

Paper 2- Fundamentals of Accounting

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Full Marks : 100

Time allowed: 3 hours

Section – A

1. (a) Choose the correct answer from the given four alternatives: [30 × 1 = 30]
- (i) Based on which of the following concepts, it is assumed that the business has a perpetual succession?
- (a) business entity concept
 - (b) money measurement concept
 - (c) going concern concept
 - (d) matching concept
- (ii) Capital profit is earned on the sale of _____
- (a) Inventories
 - (b) Buildings
 - (c) By-products
 - (d) None of the above
- (iii) Bills receivable book is a part of the
- (a) ledger
 - (b) balance sheet
 - (c) journal
 - (d) profit and loss account
- (iv) The balance of the Petty Cash is a/an
- (a) expense
 - (b) income
 - (c) asset
 - (d) liability
- (v) 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)
- (vi) Income and Expenditure Account shows subscriptions at ₹20,000. Subscriptions accrued in the beginning of the year and at the end of the year were ₹2,000 and ₹3,000 respectively. The figure of subscriptions received appearing in receipts and payments account will be
- (a) ₹ 19,000
 - (b) ₹ 20,000
 - (c) ₹ 21,000
 - (d) None of the above
- (vii) Which of the following is an example of Personal Account?
- (a) Building
 - (b) Wages
 - (c) Cash
 - (d) Mr. Gupta

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- (viii) Purchase of computer for use in the business should be treated as a Capital Expenditure.
- (a) Capital Expenditure
 - (b) Revenue Expenditure
 - (c) Capital Receipt
 - (d) Revenue Receipt
- (ix) Obsolescence means decline in the value due to
- (a) physical wear and tear
 - (b) efflux of time
 - (c) fall in market price
 - (d) innovations and inventions
- (x) Under casting or overcasting of a subsidiary book is an example of
- (a) Error of commission
 - (b) Error of Principle
 - (c) Both (a) and (b)
 - (d) None of the above
- (xi) _____ debts are not-impossible to collect, there is a probability of non-recovery also.
- (a) Bad
 - (b) Doubtful
 - (c) Good
 - (d) None of the above
- (xii) Which of these types of errors are not detected during bank reconciliation?
- (a) Cash embezzlement by the cashier
 - (b) Cheque deposited but not credited by bank
 - (c) Casting mistakes in bank column of cash book
 - (d) None of the above
- (xiii) Assets appearing in the books having no real value are known as —
- (a) Fictitious assets
 - (b) Tangible Asset
 - (c) Current Asset
 - (d) None of the Above
- (xiv) Rebate is given in case of _____ of a bill.
- (a) Maturity
 - (b) Retirement
 - (c) Discounting
 - (d) None of the above
- (xv) Which of the following term is true above consignment?
- (a) sale of goods
 - (b) hypothecation of goods
 - (c) shipment of goods
 - (d) mortgage of goods
- (xvi) Which of the following is/are special journal
- (a) Purchase Day Book
 - (b) Sales day Book
 - (c) Returns outward Book
 - (d) All of the above

- (xvii) Which of the following is not a step of Accounting Cycle?
(a) Recording of Transactions
(b) Maintaining of Cost Records
(c) Ledger
(d) Trial Balance
- (xviii) Which of the following statement is true?
(a) There is no difference between joint venture and partnership
(b) Consignment and joint venture is same
(c) There is no separate act for joint venture
(d) None of the above
- (xix) Transaction means an event which
(a) Can be measured in terms of money
(b) Changes the financial position of a person
(c) Can be recorded in Books of Accounts
(d) All of the Above
- (xx) A bank reconciliation statement is a statement prepared to reconcile
(a) Profit as per books of account with the profit as per Income-Tax returns
(b) Cash balances per cash book with bank balance as per pass book
(c) Bank balance as per cash book with bank balance as per bank pass book
(d) None of the above
- (xxi) Accounting does not record non-financial transactions because of
(a) Entity concept
(b) Accrual Concept
(c) Cost Concept
(d) Money Measurement Concept
- (xxii) Example of Tangible asset is _____.
(a) Goodwill
(b) Preliminary Expenses
(c) Machinery
(d) None of the above
- (xxiii) In an Account if debit > credit side, the balance is known as the
(a) Negative balance
(b) Debit balance
(c) Positive balance
(d) Credit balance
- (xxiv) A cash book with discount and bank column is called
(a) Single column cash book
(b) two column cash book
(c) Three column cash book
(d) petty cash book
- (xxv) In which of these ways a bill of exchange cannot be disposed of
(a) discounting with bank
(b) retain till maturity
(c) endorsement to creditors
(d) destroyed
- (xxvi) Which of these accounts are not opened in the books of consignor?
(a) consignment account

