

~~100~~

(i)

Journal

Date	Accounts Title	R/P/F	Debit	Credit
- 2022 April - 1	Cash Dr. M. Hasan, Capital Cr.		\$ 40,000	\$ 40,000
1	[This - is]			
2	Rent Expense Dr. Cash Cr.		1,000	1,000
3	Supplier Dr. Accounts Payable Cr.		400.00	4,600
4	Accounts Receivable Dr. Service Revenue Cr.		5,100	5,100
	Cash Dr. Unearned Revenue Cr.		1,000	1,000
	Cash Dr. Service Rec Cr.		2,100	2,100
	Supplier Exp Dr. Cash Cr.		2,910	2,910
	Accounts Payable Dr. Cash Cr.		1000	1000
			<u>572,000.</u>	<u>572,000</u>

General Ledger

Cash

Date	Explanation	Ref	Debit	Credit	Balance
			\$	\$	\$
2010			40,000		40,000
April 1	opened H.M.			1,000	39,000
	Deposited		1,000		40,000
	2100.00 Bank		2,100		42,100
				2,400	39,700
			1,600		41,300
					38,100

Accounts Receivable

		Debit	Credit	
	551.88			
	500.00			
	CCC			

Supplies

4,000	H.M.	40.00

Accounts Payable

		4,000	80.00
		16.00	24.00

5,100	5,100
2,100	7,200

M. Hasan
Trial Balance

April 30, 2018

Account title	Debit	Credit
	\$	\$
Cash	38,100	
A/c Rec'd	5,100	
Supplies	4,000	
A/c Pay		2,400
Unearned Rev.		1,000
M. Hasan, Capital		40,000
Service Rev.		7,200
Salaries Expense	2,400	
Rent Expense	1,000	
	50,600	50,600

1(a)

Each transaction must affect two or more accounts to keep the basic accounting equation in balance. The equality of debit and credit provides the basis of double entry system of recording transaction.

In double entry system, each transaction is recorded in appropriate accounts. It provides a logical method for recording transactions. It also ensures accuracy of the recorded accounts, as sum of debit must equal sum of credit.

2(a)

For January, 2018,

L. Mac's Capital.

$$\text{Assets} = \text{Liabilities} + \cancel{\text{L. Mac's Capital}} - \cancel{\text{L. Mac's}} \\ \cancel{\text{Dividends}} + \text{Service Revenue} - \cancel{\text{Expenses}}$$

$$\Rightarrow 85,000 = 62,000 + \cancel{250,000} - 211,000 + \cancel{\text{L. Mac's Cap}}$$

$$\text{L. Mac's Capital} = 23,000$$

For Dec, 2018,

$$\text{Assets} = \text{Dr} - \text{Cap} - \text{Dr} + \text{Rev.} - \text{Expens}$$

$$\Rightarrow 168,000 = 85,000 + 23,000 + 350,000 \\ - 211,000 - D$$

$$\Rightarrow D = 85,000 + 23,000 + 350,000 - 211,000 - 168,000 \\ = 179,000 \text{ (Ans)}$$

Investment page no

L. Mac, Attorney

Statement of Owner's Equity

for the year ended in 2018

Particular	Award	Award
L. Mac, Capital, 100	23,000	0
Add - Investment	23,000	
Net Income	139,000	
Less: L. Mac, Drawings	79,000	162,000 (79,000)
L. Mac, Capital		83,000

Q(b) (i) Current ratio = $\frac{\text{curr. ass}}{\text{curr. lia}} = \frac{4300 + 21200 + 10,200}{12370}$

$$= \frac{35500}{12370}$$

$$= 2.9:1$$

(ii) Acid-test ratio = $\frac{\text{cash} + \text{short-term investments} + \text{net receables}}{\text{curr. lia}}$

$$= \frac{4300 + 21200}{12370}$$

$$= 2.1:1$$

(iii) Rec. Turn = $\frac{\text{Net Credit Sales}}{\text{Avg. Receivables}}$

$$= \frac{100,000}{21200 + 23400}$$

≈ 4.5 times

(iv) Inv. Turn = $\frac{\text{Cost of goods sold}}{\text{avg. inventory}} = \frac{80,000}{\frac{10,000 + 7,000}{2}} = 7.1$ times

