

CA Foundation Accounts Test Series

Chapter 7 Preparation of Final Account of Sole Proprietors

1. The following is the Trial Balance of T on 31st March, 2018 :

	Dr. ₹	Cr. ₹
Capital	-	6,00,000
Drawings	70,000	-
Fixed Assets (Opening)	1,40,000	-
Fixed Assets (Additions 01.10.2018)	2,00,000	-
Opening Stock	60,000	-
Purchases	16,00,000	-
Purchases Returns	-	69,000
Sales	-	22,00,000
Sales Returns	99,000	-
Debtors	2,50,000	-
Creditors	-	2,20,000
Expenses	50,000	-
Fixed Deposit with Bank	2,00,000	-
Interest on Fixed Deposit	-	20,000
Cash	-	8,000
Suspense Ac	-	2,000
Depreciation	14,000	-
Rent (17 months upto 31.8.2018)	17,000	-
Investments 12% (01.8.2017)	2,50,000	-
Bank Balance	<u>1,69,000</u>	-
	<u>31,19,000</u>	<u>31,19,000</u>

Stock on 31st March, 2018 was valued at Rs 1,00,000. Depreciation is to be provided at 10% per annum on fixed assets purchased during the year. A scrutiny of the books of account revealed the following matters :

(i) Rs 20,000 drawn from bank was debited to Drawings account, but out of this amount withdrawn Rs 12,000 was used in the business for day-to-day expenses.

(ii) Purchase of goods worth Rs 16,000 was not recorded in the books of account upto 31.03.2018, but the goods were included in stock.

(iii) Purchase returns of Rs 1,000 was recorded in Sales Return Journal and the amount was correctly posted to the Party's A/c on the correct side.

(iv) Expenses include Rs 6,000 in respect of the period after 31st March, 2018.

Give the necessary Journal Entries in respect of (i) to (iv) and prepare the Final Accounts for the year ended 31st March, 2018.

Solution:

Journal Entries

	Particulars		Dr. (₹)	Cr. (₹)
(i)	Expenses A/c To Drawings (Entry for the amount wrongly debited to the latter A/c, now corrected)	Dr.	12,000	12,000
(ii)	Purchase A/c To Creditors (Entry for purchases not recorded)	Dr.	16,000	16,000
(iii)	Suspense A/c To Purchase Returns To Sales Returns (Rectification entry for amount wrongly entered in Sales Journal)	Dr.	2,000	1,000 1,000
(iv)	Prepaid Expenses A/c To Expenses (Prepaid expenses adjusted)	Dr.	6,000	6,000

**Trading, Profit and Loss Account of T
for the year ending 31st March, 2018**

<i>Dr.</i>		₹	<i>Cr.</i>		₹
To Opening Stock		60,000	By Sales	22,00,000	
To Purchases	16,00,000		Less: Sales Return		
Add: Amount not recorded	<u>16,000</u>		(99,000- 1,000)	<u>98,000</u>	21,02,000
	16,16,000		By Closing Stock		1,00,000
Less: Purchases Returns					
(60,000+1,000)	<u>70,000</u>	15,46,000			
To Gross Profit of		<u>5,96,000</u>			
		<u>22,02,000</u>			<u>22,02,000</u>
To Expenses (50,000 + 6,000 + 12,000)		68,000	By Gross Profit		5,96,000
To Rent (17,000 - 5,000)		12,000	By Interest on Fixed Deposit		20,000
To Depreciation	14,000		By Interest on Investments		20,000
Add: Further Depreciation	<u>10,000</u>	24,000			
$\left(2,00,000 \times \frac{10}{100} \times \frac{6}{12} \right)$			$\left(2,50,000 \times \frac{12}{100} \times \frac{8}{12} \right)$		
To Net Profit		<u>5,44,000</u>			
		<u>6,36,000</u>			<u>6,36,000</u>

Balance Sheet as on 31st March, 2018

<i>Liabilities</i>		₹	<i>Assets</i>		₹
Capital	6,00,000		Fixed Assets	1,40,000	
Add: Profit	5,44,000		Additions	<u>2,00,000</u>	
Less: Drawings				3,40,000	
(70,000 - 12,000)	<u>58,000</u>	10,86,000	Less: Depreciation	<u>10,000</u>	3,30,000
Creditors	2,20,000		Stock		1,00,000
Add: Purchases not recorded	<u>16,000</u>	2,36,000	Debtors		2,50,000
Overdraft		8,000	Investments		2,50,000
			Interest accrued		20,000
			Bank fixed deposit		2,00,000
			Prepaid Expenses (6000+5000)		11,000
			Bank		<u>1,69,000</u>
		<u>13,30,000</u>			<u>13,30,000</u>

2. The following are the balances as at 31st March, 2017 extracted from the books of Mr. XYZ.

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

Additional Information:

- Purchases include sales return of Rs 2,575 and sales include purchases return of Rs 1,725.
- Goods withdrawn by Mr. XYZ for own consumption Rs 3,500 included in purchases
- Wages paid in the month of April for installation of plant and machinery amounting to Rs 450 were included in wages account.
- Free samples distributed for publicity costing Rs 825.
- Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
- Depreciation is to be provided on plant and machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.
- Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2017 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2017, and a Balance Sheet as on that date. Also show the rectification entries

