

Final Accounts of Non Manufacturing Entities

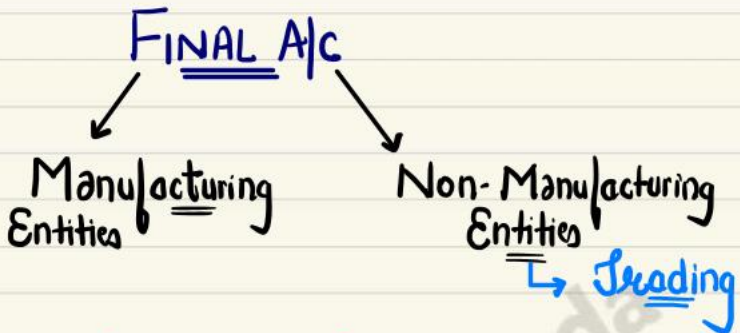
Base
Building

Journal

Sub. book |
Ledger

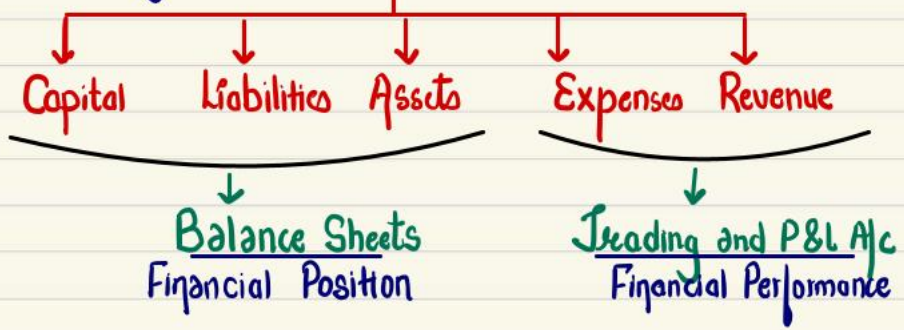
Rectification
of Errors





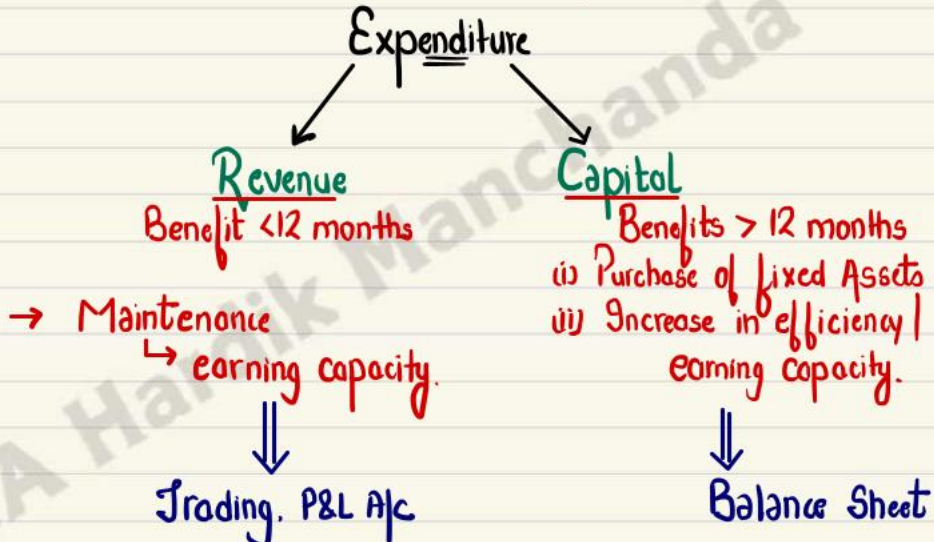
Accounting Process

- 1. Recording → JOURNAL | Subsidiary Books.
- 2. Posting → Ledger
- 3. Summary → Trial Balance



→ Various Matters to which attention should be paid:

1. Distinction b/w personal & Business transactions.
2. Distinction b/w Revenue and Capital nature items.



Eg. Insurance Premium - ₹12000 p.a. - Revenue exp



23-24 Insurance expense
 ↳ $\frac{12000}{12} \times 11 \Rightarrow ₹11000$
 Prepaid Exp - ₹1000 [Bal. sheet]

Receipts

Amt Received or Receivable

Revenue Receipt

Cap Receipt

Other than Capital Receipt

a) ↑ in Liabilities
Eg. Bank loan, Capital

Eg.- Sale of goods or services.
Rent Received

b) ↓ in NCA
Eg. - Sale of Machinery

↓
Trading, P&L A/c

↓
Balance Sheet

3. Only current period transactions.

Eg-



Amt Received - ₹2,00,00,000
Advance (24.25) - ₹500,000

Received in CY → Cash Dr.
 Revenue of 24.25 ✓ → Liab of 23.24

C.Y. Income - ₹1,99,50,000

4. Matching Concept

Matching expenses with Revenue.

