S A Hasib
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BASIC ACCOUNTING

IDEAL BOOKS DHAKA

CONTENTS

Chapter 1
Introduction

Chapter 2
The Recording Process

Chapter 7

FINANCIAL STATEMENT

Introduction

The statement that communicates economic information of an organisation to individual and institutions residing outside the organisation is called financial statement. Financial statements are prepared at least annually and are directed toward the common information needs of a wide range of users. A complete set of financial statement includes an income statement, an owner's equity statement, a balance sheet, statement of changes in financial position and those notes and other statements and explanatory material that are an integral part of financial statement. The users of financial statement are present and potential investors, lenders, employees, suppliers and other trade creditors, customers, governments and their agencies and the public. Some of these users may require, and have the power to obtain, information addition to that contained in the financial statements. However, many users have to rely on the financial statements as their main sources of financial information. Therefore financial statement should be prepared and presented with user's needs in view. The management of an enterprise has the primary responsibility for the preparation and presentation of the financial statement of the enterprise.

ELEMENTS OF FINANCIAL STATEMENT

Financial statements report the financial effects of transactions and other events by classifying them into broad groups in accordance with their economic characteristics. These broad groups are termed the elements of financial statements. The elements are directly related to the measurement of performance of an accounting period and to the measurement of financial position at a specific date.

The elements directly related to the measurement of performance are income and expense. These are defined as follows :

Income : The definition of income encompasses both revenue and gain. Revenue is the economic benefit associated with operating the business. An increase in assets or a decrease in liabilities that results from the normal operating activities of the business triggers its recognition. It is referred to by a variety of different names including sales, fees, interest, dividends, royalties and rent. Gains represent other items that meet the definition of income and may or may not arise in the course of the ordinary activities of the business. Gain represents increases in economic benefits and such are not different in nature from revenue. Gains include, for example, those arising from the disposal of non-current assets.

Expense : An expense is an economic sacrifice that is incurred in the process of generating revenue. A decrease in assets or an increase in liabilities that results from an effort to produce revenue triggers its recognition. Examples of expenses are cost of sales, salaries, rent, depreciation etc.

The elements directly related to the measurement of financial position are assets, liabilities and equity. These are defined as follows :

Assets : Assets are economic resources controlled by the business as a result of past events and from those expected to benefit future activities. Many assets, for example, property, plant and equipment, buildings have a physical form. However, physical form is not necessary to the existence of an asset, for example patent, trade marks and copyrights are assets if future economic benefits are expected to flow from them to the business and if they are controlled by the business.

Liabilities : Liabilities are economic obligation of the business to non-owners. These are arise from past events, the settlement of which is expected to result in an outflow from the business of resources embodying economic benefits.

Equity : Equity is the residual interest in the assets of the business after deducting all its liabilities. In other words excess of assets over liabilities is called equity.

COMPONENTS OF FINANCIAL STATEMENT

Four general purpose financial statements are used by business enterprise. These arise components of financial statement. The four components of financial statement are as follows :

(a) Income statement

(b) Statement of owner's equity

(c) Balance sheet

(d) Statement of Cash flow

INCOME STATEMENT

The income statement is a financial statement that summarises the revenues earned and expenses incurred by a business during a specific period of time and report the income or loss resulting from operations and from certain other defined activities. The income statement is alternately titled the earnings statement, the statement of profit and loss or statement of operations. This statement measures the difference between the revenues from the sale of goods or services and the cost of goods sold or expenses for providing services and operating expenses. If revenues are greater than cost of goods sold or expenses for providing services and operating expenses, the difference between these two elements is called net income (profit). If the cost of goods sold or expenses for providing services and operating expenses exceed the revenues the difference is net loss. Net income (profit) or loss is transferred to the owner's capital account in single proprietorship, the partners' capital accounts in a partnership or to the retained earnings account in a company.

Purpose of income statement

The purpose of income statement is to reflect the income or loss generated by the business during the accounting period. It is vital for both internal and external users to comprehend the components of reported profits.

The income statement fulfils the objectives of financial statement by disclosing information about the earnings of the business for a specific period of time that current and potential investors and creditors use to asses the future earning potential of the business. Such assessment of earnings also provides information that allows external users to evaluate the amounts, timing and uncertainty of future cash flows from dividends or interest on investments.

The income statement provides important information about changes in the business's resources (assets) and claims to those resources (equities) due to the operating activities of the business. Investors and creditors use this type of past operating results to predict the future performance of the business.

For the limited company income reporting is necessary because limited companies are separate legal entities and, therefore generate taxable income.

The income statement that reports the earning performance of a business for a period of time is important to both absentee owners and creditors for evaluating the company.

The periodic income statement made it easier for owners to buy and sell their shares because interested parties could assess the current operating performance of the company as part of negotiation process.

Content of the income statement

The income statement generally consists of series of sections to determining the net income or loss for an accounting period. Major sections or groups included within the normal operation section are :

(a) Sales revenues or revenues from services ; .

(b) Cost of goods sold or expenses of providing services ;

(c) Operating expenses ;

(d) Other revenues and gains ;

(e) Other expenses and losses ; and

(f) Income tax on profit from normal business operation.

(a) Sales revenue : Sales revenue means total sales to customers during the accounting period. This total should not include addition to invoices for value added taxes that the business is required to collect on behalf of government. Sales discount, sales returns and allowances should be deducted from gross sale to determine net sales revenue. If the sales price is increased to cover the cost of freight-out and prepare invoices accordingly, freight charges paid by the company should also be deducted from total sale to determining net sale.

Sales revenues are reported in income statement as under :

Sale (excluding VAT)		xxxxxxxx
Less : Sales discount	xxxxx	
Sales returns and allowances	xxxx	xxxxxx
		xxxxxx
Less : Freight out (if included in total sales while invoicing)		xxxxxx
Net sales		xxxxxx

(b) Cost of goods sold : When merchandise is acquired from outside for reselling, the costs of goods relating to sales of the period must be determined. The cost of goods relating sales for a specific period of time is known as ***cost of goods sold***. The cost of goods sold can be determined at the end of an accounting period or each time sale occurs. If a firm uses periodic inventory system, the firm determines cost of goods only at the end of an accounting period.

Accounting procedure to determine cost of goods sold at the end of an accounting period is as follows :

1st Determine cost of goods purchased. Cost of goods purchased = Invoice price of goods purchased—(Purchase discount + Purchase returns and allowances) + Freight or other transportation costs incurred by the purchaser to ship the goods from the supplier to the purchaser's place of business.

2nd Add beginning inventory with cost of goods purchased. This total is called goods available for sale.

3rd Deduct ending inventory from goods available for sale and the result is cost of goods sold.

