FINAL ACCOUNTS OF SOLE PROPRIETORS

CH 7

"Choice, not circumstances, determines your success. Success is a state of mind. If you want success, start thinking of yourself as a success."

FINANCIAL STATEMENTS

1. Financial Statements (also called General Purpose Financial Statements) consist of the following –
   - (a) Statement of Performance - Profit and loss Account
   - (b) Statement of Financial Position - Balance Sheet
2. Meaning: the above terms are explained below –

Item	Description
Statement of Performance	• This Statement / Account shows the result of operations, i.e. Profit or Loss of the entity for the period. • It is also called "Performance Statement" or "Income Statement" • Consists of – (i) Manufacturing Account, (ii) Trading Account, and (iii) Profit and Loss Account.
Statement of Financial Position	• This Statement (not an Account) shows the financial position, i.e. Assets and Liabilities of the entity as on a particular date. • It is also called "Position Statement" or "Balance Sheet"

Final Accounts of Sole Proprietorship

Non-Manufacturing / Trading Entities, i.e. Entities engaged in purchase and sale of goods, without involving any production process

1. Trading account
2. Profit and Loss Account
3. Balance Sheet

Manufacturing Entities i.e. Entities engaged in converting Raw Materials into Finished Goods through production process.

1. Manufacturing Account
2. Trading Account
3. Profit and Loss Account
4. Balance Sheet

TRADING ACCOUNT

The Trading Account shows the surplus of the Sale Value over the Cost of Goods Sold. This is called as Gross Profit. Since the Gross Profit is the basic indicator of business profitability, the preparation of the Trading Account assumes significance.

Trading Account of .... For the year ended ....

Particulars	₹	Particulars	₹
To Opening Stock To Purchases (net of Returns) To Direct Expenses like Freight Inward, Octroi, Wages, etc. To Gross Profit c/d to P/L Account		By Sales (net of returns) By Closing Stock By Gross Loss c/d to P&L Account	
Total		Total	

Gross Profit = Sales - Cost of Goods Sold
Where Cost of Goods Sold = Opening Stock + Purchases + Direct Expenses – Closing Stock
GP (%) = Gross Profit/ Sales * 100

PROFIT AND LOSS ACCOUNT

1. The Profit and Loss Account shows the net result of operations, i.e. Profit and loss during the period.
2. From the Gross Profit, the other expenses (i.e. Administrative, Selling and Distribution, Financing, Provisions, etc.) are deducted and the Net profit/Loss is arrived at.
3. The P&L Account should facilitate the user to make informed decisions. Hence, too much information loading is not warranted. Where necessary, separate supporting schedules in respect of various expenses may be added.
4. Capital Expenditure and Personal Expenditure should not be debited to this account.
5. Care should be taken to adjust expenses for prepaid / unpaid items. Incomes should also be suitably adjusted for amounts not yet received / amounts received in advance.

FORMAT OF PROFIT AND LOSS ACCOUNT

Profit and Loss Account of .... for the year ended ....

Particulars	₹	Particulars	₹
To Gross Loss b/d (if any) To Administrative Expenses To Selling Expenses To Financing Expenses To Depreciation To Other Items, Adjustments & Provisions To Net Profit, transferred to Capital A/c		By Gross Profit b/d from Trading A/c By Other Income items By Net Loss, if any, transferred to Capital A/c	
Total		Total	

ITEMS IN PROFIT AND LOSS ACCOUNT

	Item	Examples	
1.	Administrative Expenses	• Salaries of General Office Staff, etc. • Rent, Rates and Insurance • Printing and Stationery, • Repairs & Maintenance of Office building / Furniture,	• Telephone Expenses • Books and Periodicals • Legal Expenses • Audit Fees, etc.

2.	Selling and Distribution Expenses	• Salesman Salaries • Agents Commission • Advertising and Sales Promotion, • Carriage / Freight outwards	• Bad Debts • Repairs and Maintenance of Delivery Vans, vehicles, etc.
3.	Financing Expenses	• Interest Paid on Term loans, Working Capital Loans, etc. • Discount on Bills Discounted with Bank • Discount allowed to customers. • Bank Charges	
4.	Depreciation	• Depreciation on various assets is generally shown as a separate line item in the P&L A/c.	
5.	Other Items, Adjustments & Provisions	• Provisions for Bad and Doubtful Debts, Provision for Discount Allowed to Debtors, Provisions for Repairs and Renewals, etc. • Items like Loss on Sale of Fixed Assets / Investments, Loss (net of insurance Claim) in respect of abnormally lost goods, etc.	
6.	Other Income	• Rent from Properties • Interest on Investments in Fixed Deposits • Dividend from Shares	• Profit on Sale of Fixed Assets • Sale of Old Newspapers, Junk Materials, etc. • Bad Debts Recovered

BALANCE SHEET

1. Meaning: The Balance Sheet is a statement of financial position which sets out the Assets and liabilities of an enterprise as at a certain date.

2. Features:
   (a) Assets are shown on Right Hand Side and Liabilities are shown on Left Hand Side.
   (b) It is prepared as at a particular date and not for a period. So, it is a Position Statement, and not a Performance Statement.
   (c) The Balance Sheet is not an account, its two side represent Liabilities and Assets and not the Debit and the Credit sides of an account.
   (d) The Balance Sheet represents the confirmation of the Basic Accounting Equation, i.e. Equity + Liabilities =Assets. Hence, the total of both the sides should agree.
   (e) The Ledger Account Balance of all Personal and Real Accounts will flow into the Balance Sheet.

3. Format:

Balance Sheet of ……… as at ………..

Liabilities	₹	Assets	₹
Capital Reserves & Surplus Loans Current Liabilities: Sundry Creditors Outstanding Expenses		Fixed Assets Investments Current Assets: Stock Debtors Cash at Bank, Cash in Hand	
Total		Total	

ARRANGEMENT OF ASSETS AND LIABILITIES

<table>
<tr><th></th><th>Method 1: Permanence Approach</th><th>Method 2: Liquidity Approach</th></tr>
<tr><td>Assets</td><td>Assets which are to be used in the business for a longer span of time and which are not meant for sale, are shown first. These items are followed by Current/Liquid Assets
1. Fixed Assets:
• Land and Building
• Plant & Machinery
2. Current Assets
• Stock
• Sundry Debtors
• Bills Receivable
• Other Investments
• Cash at Bank
• Cash in hand</td><td>Assets which are readily convertible into cash are shown first and which are not readily convertible are shown subsequently in the Balance Sheet

1. Current Assets
• Cash in hand
• Cash at Bank
• Other Investments
• Bills Receivable
• Sundry Debtors
• Stock
2. Fixed Assets
• Plant & Machinery
• Land and Building</td></tr>
<tr><td>Liabilities</td><td>• Capital
• Reserves & Surplus
• Loans
• Trade Creditors
• Bills Payable
One way is to first show the capital, then long-term liabilities and last of all short-term liabilities</td><td>• Bills Payable
• Trade Creditors
• Loans
• Reserves & Surplus
• Capital
The other way is to start with short-term liabilities and then show long term liabilities and last of all capital</td></tr>
</table>

Note: The Permanence Approach is generally adopted for presentation of balance sheet

Example: Following is the Trial Balance of Mr. PopatLal as on 31.03.2023.

Trial Balance on 31st March, 2023

Particulars	Debit (₹)	Credit (₹)
Opening Stock	1,00,000	
Purchases	10,00,000	
Purchase Return		50,000
Sales		18,00,000
Sales Return	1,00,000	
Carriage Inward	55,000	
Salary	1,50,000	
Office Expenses	20,000	
Selling Expenses	30,000	
Plant & Machinery	3,00,000	
Furniture	2,00,000	
Debtors	2,50,000	
Cash in Hand	40,000	
Cash at Bank	85,000	
Creditors		2,50,000
Capital		2,30,000
Total	23,30,000	23,30,000

Value of Closing Inventory on 31st March 2023 was ₹ 2,00,000

Prepare closing entries for the above items. Prepare Trading Account, Profit & Loss Account & Balance Sheet. Also Pass Opening Entry as on 01.04.2023 for the next year.

ADJUSTMENT ENTRIES IN FINAL ACCOUNTS

1. EXPENSES

	Adjustment	Journal entry	Treatment in Trading and P&L A/c	Treatment in Balance sheet
1.	Outstanding or Accrued Expenses	Expenses A/c Dr. To O/s Expenses A/c	Add to Expense on Debit side of Trading/ P&L A/c	Liability Side under "CurrentLiabilities"
2.	Prepaid Expenses	Prepaid Exp. A/c Dr. To Expenses A/c	Reduce from Expense on Debit side of Trading/ P& L A/c	Assets Side under "Current Assets"

Expenses

O/s Expenses
(Accrued but not paid)

Expense A/c - Dr.
To O/s Expense A/c

Trading and P&L A/c

To Expense xx +O/s Exp. xx xx	

B/s

Liabilities	Assets
O/s Exp. xx	

Prepaid Expenses
(Paid but not accrued)

Prepaid Expense A/c - Dr
To Expense A/c

Trading and P&L A/c

To Expense xx -Prepaid Exp (xx) xx	

B/s

Liabilities	Assets
	Prepaid Exp. xx

Note:
If O/s Expense, Prepaid Expense appearing in trial balance then effect only in balance sheet as entry has already been passed & respective expense has already been adjusted.

