

SECTION-C

Preparation of Financial Statements

Preparation of Final Accounts of Commercial Organisations, Not-for-Profit Organisations and from Incomplete Records

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This Module Includes

- 3.1 Preparation of Financial Statements of Commercial Organisations (other than Corporate Form of Organisation)**
- 3.2 Preparation of Financial Statements of Not-for-Profit Organisation**
- 3.3 Preparation of Financial Statements from Incomplete Records**

Preparation of Final Accounts of Commercial Organisations, Not-for-Profit Organisations and from Incomplete Records

SLOB Mapped against the Module

To develop application-oriented knowledge to prepare financial statements of profit seeking and not-for-profit entities and from incomplete records. (CMLO 3a and 4c)

Module Learning Objectives:

After studying this module, the students will be able to:

- ⊙ Understand the different components of financial statements of non-commercial organizations, and learn thoroughly the drafting of the Income Statement and Balance Sheet;
- ⊙ Prepare financial statements of non-profit making organization, specifically drafting of Receipts and Payments Account, Income and Expenditure Account and Balance Sheet;
- ⊙ Also understand the process of preparing the financial statements from incomplete records;

Preparation of Financial Statements of Commercial Organisations

3.1

In addition to recording keeping, a major objective of accounting is determination of operating results and disclosure of the financial position. The determination of operating result of commercial form of organisations happen to be the ascertainment of the profit earned during a period or the amount of loss suffered. This requires the preparation of specific statements which are technically referred to as Financial Statements.

The financial statements of a non-corporate commercial organisation broadly includes the Income Statement, Balance Sheet, and Cash Flow Statement. However, discussion on Cash Flow Statement is beyond the scope of this chapter. Thus, traditionally the term ‘Financial Statements’ includes only three basic statements – Income Statement and Balance Sheet.

3.1.1 Income Statement

The term ‘Income Statements’ is a generic term which refers to those components of financial states which are associated with determination of operating result i.e. ascertainment or profit earned or loss suffered. For non-corporate commercial organisations (i.e. proprietorship businesses, partnership firms etc.) the income statements include Trading Account, Profit & Loss Account (P/L A/c) and Profit & Loss Appropriation Account. To be specific, the income statements of different forms of business organisation are as under:

Form of Non-Corporate Commercial Organisation	Components of Income Statement
Proprietary organisation	Trading A/c, P/L A/c
Partnership organisation	Trading A/c, P/L A/c, P/L Appropriation A/c

The components of income statements of non-corporate commercial organisations are discussed hereunder:

- 1. Trading Account:** This is the first income statement prepared by a non-corporate trading business entity. It is prepared to determine the gross operating results (i.e. Gross Profit or Gross Loss). Its principle involves matching of the Cost of Goods Sold (COGS) of an accounting period against the corresponding Sales. It considers only the direct costs and direct income (i.e. Sales) for determination of Gross Profit/ Gross Loss. It is a nominal account, and is closed by transfer of the Gross Profit/ Gross Loss to the Profit and Loss A/c. The following items will appear in the debit side of the Trading Account:
 - (i) Opening Stock:** In case of trading concern, the opening stock means the finished goods only. The amount of opening stock should be taken from Trial Balance.
 - (ii) Purchases:** The amount of purchases made during the year. Purchases include cash as well as credit purchase. The deductions can be made from purchases, such as, purchase return, goods withdrawn by the proprietor, goods distributed as free sample etc.

- (iii) **Other Direct expenses:** It means all those expenses which are incurred from the time of purchases to making the goods in saleable condition. This expenses includes freight inward, octroi, wages etc.
- (iv) **Gross profit:** If the credit side of Trading A/c is greater than debit side of Trading A/c gross profit will arise.

The following items will appear in the credit side of Trading Account:

- (i) **Sales Revenue:** The sales revenue denotes income earned from the main business activity or activities. The income is earned when goods or services are sold to customers. If there is any return, it should be deducted from the sales value. As per the accrual concept, income should be recognized as soon as it is accrued and not necessarily only when the cash is paid for.
- (ii) **Closing Stocks/Inventories:** In case of trading business, there will be closing stocks of finished goods only. According to convention of conservatism, stock is valued at cost or net realizable value whichever is lower.
- (iii) **Gross Loss:** When debit side of trading account is greater than credit side of trading account, gross loss will appear.

The proforma of Trading Account is as follows:

Trading Account			
for the year ended			
Dr.		Cr.	
Particulars	(₹)	Particulars	(₹)
To Opening Stock		By Sales	
To Purchases		Less: Sales Returns	
Less: Purchase returns		By Closing Stock	
To Wages		By Profit and Loss A/c	
To Other Direct expenses		(Gross Loss transferred)	
To Profit and Loss A/c (Gross Profit transferred)			

2. **Profit & Loss Account:** The second income statement is the Profit & Loss Account. It is drafted after the determination of Gross operating result i.e. Gross Profit or Gross Loss. This account determines the Net Profit or Net Loss of an organisation for a particular accounting period. It is prepared by charging the indirect expenses and losses against the Gross Profit and other indirect incomes. It is closed by transfer of the Net Profit or Net Loss to the Capital Account(s) of the proprietor or partners.

The following items will appear in the debit side of the Profit & Loss A/c:

- (i) **Other Expenses:** All expenses which are not directly related to main business activity will be reflected in the P & L component. These are mainly the Administrative, Selling and distribution expenses. Examples are salary to office staff, salesmen commission, insurance, legal charges, audit fees, advertising, free samples, bad debts etc. It will also include items like loss on sale of fixed assets, interest and provisions. Students should be careful to include accrued expenses as well.
- (ii) **Abnormal Losses:** All abnormal losses are charged against Profit & Loss Account. It includes stock destroyed by fire, goods lost in transit etc.

The following items will appear in the credit side of Profit & Loss A/c:

- (i) **Revenue Incomes:** These incomes arise in the ordinary course of business, which includes commission received, discount received etc.
- (ii) **Other Incomes:** The business will generate incomes other than from its main activity. These are purely incidental. It will include items like interest received, dividend received, etc. The end result of one component of the P & L A/c is transferred over to the next component and the net result will be transferred to the balance sheet as addition in owners' equity. The profits actually belong to owners of business. In case of company organizations, where ownership is widely distributed, the profit figure is separately shown in balance sheet.

The proforma of Profit & Loss Account is as follows:

Profit & Loss Account			
for the year ended			
Dr.		Cr.	
Particulars	(₹)	Particulars	(₹)
To Trading A/c		By Trading A/c	
(Gross Loss transferred)		(Gross Profit transferred)	
To Administrative expenses		By Other Income	
To Office salaries		By Interest received	
To Communication		By Commission received	
To Travel & Conveyance		By Profit on sale of assets	
To Office rent		By Rent received	
To Advertising		By Capital A/c	
To Audit fees		(Net loss transferred)	
To Insurance			
To Repairs & maintenance			
To Selling & Distribution expenses			
To Bad debts			
To Salesmen commission			
To Interest on loans			
To Depreciation and Amortisation			
To Financial expenses			
To Bank charges			
To Loss on sale of assets			
To Capital A/c			
(Net profit transferred)			

3. Profit & Loss Appropriation Account: This component of income statement shows the appropriation of the net profit among the partners of a partnership business. Sole proprietorship businesses are not required to prepare the P/L Appropriation account. Before distributing the net profit to partners, appropriation may be required for interest on capital and drawing, commission and salary payable to any partner as per the deed and also for any reserve to be created. The remaining surplus is then distributed to partners which is added to their capital.

The format of P&L Appropriation A/c is given below

Profit and Loss Appropriation Account

Dr.		For the year ended on		Cr.	
Particulars	(₹)	Particulars	(₹)		
To Interest on Capital A/c		By P/L A/c (Net Profit transferred)			
To Commission to Partners A/c		By Interest on Drawing A/c			
To Salary to Partners A/c					
To Reserve A/c					
To Partners' Capital A/c (Divisible Profit)					

The above Accounts are prepared to know the operating results in case of a Trading concern who purchases goods and sells it. But some proprietorship and partnerships organizations are there who produce goods and sells in the market. In that case they prepare Manufacturing Accounts in addition to Trading and Profit Loss Account. This account is an extension of Trading Account. The format of Manufacturing and Trading Accounts are given below.

**Manufacturing Account
for the year ended**

Dr.		for the year ended		Cr.	
Particulars	(₹)	Particulars	(₹)		
To Opening Stock of Raw Materials and WIP					
To Purchase of Raw Materials					
Less: Purchase returns		By Closing Stock of Raw Materials and WIP			
To Wages		By Cost of Goods manufactured transferred to Trading Account			
To Other Direct expenses					

**Trading Account
for the year ended**

Dr.		for the year ended		Cr.	
Particulars	(₹)	Particulars	(₹)		
To opening stock of Finished goods		By Sales			
To Cost of goods manufactured (transferred from Manufacturing Account)		Less: Sales Returns			
		By Closing stock of Finished Goods			
		By Profit and Loss A/c			

Particulars	(₹)	Particulars	(₹)
To Profit and Loss A/c (Gross Profit transferred)		(Gross Loss transferred)	

3.1.2 Balance Sheet

Balance Sheet is the financial statement that is prepared to show the financial position of the organisation on a specific date. It is prepared after drafting Income Statements i.e. Trading Account and P/L Account. It reflects the assets and liabilities of a concern at a particular point of time. The Balance Sheet may be drafted either in Horizontal format or in Vertical format. In the horizontal format, the Liabilities appear on the left-hand side, while the Assets appear on the right-hand side of the Balance Sheet. This is the traditional format followed by non-corporate commercial organisations. In the vertical format, the liabilities and assets appear in a top-down order.

The various items should appear in the Balance Sheet in a specific order which is known as Marshalling. When the assets which are most permanent in nature appear at the top, and the current assets appear below them, and for liabilities, the capital and long-term liabilities appear above the short-term liabilities, it is known as marshalling under Rigidity Order or Permanence Order. When the reverse ordering is followed as regards the assets and liabilities, it is known as marshalling under Liquidity Preference Order or Realisability Order.

Preparation of Final Accounts

Final accounts of an organisation are prepared from the ledger balances. Each of the ledger accounts should be posted to any of the income statements (viz. Manufacturing A/c, Trading A/c or Profit & Loss A/c) or the Balance Sheet depending on its nature.

In addition to these, some adjustments may be required to be made for honouring the accounting principles, or rectifying some of the existing errors in the books, for which either adjustment entries or rectification entries may be required to be passed. Effect of these adjustments/ rectifications would be 'double' and get reflected either in the income statements and/ or Balance Sheet.

Some of the important adjustments include:

- ⊙ Closing stock
- ⊙ Outstanding expenses or Accrued expenses
- ⊙ Prepaid expenses
- ⊙ Accrued income
- ⊙ Income received in advance
- ⊙ Goods sold on approval basis
- ⊙ Goods distributed as free samples
- ⊙ Goods withdrawn by proprietor/ partner for personal use
- ⊙ Depreciation and Amortisation
- ⊙ Bad debts

Financial Accounting

- ⊙ Provision for doubtful debts
- ⊙ Provision for discount on debtors
- ⊙ Abnormal loss of stock
- ⊙ Interest on capital
- ⊙ Interest on drawings etc.
- ⊙ Asset recorded as expenses or vice versa

The different components of financial statements are prepared in a sequential order, as follows:

Firstly, the Trading Account is prepared and its balance (reflecting Gross Profit or Gross Loss) gets transferred to Profit & Loss Account.

Thereafter, the Profit & Loss Account is prepared and its balance (reflecting Net Profit or Net Loss) is transferred to Capital Account (after drafting Profit & Loss Appropriation Account in case of partnership firms).

Finally, the Balance Sheet is drafted considering a ledger balances reflecting assets, liabilities and capital.

Illustration 1

Following are the ledger balances presented by M/s. P. Sen as on 31st March 2023:

Particulars	(₹)	Particulars	(₹)
Stock (1.4.2022)	10,000	Sales	3,00,000
Purchase	1,60,000	Return Inward	16,000
Carriage Inwards	10,000	Return Outward	10,000
Wages	30,000	Royalty on Production	6,000
Freight	8,000	Gas and Fuel	2,000

Additional Information:

- (1) Stock on 31.3.2023: (i) Market Price ₹24,000; (ii) Cost Price ₹20,000;
- (2) Stock valued ₹10,000 were destroyed by fire and insurance company admitted the claim to the extent of ₹6,000.
- (3) Goods purchased for ₹6,000 on 29th March, 2023, but still lying in-transit, not at all recorded in the books.
- (4) Goods taken for the proprietor for his own use for ₹3,000.
- (5) Outstanding wages amounted to ₹4,000.
- (6) Freight was paid in advance for ₹1,000.

Solution:

M/s P. Sen
Trading Account

Dr. **for the year ended 31st March, 2023.** **Cr.**

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Opening Stock		10,000	By Sales	3,00,000	
To Purchase	1,60,000		Less: Return Inward	16,000	2,84,000
Less: Return Outward	10,000				
	1,50,000		By Closing Stock		20,000
Less: Goods taken by Proprietor	3,000		By Stock Destroyed (Abnormal Loss)		10,000
	1,47,000				
Add: Goods-in-transit	6,000	1,53,000	By Goods-in-Transit		6,000
To Wages	30,000				
Add: Outstanding	4,000	34,000			
To Carriage Inwards		10,000			
To Freight	8,000				
Less: Prepaid	1,000	7,000			
To Royalty on production		6,000			
To Gas & fuel		2,000			
To Profit & Loss A/c (Gross profit transferred)		98,000			
		3,20,000			3,20,000

Note: (a) Stock should be valued as per cost price or net realizable value whichever is lower.

(b) The claim which was admitted by insurance company and the loss of stock, will not appear in Trading Account.

Illustration 2

From the following particulars presented by Mr. Shankar for the year ended 31st March 2023, prepare Profit and Loss Account after taking into consideration the given details:

Gross Profit ₹ 1,00,000, Rent ₹ 22,000; Salaries, ₹ 10,000; Commission (Cr.) ₹ 12,000; Insurance ₹ 8,000; Interest (Cr.) ₹ 6,000; Bad Debts ₹ 2,000; Provision for Bad Debts (1.4.2021) ₹ 4,000; Sundry Debtors ₹ 40,000; Discount

Received ₹2,000; Plant & Machinery ₹80,000.

Adjustments:

- (a) Outstanding salaries amounted to ₹4,000;
- (b) Rent paid for 11 months;
- (c) Interest due but not received amounted to ₹2,000
- (d) Prepaid Insurance amounted to ₹2,000;
- (e) Depreciate Plant and Machinery by 10% p.a.
- (f) Further Bad Debts amounted to ₹2,000 and make a provision for Bad Debts @5% on Sundry Debtors.
- (g) Commissions received in advance amounted to ₹2,000.

Solution:

Mr. Shankar

Profit and Loss Account

for the year ended 31st March 2023

Dr.					Cr.
Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Rent	22,000		By Trading A/c.		1,00,000
Add: Outstanding	2,000	24,000	-Gross Profit		
” Salaries	10,000		” Commission	12,000	
Add: Outstanding	4,000	14,000	Less: Received in advance	2,000	10,000
” Insurance	8,000		” Interest	6,000	
Less: Prepaid	2,000	6,000	Add: Accrued Interest	2,000	8,000
” Bad Debts	2,000				
Add: further Bad Debts	2,000	4,000	” Discount received		2,000
” Depreciation on Plant & Machinery @10% on ₹80,000		8,000	” Provisions for Bad Debts	4,000	
” Capital A/c (Net Profit Transferred)		66,100	Less: New Provision @ 5% on (₹40,000 – ₹2,000)	1,900	
					2,100

1,22,100

1,22,100

Illustration 3

X, Y and Z are three Partners sharing profit and Losses equally. Their capital as on 01.04.2022 were: X ₹ 80,000 ; Y ₹ 60,000 and Z ₹ 50,000.

They mutually agreed on the following points (as per partnership deed):

- Interest on capital to be allowed @ 5% P.a.
- X to be received a salary @ ₹ 500 p.m.
- Y to be received a commission @ 4% on net profit after charging such commission.
- After charging all other items 10% of the net profit to be transferred General Reserve.

Profit from Profit and Loss Account amounted to ₹ 66,720.

Prepare a Profit and Loss Appropriation Account for the year ended 31st March, 2023.

Solution:

**Profit & Loss Appropriation A/c
for the year ended 31st March, 2023**

Dr.			Cr.		
Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Interest on Capital:			By Profit and Loss A/c (Net profit transferred)		66,720
X	4,000				
Y	3,000				
Z	2,500	9,500			
“ Salaries					
X : (₹ 500 × 12)		6,000			
“ Commission		1,970			
Y [WN: 1]					
“ General Reserve [WN: 2]		4,925			
“ Partners’ Capital A/c: (Net Divisible Profit)					
X	14,775				
Y	14,775				
Z	14,775	44,325			
		66,720			66,720

Working Note:

- Net Profit before charging Y’s Commission = ₹ [66,720 – (9,500 + 6,000)] = ₹ 51,220
Less: Y’s Commission @ 4% = $(\frac{4}{104} \times ₹ 51,220)$ = ₹ 1,970

$$2. \text{ Transfer to General Reserve} \quad = ₹ 49,250 \times 10\% \quad = \frac{49,250}{10} = ₹ 4,925$$

Illustrations 4

From the following Trial Balance of M/s BJ & Sons, prepare the final accounts for the year ended on 31st March 2023, and also the Balance sheet as on that date:

Particulars	Debit (₹)	Credit (₹)
Stock as on 01.04.2022: Finished goods	2,00,000	
Purchases and Sales	22,00,000	35,00,000
Bills receivables	50,000	
Returns	1,00,000	50,000
Carriage Inwards	50,000	
Debtors and Creditors	2,00,000	4,00,000
Carriage Outwards	40,000	
Discounts	5,000	5,000
Salaries and wages	2,20,000	
Insurance	60,000	
Rent	60,000	
Wages and salaries	80,000	
Bad debts	10,000	
Furniture	4,00,000	
BJ's capital		5,00,000
BJ's drawing	70,000	
Loose tools	1,00,000	
Printing & stationery	30,000	
Advertising	50,000	
Cash in hand	45,000	
Cash at bank	2,00,000	
Petty Cash	5,000	
Machinery	3,00,000	
Commis sion	10,000	30,000
Total	44,85,000	44,85,000

Adjustments:

- (i) Finished goods stock: Stock on 31st March was valued at Cost price ₹ 4,20,000 and Market price ₹ 400,000.
- (ii) Depreciate furniture @ 10% p.a. and machinery @ 20% p.a. on reducing balance method.
- (iii) Rent of ₹ 5,000 was paid in advance.
- (iv) Salaries & wages due but not paid ₹ 30,000.
- (v) Make a provision for doubtful debts @ 5% on debtors.
- (vi) Commission receivable ₹ 5,000.

Solution :

M/s BJ & Sons

Dr. Trading Account for the year ended 31st March 2023

Cr.

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Opening Stock : Finished Goods		2,00,000	By Sales	35,00,000	
To Purchases	22,00,000		Less: Sales Returns	1,00,000	34,00,000
Less: Purchases Returns	50,000	21,50,000	By Closing Stock		
To Carriage Inwards		50,000	Finished Goods		4,00,000
To Wages & Salaries		80,000			
To P/L A/c		13,20,000			
(Gross Profit transferred)		38,00,000			38,00,000

Dr. Profit & Loss Account for the year ended 31st March 2023

Cr.

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Administrative expenses	-		Gross Profit b/d		13,20,000
To Salaries & wages	2,20,000		Discount received		5,000
Add: Outstanding	30,000	2,50,000	Commission received	30,000	
To Depreciation: on Furniture		40,000	Add : Receivable	5,000	35,000
on Machinery		60,000			
To Insurance		60,000			
To Rent	60,000				
Less: Paid in Advance	5,000	55,000			
To Printing & Stationery		30,000			
To Advertising		50,000			
To Carriage Outwards		40,000			
To Discounts		5,000			

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Bad debts		10,000			
To Commission		10,000			
To Provision for Doubtful Debts		10,000			
To BJ's Capital A/c (Net Profit transferred)		740,000			
		13,60,000			13,60,000

Dr.

Balance Sheet as on 31st March 2023

Cr.

