

Chapter 8: Single entry System

Question: 1

Answer the following question in one sentence only.
What is single entry system?

Solution: 1

A bookkeeping system that only records one aspect of each business transaction. i.e. either debit or credit is called single entry system.

Solution: 2

Single entry system is a system of book keeping in which incomplete records are maintained. Under this system, records of only cash and personal accounts are maintained. There are no defined set of rules to be followed. It is particularly suitable for small businesses with a limited number of transactions. Accounts maintained under this system are known as incomplete double-entry records.

Solution: 3

A bookkeeping system that only records one aspect of each business transaction. i.e. either debit or credit is called single entry system.

Question: 2

Answer in one sentence only.
What is statement of affairs?

Solution

A statement of affairs is basically a statement of capital, showing assets and liabilities as on the date of its preparation. There are two such statements, i.e. Opening Statement of Affairs (to ascertain the opening capital) and Closing Statement of Affairs (to ascertain the closing capital).

Question: 3

Answer in one sentence only
In which method statement of affairs is prepared?

Solution

Under single-entry system, real accounts are not recorded in the books; therefore, it is not possible to prepare the Balance Sheet of the business. Hence, under this system, a statement of affairs is prepared.

Question: 4

Answer in one sentence only.
Which type of transactions are recorded in Single Entry System?

Solution

Only transactions related to cash and personal accounts are maintained and recorded under this system of accounting. Transactions related to real and nominal accounts are ignored.

Question: 5

Answer in one sentence only.

Can a trial balance be prepared under Single Entry System?

Solution

As incomplete records are maintained under single-entry system, only few transactions are recorded. Only cash and personal accounts are maintained, whereas real and nominal accounts are ignored. Also, no set rules are followed to record the transactions. Hence, a Trial Balance cannot be prepared.

Question: 6

Answer in one sentence only.

Which type of accounts are maintained under Single Entry System?

Solution: 1

Cash book and personal accounts are maintained under this method.

Solution: 2

Under single-entry system, only a few transactions are recorded. Hence, only personal and cash accounts are maintained and no set rules are followed.

Question: 7

Write the word / term / phrase which can substitute the following Statement.
A statement similar to Balance Sheet.

Solution**Statement of Affairs**

Explanation: A statement of affairs shows various assets and liabilities of a business on a particular date. It can be prepared with both opening and closing balances. A statement prepared with the opening assets and liabilities is known as Opening Statement of Affairs (to ascertain opening capital). Similarly, a statement prepared with the closing assets and liabilities is known as Closing Statement of Affairs (to ascertain closing capital). It is similar to Balance Sheet prepared under double-entry system.

Question: 8

Answer in one sentence only.

Why is it difficult to ascertain the correct profit or loss under Single Entry system?

Solution

As the records maintained under single-entry system are incomplete, detailed information about expenses is not available. Hence, it becomes difficult to ascertain the true profits earned/losses incurred during an accounting period.

Question: 9

Answer in one sentence only.

How is the closing capital calculated under Single Entry System?

Solution

Under single-entry system, closing capital is based on the estimated values of assets and liabilities at the end of the year. It is calculated as the difference between closing liabilities and closing assets.

Question: 9

Answer in one sentence only.

Which Statement is prepared under the Single Entry System to ascertain profit?

Solution

Statement of Profit or Loss is prepared to calculate the profit under single-entry system. The profit is calculated as follows:

Capital at the end

Add: Drawings made during the year

Less: Additional Capital introduced during the year

Less: Capital in the beginning

Profit or loss for the year

Question: 10

Answer in one sentence only.

Which types of accounts are normally not kept under Single Entry System?

Solution

Real and nominal accounts are not maintained under single-entry system. Only cash and personal accounts are recorded under this system. Single-entry is an incomplete system of recording transactions and is considered to be suitable for small organisations. Therefore, only entries related to personal and cash accounts are recorded, while others are ignored.

Question: 11

Write the word / term / phrase which can substitute the following Statement.

A system of book-keeping in which both the aspects of transaction are recorded.

Solution

Double entry system

Explanation: In contrast to single-entry system, under double-entry system, the dual aspect of each transaction is recorded. In other words, debit and credit aspects of nominal, real and personal accounts are recorded. Therefore, this system is considered more reliable and scientific.

Question: 12

Write the word / term / phrase which can substitute the following Statement.
An excess of assets over liabilities.

Solution

Capital

Explanation: Excess of assets over liabilities is known as capital. Opening capital is calculated by deducting opening liabilities from opening assets and closing capital is calculated by deducting closing liabilities from closing assets.

Question: 13

Write the word / term / phrase which can substitute the following Statement.
A system of accounting which is not scientific.