Example: Trial Balance

	Dr.	Cr.
Salaries	140000	
Rent	90000	

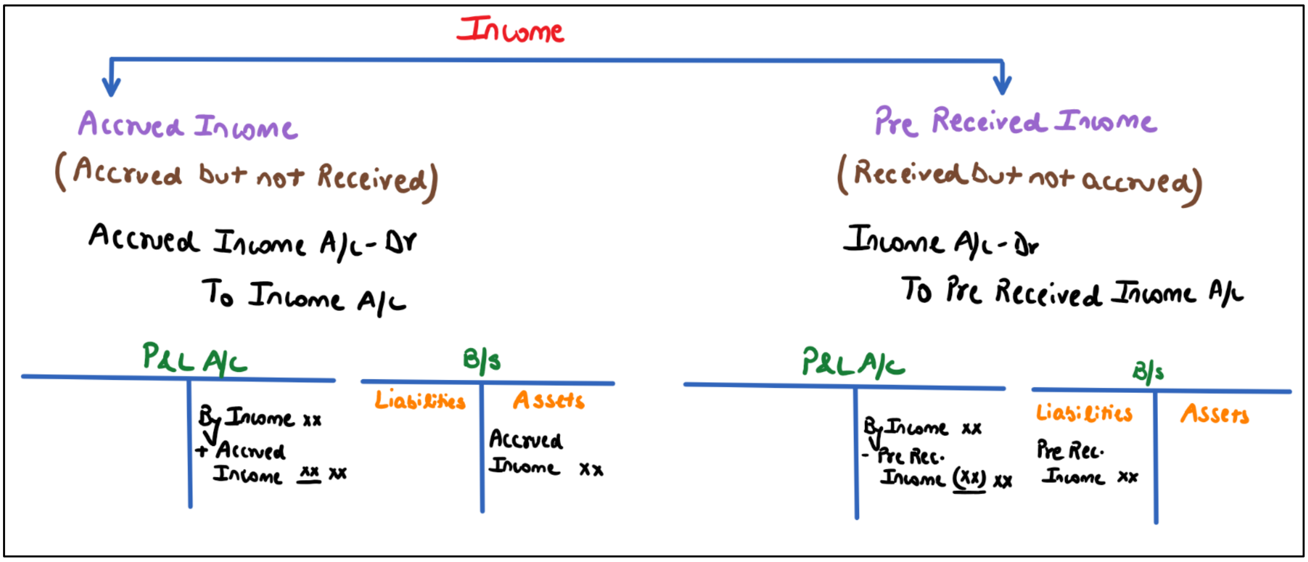
Adjustments:
1) O/s Salary 20000
2) Prepaid Rent 8000

Example: Trial Balance

	Dr.	Cr.
Salaries	140000	
Rent	90000	
O/s Salary		20000
Prepaid Rent	8000	

2. INCOMES

	Adjustment	Journal entry	Treatment in P&L A/c	Treatment in Balance sheet
1.	Accrued Income or Income receivable	Accrued Income A/cDr. To Income A/c	Add to Income Head on Credit side of P&L A/c	Assets Side under "Current Assets".
2.	Income Received in advance / Unearned Income	Income A/c Dr. To Income recd in advance	Reduce from Income Head on Credit side of P&L A/c.	Liability Side under "Current Liabilities".



Note:
If Accrued Income, Pre received income appearing in trial balance then effect only in balance sheet as entry has already been passed & respective income has already been adjusted.

Example: Trial Balance

	Dr.	Cr.
Interest on F.D.		70000
Interest on Loan given		60000

Adjustments:
1) Accrued Interest on F.D. 5000
2) Interest on loan received in advance 3000

Example: Trial Balance

	Dr.	Cr.
Interest on F.D.		70000
Int. on loan given		60000
Acc. Int. on F.D.	5000	
Prerec. Int. on loan		3000

3. CLOSING STOCK

Closing Stock

Not Appearing in Trial Balance / Given in Adjustments
(Entry to be passed)

Closing Stock A/c – Dr.
  To Trading A/c
(2 Effects)

Trading A/c

	By Closing Stock xx

B/s

Liabilities	Assets
	Closing Stock xx

Appearing in Trial Balance
(Entry already passed)

Closing Stock A/c – Dr.
  To Purchases A/c
(1 Effect)

B/s

Liabilities	Assets
	Closing Stock xx

Example: Trial Balance

	Dr.	Cr.
Opening Stock	100000	
Purchases	1200000	
Sales		2000000

Adjustments:

Closing Stock 200000

Example: Trial Balance

	Dr.	Cr.
Purchases	1200000	
Closing Stock	200000	
Sales		2000000

4. DEPRECIATION

Depreciation

Method 1
Asset Credit Method

Depreciation A/c – Dr
  To Fixed Asset A/c

P&L A/c

To Dep. xx	

B/s

Liabilities	Assets
	Fixed Ass. xx – Dep. (xx) xx

Method 2
Provision for Depreciation Method

Depreciation A/c – Dr
  To Provision for Dep. / Acc. Dep. A/c

P&L A/c

To Dep. xx	

B/s

Liabilities	Assets
	Fixed Ass. xx – Acc. Dep (xx) xx

Note:
If Depreciation appearing in trial balance then effect only in P&L Account

Example: Trial Balance

	Dr.	Cr.
Machinery	500000	

Adjustments:
Dep. on Machinery 10% p.a.

Example: Trial Balance

	Dr.	Cr.
Machinery	500000	
Dep. on Machinery	50000	

Example: Trial Balance

	Dr.	Cr.
Machinery	600000	
Prov. for Dep.		100000

Adjustments:
Dep. on Machinery 10% p.a.
(WDV Method)

Example: Trial Balance

	Dr.	Cr.
Machinery	600000	
Prov. for Dep.		100000
Dep. on Machinery	30000	

5. ABNORMAL LOSS

1) Abnormal loss A/c - Dr
   To Trading A/c

2) Insurance claim Rec. A/c - Dr
   P&L A/c (Loss) - Dr
   To Abnormal Loss A/c

Trading A/c

	By Abnormal Loss xx

P&L A/c

To Abnormal Loss xx	

B/s

Liabilities	Assets
	Ins. Claim Rec. xx

6. SALE OF GOODS ON APPROVAL OR RETURN BASIS PENDING CONFIRMATION

1) Sales A/c - Dr
   To Debtors A/c
   (At Selling Price)

2) Stock with customers A/c - Dr
   To Trading A/c
   (Lower of cost or NRV)

Trading A/c

	By Sales xx - Approval Basis (xx) xx By Closing Stock In hand xx With customers xx xx

Balance sheet

Liabilities	Assets
	Debtors xx - Approval Basis (xx) xx Closing Stock In hand xx With customers xx xx

7. MANAGER COMMISSION

Manager Commission

1) Manager Commission A/c – Dr
To O/s Manager Commission

Before charging

Net Profit before comm. X $\frac{\text{Rate}}{100}$

After charging

Net Profit before comm. X $\frac{\text{Rate}}{100+\text{Rate}}$

Example:

Net Profit before Commission 110000

Commission

a) 10% of Profits before charging Commission
b) 10% of Profits after charging Commission

8. BAD DEBTS AND PROVISION FOR DOUBTFUL DEBTS

If a customer fails to pay the amount due from him, the uncollectible amount is called Bad Debts. The accounting treatment is as under:

Method	Method1: General Treatment, i.e. Without having Provision for Bad & Doubtful Debts Account	Method 2: With Provision/Reserve for Bad & Doubtful Debts Account
Rule	Transfer Bad Debts as per TB, to the Debit Side of P&L A/c	• Transfer Bad Debts to Provision A/c. • Maintain provision upto desired amount
Bad Debts written off	Bad Debts A/c Dr. To Sundry Debtors (by name)	Bad Debts A/c Dr. To Sundry Debtors (by name)
Transfer of Bad Debts	Profit and Loss A/c Dr. To Bad Debts A/c	Prov. for Bad & Doubtful debts Dr. To Bad Debts A/c
Provision at year-end	There is no such requirement	Profit and Loss A/c Dr. To Prov. for Bad & Doubtful Debts
Treatment in B/sheet	Not Applicable	Closing Balance of Provision for Bad and Doubtful debts A/c is shown on Assets Side, as a reduction from Sundry Debtors

Note: Instead of the term "Provision for Bad and Doubtful Debts," Sometimes the word "Reserve for Bad debts" is used the word "Provision" is considered preferable.

Bad Debts

1) Bad debts A/c - Dr
   To Debtors A/c

2) P&L A/c - Dr
   To Bad debts

P&L A/c

To Bad debts xx	

B/s

Liabilities	Assets
	Debtors xx - Bad debts (xx) xx

Example: Trial Balance

	Dr.	Cr.
Debtors	400000	

Adjustments:

Bad debts 10000

Example: Trial Balance

	Dr.	Cr.
Debtors	500000	
Bad debts	10000	

Adjustments:

Further Bad debts 15000

Provision for Doubtful Debts

P&L A/c - Dr

To Provision for Doubtful debts A/c

B/s

Liabilities	Assets
	Debtors xx - PDD (xx) xx

Provision for Doubtful Debts A/c

To Bad debts	xx	By Bal b/d	xx
To Bal c/d	xx	By P&L A/c (B.f.)	xx

P&L A/c

To PDD xx	

Example:

Year 1: Debtors 500000

Create Provision for Doubtful debts @ 2%.

Year 2: Case (a)

Trial Balance

	Dr.	Cr.
Prov. for Doubtful Debts		10000
Debtors	1000000	
Bad debts	30000	

Create Provision for Doubtful Debts @ 2%.

Year 2: Case (b)

Trial Balance

	Dr.	Cr.
Prov. for Doubtful Debts		10000
Debtors	1000000	
Bad debts	30000	

Adjustments:

Further Bad debts 20000
Create Provision for Doubtful Debts @ 2%.

9. DISCOUNT ALLOWED AND PROVISION FOR DISCOUNT ON DEBTORS

The different accounting treatments in respect of discount allowed to debtors is as under

Method	Method 1: General Treatment	Method 2
Description	Without having Provision for Discount on Debtors A/c	With Provision on Discount on Debtors A/c
Rule	Transfer discount allowed as per Tb, to the debit side of P&L A/c	Transfer discount allowed as per TB to the debit side of Provision A/c. Maintain Provision up to the desired amt.
Discount Allowed	Discount allowed A/c Dr. To Sundry Debtors	Discount allowed A/c Dr. To Sundry Debtors
Tfr of Dis Allowed	Profit & Loss A/c Dr. To Discount allowed A/c	Prov. for discount on debtors Dr. To Discount allowed A/c
Creating Provision at year end	There is no such requirement	Profit and Loss A/c Dr. To Prov. for discount on debtors
Treatment in Balance sheet	Not applicable	Closing balance of provision for discount is shown on the assets side as a reduction from debtors

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

Example:

Trial Balance

	Dr.	Cr.
Bad debts	20000	
Discount Allowed	30000	
Debtors	1000000	
Prov. for Doubtful debt		5000
Prov. for Discount		15000

Adjustments:

Create Provision for Doubtful debts @ 3%

Create Provision for Discount @ 5%

10. DISCOUNT RECEIVED & RESERVE FOR DISCOUNT ON CREDITORS

The different accounting treatment in respect of discount received from supplier is as under:-

Method	Without having Reserves for Discount on Creditors A/c	With Reserves for Discount on Creditors A/c
Rule	Transfer discount received as per TB, to the credit side of P&L A/c	Transfer Discount received as per TB, to the reserve account. Maintain reserves up to desired amount
Discount received	Sundry Creditors A/c Dr. To Discount Received	Sundry Creditors A/c Dr. To Discount Received
Tfr of Disc received	Discount Received A/c Dr. To Profit and Loss A/c	Discount Received A/c Dr. To Reserve for disc. on creditors
Creating reserves	There is no such requirement	Reserves for dis. on creditors Dr. To Profit and Loss A/c
Treatment in Balance sheet	Not applicable	Closing balance of Reserve for discount is shown on liabilities side as reduction from sundry creditors.

