Chapter 13

Final Accounts

* **Cost of Goods sold = Op. stock + Purchases – Cl. Stock**
* **Gross Profit = Sales – Cost of Goods sold**
* Gross Profit = Sales × G.P.%
* Gross profit can be a percentage on Cost or it may be on Sales
  - **(a) 1/5th of Cost = 1/6th of Sales**
  - **(b) 1/4th of Cost = 1/5th of Sales**
  - **(c) 1/3rd of Cost = 1/4th of Sales**
  - **(d)** $\frac{2}{5}$ **th of cost =** $\frac{2}{7}$ **th of sales**
  - **(e)** $\frac{3}{7}$ **th of cost =** $\frac{3}{10}$ **th of sales**

A) Trading A/c

Dr. Trading A/c Cr.

Particulars	Amt.	Particulars	Amt.
To Opening Stock	XX	By Sales	XX
To Purchases	XX		
To Gross Profit	XX	By Closing Stock	XX
Total	**XXX**	**Total**	**XXX**

Dr. Trading A/c Cr.

Particulars	Amt.	Particulars	Amt.
To Opening Stock	XX	By Cost of goods sold	XX
To Purchases	XX		
		By Closing Stock	XX
Total	**XXX**	**Total**	**XXX**

B)

IF GIVEN IN TRIAL BALANCE	EFFECTS
Income received in advance/ o/s. exp.	B/s. - Liabilities Side
Expense paid in advance / o/s. Income	B/s - Assets side
Closing Stock	B/s – Assets side

(C) SOME IMPORTANT ADJUSTMENTS

	ADJUSTMENTS	1ST EFFECT	2ND EFFECT
1.	Income Receivable	B/s - Asset Side	P&L A/c - Add to Income
2.	Income recd. in advance	P&L A/c - Less from Income	B/s - Liabilities Side
3.	Further Bad Debts	P&L A/c - Add to Bad Debts	B/s - Less from Debtors
4.	New R.D.D.	P&L - Add to Bad Debts	B/s - Less from Debtors
5.	Res. For Dis. on Drs.	P&L - Add to Dis. allowed	B/s - Less from Debtors
6.	Res. For Dis. on Crs.	B/s - Less from Creditors	P&L - Add to Disc. Recd.
7.	B.R. Dishonoured	B/s - Add to Debtors	B/s - Less from B.R.
8.	B.P. dishonoured	B/s - Less from B.P.	B/s - Add to Creditors
9.	Unrecorded Sales	B/s - Add to Debtors	Trading A/c - Add to Sales
10.	Unrecorded Purchases	Trading A/c - Add to Purchases	B/s - Add to Creditors
11.	Int. on Cap./Salary to partner/ Commn. to partner	P&L Appr. A/c - Dr. Side	Capital / Cu. A/c - Cr. Side
12.	Interest on Drawings	Cap./Curr. A/c - Dr. Side	P&L Appr. A/c - Cr. Side
13.	Goods withdrawn for personal use	Cap./Curr. A/c-Dr. Side	Trading A/c - Cr. Side
14.	Goods destroyed by fire ₹5000, Insurance claim admitted ₹3000	B/s-Asset side – Claim ₹3000 P & L Dr. Side – Loss ₹2000	Trading A/c -Cr. Side - 5000
15.	Free Samples distributed	P & L A/c - Dr. side	Trading A/c - Cr. Side
16.	Sale on approval, included in sales.	(i) Less from sales (Sales Value) (ii) Trading. A/c - Add to Cl. Stock - or show as Stock with customer.- at Cost Price	(i) Less from Debtors Sale Value (ii) B/s Add to Cl. Stock.- or show as stock with customer Cost Price.
17.	Sale of Asset included in Sales	(1) Trading A/c- Less from Sales-Sale Value	(2) Less from Asset-WDV. (3) P & L - P or L (SP-WDV)

MULTIPLE CHOICE QUESTIONS

1. The balance of the petty cash is
   (a) an expense (b) income (c) an asset (d) liability

2. Goodwill is
   (a) a current asset (b) an intangible (c) a tangible fixed asset (d) an investment

3. 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

4. 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

5. 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

6. Outstanding wages is an item of
   (a) Current asset (b) Current liability
   (c) Non-current asset (d) Non-current liability

