

Financial Statements

Q1 :

Why is it necessary to record the adjusting entries in the preparation of final accounts?

Answer :

It is extremely important to record the adjusting entries in the preparation of final accounts.

1. This is done in order to assess the true net profit or net loss of the business organisation.
2. It helps us record those adjustments which were left or omitted and were not recorded in the accounts.
3. It assists us to separate all the financial transactions into a year-wise category. The financial statements include only those entries which belong to the current year. It rules out the previous and forthcoming years' entries which are the basis for accrual basis of accounting.
4. Further, it provides us the room for making various provisions which are made at the end of the year, after assessing the entire year's performance.

Q2 :

What is meant by closing stock? Show its treatment in final accounts.

Answer :

Closing stock implies the value of unsold goods at the end of an accounting period. The valuation of closing stock is done on the basis of its cost price or the realisable value, whichever of the two is lesser.

Example: If a good with the cost price of Rs 20,000 is purchased at the end of an accounting period and its realisable value is Rs 30,000, then the closing stock will be valued at Rs 20,000 not at Rs 30,000.

Treatment of closing stock

If closing stock is given in the adjustment, then there will be two postings.

Trading Account

Dr.		Cr.	
Particulars	Amount	Particulars	Amount

Balance Sheet

Liabilities	Amount	Assets	Amount
		Closing Stock	

If closing stock is given in the trial balance, then it needs to be shown only in the assets side of the Balance Sheet.

Q3 :

Write short notes on

(a) Outstanding expenses

(b) Prepaid expenses

(c) Income received in advance

(d) Accrued income

Answer :

(a) **Outstanding Expenses:** These refer to those expenses which belong to and are incurred in the current accounting period but are left unpaid. In other words, we can say that the services in exchange of these payments have been realised but the payments are not made. For example, if Rs 1000 wages are outstanding, then this means that labour worth Rs 1,000 has been used but has not been paid for till the end of the year.

(b) **Prepaid Expenses:** These refer to those expenses for which the benefits have not been realised but the payments have already been made in advance. These are basically the advance payments for the next year, which are made in the current accounting period.

Example: Prepaid insurance premium of Rs 1,000 means that the payment of Rs 1,000 is made in advance for the next accounting period.

(c) **Income Received in Advance:** This refers to the income received whose actual realisation of benefits will occur in the next accounting period. These are also called unearned incomes.

Example: Commission of Rs 1,200 for the year 2011-12 is received in 2010-11. This commission does not belong to the current year as it is related with the work to be done in the next accounting year i.e., 2011-12.

(d) **Accrued Income:** This refers to those incomes which have been earned during an accounting period but have not been actually realised in the current period. These are also called earned incomes.

Q4 :

Give the performa of income statement and balance in vertical form.

Answer :

Income statement for the period ended

Particulars	Amount Rs	Amount Rs
Sales (Gross)		
<i>Less:</i> Returns		
Net Sales		
<i>Cost of goods sold</i>		
Opening Stock		
Purchases		
<i>Less:</i> Returns		
Carriage Inwards		

Wages		
Cost of Goods Available for Sale		
Less: Closing Stock		
Gross Profit		
Operating Expenses		
(a) <i>Selling Expenses</i>		
Advertising		
Discount		
Allowances		
Bad-Debts and Provisions		
Carriage Outwards		
Total Selling Expenses		
(b) <i>General and Administration Expenses</i>		
Salaries		
Rent and Rates		
Insurance		
Depreciation		
Postage		
Repairs		
General Expenses		
Total Operating Expenses		
<i>Net Income from Operations (Operating profit)</i>		
<i>Other Income (Non-operating gains)</i>		
Interest Earned		
Commission Earned		
Profit on Sale of Fixed Assets		
<i>Less:</i> Deductions (Non-operating expenses)		
Interest Paid		
Loss by Fire		
Net Non-operating Gains		
Net Income (Net profit)		

Income statement for the period ended

Particulars	Amount Rs	Amount Rs
Current Assets		
Cash in Hand		
Cash at Bank		
Bills Receivable		

Accrued Income		
Debtors		
Stock		
Prepaid Expenses		
Total Current Assets		

Q5 :

Why is it necessary to create a provision for doubtful-debts at the time of preparation of final accounts?

Answer :

The provision for doubtful-debts is created with the motive of minimising the effect of actual loss caused by the bad-debts. The actual figure of the current year's bad-debts will be known in the next year with the realisation of debtors. At that point of time, it will be known as to how many of the debtors have become bad. Thus, instead of waiting for the realisation of debtors, we create a provision for doubtful-debts in order to cover the expected future loss associated with the debtors becoming bad.

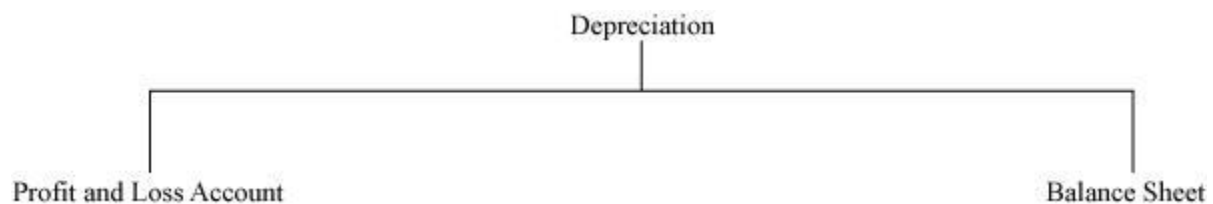
Q6 :

What adjusting entries would you record for the following?

