# FINAL ACCOUNTS (WITH ADJUSTMENTS)

**Final Accounts or Financial Statements**: are the end products of the financial accounting process which involves the preparation of a summary of the accounts with a view to determine:

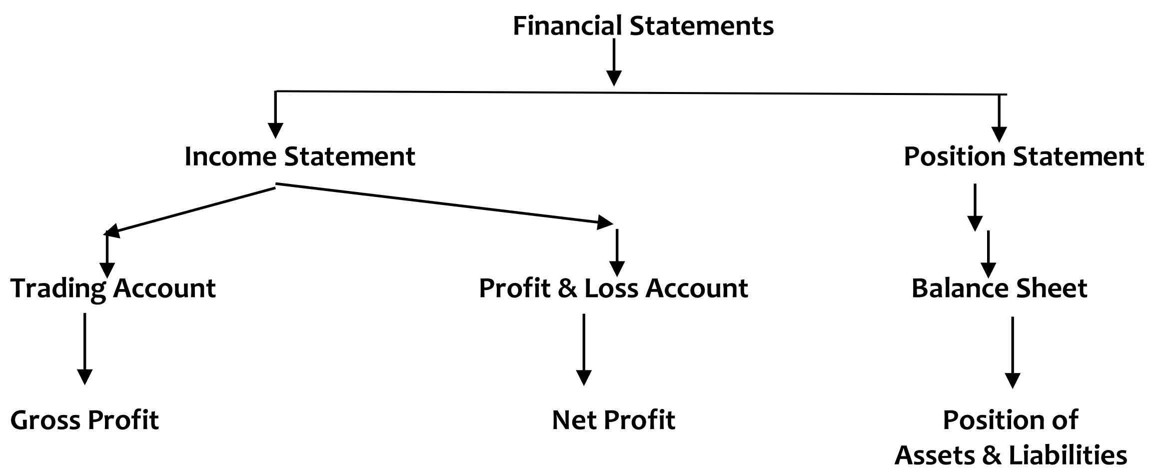
(i) Net profit from the trading activities in terms of profit made or loss incurred for a given period, and

(ii) Its financial position in terms of assets and liabilities as on the last date of the given period.

For the purpose of determining the profit or loss, a statement known as **Trading and Profit and Loss Account (Income Statement)** is prepared which incorporates all items of expenses and losses and all incomes and gains occurring during the accounting period.

In order to show the financial position on the last date of the accounting period, another statement known as **Balance Sheet (Position Statement)** is prepared which consists of all assets, liabilities and capital of the business. These two statements are collectively known as Final Accounts.

Final Accounts are prepared from the balances appearing in the trial balance. Debit balances of assets are transferred on the right hand side of the balance sheet while expenses and losses are debited to the Trading Account or to the Profit and Loss Account, depending upon the nature of expenditure or loss. Credit account balances like capital, liabilities, provisions and reserves are entered on the left hand side of the balance sheet while incomes and gains are credited to Trading Account or Profit and Loss Account.




## Comparison between Income Statement and Position Statement

| Income Statement | Position statement |
|---|---|
| Profit or loss is disclosed in the Income Statement prepared at the close of the financial year | It exhibits assets and liabilities of the business as at the close of the financial year. |
| Income Statement is sub-divided into following two parts for a non-manufacturing concern:<br>(i) Trading account; and<br>(ii) Profit and Loss account | Apart from balance sheet, to judge financial position of the business, sometimes additional statements are also prepared like cash flow statement, value added statement etc. which is not mandatory for non-corporate entities. These additional statements are prepared for the better understanding of the financial position of the business. |
| Income Statement discloses net profit of the business after adjusting from the income earned during the year, all the expenditures of the business incurred in that year. | Position statement discloses the assets and liabilities position as on a particular date. |

**Final Accounts includes following Accounts and statements:**

1. Manufacturing A/c (in case of manufacturing concern)
2. Trading A/c
3. Profit and Loss A/c
4. Balance Sheet

## Trading Account:

**Trading Account is the first part of income statement** which is prepared to ascertain the gross profit or gross loss for a given accounting period. Trading Account is prepared before the preparation of profit & loss account. It shows the result of trading activities relating to purchases & sales of goods & services. Trading account is prepared to calculate separately the profit from sale & purchase transactions only. The profit or loss is termed as gross profit or loss as various other expenses of an organsiation like administrative, selling & distribution, maintenance expenses etc. are not deduction. Only the direct expenses which are incurred to bring goods into saleable condition like freight, insurance, carriage inwards, rent & rates, fuel, power, royalties on production, consumption of stores etc. are taken into account to calculate gross profit/loss.

## Preparation of Trading Account:

Trading Account is a Nominal Account and all expenses which relate to either purchase or manufacturing of goods are written on the Dr. side of the Trading Account.

## Items written on the Dr. side of the Trading Account :-

**(1) Opening Stock:** The stock of goods remaining unsold at the end of the previous year is termed as the opening stock of the current year. In other words, the closing stock of the last year becomes the opening stock of the current year. Opening Stock will include the following :—

I. Opening Stock of Raw Material,
II. Opening Stock of Semi-finished goods, and
III. Opening Stock of Finished goods.

**(2) Purchases and Purchases Returns :—** Goods which have been bought for resale are termed as Purchases and goods which are returned to suppliers are termed as purchase returns or returns outwards. Purchase Account will be given on the debit side of the trial balance and Purchase Return Account on the credit side of the trial balance. Purchase returns will be shown as a deduction from Purchases on the debit side of the trading account. Purchases include cash as well as credit purchases.

**(3) Direct Expenses:—**All expenses incurred in purchasing the goods, bringing them to the godown and manufacture of goods are called direct expenses. Direct expenses include the following:

(I) **Wages :—** Wages are paid to workers who are directly engaged in the loading, unloading and production of goods and as such are debited to the trading account. It should be noted that:

(a) If the item 'Wages and Salaries' is given in the question it will be shown on the trading account. On the contrary, if 'Salaries and Wages' is given it will be shown on the Profit & Loss Account.

(b) If wages are paid for bringing a new machine or for its installation it will be added to the cost of the machine and hence will not be shown in the trading account.

(II) **Carriage or Carriage Inwards or Freight :—** These expenses should be debited to trading account because these are generally paid for bringing the goods to the factory or place of the business. However, if any carriage or freight is paid on bringing an asset, the amount should be added to the asset account and must not be debited to trading account.

(III) **Manufacturing Expenses :—** All expenses incurred in the manufacture of goods are shown on the debit side of the trading account such as Coal, Gas, Fuel, Water, Power, Factory Rent, Factory Lighting etc.

(IV) **Dock Charges :—** These are the charges levied on ships and their cargo while entering or leaving docks. If dock charges are paid on import of goods they are shown on the debit side of Trading Account. In the absence of specific instructions, these are debited to Trading Account.

(V) **Import Duty or Custom Duty :—** Custom duty is paid on import as well as on export of goods. Custom duty when paid on the purchase of goods is charged to Trading Account. In the absence of specific instructions, these are debited to trading account.

(VI) **Octroi:—** This is levied by the Municipal Committee when the goods enter the city and hence debited to Trading Account.

(VII) **Royalty :—** This is the amount paid to the owner of a mine or patent for using his right or patent. Royalty is usually charged to Trading Account because it increases the cost of production. However, if it is specifically stated in the question that the Royalty is based on sales, it will be charged to Profit and Loss Account.

## Items written on the Cr. side of the Trading Account:-

**(1) Sales and Sales Returns:—** Both Cash and Credit sales will be included in sales. The sales account will be a credit balance whereas, the sales return account or returns inwards account will be a debit balance. Sales return will be deducted out of Sales on the credit side of the trading account.

**(2) Closing Stock :—** The goods remaining unsold at the end of the year is known as Closing Stock. It is valued at cost price or market price whichever is less. It includes the closing stock of raw material, Closing Stock of semi-finished goods and Closing Stock of finished goods.

Normally, the Closing Stock is given outside the Trial Balance. This is so because its valuation is made after the accounts have been closed. It is incorporated in the books by means of the following entry:

Closing Stock A/c Dr.
    To Trading A/c
(Closing Stock transferred to Trading A/c)

**Important Note:**
When the above entry is passed, the Closing Stock Account is opened. On the one hand, it will be posted to the credit side of the trading account and on the other hand, will be shown on the Assets side of the Balance Sheet, in order to complete the double entry. Sometimes, the Closing Stock is given inside the Trial Balance. This will mean that the entry to incorporate the closing stock in the books has already been passed. It would imply that the Closing Stock must have been deducted out of Purchases Account. Hence, in such a case, Closing Stock will not be shown in the Trading Account but will appear on the Assets side of the Balance Sheet only.

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**Closing Entries Relating to Trading Account:**

The preparation of the Trading Account requires that the balances of all such accounts which are due to appear in the Trading Account are transferred to it. The entries required for such transfer are termed as Closing Entries. These will be as follows :—

**(1) Purchases Returns Account is closed by transferring its balance to Purchases Account. Following entry is recorded for this purpose:**

Purchases Return A/c Dr.
To Purchases A/c
(Transfer of purchases returns account to purchases account)

**(2) Similarly, the Sales Returns Account is closed by transferring its balance to the Sales Account as:**

Sales A/c Dr.
To Sales Return A/c
(Transfer of Sales Return Account to Sales Account)

**(3) Closing Entry for those accounts which are to be transferred to the Dr.' side of the Trading Account:**

Trading A/c Dr.
To Opening Stock A/c
To Purchases A/c
To Wages A/c
To Direct Expenses A/c
To Carriage A/c
To Gas, Fuel & Power A/c
To Freight, Octroi & Cartage A/c
To Manufacturing exp. A/c
To Factory Rent & Lighting A/c
To Custom Duty A/c
To Royalty A/c
(The Transfer of above accounts to the Dr. side of the Trading A/c)

**(4) Closing Entry for those accounts which are to be transferred to the Cr. side of the Trading Account:**

Sales A/c Dr.
Closing Stock A/c Dr.
To Trading A/c
(The Transfer of above accounts to the Cr. side of the Trading A/c)

**(5) Another Closing Entry is needed to close the Trading Account itself. If the credit side of the Trading Account exceeds the debit, the difference will be Gross Profit. The Gross Profit will be transferred to the credit of a newly opened account called Profit and Loss Account :—**

Trading A/c Dr.
To Profit & Loss A/c
(The Transfer of Gross Profit to the Credit side of P & LA/c)

**(6) If the debit side of the Trading Account exceeds the credit, the difference will be Gross Loss. It will be transferred to the debit of P & L A/c by means of the following entry**

Profit & Loss A/c Dr.
 To Trading A/c
(The Transfer of Gross Loss to the Debit side of P & L A/c)

## Trading A/c (for the period ending on ......................)

| Particulars | | Rs. | Particulars | | Rs. |
|---|---|---|---|---|---|
| To Opening Stock | | xxx | By Sales | xxx | |
| To Purchases | xxx | | Less : Return Inward | xxx | xxx |
| Less: Return Outward | xxx | xxx | By Closing Stock | | xxx |
| To Direct Expenses | | xxx | By Abnormal loss of stock | | xxx |
| To Wages and Salaries | | xxx | By Gross loss transferred to P/L A/c | | xxx |
| To Freight Inward | | xxx | | | |
| To Cartage Inward | | xxx | | | |
| To Carriage Inward | | xxx | | | |
| To Gross Profit transferred to P/L A/c | | xxx | | | - |
| | | xxx | | | xxx |

**Notes :**

(1) In the heading of the Trading Account the words 'For the year ended……' are used. Because it discloses the position of the business for the full accounting year and not at a particular point of time.

(2) No separate column for date is prepared in the Final Accounts because the date will he already mentioned in the heading itself.

(3) No column for L.F. is prepared in Final Accounts because these are prepared from trial balance and not from ledger accounts directly.

**Question 1:** Prepare a Trading Account for the year ended 31st March, 2012 from the following balances :—

| | | | |
|---|---|---|---|
| Opening Stock | 2,00 000 | Purchases Return | 60,000 |
| Purchases | 10,00,000 | Sales Return | 1,00,000 |
| Sales | 25,00,000 | Carriage on Purchase | 40,000 |
| Freight and Octroi | 32,500 | Carriage on sales | 50,000 |
| Wages | 1,50,000 | Factory Rent | 60,000 |
| Factor Lighting | 54,000 | Office Rent | 37,500 |
| Coal. Gas and Water | 11,000 | Import Duty | 1,60,000 |

Closing Stock is valued at Rs. 3,00,000.

**Solution:**

**TRADING A/C**

Dr. for ending 31st March, 2012 Cr.

| | | | | | |
|---|---|---|---|---|---|
| To Opening Stock | | 2,00,000 | By Sales | 25,00,000 | |
| To Purchases | 10,00,000 | | **Less:** Sales Returns | 1,00,000 | 24,00,000 |
| **Less:** Purchases Return | 60,000 | 9,40,000 | By Closing Stock | | 3,00,000 |

| | | | |
|---|---|---|---|
| To Freight and Octroi | 32,500 | | |
| To Wages | 1,50,000 | | |
| To Factory Lighting | 54,000 | | |
| To Coal, Gas and Water | 11,000 | | |
| To Carnage on Purchase | 40,000 | | |
| To Factory Rent | 60,000 | | |
| To import Duty | 1,60,000 | | |
| To Gross Profit transferred to Profit & Loss A/c | 10,52,500 | | |
| | 27,00,000 | | 27,00,000 |

**Cost of Goods sold:**
Cost of Goods sold = Opening Stock + Purchases + Direct Expenses*— Closing Stock
*Direct Expenses means expenses debited to the Trading Account

**Question 2:**
From the following information, prepare the Trading Account for the year ended 31st March, 2010:
Adjusted Purchases Rs. 24,00,000; Freight and Carriage Inwards Rs. 20,000; Freight and Carriage Outwards Rs. 15,000; Wages Rs. 1,68,000; Octroi Charges Rs. 2,000; Fuel and Power Rs. 30,000; Office Rent Rs. 18,000; Trade Expenses Rs. 10,000; Sales Rs. 30,00,000; Closing Stock Rs. 1,50,000.

**Solution:**

**TRADING ACCOUNT**
Dr. for the year ending 31st March, 2010 Cr.

| | | | |
|---|---|---|---|
| To Adjusted Purchases | 24,00,000 | By Sales | 30,00,000 |
| To Freight and Carriage Inwards | 20,000 | | |
| To Wages | 1,68,000 | | |
| To Octroi Charges | 2,000 | | |
| To Fuel and Power | 30,000 | | |
| To Gross Profit transferred to Profit & Loss A/c | 3,80,000 | | |
| | 30,00,000 | | 30,00,000 |

**Notes:**
(1) Adjusted Purchases Net Purchases + Opening Stock — Closing Stock.
(2) Closing Stock has not been shown on the credit side of Trading A/c since it has already been adjusted while computing the adjusted purchases.
(3) Following items are not entered in the Trading A/c because they are indirect expenses and will appear in the Profit & Loss A/c:
(i) Freight and Carriage Outwards (ii) Office Rent (iii) Trade Expenses.

**Question 3:**
From the following information, prepare a Trading Account for the year ending 31st March, 2009:

| | |
|---|---|
| Opening Stock | 40,000 |
| Purchases | 4,20,000 |
| Expenses on Purchases | 8,000 |
| Expenses on Sales | 15,000 |

| | |
|---|---|
| Wages | 30,000 |
| Sales | 6 00,000 |
| Closing Stock | 52,000 |

Also calculate cost of goods sold and gross profit on the basis of cost of goods sold.

**Solution:**

Dr. Trading Account Cr.

| | | | |
|---|---|---|---|
| To Opening Stock | 40,000 | By Sales | 6,00,000 |
| To Purchases | 4,20,000 | By Closing Stock | 52,000 |
| To Expenses on Purchases | 8,000 | | |
| To Wages | 30,000 | | |
| To Gross Profit transferred to Profit and Loss A/c | 1,54,000 | | |
| | 6,52,000 | | 6,52,000 |

**Cost of Goods Sold** =Opening Stock + Purchases + Expenses on Purchases + Wages — Closing Stock
= Rs. 40,000 + 4,20,000 + 8,000 + 30,000 — 52,000 = 4,46,000

**Gross Profit** = Sales — Cost of Goods Sold
= Rs. 6,00,000 — Rs. 4,46,000 = 1,54,000.

**Note:** Expenses on Sales will not be considered while preparing Trading Account or while computing the cost of goods sold.

## Question 4:

Calculate gross profit when:
Total purchases during the year are Rs. 8,00,000
Return outward Rs. 20,000
Direct expenses Rs. 60,000
2/3 of the goods are sold for Rs. 6,10,000

**Solution:**

Cost of Goods Sold = Total Purchases — Return Outwards + Direct Expenses
= Rs. 8,00,000 — 20,000 + 60,000 = 8,40,000
2/3 of the goods are sold for Rs. 6,10,000.
Cost of 2/3 of the goods sold = 8,40,000 x 2/3 = 5,60,000
Gross Profit = Sales — Cost of Goods Sold
= Rs. 6,10,000 — 5,60,000 = Rs. 50,000

## Question 5:

Calculate Cost of Goods Sold and Closing Stock from the following information:
Sales Rs. 5,40,000; Sales Returns Rs. 16,000; Gross Profit Rs. 1,20,000;
Opening Stock Rs. 20,000; Purchases Rs. 4,00,000; Purchase Returns Rs. 4,000; Carriage Inward Rs. 15,000.

**Solution:**

Net Sales = Sales — Sales Returns
= 5,40,000 — 16,000 = 5,24,000
Cost of Goods Sold = Net Sales — Gross Profit
= 5,24,000 — 1,20,000 = 4,04,000

Cost of Goods Sold = Opening Stock + Purchases — Purchase Returns + Carriage Inward — Closing Stock
4,04,000 = 20,000 + 4,00,000 — 4,000 + 15,000 — Closing Stock
4,04,000 = 4,31,000 — Closing Stock
Closing Stock = 4,31,000 — 4,04,000 = 27,000

**Question 6:**

From the following information, prepare a Trading Account for the year ended 3lstMarch, 2010:

| | |
|---|---|
| Cost of Goods Sold | 8,00,000 |
| Sales | 10,00,000 |
| Wages | 25,000 |
| Closing Stock | 60,000 |

**Solution:**

**TRADING ACCOUNT**

Dr. for the year ended 31st March, 2010 Cr.

| | | | |
|---|---|---|---|
| To Cost of Goods Sold | 8,00,000 | By Sales | 10,00,000 |
| To Gross Profit transferred to Profit & Loss A/c | 2,00,000 | | |
| | 10,00,000 | | 10,00,000 |

**Notes :**

(1) Cost of Goods Sold = Opening Stock + Purchases + Direct Expenses (for example wages) Closing Stock.
(2) Wages and Closing Stock are not shown in the Trading Account because they have already been adjusted while calculating the cost of goods sold.

**Question 7:**

Net Sales during the year 2011 is Rs. 2,85,000. Gross Profit is 25% on Sales. Find out Cost of Goods Sold.

**Solution:**

Gross Profit = Rs. 2,85,000 x 25/100 = 71,250
Cost of Goods Sold = 2,85,000 — 71,250 = 2,13,750

**Question 8:**

Net Sales during the year 2011 is Rs. 6,00,000. Gross Profit is 25% on Cost. Find out Gross Profit and Cost of goods sold.

**Solution:**

Gross Profit is 25% on Cost.
Hence, if Cost is Rs. 100, Gross Profit will be Rs. 25 and Sales will be Rs. 125
Thus, if Sale is Rs. 125, Gross Profit will be Rs. 25
if Sale is Rs. 6,00,000, Gross Profit will be 6,00,000 x 25/125 = 1,20,000
Cost of Goods Sold = Sale — Gross Profit
= 6,00,000 — 1,20,000 = 4,80,000

**Question 9:**

In a burglary at the Godown of Sh. Hansraj on the night of 14th July, 2009, Part of the stock was stolen. From the following particulars find out the estimated value of loss of stock by theft:

| | |
|---|---|
| Stock on 1st April, 2009 | 60,000 |
| Purchases from 1st April to 14th July, 2009 | 4,10,000 |
| Sales from 1st April to 14th July, 2009 | 6,00,000 |
| Stock remaining after burglary | 12,000 |

The normal rate of gross profit for his business is 30% of selling price.

**Solution:**

**TRADING ACCOUNT**

Dr. for the period 1st April to 14$^{th}$ July 2009 Cr.

| | | | |
|---|---|---|---|
| To Opening Stock | 60,000 | By Sales | 6,00,000 |
| To Purchases | 4,10,000 | By Closing Stock | |
| To Gross Profit @ 30% on sales | 1,80,000 | (Balancing Figure) | 50,000 |
| | 6,50,000 | | 6,50,000 |

| | |
|---|---|
| Stock on 14th July, 2009, as calculated above | 50,000 |
| **Less:** Stock remaining after burglary | 12,000 |
| Value of Stock stolen | 38,000 |

**Question 10:**

Calculate closing stock from the following details:

| | |
|---|---|
| Opening Stock | 20,000 |
| Cash Sales | 60000 |
| Credit Sales | 40,000 |
| Purchase | 70,000 |

Rate of Gross profit on cost 33 $^{1/3}$%.

**Solution:**

Total Sales = Cash Sales + Credit Sales = Rs. 1,00,000

Goods Costing 100 must have been sold for 133 $^{1/3}$

Hence, If Sales 133 $^{1/3}$ then Gross Profit = 33 $^{1/3}$

If Sales 1,00,000 then Gross Profit = 100/3 × 3/400 × 1,00,000 = 25,000

Cost of Goods Sold= Sales — Gross Profit

= 1,00,000 — 25,000 = 75,000

Cost of Goods Sold = Opening Stock + Purchases — Closing Stock

75,000 = 20,000 + 70,000 — Closing Stock

Closing Stock = 20,000 + 70,000 — 75,000 = 15,000

**Question 11:**

Calculate Net Sales and Gross Profit from the following information:

Cost of Goods Sold Rs. 1,00,000

Gross Profit 20% on Sales

**Solution:**

If Sale is Rs. 100, G.P. will be Rs. 20 and Cost = 100—20 = Rs. 80

Hence, if Cost of Goods Sold is Rs. 80, Sale will be Rs. 100

if Cost of Goods Sold is Rs. 1,00,000,

Sale will be 100/80 × 1,00,000 = Rs. 1,25,000

G.P. = Sales — Cost of Goods Sold
= 1,25,000 - Rs. 1,00,000 = 25,000

**ILLUSTRATION FROM STUDY MODULE:**

**Question 12:** Trial Balance for financial the year (FY) ended 31st March 2017 of M/s Deepakshi shows following details:

| **Particulars** | **Debit (Rs.)** | **Credit (Rs.)** |
|---|---|---|
| Purchase & Sales | 10,00,000 | 12,00,000 |
| Debtors & Creditors | 5,00,000 | 4,00,000 |
| Opening Stock | 2,00,000 | |
| **Closing Stock** | **3,00,000** | |
| Other Expenses & Incomes | 7,00,000 | 9,00,000 |
| Fixed Assets & Long Term Liabilities | 25,00,000 | 6,00,000 |
| Capital | | 21,00,000 |
| | 52,00,000 | 52,00,000 |

**Additional information :** Creditors balance as on 1st April2016 is Rs. 3,00,000.
You are required to calculate cost of goods sold& amount paid to creditors during the year.

**Solution:**

**(i) Calculation of Cost of Goods sold:**

| **Particulars** | **Rs.** |
|---|---|
| Opening Stock | 2,00,000 |
| **Add:** Purchases (Closing stock already adjusted) | 10,00,000 |
| Cost of Goods Sold | 12,00,000 |

Since, closing stock appears in Trial Balance, it means following entry has already been passed in books:

Closing Stock A/c Dr. 3,00,000
To Purchases A/c 3,00,000

So, we can see purchases have already been reduced by the amount of unsold stock, therefore no more adjustment needs to be made on account of closing stock for computing Cost of goods sold (COGS).

(ii) Calculation of amount paid to creditors:

| Date | Particulars | Rs. | Date | Particulars | Rs. |
|---|---|---|---|---|---|
| **31.3.17** | To Bank A/c (Balancing Figure) | 12,00,000 | 1.4.16 | By Balance b/d | 3,00,000 |
| | To Balance c/d | 4,00,000 | | By Purchases A/c (Note:1) | 13,00,000 |
| | | 16,00,000 | | | 16,00,000 |

**Note:** (1) Purchases made during the year can be computed as:

| **Particulars** | **Rs.** |
|---|---|
| Purchases as per Trial Balance | 10,00,000 |
| **Add:** Closing Stock already adjusted | 3,00,000 |

| | |
|---|---|
| Purchases made during the year | 13,00,000 |

## Profit and Loss Account

A Profit and Loss Account is started with the amount of gross profit or gross loss brought down from the Trading Account. As such, all those expenses and losses which have not been debited to the Trading Account are now debited to Profit & Loss Account. These expenses include administrative expenses, selling expenses, distribution expenses etc. These are called 'Indirect Expenses'. Profit and Loss Account is a Nominal Account and as such, all the expenses and losses are shown on its debit side and all the incomes and gains are shown on its credit side.

## Items Written on the Dr. Side of Profit & Loss Account

**(1) Gross Loss :—** If trading account discloses Gross Loss, it is shown on the debit side first of all.

**(2) Office and Administrative Expenses :—** Such as salary of office employees, office rent, lighting, postage, printing, legal charges, audit fee etc.

**(3) Selling and Distribution Expenses: —** Such as advertisement charges, commission, carriage outwards, bad-debts, packing charges etc.

**(4) Miscellaneous Expenses: —** Such as interest on loan, interest on capital, repair charges, depreciation charity etc.

## Items written on the Cr. side of Profit & Loss Account

**(1) Gross Profit: —** The starting point of the Cr. side of Profit and Loss Account is the gross profit brought down from the Trading Account.

**(2) Other Incomes and Gains :—** All items of incomes and gains are shown on the credit side of the Profit & Loss Account, such as income from investments, rent received, discount received, commission earned, interest received, dividend received etc.

If the credit side of the profit and loss account exceeds that of debit side, the difference is termed as net profit. On the other hand, the excess of the debit side over the credit side is termed as net loss. Net profit is added to the capital whereas net loss is deducted from the capital.

**Closing Entries relating to Profit and Loss Account:**

The preparation of Profit and Loss Account requires that the balances of all concerned items are transferred to it by passing the following closing entries:

**(1) Accounts of various items of expenses and losses are transferred to the debit side of Profit and Loss Account by means of the following entry:**

Profit and Loss A/c Dr.
 To Salaries A/c
 To Rent, Rates and Taxes A/c

To Printing and Stationery A/c
To Postage and Telegrams A/c
To General Expenses etc.
(The transfer of nominal accounts showing Dr. balances to the Debit of P & L A/c)

**(2) Balances of all the accounts of incomes and gains will be transferred to the credit side of Profit and Loss Account by means of the following entry:**

Interest Received A/c Dr.
Commission Received A/c Dr.
Rent Received A/c Dr.
To Profit and Loss A/c
(The transfer of nominal accounts showing Cr. balances to the Credit of P & L A/c)

**(3) For the transfer of credit balance of Profit & Loss A/c. known as net profit**

Profit and Loss A/c Dr.
To Capital A/c
(The transfer of net profit to Capital A/c)

**(4) For the transfer of debit balance of Profit & Loss A/c, known as net loss**

Capital A/c Dr.
To Profit and Loss A/c
(The transfer of net loss to Capital A/c)

**Profit and Loss A/c of ...... for the period ending on ............**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Gross Loss b/d | xxx | By Gross Profit b/d | xxx |
| To Salaries and Wages | xxx | By Interest earned | xxx |
| To Rent, Rates & Taxes | xxx | By Commission earned | xxx |
| To Repairs and Maintenance | xxx | By Rent earned | xxx |
| To Fire Insurance Premium | xxx | By Profit on Sale of fixed assets | xxx |
| To Depreciation | xxx | By Income from Investments | xxx |
| To Audit Fees | xxx | By Sale of Scraps | xxx |
| To Bank Charges | xxx | By Miscellaneous Income | xxx |
| To Legal Charges | xxx | By Net Loss transferred | xxx |
| To Miscellaneous Expenses | xxx | | |
| To Discount Allowed | xxx | | |
| To Carriage Outward | xxx | | |
| To Freight Outward | xxx | | |
| To Travelling Expenses | xxx | | |
| To Entertainment Expenses | xxx | | |
| To Sales promotion Expenses | xxx | | |
| To Advertising & Publicity | xxx | | |
| To Bad Debts | xxx | | |
| To Packing Expenses | xxx | | |
| To Interest on Loan | xxx | | |
| To Net Profit | xxx | | |

| | | | |
|---|---|---|---|
| | x x x | | x x x |

**Notes :—**

(1) Those expenses which are not related to the business are not written in the Profit and Loss Account such as:
(i) Domestic and household expenses of the proprietor,
(ii) Income-Tax, and
(iii) Life Insurance Premium etc. These expenses are known as Drawings and deducted from Capital at the liabilities side of the Balance Sheet.

(2) Only those items of expenses and incomes are shown in the Profit & Loss Account which have not been shown in the Trading Account.
* Income received by providing training to someone is called 'Apprentice Premium'.

**ILLUSTRATION FROM STUDY MODULE**

**Question 13:** Revenue, Expenses and Gross Profit Balances of M/s ABC Traders for the year ended on 31st March 2016 were as follows:
Gross Profit Rs. 4,20,000, Salaries Rs. 1,10,000, Discount (Cr.), Rs. 18,000, Discount (Dr.) Rs. 19,000, Bad Debts Rs. 17,000, Depreciation Rs. 65,000, Legal Charges Rs. 25,000, Consultancy Fees Rs. 32,000, Audit Fees Rs. 1,000, Electricity Charges Rs. 17,000, Telephone, Postage and Telegrams Rs. 12,000, Stationery Rs. 27,000, Interest paid on Loans Rs. 70,000.

**Required:**

Prepare Profit and Loss Account of M/s ABC Traders for the year ended on 31st March, 2016. Show necessary closing entries in the Journal Proper of M/s. ABC Traders also.

**Solution:**

**In the Books of M/s. ABC Traders**

Profit and Loss Account

**For the year ended 31st March, 2016**

| **Particulars** | Amount **Rs.** | **Particulars** | Amount **Rs.** |
|---|---|---|---|
| To Salaries | 1,10,000 | By Gross Profit | 4,20,000 |
| To Legal Charges | 25,000 | By Discount received | 18,000 |
| To Consultancy Fees | 32,000 | | |
| To Audit Fees | 1,000 | | |
| To Electricity Charges | 17,000 | | |
| To Telephone, Postage &Telegrams | 12,000 | | |
| To Stationery | 27,000 | | |
| To Depreciation | 65,000 | | |
| To Discount Allowed | 19,000 | | |
| To Bad Debts | 17,000 | | |
| To Interest | 70,000 | | |
| To Net Profit | 43,000 | | |
| | 4,38,000 | | 4,38,000 |

**Journal Proper in the**
**Books of M/s. ABC Traders**

| Date | Particulars | | Amount | Amount |
|---|---|---|---|---|
| 2016 | | | Rs. | Rs. |
| March 31 | Profit & Loss Account | Dr. | 3,95,000 | |
| | To Salaries A/c | | | 1,10,000 |
| | To Legal Charges A/c | | | 25,000 |
| | To Consultancy Fees A/c | | | 32,000 |
| | To Audit Fees A/c | | | 1,000 |
| | To Electricity Charges A/c | | | 17,000 |
| | To Telephone, Postage & Telegrams A/c | | | 12,000 |
| | To Stationery A/c | | | 27,000 |
| | To Depreciation A/c | | | 65,000 |
| | To Discount Allowed A/c | | | 19,000 |
| | To Bad Debts A/c | | | 17,000 |
| | To Interest A/c | | | 70,000 |
| | (Being the transfer of balances of various expenses accounts) | | | |
| | Discount Received A/c | Dr. | 18,000 | |
| | To Profit & Loss A/c | | | 18,000 |
| | (Being the transfer of discount received account balance) | | | |
| | Gross Profit A/c | Dr. | 4,20,000 | |
| | To Profit & Loss A/c | | | 4,20,000 |
| | (Being the transfer of gross profit from Trading Account) | | | |
| | Profit & Loss A/c | Dr. | 43,000 | |
| | To Net Profit A/c | | | 43,000 |
| | (Being the ascertainment of net profit) | | | |
| | Net Profit A/c | Dr. | 43,000 | |
| | To Capital A/c | | | 43,000 |
| | (Being the transfer of net profit to Capital A/c) | | | |

## Balance sheet

Balance sheet is a statement which shows the financial position i.e. the balances of assets, liabilities and capital, of a business entity at a given date. It is prepared from the real accounts and personal accounts of trial balance. A debit balance in a real account or personal account represents an asset of the concern/firm. Likewise a credit balance in a personal account represents a liability. There can be some newly opened accounts as well on account of adjustment entries. These assets and liabilities are arranged in a proper way and the resultant statement is the balance sheet. On the right hand side, assets are arranged while on the left hand side, liabilities are recorded. The totals of the two sides of the balance sheet must agree because of the equation, viz. Assets = Liabilities + Capital.

If there is a difference, it means that there is some mistake. The difference, if it does occur, should be placed on the deficit side as Suspense Account to make the two sides agree apparently.

