Financial Accounts

1) Journal

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Date	Particulars	L.f	Debit	Credit
1/4/24	Cash A/c (Dr) to capital A/c		500000	500000
2/4/24	purchase A/c (Dr) to X & Co A/c		50000	50000
3/4/24	Bank A/c (Dr) to cash A/c		14000	14000
4/4/24	Building A/c (Dr) to L & Co A/c		19500	19500
5/4/24	cash A/c (Dr) to Bank A/c		15000	15000
6/4/24	cash A/c (Dr) to Bank A/c		14000	14000
9/4/24	cash A/c (Dr) to sales A/c		30000	30000
10/4/24	purchase A/c (Dr) to vijay A/c		20000	20000
12/4/24	Stationary A/c (Dr) to Rent A/c		5000	5000
15/4/24	Bank charges A/c (Dr) to Bank A/c		200	200
17/4/24	Bank A/c (Dr) to Dividend A/c		20000	20000
18/4/24	cash A/c (Dr) to Bank A/c		30000	30000
20/4/24	salary A/c (Dr) to Bank A/c		60000	60000
23/4/24	Donation A/c (Dr) to Inventory A/c		10000	10000

2) current ratio

current ratio = $\frac{\text{current assets}}{\text{current liabilities}}$

current Assets

i) stock = 202000
ii) Bills receivable = 400000
iii) Sunday Debtors = 98000
iv) cash & Bank = 76000
total = 416000

current liabilities

i) Trade payable = ₹ 44000

ii) Bank overdraft = 40000

total = ₹ 84000

current ratio = $\frac{416000}{284000} \simeq 1.46$

ii) Liquid ratio

liquid ratio = $\frac{\text{liquid assets}}{\text{current liabilities}}$.

liquid assets = current assets − stock

= 416000 − 202000

= ₹ 214000

current liabilities = ₹ 284000

liquid ratio = $\frac{214000}{284000} = 0.75$

iii) Proprietary Ratio

proprietory ratio = $\frac{\text{shareholders funds}}{\text{total assets}}$

shareholders funds = Equity share + reserve + profit & loss
capital gain

= 200000 + 140000 + 28000

shareholders funds = 368000

total assets = 1260000

proprietary ratio = $\frac{368000}{1260000} \simeq 0.29$

iv) Capital Gearing Ratio

Capital Gearing Ratio = $\frac{\text{fixed interest Bearing funds}}{\text{Equity shareholders funds}}$

Fixed Interest Bearing funds 16%. Debentures + 12% Preference Capital

Equity shareholders funds = 368000

fixed Interest Bears funds = 240000 + 360000

= 600000

Capital Gearing ratio = $\frac{600000}{368000} \approx 1.63$

v) total Equity Ratio:

Debentures = 240000

Bank overdraft = 40000

Trade payable = 244000

Debt Equity ratio = $\frac{524000}{368000} \approx 1.42$

2) i) Reorder quantity (ROQ)

$EOQ = \sqrt{\frac{2Co}{Ch}}$

$= \sqrt{\frac{2 \times 30000 \times 100}{4}}$

$= \sqrt{40000}$

ROQ = 200 units

ii) Reorder level = max usage × max reorder period

= 25 × 6

= 450 units

iii) Maximum level = Reorder level − (Normal usage × Avg. reorder period)
= 450 − (50 × 8) = 200 units

iv) Maximum level = Reorder level + Reorder quantity − (Min usage × Min reorder period)
= 450 + 200 − (25 × 6)
= 650 − 100
= 550 units

v) Average stock level = Min level + ½ (Reorder qty)
= 200 + 1/2 (200)
= 300 units

4) i) Max level = Reorder quantity + Reorder level − (Min usage × Min reorder period)

ii) Min level = Reorder level − (Normal usage × Avg. deliver period)

iii) Reorder level = Max usage × Max delivery period

Material X

i) Max level = 500 − 200 = 1300 units
ii) Min level = 900 − 500 = 400 units
iii) Reorder level = 150 × 6 = 900 units

Material Y

i) Max level = 1600 − 100 = 1500 units
ii) Min level = 600 − 300 = 300 units
iii) Reorder level = 150 × 4 = 2600 units.