- (a) Depreciation
- (b) Discount on debtors
- (c) Interest on capital
- (d) Manager's commission

Answer :

(a)

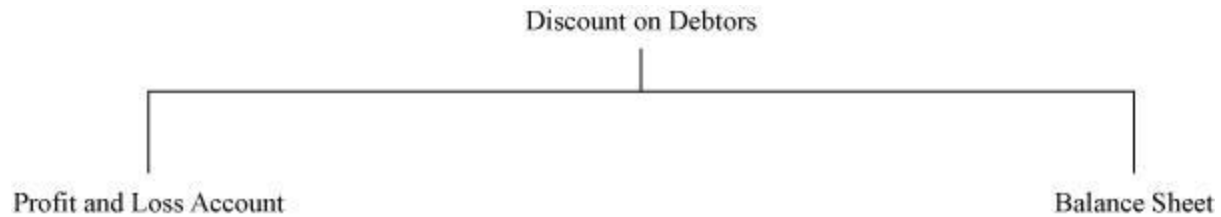


Dr.

Cr.

Particulars	Amount	Particulars	Amount	Liabilities	Amount	Assets	Amount
Depreciation						Assets	
						Less: Depreciation	

(b)



Dr.				Cr.			
Particulars	Amount	Particulars	Amount	Liabilities	Amount	Assets	Amount
Discount on Debtors						Debtors <i>Less: New Provision</i> <i>Less: Further Bad Debts</i> <i>Less: Discount on Debtors</i>	

Q7 :
What do you mean by provision for discount on debtors?

Answer :

The discount is allowed to those debtors who are ready to pay a huge amount in one shot. It is given in order to encourage them to repay the debt. The provision for discount on debtors is created on good debtors. The amount of good debtors is calculated by deducting the amount of Bad Debts, further Bad Debts and new provision for Doubtful Debts. The required percentage of the good debtors is calculated and the provision for discount on debtors is deducted from the Debtors' amount in the Assets side of a Balance Sheet. As it is a loss for the business, it is shown in the Debit side of the Profit and Loss Account.

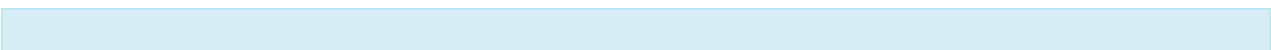
Q8 :
Give the journal entries for the following adjustments:

- (a) Outstanding salary at Rs 3,500.
- (b) Rent unpaid for one month at Rs 6,000 per annum.
- (c) Insurance prepaid for a quarter at Rs 16,000 per annum.
- (d) Purchase of furniture costing Rs 7,000 entered in the purchases book.

Answer :

S. No.	Particulars	L.F.	Debit Rs	Credit Rs
a)	Salaries A/c Dr. To Outstanding Salaries A/c (Salaries of Rs 3,500 is remaining outstanding)		3,500	3,500

b)	Rent A/c Dr. To Outstanding Rent A/c (Rent unpaid for one month at Rs 500 = $\frac{6000}{12}$)		500	500
c)	Prepaid Insurance A/c Dr. To Insurance A/c (Insurance paid in advance for 3 months i.e. Rs 400)		4,000	4,000
d)	Furniture A/c Dr. To Purchases A/c (Furniture was wrongly debited to Purchases Account, now rectified)		7,000	7,000



Q1 :

What are adjusting entries? Why are they necessary for preparing the final accounts?

Answer :

Adjusting entries are the entries of those adjustments which are given outside the trial balance and which help us reflect the true financial position i.e., profit or loss of an organisation. According to the double-entry system, all the adjustments given outside the Trial Balance are posted at two places. The adjusting entries are necessary they enable us to post and take into account those items which are omitted or entered with the wrong amount and/or recorded under wrong heads.

The treatment of adjusting entries is necessary.

- (i) It helps us assess the true financial position of an organisation based on accrual basis of accounting.
- (ii) It helps us know the actual figure of profit or loss.
- (iii) It records the omitted entries and rectifies the errors made.
- (iv) It helps in providing depreciation and making different provisions, such as Bad Debts and depreciation.

Q2 :

What is meant by provision for doubtful-debts? How are the relevant accounts prepared and what journal entries are recorded in the final accounts? How is the amount for provision for doubtful-debts calculated?

Answer :

The provision for doubtful-debts is provided after deducting the amount of bad-debts from the debtors. The provision for doubtful-debts is provided because of the rationale that the actual amount of bad-debts will only be known in the next year, when the amount of debtors will get realised. Thus, it will only then be known as to how many of the debtors have become bad. Thus, in order to bridge-up the expected future loss, we create a provision for doubtful-debts.

For the provision for doubtful-debts, we prepare debtors account and provision for doubtful-debts account. For recording bad-debts, the following journal entry is passed.

Profit and Loss A/c

Dr.

To Provision for Bad and Doubtful Debts A/c

Example: An extract from a Trial Balance as on December 31, 2010.

Debtors	10,500
Provision for Doubtful Debts as on January 01, 2010	1,000
Bad Debts Account	1,500

Adjustment:

- (i) Further bad-debts amount to Rs 500.
- (ii) Create a provision for doubtful-debts at 5% on debtors.

Explanation

The provision for Doubtful Debt as on January 01, 2010 was Rs 1,000 and the Bad Debts during the year were Rs 1,500. In addition to this, there was a further Bad Debt of Rs 500 which was known at the end of the year i.e., December 31, 2010. Now we need to create a provision for Doubtful Debts at 5% on debtors.

Profit and Loss A/c

Dr.

Cr.

Particulars	Amount	Particulars	Amount
Bad Debts	1,500		
Add: Further Bad Debts	500		
Add: New Provision for Doubtful Debts	500		
Less: Old Provision (given in Trial Balance)	<u>1,000</u>		
	1,500		

Balance Sheet

Liabilities	Amount	Assets	Amount
		Debtors	10,500
		Less: Further Bad Debts	<u>500</u>
			10,000
		Less: New Provision for Doubtful Debts	<u>500</u>
			9,500

The amount of provision for Doubtful Debts is calculated by debiting the amount of further Bad Debts from debtors and calculating the given percentage of provision on remaining debtors. This provision is added to the Bad Debts amount in the profit and loss account and deducted from debtors in the assets side of a Balance Sheet.