Answers :-

(v) Profit Margin = $\frac{\text{net income}}{\text{net sales}}$

$$= \frac{15,000}{100,000}$$

$$= 15\%$$

(vi) Asset Turnover = $\frac{\text{net sales}}{\text{avg. assets}}$

$$= \frac{100,000}{\frac{110,500 + 120,100}{2}}$$
$$= 0.9 \text{ times}$$

(vii) Ret on assets = $\frac{\text{net income}}{(\text{assets})}$

$$= 13\%$$

(viii) Ret on common = $\frac{\text{net income}}{\text{avg. st. h. equity}}$

$$= \frac{15,000}{\frac{75,000 + 69,000}{2}}$$
$$= 20.8\%$$

$$i) D2A = \frac{\text{total debt}}{\text{total assets}} = \frac{12370}{110500}$$

$$= 11.2\%$$

$$x) \text{Payout Ratio} = \frac{\text{Cash dividends}}{\text{net income}} = \frac{20,000}{15,000} = 133.3\%$$

3. a)

	<u>Financial</u>	<u>Management</u>
<u>Users</u>	External	Internal
<u>Time Period</u>	Annual	None
<u>Emphasis</u>	Past-oriented	Future oriented
<u>Focus</u>	Whole enterprise	Anything (Political problems)
<u>Standards</u>	Stringent (with GAAP)	None

Top Gear
Planning Budget
for the month in August

Planned Sales Worked (2)

Revenue (4.9 q)

Expenses:

Cleaning Supp (0.8)

Elec

Maint

Wages

Depne

Rent

Adm

Total Expenses -

Net Operating Income

9,000

44,100

9,000

7,200

2550

1800

7,700

6,000

8,000

41,900

47,150

38,150

5,950

Top Down Flexible Budget

(A) Actual Cars Washed 8,808

~~Service~~ Room () 43,120

Exposures:

Clan	(e.g. land, pencil)	7,040
Elec		2,520
Mary		1,760
Wag		7,640
Dsp		6,000
Rent		5,000
Adm,		4,880
Total Expenses		37840
		5,280

Top Grease

Flexible Budget Performance Report
for the month ended in ag August

	Planning Budget	Activity Variance	Flexible Budget	Spending and Revenue Variances	Actual Results
Cars Washed	9,000		8,800		8,800
Revenue	44,100	980 U	43,120	400 U	43,080
Expenses:	7,200				
Cleaning	7,200	140 F	7040	520 U	7,560
Elec.	2,550	30 F	2520	150 U	2,670
Main.	1,800	40 F	1760	500 U	2,260
Wages	7,700	60 F	7640	860 U	8,500
Deprec.	6,000	0	6000	0	6,000
Rent	8,000	0	8000	0	8,000
Adm.	4,900	20 F	4,880	70 U	4,950
Total	38,150	310 F	37840	2100 U	39,940
Net Operations	5,950	670 U	5280	2140 U	3,140

4) a) Broad categories of cost that do not differ —

- i) Sunk Cost
- ii) Future cost ~~of~~ that do not differ between alternatives

b)

	Total Relevant Costs 30,000 units	
	<u>Make</u>	<u>Buy</u>
Direct Material $[4 \times 30,000]$	120,000	
Dir. Labor $[10 \times 30,000]$	300,000	
Vari. Manu Overhead $[3 \times 30,000]$	90,000	
Fixed Manu. Overhead $\frac{8}{3} \times 30,000$	80,000	
Outside purchase price $[21 \times 30,000]$	\$590,000	<u>630,000</u>
Opportunity cost —	80,000	
Difference in favor	<u>\$40,000</u>	