5) i) On basis of Direct Material Cost

$$\text{Rate} = \frac{\text{factory overhead}}{\text{Material consumed}} \times 100$$

$$= \frac{50000}{60000} \times 100$$

Rate = £3.33 %.

ii) On basis of Direct Labour Cost

$$\text{Rate} = \frac{300000}{60000} \times 100 = 125\ \%.$$

iii) On basis of Machine Hours

$$\text{Rate / Machine hour} = \frac{50000}{30000} = 1 \text{ per machine hour}$$

iv) On basis of Labour hours worked.

6) FIFO method

Date	Particulars	Receipts Qty	Rate	Amt	Issue Qty	Rate	Amt	Balance Qty	Rate	Amt
1	Purchase	40	15	600				40	15	600
2	Purchase	20	16.50	330				40	15	600
								20	16.5	330
3	Issue				30	15	450	10	15	150
								20	16.5	330
4	Purchase	50	17.10	855				10	15	150
								20	16.5	330
								50	17.10	855
5	Issue				10	15	150	10	16.5	165
					20	16.5	330	50	17.10	855
6	Issue				10	16.5	165	20	17.1	342
					30	17.1	513			

Closing Stock of 20 units @ £17.10 each = £342

LIFO method

Date	Receipts Qty	Rate	Amt	Issue Qty	Rate	amt	Balance Qty	Rate	amt
							40	15	600
1	40	15	600				40	15	600
	20	16.5	330				20	16.5	330
2				20	16.5	330			
				10	15	150	30	15	450
3							30	15	450
	50	17.1	855				30	17.1	855
4							30	15	450
				20	17.1	342	30	17.1	513
5				30	17.1	513			
6				10	15	150	20	15	300

Closing stock of 20 units at ₹15 each = ₹ 300

7) (a) Simple average

Date	Receipts Qty	Rate	amt	Issues Qty	Rate	amt	Balance Qty	Rate	amt
1	100	10	1000				100		1000
2	200	102	2040				300		3040
				250	10.1	2525	50		515
5							350		3565
7	300	10.5	3150				650		6715
10	200	10.8	2160				850		8875
				200	10.5	2100	650		6775
13				200	10.65	2130	450		4645
18							200		2065
20	100	11	1100						
				150	10.9135		100		1060
25									

Closing stock of 100 units is ₹ 1060

7) Weighted average

Date	Receipts Qty Rate amt	Issues Qty Rate amt	Balance Qty Rate amt
1	100 10 1000		100 1000
	200 10.2 2040		
5		250 10.132532	300 3040
			50 507.5
7	300 10.5 3150		350 3657.5
10	200 10.8 2160		550 5817.5
		200 10.582116	350 3705.5
13		200 10.58 2116	150 1588.5
18			250 2687.5
20	100 11 1100		
		150 10.74 1611	200 1076.5
28			

Closing stock of month is ₹1076.5

8) Cost sheet

Particulars	Amount (₹)	Amt ₹
Opening stock		42000
Add purchase	200000	
add carriage on purchase	200	
	50000	
		213200
Cost of material consumed	400000	
		353200
Add Productive wage		
Add factory Overhead	10600	

→ Repairs to plats, machs tools 3000

→ Rates Rates, Insurance 7000

→ Depreciation plats, machs tools 4000

→ Gas & water charges 1000

→ managers salary 32000

Total 34 82 000

Work cost

Add: Off. & Administrative overhead 9600

→ drawing office salaries 14000

→ Counting house salaries 1000

→ Rents, Rates taxes, Insurance 600

→ Depreciation of furniture 300

→ Gas & water charges 6000

→ Directors fees 2000

manager salary 20000

38500 4023900

Add selling & distribution overhead

→ Travelling expenses 3100

→ Travellers salaries & commission 8400

→ Carriage on sales 5100

Total selling & distribution overhead 16600 460500

Total cost

1) Trading Account

Particulars	Amount	Particulars	Amount
To opening Inventory	100000	By sales	1100000
To purchases	672000	Less: Return Inwards	10000
Less: purchase returns	72000	Net sales	1000000
Net purchases	600000		
To Carriage Inward	30000		
to wages	50000	By closing Inventory	80000
To closing Inventory			
to cost of Goods sold	780000		
to Gross Profit c/d	220000		
total	1000000	total	1000000