Q3 :

Show the treatment of prepaid expenses, depreciation and closing stock at the time of preparation of final accounts when they are given

(a) inside the Trial Balance

(b) outside the Trial Balance

Answer :

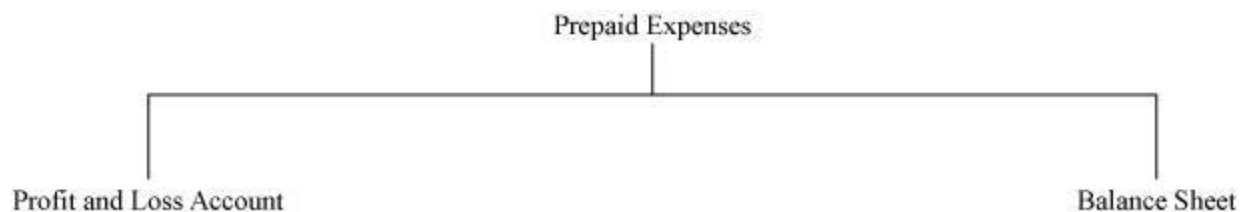
(i) **Prepaid expenses**

(a) **When given inside the Trial Balance:** It will be posted only in the Assets side of the Balance Sheet.

Balance Sheet

Assets	Amount
Prepaid Expenses	

(b) **When given outside the Trial Balance:**



Dr.

Cr.

Particulars	Amount	Particulars	Amount	Liabilities	Amount	Assets	Amount
Concerned Expenses						Prepaid Expenses	
Less: Prepaid Expenses							

(ii) **Depreciation**

(a) If depreciation is given inside the Trial Balance, then it can be shown in the Debit side of the Profit and Loss A/c. It means that this depreciation amount has already been deducted from the concerned assets in the Balance Sheet.

Profit and Loss Account

Dr.		Cr.	
Particulars	Amount	Particulars	Amount
Depreciation			

(b) If depreciation is given outside the Trial Balance, i.e. in the adjustments, then it is shown in the debit side of the Profit and Loss Account and deducted from the concerned assets in the Assets side of Balance Sheet.

If Given Outside the Trial Balance

Profit and Loss Account

Balance Sheet

Numerical questions : Solutions of Questions on Page Number : 423

Q1 :

Prepare a trading and profit and loss account for the year ending December 31, 2005. from the balances extracted of M/s Rahul Sons. Also prepare a balance sheet at the end of the year.

Account Title	Amount Rs	Account Title	Amount Rs
Stock	50,000	Sales	1,80,000
Wages	3,000	Purchases return	2,000
Salary	8,000	Discount received	500
Purchases	1,75,000	Provision for doubtful debts	2,500
Sales return	3,000	Capital	3,00,000
Sundry Debtors	82,000	Bills payable	22,000
Discount allowed	1,000	Commission received	4,000
Insurance	3,200	Rent	6,000
Rent Rates and Taxes	4,300	Loan	34,800

Fixtures and fittings	20,000		
Trade expenses	1,500		
Bad debts	2,000		
Drawings	32,000		
Repair and renewals	1,600		
Travelling expenses	4,200		
Postage	300		
Telegram expenses	200		
Legal fees	500		
Bills receivable	50,000		
Building	1,10,000		
	5,51,800		5,51,800

Adjustments

1. Commission received in advance Rs 1,000.
2. Rent receivable Rs 2,000.
3. Salary outstanding Rs 1,000 and insurance prepaid Rs 800.
4. Further bad debts Rs 1,000 and provision for doubtful debts @ 5% on debtors and discount on debtors @ 2%.
5. Closing stock Rs 32,000.
6. Depreciation on building @ 6% p.a.

Answer :

Books of M/s. Rahul Sons.

Trading Account for the year ending December 31, 2005

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Opening Stock	50,000	Sales	1,80,000
Purchases	1,75,000	Less: Sales Returns	3,000
Less: Purchase Returns	2,000	Closing Stock	32,000
Wages	3,000	Gross Loss	17,000

	2,26,000		2,26,000

Profit and Loss Account for the year ending December 31, 2005

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Gross Loss	17,000	Discount Received	500
Salary 8,000		Commission Received 4,000	
Add: Outstanding Salary 1,000	9,000	Less: Advance Commission 1,000	3,000
Discount Allowed	1,000		
Insurance 3,200		Rent 6,000	
Less: Insurance Prepaid 800	2,400	Add: Rent Receivable 2,000	8,000
Rent Rates and Taxes	4,300		
Trade Expenses	1,500	Net Loss	43,189
Bad-Debts 2,000			
Add: Further Bad-Debts 1,000			
Add: New Provision 4,050			
Less: Old Provision 2,500	4,550		
Discount on Debtors	1,539		
Postage	300		
Telegram Expenses	200		
Depreciation on Building	6,600		
Repair and Renewals	1,600		
Travelling Expenses	4,200		
Legal Fees	500		
	54,689		54,689

Balance Sheet for the year ending December 31, 2005

Liabilities	Amount Rs	Assets	Amount Rs
Capital 3,00,000		Debtors 82,000	
Less: Net Loss 43,189		Less: Further Bad-Debts 1,000	
Less: Drawings 32,000	2,24,811	Less: New Provision 4,050	
Bills Payable	22,000		

Q2 :

Prepare a trading and profit and loss account of M/s Green Club Ltd. for the year ending December 31, 2005. from the following figures taken from his trial balance :

<i>Account Title</i>	<i>Amount Rs</i>	<i>Account Title</i>	<i>Amount Rs</i>
Opening stock	35,000	Sales	2,50,000
Purchases	1,25,000	Purchase return	6,000
Return inwards	25,000	Creditors	10,000
Postage and Telegram	600	Bills payable	20,000
Salary	12,300	Discount	1,000
Wages	3,000	Provision for bad debts	4,500
Rent and Rates	1,000	Interest received	5,400
Packing and Transport	500	Capital	75,000
General expense	400		
Insurance	4,000		
Debtors	50,000		
Cash in hand	20,000		
Cash at bank	40,000		
Machinery	20,000		
Lighting and Heating	5,000		
Discount	3,500		
Bad debts	3,500		
Investment	23,100		
	3,71,900		3,71,900

Adjustments

1. Depreciation charged on machinery @ 5% p.a.
2. Further bad debts Rs 1,500, discount on debtors @ 5% and make a provision on debtors @ 6%.
3. Wages prepaid Rs 1,000.
4. Interest on investment @ 5% p.a.
5. Closing stock 10,000.