## ARRANGEMENTS OF ASSETS AND LIABILITIES

**Assets:** Assets may be grouped in one of the following two ways:

(i) **Liquidity:** Under this approach, the asset, which can be converted into cash first, is presented first. Those assets, which are most difficult in this respect, are presented at the bottom. As per Liquidity the balance sheet can be prepared as follow:-

Balance Sheet as at...

| Liabilities | Amount Rs. | Assets | Amount Rs. |
|---|---|---|---|
| Bills Payable | | Cash in Hand | |
| Trade Creditors | | Cash at Bank | |
| Loans | | Government Securities | |
| Outstanding Expenses | | Other Investments | |
| Reserves & Surplus | | Bills Receivable | |
| Capital | | Sundry Debtors | |
| | | Stock | |
| | | Furniture & Fixtures | |
| | | Plant & Machinery | |
| | | Land and Building | |

**(ii) Permanence:** Assets, which are to be used, for long term in the business and are not meant to be sold are presented first. Assets, which are most liquid, such as cash in hand, are presented at the bottom.

Balance Sheet as at...

| Liabilities | Amount Rs. | Assets | Amount Rs. |
|---|---|---|---|
| Capital | | Land and Building | |
| Reserves & Surplus | | Plant & Machinery | |
| Outstanding Expenses | | Furniture & Fixtures | |
| Loans | | Stock | |
| Trade Creditors | | Sundry Debtors | |
| Bills Payable | | Bills Receivable | |
| | | Other Investments | |
| | | Government Securities | |
| | | Cash at Bank | |
| | | Cash in Hand | |

**Note:-**

**(1)** Some of the assets may be capable of being sold easily like investment in government securities or shares of some companies. They should be treated as liquid or permanent according to the intention of the firm.

**(2) Liabilities:** Liabilities may also be shown according to the urgency with which payment has to be made. One way is to first show the capital, then long-term liabilities and last of all short term liabilities like amounts due to suppliers of goods or bills payable. The other way is to start with short-term liabilities and then show long term liabilities and last of all capital.

## CLASSIFICATION OF ASSETS AND LIABILITIES

**Assets are basically of two types:**

**Current Assets:-** these assets are meant to be converted into cash as quickly as possible. Generally within one year. For Example:- Cash in hand, Cash at Bank, Trade receivables, Inventories.

**Long Term Assets:-** Those that are meant to be used by the firm over a long period and not sold the former type of assets is also called fixed assets. For Example Machinery, Building, Long term Investment.

**Intangible Assets:-** the assets which have no physical existence and cannot be seen or touched are called as Intangible Assets. For example Patents, Copyrights etc.

It is desirable that in the balance sheet the two types of assets should be shown separately and prominently. This would give meaningful and logical information.

**Liabilities to outsider will be of two types:**

**Current Liabilities:-** this liability must be settled in one year or less. It is also called as short term liability. For Example:- Creditors, Bills Payable etc.

**Long Term Liability:-** those liabilities which exists for more than one year are Long term liabilities. For example long term loans from banks. Of course, it will include undistributed profits also.

Sole proprietors generally present Balance Sheet in a horizontal form with "Capital and Liabilities" on the left hand side and 'Assets' on the right-hand side. In the Balance Sheet the various items should be grouped suitably as indicated below:

**Balance Sheet as on……………**

| **Liabilities** | **Amount** | **Assets** | **Amount** |
|---|---|---|---|
| Capital A/c: | Rs. | **Tangible Fixed Assets:** | Rs. |
| Balance | | Land and Building | |
| **Add:** Net Profit/Less: Net Loss | | Plant and Machinery | |
| **Less:** Drawings | | Furniture and Fixture | |
| **Long Term Loans:** | | Vehicles | |
| Term Loans | | **Intangibles:** | |
| Other Loans | | Goodwill | |
| **Short Term Loans:** | | Patent Rights | |
| Cash Credit | | Designs and Brand Names | |
| Overdrafts | | | |
| Other Loans | | **Investments:** | |

| | | | |
|---|---|---|---|
| **Current Liabilities:** | | Long term investments | |
| Trade payables | | | |
| Outstanding Expenses | | **Current Assets:** | |
| Advances Taken | | Inventory in Trade | |
| | | Trade receivables | |
| **Provision:** | | Short term investments | |
| Provision for Bad debts | | Prepayments | |
| Provision for Retirement Benefits | | Advances | |
| Provision for Taxation | | Bank Balances Cash In Hand | |

If course, there is no hard and fast rule regarding presentation of assets, liabilities and equities in the Balance sheet. However, the model presentation shown above has been designed considering the nature of Balance Sheet elements and categorizing them appropriately.

Proper presentation of Balance Sheet items improves understandability of the information desired to be communicated to the users of account.

## ILLUSTRATION FROM STUDY MODULE

**Question 14:** Given below Trial Balance of M/s Dayal Bros, as on 31st March, 2017:

| Particulars | Debit Balances Rs. | Credit Balances Rs. |
|---|---|---|
| Capital A/c | | 7,00,000 |
| Land and Building | 3,00,000 | |
| 14% Term Loan | | 4,00,000 |
| Loan from M/s. D & Co. | | 4,60,000 |
| Trade receivables | 4,20,000 | |
| Cash in hand | 20,000 | |
| Inventories in Trade | 6,00,000 | |
| Furniture | 2,00,000 | |
| Trade payables | | 40,000 |
| Advances to Suppliers | 1,00,000 | |
| Net Profit | | 1,00,000 |
| Drawings | 60,000 | |
| | 17,00,000 | 17,00,000 |

**Required:**

Prepare Balance Sheet as on 31st March, 2017.

**Solution:**

**In the Books of M/s Dayal Bros.**
**Balance Sheet**
**as on 31st March, 2017**

| Liabilities | Rs. | Amount (Rs.) | Assets | Amount (Rs.) |
|---|---|---|---|---|
| Capital: Balances | 7,00,000 | | Land & Building | 3,00,000 |
| **Add:** Net Profit | 1,00,000 | | Furniture | 2,00,000 |
| | 8,00,000 | | Inventories in Trade | 6,00,000 |

| | | | | |
|---|---|---|---|---|
| **Less:** Drawings | (60,000) | 7,40,000 | Trade receivables | 4,20,000 |
| 14% Term Loan | | 4,00,000 | Advances to Suppliers | 1,00,000 |
| Loan from M/s D & Co. | | 4,60,000 | Cash in Hand | 20,000 |
| Trade payables | | 40,000 | | |
| | | 16,40,000 | | 16,40,000 |

## ADJUSTMENT ENTRIES

### 1. Closing Stock :-

The amount of goods unsold at the end of year is called closing stock. It is valued at cost price or realizable value, whichever is less.

**Adjustment entry :-**

Closing Stock A/c Dr.
To Trading A/c
(For Closing stock transfer in Trading A/c)

**Adjustment in Final A/c :-**

(1)Shown on the Credit side of Trading A/c.
(2)Shown on the Asset side of Balance-Sheet.

### 2. Outstanding Expenses :-

There are the expenses which have been incurred during the Year, but have been left unpaid on the date of Preparation of Final A/c.

**Adjustment entry :-**

Expenses A/c Dr.
To Outstanding Exp. A/c
(For Expenses due)

**Adjustment in Final A/c :-**

(1)Add in Related Expenses in Trading or Profit & Loss A/c.
(2)Shown in Liability side of Balance-Sheet.

### 3. Prepaid Expenses :-

These are the expenses which have been paid in Advance for the next year during the current year.

**Adjustment entry: -**

Prepaid Expenses A/c Dr.
To Expenses A/c
(For Expenses paid in advance)

**Adjustment in Final A/c :-**

(1)Less from Related Expenses in Trading or Profit & Loss A/c.
(2)Shown Assets side in Balance-Sheet.

### 4. Depreciation :-

Depreciation is the loss or fall in the value of Fixed Assets.--

**Adjustment entry :-**

Depreciation A/c Dr.
To Fixed Assets A/c
(For Depreciation charged on Assets)

**Adjustment in Final A/c :-**
(1)Shown Debit side in Profit & Loss A/c.
(2)Deducted from Related Assets in Balance-Sheet.

## 5. Accrued Income :-

Income which is earned during the year but not actually Receive is called Accured Income.

**Adjustment entry :-**
Accrued Income A/c Dr.
To Income A/c
(For income receivable)

**Adjustment in Final A/c :-**
(1)Add in Related Income in Credit side of Profit & Loss A/c.
(2) Shown Assets side in Balance-Sheet.

## 6. Unearned Income or Income receive in Advance :-

Income which is to be receive during the current year but not Accrued during the year is called Unearned Income.

**Adjustment entry :-**
Income A/c Dr.
To Unearned Income A/c
(For Unearned Income received)

**Adjustment in Final A/c :-**
(1)Less from related Income in Credit side of Profit & Loss A/c.
(2)Shown in Liability side of Balance-Sheet.

## 7. Interest on Capital :-

Usually, Interest at a normal rate is charged on the Capital Invested by the Proprietor of Business.

**Adjustment entry :-**
Interest on Capital A/c Dr.
To Capital A/c
(For Interest allowed on Capital)

**Adjustment in Final A/c :-**
(1)Shown in Debit side of Profit & Loss A/c.
(2)Add in Capital A/c in Liabilities side.

## 8. Interest on Drawings :-

The proprietor draws cash or goods for personal use is called Drawings & firm charged Interest on Drawing at end of year.

**Adjustment entry :-**
Drawing A/c Dr.
To Interest on Drawing A/c
(For Interest charged on Drawings)

**Adjustment in Final A/c :-**
(1)Shown in Credit side in Profit & Loss A/c.
(2)Less from Capital A/c in Liabilities side in Balance-Sheet.

## 9. Interest on Loan :-

It means that the amount has been borrowed from some persons or from the Bank & Interest on such Loan will be an expense.

**Adjustment entry :-**

Interest on Loan A/c Dr.
To outstanding Interest A/c
(For Interest Outstanding on Loan)

**Adjustment in Final A/c :-**

(1)Shown in Debit side in Profit & Loss A/c.
(2)Shown in Liability side in Balance-Sheet.

## 10. Bad-debts :-

When the particular amount not receive from the Debtors, it is known as 'Bad-debts'.

**Adjustment entry :-**

Bad-debts A/c Dr.
To sundry Debtors A/c
(For further Bad-debts written off)

**Adjustment in Final A/c :-**

(1)Shown in Debit side in Profit & Loss A/c.
(2)Deducted from Debtors A/c in Balance-Sheet.

## 11. Provision for Bad-debts :-

**Adjustment entry :-**

Profit & Loss A/c Dr.
To Provision for Bad & doutful Debts A/c
(For creation of Provision for Debtors)

**Adjustment in Final A/c :-**

(1)Add in Bad-debts in Debit side of Profit & Loss A/c.
(2)Deducted from Debtors from Balance-Sheet.

## ILLUSTRATION FROM STUDY MODULE

**Question 15:** On 1st Jan. 2017 provision for Doubtful Debts existed at Rs. 40,000. Trade receivables on 31.12.2017 were Rs. 15,00,000; bad debts totalled Rs. 1,00,000. It is required to write off the bad debts and create a provision equal to 5% of the Trade receivables balances.

**Required:**

Show how you would compute the amount debited to the Profit and Loss Account.

**Solution:**

| PARTICULARS | Rs. |
|---|---|
| Opening Provision (Cr.) | 40,000 |
| Bad Debts written off (Dr.) | 1,00,000 |
| Short Provision | 60,000 |
| Provision required (Dr.) (5% of Rs. 14,00,000) | 70,000 |
| Additional amount required for debit to the Profit and Loss Account (Dr.) | 1,30,000 |
| The account will appear as follows: | |

**Provision for Doubtful Debts Account**

| | | | | | |
|---|---|---|---|---|---|
| 2017 | | Rs. | 2017 | | Rs. |
| Dec. 31 | To Bad Debts Account | 1,00,000 | Jan. 1 | By Balance b/d | 40,000 |
| | To Balance c/d (required) | 70,000 | Dec. 31 | By Profit and Loss A/c (Balancing Figure) | 1,30,000 |
| | | 1,70,000 | | | 1,70,000 |
| | | | 2018 Jan 1 | By Balance b/d | 70,000 |

## 12. Provision for Discount on Debtors :-

It is normal practice in the Business to allow cash discount to those debtors from whom the payment is received within a fixed period.

**Adjustment entry :-**

Profit & Loss A/c Dr.
To provision for Discount on Debtors A/c
(For Provision for Discount created on good Debtors)

**Adjustment in Final A/c :-**

(1)Shown in Debit side in Profit & Loss A/c.
(2)Deducted from Debtors on the Assets side.

## 13. Provision for Discount on Creditors :-

**Adjustment entry :-**

Provision for Discount on Creditors A/c Dr.
To Profit & Loss A/c
(Being Provision for Discount on Creditors)

**Adjustment in Final A/c :-**

(1)Shown in Credit side in Profit & Loss A/c.
(2)Deducted from Creditors on the Liability side.

## 14. Loss of Goods by Accident/Fire :-

**Adjustment entry :-**

Loss by Accident/Fire A/c Dr.
To Purchase A/c
(For Loss of goods in Accident)

Profit & Loss A/c Dr.
To Loss by Accident/Fire A/c
(For Loss by Accident transfer in Profit & Loss A/c)

**If goods are Insured & Insurance Company admits a claim, then :-**

Insurance Company A/c Dr.
To Loss by Accident/Fire A/c
(For admitted a claim by Insurance Company)

**Adjustment in Final A/c :-**

(1)Full amount of loss, less from Purchase A/c in Trading A/c.

(2)Amount not recovered from Insurance Company debited in Profit & Loss A/c.
(3)Amount receivable from insurance company shown in Assets side of Balance-Sheet.

## 15. Charity in the form of Goods :-

Certain amount of goods are given away as charity. The following entry will be passed for it.

**Adjustment entry :-**

Charity A/c Dr.
To Purchase A/c]
(For goods given as Charity)

**Adjustment in Final A/c :-**

(1)Deducted from Purchase A/c from Trading A/c.
(2)Shown in Debit side in Profit & Loss A/c.

## 16. Goods Distributed as free samples :-

Sometimes the goods which the Business deals in are distributed as free samples for the purpose of advertising :-

**Adjustment entry :-**

Free Samples A/c Dr.
To Purchase A/c
(For goods distributed as free samples)

**Adjustment in Final A/c :-**

(1)Deducted from Purchase A/c from Trading A/c.
(2)Shown in Debit side in Profit & Loss A/c.

## 17. Drawing of Goods :-

If the proprietor of the business has taken some goods for his personal use from the business, is called 'Drawing'.

**Adjustment entry :-**

Drawings A/c Dr.
To Purchase A/c
(Being Goods withdrawal for personal use)

**Adjustment in Final A/c :-**

(1)Deducted from Purchase A/c in Trading A/c.
(2) Less from Capital A/c in Balance-Sheet.

## 18. Deferred Revenue Expenditure :-

There are certain expenditure which are revenue in nature but the benefit of which is likely to be derived over a number of Years. Such expenditures are termed as 'Deferred Revenue Expenditure generally lasts between 3 to 7 Years.

**Adjustment entry :-**

Profit & Loss A/c Dr.
To Deferred Expenses A/c
(For expenses transfer to Profit & Loss A/c)

**Adjustment in Final A/c :-**

(1)Some part of expenditure debited in Profit & Loss A/c.

(2)Remaining amount shown in Assets side of Balance-Sheet.

### 19. Contingent Liability :-

These are not the actual liabilities on the date of Balance-Sheet, but may become payable only on the happening of some specific event.

**Treatment in Final A/c :-** Contingent Liabilities are not recorded in the books. These will be stated only outside the Balance-Sheet as a footnote.

### 20. Manager's Commission on Net Profit :-

Sometimes manager is entitled to a commission on net profit to increase the more interest in business:

**Adjustment entry :-**

Commission A/c Dr.
  To Outstanding Commission A/c
(For Commission payable to Manager)

**Adjustment in Final A/c :-**

(1) Debit side in Profit & Loss A/c.
(2) Shown Liabilities side in Balance-Sheet.

### 21. Capital Expenditure is wrongly treated as Revenue Expenditure :-

(1)Less from Related Expenditure in Trading and Profit & Loss A/c.
(2) Add in Assets in Balance-Sheet.

### 22. Goods sold and dispatched but omitted to be recorded :-

**Adjustment entry :-**

Debtor's A/c Dr.
  To Sales A/c
(For goods sold on Credit but omitted to be recorded)

**Adjustment in Final A/c :-**

(1)Add in Credit side in Sales A/c in Trading A/c.
(2)Added in Debtors in Assets side of Balance-Sheet.

### 23. Goods Purchased and included into Stock but omitted to be recorded :-

**Adjustment entry :-**

Purchase A/c Dr.
  To Creditors A/c
(For goods purchase on Credit but omitted to be recorded)

**Adjustment in Final A/c :-**

(1) Add in Debit side in Purchase A/c in Trading A/c.
(2) Added in Creditors in Liabilities side of Balance-Sheet.

### 24. Dishonors of Bills Receivable :-

**Adjustment entry :-**

Debtor's A/c Dr.
  To Bills Receivable A/c

**Adjustment in Final A/c :-**
(1) Add in Debtors in Assets side of Balance-Sheet.
(2) Less from Bills Receivable in Assets side of Balance-Sheet.

## 25. Sales of Goods on Approval Bases or Return Bases :-

**Adjustment entry :-**
(i) Sales A/c Dr.
To Debtor's A/c

(ii) Closing Stock A/c Dr.
To Trading A/c

**Adjustment in Final A/c :-**
(1) Deducted from Sales A/c on Credit side of Trading A/c.
(2)Added to Closing Stock on Credit side of Trading A/c.
(3)Added to Assets side of Balance-Sheet.
(4)Deducted from Debtors on Assets side of Balance-Sheet.

## 26. Transfer to Reserve A/c :-

**Adjustment entry :-**
Profit & Loss Appropriation A/cDr.
To Reserve Fund A/c
(For money transfer to Reserve Fund)

**Adjustment in Final A/c :-**
(1)Shown Debit side of Profit & Loss Appropriation A/c.
(2)Shown Liabilities side of Balance-Sheet.

## 27.Goods in Transit:-

**Adjustment entry :-**
Goods in Transit A/c Dr.
To Trading A/c
(For Goods purchased but not yet received)

**Adjustment in Final A/c :-**
(1)Shown in Credit side of Trading A/c.
(2)Shown in Assets side of Balance-Sheet.

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## ILLUSTRATION FROM STUDY MODULE:

**Question 16:** The balance sheet of Thapar on 1st January, 2017 was as follows:

| **Liabilities** | **Amount Rs.** | **Assets** | **Amount Rs.** |
|---|---|---|---|
| Trade payables | 15,00,000 | Plant & Machinery | 30,00,000 |
| Expenses Payable | 1,50,000 | Furniture & Fixture | 3,00,000 |
| Capital | 50,00,000 | Trade receivables | 14,00,000 |
| | | Cash at Bank | 6,50,000 |
| | | Inventories | 13,00,000 |
| | 66,50,000 | | 66,50,000 |

During 2017, his Profit and Loss Account revealed a net profit of Rs. 15,30,000. This was after allowing for the following:

(a) Interest on capital @ 6% p.a.

(b) Depreciation on Plant and Machinery @ 10% and on Furniture and Fixtures @ 5%.

(c) A provision for Doubtful Debts @ 5% of the trade receivables as at 31st December, 2017.

But while preparing the Profit and Loss Account he had forgotten to provide for:

(1) outstanding expenses totaling Rs. 1,80,000 and

(2) prepaid insurance to the extent of Rs. 20,000.

His current assets and liabilities on 31st December, 2017 were : Inventories Rs. 14,50,000; Trade receivables Rs. 20,00,000; Cash at Bank Rs. 10,35,000 and Trade payables Rs. 11,40,000.

During the year he withdrew Rs. 6,00,000 for domestic use.

**Required:**

**Draw up his Balance Sheet at the end of the year.**

**Solution:**

**Profit and Loss Account (Revised)**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Outstanding expenses | 1,80,000 | By Balance b/d | 15,30,000 |
| To Net profit | 13,70,000 | By Prepaid insurance | 20,000 |
| | 15,50,000 | | 15,50,000 |

**Balance Sheet of Thapar as on 31st December, 2016**

| Liabilities | Rs. | | Assets | | Rs. |
|---|---|---|---|---|---|
| Capital | 50,00,000 | | Cash at Bank | | 10,35,000 |
| **Add:** Net Profit | 13,70,000 | | Trade receivables | 20,00,000 | |
| | 63,70,000 | | **Less:** Provision for doubtful debts | (1,00,000) | 19,00,000 |
| **Less:** Drawings | (6,00,000) | | Plant and Machinery | 30,00,000 | |
| | 57,70,000 | | **Less:** Depreciation | (3,00,000) | 27,00,000 |
| **Add:** Interest on capital | 3,00,000 | 60,70,000 | Furniture & Fixtures | 3,00,000 | |
| Outstanding expenses | | 1,80,000 | **Less:** Depreciation | (15,000) | 2,85,000 |
| Trade payables | | 11,40,000 | Inventories | | 14,50,000 |
| | | | Prepaid insurance | | 20,000 |
| | | 73,90,000 | | | 73,90,000 |

## ILLUSTRATION FROM STUDY MODULE

**Question 17:** Crimpson Ltd. profit and loss account for the year ended 31st March, 20 1 6 includes the following information:

| | |
|---|---|
| (i) Depreciation | 57,500 |
| (ii) Bad debts written off | 21,000 |
| (Hi) Increase in provision for doubtful debts | 18,000 |
| (iv) Proposed dividend | 15,000 |
| (v) Retained profit for the year | 20,000 |
| (vi) Liability for tax | 4,000 |
| **Required:** | |

State which one of the items (i) to (vi) above are – (a) transfer to provisions; (b) transfer to reserves; and (c) neither related to provisions nor reserves.

**Solution:**

(a) Transfer to provisions – (i), (iii) (vi)

(b) Transfer to reserves – (v)

(c) Neither related to provisions nor reserves – (ii), (iv).

**Question 18:**

## QUESTION FROM STUDY MODULE & EXAMINATION 1994 – NOV:

From the following particulars extracted from the books of Ganguli, prepare Trading and Profit & Loss Account and Balance Sheet as at 31st March, 1994 after making the necessary adjustments:

| | Rs. | | Rs. |
|---|---|---|---|
| Ganguli's Capital | | Interest Received | 725 |
| Account (Cr.) | 54,050 | Cash with Traders Bank Ltd. | 4,000 |
| Stock on 1.4.1993 | 23,400 | Discounts Received | 1,495 |
| Sales | 1,44,800 | Investments (at 5%) | |
| Sales Returns | 4,300 | as on 1.4.1993 | 2,500 |
| Purchases | 1,21,550 | Furniture as on 1.4.1993 | 900 |
| Purchases Returns | 2,900 | Discounts Allowed | 3,770 |
| Carriage Inwards | 9,300 | General Expenses | 1,960 |
| Rent | 2,850 | Audit Fees | 350 |
| Salaries | 4,650 | Fire Insurance Premium | 300 |
| Sundry Debtors | 12,000 | Travelling Expenses | 1,165 |
| Sundry Creditors | 7,400 | Postage and Telegrams | 435 |
| Loan from Dena Bank | | Cash on Hand | 190 |
| Ltd. (at 12%) | 10,000 | Deposits at 10% as on | |
| Interest Paid | 450 | 1.4.1993 (Dr.) | 15,000 |
| Printing and Stationery | 1,700 | Drawings | 5,000 |
| Advertisement | 5,600 | | |

**Adjustments:**

(1) Value of stock as on 31st March, 1994 is Rs. 39,300. This includes goods returned by customers on 31st March, 1994 to the value of Rs. 1,500 for which no entry has been passed in the books.

(2) Purchases include furniture purchased on 1st January, 1994 for Rs. 1,000.

(3) Depreciation should be provided on furniture at 10% per annum.

(4) The loan account from Dena Bank in the books of Ganguli appears as follows:

| | | Rs. | | | Rs. |
|---|---|---|---|---|---|
| 31.3.1994 | To Balance c/d | 10,000 | 1.4.1993 | By Balance b/d | 5,000 |
| | | | 31.3.1994 | By Bank | 5,000 |
| | | 10,000 | | | 10,000 |

(5) Sundry Debtors include Rs. 2,000 due from Robert and Sundry Creditors include Rs. 1,000 due to him.

(6) Interest paid include Rs. 300 paid to Dena Bank.

(7) Interest received represent Rs. 100 from the Sundry Debtors and the balance on investments and deposits.

(8) Provide for interest payable to Dena Bank and for interest receivable on investments and deposits.

(9) Make a provision for doubtful debts at 5% on the balance under "Sundry Debtors". No such provision need be made for the deposits.

**(20 marks)**

**Answer:**

**In the Books of Ganguli**

**Trading Profit & Loss Account**

for the year ended 31.3.1994

| Particulars | | Amount | Particular | | Amount |
|---|---|---|---|---|---|
| To Opening Stock | | 23,400 | By Sales | 1,44,800 | |
| To Purchases | 1,21,550 | | **Less:** Returns | | |
| **Less:** Transfer to | | | (4,300+1,500) | 5,800 | 1,39,000 |
| Furniture A/c | 1,000 | | By Closing Stock | | 39,300 |
| | 1,20,550 | | | | |
| Less: Returns | 2,900 | 1,17,650 | | | |
| To Carriage Inwards | | 9,300 | | | |
| To Gross Profit c/d | | 27,950 | | | |
| | | 1,78,300 | | | 1,78,300 |
| To Salaries | | 4,650 | By Gross profit b/d | | 27,950 |
| To Rent | | 2,850 | By Interest | | 1,725 |
| To Advertisement | | 5,600 | By Discount received | | 1,495 |
| To Printing & Stationery | | 1,700 | | | |
| To Interest | | 750 | | | |
| To Discount allowed | | 3,770 | | | |
| To General expenses | | 1,960 | | | |
| To Traveling expenses | | 1,165 | | | |
| To Fire Insurance premium | | 300 | | | |
| To Postage & telegrams | | 435 | | | |
| To Provision for doubtful debts | | 475 | | | |
| To Depreciation on Furniture | | 115 | | | |
| To Audit Fees | | 350 | | | |
| To Capital A/c (Profit trans.) | | 7,050 | | | |
| | | 31,170 | | | 31,170 |

**Balance Sheet as on 31.3.1994**

| Liabilities | | Amount Rs. | Assets | | Amount Rs |
|---|---|---|---|---|---|
| Capital Accounts: | | | Furniture | 900 | |
| Balance on 1.4.93 | 54,050 | | Additions during the year | | |
| **Add:** Net Profit | 7,050 | | | 1,000 | |
| | 61,100 | | | 1,900 | |
| **Less:** Drawings | 5,000 | 56,100 | **Less:** Depreciation | 115 | 1,785 |
| Loan from Dena Bank Ltd. | | 10,000 | Investments | | 2,500 |
| Interest accrued on Bank loan | | 300 | Deposits | | 15,000 |
| Sundry Creditors | | 6,400 | Interest accrued on Investments & Deposits | | 1,000 |
| | | | Stock in trade | | 39,300 |
| | | | Sundry Debtors | 9,500 | |
| | | | **Less:** Provision | 475 | 9,025 |
| | | | Cash with Traders Bank Ltd. | | 4,000 |
| | | | Cash in hand | | 190 |
| | | 72,800 | | | 72,800 |

**Working Notes:**

| | | Rs. |
|---|---|---|
| 1. | **Calculation of provision for doubtful debts:** | |
| | Sundry debtors (opening) | 12,000 |
| | **Less:** Sales returns not recorded | 1,500 |
| | | 10,500 |
| | **Less:** Cancellation against sundry creditors | 1,000 |
| | Adjusted balance of sundry debtors | 9.500 |
| | Provision for doubtful debts@ (5% on 9,500) | 475 |
| 2. | **Accrued interest on bank loan:** | |
| | Annual interest @ 12% | 600 |
| | **Less:** Interest paid to Dena Bank | 300 |
| | Accrued Interest | 300 |
| 3. | **Interest accrued on Investments and Deposits:** | |
| | Annual interest on investments @ 5% | 125 |
| | Annual interest on deposits @ 10% | 1,500 |
| | | 1,625 |
| | **Less:** Interest received on Investments and Deposits | 625 |
| | Accrued Interest | 1,000 |

**Question 19:** Sengupta & Co. employs a team of eight workers who were paid Rs. 30,000 per month each in the year ending 31st December, 2015. At the start of 2016, the company raised salaries by 10% to Rs. 33,000 per month each.

On July 1, 2016 the company hired two trainees at salary of Rs. 21,000 per month each. The work force are paid salary on the first working day of every month, one month in arrears, so that the employees receive their salary for January on the first working day of February etc.

**You are required to calculate:**

(i) Amount of salaries which would be charged to the profit and loss for the year ended 31st December, 2016.
(ii) Amount actually paid as salaries during 2016
(iii) Outstanding Salaries as on 31st December, 2016.

**Answer :**

**(i) Salaries to be charged to profit and loss account for the year ended 31st December, 2016:**

| | |
|---|---|
| Salaries of 8 employees for full year @ Rs. 33,000 per month each | 31,68,000 |
| Salaries of 2 trainees for 6 months @ Rs. 21,000 p.m. | 2,52,000 |
| | 34,20,000 |

| | |
|---|---|
| **(ii) Salaries actually paid in 2016** | 2,40,000 |
| December, 2015 salaries paid in January, 2016 (8 x 30,000) | |
| Salaries of 8 employees for January to November, 2016 paid in February-December, 2016 @ Rs. 33,000 for 11 months | 29,04,000 |
| Salaries of 2 trainees for July to November paid in August- December @ Rs. 21,000 for 5 months | 2,10,000 |
| | 33,54,000 |

| | |
|---|---|
| **(iii) Outstanding salaries as at 31st December,2016** | 2,64,000 |
| 8 employees @ Rs. 33,000 each for 1 month | |
| 2 trainees @ Rs. 21,000 each for 1 month | 42,000 |
| | 3,06,000 |

**Question 20:** Mr. Kotriwal is engaged in business of selling magazines. Several of his customers pay money in advance for subscribing his magazines. Information related to year ended 31st March 2017 has been given below:
On 1.4.2016 he had a balance of Rs. 2,00,000 advance from customers of which Rs. 1,50,000 is related to year 2016-17 while remaining pertains to year 2017-18. During the year 2016-17 he made cash sales of Rs. 5,00,000. You are required to compute:
(i) Total income for the year 2016-17.
(ii) Total money received during the year if the closing balance in advance from customers account is Rs. 1,70,000.

**Answer:**

**(i) Computation of Income for the year 2016-17:**

| | Rs. |
|---|---|
| Money received during the year related to 2016-17 | 5,00,000 |
| **Add:** Money received in advance during previous years | 1,50,000 |
| Total income of the year 2016-17 | 6,50,000 |

**(ii) Advance from customers A/c**

| Date | Particulars | Rs. | Date | Particulars | Rs. |
|---|---|---|---|---|---|
| | To Sales A/c<br>(Advance related to current year transferred to sales) | 1,50,000 | 1.4.2016 | By Balance b/d<br>By Bank A/c<br>(Balancing Figure) | 2,00,000<br>1,20,000 |
| 31.3.17 | To Balance c/d | 1,70,000 | | | |
| | | 3,20,000 | | | 3,20,000 |

So, total money received during the year is:

| | Rs. |
|---|---|
| Cash Sales during the year | 5,00,000 |
| **Add:** Advance received during the year | 1,20,000 |
| Total money received during the year | 6,20,000 |

**Question 21:** Mr. Birla is a proprietor engaged in business of trading electronics. An excerpt from his Trading & P&L account is as follows:

Trading and P&L A/c for the year ended 31st March, 2017

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Cost of Goods Sold | 45,00,000 | By Sales | C |
| To Gross Profit c/d | D | | |
| | F | | F |
| To Rent A/c | 26,00,000 | By Gross Profit b/d | D |
| To Office Expenses | 13,00,000 | By Miscellaneous Income | E |
| To Selling Expenses | B | | |
| To Commission to Manager (on Net Profit before charging such commission) | 2,00,000 | | |
| To Net Profit | A | | |
| | G | | 60,00,000 |

Commission is charged at the rate of 10%.
Selling Expenses amount to 1% of total sales.
You are required to compute the missing figures.

**Answer:????????**

## PRACTICE QUESTIONS

**Question 22:** The following are the balance extracted from the books of Raghunath Ji as on 31st December, 1993. From these balances, prepare his Trading and Profit & Loss Account and Balance Sheet as on that date:

| | Dr. (Rs. | Cr. (Rs.) |
|---|---|---|
| Opening Stock | 12,000 | --------- |
| Purchases | 40,000 | --------- |
| Sales | -------- | 86,000 |
| Discount | -------- | 400 |
| Sales Return | 6,000 | --------- |
| Building | 50,000 | --------- |
| Debtors | 16,000 | --------- |
| Salaries | 2,400 | --------- |
| Office Expenses | 1,200 | --------- |
| Wages | 10,000 | --------- |
| Purchases Return | -------- | 4,000 |
| Interest | -------- | 800 |
| Traveling Expenses | 400 | --------- |
| Fire Insurance Premium | 800 | --------- |

| | | |
|---|---|---|
| Machinery | 20,000 | --------- |
| Carriage on Purchases | 700 | --------- |
| Commission | 400 | --------- |
| Cash in hand | 2,300 | --------- |
| Rent and Taxes | 1,800 | --------- |
| Capital | -------- | 62,000 |
| Creditors | -------- | 10,800 |
| | 1,64000 | 1,64,000 |

**Adjustments:-**

1. Closing Stock was valued at Rs. 16,000.
2. Wages Rs. 2,000 and salaries Rs. 1,200 are outstanding.
3. Rent for two months at the rate of Rs. 500 per month is outstanding.
4. Depreciation Building by 5% and machinery by 10%.
5. Prepaid Insurance Rs. 200.