Solution

Single entry system

Explanation: Single-entry system is an incomplete and unscientific system of accounting. Only personal and cash accounts are maintained under it. This system is mostly suitable for small-scale businesses with limited number of transactions. Moreover, there are no set rules prescribed for recording transactions under this system.

Question: 14

Write the word / term / phrase which can substitute the following Statement.
Name the method in which only cash and personal transactions are recorded.

Solution

Single entry system

Explanation: Under single-entry system, only cash and personal accounts are maintained, while real and nominal accounts are ignored. It is an incomplete and unscientific system, as incomplete accounts are maintained with no proper rules adopted for recording of transactions.

Question: 15

Write the word / term / phrase which can substitute the following Statement.
The method in which Trading Account, Profit and Loss Account and Balance Sheet can be prepared.

Solution

Double entry system

Explanation: Under double-entry system, Trading Account, Profit & Loss Account and Balance Sheet form part of financial statements. Hence, both of these are prepared at the end of accounting period.

Question: 16

Write the word / term / phrase which can substitute the following Statement.
A statement similar to Balance Sheet.

Solution

Statement of Affairs

Explanation: A statement of affairs shows various assets and liabilities of a business on a particular date. It can be prepared with both opening and closing balances. A statement prepared with the opening assets and liabilities is known as Opening Statement of Affairs (to ascertain opening capital). Similarly, a statement prepared with the closing assets and liabilities is known as Closing Statement of Affairs (to ascertain closing capital). It is similar to Balance Sheet prepared under double-entry system.

Question: 17

Write the word / term / phrase which can substitute the following Statement.
A statement similar to Balance Sheet prepared to ascertain the amount of closing capital.

Solution

Closing Statement of Affairs

Explanation: The amount of closing capital is calculated by preparing a Closing Statement of Affairs by deducting the total closing liabilities from the total closing assets.

Question: 18

Write the word / term / phrase which can substitute the following Statement.
System of accounting normally suitable to small business organization.

Solution

Single entry system

Explanation: Generally, small businesses lack the required experience in recording transactions in a scientific and systematic manner. Allocation of funds for maintenance of complete accounting records is difficult for them. So, it is desirable for them to maintain incomplete records and ascertain the profit or loss. This is known as single-entry system and is particularly suitable for small-scale business organisations that have small number of transactions.

Question: 19

Write the word / term / phrase which can substitute the following Statement.
The accounting method in which profit is calculated by comparing opening and closing statements of affairs.

Solution

Net Worth Method

Explanation: Under single-entry system, profit or loss is calculated by comparing capital at two dates, i.e. opening capital and closing capital. The profit is calculated as closing capital less opening capital and also, the following adjustments are made:

- a. Drawings: If drawings are made during the year, they should be added to the amount of closing capital.
- b. Additional capital: If additional capital is introduced in the business during the year, it should be deducted from the amount of closing capital.
- c. Interest on capital: If interest is provided on capital, it should be deducted from the amount of closing capital.

Question: 20

Write the word / term / phrase which can substitute the following Statement.
The system of accounting which is most scientific and reliable.

Solution

Double entry system

Explanation: Under single-entry system, only cash and personal accounts are maintained. Dual aspect, i.e. double-entry system, is not followed. Hence, single-entry system is considered unscientific and incomplete. On the other hand, double-entry system is considered as a more scientific and complete system of accounting because dual aspect of a transaction (i.e. both debit and credit aspects of a transaction) is recorded. Transactions related to real, personal and nominal accounts are recorded. Hence, it is considered more reliable.

Question: 21

Write the word / term / phrase which can substitute the following Statement.

When Closing Capital is greater than Opening Capital it denotes _____

Options

- profit
- loss
- no profit, no loss
- assets.

Solution

When Closing Capital is greater than Opening Capital it denotes **profit.**

Explanation: The formula to calculate closing capital is 'Opening Capital + Profit'. Hence, when closing capital is greater than opening capital, it denotes profit. However, if the closing capital is less than the opening capital, it denotes loss.

Question: 22

Write the word / term / phrase which can substitute the following Statement.

Generally incompleting records are maintained by _____

Options

- trader
- company
- society
- government

Solution

Generally incompleting records are maintained by **trader.**

Explanation: Incomplete records, i.e. records based on the lines of single-entry system, are usually maintained by a trader. Incomplete records may be due to partial recording of transactions, as is the case with small shopkeepers such as grocers and vendors. Companies, societies and governments are required to maintain accounts based on double-entry system, owing to the size of their business.

Question: 23

Select the most appropriate answer the alternatives given below and rewrite the Sentence.

The capital in the beginning of the accounting year is ascertained by preparing_____.

Options

- Receipts and Payment Account
- Cash Account
- Statement of Profit or loss
- Opening Statement of Affairs

Solution

The capital in the beginning of the accounting year is ascertained by preparing **opening statement of affairs.**

Explanation: For determining the opening capital, the statement of affairs is prepared on the opening date. The opening capital will be the balancing figure, which is calculated by deducting the total opening liabilities from the total opening assets.