Cost of goods sold is reported in income statement as under :

Beginning inventory			xxxxxxxx
Add Cost of goods purchased :			
Purchases (excluding Vat if included in total purchase)		xxxxxx	
Less Purchases discount	xxxx		
Purchases return and allowances	xxx	xxxxx	
Net purchases		xxxxxxxx	
Add Freight-in/Transportation-in		xxxxxxxx	
Cost of goods purchased			xxxxxx
Cost of goods available for sale			xxxxxx
Less Ending inventory			xxxxxx
Cost of goods sold			xxxxxx

(c) Operating expenses : The expenses incurred to perform the business activities are operating expenses. The operating expenses may be classified under any desired number of headings and subheadings. But it is usually satisfactory to subdivide operating expenses into two categories. They are (i) general and administrative expenses and (ii) Selling and distribution expenses.

(i) ***General and administrative expenses*** : Expenses incurred in the general operation and administrative purpose of the business is classified as general and administrative expenses. Examples of these expenses are office salaries, repairs to office equipment, depreciation of office equipment, office supplies expenses, general insurance, heating and lighting expenses, taxes, miscellaneous general expenses etc.

(ii) ***Selling and distribution expenses*** : Expenses that are incurred directly and entirely in connection with the sale of goods are defined as selling expenses. Examples of these expenses are sales salaries, advertising, store supplies expenses, depreciation on store equipment, depreciation on delivery equipment, bad debt expenses, transportation-out, etc.

❑ *The process of evaluating customers and approving them for credit usually is not assigned to the selling department of a business. Otherwise, given the primary objective of increasing sales, the selling department might not use good judgement in approving customer for credit. Because the sales department is not responsible for granting credit, it should not be held responsible for bad debts expenses, therefore bad debts expense often appears on the income statement as an administrative expense instead of selling expense.*

(d) Other revenues and gains : Revenues from sources other than the normal business activities are classified as other revenues or other incomes. These incomes include interest income, rent, dividend-received etc ; profits resulting from sale of plant assets are treated as gains.

(e) Other expenses and losses : Expenses not incurred to perform normal business operation are known as other expenses. Examples of such expenses are interest on bank loan, interest on notes payable, interest on mortgage loan. Losses that arise in the disposal of plant assets are shown in income statement as other losses.

(f) Income tax on profit from normal business operation : Sole-proprietorship or partnership has no separate legal entity for income tax purposes. So income tax expenses on profit of such entity, should be treated as a personal expense of proprietor. If the tax is paid by the business then it should be treated as withdrawal. If the income tax on profit is payable by the business then the amount of tax should be treated as drawing and the amount of income tax payable is a liability. But joint stock company has a separate entity, so income tax on profit is an expense of business and should be deducted from net income to determine income for the owners.

Form of the income statement

There are two widely used income statement forms. They are —

(a) Single step income statement and

(b) Multiple step income statement.

(a) Single step income statement : Single step income statement reports the calculation of net income in one step, consisting of total revenues and gains less total expenses and losses. Total revenues and gains, minus total expenses and losses equals to net income (loss). Its primary benefit is simplicity of presentation. This format is commonly used in published statements. Single step income statement does not show the various components of net sales and cost of goods sold.

Following is an example of a single step income statement :

Single step income statement (Using imaginary figure)

Service enterprise			Merchandising concern		
MISHU ENTERPRISE **Income statement** **for the year ended December 31, 2002**			**MISHU ENTERPRISE** **Income statement** **for the year ended December 31, 2002**		
		Tk.			Tk.
Service revenue		50,000	Sales revenue (net)		5,34,000
Less Operating expenses :			*Less* Expenses :		
Salaries expenses	18,000		Cost of goods sold	3,45,000	
General and administrative expenses	12,000		General & administrative exps.	50,000	
Supplies expenses	4,500		Selling expenses	45,000	
		34,500			4,40,000
Net income		15,500	**Net income**		94,000

(b) Multiple-step income statement : The Multiple-step income statement classifies revenues and expenses by category and reports the calculation of net income in several distinct steps. It is called Multiple-step income statement because cost of goods sold and the expenses are subtracted in steps to arrive at net income (loss). This format of income statement is also called a classified income statement because its items are classified into significant groups.

This format presents net sales first. The next step is cost of goods sold, which is deducted from net sales to obtain gross profit. Then operating expenses often categorised as "selling and distribution" and "general & administrative" are subtracted to determine operating income. Gains as well as losses are shown in a separate section of the multiple step income statement and are often categorised as other items.

Following is an example of a multiple-step income statement (In summarised form) :

A Multiple -Step Income Statement

PEUKY SALES SERVICE LIMITED **Income Statement** **For the year ended December 31, 2002**		
	Tk.	Tk.
Net sales		4,32,000
Less Cost of goods sold		2,34,000
Gross profit		1,98,000
Less Operating expenses :		
Sellling expenses	40,000	
General and administrative expenses	78,000	1,28,000
Operating income		70,000
Other income (expenses) :		
Gain on sale of plant assets	15,500	
Interest income	6,700	
Interest expenses	(4,200)	18,000
Net income before income tax		52,000
Income tax expenses (say 30% on net income)		15,600
Net income		36,400

ILLUSTRATION 7·1

A comparison between Multiple step and Single step income statement

Following is a random list of selected account balances for Metallic Company at December 31, 2002.

Net sales Tk. 4,50,000, Cost of goods sold Tk. 2,34,500, Selling expenses Tk. 54,000, General and administrative expenses Tk. 47,800, Gain on sale of furniture Tk. 2,090, Interest income Tk. 7,010, Interest expenses Tk. 2,300 and Income tax is assumed @ 30% on net income.

Prepare income statement using multiple step and single step format of income statement.

SOLUTION :

Metallic Company
Multiple Step Income Statement
For the year ended Dec. 31, 2002

	Tk.	Tk.
Net Sales		4,50,000
Less Cost of goods sold		2,34,000
Gross margin		2,16,000
Less Operating expense :		
Selling expenses	54,000	
General & administrative exp.	47,800	1,01,800
Operating income :		1,14,200
Other income (expenses) :		
Gain on sale of furniture	2,090	
Interest income	7,010	
Interest expenses	(2,300)	6,800
Net income before tax		1,21,000
Income tax expenses (30% × 1,21,000)		36,300
Net income		84,700

Metallic Company
Single Step Income Statement
For the year ended Dec. 31, 2002

	Tk.	Tk.
Revenues:		
Net Sales	4,50,000	
Gain on sale of furniture	2,090	
Interest income	7,010	4,59,100
Expenses :		
Cost of goods sold	2,34,000	
Selling expenses	54,000	
General & administrative exp.	47,800	
Interest expenses	2,300	
Income tax expenses	36,300	3,74,400
Net income		84,700

ILLUSTRATION 7·2

Presented below is income statement information related to Pubali Corporation for the year ended December 31, 2002

	Tk.		Tk.
Officer's salaries	39,000	Purchase discounts	10,000
Depreciation expenses—building	28,500	Purchases return	23,000
Office supplies expenses	9,500	Inventory (beginning)	1,20,000
Inventory (ending)	1,37,000	Sales return and allowance	30,000
Purchases	6,00,000	Store supplies expenses	9,000
Sales	9,30,000	Sales salaries	71,000
Transportation-in	14,000	Depreciation expenses—store equipments	18,000

Required :

(a) Prepare a multiple-step income statement for the year 2002.