Note: Provision for discount on creditors is often not provided in keeping with principle of conservatism.

Example :

Trial Balance

	Dr.	Cr.
Prov. for Disc. on Creditors	15000	
Creditors		500000
Discount Received		25000

Create Provision @ 2%

11. GOODS USED OTHER THAN FOR SALE

	Situation	Journal Entry	Treatment in financial Statement
1.	Goods withdrawn for personal use	Drawings A/c Dr. To Purchases A/c	Reduce from capital in B/ sheet. Purchases reduced in Trading A/c
2.	Goods given away as charity/ donation	Donation / Charity A/c Dr. To Purchases A/c	Add to donation / charity A/c Purchases reduced in Trading A/c
3.	Goods distributed as free sample	Samples/Advertisement Dr. To Purchases A/c	Add to samples/advt. in P/L A/c Purchases reduced in Trading A/c
4.	Goods used for construction of building or machinery	Building/Machinery A/c Dr. To Purchases A/c	Add to Assets Cost in B/ sheet Purchases reduced in Trading A/c

13. OTHER MISC. ITEMS

	Adjustment	Journal entry	Treatment in P&L A/c	Treatment in Balance sheet
1.	Interest on capital	Interest on capital A/c Dr. To Capital	Show in debit side of P&L A/c	Add to capital A/c on the liabilities Side.
2.	Interest on drawings	Capital A/c Dr. To Interest on drawings	Show in credit side of P&L A/c	Reduce from capital A/c on liabilities side

SIGNIFICANCE OF MANUFACTURING ACCOUNT

1. Meaning:
   (a) The Manufacturing Account shows the total cost of manufacturing the finished products, with appropriate details and classifications of Cost.
   (b) The debits to this account consist of the cost of materials consumed, Manufacturing Wages and Expenses incurred directly or indirectly on manufacture.
   (c) This Account is relevant only for Manufacturing Entities, and is not applicable for Trading Entities.

2. Purposes:
   (a) This Account provides details of Factory Cost and facilitates reconciliation of financial Books with Cost Records
   (b) It also serves as a basis of comparison of manufacturing operations from year to year.
   (c) Separate Columns provided for Quantity and Values, will enable the entity to ascertain the cost of production per unit of the product.
   (d) It may be useful to have a column for percentage in the Manufacturing A/c showing the cost of each item as a percentage of the total.
   (e) Where the output is carried to the Trading A/c at above cost, e.g. market prices, the Manufacturing Account discloses the Profit or loss on manufacture. This will be used to fix the amount of production or profit sharing bonus when such schemes are in force.

MANUFACTURING ACCOUNT

Manufacturing Account of …………..for the year ended………

Particulars	₹	Particulars	₹
To Raw Material consumed: Opening stock of raw materials Add: Purchases of Raw Materials Less: Closing Stock of Raw Materials Net Balance = Material Consumed To Direct Manufacturing Wages To Direct Expenses, if any To Production Overheads To Opening Stock of WIP		By NRV/ Sale Value of By-Products By Closing Stock of WIP By Net Factory Cost of Production transferred to Trading A/c (Bal. Fig)	
Total		Total	

Trading Account of …………..for the year ended………

Particulars	₹	Particulars	₹
To Opening stock of finished goods To Manufacturing account – Cost of Products To Gross Profit c/d to P&L Account		By Sales By Closing stock of finished goods	
Total		Total	

ITEMS IN MANUFACTURING ACCOUNTS

Item	Explanation	Treatment
1. Material consumed	Cost of Raw Material Consumed during the period= Opening stock of Raw Material Add: Purchases of Raw Materials Less: Closing Stock of Raw Materials	Debit in Mfring Accounts
2. Direct Wages	Wages paid to workers engaged in production process, (i.e., in factory Departments) is debited to the Manufacturing Account.	Debit in Mfring Account
3. Direct Expenses	• Direct Manufacturing Expenses are costs, other than Materials and Wages, which are incurred for a specific product/ service. • Examples: (a) Royalty for use of license/ technology, (b) Hire Charges of Plant / Equipment, if based on units produced.	Debit in Mfring Account
4. Prime cost	Prime cost (or Direct Cost) = Raw Materials Consumed + Direct Wages + Direct Expenses	Sub-Total in Dr. side
5. Indirect Manufacturing Expenses	• These are called Factory Overheads/ Production Overheads/ Works Overheads/ Manufacturing Overheads etc. • It is the Total Indirect costs (Indirect Materials + Indirect Labour + Indirect Expenses) which cannot be linked directly to units produced. • Examples: Factory Rent, Depreciation on Machinery, Depreciation on Factory shed, Repair & Maintenance work, Supervisor's Salary, Consumables like Oils, Lubricants, etc.	Debit in Mfring Account
6. By-Product Revenues	• By-Product is an incidental product, arising during the production operations, having some saleable value. • Examples: Molasses is the by-product in sugar manufacturing • Net Realizable Value of By-product is credited to this account as they generally have insignificant value as compared to main product.	Credit in Mfring Account
7. Factory Cost	It is the Net Cost of Production as shown by Manufacturing A/c (Balancing figure in Manufacturing Account, and is transferred to Trading Account)	Tfd to Trading Acc

Example:

	Opening Stock	Closing Stock
Raw Material	10,000	15,000
Work in Progress	22,000	18,000
Finished Goods	34,000	24,000

Purchase of Raw Material = 2,45,000; Direct Wages = 82,000; Production Overheads = 64,000; Sales = 4,50,000

Compute:

a) Raw Material Consumed

b) Cost of Goods Manufactured

c) Cost of Goods Sold

d) Gross Profit

COMPARISON BETWEEN INCOME STATEMENT AND POSITION STATEMENT

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

ACCOUNTING TREATMENT - INCOME-TAX

	Sole Proprietorship Firms	Partnership Firms
Nature of Expenses	Income –Tax is considered as a personal expense of the proprietor	Income Tax relating to the firm is considered just like any other expense
Treatment	Income Tax is debited to capital account	Income Tax is debited to P&L A/c
Journal Entry	(a) For payment of Tax during the year: Income –Tax A/c Dr. To Cash/ Bank (b) For transfer to Capital A/c at year end: Capital A/c Dr. To Income-Tax A/c	(a) For payment of Tax during the year: Firm Income –Tax A/c Dr. To Cash/ Bank (b) For provision for tax at year end: Profit & Loss A/c Dr. To Provision for taxation

Effect on Balance sheet	Capital account is reduced to the extent of Income-Tax paid.	If Tax Amount paid > Provision for Taxation:- The difference is shown as "Receivable", i.e., Current Asset If Provision for Taxation > Tax Amount paid:- The difference is shown as " Payable", i.e. Current Liability

Note: In case of partnership firms, if the partners' Personal Income tax is paid out of the firm's resources, it should be treated as drawings and should be debited to their capital account individually.

PROVISION AND RESERVES

Particular	Provision	Reserves
Meaning	Provision is defined as "any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets or retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy."	Reserves may be defined as "portion of earning, receipts or other surplus of an enterprise appropriated by the management for a general or a specific purpose.
Relation to profit	Charge against profit	Appropriation of profit
When it can be created?	Provision (for Depreciation, other Expenses and liabilities) should be created even if there is no profit.	Reserve cannot be created unless there is a profit.
Nature	Provisions are a necessity, based on accounting principles.	Generally, reserves are optional, based on managerial discretion.
P& L A/c disclosure	Provisions are shown above the line.	Appropriation for reserve is made below the line
B/sheet disclosure	Provisions are shown as a deduction from the respective assets, on the assets side.	Reserves are shown generally on the liabilities side.

Reserve Fund: It signifies the amount standing to the credit of the reserve that is invested outside the business in securities which are readily realisable e.g., when the amounts set apart for replacement of an asset are invested periodically, in government securities or shares. The account to which these amounts are annually credited is described as the Reserve Fund.

Example: ***(ICAI Study Material)***

Crimpson traders Profit and Loss Account for the year ended 31st March, 2023 includes the following information:

1	Depreciation	57,500
2	Bad debts written off	21,000
3	Increase in provision for doubtful debts	18,000
4	Retained profit for the year	20,000
5	Liability for tax	4,000

State which one of the items (1) to (5) above are – (a) transfer to provisions; (b) transfer to reserves; and (c) neither related to provisions nor reserves.

LIMITATIONS OF FINANCIAL STATEMENTS

Historical Cost	Financial statements are prepared only on the basis of the money value prevailing at the time the transaction were entered into. Thus, the effect of subsequent changes in the value of money is not taken into account.
Intangible strengths and weaknesses	An organization may have a number of strengths and weaknesses which cannot be shown in the balance sheet e.g., the loyalty and calibre of its staff.
Perpetual continuity and periodical account	Financial statements ordinarily are drawn up at the end of each year but the accounting record is maintained on the assumption that the business undertaking shall continue to exist forever on the basis of going concern assumption.
Different accounting policies	It is permissible for an organization within certain limits to adopt different policies for the preparation of accounts, valuation of various assets and distribution of expenditure over different periods of account.
Management policies	Management can have different accounting policies for welfare of the staff and public at large.

ASSIGNMENT QUESTIONS

Question 1 *(ICAI Study Material)* *Pg no.______*

The following is the Trial Balance of Mr. Wanchoo on 31st March 2023.

Trial Balance on 31st March, 2023

Particulars	Debit (₹)	Credit (₹)
Capital Account		10,00,000
Inventories as on 1st April, 2022	2,00,000	
Cash in hand	1,44,000	
Machinery Account	7,36,000	
Purchases Account	18,20,000	
Wages Account	10,00,000	
Salaries Account	10,00,000	
Discount Allowed A/c	50,000	
Discount Received A/c		30,000
Sundry Office Expenses Account	6,00,000	
Sales Account		50,00,000
Sums owing by customer (Trade receivables)	8,50,000	
Trade payables (sums owing to suppliers)		3,70,000
Total	64,00,000	64,00,000

Value of Closing Inventory on 31st March 2023 was ₹ 2,70,000

Pass closing entries for the above items. Prepare Trading Account, Profit & Loss Account & Balance Sheet.

Question 2 *(ICAI Study Material)* *Pg no.______*

Trial Balance for financial year ended 31st March 2023 of Deepakshi shows following details:

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

Additional Information: Creditors balance on 1st April 2022 is ₹ 3,00,000

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

Question 3 *(ICAI Study Material)* *Pg no.______*

The balance sheet of Thapar on 1st April, 2022 was as follows:

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

During 2022-23, his Profit and Loss Account revealed a net profit of ₹18,30,000. This was after allowing for the following:
(a) Rent received from property let out ₹3,00,000
(b) Depreciation on Plant and Machinery @ 10% and on Furniture and Fixtures @ 5%.
(c) A provision for Doubtful Debts @ 5% of the trade receivables as at 31st March, 2023.
But while preparing the Profit and Loss Account he had forgotten to provide for (1) outstanding expenses totaling ₹1,80,000 and (2) prepaid insurance to the extent of ₹20,000.