**Answer:** G.P. Rs. 35,300; N.P. 23,000 and B/S Total Rs. 1,00,000.

**Question 23:** Prepare Trading and Profit & Loss Account for the year ended 31st December, 1985 and Balance Sheet as on that date from the following Trial Balance:-

| | Dr. (Rs.) | Cr. (Rs.) |
|---|---|---|
| Capital………… | | 10,000 |
| Cash………… | 1,500 | |
| Bank Overdraft………… | | 2,000 |
| Purchases and sales ………… | 12,000 | 15,000 |
| Returns………… | 1,000 | 2,000 |
| Establishment Expenses………… | 2,200 | |
| Tax and Insurance………… | 500 | |
| Bad debts and Bad debt Provision………… | 500 | 700 |
| Debtors and Creditors………… | 5,000 | 2,000 |
| Commission………… | | 500 |
| Deposits………… | 4,000 | |
| Opening Stock………… | 3,000 | |
| Drawings………… | 1,400 | |
| Furniture………… | 600 | |
| B/R and B/P ………… | 3,000 | 2,500 |
| | 34,700 | 34,700 |

**Adjustments:-**

1. Salaries Rs. 100 and taxes Rs. 200 are outstanding but insurance Rs. 50 is prepaid.
2. Commission Rs. 100 is received in advance for next year.
3. Interest Rs. 210 is to be received on Deposits and interest on Bank overdraft Rs. 300 is to be paid.

4. Bad Debts provision is to be maintained at Rs. 1,000 on Debtors.
5. Depreciate furniture by 10%.
6. Stock on 31-12-1985 was valued at Rs. 4,500.

**Answer:** G.P Rs. 5,500; N.P. Rs. 2,000, and B/S Total Rs. 17,800.

**Question 24:** From the following balance, prepare Final Account of Mr. Bal Gopal:-

| | Rs. | | Rs. |
|---|---|---|---|
| Life insurance Premium (Self) | 500 | Capital | 40,000 |
| Stock (1-1-1994) | 7,500 | Plant and Machinery | 12,500 |
| Returns Inward | 1,000 | Purchases | 36,000 |
| Furniture | 4,600 | Sundry Debtors | 10,500 |
| Freehold Property | 10,000 | Coal, Gash and Water | 1,000 |
| Carriage Inwards | 400 | Carriage Outwards | 100 |
| Advertising | 200 | Sales | 60,000 |
| Sundry Creditors | 4,850 | Discount (Dr.) | 400 |
| Returns outwards | 500 | Rent for Premises Sublet | 500 |
| Commission (Cr.) | 600 | Trade Expenses | 8,650 |
| Lighting | 250 | Stationery | 2,000 |
| Loan From bank | 5,000 | Interest Charged by Bank | 450 |
| Wages & Salaries | 7,500 | Cash | 7,900 |

**Adjustments:-**

1. Stock on 31st Dec. 1994 Rs. 10,000 and stationery unused at the end was Rs. 400.
2. Rent of Premises Sublet received in advance Rs. 100.
3. Provision for Doubtful Debts is to be created @ 10% on Debtors.
4. Provision for discount on Debtors and Creditors is to be created @ 2%.
5. Stock of value of Rs. 4,000 was destroyed by fire on 25th Dec. 1994. A Claim of Rs. 3,000 has been admitted by Insurance Co.
6. Bank Loan has been taken at 12% p.a. interest.

**Answer:** G.P. Rs. 21,100; N.P. Rs. 8,158; B/S Total Rs. 57,661.

**Question 25:**

From the following balances, prepare Trading, Profit and Loss A/c and a balance sheet as on 31st March, 1994:-

| | Rs. | | Rs. |
|---|---|---|---|
| Stock (1st April, 1993) | 20,000 | Goodwill | 16,000 |
| Purchases | 2,92,000 | Furniture and Fittings | 58,000 |
| Duty and Clearing Charges | 34,000 | Repair Charges | 2,900 |
| Capital | 1,60,000 | Bank | 24,000 |
| Sales | 5,90,000 | Salaries | 1,10,000 |
| Rent | 10,000 | General Expenses | 18,000 |
| Returns Inwards | 16,000 | Debtors | 2,30,000 |
| Cash Discount allowed | 15,000 | Creditors | 1,35,000 |
| Cash Discount Received | 19,000 | | |
| Drawings | 58,100 | | |

**Adjustments:-**

1. General expenses include Rs. 5,000 chargeable to Furniture purchased on 1st October, 1993.
2. Create a reserve of 5% on debtors for Bad and Doubtful Debts after treating Rs. 30,000 as a bad debt.
3. Balance at Bank on 31st March, 1994 as ascertained from the pass Book is Rs. 22,500 the difference representing Bank Charges.
4. Rent for two months is outstanding.
5. Depreciation on Furniture and Fittings for the year is to be at the rate of 10% per annum.
6. Closing Stock was Rs. 40,000 but there was a loss by fire on 20th March to the extent of Rs. 8,000. Insurance Company admitted the claim in full.

a. Goods costing Rs. 2,500 were used by the proprietor.
b. Goods costing Rs. 1,500 were distributed as free samples.

**Answer:** G.P. Rs. 2,80,000; N.P. Rs. 97,050; B/S Total Rs. 3,33,450.

**Question 26:**

On 31st December, 1990 the following Trial Balance was extracted from the book of Sh. Ghanshyam Das:-

| | Dr. (Rs.) | Cr. (Rs.) |
|---|---|---|
| Capital A/c | -------- | 2,00,000 |
| Debtors and Creditors | 40,000 | 25,000 |
| Loan on Mortgage | -------- | 30,000 |
| Interest on Loan | 2,250 | --------- |
| Discount | -------- | 1,800 |
| Stock on 1st Jan. 1990 | 20,000 | --------- |
| Motor Vehicle | 50,000 | --------- |
| Cash at bank | 4,450 | --------- |
| Investments | 16,000 | --------- |
| Wages | 18,000 | --------- |
| Land and Building | 2,80,000 | --------- |
| Bad Debts | 1,500 | --------- |
| Purchases and Sales | 2,50,000 | 4,80,000 |
| Purchases and Sales Returns | 12,000 | 10,000 |
| Carriage Outward | 8,000 | --------- |
| Carriage Inward | 6,500 | --------- |
| Salaries | 7,200 | --------- |
| Outstanding Salaries | ---------- | 600 |
| Rates, Taxes and Insurance | 15,000 | --------- |
| Advertising | 5,000 | --------- |
| General Exp. | 6,400 | --------- |
| Bills Receivable and Payable | 7,500 | 5,400 |
| Prepaid Insurance | 3,000 | --------- |
| | 7,52,800 | 7,52,800 |

Prepare Trading and Profit & Loss Account for the years ended 31st Dec., 1990 and Balance Sheet as on that date, after making adjustments for the following matters:

1. Depreciate Land and Building at 2.5% and motor Vehicles at 20%.

2. Interest on Loan at 15% p.a. is unpaid for six months.
3. Ghanshyam Das withdrew Rs. 2,000 for his private use. The amount was included in general expenses.
4. Interest on Investments is receivable for full year @ 10%.
5. Provide for Manager's Commission at 10% on net profit after charging such commission.
6. Stock in hand on 31st December, 1990 was valued at Rs. 25,000 (market Value Rs. 22,000).

**Answer:** G.P. Rs. 2,05,500; N.P. Rs. 1,33,000; B/S Total Rs. 4,07,550.

**Question 27:**

From the following Trail Balance extracted from the books of Sh. Pawan Kumar, prepare a Trading Account, Profit & Loss Account for the year ended 31st March, 1994 and a Balance Sheet as on that date:

| | Rs. | | Rs. |
|---|---|---|---|
| Drawings | 1,20,000 | Capital | 16,00,000 |
| Plant and Machinery | 12,00,000 | Creditors | 2,60,000 |
| Horses and Carts | 2,60,000 | Sales | 8,20,000 |
| Debtors | 3,40,000 | Bill Payable | 2,21,200 |
| Purchases | 2,00,000 | Interest on Ram's Loan | 1,800 |
| Wages | 80,000 | Apprentice premium | 12,000 |
| Cash at Bank | 2,60,000 | | |
| Salaries | 80,000 | | |
| Repairs | 5,000 | | |
| Stock (1-4-1993) | 70,000 | | |
| Stock (31-3-1994) | 92,000 | | |
| Rent | 45,000 | | |
| Manufacturing expenses | 15,000 | | |
| Bad Debts | 50,000 | | |
| Carriage | 15,000 | | |
| Income Tax | 16,000 | | |
| Income Tax paid in advance | 4,000 | | |
| Life Insurance Premium | 30,000 | | |
| Loan to Ram at 12% p.a. Insurance | 20,000 | | |
| Premium | 12,000 | | |
| Insurance Prepaid | 1,000 | | |
| | 29,15,000 | | 29,15,000 |

**Adjustments:-**

1. Plant and Machinery includes a new machinery purchased on 1st October, 1993 for Rs. 2,00,000.
2. Depreciate Plant and Machinery by 10% p.a. and Horses and Carts by 20% p.a.
3. Apprentice Premium has been received for 2 years.
4. Salaries for the month of February and March 1994 are outstanding.
5. Goods worth Rs. 15,000 were sold despatched on 27th March but no entry was passes to this effect.
6. Make a provision for Doubtful Debts at 5% on Debtors.
7. Allow 5% p.a. interest on capital. An additional capital of Rs. 1,00,000 was introduced by Pawan Kumar on 1st October, 1993.

**Answer:** G.P. Rs. 4,55,000; Net Loss Rs. 1,850; B/S Total Rs. 20,08,850.

**Hints:**

(i) In Adjustment No. 1 no recording will be made Rs. 2,00,000. However, depreciation will be charged as:
On Rs. 10,00,000 @ 10% for one year = Rs. 1,00,000

On Rs. 2,00,000 @ 10% for 6 months = Rs. 10,000

(ii) Closing Stock and prepaid Insurance are given inside the Trail Balance. As such, these will be recorded on the Assets side only.

(iii) Total Drawings = Rs. 1,20,000 + 16,000 + 4,000 + 30,000 = Rs. 1,70,000

(iv) Sales of Rs. 15,000 will be added in sales as well as in Debtors.

(v) Interest on Capital = Rs. 77,500.

**Question 28:**

From the Following Trial Balance, prepare Trading and Profit & Loss Account for year ending 31st March, 2001 and a Balance Sheet as on that date:

| | Dr. (Rs.) | | Cr. (Rs.) |
|---|---|---|---|
| Stock on 1st April, 2000 | 40,100 | Capital | 4,10,000 |
| Purchases | 3,20,000 | Returns Outwards | 7,500 |
| Returns Inward | 6,400 | Sales | 4,80,000 |
| Bad Debts | 3,000 | Interest on Fixed Deposit (at 10% p.a.) | 750 |
| Sundry Debtors | 86,000 | Provision for Doubtful Debts | 2,600 |
| Salaries | 24,350 | Sundry Creditors | 70,000 |
| Pre-paid Salaries | 3,600 | Discount on Purchases | 4,400 |
| Life insurance Premium | 5,000 | | |
| Bank Charges | 450 | | |
| Land | 3,00,000 | | |
| Fixed Deposit at PNB (sine 1st April, 2000) | 10,000 | | |
| Plant and Machinery | 1,26,000 | | |
| Depreciation on Plant and Machinery | 14,000 | | |
| Repairs to plant | | | |
| Cash in hand and at Bank | 2,700 | | |
| | 33650 | | |
| | 9,75,250 | | 9,75,250 |

**Adjustments:**

(i) Stock was valued at Rs. 60,000 on 31st March, 2011.

(ii) Debtors include an amount of goods delivered to owner for Rs. 8,000 at cost.

(iii) Goods costing Rs. 5,000 were sent on approval basis at 20% profit on cost and these were recorded as actual sales. However, customer has not given his approval till 31st march, 2001.

(iv) Write off Rs. 2,000 as bad debts and make a provision of 5% on Debtors.

(v) Works Manager to get 5% commission after charging his own and General Manager's Commission.

(vi) General Manger to get 10% Commission after charging his own and works Manager's Commission.

**Answer: G.P. 1,80,000; N.P: 1,20,000; B/S Total Rs.6,05,000.**

**Hints:**

- New Provision will be 5% on 70,000.
- Works Manager's Commission will be 5/115 of Rs. 1,38,000 and
- General Manager's Commission will be 10/115 of Rs. 1,38,000.

……………………………………………………………………………………………………………….

……………………………………………………………………………………………………………….

**Question 29:**

From the following balance and Information, prepare Trading and Profit & Loss Account for the year ended 31st December, 2000 and a Balance Sheet as on that date:

| | Rs. | | Rs. |
|---|---|---|---|
| Stock on 1-1-2000 | 30,000 | Debtors | 64,000 |
| Purchases | 3,50,000 | Creditors | 45,000 |
| Sales | 5,60,000 | Bank overdraft | 27,800 |
| Returns Inwards | 6,000 | Interest on Bank Overdraft | 3,800 |
| Direct Exp. | 12,000 | Capital | 2,20,000 |
| Indirect Expenses | 3,000 | Bad Debts | 4,000 |
| Wages | 72,400 | Provision for Doubtful Debts | 3,000 |
| Salaries | 28,100 | Loan from X (taken on 1-4-2000) | 20,000 |
| Charity | 2,100 | Interest on Loan from X (@15%p.a. | 1,500 |
| Repairs | 3,700 | | |
| Personal Exp. | 8,000 | | |
| Audit Fees | 1,200 | | |
| Carriage Outwards | 4,000 | | |
| Furniture | 30,000 | | |
| Buildings | 2,50,000 | | |
| Cash Balance | 2,000 | | |

**Information :**

(i) Purchases Include purchase of furniture of Rs. 10,000 on 1st April 2000.

(ii) Depreciate furniture @ 10% p.a. and Buildings @ 5% p.a.

(iii) Sundry Debtors include Rs. 5,000 due from a customer to whom Rs. 1,000 is owed.

(iv) There is a dishonoured cheque of Rs. 4,000 not recorded in the bank column of the cash book. This cheque is expected to fetch only 75%.

(v) Create a provision for doubtful debts at 5%.

(vi) Closing stock was taken on $28^{th}$ December 2000 and was then valued at Rs. 58,000. Purchases and sales on 29th, 30th and 31st December 2000, amounted to Rs. 3,200 and Rs. 6,000 respectively. These transactions have been duly recorded in the books. Gross Profit included in these sales was 25% on Cost.

**Answer:** G.P. 1,56,000; N.P. 86,450; B/S Total Rs. 3,95,000.

**Question 30:**

Mr. Ajay Kumar, a shopkeeper, had prepared the following trial balance from his ledger as on 31st March, 2006:

| | Dr. (Rs.) | Cr. (Rs.) |
|---|---|---|
| Purchases and sales ........ | 6,20,000 | 8,30,000 |
| Cash in hand........ | 4,200 | ---------- |
| Cash at Bank........ | 24,000 | ---------- |
| Stock of goods on 1-4-2005........ | 1,00,000 | ---------- |
| Capital A/c........ | --------- | 5,77,200 |
| Drawing A/c........ | 8,000 | ---------- |
| Salaries........ | 64,000 | ---------- |

| | | |
|---|---|---|
| Postage and telephone ………… | 23,000 | ---------- |
| Salesmen's commission………… | 70,000 | ---------- |
| Insurance ………… | 18,000 | ---------- |
| Advertising ………… | 34,000 | ---------- |
| Furniture………… | 44,000 | ---------- |
| Printing and stationery………… | 6,000 | ---------- |
| Motor car………… | 96,000 | ---------- |
| Bad debts………… | 4,000 | ---------- |
| Cash discount………… | 8,000 | ---------- |
| General Exp………… | 60,000 | ---------- |
| Carriage inwards ………… | 20,000 | ---------- |
| Carriage Outwards ………… | 44,000 | ---------- |
| Wages………… | 40,000 | ---------- |
| Debtors and Creditors………… | 2,00,000 | 80,000 |
| | 14,87,200 | 14,87,200 |

You are required to prepare Trading and Profit & Loss Account for the year ended 31st March, 2006 and Balance Sheet as on that date. You are also given the following information:

1. Stock on 31-3-2006 was Rs. 1,45,000
2. Mr. Ajay Kumar had withdrawn goods worth Rs. 5,000 during the year.
3. Purchases include purchase of furniture worth Rs. 10,000.
4. Debtors are bad to the extent of Rs. 5,000.
5. Creditors include a balance of Rs. 4,000 to the credit of Mr. Vijay in respect of which it has been decided and settled with the party to pay only Rs. 1,000.
6. Sales include goods worth Rs. 15,000 sent to Ram & Co. on approval and remaining unsold as on 31-3-2006. the cost of goods was Rs. 10,000.
7. Provision for Bad Debts is to be created at 5% on Sundry Debtors.
8. Depreciate Furniture by 15% and Motor Car by 20%.
9. The salesmen are entitled to a commission of 10% on sales.

**Answer:** Gross Profit Rs. 2,05,000; N.L. Rs. 1,75,800; B/S Total Rs. 4,76,900.

**Hints:**

(i) Depreciation On Furniture Rs. 8,100

(ii) In adjustment No. 5, Rs. 3,000 will be shown on the credit side of P&L A/c and will also be deducted from creditors. Net amount of creditors shown on liabilities will be Rs. 77,000.

(iii) Provision for Doubtful Debts will be 5% on Rs. 1,80,000.

(iv) Commission to Salesmen : 10% on 8,15,000 = 81,500. Outstanding Commission will be Rs. 11,500 (i.e., 81,500 – 70,000).

**Question 31:**

From the following balances extracted from the books of Karan and the additional information, prepare the trading and profit and loss account for the year ended 31st March, 2010 and also show the balance sheet as on that date:

| | Dr. Balance (Rs.) | Cr. Balance (Rs.) |
|---|---|---|

| | | |
|---|---|---|
| Stock on 1st April, 2009 | 6,25,000 | ---------- |
| Purchases and Sales | 9,03,000 | 13,72,000 |
| Returns | 22,000 | 13,000 |
| Capital | ---------- | 3,00,000 |
| Drawing | 45,000 | ---------- |
| Land and Buildings | 3,00,000 | ---------- |
| Furniture and fittings | 80,000 | ---------- |
| Trade debtors and trade creditors | 2,50,000 | 4,50,000 |
| Cash in hand | 35,000 | ---------- |
| Investments | 1,00,000 | ---------- |
| Interest | ---------- | 5,000 |
| Commission | ---------- | 30,000 |
| Direct Exp | 75,000 | ---------- |
| Postage, stationery and telephone | 25,000 | ---------- |
| Fire insurance premium | 20,000 | ---------- |
| Salaries | 90,000 | ---------- |
| Bank Overdraft | ---------- | 4,00,000 |
| | 25,70,000 | 25,70,000 |

**Additional Information:**

(i) Closing stock on 31st March, 2010 is valued at Rs. 6,50,000. goods worth Rs. 5,000 are reported to have been taken away by the proprietor for his personal use at home during the year.

(ii) Interest on investments Rs. 5,000 is yet to be received while Rs. 10,000 of the commission received is yet to be earned.

(iii) Rs. 5,000 of the fire insurance premium paid is in respect of the quarter ending 30th June, 2010.

(iv) Salaries Rs. 10,000 for March, 2010 and bank overdraft interest estimated at Rs. 20,000 are yet to be recorded as outstanding charges.

(v) Depreciation is to be provided on land and buildings @ 5% per annum and on furniture and fittings @ 10% per annum.

(vi) Make a provision for doubtful debts @ 5% of trade debtors.

**Answer:** G.P. Rs. 4,15,000; N.P. 2,49,500; B/S Total Rs. 13,89,500.

**Question 32:**

The Following is the trail balance of Mr. Amar Chand on 31st March, 1999:-

Taking into account the following adjustments, prepare Trading and Profit & Loss Account and the Balance Sheet as on 31st March, 1999:-

1. Stock on 31st March, 1999 was valued at Rs. 46,000.
2. Depreciate Furniture at 15%p.a. sales Van at 20% p.a.
3. A sum of Rs. 200 is due for repairs.
4. Debtors include Rs. 5,000 due to a customer to who Rs. 12,000 is payable.
5. Write off Rs. 2,000 as further bad debts and create a provision for doubtful debts @ 5% on Debtors. Also provide 2% for discount on Debtors and Creditors.
6. Rent is paid at the rate of Rs. 1,000 per month.
7. Allow 8% interest on Capital and charge Rs. 1,500 as interest on Drawings.
8. Balance with Bank of Tokyo in 31st March, 1999 as ascertained from the Pass Book is Rs. 34,200, the difference representing interest allowed by Bank .

| | Dr. (Rs.) | Cr (Rs.) |
|---|---|---|
| Stock on 1st April, 1998 | 62,000 | ---------- |
| Purchases and Sales | 3,15,000 | 4,48,000 |
| Returns | 3,700 | 2,500 |
| Sundry Debtors and Creditors | 85,000 | 48,000 |
| B/R and B/P | 12,100 | 4,300 |
| Drawing and Capital | 30,000 | 2,00,000 |
| Cash in hand | 24,800 | ---------- |
| Balance with Bank of Tokyo | 32,800 | ---------- |
| Discount | 2,600 | 3,800 |
| Carriage on Purchases | 7,500 | ---------- |
| Carriage on sales | 1,200 | ---------- |
| Bad debts | 2,400 | ---------- |
| Bad – Debts provision | -------- | 3,000 |
| Furniture on 1st April, 1998 | 10,000 | ---------- |
| New Furniture purchased on 1st January, 1999 | 6,000 | ---------- |
| Rent | 10,000 | ---------- |
| Salaries | 25,000 | ---------- |
| Commission | -------- | 2,400 |
| Repairs | 2,300 | ---------- |
| Insurance (Annual Premium paid on 1st Jan, 1999) | 3,600 | ---------- |
| Salaries Outstanding | --------- | 5,000 |
| Sales Van | 75,000 | ---------- |
| Sales Van Exp | 6,000 | ---------- |
| | 7,17,000 | 7,17,000 |

**Answer:** G.P. 1,08,300; Net Profit 28,553; Balance Sheet Total Rs. 2,66,693.

**Question 33:**

From the following trial Balance of A and B Who share profits and losses in 3/5 and 2/5 , prepare a Trading and Profit & Los A/c for the ended 31st March,1986 and a Balance Sheet as at that date after making necessary adjustments:-

| | Dr. (Rs.) | Cr. (Rs.) |
|---|---|---|
| *A's Capital* | ---------- | 3,00,000 |
| *B's Capital* | ---------- | 2,50,000 |
| Furniture and Fixtures | 10,000 | ---------- |
| Plant and Machinery | 5,50,000 | ---------- |
| Stock on 1-4-1985 | 60,000 | ---------- |
| Purchases | 2,10,000 | ---------- |
| Returns | 20,000 | 6,000 |
| Salaries | 70,000 | ---------- |
| Sundry Debtors and Creditors | 50,000 | 20,000 |
| Freight on Purchases | 7,200 | ---------- |
| Sales Tax | 12,000 | ---------- |
| Sales | ---------- | 5,20,000 |
| Loan @ 12% p.a. taken on 1st Oct. 1985 | ---------- | 10,000 |

| | | |
|---|---|---|
| Postage and Telegram | 500 | ---------- |
| Rent, Rate and Taxes | 12,850 | ---------- |
| Bad-debts written off | 2,000 | ---------- |
| Provision for bad-debts | --------- | 3,600 |
| Direct Exp | 15,000 | ---------- |
| Interest on loan | 300 | ---------- |
| Insurance charges | 6,000 | ---------- |
| Advertisement Exp | 10,000 | ---------- |
| Sundry Exp | 4,200 | ---------- |
| Cash at bank | 34,550 | ---------- |
| A's Drawings | 20,000 | ---------- |
| B's Drawings | 15,000 | ---------- |
| | 11,09,600 | 11,09,600 |

**Adjustments:**

(1) Closing Stock was taken on 29th March, 1986 and was then valued at Rs. 70,000 purchases and sales on 31st March 1986 amounted to Rs. 4,000 and Rs. 6,000 respectively. These transactions were duly entered into the books. Rate of Goods Profit included in these sales may be taken as cost plus 25%.

(2) Debtors include an amount of 5,000 due from a customer who has become insolvent and nothing is recoverable from his estate. Create a provision for Bad and Doubtful Debts @ 5% on Sundry Debtors.

(3) Salaries are paid @ 7,000 per month.

(4) Write off 1/4th of advertisement Exp.

(5) Allow 5% interest to partners on their capitals and charge interest on drawings from A Rs. 800 and from B Rs. 600.

(6) Provision up to dare interest on loan.

(7) A B/R for Rs. 4,000 has been discounted from the bank which will be due after 31st March, 1986.

**Answer:** G.P. Rs. 2,71,000; N.P. Rs. 1,28,600 B/S Total Rs. 7,14,000.

**Hints:**

(1) Closing Stock Rs. 69,200.

(2) Interest for 6 months on 10,000 @ 12% amounts to Rs. 600. Interest shown in Trial Balance is Rs. 300. As such, the remaining amount of 300 will be the amount of outstanding interest. Amount shown on the Dr. side of P&L A/c will be Rs. 300+ 300=600; amount shown on Liabilities side will be 10,000 + 300 = 10,300.

## ADDITIONAL QUESTION FOR SELF PRACTICE

### Question 34:

From the following balances, prepare Trading, Profit & Loss Account and a Balance Sheet as at 31st March, 2012.

| | Rs. | | Rs. |
|---|---|---|---|
| Capital | 82,000 | Sundry Creditor | 9,000 |
| Life Insurance Premium | 2,800 | Sales | 1,24,000 |
| Plant and Machinery | 5,000 | Returns Outward | 1000 |
| Stock in the beginning | 15,000 | Special Rebates (Dr.) | 800 |
| Purchases | 87,200 | Special Rebates (Cr.) | 1,200 |
| Return Inwards | 6,000 | Rent for Premises Sublet | 1,000 |
| Sundry Debtors | 21,000 | Lighting | 400 |

| | | | |
|---|---|---|---|
| Furniture | 9,100 | Motor Car Expenses | 6,300 |
| Motor Car | 40,000 | Bank Balance | 15,200 |
| Freight and Duty | 2,000 | Loan from Suresh at 12% p.a. | 10,000 |
| Carriage in | 800 | Interest on loan from Suresh (Dr.) | 900 |
| Carriage out | 300 | | |
| Trade Expenses | 15,400 | | |

**Adjustments:-**

**(1)** Stock on 31st March, 2012 was valued at Rs. 25,000 ( Realisable value Rs. 32,000).

**(2)** Stock of Rs. 6,000 was burnt by Fire on 25th March. It was fully insured and the Insurance Company admitted the claim in full.

**(3)** Goods worth Rs. 1,800 were distributed as free sample. Goods worth Rs. 1,500 were used for personal purposes by the Proprietor and Goods worth Rs. 500 were given away as charity.

**(4)** Depreciate Motor Car by 15%.

**(5)** The Motor Car is used partly for business and partly for domestic purpose; therefore, one-third of the Car expenses including Car depreciation is to be charged to the Proprietor's A/c.

**(6)** Rent for 2 months is receivable on Premises Sublet.

**(7)** Balance at Bank on 31st March, 2012 as ascertained from the Pass Book is Rs. 15,080, the difference representing Bank Charges.

**(8)** Included in Trade Expenses is Insurance Premium of Rs. 2,400 paid for the year ending 30th June, 2012.

**Solution:**

**TRADING AND PROFIT & LOSS A/C**

**Dr.** **for the year ending 31st March, 2012** **Cr.**

| Particulars | | Amount | Particulars | | Amount |
|---|---|---|---|---|---|
| | | Rs. | | | Rs. |
| To Opening Stock | | 15,000 | By Sales | 1,24,000 | |
| To Purchases | 87,200 | | **Less:** Return inward | 6,000 | 1,18,000 |
| **Less:** Return Outward | 1,000 | | By Closing Stock | | 25,000 |
| | 86,200 | | | | |
| **Less:** Loss by fire | 6,000 | | | | |
| | 80,200 | | | | |
| **Less:** Free Samples | 1,800 | | | | |
| | 78,400 | | | | |
| **Less:** Drawing in Goods | 1,500 | | | | |
| | 76,900 | | | | |
| **Less:** Charity | 500 | 76,400 | | | |
| To Freight and duty | | 2,000 | | | |
| To Carriage in | | 800 | | | |
| To Gross Profit c/d | | 48,800 | | | |
| | | 1,43,000 | | | 1,43,000 |
| To Carriage out | | 300 | By Gross profit b/d | | 48,800 |
| To Trade Expenses | 15,400 | | By Special Rebates | | 1,200 |
| **Less:** Prepaid Insurance | 600 | 14,800 | By Rent | 1,000 | |
| | | | **Add:** Rent receivable(2) | 200 | 1,200 |
| To Special Rebates | | 800 | | | |
| To Lighting | | 400 | | | |

| | | | | |
|---|---|---|---|---|
| To Interest on Suresh Loan | 900 | | | |
| Add: Interest Outstanding | 300 | 1,200 | | |
| To Free Samples | | 1,800 | | |
| To Charity | | 500 | | |
| To Motor Car Expenses | 6,300 | | | |
| Less: Private Share | 2,100 | 4,200 | | |
| To Depreciation on | | | | |
| Motor Car | 6,000 | | | |
| Less: Private Share | 2,000 | 4,000 | | |
| To Bank Charges | | | | |
| (Rs. 15,200- 15,080) | | 120 | | |
| To Net profit transferred to | | | | |
| Capital Account | | 23,080 | | |
| | | 51,200 | | 51,200 |

**BALANCE SHEET as at 31st March, 2012**

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| | | Rs. | | | Rs. |
| Loan from Suresh | 10,000 | | Bank Balance | | 15,081 |
| Add: Interest on loan | 300 | 10,300 | Sundry Debtors | | 21,000 |
| Sundry Creditors | | 9,000 | Insurance Company (claim) | | 6,000 |
| Capital | 82,000 | | Closing Stock | | 25,000 |
| Add: Net Profit | 23,080 | | Rent Receivable | | 200 |
| | 1,05,080 | | Prepaid Insurance | | 600 |
| Less: Life Insurance Premium | | | Furniture | | 9,100 |
| (Drawings) | 2,800 | | Motor Car | 40,000 | |
| | 1,02,280 | | Less: Dep. | 6,000 | 34,000 |
| Less: Drawings in Goods | 1,500 | | Plant & Machinery | | 5,000 |
| Less: Private Share of car | 2,100 | | | | |
| | 98,680 | | | | |
| Less: Private Share of | | | | | |
| Car Depreciation | 2,000 | 96,680 | | | |
| | | 1,15,980 | | | 1,15,980 |

**Notes:—**

(1) Closing Stock will be shown at cost or realisable price, whichever is less.

(2) Rent amounting to Rs. 1,000 has been received for 10 months. As such, rent receivable for 2 months will be $\frac{1,000}{10}$ x 2 = Rs. 200.

**Question 35:**

From the following particulars for the year ending 31st March, 2015 of M/s ABC Company, prepare Trading and Profit and Loss Account and Balance Sheet as at that date :

| | Rs. | | Rs. |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Stock 1-4-2014 | 23,200 | Advertisement | 15,950 |
| Capital 1-4-2014 | 1,45,000 | Apprenticeship premium | 3,480 |
| Purchases | 58,000 | Bill Receivable | 10,150 |
| Sales | 2,32,000 | Bills Payable | 7,250 |
| Office Expenses | 23,345 | Sundry Debtors | 58,000 |
| Return Inward | 4,350 | Plant and Machinery | 13,050 |
| Interest on loan | 870 | Sundry Creditors | 45,820 |
| Return Outward | 1,160 | Loan (Dr.). (ii 10% on 1-4-2014 | 14,500 |
| Drawings | 8,700 | Investment | 8,700 |
| Wages | 20,010 | Cash at Bank | 10,150 |
| Land and Building | 1,59,500 | Cash in hand | 725 |
| Furniture and Fixtures | 7,250 | | |

**Adjustments:**

1. Stock on 31-3-2015 Rs. 20,300
2. Interest on Capital to be allowed at 5% for the year.
3. Interest on drawings to be charged to him as ascertained for the year Rs. 232.
4. Apprenticeship premium is for three years received in advance on 1st April, 2014.
5. Stock valued at Rs. 8,700 destroyed by fire on 25-3-2015, but the Insurance company admitted a claim of Rs. 5,800 only to be paid in the year 2016.
6. Rs. 14,500 out of advertisement expenses are to be carried forward.
7. The Manager is entitled to a commission of 10% at the net profit calculated after charging such commission.
8. The Stock includes material worth Rs. 2,900 for which bill had not been received and therefore, not yet accounted for.