7. Profit and Loss Account of business shows the
   (a) Balance of all accounts (b) Gross profit earned
   (c) Net profit earned (d) Capital employed in business

8. Which of the followings is an accounting equation?
   (a) Capital = Assets + Liabilities (b) Capital = Assets – Liabilities
   (c). Assets = Liabilities – Capital (d) Liabilities = Assets + Capital

9. Purchase of office equipment results in
   (a) Increase in capital (b) Decrease in liabilities
   (c) Increase in assets (d) Decrease in capital

10. Investment by owner results in
   (a) Increase in capital and decrease in liability
   (b) Increase in capital and increase in liability
   (c) Increase in capital and decrease in asset
   (d) Increase in capital and increase in asset

11. Income received but not earned results in
(a) Increase in liability and decrease in capital
(b) Increase in asset and decrease in capital
(c) Increase in asset and decrease in asset
(d) Decrease in asset and increase in liability

12. Which of the following transactions will result in increase in assets and increase in liabilities ?
(a) Payment made to creditors
(b) Goodwill account written off
(c) Issue of bonus shares
(d) Machinery purchased on account

13. Which of the following transactions results in increase of assets and increase in owner's equity ?
(a) Shares issued for cash
(b) A dividend is declared
(c) Purchase of own debentures for cash
(d) Bonus shares issued

14. Collection of an account receivable results in
(a) Increase in total assets
(b) Decrease in total assets
(c) No change in total assets
(d) None

15. Borrowing money from bank, results in
(a) Increase in total assets
(b) Decrease in total assets
(c) No change in total assets
(d) None

16. Which one of the following is correct ?
(a) Opening stock + Closing stock – Purchases = Cost of goods sold
(b) Opening stock + Purchase – Closing stock = Cost of goods sold
(c) Purchases + Closing Stock – Opening stock = Cost of goods sold
(d) Closing stock – Purchases – Opening stock = Cost of goods sold

17. Which of the followings is correct ?
(a) Cl. stock + Purchases – Op. stock + Cost of goods sold = zero
(b) Op. stock – Cl. stock – Purchases + Cost of goods sold = zero
(c) Purchases + Op. stock – Cl. stock – Cost of goods sold = zero
(d) Cost of goods sold – Cl. stock – Purchases – Op. stock = zero

18. Which of the followings is correct?
(a) Cost of goods sold – Opening stock + Purchase = Closing stock
(b) Purchases + Cost of goods sold – Opening stock = Closing stock
(c) Opening stock + Cost of goods sold – Purchases = Closing stock
(d) Opening stock + Purchases – Cost of goods sold = Closing stock

19. Which of the followings is correct ?
(a) Cost of goods sold + Closing stock – Opening stock = Purchase
(b) Cot of goods sold – Closing stock + Opening stock = Purchase
(c) Opening stock + Closing stock – Cost of goods sold = Purchases
(d) Closing stock – Cost of goods sold + Opening stock = purchases

20. Closing stock is appearing in the Trial Balance of John & Co. in preparing its final accounts, it should enter in

(a) Trading account only (b) Balance Sheet only

(c) Trading account as well as Balance Sheet (d) None

21. For the purpose of final accounts, stock is valued according to

(a) Cost or market value whichever is less (b) First-in first-out basis

(c) Last-in first-out basis (d) Base stock method

22. When 'Adjusted Purchases' appear in the Trial balance, it indicates that

(a) Opening stock has been adjusted in the purchases

(b) Closing stock has been adjusted in the purchases

(c) Both opening and closing stocks have been adjusted in the purchases

(d) Expenses relating to purchases like carriage inward, octroi duty etc. have been adjusted in the purchases.

23. Depreciation is appearing in the trial balance of a company. While making final accounts, it should be shown in

(a) The profit and loss account

(b) The balance sheet as a deduction from the asset concerned

(c) The profit and loss account and balance sheet

(d) The profit and loss account or balance sheet.

24. Which of the following accounts would have zero balance after closing entries have been posted ?

(a) Prepaid Insurance (b) Salary and Wages expenses

(c) Delivery truck (d) Interest receivable.