(ii) Particulars

Particulars	Amount (₹)	Amt (₹)
Opening raw material Inventory	42000	6000
add: purchases	32000	
Less: closing raw materials Inventory	14000	60000
		30000
Add: manufacturing direct factor cost	103000	413000
Add: opening work in progress	5500	
Less: closing work in progress	72000	39600

Cost of goods sold 38873
Add; selling expenses 50000
Add; General expenses 60000
total 39 873

11) Trading Account

Dr	Amount	Cr	Amount
To opening stock	100000	By sales	600000
To purchases	35700		
To wages	45000		
Add outstanding wages	2000		
To Carriage Inwards	1000	By closing stock (Balance c/d)	30000
To Gross Profit c/d	246800		
total	630000	total	630000

12) Balance Sheet

Liabilities	Amt	Assets	Amount
Capital	1000000	Land & Property	55 0000
Add net profit	120500	Machinery	98000
		Furniture	45000
Creditors	50000	Investments	40000
Outstanding wages	200	Patents	100000
		Debtors	20,000
Advance Interest received	100	less: Bad debts	2000
		less: provisions	1500
		Closing stock	50000
		Prepaid salary	1000
		Cash & Bank	23200
	12,15,800	total	12,15,800

13) 1996 Sales = 150000 Profit = 20000
1997 Sales = 170000 Profit = 30000

(a) P/V ratio

$$P/V\ ratio = \frac{Change\ in\ Profit}{Change\ in\ Sales} \times 100$$

$$= \frac{10000}{20000} \times 100$$

$$= 25\%$$

(b) Break even sales (BEP)

$$= \frac{Fixed\ cost}{P/V\ ratio}$$

$$= 150000 \times 25\%$$

$$= 37500$$

Profit = 20000

Fixed cost = 37500 − 20000 = 17500

$$BEP = \frac{17500}{25\%} = \frac{17500}{0.25} = ₹\ 70000$$

(c) Sales for profit of ₹ 40000

$$Required\ Sales = \frac{Fixed\ cost + Desired\ profit}{P/V\ ratio}$$

$$= \frac{17500 + 40000}{0.25}$$

Required sales = 230000

(d) Profit for Sales of 250000

Profit = Sales × P/V ratio − Fixed cost

= (250000 × 0.25) − 17500

= 45000

(d) Margin of safety at profit of ₹30000

Sales = $\frac{\text{fixed cost } ₹30000}{0.84}$ = ₹190000

Margin of safety (MOS) = Sales − BEP

= 190000 − 70000

MOS = ₹120000

14) (a) PV ratio

Contribution = Sales − variable cost

= 10000000 − 600000 = 400000

PV ratio = $\frac{\text{Contribution}}{\text{Sales}} \times 100$

= $\frac{400000}{1000000} \times 100$

PV ratio = 40%

(b) BEP = $\frac{300000}{0.40}$ = ₹ 750000

(c) profit when sales = ₹1200000

profit = Sales × PV ratio − fixed cost

= (1200000 × 0.40) − 300000

profit = ₹180000

(d) Sales to earn a profit of ₹ 200000

Required sales = $\frac{300000 + 200000}{0.40}$

= 1250000

(b) P/V ratio: $\frac{15000}{20000} \times 100 = 75\%$.

(b) BEP

Contribution = ₹ 160000 × 75% = 120000

Profit = 15000

$BEP = \frac{90000}{0.75} = ₹ 120000$

(a) Sales required to earn profit of ₹ 15000

Required Sale = $\frac{\text{fixed cost + Desired profit}}{\text{P/V ratio}}$

$= \frac{90000 + 60000}{0.75}$

Required sales = ₹ 173,333.33

(d) Fixed expenses

fixed expense = ₹ 90,000

(e) Profit when sales are ₹ 120,000

profit = (Sales × P/V ratio) − fixed cost

= (120000 × 0.75) − 90000

= 90000 − 90000

Profit = ₹ 0

FINANCIAL & COST ACCOUNTING

ASSIGNMENT

1)

Concepts

- **Cost Object:** A cost object is anything for which a separate measurement of cost is desired.
- **Cost Driver:** A cost driver is an activity that causes a change in the cost of an operation or process.
- **Cost Centre:** A cost centre is a location, person, or item for which costs are accumulated and monitored.
- **Profit Centre:** A profit centre is a unit within an organization responsible for generating revenue and profits.
- **Cost Estimation:** Cost estimation is the process of predicting the expenses involved in manufacturing or services.
- **Cost Ascertainment:** Cost ascertainment is the process of collecting actual costs incurred at various production stages.
- **Cost Allocation:** Cost allocation involves assigning direct costs to specific departments or products.
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- **Cost Control:** Cost control refers to monitoring and managing costs to keep them within planned limits.
- **Cost Reduction:** Cost reduction aims at permanently lowering unit costs without affecting product quality.