Question: 24

Select the most appropriate answer the alternatives given below and rewrite the Sentence.

Under Single entry System only _____.

Options

- Personal accounts and cash A/c are opened
- Real accounts are opened
- Nominal accounts are opened
- Real and nominal accounts are opened

Solution

Under Single entry System only **personal accounts and cash A/c are opened.**

Explanation: Real and nominal accounts are not maintained under single-entry system. Only personal and cash accounts and the cash and credit transactions (related to personal accounts) are recorded under this system.

Question: 25

State True or False.

Under Single Entry System it is not possible to prepare Trial Balance.

Options

- True
- False

Solution

True

Explanation: As incomplete records are maintained under this system, it is not possible to prepare a Trial Balance. Only transactions related to cash and personal accounts are recorded under single-entry system, while transactions related to real and nominal accounts are ignored. Hence, it is difficult to prepare a Trial Balance.

Question: 26

Select the most appropriate answer the alternatives given below and rewrite the Sentence

The Capital balances are ascertained by preparing _____.

Options

- Statement of affairs
- Cash Account
- Drawing account
- Debtors Account

Solution

The Capital balances are ascertained by preparing **Statement of Affairs.**

Explanation: It is a statement showing various assets and liabilities of the business on a particular date. It can be prepared with both opening and closing balances. A statement prepared with opening assets and liabilities is known as Opening Statement of Affairs (to ascertain the opening capital). Similarly, a statement prepared with closing assets and liabilities is known as Closing Statement of Affairs (to ascertain the closing capital).

Question: 27

Select the most appropriate answer the alternatives given below and rewrite the Sentence

Further capital introduced during the year is _____ from closing capital in order to find-out the correct profit.

Options

- added
- deducted
- divided
- ignored

Solution

Further capital introduced during the year is **deducted** from closing capital in order to find out the correct profit.

Explanation: Under single-entry system, profit or loss is calculated by comparing capital at two dates, i.e. opening capital and closing capital (net worth method). The profit is calculated as closing capital less opening capital and also, the following adjustments are made:

a. Drawings: If drawings are made during the year, they should be added to the amount of closing capital.

b. Additional capital: If additional capital is introduced in the business during the year, it should be deducted from the amount of closing capital.

c. Interest on capital: If interest is provided on capital, it should be deducted from the amount of closing capital.

Question: 28

Select the most appropriate answer the alternatives given below and rewrite the Sentence

In statement of profit or loss interest on Capital is shown as _____.

Options

- addition
- subtraction
- ignored
- multiplied

Solution

In statement of profit or loss interest on Capital is shown as **subtraction.**

Explanation: Under net worth method, if interest on capital is provided, then it is shown by way of deduction (or subtraction) from the closing capital.

Question: 29

Select the most appropriate answer the alternatives given below and rewrite the Sentence.

If Opening Capital is Rs 40,000, Closing Capital is 90,000 Rs, Withdrawals is Rs 5,000 and additional Capital brought in is Rs 10,000 Profit is Rs _____.

Options

- 45,000
- 55,000
- 35,000
- 75,000

Solution

If Opening Capital is Rs 40,000, Closing Capital is Rs 90,000, Withdrawals is Rs 5,000 and additional Capital brought in is Rs 10,000 Profit is Rs **45,000.**

Explanation: Closing Capital = Opening Capital + Profit – Withdrawals + Additional Capital Introduced

Putting the respective values, we get:

$$90,000 = 40,000 + \text{profit} - 5,000 + 10,000$$

$$\text{Profit} = 90,000 - 45,000 = \mathbf{45,000.}$$

Question: 30

Select the most appropriate answer the alternatives given below and rewrite the Sentence.

Under Single Entry System Opening Capital = Opening Assets Less _____.

Options

- Closing Assets
- Opening Liabilities
- Opening Assets
- Closing Liabilities

Solution

Under Single Entry System Opening Capital = Opening Assets Less **Opening Liabilities.**

Explanation: Opening Capital is calculated by deducting the total opening liabilities from the total opening assets.

Question: 31

State True or False.

Statement of profit is just like Profit and Loss Account.

Options

- True
- False

Solution

False

Explanation: Statement of Profit is not like Profit and Loss Account. It is calculated as shown:

Capital at the end

Add: Drawings made during the year

Less: Additional Capital introduced during the year

Less: Capital in the beginning

Profit or loss for the year

Profit and Loss Account consists of expenses incurred and income earned during the accounting period, whereas Statement of Profit or Loss is prepared to calculate the profit earned or loss suffered (using Opening and Closing Capital).

Question: 32

State True or False.

Single Entry System is based on certain rules and principles.

