

FINAL ACCOUNTS (WITH ADJUSTMENTS)

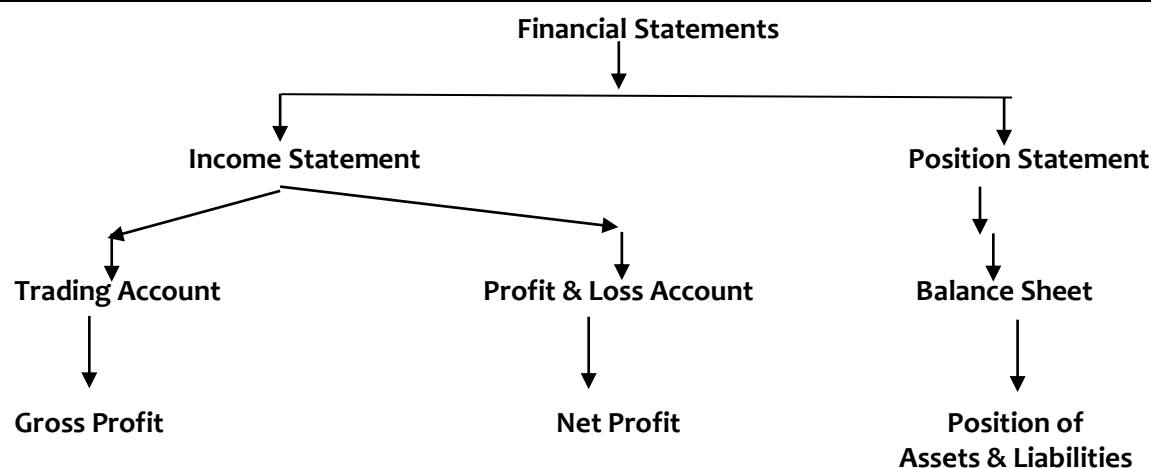
Final Accounts or Financial Statements: are the end products of the financial accounting process which involves the preparation of a summary of the accounts with a view to determine:

- (i) Net profit from the trading activities in terms of profit made or loss incurred for a given period, and
- (ii) Its financial position in terms of assets and liabilities as on the last date of the given period.

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

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

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



Comparison between Income Statement and Position Statement

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

Final Accounts includes following Accounts and statements:

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

Trading Account:

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

Preparation of Trading Account:

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

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

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

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

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

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

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

- (a) If the item 'Wages and Salaries' is given in the question it will be shown on the trading account. On the contrary, if 'Salaries and Wages' is given it will be shown on the Profit & Loss Account.
- (b) If wages are paid for bringing a new machine or for its installation it will be added to the cost of the machine and hence will not be shown in the trading account.

(II) **Carriage or Carriage Inwards or Freight :—** These expenses should be debited to trading account

because these are generally paid for bringing the goods to the factory or place of the business. However, if any carriage or freight is paid on bringing an asset, the amount should be added to the asset account and must not be debited to trading account.

- (III) **Manufacturing Expenses** :— All expenses incurred in the manufacture of goods are shown on the debit side of the trading account such as Coal, Gas, Fuel, Water, Power, Factory Rent, Factory Lighting etc.
- (IV) **Dock Charges** :— These are the charges levied on ships and their cargo while entering or leaving docks. If dock charges are paid on import of goods they are shown on the debit side of Trading Account. In the absence of specific instructions, these are debited to Trading Account.
- (V) **Import Duty or Custom Duty** :— Custom duty is paid on import as well as on export of goods. Custom duty when paid on the purchase of goods is charged to Trading Account. In the absence of specific instructions, these are debited to trading account.
- (VI) **Octroi** :— This is levied by the Municipal Committee when the goods enter the city and hence debited to Trading Account.
- (VII) **Royalty** :— This is the amount paid to the owner of a mine or patent for using his right or patent. Royalty is usually charged to Trading Account because it increases the cost of production. However, if it is specifically stated in the question that the Royalty is based on sales, it will be charged to Profit and Loss Account.

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

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

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

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

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

Important Note:

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

Closing Entries Relating to Trading Account:

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

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

Purchases Return A/c	Dr.
To Purchases A/c	

(Transfer of purchases returns account to purchases account)

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

Sales A/c	Dr.
To Sales Return A/c	

(Transfer of Sales Return Account to Sales Account)

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

Trading A/c	Dr.
To Opening Stock A/c	
To Purchases A/c	
To Wages A/c	
To Direct Expenses A/c	
To Carriage A/c	
To Gas, Fuel & Power A/c	
To Freight, Octroi & Cartage A/c	
To Manufacturing exp. A/c	
To Factory Rent & Lighting A/c	
To Custom Duty A/c	
To Royalty A/c	

(The Transfer of above accounts to the Dr. side of the Trading A/c)

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

Sales A/c	Dr.
Closing Stock A/c	Dr.
To Trading A/c	

(The Transfer of above accounts to the Cr. side of the Trading A/c)

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

Trading A/c	Dr.
To Profit & Loss A/c	

(The Transfer of Gross Profit to the Credit side of P & LA/c)

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

Profit & Loss A/c

Dr.

To Trading A/c

(The Transfer of Gross Loss to the Debit side of P & L A/c)

Trading A/c (for the period ending on)

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

Notes :

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

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

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

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

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

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

Solution:

TRADING A/C

Dr.

for ending 31st March, 2012

Cr.

To Opening Stock	2,00,000	By Sales	25,00,000
To Purchases	10,00,000	Less: Sales Returns	<u>1,00,000</u>
Less: Purchases Return	<u>60,000</u>	By Closing Stock	3,00,000
	9,40,000		

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

Cost of Goods sold:

Cost of Goods sold = Opening Stock + Purchases + Direct Expenses* – Closing Stock

*Direct Expenses means expenses debited to the Trading Account

Question 2:

From the following information, prepare the Trading Account for the year ended 31st March, 2010:

Adjusted Purchases Rs. 24,00,000; Freight and Carriage Inwards Rs. 20,000; Freight and Carriage Outwards Rs. 15,000; Wages Rs. 1,68,000; Octroi Charges Rs. 2,000; Fuel and Power Rs. 30,000; Office Rent Rs. 18,000; Trade Expenses Rs. 10,000; Sales Rs. 30,00,000; Closing Stock Rs. 1,50,000.

Solution:**TRADING ACCOUNT**

Dr.	for the year ending 31st March, 2010		Cr.
To Adjusted Purchases	24,00,000	By Sales	30,00,000
To Freight and Carriage Inwards	20,000		
To Wages	1,68,000		
To Octroi Charges	2,000		
To Fuel and Power	30,000		
To Gross Profit transferred to Profit & Loss A/c	3,80,000		
	30,00,000		30,00,000

Notes:

(1) Adjusted Purchases Net Purchases + Opening Stock – Closing Stock.

(2) Closing Stock has not been shown on the credit side of Trading A/c since it has already been adjusted while computing the adjusted purchases.

(3) Following items are not entered in the Trading A/c because they are indirect expenses and will appear in the Profit & Loss A/c:

(i) Freight and Carriage Outwards (ii) Office Rent (iii) Trade Expenses.

Question 3:

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

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

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

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

Solution:

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

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

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

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

Question 4:

Calculate gross profit when:

Total purchases during the year are Rs. 8,00,000

Return outward Rs. 20,000

Direct expenses Rs. 60,000

2/3 of the goods are sold for Rs. 6,10,000

Solution:

Cost of Goods Sold = Total Purchases — Return Outwards + Direct Expenses
 = Rs. 8,00,000 — 20,000 + 60,000 = 8,40,000

2/3 of the goods are sold for Rs. 6,10,000.

Cost of 2/3 of the goods sold = 8,40,000 × 2/3 = 5,60,000

Gross Profit = Sales — Cost of Goods Sold

= Rs. 6,10,000 — 5,60,000 = Rs. 50,000

Question 5:

Calculate Cost of Goods Sold and Closing Stock from the following information:

Sales Rs. 5,40,000; Sales Returns Rs. 16,000; Gross Profit Rs. 1,20,000;

Opening Stock Rs. 20,000; Purchases Rs. 4,00,000; Purchase Returns Rs. 4,000; Carriage Inward Rs. 15,000.

Solution:

Net Sales = Sales — Sales Returns

= 5,40,000 — 16,000 = 5,24,000

Cost of Goods Sold = Net Sales — Gross Profit

= 5,24,000 — 1,20,000 = 4,04,000

$\text{Cost of Goods Sold} = \text{Opening Stock} + \text{Purchases} - \text{Purchase Returns} + \text{Carriage Inward} - \text{Closing Stock}$
 $4,04,000 = 20,000 + 4,00,000 - 4,000 + 15,000 - \text{Closing Stock}$
 $4,04,000 = 4,31,000 - \text{Closing Stock}$
 $\text{Closing Stock} = 4,31,000 - 4,04,000 = 27,000$

Question 6:

From the following information, prepare a Trading Account for the year ended 31st March, 2010:

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

Solution:**TRADING ACCOUNT**

Dr.	for the year ended 31st March, 2010		Cr.
To Cost of Goods Sold	8,00,000	By Sales	10,00,000
To Gross Profit transferred to Profit & Loss A/c	2,00,000		
	10,00,000		10,00,000

Notes :

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

Question 7:

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

Solution:

$\text{Gross Profit} = \text{Rs. } 2,85,000 \times 25/100 = 71,250$
 $\text{Cost of Goods Sold} = 2,85,000 - 71,250 = 2,13,750$

Question 8:

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

Solution:

Gross Profit is 25% on Cost.
 Hence, if Cost is Rs. 100, Gross Profit will be Rs. 25 and Sales will be Rs. 125
 Thus, if Sale is Rs. 125, Gross Profit will be Rs. 25
 if Sale is Rs. 6,00,000, Gross Profit will be $6,00,000 \times 25/125 = 1,20,000$
 $\text{Cost of Goods Sold} = \text{Sale} - \text{Gross Profit}$
 $= 6,00,000 - 1,20,000 = 4,80,000$

Question 9:

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

Stock on 1st April, 2009	60,000
Purchases from 1st April to 14th July, 2009	4,10,000
Sales from 1st April to 14th July, 2009	6,00,000
Stock remaining after burglary	12,000
The normal rate of gross profit for his business is 30% of selling price.	