↘ Sale - 200,000.00

Op. stock -	10,00,000
Purchases -	70,00,000
Direct exp -	<u>50,000</u>
	85,00,000

Closing stock - ₹10,00,000 → Asset

Expense - ₹75,00,000
COGS

Trading and Profit & Loss A/c

Trading A/c

Gross Profit

Sales - COGS

Profit & Loss A/c

Net Profit/Loss

COGS ⇒ Opstock + Purchases + Direct exp - Closing stock

Cost of goods available for sale

2. Net Purchases [Purchases - Purchase Return]

→ Goods purchased - ₹100,000

Purchases A/c Dr. → Dr. balance
To Bank A/c / Creditor A/c

→ Purchase Return - ₹10,000

Creditor A/c Dr.
To purchase Return A/c 10,000
↳ Cr. balance

→ Net Purchases

Close
Purchase Ret Dr. 10,000
To purchase A/c 10,000

↳ Dr. bal. 90,000

JOURNAL :- Trading Dr. 90,000

To purch A/c 90,000
Trading A/c
A/c close
↳ Nominal

To purchases - 100,000	
Less: purch. Ret (10,000)	90,000

3. Direct Expenses:

↳ Exp. Incurred in bringing the goods to the business premises.

Eg. Carriage inward, wages, Non-Refundable tax.

Carriage Inward - ₹10,000

↳ Carriage Inward Dr 10,000
 To Bank 10,000
 Dr. bal

Journal:

Trading Dr 10,000
 To Carriage Inward A/c 10,000

4. Net Sales (Sales - Sales Return)

→ Sale of goods

Debtor Dr 100,000
 To Sales A/c 100,000
 ↳ Cr. balance

→ Sales Return -

Sales Return Dr 10,000 → Dr. bal
 To Debtor A/c 10,000

Net Sales → Sales A/c Dr 10,000 → Balance - ₹40,000
 To Sales Ret A/c 10,000 ←

Close

Journal:

Sales A/c Dr. 90,000
 To Trading A/c 90,000

Trading A/c

	By Sales - 100,000 (-) Sales Ret (10,000)	90,000
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5. CLOSING STOCK

Before Trial Balance

↓
 Cl. stock Dr. - Asset
 To purchases A/c
 ↳ Exp ↓

After Trial Balance

↓
 Closing stock Dr. - Asset
 To Trading A/c

Trial Balance

	Dr	Cr	
Purchases (Adj)	90,000		
Closing stock	10,000		→ B/s - Asset

→ Closing stock will not appear in Trading A/c

Eg- Purchases - ₹100,000 [1000 kg @ ₹100]
Direct exp - ₹ 5000 [1000kg]

Cost of 1000 kg - ₹105000

↓
800 kg sold

$$\begin{aligned} \text{Cl. Stock} &\Rightarrow \frac{105000}{1000} \times 200 \\ \text{(200 kg)} &= ₹21000 \end{aligned}$$

Purchases
200 @ ₹100
= ₹20,000

Direct exp
200kg @ ₹5
= ₹1000

₹21000

Q.2

	₹
Opening Inventory	1,00,000
<u>Purchases</u> →	6,72,000
Carriage Inwards ✓	30,000
Wages ✓	50,000
Sales ✓	11,00,000
Returns inward } -SIR	1,00,000
Returns outward - PIR →	72,000
Closing Inventory	2,00,000

Required

From the above information, prepare a Trading Account of M/s. ABC Traders for the year ended 31st March, 2022 and Pass necessary closing entries in the journal proper of M/s. ABC Traders

Trading A/c
for the year ended 31st Mar, 2022

Dr.

Particulars	₹	Part.	₹
To open. Stock	100,000	By Sales - 11,00,000	
To purch - 672,000		(-) Sales Ret (1,00,000)	10,00,000
Less: purch. Ret (72,000)	600,000	By closing inventory	200,000
To carriage inward	30,000		
To wages	50,000		
To Gross Profit	420,000		
	1,200,000		1,200,000

JOURNAL

1. Purch Ret A/c Dr. 72000
To purch A/c 72000
2. Sales A/c Dr. 100,000
To Sales Ret A/c 100,000
3. Trading A/c Dr. 780,000
To op. stock 100,000
To purchase 600,000
To carriage inward 30,000
To wages 50,000
4. Sales A/c Dr. 10,00,000
Closing st Dr 200,000
To Trading A/c 1200,000
5. Trading Dr. 420,000
To Gross profit 420,000
-

Q.1

Trial Balance for the financial year (FY) ended 31st March 2022 of M/s Deepakshi shows following details:

Particulars	Debit (₹)	Credit (₹)
<u>Purchase</u> & Sales	10,00,000	12,00,000
Debtors & Creditors	5,00,000	<u>4,00,000</u>
Opening Stock	2,00,000	
<u>Closing Stock</u> → Closing st Dr To purchases	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, 2021 is ₹3,00,000.