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- (b) commission account
- (c) Goods send on consignment account
- (d) consignees personal account

(xxvii) If A co-venturer takes away goods under memorandum joint venture method then he will debit these goods in his books to

- (a) Joint venture account
- (b) Personal account
- (c) Purchases account
- (d) Sales account

(xxviii) Fixed assets are

- (a) Kept in the business for use over a long time for earning income
- (b) Meant for resale
- (c) Meant for conversion into cash as quickly as possible
- (d) All of the above

(xxix) Which one of the following is not prepared by non-profit organizations

- (a) Profit and loss account
- (b) Income & Expenditure account
- (c) receipts and payments account
- (d) Balance sheet

(xxx) Which of the following item(s) is (are) shown in the income and expenditure account

- (a) Only items of capital nature
- (b) Only items of revenue nature which are received during the period of accounts
- (c) Only items of revenue nature pertaining to the period of accounts
- (d) Bothe the items of capital and revenue nature

Answer:

(i)	(c)	(xi)	(b)	(xxi)	(d)
(ii)	(b)	(xii)	(a)	(xxii)	(c)
(iii)	(c)	(xiii)	(a)	(xxiii)	(b)
(iv)	(c)	(xiv)	(b)	(xxiv)	(b)
(v)	(b)	(xv)	(c)	(xxv)	(d)
(vi)	(a)	(xvi)	(d)	(xxvi)	(b)
(vii)	(d)	(xvii)	(b)	(xxvii)	(c)
(viii)	(a)	(xviii)	(c)	(xxviii)	(a)
(ix)	(d)	(xix)	(d)	(xxix)	(a)
(x)	(a)	(xx)	(c)	(xxx)	(c)

(b) State whether the following statements are True (or) False. (Answer any twelve) [12×1=12]

- (i) The loss suffered by the business in the ordinary course of business is called revenue loss.
- (ii) Ledger Folio (L.F) column contains the folio (i.e. page no.) of the ledger, where the transaction is posted.
- (iii) Trial Balance is a Final Accounts.
- (iv) Paid insurance by cheque ₹1,000 will be recorded in cash column in debit side.
- (v) Under straight line method, the depreciation of an asset decreases every year.
- (vi) Amortization means charging a period with the proportionate cost of an intangible asset.
- (vii) Wrong balancing in the ledger account is disclosed by Trial Balance.
- (viii) Bills of exchange must bear revenue stamp;
- (ix) Foreign trade is facilitated with the help of foreign bills of exchange.

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- (x) Preliminary expenses would be included in balance sheet as current asset.
- (xi) Sale of old materials must be credited to capital fund in the balance sheet.
- (xii) Subscriptions received in advance will figure in the Balance Sheet.

Answer:

- (i) True;
- (ii) True;
- (iii) False;
- (iv) False;
- (v) False;
- (vi) True;
- (vii) True;
- (viii) True;
- (ix) True;
- (x) False;
- (xi) False;
- (xii) True.

(c) Match the following:

[6 × 1 = 6]

	Column 'A'		Column 'B'
1.	Non-trading concerns collect funds through	A.	No Depreciation
2.	Freight outward	B.	Includes interest
3.	Expenses incurred by co-venture are debited to	C.	Debit of P & L A/c
4.	Land	D.	Entertainment programmes, stage shows funds raising programs
5.	Renewal of bill	E.	loss which is uncertain
6.	Normal loss is case of consignment	F.	joint venture

Answer:

	Column 'A'		Column 'B'
1.	Non-trading concerns collect funds through	D.	Entertainment programmes, stage shows funds raising programs
2.	Freight outward	C.	Debit of P & L A/c
3.	Expenses incurred by co-venture are	F.	joint venture
4.	Land	A.	No Depreciation
5.	Renewal of bill	B.	Includes interest
6.	Normal loss is case of consignment	E.	loss which is uncertain

Answer any four questions out of six questions [4×8=32]

- 2. State with reasons whether the following are Capital Expenditure or Revenue Expenditure:**
- (i) Carriage of ₹ 7,500 spent on machinery purchased and installed.
 - (ii) Heavy advertising costs of ₹ 17,000 spent on the launching of a company's new product.
 - (iii) ₹ 50,000 received from issue of shares including ₹ 10,000 by way of premium.