(b) Prepare a single-step income statement for the year 2002.

Following is an example of the Statement of Changes in Partner's Capital :

THE JANET TRADERS
Statement of Changes in Partner's Capital
For the year ended December 31, 2002

	Akber	Humayun	Jahangir
	Tk.	Tk.	Tk.
Capital balance 1/1/'02	2,34,000	4,32,000	1,23,000
Add Net Income	56,000	76,000	23,000
Addition to capital	—	—	74,000
Sub total	2,90,000	5,08,000	2,20,000
Less Drawings	60,000	48,000	20,000
Capital balance 31/12/'02	2,30,000	4,60,000	2,00,000

Limited companies : Limited companies present a statement of retained earnings instead of statement of owner's equity. The statement of retained earnings shows only the changes that occurred in the Retained earnings account during the period. These changes arise from three sources. They are :

(a) net income or loss

(b) cash or stock dividends declared and

(c) prior period adjustments.

Statement of retained earnings first states the retained earnings balance at the beginning of the period, then shows the increase (decrease) due to the period's net income (loss) and any adjustment that is needed to prior period's error correction. Finally, the statement presents the amount of dividends deducted in determining the ending balance in retained earnings.

Following is an example of the Statement of Retained Earnings :

MARKS & ALLEYS LTD.
Statement of Retained Earnings
For the year ended December 31, 2002

	Tk.	Tk.
Retained earnings 1/1/'02	32,45,000	
Correction of error, net of tax (if any)	(23,000)	
Adjusted balance of retained earnings	32,22,000	
Add Net income	16,78,000	49,00,000
Less Dividend declared :		
Preference share	90,000	
Ordinary share	3,20,000	4,10,000
Retained earnings, December 31, 2002		44,90,000

BALANCE SHEET

The financial statement designed to show the assets, liabilities and owner's equity of the business at the end of the period covered by the income statement is called balance sheet. The balance sheet provides information about a business's assets, liabilities and equity and their relationship to each other at a particular point of time. It provides a list of economic resources (i.e. assets) that the business has available for its operating activities. In addition, it displays the claims on those resources. When a business presents current and non-current assets, current and non-current liabilities and equities as separate classifications on the face of the balance sheet, the balance sheet is called a classified balance sheet.

A summary form of a classified balance sheet is as follows ;

ABC COMPANY
Balance Sheet
As on December 31, 2002

Assets	Liabilities and owner's equity
Current assets Non-current assets : Tangible assets/Plant assets Intangible assets Fictitious assets/other assets	Current liabilities Long-term liabilities Owner's equity

CLASSIFICATION OF ASSETS AND LIABILITIES

ASSETS

Assets are economic resources controlled by the business as a result of past events and from those expected to benefit future activities. Many assets, for example, property, plant and equipment, buildings have a physical form. However, physical form is not necessary to the existence of an asset, for example patent, trade marks and copyrights are assets if future economic benefits are expected to flow from them to the business and if they are controlled by the business.

Assets are classified into two major groups. They are (a) Current assets (b) Non-current assets.

Current assets : An asset should be classified as a current asset when :

(i) It is expected to be realised in, or is held for sale or consumption in, the normal course of the business's operating cycle or

(ii) It is held primarily for trading purposes or for the short-term and expected to be realised within twelve months of the balance sheet date or

(iii) It is cash and cash equivalent that is not restricted in use.

Accordingly current assets may be defined as cash and other assets that may reasonably be expected to be realised in cash or sold or used up usually within a year or less of the balance sheet date, through the normal operation of the business. Current assets also include inventories and trade receivables that are sold, consumed and realised as part of normal operating cycle even when they are not expected to be realised within twelve month of the balance sheet date. Example of current assets is cash, cash at bank, notes receivable, accounts receivable, supplies, prepaid expenses, inventories (finished goods, work-in-process, material), marketable securities if expected to be realised within one year of balance sheet date. Classification of current assets is necessary to assessing the business's ability to pay its short-term debt.

Non-Current assets : All other assets that are not to be included in current assets are classified as non-current assets. Non-Current assets may be classified into three groups such as

(i) Tangible assets

(ii) Intangible assets and

(iii) Fictitious assets

Tangible assets : Assets that have physical form, long lived, and are used to produce or sell of goods and services and not intended for sale are called tangible assets. Tangible assets include land, building, plant assets, furniture, motor vehicles, office equipment etc. Tangible assets are alternately titled as plant assets, fixed assets or property, plant and equipment. We like to use these types of assets in balance sheet as tangible assets.

Intangible assets : Assets that are invisible (have no physical form) but future economic benefits are expected to flow from them to the business and if they are controlled by the business are called intangible assets. Their value comes from the privileges or rights granted to or held by owner. Examples of such assets are goodwill, patents, trade marks, copyrights and franchises.

Fictitious assets : Assets that are invisible (have no physical form) and ownership of which is not transferable to others or of which past sacrifice is to be matched with future period earning are called fictitious assets. These types of assets include preliminary expenses, underwriter commission, discount on issue of share and debenture. These also include deferred revenue expenditure. Many accountants feel better to classify fictitious assets as other assets and it is last asset classification in balance sheet. We shall also use other asset classification in a few illustrations.

However, all businesses do not use same classification of assets. Alternately assets are classified as :

(a) Current assets,

(b) Investment,

(c) Plant assets or plant and equipment,

(d) Intangible assets and

(e) Fictitious assets.

Investments : Investment in shares, debentures, bonds, Govt. securities the conversion of which into cash is not expected within one of balance sheet date fall into this classification. Also such long lived assets like land held for future expansion but not now being used in the business activities appear in this section.

Plant assets/plant and equipment : Earlier, we described plant assets as tangible long lived assets that are used to produce or to sell goods and services and not intended for sale.

LIABILITIES

Liabilities are economic obligation of the business to non-owners. These arise from past events, the settlement of which is expected to result in an outflow from the business of resources embodying economic benefits. The liabilities are classified into two major groups, such as current liabilities and long term liabilities. There is another type of liability called contingent liability that is not a direct element of balance sheet.