Solution:

TRADING ACCOUNT				
Dr.		for the period 1st April to 14 th July 2009		Cr.
To Opening Stock	60,000	By Sales		6,00,000
To Purchases	4,10,000	By Closing Stock		
To Gross Profit @ 30% on sales	1,80,000	(Balancing Figure)		50,000
	6,50,000			6,50,000

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

Question 10:

Calculate closing stock from the following details:

Opening Stock	20,000
Cash Sales	60,000
Credit Sales	40,000
Purchase	70,000
Rate of Gross profit on cost $33\frac{1}{3}\%$.	

Solution:

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

Goods Costing 100 must have been sold for $133\frac{1}{3}$

Hence, If Sales $133\frac{1}{3}$ then Gross Profit = $33\frac{1}{3}$

If Sales 1,00,000 then Gross Profit = $100/3 \times 3/400 \times 1,00,000 = 25,000$

Cost of Goods Sold = Sales — Gross Profit

= 1,00,000 — 25,000 = 75,000

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

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

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

Question 11:

Calculate Net Sales and Gross Profit from the following information:

Cost of Goods Sold Rs. 1,00,000

Gross Profit 20% on Sales

Solution:

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

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

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

Sale will be $100/80 \times 1,00,000 = \text{Rs. } 1,25,000$

$$\begin{aligned}
 G.P. &= \text{Sales} - \text{Cost of Goods Sold} \\
 &= 1,25,000 - \text{Rs. } 1,00,000 = 25,000
 \end{aligned}$$

ILLUSTRATION FROM STUDY MODULE:

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

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

Additional information : Creditors balance as on 1st April 2016 is Rs. 3,00,000.

You are required to calculate cost of goods sold & amount paid to creditors during the year.

Solution:

(i) Calculation of Cost of Goods sold:

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

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

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

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

(ii) Calculation of amount paid to creditors:

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

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

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

Purchases made during the year

13,00,000

Profit and Loss Account

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

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

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

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

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

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

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

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

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

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

Closing Entries relating to Profit and Loss Account:

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

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

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

To Printing and Stationery A/c
 To Postage and Telegrams A/c
 To General Expenses etc.

(The transfer of nominal accounts showing Dr. balances to the Debit of P & L A/c)

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

Interest Received A/c Dr.
 Commission Received A/c Dr.
 Rent Received A/c Dr.
 To Profit and Loss A/c

(The transfer of nominal accounts showing Cr. balances to the Credit of P & L A/c)

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

Profit and Loss A/c Dr.
 To Capital A/c

(The transfer of net profit to Capital A/c)

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

Capital A/c Dr.
 To Profit and Loss A/c

(The transfer of net loss to Capital A/c)

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

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

x x x

x x x

Notes :—

(1) Those expenses which are not related to the business are not written in the Profit and Loss Account such as:

(i) Domestic and household expenses of the proprietor,

(ii) Income-Tax, and

(iii) Life Insurance Premium etc. These expenses are known as Drawings and deducted from Capital at the liabilities side of the Balance Sheet.

(2) Only those items of expenses and incomes are shown in the Profit & Loss Account which have not been shown in the Trading Account.

* Income received by providing training to someone is called 'Apprentice Premium'.

ILLUSTRATION FROM STUDY MODULE

Question 13: Revenue, Expenses and Gross Profit Balances of M/s ABC Traders for the year ended on 31st March 2016 were as follows:

Gross Profit Rs. 4,20,000, Salaries Rs. 1,10,000, Discount (Cr.), Rs. 18,000, Discount (Dr.) Rs. 19,000, Bad Debts Rs. 17,000, Depreciation Rs. 65,000, Legal Charges Rs. 25,000, Consultancy Fees Rs. 32,000, Audit Fees Rs. 1,000, Electricity Charges Rs. 17,000, Telephone, Postage and Telegrams Rs. 12,000, Stationery Rs. 27,000, Interest paid on Loans Rs. 70,000.

Required:

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

Solution:**In the Books of M/s. ABC Traders****Profit and Loss Account****For the year ended 31st March, 2016**

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

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

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

Balance sheet

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

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

ARRANGEMENTS OF ASSETS AND LIABILITIES

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

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

Balance Sheet as at...

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

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

Balance Sheet as at...

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

Note:-

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

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

CLASSIFICATION OF ASSETS AND LIABILITIES

Assets are basically of two types:

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

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

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

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

Liabilities to outsider will be of two types:

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

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

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

Balance Sheet as on.....

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

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

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

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

ILLUSTRATION FROM STUDY MODULE

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

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

Required:

Prepare Balance Sheet as on 31st March, 2017.

Solution:

In the Books of M/s Dayal Bros.

Balance Sheet

as on 31st March, 2017

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

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

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

Accrued Income A/c Dr.
 To Income A/c
 (For income receivable)

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

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

Income A/c	Dr.
To Unearned Income A/c	
(For Unearned Income received)	

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

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

Interest on Capital A/c	Dr.
To Capital A/c	

(For Interest allowed on Capital)

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

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

Drawing A/c	Dr.
To Interest on Drawing A/c	
(For Interest charged on Drawings)	

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

9. Interest on Loan :-

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

Adjustment entry :-

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

Adjustment in Final A/c :-

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

10. Bad-debts :-

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

Adjustment entry :-

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

Adjustment in Final A/c :-

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

11. Provision for Bad-debts :-**Adjustment entry :-**

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

Adjustment in Final A/c :-

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

ILLUSTRATION FROM STUDY MODULE

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

Required:

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

Solution:

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

ILLUSTRATION FROM STUDY MODULE:

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

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

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

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

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

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

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

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

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

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

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

Required:

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

Solution:

Profit and Loss Account (Revised)

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

Balance Sheet of Thapar as on 31st December, 2016

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

ILLUSTRATION FROM STUDY MODULE

Question 17: Crimpson Ltd. profit and loss account for the year ended 31st March, 2016 includes the following information:

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

Required:

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

Solution:

- (a) Transfer to provisions – (i), (iii) (vi)
 (b) Transfer to reserves – (v)
 (c) Neither related to provisions nor reserves – (ii), (iv).

Question 18:**QUESTION FROM STUDY MODULE & EXAMINATION 1994 – NOV:**

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

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

Adjustments:

- (1) Value of stock as on 31st March, 1994 is Rs. 39,300. This includes goods returned by customers on 31st March, 1994 to the value of Rs. 1,500 for which no entry has been passed in the books.
 (2) Purchases include furniture purchased on 1st January, 1994 for Rs. 1,000.

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

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

	Rs.		Rs.
31.3.1994 To Balance c/d	10,000	1.4.1993 By Balance b/d	5,000
	31.3.1994	By Bank	5,000
	<u>10,000</u>		<u>10,000</u>

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

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

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

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

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

(20 marks)

Answer:

In the Books of Ganguli
Trading Profit & Loss Account
for the year ended 31.3.1994

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

Balance Sheet as on 31.3.1994

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

Working Notes:

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

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

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

You are required to calculate:

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

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

Salaries of 8 employees for full year @ Rs. 33,000 per month each	31,68,000
Salaries of 2 trainees for 6 months @ Rs. 21,000 p.m.	2,52,000
	<u>34,20,000</u>
	2,40,000

(ii) Salaries actually paid in 2016

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

(iii) Outstanding salaries as at 31st December, 2016

8 employees @ Rs. 33,000 each for 1 month	
2 trainees @ Rs. 21,000 each for 1 month	42,000
	<u>3,06,000</u>

Question 20: Mr. Kotriwal is engaged in business of selling magazines. Several of his customers pay money in advance for subscribing his magazines. Information related to year ended 31st March 2017 has been given below:

On 1.4.2016 he had a balance of Rs. 2,00,000 advance from customers of which Rs. 1,50,000 is related to year 2016-17 while remaining pertains to year 2017-18. During the year 2016-17 he made cash sales of Rs. 5,00,000. You are required to compute:

- (i) Total income for the year 2016-17.
 (ii) Total money received during the year if the closing balance in advance from customers account is Rs. 1,70,000.

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

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

(ii) Advance from customers A/c

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

So, total money received during the year is:

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

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

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

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

Commission is charged at the rate of 10%.

Selling Expenses amount to 1% of total sales.

You are required to compute the missing figures.

Answer: ????????

PRACTICE QUESTIONS

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

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

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

Adjustments: -

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

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

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

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

Adjustments: -

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

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

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

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

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

Adjustments:-

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

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

Question 25:

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

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

Adjustments:-

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

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

Question 26:

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

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

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

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

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

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

Question 27:

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

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

Adjustments: -

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

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

Hints:

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

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

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

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

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

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

Question 28:

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

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

Adjustments:

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

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

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

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

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

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

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

Hints:

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

Question 29:

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

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

Information :

- Purchases Include purchase of furniture of Rs. 10,000 on 1st April 2000.
- Depreciate furniture @ 10% p.a. and Buildings @ 5% p.a.
- Sundry Debtors include Rs. 5,000 due from a customer to whom Rs. 1,000 is owed.
- There is a dishonoured cheque of Rs. 4,000 not recorded in the bank column of the cash book. This cheque is expected to fetch only 75%.
- Create a provision for doubtful debts at 5%.
- Closing stock was taken on 28th December 2000 and was then valued at Rs. 58,000. Purchases and sales on 29th, 30th and 31st December 2000, amounted to Rs. 3,200 and Rs. 6,000 respectively. These transactions have been duly recorded in the books. Gross Profit included in these sales was 25% on Cost.