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

$$\text{COGS} = \text{op st} + \text{Net Purchases} + \text{Direct exp} - \text{cl. stock.}$$

$$\Rightarrow ₹ 200,000 + ₹ 10,00,000$$

$$\Rightarrow ₹ 12,00,000$$

Trading A/c

To op stock	200,000	By Sales	12,00,000
To purchases	<u>10,00,000</u>		

Creditor A/c

Dr		Cr	
To Bank A/c (bal. b/d)	1200.000	By bal b/d	300.000
To bal c/d	400.000	by purchases	1300.000
	<u>1600.000</u>		<u>1600.000</u>

Eg-

	Op Stock -	100.000	
	COGS -	900.000	← 300.000
	Cl. Stock -	200.000	
Sales - S/R ←	Net Sales -	1200.000	← 300.000
Sales Ret ←	Return inward -	100.000	

Prepare Trading A/c

$$\Rightarrow \text{COGS} = \text{Op Stock} + \text{Net purch} + \text{Direct exp} - \text{closing Stock}$$

$$900.000 = 100.000 + \text{NP} - 200.000$$

$$\text{Net purchases} = \underline{\underline{\text{₹}10,00,000}}$$

Trading A/c

To op stock	100,000	By sales	1200,000
To purchase	10,00,000	by cl. stock	200,000
To Gross profit	<u>300,000</u>		<u> </u>

→ PROFIT & LOSS A/c → Net profit / Loss

Trading A/c
 ↳ Gross Profit → P&L A/c

1. It starts with Gross profit / Loss

Trading A/c

To op stock	100,000	By sales	1200,000
To purch	10,00,000	by cl. st	<u>200,000</u>
To Gross Profit	<u>300,000</u>		
To all other exp	200,000	by Gross profit b/d	300,000
To Net profit	<u>100,000</u>		<u> </u>

↓ Cr. > Dr.

Journal: GP → Gross Profit
To P&L A/c

Gross Loss → P&L A/c Dr.
To Gross Loss

Profit & Loss A/c

Dr.

<p>To Gross Loss b/d</p> <p>To all exp & losses [not covered in Trading A/c]</p> <p>To Net profit</p> <p style="text-align: right;">=</p>	<p>by Gross profit b/d</p> <p>by Income [other than sales]</p> <p>by Net Loss</p> <p style="text-align: left;">=</p>
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ILLUSTRATION 3

Revenue, Expenses and Gross Profit Balances of M/s ABC Traders for the year ended on 31st March 2022 were as follows:

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

Required

Prepare Profit and Loss Account of M/s ABC Traders for the year ended on 31st March, 2022. Show necessary closing entries in the Journal Proper of M/s. ABC Traders also.

Profit & Loss A/c for the year ended 31st Mar 22

Part	₹	Part	₹
To Salaries	1,10,000	By Gross Profit bld	420,000
To Discount allowed	19,000	By Disc. Rec.	18,000
To Bad debts	17,000		
To Dep.	65,000		
To legal charges	25,000		
To consultancy fees	32,000		
To Audit fees	1,000		
To elect charges	17,000		
To Telephone	12,000		
To Stationery	27,000		
To Int paid on Loan	70,000		
To Net profit	<u>43,000</u>		

Journal

1. Gross profit Dr. 420,000
To P&L A/c 420,000
2. Profit & Loss A/c Dr. 396,000
To Salaries 1,10,000
To Discount allowed 19,000
To Bad debts 17,000
To Dep. 65,000
To legal charges 25,000
To consultancy fees 32,000
To Audit fees 10,000
To elect charges 17,000
To Telephone 12,000
To Stationary 27,000
To Int paid on Loan 70,000
3. Disc. Rec. Dr. 18,000
To P&L A/c 18,000
4. Profit & Loss A/c Dr. 43,000
To Net profit 43,000
5. Net profit Dr. 43,000
To Capital A/c 43,000