Current liabilities **:** Obligations due to be paid or liquidated within twelve months of balance sheet date, through the normal operation of the business, are called current liabilities. Examples of current liabilities are accounts payable, notes payable, wages payable, salaries payable, tax payable, dividend payable, interest payable, unearned revenues. Also, any portion of long term liability due to be paid within twelve months of balance sheet date is a current liability. Paying out current assets normally satisfies current liabilities.

Long term liabilities **:** Liabilities payable after twelve months of balance sheet date is classified as long term liabilities. Long term liabilities include mortgage payable, bonds payable, long-term notes payable, Employees provident fund, Employees savings fund etc.

OWNER'S EQUITY

The format of equity section of the balance sheet depends on whether the enterprise is a single proprietorship, a partnership or a joint stock company.

Single proprietorship : If a business is a single proprietorship, the equity section consists of a single line showing the owner's equity as of the balance sheet date.

Partnership : If a business is organised as a partnership, separate equity accounts are used for each partner. The balance sheet shows the equity of each partner in a format like this :

Partner's Equity

	Tk.
Akber	2,30,000
Humayun	4,60,000
Jahangir	2,00,000
Total partner's equity	**8,90,000**

Joint stock company : Company's total owner's (Shareholder's) equity is divided into paid in capital and retained earnings. Paid in capital is created by shareholders' investments and retained earnings are created by the company's profitable activities. The components of owner's equity are usually shown on a balance sheet like this :

Owner's Equity

	Tk.
Paid capital—Equity share	50,00,000
Retained earnings	12,50,000
Total owner's equity	**62,50,000**

Contingent liabilities

Some events, such as lawsuit or claims by customers for damages or defective goods or services may affect the business negatively. However, in some cases the actual events that create the specific losses have not occurred at the end of accounting period, such as a judgement for lawsuit that is filed but not settled. These potential losses are called contingent liabilities, which represent events that could create negative financial results for a business at some future point. Businesses must actually record losses when the related event is considered probable and when the business can estimate its monetary effect on the financial statements.

Even when business cannot estimate the impact of the events or whether the likelihood of such events is less than probable, they must disclose the existence of contingent liabilities as part of the notes that accompany the balance sheet.

Alternative Balance Sheet format

Different business firms choose different formats for their balance sheet. Generally two formats of balance sheet are widely used such as

(i) account form balance sheet

(ii) report form balance sheet.

(i) Account form balance sheet : A balance sheet that places the liabilities and owner's equity to the right of the assets is called account form balance sheet. According to the Company Act 1994 of Bangladesh liabilities and owner's equity should be placed to the left of the assets.

(ii) Report form balance sheet : A balance sheet that places the assets above the liabilities and owner's equity is called report form balance sheet.

Both forms of Balance sheet are presented below :

(i) Account form balance sheet

BUTTERFLY MARKETING COMPANY
Balance sheet
as on December 31, 2002

Assets		**Amount**	**Liabilities and owner's equity**		**Amount**
Current assets :	Tk.	Tk.	Current liabilities :	Tk.	Tk.
Cash	34,000		Accounts payable	60,000	
Accounts receivable	76,000		Bank overdraft	60,000	
Inventories	90,000		Unearned revenue	2,400	
Supplies	3,000		Expenses payable	1,600	1,24,000
Prepaid insurance	1,200		Long term liabilities :		
Total current assets		2,04,200	Mortgage loan	3,00,000	
Non-current assets :			Notes payable	2,05,000	5,05,200
Tangible assets :					
Land and buildings	3,00,000		Owner's equity :		
Lease hold property	2,89,000		Capital		2,25,200
Office equipment (net)	11,000	6,00,000			
Intangible assets :					
Goodwill	45,000				
Trade marks	5,000	50,000	**Total liabilities and**		
Total assets		**8,54,200**	**owner's equity**		**8,54,200**

(ii) Report form balance sheet

BUTTERFLY MARKETING COMPANY
Balance Sheet
as on December 31, 2002

Assets	Tk.	Tk.
Current assets :		
Cash	34,000	
Accounts receivable	76,000	
Inventories	90,000	
Supplies	3,000	
Prepaid insurance	1,200	
Total current assets		2,04,200
Non-current assets :		
Tangible assets :		
Land and buildings	3,00,000	
Leasehold property	2,89,000	
Office equipment (net)	11,000	6,00,000
Intangible assets :		
Goodwill	45,000	
Trade marks	5,000	50,000
Total assets		**8,54,200**

Contd.......

Balance Sheet (*Contd.*)

Liabilities and owner's equity	Tk.	Tk.
Current liabilities :		
Accounts payable	60,000	
Bank overdraft	60,000	
Unearned revenue	2,400	
Expenses payable	1,600	
		1,24,000
Long term liabilities :		
Mortgage loan	3,00,000	
Notes payable	2,05,000	
		5,05,000
Owner's equity:		
Capital		2,25,200
Total liabilities and owner's equity		8,54,200

Both forms are widely used, and neither is considered more useful than the other.

Advantages of the Balance sheet : The Balance sheet is an important financial statement for financial reporting. The different interested parties may derive different information for their own use. Generally the following information can be derived from the balance sheet :

1. The balance sheet provides information about the nature and amounts of investments in business resources, obligations to creditors, and the owner's equity in net resources.
2. The balance sheet provides a basis for computing rate of returns on
   (a) total assets invested,
   (b) owner's equity, and
   (c) capital employed.
3. The balance sheet provides information to assessing the liquidity and flexibility of the business.
4. The balance sheet is helpful to evaluating the capital structure of the business.
5. Balance sheet allows statement readers to assess the business's prospects for profitability and future cash flows.
6. The trends of working capital of the business can be determined by comparison of balance sheet of successive years and corrective measures can be taken, where necessary.

Limitation of balance sheet : The limitations of a balance sheet are as follows :

(a) The balance sheet does not reflect current value because the accountants have adopted a historical cost basis in valuing and reporting assets and liabilities.

(b) Judgements and estimates must be used in preparing a balance sheet. The collectibility of receivables and the useful life of long-term tangible and intangible assets are difficult to determine.

(c) The balance sheet omits many items that are of financial value to the business but cannot be recorded objectively, for example human resources, customers base, management skills, and reputation are certainly significant to the business, but these are omitted in balance sheet.

STATEMENT OF CASH FLOWS

This statement is directly related to other three statements. Net income comes from income statement. Investment and withdrawals come from the statement of owner's equity and other item in the statement represent changes in Balance Sheet items like accounts receivable, supplies, accounts payable, land and buildings and other items. The statement will be discussed in more details in a later chapter. The headings of the statement should identify the company and name of the statement and the period for which it is prepared. Date is stated as "For the month ended 31 December" or "For the year ended December 31, 2001" etc.