His current assets and liabilities on 31st March, 2023 were: Inventories ₹ 14,50,000; Trade receivables ₹ 20,00,000; Cash at Bank ₹ 10,35,000 and Trade payables ₹ 11,40,000.
During the year he withdrew ₹6,00,000 for domestic use.
Draw up his Balance Sheet at the end of the year.

Question 4 *(ICAI Study Material)* *Pg no._____*

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

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

Commission is charged at the rate of 10%.
Selling Expenses amount to 1% of total sales.
You are required to compute the missing figures.

Question 5 *(ICAI Study Material)* *Pg no._____*

Sengupta & Co. employs a team of eight workers who were paid ₹30,000 per month each in the year ending 31st March, 2022. At the start of financial year 2022-23, the company raised salaries by 10% to ₹33,000 per month each.
On October 1, 2022 the company hired two trainees at salary of ₹21,000 per month each. The work force are paid salary on the first working day of every month, one month in arrears, so that the employees receive their salary for January on the first working day of February etc.
You are required to calculate:
a) Amount of salaries which would be charged to the profit and loss for the year ended 31st March, 2023.
b) Amount actually paid as salaries during 2022-23
c) Outstanding Salaries as on 31st March, 2023.

Question 6 *(ICAI Study Material)* *Pg no._____*

Mr. Kotriwal is engaged in business of selling magazines. Several of his customers pay money in advance for subscribing his magazines. Information related to year ended 31st March 2023 has been given below:

On 1.4.2022 he had a balance of ₹ 2,00,000 advance from customers of which ₹ 1,50,000 is related to year 2022-23 while remaining pertains to year 2023-24. During the year 2022-23 he made cash sales of ₹ 5,00,000. You are required to compute:

a) Total income for the year 2022-23.

b) Total money received during the year if the closing balance in advance from customers account is ₹ 1,70,000.

Question 7

Pg no._____

From the following trial balance & additional information prepare Provision for Doubtful Debts Accounts & Provision for Discount on Debtors Account. Make balance sheet extract.

Particulars	Debit (₹)	Credit (₹)
Bad Debts	14,000	
Discount Allowed	11,000	
Provision for Doubtful Debts		10,000
Provision for Discount on Debtors		5,700
Sundry Debtors	5,15,000	

Additional Information:

1) Further Bad Debts ₹ 9,000 & Further Discount Allowed ₹ 6,000
2) Create Provision for Doubtful Debts @ 5% & Provision for Discount on Debtors @ 3%

Question 8

Pg no._____

From the following balances and information, prepare Trading and Profit and Loss Account of Mr. X for the year ended 31st March, 2023 and a Balance Sheet as on that date:

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

Information:-

a) Stock on 31st March, 2023 was ₹ 6,000.
b) Write off further ₹600 for Bad Debt and maintain a provision for Bad Debts at 5% on Debtors.
c) Goods costing ₹ 1,000 were sent to customer for ₹ 1,200 on 30th March, 2023 on sale or return basis. This was recorded as actual sales.
d) Received ₹ 2,000 worth of goods on 28th March, 2023 but the invoice of Purchase was not recorded in Purchases Book.
e) ₹ 240 paid as rent of the office were debited to Landlord account and were included in the list of debtors.
f) General Manager is to be given commission at 10% of net profit after charging the commission of the works manager and his own.
g) Works manager is to be given commission at 12% of net profit before charging the commission of General Manager and his own.

Question 9 *(ICAI Study Material)* *Pg no._____*

From the following particulars extracted from the books of Ganguli, Prepare Trading and Profit and Loss Account and Balance Sheet as at 31st March, 2023 after making the necessary adjustments:

Ganguli's capital account (Cr.)	5,40,500	Interest received	7,250
Stock on 1.4.2022	2,34,000	Cash with Traders Bank Ltd.	40,000
Sales	14,48,000	Discounts received	14,950
Sales return	43,000	Investments (at 5%) as on 1.4.2022	25,000
Purchases	12,15,500	Furniture as on 1-4-2022	9,000
Purchases return	29,000	Discounts allowed	37,700
Carriage inwards	93,000	General expenses	19,600
Rent	28,500	Audit fees	3,500
Salaries	46,500	Fire insurance premium	3,000
Sundry debtors	1,20,000	Travelling expenses	11,650
Sundry creditors	74,000	Postage and telegrams	4,350
Loan from Dena Bank Ltd. at 12%	1,00,000	Cash in hand	1,900
Interest paid	4,500	Deposits at 10% as on 1-4-2022 (Dr.)	1,50,000
Printing and stationery	17,000	Drawings	50,000
Advertisement	56,000		

Adjustments:

a) Value of stock as on 31st March, 2023 is ₹ 3,93,000. This includes goods returned by customers on 31st March, 2023 to the value of ₹ 15,000 for which no entry has been passed in the books.
b) Purchases include furniture purchased on 1st January, 2023 for ₹10,000.
c) Depreciation should be provided on furniture at 10% per annum.
d) The loan account from Dena bank in the books of Ganguli appears as follows:

31.3.2023 To Balance c/d	1,00,000	01.4.2022 By Balance b/d	50,000
		31.3.2023 By Bank	50,000
	1,00,000		1,00,000

e) Sundry debtors include ₹ 20,000 due from Robert & sundry creditors include ₹ 10,000 due to him.
f) Interest paid include ₹ 3,000 paid to Dena bank.

g) Interest received represents ₹ 1,000 from the sundry debtors (due to delay on their part) and the balance on investments and deposits.
h) Provide for interest payable to Dena bank and for interest receivable on investments and deposits.
i) Make provision for doubtful debts at 5% on the balance under sundry debtors. No such provision need to be made for the deposits.

Question 10 *(ICAI Study Material)* Pg no.______

The following is the schedule of balances as on 31.3.23 extracted from the books of Shri Gavaskar, who carries on business under the same name and style of M/s Gavaskar & Co., at Mumbai:

Particulars	Dr.	Cr.
Cash in hand	14,000	
Cash at bank	26,000	
Sundry Debtors	8,60,000	
Stock on 1.4.2022	6,20,000	
Furniture & fixtures	2,14,000	
Office equipment	1,60,000	
Buildings	6,00,000	
Motor Car	2,00,000	
Sundry Creditors		4,30,000
Loan from Raj		3,00,000
Provision for bad debts		30,000
Purchases	14,00,000	
Purchase Returns		26,000
Sales		23,00,000
Sales Returns	42,000	
Salaries	1,10,000	
Rent for Godown	55,000	
Interest on loan from Raj	27,000	
Rates & Taxes	21,000	
Discount allowed to Debtors	24,000	
Discount received from Creditors		16,000
Freight on purchases	12,000	
Carriage Outwards	20,000	
Drawings	1,20,000	
Printing and Stationery	18,000	
Electricity Charges	22,000	
Insurance Premium	55,000	
General office expenses	30,000	
Bad Debts	20,000	
Bank charges	16,000	
Motor car expenses	36,000	
Capital A/c		16,20,000
Total	47,22,000	47,22,000

Prepare Trading and Profit and Loss Account for the year ended 31st March 2023 and the Balance Sheet as at that date after making provision for the following:

a) Depreciate: (a) Building used for business by 5 percent; (b) Furniture and fixtures by 10 percent; One steel table purchased during the year for ₹ 14,000 was sold for same price but the sale proceeds were wrongly credited to Sales Account; (c) Office equipment by 15 percent; Purchase of a typewriter during the year for ₹ 40,000 has been wrongly debited to purchase; and (d) Motor car by 20%.

b) Value of stock at the close of the year was ₹ 4,40,000.
c) Two month's rent for godown is outstanding.
d) Interest on loan from Raj is payable at 12 % per annum, this loan was taken on 1.5.2022.
e) Reserve for bad debts is to be maintained at 5 percent of Sundry Debtors.
f) Insurance premium includes ₹ 40,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 1.4.2022 to 30.6.23.

Question 11 *(RTP May 2018) / (RTP Nov 2019) / (RTP Nov 2021) (Similar)* *Pg no._____*

The following are the balances as at 31st March, 2023 extracted from the books of Mr. XYZ

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

Additional Information:

a) Purchases include sales return of ₹ 2,575 and sales include purchases return of ₹ 1,725.
b) Goods withdrawn by Mr. XYZ for own consumption ₹ 3,500 included in purchases.
c) Wages paid in the month of April for Installation of Plant and Machinery amounting to ₹ 450 were included in wages account.
d) Free samples distributed for Publicity costing ₹ 825.
e) Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
f) Depreciation is to be provided on Plant and Machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.

g) Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2023 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as on overdraft.

Prepare Trading and Profit Loss Account for the year ended 31st March, 2023, and a Balance Sheet as on that date. Also show the rectification entries.

Question 12 *(RTP May 2019) / (RTP Nov 2020) / (RTP Nov 2022) (Similar)* Pg no._____

The following is the Trial Balance of T on 31st March, 2023:

Particulars	Dr. (₹)	Cr. (₹)
Capital		6,00,000
Drawings	70,000	
Fixed Assets (Opening)	1,40,000	
Fixed Assets (Additions 01.10.2022)	2,00,000	
Opening Stock	60,000	
Purchases	16,00,000	
Purchases Returns		69,000
Sales		22,00,000
Sales Returns	99,000	
Debtors	2,50,000	
Creditors		2,20,000
Expenses	50,000	
Fixed Deposit with Bank	2,00,000	
Interest on Fixed Deposit		20,000
Bank Overdraft		8,000
Suspense A/c		2,000
Depreciation	14,000	
Rent (17 months upto 31.8.2023)	17,000	
Investments 12% (01.08.2022)	2,50,000	
Cash & Bank Balance	1,69,000	
Total	31,19,000	31,19,000

Stock on 31st March, 2023 was valued at ₹ 1,00,000. Depreciation is to be provided at 10% per annum on fixed assets purchased during the year. A scrutiny of the books of account revealed the following matters:

(i) ₹ 20,000 drawn from bank was debited to Drawings account, but out of this amount withdrawn ₹ 12,000 was used in the business for day-to-day expenses.

(ii) Purchase of goods worth ₹ 16,000 was not recorded in the books of account upto 31.03.2023, but the goods were included in stock.

(iii) Purchase returns of ₹ 1,000 was recorded in Sales Return Journal and the amount was correctly posted to the Party's A/c on the correct side.