Answer :

Trading Account for the year ending December 31, 2005

Dr.			Cr.		
Particulars		Amount Rs	Particulars		Amount Rs
Opening Stock		35,000	Sales	2,50,000	
Purchases	1,25,000		Less: Sales Returns	(25,000)	2,25,000
Less: Purchase Returns	(6,000)	1,19,000	Closing Stock		10,000
Wages	3,000				
Less: Prepaid Wages	(1,000)	2,000			
Gross Profit		79,000			
		2,35,000			2,35,000

Profit and Loss Account for the year ending December 31, 2005

Dr.			Cr.		
Particulars		Amount Rs	Particulars		Amount Rs
Bad Debts	3,500		Gross Profit		79,000
Add: Further Bad-debts	1,500		Interest on Accrued Investment		1,155
Add: New Provision	2,910		Discount		1,000
Less: Old Provision	4,500	3,410	Interest Received		5,400

Discount on Debtors	2,280	
Postage and Telegram	600	
Salary	12,300	
Rent and Rates	1,000	
Packing and Transport	500	
General Expenses	400	
Insurance	4,000	
Discount	3,500	
Depreciation on Machinery	1,000	
Lighting and Heating	5,000	
Net Profit	52,565	

Q3 :

**The following balances has been extracted from the trial of M/s Runway Shine Ltd.
Prepare a trading and profit and loss account and a balance sheet as on December 31, 2005.**

<i>Account Title</i>	<i>Amount</i> <i>Rs</i>	<i>Account Title</i>	<i>Amount</i> <i>Rs</i>
Purchases	1,50,000	Sales	2,50,000
Opening stock	50,000	Return outwards	4,500
Return inwards	2,000	Interest received	3,500
Carriage inwards	4,500	Discount received	400
Cash in hand	77,800	Creditors	1,25,000
Cash at bank	60,800	Bill payable	6,040
Wages	2,400	Capital	1,00,000
Printing and Stationery	4,500		
Discount	400		
Bad debts	1,500		
Insurance	2,500		
Investment	32,000		
Debtors	53,000		
Bills receivable	20,000		
Postage and Telegraph	400		
Commission	200		
Interest	1,000		

Repair	440		
Lighting Charges	500		
Telephone charges	100		
Carriage outward	400		
Motor car	25,000		
	4,89,440		4,89,440

Adjustments

- 1. Further bad debts Rs 1,000. Discount on debtors Rs 500 and make a provision on debtors @ 5%.**
- 2. Interest received on investment @ 5%.**
- 3. Wages and interest outstanding Rs 100 and Rs 200 respectively.**
- 4. Depreciation charged on motor car @ 5% p.a.**
- 5. Closing Stock Rs 32,500.**

Answer :

Trading Account

Dr.

Particulars	Amount Rs	Particulars	Amount Rs
Opening Stock	50,000	Sales	2,50,000
Purchases	1,50,000	Less: Return Inwards	2,000
Less: Return Outwards	4,500	Closing Stock	32,500
Carriage Inwards	4,500		
Wages	2,400		
Add: Outstanding Wages	100		
Gross Profit	78,000		
	2,80,500		2,80,500

Profit and Loss Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Carriage Outward	400	Gross Profit	78,000
Printing and Stationery	4,500	Interest Received	3,500
Discount	400	Discount Received	400
Bad Debts	1,500	Interest Received on Investment	1,600
<i>Add: Further Bad Debts</i>	1,000		
<i>Add: New Provision</i>	2,600		
Discount on Debtors	500		
Insurance	2,500		

Q4 :

The following balances have been extracted from the trial of M/s Haryana Chemical Ltd. You are required to prepare a trading and profit and loss account and balance sheet as on December 31, 2005 from the given information.

<i>Account Title</i>	<i>Amount Rs</i>	<i>Account Title</i>	<i>Amount Rs</i>
Opening stock	50,000	Sales	3,50,000
Purchases	1,25,500	Purchases return	2,500
Sales return	2,000	Creditors	25,000
Cash in hand	21,200	Rent	5,000
Cash at bank	12,000	Interest	2,000
Carriage	100	Bills payable	1,71,700
Free hold land	3,20,000	Capital	3,00,000
Patents	1,20,000		
General Expenses	2,000		
Sundry Debtors	32,500		
Building	86,000		
Machinery	34,500		
Insurance	12,400		
Drawings	10,000		

Motor vehicle	10,500		
Bad debts	2,000		
Light and Water	1,200		
Trade expenses	2,000		
Power	3,900		
Salary and Wages	5,400		
Loan a 15% (01.09.2005)	3,000		
	8,56,200		8,56,200

Adjustments

1. Closing stock was valued at the end of the year Rs 40,000.
2. Salary amounting Rs 500 and trade expense Rs 300 are due.
3. Depreciation charged on building and machinery are @ 4% and @ 5% respectively.
4. Make a provision of @ 5% on sundry debtors.

