

### Theoretical Questions

1. What is income?
2. How is income different from profit?
3. When is income recognized in the income statement?
4. What are expenses?
5. What is an income statement?
6. Explain some of the important items of an income statement.
7. Distinguish between expense and asset?
8. All payments are not expenses. Explain.
9. All receipts are not incomes. Explain
10. Examine the impact on expenses due but not paid on the financial statements.
11. What is depreciation?
12. Answer the following questions:
  - i. Why aren't purchase of equipment shown in the income statement?
  - ii. Why is credit sales shown in the income statement?
  - iii. Why is dividend not shown in the income statement?
  - iv. What is premium on issue of shares not shown in the income statement?
  - v. Why is depreciation on furniture an expense?
  - vi. Why is interest due but not paid shown as an expense?
13. Explain the impact of depreciation on the financial statements.
14. What are the different methods of charging depreciation?
15. Examine the impact of provision for bad and doubtful debts on the income statements.
16. Explain the process of determining EPS.
17. What is relevance of diluted EPS?
18. What is weighted average number of share?
19. What is appropriation of profit?
20. What is the composition of borrowing cost?
21. Examine the impact of borrowing cost on the financial statement.
22. What is the difference between revenue and profit?
23. Explain the relationship between income statement and accounting equation.

### Numerical Questions

1. Classification: Classify the following items into Revenues, Cost of Goods Sold, Selling Overheads, Non-operating incomes, Administration Expenses, Not an Income Statement Item:
  - Credit sales, Discount received, Interest paid, insurance, Consultant's Salary, Interest received, Bad Debt, Bad Debt Recovered, Capital Raised, Money borrowed from bank, Sales Tax, Income Tax, Furniture purchased. Depreciation on furniture, Loss due to the fire, Winnings from lottery tickets, Purchase of land, Expense on the MD's Son studies, Cash received from customers.

2. Sales, 100,000; COGS = 40% of sales; operating expenses = 20%; interest = 5% of sales; depreciation = 2000; Profit = 20% of sales. Balance is the provision for bad debts. Required: Income Statement
3. XYZ started business with capital of 50,000; Other transactions are follows:
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  - took 12% loan of Rs. 100,000; Pur
4. A ltd makes both cash and credit sales. Prepare the income statement from the following information:
  - i. Credit sales for November: 230000
  - ii. Cash received in November;
    - a. From October's credit sales: 90000
    - b. From November's credit sales: 45000
    - c. From November's cash sales: 76000
  - iii. Gross profit: 32% of Sales
  - iv. Net Profit: 16% of Sales
5. Comment on the profitability of the following companies

Profit Position			
	A	B	C
PBIT	50,000	50,000	-25000
PBT	5000	45,000	
PAT	3000	30,000	
Dividend	2700	0	5,000

6. Following are financial items of D ltd.
  - i. Cash: 15000, Accounts Receivables: 42000, Inventory: 33000, Accounts Payables: 24000, Capital: 45000, Retained Earning: 21000
  - ii. Following are the transactions during the year:
    - Borrowed 30000 on a long term basis
    - Interest expense for the year: 3000. However, not paid.
    - Inventory purchased: 400000 on credit
    - Sales: 500000. 40% for cash.
    - Cost of goods sold: 75%
    - Paid to suppliers: 20%
    - Paid wages: 120000
7. Following are the transactions of transactions of XYZ ltd.

Transactions for the year	
Started business with capital	100,000
Purchased plant on credit	50,000
Purchased stock for cash	50,000
Sold 60% stock for	50,000
Depreciation	10%

Required: Income Statement, Balance Sheet, Cash Flow Statement

8. Following are the transactions of transactions of XYZ ltd.

Transactions for the year	
Started business with capital	100,000
Took 12% loan on 1st July	200,000
Purchased plant on credit	50,000
Purchased stock for cash	50,000
Purchased stock on credit from X	100,000
Sold 50% stock for	200,000
Salary per month	3,000
Salaries paid	24,000
Depreciation per annum	10%

Required: Income Statement, Balance Sheet, Cash Flow Statement

9. Refer to question 7. Prepare the financial statement for the first quarter (Q1) , and the second quarter (Q2),

10. Following are the transactions of transactions of XYZ ltd.

Transactions for the year ending 2005	
Started business with capital	100,000
Took 12% loan on 1st July	200,000
Purchased plant on credit	50,000
Purchased stock for cash	50,000
Purchased stock on credit from X	100,000
Sold 50% stock on credit	200,000
Rent per month	2,000
Rent paid	24,000
Depreciation	10%
Create a provision for doubtful debts	5%

Required: Income Statement, Balance Sheet, Cash Flow Statement for the year.

11. Refer to the question no. 9. Following are the transactions during 2006

- Sold balance stock 175,000 on credit
- Received 50% of the opening balance of debtors
- Mr. X, one of the debtors, who owes Rs. 5000 becomes insolvent. He could pay only 40% of the money due. Balance money was treated as bad debt.
- Company decides to maintain provision for doubtful debt = 5% on the closing debtors.

Required: Income Statement, Balance Sheet, Cash Flow Statement for the year.

12. Following is the Wipro Limited for two years:

<b>WIPRO LIMITED</b>		
<b>Profit and Loss Account for the year ending Mar 31</b>		
<b>(All figures in rupees million)</b>		
	<b>2001</b>	<b>2000</b>
<b>Income</b>		
Sales and Services	30539	22735
Other Income	692	257
	<b>31231</b>	<b>22992</b>
<b>Expenditure</b>		
Cost of goods sold	18103	15203
Selling, general and administrative expenses interest	5404	3995
Interest	68	286
	<b>23575</b>	<b>19484</b>
<b>Profit before taxation and non Recurring / extraordinary items</b>	<b>7656</b>	<b>3508</b>
Provision for taxation	992	501
<b>Profit after tax before non-recurring/ Extraordinary items</b>	<b>6664</b>	<b>3007</b>
Non recurring / extraordinary items	16	-523
<b>Profit for the period</b>	<b>6648</b>	<b>2484</b>
<b>Appropriations</b>		
Interim Dividend on Preference Shares	18	26
Interim Dividend on Equity Shares		69
Proposed Dividend on Equity Shares	116	
Corporate tax on dividend	13	10
Transfer to Capital Redemption Reserve	250	
Transfer to general reserve	<b>6251</b>	<b>2379</b>

Required:

- Study the change in the income statements over the two years and explain how profit for the period has increased by 168% .
- Visit the web site of Wipro Limited and collect the latest two years income statement and compare with the above income statement.