Card and store ledger are two important stores records that are kept for making a record of the various items at stores,

### I) **BIN CARD :**

A bin is a place where the materials are stored. It may be a shelf, an aluvarch, open space etc. depending upon the nature of the commodity. A bin card provides a quantitative record of the receipts, issues and balance of materials. The bin cards are usually attached to or placed near to the bin so that receipts and issues may be entered therein as soon as they take place. Separate bin cards are prepared for each item of stores. Thus, bin card provides a continuous record of the stock in each bin and assist the storekeeper to control the stock. For each materials, the maximum stock to be held are noted on the card. An ordering level is also indicated therein so that fresh supplies may be ordered before the minimum is reached. A specimen of the bin card is given below:

**BIN CARD**

Name .....	Maximum level .....
Description .....	Minimum level .....
Bin No. ....	Ordering level ,.....
Location Code .....	Re-ordering quantity .....
Stores Ledger Folio .....	Unit ....

Date	Receipts	Issues	Balance	Audit		
	G.R. No.	Qty.	Date	Req. No.	Qty	Qty
Date	Initials					

**ii) Stores Ledger**

Stores ledger is a continuous record of stores received and issued and discloses the balance in hand at any time both in quantity and value. It includes an account of each class of materials and facilitates ascertainment of all details relating to the material in minimum time. It provides management with a perpetual inventory. A specimen of the stores ledger is given below:

## STORES LEDGER

Name ..... Maximum level .....

Description ..... Minimum level .....

Bin No. .... Ordering level ,.....

Re-ordering quantity .....

Unit ....

Date	RECEIPTS		ISSUES			BALANCE		Remarks
G.R. No.	Qty.	Rate	Req. No.	Qty	Amt.	Qty.	Rate Amt.	

## 12.8 INTRODUCTION TO LABOUR CONTROL AND DOCUMENTS:

Labour is an essential factor of production. It is a human resource and participates in the process of production. Wages paid to labour is a significant item of cost. The labour cost should be distinguished between direct and indirect labour. Direct labour cost can be identified with and charged directly to the product or a job whereas, indirect labour cost is not so identifiable and, therefore, it is included in overheads which may be allocated to different products or department on some suitable basis. Cost accounting for labour has three primary objectives :-

- Determining labour costs in the cost of product or service
- Reporting labour costs for planning and control and
- Reporting labour costs for decision-making.

**LABOUR CONTROL :**

Labour cost is an important part of total cost of production. Therefore, there is a need for effective control over labour and labour-related costs. Various departments contribute to the efficient utilisation of labour and adequate control over costs. Personnel department has to provide an efficient labour force. The engineering department maintains control over working conditions and production methods for each job and department or process by preparing plans and specifications. Time-keeping department maintains an accurate record of the time spent by each employee. Preparation of the pay roll from the clock cards, job or time tickers or time sheets is done by the pay roll department. The Cost Accounting department is responsible for the accumulation and classification of all data of which labour costs are one of the most important items.

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**12.9 TIME KEEPING**

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As the labour costs constitute a significant portion of the total cost of a product, proper recording of time and collection of cost data are pre-requisites of any system of labour cost control. Time keeping is a system of recording the time of arrival and departure of workers. It provides a record of total time spent by the workers in the factory. In addition to recording of time of arrival and departure of workers it is also necessary to record time spent by workers on each job, order or process which is known as time booking. The system of time booking may be maintained either manually or mechanically. Time recording clocks may be used to enter the time of starting and finishing each job separately on the job cards. Time booking can be made with daily time sheets, weekly time sheets or job cards. The specimen of time card is as follows:-

**TIME CARD**

Name of the worker .....

Department .....

Token No. ....

Week ending, .....

Day	Regular	Overtime	Total time			
	In	Out	In	Out	Normal time	Overtime

Total Wages

Time keeper

Foreman

Job card is issued to each worker for job at the beginning of each day or week depending upon the number of job he has to work on. It gives complete record of the time spent by each worker on different jobs during a particular period. The specimen job card is given below :

**JOB CARD**

Name of the worker .....

Department

Token No. ....

Week ending

Day	Job No.	Description	Time	Hours	Rate	Amount Rs
				On	Off	

Checked – verified

Total Hours .....

Worker .....

Normal .....

Foreman .....

Overtime.....