Liabilities	(₹)	(₹)	Assets	(₹)	(₹)
BJ's Capital	5,00,000		Fixed Assets:		
Less : Drawings	70,000		Furniture	400,000	
Add : Net Profit for the year	7,40,000	11,70,000	Less: Depreciation	40,000	3,60,000
Long Term Liabilities:		-	Machinery	300,000	
			Less: Depreciation	60,000	2,40,000
Current Liabilities:			Loose Tools		1,00,000
Sundry Creditors		4,00,000	Current Assets:		
Outstanding Salaries & Wages		30,000	Stocks		4,00,000
			Sundry Debtors	200,000	
			Less: Provision for Doubtful Debts	10,000	1,90,000
			Bills Receivables		50,000
			Cash in Hand		45,000
			Cash at Bank		2,00,000
			Petty Cash		5,000
			Prepaid Rent		5,000
			Commission Receivable		5,000
		16,00,000			16,00,000

Notes :

(1) Closing stock is valued at market price here as it is less than cost price (conservatism concept)

Illustrations 5

Mr. Arvind Kumar has a small business enterprise. He has given the trial balance as at 31st March 2023

Particulars	Debit (₹)	Credit (₹)
Mr. Arvind Kumar's Capital		1,00,000
Machinery	36,000	
Depreciation on Machinery	4,000	
Repairs to Machinery	5,200	
Wages	54,000	
Salaries	21,000	
Income Tax of Mr. Arvind Kumar	1,000	
Cash in Hand	4,000	
Land & Building	1,49,000	
Depreciation on Building	5,000	
Purchases	2,50,000	
Purchase Returns		3,000
Sales		4,98,000
CC Bank		7,600
Accrued Income	3,000	
Salaries Outstanding		4,000
Bills Receivables	30,000	
Provision for Doubtful Debts		10,000
Bills Payable		16,000
Bad Debts	2,000	
Discount on Purchases		7,080
Debtors	70,000	
Creditors		62,520
Opening Stock (01.04.2021)	74,000	
Total	7,08,200	7,08,200

Additional information:

(1) Stock as on 31st March 2023 was valued at ₹ 60,000

- (2) Write off further ₹ 6,000 as bad debt and maintain a provision of 5% for doubtful debt.
- (3) Goods costing ₹ 10,000 were sent on approval basis to a customer for ₹ 12,000 on 30th March, 2022. This was recorded as actual sales.
- (4) ₹ 2,400 paid as rent for office was debited to Landlord's A/c and was included in debtors.
- (5) General Manager is to be given commission at 10% of net profits after charging his commission.
- (6) Sales manager is to be given a commission at 12% of net profit before charging General Manager's commission and his own.

You are required to prepare final accounts in the books of Mr. Arvind Kumar, and also the Balance Sheet as on that date.

Solution :

Mr. Arvind Kumar

Dr. Trading Account for the year ended 31st March 2023 Cr.

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Opening stock:			By Sales A/c	4,98,000	
Finished goods		74,000	Less: Sent on Approval	(12,000)	4,86,000
To Purchases:	2,50,000				
Less: Purchases returns	(3,000)	2,47,000	By Closing stock A/c		
			Finished goods	60,000	
To Wages:		54,000	Add Sent on Approval	10,000	70,000
To P/L A/c (Gross Profit transferred)		181,000			
		5,56,000			5,56,000

Dr. Profit and Loss Account for the year ended 31st March 2023 Cr.

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Salaries		21,000	By Trading A/c		
To Repairs to Machinery		5,200	(Gross Profit transferred)		1,81,000
To Depreciation: on Machinery		4,000	By Discount Received		7,080
on Building		5,000			
To Rent		2,400			
To Bad Debts	2,000				
Add: Further Bad Debts	6,000				
Provision for Doubtful Debts	2,480				
Less: Provision Opening	(10,000)	480			

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Commission to Sales Manager		18,000			
To Commission to General Manager		12,000			
To Capital A/c (Net Profit transferred)		1,20,000			
		1,88,080			1,88,080

Balance Sheet as on 31st March 2023

Liabilities	(₹)	(₹)	Assets	(₹)	(₹)
Arvind Kumar's Capital	1,00,000		Fixed Assets:		
Less: Drawings (income tax)	(1,000)		Land & Building		1,49,000
Add: Net Profit for the year	1,20,000	2,19,000	Machinery		36,000
Long term Liabilities:		-	Current Assets:		
Current Liabilities:			Stocks	60,000	
Sundry Creditors		62,520	Add: Sent on Approval	10,000	70,000
Outstanding Salaries		4,000	Sundry Debtors	70,000	
CC Bank's Overdraft		7,600	Less: Goods on Approval	(12,000)	
Bills Payable		16,000	Less: Bad Debts	(6,000)	
Commission Payable		30,000	Less: Related to Landlord	(2,400)	
			Less: Provision for Doubtful Debts	(2,480)	47,120
			Bills Receivable		30,000
			Cash in Hand		4,000
			Accrued Income		3,000
		3,39,120			3,39,120

Working Notes:

(1) Commission payable to sales manager & general manager is computed as below:

	(₹)
Profit before charging any commission	1,50,000
Commission to sales manager @ 12% on 1,50,000	<u>18,000</u>
Profit after sales manager's commission	<u>1,32,000</u>

Commission to General Manager $(1,32,000/110 \times 10)$ 12,000**Illustrations 6**

Mr. Abhay runs a small shop and deals in various goods. He has not been able to tally his trial balance and has closed it by taking the difference to Suspense A/c. It is given below:

Particulars (as on 31st March 2023)	Debit (₹)	Credit (₹)
Abhay's Capital		1,50,000
Drawings	75,000	
Fixed Assets	1,35,000	
Opening Stock (01.04.2021)	36,500	
Purchases & Returns	6,75,000	13,500
Sales & returns	34,000	8,50,000
Due from Customer & to Creditors	95,000	3,25,000
Expenses	45,750	
Cash		3,000
Bank Deposits & Interest Earned	55,000	5,750
Suspense A/c		4,000
Advertising	2,00,000	
Total	13,51,250	13,51,250

Mr. Abhay has requested you to help him in tallying his trial balance and also prepare his final accounts. On investigation of his books you get the following information:

- Closing Stock on 31st March 2023 was ₹45,000 at cost and could sell over this value.
- Depreciation of ₹13,500 needs to be provided for the year.
- A withdrawal slip indicated a cash withdrawal of ₹15,000 which was charged as drawing. However, it was noticed that ₹11,000 was used for business purpose only and was entered as expenses in cash book.
- Goods worth ₹19,000 were purchased on 24th March 2023 and sold on 29th March 2023 for ₹23,750. Sales were recorded correctly, but purchase invoice was missed out.
- Purchase returns of ₹1,500 were routed through sales return. Party's A/c was correctly posted.
- Expenses include ₹3,750 related to the period after 31st March 2023.
- Purchase book was over-cast by ₹1,000. Posting to suppliers' A/c is correct.
- Advertising will be useful for generating revenue for 5 years.

Solution: Rectification of Errors:

- Cash withdrawn was recorded as

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Gross Profit c/d		1,48,000			
		8,62,500			8,62,500

Dr. Profit and Loss Account for the year ended 31st March, 2023 Cr.

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Expenses	45,750		By Gross Profit b/d		1,48,000
Less : Prepaid	3,750	42,000			
To Depreciation		13,500	By Interest on Bank deposits		5,750
To Advertising		2,00,000	By Net Loss		1,01,750
		2,55,500			2,55,500

Balance Sheet as on 31st March, 2023

Liabilities	(₹)	(₹)	Assets	(₹)	(₹)
Mr. Abhay's Capital	1,50,000		Fixed Assets		
Add: Wrong charge to drawing	11,000		Gross Block	1,35,000	
	1,61,000		Less: Depreciation	13,500	1,21,500
Less: Drawings	75,000	86,000	Current Assets:		
			Stocks		45,000
Current Liabilities:			Sundry Debtors		95,000
Sundry Creditors	3,25,000		Cash in hand	(3,000)	
Add: Missed out purchase	19,000	3,44,000	Add: Rectification	11,000	8,000
			Fixed deposit with Bank		55,000
			Prepaid expenses		3,750
			Miscellaneous Expenditure:		
			Profit & Loss (Dr.)		1,01,750
		4,30,000			4,30,000

Note : The expenditure incurred on intangible items after the date AS 26 became/becomes mandatory (01.04.2003 or 01.04.2004, as the case may be) would have to be expensed when incurred since these do not meet the definition of an 'asset' as per AS 26. Hence, full amount of Advertisement expense is charged to Profit & Loss Account.

It may be mentioned here that students might be thinking that since Advertisement benefit spread over five years, hence 1/5th to be shown in P/L Account and rest 4/5 will be shown in Balance sheet. But to be an Asset

(Tangible /intangible) , Asset recognition criteria must be fulfilled as per AS-10 and AS-26 as the case may be i.e. Future economic Benefit flow into the organisation and it can be reliably measured. The 1st condition of future economic benefit fulfills but the second condition i.e. reliable measurement of revenue is absent. It cannot be measured reliably as to how much revenue can be generated each year with this expenses. Hence, the entire amount has been charged against profit in the year of expenditure.

Illustration 7

Mr. O maintains his accounts on Mercantile basis. The following Trial Balance has been prepared from his books as at 31st March, 2023 after making necessary adjustments for outstanding and accrued items as well as depreciation:

Trial Balance
as at 31st March, 2023

Particulars	Debit (₹)	Credit (₹)
Plant and Machinery	2,12,500	
Sundry Creditors		2,64,000
Sales		6,50,000
Purchases	4,20,000	
Salaries	40,000	
Prepaid Insurance	370	
Advance Rent	2,000	
Outstanding Salary		6,000
Advance Salary	2,500	
Electricity Charges	2,650	
Furniture and Fixtures	72,000	
Opening Stock (01.04.2022)	50,000	
Outstanding Electricity Charges		450
Insurance	1,200	
Rent	10,000	
Miscellaneous Expenses	14,000	
Cash in Hand	3,000	
Investments	80,000	
Drawings	24,000	
Dividend from Investments		8,000
Accrued Dividend from Investments	1,500	

Particulars	Debit (₹)	Credit (₹)
Depreciation on Plant and Machinery	37,500	
Depreciation on Furniture	8,000	
Capital Account		2,11,970
Telephone Charges	6,000	
Sundry Debtors	1,70,500	
Stationery and Printing	1,200	
Cash at Bank	65,000	
Interest on Loan	8,000	
Interest Due but Not Paid on Loan		1,500
Loan Account		90,000
	12,31,920	12,31,920

Additional Information:

- (i) Salaries include ₹ 10,000 towards renovation of Proprietor's residence.
- (ii) Closing Stock amounted to ₹ 75,000.

Mr. O, however, request you to prepare a Trading and Profit & Loss Account for the year ended 31st March, 2023 and a Balance Sheet as on that date following cash basis of accounting.

Solution:

Mr. O

Dr. Trading and Profit and Loss Account for the year ended 31st March, 2023 Cr.

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Opening Stock		50,000	By Sales		6,50,000
To Purchases		4,20,000	By Closing Stock		75,000
To Profit & Loss A/c.					
– Gross Profit transferred		2,55,000			
		7,25,000			7,25,000
To Salaries	40,000		By Trading A/c.		
– Less: Outstanding	6,000		–Gross Profit transferred		2,55,000
Salaries	34,000		By Dividend	8,000	
– Add: Advance Salary	2,500		Less: Accrued Dividend	1,500	6,500
	36,500				
–Less: Renovation (Drawings)	10,000	26,500			

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Insurance	1,200				
– Add: Prepaid	370	1,570			
To Rent	10,000				
– Add: Advance Rent	2,000	12,000			
To Electricity Charges	2,650				
– Less: Outstanding	450	2,200			
To Miscellaneous Expenses		14,000			
To Stationery & Printing		1,200			
To Depreciation:					
– Plant & Machinery	37,500				
– Furniture & Fixtures	8,000	45,500			
To Interest on Loan	8,000				
– Less: Outstanding	1,500	6,500			
To Telephone Charges		6,000			
To Capital Account					
– Net Profit transferred		1,46,030			
		2,61,500			2,61,500

Balance Sheet as at 31st March, 2023

Liabilities	(₹)	(₹)	Assets	(₹)	(₹)
Capital Account	2,11,970		Plant and Machinery (at cost less depreciation)		2,12,500
Add: Net Profit	1,46,030		Furniture & Fixtures (at cost less depreciation)		72,000
	3,58,000		Investments		80,000
Less: Drawings (₹24,000 + ₹10,000)	34,000	3,24,000	Stock-in-Trade		75,000
			Debtors		1,70,500
Loan Account		90,000	Cash at Bank		65,000
Sundry Creditors		2,64,000	Cash in hand		3,000
		6,78,000			6,78,000

Illustration 8

The following Trial Balance has been prepared from the books of Mrs. Sexena as on 31st March, 2023 after making necessary adjustments for depreciation on Fixed Assets, outstanding and accrued items and difference under Suspense Account.

Trial Balance as at 31st March, 2023

Particulars	Debit (₹)	Particulars	Credit (₹)
Machineries	1,70,000	Sundry Creditors	82,000
Furniture	49,500	Capital Account	2,45,750
Sundry Debtors	38,000	Outstanding Expenses:	
Drawings	28,000	Salaries	1,500
Travelling Expenses	6,500	Printing	600
Insurance	1,500	Audit Fees	1,000
Audit Fees	1,000	Bank Interest	1,200
Salaries	49,000	Discounts	1,800
Rent	5,000	Sales (Less Return)	6,80,000
Cash in Hand	7,800		
Cash at Bank	18,500		
Stock-in-Trade (01.04.2021)	80,000		
Prepaid Insurance	250		
Miscellaneous Expenses	21,200		
Discounts	1,200		
Printing & Stationery	1,500		
Purchase (Less Returns)	4,60,000		
Depreciation:			
Machineries	30,000		
Furniture	5,500		
Suspense Account	39,400		
	10,13,850		10,13,850

On the subsequent scrutiny following mistakes were noticed:

- (i) A new machinery was purchase for ₹ 50,000 but the amount was wrongly posted to Furniture Account as ₹ 5,000.
- (ii) Cash received from Debtors ₹ 5,600 was omitted to be posted in the ledger.
- (iii) Goods withdrawn by the proprietor for personal use but no entry was passed ₹ 5,000.
- (iv) Sales included ₹ 30,000 as goods sold cash on behalf of Mr. Thakurlal who allowed 15% commission on such sales for which effect is to be given.

You are further told that:

- Closing stock on physical verification amounted to ₹47,500.
- Depreciation on Machineries and Furniture has been provided @ 15% and 10%, respectively, on reducing balancing system.

Full year's depreciation is provided on addition.

You are requested to prepare a Trading and Profit & Loss Account for the year ended 31st March 2023 and a Balance Sheet as on that date so as to represent a True and Correct picture.

Solution:

Mrs. Sexena
Trading and Profit and Loss Account
for the year ended 31st March, 2023

Dr.			Cr.		
Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Opening Stock		80,000	By Sales (₹ 6,80,000 - ₹ 30,000)		6,50,000
To Purchases	4,60,000		By Closing Stock		47,500
Less: Drawings	5,000	4,55,000			
To Profit & Loss A/c.					
Gross Profit transferred		1,62,500			
		6,97,500			6,97,500
To Salaries:		49,000	By Trading A/c. (Gross Profit)		1,62,500
To Rent		5,000	By Bank Interest		1,200
To Insurance		1,500	By Selling Commission		
To Audit Fees		1,000	(15% on ₹ 30,000)		4,500
To Printing & Stationery		1,500	By Discount Received		1,800
To Miscellaneous Expenses		21,200			
To Discount Allowed		1,200			
To Travelling Expenses		6,500			
To Depreciation:					
Machinery	37,500				
Furniture	5,000	42,500			
To Capital Account (Net Profit transferred)		40,600			
		1,70,000			1,70,000

Balance Sheet
as at 31st March, 2023

Liabilities	(₹)	(₹)	Assets	(₹)	(₹)
Capital Account	2,45,750		Machinery	2,50,000 ¹	
Add: Net Profit	40,600		Less: Depreciation	37,500	2,12,500
	2,86,350				
Less: Drawings (28,000+5,000)	33,000	2,53,350	Furniture	50,000 ²	
			Less: Depreciation	5,000	45,000
Sundry Creditors		82,000	Stock		47,500
Outstanding Liabilities:			Debtors (₹38,000 - ₹5,600)		32,400
Salaries	1,500		Cash		7,800
Audit Fees	1,000		Bank		18,500
Printing	600	3,100	Prepaid Insurance		250
Thakurlal's A/c. (₹30,000 – ₹4,500)		25,500			
		3,63,950			3,63,950

Notes:

	(₹)
1. Machinery as per Trial Balance	1,70,000
Add: Depreciation	<u>30,000</u>
	2,00,000
Additions	<u>50,000</u>
	<u>2,50,000</u>
2. Furniture	49,500
Add: Depreciation	<u>5,500</u>
	55,000
Less: Wrong Debit	<u>5,000</u>
3. Suspense A/c is eliminated by item	<u>50,000</u>
(i) ₹ 45,000 (₹50,000 – ₹5,000) and item	
(ii) by ₹5,600 (debited), respectively.	

Illustration 9

The following Trial Balance has been extracted from the books of Mr. Agarwal as on 31.3.2023:

Trial Balance as on 31.3.2023

Particulars	Dr. (₹)	Particulars	Cr. (₹)
Purchase	6,80,000	Sales	8,38,200
Sundry Debtors	96,000	Capital Account	1,97,000
Drawings	36,000	Sundry Creditors	1,14,000
Bad Debts	2,000	Outstanding Salary	2,500
Furniture & Fixtures	81,000	Sale of Old Papers	1,500
Office Equipments	54,000	Bank Overdraft (PP Bank)	60,000
Salaries	24,000		
Advanced Salary	1,500		
Carriage Inward	6,500		
Miscellaneous Expenses	12,000		
Travelling Expenses	6,500		
Stationery & Printing	1,500		
Rent	18,000		
Electricity & Telephone	6,800		
Cash In Hand	5,900		
Cash at Bank (SBI)	53,000		
Stock (1.4.2021)	50,000		
Repairs	7,500		
Motor Car	56,000		
Depreciation:			
Furniture	9,000		
Office Equipment	6,000		
	12,13,200		12,13,200

Additional Information:

- (i) Sales includes ₹ 60,000 towards goods for cash on account of a joint venture with Mr. Reddy who incurred ₹ 800 as forwarding expenses. The joint venture earned a profit of ₹ 15,000 to which Mr. Reddy is entitled to 60%
- (ii) The motor car account represents an old motor car which was replaced on 1.4.2022 by a new motor car costing ₹ 1,20,000 with an additional cash payment of ₹ 40,000 laying debited to Purchase Account.
- (iii) PP Bank has allowed an overdraft limit against hypothecation of stocks keeping a margin of 20%. The present balance is the maximum as permitted by the Bank.
- (iv) Sundry Debtors include ₹ 4,000 as due from Mr. Trivedi and Sundry Creditors include ₹ 7,000 as payable to him.

- (v) On 31.3.2023 outstanding rent amounted to ₹ 6,000 and you are informed that 50% of the total rent is attributable towards Agarwal's resident.
- (vi) Depreciation to be provided on motor car @ 20% (excluding sold item).

Mr. Agarwal requests you to prepare a Trading and Profit & Loss Account for the year ended 31.3.2023 and a Balance Sheet as on that date.

Solution:

Mr. Agarwal
Trading and Profit and Loss Account
for the year ended 31st March, 2023

Dr.			Cr.		
Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Opening Stock		50,000	By Sales	8,38,200	
To Purchases	6,80,000		– Less: Sale on account of Joint Venture	60,000	7,78,200
– Less: Motor Car	40,000	6,40,000	`` Closing Stock (W.N. 1)		75,000
To Carriage Inward		6,500			
To Profit & Loss A/c -Gross Profit transferred		1,56,700			
		8,53,200			8,53,200
To Salaries		24,000	By Trading A/c. - Gross Profit transferred		1,56,700
To Travelling Expenses		6,500	`` Sale of old papers		1,500
To Printing & Stationery		1,500	`` Profit on Joint Venture (40% of ₹15,000)		6,000
`` Electricity & Telephone		6,800	`` Profit on replacement of Motor Car (W. N. 2)		24,000
`` Rent	18,000		[(₹1,20,000 –(₹56,000 + ₹40,000)]		
– Add: Outstanding	6,000				
	24,000				
– Less: Drawings	12,000	12,000			
`` Bad Debts		2,000			
`` Miscellaneous Expenses		12,000			
`` Repairs		7,500			

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
Depreciation on:					
– Furniture	9,000				
– Office Equipment	6,000				
– Motor Car (W.N. 3)	24,000	39,000			
Capital Account					
- Net Profit transferred		76,900			
		1,88,200			1,88,200

Balance Sheet
as at 31st March, 2023

Liabilities	(₹)	(₹)	Assets	(₹)	(₹)
Capital Account	1,97,000		Furniture & Fixtures	90,000	
Add: Net Profit	76,900		Less: Depreciation	9,000	
	2,73,900				81,000
Less: Drawings (36,000 + 12,000)	48,000		Office Equipment	60,000	
		2,25,900	Less: Depreciation	6,000	
Bank Overdraft		60,000			54,000
Creditors	1,14,000		Motor Car	56,000	
Less: Due to Trivedi	4,000	1,10,000	Additions	1,20,000	
				1,76,000	
Amount payable to Reddy (₹60,000 – ₹6,000)		54,000	Less: Sold	56,000	
Outstanding Liabilities:				1,20,000	
Salaries	2,500		Less: Depreciation	24,000	96,000
Rent	6,000	8,500	Stock		75,000
			Debtors	96,000	
			Less: Due from Trivedi	4,000	92,000
			Cash		5,900
			Bank		53,000
			Prepaid Salary		1,500
		4,58,400			4,58,400

Working Notes:

1. Depreciation on Motor Car

on new motor car i.e., @ 20% on ₹ 1,20,000 = ₹ 24,000

2. Profit on Replacement of Motor Car

	(₹)	(₹)
Cost of new Motor Car		1,20,000
Less: Exchange Value	56,000	
Cash Payment	40,000	96,000
Profit on replacement		24,000

3. Closing Stock

Maximum allowable limit (100 – 20)% = 80% of stock.