Options

- True
- False

Solution

False

Explanation: No set rules are followed to record transactions under single-entry system. Only cash and personal accounts are maintained without any prescribed rules. Thus, it is also known as a system of incomplete records

Question: 33

State True or False.

All transactions are recorded in Single Entry System.

Options

- True
- False

Solution

False

Explanation: Under this system, transactions related to only cash and personal accounts are recorded. However, transactions related to real and nominal accounts are ignored. So, in that sense, incomplete records are maintained.

Question: 34

State True or False.

Arithmetical accuracy can't be checked in single entry.

Options

- True
- False

Solution

True

Explanation: Under single-entry system, it is difficult to prepare Trial Balance from incomplete records. As Trial Balance cannot be prepared, arithmetical accuracy cannot be assured.

Question: 35

State True or False.

Under Single Entry System it is not possible to prepare Trial Balance.

Options

- True
- False

Solution

True

Explanation: As incomplete records are maintained under this system, it is not

possible to prepare a Trial Balance. Only transactions related to cash and personal accounts are recorded under single-entry system, while transactions related to real and nominal accounts are ignored. Hence, it is difficult to prepare a Trial Balance.

Question: 36

State True or False.

Only cash transactions and personal transactions are recorded in Single entry.

Options

- True
- False

Solution

True

Explanation: Only transactions related to cash and personal accounts are recorded under single-entry system. Real and nominal accounts are ignored. As accounts under single-entry are maintained by small businesses with limited number of transactions, incomplete records are maintained under this system.

Question: 37

State True or False.

Drawings made during the year decreases the profit under single entry system.

Options

- True
- False

Solution

False

Explanation: Under single-entry system, drawings made during the year are added to the capital at the end of the year in order to arrive at the profit figure. Hence, drawings made during the year increase the profit under this system.

Question: 38

State True or False.

Statement of profit shows financial position of business.

Options

- True
- False

Solution

False

Explanation: Under single-entry system, statement of profit shows the results of business activities. Instead, the financial position of a business is disclosed by preparing the statement of affairs.

Question: 39

State True or False.

Double Entry System is scientific method of maintaining books of accounts.

Options

- True
- False

Solution

True

Explanation: Double-entry system is a scientific system because the entries are recorded taking into account the dual aspect, i.e. the debit and credit aspects of each transaction. Also, under this system, transactions related to all the accounts (i.e. real, nominal and personal) are recorded. Hence, the accounts maintained under this system are complete and reliable.

Question: 40

State True or False.

Single Entry System is not useful for large business.

Options

- True
- False

Solution

True

Explanation: Single-entry system, i.e. a system of incomplete records, is usually followed by traders engaged in small businesses. It maintains records only of personal accounts and cash account. Moreover, the dual aspect of a

transaction is ignored under this system. Therefore, it is not desirable to adopt this system for large business firms completing numerous transactions.

Question: 41

Mr. Mangesh is dealing in business. He maintains his accounting with Single Entry. The following are details of his business.

Particulars	01-04-2012	31-03-2013
Land and Building	40,000	50,000
Machinery	30,000	40,000
Furniture	10,000	10,000
Debtors	20,000	40,000
Stock	10,000	25,000
Cash Balance	5,000	15,000
Bills Receivable	5,000	5,000
Creditors	25,000	25,000
Bank Overdraft	5,000	-
Bank Balance	-	10,000

Mr. Mangesh introduced Rs 10,000 as additional Capital. He spent Rs 45,000 for personal use Depreciate Land and Building by Rs 5,000. Provide 5% R.D.D. on Debtors.

Prepare: Opening Statement of affairs, Closing Statement of affairs and the statement of profit or loss.

Solution

Statement of Affairs as on April 01,2012

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	25,000	Cash in Hand	5,000
Bank Overdraft	5,000	Machinery	30,000
Capital (Balancing Figure)	90,000	Land and Building	40,000
		Furniture	10,000
		Debtors	20,000
		Stock	10,000
		Bills Receivable	5,000

		Prepaid Expenses	-
	120,000		120,000

Statement of Affairs

as on March 31,2013

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	25,000	Cash balance	15,000
Capital (Balancing Figure)	1,70,000	Bank Balance	10,000
		Machinery	40,000
		Land and Building	50,000
		Furniture	10,000
		Debtors	40,000
		Stock	25,000
		Bills Receivable	5,000
		Prepaid Expenses	-
	195,000		195,000

Statement of Profit or Loss

for the year ended March 31,2013

Particulars	Amount (Rs.)
Capital at the end of the year	170,000
Add: Drawings made during the year	45,000
Less: Additional capital introduced during the year	(10,000)
Adjusted capital at the end of the year	205,000
Less: Capital in the beginning of the year	(90,000)
	115,000
Less: Depreciation on Land and Building	(5,000)
Reserve for Doubtful Debts	(2,000)
Profit for the year	108,000

Working Notes:

Reserve for Doubtful Debts = $40,000 \times 5/100 = \text{Rs.}2,000$.