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- (iv) Rings and Pistons of an engine were changed at a cost of ₹ 5,000 to get full efficiency. [4×2=8]

Answer:

- (i) Carriage of ₹ 7,500 paid for machinery purchased and installed should be treated as a Capital Expenditure.
- (ii) Advertising expenses for launching a new product of the company should be treated as a Revenue Expenditure. (As per AS-26).
- (iii) ₹ 40,000 (50,000 – ₹ 10,000) received from issue of shares will be treated as a Capital Receipt. The premium of ₹ 10,000 should be treated as a Capital Profit.
- (iv) ₹ 5,000 incurred for changing Rings and Pistons of an engine is a Revenue Expenditure because, the change of rings and piston will restore the efficiency of the engine only and it will not add anything to the capacity of the engine.

3. Calculate the Rate of Depreciation under Straight Line Method (SLM) in each of the following:- [8]

Machine No.	Cost of Machine (₹)	Expenses incurred at the time of purchase to be capitalized (₹)	Estimated Residual Value (₹)	Expected Useful Life in years
1	1,80,000	20,000	40,000	8
2	24,000	7,000	3,100	6
3	1,05,000	20,000	12,500	5
4	2,50,000	30,000	56,000	10

Answer:

Machine No	Cost of Machine (₹)	Expenses incurred at the time of purchase to be capitalized (₹)	Depreciation = (d-e)/f (₹)	Total Cost of Asset = (b+c) (₹)	Estimated Residual Value(₹)	Expected Useful Life in years	Rate of Depreciation under SLM = (g/d)×100
a	b	c	g	d	e	f	h
1	1,80,000	20,000	20,000	2,00,000	40,000	8	10%
2	24,000	7,000	4,650	31,000	3,100	6	15%
3	1,05,000	20,000	22,500	1,25,000	12,500	5	18%
4	2,50,000	30,000	22,400	2,80,000	56,000	10	8%

4. From the following particulars of M/s. Narayan Trading Co., prepare a bank reconciliation statement as on 31st March, 2016:

- (a) Bank balance as per cash book (bank column) as on 31.03.2016 was ₹9,620, but as per pass book, it appears as ₹20,860.
- (b) A cheque of ₹1,270 issued to a supplier was entered as a receipt in cash book by mistake. This cheque was presented for payment before 31 st March, 2016.
- (c) Out of three cheques deposited into bank for ₹18,000, only one cheque of ₹6,400 was cleared till 31st March, 2016.
- (d) An amount of ₹15,000 transferred to Current Account from matured value of a fixed deposit was not entered in cash book.
- (e) A cheque amounting to ₹10,200 issued to a supplier, not yet presented to bank for payment.
- (f) Dividend collected by bank for ₹750 was wrongly entered as ₹570 in cash book. [8]

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Answer:

Bank reconciliation statement as on 31.03.2016 of Narayan Trading Co:

Particulars	₹	₹
Bank balance as per cash book as on 31.03.2016		9,620
Add, Cheque issued but not yet presented	10,200	
Transfer from fixed deposit	15,000	
Dividend collected but short recorded in cash book(750 - 570)	180	25,380
Total		35,000
Less, Cheque issued but recorded as receipt (with double the amount)	2,540	
Cheque deposited but not credited by bank (18,000 – 6,400)	11,600	14,140
Balance as per pass book as on 31.03 2016		20,860