(iv) Expenses include ₹ 6,000 in respect of the period after 31st March, 2023.

Give the necessary Journal Entries in respect of (i) to (iv) and prepare the Final Accounts for the year ended 31st March, 2023.

Question 13 *(ICAI Study Material)* Pg no._____

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

Question 14 *(ICAI Study Material)* *Pg no._____*

Mr. Vimal runs a factory which produces soaps. Following details were available in respect of his manufacturing activities for the year ended on 31.3.2023:

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

Prepare a Manufacturing Account of Mr. Vimal for the year ended 31.3.2023.

Question 15 *(ICAI Study Material)* *Pg no._____*

Following are the Raw Material A/c, Creditors A/c and Manufacturing A/c provided by Ms. Shivi related to 2022-23. There are certain figures missing from these accounts.

Raw Material A/c

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

Creditors A/c

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

Manufacturing A/c

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

Additional Information:

1) Purchase of machinery worth ₹ 10,00,000 has been omitted. Machinery are chargeable at a depreciation rate of 10%.
2) Wages include the following
    - Paid to Factory Workers - ₹ 3,00,000
    - Paid to labour at office - ₹ 50,000
3) Direct Expenses include following:
    - Electricity charges of ₹ 80,000 of which 30% pertained to office.
    - Fuel Charges of ₹ 20,000
    - Freight Inwards of ₹ 35,000
    - Delivery charges to customers - ₹ 20,000.

You are required to prepare Revised Manufacturing A/c, Raw Material A/c & Creditors A/c.

Question 16 *(CA Foundation Dec 2021) (15 Marks)/(ICAI Study Material)(Similar)* *Pg no._____*

On 31st March, 2023 the Trial Balance of Mr. Black were as follows:

Particulars	Debit (₹)	Particulars	Credit (₹)
Stock on 1st April 2022		Sundry Creditors	1,50,000
Raw Materials	2,10,000	Bills Payable	75,000
Work in Progress	95,000	Sale of Scrap	25,000
Finished goods	1,55,000	Commission Received	4,500
Sundry Debtors	2,40,000	Provision for doubtful debts	16,500
Carriage on Purchases	15,000	Capital Account	10,00,000
Bills Receivable	1,50,000	Sales	16,72,000
Wages	1,30,000	Bank Loan	85,000
Salaries	1,00,000		
Telephone, Postage etc.	10,000		
Repairs to Office Furniture	3,500		
Cash at Bank	1,70,000		
Office Furniture	1,00,000		
Repairs to Plant	11,000		
Purchases	8,50,000		
Plant and Machinery	7,00,000		
Rent	60,000		
Lighting	13,500		
General Expenses	15,000		
	30,28,000		30,28,000

The following additional information is available:

a) Stocks on 31st March, 2023 were:
   Raw Materials ₹1,62,000 Finished goods ₹1,81,000 Work in Progress ₹ 78,000
b) Salaries and wages unpaid for March 2023 were respectively, ₹ 9,000 and ₹ 20,000
c) Machinery is to be depreciated by 10% and office furniture by 7 1/2 %
d) Provision for doubtful debts is to be maintained @ 1% of sales
e) Rent is to be charged as to 3/4 to factory and 1/4 to office.
f) Lighting is to be charged as to 2/3 to factory and 1/3 to office.

Prepare the Manufacturing Account, Trading Account, Profit and Loss Account for the year ended on 31st March 2023.

PRACTICE QUESTIONS

MULTIPLE CHOICE QUESTIONS

1) A debit to an account may
   - (a) increase expense
   - (b) decrease an asset.
   - (c) increase a liability.

2) Prepayment of insurance premium will appear in the Balance Sheet and in the Insurance Account respectively as:
   - (a) a liability and a debit balance.
   - (b) an asset and a debit balance.
   - (c) an asset and a credit balance.

3) Gross profit is the difference between:
   - (a) Sales and purchases
   - (b) Sales and cost of sales.
   - (c) Sales and total expenses.

4) Payment made to a creditor subject to cash discount will :
   - (a) reduce a liability, reduce an asset and add to expenses.
   - (b) reduce a liability, add to an asset, and add to revenue.
   - (c) reduce an asset, reduce a liability, and add to revenue.

5) A customer returns goods already charged to him. We should:
   - (a) debit his account.
   - (b) credit his account.
   - (c) make no entry on his account.

6) Capital is the difference between
   - (a) Income and expenses
   - (b) Sales and Cost of goods sold
   - (c) Assets and liabilities

7) The capital of a sole trader would change as a result of:
   - (a) A creditor being paid his account by cheque.
   - (b) Raw materials being purchased on credit.
   - (c) Wages being paid in cash.

8) A decrease in the provision for doubtful debts would result in:
   - (a) An increase in liabilities.
   - (b) A decrease in working capital.
   - (c) An increase in net profit.

9) A Company wishes to earn a 20% profit margin on selling price. Which of the following is the profit mark up on cost, which will achieve the required profit margin?
   - (a) 33%
   - (b) 25%
   - (c) 20%

10) If sales is ₹ 2,000 and the rate of gross profit on cost of goods sold is 25%, then the cost of goods sold will be
    (a) ₹ 2,000.
    (b) ₹ 1,500.
    (c) ₹ 1,600.

11) Sales for the year ended 31st March, 2023 amounted to ₹ 10,00,000. Sales included goods sold to Mr. A for ₹ 50,000 at a profit of 20% on cost. Such goods are still lying in the godown at the buyer's risk. Therefore, such goods should be treated as part of
    (a) Sales.
    (b) Closing Inventory.
    (c) Goods in transit.

12) If sales revenues are ₹4,00,000; cost of goods sold is ₹ 3,10,000 and expenses are ₹60,000, the gross profit is
    (a) ₹ 30,000.
    (b) ₹ 90,000.
    (c) ₹ 3,40,000.

13) Under-statement of closing work in progress in the period will
    (a) Understate cost of goods manufactured in that period.
    (b) Overstate current assets.
    (c) Understate net income in that period.
    (d) None of the three.

14) Sales is equal to
    (a) Cost of goods sold – Gross profit.
    (b) Cost of goods sold + Gross profit.
    (c) Gross profit – Cost of goods sold.
    (d) Net profit + cost of goods sold.

15) Indirect Manufacturing expenses are also called
    (a) Manufacturing overhead.
    (b) Production overhead.
    (c) Works overhead.
    (d) All the three.

16) Sale value of the by-product is credited to
    (a) Manufacturing account.
    (b) Capital account.
    (c) Overheads account.
    (d) Trading account.

17) Manufacturing account shows
    (a) Total cost of manufacturing the finished products.
    (b) It provides details of factory cost.
    (c) It facilitates reconciliation of financial books with cost records.
    (d) All the three.

ANSWERS MCQs

1. (a)	2. (c)	3. (b)	4. (c)	5. (b)	6. (c)	7. (c)	8. (c)	9.(b)	10.(c)
11.(a)	12. (b)	13.(c)	14.(b)	15. (d)	16.(a)	17.(d)			

TRUE / FALSE

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

1) The income statement shows either net profit or net loss for a particular period.
2) Gains from the sale or exchange of assets are not considered as the revenue of the business.
3) The salary paid in advance is not an expense because it neither reduces assets nor increases liabilities.
4) A loss is an expenditure which does not bring any benefit to the concern.
5) All liabilities which become due for payment within the year are classified as long-term liabilities.
6) The term current asset is used to designate cash and other assets or resources which are reasonably expected to be realized or sold or consumed within one year.
7) An asset gives rise to expenditure when it is acquired and to an expense when it is consumed.
8) If the balance of an account is on the debit side of the trial balance where the benefit has already expired then it is treated as an expense.
9) Sales less cost of goods sold = gross profit.
10) If the debit side of the trading account exceeds its credit side then balance is termed as gross profit.
11) The provision for bad debts is debited to Sundry Debtors Account. *(Dec 2021)*
12) The provision for discount on creditors is often not provided in keeping with the principle of conservatism. *(Dec 2022)*
13) The debts written-off as bad, if recovered subsequently are credited to debtor's account.
14) The adjustment entry in respect of income received in advance is debit Income received in advance account and credit income account.
15) Premium paid on the life policy of a proprietor is debited to profit and loss account.
16) Depreciation account appear in the trial balance is taken only to profit and loss account.
17) Personal purchases included in the purchases day book are added to the sales account in the Trading account.
18) Medicines given to the office staff by a manufacturer of medicines will be debited to salaries account.
19) Goods worth ₹ 600 taken by the proprietor for personal use should be credited to Capital Account.
20) If Closing Stock appears in the Trial Balance, the closing inventory is then not entered in Trading Account. It is shown only in the balance sheet. *(Nov 2018)*
21) By-products valued at cost or net realisable value whichever is lower.
22) The manufacturing account is prepared to ascertain the profit or loss on the goods produced.
23) If there remain unfinished goods at the beginning and at the end of the accounting period, cost of such unfinished goods is shown in the Manufacturing Account.
24) Raw Material Consumed = Opening inventory of Raw Materials + Purchases – Closing inventory of Raw Materials.
25) The Trading Account will show the quantities of finished goods, raw materials and work-in-progress.
26) Overhead is defined as the total cost of direct material, direct wages and direct expenses. *(June 2023)*
27) Manufacturing A/c is prepared by an enterprise engaged in trading activities.
28) Profit and Loss Account shows the financial position of the concern.

29) The provision for discount on debtors is calculated after deducting the provision for doubtful debts from Debtors.
30) Freight paid on purchases of goods is added to the amount of purchases.
31) The debit balance in the Profit and Loss Account is surplus.
32) Capital is all assets less fictitious assets.
33) Under the 'Liquidity approach', assets which are most liquid are presented at the bottom of the Balance Sheet.
34) Goodwill is a fictitious asset.
35) Sundry debtors are liquid assets.
36) A withdrawal of cash from the business by the proprietor should be charged to profit and loss account as an expense.
37) Stock at the end, if appears in the Trial Balance, is taken only to the Balance Sheet.
38) Inventory by-product should be valued at net realisable value where cost of any product can be separately determined.
39) All the personal & real accounts are recorded in P&L A/c.
40) Goodwill is intangible asset therefore it cannot be valued.
41) Outstanding salaries for the previous year shall be shown as liability in the current year balance sheet.
42) The gain from sale of capital assets need not be added to revenue to ascertain the net profit of a business.
43) Sale of office furniture should be credited to Profit and Loss Account.
44) The sale value of by-product is credited to Trading Account.