Overdraft is ₹ 60,000 which is equal to 80%.

$$\begin{aligned} \text{So, closing stock} &= ₹ 60,000 \times \frac{100}{80} \\ &= ₹ 75,000. \end{aligned}$$

Final Accounts of Partnership Firm

Illustration 10

From the following particulars prepare a Final Accounts of M/s. X & Y for the year ended 31st March 2023.

Particulars	(₹)	Particulars	(₹)
Sales	8,20,000	Land	11,000
Opening Stock	3,00,000	Purchase	3,80,000
Loan (Dr.)	20,000	Interest (Cr.)	1,000
Wages	60,000	Salaries	40,000
Carriage Inwards	4,000	Carriage Outward	2,000
Returns inward	4,000	Returns Outwards	3,000
Furniture	10,000	Trade charges	8,000
Drawings		Capital	
X	12,000	X	24,000
Y	10,000	Y	16,000
Cash	3,000		

Additional Information:

- (i) Closing Stock amounted to ₹ 1,20,000;
- (ii) Provide Interest on drawings (on an average 6 months) and interest on capital @ 6% and 4% respectively.
- (iii) Y is to get a salary of ₹ 400 p.m.

- (iv) X is to get a commissions @ 2% on gross sales
 (v) 50% of the profit is to be transferred to Reserve Fund.
 (vi) Depreciations on furniture @ 10% p.a.
 The partners share profit and loss equally.

Solution:**M/s X & Y****Dr. Trading and Profit and Loss Account for the year ended 31st March, 2023 Cr.**

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Opening Stock		3,00,000	By Sales	8,20,000	
`` Purchases	3,80,000		Less: Return Inwards	4,000	8,16,000
Less: Returns Outwards	3,000	3,77,000	`` Closing Stock		1,20,000
`` Wages		60,000			
`` Carriage Inward		4,000			
`` Profit & Loss A/c					
-Gross Profit transferred		1,95,000			
		9,36,000			9,36,000
To Salaries		40,000	By Trading A/c.		
`` Carriage Outward		2,000	- Gross Profit		1,95,000
`` Trade Charges		8,000	`` Interest		1,000
`` Depreciation on:					
- Furniture		1,000			
To P&L Appropriation A/c.					
- Net Profit transferred		1,45,000			
		1,96,000			1,96,000

**Profit and Loss Appropriation Account
for the year ended 31st March, 2023****Dr. Cr.**

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Interest on Capital			By Profit and Loss A/c		1,45,000
X	960		-Net Profit		
Y	640	1,600	By Interest on Drawings:		
To Salary			X	360	

Y:		4,800	Y	300	660
To Commission – X		16,400			
`` Reserve Fund (50%)		61,430			
To Partner’s Capital A/c					
`` Net Divisible Profit					
X	30,715				
Y	30,715				
		61,430			
		1,45,660			1,45,660

Dr.		Partners’ Capital Account		Cr.	
Particulars	X (₹)	Y (₹)	Particulars	X (₹)	Y (₹)
To Drawings	12,000	10,000	By Balance b/d.	24,000	16,000
`` Interest on Drawings	360	300	`` Interest on Capital	960	640
`` Balance c/d.	59,715	41,855	`` Salary	---	4,800
			`` Commission	16,400	---
			`` Share of Profit	30,715	30,715
	72,075	52,155		72,075	52,155

Balance Sheet
as at 31st March, 2023

Liabilities	(₹)	Assets	(₹)	(₹)
Capital :		Land		11,000
X	59,715	Furniture	10,000	
Y	41,855	Less: Depreciation	1,000	9,000
Reserve Fund	61,430	Loan		20,000
		Closing Stock		1,20,000
		Cash		3,000
	1,63,000			1,63,000

Illustration 11

From the following balances extracted from the books of Mr. S on December 31, 2023, prepare a Trading and Profit and Loss Account for the year ended on that date and also a Balance Sheet as on the same date:

Trial Balance as on 31.12.2023

Particulars	Dr. (₹)	Particulaes	Cr. (₹)
Salaries	18,000	Sales	2,43,000
Debtors	1,26,000	8% Loan from Mr. Kumar (taken on 1.7.22)	60,000
Stock on 01.01.2022	30,000	Provision for Bad Debts	8,000
Machinery	2,00,000	Bills Payable	11,000
Furniture	85,000	Outstanding Salaries	3,000
Bad Debts	4,000	Capital Account	3,30,000
Purchases	1,50,000	Creditors	90,000
Printing & Stationery	5,300		
Postage & Telephone	3,200		
Rent	4,500		
Cash in Hand	2,500		
Bank Balance	72,500		
Insurance	4,800		
Bills Receivable	15,000		
General Expenses	9,200		
Drawings	10,000		
Interest on loan	2,000		
Wages	3,000		
	7,45,000		7,45,000

Additional Information:

- Closing Stock (as on 31.12.2023): Cost Price ₹ 50,000; Market Value ₹ 40,000.
- An old furniture which stood at ₹ 12,000 in the books on Jan 1, 2023 was disposed of at ₹ 5,800 on June 30, 2023, in part exchange of a new furniture costing ₹ 10,400. A net invoice of ₹ 4,600 was passed through the Purchase Day Book.
- Sales include ₹ 36,000 hire-purchase sales. Hire-purchase sales prices are determined after adding 25% on Hire-Purchase price. 30% of the installments have not fallen due yet. Profit or loss on hire-purchase sales is to be shown in the Profit and Loss Account.
- Debtors include ₹ 7,500 due from Mr. M and Creditors include ₹ 6,000 due to him.
- Annual Insurance premium up to 31.03.23.
- Depreciate the fixed assets as follow: Machinery @ 15% p.a. and Furniture @ 10% p.a.
- Provide 5% for bad debts on debtors (excluding hire-purchase debtors).

Solution:

Mr. S

Dr. Trading and Profit & Loss Account for the year ended 31.12.2023 Cr.

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Opening Stock		30,000	By Sales	2,43,000	
To Purchases	1,50,000		Less: Sales on Hire Purchase basis	36,000	2,07,000
Less: Exchange of Furniture [WN: 2]	4,600	1,45,400	By Goods Sent on Hire Purchases [₹36,000 × 75%]		27,000
To Wages		3,000	By Closing Stock [WN: 1]		40,000
To Gross Profit		95,600			
		2,74,000			2,74,000
To Salaries		18,000	By Gross Profit		95,600
To Bad Debts		4,000	By Provision for Bad Debts (Old)		8,000
To Printing & Stationery		5,300	By Profit on Hire Purchase [WN: 3]		6,300
To Postage & Telephone		3,200			
To Rent		4,500			
To Insurance	4,800				
Less: Prepaid Insurance [4,800 × 3/12]	1,200	3,600			
To General Expenses		9,200			
To Interest on Loan	2,000				
Add: Outstanding interest on loan [(₹60,000 × 8% × 6/12) – 2,000]	400	2,400			
To Loss on Exchange [WN: 2]		5,600			
To Depreciation:					
Machinery	30,000				
Furniture [₹7,820 (WN: 4) + ₹600 (WN: 2)]	8,420	38,420			
To Provision for Bad debt (New)		5,460			
To Capital A/c [Net Profit transferred]		10,220			
		1,09,900			1,09,900

Balance Sheet as on 31.12.2023

Liabilities	(₹)	(₹)	Assets	(₹)	(₹)
Capital	3,30,000		Machinery	2,00,000	
Add: Net profit	10,220		Less: Depreciation @15%	30,000	1,70,000
	3,40,220				
Less: Drawings	10,000	3,30,220	Furniture	85,000	
			Less: Net Exchange [WN: 2]	1,600	
8% Loan from Mr. Kumar		60,000		83,400	
			Less : Depreciation [WN: 4]	7,820	75,580
Creditors	90,000		Stock-in-Trade [WN: 1]		40,000
Less: Creditors for Furniture [WN: 2]	4,600		Hire Purchase Stock [WN: 3]		8,100
	85,400		Debtors	1,26,000	
Less: Set-off	6,000	79,400	Less: Hire Purchase Debtors [₹36,000 × 30%]	10,800 1,15,200	
Creditors for Furniture [WN: 2]		4,600	Less: Set-off	6,000	
Bills Payable		11,000		1,09,200	
Outstanding Salaries		3,000	Less : Provision for Bad Debt	5,460	1,03,740
Outstanding Interest on Loan		400			
			Bills Receivable		15,000
			Prepaid Insurance		1,200
			Bank Balance		72,500
			Cash in hand		2,500
		4,88,620			4,88,620

Working Notes:

1. Exchange of Furniture - Rectification Entry		(₹)	(₹)
Creditors A/c	Dr.	4,600	
Depreciation A/c	Dr.	600	
Loss on Exchange A/c	Dr.	5,600	
(New) Furniture A/C	Dr.	10400	
To (Old) Furniture A/c			12000
To Creditors for Furniture A/c			4600
To Purchases A/c			4600

2. Goods sent and sold on Hire-purchase

Dr. HP Trading A/c ✓				Cr. HP Sales A/c ✓			
Particulars	(₹)	Particulars	(₹)	Particulars	(₹)	Particulars	(₹)
To Goods sent on HP A/c [₹36,000 × 75%]	27,000	By HP Sales A/c [Matured Installment]	25,200	To HP Trading A/c [₹36,000 × 75%]	25,200	By Sales A/c	36,000
		By Stock with H. P. [₹36,000 × 30% × 75%]	8,100				
To P/L A/c	6,300			To Balance c/f	10,800		
	33,300		33,300		36,000		36,000

Dr. HP Debtors A/c		Cr.	
Particulars	(₹)	Particulars	(₹)
To Debtors A/c	10,800	By Balance c/f	10,800
	10,800		10,800

3. Depreciation on Furniture [to be deducted from Furniture in Balance Sheet]

	(₹)
On Old Furniture [₹85,000 – 12,000] × 10%	7,300
On Sold old Furniture (12,000 × 10% × 6/12)	600
On Furniture acquired during the year [₹10,400 × 10% × 6/12]	520
	8,420

Illustration 12

Mrs. Joshi has presented you the following Trial Balance as on 31st December 2023:

Dr. Trial Balance as on 31.12.2023				Cr.	
Particulars	(₹)	Particulars	(₹)		(₹)
Purchases	1,75,000	Sales	3,25,000		
Interest	8,000	10 % Loan from UBI	1,00,000		
Debtors	1,04,000	Bills Payable	86,000		
Suspense A/c	8,000	Capital	4,87,000		
Rent	6,600	Sundry Creditors	1,02,500		
Plant & Machinery	5,30,000	Apprenticeship Premium Received	2,000		
Furniture & Fixture	85,000	Purchase Return	1,500		
Salaries	7,000				
Wages	2,500				
GST	6,000				
Motor Car	70,000				
Octroi	500				

Particulars	(₹)	Particulars	(₹)
Insurance	10,000		
Unexpired insurance	2,300		
Factory Shed	30,000		
Bills Receivable	25,000		
Patent	32,100		
Sales Return	2,000		
	11,04,000		11,04,000

You are required to prepare a Trading and Profit & Loss account and a Balance Sheet as on 31st Dec 2022 after considering the following adjustment:

1. A sale of ₹25,000 made for cash had been credited to Purchase A/c.
2. Private purchase amounting to ₹600 had been included in Purchase Day Book.
3. The loan account in the books of proprietor appeared as follows:

Dr.			Cr.		
10% Loan from UBI Account					
Date	Particulars	(₹)	Date	Particulars	(₹)
31.12.23	To Balanced c/f	1,00,000	1.1.23	By Balance b/f	50,000
			31.12.23	By Bank A/c	50,000
		1,00,000			1,00,000

Interest paid includes ₹3,000 interest paid to UBI Bank.

4. During the year goods worth ₹1,00,000 were invoiced on 'sale on approval basis' at cost plus 25%. Out of these, goods worth ₹20,000 accepted by the customers, ₹40,000 worth of goods were rejected and properly accounted for but no intimation has been obtained for the balance of the goods and its period is yet to expire.
5. Debtors were shown after deduction of Provision for Doubtful Debt of ₹2,000. It was decided that this debt was considered to be bad and should be written off and a provision of ₹1,000 should be made which was considered doubtful.
6. Suspense account represents money advanced to sales manager who was sent to Mumbai in August, 2023 for sales promotion. On returning to Kolkata submitted a statement disclosing that ₹2,000 was incurred for travelling, ₹1,200 for legal expenses and ₹1,800 for miscellaneous expenses. The balance lying with him is yet to be refunded.
7. Business is carried on in a two-storied rented house. The ground floor, being 50 per cent of the accommodation, is used for business. Mrs. Joshi lives with her family on the first floor.
8. The Furniture account represents old furniture which was replaced on 1.1.2023 by a new one, costing ₹1,20,000 with an additional cash payment of ₹80,000 lying debited to purchases account. However, the assets were put to use on 1.4.2023.
9. Depreciation is to be charged on Furniture @ 10% p.a., Plant & Machinery @ 5% p.a., Motor Car @ 5% p.a.
10. The General manager is entitled to commission based on a percentage of net profit (such commission being charged to profit and loss account before ascertaining the net profits), calculated in the following manner :

Financial Accounting

On the first ₹ 30,000 of net profit	Nil
On the next ₹ 30,000 of net profit	10%
On the next ₹ 30,000 of net profit	20%
And on the balance of net profit	30%

11. Closing Stock was 31.12.2023 was 22,000.

Solution:

Mrs. Joshi

Dr. Trading and Profit & Loss Account for the year ended 31.12.2023 Cr.

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Purchases	1,75,000		By Sales	3,25,000	
Less : Purchase Return	1,500		Less : Sales Return	2,000	
	1,73,500			3,23,000	
Add: Sales wrongly credited in Purchase	25,000		Add : Sales wrongly credited to Purchase	25,000	
	1,98,500			3,48,000	
Less : Private purchase	600		Less : Sale on approval basis	40,000	3,08,000
	1,97,900		By Closing Stock		
Less : Payment for Furniture [WN: 2]	80,000	1,17,900	In hand	22,000	
To Wages		2,500	With Customer [WN: 1]	32,000	54,000
To Octroi		500			
To Gross Profit c/d		2,41,100			
		3,62,000			3,62,000
To Rent	6,600		By Gross Profit b/d		2,41,100
Less: Rent of Personal portion (50%)	3,300	3,300	By Apprenticeship Premium		2,000
To Salaries		7,000	By Provision for Bad Debt		2,000
To GST		6,000			
To Insurance		10,000			
To Interest	8,000				
Add : Outstanding	2,000	10,000			
[(50,000 × 10%) – 3,000]					

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Bad Debt		2,000			
To Provision for Bad Debts		1,000			
To Depreciation:					
Furniture	12,000				
Plant & Machinery	26,500				
Motor Car	3,500	42,000			
To Loss on Exchange [WN: 2]		45,000			
To Sales Promotion Expenses:					
Travelling	2,000				
Legal Expenses	1,200				
Misc. Expenses	1,800	5,000			
To General Manager's Commission [WN:3]		16,140			
To Capital A/c [Net Profit transferred]		97,660			
		2,45,100			2,45,100

Balance Sheet as on 31.12.2023

Liabilities	(₹)	(₹)	Assets	(₹)	(₹)
			Patent		32,100
			Factory Shed		30,000
Capital	4,87,000		Plant & Machinery	5,30,000	
Add : Net Profit	97,660		Less : Depreciation @ 5%	26,500	5,03,500
	5,84,660				
Less : Drawings [Rent of Personal Accommodation]	3,300	5,81,360	Furniture & Fixture	85,000	
			Add: Net Exchange	35,000	
				1,20,000	
10 % Loan from UBI		1,00,000	Less : Depreciation @10%	12,000	1,08,000
Bills Payable		86,000			
Sundry Creditors	1,02,500		Motor Car	70,000	
Less : Private purchase	600	1,01,900	Less : Depreciation @ 5%	3,500	66,500

Liabilities	(₹)	(₹)	Assets	(₹)	(₹)
Outstanding Interest		2,000	Stock-in-Trade:		
Outstanding Manger's Commission		16,140	In hand	22,000	
			With Customers [WN: 1]	32,000	54,000
			Debtors [1,04,000 + 2,000]	1,06,000	
			Less : Sale on Approval basis [WN:1]	40,000	
				66,000	
			Less : Bad debt	2,000	
				64,000	
			Less : Provision for Bad Debts	1,000	63,000
			Bills Receivable		25,000
			Unexpired insurance		2,300
			Due from Sales Manager [8,000 – 5,000]		3,000
		8,87,400			8,87,400

Working Notes:

1. Unexpired goods on Sale on approval basis

	(₹)
Invoice price of goods sent	1,00,000
Less: Goods accepted	(20,000)
Goods returned	(40,000)
∴ Invoice Vale of goods lying in the hands of customer	40,000
∴ Cost price of goods waiting approval = ₹40,000 × 100/125 = ₹32,000	

2. Exchange of Furniture

	(₹)
Original Cost of new Furniture	1,20,000
Less: Payment made	80,000
∴ Exchange Value	40,000

∴ WDV of old Furniture	85,000
∴ Loss on Exchange	45,000

Rectification Entry		(₹)	(₹)
Furniture A/c	Dr.	35,000	
Loss on Exchange A/c	Dr.	45,000	
To Purchases A/c			80,000

3. General manager's Commission

Net Profit before manager's commission = ₹ 241,100 – ₹ 1,27,300 = ₹ 1,13,800

Net Profit	Rate of Commission	Commission (₹)	
On first ₹ 30,000	-	-	
On Next ₹ 30,000	10%	3,000	[30,000 × 10%]
On Next ₹ 30,000	20%	6,000	[30,000 × 20%]
On balance	30%	7,140	[1,13,800 – 90,000] × 30%
∴ Commission payable to General Manager		16,140	

Preparation of Financial Statements of Not-for-Profit Organisation

3.2

Some of the organizations or institutions are constituted to provide valuable services to the society and not with the primary objective of earning profit.

Non-profit Organisations

The organizations which are primarily formed with the objective of offering some specific services to the society and not with profit motive only are referred to as Non-profit Organisations. Such organisations include educational institutions, public medical organisations, social clubs, charitable trusts, trade unions, Cultural clubs like Rotary or Lions club Religious institutions etc. Their main objective is to operate for adding value to different sections of the society.

Features of Non-profit Organisations

The salient features of such non-trading estitis are:

- This organization is governed by elected body or trustee board.
- Its operation is not driven by any profit motive unlike trading concerns.
- Main purpose of the organization is to provide social service.
- Main source of their income comes from donation and membership subscription.
- The funds are utilized maximum for the benefits of the society.
- The membership process for this concern is non-transferable.
- The method of accounting that is followed here is entity concept.

Items of incomes and expenses of Non-profit Organisations

These organisations get their funds in the form of contributions by way of entrance fees, life membership fees, annual subscriptions, donations, grants, legacies etc. The accounting of such organisations is based on similar principles followed by the other organisations. Given the nature of these institutions, there are certain items of revenue and expenses that need special understanding so that accounting treatment could be correctly decided.

There are certain items of income and expenditures which are unique for the non-trading entities. They could be listed as:

Income items	Expenditure items
Donations	Upkeep of grounds
Entrance fees	Tournament expenses
Subscriptions	Prizes
Grants received	Events

The accounting treatment of some of these items of inflows are as follows:

- (a) **Entrance Fees** – These are received at the time of admission of a new member and thus are one-time fees. They are non-recurring in nature. It could be either capitalized as they are non-recurring or taken as revenue as per the rules of the institution. There's a view that addition of member is an ongoing activity and thus every year the institute will get entrance fees. So it may be taken as a normal revenue receipt.
- (b) **Donations** – They could be used for meeting capital or revenue expenses. If donations are received for a special purpose, the amount is credited to a fund from which the amounts are disbursed. The fund may be invested in specified securities. Income from such investments is credited to the fund A/c only. Small donation amounts which are not earmarked for any specific purpose may be treated as revenue receipts.
- (c) **Legacy** – Many times trusts are formed in the memory of certain persons by their will. In such case after the demise of the person, the funds pass on to the institution. Such legacies are of course one-time and therefore should be taken to the capital fund.
- (d) **Endowments** – Sometimes, donations are also in the form of endowments to be used as per instructions of the donor. These are to be treated as capital receipts.
- (e) **Life membership fees** – These could be taken as capital receipts and every year a charge is debited based on some logic. In other words, when received, it could be treated as deferred receipt in the balance sheet and every year a specific amount is credited to Income & Expenditure A/c.
- (f) **Subscriptions** – These are annual receipts and therefore taken as revenue receipts. These must be recognised as revenue on the accrual concept.

Financial Statements of Non-profit Organisations

The different components of the financial statements of non-profit organisations are:

- Receipts & Payments Account;
- Income & Expenditure Account; and
- Balance Sheet.

3.2.1 Preparation of Receipts and Payments Account

This is the summarized form of the cash book of a non-profit organisation. Entries are made on cash basis and items pertaining to previous year or current year or subsequent years are also recorded. It is a memorandum account in which the receipts are shown on left side and payments are shown on the right side. Capital as well as revenue items are entered in the Receipts and Payments Account. This account is real account in nature. No provisions are recorded in this account. The account begins with the opening balance of cash and bank and ends with the closing balance of cash and bank.