5. Pass necessary journal entries with proper narration to rectify the following errors:

- (a) Amount of ₹1,800 received as interest was credited to commission account.
- (b) An amount of ₹3,000 withdrawn by the owner for personal use was debited to salary account.
- (c) Old furniture of book value ₹1,700 sold to Neel was recorded in sales book.
- (d) The year end total of sales book was under cast by ₹1,000.
- (e) A bill of ₹26,000 for extension of building was debited to its repair account.
- (f) ₹ 3,500 received from Manish was credited to Manisha's account.
- (g) Goods worth ₹750 returned by a customer, but not entered in Return Inward Register.
- (h) A sale of goods to Jay for ₹1,750 was wrongly entered in Purchase book. [8]

Answer:

Journal Entries

S.No	Particulars	Debit ₹	Credit ₹
a)	Commission A/c Dr To Interest A/c (Being the amount of interest earned but wrongly credited to commission, now rectified)	1,800	1,800
b)	Drawings A/c Dr To Salary A/c (Being the amount of drawings wrongly debited to salary account, now rectified)	3,000	3,000
c)	Sales A/c Dr To Furniture A/c (Being the amount of sales of furniture wrongly credited to sales, now rectified)	1,700	1,700
d)	Suspense A/c Dr To Sales A/c (Being the amount under cast in sales book, now rectified)	1,000	1,000
e)	Building A/c Dr To Repair A/c (Being the amount of building extension ,wrongly debited to its repair, now rectified)	26,000	26,000

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f)	Manisha's A/c To Manish's A/c (Being the amount received from Manish wrongly credited to Manisha, now rectified)	Dr	3,000	3,000
g)	Sales Return A/c To Customer A/c (Being the sales return not posted in sales return book, now	Dr	750	750
h)	Jay's A/c To Sales A/c To Purchase A/c (Being the amount of sales wrongly entered in purchase book, now rectified)	Dr	3,500	1,750 1,750

6. Following is the Receipts and Payments Account of Union Sporting Club for the year ended 31st March, 2017:

Receipts and Payments Account			
Dr.			Cr.
Receipts	Amount (₹)	Payments	Amount (₹)
Cash in hand	4,500	Mowing Machine	33,000
Cash at Bank	63,000	Ground man's salary	45,000
Subscription	1,74,000	Rent	15,000
Rent of Auditorium	90,000	Salary to coaches	1,35,000
Life membership fees	60,000	Office expenses	72,000
Entrance fee	6,000	Sports Equipment Purchased	36,000
General Donation	45,000	Cash in hand	10,500
Sale of old newspapers	3,000	Cash at Bank	99,000
	4,45,500		4,45,500

Subscription due on 31st March, 2016 and 2017 were ₹ 27,000 and ₹ 24,000 respectively. Subscriptions received also included subscriptions received in advance for the year 2017-18 ₹ 6,000. Sports equipment in hand on 31st March, 2016 was ₹ 33,000. The value stands on this equipment in hand on 31st March, 2017 was ₹ 39,000. The Mowing machine was purchased on 1st April, 2016 and is to be depreciated @ 20% per annum. Office expenses includes ₹ 9,000 for 2015-16 and ₹ 12,000 are still due for payment.

Prepare Income and Expenditure Account and Balance Sheet relating to the year ended 31st March, 2017. [8]

Answer:

Union Sporting Club Income and Expenditure Account for the year ended 31st March, 2017

Dr.				Cr.	
Expenditure	Amount ₹	Amount ₹	Income	Amount ₹	Amount ₹
To Ground man's salary		45,000	By Subscriptions	1,74,000	
To Rent		15,000	Less: outstanding last year	<u>27,000</u>	
To Salaries to coaches		1,35,000		1,47,000	
To Office expenses	72,000		Add: outstanding this year	<u>24,000</u>	
Add: outstanding for the year	<u>12,000</u>			1,71,000	
	84,000		Less Received in advance	<u>6,000</u>	1,65,000
Less outstanding last year	<u>9,000</u>	75,000	By Rent of Auditorium		90,000
To Depreciation			By Entrance Fee		6,000
Mowing Machine	6,600		By General donation		45,000
Sports Equipment (33,000 + 36,000 - 39,000)	30,000	36,600	By Sale of old news paper		3,000

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To Surplus- Excess of income over expenditure		2,400			
		3,09,000			3,09,000

Balance Sheet as on 31st March, 2017

Liabilities	₹	Amount	Assets	₹	Amount
Outstanding office expenses		12,000	Cash in hand		10,500
Subscription received in advance		6,000	Cash at Bank		99,000
Life membership fee		60,000	Subscription outstanding		24,000
Capital fund (w.n.1)	1,18,500		Mowing machine	33,000	
Add Surplus	2,400	1,20,900	Less: Depreciation	6,600	26,400
			Sports Equipment	33,000	
			Add:purchase	36,000	
				69,000	
			Less:depreciation	30,000	39,000
		1,98,900			1,98,900

Working Note:-1.