25. An insurance claim of ₹300 was accepted in respect of stock of ₹500, which was destroyed by fire, ₹200 not covered by insurance should be debited to

(a) Stock account (b) Trading account

(c) Profit and Loss Account (d) Bad debts account.

26. Trading and Profit and Loss account shows profit or loss

(a) For a given period (b) As on a particular date

(c) Both of the above. (d) None

27. Adjustment entry for bad debts is

(a) Bad debts A/c Dr.
    To Profit and Loss A/c

(b) Provision for bad and doubtful debts A/c Dr.
    To Bad debts A/c

(c). Bad debts A/c Dr.
    To Debtors A/c

(d) Profit and Loss A/c Dr.
    To Bad debts A/c

28. Adjustments entry for provision for discount on creditors

(a) Profit and Loss A/c Dr.
  To Provision for discount on Creditors A/c

(b) Provision of discount on Creditors A/c Dr.
  To Profit and Loss A/c

(c) Provision for discount on creditors A/c Dr.
  To Creditors A/c

(d) Provision for discount on debtors A/c Dr.
  To Provision of discount on creditors A/c

29. Mr. Pitman, a sole trader has a net profit of ₹5,000. The closing entry for the net profit is

(a) Profit and Loss A/c	Dr	5,000	
To Profit and Loss, Appropriate A/c			5,000
(b) Profit and Loss A/c	Dr.	5,000	
To Pitman's Capital A/c			5,000
(c) Pitman's current A/c	Dr.	5,000	
To Profit and Loss A/c			5,000

30. Prepaid insurance appearing in the Trial Balance is shown

(a) On the credit side of Trading Account (b) On the asset side of Balance Sheet
(c) On the liabilities side of the Balance Sheet (d) On the credit side of Profit & Loss a/c

31. Income tax paid by Mr. X amounts to ₹4,000. The accounting treatment is to be

(a) Ignored altogether (b) Deducted from capital
(c) Debited to the Trading Account (d) Credited to the Profit and Loss Account

32. Outstanding wages appearing in Trial Balance are shown on the

(a) Debit side of Profit & Loss Account (b) Debit side of Trading Account
(c) Liabilities side of the Balance Sheet (d) Assets side of the Balance Sheet

33. 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

34. From the following figures ascertain the gross profit:

	₹
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) ₹36,000 (b) ₹45,000 (c) ₹50,000 (d) ₹59,000

35. Electricity paid on 1 October, 2004 for the year to 30 September, 2005 was ₹2,400 and electricity paid on 1 October, 2005 for the year to 30 September, 2006 was ₹3,200. Electricity payable, as shown in the profit and loss account for the year ended 31 December 2005, would be:

(a) ₹2,400 (b) ₹3,200 (c) ₹2,600 (d) ₹3,000

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

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

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

	June 2006 ₹	July 2006 ₹	August 2006 ₹
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) ₹15,20,000 (b) ₹14,02,500 (c) ₹12,75,000 (d) ₹13,60,000

(ii) Stock purchased in July, 2006 is:

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

38. Assets of a business are ₹21,315 and liabilities ₹4,120. What is the amount of owner's equity?

(a) ₹21,315 (b) ₹17,195 (c) ₹25,435 (d) ₹4,120

39. Net assets of a business on Jan. 1 and Jan. 31 are ₹24,000 and ₹25,500 respectively. If additional investment by owner during Jan. is ₹1,000, what is the amount of net income for Jan.?

(a) ₹1,500 (b) ₹2,500 (c) ₹500 (d) ₹1,000

40. What is the amount of purchase when –

Opening stock = 3,500

Closing stock = 1,500

Cost of goods sold = 22,000

(a) ₹20,000 (b) ₹24,000 (c) ₹27,000 (d) ₹17,000

41. What is the amount of purchases when –

Opening stock= ₹ 10,000

Closing stock = ₹ 8,000

Sales = ₹ 1,10,000

Cost of goods sold= ₹ 80,000

(a) ₹78,000 (b) ₹30,000 (c) ₹82,000 (d) ₹92,000.