ILLUSTRATION 7'3

The trial balance for the Legal service point of Mr. Sikder as of December 31 '02

LEGAL SERVICE POINT
Trial Balance
October 31, '02

Name of accounts	Debit Tk.	Credit Tk.
Cash	95,000	
Accounts receivable	81,000	
Land	2,40,000	
Building	4,00,000	
Accounts payable		11,000
Loan payable (Due on June 2006)		4,00,000
Mr. Sikder, Capital		3,66,000
Mr. Sikder, Drawings	7,000	
Law Service revenue		81,000
Salaries expenses	27,000	
Miscellaneous expenses	8,000	
Total	8,58,000	8,58,000

Adjustments :

1. Depreciation on building for the month Tk. 2,000
2. Accrued salaries at the end of the month are Tk. 1,000

Required **:**

(a) Prepare an income statement for the month ended October 31, '02

(b) Prepare a statement of owner's equity for the month ended October '31, '02.

(c) Prepare a balance sheet as of October 31,'02.

SOLUTION :

(a) **Working :**

Salaries expenses for the month :

Salaries paid	Tk. 27,000
Add Accrued	Tk. 1,000
Salaries expenses	Tk. 28,000

LEGAL SERVICE POINT
Income Statement
For the month ended October 31, 2002

	Amount Tk	Amount Tk
Service revenue		81,000
Less :		
Salaries expenses	28,000	
Depreciation	2,000	
Misc. expenses	8,000	
		38,000
Net income		**43,000**

LEGAL SERVICE POINT
Statement of Owner's Equity
For the month ended October 31, 2002

	Amount Tk
Mr. Sikder Capital	3,66,000
Add Net income for October	43,000
Total	4,09,000
Less Drawings	7,000
Mr. Sikder, Capital October 31,'02	4,02,000

LEGAL SERVICE POINT
Balance Sheet
October 31, 2002

Assets	Amount Tk	Amount Tk	Amount Tk
Current assets :			
Cash		95,000	
Accounts receivable		81,000	1,76,000
Fixed assets :			
Land		2,40,000	
Building	4,00,000		
Less Accumulated depreciation	2,000	3,98,000	6,38,000
Total assets			**8,14,000**
Liabilities and owner's equity			
Current liabilities :			
Accounts payable		11,000	
Salaries payable		1,000	12,000
Long term liabilities :			
Loan payable			4,00,000
Owner's equity			4,02,000
Total liabilities and owner's equity			**8,14,000**

ILLUSTRATION 7·4

The unadjusted trial balance of Auto service centre as of December 31, 2002 is as follows.

AUTO SERVICE CENTRE
Trial Balance
December 31, 2002

Name of accounts	Debit Tk.	Credit Tk.
Cash	15,500	
Prepaid insurance	1,400	
Supplies	24,000	
Equipment	28,000	
Accumulated depreciation—equipment		6,500
Capital		37,000
Withdrawals	5,300	
Service revenue		82,900
Salaries expenses	42,000	
Rent expenses	10,200	
Total	1,26,400	1,26,400

Adjustments :

(a) Expired insurance Tk. 800.

(b) Unused supplies inventory Tk. 5,100.

(c) Estimated depreciation of equipment Tk. 1,300.

(d) Salaries earned but not paid Tk. 500.

Required :

(1) Income statement for the year ended December 31, 2002.

(2) Balance sheet as on December 31, 2002.

SOLUTION :

(1) **AUTO SERVICE CENTRE**
Income Statement
For the year ended December 31, 2002

	Amount Tk.	Amount Tk.	Amount Tk.
Service			82,900
Less Operating expenses :			
Insurance expenses		800	
Supplies	24,000		
Less Unused	5,100		
		18,900	
Depreciation		1,300	
Salaries expenses	42,000		
Add Due	500		
		42,500	
Rent expenses		10,200	73,700
Operating income			9,200

(2)

AUTO SERVICE CENTRE
Balance Sheet
December 31, 2002

Assets	Amount Tk.	Amount Tk.	Amount Tk.
Current assets :			
Cash	15,500		
Prepaid insurance (1,400 — 800)	600		
Supplies	5,100		21,200
Fixed assets :			
Equipment	28,000		
Less Accumulated depreciation— equipment (6,500 + 1,300)	7,800		20,200
Total assets			**41,400**
Liabilities and owner's equity			
Current liabilities :			
Salaries payable			500
Owner's equity :			
Capital		37,000	
Add Net profit		9,200	
		46,200	
Less Withdrawals		5,300	
			40,900
Total liabilities and owner's equity			**41,400**

ILLUSTRATION 7·5

Following is the adjusted trial balance of Arnold Company as on December 31, 2002 :

ARNOLD COMPANY
Trial Balance
December 31, 2002

Title of accounts	Debit Tk.	Credit Tk.
Cash	81,500	
Inventory 01.01.02	1,70,450	
Purchase	7,35,000	
General expenses	72,500	
Selling expenses	91,550	
Interest expenses	5,700	
Drawings	50,000	
Accounts receivable	13,100	
Fixed assets	2,50,000	
Sales discount	8,600	
Sales return and allowances	9,200	
Accumulated depreciation		30,000
Salaries payable		3,100
Accounts payable		42,500
Loan		1,00,000
Sales		9,98,000
Capital		3,00,000
Purchase discount		14,000
Total	**14,87,600**	**14,87,600**

Additional data : Inventory as on December 31, 2002 Tk. 1,92,950

Required : (1) Prepare income statement for the year ended December 31, 2002.

(2) Balance sheet as on that date.

SOLUTION :

(1)

ARNOLD COMPANY
Income Statement
For the year ended December 31, 2002

Name of accounts	Amount Tk.	Amount Tk.	Amount Tk.
Sales		9,98,000	
Less : Sales discount	8,600		
Sales returns & allowances	9,200	17,800	
Net sales			9,80,200
Less Cost of Sale :			
Purchase		7,35,000	
Purchase discount		(14,000)	
Net purchase		7,21,000	
Add Inventory (1/1)		1,70,450	
Goods available for sale		8,91,450	
Less Inventory (31/12)		1,92,950	6,98,500
Gross profit			2,81,700
Operating expenses :			
General expenses		72,500	
Selling expenses		91,550	1,64,050
Operating income			1,17,650
Less Interest expenses			5,700
Net income			1,11,950

(2)

ARNOLD COMPANY
Balance Sheet
As on December 31, 2002

	Amount Tk.	Amount Tk.
Assets		
Current assets :		
Cash	81,500	
Inventory	1,92,950	
Accounts receivable	13,100	2,87,550
Fixed assets	2,50,000	
Less accumulated depreciation	30,000	2,20,000
Total Assets		5,07,550
Liabilities and owner's equity		
Current liability :		
Salaries payable	3,100	
Accounts payable	42,500	45,600
Loan		1,00,000
owner's equity :		
Capital :		
Balance (1/1/02)	3,00,000	
Add Profit during the period	1,11,950	
	4,11,950	
Less drawings	50,000	3,61,950
Total Liabilities and owner's equity		5,07,550

ILLUSTRATION 7.6

The unadjusted trial balance of Monir Pool Parlour as of December 31, 2002 follows :

MONIR POOL PARLOUR
Unadjusted Trial Balance
December 31, 2002

Name of accounts	Debit Tk.	Credit Tk.
Cash	11,000	
Supplies	4,500	
Equipment	1,50,000	
Accumulated depreciation—equipment		15,000
Unearned membership fees		24,000
Notes payable		50,000
Monir's capital		58,250
Monir's withdrawals	30,000	
Fees received		90,000
Salaries expenses	38,000	
Interest expenses	3,750	
Total	2,37,250	2,37,250

Additional data :

(a) As of December 31, employees have earned Tk. 800 but unpaid.

