ACCOUNTANCY

Chapter 9: Financial Statements – I

Important Questions

Multiple Choice Questions-

Q1. The object of non – trading concerns-

(a) Social service

(b) Profit earning

(c) Both of these

(d) None of the above

Q2. Closing stock is generally valued at …………?

(a) Cost Price

(b) Market Price

(c) Cost price or Market price whichever is higher

(d) Cost price or Market price whichever is lower

Q3. Depreciation is necessary to calculate:

(a) Net profitcorrect

(b) Net financial position

(c) Tax

(d) None of them

Q4. Which of the following is correct:

(a) Operating profit = Operating profit – Non-operating expenses – Non-operating incomes

(b) Operating profit = Net profit + Non-operating expenses + Non-operating incomes

(c) Operating profit = Net profit + Non-operating expenses – Non-operating incomes

(d) Operating profit = Net profit – Non-operating expenses + Non-operating incomes

Q5. Trading Account discloses-

(a) Gross profit

(b) Net profit

(c) Net loss

(d) Gross profit or Gross loss

Q6. Direct Expenses are entered in:

(a) Trading Account

(b) profit & Loss Account

(c) Balance sheet

(d) None of these

Q7. Profit and loss Account discloses:

(a) Gross profit

(b) Gross profit or Gross loss

(c) Gross profit or Gross loss

(d) None of these

Q8. Goodwill is a-

(a) Fixed Asset

(b) Current Asset

(c) Fictitious Asset

(d) None of these

Q9. Drawing is deducted from:

(a) Sales

(b) Purchase

(c) Returns outward

(d) Capital

Q10. Every adjusting entry affects?

(a) Income statement account only

(b) Balance sheet account only

(c) Both A & B

(d) None

Very Short-

1. Define financial statement?

2 Which are the statement that is included in the financial statement?

3. What is a trading account?

4. What do you mean by gross profit?

5 State the formula to calculate operating profit from net profit.

6. State the formula to calculate the cost of goods sold.

7. Define Net profit?

Short Questions-

1. Define Balance Sheet?

2. Give two characteristics of the balance sheet.

3. What is primary objective of financial statements?

4. What is the operating profit?

5. What is meant by marshalling of assets and liabilities?

6. What do we come to know by preparing a trading account?

7. Calculate gross profit when total purchases during the year are Rs. 8,00,000; returns outward Rs. 20,000; direct expenses Rs. 60,000 and 2/3rd of the goods are sold for Rs. 6,10,000.

Long Questions-

1. Calculate Closing Stock from the following details:

	Rs.		Rs.
Opening Stock	20,000	Purchases	70,000
Cash Sales	60,000	Credit sales	40,000

Rate of Gross Profit on cost $33\frac{1}{3}\%$.

2. From the following information, prepare trading account for the year ended 31st March, 2013 Cash purchases Rs. 4,50,000; credit purchases Rs. 27,00,000; returns inward Rs. 60,000; cash sales Rs. 4,80,000; credit sales Rs. 33,00,000; returns outward Rs. 30,000; freight inwards Rs. 9,000; carriage inwards Rs. 9,000; wages and salaries Rs. 12,000; opening stock Rs. 4,50,000; closing stock Rs. 2,64,000 but its market value is Rs.2,52,000.

3. From the following information, prepare the trading account for the year ended 31st March, 2013

	Amt (Rs.)		Amt (Rs.)
Opening Stock	3,00,000	Wages	6,000
Purchases	8,40,000	Freight	10,800
Closing stock	2,40,000	Carriage inwards	3,000

Answer key

MCQ Answers-

1. Answer: (a) Social service
2. Answer: (d) Cost price or Market price whichever is lower.
3. Answer: (a) Net profitcorrect.

4. Answer: (c) Operating profit = Net profit + Non-operating expenses – Non-operating incomes.
5. Answer: (d) Gross profit or Gross loss
6. Answer: (a) Trading Account
7. Answer: (b) Gross profit or Gross loss.
8. Answer: (a) Fixed Asset
9. Answer: (b) Purchase
10. (c) Both A & B

Very Short Answers-

1. Financial statement is a statement which presents financial profit data and financial status of a company.
2. Ans. The two statements that are included in the financial statements are:
   - Balance Sheet
   - Income Statement (Trading and Profit and Loss A/c)
3. A trading account is a financial statement that shows the result of the purchase and selling of goods and services of an accounting year.
4. Ans. Gross profit is the surplus of a selling price of a product over the cost of goods sold.
5. Ans. Operating Profit = Net Profit – Non-Operating Income + Non-Operating Expenses.
6. Ans. Cost of goods sold = Sales – Gross Profit

   Or

   Cost of goods sold (COGS) = Opening Stock + Purchases + Direct Expenses – Closing Stock
7. Ans. Net profit refers to the surplus of all the revenues overall expenses and losses of a company.