The proforma of a typical Receipts and Payments Account is as under:

Receipt and Payment Account

Receipts	(₹)	Payments	(₹)
Starts with opening balance			
All receipts - capital or revenue		All payments - Capital or revenue	
May be related to any period previous, current or subsequent.		May be related to any period previous, current or subsequent.	

Receipts	(₹)	Payments	(₹)
		Ends with closing balance	

Features of Receipts and Payments Account

1. It is an account which contains all Cash and Bank transactions made by a nonprofit organization during a particular financial period.
2. It is a memorandum account.
3. It is Real Account by nature.
4. It starts with the opening balances of Cash and Bank.
5. It is a summary of Cash Book. Summary of all Cash Receipts both capital & revenue during the period are debited to it. All Cash Payments both capital & revenue during the period are credited to this Account. It ends with the closing Cash and Bank Balances.
6. While recording the Cash and Bank transactions all entries are made on Cash Basis.

3.2.2 Preparation of Income and Expenditure Account

This is the income statement of the non-profit organisation. As the name suggests only revenue items i.e. revenue incomes and revenue expenditures are recorded herein. Incomes are recorded on the credit side, while the expenses are recorded in the debit side. Both incomes and expenses must be taken on the basis of accrual concept. This account should reflect only items that are pertaining to current period. The balance of this account shows either a surplus or deficit. Excess of income over expenditure is called surplus and excess of expenditure over income is called as deficit.

Dr.	Income and Expenditure Account		Cr.
Expenses	(₹)	Income	(₹)
Only revenue expenses		Only revenue receipts	
Only related to current period		Only related to current period	
Shows either surplus		Or shows deficit	

Features of Income and Expenditure Account

1. It is by nature Nominal Account.
2. All expenditures of revenue nature for the particular period are debited to this account on accrual basis.
3. All revenue incomes related to the particular period are credited to this account on accrual basis.
4. All Capital incomes and expenditures are excluded.
5. Only current year’s incomes and expenses are recorded. Amounts related to other periods are deducted. Amounts outstanding for the current year are added.
6. Profit on Sale of Asset is credited. Loss on Sale of Asset is debited. Annual Depreciation on Assets is also debited.
7. If income is more than expenditure, it is called a Surplus, and is added with Capital or General Fund etc. in the Balance Sheet.
8. If expenditure is more than income, it is a deficit, and is deducted from Capital or General Fund etc. in the Balance Sheet.

3.2.3 Preparation of Balance Sheet

It is prepared as on the last day of the accounting period. It also has assets and liabilities and prepared based on accounting equation. But, there's no capital account. Instead there is a capital fund. The surplus or deficit from Income & Expenditure A/c is adjusted against this capital fund at the end of the year.

Difference between Receipts and Payments Account and Income and Expenditure Account

Receipts & Payments Account	Income & Expenditure Account
1. It is a summarised Cash Book	1. It closely resembles the Profit & Loss Account of a Trading concern.
2. Receipts are debited and Payments are credited.	2. Incomes are credited and Expenditures are debited.
3. Transactions are recorded on Cash basis.	3. Transactions are recorded on Accrual Basis
4. Amounts related to previous period or future period may remain included. Outstanding amount for current year is excluded.	4. Transactions are recorded on accrual basis. All amounts not related to the current period are excluded. Outstanding amounts of current period are added.
5. It records both Capital and Revenue transactions.	5. It records Revenue transactions only.
6. It serves the purpose of a Real Account.	6. It serves the purpose of a Nominal Account.
7. It starts with opening Cash and Bank Balances and ends with closing Cash and Bank Balances.	7. It does not record such balances, rather its final balance shows a surplus or a deficit for the period.
8. It does not record notional loss or noncash expenses like bad debts, depreciations etc.	8. It considers all such expenses for matching against revenues
9. Its closing balance is carried forward to the same account of the next accounting Period.	9. Its closing balance is transferred to Capital Fund or General Fund or Accumulated Fund in the same period's Balance Sheet.
10. It helps to prepare an Income & Expenditure A/c.	10. It helps to prepare a Balance Sheet.

Fund Asset Accounting and its peculiarities:

Following are the concepts of some funds which are generally maintained by non-profit organizations:

- (i) **Capital Fund** : It is also called "General Fund" or "Accumulated Fund." It is actually the Capital of a non-profit concern. It may be found out as the excess of assets over liabilities. Usually "Surplus" or "Deficit" during a period is added with or deducted from it. A portion of capitalised incomes like donations may be added with it.
- (ii) **Special Fund**: It may be created out of special donation or subscription or out of a portion of the "Surplus". For example a club may have a "Building Fund". It may be used for meeting some specific expenses or for acquiring an asset. If any income is derived out of investments made against this fund or if any profit or loss occurs due to sale of such investments, such income or profit or loss is transferred to this fund.

If the Special Fund is used to meet an expense, the following entry is passed:

Special Fund A/c	Dr.
To Bank A/c (amt. of expense)	

NB: The balance of the Fund is shown as a liability in the Balance Sheet.

Finally, when the balance is transferred to Capital Fund, the entry will be:

Special Fund A/c Dr.
 To Capital Fund A/c (Balance of Special Fund)

If the Special Fund is used to purchase an asset

Asset A/c Dr.
 To Bank A/c (Cost of the asset)

Special Fund A/c Dr.
 To Capital Fund A/c (Special Fund closed)

(iii) Donations

- (a) Donation received for a particular purpose should be credited to Special Fund. For example, Donation received for Building should be credited to Building Fund A/c.
- (b) For other donations received the by-laws or rules of the concern should be followed.
- (c) If there is no such rule, donations received of non-recurring nature should be credited to Capital Fund. Recurring donations received should be credited to Income & Expenditure Account.
- (d) Donation paid by the concern should be debited to Income & Expenditure Account.

(iv) Legacy received

It is to be directly added with Capital Fund after deduction of tax,(if any). It is a kind of donation received according to the will made by a deceased person.

(v) Entrance Fees or Admission Fees

- (a) The rules or by-laws of the concern should be followed.
- (b) If there is no such rule, Admission or Entrance Fees paid once by members for acquiring membership should be added with Capital Fund.
- (c) If such fees are of small amounts covering the expenses of admission only, the fees may be credited to Income & Expenditure Account.

(vi) Subscriptions

- (a) Annual subscriptions are credited to Income & Expenditure Account on accrual basis.
- (b) Life membership subscription is usually credited to a separate account shown as a liability.

Annual Subscription apportioned out of that is credited to Income & Expenditure Account and deducted from the liability. Thus the balance is carried forward till the contribution by a member is fully exhausted. If any member dies before hand, the balance of his life Membership contribution is transferred to Capital Fund or General Fund.

Illustration 13

On 31st March 2021, a club had subscription in arrears of ₹28,000 and in advance ₹4,000. During the year ended 31st March 2022, the club received subscription of ₹2,08,000 of which ₹12,500 was related to 2022-23. On 31st March, 2022, there were 5 members who had not paid subscription for 2021-22 @ ₹1,600 per person. Prepare the Subscription Account for the year 2021-22.

Solution:

Dr.		Subscription Account		Cr.	
Particulars	(₹)	Particulars	(₹)		
To Balance b/d (arrears)	28,000	By Balance b/d (advance)	4,000		
To I & E A/c (income for 2021-22)[B/fig]	1,79,500	By R & P A/c (received)	2,08,000		
To Balance c/d (advance)	12,500	By Balance c/d (arrears- ₹1600 × 5)	8,000		
	2,20,000			2,20,000	

Illustration 14

The City Sports Club of Surat had received in 2022-2023 ₹ 50,000 towards subscription. Subscription for 2021-22 unpaid on 1.4.2022 were ₹ 5,000.

Subscriptions paid in advance on 31.3.2022 were ₹ 1,250 and the same on 31.3.2023 was ₹ 1,000. Subscriptions for 2022- 2023 unpaid on 31.3.2023 were ₹ 2,250.

Show a statement showing the amount of subscriptions that would appear in Income and Expenditure Account of the club for the year ended 31.03.2023.

Solution:

Particulars	(₹)
Subscriptions received during the year 2022-2023	50,000
Add : Subscription outstanding on 31.3.2023	2,250
	52,250
Less : Subscription outstanding on 1.4.22	5,000
	47,250
Add : Subscription paid in advance on 31.3.2022	1,250
	48,500
Less : Subscription received in advance on 31.3.2023	1,000
Subscription for 2022-2023	47,500

Illustration 15

The following is the Income and Expenditure Account of GB Club for the year ended 31st March, 2023:

Income and Expenditure Account of GB Club

Dr.		for the year ended 31st March, 2023		Cr.	
Expenditure	(₹)	Income	(₹)		
To Salaries	19,500	By Subscription	68,000		
To Rent	4,500	By Donation	5,000		

Expenditure	(₹)	Income	(₹)
To Printing	750		
To Insurance	500		
To Audit Fees	750		
To Games & Sports	3,500		
To Subscriptions written off	350		
To Miscellaneous Expenses	14,500		
To Loss on sale of Furniture	2,500		
To Depreciation:			
Sports Equipment	6,000		
Furniture	3,100		
To Excess of income over expenditure	17,050		
	73,000		73,000

Additional Information:

	31-03-2022 (₹)	31-03-2023 (₹)
Subscription in arrears	2,600	3,700
Advance Subscriptions	1,000	1,500
Outstanding expenses:		
Rent	500	800
Salaries	1,200	350
Audit Fee	500	750
Sports Equipment less depreciation	25,000	24,000
Furniture less depreciation	30,000	27,900
Prepaid Insurance	—	150

Book value of furniture sold is ₹7,000. Entrance fees capitalized ₹4,000. On 1st April, 2022 there was no cash in hand but Bank Overdraft was for ₹15,000. On 31st March, 2023 cash in hand amounted to ₹850 and the rest was Bank balance.

Prepare the Receipts and Payments Account of the GB Club for the year ended 31st March, 2022.

Solution:

**Receipts and Payments of GB Club Account
for the year ended 31.3.2023**

Receipt	(₹)	Payments	(₹)
To Subscription A/c (W.N.1)	67,050	By Balance b/d (Bank overdraft)	15,000
To Donation A/c	5,000	By Salary	19,500
To Entrance Fees A/c	4,000	Add: Outstanding of last year	1,200
To Furniture A/c	4,500	Less: Outstanding of this year	(350)
(Sale of furniture) (7,000 - 2,500)		By Rent	4,500
		Add: Outstanding of last year	500

Receipt	(₹)	Payments	(₹)
		Less: Outstanding of this year	(800) 4,200
		By Printing	750
		By Insurance	500
		Add: Prepaid in this year	150 650
		By Audit Fees	750
		Add: Outstanding of last year	500
		Less: Outstanding of this year	(750) 500
		By Games and Sports	3,500
		By Miscellaneous Expenses	14,500
		By Sports Equipment (Purchased) (W.N.2)	5,000
		By Furniture (Purchased) (W.N.3)	8,000
		By Balance c/d	
		Cash	850
		Bank (Bal. fig.)	7,250
	80,550		80,550

Working Notes:**1. Calculation of subscription received during the year 2022-2023**

Particulars	(₹)	(₹)
Subscription as per Income and Expenditure A/c		68,000
Less: Arrears of 2022-2023	3,700	
Advance in 2021-2022	1,000	(4,700)
		63,300
Add: Arrears of 2021-2022	2,600	
Advance for 2022-2023	1,500	4,100
Less: Written off during 2022-2023		67,400
		(350)
		67,050

2. Calculation of Sports Equipment purchased during 2022-2023

Dr.		Cr.	
Sports Equipment Account			
Particulars	(₹)	Particulars	(₹)
To Balance b/d	25,000	By Income & Expenditure	6,000
To Receipts & Payments A/c (Purchases) (bal. fig.)	5,000	A/c (Depreciation)	24,000
		By Balance c/d	
	30,000		30,000

3. Calculation of Furniture purchased during 2022-2023

Dr.		Cr.	
Furniture Account			
Particulars	(₹)	Particulars	(₹)
To Balance b/d	30,000	By Receipts & Payments A/c	4,500
To Receipts and Payments A/c (Purchases) (Bal. fig.)	8,000	By Income and Expenditure A/c (Loss on sale)	2,500
		By Income and Expenditure A/c (Depreciation)	3,100
		By Balance c/d	27,900
	38,000		38,000

Illustration 16

The Income and Expenditure account of an association for the year ended 31 March 2023 is as under:

Dr.		Cr.	
Particulars	(₹)	Particulars	(₹)
To Salaries	1,20,000	By Subscription	1,70,000
To Printing and Stationery	6,000	By Entrance fee	4,000
To Telephone	1,500	By Contribution for Dinner	36,000
To Postage	500		
To General expenses	12,000		
To Interest and bank charges	5,500		
To Audit fees	2,500		
To Annual Dinner Expenses	25,000		
To Depreciation	7,000		
To Surplus	30,000		
	2,10,000		2,10,000

The aforesaid Income and Expenditure account has been prepared after the following adjustments: (₹)

Subscription outstanding as on 31st March 2022	16,000
Subscription outstanding as on 31st March 2023	18,000
Subscription received in advance as on 31st March 2022	13,000
Subscription 'received in advance as on 31st March 2023	8,400
Salaries outstanding as on 31st March 2022	6,000
Salaries outstanding as on 31st March 2023.	8,000
Audit fees for 2021-22 paid during 2022-23	2,000
Audit fee for 2022-23 not paid	2,500
The building owned by the association since 2022 costs	1,90,000
Equipment as on 31st March, 2022 valued at	52,000
At the end of the year after depreciation of ₹ 7,000, equipment amounted to	63,000
In 2020-21, the association raised a bank loan of which is still not paid	30,000
Cash in hand as on 31st March 2023	28,500
Cash in hand as on 31st March 2022	13,600
Capital Fund as on 31st March 2022	2,20,600

You are required to prepare Receipts and Payment Account of the association for the year ended 31st March 2023 and the Balance Sheet as at that date.

Solution:

**Receipts and Payments
for the year ended 31st March, 2023**

Receipts	(₹)	Payments	(₹)
To Balance b/d	13,600	By Salaries W.N. (2)	1,18,000
To Subscription (WN.3)	1,63,400	By Printing & Stationery	6,000
To Entrance Fees	4,000	By Postage	500
To Annual Dinner Contribution	36,000	By Telephone	1,500
		By General Expenses	12,000
		By Audit Fees	2,000
		By Dinner Expenses	25,000
		By Interest	5,500
		By Equipments W.N. (1)	18,000
		By Balance c/d	28,500
	2,17,000		2,17,000

Balance Sheet as at 31st March, 2023

Liabilities	(₹)	(₹)	Assets	(₹)
Capital (W.N. - 4)	2,20,600		Buildings	1,90,000
Add: Surplus	30,000	2,50,600	Equipments	63,000
Bank Loan		30,000	Cash in Hand	28,500
Creditors : Salaries		8,000	Subscription Receivable	18,000
Audit Fees O/S		2,500		
Subscription Received in Advance		8,400		
		2,99,500		2,99,500

Working Notes: (1)

Dr.

Equipment Account

Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	52,000	By Depreciation	7,000
To Bank A/c (B/f)	18,000	By Balance c/d	63,000
	70,000		70,000

(2)

Dr.

Salaries Account

Cr.

Particulars	(₹)	Particulars	(₹)
To Salary O/S (2021 - 22)	8,000	By Income & Expenditure A/c	1,20,000
To Bank A/c (Bal. fig.)	1,18,000	By Salary O/S (2020-21)	6,000
	1,26,000		1,26,000

(3)

Dr.

Subscription Account

Cr.

Particulars	(₹)	Particulars	(₹)
To Subscription Receivable (2020-21)	16,000	By Subscription Receive in Advance (2020-21)	13,000
To Subscription Received in Advance (2022-23)	8,400	By Subscription Receivable (2021-22)	18,000
To Income & Expenditure A/c	1,70,000	By Bank A/c (Bal. fig.)	1,63,400
	1,94,400		1,94,400

(4)

Balance Sheet as at 31st March, 2022

Liabilities	(₹)	Assets	(₹)
Capital fund (Bal. fig.)	2,20,600	Building	1,90,000
Bank loan	30,000	Equipment	52,000
Creditors Salaries	6,000	Cash in hand	13,600
Audit Fees O/S	2,000	Subscription Receivable	16,000
Subscription Received in Advance	13,000		
	2,71,600		2,71,600

Illustration 17

JB Club furnishes you the Receipts and Payments Account for the year ended 31.03.2023:

Receipts	(₹)	Payments	(₹)
To Cash in hand (1.4.2022)	40,000	By Salary	20,000
To Cash at Bank (1.4.2022)	1,00,000	By Repair expenses	5,000
To Donations	50,000	By Furnitures	60,000
To Subscriptions	1,20,000	By Investments	60,000
To Entrance fee -	10,000	By Misc. Expenses	5,000
To Interest on Investments	1,000	By Insurance Premium	2,000
To Interest from Banks,	4,000	By Billiards table and other Sports	
To Sale of Old Newspaper	1,500	Items	80,000
To Sale of Drama Tickets	10,500	By Stationery Expenses	1,500
		By Drama Expenses	5,000
		By Cash in Hand (31.03.2023)	26,500
		By Cash at Bank (31.03.2023)	72,000
	3,37,000		3,37,000

Additional information:

- Subscriptions in arrear for 2022-23 ₹9,000 and subscription in advance for the year 2023-24 ₹3,500.
- ₹400 was the insurance premium outstanding as on 31.03.2023.
- Miscellaneous expenses prepaid ₹900.
- 50% of donation is to be capitalized.
- Entrance fees to be treated as revenue income.
- 8% interest has accrued on investments for five months.
- Billiards table and other sports equipments costing ₹3,00,000 were purchased in the financial year 2021-22 and of which ₹80,000 was not paid 31.03.2022. There is no charge for Depreciation to be considered.

You are required to prepare Income and Expenditure Account for the year ended 31.03.2023 and Balance sheet of the Club as at 31.03.2023.

Solution:

JB Club
Income and Expenditure Account
for the year ended 31.03.2023

Dr.		Cr.
Expenditure	(₹)	Income
		(₹)
To Salary	20,000	By Subscription
To Repair Expenses	5,000	(₹ 1,20,000 + ₹ 9,000 - ₹ 3,500)
To Misc. Expenses	4,100	By Donation @ 50%
(5,000 – 900) (less prepaid)		By Entrance Fee
To Insurance Premium	2,000	By Sale of Old Newspaper
To Stationery Expenses	1,500	By Bank Interest
To Drama Expenses	5,000	By Interest on Investments
		(60,000 × 8% × 5/12) + 1,000
To Excess of Income over Expenditure	1,41,900	By Sale of Drama Tickets
	1,79,500	
		1,79,500

Balance Sheet as at 01.04.2022

Liabilities	(₹)	Assets	(₹)
Capital Fund (Bal. fig)	3,60,000	Cash in Hand	40,000
Billiards Table Outstanding	80,000	Cash at Bank	1,00,000
		Billiards Table and Other Sports Equipments	3,00,000
	4,40,000		4,40,000

Balance Sheet as at 31.03.2023

Liabilities	(₹)	(₹)	Assets	(₹)	(₹)
Capital Fund	3,60,000		Cash in Hand		26,500
Add: Donations	25,000		Cash at Bank		72,000
Excess of Income over Expenditure	<u>1,41,900</u>	5,26,900	Investments	60,000	
Subscriber in Advance		3,500	Accrued Interest	<u>2,000</u>	62,000
			Furniture		60,000
			Prepaid Misc. Exp.		900
			Subscription Arrear		9,000
			Billiards Table and Other Sports Equipments		3,00,000
		5,30,400			5,30,400

Note: Insurance Premium Outstanding is not recorded because it is not a transaction.

Illustration 18

OB Library Society showed the following position on 31st March, 2022:

Balance Sheet as on 31st March, 2022

Liabilities	(₹)	Assets	(₹)
Capital Fund	7,93,000	Electrical Fittings	1,50,000
Expenses Payable	7,000	Furniture	50,000
		Books	4,00,000
		Investments in Securities	1,50,000
		Cash at Bank	25,000
		Cash in Hand	25,000
	8,00,000		8,00,000

The Receipts and Payment Account for the year ended on 31st March, 2023 is given below:

Receipts	(₹)	Payments	(₹)
To Balance b/d		By Electric Charges	7,200
Cash at Bank	25,000	By Postage and Stationery	5,000
Cash in Hand	<u>25,000</u>	By Telephone Charges	5,000
	50,000	By Books Purchased (Apr, 2021)	60,000
To Entrance Fees	30,000	By Outstanding Expenses Paid	7,000
To Membership Subscription	2,00,000	By Rent	88,000
To Sale Proceeds of Old Papers	1,500	By Investment in Securities	40,000
To Hire of Lecture Hall	20,000	By Salaries	66,000
To Interest on Securities	8,000	By Balance c/d	
		Cash at Bank	20,000
		Cash in Hand	11,300
	3,09,500		3,09,500

You are required to prepare Income and Expenditure Account for the year ended 31st March, 2023 and a Balance Sheet as at 31st March, 2023 after making the following adjustments:

- Membership subscription included ₹ 10,000 received in advance.
- Provide for outstanding rent ₹ 4,000 and salaries ₹ 3,000.
- Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.
- 75% of the entrance fees is to be capitalized.
- Interest on securities is to be calculated @ 5% p.a. including purchases made on 01.10.2022 for ₹ 40,000.