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

Question 30:

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

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

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

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

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

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

Hints:

- (i) Depreciation On Furniture Rs. 8,100
- (ii) In adjustment No. 5, Rs. 3,000 will be shown on the credit side of P&L A/c and will also be deducted from creditors. Net amount of creditors shown on liabilities will be Rs. 77,000.
- (iii) Provision for Doubtful Debts will be 5% on Rs. 1,80,000.
- (iv) Commission to Salesmen : 10% on 8,15,000 = 81,500. Outstanding Commission will be Rs. 11,500 (i.e., 81,500 - 70,000).

Question 31:

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

Dr. Balance	Cr. Balance
(Rs.)	(Rs.)

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

Additional Information:

- (i) Closing stock on 31st March, 2010 is valued at Rs. 6,50,000. goods worth Rs. 5,000 are reported to have been taken away by the proprietor for his personal use at home during the year.
- (ii) Interest on investments Rs. 5,000 is yet to be received while Rs. 10,000 of the commission received is yet to be earned.
- (iii) Rs. 5,000 of the fire insurance premium paid is in respect of the quarter ending 30th June, 2010.
- (iv) Salaries Rs. 10,000 for March, 2010 and bank overdraft interest estimated at Rs. 20,000 are yet to be recorded as outstanding charges.
- (v) Depreciation is to be provided on land and buildings @ 5% per annum and on furniture and fittings @ 10% per annum.
- (vi) Make a provision for doubtful debts @ 5% of trade debtors.

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

Question 32:

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

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

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

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

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

Question 33:

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

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

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

Adjustments:

- (1) Closing Stock was taken on 29th March, 1986 and was then valued at Rs. 70,000 purchases and sales on 31st March 1986 amounted to Rs. 4,000 and Rs. 6,000 respectively. These transactions were duly entered into the books. Rate of Goods Profit included in these sales may be taken as cost plus 25%.
- (2) Debtors include an amount of 5,000 due from a customer who has become insolvent and nothing is recoverable from his estate. Create a provision for Bad and Doubtful Debts @ 5% on Sundry Debtors.
- (3) Salaries are paid @ 7,000 per month.
- (4) Write off 1/4th of advertisement Exp.
- (5) Allow 5% interest to partners on their capitals and charge interest on drawings from A Rs. 800 and from B Rs. 600.
- (6) Provision up to date interest on loan.
- (7) A B/R for Rs. 4,000 has been discounted from the bank which will be due after 31st March, 1986.

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

Hints:

- (1) Closing Stock Rs. 69,200.
- (2) Interest for 6 months on 10,000 @ 12% amounts to Rs. 600. Interest shown in Trial Balance is Rs. 300. As such, the remaining amount of 300 will be the amount of outstanding interest. Amount shown on the Dr. side of P&L A/c will be Rs. 300+ 300=600; amount shown on Liabilities side will be 10,000 + 300 = 10,300.

ADDITIONAL QUESTION FOR SELF PRACTICE

Question 34:

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

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

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

Adjustments:-

- (1) Stock on 31st March, 2012 was valued at Rs. 25,000 (Realisable value Rs. 32,000).
- (2) Stock of Rs. 6,000 was burnt by Fire on 25th March. It was fully insured and the Insurance Company admitted the claim in full.
- (3) Goods worth Rs. 1,800 were distributed as free sample. Goods worth Rs. 1,500 were used for personal purposes by the Proprietor and Goods worth Rs. 500 were given away as charity.
- (4) Depreciate Motor Car by 15%.
- (5) The Motor Car is used partly for business and partly for domestic purpose; therefore, one-third of the Car expenses including Car depreciation is to be charged to the Proprietor's A/c.
- (6) Rent for 2 months is receivable on Premises Sublet.
- (7) Balance at Bank on 31st March, 2012 as ascertained from the Pass Book is Rs. 15,080, the difference representing Bank Charges.
- (8) Included in Trade Expenses is Insurance Premium of Rs. 2,400 paid for the year ending 30th June, 2012.

Solution:

TRADING AND PROFIT & LOSS A/C			
Dr.		Cr.	
Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Opening Stock	15,000	By Sales	1,24,000
To Purchases	87,200	<u>Less: Return inward</u>	<u>6,000</u>
<u>Less: Return Outward</u>	<u>1,000</u>	By Closing Stock	25,000
	86,200		
<u>Less: Loss by fire</u>	<u>6,000</u>		
	80,200		
<u>Less: Free Samples</u>	<u>1,800</u>		
	78,400		
<u>Less: Drawing in Goods</u>	<u>1,500</u>		
	76,900		
<u>Less: Charity</u>	<u>500</u>		
	76,400		
To Freight and duty	2,000		
To Carriage in	800		
To Gross Profit c/d	48,800		
	1,43,000		1,43,000
To Carriage out	300	By Gross profit h/d	48,800
To Trade Expenses	15,400	By Special Rebates	1,200
<u>Less: Prepaid Insurance</u>	<u>600</u>	By Rent	1,000
	14,800	<u>Add: Rent receivable⁽²⁾</u>	<u>200</u>
To Special Rebates	800		1,200
To Lighting	400		

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

BALANCE SHEET as at 31st March, 2012

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

Notes:—

- (1) Closing Stock will be shown at cost or realisable price, whichever is less.
- (2) Rent amounting to Rs. 1,000 has been received for 10 months. As such, rent receivable for 2 months will be $\frac{1,000}{10} \times 2 = \text{Rs. } 200$.

Question 35:

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

	Rs.		Rs.
--	-----	--	-----

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

Adjustments:

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

Solution:**TRADING AND PROFIT & LOSS ACCOUNT****Dr. for the year ending 31st March, 2008****Cr.**

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

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

BALANCE SHEET as at 31st March, 2015

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

Question 36:

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

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

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

Information:—

- (i) Stock on 31st March, 2008 was Rs. 6,000.
- (ii) Write off Rs. 600 for Bad Debts and maintain a provision of 5% on Debtors.
- (iii) On 28th March, 2008, goods were sent on approval basis for Rs. 1,200 at 20% profit on cost. This was recorded as actual sales.
- (iv) Rs. 240 paid as rent of the office were debited to landlord account and were included in the list of debtors.
- (v) General Manager is to be given commission at 10% of net profit after charging the commission of Works Manager and his own.
- (vi) Works Manager is to be given commission at 5% of net profit after charging the commission of General Manager and his own.

Solution:**TRADING AND PROFIT & LOSS ACCOUNT**Dr. **for the year ended 31st March, 2008**

Cr.

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

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

BALANCE SHEET as at 31st March, 2008

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

Note:

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

	Rs.
Total of Cr. side of P & L A/c	18,852
Less: Total of Dr. Side	<u>2,260</u>
Net Profit before charging commission	<u>16,592</u>
Total Commission to be allowed is 5% + 10% = 15%. Hence,	
Works Manager will be allowed 5/115 of Rs. 16,592 and	
General Manager will be allowed 10/115 of Rs. 16,592.	

Question 37:

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

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

Adjustments :—

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

Solution:**TRADING AND PROFIT & LOSS ACCOUNT**

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

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

BALANCE SHEET as at 31st Dec., 2010

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

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

Note:

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

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

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

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

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

Question 38:

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

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

Adjustments : —

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

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

Solution:

TRADING AND PROFIT & LOSS A/C for the year ended 31st March, 2013			
Dr.			Cr.
Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Opening Stock	22,000	By Sales	2,75,000
To Purchases	2,05,000	By Closing Stock	40,500 ⁽¹⁾
To Carriage	4,500		
To Gross Profit c/d	84,000		

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

BALANCE SHEET as at 31st March, 2013

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

Notes:**(1) Valuation of Closing Stock :—**

Closing Stock on 29th March, 2013

Rs.

40,000

Add: Purchases on 30th & 31st March, 20131,50041,500**Less:** Cost of goods sold on 30th & 31st March, 2013 :—

Rs. 1,200 - Rs. 200 (i.e. 20/120 of Rs. 1,200)

Balance on 31st March, 2013

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

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

Question 39:

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

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

ADJUSTEMENTS:

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

Solution:**TRADING ACCOUNT**

Dr.		Cr.	
Particulars		Particular	
Amount		Amount	
Rs.		Rs.	
To Opening Stock	15,000	By Sales	3,00,000
To Purchases	1,50,000	<u>Add: Sales Omitted</u>	<u>10,000</u>
<u>Less: Samples</u>	<u>5,000</u>	By Closing Stock	30,000
<u>Less: Drawings</u>	<u>4,000</u>	<u>Less: Sold and</u>	

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

BALANCE SHEET (as at March 31, 2016)

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

Working Notes :

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

	Rs.
(2) Debtors given in Trial Balance	1,50,000
Less : Common Debt	<u>12,000</u>
	1,38,000

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

Question 40:

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

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

Additional information:

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

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

Solution:**TRADING AND PROFIT & LOSS ACCOUNT**Dr. for the year ending 31st March, 2013

Cr.

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

BALANCE SHEETas at 31st March, 2013

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

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

Question 41:

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

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

Additional Information:

- Closing Stock on 31.3.2014 was valued at cost Rs. 25,600 (Market value Rs. 26,200).
- Rs. 6,000 paid to Mr. Red against Bill Payable were debited by mistake to Mr. Green's Account and included in the list of Sundry Debtors.
- Travelling Expenses paid to sales representative Rs. 5,000 for the month (March 2014) were debited to his personal account and included in the list of Sundry Debtors.
- Depreciation on Furniture and Fittings shall be provided at 10% p.a.