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## 12.10 PAYMENT OF WAGES

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Every organization has to maintain a system of payroll accounting for the purpose of computing wages payable to workers. The work involves the calculation of wages, deductions, net wages payable to employees etc. The gross wages payable to each worker are computed with the help of time card, job card or piece work card. Certain statutory deductions are also made from the gross wages. The wage sheet is prepared showing the gross wages, deductions and net wages payable to workers. It is prepared at periodical intervals according to the time of wage payment. Normally, wage sheet are prepared separately for department. But this wage sheet should be checked properly to minimize the possibilities of wrong payments either deliberately or inadvertently. Detection and prevention of both errors and frauds, including the checking for dummy workers in wage sheet, need attention to ensure accuracy in wage payments.

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## 12.11 IDLE TIME

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Idle time is a period or duration for which workers are paid but they have not worked for production in the factory. When workers are paid on time basis, some difference between the time for which they actually spend upon production is bound to arise. Idle time does not include holidays, leave etc. It may be normal in nature or abnormal. Normal idle time is that idle time which is unavoidable; it is of normal nature and is inherent in a production or work environment. Normal idle time is caused due to the movement of workers. Abnormal idle time is that time which is not caused by the usual routine of production. The time wasted by the workers may represent abnormal idle time. The loss incurred by abnormal conditions cannot be considered as part of the cost of the product and should be transferred to the Costing Profit and Loss A/c. For example time lost due to break down of machinery, lack of materials, strikes, lock out etc.

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## 12.12 OVERTIME

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Overtime is the time put in by the workers and work done by them beyond normal hours of work. It is an extra time over and above the schedule hours of work.

Factories Act, 1948, provides that every worker is to be paid overtime at a higher rate, normally at double the normal wage rate, if he is called overtime to work more than 8 hours a day. The excess over normal wage rate is called overtime premium. Overtime may be considered useful when there is an urgency, company needs extra production or when the workers are less than the required number.

In cost accounting, overtime premium should be separated from regular earning and charged as follows;-

### Nature of Overtime Charged to

a. Customers request to complete the job early	Job directly
b. General pressure of work	General Overhead
c. Delayed Schedule	Department
d. Unavoidable Reasons	Costing P & L A/c
e. Seasonal rush and peak load	Prime cost

Overtime payments made to workers engaged in direct labour are treated as direct cost and overtime payments made to indirect labour are treated as part of factory overheads.

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## 12.13 INTRODUCTION TO OVERHEADS

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All indirect costs are collectively termed as overheads. It is total of all indirect material, indirect labour and indirect expenses. They constitute an important component of total cost of a product, a job or a process. Overhead costs have to be incurred for production although they are not directly measurable, observed related to specific activity or unit of production. For example, depreciation of factory building and machinery, rent, taxes, insurance, maintenance etc.

### CLASSIFICATION OF OVERHEADS

The process of grouping the overheads according to their common characteristics is known as classification of overheads. It provides the manager with information that enable them to manage the business effectively. The overheads can be classified according to:

- a) Element : Indirect materials, Labour Expenses;
  - b) Functions : Production, Administration, Selling and Distribution overheads;
  - c) Behaviour : Fixed ,Variable, and Semi-variable overheads
- 
- i) Fixed overheads remain fixed and are unaffected by the changes in the level of production. For example, rent, rates, salaries, legal expenses etc.
  - ii) Variable overheads vary in direct proportion to changes in the volume of production, such as indirect materials, fuel, power, stationery, salesmen's commission etc.
  - iii) Semi- variable overheads are the expenses which are partly fixed and partly variable.



They remain fixed up to a volume of production and vary when the production is made beyond the particular volume. For example, telephone charges depreciation of machinery, repairs and maintenance, cost of supervision etc.

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## **12.14 COLLECTION AND CODIFICATION OF OVERHEADS**

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Overheads are collected and codified under proper heads. Similar overhead cost items should be grouped together. The grouping of overheads is done through a technique called 'Codification'. It is a method of identification and describing various overhead expenses in numbers or letter or in combination of both, so that cost data can be easily collected. Codification of the entire items is done through a proper coding system. Overheads are collected through the sources of stores requisitions, financial accounts, wage sheets, registers and reports.