42. Cost of goods sold ₹13,300; Gross profit ₹3,200; Net profit ₹700;
What is the amount of sales ?

(a) ₹14,000 (b) ₹10,100 (c) ₹16,500 (d) ₹17,200

43. Sales Return 2,500; Sales ₹12,800; Purchases ₹8,400; Gross Profit ₹2,100
What is the amount of cost of goods sold ?

(a) ₹10,700 (b) ₹10,500 (c) ₹8,200 (d) ₹6,300

44. The General Manager gets ¼ of the profit as commission after charging such commission and also after charging commission of works manager, which is 10% of profits after charging such commission. If profit is ₹2,200, the commission of General manager is

(a) ₹495 (b) ₹384 (c) ₹500 (d) ₹400.

45. If Profits are 25% of selling price, what is the percentage of profit to cost ?

(a) 20% (b) 25% (c) 30% (d) 33 1/3%

46.

Given	Jan. 1	Dec. 31
Assets	—	₹45,000
Liabilities	₹10,000	—
Capital	₹27,000	—

Withdrawals by owner ₹5,000 during the year

Net income for the year ₹4,200

What is the amount of assets on January 1?

(a) ₹45,000 (b) ₹37,000 (c) ₹45,800 (d) ₹42,000

47.

Given	Jan. 1, 98	Dec. 31, 98
Assets	₹37,000	₹38,000
Liabilities	₹25,000	₹24,000

Investment by ₹3,200 owner during the year

Net loss for the year ₹1,000

Required – What is the amount of capital on Jan. 1

(a) ₹37,000 (b) ₹12,200 (c) ₹12,000 (d) ₹14,200

48. Liabilities of a business are ₹11,220 and owners equity is ₹15,000. The assets of the business will be

(a) ₹11,220 (b) ₹3,870 (c) ₹15,000 (d) None of these

49. What is the amount of operating expenses when

Sales – ₹14,900

Gross Profit – ₹3,300

Net Loss – ₹500

(a) ₹2,800 (b) ₹3,800 (c) ₹11,100 (d) ₹11,600

50. The following are the figures relating to a trader

Opening Stock 10,000/-

Closing Stock 11,000/-

Purchase 70,000/-

The goods are sold at a profit of 30% on cost. The amount of sales will be

(a) 1,04,000/- (b) 91,000/- (c) 89,700/- (d) 21,000/-

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

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

MANUFACTURING FINAL ACCOUNTS

Manufacturing Account is prepared by a manufacturer to find the manufacturing costs of finished goods. The cost of production is then transferred to Trading Account. Manufacturing A/c shows the total cost of manufacturing . This account is debited with the cost of materials, manufacturing wages and expenses incurred directly for the purpose of manufacture.

Dr. **Manufacturing Account** **Cr.**

Particulars	Amt	Particulars	Amt
To Raw material Consumed (Op. Stock + Purchases – Cl.stock)	xx	By Sale of scrap	xx
To Direct Wages	xx	By Cl. Work–in–Process	xx
To Direct expenses :	xx	**By Cost of Production**	xx
To Factory overheads :	xx		
To Royalty on production	xx		
To Hire Charges	xx		
To Indirect factory expenses	xx		
To Repairs & Maintenance of factory Assets	xx		
To Depreciation on factory Assets	xx		
To Opening Work–in–Process	xx		
TOTAL	**xx**	**TOTAL**	**xx**

*

	Direct Material	XX
+	Direct Wages	XX
+	Direct Expenses	XX
	Prime Cost	XX
+	Factory Expenses	XX
	Gross Factory Cost	XX
+	Opening Stock of W/P	XX
-	Closing Stock of W/P	(XX)
	Net Cost of Production	XX

MULTIPLE CHOICE QUESTIONS

1. 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)

2. Under statement of closing stock 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

3. A manufacturing account is intended to disclose the __________
   (a) factory cost of production (b) gross profit
   (c) net profit (d) operating factory

4. Opening stock + Purchases of raw material – Closing stock of raw material = ?
   (a) cost of goods sold (b) cost of materials consumed
   (c) cost of sales (d) prime cost

5. Direct materials + Direct wages + Direct expenses = ?
   (a) prime cost (b) factory cost (c) cost of production (d) cost of sales

