Registration No

***Q1.* Multiple Choice Questions** *(Marks 10)*

1. The inventories are recorded at the latest price but the production cost is changed old cost price?

(a) FIFO **(b)** Average **(c)** Both A & B **(d)** None

2. Ascertain purchases from the following figures

Cost of Goods Sold	Rs 80,700
Opening Stock	5,800
Closing Stock	6,000

(a) Rs. 80,540 **(b)** Rs. 80,539 **(c)** Rs. 80,912 **(d) Rs. 80,900**

3. In a rising market which is the best option for income statement preparation in perpetual inventory system?

(a) LIFO **(b) FIFO** **(c)** W. Avg **(d)** (a) or (c)

4. What is the effect on net income if a company fails to record a purchase in transit (FOB shipping point) and also fails to include the purchase in physical inventory?

(a) Income is overstated **(b)** Income is understated

(c) Income is correct **(d)** Not enough information is provided to determine the answer

5. Which inventory costing method usually is most applicable when inventory consists of a small quantity of goods which are relatively large in size or cost and are individually identifiable?

(a) Simple average **(b) Specific cost identification**

(c) Moving average **(d)** Weighted average

6. Amount of profit on revenue after deducting the direct cost of making the goods or supplying the services is called

(a) Gross profit **(b)** Cost of sales **(c)** Expenses **(d)** Net profit

7. Which of the following would not be considered a component of 'cost' of Goods Sold?

(a) Sales force Salaries **(b)** Transportation for purchase

(c) Import duties or raw material **(d)** Factory electricity expense

8. Selling expenses are shown in?

(a) Cost of Goods sold **(b) Profit and loss account**

(c) Manufacturing account **(d)** Profit and loss appropriation account

9. Cost of Goods Manufactured can be calculated as follow?

(a) Total factory Cost Add Opening Work in process inventory Less Closing Work in process inventory

(b) Total factory Cost Less Opening Work in process inventory Add Closing Work in process inventory

(c) Total factory Cost Less Opening Work in process inventory Less Closing Work in process inventory

(d) Total factory Cost Add Opening Work in process inventory Add Closing Work in process inventory

10. Variable cost per unit?

(a) Varies when output varies **(b) Remains constant**

(c) Increases when output increases **(d)** Decrease when output decreases

Q2. Following are data Extracted from Hina Khan Pvt. Ltd. at the end of December 31st, 2008. *(Marks 10)*

Sales …………………………	Rs. 14,000,500	Sales Return …………………………..	Rs. 25,200
Purchases (Net) ………………	2,400,000	Transportation inward ………………...	32,000
Direct Labor ………………..	3,204,000	FOH (Total)……………………………	1,885,600
Sales Salaries ………………..	200,000	Advertising Expense …………………..	155,000
Delivery Expense ……………	65,000		

During the year 25,000 units were completed.

Inventories	***December, 2008***	***January, 2008***
Finished Goods ………………………………	Rs. 467,400 ………………………………	Rs. 620,000
Work in Process ……………………………...	136,800 ……………………………….	129,800
Materials ……………………………………..	196,000 ……………………………….	176,000

Requirements:

(1) Total Factory Cost **(2)** Cost of Goods Manufactured **(3)** Cost of Goods Sold

(4) Gross Profit and Net Profit **(5)** Per Unit Cost of Goods Manufactured

Hina Khan Pvt. Ltd

Cost of Goods Sold Statement

For the Ended December, 2008

Opening Inventory	176,000
Net Purchases	2,400,000
Transportation inward	32,000
Material Available for use	2,608,000
Closing Inventory	(196,000)
Direct Material used	2,412,000
Direct Labor	3,204,000
Prime Cost	5,616,000
Factory Overhead Cost	1,885,600
Total Factory Cost	**7,501,600**
Opening Work in Process	129,800
Cost of Goods to be Manufactured	7,631,400
Closing Work in Process	(136,800)
Cost of Goods Manufactured	**7,494,600**
Opening Finished Goods	620,000
Cost of Goods to be Sold	8,114,600
Closing Finished Goods	(467,400)
Cost of Goods Sold	**Rs. 7,647,200**

Gross Profit = Net Sales - CGS (14,000,500 - 25,200) - 7,647,200 = **Rs. 6,328,100**

Net Profit = Gross Profit - Indirect Expenses 6,328,100 - (200,000 + 65,000+155,000) = **Rs. 5,908,100**

Per unit Cost of goods manufactured = 7,494,600 / 25,000 = **Rs. 300 Per Unit**

Q3. Following are data extracted from Fatima Bibi Ltd. Inventory valuation is done at the end year 2010 *(Marks 10)*

Date		**No. of Units**	**Cost/Unit**	**Total Cost**
Jan. 1	Balance	800	Rs. 7.00	Rs. 5,600
Mar. 8	Purchases	2,200	7.50	16,500
June 23	Purchases	4,000	7.75	31,000
Dec.15	Purchases	3,000	8.00	24,000
Total		**10,000**		**Rs. 77,100**

If the year-end 2010, inventory reveals 1,000 units on hand, what is the store's cost of merchandise sold and what is the inventory value on the balance sheet by (LIFO, FIFO and W. Avg.) as well as Comparative Cost Sheet by assuming that Rs. 13 is per unit selling price?

Solution: FIFO

Cost of Sales

Units	@	Amount
800	Rs. 7.00	Rs. 5,600
2,200	7.50	16,500
4,000	7.75	31,000
2,000	8.00	16,000
9,000		**Rs. 69,100**

Cost Ending Inventory

Units	@	Amount
1,000	Rs. 8.00	Rs. 8,000
1,000		**Rs. 8,000**

Solution: LIFO

Cost of Sales

Units	@	Amount
3,000	Rs. 8.00	Rs. 24,000
4,000	7.75	31,000
2,000	7.50	15,000
9,000		**Rs. 70,000**

Cost Ending Inventory

Units	@	Amount
200	Rs. 7.50	Rs. 1,500
800	7.00	5,600
1,000		**7,100**

Solution: W. Avg

Cost of Sales

Units	@	Amount
9,000	Rs. 7.71	Rs. 69,390
9,000		**Rs. 69,390**

Cost Ending Inventory

Units	@	Amount
1,000	Rs. 7.71	Rs. 7,710
1,000		**Rs. 7.710**

W. Avg Rate = 77,100 / 10,000 = Rs. 7.71 per unit

Comparative Cost Sheet (in amount)

Methods	*Balance*	*Purchases*	*(Closing Stock)*	*CGS*	*Sales*	*(CGS)*	*Gross Profit*
FIFO	5,600	71,500	(8,000)	69,100	117,000	(69,100)	47,900
LIFO	5,600	71,500	(7,100)	70,000	117,000	(70,000)	47,000
Average	5,600	71,500	(7,710)	69,390	117,000	(69,390)	47,610