

ILLUSTRATION 13.

From the following Trial Balance of M/s Arjun and Sons as at 31st Dec. 2007, prepare Trading and Profit and Loss Account and Balance Sheet.

<i>Name of Accounts</i>	Dr. ₹	Cr. ₹
Drawing and Capital	18,000	80,000
Purchases and Sales	82,600	1,55,000
Stock (1.1.2007)	42,000	

Return Outward		1,600
Carriage Inward	1,200	
Wages	4,000	
Power	6,000	
Machinery	50,000	
Furniture	14,000	
Rent	22,000	
Salary	15,000	
Insurance	3,600	
8% Bank Loan		25,000
Debtors	20,600	
Creditors		18,900
Cash in hand	1,500	
	<u>2,80,500</u>	<u>2,80,500</u>

Adjustments :

- Closing stock ₹64,000.
- Wages outstanding ₹2,400.
- Bad debts ₹600 and provision for bad and doubtful debts to be 5% on debtors.
- Rent is paid for 11 months.
- Loan from the bank was taken on 1st July 2007.
- Provide depreciation on machinery @ 10% p.a.
- Provide Manager's commission at 10% on net profit after charging such commission.

(Chandigarh 2008)

Capital Expenditure :—Any expenditure which is incurred in acquiring or increasing the value of a fixed asset is termed as capital expenditure. As such, the amount spent on the purchase of Land and Building, Plant and Machinery, Furniture etc. is capital expenditure. Such expenditure yields benefit over a long period and hence is written in Assets. Following are the examples of capital expenditure :—

- I. Expenditure which results in the acquisition of a Fixed Asset such as land, building, plant, motor vehicles, trade marks etc.
- II. Expenditure in connection with the purchase or erection of a Fixed Asset such as wages paid to workers for erecting machines, cartage paid on acquiring plant and machinery, over-hauling of second-hand machines etc.
- III. Expenditure which results in the extension or improvement of Fixed Assets and which increases the earning capacity of such assets.
- IV. Expenditure incurred for establishing the business, *e.g.*, cost of obtaining licence to start a business, the cost of a patent, preliminary expenses, goodwill etc.

Revenue Expenditure :—Any expenditure, the benefit of which is received during the current year itself is termed as revenue expenditure. As such, all the revenue expenditures are debited to Trading and Profit & Loss Account. Examples are :—

- I. Expenses incurred for the purpose of day to day running of business such as manufacturing expenses, office expenses, selling expenses etc.
- II. Expenses incurred on the ordinary repairs and maintenance of Fixed Assets, white-washing of building etc.
- III. Payment for goods purchased for resale.
- IV. Depreciation on fixed assets.

Distinction between Capital Expenditure and Revenue Expenditure :—

Basis	Capital Expenditure	Revenue Expenditure
1. Meaning	It is incurred for the acquisition or erection of a fixed asset for use in the business.	It is incurred for the day-to-day running of the business.
2. Purpose	It is incurred for the purpose of increasing the earning capacity of the business.	It is incurred to maintain the earning capacity, i.e. for keeping the assets in an efficient working order.

3. Period	It yields benefits normally over a long period.	It yields benefits for a maximum period of one year.
4. Nature of Account	It is an Asset Account.	It is an Expense Account.
5. Depiction	It is shown in the Balance Sheet.	It is shown in Trading or Profit & Loss Account.
6. Examples	<ul style="list-style-type: none"> (i) Acquisition of Land, Building, Plant etc. (ii) Wages paid to workers for erecting machines. (iii) Cartage paid on acquiring plant. 	<ul style="list-style-type: none"> (i) Depreciation on Plant & Machinery (ii) Repairs of Machinery (iii) Insurance of Building.