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

Solution:

TRADING AND PROFIT AND LOSS ACCOUNT for the year ended 31st March, 2014			
Dr.			Cr.
Particulars	Amounts	Particulars	Amounts
	Rs.		Rs.
To Opening Stock	7,000	By Sales	60,720
To Purchases		<u>Less: Returns Inward</u>	<u>1,000</u>
(71,280 - 7,000)	64,280	By Closing Stock	25,600
<u>Less: Returns Outwards</u>	<u>11,432</u>		
	52,848		
<u>Less: Drawings in goods</u>	<u>1,500</u>		
	51,348		
To Wages	1,800		
To Gross Profit c/d	25,172		
	<u>85,320</u>		<u>85,320</u>
To Rent	12,540	By Gross Profit b/d	25,172
To Trade Charges	920	By Discount Received	22,000
To Discount allowed	540		
To Salaries (including Rs. 12,000 paid to Sales Representative)	16,780		
To Travelling Expenses	5,000		
To Depreciation on Furniture and Fittings	154		
To Provision for Doubtful Debts	1,158		
To Sales Representative's Commission (5% on Rs. 59,720)	2,986		
To Stationery Charges Outstanding	1,200		
To Balance c/d	5,894		
	<u>47,172</u>		<u>47,172</u>
To Extra Commission to Sales Representative $5,894 \times \frac{5}{105}$	281	By Balance b/d	5,894
To Net Profit transferred to Capital Account	5,613		
	<u>5,894</u>		<u>5,894</u>

BALANCE SHEET
AS AT 31ST March, 2014

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

Treatment of Various Adjustments

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

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

TRUE & FALSE

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

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

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

ANSWERS:

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

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

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

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

THEORY QUESTIONS

Questions 1: Distinguishing between the following:-

- (1) Contingent Liability and other Liabilities.
- (2) Charge against Profit and Appropriation of Profit.

Answer:

(1) Contingent Liability and other Liabilities:

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

- (i) **Fixed Liabilities:** Such debts that are payable after a very long period are called fixed liabilities e.g. Capital.
- (ii) **Current Liabilities:** Such debts that are payable from time to time are called current liabilities e.g. Bank overdraft.
- (iii) **Contingent Liability:** Such debts that become payable on the happening some specific incident are called contingent liabilities. It is not an actual liability and as such it is not recorded in the balance sheet. It is simply mentioned by way of footnote to the Balance sheet.

Following are the examples of contingent liabilities.

- (a) Bills discounted before maturity.
- (b) Cases pending in the court of law.
- (c) Guarantee undertaken.

(2) Charge against Profit and Appropriation of Profit.

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

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

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

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

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

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

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

In order of liquidity : In such a case the assets are arranged in the order of their liquidity i.e., the most liquid assets (e.g., Cash in hand) is shown first The least liquid (e.g., goodwill) is shown last. The least liquid asset does not mean as asset, which cannot be encashed. The liabilities are arranged in the order of their urgency of payment i.e. the most urgent payment to be made (e.g. short -term creditors) is shown first. The least urgent payment to be made (long-term creditors) is shown last. Usually the banking and financial companies. Sole proprietorship and the partnership concerns prepare their balance sheet in the order of liquidity.

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

Questions 4: Write short note on contingent liabilities.

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

- (i) Arrears of dividends on cumulative preference shares.
- (ii) Liability for dishonored bill receivable previously discounted.
- (iii) Claim by others which has been disputed by the firm or pending in the court of law.
- (iv) Amount to be executed under the contracts.
- (v) Guarantees given by company for companies under the same management.
- (vi) Uncalled liabilities on shares partly paid.

Characteristics of Contingent Liabilities

It has two characteristics:

- (a) Uncertainty as to whether the amount will be payable at all; and
- (b) Uncertainty about the amount involved.

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

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

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

Answer:

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

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

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

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

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

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

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

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

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

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

Questions 9: Distinction between tangible assets and intangible assets

Answer :

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

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

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

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

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

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

- (i) Arrears of dividends on cumulative preferences shares :
- (ii) Bills of exchange discounted:
- (iii) Guarantees given by the company to companies under the same management ; and
- (iv) Suit for damages against the company, which it is defending.

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

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

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

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

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

Questions 12: Distinguish between accrued income and uncured income :

Answer:

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

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

Answer:

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

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

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

Questions 14: Distinction between trade discount and cash discount.

Answer :

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

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

Answer:

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

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

- (a) Amount provided for meeting claims which are admissible in principle but the amount where of has not been ascertained.
- (b) Amount provided for payment of taxes still to be assessed.
- (c) Amount set aside for writing off bad debts or payment of discounts.

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

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

Answer:

Deferred Expenses and Prepaid Expenses

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

According to Guidance Note:

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

How to Charge it in Profit & Loss Account:

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

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

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

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

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

Example:

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

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

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

- (a) Commission paid to selling or buying agents.
- (b) Commission paid to brokers and bankers for service rendered.
- (c) Commission paid to brokers and bankers for service in renting out properties or services in connection with purchase/sale of properties.
- (d) Commission to export -import agents in foreign trade.

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

- (a) An allowance given for the settlement of a debt before it is due i.e., each discount.
- (b) An allowance given to the whole sellers or bulk buyer on the list price or retail price, known as trade discount
- (c) The excess of par or face value of shares or debentures over the amount paid by subscriber i.e., discount on issue of shares or debentures.
- (d) The amount charged by a bank on discounting of a bill of exchange.

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

Past Year Questions and Answers

Objective Questions:

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

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

Answer:

True: Dividend is distributed out of net profits which is obtained after providing for depreciation therefore, depreciation reduces the amount of profit for dividend.

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

- (c) A Profit and Loss Account is a period statement whereas a Balance Sheet is a point statement.
- (f) The proprietor of a shop feels that he has made a loss due to closing stock being zero.

Answer:

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

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

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

- (2) Sale of office furniture should be credited to Sales A/c. (1.5 marks)
- (9) The provision for discount on Debtors is calculated before deducting the provision for doubtful debts from Debtors. (1.5 marks)

Answer:

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

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

1996 - Nov [5] State with reason whether the following statement is true or false:

(10) The debts written off as bad, if recovered subsequently are credited to debtors account.

(2 marks)

Answer:

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

1997- Nov

[5] State with reasons whether the following statement is true or false:

(5) Profit and Loss Account shows the financial position of the concern.

(2 marks)

Answer:

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

1997 - Nov [5] State with reason whether the following statement is true or false:

(9) The proprietor of a shop feels that he has made a loss due to closing stock being zero. (2 marks)

Answer:

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

1998 - May [5] State with reason whether the following statements are true or false:

(1) The provision for discount on debtors is calculated after deducting the provision for doubtful debts from Debtors. (2 marks)

(2) Freight and cartage expenses paid on purchases of goods is added to the amount of purchase.

(2 marks)

Answer:

(1) True: The provision for doubtful debts is deducted from the debtors to arrive at the balance of good debtors who might claim discount by making prompt payments. Thus the provision for discount on debtors is calculated on the balance so arrived which represents good or sound debtors.

(2) True: Freight and cartage expenses paid to bring goods purchased into the business premises/ factory are included in the 'Cost of Purchases'.

2000 - May [5] State with reason whether the following statement is true or false:

(vii) Provision for bad debts is debited to Sundry Debtors Account.

(2 marks)

Answer:

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

2000 - Nov [5] State with reason whether the following statements are true or false:

(2) Freight paid on purchases of goods is added to the amount of purchases.

(2 marks)

(4) Wages paid for erection of new machinery are debited to Machinery A/c.

(2 marks)

Answer:

(2) True: Such freight paid on the purchases of goods is included in the cost of purchase.

(4) True: Because it is a capital expenditure.

2001 - May [5] State with reason whether the following statement is true or false:

(1) Land is also a depreciable asset.

(2 marks)

Answer:

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

2001-May

[5] State with reasons whether the following statement is true or false:

(1) The debit balance in the Profit and Loss Account is surplus.

(2 marks)

(5) Goodwill is a fictitious asset.

(2 marks)

(8) Capital is all assets less fictitious assets.

(2 marks)

Answer:

(1) False: The debit balance in P & LA/c is a loss because expenses are more than revenue.

(5) False: Goodwill is an intangible asset

(8) False: Capital is all assets less (fictitious assets and outside or external liabilities).

2002 - May [5] State with reason whether the following statement is true or false:

(10) The debts written-off as bad, if recovered subsequently are credited to debtor's account.

(2 marks)

Answer:

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

2002 - Nov [5] State with reason whether the following statements are true or false:

(a) Provision for discount on debtors is calculated after deducting the provision for doubtful debts from debtors.

(2 marks)

(e) Profit on Sale of a Capital asset need not be added to ascertain the Net Profit of a business.

(2 marks)

Answer:

(a) **True:** Provision for discount on debtors is to be calculated on the balance of debtors left after deducting provision for doubtful debts.

(e) **True:** The profit on sale of capital assets should not be added to ascertain the true net profit of a business because it is not due to normal business operations.

2002 - Nov

(5) State with reasons whether the following statement is true or false:

(ix) Under the 'Liquidity approach', assets which are most liquid are presented at the bottom of the Balance Sheet.

(2 marks)

Answer:

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

2004 - Nov [5] State with reason whether the following statement is true or false: ;

(vi) The provision for discount on debtors is calculated after deducting the provision for doubtful debts from debtors.

(2 marks)

Answer:

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

2004 - May

[5] (vii) Goodwill is a fictitious asset.

(2 marks)

Answer:

False: Goodwill is not a fictitious asset. It is an intangible asset.

2005 - May [5] State with reason whether the following statement is true or false:

(i) Goods worth Rs. 600 taken by the proprietor for personal use should be credited to purchase account.

(2 marks)

Answer:

True: Goods taken by the proprietor for personal use should be debited to Drawings Account and Credited to Purchase Account.

2006 - May [5] State with reason whether the following statements are true or false:

(iii) "Marshalling" and 'Grouping' has the same meaning.

(2 marks)

(vii) Sundry debtors are liquid assets. (2 marks)

Answer:

(iii) **True:** Marshalling and grouping are the same things because under marshalling also transactions are assembled or grouped at one location/place.

(vii) **False:** According to the rule of Garner vs. Murray, the loss on account of insolvency of a partner should be borne by the solvent partners in the ratio of their capitals standing in the balance sheet, just before the dissolution of the partnership firm.