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## **12.15 ALLOCATION OF OVERHEADS**

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Allocation of overheads is the 'allotment' of all items of cost of cost centres or cost to units. It refers to charging overheads to the cost centres. It means that overheads have been incurred because of the existence of that cost centre. When the company provides more than one product, factory overheads are allocated to various production departments or cost centres. Proper overheads allocation is of great importance as wrong allocation can distort income determination, asset valuation and performance evaluation. The overhead allocation process is as follows:-

- i) Accumulating overheads on the basis of departments or products.
- ii) Identifying the cost objectives of the allocated costs
- iii) Selecting the method of relating costs so accumulated to the cost objectives.

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## 12.16. APPORTIONMENT OF OVERHEADS:

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Apportionment of Overheads refers to the distribution of common items of cost to two or more cost centres on some appropriate basis. When overheads are incurred for the factory as a whole and benefit two or more cost centres, it is necessary to apportion them to different departments that receive benefits from such overhead costs. For example, factory rent benefits all the departments, hence it should be apportioned to all the departments on the basis of the floor area occupied by each department in factory. Thus, common factory overheads have to be apportioned to various production and service departments in the factory on some appropriate basis.

A production department is one that engages in the actual manufacture of product. On the other hand, service department is one that renders a service which contributes indirectly in the manufacture of the product. It renders services to the production as well as other service departments.

The common factory overheads are to be apportioned to various production and service departments on some equitable basis which are called principles of apportionment. Accordingly, overheads are distributed over various departments on the basis of actual benefit received or potential benefits to be received by the respective departments. Overheads can also be apportioned on the specific criteria or given ratio which may be determined after careful survey for different service functions. Apportionment of overheads can also be made on the basis of ability to pay (Revenue) of the departments.

The usual basis of apportionment of common items of factory overheads can be stated as follows:-

Items of Overheads	Basis of Apportionment
a. Rents rates, taxes and Insurance	- Floor space/ area occupied depreciation & repairs of buildings
b. Canteen, welfare expenses	- No. of employees Time keeping & Personnel office

- |    |                                     |   |                                                       |
|----|-------------------------------------|---|-------------------------------------------------------|
| c. | Depreciation, repairs & maintenance | - | Capital cost of machinery<br>& Insurance of machinery |
| d. | Power, steam, lighting              | - | Technical estimates<br>(HP hours)                     |
| e. | Compensation                        | - | Direct wages                                          |
| f. | Advertising, Packing, Warehousing   | - | Sales value/ volume                                   |

### 12.17 SELF TEST.

1. What do you mean by materials control?
2. Distinguish between direct and indirect material cost?
3. How will you ensure effective inventory control?
4. What is the importance of control of labour cost?
5. Explain various methods of recording time of the workers?
6. What are the reasons for booking workers on idle time in a factory?
7. What are the overheads ? How are they classified?
8. Distinguish between fixed, semi-fixed and variable overheads costs giving examples of each overhead.
9. What are the causes of under/ over absorption of factory overheads? How will you deal with them in cost accounts?
10. Write short notes on
 

a) Bin Cards	c) Over time
b) Stores ledger	d) Idle time
	e) Basis of overhead apportionment.
6. Given below are the summarized balance sheet of XYZ Ltd. As on 31<sup>st</sup> December, 1974 and 31<sup>st</sup> December, 1975.

## Balance Sheets

	1974	1975		1974	1975
	Rs.	Rs.		Rs.	Rs.
Issued Share Capital	120000	150000	Freehold Properties		
Share Premium a/c	--	10000	At cost	66000	48000
Capital Reserve (Profit on sale of freehold property)			Plant & Machinery		
Profit & Loss A/c	--	34000	At cost, less Depreciation		
Trade Creditors	43000	42400	Preliminary Expenses	41600	120600
Proposed Dividend	54400	65200	Stock-in-trade	2400	1200
	12000	17000	Debtors	60700	65700
	-----	-----	Balance at Bank	40200	49500
	229400	318600		18500	33600
				-----	-----
				229400	318600

The Following is a summary of the Profit and Loss A/c for the year 1975.

**Profit and Loss Account**

	Rs.		Rs.
Proposed Dividends	17000	Net profit for the year	16400
Balance c/f		Balance from 1974	
	42400		43000
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	59400		59400

No plant and machinery was sold during 1975. The net profit Rs.16400 is the amount after charging Rs.15000 for depreciation of Plant and Machinery and after writing off preliminary expenses Rs.1200.

Prepare a statement showing ;

- i) The net increase in Working Capital during the year 1975 and
- ii The Sources S and Applications of working Capital during that year

(Adapted – Chartered Institute of Secretaries Eng.)