Question: 42

Mrs. Ankita keeps her books under Single Entry System and gives the following information.

Particulars	01-04-2011	31-03-2012
Investments	-	12,000
Bank Overdraft	-	10,000
Bills Payable	5,000	8,000
Creditors	26,500	31,500
Furniture	9,000	19,000
Debtors	35,000	50,000
Stock in Trade	15,000	19,000
Bank Balance	18,000	28,000

Mrs. Ankita withdrew Rs 4,000 for her personal use. She received Rs 15,000 from her father as gift, which she brought into the business.

Additional furniture was purchased on 1st October 2011. Depreciate furniture by 10% p.a. Write off Rs 1,000 as bad and provide 5% R.D.D. on debtors.

Find the profit or loss of her business for the year ended 31st March, 2012.

Solution

Statement of Affairs

as on April 01, 2011

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Bills Payable	5,000	Bank Balance	18,000
Creditors	26,500	Furniture	9,000
Capital (Balancing Figure)	45,500	Debtors	35,000
		Stock	15,000
	77,000		77,000

Statement of Affairs

as on March 31, 2012

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Bills Payable	8,000	Bank Balance	28,000

Creditors	31,500	Furniture	19,000
Bank Overdraft	10,000	Debtors	50,000
Capital (Balancing Figure)	78,500	Stock	19,000
		Investments	12,000
	128,000		128,000

Statement of Profit or Loss

for the year ended March 31,2012

Particulars	Amount (Rs)
Capital at the end of the year	78,500
Add: Drawings made during the year	4,000
Less: Additional capital introduced during the year	(15,000)
Adjusted capital at the end of the year	67,500
Less: Capital in the beginning of the year	(45,500)
	22,000
Less: Depreciation on Furniture	(1,400)
Bad-Debts	(1,000)
Reserve for Doubtful Debts	(2,450)
Profit for the year	17,150

Working Notes:

WN1: Calculation of Depreciation on Furniture:

Depreciation on Furniture for 6 months (Apr. 01,2011 - Oct.01,2011) = $9,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs. } 450$

Depreciation on Furniture for 6 months (Oct.01,2011 - Mar.31,2012) = $19,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs. } 950$

Total Depreciation on charged on Furniture = $450 + 950 = \text{Rs. } 1,400$.

WN2: Calculation of Reserve for Doubtful Debts:

Reserve for Doubtful Debts = $49,000 \times \frac{5}{100} = \text{Rs. } 2,450$.

Question: 43

Miss Kavita Commenced her business with a Capital of Rs 1,30,000 on 1st April 2010. Her financial Position was as follows as on 31st March, 2011, Cash Rs 9,120, Stock Rs 10,250, Bills Payable Rs 12,880, Creditors Rs 17,180, Debtors Rs 31,550, Bill Receivable Rs 29,120, Premises Rs 85,750, Vehicles Rs 40,250.

Additional Information:

- 1) She brought additional capital Rs 20,000 on 30th September 2010. Interest on capital is to be provided at 5% p.a.
- 2) She withdrew Rs 10,000 for personal use on which interest is to be charged at 6% p.a.
- 3) R.D.D. is to be provided at 2½% p.a. after providing bad debts Rs 1,000.
- 4) Depreciate Vehicles at 2% and Premises at 4%.

Solution

Statement of Affairs

as on March 31,2011

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Bills Payable	12,880	Cash in Hand	9,120
Creditors	17,180	Stock	10,250
Capital (Balancing Figure)	1,75,980	Debtors	31,550
		Premises	85,750
		Vehicle	40,250
		Bills Receivable	29,120
		Prepaid Expenses	-
	206,040		206,040

Statement of Profit or Loss

for the year ended March 31,2011

Particulars	Amount (Rs)
Capital at the end of the year	175,980
Add: Drawings made during the year	10,000
Less: Additional capital introduced during the year	(20,000)
Adjusted capital at the end of the year	165,980
Less: Capital in the beginning of the year	(130,000)
	35,980

Add: Interest on Drawings	300
Less: Interest on Capital	(7,000)
Bad-Debts	(1,000)
Reserve for Douthful Debt(30,550 x 2.5/100)	(764)
Depreciation on Premises	(3430)
Depreciation on Vehicle	(805)
Profit for the year	23,281

Working Notes:

WN1: Calculation of Depreciation on Premises and Vehicle:

Depreciation on Premises = $85,750 \times 4/100 = \text{Rs. } 3,430$

Depreciation on Vehicle = $40,250 \times 2/100 = \text{Rs. } 805.$

WN2: Calculation of Interest on Capital:

Interest on Capital (on Rs. 130,000) = $130,000 \times 5/100 = \text{Rs. } 6,500.$

Interest on Capital (on Rs. 20,000 for 6 months) = $20,000 \times 5/100 \times 6/12 = \text{Rs. } 500.$

Therefore, Total Interest on Capital = $\text{Rs. } 7,000 (6,500 + 500)$

WN3 :Calculation of Interest on Drawings:

Interest on Drawing = $10,000 \times 6/100 \times 6/12 = \text{Rs. } 300.$

Notes:

1. When date of drawings is not mentioned, then interest on drawings is to be charged for 6 months.
2. As per the book, the Profit as per Statement is Rs 22,620 but according to our solution it should be Rs 23,281.