2018 Nov [1] {C} (a) State with reasons, whether the following statement is true or false:

(iv) If Closing Stock appears in the Trial Balance:

The closing inventory is then not entered in Trading Account. It is shown only in the balance sheet.

(2 marks)

Answer:

True: If closing stock appears in the Trial Balance, then closing stock is not entered in the trading account, but only shown in the Balance Sheet. This is because it has already been adjusted to arrive at cost of goods sold.

Distinguish Between

1994 - Nov [6] Differentiate between the following:

(6) Profit and Loss Account and Balance Sheet.

(8 marks)

Answer:

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

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

1995 - May [6] Explain the difference between the following:

(i) Trial Balance and Balance Sheet. **1997 - May [6], 1998 - May [6], 2002 - May [6] (5 marks)**

Answer:

Difference between Trial Balance and Balance Sheet

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

1996 - Nov [6] Distinguish between the following:

(b) Provisions and Reserves. **2000 - Nov [6] (5 marks)**

Answer:

Difference between Provisions and Reserves

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

2001 - Nov [3] Briefly explain the difference between the following:

(b) What is "Balance Sheet"?

(5 marks)

Answer:

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

2001 - Nov [6] Briefly explain the difference between the following:

(c) Charge against Profit and Appropriation of Profit.

(5 marks)

Answer:

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

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

2002 - Nov [6] Distinguish between the following:

(b) Cash Discount and Trade Discount

(3 marks)

Answer:

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

Descriptive Questions

2001-Nov [6] Briefly explain the difference between the following:

(a) Charge against profit and Appropriation of Profit.

Answer:

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

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

2001-Nov [3] Briefly explain the difference between the following:

(b) What is "Balance Sheet"?

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

Practical Questions

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

Trial Balance
as at 31st March, 1995

	Dr. (Rs.)	Cr. (Rs.)
Capital.....	—	1,00,000
Furniture	20,000	—
Purchases	1,50,000	—
Debtors.....	2,00,000	—
Interest Earned.....	—	4,000
Salaries.....	30,000	—
Sales.....	—	3,21,000
Purchase Returns.....	—	5,000
Wages.....	20,000	—
Rent.....	15,000	—
Sales Return.....	10,000	—
Bad Debt Written off.....	7,000	—
Creditors.....	—	1,20,000
Drawings.....	24,000	—
Provision for Bad Debts.....	—	6,000
Printing & Stationery.....	8,000	—
Insurance.....	12,000	—
Opening Stock.....	50,000	—
Office Expenses.....	12,000	—
Provision for Depreciation.....	—	2,000
	5,58,000	5,58,000

Additional Information:

- (1) Depreciate Furniture by 10% on original cost.
- (2) A provision for Doubtful Debts is to be created to the extent of 5% on Sundry Debtors;
- (3) Salaries for the month of March, 1995 amounting to Rs. 3,000 were unpaid which must be provided for. However salaries included Rs. 2,000 paid in advance;
- (4) Insurance amounting to Rs. 2,000 is prepaid;

(5) Provide for outstanding office expenses Rs. 8,000;

(6) Stock used for private purpose Rs. 6,000;

(7) Closing Stock-in-Trade Rs. 60,000.

(20 marks)

Answer:

In the books of Hari Trading & Profit & Loss Account

for the year ended 31.3.1995

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

Balance Sheet As on 31.3.1995

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

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

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

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

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

The following adjustments are to be made:

- (1) Included amongst the Debtors is Rs. 3,000 due from Ram and included among the Creditors Rs. 1,000 due to him.
- (2) Provision for Bad and Doubtful Debts be created at 5% and for Discount @ 2% on Sundry Debtors.
- (3) Depreciation on Furniture & Fittings @ 10% shall be written off.
- (4) Personal Purchases of Hari amounting to Rs. 600 had been recorded in the Purchases Day Book.
- (5) Interest on Bank Loan shall be provided for the whole year.
- (6) A quarter of the amount of Printing and Stationery Expenses is to be carried forward to the next year.
- (7) Credit Purchase Invoice amounting to Rs. 400 had been omitted from the Books.
- (8) Stock on 31.12.1994 was Rs. 78,600.

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

(20 marks)

Answer:

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

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

Balance Sheet of Hari as at 31st December, 1994

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

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

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

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

	Dr. Rs.	Cr. Rs.
Building	5,00,000	
Machineries	2,00,000	
Furniture	1,00,000	
Cash at Bank	90,000	
Cash on hand	10,000	
18% p.a. loan obtained by Mr. R on 1-6-1996 on mortgage of his building		3,00,000
R's capital		5,20,000
Sundry debtors/Sundry creditors	5,00,000	4,00,000
Stock on 1-4-1996	1,20,000	
Purchases/Sales	25,00,000	32,20,000
Sales returns/Purchases returns	1,20,000	1,00,000
Rent	60,000	
Establishment expenses	1,80,000	
Electricity charges	15,000	
Telephone charges	10,000	
Commission on sales	30,000	
Insurance premium	10,000	
Bad debts	20,000	
Bills receivable	75,000	
	<u>45,40,000</u>	<u>45,40,000</u>

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

building and machineries. Interest on mortgage loan to be provided up to 31.3.1997.

(20 marks)

Answer:

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

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

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

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

Working Notes:

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

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

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

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

Information:

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

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

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

(20 marks)

Answer:

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

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

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

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

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

Working Notes:

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

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

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

(3) Calculation of Commission of General Manager:

10/110 × Rs. (15,000 - 1,800) = 1200

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

	Debit Rs.	Credit Rs.
Capital	—	14,00,000
Drawings	75,000	—
Opening Stock	80,000	—
Purchases	16,20,000	—
Freight on Purchases	15,000	—
Wages	1,10,000	—
Sales	—	25,00,000
Salaries	1,00,000	—
Travelling Expenses	23,000	—
Miscellaneous Expenses	35,000	—
Printing and Stationery	27,000	—
Advertisement Expenses	25,000	—
Postage and Telegrams	13,000	—
Discounts	7,600	14,500
Bad Debts written off (after adjusting recovery of bad debts of Rs. 6,000 written off in 1997)	14,000	—
Building	10,00,000	—
Machinery	75,000	—
Furniture	40,000	—
Debtors	1,50,000	—
Provision for Doubtful Debts	—	19,000
Creditors	—	1,60,000
Investments (12% Purchased on 1/10/99)	6,00,000	—
Bank Balance	83,900	—
	40,93,500	40,93,500

Adjustments:

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

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

(iii) Machinery worth Rs. 35,000 purchased on 1/1/97 was wrongly written off against Profit and Loss Account. This asset is to be brought into account on 1/1/99 taking depreciation at 10% per annum on straight line basis upto 31/12/98.

(iv) Depreciate Building at 2.5 % p.a., Machinery at 10% p.a. and Furniture at 10% p.a.

(v) Provision for Doubtful Debts should be 6% on Debtors.

(vi) The Manager is entitled to a commission of 5% of Net Profits after charging his commission.

Prepare Trading and Profit and Loss Account for the year ending 31st December, 1999 and a Balance Sheet as at that date. (20 marks)

Answer:

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

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

Balance Sheet of Shri Arihant

(As at 31st December, 1999)

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

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

Working Notes:

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

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

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

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

Adjustments:

- (i) Closing Stock Rs. 2,25,000.
(ii) Machinery worth Rs. 45,000 purchased on 1.10.99 was shown as Purchases. Freight paid on the Machinery was Rs. 5,000, which is included in Freight on Purchases.
(iii) Commission is payable at 2.5% on Sales.
(iv) Investments were sold at 10% profit, but the entire sales proceeds have been taken as Sales.
(v) Write off Bad Debts Rs. 10,000 and create a provision for Doubtful Debts at 5% of Debtors.
(vi) Depreciate Building by $2\frac{1}{2}\%$ p.a. and Machinery and Furniture at 10% P.a.
Prepare Trading and Profit and Loss Account for the year ending 31st March, 2000 and a Balance Sheet as on that date. (20 marks)

Answer:

Trading and Profit and Loss Account of Mr. K
for the year ended 31st March, 2000

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

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

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

Liabilities		Amount (Rs.)	Assets		Amount (Rs.)
Capital	8,00,000		Building	3,00,000	
Add: Profit	3,81,000		Less: Depreciation	750	2,92,500
	11,81,000		Machinery	5,00,000	
Less: Drawings	60,000	11,21,000	Add: New	50,000	
Creditors		3,00,000		5,50,000	
Outstanding Expenses			Less: Depreciation	52,500	4,97,500
Wages Outstanding		6,000	Furniture	40,000	
Commission Outstanding		10,000	Less: Depreciation	4,000	36,000
			Debtors .	2,50,000	
			Less: Bad Debts	10,000	
				2,40,000	
			Less: Provision for D/D	12,000	2,28,000
			Prepaid Insurance		8,000
			Stock		2,25,000
			Cash ad Bank		1,50,000
		14,37,000			14,37,000

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

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

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

Adjustments:

- (1) Write off Rs. 600 as Bad Debts and make Reserve for Bad Debts on Sundry Debtors at 5%.
 (2) Stock valued at Rs. 2,000 was destroyed by fire on 25th December, 2000, but Insurance Company admitted a claim for Rs. 1,500 only and paid the sum in January 2001.
 (3) Depreciate Furniture by 10%. (20 marks)

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

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

Trading and Profit and Loss Account of Shri Patit Bansali

for the year ended 31st December, 2000

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

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

Balance Sheet of Shri Patit Bansali
as at 31st December 2000

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

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

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

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

(6 marks)

Answer:

Trading and Profit and Loss Account of Mr. James

(For the year ended 31st March, 2001)

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

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

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

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

Adjustments:

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

(20 marks)

Answer:

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

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

Balance Sheet(as on 31st March, 2003)

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

Working Notes:**Furniture Account**

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

Stock for Stationery

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

Consignor's Account

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

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

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

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

You are provided with the following information:

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

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

(20 marks)

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

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

Balance Sheet of Mr. Neel

(As on 31st March, 2004)

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

Capital	22,59,200		Furniture	5,50,000	
Less: Drawings	45,000		Add: Purchased	1,00,000	
Less: Goods With-drawn	50,000		Less: Dep.	6,50,000	5,85,000
				65,000	
	21,64,200		Motor Car	48,000	
Less: Net Loss	5,02,300	16,61,900	Less: Dep.	9,600	38,400
Sundry Creditors	4,00,000		Stock in hand		1,45,000
Outstanding Salesman's Commission	3,16,500		Goods sent on Approval	10,00,000	1,00,000
			Sundry Debtors Less: Goods sent on Approval	1,50,000	
				8,50,000	
			Less: Bad Debts	50,000	
				8,00,000	
			Less: Provision for Doubtful Debts	40,000	7,60,000
			Cash in Hand		2,50,000
			Cash at Bank		5,00,000
		23,78,400			23,78,400

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

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

Additional Information:

- Purchases include sales return of Rs. 2,575 and sales include purchase 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.

7. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2004 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as on overdraft.

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

(20 marks)

Answer:**In the books of Mr. XYZ****Rectification Entries**

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

In the books of Mr. XYZ

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

Particulars		Amount Rs.	Particulars	Rs.	Amount Rs.
To Opening stock		32,250	By Sales	2,13,575	
To Purchases	1,53,100		Less: Sales return	2,575	2,11,000
Less: Purchases return	1,725	1,51,375	By Closing stock		
To Carriage inward		1,125			
To Wages		11,715	[Rs. 80,000 × $\frac{100}{80}$ × $\frac{100}{80}$]		1,25,000
To Gross profit c/d		1,39,535			
		3,36,000			3,36,000

To Salaries		22,550	By Gross profit bid		1,39,535
To Rent		4,300	By Bad debts recovered		450
To Bad debts		1,100			
To Carriage outward		1,350			
To Advertisement expenses		4,175			
To Printing and stationery		1,250			
To Provision for doubtful debts					
5% of Rs. 1,20,000	6,000				
Less: Existing provision	3,200	2,800			
To Provision for discount on debtors					
2.5% of Rs. 1,14,000	2,850				
Less: Existing provision	1,375	1,475			
To Depreciation:					
Plant and machinery	3,000				
Furniture and fittings	1,025	4,025			
To Office expenses		10,160			
To Interest on loan		3,000			
To Net profit		83,800			
		1,39,985			1,39,985

In the books of Mr. XYZ

Balance Sheet of Mr. XYZ (as on 31st March, 2004)

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

2005 - Nov [1] From the following Trial Balance of Shri Shivam as on 31st March, 2005, you are required to prepare a Trading and Profit and Loss Account for the year ended 31st March, 2005 and Balance Sheet as on that date, after making the necessary adjustments as mentioned hereunder: .

Particulars	Dr. Rs.	Cr. Rs.
Shivam's capital		1,60,000
Shivam's drawings	24,000	
Furniture and Fixtures	8,000	
Plant and machinery	60,000	

Patents (ten years from 1.4.2004)	40,000	
Stock on 1.4.2004	40,000	
Purchases		1,70,000
Salaries	14,800	
Wages	30,000	
Sundry debtors	20,400	
Sales		2,64,000
Cash in hand	13,250	
Land	28,350	
Loan from Shyam (at 6% from 1.10.2004)		20,000
Postage and Fax	3,000	
Rent, rates and taxes	7,200	
Bad debts		800
Sundry creditors		24,000
Discount		1,200
Carriage Inward	400	
Interest on loan	300	
Insurance	1,600	
Travelling expenses	1,000	
Sundry Expenses	600	
Cash at bank	20,500	
Bank overdraft		15,000
Total	4,84,200	4,84,200

Adjustments:

- Stock as on 31.3.2005 is valued at Rs. 30,000.
- A new machine was installed on 1st April, 2004 for Rs. 3,000. No entry in this respect was passed in the books. Wages of Rs. 1,000 paid for installing the machine were debited to Wages account.
- Of the Sundry debtors, Rs. 200 are bad and are to be written off. You are required to maintain a provision for doubtful debts @ 5% on debtors and provision for discount on debtors @ 2%.
- Goods costing Rs. 2,000 were given away as free samples for publicity.
- Depreciate Plant and Machinery at 20% per annum and Furniture and Fixtures at 10% per annum.
- On 1.4.2004, machinery of the value of Rs. 10,000 was destroyed by fire and the insurance claim settled at Rs. 8,000 was credited to Machinery account.
- Goods costing Rs. 1,000 were sent to a customer for Rs. 1,200 on 30th March, 2005 on sale or return basis. This was recorded as actual sales.

(20 marks)**Answer:**

In the books of Shri Shivam
Trading Profit & Loss A/c
 (For the year ended 31.3.05)

Particulars	Amount	Particulars	Amount
To Opening Stock	40,000	By Sales	2,64,000
To Purchases	1,70,000	(-) Sale or Return basis	(1200)
To Wages	29,000	By Goods given as free	2,000
To Carriage Inward	400	sample	
To Gross Profit	56,400	By Closing Stock	
		— Given	30,000
		— With Costumer	1,000
			31,000

		2,95,800		2,95,800
To Depreciation:			By Gross Profit	56,400
Furniture & Fixtures	800		By Discount	1,200
Plant & Machinery	12,400	13,200		
To Loss by fire		2,000		
To Patent written-off		4,000		
To Salaries		14,800		
To Bad Debts	800			
(+) Additional	200	1,000		
To Prov. for Doubtful Debts		950		
To Prov. for Discount		360		
To Postage & Fax		3,000		
To Rent, Rates & Taxes		7,200		
To Interest on loan				
Paid	300			
(+) Outstanding	300	600		
To Insurance		1,600		
To Travailing exp.		1,000		
To Sundry Exp.		600		
To Advertisement (Goods gives as Sample)		2,000		
To Net profit transfer to Capital A/c		5,290		
		59,600		59,600

Balance Sheet

(as on 31.3.2005)

Liabilities		Amt. (Rs.)	Assets		Amt. (Rs.)
Capital			Furniture & Fittings	8,000	
Op. Balance	1,60,000		(-) Depreciation	800	7,200
(-) Drawings	(24,000)		Plant & Mach. (Note-1)	62,000	
(+) NP	5,290	1,41,290	(-) Depr.	12,400	49,600
			Patent	40,000	
			(-) Written-off	(4,000)	36,000
Creditor for Plant & Mach. [Note]		3,000	Land		28,350
Loan from shyam	20,000		Stock.		31,000
(+) Interest	300	20,300	Debtor [Note-2]	19,000	
Sundry Creditors		24,000	(-) Prov. for D/D	(950)	
Bank Overdraft		15,000	(-) Prov. for discount	(360)	17,690
			Cash in hand		13,250
			Cash at Bank		20,500
		2,03,590			2,03,590

Working Notes:

(1) Computation of plant & Machinery

Balance given

60,000

(+) New Machinery (1.4.04)	4,000
(-) Machinery Sold.	(2,000)
(2) Computation of Debtor:	62,000
Balance	20,400
(-) Bad Debts	(200)
(-) Sale or return	(1,200)
	19,000

2018 - May [3] The following are the balances extracted from the books of Shri Raghuram as on 31.03.2018, who carries on business under the name and style of M/s Raghuram and Associates., at Chennai:

Particulars	Debit (Rs.)	Credit (Rs.)
Capital A/c		14,11,400
Purchases	12,00,000	
Purchase Returns		18,000
Sales		15,00,000
Sales Returns	24,000	
Freight Inwards	62,000	
Carriage Outwards	8,500	
Rent of Godown	55,000	
Rates and Taxes	24,000	
Salaries	72,000	
Discount allowed	7,500	
Discount received		12,000
Drawings	20,000	
Printing and Stationery'	6,000	
Insurance premium	48,000	
Electricity charges	14,000	
General expenses	11,000	
Bank charges	3,800	
Bad debts	12,200	
Repairs to Motor vehicle	13,000	
Interest on loan	4,400	
Provision for Bad debts		10,000
Loan from Mr. Rajan		60,000
Sundry creditors		62,000
Motor vehicles	1,00,000	
Land and Buildings	5,00,000	
Office equipment	2,00,000	
Furniture and Fixtures	50,000	
Stock as on 31.03.2017	3,20,000	
Sundry debtors	2,80,000	
Cash at Bank	22,000	
Cash in Hand	16,000	
Total	30,73,400	30,73,400

Prepare Trading and Profit and Loss Account for the year ended 31.03.2018 and the Balance Sheet as at that date after making provision for the following:

- (a) Depreciate Building by 5%, Furniture and Fixtures by 10%, Office Equipment by 15% and Motor Car by 20%.
- (b) Value of stock at the close of the year was Rs. 4,10,000.
- (c) One month rent for godown is outstanding.
- (d) Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2017.
- (e) Reserve for bad debts is to be maintained at 5% of Sundry debtors.
- (f) Insurance premium includes Rs. 42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 01.04.2017 to 30.06.21018.

