

# CA FOUNDATION

PRINCIPLES & PRACTICE OF

# Accounting

**Revision  
Batch**

**New Edition**



**Chapter 11**

**Final Accounts**

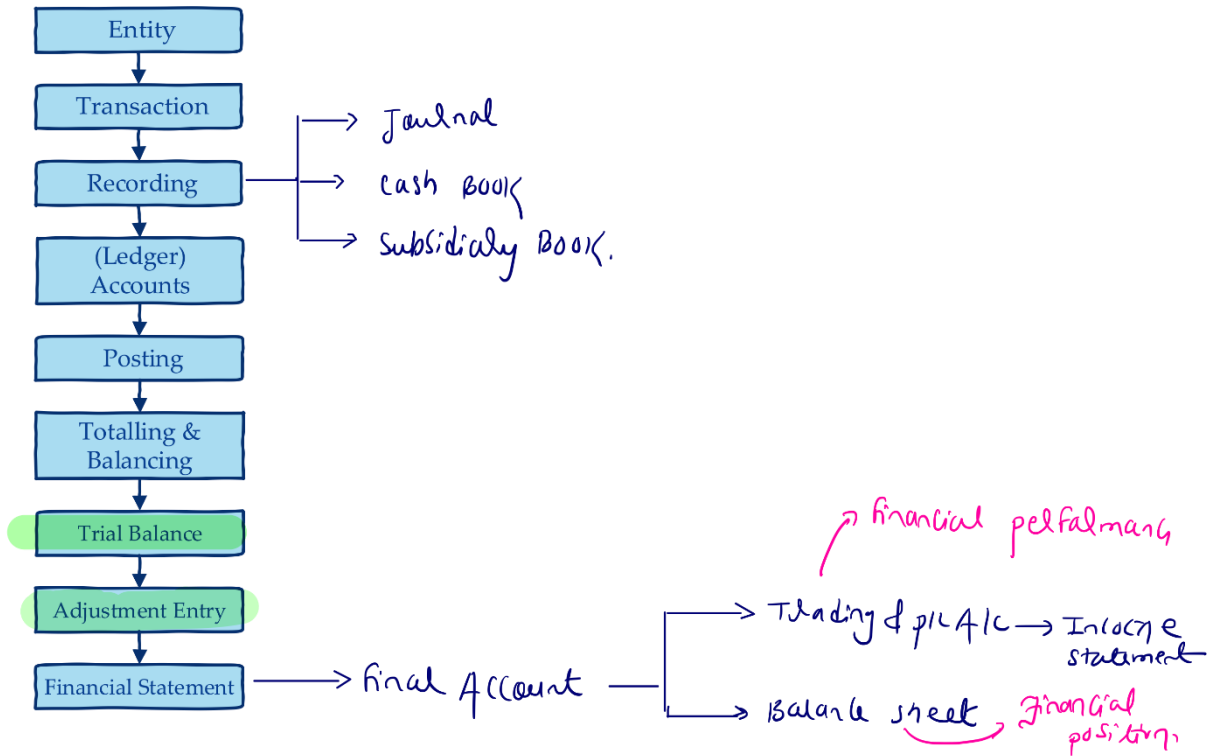
**CA  
ZUBAIR  
KHAN**

FCA, B.Com, Dip in IFRS (UK)

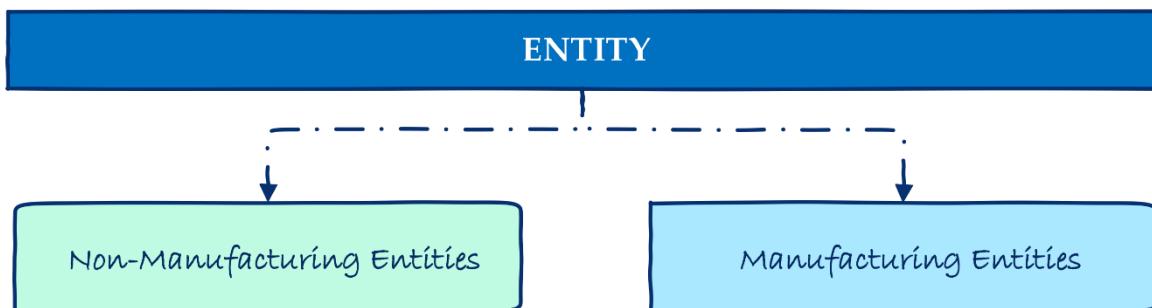
# Chapter 11 - Final accounts of Sole Proprietors

Marks Allocated on this Topic in Previous 5 Examinations				
Dec. 2022	June 2022	Dec. 2021	July 2021	Jan. 2021
2 + 10 = 12	20	2 + 15 = 17	10	-