Solution:

Income & Expenditure Account of OB Library Society

Dr.		for the year ended 31-3-2023		Cr.	
Particulars	(₹)	Particulars	(₹)	Particulars	(₹)
To Electricity Charges	7,200	By Entrance Fees (30,000 × 25%)	7,500		
To Postage & Stationery	5,000	By Membership Subscription	2,00,000		
To Telephone Charges	5,000	Less: Advance	<u>10,000</u>		1,90,000
To Rent	88,000	By Sale of Old Papers			1,500
Add: Outstanding	<u>4,000</u>	By Hire of Lecture Hall			20,000
	92,000				
To Salaries	66,000	By Interest on Securities	8,000		
Add: Outstanding	<u>3,000</u>	Add. Accrued Interest	<u>500</u>		8,500
To Depreciation on:		[5% on 1,50,000 + (5% on 40,000) × $\frac{1}{2}$ - 8,000]			
Books (10% on 4,60,000)	46,000	By Deficiency			16,700
Electrical fittings (10% on 1,50,000)	15,000				
Furniture (10% on 50,000)	5,000				
	2,44,200				2,44,200

Balance Sheet of OB Library as on 31.03.2023

Liabilities	(₹)	Assets	(₹)
Capital Fund	7,93,000	Electrical Fitting (1,50,000 – 15,000)	1,35,000
Add: Entrance fees	<u>22,500</u>	Furniture (50,000 – 5,000)	45,000
	8,15,500	Books (4,60,000 – 46,000)	4,14,000
Less: Excess of		Investment in securities (1,50,000 + 40,000)	1,90,000
Expenditure over Income	<u>16,700</u>	Accrued Interest	500
	7,98,800	Cash at Bank	20,000
Outstanding Expenses:		Cash in Hand	11,300
Rent	4,000		
Salaries	<u>3,000</u>		
	7,000		
Membership Subscription in Advance	10,000		
	8,15,800		8,15,800

Illustration 19

Following is the summary of Receipts and Payments of RR Clinic for the year ended 31st March, 2023:

	(₹)
Opening Cash Balance	56,000
Donation Received (including ₹50,000 for Building Fund)	1,55,000
Payment to Creditors for Medicines Supply	2,10,000
Salaries	70,000
Purchase of Medical Equipments	1,05,000
Medical Camp Collections	87,500
Subscription Received	3,50,000
Interest on Investments @ 9% p.a.	63,000
Honorarium to Doctors	1,90,000
Telephone Expenses	6,000
Medical Camp Expenses	10,500
Miscellaneous Expenses	7,000

Additional Information:

Sl.		01.04.2022 (₹)	31.03.2023 (₹)
1.	Subscription Due	10,500	15,400
2.	Subscription Received in Advance	8,400	4,900
3.	Stock of Medicine	70,000	1,05,000
4.	Medical Equipments	1,47,000	2,14,200
5.	Building	3,50,000	315,000
6.	Creditor for Medicine Supply	63,000	91,000
7.	Investments	7,00,000	7,00,000

You are required to prepare Receipts and Payments Account and Income and Expenditure Account for the year ended 31st March, 2023 and the Balance Sheet as on 31st March, 2023.

Solution:

**Receipts and Payments Account of RR Clinic
for the year ended 31.03.2023**

Receipts	(₹)	Payments	(₹)
To Cash in Hand (Opening)	56,000	By Medical Supply	2,10,000
To Subscription	3,50,000	By Honorarium to doctors	1,90,000
To Donation	1,55,000	By Salaries	70,000
To Interest on Investment	63,000	By Misc. Expenses	7,000
To Medical Camp collections	87,500	By Purchase of Equipment	1,05,000
		By Telephone Expenses	6,000
		By Medical Camp Expenses	10,500
		By Cash in Hand (Closing)	1,13,000
	7,11,500		7,11,500

**Income and Expenditure Account of RR Clinic
for the year ended 31.03.2023**

Dr.			Cr.
Expenditure	(₹)	Income	(₹)
To Medicine Consumed	2,03,000	By Subscription	3,58,400
To Honorarium to Doctors	1,90,000	By Donation	1,05,000
To Salaries	70,000	By Interest on Investments	63,000
To Telephone Expenses	6,000	By Profit on Medical camp:	
To Misc. Expenses	7,000	Collections	87,500
To Depreciation on:		Less: Expenses	<u>10,500</u>
Medical Equipment	37,800		77,000
Building	<u>35,000</u>		
(3,50,000 – 3,15,000)	72,800		
To Surplus-excess of Income over Expenditure	54,600		
	6,03,400		6,03,400

Balance Sheet of RR Clinic as on 31st March, 2023

Liabilities	(₹)	(₹)	Assets	(₹)	(₹)
Capital Fund:			Building	3,50,000	
Opening Balance	12,62,100		Less: Depreciation	<u>(35,000)</u>	3,15,000
Add: Surplus	<u>54,600</u>	13,16,700	Medical Equipment	1,47,000	
Building Fund		50,000	Add: Purchase	<u>1,05,000</u>	
Subscription Received in Advance		4,900		2,52,000	
Creditors for Medicine Supply		91,000	Less: Depreciation	<u>(37,800)</u>	2,14,200
			Stock of Medicine		1,05,000
			Investments		7,00,000
			Subscription Receivable		15,400
			Cash in hand		1,13,000
		14,62,600			14,62,600

		(₹)	(₹)
1	Subscription for the year ended 31.03.2023		
	Subscription received during the year		3,50,000
	Less: Subscription receivable on 01.04.2022	10,500	.
	Less: Subscription received in advance on 31.03.2023	4,900	(15,400)

		(₹)	(₹)
	Add: Subscription receivable on 31.03.2023	15,400	3,34,600
	Add: Subscription received in advance on 01.04.2022	8,400	23,800
	Subscription for the year 2022-23		3,58,400
2.	Purchase of Medicine		
	Payment of Medicine Supply		2,10,000
	Less: Amount due for Medicine Supply 01.04.2022		(63,000)
			1,47,000
	Add: Amount due for Medicine Supply on 31.03.2023		91,000
	Purchase of Medicine during 2022-23		2,38,000
3.	Medicine Consumed		
	Stock of Medicine on 01.04.2022		70,000
	Add: Purchase of Medicine during the year		2,38,000
			3,08,000
	Less: Stock of Medicine on 31.03.2023		(1,05,000)
	Medicines Consumed		2,03,000
4	Depreciation on Equipment		
	Value of Equipment on 01.04.2022		1,47,000
	Add: Purchase of Equipment during the year		1,05,000
			2,52,000
	Less: Value of Equipment on 31.03.2023		(2,14,200)
	Depreciation on Equipment for the year		37,800

Balance Sheet of RR Clinic as on 31st March, 2022

Liability	(₹)	Assets	(₹)
Capital Fund: (balancing Figure)	12,62,100	Building	3,50,000
Subscription Received in Advance	8,400	Medical Equipment	1,47,000
Creditors for Medicine Supply	63,000	Stock of Medicine	70,000
		Investments	7,00,000
		Subscription Receivable	10,500
		Cash in Hand	56,000
	13,33,500		13,33,500

Illustration 20

The following information provided by the New Youth Club, Delhi for the first year ended 31st March, 2023:

- (i) Donations Received for Building ₹25,00,000;
- (ii) Other Incomes and Receipts were:

(₹ in '000)

Particulars	Capital Income	Revenue Income	Actual Receipt
	(₹)	(₹)	(₹)
Entrance Fees	—	251	251
Life Membership Fees	105	—	105
Subscription	—	1,160	1,151
Play Ground Rent	—	120	110
Refreshment Account	—	115	115
Sundry Incomes	—	62	49

- (iii) Expenditures and actual payments were:

(₹ in '000)

Particulars	Capital Expenditure	Revenue Expenditure	Actual Payment
	(₹)	(₹)	(₹)
Land	800	—	800
Books	236	—	202
Furniture	345	—	315
Honorarium and Salaries	—	165	131
Maintenance of Play Ground	—	52	50
Refreshment Account	—	79	79
Insurance Premium	—	12	15
Sundry Expenses	—	70	65

Others:

Donation were utilized to the extent of ₹ 13 Lakh in construction of building, remaining balance were unutilized. In order to keep in safe, 8% Government Securities were purchased on 31st December, 2022 for ₹ 10.50 Lakh. Remaining amount was put in bank as term deposit on 31st March, 2023. During the year 2022-23, Subscription received in advance ₹ 52,000 for the year 2023-24.

Depreciation to be charged on Building and Furniture @ 10% and on Books @ 15%.

You are required to prepare the Receipts & Payments Account, Income & Expenditure Account and Balance Sheet as on 31st March, 2023.

Solution:

New Youth Club

Receipts & Payments Account

(₹ in 000)

Dr.

for the year ending 31st March, 2023

Cr.

Receipts	(₹)	Payments	(₹)
To Donations	2,500	By Land	800
To Entrance fees	251	By Building	1,300
To life Membership fees	105	By Books	202
To Subscription	1,151	By Furniture	315
To Play Ground rent	110	By Honorarium and Salaries	131
To Refreshment account	115	By Maintenance of Play Ground	50
To Sundry incomes	49	By Refreshment Account	79
		By Insurance Premium	15
		By Sundry Expenses	65
		By Govt. Securities	1,050
		By Term Deposits	150
		By Balance c/d	124
	4,281		4,281

Income & Expenditure Account

Dr.

for the year ending 31st March, 2023

Cr. (₹ in 000)

Expenditure	(₹)	(₹)	Income	(₹)	(₹)
To Honorarium and Salaries	131		By Subscription	1,151	
Add: Outstanding	34	165	Less: Received in Advance	52	
To Maintnc. of Play Ground.	50			1,099	
Add: Outstanding	2	52	Add: Outstanding	61	1,160
To Insurance Premium	15		By Entrance Fees		251
Less: Prepaid	3	12	By Play Ground Rent	110	
To Sundry Expenses	65		Add: Outstanding	10	120
Add: Outstanding	5	70	By Prof it on Refreshment		36
To Depreciation			By Sundry Incomes	49	
On Building-10% on ₹ 13 Lakh		130	Add: Outstanding	13	62
On Fumiture-10% on ₹ 3,45,000		34.50	By Interest on Govt. Securities		21
On Books- 15% on ₹ 2,36,000		35.40	(Accrued)		
To Surplus		1,151.10			
		1,650			1,650

Balance Sheet as on 31st march, 2023

(₹ in 000)

Liabilities	(₹)	Assets	(₹)
Capital Fund		Land	800
Add: Life Membership fees 105.00		Building (₹ 13 Lakh- ₹ 1.3 Lakh)	1,170
Add: Surplus <u>1,151.10</u>	1,256.10	Books (₹ 2,36,000 - ₹ 35,400)	200.6
Donations for Building	2,500	Furniture (₹ 3,45,000 - ₹ 34,500)	310.5
Creditors for Books	34	8% Govt. Securities	1,050
Creditors for Furniture	30	Out. Int. on Govt. Securities	21
Outstanding Hon. and salaries	34	Outstanding Subscription	61
Outs. Maintenance of play ground	2	Prepaid Insurance Premium	3
Outstanding Sundry expenses	5	Play Ground rent- Outstanding	10
Subscription Received in Advance	52	Sundry incomes - Outstanding	13
		Term Deposits	150
		Cash and Bank	124
	3,913.10		3,913.10

Working Notes:

- (1) Donation received for building has been treated as capital item.
- (2) Amount of Term Deposit = Donations Received – (Cost of Building + 8% Govt. Securities) ₹ 25 Lakh – (₹ 13 Lakh + ₹ 10.50 Lakh) = ₹ 1,50,000
- (3) Profit on Refreshment = ₹ 1,15,000 - ₹ 79,000 = ₹ 36,000
- (4) Outstanding Subscription = ₹ 11,60,000 - (₹ 11,51,000 – ₹ 52,000) = ₹ 61,000
- (5) Accrued Interest on Govt. Securities: ₹ 10,50,000 × 8% × 3/12 = ₹ 21,000

Restaurant Trading and Bar Trading

Some clubs have Restaurant and Bar facilities for members and outsiders. Under the circumstances, Restaurant Trading or Bar Trading Account is opened to ascertain the Restaurant or Bar profit, it is just like Trading Account which is opened in case of a trading concern. The Restaurant or Bar profit so ascertained from Restaurant Trading or Bar Trading is transferred to the Income and Expenditure Account as we generally transfer the Gross Profit from Trading Account to Profit and Loss Account in case of Trading concern. Hence, the method of preparing a Restaurant or Bar Trading Account is just like the method of preparing a Trading Account.

Illustration 21

The following summary of the Cash Book has been prepared by the treasurer of a Club:

Receipts	(₹)	Payments	(₹)
To Balance b/d	4,740	By Wages – outdoor staff	13,380
To Subscriptions	29,720	By Restaurant Purchase	50,400
To Entrance Fees	3,200	By Rent – 18 months' to July 30, 2022	7,500

Receipts	(₹)	Payments	(₹)
To Restaurant Receipts	56,800	By Rates	2,700
To Games & Competition Receipts	13,640	By Secretary's Salary	3,120
To Due to Secretary for Petty expenses	80	By Lighting	7,200
		By Competition Prizes	4,000
		By Printing & Postage etc.	6,000
		By Placed in Fixed Deposit	8,000
		By Balance c/d	5,880
	1,08,180		1,08,180

On April 1, 2022 the club's assets were:- Furniture ₹48,000, Restaurant stock ₹2,600; Stock of prizes ₹800; ₹5,200 was owing for supplies to the restaurant.

On March, 31, 2023, the Restaurant stocks were ₹3,000 and prizes in hand were ₹500, while the club owed ₹5,600 for restaurant supplies.

It was also found that subscriptions unpaid at March 31, 2023, amounted to ₹1,000 and that the figure of ₹29,720 shown in the Cash Book included ₹700 in respect of previous year and ₹400 paid in advance for the following year.

Prepare an account showing the Profit or Loss made on the Restaurant and a General Income and Expenditure Account for the year ended 31.3.2023, together with a Balance Sheet as at that date, after writing 10% off the Furniture.

Solution:

Restaurant Trading Account

Dr.

for the year ended 31st March, 2023

Cr.

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Opening Stock A/c		2,600	By Restaurant Receipts A/c		56,800
” Purchases A/c	50,400		” Closing Stock A/c		3,000
” Add: Outstanding for 31.3.2022	<u>5,600</u>				
	56,000				
Less: Outstanding for 01.04.2021	<u>5,200</u>	50,800			
” Income & Expenditure A/c (G.P. transferred)		6,400			
		59,800			59,800

Balance Sheet as at 1st April, 2023

Liabilities	(₹)	Assets	(₹)
Accumulated Fund: (Bal. fig.)	50,390	Furniture and Equipment	48,000
Owing for Supplies to Restaurant	5,200	Restaurant Stock	2,600
Outstanding Rent (Jan. to March 2021)	1,250	Stock of Prize	800
		Outstanding Subscriptions	700
		Cash and Bank	4,740
	56,840		56,840

Income and Expenditure Account

for the year ended 31st March, 2023

Dr.				Cr.	
Expenditure	(₹)	(₹)	Income	(₹)	(₹)
To Wages		13,380	By Subscription :	29,720	
			Subscription already received		
” Rent	7,500		Less: Outstanding for 1.4.12	<u>700</u>	
” Less: Outstanding on 1.4.2021	<u>1,250</u>			29,020	
	6,250		Add: Outstanding for 2022	<u>1,000</u>	
” Less: Prepaid for 3 months (₹7,500 × 3/18)	1,250	5,000		30,020	
” Rates		2,700	Less: Received in advance	<u>400</u>	29,620
” Secretary’s Salary		3,120	” Games Competition Receipts		13,640
” Lighting, Cleaning, Services		7,200	” Restaurant Trading – Gross Profit		6,400
” Competition Prize	4,000				
” Add: Opening Stock	<u>800</u>				
	4,800				
” Less: Closing Stock	<u>500</u>	4,300			
” Printing, Postage and Sundries		6,000			

Expenditure	(₹)	(₹)	Income	(₹)	(₹)
” Dep. on Furniture and Equipment @ 10%		4,800			
” Surplus – Excess of Income over Expenditure		3,160			
		49,660			49,660

Balance Sheet as at 31st March, 2023

Liabilities	(₹)	(₹)	Assets	(₹)	(₹)
Accumulated Fund:			Furniture and Equipment	48,000	
Balance on 1.4.2021	50,390		Less: Depreciation	4,800	43,200
Add: Surplus	3,160	53,550	Restaurant Stock		3,000
Entrance Fees		3,200	Stock of Prize		500
Subscription Received in Advance		400	Outstanding Subscriptions		1,000
Owing for Supplies to Restaurant		5,600	Prepaid Rent		1,250
Outstanding Petty Expenses		80	Fixed Deposit with Bank		8,000
			Cash and Bank		5,880
		62,830			62,830

Preparation of opening and closing Balance Sheet from a given Receipt & Payment Account and Income & Expenditure Account

While drafting the balance sheet the follow points are to be noted:

A. While preparing opening Balance Sheet

- At first, take the opening balance of Cash and Bank which are given in the Receipts and Payments Account as “Balance b/d”. The same will appear in the assets side of the opening Balance Sheet.
- All the opening assets will appear in the assets side of the opening Balance Sheet which are given in the form of adjustments. Similarly, all the opening liabilities will also appear in the liabilities side of the opening Balance Sheet.
- Ascertain the difference between the assets side and the liabilities side of the opening Balance Sheet which will be treated as “Capital Fund”.

B. While preparing closing Balance Sheet

- At first, take the closing balance of Cash and Bank which are given in the Receipts and Payments Account as “Balance c/d”. The same will appear in the asset side of the closing Balance Sheet.

- (b) All the opening fixed asset which have appeared in the asset side of the opening Balance Sheet (after charging all adjustments), if not sold or cost, including addition, if any.
- (c) All the closing current liabilities including capital fund, surplus or deficit (which we get from income and Expenditure Account), other funds like, Donation, Entrance Fees etc. also appear in the liabilities side of the closing Balance Sheet.
- (d) Now, each individual item of Receipts and Payments Account should be compared with each individual item of Income and Expenditure Account and the same is to be adjusted accordingly. It must be remembered that items which are appeared in the credit side of the Receipts and Payments Account must be compared with the items which is appeared in the debit side of Income and Expenditure and vice-versa.

Illustration 22

The following are the items of Receipts and Payments of the BJ Club as summarized from the books of account maintained by the Secretary:

Receipts	(₹)	Payments	(₹)
Opening Balance 1.1.2023	4,200	Manager's Salary	1,000
Entrance Fees: For 2022	1,000	Printing and Stationery	2,600
For 2023	10,000	Advertising	1,800
Subscriptions: For 2022	600	Fire Insurance	1,200
For 2024	15,000	Investments Purchased	20,000
Interest Received on Investments	3,000	Closing Balance 31.12.2023	7,600
Subscriptions 2023	400		
	34,200		34,200

It was ascertained from enquiry that the following represented a fair picture of the Income and Expenditure of the Club for the year 2023 for audit purpose:

Expenditure	(₹)	(₹)	Income	(₹)
Manager's Salary		1,500	Entrance Fees	10,500
Printing & Stationery	2,000		Subscription	15,600
Add: Accrued	<u>400</u>	2,400	Interest on Investments	4,000
Advertising (accrued Nil)		1,600		
Audit Fees		500		
Fire Insurance		1,000		
Depreciation		4,940		

Expenditure	(₹)	(₹)	Income	(₹)
Excess of Income over Expenditure		18,160		
		30,100		30,100

You are required to prepare the Balance Sheet of the Club as on 31.12.2022 and 31.12.2023, it being given that the values of the Fixed Assets as on 31.12.2022 were: Building ₹44,000, Cricket Equipment ₹25,000 and Furniture ₹4,000. The rates of depreciation are Building 5%, Cricket Equipments 10%, Furniture 6%.

Your are entitled to make assumptions as may be justified.

Solution:

BJ Club

Balance Sheet as at 31st December, 2022

Liabilities	(₹)	Assets	(₹)
Outstanding Liabilities:		Building	44,000
Advertisement (₹1,800 – ₹1,600)	200	Furniture	4,000
Printing and Stationery (₹2,600 – ₹2,000)	600	Cricket Equipment	25,000
Capital Fund (Bal. fig.)	78,000	Entrance Fees in arrear	1,000
		Subscription in arrear	600
		Cash	4,200
	78,800		78,800

BJ Club

Balance Sheet as at 31st December, 2023

Liabilities	(₹)	(₹)	Assets	(₹)	(₹)
Capital Fund:			Building	44,000	
Balance on 1.1.2022	78,000		Less: Depreciation 5%	<u>2,200</u>	41,800
Add: Excess of Income over Expenditure	<u>18,160</u>	96,160	Furniture	4,000	
Subscription Received in Advance		400	Less: Depreciation 6%	<u>240</u>	3,760
Outstanding Liabilities:			Cricket Equipment	25,000	
Printing and Stationery		400	Less: Depreciation 10%	<u>2,500</u>	22,500
Manager's Salary: (1,500 – 1,000)		500	Investments		20,000

Liabilities	(₹)	(₹)	Assets	(₹)	(₹)
Audit Fees		500	Subscriptions in Arrear (15,600 – 15,000)		600
			Entrance Fees in Arrear (10,500 – 10,000)		500
			Accrued Interest on Investments (4,000 – 3,000)		1,000
			Prepaid Insurance (1,200 – 1,000)		200
			Cash		7,600
		97,960			97,960

Note: Advertisement expenses and Printing and Stationery which were paid in excess over Income and Expenditure A/c are assumed to be outstanding for the previous year.