(20 marks)

Answer:

In books of M/s. Raghuram & Associates

Trading Account for the year Ended 31.3.18

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Opening Stock	3,20,000	By Sales	15,00,000
To Purchases 12,00,000		Sales Return	<u>24,000</u>
- Pur. Ret <u>18,000</u>	11,82,000	By Closing Stock	4,10,000
To Freight Inwards	62,000		
To Gross Profit c/d	3,22,000		
	<u>18,86,000</u>		<u>18,86,000</u>

M/s. Raghuram & Associates

Profit/Loss Account for the year ended 31.3.18

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Carriage Outward	8,500	By G.P. c/d	3,22,000
To Rent of godown 55,000		By Discount received	12,000
+ O/s for interest <u>5,000</u>	60,000		
To Rate & Taxes	24,000		
To Salaries	72,000		
To Disallowed	7,500		
To Printing & Stat.	6,000		
To Ins. Premium (W.N.2)	4,800		
To Electricity Charges	14,000		
To Gen. Expenses	11,000		
To Bank Charges	3,800		
To Provision for bad debts (W.N.3)	16,200		
To Repair to Vehicle	13,000		
To Interest on loan (W.N.4)	4,500		
To Depreciation:			
Building 25,000			
Furniture 5,000			
Office Equipment 30,000			
Motor Car <u>20,000</u>	80,000		
To Net Profit c/d	<u>8,700</u>		

	3,34,000	3,34,000
--	----------	----------

Balance Sheet of M/s. Raghuram & Associates

as at 31.3.18

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital 14,11,400		Motor van 1,00,000	
Add: N.P. 8,700		- Dep. 20,000	80,000
Less: Drawings 20,000		Land & Building 5,00,000	
Less: Ins. Premium 42,000	13,58,100	- Dep. 25,000	4,75,000
Loan from Rajan 60,000		Office Equity 2,00,000	
Interest payables on - 100		- Dep. 30,000	1,70,000
above loan		Furniture 50,000	
Sundry Creditors 62,000		- Dep. 5,000	45,000
Outstanding rent of godown 5,000		Stock	4,10,000
		Debtors 2,80,000	
		Provision for Bad Debts 14,000	2,56,000
		Prepaid Insurance	1,200
		Cash at Bank	22,000
		Cash in hand	16,000
Total	14,85,200		14,85,200

Working Notes:**1. Outstanding Rent of godown**

$$\frac{55,000}{11} \times 1 = \text{Rs. } 5,000$$

2. Insurance Premium

Insurance Premium as given in trial balance

48,000

Less: Personal Premium

42,000

Less: Prepaid for 3 months

6,000

(6,000/15 × 3)

1,200

Transfer to P/L

4,800

3. Provision for bad-debts

Bad-debts

12,200

Add: Prov. Req. as on

31.3.18 (2,80,000 × 5%)

14,000

26,200

Less: Prov. As on 1.4.17

10,000

Transfer to P/L

16,200

4. Interest on loan

60,000 × 10% × 9/12 = 4,500

100 is payable interest

[May-2000]: The Profit and Loss Account of Hanuman showed a net profit of Rs. 60,000 after considering the closing stock of Rs. 37,500 on 31st March, 1999. Subsequently the following information was obtained from scrutiny of the books:

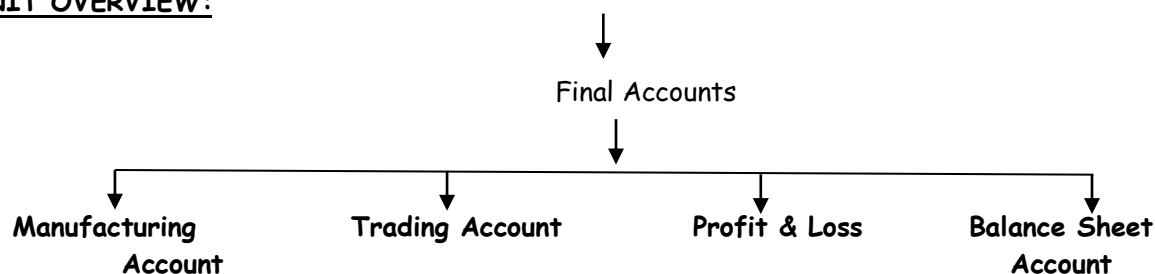
(i) Purchases for the year included Rs. 1,500 paid for new electric fitting for the shop.

- (ii) Hanumam gave away goods valued at Rs. 4,000 as free samples for which no entry was made in the books of accounts.
- (iii) Invoices for goods amounting to Rs. 25,000 have been entered on 27th March, 1999 but the goods were not included in stock.
- (iv) In March, 1999 goods of Rs. 20,000 sold and delivered were taken in the sales for April, 1999.
- (v) Goods costing Rs. 7,500 were sent on sale or return in March, 1999 at a margin of Profit of $33\frac{1}{3}\%$ on cost. Though approval was given in April, 1999 these were taken as sales for March, 1999.
- Calculate correct profit of Mr. Hanuman and correct value of closing stock.

Answer: Profit: 1,04,000; Value of Closing Stock: 70,000.

FINAL ACCOUNTS OF MANUFACTURING ENTITIES

UNIT OVERVIEW:



INTRODUCTION:

The manufacturing entities generally prepare a separate Manufacturing Account as a part of Final accounts in addition to Trading Account, Profit and Loss Account and Balance Sheet. The objective of preparing Manufacturing Account is to determine manufacturing costs of finished goods for assessing the cost effectiveness of manufacturing activities. Manufacturing costs of finished goods are then transferred from the Manufacturing Account to Trading Account.

- Trading account shows Gross Profit while Manufacturing Account shows cost of goods sold which includes direct expenses.
- Manufacturing account deals with the raw material, and work in progress while the trading account would deal with finished goods only.

PURPOSE:

A manufacturing account serves the following functions:

- It shows the total cost of manufacturing the finished products and sets out in detail, with appropriate classifications, the constituent elements of such cost. It is, therefore, debited with the cost of materials, manufacturing wages and expenses incurred directly or indirectly on manufacture.
- It provides details of factory cost and facilitates reconciliation of financial books with cost records and also serves as a basis of comparison of manufacturing operations from year to year.
- The Manufacturing Account may also be used for various other purposes. For example, if the output is carried to the Trading Account at market prices, it discloses the profit or loss on manufacture. Similarly, it may also be used to fix the amount of production of profit sharing bonus when such schemes are in force.

MANUFACTURING COSTS

Manufacturing costs are classified into:

+ Raw Material Consumed	
+ Direct Manufacturing Wages	
+ Direct Manufacturing Expenses	
Direct Manufacturing Cost	
+ Indirect Manufacturing expenses or Manufacturing Overhead	
Total Manufacturing Cost	<u> </u>

Raw Material consumed is arrived at after adjustment of opening and closing Inventory of raw materials:

Raw Material Consumed = Opening inventory of Raw Materials + Purchases – Closing inventory of Raw Materials

If there remain unfinished goods at the beginning and at the end of the accounting period, cost of such unfinished goods (also termed as Work-In-Process) is shown in the Manufacturing Account-

Opening inventory of Work-in-Process is posted to the debit of the Manufacturing Account Closing inventory of Work-in-Process is posted to the credit of the Manufacturing Account.

Direct Manufacturing Expenses

Direct manufacturing expenses are costs, other than material or wages, which are incurred for a specific product or saleable service.

Examples of direct manufacturing expenses are (i) Royalties for using license or technology if based on units produced, (ii) Hire charge of the plant and machinery used on hire, if based on units produced, etc.

When royalty or hire charges are based on units produced, these expenses directly vary with production.

Question 1:

1,00,000 units were produced in a factory. Per unit material cost was Rs. 10 and per unit labour cost was Rs. 5. That apart it was agreed to pay royalty @ Rs. 3 per unit to the Japanese collaborator who supplied technology.

Required: Calculate Manufacturing Cost.

Solution:

In this case Manufacturing Cost comprises of-

Raw Material consumed	(1,00,000 × Rs. 10)	Rs. 10,00,000
Direct Wages	(1,00,000 × Rs. 5)	Rs. 5,00,000
Direct Expenses	(1,00,000 × Rs. 3)	<u>Rs. 3,00,000</u>
		<u>Rs. 18,00,000</u>

MANUFACTURING ACCOUNT

Manufacturing Account is prepared by an enterprise engaged in manufacturing activities. It is prepared to ascertain the cost of goods manufactured during an accounting period. This account is closed by transferring its balance to the debit of the Trading Account. A general format of a Manufacturing Account is shown below:

Dr.	Manufacturing Account of for the period ending on...		Cr.
Particulars	Rs.	Particulars	Rs.
To Opening Work-in-progress	xxx	By Sale of Scrap	xxx
To Raw material Consumed:		By Closing Work-in-progress	xxx
Opening Stock	xxx	By Trading Account	xxx
<u>Add:</u> Purchases	xxx	(Cost of goods produced transferred)	
<u>Add:</u> Cartage Inward	xxx	(b/f)	
<u>Add:</u> Freight Inward	xxx		
<u>Less:</u> Return Outward	xxx		
<u>Less:</u> Closing Stock.	xxx		
To Wages	xxx		
To Salary of Works Manager	xxx		
To Power, Electricity & Water	xxx		
To Fuel	xxx		
To Postage & Telephone (factory)	xxx		
To Depreciation on:			
Plant & Machinery	xxx		
Factory Land & Buildings	xxx		
To Repairs to:			
Plant & Machinery	xxx		
Factory Land & Building	xxx		
To Insurance:			
Plant & Machinery	xxx		
Factory Land & Building	xxx		
To Rent & Taxes	xxx		
To General Expenses (factory)	xxx		
To Royalty Expenses (factory)	xxx		
	xxx		xxx

Question : What is a Manufacturing A/c? Give its specimen and Illustrate?

Answer:

- ❖ Manufacturing A/c shows cost of production, trading A/c and shows the gross profit or gross loss while, profit & loss A/c shows the net profit earned or net loss suffered by the organisation during a particular period.
- ❖ The cost of goods manufactured calculated from this account is transferred to trading A/c.
- ❖ This account is prepared by manufacturing firms in addition to other final A/c which have studied earlier.
- ❖ It shows manufacturing cost in detail for comparison with past years.

Question 2:

From the following particulars prepare manufacturing Account and Trading Account for the year ended 31st March, 2017.