Question: 44

Mahendra Keeps his books by Single Entry System. His position on 1st April 2012, was as follows : Cash in Hand Rs 7,900, Cash at Bank Rs 20,000, Debtors Rs 18,000. Stock Rs 29,000, Motor Car Rs 5,000, Bank Loan Rs 18,000 and Outstanding Expenses Rs 2,700.

On 1st October, 2012 Mahendra introduced Rs 10,000 as further capital in the business and withdrew on the same date Rs 7,000 out of which he spent Rs 5,000 on the purchase of a Machinery for the business.

On 31st March 2013 his position was as follows: Cash in Hand Rs 7,600, Cash at Bank Rs 22,000, Stock Rs 30,000 Debtors Rs 25,700, Furniture Rs 6,000, Creditors Rs 25,200, and prepaid expenses Rs 200.

Prepare a Statement showing the Profit or Loss made by him during the year ended 31st March, 2013 and Opening and Closing Statement of affairs. Considered the following adjustments also.

- 1) Depreciate Motor Car and Furniture @ 10% p.a. Furniture was purchased on 1st Oct., 2012.
- 2) Provide Rs 1,200 for Bad debts and provide 5% R.D.D.
- 3) Goods taken for personal use by Mahendra amounting to Rs 1,500
- 4) Provide interest on capital @ 10% p.a.

Solution

Statement of Affairs

as on Apr.01,2012

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Bank Loan	18,000	Cash in Hand	7,900
Outstanding Expenses	2,700	Cash at Bank	20,000
Capital (Balancing Figure)	59,200	Debtors	18,000
		Stock	29,000
		Motor Car	5,000
	79,900		79,900

Statement of Affairs

as on March 31,2013

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	25,200	Cash in Hand	7,600
Capital (Balancing Figure)	71,300	Cash at Bank	22,000
		Stock	30,000
		Debtors	25,700
		Furniture	6,000
		Prepaid Expenses	200
		Machinery	5,000
	96,500		96,500

Statement of Profit or Loss

for the year ended March 31,2013

Particulars	Amount (Rs)
Capital at the end of the year	71,300
Add: Drawings made during the year	3,500
Less: Additional capital introduced during the year	(10,000)
Adjusted capital at the end of the year	64,800
Less: Capital in the beginning of the year	(59,200)
	5,600
Less: Depreciation on(Rs 500 on Motor Car+Rs 300 on Furniture)	(800)
Bad-Debts	(1,200)
Reserve for Doubtful Debts (24,500 x 5/100)	(1,225)
Interest on Capital	(6,420)
Loss for the year	(4,045)

Working Notes:

Calculation of Interest on Capital:

Interest on Capital (on Rs. 59,200) = $59,200 \times 10/100 = \text{Rs.}5,920$.

Interest on Capital (on Rs. 10,000 for 6 months) = $10,000 \times 10/100 \times 6/12 = \text{Rs.} 500$.

Therefore, Total Interest on Capital = Rs. 6,420 (5,920 + 500)

Question: 45

Mr. Suhas a small trader provides you the following details about his business.

Particulars	01-04-2011	31-03-2012
Debtors	45,000	50,000
Creditors	60,000	70,000
Computer	60,000	120,000
10% Govt. Bonds	-	10,000
Bank Overdraft	80,000	40,000
Motor Van	80,000	80,000
Furniture	10,000	10,000
Stock	65,000	80,000
Cash in Hand	2,000	8,000
Bills Receivable	60,000	80,000

Additional Information:

- 1) On 1st October, 2012 he withdrew Rs 40,000 for his personal use.
- 2) Charge interest on drawings Rs 2,000.
- 3) He had also withdrawn Rs 30,000 for Rent of his residential flat.
- 4) Depreciate furniture by 10% and write off Rs 2,000 from motor van.
- 5) 10% Government Bonds were purchased on 1st October, 2012.
- 6) Allow interest on capital at 10% p.a.
- 7) Rs 2,000 is written off as bad debts and provide 5% R.D.D. on Debtors.

Prepare: Opening statement of affairs, closing statement of affairs and statement of profit or loss for the year ended 31st March, 2012.