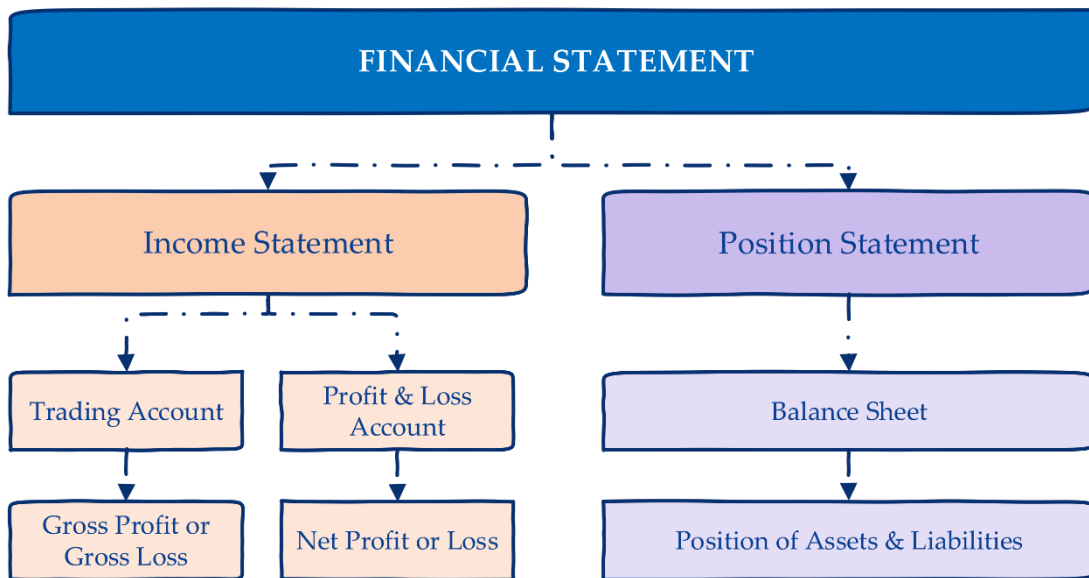
## Introduction



## Entity



Financial Statement



Types of Account

Nature of A/c.	Type of A/c.	Balance in the Account is	Effect of the transaction on it	
			Increases it	Decreases it
Assets	Real or Personal	Dr.	Dr.	Cr.
Capital account	Personal	Cr.	Cr.	Dr.
Liability	Personal	Cr.	Cr.	Dr.
Expense	Nominal	Dr.	Dr.	Cr.
Income	Nominal	Cr.	Cr.	Dr.

↓  
Trial Balance.

↓  
Adjustment Entry

Overview of Financial Statement

Trial Balance			Financial Statement			
particulars	Dr. Bal.	Cr. Bal.	Trading And profit & loss <b>A/c.</b>			
	Expenses	Asset	Dr. For the year ended 31-3-2021			
	Income	Liability	Cr.			
	Capital					
			Dr. Balance. (Direct exp.)		Cr. Balance. (Direct Income)	
			Dr. Balance. (Indirect exp.)		Cr. Balance. (Indirect Income)	
			Cr. Bal. Balance sheet			
			Liabilities		Assets	
			Cr. Balance. (Liability) (Capital)		Dr. Balance. (Asset)	

Additional Information:

- 1)
- 2)
- 3)

Trading Account

Trading A/c			
Dr. For the year ended -----			
particulars	Amount	particulars	Amount
To opening stock	xxx	By Sales	
To purchase		less: Sales Return	xxx
less: purchase Ret.	xxx	By closing stock	xxx
To Direct Expense:	xxx	By gross loss	xxx
Freight		↳ when debit side is more	
Customs		than the credit side.	
wages			
To gross profit	xxx		
	xxx		xxx

when debit side is more than the debit side.

$$COGS = O.S + \text{purch} + D.E - C.S.$$

$$\text{Gross profit} = \text{Sales} - COGS$$

Profit & Loss Account

Profit & Loss A/c  
For the year ended . . . . .

Indirect exp.	xxx	Indirect Income.	xxx
Net profit		By Net Loss	xxx

when credit side is more than the debit side

when Debit side is more than the credit side.

Balance Sheet

Balance sheet  
As on 31. . . . .

Liabilities	Amount ₹	Asset	Amount ₹
<u>Capital</u>		<u>Tangible Fixed Asset:</u>	
<u>Long term loan</u>		Land & Building	
Term Loan.		plant & machinery	
<u>Short term Loan</u>		Furniture.	
Overdraft.		<u>Intangible Asset.</u>	
<u>Current Liability</u>		Goodwill	
Creditors.		patent	
O/S expenses.		<u>Investment</u>	
<u>Provision</u>		Long term investment	
Provision for D-D.		<u>Current Asset</u>	
		Closing stock	
		Debtors.	
		Bank Balance	
		Cash in hand.	

↓ permanence.

↑ Liquidity.

## Adjustments

Before you start remember these points it will help you to form difficult entries

Entries made on the basis of nature of the Account

Nature of A/c.	Type of A/c.	Balance in the Account is	Effect of the transaction on it	
			Increase in it	Decrease in it
Assets	Real or Personal	Dr.	Dr.	Cr.
Capital	Personal	Cr.	Cr.	Dr.
Liability	Personal	Cr.	Cr.	Dr.
Expense	Nominal	Dr.	Dr.	Cr.
Income	Nominal	Cr.	Cr.	Dr.