Solution

1) True: Profit and loss account shows either net profit or net loss for a particular period.
2) False: Gains from the sale or exchange of assets are considered as the revenue of the business. But this revenue not in the ordinary course of business so it is capital receipts.
3) True: Salary paid in advance relates to the coming accounting period. It has nothing to do with the current period. Hence it is not taken in the Profit and Loss Account as an expense. It is shown as a Current Asset in the Balance Sheet.
4) True: A loss is an expenditure of the business which does not bring any gain to the business.
5) False: All liabilities which become due for payment within one year are classified as current liabilities.
6) True: Current assets are all the assets which are expected to be realized or sold or consumed within one year.
7) True: When an asset is purchased, capital expenditure is incurred and when asset is put to use expenses are incurred in consumption.
8) True: Debit balance of accounts are treated as expenses whose benefit is already received or expired.
9) True: Gross profit is obtained by deducting cost of goods sold from sales.
10) False: If the debit side of the trading account exceeds its credit side then the balance is termed as gross loss.
11) False: Provision for bad debts is debited to Profit and Loss Account, in Balance Sheet it is shown either on liability side or deducted from the head Debtors.
12) True: According to the provision of conservatism provision is maintained for the losses to be incurred in future. Discount on creditors is an income so provision is not maintained.
13) False: It will be credited to Bad debtors Recovered Account & becomes an income

14) False: Income received in advance is reduced from the concerned income in profit and loss account. And, it is shown as a liability in the balance sheet under the head Current Liabilities.
15) False: Premium paid on the life policy of a proprietor is to be debited to capital account, as it is personal expense.
16) True: Depreciation is charge on each of the asset on a certain percentage. Depreciation is a charge to profit and loss account and should be debited to profit & loss account by crediting the respective assets. If it appears in trial balance then it is taken only to profit and loss account.
17) False: Personal purchases included in the purchases day book are deducted from the purchases account in the Trading account.
18) True: Any benefit given to the staff is debited to the salary account.
19) False: Goods taken by the proprietor for personal use should be credited to Purchase Account as less goods are left in the business for sale.
20) True: The closing stock appears in the trial balance only when it is adjusted against purchases by passing the entry (in which Closing Stock A/c is debited and Purchases A/c is credited). In this case, closing stock is not entered in Trading Account and is shown only in Balance sheet.
21) False: By-products generally have insignificant value as compared to the value of main product. Therefore, they are generally valued at net realizable value.
22) False: The objective of preparing Manufacturing Account is to determine manufacturing costs of finished goods for assessing the cost effectiveness of manufacturing activities.
23) True: Manufacturing account deals with the raw material and work in progress & their opening & closing stock are shown in Manufacturing Account
24) True: Raw Material consumed is arrived at after adjustment of opening and closing inventory of raw materials and purchases.
25) False: The Trading Account will show the quantities of finished goods manufactured and sold and the opening and closing inventory. It will not show the quantity of raw materials or work-in-progress.
26) False: Overhead is defined as total cost of indirect material, indirect wages and indirect expenses. Indirect material, wages & expenses cannot be directly linked to unit produced.
27) False: Manufacturing A/c is prepared by the entities engaged in manufacturing activities
28) False: Balance sheet shows the entire financial position of the business.
29) True: The provision for discount on debtors is calculated after deducting the provision for doubtful debts from debtors in order to determine the provision for discount on good debtors who make their payment promptly after getting the discount.
30) True: Such freight paid on the purchases of goods is included in the cost of purchase.
31) False: The Debit balance in P & L A/c is a loss because expenses are more than revenue.
32) False: Capital is all assets less (fictitious assets and outside or external liabilities.)
33) False: When assets & liabilities are arranged according to their realizability and payment preferences in such case the assets which are most liquid are presented at the top of the Balance Sheet.
34) False: Goodwill is not a fictitious asset. It is an intangible asset.
35) True: Liquid asset are those assets which are readily converted into cash and will include cash balance, bills receivable, Sundry debtors and short term investments. But it does not include prepaid expenses and inventories.
36) False: Cash withdrawal by the proprietor from his business should be treated as his drawings and not a business expense chargeable to profit and loss account. Such drawings should be deducted from the proprietor's capital.

37) True: Because it depicts that one aspect of the double entry has been completed. The closing Stock appears in the trial balance only when it is adjusted against purchases by passing the entry. In this case, closing stock is not entered in Trading Account and is shown only in Balance Sheet.
38) False: Inventory of by-product is valued at NRV where the cost of by-product cannot be separately determined as they do not involve any intentional input for production.
39) False: All the personal & real account are recorded in balance sheet
40) False: Even though Goodwill is intangible asset it can be valued in terms of money. It can be measured in terms of physical units.
41) False: It shall be disclosed as a current liability in the opening balance sheet.
42) True: The profit on sale of capital assets should not be added to revenue to ascertain profit since it has not been earned due to normal business operations.
43) False: Sale of office furniture should be credited to Furniture account since it is a capital receipt.
44) False: The sale value of the by-product is credited to Manufacturing Account so as to reduce to that extent, the cost of manufacture of main product.

HOMEWORK QUESTIONS

Question 1 *(ICAI Study Material)* Pg no.______

Particulars	₹
Opening Inventory	1,00,000
Purchases	6,72,000
Carriage Inwards	30,000
Wages	50,000
Sales	11,00,000
Returns inward	1,00,000
Returns outward	72,000
Closing Inventory	2,00,000

From the above information, prepare Trading Account of M/s. ABC Traders for the year ended 31st March, 2023 and Pass necessary closing entries in the journal proper of M/s. ABC Traders

Question 2 *(ICAI Study Material)* Pg no.______

Mr. Mohan gives you the following trial balance and some other information:

Trial Balance as on 31st March, 2023

Particulars	Debit (₹)	Credit (₹)
Capital Account		6,50,000
Sales		9,70,000
Purchases	4,30,000	
Opening Inventory	1,10,000	
Freights Inward	40,000	
Salaries	2,10,000	
Other Administration Expenses	1,50,000	
Furniture	3,50,000	
Trade receivables and Trade payables	2,10,000	1,90,000
Returns	20,000	12,000
Discounts	19,000	9,000
Bad Debts	5,000	
Investments in Government Securities	1,00,000	
Cash in Hand and Cash at Bank	1,89,000	
Input CGST	10,000	
Input SGST	10,000	
Output CGST		8,000
Output SGST		8,000
Output IGST		6,000
Total	18,53,000	18,53,000

(i) Closing Inventory was ₹ 1,80,000; (ii) Depreciate Furniture @ 10% p.a.

Prepare Trading and Profit and Loss Account for the year ended on 31.3.2023 and Balance Sheet of Mr. Mohan as on that date.

Question 3 *(ICAI Study Material)* Pg no.______

Shri Mittal gives you the following Trial Balance and some other information:

Trial Balances as on 31st March, 2023

Particulars	Debit (₹)	Credit (₹)
Capital Account		8,70,000
Purchases and Sales	6,05,000	12,10,000

Opening Inventory	72,000	
Trade receivables and Trade payables	90,000	1,70,000
14% Bank Loan (loan taken at year end)		2,00,000
Overdrafts (overdraft taken at year end)		1,12,000
Salaries	2,70,000	
Advertisements	1,10,000	
Other expenses	60,000	
Returns	40,000	30,000
Furniture	4,50,000	
Building	8,90,000	
Cash in Hand	2,000	
Input CGST	9,000	
Input SGST	9,000	
Output IGST		15,000
Total	26,07,000	26,07,000

Closing Inventory on 31st March, 2023 was valued at ₹ 1,00,000. Prepare final accounts.

Question 4 *(ICAI Study Material)* *Pg no._____*

You are required, prepare a Trading and Profit and Loss Account for the year ending 31st March, 2023 and a Balance Sheet as on that date from the Trial Balance given below:

Particulars	Debit	Credit
Trade receivables	3,50,000	
Inventory 1st April, 2022	5,00,000	
Cash in Hand	5,60,000	
Wages	3,00,000	
Bad Debts	50,000	
Furniture and Fixtures	1,50,000	
Depreciation	1,50,000	
Salaries	2,20,000	
Purchases	12,50,000	
Plant and Machinery	15,70,000	
Capital		25,00,000
Trade payables		9,00,000
Sales		17,00,000
	51,00,000	51,00,000

On 31st March, 2023 the Inventory was valued at ₹10,00,000.

Question 5 *(ICAI Study Material)* *Pg no._____*

Revenue, Expenses and Gross Profit Balances of M/s ABC Traders for the year ended on 31st March 2023 were as follows:
Gross Profit ₹4,20,000, Salaries ₹1,10,000, Discount (Cr.), ₹18,000, Discount (Dr.) ₹ 19,000, Bad Debts ₹17,000, Depreciation ₹65,000, Legal Charges ₹ 25,000, Consultancy Fees ₹32,000, Audit Fees ₹ 1,000, Electricity Charges ₹17,000, Telephone, Postage and Telegrams ₹ 12,000, Stationery ₹ 27,000, Interest paid on Loans ₹70,000.
Prepare Profit and Loss Account of M/s ABC Traders for the year ended on 31st March, 2023. Show necessary closing entries in the Journal Proper of M/s. ABC Traders also.

Question 6 *(ICAI Study Material)* *Pg no._____*

Given below Trial Balance of M/s Dayal Bros. as on 31st March, 2023:

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

Prepare Balance Sheet as on 31st March, 2023.

Question 7 *(ICAI Study Material)* Pg no._____

From the given balance sheet pass the relevant opening entry

BALANCE SHEET As at 31st March, 2023

Liabilities	Amount	Assets	Amount
Mahendra & Sons	5,60,000	Cash in hand	43,000
Capital	20,00,000	Cash at Bank	2,67,500
		Trade receivables	7,49,500
		Closing Inventory	9,00,000
		Machinery and Equipment	6,00,000
	25,60,000		25,60,000

Question 8 *(ICAI Study Material)* Pg no._____

The Balance Sheet of Mr. PopatLal, a merchant on 31st March, 2023 stood as below:

Liabilities	Amount	Assets		Amount
Capital	2,40,000	Fixed Assets		1,25,600
Trade payables	1,64,000	Inventories		2,06,400
Bank Overdraft	1,46,000	Trade receivables	1,88,000	
		Less: Provision	(6,200)	1,81,800
		Cash		36,200
	5,50,000			5,50,000

Show opening journal entry on 1st April, 2023 in the books of Mr. PopatLal.

Question 9 *(ICAI Study Material)* Pg no._____

On 1st April 2022 provision for Doubtful Debts existed at ₹ 40,000. Trade receivables on 31.03.2023 were ₹ 15,00,000; bad debts totalled ₹ 1,00,000. It is required to write off the bad debts and create a provision equal to 5% of the Trade receivables' balances.