~~(5)~~

100 80
cost + 20%
80

Particulars

Amount Amount

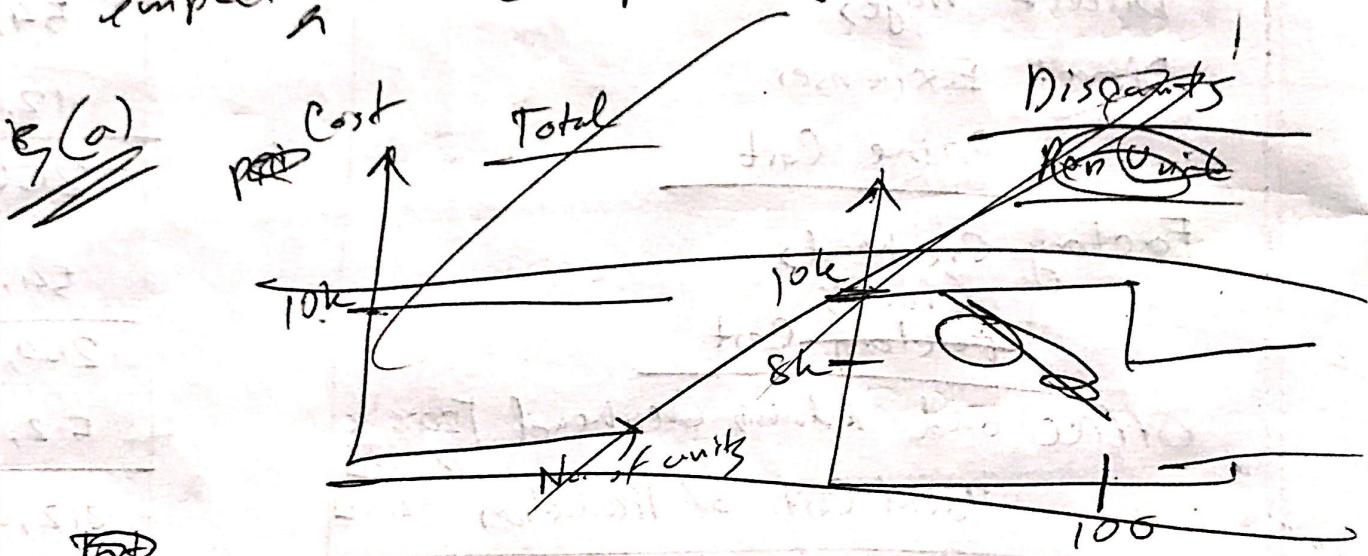
Opening stock of raw materials	12,500
+ Purchase of raw materials	136,000
- Closing stock	148,500
	(8,500)
<u>Direct Materials</u>	<u>140,000</u>
Direct Wages	54,000
Direct Expenses	12,000
<u>Prime Cost</u>	<u>206,000</u>
Factory Overheads	54,000
Clark's <u>Factory Cost</u>	<u>260,000</u>
Office and Adminis Overhead [20% x 260,000]	52,000
<u>Total Cost of Production</u>	<u>312,000</u>
+ Cost of Opening Stock	12,000
<u>Cost of Goods Available for Sale</u>	<u>324,000</u>
- Closing Stock	(15,000)
<u>Cost of Goods Sold</u>	<u>309,000</u>
Selling and Distribution Overhead	26,000
<u>Total Cost</u>	<u>335,000</u>
Profit on Cost = $\frac{20}{1.2} = 25\%$	
Profit = 335,000 x 25% = 83750	
	<u>83750</u>
	<u>418,750/-</u>

(6)