**Solution:**

**TRADING AND PROFIT & LOSS ACCOUNT**

**Dr. for the year ending 31st March, 2008 Cr.**

| Particular | | Amount | Particular | | Amount |
|---|---|---|---|---|---|
| | | Rs. | | | Rs. |
| To Opening Stock | | 23,200 | By Sales | 2,32,000 | |
| To Purchases | 58,000 | | **Less:** Return Inward | 4,350 | 2,27,650 |
| **Less:** Return Outward | 1,160 | | By Closing Stock | | 20,300 |
| | 56,840 | | | | |
| **Less:** Loss by Fire | 8,700 | | | | |
| | 48,140 | | | | |
| **Add:** Unrecorded | | | | | |
| Purchases | 2,900 | 51,040 | | | |
| To Wages | | 20,010 | | | |
| To Gross Profit c/d | | 1,53,700 | | | |
| | | 2,47,950 | | | 2,47,950 |

| | | | | | | |
|---|---|---|---|---|---|---|
| To Office Expenses | | 23,345 | By gross profit b/d | | 1,53,700 |
| To Interest on Capital | | 7,250 | By Interest on Loan | 870 | |
| To Loss of Stock by Fire | | | **Add:** Accrued Interest | | |
| ( Rs. 8,700 – Rs. 5,800) | | 2,900 | (Rs. 1,450-Rs. 870) | 580 | 1,450 |
| To Advertisement | 15,950 | | By Interest on Drawings | | 232 |
| **Less:** Carried Forward | 14,500 | 1,450 | By Apprenticeship | | |
| To Balance (being profit before | | | Premium | 3,480 | |
| charging Manager's | | | **Less:** Received in Advance | | |
| Commission c/d | | 1,21,597 | (3,480 x$\frac{2}{3}$) | 2,320 | 1,160 |
| | | 1,56,542 | | | 1,56,542 |
| To Manager's Commission | | | By Balance b/d | | 1,21,597 |
| ($\frac{10}{110}$x Rs. 1,21,597) | | 11,054 | | | |
| To Net profit transferred to Capital A/c | | 1,10,543 | | | |
| | | 1,21,597 | | | 1,21,597 |

## BALANCE SHEET as at 31st March, 2015

| Liabilities | | | Amount | Assets | | Amount |
|---|---|---|---|---|---|---|
| Bills Payable | | | 7,250 | Cash in Hand | | 725 |
| Sundry Creditors | | 45,820 | | Cash at Bank | | 10,150 |
| **Add:** Unrecorded | | | | Bills Receivable | | 10,150 |
| Purchases | | 2,900 | 48,720 | Sundry Debtors | | 58,000 |
| Manager's Commission Payable | | | 11,054 | Insurance Claim Receivable | | 5,800 |
| Apprenticeship premium received | | | | Closing Stock | | 20,300 |
| in advance | | | 2,320 | Loan | 14,500 | |
| Capital | | 1,45,000 | | **Add:** Accrued Interest | 580 | 15,080 |
| **Add:** Interest on Capital | | 7,250 | | Investment | | 8,700 |
| **Add:** Net Profit | | 1,10,543 | | Furniture and Fixtures | | 7,250 |
| | | 2,62,793 | | Plant and Machinery | | 13,050 |
| **Less:** Drawings | 8,700 | | | Land and Building | | 1,59,500 |
| Interest on | | | | Advertisement | | 14,500 |
| Drawings | 232 | 8,932 | 2,53,861 | | | |
| | | | 3,23,205 | | | 3,23,205 |

## Question 36:

Account for the year ended 31st March, 2008 and Balance Sheet as at that date :—

| Particular | Dr. (Rs.) | Cr.(Rs.) |
|---|---|---|
| Capital.................................................................................................. | -------- | 10,000 |
| Plant and Machinery...................................................................................... | 3,600 | ---------- |
| Depreciation on Plant and Machinery........................................................................ | 400 | ---------- |
| Repairs to Plant......................................................................................... | 320 | ---------- |
| Wages.................................................................................................... | 5,600 | ---------- |
| Salaries................................................................................................. | 800 | ---------- |
| Income Tax............................................................................................... | 100 | ---------- |
| Cash in hand and at Bank.................................................................................. | 400 | ---------- |
| Land and Building......................................................................................... | 14,900 | ---------- |

| | | |
|---|---|---|
| Depreciation on Building | 500 | ---------- |
| Purchases | 25,000 | ---------- |
| Purchases Return | ---------- | 300 |
| Sales | ---------- | 49,800 |
| Bank Overdraft | ---------- | 760 |
| Accrued Income | 300 | ---------- |
| Salaries Outstanding | ---------- | 400 |
| Bills Receivable | 2,000 | ---------- |
| Provision for Bad Debts | --------- | 1,200 |
| Bills Payable | --------- | 600 |
| Bad Debts | 200 | --------- |
| Discount on Purchases | --------- | 800 |
| Debtors | 7,000 | --------- |
| Creditors | --------- | 4,660 |
| Opening Stock | 7,400 | ---------- |
| | 68,520 | 68,520 |

**Information**:—

**(i)** Stock on 31st March, 2008 was Rs. 6,000.

**(ii)** Write off Rs. 600 for Bad Debts and maintain a provision of 5% on Debtors.

**(iii)** On 28th March, 2008, goods were sent on approval basis for Rs. 1,200 at 20% profit on cost. This was recorded as actual sales.

**(iv)** Rs. 240 paid as rent of the office were debited to landlord account and were included in the list of debtors.

**(v)** General Manager is to be given commission at 10% of net profit after charging the commission of Works Manager and his own.

**(vi)** Works Manager is to be given commission at 5% of net profit after charging the commission of General Manager and his own.

**Solution:**

**TRADING AND PROFIT & LOSS ACCOUNT**

**Dr. for the year ended 31st March, 2008 Cr.**

| Particular | | Amount | Particular | | Amount |
|---|---|---|---|---|---|
| | | Rs. | | | Rs. |
| To Opening Stock | | 7,400 | By Sales | 49,800 | |
| To Purchases | 25,000 | | **Less:** Goods sold on | | |
| **Less:** Purchase Return | 300 | 24,700 | Returnable basic | 1,200 | 48,600 |
| To Wages | | 5,600 | By Closing Stock | 6,000 | |
| To Gross Profit c/d | | 17,900 | **Add:** Goods Returnable | | |
| | | | $(1{,}200 \times \frac{100}{120})$ | 1,000 | 7,000 |
| | | 55,600 | | | 55,600 |

| | | | | |
|---|---|---|---|---|
| To Depreciation on Plant and Machinery | 400 | By Gross profit b/d | | 17,900 |
| To Repairs to Plant | 320 | By Provision for Bad debts:- | | |
| To Salaries | 800 | Old Provision | 1,200 | |
| To Depreciation on Building | 500 | **Less:** Bad Debts | | |
| To Rent | 240 | (Rs. 200 + Rs. 600) | 800 | |
| To Works Manager's Commission 5% on | | | 400 | 152 |
| Net Profit | | **Less:** New Provision | 248 | 800 |
| ($\frac{5}{115}$x 16,592) | 721[1] | By discount on purchases | | |
| To General Manager's Commission ($\frac{10}{115}$x16,592) | 1,443[2] | | | |
| To Net Profit | 14,428 | | | |
| | 18,852 | | | 18,852 |

**BALANCE SHEET as at 31st March, 2008**

| Liabilities | | Rs. | Assets | | Rs. |
|---|---|---|---|---|---|
| Bank overdraft | | 760 | Cash in hand and Bank | | 400 |
| Bills payable | | 600 | Bills Receivable | | 2,000 |
| Creditors | | 4,660 | Debtors | 7,000 | |
| Salary outstanding | | 400 | **Less:** Due to rent | 240 | |
| O/S Works Manager Commission | | 721 | | 6,760 | |
| O/S General Manager Commission | | 1,443 | **Less:** Goods returnable | 1,200 | |
| Capital | 10,000 | | | 5,560 | |
| **Less:** Income-tax | 100 | | **Less:** Bad debts | 600 | |
| | 9,900 | | | 4,960 | |
| **Add:** Net Profit | 14,428 | 24,328 | **Less:** Bad debts Provision | 248 | |
| | | | (5% on Rs. 4,960) | | 4,712 |
| | | | Closing Stock | | 7,000 |
| | | | Accrued Income | | 300[1] |
| | | | Plant & Machinery | | 3,600 |
| | | | Land & Building | | 14,900 |
| | | 32,912 | | | 32,912 |

**Note:**

(1) Works Manager's and General Manager's Commission is 5% and 10% on net profit after charging such commission. It is calculate as below:-

| | Rs. |
|---|---|
| Total of Cr. side of P & L A/c | 18,852 |
| **Less:** Total of Dr. Side | 2,260 |
| Net Profit before charging commission | 16,592 |

Total Commission to be allowed is 5% + 10% = 15%. Hence,
Works Manager will be allowed 5/115 of Rs. 16,592 and
General Manager will be allowed 10/115 of Rs. 16,592.

## Question 37:

From the following balances and information, prepare Trading and Profit and Loss Account for the year ended 31st December, 2010 and Balance Sheet as at that date :—

| Liabilities | Rs. | Assets | Rs. |
|---|---|---|---|
| Purchases | 72,000 | Sundry Debtors | 38,000 |
| Return Outwards | 2,400 | Sundry Creditors | 15,600 |
| Sales | 1,80,000 | Capital | 1,80,000 |
| Return Inwards | 5,000 | Special Rebates (Dr.) | 1,200 |
| Opening Stock | 26,500 | Special Rebates (Cr.) | 3,400 |
| Telephone Rent | 1,200 | Freight | 4,200 |
| Loan to Sudhir @ 10% p.a. | 25,000 | Investments (Short-term) | 15,000 |
| Interest on above | 2,375 | Dividends received | 450 |
| Rent Paid | 2,000 | Bank Overdraft | 8,700 |
| Cash in hand | 7,000 | Salary | 31,120 |
| Drawings | 6,000 | Deposit with D.C.M. | 20,000 |
| Life Insurance Premium | 7,200 | interest on Deposits | 2,800 |
| Plant and Machinery | 1,00,000 | Petty Cash | 505 |
| Gift to Sister-in law | 5,000 | Manufacturing Wages | 36,800 |
| | | Outstanding Wages | 8,000 |

**Adjustments** :—

1. Rs. 5,000 due from Kapil is included in debtors while Rs. 3,600 due to him is included in creditors.
2. Make a provision of 5% on Sundry Debtors for doubtful debts.
3. Calculate interest on Loan, having regard to the fact that Rs. 10,000 were returned by Sudhir on 30th June, 2010.
4. Telephone rent for one year was paid on 1st May, 2010.
5. A claim of Rs. 20,000 for Workmen's Compensation is being disputed in the court.
6. Stock was not taken on 31st Dec., 2010 but could be taken only on 10th Jan., 2011. It was then valued at Rs. 44,300. Purchases and sales between 1st Jan;, 2011 and 10th Jan., 2011 were Rs. 2,500 and Rs. 4,000 respectively. Gross profit included in these sales was 20% on sales.

## Solution:

**TRADING AND PROFIT & LOSS ACCOUNT**

Dr. **for the year ending 31st Dec., 2010** Cr.

| Particular | | Amount | Particulars | | Amount |
|---|---|---|---|---|---|
| | | Rs. | | | Rs. |
| To Opening Stock | | 26,500 | By Sales | 1,80,000 | |
| To Purchases | 72,000 | | **Less:** Return Inwards | 5,000 | 1,75,000 |
| **Less:** Return Outward | 2,400 | 69,600 | By Closing Stock | | 45,000 |
| To Freight | | 4,200 | | | |
| To Manufacturing Wages | | 36,800 | | | |
| To Gross Profit c/d | | 82,900 | | | |
| | | 2,20,000 | | | 2,20,000 |
| To Telephone Rent | 1,200 | | By Gross Profit b/d | | 82,900 |
| **Less:** Prepaid | 400 | 800 | By Interest on | | |
| To Rent Paid | | 2,000 | Sudhir's Loan | 2,375 | |
| To Special Rebate | | 1,200 | **Add:** Accrued Interest | 625 | 3,000 |

| | | | |
|---|---|---|---|
| To Salary | 31,120 | By Special Rebate | 3,400 |
| To Provision for Doubtful Debts | 1,720 | By Dividend Received | 450 |
| To Net Profit | 55,710 | By Interest on Deposit | 2,800 |
| | 92,550 | | 92,550 |

**BALANCE SHEEI as at 31st Dec., 2010**

| Liabilities | | Rs. | Assets | | Rs. |
|---|---|---|---|---|---|
| Bank Overdraft | | 8,700 | Petty Cash | | 505 |
| Sundry Creditors | 15,600 | | Cash in Hand | | 7,000 |
| **Less:** Debtors | 3,600 | 12,000 | Investement (Short-term) | | 15,000 |
| Outstanding Wages | | 8,000 | Deposit with D.C.M. | | 20,000 |
| Capital | 1,80,000 | | Sundry Debtors | 38,000 | |
| **Add:** Net profit | 55,710 | | **Less:** Creditors | 3,600 | |
| | 2,35,710 | | | 34,400 | |
| **Less:** Drawings | 6,000 | | **Less:** Provisions for | | |
| Life Insurance | | | Doubtful -Debts | 1,720 | 32,680 |
| Premium | 7,200 | | Closing Stock | | 45,000 |
| Gift to Sister-in-law | 5,000 | 2,17,510 | Prepaid Telephone Rent | | 400 |
| | | | Accrued Interest | | 625 |
| | | | 10% Sudhir's Loan | | 25,000 |
| | | | Plant & Machinery | | 1,00,000 |
| | | 2,46,210 | | | 2,46,210 |

Contingent Liability for Workmen's compensation is Rs. 20,000

**Note**:

(1) Loan outstanding on 1st January,2010 was Rs. 35,000 (i.e., Rs. 25,000 + 10,000 received back on 30th June).

| | Rs. |
|---|---|
| Interest on 35,000 at 10% for first 6 months | = 1,750 |
| Interest on Rs. 25,000 at 10% for the next 6 months | = 2,500 |
| Total Interest | 3,000 |
| **Less:** Already received as per Trial Balance | 2,375 |
| Accrued Interest | 625 |

(2) Rs. 5,000 is due from Kapil and Rs. 3,600 is due to Kapil, hence the lesser amount of the two, i.e., Rs. 3,600 will be deducted from debtors and creditors. Following adjustment entry will be passed for this purpose:-

| | | | |
|---|---|---|---|
| Sundry Creditors A/c | Dr. | 3,600 | |
| To Sundry Debtors A/c | | | 3,600 |

| | Rs. |
|---|---|
| (3) Closing Stock on 10th Jan., 2011 | 44,300 |
| **Less:** Purchases between 1st Jan.,2011 and 10th Jan.,2011 | 2,500 |
| | 41,800 |
| **Add:** Cost of goods sold between 1st Jan., 2011 And 10th Jan., 2011: Rs. 4,000 – Rs. 800 (i.e. 20% of Rs. 4,000) | 3,200 |
| | 45,000 |

## Question 38:

Mr. Radha Mohan gives you the, following Trial Balance as at 31st March, 2013:

| Dr. Balance | Rs. | Cr. Balances | Rs. |
|---|---|---|---|
| Opening Stock | 22,000 | Capital | 1,00,000 |
| Purchases | 2,05,000 | Sales | 2,75,000 |
| Postage and Telegram | 360 | Bank Overdraft | 12,800 |
| Interest on fixed Deposits | 3,200 | Accounts payable | 56,000 |
| Buildings | 1,12,000 | Fixed deposit | 20,000 |
| Charity | 2,800 | Interest on bank deposits | 540 |
| Repairs | 2,500 | | |
| Household Expenses | 5,440 | | |
| Audit fee | 800 | | |
| Landlord A/c | 4,800 | | |
| Accounts receivable | 20,000 | | |
| Indirect expenses | 1,440 | | |
| Bank Deposit | 6,000 | | |
| Loose Tools | 8,000 | | |
| Salaries | 14,200 | | |
| Carriage | 4,500 | | |
| Cash in hand | 7,300 | | |
| Security Deposit | 28,000 | | |
| Personal Debts | 16,000 | | |
| | 4,64,340 | | 4,64,340 |

**Adjustments** : —

1. Closing Stock was taken on 29th March, 2013 and was then valued at Rs. 40,000. Purchases and Sales on 30th and 31st March, 2013 amounted to Rs. 1,500 and Rs. 1,200 respectively. These transactions were duly passed through the books. The proportion of Gross Profit included in these sales is to be taken as Cost plus 20%.
2. Two dishonoured cheques for Rs. 1,000 and Rs. 800 respectively have not been entered in the Cash book. The first for Rs. 1,000 is known to be bad. In the case of second cheque it is expected that 40 paise in the rupee will be received.
3. Create provision for Doubtful Debts @ 5%.
4. Rent paid to Landlord was debited to his personal account.

Prepare Trading and Profit and Loss Account for the year ended 31st March, 2013 and a Balance Sheet as on that date.

## Solution:

**TRADING AND PROFIT & LOSS A/C**

Dr. **for the year ended 31st March, 2013** Cr.

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| | Rs. | | Rs. |
| To Opening Stock | 22,000 | By Sales | 2,75,000 |
| To Purchases | 2,05,000 | By Closing Stock | 40,500[1] |
| To Carriage | 4,500 | | |
| To Gross Profit c/d | 84,000 | | |

| | | | | |
|---|---|---|---|---|
| | | 3,15,500 | | 3,15,500 |
| To Postage and Telegram | | 360 | By Gross Profit b/d | 84,000 |
| To Interest on fixed deposits | | 3,200 | By Interest on bank deposits | 540 |
| To Audit fees | | 800 | | |
| To Rent | | 4,800 | | |
| To Indirect Expenses | | 1,440 | | |
| To Salaries | | 14,200 | | |
| To Bad debts | 1,480 | | | |
| **Add:** Provisions required | 1,000 | 2,480 | | |
| To Charity | | 2,800 | | |
| To Repairs | | 2,500 | | |
| To Net Profit | | 51,960 | | |
| | | 84,540 | | 84,000 |

**BALANCE SHEET as at 31st March, 2013**

| Liabilities | | Rs. | Assets | | Rs. |
|---|---|---|---|---|---|
| Bank Overdraft | 12,800 | | Cash in hand | | 7,300 |
| **Add:** Dishonoured | | | Accounts receivable | 20,000 | |
| Cheques | 1,800 | 14,600 | **Add:** dishonoured | | |
| Accounts payable | | 56,000 | Cheques | 1,800 | |
| Fixed Deposits | | 20,000 | | 21,800 | |
| Capital | 1,00,000 | | **Less:** Bad debts | 1,480 | |
| **Add:** Net profit | 51,960 | | | 20,320(2) | |
| | 1,51,960 | | **Less:** Provision for | | |
| **Less: Drawings** | | | doubtful debts | 1,000 (2) | 19,320 |
| Personal Debts | 16,000 | | Closing Stock | | 40,500 |
| Household Exp. | 5,440 | | Security Deposits | | 28,000 |
| | 21,440 | 1,30,520 | Bank Deposits | | 6,000 |
| | | | Loose Tools | | 8,000 |
| | | | Buildings | | 1,12,000 |
| | | 2,21,120 | | | 2,12,120 |

**Notes:**

**(1) Valuation of Closing Stock :—**

| | Rs. |
|---|---|
| Closing Stock on 29th March, 2013 | 40,000 |
| **Add:** Purchases on 30th & 31st March, 2013 | 1,500 |
| | 41,500 |
| **Less:** Cost of goods sold on 30th & 31st March, 2013 :— | |
| Rs. 1,200 – Rs. 200 (i.e. 20/120 of Rs. 1,200) | |
| Balance on 31st March, 2013 | |

**(2) Provision for Doubtful debts is based on :—**

5% of Rs. 20,000 (Rs. 20,320 – Rs. 320 Definitely good)

**Question 39:**

From the following trial balance, Prepare trading and profit and loss account the year ended March 31, 2016 and the balance for sheet as at that date :

| Dr. Balance | Rs. | Cr. Balance | Rs. |
|---|---|---|---|
| Salaries | 40,000 | Sales | 3,00,000 |
| Bills Receivable | 24,000 | Capital | 2,20,000 |
| Investments | 1,50,000 | Provision for Bad Debts | 12,500 |
| Furniture | 36,000 | 10% Loan (1-10-2015) | 40,000 |
| Opening Stock | 15,000 | Discount | 2,000 |
| Purchases | 1,50,000 | Creditors | 40,000 |
| Debtors | 1,50,000 | Bills Payable | 20,000 |
| Interest on Loan | 1,600 | Outstanding Salary | 6,000 |
| Insurance premium | 4,000 | Bad Debts Recovered | 1,500 |
| Wages | 20,000 | Interest on Investments | 8,000 |
| Rent | 5,000 | | |
| Bad Debts | 6,000 | | |
| Carriage Outward | 3,900 | | |
| Cash at Bank | 30,000 | | |
| Depreciation on Furniture | 7,500 | | |
| Accrued Interest | 5,000 | | |
| Advertisement | 2,000 | | |
| | 6,50,000 | | 6,50,00 |

**ADJUSTEMENTS:**

1. Closing stock was valued at Rs. 30,000.
2. Goods costing Rs. 5,000 were distributed as free samples, while goods costing Rs. 4,000 were taken by the proprietor for personal use.
3. Sundry debtors include Rs. 15,000 due from Mr. Sunil and sundry creditors include Rs. 12,000 due to Mr. Sunil.
4. Sundry debtors included Rs. 4,000 due from a customer who has become insolvent and 40% was realisable from his estate.
5. A credit sale of Rs. 10,000 was not recorded in the sales book.
6. Debtors included a dishonoured cheque of Rs. 10,000 and 20% was to be provided for non-recoverable amount.
7. Closing stock included goods costing Rs. 8,000 which were sold and recorded as sales but not delivered to the customer.
8. Maintain provision for doubtful debts at 5%.

**Solution:**

**TRADING ACCOUNT**

**Dr.** **for the year ending March 31, 2016** **Cr.**

| Particulars | | Amount | Particular | | Amount |
|---|---|---|---|---|---|
| | | Rs. | | | Rs. |
| To Opening Stock | | 15,000 | By Sales | 3,00,000 | |
| To Purchases | 1,50,000 | | **Add:** Sales Omitted | 10,000 | 3,10,000 |
| **Less:** Samples | 5,000 | | By Closing Stock | 30,000 | |
| **Less:** Drawings | 4,000 | | **Less:** Sold and | | |

| | | | | | |
|---|---|---|---|---|---|
| | 9,000 | 1,41,000 | | | |
| To Wages | | 20,000 | Wrongly included | 8,000 | 22,000 |
| To Gross Profit c/d | | 1,56,000 | | | |
| | | 1,32,000 | | | 3,32,000 |
| To Salaries | | 40,000 | By Gross Profit b/d | | 1,56,000 |
| To Interest on Loan | 1,600 | | By Discount | | 2,000 |
| **Add:** Outstanding Interest | 400 | 2,000 | By Bad Debts Recovered | | 1,500 |
| To Insurance Premium | | 4,000 | By Interest on Investments | | 8,000 |
| To Rent | | 5,000 | | | |
| To Carriage Outward | | 3,900 | | | |
| To Advertisement | | | | | |
| (2,000 + Samples 5,000) | | 7,000 | | | |
| To Depreciation on Furniture | | 7,500 | | | |
| To Provision for Doubtful Debts | | | | | |
| To Bad Debts | 6,000 | | | | |
| **Add:** New Provision | 11,100 | | | | |
| | 17,100 | | | | |
| **Less:** Old Provision | 12,500 | 4,600 | | | |
| To Net Profit transferred to | | | | | |
| Capital A/c | | 93,500 | | | |
| | | 1,67,500 | | | 1,67,500 |

**BALANCE SHEET (as at March 31,2016)**

| Particulars | | Rs. | Assets | | Rs. |
|---|---|---|---|---|---|
| Bills Payable | | 20,000 | Cash at Bank | | 30,000 |
| Creditors | 40,000 | | Bills Receivable | | 24,000 |
| Less: Debtors | 12,000 | 28,000 | Debtors | 1,50,000 | |
| Outstanding Salary | | 6,000 | **Less:** Creditors | 12,000 | |
| 10% Loan | 40,000 | | | 1,38,000 | |
| **Add :** Outstanding Interest | 400 | 40,400 | **Add:** Credit Sales | 10,000 | |
| Capital | 2,20,000 | | | 1,48,000 | |
| **Add:** Net Profit | 93,500 | | **Less:** New provision | 11,100 | 1,36,900 |
| | 3,13,500 | | Closing Stock (30,000-8,000) | | 22,000 |
| **Less:** Drawing in Goods | 4,000 | 3,09,500 | Investment | | 1,50,000 |
| | | | Accrued Interest | | 5,000 |
| | | | Furniture | | 36,000 |
| | | 4,03,900 | | | 4,03,900 |

**Working Notes :**

(1) Lower of the amount due from Sunil and due to Sunil is common debt which is subtracted from both debtors and creditors.

| | Rs. |
|---|---|
| (2) Debtors given in Trial Balance | 1,50,000 |
| **Less :** Common Debt | 12,000 |
| | 1,38,000 |

| | | |
|---|---|---|
| **Add:** Credit Sales omitted | | 10,000 |
| | | 1,48,000 |
| **New Provision :** | | |
| On Dishonoured Cheque of Rs. 10,000 | 2,000 | |
| On Insolvent Customer of Rs. 4,000 | 2,400 | |
| On Balance i.e. 5% on (1,48,000 - 10,000 - 4,000) | 700 | |
| | 11,100 | |

**Question 40:**

From the following Trial Balance and information, prepare Trading and Profit & Loss Account of Mr. Rishabh for the year ended 31st March, 2013 and a Balance Sheet as at that date:

| Particular | Dr. | Cr. |
|---|---|---|
| | Rs. | Rs. |
| Capital | --------- | 1,00,000 |
| Drawing | 12,000 | ---------- |
| Land and Building | 90,000 | ---------- |
| Plant and Machinery | 20,000 | ---------- |
| Furniture | 5,000 | ---------- |
| Sales | ---------- | 1,40,000 |
| Return Outward | ---------- | 6,000 |
| Debtors | 18,400 | ---------- |
| Loan from Gajanand on 1-7-2012 @ 6% p.a | ---------- | 30,000 |
| Purchases | 80,000 | ---------- |
| Returns Inward | 5,000 | ---------- |
| Carriage | 10,000 | ---------- |
| Sundry Expenses | 600 | ---------- |
| Printing And Stationery | 500 | ---------- |
| Insurance Expenses | 1,000 | ---------- |
| Provision for bad and Doubtful Debts | ---------- | 1,000 |
| Provision for discount on debtors | ---------- | 380 |
| Bad Debts | 400 | ----------- |
| Opening Stock on 1-4-2012 | 21,300 | ----------- |
| Salaries and Wages | 18,500 | ----------- |
| Creditors | ---------- | 12,000 |
| Trade Expenses | 800 | ----------- |
| Cash at Bank | 4,600 | ----------- |
| Cash in Hand | 1,280 | ---------- |
| | 2,89,380 | 2,89,380 |

**Additional information:**

1. Value of closing stock on 31-3-2013 was Rs. 27,300.
2. Fire occurred on 23rd March, 2013 and Rs. 10,000 worth of general goods were destroyed. The insurance company accepted claim for Rs. 6,000 only and paid the claim money on 10th April, 2013.
3. Bad debts amounting to Rs. 400 are to be written off. Provisions for bad and doubtful debts is to be made at 5% and for discount at 2% on debtors. Make a provision of 2% on creditors for discount.
4. Received Rs. 6,000 worth of goods on 27th March, 2013 but the Invoice of purchases was not recorded in Purchase Book.
5. Rishabh took away goods worth Rs. 2,000 for personal use but no record was made there of.

6. Charge depreciation at 2% on land and building, 20% on plant and machinery and 5% on furniture.
7. Insurance prepaid amounts to Rs. 200.

**Solution:**

**TRADING AND PROFIT & LOSS ACCOUNT**

Dr. **for the year ending 31st March, 2013** Cr.

| Particulars | | Amount | Particulars | | Amount |
|---|---|---|---|---|---|
| | | Rs. | | | Rs. |
| To Opening Stock of General Good | | 21,300 | By Sales | 1,40,000 | |
| To Purchase | 80,000 | | Less: Returns Inward | 5,000 | 1,35,000 |
| Less: Returns Outward | 6,000 | | By Closing Stock of General goods | | 27,300 |
| | 74,000 | | | | |
| Less: Goods destroyed By fire: | 10,000 | | | | |
| | 64,000 | | | | |
| Add: Unrecorded Purchases | 6,000 | | | | |
| | 70,000 | | | | |
| Less: Goods taken away for Personal use | 2,000 | 68,000 | | | |
| To Carriage | | 10,000 | | | |
| To Gross profit c/d | | 63,000 | | | |
| | | 1,62,300 | | | 1,62,300 |
| To Interest on Loan (for 9 months) | | 1,350 | By Gross Profit b/d | | 63,000 |
| To Sundry Expenses | | 600 | By Provision for Discount on Debtors: | | |
| To Printing and Stationery | | 500 | Old Provision | 380 | |
| To Insurance Expenses | 1,000 | | Less: New Provision | 342 | 38 |
| Less: Prepaid | 200 | 800 | By Provision for Discount on Creditors | | 360 |
| To Bad Debt | 400 | | | | |
| Add: Further Bad Debts | 400 | | | | |
| Add: New Provision | 900 | | | | |
| | 1,700 | | | | |
| Less: Old Provision | 1,000 | 700 | | | |
| To Salaries and Wages | | 18,500 | | | |
| To Trade Expenses | | 800 | | | |
| To Loss by fire (Rs. 10,000-Rs. 6,000) | | 4,000 | | | |
| To Depreciation: | | | | | |
| On Land and Building | 1,800 | | | | |
| On Plant and Machinery | 4,000 | 6,050 | | | |
| On Furniture | 250 | | | | |
| To Net Profit transferred to Capital A/c | | 30,098 | | | |
| | | 63,398 | | | 63,398 |

**BALANCE SHEET**
**as at 31st March, 2013**

| Liabilities | Amount | Assets | Amount |
|---|---|---|---|

| | | Rs. | | | Rs. |
|---|---|---|---|---|---|
| Creditors | 12,000 | | Cash in Hand | | 1,280 |
| **Add:** Unrecorded Purchases | 6,000 | | Cash at Bank | | 4,600 |
| | 18,000 | | Debtors | 18,400 | |
| **Less:** Provision for | | | **Less:** Further Bad-debts | 400 | |
| Discount | 360 | 17,640 | | 18,000 | |
| Loan from Gajanand | 30,000 | | **Less:** Provision for | | |
| **Add:** Interest Outstanding | 1,350 | 31,350 | Doubtful Debts | 900 | |
| Capital | 1,00,000 | | | 17,100 | |
| **Add:** Net Profit | 30,098 | | Less: Provision for Discount | 342 | 16,758 |
| | 1,30,098 | | Insurance claim receivable | | 6,000 |
| **Less:** Drawing | 12,000 | | Stock of General good | | 27,300 |
| Goods Taken | 2,000 | | Prepaid Insurance | | 200 |
| | 14,000 | 1,16,098 | Furniture | 5,000 | |
| | | | **Less:** Depreciation | 250 | 4,750 |
| | | | Plant and Machinery | 20,000 | |
| | | | **Less:** Depreciation | 4,000 | 16,000 |
| | | | Land and Building | 90,000 | |
| | | | **Less:** Depreciation | 1,800 | 88,200 |
| | | 1,65,088 | | | 1,65,088 |

## Question 41:

From the following balances extracted from the books of Mr. Yellow, prepare. Trading and Profit and Loss Account for the year ended on 31.3.2014 and a Balance Sheet as at that date :

| | Rs. | | Rs. |
|---|---|---|---|
| Purchases | 71,280 | Mr. Yellow's Capital A/c | 60,000 |
| Computer at Cost | 18,380 | Cash at Bank | 4,000 |
| Cash in hand | 2,836 | Sundry Creditors | 13,000 |
| Bills Payable Account | 10,220 | Furniture and Fittings Accounts | |
| Rent | 12,540 | at cost | 1,540 |
| Discount Received | 22,000 | Bills Receivable Account | 6,720 |
| Trade Charges | 920 | Sundry Debtors | 34,156 |
| Sales | 60,720 | Returns Outward | 11,432 |
| Drawings Account | 5,200 | Rent Due | 320 |
| Discount Allowed | 540 | Wages | 1,800 |
| Salaries | 16,780 | Returns Inward | 1,000 |

**Additional Information:**

(a) Closing Stock on 31.3.2014 was valued at cost Rs. 25,600 (Market value Rs. 26,200).

(b) Rs. 6,000 paid to Mr. Red against Bill Payable were debited by mistake to Mr. Green's Account and included in the list of Sundry Debtors.

(c) Travelling Expenses paid to sales representative Rs. 5,000 for the month (March 2014 were debited to his personal account and included in the list of Sundry Debtors.

(d) Depreciation on Furniture and Fittings shall be provided at 10% p.a.