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

Question 10 *(CA Foundation Nov 2019) (10 Marks)* Pg no._____

The balance sheet of Mittal on 1st January, 2023 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Trade payables	16,00,000	Plant & Machinery	31,00,000
Expense payable	2,50,000	Furniture & Fixture	4,00,000

Capital	51,00,000	Trade receivables	14,50,000
		Cash at bank	7,00,000
		Inventories	13,00,000
	69,50,000		69,50,000

During 2023, his profit and loss account revealed a net profit of ₹ 15,10,000. This was after allowing for the following:
a. Interest on capital @ 6% p.a.
b. Depreciation on plant and machinery @ 10% and on Furniture &Fixtures @ 5%
c. A Provision for doubtful debts @5% of the trade receivables as at 31st December 2023.
But while preparing the profit and loss account he had forgotten to provide for
(1) outstanding expenses totalling ₹ 1,85,000 and
(2) prepaid insurance to the extent of ₹ 25,000.
His current assets and liabilities on 31st December, 2023 were: Trade receivables ₹ 21,00,000; Cash at bank ₹ 5,20,000 and Trade payables ₹ 13,84,000. During the year he withdrew ₹ 6,20,000 for domestic use. Closing inventories is equal to net trade receivables at the year-end. You are required to draw up the revised Profit & Loss Account and Balance Sheet at the end of the year.

Question 11 *(CA Foundation Dec 2022) (10 Marks)* *Pg no._____*

The balance sheet of S on 1st April, 2022 was as follows:

Particulars	Amount (₹)	Particulars	Amount (₹)
Trade Payables	6,50,000	Furniture and Fixtures	6,50,000
Expenses Payable	75,000	Vehicle	2,75,000
Capital	22,00,000	Trade Receivable	11,00,000
		Cash at Bank	4,75,000
		Inventories	4,25,000
	29,25,000		29,25,000

During 2022-23, his profit and Loss Account revealed a net profit of ₹ 6,70,000. This was after allowing for the following:

a. Commission paid to selling agent ₹ 65,000.
b. Discount received from creditors ₹ 75,000.
c. Purchased a vehicle of ₹ 50,000 on 31st March, 2023.
d. Depreciation on Furniture and Fixtures @ 10% and on Vehicle @ 20%
e. A provision for doubtful debts @ 3% of the trade receivables as at 31st March, 2023

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

1) prepaid expenses ₹ 15,000 and
2) outstanding commission₹ 35,000.

His current assets and liabilities on 31st March, 2023 were: Inventories ₹ 6,50,000. Trade Receivables 13,00,000 (before provision for doubtful debts), cash at Bank 5,50,000 and Trade Payables ₹ 1,46,000. During the year he introduced further capital of ₹ 3,00,000 into the business. You are required to prepare the balance sheet as at March 31, 2023.

Question 12 *(CA Foundation Nov 2018) (5 Marks)* *Pg no._____*

Mr. Fazhil is a proprietor in business of trading. An abstract of his Trading and P&L account:

Trading and P&L A/c for the year ended 31st March, 2023

Particulars	Amount	Particulars	Amount
To Cost of Goods Sold	22,00,000	By Sales	45,00,000
To Gross Profit c/d	?		
	?		45,00,000

To Salaries paid	12,00,000	By Gross Profit b/d	?
To General Expenses	6,00,000	By Other Income	45,000
To Selling Expenses	?		
To Commission to Manager (on Net Profit before charging such commission)	1,00,000		
To Net Profit	?		
	?		?

Selling expenses amount to 1% of total Sales. You are required to compute the missing figures.

Question 13 *(CA Foundation Nov 2020) (5 Marks)* Pg no._____

Max & Co. employs a team of 9 workers who were paid ₹ 40,000 per month each in the year ending 31st December, 2022. At the start of 2023, the company raised salaries by 10% to ₹ 44,000 per month each. On 1st July, 2023 the company hired 2 trainees at salary of ₹ 21,000 per month each. The work force are paid salary on the first working day of every month, one month in arrears, so that the employees receive their salary for January on the first working day of February, etc.

You are required to calculate:

(a) Amount of salaries which would be charged to the profit and loss account for the year ended 31st December, 2023.

(b) Amount actually paid as salaries during 2023.

(c) Outstanding salaries as on 31st December, 2023.

Question 14 *(CA Foundation Jan 2021) (5 Marks)* Pg no._____

Mr. K is engaged in business of selling magazines. Several of his customers pay money in advance for subscribing his magazines. Information related to year ended 31st March, 2023 has been given below:

On 1st April, 2022 he had a balance of ₹ 3,00,000 advance from customers of which ₹ 2,25,000 is related to year 2022-23 while remaining pertains to year 2023-24- During the year 2022-23 he made cash sales of ₹ 7,50,000.

You are required to compute :

a) Total income for the year 2022-23.

b) Total money received during the year, if the closing balance as on 31st March, 2023 in Advance from Customers Account is ₹ 2,55,000.

Question 15 *(CA Foundation May 2019) (10 Marks)* Pg no._____

Following particulars are extracted from the books of Mr. Sandeep for the year ended 31st December, 2023.

Debit Balances:	Amount	Credit Balances:	Amount
Cash in hand	1,500	Capital	16,000
Purchase	12,000	Bank overdraft	2,000
Sales return	1,000	Sales	9,000
Salaries	2,500	Purchase return	2,000
Tax and Insurance	500	Provision for Bad debts	1,000
Bad debts	500	Creditors	2,000
Debtors	5,000	Commission	500
Investments	4,000	Bills payable	2,500
Opening stock	1,400		
Drawings	2,000		

Furniture	1,600		
Bills receivables	3,000		
	35,000		35,000

Other information:

a) Closing stock was valued at ₹ 4,500
b) Salary of ₹ 100 and Tax of ₹ 200 are outstanding whereas insurance ₹ 50 is prepaid.
c) Commission received in advance is ₹ 100.
d) Interest accrued on investment is ₹ 210
e) Interest on overdraft is unpaid ₹ 300
f) Reserve for bad debts is to be kept at ₹ 1,000
g) Depreciation on furniture is to be charged @ 10%

You are required to prepare the final accounts after making above adjustments.

Question 16

Pg no._____

Mr. Neel had prepared the following Trial Balance from his Ledger as on 31st March, 2023:

	Dr. (₹)	Cr. (₹)
Stock as on 1st April, 2022	5,00,000	-
Purchases and Returns	31,00,000	45,000
Sales and Returns	55,000	41,50,000
Cash in Hand	2,50,000	-
Cash at Bank	5,00,000	-
Trader's Capital	-	22,59,200
Rates and Taxes	50,000	-
Drawings	45,000	-
Salaries	95,000	-
Postage and Telegram	1,05,000	-
Insurance	90,000	-
Salesman Commission	78,000	-
Printing and Stationery	95,500	-
Advertisement	1,70,000	-
Furniture and Fittings	5,50,000	-
Motor Car	48,000	-
Discounts	50,000	75,000
General Expenses	65,700	-
Carriage Inward	10,000	-
Carriage Outward	22,000	-
Wages	50,000	
Sundry Debtors/Creditors	10,00,000	4,00,000
Total	69,29,200	69,29,200

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

You are provided with the following information:

a) Closing Stock as on 31st March, 2023 ₹ 1,45,000.
b) Neel had withdrawn goods worth ₹ 50,000 during the year.
c) Purchases include Purchase of furniture worth ₹ 1,00,000.
d) Debtors include ₹ 50,000 bad debts.
e) Sales include goods worth ₹ 1,50,000 sent out to NN & Co. on approval and remained unsold as on 31st March, 2023. The cost of the goods was ₹ 1,00,000.
f) Provision for Bad debts is to be created at 5% of Sundry Debtors.

g) Depreciate Furniture and Fittings by 10% and Motor Car by 20%.
h) The salesman is entitled to a commission of 10% on total sales.

Question 17 *(RTP Nov 2018) / (RTP May 2021) / (RTP May 2023) (Similar)* Pg no._____

The following is the Trial Balance of Hari as at 31st December, 2023:

	Dr. (₹)	Cr. (₹)
Hari's Capital Account	-	76,690
Stock 1st January, 2023	46,800	-
Sales	-	3,89,600
Returns Inwards	8,600	-
Purchases	3,21,700	-
Returns Outwards	-	5,800
Carriages Inwards	19,600	-
Rent & Taxes	4,700	-
Salaries & Wages	9,300	-
Sundry Debtors	24,000	-
Sundry Creditors	-	14,800
Bank Loan @14% p.a.	-	20,000
Bank Interest	1,100	-
Printing and Stationary Expenses	14,400	-
Bank Balance	8,000	-
Discount Earned	-	4,440
Furniture & Fittings	5,000	-
Discount Allowed	1,800	-
General Expenses	11,450	-
Insurance	1,300	-
Postage & Telegram Expenses	2,330	-
Cash Balance	380	-
Travelling Expenses	870	-
Drawings	30,000	-
	5,11,330	5,11,330

The following adjustments are to be made:

a) Included amongst the Debtors is ₹ 3,000 due from Ram and included among the Creditors ₹ 1,000 due to him.
b) Provision for Bad and Doubtful Debts be created at 5% and for Discount @ 2% on Sundry Debtors.
c) Depreciation on Furniture & Fittings @ 10% shall be written off.
d) Personal Purchases of Hari amounting to ₹ 600 had been recorded in the Purchases Day Book.
e) Interest on Bank Loan shall be provided for the whole year.
f) A quarter of the amount of Printing and Stationery Expenses is to be carried forward to the next year.
g) Credit Purchase Invoice amounting to ₹ 400 had been omitted from the Books.
h) Stock on 31.12.2023 was ₹ 78,600.

Prepare:
(i) Trading & Profit and Loss Account for the year ended 31.12.2023 and
(ii) Balance Sheet as on 31st December, 2023.

Question 18 *(CA Foundation May 2018) (20 Marks) / (RTP May 2020)/ (RTP Nov 2023)* Pg no._____

The following are the balances extracted from the books of Shri Raghuram as on 31.03.2023, who carries on business under the name and style of M/s Raghuram and Associates at Chennai:

	Dr. (₹)	Cr. (₹)
Capital A/c		14,11,400
Purchases	12,00,000	
Purchase Returns		18,000
Sales		15,00,000
Sales Returns	24,000	
Freight Inwards	62,000	
Carriage Outwards	8,500	
Rent of Godown	55,000	
Rates and Taxes	24,000	
Salaries	72,000	
Discount allowed	7,500	
Discount received		12,000
Drawings	20,000	
Printing and Stationery	6,000	
Insurance premium	48,000	
Electricity charges	14,000	
General expenses	11,000	
Bank charges	3,800	
Bad debts	12,200	
Repairs of Motor vehicle	13,000	
Interest on loan	4,400	
Provision for Bad-debts		10,000
Loan from Mr. Rajan		60,000
Sundry creditors		62,000
Motor vehicles	1,00,000	
Land and Buildings	5,00,000	
Office equipment	2,00,000	
Furniture and Fixtures	50,000	
Stock as on 31.03.2022	3,20,000	
Sundry debtors	2,80,000	
Cash at Bank	22,000	
Cash in Hand	16,000	
	30,73,400	30,73,400

Prepare Trading and Profit and Loss Account for the year ended 31.03.2023 and the Balance Sheet as at that date after making provision for the following:

(a) Depreciate Building by 5%, Furniture & Fixtures by 10%, Office Equipment by 15% and Motor Car by 20%.