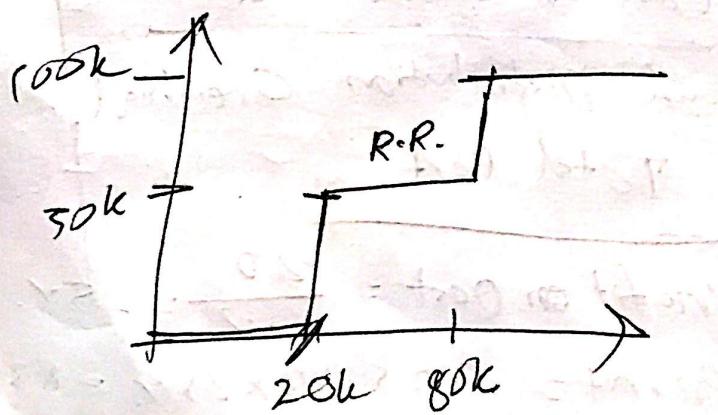
a) Operating Leverage.

Degree of operating leverage allows quick estimation of what a given % change in sales would have on company's net operating income.

Higher operating leverage the more the impact of sales on net operating income.



The costs that do not vary with the variation of in volume of activity. Total fixed cost stays same in a relevant range.



6(b)

$$(i) \text{ CM Ratio} = \frac{\text{C.M.}}{\text{Net Sales}}$$

$$= \frac{300,000}{750,000}$$

B.E.P.

$$\frac{[\text{units}]}{\text{Fixed expense}} = \frac{\text{C.M./unit}}{\text{C.M./unit}}$$

$$= \frac{210,000}{300,000 / 30,000}$$

$$= \frac{21,000}{\text{Total Budgeted sales}}$$

$$\text{Margin of Safety} = \frac{\text{Total Budgeted sales} - \text{B.E.P. [dollar]}}{\text{B.E.P. [dollar]}}$$

$$= 750,000 - \frac{21,000}{0.4}$$

$$= 750,000 - 52,500$$

$$= 697,500$$

$$= 225,000$$

$$(ii) \text{ Operating Leverage} = \frac{\text{C.M.}}{\text{Net Op.}} = \frac{300,000}{90,000}$$

$$= 3.33$$

increasem

(iii) sales = 10%

Deg. of op. $\times 3.33$

Increase in net = 33.33%

Sales (33,000)

Van. expense

CM.

Fixed Expenses

Net oper.

829,000

495,000

330,000

210,000

120,000

Increase in net 120,000 - 90,000

30,000

= 33.33%

450

15

	Total	Per Unit
	\$	\$
Sales (30,000)	750,000	25
<u>Less: Variable Expenses</u> [$15 - 15 \times 40\% = 9$]	270,000	9
CM Margin	480,000	16
<u>Less: Fixed Expense</u> [$210,000 \times 2 = 420,000$]	420,000	
Net operating income	60,000	

$$CM = \frac{480,000}{750,000} = 64\%$$

Revenues = Expenses

$$\Rightarrow \text{Sales} = \text{Fixed Expense} + \text{Var. Expense}$$

$$\Rightarrow 25q = 420,000 + 9q$$

$$\Rightarrow 16q = 420,000$$

$$\therefore q = 420,000 / 16 = 26,250 \text{ balls.}$$

$$B.E.P. [\text{balls}] = 25 \times 26,250 = \$ 656,250$$

~~Revenue + Target Profit~~ = Expenses + Target Profit

$$\Rightarrow \text{Sales} = \text{Var. Cost} + \text{Fix. E} + \text{Target P.}$$

$$\Rightarrow 25Q = 9Q + 420,000 + 90,000$$

$$\Rightarrow Q = \frac{510,000}{16}$$

$$Q = 31,875 \text{ balls}$$

Margin of Safety = ~~Sales - BEP~~
~~(Dollars)~~ ~~[Dollars]~~

$$= 750,000 - 655,250$$

$$= 93750$$

$$(i) = \frac{93750}{750,000} = 12.5\%$$

The prev was 30% and this is 12.5%.

So, we should not consider the plant.

(Ans.)