## Debit/Credit Vs. Add/Less

1st	2nd	3 <sup>rd</sup>	4 <sup>th</sup>
Dr.	Cr.	Dr.	Cr.
Dr.	Cr.	Cr.	Dr.
+	+	-	-

### 1. Closing Stock

Journal Entry	Increase/Decrease	Effect	
Closing Stock A/c Dr.	Increase in Asset	1 <sup>st</sup>	Balance Sheet - Asset Side
To Trading A/c.	Decrease in Expenses	2nd	Trading A/c - Credit Side

### 2. Outstanding Expenses

Journal Entry	Increase/Decrease	Effect	
Expenses A/c. Dr	Increase in Expenses	1 <sup>st</sup>	Trading/P&L A/c - Add to the concerned expenses on the debit side
To Outstanding Expenses A/c.	Increase in Liability	2nd	Balance Sheet - Liability Side

### 3. Prepaid Expenses

Journal Entry	Increase/Decrease	Effect	
Prepaid Expenses A/c. Dr	Increase in Asset	1 <sup>st</sup>	Balance Sheet - Asset
To Expenses A/c	Decrease in Expenses	2nd	Trading/P&L A/c - Deduct from the concerned expense on the debit Side.

## 4. Income Outstanding

Journal Entry	Increase/Decrease	Effect	
Income Receivable A/c. Dr.	Increase in Asset	1 <sup>st</sup>	Balance Sheet - Asset Side.
To Income A/c.	Increase in Income	2nd	Profit & Loss A/c - Add to the concerned income on the credit side

## 5. Income Received in Advance

Journal Entry	Increase/Decrease	Effect	
Income A/c. Dr.	Decrease in Income	1 <sup>st</sup>	Profit & Loss A/c - Deduct from concerned income on the credit side.
To Income Received in Advance A/c.	Increase in Liability	2nd	Balance Sheet - Liability Side

## 6. Depreciation

Journal Entry	Increase/Decrease	Effect	
Depreciation A/c. Dr	Increase in Expenses	1 <sup>st</sup>	Profit & Loss A/c - Debit Side.
To Fixed Asset A/c.	Decrease in Asset	2nd	Balance Sheet - Deduct from Respective Asset on the Asset Side

## 7. Interest on Capital

Journal Entry	Increase/Decrease	Effect	
Interest on Capital A/c. Dr.	Increase in expenses	1 <sup>st</sup>	P&L Appropriation / Profit & Loss A/c - Debit Side.
To Capital A/c.	Increase in Capital	2nd	Balance Sheet - Add to Capital.

## 8. Interest on Drawings

Journal Entry	Increase/Decrease	Effect	
Drawings/Capital Dr.	Decrease in Capital	1 <sup>st</sup>	Balance Sheet - Deduct from Capital on Liability Side
To Interest on Drawings	Increase in Income	2nd	P&L Appropriation / Profit & Loss A/c - Credit Side.

## 9. Loss by Fire

Journal Entry	Increase/Decrease	Effect	
Loss by Fire A/c. Dr.	Increase in Loss	1.1	Profit & Loss A/c - Debit Side (Actual loss, if any)
Insurance Claim A/c. Dr.	Increase in Asset	1.2	Balance Sheet - Asset Side (with insurance claim admitted by Insurance Co.)
To Goods Lost A/c.	Decrease in Stock	2nd	Trading A/c - Credit Side (with full amount of loss)

**10. Goods withdrawn for Personal Use / Personal Purchases recorded in the purchase day book**

Journal Entry	Increase/Decrease	Effect	
Drawings A/c Dr.	Increase in Drawings	1 <sup>st</sup>	Balance Sheet - Liability Side (Deduct from Capital as Drawings)
To Purchase A/c.	Decrease in Purchase	2nd	Trading A/c - Credit Side or Deduct from Purchases.

**11. Goods distributed as free sample**

Journal Entry	Increase/Decrease	Effect	
Advertisement A/c. Dr.	Increase in Expenses	1 <sup>st</sup>	Profit & Loss A/c - Debit Side
To Purchase A/c.	Decrease in Purchase	2nd	Trading A/c - Credit Side or Deduct from Purchases

**12. Purchase of Fixed Asset wrongly debited to Purchase A/c.**

Journal Entry	Increase/Decrease	Effect	
Fixed Asset A/c Dr.	Increase in Asset	1 <sup>st</sup>	Balance Sheet - Add to the concerned Fixed Asset on the Asset Side
To Purchase A/c.	Decrease in Purchase	2nd	Trading A/c - Deduct from Purchase

**13. Purchase includes Sales Return**

Journal Entry	Increase/Decrease	Effect	
Sales Return A/c Dr.	Increase in Sales Return	1 <sup>st</sup>	Trading A/c - Add to Sales Return
To Purchase A/c.	Decrease in Purchase	2nd	Trading A/c - Deduct from Purchase

**14. Sales include Purchase Return**

Journal Entry	Increase/Decrease	Effect	
Sales A/c Dr.	Decrease in Sales	1 <sup>st</sup>	Trading A/c - Deduct from sale on the credit side
To Purchase Return A/c.	Increase in Purchase Return	2nd	Trading A/c - Add to Purchase Return

**15. Wages for installation of Fixed asset (Capital Exp.) included in wages A/c.(Revenue Exp.)**

Journal Entry	Increase/Decrease	Effect	
Fixed Asset A/c Dr.	Increase in Asset	1 <sup>st</sup>	Balance Sheet - Add to the concerned Fixed Asset on the Asset Side
To Wages A/c.	Decrease in Wages	2nd	Trading A/c - Deduct from the wages on the debit Side.