Preparation of Financial Statements from Incomplete Records

3.3

Transactions are entered into by every organisation, and it is the primary function of accounting is to record the transactions in the books of accounts. This should be recorded in the books on a systematic and scientific manner following the double entry system. However, in many cases double entry recording is not followed. Such entities usually include the small-time traders such as grocery stores, kirana shops etc. The small entities record the transactions on a casual and sketchy manner, and thus results in incomplete recording of the transactions. This incomplete manner of recording the transactions is commonly referred to as single entry system of account keeping.

Single Entry System

Single entry system is an approach of recording transactions which does not follow the principles of double entry book-keeping system. Under this system, some transactions may be fully recorded, while some transactions get partially recorded and some other transactions may be entirely omitted to be recorded in the books of accounts. Thus, the term 'single entry' is a misnomer. It would rightly be referred to as incomplete records.

Features of Single Entry System

The salient features of single entry system are as under:

- ⦿ It is an unscientific approach of recording transactions.
- ⦿ It is a mixture of no entry, single entry and double entry.
- ⦿ This system is usually followed by the small businesses, semi-skilled service providers and workers etc. who cannot maintain books under double entry system.
- ⦿ There is no uniformity in recording of transactions.
- ⦿ Usually, only the cash and personal accounts are recorded.
- ⦿ In this system, the original vouchers of different transactions are kept for future references, though the relevant accounts are not prepared.

Limitations/ Defects of Single Entry system

Single entry system is a defective approach of recording transactions as it suffers from certain major limitations, which are as under:

- (i) As principle of double entry is not followed, the trial balance cannot be prepared. Hence, arithmetical accuracy cannot be guaranteed.
- (ii) Profit or loss can be found out only by estimates as nominal accounts are not maintained.
- (iii) It is not possible to make a balance sheet in absence of real accounts.

- (iv) It is very difficult to detect frauds or errors.
- (v) Valuation of assets and liabilities is not proper.
- (vi) The external agencies like banks cannot use financial information. A bank cannot decide whether to lend money or not.
- (vii) It is quite likely that the business and personal transactions of the proprietor get mixed.

Difference between single entry system and double entry system

The distinctions between double entry system and single entry system are as follows:

- (i) Single entry is a casual and unscientific approach of recording transactions, while double entry is the scientific approach of record keeping.
- (ii) In double entry system, both the aspects (debit and credit) of all the transactions are recorded. But in single entry system, there is no record of some transactions. In this system, some transactions are recorded only in one of their aspects whereas some other transactions are recorded in both of their aspects.
- (iii) Under double entry system, various subsidiary books such as sales book, purchases book etc. are maintained. Under single entry system, no such subsidiary books except cash book which is also considered as a part of ledger is maintained.
- (iv) In the case of double entry system, there is a ledger which contains personal, real and nominal accounts. But in single entry system, the ledger contains cash account and some personal accounts only.
- (v) Under double entry system, preparation of trial balance is possible, whereas it is not possible to prepare a trial balance in single entry system. Hence accuracy of work is uncertain.
- (vi) Under double entry system, Trading A/c, Profit & Loss A/c and the Balance Sheet are prepared in a scientific manner. But under single entry system, only a rough estimate of Profit or Loss is made and a Statement of Affairs is prepared which resembles a Balance Sheet in appearance but which does not present an accurate picture of the financial position of the business.
- (vii) The possibility of fraud and misappropriation is greater under single entry system as compared to double entry system.
- (viii) Double entry system of book-keeping is usually followed by most of the concerns, while single entry is followed by the small businesses, sole traders, partnership firms and professionals who cannot afford to maintain the formal books of accounts.

Accounting from Incomplete Records & Preparation of Final Accounts

The businesses which does not follow the formal double entry system of accounting do not have any uniformity in their practices. They record the transactions as per their own wish and requirements. Such entities do not maintain the regular books of accounts, and fail to draft the trial balance and the financial statements.

However, such smaller entities are also interested in determining the operating results and financial position at the end of every accounting period. It may not be possible for such entities to determine the correct operating results and reflect the true financial position at the end of an accounting period from such partial and incomplete records.

There are two recognised approaches of preparing the financial statements from such incomplete records. They are:

1. Balance sheet approach/ net worth approach/ comparison approach
2. Conversion approach.

Approach 1: Balance Sheet Approach/ Net Worth Approach/ Comparison Approach

Under this approach, the operating result of an entity is determined by comparing the net worth capital of the entity at two different points of time. As per this approach, the balances of capital/ net worth are determined by preparing the statement of affairs. Using these capitals, the operating result is determined by comparing the amounts of capital/ net worth at two points of time. Hence, this approach is known as the balance sheet approach/ net worth approach/ comparison approach.

Under this approach, three statements are prepared:

- ⊙ **Statement of affairs:** It is a statement of financial position that is prepared with the balances of various assets and liabilities to ascertain the capital/ net worth at the beginning and end of the accounting period.
- ⊙ **Statement of profit & loss:** This statement is prepared for determination of the profit/ loss) of the entity. Firstly, the trading profit/loss is determined by comparing the capital / net worth as at the beginning and end of the accounting period. Thereafter, effect is to be given for the necessary adjustments for determination of the net profit/ loss for the accounting period.
- ⊙ **Final statement of affairs:** This statement is to be prepared at the end of the accounting period with the closing balances of the assets and liabilities after providing for the necessary adjustments viz. Depreciation, provision for bad & doubtful debts etc. It is also known as the revised statement of affairs.

Steps for preparation of Final Accounts under ‘Balance Sheet/ Net Worth/ Comparison Approach’

Step 1: Preparation of ‘statement of affairs’ as at the beginning & end of the accounting period for determination of the amount of the opening and closing capital/ net worth.

Step 2: Preparation of ‘statement of profit & loss’ for determination of trading profit/ loss, and thereafter, the net profit/ loss.

Statement of profit and loss for the year ended

Particulars	(₹)	(₹)
Capital (at the end)	XX	
Less : Capital (at the beginning)	XX	XX
Add : Drawings		XX
		XX
Less : Further Capital Introduced (if any)		XX
Profit/Loss		XX
Less : Adjustments, if any say, Bad debts, Depreciation etc.		XX
Net Profit/Loss for the Period		XX

Particulars	(₹)	(₹)
Less : Appropriation Items :		
(i) Interest on Partner's Capital	XX	
(ii) Partners' Salaries etc.	XX	XX
Divisible Profit		XX

Step 3: Preparation of 'Final Statement of Affairs' as at the end of the accounting period for disclosing the financial position of the entity.

It may be mentioned here that while preparing statement of profit care should be taken to see which adjustments have been considered while preparing closing statement of affairs and which not considered. Adjustments should be taken in one place only i.e. either in closing statement of affairs or in statement of profit.

Approach 2: Conversion Approach

An entity that does not maintain its books under double entry system records only some of the total transactions that it enters into. In such case, it would not be possible to ascertain the profit/ loss and reflect its financial position through the preparation of financial statements directly as the ledger balances are not available. However, such organisation's financial statements may be prepared from such recorded data by recording them in relevant accounts under the double entry system of book keeping, and there after determining the 'missing information'. Usually, the regular accounts like Debtors A/c, Creditors A/c, Cash book, Assets A/c etc. are prepared with the data available and relevant ledger balances are calculated. There is no fixed approach towards determination of such information, and the steps to be taken depends on the data available in each case. Since, as per this approach the data kept under single entry system are converted to double entry system, it is referred to as 'Conversion Approach'.

Difference between 'Statement of Affairs' & 'Balance Sheet'

Statement of Affairs	Balance Sheet
1. It is prepared by an entity following single entry system.	1. It is prepared by an entity following double entry system.
2. It is prepared for determining the Capital or Net Worth at two different points of time.	2. It is prepared for disclosing the financial position of an entity.
3. It reflects the estimated financial position.	3. It reflects the true financial position.
4. The information contained in the Statement of Affairs is comparatively less reliable.	4. The information contained in the Balance Sheet is more reliable.
5. The balance of Capital account is taken as the 'excess of assets over liabilities'.	5. The balance of Capital account is available from regular accounting records.
6. It has no statutory format.	6. Balance Sheet format is specified under various statutes viz. Companies Act, Banking Regulations Act etc.

Difference between ‘Statement of Profit & Loss’ & ‘Profit & Loss Account’

Statement of Profit & Loss	Profit & Loss Account
1. It is prepared by an entity following single entry system.	1. It is prepared by an entity following double entry system.
2. Profit/ loss is determined by comparing the capital/ net worth at two points of time.	2. Profit/ loss is determined by matching expenses/ losses against incomes / gains.
3. It reflects the estimated profit/ loss of an entity.	3. It reflects the true profit/ loss of an entity.
4. All items of expenses, losses, incomes and gains do not get properly disclosed.	4. All expenses, losses, incomes and gains get properly disclosed.
5. Information provided by the Statement of Profit & Loss is comparatively less reliable.	5. Information provided by the Profit & Loss Account is reliable.

Illustration 23

Mr. Prakash keeps his accounts on single entry system. He has given following information about his assets and liabilities.

Items	On 31.03.2022	On 31.03.2023
Creditors	55,200	58,500
Cash at bank	600	1500
Bills payable	26,400	28,200
Bills receivables	16,200	18,300
Debtors	45,600	56,000
Stock in trade	31,000	47,300
Machinery	66,200	78,000
Computer	18,000	17,000

During the year, Prakash brought additional ₹7,500 cash in business. He withdrew goods of ₹2,100 and cash of ₹7,200 for his personal use. Interest on opening capital is to be given at 5% and interest on drawing is to be charged at 10%.

Prepare statement of profit or loss for the year ended 31.03.2023.

Solution:

Here the information about opening and closing capital is not given. Both these figures can be computed based on statement of affairs as on 31.03.2022 and 31.03.2023.

These figures will then be used together with further information to ascertain the profit or loss for the period by drafting the Statement of Profit or Loss for the year ended 31.03.2023.

Mr. Prakash

Statement of Affairs as on 31.03.2022

Liabilities	(₹)	Assets	(₹)
Creditors	55,200	Cash at Bank	600
Bills Payable	26,400	Bills Receivables	16,200
Capital (Bal. figure.)	96,000	Debtors	45,600
		Stock in Trade	31,000
		Machinery	66,200
		Computers	18,000
	1,77,600		1,77,600

Statement of Affairs as on 31.03.2023

Liabilities	(₹)	Assets	(₹)
Creditors	58,500	Cash at Bank	1,500
Bills Payable	28,200	Bills Receivables	18,300
Capital (Bal. fig.)	131,400	Debtors	56,000
		Stock in Trade	47,300
		Machinery	78,000
		Computers	17,000
	2,18,100		2,18,100

Statement of Profit or Loss for the year ended 31.03.2023

Particulars	(₹)
Closing Capital as per Statement of Affairs as on (31.03.2023)	1,31,400
Less: Opening Capital as per Statement of Affairs as on (31.03.2022)	(96,000)
Increase or decrease in capital	35,400
Add: Drawings (Goods + Cash) [₹7,200 + ₹2,100]	9,300
Add: Interest on Drawings @ 10% ($₹9,300 \times 10\% \times \frac{6}{12}$)	465
Less: Interest on Opening Capital @ 5% ($₹96,000 \times 5\%$)	(4,800)
Less: Fresh Capital Introduced	(7,500)
Net Profit or Loss for the year	32,865

Note: Date of Drawings is not given in question hence, interest on drawings is charged for 6 months.

Illustration 24

Mr. Kanan is running a business of readymade garments. He does not maintain his books of accounts under double entry system. While assessing the income of Mr. Kanan for the financial year 2022-23, Income Tax Officer feels that he has not disclosed the full income earned by him from his business. He provides you the following information:

On 31st March, 2022	(₹)
Sundry Assets	16,65,000
Liabilities	4,13,000
On 31st March, 2023	
Sundry Assets	28,40,000
Liabilities	5,80,000
Mr. Kanan's monthly drawings for the year 2022-23	32,000
Income declared to the Income Tax Officer	9,12,000

During the year 2022-23, one life insurance policy of Mr. Kanan was matured and amount received ₹50,000 was retained in the business.

State whether the Income Tax Officer's contention is correct. Explain by giving necessary working.

Solution:**Determination of Capital balance of Mr. Karan on 31.03.2022 and on 31.03.2023**

Particulars	31.03.2022 (₹)	31.03.2023 (₹)
Assets	16,65,000	28,40,000
Less: Liabilities	4,13,000	5,80,000
Capital	12,52,000	22,60,000

Determination of Profit by applying the method of the Capital Comparison

Particulars	(₹)
Capital Balance as on 31.3.2023	22,60,000
Less: Fresh Capital Introduces(matured life insurance policy amount)	(50,000)
	22,10,000
Add: Drawings (₹32,000 × 12)	3,84,000
	25,94,000
Less: Capital Balance as on 01.04.2022	(12,52,000)
Profit	13,42,000
Income Declared	9,12,000
Suppressed Income	4,30,000

The Income Tax Officer's contention that Mr. Kanan has not declared his true income is correct. Mr. Kanan's true income is in excess of the disclosed income by ₹4,30,000.

Illustration 25

The following information is available from Mrs. Sashi who maintains books of accounts on single entry system.

Particulars	01.04.2022 (₹)	31.03.2023 (₹)
Cash and Bank	20,000	21,000
Sundry Debtors	17,000	25,000
Stock	40,000	60,000
Furniture	29,000	29,000
Creditors	32,000	22,000
10 % Loan from Mrs. Sashi	30,000	30,000

Mrs. Sashi withdrew ₹ 5,000 from the business every month for meeting her household expenses. During the year She sold investments held by her privately for ₹ 35,000 and invested the amount in her business. At the end of the year 20212-2023, it was found that full years interest t on loan from Mrs. Sashi had not been paid. Depreciation @ 10% p.a was to be provided on furniture for the full year. Shop assistant was to be given a share of 5% on the profits ascertained before charging such share. Calculate profit earned during the year ended 31.03.2023 by Mrs. Sashi.

Solution:

Statement of Affairs

Particulars	31-03-2022 (₹)	31-03-2023 (₹)	Particulars	31-03-2022 (₹)	31-03-2023 (₹)
Capital (opening & closing) (Bal. fig.)	44,000	83,000	Cash at Bank	20,000	21,000
Creditors	32,000	22,000	Debtors	17,000	25,000
Loan from Mrs. Sashi	30,000	30,000	Stock	40,000	60,000
	1,06,000	1,35,000	Furniture	29,000	29,000
				1,06,000	1,35,000

Statement of Profit & Loss

Dr.

for the year ended 31.03.2023

Cr.

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
Opening Capital		44,000	Closing Capital		83,000
Further Introduction of Capital		35,000	Drawings (5,000 × 12)		60,000
Trading Profit		64,000			
		1,43,000			1,43,000
Depreciation (29,000 × 10%)		2,900	Trading Profit		64,000
Interest on Loan (30,000 × 10%)		3,000			
Net Profit		58,100			
		64,000			64,000

Particulars	31-03-2022 (₹)	31-03-2023 (₹)	Particulars	31-03-2022 (₹)	31-03-2023 (₹)
Commission to Shop Assistant (58,100 × 5%)		2,905	Net Profit		58,100
Net Profit		55,195			
		58,100			58,100

**Statement of Affairs
for the year ended 31.03.2023**

Particulars	(₹)	(₹)	Particulars	(₹)
Capital	44,000		Cash at Bank	21,000
Add: Further Capital Introduced	35,000		Debtors	25,000
Less: Drawings	(60,000)		Stock	60,000
Add: Net profit	55,195	74,195	Furniture (₹29,000 – ₹2,900)	26,100
Creditors		22,000		
Interest on Loan		3,000		
Commission to Assistant		2,905		
Loan from Mrs. Sashi		30,000		
		1,32,100		1,32,100

Illustration 26

Ram Prakash, a small trader does not keep his books following Double Entry System. From the following information provided by him, prepare Trading and Profit & Loss Account for the year ended 31st March, 2023 and Balance Sheet as at that date:

Particulars	31.03.2022 (₹)	31.03.2023 (₹)
Furniture	1,00,000	1,20,000
Stock of Goods-in-Trade	60,000	20,000
Sundry Debtors	1,20,000	140,000
Prepaid Expenses	—	4,000
Sundry Creditors	40,000	?
Unpaid Expenses	12,000	20,000
Cash	22,000	6,000

Receipts and Payments during the year were as follows:

Particulars	(₹)
Receipts from Debtors	4,20,000
Paid to Creditors	2,00,000
Transportation	40,000
Drawings	1,20,000
Sundry Expenses	1,40,000
Furniture Purchased	20,000

Other Information: There were considerable amount of Cash Sales. Credit Purchases during the year amounted to ₹ 2,30,000. Provide a provision for Doubtful Debts to the extent of 10% on Debtors

Solution:

Ram Prakash
Trading and Profit and Loss Account
for the year ended 31st March, 2023

Dr.			Cr.	
Particulars	(₹)	(₹)	Particulars	(₹)
To Opening Stock		60,000	By Sales:	
To Purchases		2,30,000	Credit (WN 1)	4,40,000
To Transportation		40,000	Cash (WN 3)	84,000
To Gross Profit c/d		2,14,000	By Closing Stock	20,000
		5,44,000		5,44,000
To Sundry Exp.	1,40,000		By Gross Profit b/d	2,14,000
Less: Unpaid exp. For 2022	<u>12,000</u>			
	1,28,000			
Less: Prepaid Exp. 2023	<u>4,000</u>			
	1,24,000			
Add: Unpaid Exp. For 2023	<u>20,000</u>	1,44,000		
To Provision for Doubtful Debts.		14,000		
To Net Profit transferred to Capital A/c		56,000		
		2,14,000		2,14,000

Balance Sheet as at 31st March, 2023

Liabilities	(₹)	(₹)	Assets	(₹)	(₹)
Creditors (WN 2)		70,000	Cash and balance		6,000
Unpaid Expenses		20,000	Debtors	1,40,000	
Capital (WN 4)	2,50,000		Less: Provision for	<u>14,000</u>	1,26,000
Add: Net Profit	56,000		Doubtful Debts		20,000
	<u>3,06,000</u>		Closing Stock		4,000
Less: Drawing	(120,000)	1,86,000	Prepaid Expenses		
			Furniture	1,00,000	
			Add: Additions	<u>20,000</u>	1,20,000
		2,76,000			2,76,000

Working Notes:**1. Calculation of Credit Sales:**

Dr.		Total Debtors Account		Cr.	
Particulars	(₹)	Particulars	(₹)		
To Balance b/d	1,20,000	By Cash/Bank A/c	4,20,000		
To Sales A/c — credit (Bal. fig.)	4,40,000	By Balance c/d	1,40,000		
	5,60,000		5,60,000		

2. Calculation of Closing Creditors Balance:

Dr.		Total Creditors Account		Cr.	
Particulars	(₹)	Particulars	(₹)		
To Cash/Bank A/c	2,00,000	By Balance c/d	40,000		
To Balance c/d (b/f)	70,000	By Purchase A/c (Credit Purchases)	2,30,000		
	2,70,000		2,70,000		

3. Calculation of Cash Sales:

Dr.		Cash Book		Cr.	
Particulars	(₹)	Particulars	(₹)		
To Balance b/d	22,000	By Total creditors A/c	2,00,000		
To Total Debtors A/c	4,20,000	By Drawings A/c	1,20,000		
To Sales A/c (b/f)	84,000	By Sundry Exp. A/c	1,40,000		
		By Transportation A/c	40,000		
		By Furniture A/c	20,000		
		By Balance c/d	6,000		
	5,26,000		5,26,000		

4. Calculation of Opening Capital:**Statement of Affairs as at 31st March, 2022**

Particulars	(₹)	Particulars	(₹)
Creditors	40,000	Furniture A/c	1,00,000
Unpaid Expenses	12,000	Stock	60,000
Capital (B/F)	2,50,000	Debtors	1,20,000
		Cash in Hand	22,000
	3,02,000		3,02,000

Illustration 27

The following is the Balance Sheet of Chirag as on 31st March, 2022:

Balance Sheet as on April 1, 2022

Liabilities	(₹)	Assets	(₹)
Capital Account	48,000	Building	32,500
Loan	15,000	Furniture	5,000
Creditor	31,000	Motor Car	9,000
		Stock	20,000
		Debtors	17,000
		Cash in Hand	2,000
		Cash at Bank	8,500
	94,000		94,000

A riot occurred on the night of 31st March, 2023 in which all books and records were lost. The cashier had absconded with the available cash. He gives you the following information:

- (a) His sales for the year ended 31st March, 2023 were 20% higher than the previous year's. He always sells his goods at cost plus 25%; 20% of the total sales for the year ended 31st March, 2023 were for cash. There were no cash purchases.
- (b) On 1st April, 2022 the stock level was raised to ₹ 30,000 and stock was maintained at this new level all throughout the year.
- (c) Collection from debtors amounted to ₹ 1,40,000 of which ₹ 35,000 was received in cash, business expenses amounted to ₹ 20,000 of which ₹ 5,000 was outstanding on 31st March, 2023 and ₹ 6,000 was paid by cheques.
- (d) Analysis of the Pass Book revealed the Payment to Creditors ₹ 1,37,500, Personal Drawing ₹ 7,500, Cash deposited in Bank ₹ 71,500 and Cash withdrawn from Bank ₹ 12,000.
- (e) Gross Profit as per last year's audited accounts was ₹ 30,000.
- (f) Provide depreciation on Building and Furniture at 5% and Motor Car at 20%.
- (g) The amount defalcated by the cashier may be treated as recoverable from him.