Opening stock of raw material	10,000	Closing stock of raw material	4,000
Opening stock of WIP	7,000	Closing stock of WIP	8,000
Purchases	60,000	Opening stock of finished goods	5,000
Return outward of raw material	500	Purchase of finished goods	20,000
Wages	4,500	Return outwards of finished goods	1,500

Gas & Fuel	1,000	Freight on finished goods	600
Factory Rent	500	Sale of finished goods	1,20,000
Power	600	Return inwards finished goods	2,000
Consumable stores	700	Closing stock of finished goods	8,000
Freight on purchases	1,800		

Solution:

Manufacturing A/c
(for year ending 31.3.2017)

Particulars	Amount	Particulars	Amount
To Opening stock:		By Closing stock:	
Raw material 10,000		Raw material 4,000	
WIP <u>7,000</u>	17,000	WIP <u>8,000</u>	12,000
To Purchases		By Trading A/c.	73,600
Raw material 60,000		(bf)(cost of finished goods)	
Less: Return outward <u>500</u>	59,500		
To Wages	4,500		
To Gas & Fuel	1,000		
To Factory rent	500		
To Power	600		
To Consumable stores	700		
To Freight on raw material	1,800		
	85,600		85,600

Trading A/c

Particulars	Amount	Particulars	Amount
To Opening stock		By Sales 1,20,000	
(finished goods) 5,000		Less: Return inwards <u>2,000</u>	1,18,000
To Manufacturing A/c		By Closing stock	
(Cost of finished goods) 73,600		(finished goods) 8,000	
To Purchases 20,000			
Less: Return outwards <u>1,500</u>	18,500		
To Freight on finished goods	600		
To Gross Profit	28,300		
	1,26,000		1,26,000

Question 3: From the following particulars, prepare Manufacturing A/c for the year ended 31st December, 2017:

Stock (1.1.2017)	32,000
Raw Material	22,200
Opening WIP	
Purchase of Material	3,01,800
Carriage inwards	8,200
Wages	1,30,000
Factory salary	52,000
Import duty	16,200
Depreciation on machine	50,400
Bad debts	3,400

Sundry Expenses (Factory)	10,600
Stock 31.12.2017	
Raw Material	36,600
Work in progress	18,800

Solution:

Manufacturing A/c
(for year ending 31.12.2017)

Particulars	Amount	Particulars	Amount
To Opening WIP	22,200	By Closing WIP	18,800
To Raw material Consumed:		By Trading A/c (bf)	
Opening stock	32,000	(cost of finished goods)	5,68,000
Add: Purchases	3,01,800		
Add: Carriage	8,200		
Add: Import duty	16,200		
	3,58,200		
Less: Closing stock	36,600		
	3,21,600		
To Wages	1,30,000		
To Factory Salary	52,000		
To Deprecation on machinery	50,400		
To Sundry expenses of Factory	10,600		
	5,86,800		5,86,800

Notes:

Bad debts of Rs. 3,400 has not been considered for preparation of Manufacturing Account as it is a financial item and do not form part of cost of production.

Question 4: Mr. Vimal runs a factory which produces soaps. Following details were available in respect of his manufacturing activities for the year ended on 31.3.2016:

Opening Work-in-Process (10,000 units)	16,000
Closing Work-in-Process (12,000 units)	20,000
Opening inventory of Raw Materials	1,70,000
Closing inventory of Raw Materials	1,90,000
Purchases	8,20,000
Hire charges of machine @ Rs. 0.60 per unit manufactured	
Hire charges of factory	2,20,000
Direct wages-Contracted @ Rs. 0.80 per unit manufactured and @ Rs. 0.40 per unit of Closing W.I.P.	
Repairs and Maintenance	1,80,000
Units produced - 5,00,000 units	

Required: Prepare a Manufacturing Account of Mr. Vimal for the year ended 31.3.2016.

Solution:

In the Books of Mr. Vimal
Manufacturing Account for the Year ended 30.6.2016

Particulars	Units	Amount	Particulars	Units	Amount
		<u>Rs.</u>			<u>Rs.</u>
To Opening Work- in- Process	10,000	16,000	By Closing Work- in- Process	12,000	20,000

To Raw Materials Consumed:				By Trading A/c - Cost of finished goods transferred	5,00,000	19,00,800
Opening inventory	1,70,000					
Add: Purchases	8,20,000					
	9,90,000					
Inventory	(1,90,000)		8,00,000			
To Direct Wages - W.N.(1)			4,04,800			
To Direct expenses:						
Hire charges on Machinery - W.N. (3)			3,00,000			
To Indirect expenses:						
Hire charges of Factory Shed			2,20,000			
Repairs Maintenance			1,80,000			
			19,20,800			19,20,800

Working Notes:

(1) Direct Wages - 5,00,000 units @ Rs. 0.80 =Rs. 4,00,000

(2) 12,000 units @ Rs. 0.40 = Rs. 4,800
Rs. 4,04,800

(3) Hire charges on Machinery - 5,00,000 units @ Rs. 0.60 =Rs. 3,00,000

Question 5: Mr. Pankaj runs a factory which produces motor spares of export quality. The following details were obtained about his manufacturing expenses for the year ended on 31.3.2016.

		<u>Rs.</u>
W.I.P.	- Opening	3,90,000
	- Closing	5,07,000
Raw Materials	- Purchases	12,10,000
	- Opening	3,02,000
	-Closing	3,10,000
	- Returned	18,000
	- Indirect material	16,000
Wages	- direct	2,10,000
	- indirect	48,000
Direct expenses	- Royalty on production	1,30,000
	- Repairs and maintenance	2,30,000
	- Depreciation on factory shed	40,000
	- Depreciation on plant & machinery	60,000
By-product at		20,000

selling price

You are required to prepare Manufacturing Account of Mr. Pankaj for the year ended on 31.3.2016.

Answer:

In the Books of Mr. Pankaj
Manufacturing Account
for the year ended on 31.3.2016

Particulars		Amount Rs.	Particulars	Amount Rs.
To Opening W.I.P.		3,90,000	By Closing W-I-P	5,07,000
To Raw Material Consumed:			By - products	20,000
Opening inventory	3,02,000		By Trading A/c	17,81,000
Purchases	12,10,000		Cost of finished goods transferred	
	15,12,000			
Less: Return	(18,000)			
	14,94,000			
Less: Closing inventory	(3,10,000)	11,84,000		
To Direct Wages		2,10,000		
To Direct expenses:				
Royalty		1,30,000		
To Manufacturing Overhead:				
Indirect Material	16,000			
Indirect Wages Repairs & Maintenance	48,000			
	2,30,000			
Depreciation on Factory Shed	40,000			
Depreciation on Plant & Machinery	60,000	3,94,000		
		23,08,000		23,08,000

Question 6: Following are the Manufacturing A/c, Creditors A/c and Trading A/c provided by Ms. Shivi related to 2016-17. There are certain figures missing from these accounts.

Raw Material A/c

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
	To Opening Stock A/c	1,00,000		By Raw Material Consumed	
	To Creditors A/c			By Closing Stock A/c	

Creditors A/c

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
	To Bank A/c	22,00,000		By Balance b/d	15,00,000
	To Balance c/d	6,00,000			

Manufacturing A/c

Particulars	Amount	Particulars	Amount
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	Rs.		Rs.
To Raw Material Consumed		By Trading A/c	17,94,000
To Wages	3,50,000		
To Depreciation	2,00,000		
To Direct Expenses	2,44,000		

Additional Information:

1) Purchase of machinery worth Rs. 10,00,000 has been omitted. Machinery are chargeable at a depreciation rate of 10%.

2) Wages include the following:

Paid to Factory Workers - Rs. 3,00,000

Paid to labour at office - Rs. 50,000

3) Direct Expenses include following:

- ♦ Electricity charges of Rs. 80,000 of which 30% pertained to office.
- ♦ Fuel Charges of Rs. 20,000
- ♦ Freight Inwards of Rs. 35,000
- ♦ Delivery charges to customers - Rs. 20,000.

You are required to prepare revised Manufacturing A/c, and Raw Material A/c.

Answer 2:**Manufacturing A/c**

Particulars	Amount Rs.	Particulars	Amount Rs.
To Raw Material Consumed		By Trading A/c (W.N. 4)	18,00,000
(Balancing Figure)	10,00,000		
To Wages (W.N. 2)	3,00,000		
To Depreciation (W.N. 1)	3,00,000		
To Direct Expenses (W.N. 3)	2,00,000		
	18,00,000		18,00,000

Raw Material A/c

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
	To Opening Stock A/c	1,00,000		By Raw Material Consumed (from Trading A/c above)	10,00,000
	To Creditors A/c (W.N. 5)	13,00,000		By Closing Stock A/c (Balancing Figure)	4,00,000
		14,00,000			14,00,000

Working Notes:

(1) Since purchase of Machinery worth Rs. 10,00,000 has been omitted.

So, depreciation omitted from being charged = Rs. 10,00,000 × 10%

= Rs. 1,00,000

Correct total depreciation expense = Rs. (2,00,000 + 1,00,000)

= Rs. 3,00,000

(2) Wages worth Rs. 50,000 will be excluded from manufacturing account as they pertain to office and hence will be charged P&L A/c.

(3) Expenses to be excluded from direct expenses:

Office Electricity Charges (80,000 × 30%) 24,000

Delivery Charges to Customers 20,000

Total expenses not part of Direct Expenses 44,000

=> Revised Direct Expenses = Rs. (2,44,000 - 44,000)

= Rs. 2,00,000

Fuel charges are related to factory expenses and also freight inwards are incurred for bringing goods to factory/ godown so they are part of direct expenses.

(4) Revised Balance to be transferred to Trading A/c

<u>Particulars</u>	<u>Amount</u> <u>Rs.</u>
Current Balance transferred	17,94,000
Add: Depreciation charges not recorded earlier	1,00,000
Less: Wages related to Office	(50,000)
Less: Office Expenses	(44,000)
Revised balance to be transferred	18,00,000

(5) Creditors A/c

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
	To Bank A/c	22,00,000		By Balance b/d	15,00,000
	To Balance c/d	6,00,000		By Raw Materials A/c (Bal. figure)	13,00,000
		28,00,000			28,00,000