→ ADJUSTMENTS

1. Outstanding Expenses

↳ Expense ✓ - Benefit already consumed
 Payment X - Liability

2023-24

Salary paid - ₹2,20,000

Recording - Salary Dr. 2,20,000
 To Bank A/c 2,20,000

Trial Balance

	Dr	Cr.
Salary A/c	2,20,000	

Adj :- 1 month salary is in Arrear / outstanding

↳ No Treatment

1 month salary = $\frac{2,20,000}{12} = ₹20,000$

↳ Treatment

Adj. Entry : Salary A/c Dr. 20,000 → Expense - P&L A/c
 To o/s Salary A/c 20,000
 ↳ Liability - B/S

Dr.		Profit & <u>Loss</u> A/c
To Salary - 220,000		
Add: o/s Salary <u>20,000</u>		240,000

Eg-

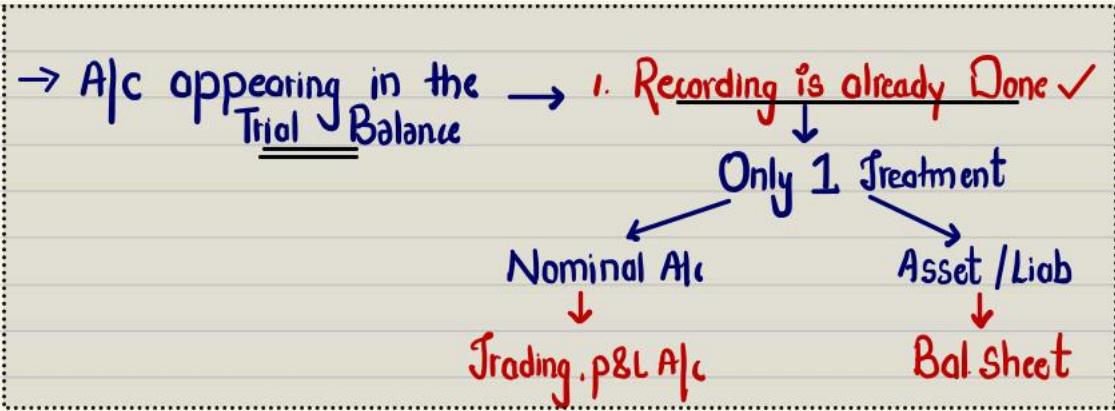
Trial <u>Balance</u>		
	Dr.	Cr.
Rent A/c	120,000	
o/s Rent A/c		20,000

Already Included

Ye journal entry already Record ho gyi h.

Rent A/c Dr.
To o/s Rent A/c

→ Rent amt to be Dr. to p&L A/c - ₹120,000



2. Prepaid Expense

Expense X - Benefit not consumed
Payment ✓

→ Insurance premium paid during the year - ₹150,000

Insurance premium Dr. 150,000
To Bank A/c 150,000

Trial Balance

	Dr	Cr
Ins. premium	150,000	

Adjustment: Prepaid Insurance - ₹30,000

Adj. Entry: → Prepaid Ins. Dr. 30,000 ^{Asset L B/s}
To Insurance premium A/c 30,000
↳ Exp ↓

Dr. Profit & Loss A/c

To Insur. prem - 150,000	
Less: Prepaid Ins. (30,000)	120,000

3. Accrued Income

↳ Income Earned ✓
 Money Not Received. - Asset ✓

Eg- Commission Received - ₹2,20,000

↓
 Bank Dr 220,000
 To Commission A/c 2,20,000

Trial Balance

	Dr	Cr.
Commission A/c		220,000

Adj - Accrued commission - ₹20,000

Adj Entry

↓
 Accrued Comm. A/c Dr 20,000
 To Commission A/c 20,000
 ↑ asset
 ↓ Income +

P&L A/c

	Cr.
By Comm - 220,000	
Add: Accrued <u>20,000</u>	240,000

4. Income Received in Advance

→ Unearned Income

Income not earned x
Amt Received ✓
↳ Liability

Eg- Fees Received - ₹7 crore

Bank A/c Dr. 7,00,00,000
To Fees A/c 7,00,00,000

Trial Balance

	Dr	Cr
Fees		700,00,000

Adj:- Fees Received in Advance - ₹50,00,000

Adj Entry:

Fees Dr. 50,00,000 Income ↓
To Advance fees A/c 50,00,000
↳ Liab. B/s

P&L A/c

	Cr
By fees - 700,00,000 (-) Advance (50,00,000)	650,00,000

Eg-

Trial Balance (extract)

	Dr.	Cr.
Salary	18000	
Prepaid Salary	2000	Asset
Interest A/c		4000
Rent A/c	10,000	
O/s Rent A/c		2000 - Liab. B/s

