

## Theoretical Questions

1. What consists of current assets?
2. How does stock-in-trade differ from other assets?
3. Explain different methods of issue of material.
4. Explain FIFO method of inventory valuation
5. Examine the impact of different methods of inventory valuation on the gross profit.
6. Examine the impact of different methods of inventory valuation on the value of the closing stock.
7. What are bad debts?
8. Examine the impact of bad debts on the financial statements.
9. What is provision for bad and doubtful debts?
10. Examine the impact of provision for bad and doubtful debts on the financial statements.
11. Which method of inventory valuation approximates the physical flow of products in most business?
12. Valuation of cost of goods sold depends on the methods of inventory valuation. Explain.
13. What is writing back of provisions for bad and doubtful debts?

## Numericals

1. Following table shows inventory related information of ABC Ltd.

Inventory Card			
Date	Transaction	Quantity	Rate per Unit
1st April	Opening Stock	1000	2
2nd April	Purchase	5000	2.5
4th April	Purchase	2000	2.75
12th April	Sales	3000	
20th April	Purchase	3500	4
30th April	Sales	5000	
Goods are sold at Rs.5 per unit			

Required:

1. Find Profit and value of closing inventory under different methods of inventory valuation
2. Opening stock as on 1.04.04: 10000 units @ 5. Credit purchases during the period: 50000 @ 8. Cash sales: 80% of the available stock @ 20 per unit. Show the financial statements.
3. On 1<sup>st</sup> April Altd started business with capital of 50000. Purchased plant on credit: 100,000 ( life 5 years). purchased 1000 shares of XY @ 25. Used the balance money for acquiring stock of revenue goods @ 5 per unit. Other transactions during the month are as follows:
  - a. 10<sup>th</sup> April: purchased 1000 units @ 6 on credit
  - b. 15<sup>th</sup> April: purchased 2000 units @ 6.50 on credit
  - c. 20<sup>th</sup> April: Sold 50% of the stock available @ 10 per unit for cash.

The new accountant, in the enthusiasm of pleasing the top management, increased the gross margin (Sales –COGS) by 25% from 20000 to 25000 by changing the method of issuing of inventory. Explain how did she increased the profits. Show the COGS and value of closing stock under the old method and the method used by the new accountant. Show the necessary financial statements
4. A ltd started business with 50,000 and availed 10% loan of Rs. 100,000; Used the 40% of the funds for acquiring plant and 30% of the funds for acquiring 12% Bonds of XY ltd. Show the accounting equation.

5. A ltd started business with 50,000 and availed 10% loan of Rs. 100,000; Used the 40% of the funds for acquiring plant and 30% of the funds for acquiring 12% Bonds of XY ltd. and the balance Show the accounting equation.
6. A ltd. purchased 1000 units of raw material @ Rs.100 per unit. It can avail 10% trade discount. 5% sales tax is chargeable on the net price. The excise duty is Rs. 12 per unit against which MDOVAT can be claimed. Other expenses: transportation: Rs.2000.  
Required: value of stock
7. Opening stock = 50,000; Cost of Goods Sold = 215,000. Closing stock = 35,000. Find Purchases.
8. Opening stock = 50,000; Purchases during the period twice of the opening stock. Closing stock = 35,000. Find Cost of Good Sold.
9. Opening stock = 5000 units @ 5; Purchases during the period = 10,000 units @ 6; Units sold = 11,000 @ 10. Find Profit, if the company follows LIFO.
10. Opening stock = 5000 units @ 5; Purchases during the period = 10,000 units @ 6; Units sold = 11,000 @ 10. Find closing stock, if the company follows LIFO
11. Opening stock = 5000 units @ 5; Purchases during the period = 10,000 units @ 6; Units sold = 11,000 @ 10. Find Profit, if the company follows FIFO
12. Opening stock = 5000 units @ 5; Purchases during the period = 10,000 units @ 6; Units sold = 11,000 @ 10. Find closing stock, if the company follows FIFO
13. Opening stock = 5000 units @ 5; Production during the period = 10,000 units @ 6; Fixed Cost = 50,000, Selling Price per unit = Rs.10. Find Breakeven point , if the company follows FIFO.
14. Altd had opening provisions for bad and doubtful debts of 12000 as on 1<sup>st</sup> April 2005. Opening debtors = 45,000. Credit sales during 2005-06 were 50,000. Company collected 50% of the opening debtors and one of the debtors who owes 10,000 became bad and the debt was written off. Company intends to maintain a provision of 5% on the current credit sales. Prepare the statement showing the provisions.
15. Following is the balance sheet of XYZ ltd.