ILLUSTRATION 17. ✓

From the following Trial Balance of Mr. A, prepare Trading and Profit & Loss A/c for the year ending 31st March, 2012 and a Balance Sheet as at that date :—

TRIAL BALANCE

<i>Dr. Balances</i>	₹	<i>Cr. Balances</i>	₹
Cash	10,000	Sales	1,96,200
Stock	40,800	Returns	195
Wages	22,525	Loan at 12% (on 1-7-2011)	20,000
Purchases	1,30,295	Creditors	30,305
Returns Inward	2,400	Cash Discount	530
Repairs	1,675	Capital	68,900
Bad-Debts	2,310		
Interest on Loan	600		
Salaries	8,000		

Sales Tax	800	
Octroi	500	
Insurance	1,000	
Charity	125	
Rent	2,000	
Machinery	16,000	
Debtors (including Shyam for dishonoured bill of ₹800)	30,000	
Patents	7,500	
Copyrights	18,600	
Goodwill	21,000	
	<u>3,16,130</u>	<u>3,16,130</u>

Adjustments :—

- (i) Wages include ₹2,000 for erection of new machinery on 1-4-2011.
- (ii) Stock on 31st March, 2012 was ₹40,925.
- (iii) Provide 5% depreciation on Machinery and write off patents, copyrights and goodwill by $33\frac{1}{3}\%$ each.
- (iv) Salaries unpaid ₹800.
- (v) Half the amount of Shyam's bill is irrecoverable.
- (vi) Create a provision at 5% on other debtors.
- (vii) Rent is paid up to 31st July, 2012.
- (viii) Insurance prepaid ₹250.

20. **Goods sold and despatched but omitted to be recorded :—** Sometimes the goods are sold and despatched as well, but omitted to be recorded in the books of accounts. The following entry will be passed to make a record of such sales :—

Debtors A/c

Dr.

To Sales A/c

(Goods sold on credit but omitted to be recorded)

Accounting Treatment :— On the one hand, it will be added to sales on the Credit side of Trading Account and on the other hand, it will also be added to the Debtors on the Assets side.

21. Goods purchased and included into stock but omitted to be recorded :— Sometimes the goods are purchased and included in stock as well, but these are omitted to be recorded in the books of accounts. The following entry will be passed to make a record of such purchases :

Purchases A/c

Dr.

To Creditors A/c

(Goods purchased on credit but omitted to be recorded)

Accounting Treatment :— On the one hand, it will be added to purchases on the debit side of Trading Account and on the other hand, it will also be added to the Creditors on the Liabilities side.

22. Sale of Goods on Approval Basis :— Sometimes goods are sold to the customer on approval (or return) basis, *i.e.*, if the goods are liked by him, he may keep them and if they are not liked by him, he may return them. Such goods cannot be regarded as sale unless consent is received during the accounting period. In case, the goods have been recorded as actual sale and no consent has been received up to the end of accounting period, the following entry will have to be passed to cancel the sale :—

Sales A/c

Dr.

To Debtors (Customer's) A/c

(Goods sold on sale or return basis recorded as sale, now rectified)

Accounting Treatment :— (i) Sales will be reduced on the credit side of Trading Account and Debtors will also be reduced on the Assets side of Balance Sheet.

(ii) Cost price of the Goods lying with the customer will be calculated and then treated just like the closing stock. As such, it will be added to the Closing Stock on the credit side of Trading Account and the stock thus increased will also be shown on the Assets side of Balance Sheet.

ILLUSTRATION 21.

The following is the Trial Balance of Sh. Siya Ram as at 31st March, 2012. Prepare Trading and Profit & Loss Account and Balance Sheet from the same :—

<i>Dr. Balances</i>	₹	<i>Cr. Balances</i>	₹
Materials Purchased	1,15,725	Sales	2,10,000
Administration Expenses	16,725	Outstanding Wages	800
Wages	42,775	Creditors	39,535
Freight	5,100	Capital	81,800
Rent	3,100	Bank	12,220
Petty Cash	175	Loan on Mortgage	16,000
Debtors	36,400	Income from Investments	925
Gift to Wife	2,500		
Prize Distributed	200		
Commission Paid	1,000		
Commission Paid in Advance	400		
Mortgage Interest	1,600		
Loose Tools	5,000		
Investments	8,500		
Plant	60,000		
Furniture	7,200		
Leasehold Property	50,000		
Patents	2,000		
Depreciation on Furniture	800		
Suspense Account	2,080		
	<u>3,61,280</u>		<u>3,61,280</u>

Adjustments :—

1. Closing Stock amounted to ₹20,000.
2. Goods costing ₹5,000 were sent to a customer on 'Sale on Approval Basis' for ₹6,400 on 29th March, 2012 and had been recorded in the books as actual sales.
3. Make a provision for Doubtful Debts at 5% on debtors.
4. 1/5th of Loose Tools are to be written off this year.
5. General Manager is to be allowed a Commission of 5% on Net Profit before charging his Commission.