**Ans. Increase** in Working Capital Rs.18600, Funds from Operations Rs.32600 Total of Sources & Applications Rs. 124600 and Rs. 106000 respectively)

7. The Balance Sheets of XYZ Ltd. As on 31<sup>st</sup> March, 1974 and 31<sup>st</sup> March, 1975 are given below

**Balance Sheet**

	1974	1975		1974	1975
	Rs.	Rs.		Rs.	Rs.
Issued Share Capital (Shares of Re.1 each)	300000	350000	Freehold Properties	20000	16000
Capital Reserves			At cost		
Share Premium		10000	Plant & Machinery		
Profit on sale		2900	At cost, less	286000	308000
Of freeholds			Depreciation		
Profit & Loss A/c	32000	10000	Preliminary Expenses		
5% Debentures		5000	Current Assets	1600	800
Current Liabilities	64000	68000		138400	166100
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	446000	490900		44600	490900

The whole Share capital of the company was issued for cash  
 Depreciation on Plant and machinery written. Off during the year to 31<sup>st</sup>  
 March 1975 amounted to Rs.28000 During the same year company paid  
 a Dividend of Rs.15000

**Prepare a statement showing:-**

- the net increase in the Working Capital during the year ended 31<sup>st</sup> March, 1975 and
- the sources and applications of funds during the year

(Adapted – Chartered Institute of Secretaries Eng.)

(Ans Increase in Working Capital Rs.23700; Funds from Operations Rs.71800, Total of Sources & Applications rs.138700 and Rs.115000 respectively)

- The comparative Balance Sheets of ABC Industries Ltd. For 1974 and 1975 are given below:-

**Balance Sheets**

	1974 Rs.	1975 Rs.		1974 Rs.	1975 Rs.
Paid up Capital	300000	340000	Bank	45600	48800
Reserves & Surplus			Debtors	9800	16000
Mortgage Loan	120600	143600	Stock	42000	65200
Sundry Creditors	20000	19000	Marketable securities		
Liabilities for Expenses	42400	45200	Trade Investments	32200	10000
Provision for Depreciation	2600	1000	Plant & Machinery	42300	35100
Provision for Taxation	25600	34000	Land and Buildings		
			Intangible Assets	183400	268000
	11000	12400		150000	140000
				16900	12100
	-----	-----		-----	-----
	522500	595200		522200	595200

The following transactions took place during 1975

Land which had cost Rs.10000 was sold for Rs.25000. Some of the marketable securities were sold at a loss of Rs.3000. difference between the figures to trade investments represents amount written off in respect of worthless investments. A dividend of Rs. 25000 was paid. An old machinery which had cost Rs.10000 (accumulated depreciation thereon Rs.8000) was sold for Rs.6000

**Prepare a Funds Flow Statement.**

(Ans. Increase in W.C Rs. 9200; Funds from operations Rs.58800, Total of Sources & Applications Rs.129800 and Rs.120600 respectively)

12. Below are given the Balance Sheets as on December, 31, 1969 and December, 31 1970 for Ashoka Co. Sales for the year 1969 were Rs.2,10,000. Net income after taxes was Rs.7000. In arriving at the Net Profit, items deducted from sales included among others. Cost of goods sold Rs.165000; depreciation Rs.5000 wages and salaries Rs.20000. There was a gain of Rs.1000 on the sale of a truck. The truck had cost Rs.600, depreciation of Rs.4000 had been accumulated for it and it was sold for Rs.3000. This was the only asset written off during the year. The company declared and paid Rs.6000 in dividends during the year.

### Balance Sheets

	Dec 31, 1969		Dec 31, 1970	
	Rs.	Rs.	Rs.	Rs.
Assets				
Cash		5000		6000
Accounts Receivable		14000		14000
Inventory		22000		8000
Prepaid Insurance		200		250
Prepaid Rent		150		100
Prepaid Property Taxes		300		400
Land		4000		8000
Building & Equipment	30000		48000	
Less: Accumulated depreciation	10000	20000		37000
			11000	
Total Assets		65650		73750
Liabilities				
Account Payable		20000		18000
Accrued Expenses		2000		4000
Income tax Payable		1000		1100
Capital Stock		30000		37000
Retained Earnings		12650		13650



		-----		-----
Total liabilities		65650		73750

Prepare a fund flow statement and described the most significant development revealed by his statement.