(b) The cost of supplies on hand at December 31 is Tk. 1,800.

(c) The amount of unrecorded accrued interest at December 31 is Tk. 1,250.

(d) An analysis of the unearned membership fees shows that Tk. 16,000 remains unearned at December 31.

(e) In addition to the membership fees included in the revenue account balance, the company has earned another Tk. 12,000 in fees that will be collected on January 21.

(f) Depreciation expense for the year is Tk. 15,000.

Required :

1. Prepare income statement and statement of owner's equity for the year ended December 31.
2. Prepare balance sheet as on that date.

SOLUTION :

(1)

MONIR POOL PARLOUR
Income Statement
For the year ended December 31, 2002

	Amount Tk	Amount Tk
Fees earned :		
Received during the period	90,000	
Unearned fees received (24,000 — 16,000)	8,000	
Fees earned but not received	12,000	1,10,000
Less Operating expenses :		
Salaries expense (38,000 + 800)	38,800	
Supplies expenses (4,500 — 1,800)	2,700	
Interest expenses (3,750 + 1,250)	5,000	
Depreciation expenses	15,000	61,500
Net Income		48,500

(2)

MONIR POOL PARLOUR

Balance Sheet

As at December 31, 2002

Assets	Amount Tk.	Amount Tk.	Liabilities	Amount Tk.	Amount Tk.
Current assets :			Current liabilities :		
Cash	11,000		Accrued interest	1,250	
Supplies	1,800		Unearned fees	16,000	
Fees receivable	12,000	24,800	Unpaid salaries	800	18050
Equipment	1,50,000		Notes payable		50,000
Accumulated depreciation	30,000	1,20,000	Owner's equity :		
			Capital	58,250	
			Add Profit	48,500	
			Total	1,06,750	
			Less Withdrawals	30,000	76,750
Total Assets		**1,44,800**	**Total Liabilities**		**1,44,800**

ILLUSTRATION 77

Following balances are extracted from the ledger of Nupur Company as at 30th June, 2002 :

Title of accounts	Tk.	Title of accounts	Tk.
Capital	2,80,000	Cash	30,000
Sales	3,70,000	Inventory (opening)	14,000
Purchase returns	5,000	Insurance pay	3,600
Accounts payable	36,000	Office supplies	2,800
Notes payable (Due on Dec. 30,2002)	6,000	Rent pay	1,200
Purchases	3,20,000	Salaries pay	6,400
Sales Returns	1,200	Drawings	1,800
Accounts Receivable	1,00,000	Advertisement	3,000
Furniture	1,20,000	Delivery expenses	7,000
Office equipment	82,000	Freight-in	4,000

The Following adjustments are to be made on 30th June, 2002

(a) Inventory at closing Tk. 61,000.

(b) Unexpired Insurance Tk. 400.

(c) Accrued salaries Tk. 1,600.

(d) Accrued rent Tk. 1,600.

(e) Depreciation is to be provided on office equipment @ 10% and on furniture @ 5%.

(f) Office supplies in hand Tk. 800.

(g) The inventory at the end includes goods worth Tk. 1,500 for which bills has neither been received nor accounted for.

(h) Nupur took goods costing Tk. 250 for personal use and no record of it was maintained in the books of accounts.

Required :

1. An income statement in multiple step form.
2. A balance sheet.

SOLUTION :

1.

NUPUR COMPANY
Income Statement
for the year ended 30th June 2002

	Amount Tk.	Amount Tk.	Amount Tk.
1. Revenue :			
Sales		3,70,000	
Less Sales Returns		1,200	
Net Sales			3,68,800
Less Cost of goods sold :			
Opening Inventory		14,000	
Add Cost of goods purchased :			
Purchase	3,20,000		
Unbilled purchase	1,500		
	3,21,500		
Less Purchase returns	5,000		
Net purchase	3,16,500		
Add Freight-in	4,000	3,20,500	
		3,34,500	
Less Goods with drawn for personal use		250	
Goods available for sale		3,34,250	
Less Ending Inventory		61,000	
Cost of goods sold			2,73,250
Gross profit			95,550
Less Operating Expenses :			
Salaries (Tk. 6,400 + Tk. 1,600)		8,000	
Insurance (Tk. 3,600 — Tk. 400)		3,200	
Rent (Tk. 1,200 + Tk. 1,600)		2,800	
Advertisement		3,000	
Delivery Expense		7,000	
Depreciation :			
Office equipment	8,200		
Furniture	6,000	14,200	
Office Supplies (Tk. 2,800 — Tk. 800)		2,000	
Total operating expenses			40,200
Net Income			55,350

2.

NURPUR COMPANY
Balance Sheet as at 30th June 2002

	Amount Tk.	Amount Tk.	Amount Tk.
Assets			
Current assets :			
Cash		30,000	
Accounts Receivable		1,00,000	
Office supplies in hand		800	
Un-expired Insurance		400	
Ending Inventory		61,000	1,92,200
Fixed Assets :			
Furniture	1,20,000		
Less Accumulated Depreciation	6,000	1,14,000	
Office equipment	82,000		
Less Accumulated Depreciation	8200	73,800	1,87,800
Total assets			3,80,000
Liabilities and owner's equity			
Current liabilities :			
Accounts payable (Tk. 36,000 + Tk. 1,500 Un-billed purchase)		37,500	
Notes payable		6,000	
Salaries payable		1,600	
Rent payable		1,600	46,700
Owner's equity :			
Capital		2,80,000	
Add Net Profit		55,350	
		3,35,350	
Less Withdrawals (1,800 + 250)		2,050	3,33,300
Total liabilities and owner's equity			3,80,000

***ILLUSTRATION* 7.8**

The following balances are taken from the books of accounts of Surma Ltd. on 30th June, 2004 :