You are required to prepare the Trading and Profit and Loss Account for the year ended 31st March, 2023 and Balance Sheet as on that date.

Solution:

Chirag

Trading and Profit and Loss Account

For the year ending on 31st March, 2023

Dr.

Cr.

Particulars	(₹)	(₹)	Particulars	(₹)
To Opening Stock		20,000	By Sales	1,80,000
To Purchase (Bal. fig.)		1,54,000	By Closing stock	30,000
To Gross Profit old (@ 20% on sales)		36,000		
		2,10,000		2,10,000

Particulars	(₹)	(₹)	Particulars	(₹)
To Sundry Business Expenses		20,000	By Gross Profit b/d	36,000
To Depreciation: on Building	1,625			
on Furniture	250			
on Motor	1,800	3,675		
To Net Profit transferred to Capital A/c.		12,325		
		36,000		36,000

Balance Sheet as at 31st March, 2023

Liabilities	(₹)	(₹)	Assets	(₹)	(₹)
Capital Account:			Building	32,500	
Opening Balance	48,000		Less: Depreciation	(1,625)	30,875
Add: Net Profit	12,325		Furniture	5,000	
	60,325		Less: Depreciation	(250)	4,750
Less: Drawings	(7,500)	52,825	Motor Car	9,000	
Loan		15,000	Less: Depreciation	(1,800)	7,200
Sundry Creditors [W.N. 2]		47,500	Stock in Trade		30,000
Outstanding expenses		5,000	Sundry Debtors [W.N. 1]		21,000
			Cash at Bank [W.N. 3]		22,000
			Sundry Advances [W.N. 3]		4,500
			(Amount recoverable from cashier)		
		1,20,325			1,20,325

Working Notes:

1. Total Debtors Account

Dr.		Cr.	
Particulars	(₹)	Particulars	(₹)
To Balance b/d	17,000	By Bank (₹1,40,000 – ₹35,000)	1,05,000
To Sales (80% of ₹ 1,80,000)	1,44,000	By Cash A/c	35,000
		By Balance c/d	21,000
	1,61,000		1,61,000

2.

Total Creditors Account

Dr.

Cr.

Particulars	(₹)	Particulars	(₹)
To Bank	1,37,500	By Balance b/d	31,000
To Balance c/d	47,500	By Purchases	1,54,000
	1,85,000		1,85,000

3.

Cash Book

Dr.

Cr.

Particulars	Cash (₹)	Bank (₹)	Particulars	Cash (₹)	Bank (₹)
To Balance b/d	2,000	8,500	By Business Expenses	9,000	6,000
To Sales	36,000	—	By Drawings	—	7,500
To Sundry Debtors	35,000	1,05,000	By Sundry Creditors	—	1,37,500
To Cash (Contra)	—	71,500	By Bank (Contra)	71,500	—
To Bank (Contra)	12,000	—	By Cash (Contra)	—	12,000
			By Amount Recoverable from Cashier (Bal. fig.)	4,500	—
			By Balance c/d (Bal. fig.)	—	22,000
	85,000	1,85,000		85,000	1,85,000

(iv) Last years Total Sales = Gross Profit \times 100/20 = ₹ 30,000 \times 100/20 = ₹ 1,50,000

(v) Current year's Total Sales = ₹ 1,50,000 + 20% of ₹ 1,50,000 = ₹ 1,80,000

(vi) Current year's Credit Sales = ₹ 1,80,000 \times 80% = ₹ 1,44,000

(vii) Cost of Goods Sold = Sales – G.P. = ₹ 1,80,000 – 36,000 = ₹ 1,44,000

(viii) Purchases = Cost of Goods Sold + Closing Stock – Opening Stock
= ₹ 1,44,000 + ₹ 30,000 – ₹ 20,000 = ₹ 1,54,000.

Illustration 28

The Statement of affairs of Mr. R on Saturday, the 31st December 2022 was as follows:

Particulars	(₹)	Particulars	(₹)
Capital	50,000	Fixed Assets	30,000
Sundry Creditors	10,000	Stock	10,000
Liability for Expenses	1,000	Debtors	15,000
		Bank	5,000
		Cash	1,000
	61,000		61,000

Mr. R did not maintain his books on the double entry system. But he carefully follows the following system:

(a) Every week he draws ₹200.

- (b) After meeting his weekly sundry expenses (₹100 on average) and his drawings, the balance of weekly collection is banked at the commencement of the next week.
- (c) No cash purchase is made and creditors are paid by cheques.
- (d) Sales are at fixed price which include 20% profit on sales.
- (e) Credit sales are few and are noted in a diary. Payments are received in cheques only from such parties.
- (f) Expenses other, than sundries and other special drawings are made in cheques.
- (g) All unpaid bills are kept in a file carefully.

The following are his bank transactions for 13 weeks:

Particulars	(₹)	Particulars	(₹)
Balance on Jan. 1	5,000	Creditors Paid	40,000
Cheques Deposited	2,000	Rent Paid	600
Cash Deposited	42,000	Expenses (other than Sundry Expenses)	3,000
		Balance on April 1.	5,400
	49,000		49,000

After 13 weeks on 1st April (Monday) the entire cash was missing when it was to be deposited in the bank. The following further facts are ascertained:

- (a) Stock on that day was valued at ₹4,000;
- (b) Sundry Debtors amounted to ₹20,000 as per diary;
- (c) Sundry Creditors were ₹8,000 as per unpaid bills file. Find out the amount of cash missing.

Solution

Dr. **Sundry Debtors Account** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Balance b/f	15,000	By Bank A/c	2,000
To Credit Sales (Bal. fig.) A/c	7,000	By Balance c/f	20,000
	22,000		22,000

Dr. **Sundry Creditors Account** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Bank A/c	40,000	By Balance b/f	10,000
To Balance c/f	8,000	By Credit Purchases (Bal. fig.)	38,000
	48,000		48,000

Dr.		Cash Account		Cr.	
Particulars	(₹)	Particulars	(₹)		
To Balance b/f	1,000	By Drawing: (13 × ₹200)	2,600		
To Cash Sales	48,000	By Sundry Expenses: (13 × ₹100)	1,300		
		By Bank A/c	42,000		
		By Balance being cash missing	3,100		
	49,000				49,000

Note: Calculation of Cash Sales:

Particulars	(₹)
Opening Stock	10,000
Add: Purchases	38,000
	<hr/> 48,000
Less: Closing Stock	4,000
Cost of goods sold,	<hr/> 44,000
Add: Gross Profit @ 20% on Sales i.e., 25% on cost	11,000
Total Sales	<hr/> 55,000
Less Credit Sales	7,000
Cash Sales	<hr/> 48,000

Illustration 29

Mrs. Laxmi, a retail trader needs final accounts for the year ended 31.03.2023 for the purpose of taking a bank loan. However, she informs you that principle of double entry had not been followed. With following inputs, prepare a Profit & Loss A/c for the year ended 31.03.2023 and Balance sheet as on 31.03.2023.

Details of receipts and payments:

- (i) Cash deposited in bank ₹ 3,500
- (ii) Dividend on personal A/c deposited into bank ₹ 250
- (iii) Tuition fees of Laxmi's daughter paid by cheque ₹ 4,500
- (iv) Rent for the year by cheque ₹ 9,000
- (v) Cash received from debtors ₹ 52,500
- (vi) Paid to creditors ₹ 40,025
- (vii) Salaries & wages paid in cash ₹ 9,000
- (viii) Transportation in cash ₹ 2,750
- (ix) Office electricity in cash ₹ 6,600
- (x) Electricity (house) in cash ₹ 7,200
- (xi) General expenses in cash ₹ 890.

Opening and Closing Balances of Assets & Liabilities:

Particulars	31.03.2021	31.03.2022
Stock	42,500	22,500
Bank	55,500	20,500
Cash	10,850	10,500
Debtors	16,800	14,800
Creditors	15,600	22,800
Investments	15,000	15,000

She also informs you that she draws ₹6,000 from bank on monthly basis and some debtors deposit cheques directly in bank.

Solution:

Dr. **Stock Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	42,500	By Cost of sales (Bal. fig) A/c	90,135
To Purchases (credit) A/c	47,225	By Balance c/d	22,500
To Cash (purchases) A/c	22,910		
	1,12,635		1,12,635

Dr. **Bank Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	55,500	By Drawings A/c (tuition fees)	4,500
To Cash A/c	3,500	By Rent A/c	9,000
To Capital (dividend)	250	By Creditors A/c	40,025
To Debtors (Bal. fig.)	86,775	By Drawings A/c (@ ₹6,000 pm)	72,000
		By Balance c/d	20,500
	1,46,025		1,46,025

Dr. **Cash Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	10,850	By Bank A/c	3,500
To Debtors A/c	52,500	By Salaries & Wages A/c	9,000
		By Transportation A/c	2,750

Particulars	(₹)	Particulars	(₹)
		By Electricity A/c	6,600
		By Drawings A/c (electricity)	7,200
		By General Expenses A/c	890
		By Purchases (Bal. fig.)	22,910
		By Balance c/d	10,500
	63,350		63,350

Dr. **Debtors Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	16,800	By Cash A/c	52,500
To Sales A/c (credit Sales) (Bal. fig.)	1,37,275	By Bank A/c	86,775
		By Balance c/d	14,800
	1,54,075		1,54,075

Dr. **Creditors Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Bank A/c	40,025	By Balance b/d	15,600
To Balance c/d	22,800	By Purchases A/c (credit) (Bal. fig.)	47,225
	62,825		62,825

Dr. **Mrs. Laxmi's capital Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Drawings A/c (Tuition Fees)	4,500	By Balance b/d (Bal. fig.)	1,25,050
To Drawings A/c (Electricity)	7,200	By Bank A/c (Dividend)	250
To Drawings A/c (Bank)	72,000		
To Balance c/d	41,600		
	1,25,300		1,25,300

Dr. **Trading Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Opening Stock A/c	42,500	By Sales A/c	1,37,275
To Purchases A/c	70,135	By Closing Stock A/c	22,500

Particulars	(₹)	Particulars	(₹)
To Gross profit c/d	47,140		
	1,59,775		1,59,775

Dr.

Profit & Loss Account for the year ended 31st March 2023

Cr.

Particulars	(₹)	Particulars	(₹)
To Rent A/c	9,000	By Gross Profit b/d	47,140
To Salary & Wages A/c	9,000		
To Transportation A/c	2,750		
To Electricity A/c	6,600		
To General Expenses A/c	890		
To Net Profit c/d	18,900		
	47,140		47,140

Balance sheet as on 31st March 2022

Liabilities	(₹)	Assets	(₹)
Creditors	22,800	Stock	22,500
Capital (Bal. fig.)	41,600	Bank	20,500
Net profit	18,900	Cash	10,500
		Debtors	14,800
		Investment	15,000
	83,300		83,300

Solved Case

Mr. M. Raja, is a graduate in Sociology who hails from a middle-class family in Madurai, Tamil Nadu. Since his childhood, Raja intended to be a businessman like Mr. P. Nageswar, father of his best friend N. Premnath. Accordingly, he started his personal sole proprietary business trading in coconut oil in the year 2020-21. Mr. Raja, not being very conversant with accounts of the business, approaches you for helping him with the finalisation of the accounts of the financial year 2022-23. He furnishes you with the following bank summary for the year ended March 31, 2023:

	(₹)	(₹)
Balance on April 1, 2022		11,000
Add: Deposits		
Cash (out of cash sales)	1,25,000	
Collection from Credit Customers	3,50,000	
Income from personal investments	36,000	5,11,000
		5,22,000
Less: Deductions		
Cash withdrawn for personal drawings	20,000	
Shop expenses	40,000	
Cheques issued to suppliers of:		
Goods	3,50,000	
Supplies	40,000	
Cheques issued for personal purposes	55,000	
Bank charges	500	5,05,500
Balance on March 31, 2023		16,500

Mr. Raja informs you that he had the following Assets and Liabilities (in addition to the Bank Balances) on March 31, the extracts of which are as under:

	2022-23 (₹)	2021-22 (₹)
Assets:		
Cash Balance	7,000	4,000
Amounts due from Customers	37,000	27,500
Unsold Inventory at Cost	13,000	10,000
Prepaid Expenses	3,000	2,000
	60,000	43,500

	2022-23 (₹)	2021-22 (₹)
Liabilities:		
Creditors for Goods	23,000	28,000
Creditors for Services	2,500	1,500
	25,500	29,500

He also informs you the following:

- He uses 75% of cash sale proceeds for making cash purchases; the remaining balance being deposited in Bank.
 - He had allowed cash discount of ₹ 5,000 to his credit customers for prompt payment; he was allowed cash discount ₹ 7,000 by his suppliers of goods for prompt payment.
 - Collections from credit customers and payments to suppliers of goods are invariable by crossed cheques.
- What is the balance of Mr. M. Raja's capital account as on April 1, 2022?
 - Ascertain the amounts of credit sales and credit purchases made by the business during the year 2022-23.
 - Determine the operating result of the business by preparing the Trading and Profit & Loss account for the year ended March 31, 2023.
 - Draft the Balance Sheet of the business as at March 31, 2022.

Solution:

- Capital balance on 1.1.2022 is - ₹25,000**

Balance Sheet as on 1.1.2022

Liabilities	(₹)	(₹)	Assets	(₹)	(₹)
Capital [Opening Capital: Bal. Fig.]		25,000	Inventory		10,000
Creditors for:			Due from Customers		27,500
Goods		28,000	Prepaid Expenses		2,000
Services		1,500	Bank		11,000
			Cash		4,000
		54,500			54,500

- Credit Sales is - ₹3,64,500 and Credit Purchase is - ₹3,52,000**

Dr.

Customers Account

Cr.

Date	Particulars	(₹)	Date	Particulars	(₹)
	To Balance b/f	27,500		By Bank A/c	3,50,000
	To Sales A/c [Credit Sales: Bal. Fig.]	3,64,500		By Discount Allowed A/c	5,000
				By Balance c/f	37,000
		3,92,000			3,92,000

Dr.			Creditors Account			Cr.		
Date	Particulars	(₹)	Date	Particulars	(₹)			
	To Bank A/c	3,50,000		By Balance b/f	28,000			
	To Discount Received A/c	7,000		By Purchases A/c [Credit purchases: Bal. Fig.]	3,52,000			
	To Balance c/f	23,000						
		3,80,000						3,80,000

3. Operating result - ₹65,000

Trading and Profit & Loss Accounts
for the year ended Dec. 31, 2023

Dr.			Cr.		
Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Opening Stock		10,000	By Sales:		
To Purchases: Cash [WN:4]	3,75,000		Cash [WN:4]	5,00,000	
Credit	3,52,000	7,27,000	Credit	3,64,500	8,64,500
To Gross Profit c/d (Bal. fig.)		1,40,500	By Closing Stock at Cost		13,000
		8,77,500			8,77,500
To Expenses [WN:3]		77,000	By Gross Profit b/d		1,40,500
To Bank Charges		500	By Discount Received		7,000
To Discount Allowed		5,000			
To Capital A/c [Net Profit transferred] (Bal. fig.)		65,000			
		1,47,500			1,47,500

4. Balance Sheet as on Dec. 31, 2023

Liabilities	(₹)	(₹)	Assets	(₹)	(₹)
Opening Capital	25,000		Inventory		13,000
Add: Net Profit	65,000		Due from Customers		37,000
Further Capital [income from personal investment]	36,000		Prepaid Expenses		3,000
	1,26,000		Bank		16,500
Less: Drawings [20,000 + 55,000]	75,000	51,000	Cash		7,000
Creditors for: Goods		23,000			
Services		2,500			
		76,500			76,500

Particulars	(₹)
Less: Outstanding Expenses on 31.12.2021	1,500
∴ Expenses to be debited to Profit & Loss A/c	77,000

4. Cash Sales & Cash Purchases during 2022

75% of Cash Sale proceeds are used for Cash Purchases

∴ 25% Amount of Cash Sale proceeds deposited into Bank

∴ Cash Sales = Cash deposited $\times 100/25 = 1,25,000 \times 100/25 = 5,00,000$

∴ Cash Purchases = 75% of Cash Sale proceeds = $5,00,000 \times 75\% = 3,75,000$

Illustration-30

Lucky does not maintain proper book of accounts. However, he maintains a record of his bank transactions and also is able to give the following information from which you are requested to prepare his final accounts for the year 2022-2023:

	Opening	Closing
Debtors	1,02,500,	?
Creditors	?	46,000
Stock	50,000	62,500
Bank Balance	?	50,000
Fixed assets	7,500	9,000
Details of his bank transactions were as follows:		
Received from debtors	3,40,000	
Additional capital brought in	5,000	
Sale of fixed assets (book value ₹ 2,500)	1,750	
Paid to creditors	2,80,000	
Expenses paid	49,250	
Personal drawings	25,000	
Purchase of fixed assets	5,000	

No cash transactions took place during the year. Goods was sold at cost plus 25%. Cost of goods sold was ₹2,60,000

Solution

Treading and profit and loss account
For the year ended 31st March, 2023

Dr

Cr

Particulars	₹	Particulars	₹
To open stock	50,000	By Sales (₹ 2,60,000 x 125/100)	3,25,000
To purchase (balancing figure)	2,72,000	By closing stock	62,500
To Gross profit c/d (2,60,000 x 25/100)	65,000		
	3,87,500		3,87,500
To Expenses	49,250,	By Gross Profit b/d	65,000
To loss on sale of fixed assets	750		
To depreciation on fixed asset (W.N.1)	1,000		
To new Profit	14,000		
	65,000		65,000

Balance sheet As AT 31st March, 2023

Liabilities		₹	Assets		₹
Capital	169,000		Fixed Assets		9,000
Add: Additional capital	5,000		Debtors		87,500
New Profit	14,000		Stock		62,500
	1,88,000		Bank Balance		50,000
Less : Drawings	25,000	1,63,000			
Creditors		46,000			
		2,09,000			2,09,000

Working Notes :

(i) Fixed Assets Account

Dr

Cr.

Particulars	₹	Particulars	₹
To Balance b/d	7,500	By Bank (Sale)	1,750
To Bank	5,000	By Loss on sale of fixed asset	750
		By Depreciation of fixed asset	1,000
		By Balance c/d	9,000
	12,500		12,500

(ii) Bank Account

Dr		Cr.	
Particulars	₹	Particulars	₹
To Balance b/d (balance figure)	62,500	By Creditors	2,80,000
To Debtors	3,40,000	By Expenses	49,250
To Capital	5,000	By Drawings	25,000
To sale of fixed assets	1,750	By Fixed Assets	5,000
		By Balance c/d	50,000
	4,09,250		4,09,250

(iii) Debtors Account

Dr		Cr.	
Particulars	₹	Particulars	₹
To Balance b/d	1,02,500	By Bank	3,40,000
To Sales	3,25,000	By Balance c/d (b.f)	87,500
[₹ 2,60,000 x 125/100]			
	4,27,500		4,27,500

(iv) Creditors Account

Dr		Cr.	
P Particulars	₹	Particulars	₹
To Bank	2,80,000	By Particular b/d (balancing figure	53,500
To Balance c/d	46,000	By purchases (trading account)	2,72,500
	3,26,000		3,26,000

(v) Balance sheet as on 1st April ,2022

Dr		Cr.	
Liabilities	₹	Assets	₹
Creditors	53,500	Fixed assets	7,500
Capital (balance figure)	1,69,000	Debtors	1,02,500
		Stock	50,000
		Bank balance	62,500
	2,22,500		2,22,500

Illustration-31

From the following particulars furnished by Shri Ramji, prepare Trading and profit and loss account for the year ended 31.3.2023 . also draft his balance sheet as at 31.03.2023.

	Opening	Closing
	₹	₹
Creditors	3,15,400	2,48,000
Expenses outstanding	12,000	6,600
Fixed Assets (includes machinery)	2,32,200	2,40,800
Stock in hand	1,60,800	2,22,400
Cash in hand	59,200,	24,000
Cash in Bank	80,000	1,37,600
Sunday Debtors	3,30,600	?