Opening Balance Sheet As on 1st April, 2016

Liabilities	Amount ₹	Assets	Amount ₹
Outstanding office expenses	9,000	Cash in hand	4,500
Capital fund (balancing figure)	1,18,500	Cash at Bank	63,000
		Subscription outstanding	27,000
		Sports Equipment	33,000
	1,27,500		1,27,500

7. Sunil owed Anil ₹ 80,000. Anil draws a bill on Sunil for that amount for 3 months on 1st April 2016. Sunil accepts it and returns it to Anil. On 15th April 2016, Anil discounts it with CT Bank at a discount of 12% p.a. On the due date the bill was dishonoured, the bank paid noting charges of ₹ 100. Anil settles the bank's claim along with noting charges in cash. Sunil accepted another bill for 3 months for the amount due plus interest of ₹ 3,000 on 1st July 2016. Before the new bill became due, Sunil retires the bill with a rebate of ₹ 500. Show journal entries in books of Anil. [8]

Answer:

Journal Entries in Books of Anil

Date	Particulars	L. F.	Debit ₹	Credit ₹
01/04/16	Bills Receivable A/c Dr. To Sunil A/c (Being acceptance By Sunil)		80,000	80,000
15/04/16	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Being discounting of bill)		78,000 2,000	80,000
30/06/16	Sunil A/c Dr. To Bank A/c (Being dishonor bill including noting charges)		80,100	80,100
30/06/16	Bank A/c Dr. To Cash A/c		80,100	80,100

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	(Being cash paid to bank)			
01/07/16	Sunil A/c To Interest A/c (Being interest due from Sunil)	Dr.	3,000	3000
01/07/16	Bills Receivable A/c To Sunil A/c (Being new acceptance)	Dr.	83,100	83,100
01/07/13	Bank A/c Rebate A/c To Bills Receivable b/c A/c (Being amount received on retirement)	Dr. Dr.	82,600 500	83,100

Section – B

8. Choose the correct answer:

[12×1=12]

- (i) _____ costs are the result of inevitable consequences of commitments previously made or are incurred to maintain certain facilities and cannot be quickly eliminated.
- (a) Committed
 - (b) Discretionary
 - (c) Step
 - (d) None of the above
- (ii) In behavioral analysis', costs are divided into
- (a) production and non-production costs
 - (b) controllable and non-controllable costs
 - (c) direct and indirect costs
 - (d) fixed and variable costs
- (iii) The main purpose of cost accounting is to:
- (a) maximize profits
 - (b) help in inventory valuation
 - (c) provide information to management for decision making
 - (d) aid in the fixation of selling price
- (iv) Variable costs are fixed
- (a) for a period
 - (b) per unit
 - (c) depends upon the entity
 - (d) for a particular process of production
- (v) Prime cost may be correctly termed as
- (a) the sum of direct material and labour cost with all other costs excluded.
 - (b) the total of all cost items which can be directly charged to product units.
 - (c) The total costs incurred in producing a finished unit.
 - (d) the sum of the large cost there in a product cost.
- (vi) The guidance and regulation by executive action of the cost of operating an undertaking is said to be
- (a) Budgetary control
 - (b) Cost control
 - (c) Cost analysis
 - (d) None