SURMA LTD.
Balance Sheet As at 30th June, 2004

Name of accounts	Debit Tk.	Credit. Tk.
Accounts Receivable	29,000	
Purchases	81,000	
Allowance for Doubtful Accounts		16,000
Inventories	6,000	
Furniture	10,000	
Accumulated Depreciation—Furniture	4,000	
Buildings	1,40,000	
Accumulated Depreciation—Buildings		30,000
Cash	2,000	
Bad debts	6,000	
Salaries and Allowances	20,000	
Interest Expenses	4,000	
Rent, Rates and Taxes	6,000	
Salesmen's Salaries	2,000	
Freight in	7,000	
Dividend	15,000	
Sales		2,00,000
Interest income		1,000
Bonds payable		10,000
Capital		60,000
Retained Earnings, June 30, 2003		7,000
Total	3,28,000	3,28,000

Adjustments on June 30, 2004 are required as follows :

(i) Inventory on hand is Tk. 10,000.
(ii) Depreciation on furniture is to be 10% a year.
(iii) Buildings are depreciated @ 5% per year.
(iv) The allowance for doubtful accounts is to be increased to a balance of Tk. 19,000.
(v) Accrued salaries Tk. 2,000.
(vi) Accrued interest on bonds Tk. 1,000.
(vii) Accrued selling expenses Tk. 1,500.
(viii) Income taxes are estimated to be 50% of the income before income taxes.

Required :

1. Prepare a multiple step Income Statement.
2. Prepare a Balance Sheet.

SOLUTION :

1.

SURMA LTD.
Income Statement
For the year ended June 30, 2004

	Amount Tk.	Amount Tk.	Amount Tk.
Sales			2,00,000
Cost of goods sold :			
Merchandise Inventory opening		6,000	
Purchase	81,000		
Add Freight-in	7,000	88,000	
Cost of goods available for sale		94,000	
Less Ending inventory		10,000	
Cost of goods sold			84,000
Gross profit			1,16,000
Operating expenses :			
Selling expenses :			
Bad debt expense (Tk. 6,000+19,000 — 16,000)	9,000		
Selling expense	1,500		
Salesman salaries	2,000	12,500	
General and administrative :			
Rent, Rates and Tax	6,000		
Salaries & Allowance (Tk. 20,000 + 2,000)	22,000		
Depreciation expense—furniture	1,000		
Depreciation expense—building	7,000	36,000	
Total operating expense			48,500
Operating income			67,500
Interest income			1,000
			68,500
Interest expense (Tk. 4,000 + 1,000)			5,000
Net income before tax			63,500
Less Tax 50%			31,750
Net income after tax			31,750

SURMA LTD.
Retained Earnings Statement
for the year ended June 30, 2004

	Amount Tk.
Balance 01 / 07/ 2003	7,000
Add Profit after tax during the period	31,750
	38,750
Less Dividend paid	15,000
Balance 30 / 06 / 2004	23,750

SURMA LTD.
Balance Sheet
As on June 30, 2004

	Amount Tk.	Amount Tk.	Amount Tk.
Assets			
Current asset :			
Cash		2,000	
Account receivable	29,000		
Less Allowance for doubtful Account	19,000	10,000	
Ending Inventory		10,000	
Total current assets			22,000
Fixed Assets :			
Furniture	10,000		
Less Accumulated dep.—Furniture (4,000 + 1,000)	5,000	5,000	
Buildings	1,40,000		
Less Accumulated dep.—Building (30,000 + 7,000)	37,000	1,03,000	1,08,000
Total assets			**1,30,000**
Liabilities and owner's equity			
Current liabilities :			
Salaries payable		2,000	
Interest Payable		1,000	
Selling expenses payable		1,500	
Tax payable		31,750	
Long term liabilities :			36,250
Bonds payable			10,000
Owner's equity :			
Capital			60,000
Retained earnings			23,750
Total Liabilities and owner's equity			1,30,000

ILLUSTRATION 7.9

The December 31, 2001, end of the annual accounting period trial balance of the ledger of Mahmud Store are as follow :

MAHMUD STORE
Trial Balance
December 31, 2001

Name of Accounts	Debit Tk.	Credit Tk.
Cash	90,000	
Accounts receivable	1,66,000	
Merchandise inventory	3,00,000	
Purchases	33,10,000	
Prepaid insurance	38,000	
Store equipment	8,00,000	
Accumulated Depreciation—Store equipment		1,70,000
Accounts payable		1,90,000
Mahmud, Capital		9,00,000
Mahmud, Drawings	2,20,000	
Sales		48,30,000
Sales returns and allowances	1,50,000	
Sales discount	72,000	
Purchase return and allowances		1,00,000
Purchase discount		64,000
Freight-in	1,22,000	
Freight-out	75,000	
Advertising expenses	1,55,000	
Rent expenses	2,00,000	
Salaries expenses	3,95,000	
General expenses	1,65,000	
Vat current account		4,000
Total	62,58,000	62,58,000

Additional information :

(a) Merchandise inventory on hand at December 31, is Tk. 3,95,000

(b) Merchandise is in transit at December 31, costing Tk. 5,000,which was shipped by a supplier under the terms F.O.B. shipping point and recorded as purchase but not included in ending merchandise inventory.

(c) Insurance expired during the period is Tk 20,000

(d) Salaries accrued but not paid Tk.10,000

(e) Depreciation expenses are charged during the period was Tk. 80,000

(f) General expenses include Tk. 15,000 for utilities, which is to be treated as selling expenses.

Required :

1. Multiple step income statement.
2. Owner's equity statement.
3. Balance sheet.

SOLUTION :

(1)

MAHMUD STORE
Income Statement
For the year ended December 31, 2001

			Amount Tk.	Amount Tk.	Amount Tk.
(1)	Sales Revenue :				
	Sales			48,30,000	
	Less Sales return and allowances		1,50,000		
	Sales discount		72,000	2,22,000	
	Net Sales				46,08,000
(2)	Cost of Goods sold :				
	Inventory at 1st January			3,00,000	
	Purchase			33,10,000	
	Freight-In			1,22,000	
				37,32,000	
	Less Purchase return and allowances		1,00,000		
	Purchase Discount		64,000	1,64,000	
				35,68,000	
	(Less) Inventory at 31st December (3,95,000 + 5,000)			4,00,000	
	Cost of goods sold				31,68,000
	Gross Profit				14,40,000
(3)	Operating expenses :				
	Selling and distribution :				
	Freight-out		75,000		
	Advertising		1,55,000		
	Utilities expenses		15,000	2,45,000	
(4)	Administrative and general expenses :				
	Rent expenses		2,00,000		
	Salaries expenses	3,95,000			
(+)	Accrued salaries	10,000	4,05,000		
	General expenses	1,65,000			
(—)	Utilities expenses	15,000	1,50,000		
	Insurance expenses		20,000		
	Depreciation expenses		80,000	8,55,000	
	Total operating expenses				11,00,000
	Net Income				3,40,000