**16. Included amongst the debtors (due from Mr.A) and included among the creditors (Due to Mr.A)**

Journal Entry	Increase/Decrease	Effect	
Creditors A/c Dr.	Decrease in Creditors	1 <sup>st</sup>	Balance Sheet - Deduct from the creditors on the Liability



			Side
To Debtors A/c.	Decrease in Debtors	2nd	Balance Sheet - Deduct from the debtors on the Asset Side

**17. Credit purchases omitted from the books**

Journal Entry	Increase/Decrease	Effect	
Purchase A/c Dr.	Increase in Expenses	1 <sup>st</sup>	Trading A/c - Add to the Purchase on the debit Side
To Creditor A/c.	Increase in Liability	2nd	Balance Sheet - Add to the creditors on the liability side

**18. Make a provision on creditors for discount**

Journal Entry	Increase/Decrease	Effect	
Reserve for Discount A/c Dr.	Decrease in Creditor	1 <sup>st</sup>	Balance Sheet - Deduct from the creditors on the liability side
To Profit & Loss A/c.	Increase in Income	2nd	Profit & Loss A/c - Credit Side

**19. Bad Debt, Provision for Doubtful Debt & Provision for discount on debtors**

Profit & Loss A/c	Balance Sheet - Asset Side
	Debtors xxx
Bad Debt (Trial Balance) xxx	Less: Bad Debt (Adjustment) <u>xxx</u>
Add: Bad Debt (Adjustment) <u>xxx</u> xxx	Less: Provision for D.D (Closing Bal.) <u>xxx</u>
Add: Provision for D.D (Closing - Opening) xxx	Less: Provision for Discount (Closing Bal.) <u>xxx</u>
Add: Provision for Discount (Closing - Opening) xxx	xxx

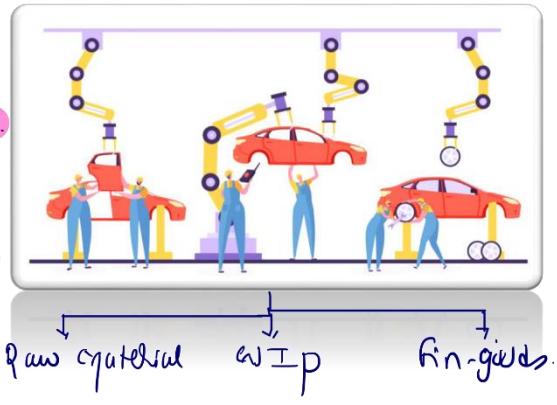
**If Item Given in Trial Balance**

Sr. No.	Item	Treatment
1	Closing Stock	Balance Sheet - Asset Side
2	Outstanding Expenses	Balance Sheet - Liability Side
3	Prepaid Expenses	Balance Sheet - Asset Side
4	Income Outstanding	Balance Sheet - Asset Side
5	Income Received in Advance	Balance Sheet - Liability Side
6	Depreciation	Profit & Loss A/c - Debit side
7	Interest on Capital	Profit & Loss A/c / Profit & Loss Appropriation A/c - Debit side
8	Interest on Drawings	Profit & Loss A/c / Profit & Loss Appropriation A/c - Credit side

**Manufacturing Account**

R.M & WIP ← Manufacturing A/c.

TO opening stock (WIP) xxx TO Raw Mat. Consumed. Ope. stock xxx Add: pur. xxx Less: C.S (R.M) (xxx) xxx TO Direct expenses (wages) xxx TO Indirect exp. • Depreciation • R.M. Lighting TO Hire charges.	By closing stock (WIP) xxx By cost of manufacturing ? [ Office 2500 → PIC 3 Manufacturing 7500 → Manu... 10,000 (6000 emp)
F.S. → Trading and P&L A/c. TO ope. stock xxx TO cost of manuf. - G.P.	By Sales xxx By clo. stock xxx. G.P.
TO net profit xxx	



Balance sheet

N.p. x -	
=	=

**Manufacturing Account**

Given below is a format covering various elements:

Dr.

Manufacturing A/c for the year ended.....

Cr.

Particulars	Units	Amount	Particulars	Units	Amount
To Opening Work-in-process			By By-products at net realizable value		
To Raw Material Consumed:	...		By Closing Work-in- Process		
Opening inventory	.....	.....	By Trading A/c		
Add: Purchases	.....	.....	Cost of production		
Less: Closing inventory	.....	.....			
To Direct Wages	.....	.....			
To Direct expenses:					
Prime cost	.....	.....			
To Factory overheads:					
Royalty	.....	.....			
Hire charges	.....	.....			
To Indirect expenses:					
Repairs & Maintenance					
Depreciation					
Factory cost					