Short Answers-

1. A Balance Sheet is a statement which shows the liabilities, assets and shareholder's equity of the enterprise. This statement comprises of 2 major groups in which it is categorized, namely, assets, which is classified into Non – Current Assets and Current assets. Current Assets are such assets which are easily transformed into cash. On the other hand, the Non – Current Assets are such types of assets with the assistance of which the enterprise operates the enterprise.

2. The two characteristics of the balance sheet are.

- Determine the financial position of the enterprise on a specific date
- The total of two sides of the balance sheet i.e. assets and liabilities should tally with each

other, if not so it indicates any possible errors in accounting.

3. Ans. The primary objective of financial statements is to analyze the financial position of the business by comparing them and drawing out the suitable measures to overcome the shortcomings.

4. Operating profit means the excess of operating revenue over operating expenses. It is obtained by subtracting operating expenses and adding operating incomes to the Gross profit.

5. Ans. Marshalling is the arrangement of assets and liabilities in particular order in the balance sheet in order to make the balance sheet more scientific and comprehensive for study by the users.

- Marshalling as per Order of liquidity
- Marshalling as per Order of permanence

6. By preparing the trading account, we come to know the 'gross profit' earned or 'gross loss' sustained by the firm during the manufacturing or production process.

7. Cost of Goods Sold = Total Purchases – Returns Outward + Direct Expenses = 8,40,000.

- goods sold (2/3)for Rs. 6,10,000.
- Cost of 2/3rd goods = 8,40,000 × 2/3 = Rs. 5,60,000.
- Gross profit = Goods Sold – Cost of Goods Sold = 6,10,000 – 5,60,000 = Rs. 50,000.

Long Answers-

1. Answer

Total Sales = Cash Sales + Credit Sales

= Rs.[60,000 + 40,000] = Rs.1,00,000

Let cost of sales = x

Gross Profit = 33/1/3% of x=x×1/3=x/3

So, Sales = Cost + Gross Profit

x + (x/3) = 1,00,000

4(x/3) = 1,00,000

x = 1,00,000 ×(3/4)cost of goods sold = Rs.75,000

Now Cost of goods sold = Opening Stock + Purchase – Closing Stock

So, [20,000 + 70,000 – Closing Stock] = Rs.75,000

Closing Stock = (20,000 + 70,000) – 75,000 = Rs. 15,000

Goods remaining unsold at the end of the year is called closing stock.

2. Answers

Trading Account

for the year ended 31st March, 2013

Dr					Cr
Particulars		Amt (₹)	Particulars		Amt (₹)
To Opening Stock		4,50,000	By Sales		
To Purchases:			Cash Sales	4,80,000	
Cash Purchases	4,50,000		Credit Sales	33,00,000	
Add :Credit Purchases	27,00,000			37,80,000	
	31,50,000		Less : Returns Inward	(60,000)	37,20,000
Less :Returns Outward	(30,0000	31,20,000	By Closing Stock(note 1)		2,52,000
To Freight Inwards		9,000			
To Carriage Inwards		9,000			
To Wages and Salaries		12,000			
To Gross Profit Transferred to Profit and Loss A/c		3,72,000			
		39,72,000			39,72,000

i. Closing Stock will be shown in the books at market price or book value price, whichever is less.

3. Answer: Working Notes :i. Calculation of Cost of goods sold:

	₹
Opening Stock	3,00,000

Add: Purchases	8,40,000
Wages	6,000
Freight	10,800
Carriage Inwards	3,000
	11,59,800
Less: Closing Stock	2,40,000
Cost of Sales or Cost of Goods sold	9,19,800

ii. Calculation of Sales :

Let us assume that sales = ₹100,

then, gross profit would be = ₹20 (20% of sales)

Therefore, cost of sales would be = Sales – Gross Profit = 100 – 20 = ₹80.

When cost of sales is ₹80, then sales would be = ₹100.

When cost of sales is ₹1, then sales would be =100/80.

When cost of sales is ₹9,19,800, then sales would be $= \frac{100}{80} \times 9{,}19{,}800 =$ ₹$11{,}49{,}750$.

Trading Account

for the year ended 31st March, 2013

Dr.			Cr
Particulars	Amt (₹)	Particulars	Amt (₹)
To Opening Stock	3,00,000	By Sales	11,49,750
To Purchases	8,40,000	By Closing Stock	2,40,000
To Wages	6,000		
To Freight	10,800		
To Carriage Inwards	3,000		

To Gross Profit c/d	2,29,950		
	13,89,750		13,89,750