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- (vii) The method of costing used in foundries is _____.
- (a) Process costing
 - (b) Job costing
 - (c) Batch costing
 - (d) Operating costing
- (viii) The process of finding cost is known as _____.
- (a) Costing
 - (b) Accounting
 - (c) Managing
 - (d) Auditing
- (ix) Factory overheads are also known as _____ overheads.
- (a) Works
 - (b) Administration
 - (c) Selling
 - (d) None of the above
- (x) Prime cost plus factory overheads is known as _____.
- (a) Factory on cost
 - (b) Administration cost
 - (c) Factory cost
 - (d) Marginal cost
- (xi) Cost accounting is a separate _____ of accounting.
- (a) Branch
 - (b) Method
 - (c) Both (a) and (b)
 - (d) None of the above
- (xii) Which of the following items is excluded from cost Accounts?
- (a) Income tax
 - (b) interest on debentures
 - (c) cash discount
 - (d) All of these

Answer:

(i)	(a)	(v)	(b)	(ix)	(a)
(ii)	(d)	(vi)	(b)	(x)	(c)
(iii)	(c)	(vii)	(b)	(xi)	(a)
(iv)	(b)	(viii)	(a)	(xii)	(d)

Answer any one question out of two questions [8×1=8]

9. The following information relates to a company:

(i) Stock	beginning	ending
- Finished goods	₹2,20,000	₹1,90,000
- WIP	₹1,40,000	₹1,60,000
- Raw Material	₹1,80,000	₹1,90,000

(ii) Cost of goods produced ₹13,68,000

(iii) Factory cost ₹13,08,000

(iv) Factory Overheads ₹3,34,000

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(v) Direct Material consumed ₹3,86,000

Required:

- (1) Raw material purchased;
- (2) Direct labour cost;
- (3) Cost of goods sold.

[8]

Answer:

	Particulars	₹
(1)	Computation of Raw Material Purchased	
	Raw Material consumed	3,86,000
	Add: Closing stock of Raw Material	1,90,000
		5,76,000
	Less: Opening stock of Raw Material	1,80,000
	Raw Material Purchased	3,96,000
(2)	Computation of Direct Labour Cost	
	Factory Cost	13,08,000
	Add: Closing stock of WIP	1,60,000
		14,68,000
	Less: Opening stock of WIP	1,40,000
		13,28,000
	Less: Factory Overhead	3,34,000
	Prime Cost	9,94,000
	Less: Material Consumed	3,86,000
	Direct Labour Cost	6,08,000
(3)	Computation of Cost of Goods Sold	
	Cost of Goods Produced	13,68,000
	Add: opening stock of finished goods	2,20,000
		15,88,000
	Less: Closing stock finished goods	1,90,000
	Cost of Goods Sold	13,98,000

10. The cost structure of an article the selling price of which is ₹90,000 is as follows:

Direct Materials	50%
Direct Labour	20%
Overheads	30%

An increase of 15% in the cost of materials and of 25% in the cost of labour is anticipated. These increased cost in relation to the present selling price would cause a 25% decrease in the amount of present of present profit per article. You are required to:

- (i) Present a statement of profit per article at present and
- (ii) The revised selling price to produce the same percentage of profit to sales as before.

[8]

Answer:

1. Let X be the total cost and Y be the profit for an article whose selling price is ₹90,000. Hence, $X + Y = ₹90,000$.
2. Statement showing the present and anticipated cost:

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Cost Item	Present Cost ₹	%	Increase ₹	Anticipated Cost ₹
Direct Material	0.5X	15%	0.075X	0.575X
Direct Labour	0.2X	25%	0.050X	0.250X
Overheads	0.3X		--	0.300X
	X		0.125X	1.125X

3. The increase in the cost of direct material and wages has reduced the present profit by 25%. So, $1.125X + 0.75Y = ₹90,000$ (ii)

4. Solving equations (i) and (ii), we get
 $X = ₹60,000$, $Y = ₹30,000$

5. Statement showing profit per article

Direct Material	₹0.5X	₹30,000
Direct Labour	₹0.2X	₹12,000
Overheads	₹0.3X	<u>₹18,000</u>
Total Cost		₹60,000
Profit (50% of cost or 33.33% of S.P)		<u>₹30,000</u>
Selling Price		<u>₹90,000</u>

6. Statement of required selling price

Direct material	₹0.575X	₹34,500
Direct Wages	₹0.250X	₹15,000
Overheads	₹0.300X	<u>₹18,000</u>
Total anticipated cost		₹67,500
Profit 33.33% of sales or 50% of cost		<u>₹33,750</u>
Selling Price		<u>₹1,01,250</u>