(e) Provide for Doubtful Debts at 5% on Sundry Debtors.
(f) Goods costing Rs. 1,500 used by the proprietor.
(g) Salaries included Rs. 12,000 paid to sales representative who is further entitled to a commission of 5% on net sales.
(h) Stationery charges Rs. 1,200 due on 31.3.2014.
(i) Purchases include opening stock valued at Rs. 7,000 (cost price).
(j) Sales representative further entitled to an Extra commission of 5% on net Profit after charging his extra commission.
(k) No depreciation need be provided for Computer as it had been purchase on 31.3.2014 and not put into use.

**Solution:**

**TRADING AND PROFIT AND LOSS ACCOUNT**
**for the year ended 31st March, 2014**

**Dr.** | **Cr.**

| Particulars | | Amounts | Particulars | | Amounts |
|---|---|---|---|---|---|
| | | Rs. | | | Rs. |
| To Opening Stock | | 7,000 | By Sales | 60,720 | |
| To Purchases | | | **Less:** Returns Inward | 1,000 | 59,720 |
| (71,280- 7,000) | 64,280 | | By Closing Stock | | 25,600 |
| **Less:** Returns Outwards | 11,432 | | | | |
| | 52,848 | | | | |
| **Less:** Drawings in goods | 1,500 | 51,348 | | | |
| To Wages | | 1,800 | | | |
| To Gross Profit c/d | | 25,172 | | | |
| | | 85,320 | | | 85,320 |
| To Rent | | 12,540 | By Gross Profit b/d | | 25,172 |
| To Trade Charges | | 920 | By Discount Received | | 22,000 |
| To Discount allowed | | 540 | | | |
| To Salaries (including Rs. 12,000 paid to Sales Representative) | | 16,780 | | | |
| To Travelling Expenses | | 5,000 | | | |
| To Depreciation on Furniture and Fittings | | 154 | | | |
| To Provision for Doubtful Debts | | 1,158 | | | |
| To Sales Representative's Commission (5% on Rs. 59,720) | | 2,986 | | | |
| To Stationery Charges Outstanding | | 1,200 | | | |
| To Balance c/d | | 5,894 | | | |
| | | 47,172 | | | 47,172 |
| To Extra Commission to Sales Representative 5,894 x$\frac{5}{105}$ | | 281 | By Balance b/d | | 5,894 |
| To Net Profit transferred to Capital Account | | 5,613 | | | |
| | | 5,894 | | | 5,894 |

**BALANCE SHEET**
**AS AT 31ST March, 2014**

| Liabilities | | Rs. | Assests | | Rs. |
|---|---|---|---|---|---|
| Bills Payable | 10,220 | | Cash in hand | | 2,836 |
| **Less:** Sundry Debtors | 6,000 | 4,220 | Cash at bank | | 4,000 |
| Sundry Creditor | | 13,000 | Bills Receivable | | 6,720 |
| Rent Due | | 320 | Sundry Debtors | 34,156 | |
| Outstanding Commission to Sales | | | **Less:** Travelling Expenses | 5,000 | |
| Representative (2,986 + 281) | | 3,267 | | 29,156 | |
| Stationery Charges Outstanding | | 1,200 | **Less:** Bills Payable | 6,000 | |
| Capital | 60,000 | | | 23,156 | |
| **Add:** Net Profit | 5,613 | | **Less:** Provision for Doubtful | | |
| | 65,613 | | Debt | 1,158 | 21,998 |
| **Less:** Drawing | | | Closing Stock | | 25,600 |
| (5,200 +1,500) | 6,700 | 58,913 | Computer at Cost | | 18,380 |
| | | | Furniture and Fitting | 1,540 | |
| | | | **Less:** Depreciation | 154 | 1,386 |
| | | 80,920 | | | 80,920 |

## Treatment of Various Adjustments

| | Adjustment | Adjustment Entry | Treatment in Trading A/c | Treatment in Profit & Loss A/c | Treatment In Balance Sheet |
|---|---|---|---|---|---|
| 1. | Closing Stock | Closing Stock A/c Dr.<br>To Trading A/c | Shown on the credit side | | Shown on the side |
| 2 | Outstanding Expenses | Expenses A/c Dr.<br>To Outstanding Expenses A/c | Added to the respective cxpen.se on the debit side | Added to the respective expense on the debit side | Shown on liabilities side |
| 3. | Prepaid or unexpired expenses | Prepaid Expenses A/c Dr.<br>To Expenses A/c | Deducted from the respective expense on the debit side | Deducted from the respective expense on the debit side | Shown on the side |
| 4. | Depredation | Depreciation A/c Dr.<br>To Asset A/c | | Shown on the debit side | Deducted from concerned asset on the assets side |
| 5, | Accrued Income (income earned but not received) | Accrued Income A/c Dr.<br>To Income A/c | | Added to the respective income on the credit side | Shown on assets side |
| 6. | Unearned Income (Income received in advance) | Income Ac Dr.<br>To Unearned Income A/c | | Deducted from the respective income on the credit side | Shown on liabilities side |
| 7. | Interest on capital | Intereston Capital A/c Dr.<br>To Capital A/c | | Shown on the debit side | Added to the ca the liabilities side |
| 8. | Interest on Drawings | Drawings A/c Dr.<br>To Interest on Drawings A/c | | Shown on the credit side | Added to the drawings and then d from Capital |

| | | | | | |
|---|---|---|---|---|---|
| 9. | Interest on loan (taken from someone) | Interest on Loan A/c Dr.<br>To loan A/c | | Shown on the debit side | Added to the the liabilities side |
| 10. | Further bad debts | Bad Debts A/c Dr.<br>To Sundry Debtors A/c | | Added to bad debts (given in trial balance) on the debit side. | Deducted from on the assets side |
| 11. | Provision tor doubtful debts | Profit & Loss A/c Dr.<br>To Provision for Doubtful Debts A/c | | Added to bad debts on the debit side | Deducted from Debtors on the assets side |
| 12. | Provision for Dis-count on Debtors | Profit & Loss A/c Dr.<br>To Provision for Discount on Debtors A/c | | Shown on the debit side as a separate item | Deducted from Debtors on the assets side |
| 13. | Abnormal loss of stock | InsuranceCompanyA/c Dr.<br>Profit & Loss A/c Dr.<br>To Purchases A/c | Total amount of loss is deducted from purchases on the debit side | Amount not recovered from the insurance company is shown on the debit side | Amount recovered from the insurance company is shown on the assets side. |
| 14. | Charity in the form of goods | Charity A/c Dr.<br>To Purchases A/c | Deducted from purchases on the debit side | Shown on the debit side | |
| 15. | Goods distributed as free samples | Free samples A/c Dr.<br>To Purchases A/c | -do- | Shown on the debit side | |
| 16. | Drawings in goods | Drawings A/c Dr.<br>To Purchases A/c | -do- | | Deducted from capital on the liabilities side. |
| 17. | Manager's Commission | Manager's Commission A/c Dr.<br>To Outstanding Commission A/c | | Shown on the debit side | Shown on the liabilities side |
| 18. | Goods sold but omitted to be recorded | Debtors A/c Dr.<br>To Sales A c | Added to sales on the credit side | | Added to Debtors on the assets side |
| 19. | Goods purchased but omitted to be recorded | Purchases A/c Dr.<br>To Creditors A/c | Added to purchases on the debit side | | Added to Creditors on in liabilities side |
| 20. | Sale of goods on approval basis | (i)Sales A/c Dr.<br>To Debtors A/c<br>(Sale value of goods)<br>(ii)Closing Stock A/c Dr.<br>To Trading A/c<br>(Cost price of goods) | Deducted from sales on the credit side<br>Added to closing stock on the credit side | | Deducted from debtors on the assets side<br>Added to closing stock on the assets side. |

## TRUE & FALSE

**State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):**

1. Fixed cost remain relatively unaffected in a defined period of time. [Dec. 1993]
2. Current cost gives an alternative measurement base. [Nov. 1999]
3. Net profit is reflected in higher cash balances and net loss is reflected in lower net worth. [Dec. 1993]
4. Profit and loss account shows the financial position of the concern. [Dec. 1993, Nov. 1994, Nov. 1997]
5. A profit and loss account is a point statement whereas a balance sheet is a period statement. [May 1995]
6. Fixed assets are stated in the balance sheet at their market value. [Nov. 1994]
7. Trial balance is prepared after preparing the profit and loss account. [Nov. 1995]
8. The provision for discount on debtors is calculated before deducting the provision for doubtful debts from debtors. [Nov. 1995, May 1998, Nov. 2002 and Nov. 2004]
9. Provision for doubtful debts is debited to sundry debtors account. [May 2000]
10. The gain from sale of capital assets need not be added to revenue to ascertain the net profit of a business. [May 1997 and Nov. 2000]
11. Freight and cartage expenses paid on purchases of goods is added to the amount of purchase. [May 1998 and Nov. 2000]
12. The debit balance in the profit & loss account is surplus. [May 2001]
13. Debit balance of profit and loss account is a real asset. [Nov 2002]
14. Assets and Liabilities of a particular accounting period are shown in the balance sheet. [Nov 2002 of Foundation]
15. Under the 'liquidity approach' assets which are most liquid are presented at the bottom of the balance sheet. [Nov 2002]
16. The value of human resources is generally shown as asset in the Balance Sheet. [May 2003]
17. A withdrawal of cash from the business by the proprietor should be charged to profit and loss account as an expense. [June 1994]
18. The proprietor of a shop feels that he has made a loss due to closing stock being zero. [May 1995 and Nov 1997]
19. Marshalling and Grouping has the same meaning.
20. Sundry Debtors are liquid assets. [May 2006]
21. Closing stock will never appear in the trial. [May 2006]
22. Income Statement is prepared to ascertain the financial position but Balance Sheet is prepared to ascertain financial performance at the end of a given accounting period.
23. Income Statement is prepared on the basis of closing entries relating to Nominal and Real Accounts but Balance Sheet is prepared on the basis of balances of Real and Nominal Accounts.
24. Gross Profit means excess of all revenue over all expenses.
25. Operating Profit means excess of operating revenues over all expenses and losses.
26. Net Profit means excess of all operating revenues over all expenses and losses.
27. Depreciable fixed assets are valued at Cost.
28. Current assets are usually valued at Net Realizable Value or Cost whichever is higher.

29. Under order of liquidity the most liquid assets is shown last and least urgent payment is shown first.
30. The company as defined under Companies Act, 2013 prepares Balance Sheet in the Order of liquidity.
31. Banking and finance companies, and sole proprietorships prepare their balance sheets in the Order of Permanence.
32. Under order of performance least liquid asset is shown last and most urgent payment is shown first.
33. In Trading Account Returns having debit balance and credit balance are shown by way of deduction from amount of purchases and sales respectively.
34. If Closing Stock, Outstanding Expenses, Prepaid Expenses and Accrued Income and Unaccrued Income appear inside the Trial Balance, these appear only in Income Statement and not in the Balance Sheet.
35. If Depreciation, Interest on Capital, Interest on Drawings appear inside the Trial Balance, these will appear in only in the Balance Sheet and not in Income Statement.
36. Provision for Doubtful Debt is calculated after deducting additional bad debts and additional discount appearing outside the trial balance and Provision for Discount on Debtors.
37. If opening entry and adjusting entries are not passed both trial balance and balance sheet will not be tallied.
38. Reserve for Discount on Creditors has credit balance.
39. Bank Account, Provision for Doubtful Debts, Provision for Discount on Debtors, Reserve for Discount on Creditors, Provision for Depreciation are Nominal Accounts.
40. Bills Receivable Account and Bills Payable Account are Real Accounts.
41. Prepaid Insurance, Accrued Interest, Commission received in advance and Closing Stock are Nominal Accounts.
42. Manufacturing A/c is prepared by an enterprise engaged in trading Activities.
43. Manufacturing A/c is prepared to ascertain the cost of goods sold.
44. Manufacturing A/c is closed by transferring its balance to the credit of Profit & Loss A/c.
45. Opening and Closing Stock of Raw Materials, Work in Progress and Finished Goods are considered while preparing Manufacturing A/c.
46. A Balance Sheet is a statement of assets and liabilities of an enterprise for a particular accounting period.
47. The most liquid asset is shown first and the most urgent payment to be made is shown last in order of liquidity.
48. The least liquid asset is shown first and the least urgent payment to be made is shown last in order of permanence.
49. Contingent liability is an ascertained liability but its amount and due date are indeterminate.
50. Deferred revenue expenditure is current year's expenditure to be paid in future year.

## ANSWERS:

| S. No. | Reason |
|---|---|
| 1. | **True:** Fixed costs represent that part of cost of production which, by its very nature, remain relatively unaffected in a defined period of time provided there is no change in the level of production and there is no change in factor prices. |
| 2. | **True:** Current cost is another alternative of measurement basis according to which assets are carried at the amount at which the same or an equivalent asset can be acquired currently. This is used under Current Cost Accounting. Historical Cost is used under Historical Cost Accounting. |

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| 3. | **False:** Net profit may not be reflected in higher cash balance because of credit transactions. On the other hand, cash may increase because of fresh loan or fresh capital. Net worth is the sum of capital, reserves and profit and loss account balance. Net worth is reduced by net loss. But net worth may also be reduced by withdrawal by the proprietor/partners. So lower net worth may not necessarily reflect net loss. |
| 4. | **False:** Profit and loss account shows the financial performance of a concern for a particular accounting period. |
| 5. | **False:** A profit and loss account is a periodic statement and a balance sheet is a point statement. |
| 6. | **False:** Fixed assets are stated in the balance sheet at cost less depreciation. |
| 7. | **False:** Trial balance is prepared before preparing the profit and loss account. |
| 8. | **False:** The provision for discount on debtors is calculated after deducting the provision for doubtful debts from debtors. |
| 9. | **False:** Provision for doubtful debts is debited to profit and loss account. In the balance sheet, it is shown as deduction from 'Debtors'. |
| 10. | **True:** The profit on sale of capital assets should not be added to ascertain the true net profit of a business because it is not due to normal business operations. |
| 11. | **True:** As per AS-2 Freight paid to bring the goods purchased into the business premises/ factory are included in the 'cost of purchase'. Alternatively, the statement may be taken as 'false' since for accounting purposes, these expenses are not added to the amount of purchases but are shown separately in the trading account. |
| 12. | **False:** The debit balance in the Profit and Loss account is deficit or loss because expenses are more than revenues. |
| 13. | **False:** Debit balance of profit and loss account is a fictitious asset. |
| 14. | **False:** Assets and Liabilities at a particular date are shown in the Balance Sheet. |
| 15. | **False:** Under the 'liquidity approach' assets which are most liquid are presented first. |
| 16. | **False:** It is not shown in the balance sheet as per money measurement concept because it cannot be measured in monetary terms. |
| 17. | **False:** Such Cash withdrawal should be treated as drawings and not a business expense chargeable to profit and loss account. Such drawings should be deducted from the proprietors capital. |
| 18. | **False:** The level of closing stock does not directly determine the profits of a business. The operational efficiency and other factors affecting cost determine the profits. The whole stock might have been sold out. |
| 19. | **False:** The term 'Grouping' means putting together items of a similar nature under a common heading. For example, under the heading Trade Creditors' the balances of the ledger accounts of all the suppliers from whom goods have been purchased on credit, will be shown.<br>The term 'Marshalling' refers to the order in which the various assets and liabilities are shown in the Balance Sheet. The assets and liabilities can be shown either in the order of liquidity or in the order of permanency. |
| 20. | **True:** Sundry debtors are liquid assets because these are readily convertible into cash. |

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| 21. | **False:** Closing stock may appear in the trial balance if an adjusting entry relating to closing stock has already been passed. If closing stock appears in trial balance it will appear only on the asset side of the Balance Sheet. |
| 22. | **False:** Income Statement is prepared to ascertain the Financial performance for a given accounting period but Balance Sheet is prepared to ascertain financial Position at the end of a given accounting period. |
| 23. | **False:** Income Statement is prepared on the basis of closing entries relating to Nominal Accounts but Balance Sheet is prepared on the basis of balances of Real and Personal Accounts. |
| 24. | **False:** Gross Profit means excess of operating revenue over direct operating expenses. |
| 25. | **False:** Operating Profit means excess of operating revenues over operating expenses and losses. |
| 26. | **False:** Net Profit means excess of all revenue (whether operating or non-operating) over expenses and losses (whether operating or non-operating). |
| 27. | **False:** Depreciable fixed assets are valued at Cost less Depreciation. |
| 28. | **False:** Current assets are usually valued at Net Realizable Value or Cost whichever is lower. |
| 29. | **False:** Under order of liquidity the most liquid assets is shown first and least urgent payment is shown last. |
| 30. | **False:** The company as defined under Companies Act, 2013 prepares Balance Sheet in the Order of Permanence. |
| 31. | **False:** Banking and finance companies, and sole proprietorships prepare their balance sheets in the order of liquidity |
| 32. | **False:** Under order of performance least liquid asset is shown first and most urgent payment is shown last. |
| 33. | **False:** In Trading Account Returns having debit balance and credit balance are shown by way of deduction from amount of sales and purchases respectively. |
| 34. | **False:** If Closing Stock, Outstanding Expenses, Prepaid Expenses and Accrued Income and Unaccrued Income appear inside the Trial Balance, these appear only in the Balance Sheet and not in Income Statement. |
| 35. | **False:** If Depreciation, Interest on Capital, Interest on Drawings appear inside the Trial Balance, these will appear in Income Statement and not in the Balance Sheet. |
| 36. | **False:** Provision for Doubtful Debt is calculated after deducting additional bad debts and additional discount appearing outside the trial balance but before deducting Provision for Discount on Debtors |
| 37. | **False:** If opening entry and adjusting entries are not passed both trial balance and balance sheet will be tallied. |
| 38. | **False:** Reserve for Discount on Creditors has debit balance. |
| 39. | **False:** Bank Account, Provision for Doubtful Debts, Provision for Discount on Debtors, Reserve for Discount on Creditors, are Personal Accounts but Provision for Depreciation is Real Account. |
| 40. | **False:** Bills Receivable Account and Bills Payable Account are Personal Account. |
| 41. | **False:** Prepaid Insurance, Accrued Interest, Commission received in advance are Personal Accounts but Closing Stock is Real Account. |

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| 42. | **False:** Manufacturing A/c is prepared by an enterprise engaged in Manufacturing Activities. |
| 43. | **False:** Manufacturing A/c is prepared to ascertain the cost of goods manufactured. |
| 44. | **False:** Manufacturing A/c is closed by transferring its balance to the debit of Trading A/c. |
| 45. | **False:** Opening and Closing Stock of Raw Materials and Work in Progress and not Finished Goods are considered while preparing Manufacturing A/c. |
| 46. | **False:** A Balance Sheet is a statement of assets and liabilities of an enterprise at a particular date. |
| 47. | **False:** The most liquid asset is shown first and the most urgent payment to be made is shown first in order of liquidity. |
| 48. | **False:** The least liquid asset is shown first and the least urgent payment to be made is shown first in order of permanence. |
| 49. | **False:** Contingent liability is an unascertained liability but its amount and due date are indeterminate. |
| 50. | **False:** Deferred revenue expenditure is future year's expenditure but paid in current year. |

## THEORY QUESTIONS

**Questions 1: Distinguishing between the following:-**

(1) Contingent Liability and other Liabilities.

(2) Charge against Profit and Appropriation of Profit.

**Answer:**

### (1) Contingent Liability and other Liabilities:

The debts owing by a trader to other person are known as liabilities. There are following types of liabilities.

**(i) Fixed Liabilities:** Such debts that are payable after a very long period are called fixed liabilities e.g. Capital.

**(ii) Current Liabilities:** Such debts that are payable from time to time are called current liabilities e.g. Bank overdraft.

**(iii) Contingent Liability:** Such debts that become payable on the happening some specific incident are called contingent liabilities. It is not an actual liability and as such it is not recorded in the balance sheet. It is simply mentioned by way of footnote to the Balance sheet.

**Following are the examples of contingent liabilities.**

(a) Bills discounted before maturity.

(b) Cases pending in the court of law.

(c) Guarantee undertaken.

### (2) Charge against Profit and Appropriation of Profit.

Charge against profit means deduction from revenue or writing amount to the debit side of profit or loss account to arrive at net profit or net loss. This is done before appropriations of profit. Appropriation of profit means distribution of net profit to various heads of accounts this may be in the from of dividends reserves, and distribution of profits. It is possible only if the profits are earned. This means debit to profit and loss appropriation account.

**Questions 2:Write short notes on Capital Receipts and Revenue Receipts.**

**Answer:**

**Capital Receipts and Revenue Receipts.**

Capital Receipts are shown in the balance sheet and revenue receipts in the Profit and Loss Account. Money obtained from the sale of fixed assets or investments issue of shares, debentures, and money obtained by way of loans are examples capital receipts. Money obtained in the course of business are revenue receipts. **Examples are:** Money obtained from the sale of goods, interest on deposits, divides s on investments.

**Questions 3: Write short note on Grouping and marshalling of assets and liabilities.**

**Answer :** The term grouping 'means putting together items of a similar nature under a common heading for example under the heading trade creditors the balance of the ledger accounts of all suppliers from whom goods have been purchased on credit will be shown.

The term marshalling refers to the order in which the various assets and liabilities are shown in the balance sheet.

The assets liabilities can be shown either in the order of liquidity or in the order of permanency.

**In order of liquidity :** In such a cash the assets are arranged in the order or their liquidity i.e., the most liquid assets (e.g., Cash in hand) is shown first The lest liquid (e.g., goodwill) is shown last. The least liquid asset does not mean as asset, which cannot be encashed. The liabilities are arranged in the order or their urgency of payment i.e. the most urgent

payment to be made (e.g. short –term creditors) is shone first. The least urgent payment to be made (long-term creditors) is shown last. Usually the banking and financial companies. Sole proprietorship and the partnership concerns prepare their balance sheet in the order of liquidity.

**In order of permanence :** This order exactly reverse of the liquidity order. For example the least liquid asset (i.e. goodwill) is shown first and the most liquid asset ( i.e., cash in hand ) is shown last the least urgent payment to be made (i.e. long term creditors) is shown first and the most urgent payment to be made (i.e., short term creditors ) is shown last. The company as defined under the companies Act 2013 is required to prepare the balance sheet in order of permanence.

**Questions 4: Write short note on contingent liabilities.**

**Answer:** It will become an actual liability only on the happening of a certain event which mayor may not happen. These can be illustrated as under:

(i) Arrears of dividends on cumulative preference shares.

(ii) Liability for dishonored bill receivable previously discounted.

(iii) Claim by others which has been disputed by the firm or pending in the court of law.

(iv) Amount to be executed under the contracts.

(v) Guarantees given by company for companies under the same management.

(vi) Uncalled liabilities on shares partly paid.

**Characteristics of Contingent Liabilities**

It have two characteristics:

(a) Uncertainty as to whether the amount will be payable at all; and

(b) Uncertainty about the amount involved.

**Disclosure:** Hence, it is sufficient if these are to be disclosed by way of a note in the Balance Sheet.

**Conclusion:** "It is an obligation relating to an existing condition or situation which may arise in future depending on the occurrences or non-occurrence of one or more uncertain future events".

**Questions 5: Distinction between accrual basis of accounting and cash basis of accounting.**

**Answer:**

**Accrual basis of accounting :** Actual basis of accounting is a method of recording transaction by which revenues, cash asses and liabilities are reflected in the accounts in the period in which they accrue. This basis includes consideration relating to deferrals allocations, depreciation and amortisation. This basis is also referred to a mercantile basis of accounting under the companies act 1956, all companies are required to maintain the books of accounts according to accrual basis of accounting.

**Cash basis of accounting :** Cash of accounting is a method of recording transaction by which revenues, costs, assets and liabilities are reflect in the accounts in the period in which actual receipts or actual payments are made.

| Basis of Distinction | Accrual basis of accounting | Cash basis of accounting |
|---|---|---|
| 1. Prepaid/outstanding expenses/ accrued/ & unaccrued income in balance sheet. | Under this basis, there may be prepaid/outstanding expenses and accrued/unaccrued incomes in the balance sheet. | Under this basis, there is no prepaid/outstanding expenses or accrued /unaccrued incomes. |
| 2. Higher/lower income in case of prepaid expenses and accrued income. | Income statement will show relatively higher income. | Outstanding expenses or accrued / unaccrued incomes. |
| 3. Higher / lower income in case of outstanding expenses and unaccrued income. | Income statement will show relatively lower income. | Income statement will show lower income. |
| 4. Recognition under the companies Act, 2013. | This basis is recognised under the companies Act, 2013. | This basis is not recognised under the companies Act, 2013. |
| 5. Availability of options to an accountant to manipulate the accounts by way of choosing the most suitable method out of several alternative methods of accounting e.g. FIFO/LIFO/SLM/WDV | Under this basis an accountant has option. | Under this basis an accountant has option to make choice as such. |

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**Questions 6: Distinction between manufacturing account and trading Account :**

**Answer:**

| Basis of Distinction | Manufacturing Account | Trading Account |
|---|---|---|
| 1. Purpose | It is prepared to ascertain the cost of goods manufactured. | It is prepared to ascertain the gross profit or gross loss. |
| 2. Closure | It is closed by transferring its balance to the debit of the trading account. | It is closed by transferring its balance to the debit (in case of gross profit) or credit (in case of gross loss) of the profit and loss account. |
| 3. Opening and closing stock of finished goods | It does not show the opening and closing stock of finished goods. | It shows the opening and closing stock of finished goods. |

**Questions 7: Distinction between trading and profit & loss Account and balance sheet**

**Answer:**

| Basis Distinction | Trading and profit & loss Account | Balance Sheet |
|---|---|---|
| 1. Need for preparation | The trading and profit & loss account is prepared to ascertain the results of business operations during an accounting period. | The balance sheet is prepare to know the financial position of an enterprise at a particular time. |
| 2. Contents | The balance of all the ledger accounts of revenue nature are shown in the trading and profit & loss account. | The balance of only those ledger account which have not been closed till the preparation of trading and profit & loss A/c. are shown in the balance sheet. |
| 3. Format | The trading and profit and loss A/c is a ledger account. It has debit side and a credit side it is closed by transferring its balance to the capital account. | The balance sheet is only a statement and not an account it has not debit side and credit side. The heading of the two sides and liabilities and assets. |

**Questions 8: Distinction between a Trial balance and a balance sheet**

**Answer:**

| Basis of Distinction | Trial Balance | Balance sheet |
|---|---|---|
| 1. Need for preparation | It is prepared to check the arithmetical accuracy of the posting of transactions to the ledger. | It is prepared to know the financial positions of a n enterprise at a particular. |
| 2. Contents | All the ledger accounts are shown in the trial balance.<br>Preparation of trading and profit & loss account are shown in the balance sheet. | The balance of only those ledger accounts which have not been closed till the. |

| | | |
|---|---|---|
| 3. Format | The headings of the two columns are debit balances and credit balances in case of a trial balance by balance method. | The headings so the two sides are Liabilities and assets. |
| 4. Closing stock | Generally, the closing stock does in appear in the trial balance whereas the opening stock appears. | In a balance sheet only the closing stock appears on the assets side as a current asset. |
| 5. Items of adjustments (e.g. outstanding expenses, prepaid exp. Accrued income etc.,) | It can be prepared without incorporating the items of adjustments. | It cannot be prepared without incorporating the items of adjustments. |
| 6. Net profit / Net Loss | Information about net profit/net loss I not provided in a trial balance. | Information about net profit/net loss in provided in a balance sheet. |
| 7. Periodicity | It can be prepared periodically (say) at the end of a month /quarter/half year. | It is generally prepared at the end of an accounting period. |
| 8. Can the preparation be dispensed with? | Its preparation can be dispensed with. | Its preparation cannot be dispensed with. |

**Questions 9: Distinction between tangible assets and intangible assets**

**Answer :**

| Basis of Distinction | Tangible Assets | Intangible assets |
|---|---|---|
| 1. Physical identity | There assets have physical identity | These assets do not have physical identity. |
| 2. Depreciation or Amortisation. | Fixed tangible assets are depreciated | Intangible assets are amortized. |
| 3. Fixed vs. Current | Tangible assets can be a field or current assts. | Intangible assets usually fall in the category of fixed assets. |
| 4. Acceptance in security | Lenders accept such assets as security for a long given. | Lenders usually do not accept such assets as security for a loan given. |
| 5. Risk of loss due to five | These assets may be lost due to fire. | These assets can not be lost due to fire. |

**Questions 10: Distinguish between Contingent assets and contingent liability**

**Answer:**

**Contingent assets :** Contingent assets has been defined by Kohler as " an asset the existence, value and ownership of which depend upon the occurrence or non occurrence of a specific event or upon the performance or non-performance of specified act; contrasts with contingent liability, often growing out of such a liability". Suppose the firm has filed a suit for some property now in the possession of someone else. If the suit is decided in the firm's favours the firm will get the property ; at the moment it is a contingent asset.

Similar would be the position for a patent applied for arising out of firms own research effort. Contingent liability in respect of contract for capita expenditure already entered into will give rise to an asset on payment; at present it is only a contingent asset.

**Contingent liability :** A contingent liability is on which is not an actual liability but which will become and actual a one the happening of some event which is uncertain. Really, contingent liabilities have two characteristics : (I) uncertainty as to whether the amount will be payable at all; and (ii) uncertainty about the amount involved. It is sufficient for the amount of contingent liability to be stated on the face of the balance sheet by way of a note, unless there is a probability that a loss will materials. In that event it is no more a contingent liability and a specific provision should be made therefore.

**The examples of contingent liabilities not provided for include the following :**

(i) Arrears of dividends on cumulative preferences shares :

(ii) Bills of exchange discounted:

(iii) Guarantees given by the company to companies under the same management ; and

(iv) Suit for damages against the company, which it is defending.

An example of contingent liability usually provided for is the one in respect of gratuities payable to staff on retirement of death.

An example, not involving loss, is the amount due to party paid shares or the amount payable on a contract for construction of works. On payment, a corresponding asset will come into existence.

**Questions 11: Distinction between Fixed Assets and Current Assets**

**Answer:**

| Basis of distinction | Fixed Assets | Current Assets |
|---|---|---|
| 1. Purpose of holding | These are the assets which are held for the purpose of providing and producing good or services and these are not held for resale in the normal course of business. | These are the assets which are held (a) In the from cash (b) For their consumption in the production of goods or rendering of services in the normal course of business. |
| 2. Valuation | Fixed assets are valued at cost less depreciation | These assets are valued at cost or market price whichever is lower. |
| 3. Subject to Change | These assets are usually not subject to change. | These assets are usually subject to change. |
| 4. Pledge | These assets cannot be pledged. | These assets can be pledged. |
| | | Floating charge can be created on |

| | | |
|---|---|---|
| 5. Fixed vs. Floating Charge | Fixed change can be created on these assets. | these assets. |
| 6. Nature of profit on Sale | Profit on sale of these assets is of capital nature. | Profit on sale of these assets is of revenue nature. |
| 7. Revaluation reserve in case of appreciation. | In case of appreciation in the value of such assets revaluation in the value of such assets revaluation reserve can be created. | In case of appreciation the value of such assets, revaluation reserve can not be created. |
| 8. Source of finance | These assets re financed out of long term funds. | These assets are mainly financed out of short term funds |

**Questions 12: Distinguish between accrued income and uncured income :**

**Answer:**

| Basis of Distinction | Accrued Income | Uncured Income |
|---|---|---|
| 1. Meaning | It refers to an income earned but not received during the current accounting period | If refers to an income received but not earned during the current accounting period. |
| 2. Receipt | It is yet be received | It has already been received |
| 3. Earned | It has already been earned. | It is yet to be earned. |
| 4. Year to which the item relates | It is an item of current year. | It is an item of following year. |
| 5. Treatment in income statement | It is shown by way of addition to the relevant item. | It is shown by way of deduction from the relevant time. |
| 6. Treatment in balance sheet | It is shown on the assets sided as a current assets. | It is shown on the liabilities side as a current liability. |

**Questions 13: Distinction between Capital expenditure, Revenue expenditure and Deferred revenue expenditure.**

**Answer:**

**Capital expenditure :** Capital expenditure is that expenditure which is incurred for acquiring or bringing into existence as asset or advantage of an enduring benefit or for extending or improving a fixed asset or for substantial replacement of an existing fixed asset. An asset or advantage of an enduring nature does not mean that is should last forever, it should not at same time be so transitory and ephemeral that it can be terminated at any time. Basically, the capital expenditure is incurred with a view to bringing in improvement is improvement is productivity or earning capacity. The examples of capital expenditure include cost of land and building, plant and machinery, furniture and fixture etc. Such expenditure normally yields benefits, which extend beyond the current accounting period.

**Revenue Expenditure :** Revenue expenditure is that expenditure which is incurred for the running productivity or caring capacity of a business. Such expenditure yields benefits in the current accounting period. The examples of revenue expenditure include office and administrative expenses such as salaries rent, insurance, telephone expenses Electricity Charges etc., selling & distribution expenses such as advertising travelling expenses commission to salesmen, sales promotion expenses, etc. Non-operating expense and losses such as interest on loan taken loss by theft etc.

**Deferred revenue Expenditure –** Deferred revenue expenditure, which yields benefits, which extend beyond a current accounting period but to relatively a short period as comported to the period as compared to three periods for which a capital expenditure is expected to yield benefits. Such expenditure should normally be written off over a period of 3 to 5 years. The examples of such expenditure include heavy advertising campaign research & Development expenditure.