(b) Value of stock at the close of the year was ₹ 4,10,000.

(c) One month rent for godown is outstanding.

(d) Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2022

(e) Reserve for bad debts is to be maintained at 5% of Sundry debtors.

(f) Insurance premium includes ₹ 42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 01.04.2022 to 30.06.2023.

Question 19 *(RTP May 2022)* *Pg no._____*

Mr. Bansal submitted to you the following Trial Balance, which he has not been able to agree. Rewrite Trial Balance & prepare Trading and Profit & Loss Account for year ended 31.03.2023 and a Balance Sheet as on that date after giving effect to the undermentioned adjustments:

	Dr. (₹)	Cr. (₹)
Capital	-	16,000
Opening Stock	17,500	-
Closing Stock	-	18,790
Drawings	3,305	-
Return Inward	-	550
Carriage Inward	1,240	-
Deposit with X	-	1,400
Return outward	840	-
Carriage outward	-	725
Rent Paid	800	-
Rent Outstanding	150	-
Purchases	13,000	-
Sundry Debtors	5,000	-
Sundry Creditors	-	2,200
Furniture	1,500	-
Sales	-	29,000
Wages	850	-
Cash	1,370	-
Advertisement	950	-
	46,505	68,665

Adjustments:

a) Write off ₹ 600 as Bad Debts and make Provision for doubtful debts at 5% on balance Sundry Debtors.

b) Stock valued at ₹ 2,000 was destroyed by fire on 25th March, 2023, but insurance Company admitted a claim for ₹ 1,500 only and paid the sum in April 2023.

c) Depreciation to be provided on furniture at 10% per annum.

Question 20 *(CA Foundation Nov 2019) (5 Marks)* *Pg no._____*

Mr. Shyamal runs a factory, which produces detergents. Following details were available in respect of his manufacturing activities for the year ended 31-03-2023.

	₹
Opening work-in-progress (9000 units)	26,000
Closing work-in-progress (14,000 units)	48,000
Opening inventory of Raw Materials	2,60,000
Closing inventory of Raw Materials	3,20,000
Purchases	8,20,000
Hire charges of Machinery @ ₹ 0.70 per unit manufactured	
Hire charges of factory	2,60,000
Direct wages-contracted @ ₹ 0.80 per unit manufactured and @ ₹ 0.40 per unit of closing W.I.P	
Repairs and maintenance	1,80,000
Units produced-5,00,000 units	

Required a Manufacturing Account of Mr. Shyamal for the year ended 31-03-2023.

Question 21 *(ICAI Study Material)* Pg no._____

Mr. Pankaj runs a factory which produces motor spares of export quality. The following details were obtained about his manufacturing expenses for the year ended on 31.3.2023.

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

You are required to prepare Manufacturing Account of Mr. Pankaj for the year ended on 31.3.2023.

Question 22 *(CA Foundation Nov 2020) (10 Marks)* Pg no._____

Following are the Manufacturing A/c, Creditors A/c and Raw Material A/c provided by M/s. Shivam related to financial year 2022-23. There are certain figures missing in these accounts.

Raw Material A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock A/c	1,27,000	By Raw Materials Consumed	
To Creditors A/c	-	By Closing Stock	-

Creditors A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bank A/c	23,50,000	By Balance b/d	15,70,000
To Balance c/d	6,60,000		

Manufacturing A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Raw Material A/c	-	By Trading A/c	17,44,000
To Wages	3,65,000		
To Depreciation	2,15,000		
To Direct Expenses	2,49,000		

Additional Information:

a) Purchase of machinery worth ₹ 12,00,000 on 1st April; 2022 has been omitted, Machinery is chargeable at a depreciation rate of 15%.

b) Wages include the following:

Paid to factory workers	₹ 3,15,000
Paid to labour at office	₹ 50,000

c) Direct expenses included the following:

Electricity charges	₹ 80,000 of which 25% pertained to office
Fuel charges	₹ 25,000

Freight inwards	₹ 32,000
Delivery charges to customers	₹ 22,000

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

Question 23 *(ICAI Study Material)* *Pg no._____*

The following is the trial balance of Mr. Pandit for the year ended 31st March, 2023:

Particulars	Debit (₹)	Particulars	Credit (₹)
Opening Stock		Sundry Creditors	50,000
Raw Materials	1,50,000	Purchase Returns	5,000
Finished goods	75,000	Capital	1,00,000
Purchase of Raw Materials	5,00,000	Bills Payable	24,000
Land & Building	1,00,000	Long-Term Loan	2,00,000
Loose tools	30,000	Provision for Doubtful Debts	2,000
Plant & Machinery	30,000	Sales	8,50,000
Investments	25,000	Bank Overdraft	23,000
Cash in Hand	20,000		
Cash at Bank	5,000		
Furniture & Fixtures	15,000		
Bills Receivable	15,000		
Sundry Debtors	40,000		
Drawings	20,000		
Salaries	20,000		
Coal and Fuel	15,000		
Factory rent & rates	20,000		
General Expenses	4,000		
Advertisement	5,000		
Sales Return	10,000		
Bad Debts	4,000		
Direct Wages (Factory)	80,000		
Power	30,000		
Interest Paid	7,000		
Discount Allowed	3,000		
Carriage Inwards	15,000		
Carriage Outwards	7,000		
Commission Paid	9,000		
	12,54,000		12,54,000

Additional Information:

a) Stock at the end of the year of Finished Goods ₹1,00,000
b) A provision for doubtful depts. at 5% on Sundry Debtors
c) Depreciation on building ₹ 1,000 and ₹ 3,000 on Machinery to be provided
d) Accrued commission of ₹ 12,500 is to be received for the year.
e) Interest has accrued on investment ₹ 15,000
f) Salary Outstanding ₹ 2,000
g) Prepaid Interest ₹ 1,500

You are required to prepare Manufacturing, Trading and Profit and Loss Account for the year ended 31st March, 2023

Question 24 *(CA Foundation June 2022) (20 Marks)* *Pg no._____*

The following is the trial balance of Mr. B for the year ended 31st March,2023:

Particulars	Dr.	Particulars	Cr.
Opening Stock:		Sundry Creditors	1,75,000
Raw Material	5,25,000	Purchase Return	17,500
Finished Goods	2,62,500	Capital	3,50,000
Purchase of Raw Material	17,50,000	Bills Payable	84,000
Land & Building	3,50,000	Long Term Loan	7,00,000
Loose Tools	1,05,000	Provision for bad and doubtful debts	7,000
Plant and Machinery	1,05,000	Sales	29,75,000
Investments	87,500	Bank Overdraft	80,500
Cash in Hand	70,000		
Cash at Bank	17,500		
Furniture and Fixtures	52,500		
Bills Receivables	52,500		
Sundry Debtors	1,40,000		
Drawings	70,000		
Salaries	70,000		
Coal and Fuel	52,500		
Factory rent and rates	70,000		
General Expenses	14,000		
Advertisement	17,500		
Sales Return	35,000		
Bad Debts	14,000		
Direct Wages (Factory)	2,80,000		
Power	1,05,000		
Interest paid	24,500		
Discount allowed	10,500		
Carriage inwards	52,500		
Carriage outwards	24,500		
Commission paid	17,500		
Dividend paid	14,000		
	43,89,000		43,89,000

Additional Information:

a) Stock of finished goods at the end of the year was ₹ 3,50,000.

b) A provision for doubtful debts is to be created @ 5% on Sundry Debtors. Provide Depreciation on building 3,500 and Plant and Machinery 10,500.

c) Accrued commission is 43,750. Interest has accrued on investment ₹ 52,500.

d) Salary Outstanding is ₹ 7,000 and Prepaid Interest is ₹ 5,250.

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

Question 25 *(CA Foundation July 2021) (10 Marks)* *Pg no.*_____

Karuna decided to start business of fashion garments under the name of M/s. Designer Wear on 1st April, 2022. She had a saving of about ₹ 10,00,000. She invested ₹ 3,00,000 out of her savings and borrowed equal amount from bank. She purchased a commercial space for ₹ 5,00,000 and further spent ₹ 1,00,000 on its renovation to make it ready business for.

Loan and interest repaid by her in the first year are as follows:

30th June, 2022	15,000 principal + 9,000 interest
30th September, 2022	15,000 principal + 8,550 interest
31st December, 2022	15,000 principal + 8100 interest
31st March, 2023	15,000 principal + 7,650 interest

In view of further capital requirement, she transferred ₹ 2,00,000 from her saving bank account to the bank account of the business. She paid security deposit of ₹ 7,000 for telephone connection. Furniture of ₹ 10,000 was purchased, All payments were made by cheque and all receipts in cash were deposited in the bank.

At the end of the year, her business showed the following results

Particulars	Amount	Particulars	Amount
Total Sales	20,00,000	Total Purchases	17,00,000
Electricity Expenses paid	40,000	Telephone Charges	50,000
Cartage Outwards	60,000	Travelling Expenses	45,000
Entertainment Expenses	5,000	Maintenance Expenses	25,000
Misc. Expenses	15,000	Electricity Expenses Payable	20,000

Other Information:

a) She withdrew ₹ 5,000 by cheque each month for her personal expenses.

b) Depreciation on building @ 5% p.a. and furniture @ 10% p.a.

c) Closing stock in hand as on 31st March, 2023: ₹ 5,50,000

Prepare Trading account, Profit and Loss Account for the year ended 31-3-2023 and Balance Sheet as on that date.

Question 26 *(CA Foundation July 2021) (5 Marks)* *Pg no._____*

PQR Limited's Profit and Loss account for the year ended 31st March, 2023 includes the following information:

(1)	Liability for Income Tax	₹ 40,000
(2)	Retained Profit	₹ 2,00,000
(3)	Proposed Dividend	₹ 20,000
(4)	Increase in Provision for Doubtful Debts	₹ 25,000
(5)	Bad Debts written off	₹ 20,000

State which one of the items above is - (a) transfer to provisions; (b) transfer to reserves; and (c) neither related to provisions nor reserves.