Answer :

Trading Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Opening Stock	50,000	Sales	3,50,000
Purchases	1,25,500	Less: Return	2,000
Less: Return Outwards	2,500	Closing Stock	40,000
	1,23,000		
Carriage	100		
Power	3,900		
Gross Profit	2,11,000		
	3,88,000		3,88,000

Profit and Loss Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
General Expenses	2,000	Gross Profit	2,11,000
Insurance	12,400	Rent	5,000
Bad Debts 2,000		Interest	2,000
<i>Add:</i> Provision for Bad Debts 1,625	3,625	Accrued Interest on Loan	150
Light and Water	1,200		
Trade Expenses 2,000			
<i>Add:</i> Outstanding Trade Expenses 300	2,300		
Salary and Wages 5,400			
<i>Add:</i> Outstanding Salary 500			

Q5 :

From the following information prepare trading and profit and loss account of M/s Indian sports house for the year ending December 31, 2005.

Account Title	Amount Rs	Account Title	Amount Rs
Drawings	20,000	Capital	2,00,000
Sundry debtors	80,000	Return outwards	2,000
Bad debts	1,000	Bank overdraft	12,000
Trade Expenses	2,400	Provision for bad debts	4,000
Printing and Stationery	2,000	Sundry creditors	60,000
Rent Rates and Taxes	5,000	Bills payable	15,400
Freight	4,000	Sales	2,76,000
Return inwards	7,000		
Opening stock	25,000		
Purchases	1,80,000		
Furniture and Fixture	20,000		
Plant and Machinery	1,00,000		

Bills receivable	14,000		
Wages	10,000		
Cash in hand	6,000		
Discount allowed	2,000		
Investments	40,000		
Motor car	51,000		
	5,69,400		5,69,400

Adjustments

1. Closing stock was Rs 45,000.
2. Provision for doubtful debts is to be maintained @ 2% on debtors.
3. Depreciation charged on : furniture and fixture @ 5%, plant and Machinery @ 6% and motor car @ 10%.
4. A Machine of Rs 30,000 was purchased on July 01, 2005.
5. The manager is entitle to a commission of @ 10% of the net profit after charging such commission.

Answer :

Trading Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Opening Stock	25,000	Sales	2,76,000
Purchases	1,80,000	Less: Return Inwards	7,000
Less: Return Outwards	2,000	Closing Stock	45,000
Wages	10,000		
Freight	4,000		
Gross Profit	97,000		
	3,14,000		3,14,000

Profit and Loss Account

Dr.

Particulars	Amount Rs	Particulars	Amount Rs
Trade Expenses	2,400	Gross Profit	97,000
Printing and Stationery	2,000	Old Provision for Bad Debts	4,000
Rent Rates and Taxes	5,000	Less: Bad Debts	1,000
Discount Allowed	2,000	Less: New Provision	1,600
Depreciation on Motor Car	5,100		
Depreciation on Furniture and Fixtures	1,000		
*Depreciation on P & M of Rs 70,000	4,200		
**Depreciation on P & M of Rs 30,000	900		
Net Profit Before Manager's Commission	75,800		
	1,02,400		1,02,400
Manager's Commission	6,891		
Net Profit After Commission	68,909	Balance b/d	75,800
	75,800		75,800

Balance Sheet

Liabilities	Amount Rs	Assets	Amount Rs
Capital	2,00,000	Cash in Hand	6,000
Add: Net Profit	68,909	Sundry Debtors	80,000
Less: Drawings	20,000	Less: New Provision	1,600
	2,48,909		
O/S Manager's Commission	6,891	Furniture and Fixtures	20,000
Bank Overdraft	12,000	Less: Depreciation	1,000
Creditors	60,000		
Bills Payable	15,400	Plant and Machinery	1,00,000
		Less: Depreciation 1*	4,200
		Less: Depreciation 2**	900

Q6 :

Prepare the trading and profit and loss account and a balance sheet of M/s Shine Ltd. from the following particulars.

<i>Account Title</i>	<i>Amount Rs</i>	<i>Account Title</i>	<i>Amount Rs</i>
Sundry debtors	1,00,000	Bills payable	85,550
Bad debts	3,000	Sundry creditors	25,000
Trade expenses	2,500	Provision for bad debts	1,500
Printing and Stationary	5,000	Return outwards	4,500
Rent, Rates and Taxes	3,450	Capital	2,50,000
Freight	2,250	Discount received	3,500
Sales return	6,000	Interest received	11,260
Motor car	25,000	Sales	1,00,000
Opening stock	75,550		
Furniture and Fixture	15,500		
Purchases	75,000		
Drawings	13,560		
Investments	65,500		
Cash in hand	36,000		
Cash in bank	53,000		
	4,81,310		4,81,310

Adjustments

- 1. Closing stock was valued Rs 35,000.**
- 2. Depreciation charged on furniture and fixture @ 5%.**
- 3. Further bad debts Rs 1,000. Make a provision for bad debts @ 5% on sundry debtors.**
- 4. Depreciation charged on motor car @ 10%.**
- 5. Interest on drawing @ 6%.**
- 6. Rent, rates and taxes was outstanding Rs 200.**
- 7. Discount on debtors 2%.**

Answer :

Trading Account

Dr.

Particulars	Amount Rs	Particulars	Amount Rs
Opening Stock	75,550	Sales	1,00,000
Purchases	75,000	Less: Sales Inwards	6,000
Less: Return Outwards	4,500	Closing Stock	35,000
Freight	2,250	Gross Loss	19,300
	1,48,300		1,48,300

Profit and Loss Account

Dr.