Adj :-

1. Accrued Interest - ₹1000 ← Interest + Asset
2. O/s Rent - ₹1000 ← Rent + Liab.

₹3000 - O/s Rent

P&L A/c
for the year

Dr

Cr

To Rent - 10,000		By Interest - 4000	
Add: O/s Rent - 1000	11,000	Add: Acc. Int - 1000	5000
To Salary A/c	18000		

Case-2

Trial Balance

	Dr	Cr
Debtors	100,000	

Adj: Bad debt - ₹10,000

Adj Entry: Bad debt Dr. 10,000 ^{- loss}
 To Debtors 10,000 _{- asset ↓}

P&L A/c

Balance Sheet

Dr
To Bad debts - 10,000

Assets	
Debtors - 100,000	
(-) Bad debt <u>10,000</u>	90,000
	Debtors 90K ₹ ←

Case-3

Trial Balance

	Dr	Cr
Debtors	100,000	

Adj- 1. Bad debts - ₹10,000
 2. Create prov. for Doubtful debt @ 10% on Debtors.
 Good Debtors - 90,000

- Adj Entry -
- Bad debt Dr 10,000
To Debtors 10,000
 - P&L A/c Dr 9,000 $(90,000 \times 10\%)$
To prov. for Doubtful debt 9,000

Dr. P&L A/c		Balance Sheet	
To Bad debt	10,000	<u>Asset</u>	
To prov. for Doubtful debt	9,000	Debtors	100,000
		↳ Bad debt (10,000)	90,000
		↳ prov. for D.D (9,000)	81,000

Debtors Cr

Case-4

Serial Balance

	Dr	Cr
Debtors	100,000	
Bad debts	10,000	
		Already adjusted Bad debt Dr. To Debtor

- Adj -
- Bad debts - ₹5,000
 - Create prov. for Doubtful debts @ 10% on Debtors.
- Good debtors = 95,000

Case-5

Jewel Balance

	Dr	Cr.
Debtors	100,000	
Prov. for Doubtful debt		10,000
		→ P&L Dr. 10,000 To prov. 10,000

- Adj : 1. Bad debts - ₹8000
 2. Maintain prov. for doubtful debt @10% on Debtors.

Adj. Entry

- Bad debt Dr 8000
To Debtors 8000
- Prov. for DD Dr 8000
To Bad debt 8000

Balance in prov. for DD = ₹2000

→ Good debtors - 92000

↳ 10% - 9200

P&L A/c Dr 7200 [9200-2000]
 To prov. for Doubtful debt 7200

P&L A/c		Balance Sheet	
Dr.			Asset
To prov. for Doubtful Debt	7200	Debtors -	100,000
		↳ Bad debt (8000)	
		↳ Prov. for DD (9200)	82800

Prov. for Doubtful Debt A/c			
Dr.			Cr.
To Bad debts	8000	by bal b/d	10,000
To bal c/d	9200	by P&L A/c (bal fig)	7200
	<u>9200</u>		<u>17200</u>

Case-6

Trial Balance

	Dr	Cr.
Debtors	100,000	
Prov. for Doubtful debt		10,000
Bad debts	5000	

- Adj:-
1. Bad debts - ₹8000
 2. Maintain prov. for doubtful debt @10% on Debtors.

Adj Entry - 1. Bad debt Dr. 8000
 To Debtors A/c 8000

Total Bad debts = 13000

2. Prov. for D.D. Dr. 10,000
 P&L A/c Dr. 3000
 To Bad debts 13000

⇒ Good Debtors - ₹92000

P&L A/c Dr. 9200
 To prov. for Doubtful Debt 9200

Dr. P&L A/c

Balance Sheet

Dr. P&L A/c		Balance Sheet	
To Bad debts	3000	<u>Assets</u>	
To prov. for D.D.	9200	Debtors. 100,000	82800
		↳ Bad debt (8000)	
		↳ prov. <u>(9200)</u>	

Amt to be Dr to p&L A/c = Total Bad debts
 ↳ old provision
 + New provision

Debtors to be shown in B/s → Debtors (Trial Balance)
 (-) Bad debts (Adj)
 (-) New prov. for doubtful debts

Case-7

Trial Balance

	Dr	Cr.
Debtors	100,000	
Prov. for Doubtful debt		10,000
Bad debts	5,000	

Adj - 1. Bad debts - ₹ 4,000
 ✓ 2. Prov. for DD @ 10% on debtors

Adj - 1. Bad debt Dr 4,000
 To Debtor 4,000

2. Prov. for DD Dr 9,000
 To Bad debts 9,000

Good debtors - 96,000
 - 10% → 9,600

3. P&L Dr 8,600
 To prov. for DD 8,600