Balance Sheet as on 1st April 2005			
Capital	30000	Stock	20000
Profit	25000	Cash	9500
12% Loan	50000	Debtors	60000
		Less Provisions for Bad and Doubtful Debts	-10000
Creditors	15000	Fixed Assets	40500
	120000		120000

Following were the transactions during the year 2005-06:

- Purchased stock on credit: 25000
- Collection from debtors: 30000
- Sold entire stock for 100,000. 60% of sales on credit
- Expenses for the period due not paid: 10000
- Provisions to be maintained at the end of the year 10% on the debtors

Required:

- Financial Statements

16. Opening debtors = 50,000; Opening Provisions for bad and doubtful debts = 5000; Collection = 30,000; Provisions = 10% on closing debtors. Cash sales = 50,000; COGS = 20,000; Expenses = 2000. Find net profit.

17. ABC Ltd. godown destroyed by fire during the month of March 2006. Following data was provided by the store keeper. Sales price includes a profit of 25% on cost price.

Inventory information		
	Quantity	Value
Opening Stock	5,000	100,000
Purchases	10,000	150,000
Sales		200,000

Find the following:

- i. Estimate the value of good lost in fire.
- ii. Comment on the method of inventory valuation adopted by the company.
- iii. Change the method of valuation and examine the impact on the value of the goods lost, COGS, gross profit.

18. Opening stock of Altd was 10,560. During the year its sales was Rs. 20,000 at a profit of 25% on cost. Closing stock was Rs. 8,600. Find cost of goods sold and value of the stock purchased during the year.

19. During 2006, Altd. had sales of Rs. 1 lakh and purchases of Rs. 50,000. Opening stock was Rs. 20,000. Sales include a profit of 20% on cost. Find cost of goods sold and closing inventory.

Accounting Real Life

1. Fixed assets of ABB ltd as on 31<sup>st</sup> December 2006 was Rs. 316.98 crores. 63% of the total funds were the current liabilities and the company had 1.55 crores as long term loans. Current Liabilities of the companies were 2025 crores.

Required

2. Current Assets
3. Working capital
4. Balance sheet of ABB ltd. as on 31<sup>st</sup> December 2006

2. Following are some of the some relevant financial items of Hero Honda as on 31<sup>st</sup> March 2006. Total sources (owners and outsiders) as on that date was Rs. 3878 crores.

- Fixed assets = 24% of the total assets
- Investments = 53% of the total assets

Required:

5. Current Assets
6. Working capital
7. Balance sheet of ABB ltd. as on 31<sup>st</sup> December 2006

3. Following table shows income statement related information of ACC

Income Statement Related Information (Rs. In Crores)	
for the year ending 31st December 2005	
Net Operating Income	5731.75
Cost of Sales	4059.27
PBDIT	1672.48
Selling Expenses	1148.03
Manufacturing Expenses	693.43
Administrative Expenses	356.99
Personnel Expenses	318.02

Required:

- Cost of material consumed
- Income statement

4. Following table shows income statement related information of Bajaj Auto ltd.

Income Statement Related Information (Rs. In Crores)	
for the year ending 31st March 2006	
Capitalised Expenses	-24.81
Manufacturing Expenses	138.59
Administrative Expenses	240.02
Selling Expenses	258.92
Personel Expenses	282.45
Reported PBDIT	1279.84
Cost of Sales	6292.78
Net Operating Income	7572.62

Required:

- Cost of material consumed
- Income statement

5. Refer to the Table 12.2.
- Fixed assets of HCL Technologies as on 31<sup>st</sup> 2006 accounted for 12% of the total assets. Balance sheet shows fixed assets as 418.56 crores. Find current assets and investments.
  - Total assets of Tata Motors as on 31<sup>st</sup> 2006 was around Rs. 16000 crores. Find current assets.
  - Investments of Bajaj Auto as on 31<sup>st</sup> 2006 was Rs. 5800 crores accounting for 73% of the total assets. Find current assets and fixed assets.
6. Following table shows inventory related information of Tata Steel

Tata Steel (Rs. in crores)		
	2002-03	2001-2002
Opening Stock on 1st April	?	179.26
Add		
Cost of raw material produced	325.06	276.06
Purchases	1013.26	?
Taken over on Amalgamation of Tata SSL	2.78	-
Less		
Closing Stock	262.3	21.29
<b>Raw Material Consumed</b>	<b>1290.95</b>	<b>1407.15</b>
Sale of Products	9223.25	7123.12

Source: Annual Report of Tata Steel

Required:

- Find the missing items
  - Comment on the gross profit and stock management
7. Refer to the web-site of HLL ([www.hll.com](http://www.hll.com)) and answer the following questions:
- Which method of inventory valuation is HLL using?
  - What portion of the total assets is in the form of current assets?
  - What portion of the current assets is in the form of debtors?
  - Comments on the debtors and provisions.
8. Refer to the web-site of Tata Steel ([www.tatasteel.com](http://www.tatasteel.com)) and answer the following questions:
- Did inventories change during the last two years?
  - Comment on the size of inventories in comparison to the other assets.
  - Did the change in debtors equal to the change in stock?
  - Compare with debtors with creditors.