Particulars	Amount Rs	Particulars	Amount Rs
Gross Loss	19,300	Discount	3,500
Bad Debts	3,000	Interest Received	11,260
Add: Further Bad-Debts	1,000	Interest on Drawings	814
Add: New Provision	4,950	Net Loss	27,482
Less: Old Provision	1,500		
Discount on Debtors	1,881		
Trade Expenses	2,500		
Printing and Stationery	5,000		
Rent, Rates and Taxes	3,450		
Add: O/S Rent, Rates and Taxes	200		
Depreciation on Furniture	775		
Depreciation on Motor Car	2,500		

43,056

43,056

Balance Sheet

Liabilities	Amount Rs	Assets	Amount Rs
Bills Payable	85,550	Sundry Debtors	100,000
Sundry Creditors	25,000	Less: Further Debts	1,000
Capital	2,50,000	Less: New Provision	4,950
Less: Net Loss	27,482	Less: Discount on Debtors	1,881
Less: Drawings	13,560		
Less: Interest on Drawings	814	Motor Car	25,000
	2,08,144	Less: Depreciation	2,500
Outstanding Rent, Rates and Taxes	200	Furniture and Fixtures	15,500
		Less: Depreciation	775
		Investments	

Q7 :

Following balances have been extracted from the trial balance of M/s Keshav Electronics Ltd. You are required to prepare the trading and profit and loss account and a balance sheet as on December 31, 2005.

<i>Account Title</i>	<i>Amount Rs</i>	<i>Account Title</i>	<i>Amount Rs</i>
Opening stock	2,26,000	Sales	6,80,000
Purchases	4,40,000	Return outwards	15,000
Drawings	75,000	Creditors	50,000
Buildings	1,00,000	Bills payable	63,700
Motor van	30,000	Interest received	20,000
Freight inwards	3,400	Capital	3,50,000
Sales return	10,000		

Trade expense	3,300		
Heat and Power	8,000		
Salary and Wages	5,000		
Legal expense	3,000		
Postage and Telegram	1,000		
Bad debts	6,500		
Cash in hand	79,000		
Cash at bank	98,000		
Sundry debtors	25,000		
Investments	40,000		
Insurance	3,500		
Machinery	22,000		
	11,78,700		11,78,700

The following additional information is available :

- 1. Stock on December 31, 2005 was Rs 30,000.**
- 2. Depreciation is to be charged on building at 5% and motor van at 10%.**
- 3. Provision for doubtful debts is to be maintained at 5% on Sundry Debtors.**
- 4. Unexpired insurance was Rs 600.**
- 5. The Manager is entitled to a commission @ 5% on net profit before charging such commission.**

Answer :

Trading Account

Dr.

Particulars	Amount Rs	Particulars	Amount Rs
Opening Stock	2,26,000	Sales	6,80,000
Purchases	4,40,000	Less: Sales Return	10,000
Less: Returns Outwards	15,000	Closing Stock	30,000
Freight Inwards	3,400		
Heat and Power			

Gross Profit	37,600	
	7,00,000	7,00,000

Profit and Loss Account

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Trade Expenses	3,300	Gross Profit	37,600
Salary and Wages	5,000	Interest Received	20,000
Legal Expenses	3,000		
Postage and Telegram	1,000		
Bad Debts 6,500			
<i>Add: New Provision</i> 1,250	7,750		
Depreciation on Building	5,000		
Depreciation on Motor Van	3,000		
Insurance 3,500			
<i>Less: Unexpired Insurance</i> 600	2,900		
Net Profit			

Q8 :

From the following balances extracted from the books of Raga Ltd. Prepare a trading and profit and loss account for the year ended December 31, 2005 and a balance sheet as on that date.

Account Title	Amount Rs	Account Title	Amount Rs
Drawings	20,000	Sales	2,20,000
Land and Buildings	12,000	Capital	1,01,110
Plant and Machinery	40,000	Discount	1,260
Carriage inwards	100	Apprentice premium	5,230

Wages	500	Bills payable	1,28,870
Salary	2,000	Purchases return	10,000
Sales return	200		
Bank charges	200		
Coal, Gas and Water	1,200		
Purchases	1,50,000		
Trade Expenses	3,800		
Stock (Opening)	76,800		
Cash at bank	50,000		
Rates and Taxes	870		
Bills receivable	24,500		
Sundry debtors	54,300		
Cash in hand	30,000		
	4,66,470		4,66,470

The additional information is as under:

1. Closing stock was valued at the end of the year Rs, 20,000.
2. Depreciation on plant and machinery charged at 5% and land and building at 10%.
3. Discount on debtors at 3%.
4. Make a provision at 5% on debtors for doubtful debts.
5. Salary outstanding was Rs 100 and Wages prepaid was Rs 40.
6. The manager is entitled a commission of 5% on net profit after charging such commission.

Answer :

Trading Account

Dr.

Particulars	Amount Rs	Particulars	
Opening Stock	76,800	Sales	2,20,000
Purchases	1,50,000	Less: Sales Return	200
Less: Purchases Return	10,000	Closing Stock	
	1,40,000		

Carriage Inwards		100
Wages	500	
<i>Less: Prepaid</i>	40	460
Coal, Gas and Water		1,200
Gross Profit		21,240
		2,39,800

Profit and Loss Account

Dr.

Particulars	Amount Rs	Particulars
Salary	2,000	Gross Profit
<i>Add: Outstanding Salary</i>	100	Discount
Bank Charges	200	Apprentice Premium
Trade Expenses	3,800	
Rates and Taxes	870	
Depreciation on Plant and Machinery	2,000	
Depreciation on Land and Building	1,200	
Provision for Doubtful Debts	2,715	
Discount on Debtors	1,548	
Net Profit	13,297	

Q9 :

From the following balances of M/s Jyoti Exports, prepare trading and profit and loss account for the year ended March 31, 2006 and balance sheet as on this date.