Details of the year transections are as follows:

	₹		₹
Cash and discount credited to debtors	12,80,000	Returns from debtors	29,000
Sales (Both cash and Credit)	14,36,200	Bad debts	8,400
Returns to creditors	8,000	Discount allow by creditors	14,000
Cash purchases	20,600	Capital introduced by cheque	1,70,000
Deawing bt cheque	8,600	Expenses paid by cheque	1,91,400
Cash deposited inti bank	1,00,000	Machinery acquired by cheque	63,600
Cash sales	92,000	Cash withdrawal from bank	1,84,800
Collection from debtors	12,50,000	Payment to creditors by cheque	12,05,400

deposit into bank after receiving cash)

Note: Ramji has not sold any fixed asset during the year.

Solution

Trading and profit and loss account For the year ended 31st March,2023

Dr

Cr.

Particulars		₹	Particulars		₹
To Opening Stock		1,60,800	By sales		
To purchase:			Cash	92,000	
Cash	20,600		Credit	13,44,200	
Credit	11,60,000			14,36,200	
	11,80,600		Less: returns	29,000	14,07,200
Less Returns	8,000	11,72,600	By closing Stock		2,22,400
To gross profit c/d		2,96,200			16,29,600
		16,29,600	By Gross Profit b/d		2,96,200

Particulars		₹	Particulars		₹
To Discount Allowed		30,000	By Discount (received)		14,000
To Bad Debts		8,400			
To Expenses		1,86,000			
To Depreciation		55,000			
To Net Profit		30,800			
		3,10,200			3,10,200

Balance Sheet as At 31st March,2023

Liabilities		₹	Assets		₹
Capital			Sundry Assets	2,32,200	
Opening Balance	5,35,400		Add: New Machinery	63,600	
Add: Additional capital	1,70,000			2,95,800	
	30,800		Less : Depreciation	55,000	2,40,800
	7,36,200		Stock in Trade		2,22,400
Less: Drawings	8600	7,27,600	Sunday debtors		3,57,400,
Sundry Creditors		2,48,000	Cash in hand		24,000
Outstanding Expenses		6,600	Cash at Bank		1,37,600
		9,82,200			9,82,200

Working Notes:

(i) Statement of affairs as at 31st March, 2022

Liabilities	₹	Assets	₹
Sundry Creditors	3,15,400	Sundry Assets	2,32,200
Outstanding expenses	12,000	Stock	1,60,800
Ramji's Capital(b.f)	5,35,400	Debtors	3,30,600
		Cash in Hand	59,200
		Cash in Bank	80,000
	8,62,800		8,62,800

(ii) Sundry Debtors Account

Dr		Cr.	
Particulars	₹	Particulars	₹
To Balance b/d	3,30,600	By Cash	12,50,000
To Sales (14,36,200 - 92,000)	13,44,200	By Discount Allowed	30,000
		By Returns (Sales)	29,000
		By Bad debts	8,400
		By Balance (b.f)	3,57,400
	16,74,800		16,74,800

(iii) Sundry Creditors Account

Dr		Cr.	
Particulars	₹	Particulars	₹
To Bank Payments	12,05,400	By Balance b/d	3,15,400
To Discount	14,000	By Purchases (b.f)	11,60,000
To Return	8,000		
To Balance c/d	2,48,000		
	14,75,400		14,75,400

(iv) Fixed Assets Account

Dr		Cr.	
Particulars	₹	Particulars	₹
To Balance b/d	2,32,200	By Depreciation a/c (b.f)	55,000
To Bank A/c (Purchases)	63,600	By Balance c/d	2,40,800
	2,95,800		2,95,800

(v) Expenses Account

Dr		Cr.	
Particulars	₹	Particulars	₹
To Cash A/c	1,91,400	By Outstanding Exp. A/c (o/s in the begening)	12,000
To Outstanding Exp. A/C (o/s at the end)	6,600	By Profit & Loss A/c (b.f)	1,86,000
	1,98,000		1,98,000

(vi) Cash and Bank Account

Particulars	₹	₹	Particulars	₹	₹
To Balance b/d	59,200	80,000	By Purchases	20,600,	-
To Capital	-	1,70,000	By Expenses	1,91,400	-
To Debtors	-	12,50,000	By Plant and Machinery	-	63,600
To Bank	1,84,800	-	By Drawings	-	8,600
To Cash	-	1,00,000	By Creditors	-	12,05,400
To Sales	92,000	-	By Cash	-	1,84,800
			By Bank	1,00,000	-
			By Balance c/d	24,000	1,37,600
	3,36,000	16,00,000		3,36,000	16,00,000

Exercise

A. Theoretical Questions:

⊙ Multiple Choice Questions

1. In case of a Club, the excess of expenditure over income is called as :
 - (a) Surplus
 - (b) Deficit
 - (c) Capital Fund
 - (d) Investment in Fixed Assets

2. Due to retrospective effect on revision of salary of employees, the arrears of salary relating to past years, payable in current year is
 - (a) Prior - period item
 - (b) Extra - ordinary item
 - (c) Ordinary item requiring separate disclosure
 - (d) Contingent item

3. Income statement of a Charitable Institution is known as
 - (a) Statement of profit and loss
 - (b) Receipts and Payments Account
 - (c) Income and Expenditure Account
 - (d) Profit and Loss Account

4. Which of the following will not appear in P&L A/c?
 - (a) Capital
 - (b) Bad Debts
 - (c) Provision for Doubtful Debts
 - (d) Rent paid

5. Outstanding salaries is shown as –
 - (a) An Asset in the Balance Sheet
 - (b) A Liability in the Balance sheet
 - (c) By adjusting it in the P & L A/c
 - (d) Both (b) and (c)

Answer:

1	b	2	c	3	c	4	a	5	d
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⊙ **State True or False**

1. The preparation of Trading Account always starts with the Opening Stock of inventory.
2. Income & Expenditure Account is drafted by a trading concern.
3. Balance Sheet is prepared to show the operating results of an organisation on a specific date.
4. Final Accounts is prepared from the balances of ledger accounts
5. Receipts & Payments A/c begins with the cash & bank balance at the beginning of the accounting period.
6. Endowments received by a non-profit organisation are to be treated as revenue receipts.
7. Income & Expenditure A/c determines the 'Surplus' or 'Deficit' of the accounting period by matching expenses/ losses against incomes and gains.
8. Income & Expenditure A/c is a summarised form of the Cash Book.
9. Cash in hand represents cash actually held by the business on the balance sheet date.
10. Subscription received by an organisation is a Revenue Receipt.

Answers:

1	False	2	False	3	False	4	True	5	True
6	False	7	True	8	False	9	True	10	True

⊙ **Fill in the Blanks**

1. Outstanding subscription is shown in the _____ side of Balance Sheet.
2. The Sales ₹ 180 Lakh, Purchases ₹ 129 Lakh and Opening Stock ₹ 33 Lakh. If the rate of Gross Profit is 50% on cost, then the value of closing stock will be _____ .
3. Profit & Loss Account is drafted to determine the _____ of a concern.
4. Distribution of profits is a/ an _____ item.
5. _____ is an account which is prepared by a merchandising concern which purchases goods and sells the same during a particular period.
6. Advance subscription is reflected in the _____ side of the Balance Sheet.
7. In Receipts & Payments Account, all receipts (whether, capital or revenue) are recorded on the _____ - hand side of this account, while all payments (whether, capital or revenue) are recorded on the _____ - hand side of this account.
8. Subscriptions received in advance by a Club are shown on _____ side of the Balance Sheet.

Answer:

1	Asset	2	₹ 42 Lakh
3	Net Profit/ Loss	4	appropriation
5	Trading A/c	6	Liabilities
7	left, right;	8	Liabilities

B. Numerical Questions

⊙ **Multiple Choice Questions**

1. Following information is given: (₹)

Opening Stock	2,13,000
Purchase	16,55,000
Sales	21,32,000
Carriage Inwards	32,500
Carriage Outwards	38,600
Return Inwards	38,000

The rate of gross profit is 25% on cost then value of closing stock will be _____.

- (a) ₹ 2,57,800
 - (b) ₹ 1,94,900
 - (c) ₹ 2,25,300
 - (d) ₹ 3,30,000
2. Subscription of ₹ 6,25,000 had been shown in the Income and Expenditure Account prepared for the year ending 31st March, 2023. Additional information is as below:

Particulars	On 31st March, 2022 (₹)	On 31st March, 2023 (₹)
Subscription Outstanding	55,000	72,000
Subscription Received in Advance	31,000	37,000

The amount of subscription received during the year 2022-23 would be :

- (a) ₹ 6,36,000
 - (b) ₹ 6,02,000
 - (c) ₹ 6,14,000
 - (d) ₹ 6,48,000
3. If opening capital is ₹70,000 and closing capital is ₹90,000, what is the amount of profit or loss?
- (a) ₹ 20,000 Profit
 - (b) ₹ 20,000 Loss

- (c) ₹ 70,000 Loss
(d) ₹ 90,000 Profit
4. A Charitable Institution has 250 members with a annual subscription of ₹ 5,000 each. The subscription received during 2021-22 were ₹ 11,25,000, which include ₹ 65,000 and 25,000 for the years of 2020-21 and 2022-23 respectively. Amount of outstanding subscription for the 2021-22 will be:
- (a) ₹ 90,000
(b) ₹ 1,25,000
(c) ₹ 2,15,000
(d) ₹ 1,90,000
5. If average inventory is ₹ 1,25,000 and closing inventory is ₹ 10,000 less than opening inventory then the value of closing inventory will be:
- (a) ₹ 1,35,000
(b) ₹ 1,15,000
(c) ₹ 1,30,000
(d) ₹ 1,20,000

Answers:

1	c	2	c	3	a	4	c	5	d
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⊙ **Comprehensive Numerical Problems**

1. From the following Trial Balance of Shri Gurudas, prepare Trading and Profit & Loss Account for the year ended March 31, 2023 and the Balance Sheet as on that date, after taking into consideration the adjustments (All figures in ₹ '000):

Trial Balance as on 31.3.2023

	Dr. (₹)	Cr. (₹)
Cash in hand	2,000	
Stock	7,000	
Creditors		7,800
Debtors	38,400	
Drawings	10,260	
Sales		185,600
Purchases	162,400	
Wages	14,400	
Expenses	10,340	

Furniture	8,000	
Goodwill	6,000	
Capital		65,400
Total	258,800	258,800

Adjustments:

- Stock on 31.12.2023 was valued at ₹ 9,000. In view of the constant fall in prices, it has been decided to value stock at 10% less.
- Furniture (book value on 1.4.2022 ₹ 800) was sold on 30.9.2022 for ₹ 900 and it was passed through Sales Day Book.
- Private purchases of the proprietor amounting to ₹ 200 had been booked through Purchases Book.
- Depreciate furniture at 10% p.a.
- Sales Book was overcast by ₹ 100.
- Wages outstanding ₹ 100, though included in Wages Account, was not included in the Trial Balance.
- Provide for bad debts @ 5% on debtors and 2.5% for discount on debtors.

[Answer: Net Loss ₹ 4,626, Balance Sheet Total ₹ 58,214]

- From the following ledger balances and additional information obtained from Mrs. Kamala Shrivastav, prepare Trading and Profit & Loss Account for the year ended 31st March, 2023 and Balance Sheet as on that date:

Particulars	Dr. (₹)	Cr. (₹)
Stock-in-trade on 1.4.2022	3,00,000	
Purchases and Sales	20,50,000	35,40,000
Returns	40,000	50,000
Wages	2,00,000	
Carriage inwards	50,000	
Power & Light	20,000	
Discount	10,000	20,000
Miscellaneous Expenses	1,50,000	
Salaries	1,00,000	
Outstanding Salaries		30,000
Outstanding Rent		10,000
Depreciation	1,50,000	

Particulars	Dr. (₹)	Cr. (₹)
Rent & Rates	1,20,000	
Prepaid Insurance	10,000	
Life insurance premium	10,000	
Insurance	20,000	
Income Tax paid	30,000	
Freehold Premises	10,00,000	
Furniture	2,00,000	
Debtors & Creditors	4,50,000	5,00,000
Bills Receivable and Payable	1,00,000	90,000
Drawings and Capital	50,000	20,00,000
Cash and Bank	6,80,000	
Plant	5,00,000	
	62,40,000	62,40,000

Additional Information:

- (a) Closing stock on 31.3.2023 ₹ 4,00,000.
- (b) Stock destroyed by fire was ₹ 20,000 and the insurance company accepted the claim partly for ₹ 15,000.
- (c) Goods purchased on credit worth ₹ 30,000 on March 30, 2023 was omitted to be recorded in the books.
- (d) Purchases include goods valued ₹ 10,000 purchased for private purposes.
- (e) Bills Receivable and cheques from customers dishonoured ₹ 20,000 and ₹ 10,000 respectively, but no entries were made in the books of accounts.

[Answer: Net Profit ₹ 7,95,000, Balance Sheet Total ₹ 33,45,000]

3. The following is the Receipts and Payments Account of Galaxy Women's Cricket Club for the year ended December 31, 2023:

Receipts	(₹)	Payments	(₹)
To Balance b/d:		By Ground Maintenance	5,250
Cash at bank	8,500	By Salaries	9,000
Cash in hand	3,000	By Gym Equipments	25,000
To Subscriptions	61,250	By Sports Expenses	11,750

To Life Membership Fees	7,500	By Coaches' Remuneration	10,000
		By General Expenses	2,750
		By Travelling expenses	2,000
		By Balance c/d:	
		Cash at bank	10,250
		Cash in hand	4,250
	80,250		80,250

Additional information:

- Interest on savings bank account for ₹ 880 has not been entered in the Cash Book.
- 80% of the Life Membership Fees is to be capitalized.
- An old gym equipment (WDV ₹ 20,000) was exchanged at an agreed price of ₹ 12,500 for a new gym equipment costing ₹ 37,500.
- The balances of some accounts are as under:

	31.12.2022	31.12.2021
Outstanding Salaries	750	1,500
Arrear Subscriptions	8,000	5,250
Advance Subscriptions	6,750	3,500
Prepaid Ground maintenance	2,250	3,000
Gym Equipments	57,500	45,000

You are required to prepare the Income and Expenditure Account of the club for the year ended on December 31, 2023.

[Answer: Surplus ₹ 9,880]

- The following is the Receipts & Payments Account of Citizen Sports Club for the year ended December 31, 2022:

Receipts	(₹)	Payments	(₹)
To Balance (1.1.2022)	2,40,000	By Upkeep of ground	2,10,000
To Subscriptions	8,70,000	By Secretary's Salary	3,60,000
To Entrance Fees	50,000	By Wages of groundsmen	2,40,000
To Proceeds of Concerts	1,50,000	By Ground rent	15,000
To Interest on Investments	50,000	By Printing & Stationery	20,000
		By Sundry Expenses	17,500
		By Balance (31.12.2023)	4,97,500
	13,60,000		13,60,000

Additional Information:

- (a) Subscriptions include arrear subscription brought over from previous year ₹ 50,000.
- (b) Interest on Investments includes ₹ 10,000 in respect of interest accrued in the preceding period.
- (c) Upkeep of ground and Wages of groundsmen include ₹ 30,000 and ₹ 15,000 respectively applicable to the preceding year.
- (d) Other ledger balances at the commencement of the financial period were: Capital Fund ₹ 40,10,000; Surplus brought forward ₹ 8,90,000; Club Premises and Grounds (as per valuation) ₹ 30,00,000; Investments ₹ 10,00,000; Sports materials ₹ 2,45,000; Furniture ₹ 4,00,000.
- (e) Entrance fees are to be capitalised.
- (f) Outstanding liabilities on 31.12.2022: Wages of groundsmen ₹ 20,000; Printing ₹ 10,000.
- (g) Interest accrued and outstanding on investments was ₹ 12,000.
- (h) Depreciation to be provided on Club Premises by 2%, Furniture by 5% and Sports Equipment by 33.33%

Prepare the Income & Expenditure Account for the year ended December 31, 2023 and Balance Sheet as on that date.

[Answer: Surplus ₹ 12,833, Total of Balance Sheet ₹ 49,92,833]

5. The following is the Income and Expenditure Account of Moon Club for the year ending 31st March, 2023:

Dr.

Cr.

Expenditure		(₹)	Income	(₹)
To Provisions used:			By Subscription	68,000
Opening Stock	20,000		By Sale of Provisions	3,26,000
Add : Purchases	2,80,000			
	3,00,000			
Less : Closing Stock	10,000	2,90,000		
To Salaries & Wages		36,000		
To General Expenses		10,000		
To Depreciation on Equipment		2,000		
To Surplus		56,000		
		3,94,000		3,94,000

The following Balance Sheets are also provided:

Liabilities	31.3.23	31.3.22	Assets	31.3.23	31.3.22
Suppliers for provisions	16,000	20,000	Equipment		
Capital Fund	94,000	1,50,000	(Cost Less Depreciation)	20,000	50,000

			Stock of Provisions	20,000	10,000
			Arrear Subscription	10,000	20,000
			Cash at Bank & in hand	60,000	90,000
	1,10,000	1,70,000		1,10,000	1,70,000

From the above details prepare the Receipt and Payments Account for the year ended 31.3.2023 of the club.

[**Answer:** Closing Cash and Bank Balance of Receipts & Payments Account ₹ 90,000,
Total of Balance Sheet ₹ 49,92,833]

6. Mr. Raja, a sole trader furnishes you with the following bank summary for the year ended December 31, 2023

Balance on December 31, 2022		11,000
Add: Deposits:		
Cash [out of cash sales]	1,25,000	
Collection from Credit Customers	3,50,000	
Income from Personal Investment	36,000	
	<u>5,11,000</u>	
		5,22,000
Deduct:		
Cash Withdrawn from:		
Personal Drawings	20,000	
Shop Expenses	40,000	
	<u>60,000</u>	

Cheques issued to Suppliers of:

Goods	3,50,000		
Services	40,000	3,90,000	
Cheques issued for Personal Purposes		55,000	
Bank Charges		500	5,05,500
Balance on December 31, 2022			16,500

Raja informs you that he had the following Assets and Liabilities in addition to the Bank Balances described on December 31:

Asset & Liabilities	2023	2022
Assets:		
Cash Balance	7,000	4,000
Amounts due from Customers	37,000	27,500
Unsold Inventory at Cost	13,000	10,000
Prepaid Expenses	3,000	2,000
	60,000	43,500
Liabilities:		
Creditors for:		
Goods	23,000	28,000
Services	2,500	1,500
	25,500	29,500

He also informs you that:

- He uses 75% of cash sale proceeds for making cash purchases; the remaining balance being deposited in Bank.
- He had allowed cash discount of 5,000 to his credit customers for prompt payment; he was allowed cash discount 7,000 by his suppliers of goods for prompt payment.
- Collections from credit customers and payments to suppliers of goods are invariable by crossed cheques.

Raja ask you to show his capital account and prepare:

- Receipt and payment account for the year ended December 31, 2023
- Trading and Profit & Loss account for the year ended December 31, 2023
- Balance Sheet as on December 31, 2023

[Answer: Closing Cash Balance ₹ 7,000 and Closing Bank Balance ₹ 16,500 of Receipts & Payments Account ₹ 90,000, Net Profit ₹ 65,000, Total of Balance Sheet ₹ 76,500]

Unsolved Case

Citizen Sports Club is a prominent sports club of Nagpur, Maharashtra. During the immediately concluded financial year, the club organised a number of activities during a year involving its members. The following extracts of the various receipts and payments made by the club during the year ended December 31, 2023 has been made available to you from the club's office records:

Receipts	(₹)	Payments	(₹)
To, Balance (01.04.2021)	2,40,000	By, Upkeep of ground	2,10,000
To, Subscriptions	8,70,000	By, Secretary's salary	3,60,000
To, Entrance fees	50,000	By, Wages of groundsmen	2,40,000
To, Proceeds of concerts	1,50,000	By, Ground rent	15,000
To, Interest on investments	50,000	By, Printing & Stationery	20,000
		By, Sundry Expenses	17,500
		By, Balance (31.03.2022)	4,97,500
	13,60,000		13,60,000

Mr. Girish Agarkar, the secretary of the club has approached you to finalise the accounts of the club. As per his advice, the chief accountant of the club, Mr. Parash Ojha provided you the following additional information:

- Subscriptions include arrear subscription brought over from previous year ₹ 50,000.
 - Interest on Investments includes ₹ 10,000 in respect of interest accrued in the preceding period.
 - Upkeep of ground and Wages of groundsmen include ₹ 30,000 and ₹ 15,000 respectively applicable to the preceding year.
 - Other ledger balances at the commencement of the financial period were:
Capital Fund ₹ 40,10,000; Surplus brought forward ₹8,90,000; Club Premises and Grounds (as per valuation) ₹ 30,00,000; Investments ₹ 10,00,000; Sports materials ₹ 2,45,000; Furniture ₹ 400,000.
 - Entrance fees are to be capitalised.
 - Outstanding liabilities on 31.03.2023: Wages of groundsmen ₹ 20,000; Printing ₹ 10,000.
 - Interest accrued and outstanding on investments was ₹ 12,000.
 - Depreciation to be provided on different assets at the following rates:
Club Premises by 2%, Furniture by 5% and Sports Equipments by 33.33%
- Determine how much surplus, if any, has been earned by Citizen Sports Club during the financial year 2021-22.
 - Prepare the Balance Sheet of the Club as on March 31, 2023.