Conventions

- **Materiality Concept:** Only significant items that affect decisions are recorded.
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- **Conservatism (Prudence) Concept:** Anticipate all potential losses but not gains. Avoid overstatement of income/assets.

2)

Capital Expenditure: Capital expenditure refers to the spending incurred on acquiring or enhancing fixed assets like land, machinery, or equipment. It is non-recurring in nature, increases the earning capacity of the business, and the benefit extends beyond one accounting period. These are shown as assets in the balance sheet.

Revenue Expenditure: Revenue expenditure refers to the costs incurred for the day-to-day operation and maintenance of the business, such as salaries, rent, and repairs. It is recurring in nature, does not enhance long-term assets, and benefits only the current accounting period. These are shown in the profit and loss account.

3)

Financial Accounting:

1. Financial accounting focuses on recording, summarizing, and reporting the financial transactions of a business to external stakeholders like investors, creditors, and regulators.
2. It provides an overall view of the financial position and performance through financial statements like the Balance Sheet and Profit & Loss Account.
3. It is governed by standard accounting principles (GAAP/IFRS) and is mandatory for legal and statutory purposes.

Cost Accounting:

1. Cost accounting deals with recording, analyzing, and controlling costs related to the production or operation of a business.
2. It provides detailed cost information to internal management for budgeting, cost control, and decision-making.
3. It is not governed by statutory requirements and can be customized as per the needs of the organization.

4)

- **Straight-Line Method (SLM):** Depreciation is charged evenly over the useful life of the asset.

Formula: Annual Depreciation = (Cost of Asset−Salvage Value)/Useful Life

- **Reducing Balance / Diminishing Balance / Written Down Value (WDV) Method:** Depreciation is charged at a fixed percentage on the reduced (book) value of the asset each year.

Formula: Depreciation = Book Value at Beginning of Year × Depreciation Rate

- **Sinking Fund Method:** A fixed amount is set aside annually and invested to accumulate to the asset's replacement value at the end of its life.

Formula: Annual Depreciation = Cost of Asset−Salvage Value / Sinking Fund Factor

- **Annuity Method:** Depreciation includes interest on capital invested, resulting in equal annual charges.

Formula: Annual Depreciation= (Cost of Asset−Scrap Value) × Annuity Factor

- **Revaluation Method:** Depreciation is the difference between the asset’s value at the beginning and end of the year, based on periodic revaluation.

Formula: Depreciation=Value at Beginning of Year−Value at End of Year

5)

Point	Cash Flow Statement	Fund Flow Statement
1. Basis of Analysis	Focuses on **cash inflows and outflows** during a period.	Focuses on **changes in working capital** between two periods.
2. Objective	Shows the **liquidity position** by tracking actual cash.	Analyzes the **financial position** and movement of funds.
3. Components	Classified into **Operating, Investing, and Financing** activities.	Shows **sources and uses of funds** (non-cash items included).

6)

- **Material Costs** are costs of physical commodities used to make a final product. They obviously exist in case of manufacturing companies invariably and also in case of some service industries like restaurants. The material could be basic raw material, components, consumables, spares, packing material etc.
- **Labour Costs** comprise of expenses in relation to salaries, wages, bonuses, expenses on staff welfare, statutory benefits like provident fund, gratuity etc. This is an intangible source of cost and one cannot physically see this element into the final product. Usually, it comes next to material cost with regard to its proportion to total costs. In case of service providing organisations, of course, labour costs will constitute greater proportion.
- **Other Expenses** are incurred either to provide support to manufacturing or service activity or to ensure smooth running of business.