**Questions 14:Distinction between trade discount and cash discount.**

**Answer :**

| Basis of distinction | Trade discount | Cash discount |
|---|---|---|
| 1. Meaning | It is a reduction granted by a supplier forms the list price of goods or services on business considerations (such as quantity bought, trade practice etc.) other than for prompt payment. | A reduction granted by a supplier from the invoice price in consideration of immediate payment or payment within a stipulated period. |
| 2. Purpose | It is allowed to promote the sales or as a trade practice. | It is allowed to encourage the prompt payment. |
| 3. Time when allowed | It is allowed on purchase of goods. | It is allowed on immediate payment or payment on or within a specified period. |
| 4. Disclosure in the invoice | It is shown by way of deduction in the invoice itself. | It is not shown in the invoice. |
| 5. Ledger account | Trade discount account is not opened in the ledger. | Cash discount account is opened in the ledger. |
| 6. Variation | It may vary with the quantity purchased. | It may vary with the period within which payment is made. |

**Questions 15: Briefly explain the difference between Provision and Reserve.**

**Answer:**

**Provision and Reserve:** Provision means "nay amount written off or retained by way of providing for depreciation, renewal or diminution in value of Assets, or retained by way of providing for any known liability of which the amount can not be determined with substantial accuracy" (Part III, Schedule VI of the companies Act.)

The following are instances of amount retained in the business out of earning for different purposes that are described as provisions:

(a) Amount provided for meeting claims which are admissible in principle but the amount where of has not been ascertained.

(b) Amount provided for payment of taxes still to be assessed.

(c) Amount set aside for writing off bad debts or payment of discounts.

The term 'reverse' is not defined in Part III of Schedule VI except negatively in the sense that profit retained in the business not having any of the attributes of a 'provision' is to be treated as a reserve. Also provisions in excess of the amount considered necessary for the purpose these were originally made, are to be considered as reserves. It is thus evident that provisions are charge against profits, while reserve is an appropriation of profits.

**Questions 16:** Explain the difference between Deferred Expenses and Prepaid Expenses.

**Answer**:

**Deferred Expenses and Prepaid Expenses Deferred Revenue Expenses**

A heavy expenditure of revenue nature incurred for getting benefits over a number of years is termed as Deferred Revenue Expenses. According to Prof. A. W. Johnson, "Deferred Revenue Expenses as those non-recurring expenses which are expected to be of financial nature distributed to several accounting periods of indeterminate total length. Deferred Revenue Expenses is a revenue expenditure which is deferred or postponed, it is of Quasi-capital nature".

**According to Guidance Note:**

Deferred Revenue Expenses defined as "Expenditure for which payment has been made or liability incurred but which is carried forward on the presumption that it will be of benefit over subsequent period(s)".

**How to Charge it in Profit & Loss Account:**

This is to be charged to P&L A/c over a period of 3 to 5 years depending upon the benefit accrued. Examples of Deferred Revenue Expenses **& Illustrative list:**

(1) Preliminary exp.
(2) Heavy Repairs & Maintenance
(3) Discount on issue of Debentures
(4) Heavy advertisement
(5) Research & Development exp.
(6) Development cost in Mines & Plantations
(7) Expenses incurred in removing the business to more convenient premises
(8) Brokerage on issue of Shares & Debenture Prepaid Expenses

These are the expenses which have been paid in advance but relating to the future accounting period. Also known as unexpired expenses.

**How to Charge it in Profit & Loss Account/Balance Sheet**

Prepaid Expenses A/c is shown on the Asset side of Balance sheet and as expenses for more than 12 month will not be charged to P&L A/c. The expenses for more than 12 month is shown as deduction, from expenses in P&L A/c.

**Example:**

(1) Prepaid Rent/Advance Rent
(2) Prepaid Insurance
(3) Prepaid Subscription etc.

**Questions 17:** Distinction between commission and discount

**Answer**:

**Commission:** commission may be defined as remuneration of an employee or agent relating to services performed in compaction with sale purchase, collections or other types of business transactions and usually on a percentage of the amounts involved. The various examples of commission include the following.

(a) Commission paid to selling or buying agents.

(b) Commission paid to brokers and bankers for service rendered.

(c) Commission paid to brokers and bankers for service in renting out properties or services in connection with purchase/sale of properties.

(d) Commission to export -import agents in foreign trade.

**Discount:** The term discount is used to express one of the following situations:

(a) An allowance given for the settlement of a debt before it is due i.e., each discount.

(b) An allowance given to the whole sellers or bulk buyer on the list price or retail price, known as trade discount

(c) The excess of par or fact value of shares or debentures over the amount paid by subscriber i.e., discount on issue of shares or debentures.

(d) The amount charged by a bank on discounting of a bill of exchange.

Discount earned is accounted for as an income in the books of the beneficiary and discount allowed is accounted for as an expense or deferred revenue expenditure in the books of the party availing of such facility.

# Past Year Questions and Answers

**Objective Questions:**

**1994 - Nov [5]** State with reason whether the following statement is true or false:

(9) Providing depreciation in the accounts reduces the amount of profit available for dividend.

**Answer:**

**True:** Divided are distributed out of net profits which is obtained after providing for depreciation therefore, depreciation reduces the amount of profit for divided.

**1995 - May [5]** State with reason whether the following statements are true or false:

(c) A Profit and Loss Account is a point statement whereas a Balance Sheet is a period statement.

(f) The proprietor of a shop feels that he has made a loss due to closing stock being zero.

**Answer:**

**(c) False:** P&L A/c is a period statement as it is prepared for a particular accounting period (for the year ending....) B/S is a point statement because its is prepared as on a particular date (as on —)

**(f) False:** Since the closing stock does not determines the profit directly but the operational efficiency and other factors determine it.

**1995 - Nov [5]** State with reason whether the following statements are true or false:

(2) Sale of office furniture should be credited to Sales A/c. (1.5 marks)

(9) The provision for discount on Debtors is calculated before deducting the provision for doubtful debts from Debtors. **(1.5 marks)**

**Answer:**

**(2) False:** It should be credited to Furniture A/c because it is a capital receipt.

**(9) False:** It is calculated after deducting the provision for doubtful debts i.e. on the balance left.

**1996 - Nov [5]** State with reason whether the following statement is true or false:
(10) The debts written off as bad, if recovered subsequently are credited to debtors account. **(2 marks)**

**Answer:**
**False:** The debts written off as bad if recovered subsequently shall be treated as gain and be credited to Profit and Loss Account or to Bad Debts Recovered Account.

**1997- Nov**
[5] State with reasons whether the following statement is true or false:
(5) Profit and Loss Account shows the financial position of the concern. **(2 marks)**

**Answer:**
**False:** Balance sheet shows the entire financial position of the business.

**1997 - Nov [5]** State with reason whether the following statement is true or false:
(9) The proprietor of a shop feels that he has made a loss due to closing stock being zero. **(2 marks)**

**Answer:**
**False:** The level of closing stock does not directly determine the profits of a business. The operational efficiency and other factors affecting cost determine the profits.

**1998 - May [5]** State with reason whether the following statements are true or false:
(1) The provision for discount on debtors is calculated after deducting the provision for doubtful debts from Debtors. **(2 marks)**
(2) Freight and cartage expenses paid on purchases of goods is added to the amount of purchase. **(2 marks)**

**Answer:**
**(1) True:** The provision for doubtful debts is deducted from the debtors to arrive at the balance of good debtors who might claim discount by making prompt payments. Thus the provision for discount on debtors is calculated on the balance so arrived which represents good or sound debtors.
**(2) True:** Freight and cartage expenses paid to bring goods purchased into the business premises/ factory are included in the 'Cost of Purchases'.

**2000 - May [5]** State with reason whether the following statement is true or false:
(vii) Provision for bad debts is debited to Sundry Debtors Account. **(2 marks)**

**Answer:**
**False:** Provision for bad debts is debited to Profit and loss Account, in
Balance Sheet it is shown either on liability side or deducted from the head Debtors.

**2000 - Nov [5]** State with reason whether the following statements are true or false:
(2) Freight paid on purchases of goods is added to the amount of purchases. **(2 marks)**
(4) Wages paid for erection of new machinery are debited to Machinery A/c. **(2 marks)**

**Answer:**
(2) **True:** Such freight paid on the purchases of goods is included in the cost of purchase.
(4) **True:** Because it is a capital expenditure.

**2001 - May [5]** State with reason whether the following statement is true or false:
(1) Land is also a depreciable asset. **(2 marks)**

**Answer:**

**False:** Land is not a depreciable 'asset. But it may be in case its useful limited life is given.

**2001-May**
[5]State with reasons whether the following statement is true or false:
(1) The debit balance in the Profit and Loss Account is surplus. **(2 marks)**
(5) Goodwill is a fictitious asset. **(2 marks)**
(8) Capital is all assets less fictitious assets. **(2 marks)**

**Answer:**

**(1) False:** The debit balance in P & LA/c is a loss because expenses are more than revenue.
**(5) False:** Goodwill is an intangible asset
**(8) False:** Capital is all assets less (fictitious assets and outside or external liabilities).

**2002 - May [5]** State with reason whether the following statement is true or false:
(10) The debts written-off as bad, if recovered subsequently are credited to debtor's account. **(2 marks)**

**Answer:**

**False:** It will be credited to Bad debts Recovered Account.

**2002 - Nov [5]** State with reason whether the following statements are true or false:
(a) Provision for discount on debtors is calculated after deducting the provision for doubtful debts from debtors. **(2 marks)**
(e) Profit on Sale of a Capital asset need not be added to ascertain the Net Profit of a business. **(2 marks)**

**Answer:**

(a) **True:** Provision for discount on debtors is to be calculated on the balance of debtors left after deducting provision for doubtful debts.
(e) **True:** The profit on sale of capital assets should not be added to ascertain the true net profit of a business because it is not due to normal business operations.

**2002 - Nov**
(5) State with reasons whether the following statement is true or false:
(ix) Under the 'Liquidity approach', assets which are most liquid are presented at the bottom of the Balance Sheet. **(2 marks)**

**Answer:**

**(ix) False:** When assets and liabilities are arranged according to their realisability and payment preferences in such case the assets in which are most liquid are presented at the top of the Balance Sheet.

**2004 - Nov [5]** State with reason whether the following statement is true or false: ;
(vi) The provision for discount on debtors is calculated after deducting the provision for doubtful debts from debtors. **(2 marks)**

**Answer:**

**True:** The provision for discount on debtors is calculated after deducting the provision for doubtful debts from debtors in order to determine the provision for discount on good debtors who may make their payment promptly after getting the discount.

**2004 - May**
[5] (vii) Goodwill is a fictitious asset. **(2 marks)**
**Answer:**
**False:** Goodwill is not a fictitious asset. It is an intangible asset.

**2005 - May [5]** State with reason whether the following statement is true or false:
(i) Goods worth Rs. 600 taken by the proprietor for personal use should be credited to purchase account. **(2 marks)**
**Answer:**
**True:** Goods taken by the proprietor for personal use should be debited to Drawings Account and Credited to Purchase Account.

**2006 - May [5]** State with reason whether the following statements are true or false:
(iii) "Marshalling" and 'Grouping' has the same meaning. **(2 marks)**
(vii) Sundry debtors are liquid assets. (2 marks)
**Answer:**
(iii) **True:** Marshalling and grouping are the same things because under marshalling also transactions are assembled or grouped at one location/place.
(vii) **False:** According to the rule of Garner vs. Murray, the loss on account of insolvency of a partner should be borne by the solvent partners in the ratio of their capitals standing in the balance sheet, just before the dissolution of the partnership firm.

**2018 Nov [1]** {C} (a) State with reasons, whether the following statement is true or false:
(iv) If Closing Stock appears in the Trial Balance:
The closing inventory is then not entered in Trading Account. It is shown only in the balance sheet. **(2 marks)**
**Answer:**
**True:** If closing stock appears in the Trial Balance, then closing stock is not entered in the trading account, but only shown in the Balance Sheet. This is because it has already been adjusted to arrive at cost of goods sold.

## Distinguish Between

**1994 - Nov [6]** Differentiate between the following:
(6) Profit and Loss Account and Balance Sheet. **(8 marks)**

**Answer:**

| | Profit & Loss A/c | Balance Sheet |
|---|---|---|
| 1. | It shows the profit or loss made by the business during a particular period. | It shows the financial position of a business on a particular date. |
| 2. | It includes those items, which are of revenue nature. | It includes those items, which are of capital nature. |
| 3. | All the nominal account balances are | It consists of the personal and real account balances. |

| | | |
|---|---|---|
| | transferred to Profit and Loss A/c | |
| 4. | The accounts lose their identity and are finally closed. | The accounts to not lose their identity and become the opening balance of the next year. |

**1995 - May [6]** Explain the difference between the following:
(i) Trial Balance and Balance Sheet. **1997 - May [6], 1998 - May [6], 2002 - May [6]** **(5 marks)**

**Answer:**

**Difference between Trial Balance and Balance Sheet**

| | Points | Trial Balance | Balance Sheet |
|---|---|---|---|
| 1. | Meaning | It is a statement prepared as on a particular date to check the arithmetical accuracy of the ledger balance primarily. | It is a statement on the financial position of a firm as at a given date. |
| 2. | Object | It is prepared to check accuracy of the ledger postings. | It is prepared to ascertain the financial position of a business. |
| 3. | Periodicity | It is generally prepared at the end of a month. | It is generally prepared at the end of an accounting period. |
| 4. | Profit & Loss | It does not show the profit or loss of the business. | It shows the profit or loss of the business' |
| 5. | Contents | It includes the ledger balance of all types of accounts. | It includes only the Real & personal accounts. |
| 6. | Closing Stock | It does not contain any closing stock. | It contains the closing stock. |
| 7. | Compulsion | It is not necessary to prepare a Trial Balance sheet. | It is necessary to prepare a Balance. |
| 8. | Acceptance | It is not accepted by the court. | It is accepted by the court. |
| 9. | Heading | Its heading is Debit & Credit. | Its heading is liabilities & Assets. |

**1996 - Nov [6]** Distinguish between the following:
(b) Provisions and Reserves. **2000 - Nov [6]** **(5 marks)**

**Answer:**

**Difference between Provisions and Reserves**

| | Basis | Provisions | Reserves |
|---|---|---|---|
| 1. | Purpose | It is created for a particular purpose and used for it. | It is not created for a particular purpose. |
| 2. | Charged or Appropriated | It is a charge against the profit and is required to be created irrespective of the profit amount. | It is an appropriation out of profit and can be created only on the earning of profit. |
| 3. | Investment | There arises no question of investment of the provision amount. | The reserve amount can be invested outside the business. |
| 4. | Dividend Distribution | It cannot be used for dividend distribution. | It can be used for dividend distribution. |
| 5. | Disclosure in B/S | Generally, the provision is shown by way of deduction from the items amount from which it is created on the asset side of the B/S. | Reserves are shown separately under the head 'Reserves and Surplus' on the liability side of the B/S. |

**2001 - Nov [3]** Briefly explain the difference between the following:
(b) What is "Balance Sheet"? **(5 marks)**

**Answer:**

The 'Balance Sheet' may be defined as "a statement which sets out the sets and liabilities of a firm or an institution as at a certain date". Since even a
single transaction will make a difference to some of the assets or liabilities, the balance sheet is true only at particular point of time. Balance sheet is prepared only after preparation of the profit and loss account. A balance sheet consists mainly of personal and real account balances and is generally prepared annually, and in some cases half-yearly or quarterly. Since capital always equals the difference between assets and liabilities an since the capital account will independently arrive at this figure, the two sides of the balance sheet must have the same totals. If it is not so, there is certainly an error somewhere.

**2001 - Nov [6]** Briefly explain the difference between the following:
(c) Charge against Profit and Appropriation of Profit. **(5 marks)**

**Answer:**

Charge against Profit: It means a deduction from the revenue. It may be shown by writing the amount to the debit side of the profit and loss a/c to arrive at the net profit or net loss. It is done before the appropriation of profits.

Appropriation of Profit: It means the distribution of net profit to various heads of the accounts, it may be in any form such as dividend reserves, or distribution of profits. It may be done only if there is earning of profit. It is debit to profit and loss appropriation A/c.

**2002 - Nov [6]** Distinguish between the following:
(b) Cash Discount and Trade Discount **(3 marks)**

**Answer:**

| | Cash Discount | Trade Discount |
|---|---|---|
| 1. | Cash discount is a discount allowed to a debtor on prompt payment of cash. | Trade discount is a deduction allowed to the buyers from the gross or catalogue price. |
| 2. | It is allowed only when the customer makes the payment on time. | It is allowed by the seller to the purchases for the purpose of selling more goods. |
| 3. | It is allowed only when the customers make the payment within a fixed period. | It is allowed immediately when the seller sells the goods to the customers. |
| 4. | It is recorded in the Cash Books. | It is not recorded in Cash Books, but is shown in Purchase and Sales Books. |
| 5. | It is not deducted from the invoice. | It is deducted from the invoice. |

## Descriptive Questions

**2001-Nov [6]** Briefly explain the difference between the following:
(a) Charge against profit and Appropriation of Profit.

**Answer:**

**Charge against Profit:** It means a deduction from the revenue. It may be shown by writing the amount to the debit side of the profit and loss a/c to arrive at the net profit or net loss. It is done before the appropriation of profit.

**Appropriation of profit:** It means the distribution of net profit to various heads of the accounts. It may be in any form such as dividend reserves, or debit to profit and loss appropriation A/c.

**2001-Nov [3]** Briefly explain the difference between the following:
(b) What is " Balance Sheet"?
**Answer:** The 'Balance Sheet' may be defined as " a statement which sets out the sets and liabilities of a firm or an institution as at a certain date". Since even a single transaction will make a difference to some of the assets or liabilities, the balance sheet is true only at particular point of time. Balance sheet is prepared only after preparation of the profit and loss account. A Balance Sheet consist mainly of personal and real account balances and is generally prepared annually, and in some cases half-yearly or quarterly. Since capital always equals the difference between assets and liabilities an since the capital account will independently arrive at this figure, the two sides of the balance sheet have the same totals. If is not so, there is certainly an error somewhere.

## Practical Questions

**1995 - May [1]** From the following Trial Balance of Hari and additional information prepare Trading and Profit & Loss Account for the year ended 31st March, 1995 and a Balance Sheet as on that date:

**Trial Balance**
as at 31s1 March, 1995

| | 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:**
(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, 1995 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. **(20 marks)**

**Answer:**

**In the books of Hari Trading & Profit & Loss Account**

for the year ended 31.3.1995

| Particulars | | Amount | Particulars | | Amount |
|---|---|---|---|---|---|
| To Opening Stock | | 50,000 | By Sales | 3,21,000 | |
| To Purchases | 1,50,000 | | **Less:** Sales | | |
| **Less:** Purchase | | | Returns | 10,000 | 3,11,000 |
| Return | 5,000 | | By Closing Stock | | 60,000 |
| | 1,45,000 | | | | |
| **Less:** Stock used for | | | | | |
| private purposes | 6,000 | 1,39,000 | | | |
| To Wages | | 20,000 | | | |
| To Gross Profit c/d | | 1,62,000 | | | |
| | | 3,71,000 | | | 3,71,000 |
| To Rent | | 15,000 | By Gross profit b/d | | 1,62,000 |
| To Printing & Stationery | 30,000 | 8,000 | By Interest | | 4,000 |
| To Salaries | | | | | |
| **Add:** Outstanding | | | | | |
| for the year | 3,000 | | | | |
| | 33,000 | | | | |
| **Less:** paid in Advance | 2,000 | 31,000 | | | |
| To Insurance | 12,000 | | | | |
| **Less:** Prepaid | 2,000 | 10,000 | | | |
| To Office Exp. | 12,000 | | | | |
| **Add:** Outstanding for the year | 8,000 | 20,000 | | | |
| To Provision for Bad Debts | | | | | |
| (New) | 10,000 | | | | |
| Add: Bad Debt | 7,000 | | | | |
| **Less:** Old | 6,000 | 11,000 | | | |
| To Provision for Dep. | | 2,000 | | | |
| To Net Profit | | 69,000 | | | |
| | | 1,66,000 | | | 1,66,000 |

**Balance Sheet As on 31.3.1995**

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Capital: | | | Furniture | 20,000 | |
| Balance | 1,00,000 | | **Less:** | | |
| **Add:** Net Profit | 69,000 | | Prov. for Dep. | 4,000 | 16,000 |
| | 1,69,000 | | | | |
| **Less:** Drawings | 30,000 | 1,39,000 | Stock in trade | | 60,000 |
| Creditors | | 1,20,000 | Debtors | 2,00,000 | |
| Outstanding: | | | **Less:** | | |
| | | | Prov. for D/D | 10,000 | 1,90,000 |

| | | | | | |
|---|---|---|---|---|---|
| Salaries | 3,000 | | | | |
| Office Expenses | 8,000 | 11,000 | Prepaid Expenses: | | |
| | | | Salaries | 2,000 | |
| | | | Insurance | 2,000 | 4,000 |
| | | 2,70,000 | | | 2,70,000 |

**Note:** It is assumed that stock used for private purpose has been taken from fresh purchases

**1995 - Nov [1]** The following is the Trial Balance of Hari as at 31st December, 1994:

| | Dr. Rs. | Cr. Rs. |
|---|---|---|
| Hari's Capital Account | — | 76,690 |
| Stock 1st January, 1994 | 46,800 | — |
| Sales | — | 3,89,600 |
| Returns Inwards | 8,600 | — |
| Purchases | 3,21,700 | — |
| Returns Outwards | — | 5,800 |
| Carriage Inwards | 19,600 | — |
| Rent & Taxes | 4,700 | — |
| Salaries & Wages | 9,300 | — |
| Sundry Debtors | 24,000 | — |
| Sundry Creditors | — | 14,800 |
| Bank Loan @ 14% p.a. | — | 20,000 |
| Bank Interest | 1,100 | — |
| Printing and Stationery Expenses | 14,400 | — |
| Bank Balance | 8,000 | — |
| Discount Earned | — | 4,440 |
| Furniture & Fittings | 5,000 | — |
| Discount Allowed | 1,800 | — |
| General Expenses | 11,450 | — |
| Insurance | 1,300 | — |
| Postage & Telegram Expenses | 2,330 | — |
| Cash Balance | 380 | — |
| Travelling Expenses | 870 | — |
| Drawings | 30,000 | — |
| | 5,11,330 | 5,11,330 |

**The following adjustments are to be made:**

(1) Included amongst the Debtors is Rs. 3,000 due from Ram and included among the Creditors Rs. 1,000 due to him.

(2) Provision for Bad and Doubtful Debts be created at 5% and for Discount @ 2% on Sundry Debtors.

(3) Depreciation on Furniture & Fittings @ 10% shall be written off.

(4) Personal Purchases of Hari amounting to Rs. 600 had been recorded in the Purchases Day Book.

(5) Interest on Bank Loan shall be provided for the whole year.

(6) A quarter of the amount of Printing and Stationery Expenses is to be carried forward to the next year.

(7) Credit Purchase Invoice amounting to Rs. 400 had been omitted from the Books.

(8) Stock on 31.12.1994 was Rs. 78,600.

Prepare (i) Trading & Profit and Loss Account for the year ended 31.12.1994 and (ii) Balance Sheet as on 31st December, 1994.

**(20 marks)**

**Answer:**

**Trading and Profit and Loss Account of Mr. Hari (for the year ended 31st December, 1994)**

| Particulars | | Amount | Particulars | | Amount |
|---|---|---|---|---|---|
| To Opening Stock | 3,21,700 | 46,800 | By Sales | 3,89,600 | 3,81,000 |
| To Purchases | | | **Less:** Returns | | |
| **Add:** Omitted | | | | 8,600 | |
| Invoice | 400 | | By Closing Stock | | 78,600 |
| **Less:** Returns | 3,22,100 | | | | |
| **Less:** Drawing | 5,800 | | | | |
| | 3,16,300 | 3,15,700 | | | |
| | 600 | | | | |
| To Freight & Carriage | | 19,600 | | | |
| To Gross Profit c/d | | 77,500 | | | |
| | | 4,59,600 | | | 4,59,600 |
| To Rent and taxes | | 4,700 | By Gross Profit b/d | | 77,500 |
| To Salaries and wages | | 9,300 | By Discount | | 4,440 |
| | 1,100 | 2,800 | | | |
| To Bank Interest | 1,700 | | | | |
| **Add:** Due | | 10,800 | | | |
| To Printing & Stationery | 14,400 | | | | |
| **Less:** Prepaid | 3,600 | | | | |
| To Discount allowed | | 1,800 | | | |
| To General Expenses | | 11,450 | | | |
| To Insurance | | 1,300 | | | |
| To Postage & Telegram Expenses | | 2,330 | | | |
| To Traveling Expenses | | 870 | | | |
| To Provision for Bad Debts (New) | | 1,150 | | | |
| To Provision for Discount on Debtors | | 437 | | | |
| To Depreciation on Furniture & Fittings | | 500 | | | |
| To Net Profit transferred to Capita A/c | | 34,500 | | | |
| | | 81,940 | | | 81,940 |

**Balance Sheet of Hari as at 31st December, 1994**

| Liabilities | | | Amount | Assets | | Amount |
|---|---|---|---|---|---|---|
| Capital | | 76,690 | | Furniture & | | |
| **Add:** Net Profit | | 34,503 | | Fittings | 6,000 | |
| | | 1,11,193 | | **Less:** | | |
| **Less:** | | | | Dep. | 500 | 4,500 |
| Drawings: | | | | Sundry Debtors | 23,000 | |
| Cash | 30,000 | | | | | |
| Goods | 600 | 30,600 | 80,593 | **Less:** | | |
| Bank Loan | | | 20,000 | Prov. For D/D | 1,150 | |
| Bank Interest Due | | | | | 21,850 | |
| Sundry Creditors [1] | | | 1,700 | **Less:** | | |

| | | | | |
|---|---|---|---|---|
| | 14,200 | Provision for Discount | 437 | 21,413 |
| | | Stock | | 78,600 |
| | | Prepaid: | | |
| | | Printing & Stationery | | 3,600 |
| | | Bank Balance | | 8,000 |
| | | Cash Balance | | 380 |
| | 1,16,493 | | | 1.16.493 |

| | Rs. |
|---|---|
| (1) Sundry Creditors Balance as per Trial Balance | 14,800 |
| **Less:** Set off in respect of Ram | 1,000 |
| | 13,800 |
| **Add:** Purchases invoice which were omitted | 400 |
| | 14,200 |

**1997 - May [1]** From the following particulars prepare trading and profit and loss account of Mr. R for the year ended 31 -3-1997 and a balance sheet as on 31-3-1997:

| | Dr. Rs. | Cr. Rs. |
|---|---|---|
| Building | 5,00,000 | |
| Machineries | 2,00,000 | |
| Furniture | 1,00,000 | |
| Cash at Bank | 90,000 | |
| Cash on hand | 10,000 | |
| 18% p.a. loan obtained by Mr. R on 1-6-1996 on mortgage of his building | | 3,00,000 |
| R's capital | | 5,20,000 |
| Sundry debtors/Sundry creditors | 5,00,000 | 4,00,000 |
| Stock on 1-4-1996 | 1,20,000 | |
| Purchases/Sales | 25,00,000 | 32,20,000 |
| Sales returns/Purchases returns | 1,20,000 | 1,00,000 |
| Rent | 60,000 | |
| Establishment expenses | 1,80,000 | |
| Electricity charges | 15,000 | |
| Telephone charges | 10,000 | |
| Commission on sales | 30,000 | |
| Insurance premium | 10,000 | |
| Bad debts | 20,000 | |
| Bills receivable | 75,000 | |
| | 45.40,000 | 45.40,000 |

You are required to provide for depreciation on buildings at 5% p.a.; on machineries at 25% p.a.; on furniture at 10% p.a. Provision for bad and doubtful debts is to be made at 5% on sundry debtors. Mr. R's manager is entitled to a commission of 10% on the net profit after charging his commission. Closing stock was not taken on 31-3-1997 but only on 7-4-1997. Following transactions had taken place during the period from 1 -4-1997 to 7$^{th}$ April, 1997. Sales Rs. 2,50,000, purchases 1,50,000, stock on 7th April, 1997 was Rs. 1,80,000 and the rate of gross profit on sales was 20%. Insurance premium mentioned in the trial balance was in respect of building and machineries. Interest on mortgage loan to be provided up to 31.3.1997.

**(20 marks)**

**Answer:**

**Trading and Profit and Loss Account of Mr. R**
for the year ended 31st March, 1997

| Particulars | | Amount | Particulars | | Amount |
|---|---|---|---|---|---|
| To Opening Stock | | 1,20,000 | By Sales | 32,20,000 | 31,00,000 |
| To Purchases | 25,00,000 | | **Less:** Return | 1,20,000 | 2,30,000 |
| **Less:** Returns | 1,00,000 | 24,00,000 | By Closing Stock (1) | | |
| To Gross Profit c/d | | 8,10,000 | By Gross Profit b/d | | |
| | | 33,30,000 | | | 33.30,000 |
| To Rent | | 60,000 | | | 8,10,000 |
| To Establishment expenses | | 1,80,000 | | | |
| To Electricity charges | | 15,000 | | | |
| To Telephone Charges | | 10,000 | | | |
| To Commission on sales" | | 30,000 | | | |
| To Insurance Premium | | 10,000 | | | |
| To Bad debts | | 20,000 | | | |
| To Provision for doubtful debts | | 25,000 | | | |
| To Interest on loan | | 45,000 | | | |
| To Depreciation (2) | | 85,000 | | | |
| To Manager's Commission (3) | | 30,000 | | | |
| To Net profit transferred to Capita Account | | 3,00,000 | | | |
| | | 8.10,000 | | | 8.10,000 |

**Balance Sheet of Mr. R**
(as at 31st March,1997)

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Capital Account: | | | Building | 5,00,000 | |
| Opening Balance | 5,20,000 | | **Less:** Dep. | 25,000 | 4,75,000 |
| **Add:** Profit | 3,00,000 | 8,20,000 | Machineries | 2,00,000 | |
| 18% Mortgage Loan | | 3,00,000 | **Less:** Dep. | 50,000 | 1,50,000 |
| Interest accrued on Loan | | 45,000 | Furniture | 1,00,000 | |
| Sundry Creditor | | 4,00,000 | **Less:** Dep. | 10,000 | 90,000 |
| Commission due to Manager | | 30,000 | Closing Stock | | 2,30,000 |
| | | | Sundry Debtors | 5,00,000 | |
| | | | **Less:** Prov. for D/D | 25,000 | 4,75,000 |
| | | | Bills Receivable | | 75,000 |
| | | | Cash at Bank | | 90,000 |
| | | | Cash in Hand | | 10,000 |
| | | 15,95,000 | | | 15,95,000 |

**Working Notes:**

| | | |
|---|---|---|
| | | Rs. |
| **1. Value of closing Stock:** | | |
| Stock (As on 7th April 1997) | | 1,80,000 |
| **Add:** Cost of sales | | |
| Sales (1.4.1997 to 7.4.1997) | 2,50,000 | |

| | | |
|---|---|---|
| **Less:** Gross Profit @20% on sales | 50,000 | 2,00,000 |
| | | 3,80,000 |
| **Less:** Purchases | | 1,50,000 |
| Closing Stock | | 2,30,000 |
| **2. Depreciation:** | | |
| On Building (5% of 5,00,000) | | 25,000 |
| On Machineries (35% of 2,00,000) | | 50,000 |
| On Furniture (10% of 1,00,000) | | 10,000 |
| | | 85,000 |
| **3. Manager's Commission:** | | |
| Profit before charging commission | | 3,30,000 |
| Commission (3,30,000 x 10/110) | | 30,000 |

**1998 - May [1]** From the following balances and information, prepare Trading and Profit and Loss Account of Mr. X for the year ended 31st March, 1998 and a Balance Sheet as on that date:

| | Dr. Rs. | Cr. Rs. |
|---|---|---|
| X's Capital Account | — | 10,000 |
| Plant and Machinery | 3,600 | — |
| Depreciation on Plant and Machinery | 400 | — |
| Repairs to Plant | 520 | — |
| Wages | 5,400 | — |
| Salaries | 2,100 | — |
| Income-tax of Mr. X | 100 | — |
| Cash in Hand and at Bank | 400 | — |
| Land and Building | 14,900 | . — |
| Depreciation on Building | 500 | — |
| Purchases | 25,000 | — |
| Purchases Return | — | 300 |
| Sales | — | 49,800 |
| Bank Overdraft | — | 760 |
| Accrued Income | 300 | — |
| Salaries Outstanding | — | 400 |
| Bills Receivable | 3,000 | — |
| Provision for Bad Debts | — | 1,000 |
| Bills Payable | — | 1,600 |
| Bad Debts | 200 | — |
| Discount on Purchases | — | 708 |
| Debtors | 7,000 | — |
| Creditors | — | 6,252 |
| Opening Stock | 7,400 | — |
| | 70,820 | 70,820 |

**Information:**

(i) Stock on 31st March, 1998 was Rs. 6,000.

(ii) Write off further Rs. 600 for Bad Debt and maintain a provision for Bad Debts at 5% on Debtors.

(iii) Goods costing Rs. 1,000 were sent to customer for Rs. 1,200 on 30th March, 1998 on sale or return basis. This was recorded as actual sales.
(iv) Rs. 240 paid as rent of the office were debited to Landlord account and were included in the list of debtors.
(v) General Manager is to be given commission at 10% of net profit after charging the commission of the works manager and his own.
(vi) Works manager is to be given commission at 12% of net profit before charging the commission of General Manager and his own.