Solution:**Rectification Entries**

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

**Trading and Profit and Loss Account of Mr. XYZ
for the year ended 31st March, 2017**

Dr.		Amount		Cr.		Amount	
		₹	₹			₹	₹
To	Opening stock		32,250	By	Sales	2,13,575	
To	Purchases	1,53,100			Less: Sales return		2,11,000
	Less: Purchases return	1,725	1,51,375	By	Closing stock	2,575	
To	Carriage inward		1,125				1,25,000
To	Wages		11,715				
To	Gross profit c/d		1,39,535				
			<u>3,36,000</u>				<u>3,36,000</u>
To	Salaries		22,550	By	Gross profit b/d		1,39,535
To	Rent		4,300	By	Bad debts recovered		450
To	Advertisement expenses		4,175				
To	Printing and stationery		1,250				
To	Bad debts		1,100				
To	Carriage outward		1,350				
To	Provision for doubtful debts						
	5% of ₹ 1,20,000	6,000					
	Less: Existing provision 3,200		2,800				
To	Provision for discount on						

	debtors				
	2.5% of ₹ 1,14,000	2,850			
	Less: Existing provision	<u>1,375</u>	1,475		
To	Depreciation:				
	Plant and machinery	3,000			
	Furniture and fittings	<u>1,025</u>	4,025		
To	Office expenses		10,160		
To	Interest on loan		3,000		
To	Net profit (Transferred to capital account)				
		<u>83,800</u>			
		<u>1,39,985</u>			<u>1,39,985</u>

Balance Sheet of Mr. XYZ as on 31st March, 2017

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

3. The following is the trial balance of Manan as at 31st March 2020

	Dr.	Cr.
	₹	₹
Manan's capital account	-	1,53,380
Stock 1st April, 2019	93,600	-
Sales	-	7,79,200
Returns inward	17,200	-
Purchases	6,43,400	-
Returns outward	-	11,600
Carriage inwards	39,200	-
Rent & taxes	9,400	-
Salaries & wages	18,600	-
Sundry debtors	48,000	-
Sundry creditors	-	29,600
Bank loan @ 14% p.a.	-	40,000
Bank interest	2,200	-
Printing and stationary expenses	28,800	-
Bank balance	16,000	-
Discount earned	-	8,880
Furniture & fittings	10,000	-
Discount allowed	3,600	-
General expenses	22,900	-
Insurance	2,600	-
Postage & telegram expenses	4,660	-
Cash balance	760	-
Travelling expenses	1,740	-
Drawings	60,000	-
	<u>10,22,660</u>	<u>10,22,660</u>

The following adjustments are to be made:

- (1) Included amongst the debtors is Rs 6,000 due from Rahul and included among the creditors Rs 2,000 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 Manan amounting to Rs 1200 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 stationary expenses is to be carried forward to the next year.
- (7) Credit purchase invoice amounting to Rs 800 had been omitted from the books.
- (8) Stock on 31st March 2020 was Rs 1,57,200.

Prepare (i) Trading & profit and loss account for the year ended 31.3.2020 and (ii) Balance sheet as on 31st March, 2020.

Solution:

**Trading and Profit and Loss Account of Mr. Manan
for the year ended 31st March, 2020**

Particulars	₹	Amount ₹	Amount ₹	₹
To Opening stock		93,600	By Sales	7,79,200
To Purchases	6,43,400		Less: Returns	<u>17,200</u>
Add: Omitted invoice	<u>800</u>		By Closing stock	1,57,200
	6,44,200			
Less: Returns	<u>11,600</u>			
	6,32,600			
Less: Drawings	<u>1,200</u>	6,31,400		
To Carriage		39,200		
To Gross profit c/d		<u>1,55,000</u>		
		<u>9,19,200</u>		<u>9,19,200</u>
To Rent and taxes		9,400	By Gross profit b/d	1,55,000
To Salaries and wages		18,600	By Discount	8,880
To Bank interest	2,200			
Add: Due	<u>3,400</u>	5,600		
To Printing and stationary	28,800			
Less: Prepaid (1/4)	<u>7,200</u>	21,600		

To Discount allowed	3,600	
To General expenses	22,900	
To Insurance	2,600	
To Postage & telegram expenses	4,660	
To Travelling expenses	1,740	
To Provision for bad debts [W.N.(2)]	2,300	
To Provision for discount on debtors [W.N.(2)]	874	
To Depreciation on furniture & fittings	1,000	
To Net profit	<u>69,006</u>	
	<u>1,53,880</u>	<u>1,63,880</u>