7)

Advantages of ABC (Activity-Based Costing):

1. **More Accurate Product Costing**
   ABC links costs to their actual causes (cost drivers), resulting in more precise product costing.
2. **Improved Cost Control and Reduction**
   By identifying cost-driving activities, ABC helps in monitoring and reducing unnecessary expenses.
3. **Better Decision-Making**
   ABC provides relevant and detailed cost data that supports strategic decisions like pricing, outsourcing, and product mix.
4. **Enhanced Performance Measurement**
   It offers comprehensive cost information that assists managers in evaluating performance more effectively.

5. **Supports Operational Improvement**
   ABC aligns costs with activities, helping identify value-adding processes and supporting initiatives for efficiency and customer satisfaction.

Limitations of ABC (Activity Based Costing)

1. Implementing an ABC system requires substantial resources, which is costly to maintain.
2. Activity Based Costing is a complex system which need lot of record for calculations.
3. In small organisation mangers are accustomed to use traditional costing systems to run theirs operations and traditional costing systems are often used in performance evaluations.
4. Activity based costing data can be easily misinterpreted and must be used with care when used in decision making. Managers must identify which costs are really relevant for the decisions at hand.
5. Reports generated by this systems do not conform to generally accepted accounting principles (GAAP). Consequently, an organization involved in activity based costing should have two cost systems - one for internal use and one for preparing external reports.

8)

1. Budgeting as a Tool for Planning

- Budgeting involves preparing detailed plans for future financial activities.
- It helps in setting clear objectives and targets for different departments.
- Provides a framework for allocating resources efficiently.
- Assists in forecasting future income, expenses, and resource requirements.
- Encourages coordination among departments by aligning their activities with overall business goals.
- Helps management in identifying potential problems and taking preventive actions.
- Aids in evaluating alternative strategies before implementation.

2. Budgeting as a Tool for Control

- Budgetary control compares actual performance with the budgeted targets.
- It helps in identifying variances and analyzing their causes.
- Enables timely corrective actions to bring operations back on track.
- Promotes accountability by assigning responsibilities to various managers.
- Acts as a tool to monitor and control costs, reducing wastage and inefficiencies.
- Encourages cost-consciousness and disciplined spending throughout the organization.

3. Integration of Planning and Control through Budgeting

- Budgeting links planning (what is to be done) with control (ensuring it is done).
- Acts like a navigation system – setting the course and monitoring progress.

- Allows management to revise plans based on actual performance and external changes.
- Supports continuous improvement by learning from past performance.
- Ensures that all actions are aligned with the organization's strategic objectives.

9)

Standard Costing: Advantages vs Limitations

Advantages	Limitations
1. Helps in controlling costs by setting cost standards	1. Not suitable for non-standardized or customized jobs
2. Assists in budgeting and performance evaluation	2. Setting accurate standards can be time-consuming
3. Highlights variances for timely corrective actions	3. Frequent changes in production make standards obsolete
4. Simplifies inventory valuation and pricing decisions	4. May create employee resistance due to unrealistic targets
5. Encourages efficiency and cost consciousness	5. Focuses more on cost than on quality or customer value

10)

1. Functional Budgets

- **Sales Budget**: Estimates expected sales in units and value for a specific period.
- **Production Budget**: Plans the quantity of goods to be produced based on sales and inventory levels.
- **Raw Materials Budget**: Estimates the quantity and cost of raw materials needed for production.
- **Purchase Budget**: Projects the amount and cost of materials to be purchased.
- **Labour Budget**: Forecasts the labour hours and cost required for production.
- **Production Overhead Budget**: Estimates all indirect production costs such as power, depreciation, etc.
- **Selling & Distribution Budget**: Plans the cost of marketing, advertising, and distribution of products.
- **Administration Cost Budget**: Estimates general administrative expenses not related to production or sales.
- **Capital Expenditure Budget**: Projects spending on long-term assets like machinery, land, and buildings.
- **Cash Budget**: Forecasts cash inflows and outflows to manage liquidity.

2. Classification Based on Flexibility

- **Fixed Budget**: Remains unchanged regardless of the level of activity or output.
- **Flexible Budget**: Adjusts according to changes in the level of activity or output.