**(20 marks)**

**Answer:**

**Trading and Profit and Loss Account**
(For the year ended 31s1 March, 1998)

| | Particulars | | Amount | | Particulars | | Amount |
|---|---|---|---|---|---|---|---|
| To | Opening Stock | | 7,400 | By | Sales | 49,800 | |
| To | Purchases | 25,000 | | | **Less:** Sales on Approval | | |
| | **Less:** Returns | 300 | 24,700 | | Basis | 1,200 | 48,600 |
| To | Wages | | 5,400 | By | Closing Stock | 6,000 | |
| To | Gross Profit c/d | | 18,100 | | **Add:** Stock with Customer | 1,000 | 7,000 |
| | | | 55,600 | | | | 55,600 |
| To | Repairs to Plant | | 520 | By | Gross Profit b/d | | 18,100 |
| To | Salaries | | 2,100 | By | Discount on Purchases | | 708 |
| To | Rent | | 240 | By | Provision for Bad Debts (2) | | 752 |
| To | Bad Debts (200+600) | | 800 | | | | |
| To | Depreciation on: | | | | | | |
| | Plant & Machinery | 400 | | | | | |
| | Building | 500 | 900 | | | | |
| To | Commission to Work Manager | | 1,800 | | | | |
| To | Commission to General Manager (3) | | 1,200 | | | | |
| To | Net Profit | | 12,000 | | | | |
| | | | 19,560 | | | | 19,560 |

**Balance Sheet of Mr. X**
as on 31st March, 1998

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Capital Account | 10,000 | | Land and Building Plant and Machinery | | 14,900 |
| **Less:** Income Tax | 100 | | | | 3,600 |
| | 9,900 | | | | |
| **Add:** Net Profit | 12,000 | 21,900 | Stock in Hand | 6,000 | |
| Bank Overdraft | | 760 | **Add:** Stock with Customers | 1,000 | 7,000 |
| Bills Payable | | 1,600 | Debtors (1) | 4,960 | |
| Sundry Creditors | | 6,252 | **Less:** Provision for Bad Debts | 248 | 4,712 |
| Salaries Outstanding | | 400 | | | |
| Outstanding Commission: | | | Bill Receivable | | 3,000 |
| Works Manager | 1,800 | | Accrued Income | | 300 |
| General Manager | 1,200 | 3,000 | Cash in hand and at Bank | | 400 |

| | | | |
|---|---|---|---|
| | 33,912 | | 33,912 |

**Working Notes:**

| | | |
|---|---|---|
| (1) Debtors as per Trial Balance | | 7,000 |
| **Less:** Debtors on account of goods sold on approval basis | 1,200 | |
| Landlord account wrongly taken as debtor | 240 | 1,440 |
| | | 5,560 |
| **Less:** Bad Debts Written off | | 600 |
| | | 4,960 |

**(2) Provision for Bad Debts Required (Adjusted Debtor):**

5% on Debtors Rs. 4,960 = Rs. 248 = 1000 - 248 = 752

**(3) Calculation of Commission of General Manager:**

10/110 x Rs. (15,000 - 1,800) = 1200

**2000 - May [1]** The following is the Trial Balance of Shri Arihant as on 31st December, 1999:

| | Debit Rs. | Credit Rs. |
|---|---|---|
| Capital | — | 14,00,000 |
| Drawings | 75,000 | — |
| Opening Stock | 80,000 | — |
| Purchases | 16,20,000 | --- |
| Freight on Purchases | 15,000 | — |
| Wages | 1,10,000 | — |
| Sales | — | 25,00,000 |
| Salaries | 1,00,000 | — |
| Travelling Expenses | 23,000 | — |
| Miscellaneous Expenses | 35,000 | — |
| Printing and Stationery | 27,000 | — |
| Advertisement Expenses | 25,000 | — |
| Postage and Telegrams | 13,000 | — |
| Discounts | 7,600 | 14,500 |
| Bad Debts written off (after adjusting recovery of bad debts of Rs. 6,000 written off in 1997) | 14,000 | — |
| Building | 10,00,000 | — |
| Machinery | 75,000 | — |
| Furniture | 40,000 | — |
| Debtors | 1,50,000 | — |
| Provision for Doubtful Debts | — | 19,000 |
| Creditors | — | 1,60,000 |
| Investments (12% Purchased on 1/10/99) | 6,00,000 | — |
| Bank Balance | 83,900 | — |
| | 40.93.500 | 40.93.500 |

**Adjustments:**

(i) Closing Stock Rs. 2,25,000.

(ii) Goods worth Rs. 5,000 were taken for personal use, but no entry was made in the books.

(iii) Machinery worth Rs. 35,000 purchased on 1/1/97 was wrongly written off against Profit and Loss Account. This asset is to be brought into account on 1/1/99 taking depreciation at 10% per annum on straight line basis upto 31/12/98.
(iv) Depreciate Building at 2.5 % p.a., Machinery at 10% p.a. and Furniture at 10% p.a.
(v) Provision for Doubtful Debts should be 6% on Debtors.
(vi) The Manager is entitled to a commission of 5% of Net Profits after charging his commission.
Prepare Trading and Profit and Loss Account for the year ending 31st December, 1999 and a Balance Sheet as at that date. **(20 marks)**

**Answer:**

**Trading and Profit and Loss Account of Shri Arihant (For the year ended 31st December, 1999)**

| Particulars | | Amount | Particulars | Amount |
|---|---|---|---|---|
| To Opening Stock | | 80,000 | By Sales | 25,00,000 |
| To Purchases | 16,20,000 | 16,15,000 | By Closing Stock | 2,25,000 |
| Less: Drawings | 5,000 | 15,000 | | |
| To Freight | | 1,10,000 | | |
| To Wages | | 9,05,000 | | |
| To Gross Profit c/d | | 27,25,000 | | 27,25,000 |
| To Salaries | | 1,00,000 | By Gross Profit b/d | 9,05,000 |
| To Traveling expenses | | 23,000 | By Discount received | 14,500 |
| To Miscellaneous Expenses | | 35,000 | By Bad debts Recovered By | 6,000 |
| To Printing and Stationery | | 27,000 | Interest on investments | 18,000 |
| To Advertisement expenses | | 25,000 | [6,00,000 x $\frac{12}{100}$ x $\frac{3}{12}$ ] | |
| To Postage And telegrams | | 13,000 | | |
| To Discounts | | 7,600 | | |
| To Provision for doubt for | | | | |
| debts (New) | 9,000 | | | |
| Add: Bad Debts | | | | |
| (14,000 + 6,000) | 20,000 | | | |
| | 29,000 | | | |
| Less: Old Provision | 19,000 | 10,000 | | |
| Depreciation: | | | | |
| Machinery | 11,000 | | | |
| Furniture | 4,000 | | | |
| Building | 25,000 | 40,000 | | |
| To Manager's Commission | | 31,567 | | |
| (5/105 x 6,62,900) | | | | |
| To Net profit transferred to capital | | | | |
| Account | | 6,31,333 | | |
| | | 9,43,500 | | 9,43,500 |

**Balance Sheet of Shri Arihant**

(As at 31$^{st}$ December, 1999)

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Capital | 14,00,000 | | Building | 10,00,000 | 9,75,000 |
| Add: Machinery | | | Less: Depreciation | 25,000 | |
| Capitalised | 28,000 | | Machinery | 1,03,000 | |

| | | | | | |
|---|---|---|---|---|---|
| | 14,28,000 | | **Less:** Depreciation | 11,000 | 92,000 |
| **Less:** Profits | 6,31,333 | | Furniture | 40,000 | |
| - | 20,59,333 | | **Less:** Depreciation | 4,000 | 36,000 |
| **Less:** Drawings | 80,000 | 19,79,333 | Investments | | 6,00,000 |
| Creditors | | 1,60,000 | Interest Accrued | | 13,000 |
| Outstanding Commission | | 31,567 | Stock | 1,50,000 | 2,25,000 |
| | | | Debtors | | |
| | | | **Less:** Prov. for D/D | 9,000 | 1,41,000 |
| | | | Bank Interest | | 83,900 |
| | | 21,70,900 | | | 21,70,900 |

**Working Notes:**

| | Rs. |
|---|---|
| Machinery purchased on 1.1.97 (wrongly written off to be capitalised on 1.1.99): | |
| Cost of Machinery as on 1.1.97 | 35,000 |
| **Less:** Depreciation for the years 1997 and 1998 @ 10% p.a.' | 7,000 |
| Value of machinery capitalised | 28,000 |
| Depreciation for the current year 1999 @ 10 % p.a. | 3,500 |
| Value of Machinery (as on 31.12.99) | |
| Value of Machinery (Rs. 75,000 + Rs. 28,000) | 1,03,000 |
| **Less:** Depreciation (Rs. 7,500 + Rs. 3,500) | 11,000 |
| | 92,000 |

**2000 - Nov [1]** The following is the Trial Balance of K on 31st March, 2000:

| | Dr. Rs. | Cr. Rs. |
|---|---|---|
| Capital | — | 8,00,000 |
| Drawings | 60,000 | — |
| Opening Stock | 75,000 | — |
| Purchases | 15,95,000 | — |
| Freight on Purchases | 25,000 | — |
| Wages (11 months upto 29.02.2000) | 66,000 | — |
| Sales | — | 23,10,000 |
| Salaries | 1,40,000 | — |
| Postage, Telegrams, Telephones | 12,000 | — |
| Printing and Stationery | 18,000 | — |
| Miscellaneous Expenses | 30,000 | — |
| Creditors | — | 3,00,000 |
| Investments | 1,00,000 | — |
| Discounts Received | — | 15,000 |
| Debtors | 2,50,000 | — |
| Bad Debts | 15,000 | — |
| Provision for Bad Debts | — | 8,000 |
| Building | 3,00,000 | — |
| Machinery | 5,00,000 | — |
| Furniture | 40,000 | — |
| Commission on Sales | 45,000 | — |

| | | |
|---|---|---|
| Interest on Investments | — | 12,000 |
| Insurance (Year upto 31.07.2000) | 24,000 | — |
| Bank Balance | 1,50,000 | — |
| | 34,45,000 | 34,45,000 |

**Adjustments:**

(i) Closing Stock Rs. 2,25,000.

(ii) Machinery worth Rs. 45,000 purchased on1.10.99 was shown as Purchases. Freight paid on the Machinery was Rs. 5,000, which is included in Freight on Purchases.

(iii) Commission is payable at 2.5% on Sales.

(iv) Investments were sold at 10% profit, but the entire sales proceeds have been taken as Sales.

(v) Write off Bad Debts Rs. 10,000 and create a provision for Doubtful Debts at 5% of Debtors.

(vi) Depreciate Building by 2 ½ % p.a. and Machinery and Furniture at 10% P.a.

Prepare Trading and Profit and Loss Account for the year ending 31st March, 2000 and a Balance Sheet as on that date. **(20 marks)**

**Answer:**

**Trading and Profit and Loss Account of Mr. K**

for the year ended 31st March, 2000

| | Particulars | | Amount Rs. | | Particulars | | Amount Rs. |
|---|---|---|---|---|---|---|---|
| To | Opening Stock | | 75,000 | By | Sales | 23,10,000 | |
| To | Purchases | 15,95,000 | | | Less: Sales of | | |
| | **Less:** Transfer | 45,000 | 15,50,000 | | Investment | 1,10,000 | 22,00,000 |
| To | Freight | 25,000 | | By | Closing Stock | | 2,25,000 |
| | **Less:** Transfer to Machinery A/c | 5,000 | 20,000 | | | | |
| To | Wages | 66,000 | | | | | |
| | **Add:** Outstanding | 6,000 | 72,000 | | | | |
| To | Gross Profit c/d | | 7,08,000 | | | | |
| | | | 24,25,000 | | | | 24,25,000 |
| To | Salaries | | 1,40,000 | By | Gross Profit b/d | | 7,08,000 |
| To | Miscellaneous Expenses, | | 30,000 | By | Interest on investments | | 12,000 |
| To | Printing and Stationary | | 18,000 | By | Discounts | | 15,000 |
| To | Postage, Telegrams, telephones | | 12,000 | By | Profit of sales of invest. | | 10,000 |
| To | Commission on Sales | 45,000 | | | | | |
| | **Add:** Outstanding | 10,000 | 55,000 | | | | |
| To | Insurance | 24,000 | | | | | |
| | **Less:** Prepaid | 8,000 | 16,000 | | | | |
| To | Provisions for D/D (New provision) | | | | | | |
| | Bad Debts | 15,000 | | | | | |
| | **Add:** Written off | 10,000 | | | | | |
| | **Add:** Prov. | 12,000 | | | | | |
| | | 37,000 | | | | | |
| | **Less:** Old Prov. | 8,000 | 29,000 | | | | |
| To | Depreciation: | 7,500 | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| | Building Machinery | 52,500 | | | |
| | Furniture | 4,000 | 64,000 | | |
| To | Net Profit | | 3,81,000 | | |
| | | | 7,45,000 | | 7,45,000 |

**Balance Sheet of Mr. K**
as at 31st March 2000

| Liabilities | | Amount (Rs.) | Assets | | Amount (Rs.) |
|---|---|---|---|---|---|
| Capital | 8,00,000 | | Building | 3,00,000 | |
| **Add:** Profit | 3.81,000 | | **Less:** Depreciation | 750 | 2,92,500 |
| | 11,81,000 | | Machinery | 5,00,000 | |
| **Less:** Drawings | 60,000 | 11,21,000 | **Add:** New | 50,000 | |
| Creditors | | 3,00,000 | | 5,50,000 | |
| Outstanding Expenses | | | **Less:** Depreciation | 52.500 | 4,97,500 |
| Wages Outstanding | | 6,000 | Furniture | 40,000 | |
| Commission Outstanding | | 10,000 | **Less:** Depreciation | 4,000 | 36,000 |
| | | | Debtors . | 2,50,000 | |
| | | | **Less:** Bad Debts | 10,000 | |
| | | | | 2,40,000 | |
| | | | **Less:** Provision for D/D | 12,000 | 2,28,000 |
| | | | Prepaid Insurance | | 8,000 |
| | | | Stock | | 2,25,000 |
| | | | Cash ad Bank | | 1.50,000 |
| | | 14,37,000 | | | 14,37,000 |

**2001 - May [1]** Shri Patit Bansali submitted to you the following Trial Balance, which he has not been able to agree. Rewrite the Trial Balance and prepare Trading and Profit and Loss Account for the year ended 31.12.2000 and a Balance Sheet as on that date after giving effect to the undermentioned adjustments:

| | Dr. Rs. | Cr. Rs. |
|---|---|---|
| Capital | | 16,000 |
| Opening Stock | 17,500 | |
| Closing Stock | | 18,790 |
| Drawings | 3,305 | |
| Return inward | | 550 |
| Carriage Inward | 1,240 | |
| Deposit with X | | 1,400 |
| Return outward | 840 | |
| Carriage outward | | 725 |
| Rent paid | 800 | |
| Rent outstanding | 150 | |
| Purchases | 13,000 | |
| Sundry Debtors | 5,000 | |
| Sundry Creditors | | 4,000 |
| Furniture | 1,500 | |
| Sales | | 29,000 |
| Wages | 850 | |

| | | |
|---|---|---|
| Cash | 1,370 | |
| Goodwill | 1,800 | |
| Advertisement | 950 | |
| | 48,305 | 70,465 |

**Adjustments:**
(1) Write off Rs. 600 as Bad Debts and make Reserve for Bad Debts on Sundry Debtors at 5%.
(2) Stock valued at Rs. 2,000 was destroyed by fire on 25th December, 2,000, but Insurance Company admitted a claim for Rs. 1,500 only and paid the sum in January 2001.
(3) Depreciate Furniture by 10%. **(20 marks)**

**Answer:**

**Trial Balance of Shri Patit Bansali (Rectified)**
(as on 31st December, 2000)

| | Dr. (Rs.) | Cr. (Rs.) |
|---|---|---|
| Capital | | 16,000 |
| Opening Stock | 17,500 | |
| Drawings | 3,305 | |
| Return inward | 550 | |
| Carriage inward | 1,240 | |
| Deposit with x | 1,400 | |
| Return outward | | 840 |
| Carriage outward | 725 | |
| Rent Paid | 800 | |
| Rent outstanding | | 150 |
| Purchases | 13,000 | |
| Sundry debtors | 5,000 | |
| Sundry Creditors | | 4,000 |
| Furniture | 1,500 | |
| Sales | | 29,000 |
| Wages | 850 | |
| Cash | 1,370 | |
| Goodwill | 1,800 | |
| Advertisement | 950 | |
| | 49,990 | 49,990 |

**Trading and Profit and Loss Account of Shri Patit Bansali**
for the year ended 31st December, 2000

| Particulars | | Amount (Rs.) | Particulars | | Amount (Rs.) |
|---|---|---|---|---|---|
| To Opening Stock | | 17,500 | By Sales | 29,000 | |
| To Purchases | 13,000 | | **Less:** Return | | |
| **Less:** Return | | | Inward | 550 | 28,450 |
| Outward | 840 | 12,160 | By Stock lost by fire | | 2,000 |
| To Wages | | 850 | By Closing stock | | 18,790 |
| To Carriage inward | | 1,240 | | | |
| To Gross profit c/d | | 17,490 | | | |
| | | 49,240 | | | 49,240 |

| | | | |
|---|---|---|---|
| To Carriage outward | 725 | By Gross profit b/d | 17,490 |
| To Rent | 800 | | |
| To Advertisement | 950 | | |
| To Bad debts | 600 | | |
| To Reserve for bad debts | 220 | | |
| To Loss of stock by fire | 500 | | |
| To Depreciation on furniture | 150 | | |
| To Net profit transferred to Capital Account | 13,545 | | |
| | 17,490 | | 17,490 |

**Balance Sheet of Shri Patit Bansali**

as at 31st December 2000

| Liabilities | | Amount (Rs.) | Assets | | Amount (Rs.) |
|---|---|---|---|---|---|
| Capital | 16,000 | | Goodwill | | 1,800 |
| **Add:** Net Profit | 13,545 | | Furniture | 1,500 | |
| | 29,545 | | **Less:** Depreciation | 150 | 1,350 |
| **Less:** Drawings | 3,305 | 26,240 | Deposit with X | | 1,400 |
| Sundry creditors | | 4,000 | Closing stock | | 18,790 |
| Outstanding rent | | 150 | Sundry Debtors | 5,000 | |
| | | | **Less:** Bad Debts | 600 | |
| | | | Pro. for D/D | 4,400 | |
| | | | **Less:** Reserve | 220 | 4,180 |
| | | | Insurance claim | | 1,500 |
| | | | Cash | | 1,370 |
| | | 30,390 | | | 30,390 |

**2001 - May [4]** (b) Mr. James submits you the following information for the year ended 31.3.2001:

| | Rs. |
|---|---|
| Stock as on 1.4.2000 | 1,50,500 |
| Purchases | 4,37,000 |
| Manufacturing Expenses | 85,000 |
| Expenses on Sales | 33,000 |
| Expenses on Administration | 18,000 |
| Financial Charges | 6,000 |
| Sales | 6,25,000 |

During the year damaged goods costing Rs. 12,000 were sold for Rs. 5,000. Barring the above transaction the Gross Profit has been @ 20% on Sales. Compute the Net Profit of Mr. James for the year ended 31.3.2001.

**(6 marks)**

**Answer:**

**Trading and Profit and Loss Account of Mr. James**

(For the year ended 31st March, 2001)

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Opening Stock | 1,50,500 | By Sales | 6,25,000 |
| To Purchase | 4,37,000 | By Closing stock | 1,64,500 |
| To Manufacturing expenses | 85,000 | | |

| | | | |
|---|---|---|---|
| To Gross Profit c/d | 1,17,000 | | |
| | 7,89,500 | | 7,89,500 |
| To Administration Expenses | 18,000 | By Gross Profit b/d | 1,17,000 |
| To Selling expenses | 33,000 | | |
| To Financial Charges | 6,000 | | |
| To Net profit transferred to capital account | 60,000 | | |
| | 1,17,000 | | 1,17,000 |

**2003 - Nov [1]** The following is the Trial Balance of Mr. 'A' as on 31st March, 2003. You are required to prepare the Trading and Profit & Loss Account for the year ended 31st March, 2003 and Balance Sheet as on that date after making the necessary adjustments:

| | Rs. | Rs. |
|---|---|---|
| Stock 1-4-2002 | 5,50,000 | — |
| Purchases and Sales | 19,25,000 | 29,35,000 |
| Wages and Salaries | 1,25,000 | — |
| Discount | — | 2,000 |
| Carriage inward | 40,000 | — |
| Bill receivable and Bill payable | 2,25,000 | 1,85,000 |
| Insurance | 35,000 | — |
| Debtors and Creditors | 15,00,000 | 9,32,500 |
| Consignor's Balance (1 -4-2002) | — | 4,00,000 |
| Capital | — | 8,95,000 |
| Commission | 40,000 | — |
| Cash sent to Consignor | 8,00,000 | — |
| Interest | 35,000 | — |
| Trade Expenses | 34,500 | — |
| Furniture (1-4-2002) | 60,000 | — |
| Consignment Sales | — | 6,40,000 |
| Cash in hand and at Bank | 4,22,500 | . |
| Rent and Taxes | 1,27,500 | — |
| Sale of furniture (31-3-2003) | — | 10,000 |
| Charges paid against Consignment | 80,000 | — |
| | 59,99,500 | 59,99,500 |

**Adjustments:**

(i) Stock on 31st March, 2003 was valued at Rs. 8,00,000 (including stock of stationery Rs. 800)
(ii) Bill receivable include a dishonoured bill of Rs. 8,000.
(iii) Trade expenses include payment for stationery of Rs. 22,500.
(iv) Stock in the beginning include stock of stationery Rs. 1,800.
(v) Furniture sold was appearing in the Balance Sheet on 31st March, 2003 at Rs. 13,000.
(vi) Creditors at the end include creditors for stationery Rs. 3,000 for credit purchases.
(vii) Commission receivable on sale of consignment is Rs. 40,000.
(viii) Stationery of Rs. 2,000 was consumed by Mr. 'A'.
(ix) Make provision for bad and doubtful debts at 5% on debtors.
(x) Depreciate furniture at 10% p.a. **(20 marks)**

**Answer:**

**Trading and Profit & Loss Account**
(for the year ended 31st March, 2003)

| Particulars | | Amount | Particulars | Amount |
|---|---|---|---|---|
| To Open. Stock | 5,50,000 | | By Sales | 29,35,000 |
| **Less:** Stationery | 1,800 | 5,48,200 | By Closing Stock (8,00,000-800) | 7,99,200 |
| To Purchase | | 19,25,000 | . | |
| To Wages & Salaries | | 1,25,000 | | |
| To Carriage Inward | | 40,000 | | |
| To Gross Profit | | 10,96,000 | | |
| | | 37,34,200 | | 37,34,200 |
| To Insurance | | 35,000 | By Gross Profit b/d | 10,96,000 |
| To Commission Paid | | 40,000 | By Discount | 2,000 |
| To Interest | | 35,000 | By Outstanding Commission | 40,000 |
| To Trade Expenses (34,500 - 22,500) | | 12,000 | | |
| To Rent & Taxes | | 1,27,500 | | |
| To Stationery | | 21,500 | | |
| To Loss on sale of Furniture | | 1,700 | | |
| To Dep. on Furniture | | 6,000 | | |
| To Provision for Bad debts | | 75,400 | | |
| To Net Profit c/f | | 7,83,900 | | |
| | | 11,38,000 | | 11,38,000 |

**Balance Sheet**
(as on 31st March, 2003)

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Capital | 8,95,000 | | Furniture | | 42,300 |
| **Add:** Net Profit | 7,83,900 | | Debtors | 15,00,000 | |
| **Less:** Drawings | 2,000 | 16,76,900 | **Add:** Dishonored | 8,000 | |
| Bills Payable | | 1,85,000 | **Less:** Prov. for D/D | 75,400 | 14,32,600 |
| Creditors (9,32,500 - 3,000) | | 9,29,500 | Bills Receivable | 2,25,000 | |
| | | | **Less:** Dishonored | 8,000 | 2,17,000 |
| Creditors for stationery | | 3,000 | Cash & Bank | | 4,22,500 |
| Due to consignor | | 1,20,000 | Closing Stock | | 7,99,200 |
| | | | Stock for Stationary | | 800 |
| | | 29,14,400 | | | 29,14,400 |

**Working Notes:**

**Furniture Account**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To Balance b/d | 60,000 | By Cash | 10,000 |
| | | By Depreciation | 1,300 |
| | | By Loss | 1,700 |
| | | By Depreciation | 4,700 |
| | | By Balance c/d | 42,300 |
| | 60,000 | | 60,000 |

**Stock for Stationery**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To Balance b/d | 1,800 | By Drawings | 2,000 |
| To Trade Expenses | 22,500 | By Profit & Loss A/c | 21,500 |
| (Transfer entry) | | By Balance c/d | 800 |
| | 24,300 | | 24,300 |

**Consignor's Account**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To Cash | 8,00,000 | By Balance b/d | 4,00,000 |
| To Charges | 80,000 | By Sales | 6,40,000 |
| To Commission | 40,000 | | |
| To Balance c/d | 1,20,000 | | |
| | 10,40,000 | | 10,40,000 |

**2004 - May [1]** Mr. Neel had prepared the following Trial Balance from his Ledger as on 31st March, 2004:

| | Dr. (Rs.) | Cr. (Rs.) |
|---|---|---|
| Stock as on 1sl April, 2003 | 5,00,000 | |
| Purchases and Returns | 31,00,000 | 45,000 |
| Sales and Returns | 55,000 | 41,50,000 |
| Cash in Hand | 2,50,000 | |
| Cash at Bank | 5,00,000 | |
| Trader's Capital | | 22,59,200 |
| Rates and Taxes | 50,000 | |
| Drawings | 45,000 | |
| Salaries | 95,000 | |
| Postage and Telegram | 1,05,000 | |
| Insurance | 90,000 | |
| Salesman Commission | 78,000 | |
| Printing and Stationery | 95,500 | |
| Advertisement | 1,70,000 | |
| Furniture and Fittings | 5,50,000 | |
| Motor Car | 48,000 | |
| Discounts | 50,000 | 75,000 |
| General Expenses | 65,700 | |
| Carriage Inward | 10,000 | |
| Carriage Outward | 22,000 | |
| Wages | 50,000 | |
| Sundry Debtors/Creditors | 10,00,000 | 4,00,000 |
| Total | 69,29,200 | 69,29,200 |

You are required to prepare Trading and Profit & Loss Account for the year ended on 31st March, 2004 and Balance Sheet as on that date after making the necessary adjustments.

**You are provided with the following information:**

(i) Closing Stock as on 31st March, 2004 Rs. 1,45,000.

(ii) Neel had withdrawn goods worth Rs. 50,000 during the year.
(iii) Purchases include Purchase of furniture worth Rs. 1,00,000.
(iv) Debtors include Rs. 50,000 bad debts.
(v) Sales include goods worth Rs. 1,50,000 sent out to NN & Co. on approval and remained unsold as on 31sl March, 2004. The cost of the goods was Rs. 1,00,000.
(vi) Provision for Bad debts is to be created at 5% of Sundry Debtors.
(vii) Depreciate Furniture and Fittings by 10% and Motor Car by 20%.
(viii) The salesman is entitled to a commission of 10% on total sales.

**(20 marks)**

**Answer:**

**Trading and Profit & Loss Account (For the year ended 31 March, 2004)**

| | Particulars | | Amount (Rs.) | | Particulars | | Amount (Rs.) |
|---|---|---|---|---|---|---|---|
| To | Opening Stock | 31,00,000 | 5,00,000 | By | Sales | 41,50,000 | |
| To | Purchases | | | | **Less:** Returns | 55,000 | |
| | **Less:** Returns | 45,000 | | | | 40,95,000 | |
| | **Less:** Furniture | 30,55,000 | | | **Less:** Goods sent | | |
| | | 1,00,000 | | | on approval | 1,50,000 | 39,45,000 |
| | **Less:** Drawings | 29,55,000 | 29,05,000 | By | Goods sent on Approval | | 1,00,000 |
| | | 50,000 | | By | Closing Stock | | 1,45,000 |
| To | Carnage Inward | | 10,000 | | | | |
| To | Wages | | 50,000 | | | | |
| To | Gross Profit c/d | | 7,25,000 | | | | |
| | | | 41,90,000 | | | | 41,90,000 |
| To | Salaries | | 95,000 | By | Gross Profit b/d | | 7,25,000 |
| To | Rates & Taxes | | 50,000 | By | Discount received | | 75,000 |
| To | Postage & Telegram | | 1,05,000 | By | Net Loss transferred to Capital A/c | | 5,02,300 |
| To | Insurance | | 90,000 | | | | |
| TO | Printing & Stationery | | 95,500 | | | | |
| To | Advertisement | | 1,70,000 | | | | |
| To | Discount allowed | | 50,000 | | | | |
| To | General Expenses | | 65,700 | | | | |
| To | Carriage Outward | | 22,000 | | | | |
| To | Bad debts | | 50,000 | | | | |
| To | Provision for Doubtful Debts | | 40,000 | | | | |
| To | Salesman Commission | 78,000 | | | | | |
| | **Add:** Outstanding | 3,16,500 | 3,94,500 | | | | |
| To | Depreciation on: | | | | | | |
| | Furniture | 65,000 | | | | | |
| | Motor Car | 9,600 | 74,600 | | | | |
| | | | 13,02,300 | | | | 13,02,300 |

**Balance Sheet of Mr. Neel**

(As on 31st March, 2004)

| Liabilities | Amount (Rs.) | Assets | Amount (Rs.) |
|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| Capital | 22,59,200 | | Furniture | 5,50,000 | |
| **Less:** Drawings | 45,000 | | Add: Purchased | 1.00,000 | |
| **Less:** Goods With-drawn | 50,000 | | **Less:** Dep. | 6,50,000 | 5,85,000 |
| | | | | 65,000 | |
| | | | Motor Car | 48,000 | |
| | 21,64,200 | | **Less:** Dep. | 9.600 | 38,400 |
| **Less:** Net Loss | 5,02,300 | 16,61,900 | Stock in hand | | 1,45,000 |
| Sundry Creditors | | 4,00,000 | Goods sent on Approval | 10,00,000 | 1,00,000 |
| Outstanding Salesman's Commission | | 3,16,500 | Sundry Debtors Less: Goods sent on Approval | 1.50,000 | |
| | | | | 8,50,000 | |
| | | | **Less:** Bad Debts | 50,000 | |
| | | | | 8,00,000 | |
| | | | **Less:** Provision for Doubtful Debts | 40,000 | 7,60,000 |
| | | | Cash in Hand | | 2,50,000 |
| | | | Cash at Bank | | 5,00,000 |
| | | 23,78,400 | | | 23,78,400 |

**2005 - May [1]** The following are the balances as at 31st March, 2004 extracted from the books of Mr. XYZ.

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

**Additional Information:**

1. Purchases include sales return of Rs. 2,575 and sales include purchase return of Rs. 1,725.
2. Goods withdrawn by Mr. XYZ for own consumption Rs. 3,500 included in purchases.
3. Wages paid in the month of April for installation of Plant and Machinery amounting to Rs. 450 were included in wages account.
4. Free samples distributed for Publicity costing Rs. 825.
5. Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
6. Depreciation is to be provided on Plant and Machinery @ 15% p. a. and on furniture and fittings @ 10% p.

a.

7. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3,2004 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 on overdraft.

Prepare a trading and Profit Loss Account for the year ended 31st March, 2004, and a Balance Sheet as on that date. Also show the rectification entries.