Solution**Statement of Affairs**

as on March Apr.01,2011

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	60,000	Cash in Hand	2,000
Bank Overdraft	80,000	Debtors	45,000
Capital (Balancing Figure)	182,000	Computer	60,000
		Motor Van	80,000
		Furniture	10,000
		Stock	65,000
		Bills Receivable	60,000
	322,000		322,000

Statement of Affairs

As on March 31,2012

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	70,000	Cash in Hand	8,000
Bank Overdraft	40,000	Debtors	50,000
Capital (Balancing Figure)	3,28,000	Computer	120,000
		Motor Van	80,000
		Furniture	10,000
		Stock	80,000
		Bills Receivables	80,000
		10% Government Bond	10,000

	438,000		438,000
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Statement of Profit or Loss
for the year ended March 31,2012

Particulars	Amount (Rs.)
Capital at the end of the year	328,000
Add: Drawings made during the year	70,000
Adjusted capital at the end of the year	398,000
Less: Capital in the beginning of the year	(182,000)
	216,000
Add: Interest on Drawings	2,000
Interest on 10% Government Bonds	500
Less: Depreciation (Rs 1,000 on Furniture and Rs 2,000 on Motor Van)	(3,000)
Interest on Capital	(18,200)
Bad-Debts	(2,000)
Provision on Debtors (48,000 x 5/100)	(2,400)
Profit for the year	192,900

Working Notes:

Interest on 10% Government Bonds = $10,000 \times 10/100 \times 6/12 = \text{Rs. } 500$.

Question: 46

Mr. Govind keeps his books on single entry system and disclosed the following information of his business.

Particulars	01-04-2010	31-03-2011
Investments	-	30,000
Bills Payable	-	18,000
Creditors	52,500	69,000
Furniture	15,000	15,000
Debtors	60,000	90,000
Stock in Trade	30,000	37,500
Cash at Bank	36,000	54,000

Additional Information

1) Mr. Govind transferred Rs 300 per month during first half year and Rs 200

each month for the remaining period from his business to his personal account. He also took goods of Rs 700 for private use.

2) Mr. Govind sold his personal asset for Rs 7,000 and brought the proceeds into his business.

3) Furniture to be depreciated by 10%

4) Provide R.D.D.5% on Debtors.

Prepare: Opening and closing statement of affairs and statement of profit or loss for the year ended 31st March 2011.

Solution

Statement of Affairs

as on Apr. 01,2010

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	52,500	Cash in Bank	36,000
Capital (Balancing Figure)	88,500	Furniture	15,000
		Debtors	60,000
		Stock in Trade	30,000
	141,000		141,000

Statement of Affairs

as on March 31,2011

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Bills Payable	18,000	Cash in Bank	54,000
Creditors	69,000	Investments	30,000
Capital (Balancing Figure)	139,500	Furniture	15,000
		Debtors	90,000
		Stock in Trade	37,500
	226,500		226,500

Statement of Profit or Loss

for the year ended

Particulars	Amount (Rs)
Capital at the end of the year	139,500
Add: Drawings made during the year	3,700

Less: Additional capital introduced during the year	(7,000)
Adjusted capital at the end of the year	136,200
Less: Capital in the beginning of the year	(88,500)
	47,700
Less: Depreciation on Furniture	(1,500)
Reserve for Doubtful Debts	(4,500)
Profit for the year	41,700

Working Notes:

Total Drawings of Mr. Govind = $1,800 (300 \times 6) + 1,200 (200 \times 6) + 700$

Depreciation on Furniture = $15,000 \times 10/100 = \text{Rs. } 1500$

Reserve for Doubtful Debts = $90,000 \times 5/100 = \text{Rs. } 4500$.

Question: 47

Sun and Moon are partners in a firm sharing profit and losses in the ratio of 3:2. They kept their books under single entry system. On 1st April 2010 the following statement of affairs was extracted from their Books.

Statement of Affairs as on 1 st April 2010			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capitals:		Plant and Machinery	15,000
Sun	12,500	Stock	10,000
Moon	10,000	Debtors	17,500
Creditors	15,000	Cash in Hand	7,500
Bills Payable	12,500		
	50,000		50,000

On 31st March 2011 their assets and liabilities were as follows. Plant and Machinery Rs 44,000 stock Rs 32,000 cash in hand Rs 12,000 creditors Rs 8,000 Debtors Rs 20,000 Bills payable Rs 15,000 Drawings during the year Sun Rs 5,000 and Moon Rs 3,000.

Prepare: Closing statement of affairs and statement of profit or Loss for the year ended 31st March 2011 after considering the following adjustments.