3. Classification Based on Time

- **Long-Term Budget**: Covers a period of more than one year, often strategic in nature.
- **Short-Term Budget**: Usually prepared for a year or less to guide day-to-day operations.
- **Current Budget**: Prepared for the ongoing period, focusing on immediate financial planning.
- **Rolling Budget**: Continuously updated by adding a new budget period as the current one ends.

11)

- **Evaluates Financial Performance**
  Ratio analysis helps in assessing key aspects like profitability, liquidity, and solvency. It gives a clear picture of a company's financial strengths and weaknesses.
- **Aids in Decision Making**
  Ratios provide critical financial data to managers for making sound decisions. It supports planning, budgeting, and operational improvements.
- **Facilitates Comparison**
  Ratios allow comparison of a firm's performance over time or with industry peers. This helps in benchmarking and identifying areas needing improvement.
- **Assists in Financial Planning**
  Analyzing past trends through ratios helps forecast future performance. It aids in resource allocation and setting financial goals.
- **Useful for Stakeholders**
  Investors, creditors, and analysts use ratios to evaluate financial stability. It helps stakeholders assess risk, return, and investment potential.

12)

1. **Data Entry**
   - Input financial data (sales, purchases, receipts, payments) into the software.
2. **Recording Transactions**
   - Classify and record transactions under appropriate accounts (e.g., assets, liabilities).
3. **Journalizing**
   - Enter transactions as journal entries, which are automatically linked to ledger accounts.
4. **Posting to Ledgers**
   - Transactions are transferred to their respective ledger accounts (sales, purchase ledgers).

5. **Trial Balance Generation**
    - The system generates a trial balance to check if debits equal credits.
6. **Financial Statement Preparation**
    - Automatically prepare financial statements like the Income Statement, Balance Sheet, and Cash Flow Statement.
7. **Analysis and Reporting**
    - Use built-in tools for financial analysis and generating customized reports.
8. **Backup and Security**
    - Perform regular backups and implement security features to protect sensitive data.
9. **Auditing and Compliance**
    - Ensure proper auditing trails and compliance with accounting standards and regulations.

13)

Generally Accepted Accounting Principles (GAAP) consist of a set of **concepts and conventions** that guide accountants in preparing financial statements. These concepts and conventions ensure that financial reporting is transparent, consistent, and comparable. Below is an explanation of the **various concepts** and **conventions** under GAAP:

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14)

1. **Improved Accuracy and Transparency**: Automates data exchange, reducing errors and increasing the transparency of financial reports.
2. **Enhanced Comparability**: Standardized tags make it easier to compare financial data across companies and industries.
3. **Real-Time Data Access**: Provides quick and efficient access to up-to-date financial information for stakeholders.
4. **Cost and Time Efficiency**: Streamlines financial reporting processes, saving both time and costs for businesses.
5. **Regulatory Compliance**: Ensures compliance with regulatory standards by maintaining a consistent reporting format.

15)

Ind AS (Indian Accounting Standards)	**IFRS (International Financial Reporting Standards)**
1. **Adopted by India**: Ind AS is based on IFRS but adapted to the Indian context.	1. **Global Standard**: IFRS is a globally recognized accounting framework used by companies worldwide.
2. **Convergence Approach**: Ind AS is largely converged with IFRS, but some differences exist.	2. **Uniform Application**: IFRS applies uniformly across all countries that adopt it.
3. **Regulatory Body**: Ind AS is governed by the Ministry of Corporate Affairs (MCA) in India.	3. **Regulatory Body**: IFRS is overseen by the International Accounting Standards Board (IASB).
4. **Applicability**: Ind AS is applicable to certain classes of companies in India, particularly listed and large companies.	4. **Applicability**: IFRS applies to all public companies listed in countries that have adopted IFRS.
5. **Differences in Standards**: There are some variations in the treatment of certain transactions (e.g., lease accounting, financial instruments).	5. **Global Consistency**: IFRS provides consistent standards across all adopting countries, with fewer local variations.
6. **Tax Considerations**: Ind AS includes specific provisions to align with Indian tax regulations.	6. **Tax Considerations**: IFRS doesn't include specific provisions for tax-related adjustments; it follows the local tax norms of each country.
7. **Implementation Timeline**: Ind AS implementation has been phased, with full adoption for large companies in India since 2016.	7. **Global Implementation**: IFRS has been adopted by over 140 countries, including the EU, Australia, and Canada, over several years.