<i>Account Title</i>	<i>Debit Amount Rs</i>	<i>Account Title</i>	<i>Credit Amount Rs</i>
Sundry debtors	9,600	Sundry creditors	2,500

Opening stock	22,800	Sales	72,670
Purchases	34,800	Purchases returns	2,430
Carriage inwards	450	Bills payable	15,600
Wages	1,770	Capital	42,000
Office rent	820		
Insurance	1,440		
Factory rent	390		
Cleaning charges	940		
Salary	1,590		
Building	24,000		
Plant and Machinery	3,600		
Cash in hand	2,160		
Gas and Water	240		
Octroi	60		
Furniture	20,540		
Patents	10,000		
	1,35,200		1,35,200

Closing stock Rs 10,000.

- 1. To provision for doubtful debts is to be maintained at 5 per cent on sundry debtors.**
- 2. Wages amounting to Rs 500 and salary amounting to Rs 350 are outstanding.**
- 3. Factory rent prepaid Rs 100.**
- 4. Depreciation charged on Plant and Machinery @ 5% and Building @ 10%.**
- 5. Outstanding insurance Rs 100.**

Answer :

Trading Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Opening Stock	22,800	Sales	72,670
Purchases 34,800		Closing Stock	10,000

Less: Purchases Return	2,430	32,370	
Carriage Inwards		450	
Wages	1,770		
Add: Outstanding Wages	500	2,270	
Factory Rent	390		
Less: Prepaid Rent	100	290	
Gas and Water		240	
Octroi		60	
Cleaning Charges		940	
Gross Profit		23,250	
		82,670	82,670

Profit and Loss Account

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Office Rent	820	Gross Profit	23,250
Insurance	1,440		
Add: Outstanding Insurance	100		
Depreciation on Plant and Machinery	180		
Salary	1,590		
Add: Outstanding Salary	350		
Provision for Doubtful Debts	480		
Depreciation on Building	2,400		

Q10 :

The following balances have been extracted from the books of M/s Green House for the year ended December 31, 2005, prepare trading and profit and loss account and balance sheet as on this date.

<i>Account Title</i>	<i>Amount Rs</i>	<i>Account Title</i>	<i>Amount Rs</i>
Purchases	80,000	Capital	2,10,000
Bank balance	11,000	Bills payable	6,500
Wages	34,000	Sales	2,00,000
Debtors	70,300	Creditors	50,000
Cash in hand	1,200	Return outwards	4,000
Legal expenses	4,000		
Building	60,000		
Machinery	120,000		
Bills receivable	7,000		
Office expenses	3,000		
Opening stock	45,000		
Gas and fuel	2,700		
Freight and Carriage	3,500		
Factory lighting	5,000		
Office furniture	5,000		
Patent right	18,800		
	4,70,500		4,70,500

adjustments :

(a) Machinery is depreciated at 10% and buildings depreciated at 6%.

(b) Interest on capital @ 4%.

(c) Outstanding wages Rs 50.

(d) Closing stock Rs 50,000.

Answer :

Trading Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Opening Stock	45,000	Sales	2,00,000

Purchases	80,000		Closing Stock	50,000
<i>Less:</i> Return Outwards	4,000	76,000		
Wages	34,000			
<i>Add:</i> Wages Outstanding	50	34,050		
Gas and Fuel		2,700		
Freight and Carriage		3,500		
Factory Lighting		5,000		
Gross Profit		83,750		
		2,50,000		2,50,000

Profit and Loss Account

Dr.			Cr.		
Particulars	Amount Rs	Particulars		Amount Rs	
To Legal Expenses	4,000	By Gross Profit	83,750		
To Office Expenses	3,000				
To Depreciation on Machine	12,000				
To Depreciation on Building	3,600				
To Interest on Capital	8,400				
To Net Profit*	52,750				
	83,750		83,750		
Balance Sheet					
Liabilities	Amount Rs	Assets			
Capital	2,10,000	Bank Balance			

Q11 :

From the following balances extracted from the book of M/s Manju Chawla on March 31, 2005. You are requested to prepare the trading and profit and loss account and a balance sheet as on this date.

<i>Account Title</i>	<i>Amount Rs</i>	<i>Amount Rs</i>
Opening stock	10,000	
Purchases and Sales	40,000	80,000
Returns	200	600
Wages	6,000	
Dock and cleaning charges	4,000	
Lighting	500	
Misc. Income		6,000
Rent		2,000
Capital		40,000
Drawings	2,000	
Debtors and Creditors	6,000	7,000
Cash	3,000	
Investment	6,000	
Patent	4,000	
Land and Machinery	43,000	
Donations and Charity	600	
Sales tax collected		1,000
Furniture	11,300	
	1,36,600	1,36,600

Closing stock was Rs 2,000.

(a) Interest on drawings @ 7% and interest on capital @ 5%.

(b) Land and Machinery is depreciated at 5%.

(c) Interest on investment @ 6%.

(d) Unexpired rent Rs 100.

(e) Charge 5% depreciation on furniture.

Trading Account

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Opening Stock	10,000	Sales	80,000
Purchases	40,000	Less: Sales Return	200
Less: Purchases Return	600		79,800
	39,400	Closing Stock	2,000
Wages	6,000		
Dock and Cleaning Charges	4,000		
Gross Profit	22,400		
	81,800		81,800

Profit and Loss Account

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Lighting	500	Gross Profit	22,400
Donations and Charity	600	Miscellaneous Income	6,000
Interest on Capital	2,000	Rent	2,000
Depreciation on Furniture	565	Less: Unearned Rent	100
Depreciation on Land and Machinery	2,150		1,900
Net Profit	24,985	Interest on Drawings	140
		Interest on Investment	360
	30,800		30,800

Balance Sheet

Liabilities	Amount Rs	Assets

Capital	40,000	Debtors
Add: Interest on Capital	2,000	

Q12 :

The following balances were extracted from the books of M/s Panchsheel Garments on December 31, 2005.