**(20 marks)**

**Answer:**

**In the books of Mr. XYZ**

Rectification Entries

| Date | Particulars | L. F. | Dr. Amount Rs. | Cr. Amount Rs. |
|---|---|---|---|---|
| (i) | Return 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 it is rectified) | | | |
| (ii) | Drawings account Dr. | | 3,500 | |
| | To Purchases account | | | 3,500 |
| | (Being goods withdrawn for own consumption included in purchases, now it is 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 it is rectified) | | | |
| (iv) | Advertisement expenses account Dr. | | 825 | |
| | To Purchases account | | | 825 |
| | (Being free samples distributed for publicity out of purchases, now it is rectified) | | | |

**In the books of Mr. XYZ**

Trading and Profit and Loss Account for the year ended 31st March, 2004

| Particulars | | Amount Rs. | Particulars | Rs. | Amount Rs. |
|---|---|---|---|---|---|
| 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 | | |
| To Carriage inward | | 1,125 | | | |
| To Wages | | 11,715 | [Rs. 80,000 x $\frac{100}{80}$ x $\frac{100}{80}$] | | 1,25,000 |
| To Gross profit c/d | | 1,39,535 | | | |
| | | 3,36,000 | | | 3,36,000 |

| | | | | | |
|---|---|---|---|---|---|
| To Salaries | | 22,550 | By Gross profit bid | | 1,39,535 |
| To Rent | | 4,300 | By Bad debts recovered | | 450 |
| To Bad debts | | 1,100 | | | |
| To Carriage outward | | 1,350 | | | |
| To Advertisement expenses | | 4,175 | | | |
| To Printing and stationery | | 1,250 | | | |
| To Provision for doubtful debts | | | | | |
| 5% of Rs. 1,20,000 | 6,000 | | | | |
| **Less:** Existing provision | 3,200 | 2,800 | | | |
| To Provision for discount on debtors | | | | | |
| 2.5% of Rs. 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 | | 83,800 | | | |
| | | 1,39,985 | | | 1,39,985 |

**In the books of Mr. XYZ**

Balance Sheet of Mr. XYZ (as on 3111 March, 2004)

| Liabilities | Rs. | Amount Rs. | Assets | Rs. | Amount Rs. |
|---|---|---|---|---|---|
| Capital account | 65,000 | | Plant and machinery | 20,000 | 17,000 |
| **Add:** Net profit | 83,800 | | **Less:** Depreciation | 3,000 | |
| | 1,48,800 | 1,37,300 | Furniture and fittings | 10,250 | 9,225 |
| **Less:** Drawings | 11,500 | | **Less:** Depreciation | 1,025 | |
| Bank overdraft | | 80,000 | Closing stock | | 1,25,000 |
| Sundry creditors | | 47,500 | Sundry debtors | 1,20,000 | |
| Payable salaries | | 2,450 | **Less:** Provision for doubtful debts | 6,000 | |
| | | | 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 |

**2005 - Nov [1]** From the following Trial Balance of Shri Shivam as on 31st March, 2005, you are required to prepare a Trading and Profit and Loss Account for the year ended 31$^{st}$ March, 2005 and Balance Sheet as on that date, after making the necessary adjustments as mentioned hereunder: .

| Particulars | Dr. Rs. | Cr. Rs. |
|---|---|---|
| Shivam's capital | | 1,60,000 |
| Shivam's drawings | 24,000 | |
| Furniture and Fixtures | 8,000 | |
| Plant and machinery | 60,000 | |

| | | |
|---|---|---|
| Patents (ten years from 1.4.2004) | 40,000 | |
| Stock on 1.4.2004 | 40,000 | |
| Purchases | | 1,70,000 |
| Salaries | 14,800 | |
| Wages | 30,000 | |
| Sundry debtors | 20,400 | |
| Sales | | 2,64,000 |
| Cash in hand | 13,250 | |
| Land | 28,350 | |
| Loan from Shyam (at 6% from 1.10.2004) | | 20,000 |
| Postage and Fax | 3,000 | |
| Rent, rates and taxes | 7,200 | |
| Bad debts | | 800 |
| Sundry creditors | | 24,000 |
| Discount | | 1,200 |
| Carriage Inward | 400 | |
| Interest on loan | 300 | |
| Insurance | 1,600 | |
| Travelling expenses | 1,000 | |
| Sundry Expenses | 600 | |
| Cash at bank | 20,500 | |
| Bank overdraft | | 15,000 |
| Total | 4,84,200 | 4,84,200 |

**Adjustments:**

(i) Stock as on 31.3.2005 is valued at Rs. 30,000.

(ii) A new machine was installed on 1st April, 2004 for Rs. 3,000. No entry in this respect was passed in the books. Wages of Rs. 1,000 paid for installing the machine were debited to Wages account.

(iii) Of the Sundry debtors, Rs. 200 are bad and are to be written off. You are required to maintain a provision for doubtful debts @ 5% on debtors and provision for discount on debtors @ 2%.

(iv) Goods costing Rs. 2,000 were given away as free samples for publicity.

(v) Depreciate Plant and Machinery at 20% per annum and Furniture and Fixtures at 10% per annum.

(vi) On 1.4.2004, machinery of the value of Rs. 10,000 was destroyed by fire and the insurance claim settled at Rs. 8,000 was credited to Machinery account.

(vii) Goods costing Rs. 1,000 were sent to a customer for Rs. 1,200 on 30th March, 2005 on sale or return basis. This was recorded as actual sales. **(20 marks)**

**Answer:**

**In the books of Shri Shivam**
**Trading Profit & Loss A/c**
(For the year ended 31.3.05)

| Particulars | Amount | Particulars | | Amount |
|---|---|---|---|---|
| To Opening Stock | 40,000 | By Sales | 2,64,000 | |
| To Purchases | 1,70,000 | (-) Sale or Return basis | (1200) | 2,62,800 |
| To Wages | 29,000 | By Goods given as free sample | | 2,000 |
| To Carriage Inward | 400 | | | |
| To Gross Profit | 56,400 | By Closing Stock | | |
| | | — Given | 30,000 | |
| | | — With Costumer | 1,000 | 31,000 |

| | | | | | |
|---|---|---|---|---|---|
| | | 2,95,800 | | | 2,95,800 |
| To Depreciation: | | | By Gross Profit | | 56,400 |
| Furniture & Fixtures | 800 | | By Discount | | 1,200 |
| Plant & Machinery | 12,400 | 13,200 | | | |
| To Loss by fire | | 2,000 | | | |
| To Patent written-off | | 4,000 | | | |
| To Salaries | | 14,800 | | | |
| To Bad Debts | 800 | | | | |
| (+) Additional | 200 | 1,000 | | | |
| To Prov. for Doubtful Debts | | 950 | | | |
| To Prov. for Discount | | 360 | | | |
| To Postage & Fax | | 3,000 | | | |
| To Rent, Rates & Taxes | | 7,200 | | | |
| To Interest on loan | | | | | |
| Paid | 300 | | | | |
| (+) Outstanding | 300 | 600 | | | |
| To Insurance | | 1,600 | | | |
| To Travailing exp. | | 1,000 | | | |
| To Sundry Exp. | | 600 | | | |
| To Advertisement (Goods gives as Sample) | | 2,000 | | | |
| To Net profit transfer to Capital A/c | | 5,290 | | | |
| | | 59,600 | | | 59,600 |

**Balance Sheet**
(as on 31.3.2005)

| Liabilities | | Amt. (Rs.) | Assets | | Amt. (Rs.) |
|---|---|---|---|---|---|
| Capital | | | Furniture & Fittings | 8,000 | |
| Op. Balance | 1,60,000 | | (-) Depreciation | 800 | 7,200 |
| (-) Drawings | (24,000) | | Plant & Mach. (Note-1) | 62,000 | |
| (+) NP | 5,290 | 1,41,290 | (-) Depr. | 12,400 | 49,600 |
| | | | Patent | 40,000 | |
| | | | (-) Written-off | (4,000) | 36,000 |
| Creditor for Plant & Mach. [Note] | | 3,000 | Land | | 28,350 |
| | | | Stock. | | 31,000 |
| Loan from shyam | 20,000 | | Debtor [Note-2] | 19,000 | |
| (+) Interest | 300 | 20,300 | (-) Prov. for D/D | (950) | |
| Sundry Creditors | | 24,000 | (-) Prov. for discount | (360) | 17,690 |
| Bank Overdraft | | 15,000 | Cash in hand | | 13,250 |
| | | | Cash at Bank | | 20,500 |
| | | 2,03,590 | | | 2,03,590 |

**Working Notes:**

(1) Computation of plant & Machinery

| | |
|---|---|
| Balance given | 60,000 |

| | | |
|---|---|---|
| | (+) New Machinery (1.4.04) | 4,000 |
| | (-) Machinery Sold. | (2,000) |
| (2) | Computation of Debtor: | 62,000 |
| | Balance | 20,400 |
| | (-) Bad Debts | (200) |
| | (-) Sale or return | (1,200) |
| | | 19,000 |

**2018 - May [3]** The following are the balances extracted from the books of Shri Raghuram as on 31.03.2018, who carries on business under the name and style of M/s Raghuram and Associates., at Chennai:

| Particulars | Debit (Rs.) | Credit (Rs.) |
|---|---|---|
| Capital A/c | | 14,11,400 |
| Purchases | 12,00,000 | |
| Purchase Returns | | 18,000 |
| Sales | | 15,00,000 |
| Sales Returns | 24,000 | |
| Freight Inwards | 62,000 | |
| Carriage Outwards | 8,500 | |
| Rent of Godown | 55,000 | |
| Rates and Taxes | 24,000 | |
| Salaries | 72,000 | |
| Discount allowed | 7,500 | |
| Discount received | | 12,000 |
| Drawings | 20,000 | |
| Printing and Stationery' | 6,000 | |
| Insurance premium | 48,000 | |
| Electricity charges | 14,000 | |
| General expenses | 11,000 | |
| Bank charges | 3,800 | |
| Bad debts | 12,200 | |
| Repairs to Motor vehicle | 13,000 | |
| Interest on loan | 4,400 | |
| Provision for Bad debts | | 10,000 |
| Loan from Mr. Rajan | | 60,000 |
| Sundry creditors | | 62,000 |
| Motor vehicles | 1,00,000 | |
| Land and Buildings | 5,00,000 | |
| Office equipment | 2,00,000 | |
| Furniture and Fixtures | 50,000 | |
| Stock as on 31.03.2017 | 3,20,000 | |
| Sundry debtors | 2,80,000 | |
| Cash at Bank | 22,000 | |
| Cash in Hand | 16,000 | |
| Total | 30,73,400 | 30,73,400 |

Prepare Trading and Profit and Loss Account for the year ended 31.03.2018 and the Balance Sheet as at that date after making provision for the following:

(a) Depreciate Building by 5%, Furniture and Fixtures by 10%, Office Equipment by 15% and Motor Car by 20%.

(b) Value of stock at the close of the year was Rs. 4,10,000.

(c) One month rent for godown is outstanding.

(d) Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2017.

(e) Reserve for bad debts is to be maintained at 5% of Sundry debtors.

**(f)** Insurance premium includes Rs. 42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 01.04.2017 to 30.06.21018. **(20 marks)**

**Answer:**

**In books of M/s. Raghuram & Associates**

Trading Account for the year Ended 31.3.18

| Particulars | | Amount (Rs.) | Particulars | | Amount (Rs.) |
|---|---|---|---|---|---|
| To Opening Stock | | 3,20,000 | By Sales | 15,00,000 | |
| To Purchases | 12,00,000 | | Sales Return | 24,000 | 14,76,000 |
| - Pur. Ret | 18,000 | 11,82,000 | By Closing Stock | | 4,10,000 |
| To Freight Inwards | | 62,000 | | | |
| To Gross Profit c/d | | 3,22,000 | | | |
| | | 18,86,000 | | | 18,86,000 |

**M/s. Raghuram & Associates**

Profit/Loss Account for the year ended 31.3.18

| Particulars | | Amount (Rs.) | Particulars | Amount (Rs.) |
|---|---|---|---|---|
| To Carriage Outward | | 8,500 | By G.P. c/d | 3,22,000 |
| To Rent of godown | 55,000 | | By Discount received | 12,000 |
| + O/s for interest | 5,000 | 60,000 | | |
| To Rate & Taxes | | 24,000 | | |
| To Salaries | | 72,000 | | |
| To Disallowed | | 7,500 | | |
| To Printing & Stat. | | 6,000 | | |
| To Ins. Premium (W.N.2) | | 4,800 | | |
| To Electricity Charges | | 14,000 | | |
| To Gen. Expenses | | 11,000 | | |
| To Bank Charges | | 3,800 | | |
| To Provision for bad debts (W.N.3) | | 16,200 | | |
| To Repair to Vehicle | | 13,000 | | |
| To Interest on loan (W.N.4) | | 4,500 | | |
| To Depreciation: | | | | |
| Building | 25,000 | | | |
| Furniture | 5,000 | | | |
| Office Equipment | 30,000 | | | |
| Motor Car | 20,000 | 80,000 | | |
| To Net Profit c/d | | 8,700 | | |

| | | | |
|---|---|---|---|
| | 3,34,000 | | 3,34,000 |

**Balance Sheet of M/s. Raghuram & Associates**
as at 31.3.18

| Liabilities | | Amount (Rs.) | Assets | | Amount (Rs.) |
|---|---|---|---|---|---|
| Capital | 14,11,400 | | Motor van | 1,00,000 | |
| **Add:** N.P. | 8,700 | | - Dep. | 20,000 | 80,000 |
| **Less:** Drawings | 20,000 | | Land & Building | 5,00,000 | |
| **Less:** Ins. Premium | 42,000 | 13,58,100 | - Dep. | 25,000 | 4,75,000 |
| Loan from Rajan | | 60,000 | Office Equity | 2,00,000 | |
| Interest payables on - | | 100 | - Dep. | 30,000 | 1,70,000 |
| above loan | | | Furniture | 50,000 | |
| Sundry Creditors | | 62,000 | - Dep. | 5,000 | 45,000 |
| Outstanding rent of godown | | 5,000 | Stock | | 4,10,000 |
| | | | Debtors | 2,80,000 | |
| | | | Provision for Bad Debts | 14,000 | 2,56,000 |
| | | | Prepaid Insurance | | 1,200 |
| | | | Cash at Bank | | 22,000 |
| | | | Cash in hand | | 16,000 |
| Total | | 14,85,200 | | | 14,85,200 |

**Working Notes:**

**1. Outstanding Rent of godown**

$\frac{55,000}{11}$ x 1 = Rs. 5,000

**2. Insurance Premium**

| | |
|---|---|
| Insurance Premium as given in trial balance | 48,000 |
| **Less:** Personal Premium | 42,000 |
| **Less:** Prepaid for 3 months | 6,000 |
| (6,000/15 x 3) | 1,200 |
| Transfer to P/L | 4,800 |

**3. Provision for bad-debts**

| | |
|---|---|
| Bad-debts | 12,200 |
| **Add:** Prov. Req. as on 31.3.18 (2,80,000 x 5%) | 14,000 |
| | 26,200 |
| **Less:** Prov. As on 1.4.17 | 10,000 |
| Transfer to P/L | 16.200 |

**4. Interest on loan**

60,000 x 10% x 9/12 = 4,500

100 is payable interest

**[May-2000]:** The Profit and Loss Account of Hanuman showed a net profit of Rs. 60,000 after considering the closing stock of Rs. 37,500 on 31st March, 1999. Subsequently the following information was obtained from scrutiny of the books:

(i) Purchases for the year included Rs. 1,500 paid for new electric fitting for the shop.

(ii) Hanumam gave away goods valued at Rs. 4,000 as free samples for which no entry was made in the books of accounts.
(iii) Invoices for goods amounting to Rs. 25,000 have been entered on 27th March, 1999 but the good were not included in stock.
(iv) In March, 1999 goods of Rs. 20,000 sold and delivered were taken in the sales for April, 1999.
(v) Goods costing Rs. 7,500 were sent on sale or return in March, 1999 at a margin of Profit of 33- 1/3% on cost. Though approval was given in April, 1999 these were taken as sales for March, 1999.
Calculate correct profit of Mr. Hanuman and correct value of closing stock.
**Answer:** Profit: 1,04,000; Value of Closing Stock: 70,000.

## FINAL ACCOUNTS OF MANUFACTURING ENTITIES

**UNIT OVERVIEW:**

Final Accounts

**Manufacturing Account** | **Trading Account** | **Profit & Loss** | **Balance Sheet Account**

### INTRODUCTION:

The manufacturing entities generally prepare a separate Manufacturing Account as a part of Final accounts in addition to Trading Account, Profit and Loss Account and Balance Sheet. The objective of preparing Manufacturing Account is to determine manufacturing costs of finished goods for assessing the cost effectiveness of manufacturing activities. Manufacturing costs of finished goods are then transferred from the Manufacturing Account to Trading Account.

(a) Trading account shows Gross Profit while Manufacturing Account shows cost of goods sold which includes direct expenses.

(b) Manufacturing account deals with the raw material, and work in progress while the trading account would deal with finished goods only.

### PURPOSE:

A manufacturing account serves the following functions:

(1) It shows the total cost of manufacturing the finished products and sets out in detail, with appropriate classifications, the constituent elements of such cost. It is, therefore, debited with the cost of materials, manufacturing wages and expenses incurred directly or indirectly on manufacture.

(2) It provides details of factory cost and facilitates reconciliation of financial books with cost records and also serves as a basis of comparison of manufacturing operations from year to year.

(3) The Manufacturing Account may also be used for various other purposes. For example, if the output is carried to the Trading Account at market prices, it discloses the profit or loss on manufacture. Similarly, it may also be used to fix the amount of production of profit sharing bonus when such schemes are in force.

## MANUFACTURING COSTS

Manufacturing costs are classified into:

| | |
|---|---|
| + Raw Material Consumed | ……………. |
| + Direct Manufacturing Wages | ……………. |
| + Direct Manufacturing Expenses | ……………. |
| Direct Manufacturing Cost | ……………. |
| + Indirect Manufacturing expenses or | |
| Manufacturing Overhead | ……………. |
| **Total Manufacturing Cost** | |

Raw Material consumed is arrived at after adjustment of opening and closing Inventory of raw materials:

Raw Material Consumed = Opening inventory of Raw Materials + Purchases – Closing inventory of Raw Materials

If there remain unfinished goods at the beginning and at the end of the accounting period, cost of such unfinished goods (also termed as Work-In-Process) is shown in the Manufacturing Account-

Opening inventory of Work-in-Process is posted to the debit of the Manufacturing Account Closing inventory of Work-in-Process is posted to the credit of the Manufacturing Account.

**Direct Manufacturing Expenses**

Direct manufacturing expenses are costs, other than material or wages, which are incurred for a specific product or saleable service.

Examples of direct manufacturing expenses are (i) Royalties for using license or technology if based on units produced, (ii) Hire charge of the plant and machinery used on hire, if based on units produced, etc.

When royalty or hire charges are based on units produced, these expenses directly vary with production.

### Question 1:

1,00,000 units were produced in a factory. Per unit material cost was Rs. 10 and per unit labour cost was Rs. 5. That apart it was agreed to pay royalty @ Rs. 3 per unit to the Japanese collaborator who supplied technology.

**Required:** Calculate Manufacturing Cost.

**Solution:**

In this case Manufacturing Cost comprises of-

| | | |
|---|---|---|
| Raw Material consumed | (1,00,000 x Rs. 10) | Rs. 10,00,000 |
| Direct Wages | (1,00,000 x Rs. 5) | Rs. 5,00,000 |
| Direct Expenses | (1,00,000 x Rs. 3) | Rs. 3,00,000 |
| | | Rs. 18,00,000 |

## MANUFACTURING ACCOUNT

Manufacturing Account is prepared by an enterprise engaged in manufacturing activities. It is prepared to ascertain the cost of goods manufactured during an accounting period. This account is closed by transferring its balance to the debit of the Trading Account. A general format of a Manufacturing Account is shown below:

**Dr. Manufacturing Account of for the period ending on… Cr.**

| Particulars | | Rs. | Particulars | Rs. |
|---|---|---|---|---|
| To Opening Work-in-progress | | xxx | By Sale of Scrap | xxx |
| To Raw material Consumed: | | | By Closing Work-in-progress | xxx |
| Opening Stock | xxx | | By Trading Account | xxx |
| **Add:** Purchases | xxx | | (Cost of goods produced transferred) | |
| **Add:** Cartage Inward | xxx | | (b/f) | |
| **Add:** Freight Inward | xxx | | | |
| **Less:** Return Outward | xxx | | | |
| **Less:** Closing Stock. | xxx | xxx | | |
| To Wages | | xxx | | |
| To Salary of Works Manager | | xxx | | |
| To Power, Electricity & Water | | xxx | | |
| To Fuel | | xxx | | |
| To Postage & Telephone (factory) | | xxx | | |
| To Depreciation on: | | | | |
| Plant & Machinery | | xxx | | |
| Factory Land & Buildings | | xxx | | |
| To Repairs to: | | | | |
| Plant & Machinery | | xxx | | |
| Factory Land & Building | | xxx | | |
| To Insurance: | | | | |
| Plant & Machinery | | xxx | | |
| Factory Land & Building | | xxx | | |
| To Rent & Taxes | | xxx | | |
| To General Expenses (factory) | | xxx | | |
| To Royalty Expenses (factory) | | xxx | | |
| | | xxx | | xxx |

**Question :** What is a Manufacturing A/c? Give its specimen and Illustrate?

**Answer:**

- Manufacturing A/c shows cost of production, trading A/c and shows the gross profit or gross loss while, profit & loss A/c shows the net profit earned or net loss suffered by the organisation during a particular period.
- The cost of goods manufactured calculated from this account is transferred to trading A/c.
- This account is prepared by manufacturing firms in addition to other final A/c which have studied earlier.
- It shows manufacturing cost in detail for comparison with past years.

**Question 2:**

From the following particulars prepare manufacturing Account and Trading Account for the year ended 31st March, 2017.

| | | | |
|---|---|---|---|
| Opening stock of raw material | 10,000 | Closing stock of raw material | 4,000 |
| Opening stock of WIP | 7,000 | Closing stock of WIP | 8,000 |
| Purchases | 60,000 | Opening stock of finished goods | 5,000 |
| Return outward of raw material | 500 | Purchase of finished goods | 20,000 |
| Wages | 4,500 | Return outwards of finished goods | 1,500 |

| | | | |
|---|---|---|---|
| Gas & Fuel | 1,000 | Freight on finished goods | 600 |
| Factory Rent | 500 | Sale of finished goods | 1,20,000 |
| Power | s 600 | Return inwards finished goods | 2,000 |
| Consumable stores | 700 | Closing stock of finished goods | 8,000 |
| Freight on purchases | 1,800 | | |

**Solution:**

**Manufacturing A/c**
(for year ending 31.3.2017)

| Particulars | | Amount | Particulars | | Amount |
|---|---|---|---|---|---|
| To Opening stock: | | | By Closing stock: | | |
| Raw material | 10,000 | | Raw material | 4,000 | |
| WIP | 7,000 | 17,000 | WIP | 8,000 | 12,000 |
| To Purchases | | | By Trading A/c. | | 73,600 |
| Raw material | 60,000 | | (bf)(cost of finished goods) | | |
| Less: Return outward | 500 | 59,500 | | | |
| To Wages | | 4,500 | | | |
| To Gas & Fuel | | 1,000 | | | |
| To Factory rent | | 500 | | | |
| To Power | | 600 | | | |
| To Consumable stores | | 700 | | | |
| To Freight on raw material | | 1,800 | | | |
| | | 85,600 | | | 85,600 |

**Trading A/c**

| Particulars | | Amount | Particulars | | Amount |
|---|---|---|---|---|---|
| To Opening stock | | | By Sales | 1,20,000 | |
| (finished goods) | | 5,000 | Less: Return inwards | 2,000 | 1,18,000 |
| To Manufacturing A/c | | | By Closing stock | | |
| (Cost of finished goods) | | 73,600 | (finished goods) | | 8,000 |
| To Purchases | 20,000 | | | | |
| Less: Return outwards | 1,500 | 18,500 | | | |
| To Freight on finished goods | | 600 | | | |
| To Gross Profit | | 28,300 | | | |
| | | 1,26,000 | | | 1,26,000 |

**Question 3:** From the following particulars, prepare Manufacturing A/c for the year ended 31st December, 2017:

| | |
|---|---|
| Stock (1.1.2017) | 32,000 |
| Raw Material | 22,200 |
| Opening WIP | |
| Purchase of Material | 3,01,800 |
| Carriage inwards | 8,200 |
| Wages | 1,30,000 |
| Factory salary | 52,000 |
| Import duty | 16,200 |
| Depreciation on machine | 50,400 |
| Bad debts | 3,400 |

| | |
|---|---|
| Sundry Expenses (Factory) | 10,600 |
| **Stock 31.12.2017** | |
| Raw Material | 36,600 |
| Work in progress | 18,800 |

**Solution:**

**Manufacturing A/c**

(for year ending 31.12.2017)

| Particulars | | Amount | Particulars | Amount |
|---|---|---|---|---|
| To Opening WIP | | 22,200 | By Closing WIP | 18,800 |
| To Raw material Consumed: | | | By Trading A/c (bf) | |
| Opening stock | 32,000 | | (cost of finished goods) | 5,68,000 |
| **Add:** Purchases | 3,01,800 | | | |
| **Add:** Carriage | 8,200 | | | |
| **Add:** Import duty | 16,200 | | | |
| | 3,58,200 | | | |
| **Less:** Closing stock | 36,600 | 3,21,600 | | |
| To Wages | | 1,30,000 | | |
| To Factory Salary | | 52,000 | | |
| To Deprecation on machinery | | 50,400 | | |
| To Sundry expenses of Factory | | 10,600 | | |
| | | 5,86,800 | | 5,86,800 |

**Notes:**

Bad debts of Rs. 3,400 has not been considered for preparation of Manufacturing Account as it is a financial item and do not form part of cost of production.

**Question 4:** Mr. Vimal runs a factory which produces soaps. Following details were available in respect of his manufacturing activities for the year ended on 31.3.2016:

| | |
|---|---|
| Opening Work-in-Process (10,000 units) | 16,000 |
| Closing Work-in-Process (12,000 units) | 20,000 |
| Opening inventory of Raw Materials | 1,70,000 |
| Closing inventory of Raw Materials | 1,90,000 |
| Purchases | 8,20,000 |
| Hire charges of machine @ Rs. 0.60 per unit manufactured | |
| Hire charges of factory | 2,20,000 |
| Direct wages-Contracted @ Rs. 0.80 per unit manufactured and @ Rs. 0.40 per unit of Closing W.I.P. | |
| Repairs and Maintenance | 1,80,000 |
| Units produced – 5,00,000 units | |

**Required**: Prepare a Manufacturing Account of Mr. Vimal for the year ended 31.3.2016.

**Solution:**

In the Books of Mr. Vimal

Manufacturing Account for the Year ended 30.6.2016

| Particulars | | Units | Amount Rs. | Particulars | Units | Amount Rs. |
|---|---|---|---|---|---|---|
| To Opening Work- in-Process | | 10,000 | 16,000 | By Closing Work- in-Process | 12,000 | 20,000 |

| | | | | | | |
|---|---|---|---|---|---|---|
| To Raw Materials Consumed: | | | | By Trading A/c – Cost of finished goods transferred | 5,00,000 | 19,00,800 |
| Opening inventory | 1,70,000 | | | | | |
| Add: Purchases | 8,20,000 | | | | | |
| | 9,90,000 | | | | | |
| Inventory | (1,90,000) | | 8,00,000 | | | |
| To Direct Wages -W.N.(1) | | | 4,04,800 | | | |
| To Direct expenses: Hire charges on Machinery - W.N. (3) | | | 3,00,000 | | | |
| To Indirect expenses: Hire charges of Factory Shed | | | 2,20,000 | | | |
| Repairs Maintenance | | | 1,80,000 | | | |
| | | | 19,20,800 | | | 19,20,800 |

**Working Notes:**

(1) Direct Wages – 5,00,000 units @ Rs. 0.80 =Rs. 4,00,000

(2) 12,000 units @ Rs. 0.40 = Rs. 4,800

Rs. 4,04,800

(3) Hire charges on Machinery – 5,00,000 units @ Rs. 0.60 =Rs. 3,00,000

**Question 5:** Mr. Pankaj runs a factory which produces motor spares of export quality. The following details were obtained about his manufacturing expenses for the year ended on 31.3.2016.

| | | | Rs. |
|---|---|---|---|
| W.I.P. | - Opening | | 3,90,000 |
| | - Closing | | 5,07,000 |
| Raw Materials | - Purchases | | 12,10,000 |
| | - Opening | | 3,02,000 |
| | -Closing | | 3,10,000 |
| | - Returned | | 18,000 |
| | - Indirect material | | 16,000 |
| Wages | - direct | | 2,10,000 |
| | - indirect | | 48,000 |
| Direct expenses | - Royalty on production | | 1,30,000 |
| | | - Repairs and maintenance | 2,30,000 |
| | | - Depreciation on factory shed | 40,000 |
| | | - Depreciation on plant & machinery | 60,000 |
| By-product at | | | 20,000 |

| |
|---|
| selling price |

You are required to prepare Manufacturing Account of Mr. Pankaj for the year ended on 31.3.2016.

**Answer:**

In the Books of Mr. Pankaj
Manufacturing Account
for the year ended on 31.3.2016

| Particulars | | Amount Rs. | Particulars | Amount Rs. |
|---|---|---|---|---|
| To Opening W.I.P. | | 3,90,000 | By Closing W-I-P | 5,07,000 |
| To Raw Material Consumed: | | | By – products | 20,000 |
| Opening inventory | 3,02,000 | | By Trading A/c | 17,81,000 |
| Purchases | 12,10,000 | | Cost of finished | |
| | 15,12,000 | | goods transferred | |
| **Less:** Return | (18,000) | | | |
| | 14,94,000 | | | |
| **Less:** Closing inventory | (3,10,000) | 11,84,000 | | |
| To Direct Wages | | 2,10,000 | | |
| To Direct expenses: | | | | |
| Royalty | | 1,30,000 | | |
| **To Manufacturing Overhead:** | | | | |
| Indirect Material | 16,000 | | | |
| Indirect Wages Repairs & | 48,000 | | | |
| Maintenance | 2,30,000 | | | |
| Depreciation on | | | | |
| Factory Shed | 40,000 | | | |
| Depreciation on Plant & | | | | |
| Machinery | 60,000 | 3,94,000 | | |
| | | 23,08,000 | | 23,08,000 |

**Question 6:** Following are the Manufacturing A/c, Creditors A/c and Trading A/c provided by Ms. Shivi related to 2016-17. There are certain figures missing from these accounts.

**Raw Material A/c**

| Date | Particulars | Amount Rs. | Date | Particulars | Amount Rs. |
|---|---|---|---|---|---|
| | To Opening Stock A/c | 1,00,000 | | By Raw Material Consumed | ………………. |
| | To Creditors A/c | ………………. | | By Closing Stock A/c | ………………. |

**Creditors A/c**

| Date | Particulars | Amount Rs. | Date | Particulars | Amount Rs. |
|---|---|---|---|---|---|
| | To Bank A/c | 22,00,000 | | By Balance b/d | 15,00,000 |
| | To Balance c/d | 6,00,000 | | | |

**Manufacturing A/c**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|

| | Rs. | | Rs. |
|---|---|---|---|
| To Raw Material Consumed | …………………… | By Trading A/c | 17,94,000 |
| To Wages | 3,50,000 | | |
| To Depreciation | 2,00,000 | | |
| To Direct Expenses | 2,44,000 | | |

**Additional Information:**

1) Purchase of machinery worth Rs. 10,00,000 has been omitted. Machinery are chargeable at a depreciation rate of 10%.
2) Wages include the following:

Paid to Factory Workers – Rs. 3,00,000
Paid to labour at office – Rs. 50,000

3) Direct Expenses include following:

- Electricity charges of Rs. 80,000 of which 30% pertained to office.
- Fuel Charges of Rs. 20,000
- Freight Inwards of Rs. 35,000
- Delivery charges to customers – Rs. 20,000.

You are required to prepare revised Manufacturing A/c, and Raw Material A/c.

**Answer 2:**

**Manufacturing A/c**

| Particulars | Amount Rs. | Particulars | Amount Rs. |
|---|---|---|---|
| To Raw Material Consumed (Balancing Figure) | 10,00,000 | By Trading A/c (W.N. 4) | 18,00,000 |
| To Wages (W.N. 2) | 3,00,000 | | |
| To Depreciation (W.N. 1) | 3,00,000 | | |
| To Direct Expenses (W.N. 3) | 2,00,000 | | |
| | 18,00,000 | | 18,00,000 |

**Raw Material A/c**

| Date | Particulars | Amount Rs. | Date | Particulars | Amount Rs. |
|---|---|---|---|---|---|
| | To Opening Stock A/c | 1,00,000 | | By Raw Material Consumed (from Trading A/c above) | 10,00,000 |
| | To Creditors A/c (W.N. 5) | 13,00,000 | | By Closing Stock A/c (Balancing Figure) | 4,00,000 |
| | | 14,00,000 | | | 14,00,000 |

**Working Notes:**

(1) Since purchase of Machinery worth Rs. 10,00,000 has been omitted.

So, depreciation omitted from being charged = Rs. 10,00,000 x 10%

= Rs. 1,00,000

Correct total depreciation expense = Rs. (2,00,000 + 1,00,000)

=Rs.3,00,000

(2) Wages worth Rs. 50,000 will be excluded from manufacturing account as they pertain to office and hence will be charged P&L A/c.

(3) Expenses to be excluded from direct expenses:

| | |
|---|---|
| Office Electricity Charges (80,000 x 30%) | 24,000 |
| Delivery Charges to Customers | 20,000 |
| Total expenses not part of Direct Expenses | 44,000 |

=> Revised Direct Expenses = Rs. (2,44,000 – 44,000)

= Rs. 2,00,000

Fuel charges are related to factory expenses and also freight inwards are incurred for bringing goods to factory/ godown so they are part of direct expenses.

**(4) Revised Balance to be transferred to Trading A/c**

| **Particulars** | **Amount Rs.** |
|---|---|
| Current Balance transferred | 17,94,000 |
| **Add:** Depreciation charges not recorded earlier | 1,00,000 |
| **Less:** Wages related to Office | (50,000) |
| **Less:** Office Expenses | (44,000) |
| Revised balance to be transferred | 18,00,000 |

**(5) Creditors A/c**

| Date | Particulars | Amount Rs. | Date | Particulars | Amount Rs. |
|---|---|---|---|---|---|
| | To Bank A/c | 22,00,000 | | By Balance b/d | 15,00,000 |
| | To Balance c/d | 6,00,000 | | By Raw Materials A/c ( Bal. figure) | 13,00,000 |
| | | 28,00,000 | | | 28,00,000 |