1. The following are the balances as at 31st March, 2019 extracted from the books of Mr. XYZ.

	₹		₹
Plant and Machinery	19,550	Bad debts recovered	450
Furniture and Fittings	10,250	Salaries	22,550
Bank Overdraft	80,000	Salaries payable	2,450
Capital Account	65,000	Prepaid rent	300
Drawings	8,000	Rent	4,300
Purchases	1,60,000	Carriage inward	1,125
Opening Stock	32,250	Carriage outward	1,350
Wages	12,165	Sales	2,15,300
Provision for doubtful debts	3,200	Advertisement Expenses	3,350
Provision for Discount on		Printing and Stationery	1,250
debtors	1,375	Cash in hand	1,450
Sundry Debtors	1,20,000	Cash at bank	3,125
Sundry Creditors	47,500	Office Expenses	10,160
Bad debts	1,100	Interest paid on loan	3,000

Additional Information:

- Purchases include sales return of ₹ 2,575 and sales include purchases return of ₹ 1,725.
- Goods withdrawn by Mr. XYZ for own consumption ₹ 3,500 included in purchases.
- Wages paid in the month of April for installation of plant and machinery amounting to ₹ 450 were included in wages account.
- Free samples distributed for publicity costing ₹ 825
- Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
- Depreciation is to be provided on plant and machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.
- Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2019 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2019, and a Balance Sheet as on that date. Also show the rectification entries.

## Solution:

## Rectification Entries

	Particulars	Dr.	Cr.
(i)	Returns inward account	Dr. 2,575	
	Sales account	Dr. 1,725	
	To Purchases account		2,575
	To Returns outward account		1,725
	(Being sales return and purchases return wrongly included in purchases and sales respectively, now rectified)		
(ii)	Drawings account	Dr. 3,500	
	To Purchases account		3,500
	(Being goods withdrawn for own consumption included in purchases, now rectified)		
(iii)	Plant and machinery account	Dr. 450	
	To Wages account		450
	(Being wages paid for installation of plant and machinery wrongly debited to wages, now rectified)		
(iv)	Advertisement expenses account	Dr. 825	
	To Purchases account		825
	(Being free samples distributed for publicity out of purchases, now rectified)		

Trading and Profit and Loss Account of Mr. XYZ  
For the year ended 31st March, 2019

Dr.			Cr.		
To Opening stock		32,250	By Sales	2,13,575	
To Purchases	1,53,100		Less: Sales return	2,575	2,11,000
Less: Purchases return	1,725	1,51,375	By Closing stock		1,25,000
To Carriage inward		1,125	80,000 * 100/80 * 100/80		
To Wages		11,715			
To Gross profit c/d		1,39,535			
		3,36,000			3,36,000
To Salaries		22,550	By Gross profit b/d		1,39,535
To Rent		4,300	By Bad debts recovered		450
To Advertisement expenses		4,175			
To Printing and stationery		1,250			
To Bad debts		1,100			
To Carriage outward		1,350			

To Provision for doubtful debts 5% of ₹ 1,20,00	6,000		
Less: Existing provision	3,200	2,800	
To Provision for discount on debtors 2.5% of ₹ 1,14,000	2,850		
Less: Existing provision	1,375	1,475	
To Depreciation: Plant and machinery	3,000		
Furniture and fittings	1,025	4,025	
To Office expenses		10,160	
To Interest on loan		3,000	
To Net profit (Transferred to capital account)		83,800	
		1,39,985	
			1,39,985

## Balance Sheet of Mr. XYZ as on 31st March, 2019

		Amount			Amount
Liabilities	₹	₹	Assets	₹	₹
Capital account	65,000		Plant and machinery	20,000	
Add: Net profit	83,800		Less: Depreciation	3,000	17,000
	1,48,800		Furniture and fittings	10,250	
Less:	11,500	1,37,300	Less: Depreciation	1,025	9,225
Drawings			Closing stock		1,25,000
Bank overdraft		80,000	Sundry debtors	1,20,000	
Sundry creditors		47,500	Less: Provision for doubtful debts	6,000	
Payable salaries		2,450	Provision for bad debts	2,850	1,11,150
			Prepaid rent		300
			Cash in hand		1,450
			Cash at bank		3,125
					2,67,250
		2,67,250			2,67,250

2. Following particulars are extracted from the books of Mr. Sandeep for the year ended 31st December, 2018.

Particulars	Amount	Particulars	Amount
Debit Balances:	₹	Credit Balances:	₹

Cash in hand	1,500	Capital	16,000
Purchase	12,000	Bank overdraft	2,000
Sales return	1,000	Sales	9,000
Salaries	2,500	Purchase return	2,000
Tax and Insurance	500	Provision for Bad debts	1,000
Bad debts	500	Creditors	2,000
Debtors	5,000	Commission	500
Investments	4,000	Bills payable	2,500
Opening stock	1,400		
Drawings	2,000		
Furniture	1,600		
Bills receivables	3,000		
	35,000		35,000

Other information :

- (i) Closing stock was valued at ₹ 4,500
- (ii) Salary of ₹ 100 and Tax of ₹ 200 are outstanding whereas insurance ₹ 50 is prepaid.
- (iii) Commission received in advance is ₹ 100.
- (iv) Interest accrued on investment is ₹ 210
- (v) Interest on overdraft is unpaid ₹ 300
- (vi) Reserve for bad debts is to be kept at ₹ 1,000
- (vii) Depreciation on furniture is to be charged @ 10%

You are required to prepare the final accounts after making above adjustments.