<i>Account Title</i>	<i>Debit Amount Rs</i>	<i>Account Title</i>	<i>Credit Amount Rs</i>
Opening stock	16,000	Sales	1,12,000
Purchases	67,600	Return outwards	3,200
Return Inwards	4,600	Discount	1,400
Carriage inwards	1,400	Bank overdraft	10,000
General expenses	2,400	Commission	1,800
Insurance	4,000	Creditors	16,000
Scooter expenses	200	Capital	50,000
Salary	8,800		
Cash in hand	4,000		
Scooter	8,000		
Furniture	5,200		
Buildings	65,000		
Debtors	6,000		
Wages	1,200		
	1,94,400		1,94,400

Prepare the trading and profit and loss account for the year ended December, 31 and a balance sheet as on that date.

(a) Unexpired insurance Rs 1,000.

(b) Salary due but not paid Rs 1,800.

(c) Wages outstanding Rs 200.

(d) Interest on capital 5%.

(e) Scooter is depreciated @ 5%.

(f) Furniture is depreciated Rs @ 10%.

Answer :

Trading Account

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Opening Stock	16,000	Sales	1,12,000
Purchases	67,600	Less: Return Inwards	4,600
Less: Return Outwards	3,200	Closing Stock	15,000
Carriage Inwards	1,400		
Wages	1,200		
Add: Outstanding Wages	200		
Gross Profit	39,200		
	1,22,400		1,22,400

Profit and Loss Account

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
General Expenses	2,400	Gross Profit	39,200
Insurance	4,000	Discount	1,400
Less: Unexpired Insurance	1,000	Commission	1,800
Scooter Expenses	200		
Salary	8,800		
Add: Outstanding Salary	1,800		
Interest on Capital	2,500		
Depreciation on Scooter	400		
Depreciation on Furniture	520		
Net Profit	22,780		
	42,400		

Q13 :

Prepare the trading and profit and loss account and balance sheet of M/s Control Device India on December 31, 2006 from the following balance as on that date.

<i>Account Title</i>	<i>Debit Amount Rs</i>	<i>Credit Amount Rs</i>
Drawings and Capital	19,530	67,500
Purchase and Sales	45,000	1,12,500
Salary and Commission	25,470	1,575
Carriage	2,700	
Plant and Machinery	27,000	
Furniture	6,750	
Opening stock	42,300	
Insurance premium	2,700	
Interest		7,425
Bank overdraft		24,660
Rent and Taxes	2,160	
Wages	11,215	
Returns	2,385	1,440
Carriage outwards	1,485	
Debtors and Creditors	36,000	58,500
General expenses	6,975	
Octroi	530	
Investment	41,400	
	2,73,600	2,73,600

Closing stock was valued Rs 20,000.

(a) Interest on capital @ 10%.

(b) Interest on drawings @ 5%.

(c) Wages outstanding Rs 50.

(d) Outstanding salary Rs 20.

(e) Provide a depreciation @ 5% on plant and machinery.

(f) Make a 5% provision on debtors.

Answer :

Trading Account

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Opening Stock	42,300	Sales	1,12,500
Purchases	45,000	Less: Sales Return	2,385
Less: Purchases Return	1,440	Closing Stock	20,000
Carriage	2,700		
Wages	11,215		
Add: Outstanding Wages	50		
Octroi	530		
Gross Profit	29,760		
	1,30,115		1,30,115

Profit and Loss Account

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Salary	25,470	Gross Profit	29,760
Add: Outstanding Salary	20	Commission	1,575
Insurance Premium	2,700	Interest	7,425
Rent and Taxes	2,160	Interest on Drawings	977
Carriage Outwards	1,485	Net Loss	8,973
General Expenses	6,975		
Interest on Capital	6,750		
Depreciation on P & M	1,350		
Provision on Debtors	1,800		

48,710

Q14 :

The following balances appeared in the trial balance of M/s Kapil Traders as on March 31, 2006

	Rs
Sundry debtors	30,500
Bad debts	500
Provision for doubtful debts	2,000

The partners of the firm agreed to records the following adjustments in the books of the Firm: Further bad debts Rs.300. Maintain provision for bad debts 10%. Show the following adjustments in the bad debts account, provision account, debtors account, profit and loss account and balance sheet.

Answer :

Profit and Loss Account

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Bad Debts	500		
Add: Further Bad Debts	300		
Add: New Provision	3,020		
Less: Old Provision	2,000		
	1,820		

Balance Sheet

Liabilities	Amount Rs	Assets	Amount Rs
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		Debtors	30,500	
		Less: Further Bad Debts	300	
		Less: New Provision	3,020	27,180

Debtors Account

Dr.			Cr.		
Date	Particulars	Amount Rs	Date	Particulars	Amount Rs
2006 March 31	Balance b/d	30,500	2006 March 31	Further Bad Debts	300
			March 31	Provision for Doubtful Debts	3,020
			March 31	Balance c/d	27,180
		30,500			30,500

Q15 :
 Prepare the bad debts account, provision for account, profit and loss account and balance sheet from the following information as on December 31, 2005

	Rs
Debtors	80,000
Bad debts	2,000
Provision for doubtful debts	5,000

Answer :

Profit and Loss Account

Dr.		Cr.	
Particulars	Amount	Particulars	Amount

		Rs		Rs
Bad Debts	2,000	4,885	Old Provision for Doubtful Debts	5,000
<i>Add:</i> Further Bad Debts	500			
<i>Add:</i> New Provision for Bad Debts	2,385			
Balancing figure		115		
		5,000		5,000

Balance Sheet

Liabilities	Amount Rs	Assets	Amount Rs
		Debtors 80,000	77,115
		<i>Less:</i> Further Bad Debts 500	
		<i>Less:</i> New Provision on Debtors 2,385	
			77,115

Bad Debts Account

Dr.

Cr.

Date	Particulars	Amount Rs	Date	Particulars	Amount Rs
2005 Dec.31	Balance b/d (as per the Trial Balance)	2,000	2005 Dec.31	Provision for Doubtful Debts	2,500
Dec.31	Sundry Debtors	500			
		2,500			2,500