6. Cost incurred within the four walls of factory proper are termed as __________
   (a) direct expenses (b) factory overheads (c) cost of sales (d) prime cost

7. The total of prime cost and factory overheads is also termed as _____________
   (a) gross works cost of manufacture (b) net works cost of production
   (c) cost of sales (d) gross profit

8. Net works cost of production = Gross works cost of production + Work-in-progress in the beginning - ?
   (a) cost of goods manufactured (b) work-in-progress at the end
   (c) finished goods of stock (d) finished goods closing stock

9. If the goods are transferred from manufacturing account to trading account at cost, then the manufacturing account reveals ____________
   (a) cost of goods manufactured (b) cost of goods sold
   (c) gross profit (d) net profit

10. Out of the overheads given below, the following is an example of selling overheads –
    (a) Advertisement expenses (b) Van expenses (c) Plant repairs (d) None

11. Out of the overheads given below, the following is an example of distribution overheads –

(a) Advertisement expenses (b) Packing expenses

(c) Commission of selling agents (d) None

12. 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 sales from the goods produced during the year.

(d) both (b) and (c)

13. In books of manufacturing concern, Opening Stock consists of :

(a) Raw Materials (b) Work in Progress (c) Finished goods (d) All of the above

14. It is given that the opening and closing of finished goods are ₹10,000 and ₹15,000, respectively. The goods received from the manufacturing department are valued at ₹80,000. Presuming that no finished goods are purchased in the open market, the cost of goods sold will be equal to –

(a) ₹75,000 (b) ₹85,000 (c) ₹55,000 (d) None

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

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

16. From the following figures ascertain the gross profit:

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

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

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

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

	1st January (₹)	31st December (₹)
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 ₹61,100, manufacturing wages to ₹40,400 and purchase of raw materials to ₹91,900. There were no other direct expenses.

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

(a) ₹1,09,300 (b) ₹91,200

(c) ₹91,900 (d) ₹92,600

(ii) The manufacturing cost of finished goods produced were

(a) ₹1,31,600 (b) ₹1,93,300

(c) ₹1,91,900 (d) ₹1,92, 500

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

(a) ₹1,91,700 (b) ₹1,92,500

(c) ₹1,94,000 (d) ₹1,93,300

19. A firm purchased goods of ₹90,000 and spent ₹6,000 on freight towards At the end of the year the cost of goods still unsold was ₹12,000. Sales during the year ₹1,20,000. What is the gross profit earned by the firm ?

(a) ₹36,000 (b) ₹,000 (c) ₹42,000 (d) ₹38,000

20. The balance in books of X, a sole proprietor were :

Opening Stock ₹17,000, Purchase ₹52,000, Wages ₹46,500 Fuel ₹15,000. Sales ₹1,45,000 and Closing Stock ₹25,000 whose Net Realizable value was ₹28,000. Find the Gross Profit :

(a) ₹39,500 (b) ₹42,500 (c) ₹54,500 (d) ₹57,000

21. Consider the following data pertaining to a company for the month of March 2005:

Particulars	₹
Opening stock	22,000
Closing stock	25,000
Purchases less returns	1,10,000
Gross profit margin (on sales)	20%

The sales of the company during the month are

(a) ₹1,41,250 (b) ₹1,35,600 (c) ₹1,33,750 (d) ₹1,28,400

22.

Opening Debtors	₹10,200
Cash Received from debtors during the year (as per cash book)	₹30,400
Returns Inwards	₹2,700
Bad debts	₹1,200
Debtors at end	₹13,800
Cash Sales (As per cash book)	₹28,400

Total Sales will be

(a) ₹66,300 (b) ₹66,000 (c) ₹65,000 (d) ₹66,500

23. __________Reserve is not shown in Balance Sheet.

(a) General (b) Capital (c) Secret (d) None of the three

24.

Opening debtors	20,000
Total sales	90,000
Cash sales	20,000
Cash received from debtors	20,000
Bad debts	3,000
Return inward	1,000
Bills received from customers	10,000

Debtors at end will be

(a) ₹56,000 (b) ₹70,000 (c) ₹60,000 (d) ₹65,000