**Solution:**

Trading & Profit and Loss Account of Mr. Sandeep  
for the year ended 31st December, 2018

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		1,400	By Sales	9,000	
To Purchase	12,000		Less: Sales return	(1,000)	8,000
Less: Purchase return	(2,000)	10,000	By Closing stock		4,500
To Gross Profit		1,100			
		12,500			12,500
To Salary	2,500		By Gross Profit		1,100
Add: Outstanding salary	100	2,600	By Commission	500	
			Less: Advance	(100)	400
To Tax & Insurance	500		By Accrued interest		210

Add: Outstanding	200		By Net Loss		2,500
Prepaid insurance	(50)	650			
To Bad debt	500				
Opening provision	(1,000)				
Closing provision	1,000	500			
To Interest on overdraft		300			
To Depreciation on furniture		160			
		4,210			4,210

## Balance Sheet of Mr. Sandeep as on 31.3.2018

Particulars	₹	₹	Particulars	₹	₹
Capital	16,000		By Furniture	1,600	
Less: drawing	(2,000)		Less: Depreciation	(160)	1,440
Net loss	(2,500)	11,500	Bill receivable		3,000
Bank overdraft	2,000		Investment	4,000	
Add: interest	300	2,300	Add: accrued interest	210	4,210
Creditors		2,000	Debtors	5,000	
Bills payable		2,500	Less: Provision on bad debts	(1,000)	4,000
Outstanding expenses:			Closing stock		4,500
Salary	100		Cash in hand		1,500
Tax	200	300	Prepaid insurance		50
Commission received in advance		100			
		18,700			18,700

## 3. Below is the trial balance of Shah as December 31, 2015

Debit Balance	Rs.	Credit Balance	Rs.
Drawings	1,500	Capital Account	50,000
Adjusted purchases	6,99,200	Loan from Desai	
Salaries	4,500	@ 9% (taken on 1st July 2014)	20,000
Carriage on Purchases	400	Sales	7,20,000
on sales	500	Discount	500
Rates and Insurance	400	Sundry Creditors	20,000
Buildings	27,000		
Furniture	6,000		
Sundry Debtors	8,000		
Cash on Hand	250		
Cash at Bank	1,500		
Stock (31st December, 2015)	61,250		
	8,10,500		8,10,500

Additional information:

1. Rates have been prepaid to the extent of Rs. 175.
2. Bad debts Rs. 500 have to written off. A provision for doubtful debts @ 5% on debtors is necessary.
3. Building has to be depreciated at 2% and Furniture @ 10%.
4. The manager is entitled to a commission of 5% of net profits before charging such commission.

Solution: Trading and Profit and Loss Account of Shah for the Year ended on December 31, 2015

Particulars	Rs.	Particulars	Rs.
To Adjusted Purchases	6,99,200	By Sales	7,20,000
To Carriage on Purchases	400		
To Gross Profit c/d	20,400		
	7,20,000		7,20,000
To Salaries	4,500	By Gross Profit b/d	20,400
To Carriage on Sales	500	By Discount	500
To Rates & Insurance:			
Paid	400		
Less: Prepaid	175		
	225		
To Bad Debts written off	500		
To Provision for Doubtful Debts (5% of Rs. 7,500)	375		
To Depreciation:			
Buildings (2%)	540		
Furniture (10%)	600		
	1,140		
To Interest	1,800		
To Commission payable to manager (5% of Rs. 11,860*)	593		
To Net Profit	11,267		
	20,900		20,900

\*Rs. 20,900 less Rs. 9,040 (the total of all expenses so far), Manager is entitled to 5% of this figure.

(1) The trial balance gives "Adjusted Purchases". It means that the opening stock has already been transferred to the Purchases Account and thus been closed. Further, entry for closing stock has already been passed by debiting the Closing Stock Account and crediting Purchases Account. That is why closing stock appears inside the trial balance. It will now be shown in the Balance Sheet and not in the Trading Account since purchases already stand reduced.

(2) There is a Loan of Desai @ 9% taken in 2014 i.e. in last accounting year. As per mercantile system interest up to 31.12.14 must have been provided in the last years a/c itself. The trial balance makes no mention of any interest being paid to him. Hence, interest @ 9% must be provided for the whole of current year only.



Balance Sheet of Shah as at December 31, 2015

Liabilities		Amount	Assets		Amount
Capital Account	50,000		Fixed Assets:		
Add : Net Profit	11,267		Buildings	27,000	
Less: Drawings	1,500	59,767	Less: Depreciation	540	26,460
Loan from Desai	20,000		Furniture:	6,000	
Add: Interest Due	1,800	21,800	Less: Depreciation	600	5,400
Sundry Creditors		20,000	Current Assets:		
Commission Payable		593	Cash on hand		250
		1,02,160	Cash at Bank		1,500
			Sundry Debtors	7,500	
			Less: Provision for Doubtful debt	375	7,125
			Stock		61,250
			Prepaid Rates		175
					1,02,160

4. From the following Trial Balance of Hari and additional information prepare Trading and Profit & Loss Account for the year ended 31st March, 2016 and a Balance Sheet as on that date:

Trial Balance as at 31st March, 2016

	Dr.(Rs.)	Cr.(Rs.)
Capital	-	1,00,000
Furniture	20,000	-
Purchases	1,50,000	-
Debtors	2,00,000	-
Interest Earned	-	4,000
Salaries	30,000	-
Sales		-
	3,21,000	
Purchase Returns	-	5,000
Wages	20,000	-
Rent		15,000
Sales Return	10,000	-
Bad Debt Written off	7,000	-
Creditors	-	1,20,000
Drawings	24,000	-
Provision for Bad Debts	-	6,000
Printing & Stationery	8,000	-
Insurance	12,000	-
Opening Stock	50,000	-
Office Expenses	12,000	-
Provision for Depreciation	-	2,000

5,58,000

5,58,000

## Additional Information's:

- (1) Depreciate Furniture by 10% on original cost;
- (2) A provision for Doubtful Debts is to be created to the extent of 5% on Sundry Debtors;
- (3) Salaries for the month of March, 2016 amounting to Rs.3,000 were unpaid which must be provided for. However salaries included Rs.2,000 paid in advance;
- (4) Insurance amounting to Rs.2,000 is prepaid;
- (5) Provide for outstanding office expenses Rs.8,000;
- (6) Stock used for private purpose Rs.6,000;
- (7) Closing Stock-in-Trade Rs.60,000.

## Solution:

M/s Hari

## Trading and Profit and Loss Account for the year ended on 31.3.2016

Particulars	Rs.	Particulars	Rs.
To Opening stock	50,000	By Sales	3,21,000
To Purchases	1,50,000	(-) Return	10,000
(-) Return	5,100	By Goods used	6,000
To Wages	20,000	By Closing stock	60,000
To Gross profit c/d	1,62,000		
	3,77,000		3,77,000
To Salaries	30,000	By Gross Profit b/d	1,62,000
(+) Outstanding salary	3,000	By Interest	4,000
(-) Advance salary	2,000		
To Rent	15,000		
To Bad debts	7,000		
(+) Provisions	4,000		
To Printing and Stationery	8,000		
To Insurance	12,000		
(-) Prepaid	2,000		
To Office expenses	12,000		
(+) Outstanding	8,000		
To Depreciation	2,000		
To Net profit transferred to Capital a/c	69,000		
	1,66,000		1,66,000

M/s Hari

## Balance Sheet as on 31.3.2016

Liabilities	Rs.	Assets	Rs.
Capital	1,00,000	Furniture	20,000
(+) Net profit	69,000	(-) Dep. Provision: Bal. B/f	2,000

(-) Drawings	24,000		+ Current year dep.	2,000	4,000	16,000
(-) Goods taken	6,000	1,39,000	Stock			60,000
Creditors		1,20,000	Debtors	2,00,000		
Salary payable		3,000	(-) Provision: old b/f	6,000		
Expense payable		8,000	(-) Additional provision	4,000		1,90,000
			Advance salary			2,000
			Prepaid insurance			2,000
		2,70,000				2,70,000

## Adjustment Entries

No.	Particulars	Dr. Rs.	Cr. Rs.
1.	Depreciation a/c Dr. To Depreciation provision a/c (Depreciation for the current year provided by SLM)	2,000	2,000
2.	Bad debt a/c Dr. To Provision for Bad debt a/c (Provision for additional bad debts created. Required prov. 5% on Debtors of Rs.2,00,000 i.e. Rs.10,000 less existing prov. Rs.6,000 )	4,000	4,000
3.	Salary a/c Dr. To Salary payable a/c (Being salary for the month of March due) Advance Salary Dr. To Salary a/c (Being advance salary paid transferred to advance a/c)	3,000  2,000	3,000  2,000
4.	Prepaid Insurance a/c Dr. To Insurance expenses a/c (Being premium paid for next year, transferred to prepaid a/c)	2,000	2,000
5.	Office expenses a/c Dr. To Expenses payable a/c (Being provision made for expense payable)	8,000	8,000
6.	Drawings a/c Dr. To Goods used a/c (Being goods withdrawn by owner for personal use)	6,000	6,000
7.	Stock a/c Dr. To Trading a/c (Being closing stock adjusted)	60,000	60,000

## Transfer Entries / Book Closing Entries

No.	Particulars	Dr. Rs.	Cr. Rs.
1.	Purchase return a/c Dr. To Purchase a/c (Being purchase return balance transferred to purchases a/c)	5,000	5,000

No.	Particulars	Dr. Rs.	Cr. Rs.
2.	Trading a/c Dr . To Opening stock a/c To Purchase a/c To Wages a/c (Being direct expenses of goods transferred to trading a/c)	2,15,000	50,000 1,45,000 20,000
3.	Sales a/c Dr. To Sales return a/c (Being sales return a/c transferred to sales a/c)	10,000	10,000
4.	Sales a/c Dr. Goods used a/c Dr. To Trading a/c (Being sales a/c and goods used a/c transferred to trading a/c)	3,11,000 6,000	3,17,000
5.	Trading a/c Dr. To Profit & Loss a/c (Being gross profit shown by trading a/c transferred to P&L a/c)	1,62,000	1,62,000
6.	Interest a/c Dr. To Profit & Loss a/c (Being indirect incomes transferred to P&L a/c)	4,000	4,000
7.	Profit & Loss a/c Dr. To Salary a/c To Rent a/c To Bad debt a/c To Printing and stationery a/c To Insurance a/c To Office expense a/c To Depreciation a/c (Being expenses a/c transferred to P&L a/c)	97,000	31,000 15,000 11,000 8,000 10,000 20,000 2,000
8.	Profit & Loss a/c Dr. To Capital a/c (Being net profit as per P&L a/c transferred to capital a/c)	69,000	69,000
9.	Capital a/c Dr. To Drawings a/c (Being drawing adjusted against capital a/c)	30,000	30,000