- 1) Plant is found overvalued by 10% and stock is found undervalued by 20%.
- 2) R.D.D. is to be created at 10% on Debtors.
- 3) Interest on Capital is to be allowed at 10% p.a. and 10% p.a. on Drawings

Solution

Statement of Affairs

as on March 31,2011

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Bills Payable	15,000	Cash in Hand	12,000
Creditors	8,000	Stock	32,000
Capital (Balancing Figure)	85,000	Plant and Machinery	44,000
		Debtors	20,000
	108,000		108,000

Statement of Profit or Loss for the year ended March 31,2011

Particulars	Amount (Rs.)	Amount (Rs.)
Capital at the end of the year		85,000
Add: Drawings made during the year Sun Moon	5,000 3,000	8,000
Adjusted capital at the end of the year		93000
Less: Capital in the beginning of the year Sun Moon	(12,500) (10,000)	(22,500)
		70,500
Add: Interest on Drawings Sun Moon	250 150	400
Stock (32,000 × 20%)		6,400
Less: Reserve for Doubtful Debts (20,000 × 10%)		(2,000)
Interest on Capital Sun Moon	(1,250) (1,000)	(2,250)
Plant (44,000 × 10%)		(4,400)
Profit or Loss for the year		68,650

Note: There is a mismatch in the Net Profit as given in the textbook (which is Rs 70,650) and that of as per the above solution (which is Rs 68,650).

Question: 48

Additional Information:

- ### Solution

as on March 31, 2011

Statement of Profit or Loss

Particulars	Amount (Rs.)	Amount (Rs.)
Capital at the end of the year		89,200
Add: Drawings made during the year	3,000	5,000
	2,000	
Less: Additional capital introduced during the	4,000	(8,000)

year A		4,000	
	B		
Adjusted capital at the end of the year			86,200
Less: Capital in the beginning of the year A		30,000	(60,000)
	B	30,000	
			26,200
Add: Undervalued Stock			2,000
Prepaid Insurance			2,000
Overvalued Creditors			1,000
Less: Bad-Debts			(600)
Reserve for Doubtful Debts (28,000 × 5%)			(1,400)
Depreciation on Machinery			(1,400)
Depreciation on Furniture			(400)
Profit for the year			27,400

Note: In this question too, there seems to be the same problem as we have faced in the last question. The Net Profit as given in the textbook amounts to Rs 31,400, while, as per the solution above, it should be Rs.27,400.

Question: 49

Asha and Usha were partners sharing profits and losses in the ratio of 2:1. Prepare their statement Profit or Loss for the year ended 31st March, 2012 from the following statement of Affairs as on 31st March, 2011.

Liabilities	Amount (Rs.)	Assets	Amount (Rs)
Creditors	33,000	Cash at Bank	6,000
Bills Payable	9,000	Cash in Hand	2,000
Capitals:			
Asha	62,000	Building	41,000
Usha	32,000		
		Machinery	21,000
		Furniture	10,000
		Stock	18,000
		Debtors	25,000
		Bills Receivable	13,000
	136,000		136,000

The assets and liabilities as on 31st March 2012 were:

Sundry creditors Rs 35,000 Bill Receivable Rs 18,000 Bills payable Rs 15,000 cash in hand Rs 3,000, Stock Rs 32,000 Cash of bank Rs 6,000 Debtors Rs 38,000. There were no changes in fixed assets.

Further Information:

- 1) Asha and Usha had drawn Rs 10,000 and Rs 8,000 respectively for personal use.
- 2) They also brought additional capital of Rs 6,000 and Rs 4,000 respectively.
- 3) Building to be depreciated by 5% and machinery and furniture at 10%.
- 4) Charge interest at 10% p.a. on opening capitals and allow interest on drawings of Asha and Usha were Rs 700 and Rs 500 respectively.

Solution

Statement of Affairs

as on March 31,2012

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Bills Payable	15,000	Cash in Hand	3,000
Sundry Creditors	35,000	Cash at Bank	6,000
Sundry Creditors	119,000	Stock	32,000
		Debtors	38,000
		Bills Receivable	18,000
		Building	41,000
		Machinery	21,000
		Furniture	10,000
	169,000		169,000

Statement of Profit or Loss

for the year ended March 31,2012

Particulars	Amount (Rs)	Amount (Rs)
Capital at the end of the year		119,000
Add: Drawings made during the year Asha Usha	10,000 8,000	18,000
Less: Additional capital introduced during the year Asha	(6,000) (4,000)	(10,000)

Usha		
Adjusted capital at the end of the year		127,000
Less: Capital in the beginning of the year Asha Usha	(62,000) (32,000)	(94,000)
		33,000
Add: Interest on Drawings Asha Usha	700 500	1,200
Less: Depreciation (Building+Machinery+Furniture)		(5150)
Interest on Capital Asha Usha	(6,200) (3,200)	(9,400)
Profit for the year Asha Usha	13,100 6550	19650