Balance Sheet of Manan as at 31st March, 2020

Liabilities	₹	₹	Assets	₹	₹
Capital	1,53,380		Furniture & fittings	10,000	
Add: Net profit	<u>69,006</u>		Less: Depreciation	<u>1000</u>	9,000
	2,22,386		Sundry debtors (W.N.1)	46,000	
Less: Drawings:			Less: Provision for bad & doubtful debts (W.N.2)	<u>2,300</u>	
Cash 60,000				43,700	
Goods 1,200	<u>61,200</u>	1,61,186	Less: Provision for discount (W.N.2)	<u>874</u>	42,826
Bank loan	40,000		Stock		1,57,200
Bank interest due	3,400		Prepaid expenses:		
Sundry creditors (W.N.3)	28,400		Printing & stationery		7,200
			Bank balance		16,000
			Cash balance		<u>760</u>
		<u>2,32,986</u>			<u>2,32,986</u>

Working Notes:

(1) Sundry debtors

Balance as per trial balance	48,000
Less: Due to Rahul	<u>2,000</u>
	<u>46,000</u>

(2) Provision for bad & doubtful debts:

@ 5% on Rs 46,000	<u>2,300</u>
Provision for discount:	
2% on Rs 43,700 (46,000 - 2,300)	<u>874</u>

(3) Sundry creditors

Balance as per trial balance	29,600
Less: Set off in respect of Rahul	<u>2,000</u>
	<u>27,600</u>
Add: Purchase invoice omitted	<u>800</u>
	<u>28,400</u>

4. The balance sheet of Mittal on 1st January, 2018 was as follows:

Liabilities	Amount ₹	Assets	Amount ₹
Trade payables	16,00,000	Plant & Machinery	31,00,000
Expenses payable	2,50,000	Furniture & Fixture	4,00,000
Capital	51,00,000	Trade receivables	14,50,000
		Cash at bank	7,00,000
		Inventories	13,00,000
	<u>69,50,000</u>		<u>69,50,000</u>

During 2018, his profit and loss account revealed a net profit of Rs 15,10,000. This was after allowing for the following:

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

(ii) Depreciation on plant and machinery @ 10% p.a. and on Furniture and Fixtures @ 5% p.a..

(iii) A provision for Doubtful debts @ 5% of the trade receivables as at 31st December 2018.

But while preparing the profit and loss account he had forgotten to provide for (1) outstanding expenses totalling Rs 1,85,000 and (2) prepaid insurance to the extent of Rs 25,000.

His current assets and liabilities on 31st December, 2018 were: Trade receivables Rs 21,00,000; Cash at bank Rs 5,20,000 and Trade payables Rs 13,84,000. During the year he withdrew Rs 6,20,000 for domestic use. Closing inventories is equal to net trade receivables at the year-end.

You are required to draw up revised Profit and Loss account and Balance Sheet at the end of the year

Solution:

Profit and Loss Account (Revised)

Particulars	₹	Particulars	₹
To Outstanding expenses	1,85,000	By Balance b/d	15,10,000
To Net profit	13,50,000	By Prepaid insurance	25,000
	15,35,000		15,35,000

**Balance Sheet of Mittal
as on 31st December, 2018**

Liabilities		₹	Assets	₹	₹
Capital	51,00,000		Cash at Bank		5,20,000
Add: Net Profit	13,50,000		Trade receivables	21,00,000	
	64,50,000		Less: Provision for doubtful debts	(1,05,000)	19,95,000
Less: Drawings	(6,20,000)		Plant and Machinery	31,00,000	
	58,30,000		Less: Depreciation	(3,10,000)	27,90,000
Add: Interest on capital	3,06,000	61,36,000	Furniture & Fixtures	4,00,000	
Outstanding expenses		1,85,000	Less: Depreciation	(20,000)	3,80,000
Trade payables		13,84,000	Inventories		19,95,000
			Prepaid insurance		25,000
		77,05,000			77,05,000

5. An inexperienced book keeper has drawn up a Trial balance for the year ended 31st March, 2019.

Particulars	Debit (₹)	Credit (₹)
Provision for Doubtful Debts	250	-
Cash Credit Account	1,654	-
Capital	-	4,591
Trade payables	-	1,637
Due from customers	2,983	-
Discount Received	252	-
Discount Allowed	-	733
Drawings	1,200	-
Office Furniture	2,155	-
Carriage Inward	-	829
Purchases	10,923	-
Returns Inward	-	330
Rent & Rates	314	-
Salaries	2,520	-
Sales	-	16,882
Inventory	2,113	-
Provision for Depreciation on Furniture	364	-
Total	25,033	25,002

Draw up a corrected Trial Balance by debiting or crediting any residual errors to a suspense account.

Solution:

Trial Balance as on 31st March, 2019

Heads of Accounts	Dr. ₹	Cr. ₹
Provision for Doubtful Debts	–	250
Cash credit account (Bank overdraft)	–	1,654
Capital	–	4,591
Trade payables	–	1,637
Dues from customers	2,983	–
Discount Received	–	252
Discount allowed	733	–
Drawings	1,200	–
Office furniture	2,155	–
Carriage inward	829	–
Purchases	10,923	–
Returns Inward	330	–
Rent & Rates	314	–
Salaries	2,520	–
Inventory*	2,418	–
Provision for Depreciation on Furniture	–	364
Sales	–	16,882
Suspense Account (Balancing figure)	1,225	–
Total	25,630	25,630

* considered as opening inventory.