5. From the following Trial Balance of K. Katrak as on 31-3-2016. Prepare Trading Account, Profit and Loss Account for the year ended 31-3-2016, and a Balance Sheet as on that date after making necessary adjustments:

Trial Balance			
	Dr. Rs.		Cr. Rs.
K. Katrak's Drawings	12,000	K. Katrak's Capital	60,000
Furniture & Fixtures	4,000	Returns Outward	2,000
Plant & Machinery	30,000	Sales	1,30,000

Opening Stock	20,000	Creditors	12,000
Purchases	80,000	Loan at 6% p.a. taken from	
Salaries and wages	22,400	M. Mehta on 1-10-2015	10,000
Debtors	20,400	Discount	600
Return Inward	5,000		
Postage & telegrams	1,500		
Rent, Rates and taxes	3,600		
Bad debts written off	400		
Trade Expenses	200		
Interest on loan from M. Mehta	150		
Insurance	800		
Travelling Expenses	500		
Sundry Expenses	300		
Cash-in-hand	3,050		
Cash at Bank	10,300		
	<b>2,14,600</b>		<b>2,14,600</b>

## Adjustments

- (1) Closing stock was valued at Rs.21,000;
- (2) Of the debtors Rs.400 are bad and should be written off. Create a reserve for bad debts at 5% on Sundry Debtors and a reserve for discount on Debtors at 2.5%.
- (3) Salaries Rs.800 for March,16 were not paid.
- (4) Interest on Capital is to be calculated at 6% p.a. and on drawings Rs.330.
- (5) Prepaid Insurance amounted to Rs.100.
- (6) Depreciate Furniture & Fixture by 5% and plant and machinery by 10%.

Solution:

M/S K. K. Katrak

Trading and Profit &amp; loss Account for the year ended on 31.13.16

Particulars	Amount	Particulars	Amount
To Opening stock	20,000	By Sales	1,30,000
To Purchase	80,000	(-) Return Inward	5,000
(-) Return outward	2,000	By Closing stock	21,000
To Gross profit	48,000		
	<u>1,46,000</u>		<u>1,46,000</u>
To Depreciation: Furniture	200	By Gross Profit	48,000
Plants & Mach.	3,000	By Discount	600
	3,200		
To Sundry expenses	300		
To Travelling expenses	500		
To Trade expenses	200		
To Salary & wages	22,400		
+ Salary payable	800		
	23,200		
To Postage & Telegram	1,500		
To Rent, Rates & Taxes			

Particulars	Amount	Particulars	Amount
To Bad debts 400	3,600		
+ Addl Bad debts written off 400			
+ Provision for bad debts 1,000	1,800		
To Interest on loan from Mr. Mehta 150	300		
+ Interest payable 150			
To Insurance 800	700		
(-) Prepared Insurance 100	475		
To Discount on debtor Provided	12,825		
To Net profit transferred to P&L app.	48,600		48,600

## Profit &amp; loss Appropriation Account

Particulars	Amount	Particulars	Amount
To Interest on capital	3,600	By Net profit as per P&L account	12,825
To Balance profit transferred to capital a/c	9,555	By Interest on drawings	330
	13,155		13,155

Interest on capital, interest on drawing, salary/commission etc. to owners and transfer to reserves etc. is taken in P&L appropriation a/c.

Loan from Mr. Mehta has been taken 6 month ago for which the interest accrued is Rs.300 out of which Rs.150 has already been paid and accounted balance Rs.150 is payable and is accounted now.

## Balance sheet as on 31.13.16

Liabilities	Rs.	Assets	Rs.
Capital 60,000		Furniture & fixture 4,000	
(+) Interest on Capital 3,600		(-) Depreciation 200	3,800
(-) Drawing 12,000		Plant & Machinery 30,000	
(-) Interest on drawing 330		(-) Depreciation 3,000	27,000
(+) Profit transfer from P&L a/c 9,555	60,825	Debtors 20,400	
Loan 10,000		(-) Bad debt written off 400	
Interest payable 150			20,000
Creditors 12,000		(-) Provision for bad debt 5% 1,000	
Outstanding salary 800			19,000
		(-) Provision for discount 2.5% 475	18,525
		Closing stock	21,000
		Prepaid Insurance	100
		Cash 3,050	

	+ Bank	10,300	13,350
83,775			83,775

## RTP & MTP QUESTIONS - JUNE 2023

Sr. No.	Paper	Question No.	Marks	✓
1	RTP - June 2023		-	
2	MTP I - June 2023			
3	MTP II - June 2023			