(2)

MAHMUD STORE
Owner's Equity Statement
For the year ended 31st December, 2001

	Tk.	Tk.
Mahmud, capital	9,00,000	
Add Net income for the year	3,40,000	
		12,40,000
Less Mahmud, Drawings		2,20,000
Owner's equity		10,20,000

(3)

MAHMUD STORE
Balance Sheet
As at 31st December 2001

Assets		Amount Tk.	Amount Tk.
Current Assets :			
Cash		90,000	
Accounts Receivable		1,66,000	
Merchandise Inventory		4,00,000	
Prepaid Insurance	38,000		
(–) Insurance expense	20,000	18,000	
Total current assets			6,74,000
Fixed assets :			
Store equipment		8,00,000	
Less Accumulated Dep. (1,70,000 + 80,000)		2,50,000	5,50,000
Total Assets			12,24,000
Liabilities and owner's equity			
Current liabilities :			
Accounts payable		1,90,000	
Salaries payable		10,000	
Vat current account		4,000	
Total current liabilities			2,04,000
Mahmud's Capital			10,20,000
Total liabilities and owner's equity			12,24,000

ILLUSTRATION 7'10

At the end of the accounting period of Diana Departmental Stores on 31 December 2002, the following accounts appeared in two of its trial balances.

DIANA DEPARTMENTAL STORES
Trial Balance
As at December 31, 2002.

	Unadjusted Tk.	Adjusted Tk.		Unadjusted Tk.	Adjusted Tk.
Accounts payable	79,300	79,300	Interest payable	—	8,000
Accounts receivable	50,300	50,300	Interest revenue	4,000	4,000
Accumulated depreciation—building	42,100	52,500	Merchandise inventory	75,000	75,000
Accumulated-depreciation—Equipment	29,600	42,900	Mortgage Payable	80,000	80,000
Building	1,90,000	1,90,000	Office salaries expense	32,000	32,000
Cash	23,000	23,000	Prepaid insurance	9,600	2,400
Diana, Capital	1,76,600	1,76,600	Porperty tax expense	—	4,800
Cost of goods sold	4,12,700	4,12,700	Property tax payable	—	4,800
Depreciation expenses—Building	—	10,400	Sales salaries	76,000	76,000
Depreciation expenses—Equipment	—	13,300	Sales	6,28,000	6,28,000
Diana, Drawings	28,000	28,000	Sales commission	11,000	15,500
Equipment	1,10,000	1,10,000	Sales commission payable	—	4,500
Insurance expenses	—	7,200	Sales return and allowances	8,000	8,000
Interest expenses	3,000	11,000	Utilities expenses	11,000	11,000

Analysis reveals the following additional data :

1. Insurance expenses and utilities expenses are 60% selling and 40% administrative.
2. Tk. 20,000 of mortgage payable are due for payment next year.
3. Depreciation on the building and property tax expenses are administrative; depreciation on the equipment is a selling expense.

Required :

(1) Prepare Multiple-step income statement, owner's equity statement and a classified balance sheet.

(2) Journalise the adjusting entries that were made.

SOLUTION :

(1)

DIANA DEPARTMENTAL STORES
Income Statement
For the year ended 31st December 2002

		Amount Tk.	Amount Tk.	Amount Tk.
(1)	**Net Sales :**			
	Sales		6,28,000	
	Sales return and allowances		8,000	6,20,000
(2)	**Cost of goods sold :**			4,12,700
	Gross profit			20,7,300
(3)	**Selling expenses :**			
	Depreciation of equipment	13,300		
	Insurance expenses (7,200 × 60%)	4,320		
	Sales Salaries	76,000		
	Utilities expenses (11,000 × 60%)	6,600		
	Sales commission	15,500		
Total selling expenses			1,15,720	
(4)	**Administrative & general expenses :**			
	Depreciation of Building	10,400		
	Utilities (11,000 × 40%)	4,400		
	Insurance expenses (7,200 × 40%)	2,880		
	Office salaries expenses	32,000		
	Property tax	4,800		
	Total General expenses		54,480	1,70,200
	Operating Income			37,100
	Non-operating income (exp.)			
	Add Interest Revenue	4,000		
	Interest exp.	(11,000)		(7,000)
Net Income				30,100

DIANA DEPARTMENTAL STORE
Owner's Equity Statement
For the year ended December 31, 2002

	Tk.	Tk.
Diana, Capital	1,76,600	
Add Net Income	30,100	2,06,700
Less Drawings		28,000
Owner's equity		1,78,700

DIANA DEPARTMENTAL STORE
Balance Sheet
As at 31st December, 2002

Assets	Amount Tk.	Amount Tk.	Amount Tk.
Current Assets :			
Cash		23,000	
Accounts Receivable		50,300	
Prepaid Insurance		2,400	
Merchandise Inventory		75,000	
Total current assets			1,50,700
Fixed assets :			
Building	1,90,000		
Less Accumulated depreciation	52,500		
		1,37,500	
Equipment	1,10,000		
Less Accumulated depreciation	42,900	67,100	2,04,600
Total Assets			3,55,300
Liabilities and owner's equity			
Current liabilities :			
Mortgage payable		20,000	
Accounts payable		79,300	
Interest payable		8,000	
Property tax payable		4,800	
Sales commission payable		4,500	
Total current liabilities			1,16,600
Long term liabilities :			
Mortgage payable (80,000—20,000)			60,000
Owner's equity			1,78,700
Total liabilities and owner's equity			3,55,300

(2) **Adjusting entries**

		Tk.	Tk.
(1)	Depreciation expenses (Building)	10,400	
	Accumulated depreciation (Building)		10,400
(2)	Depreciation expenses (equipment)	13,300	
	Accumulated depreciation (equipment)		13,300
(3)	Insurance expenses	7,200	
	Prepaid Insurance		7,200
(4)	Interest expenses	8,000	
	Interest payable		8,000
(5)	Property tax expenses	4,800	
	Property tax payable		4,800
(6)	Sales commission	4,500	
	Sales commission payable		4,500

ILLUSTRATION 7·11

ANKHY Health Complex Ltd. close its books of Accounts as on 30. 06. 2003. Following are the balance taken from the ledgers of the company.

711

ANKHY HEALTH COMPLEX LTD.
Trial Balance
As of June 30, 2003

Name of Accounts	Debit Tk.	Credit Tk.
Cash Balance	1,20,000	
Accounts Receivable	3,36,000	
Inventory 01 July, 2002	3,24,000	
Stores Supplies	8,000	
Office Supplies	2,900	
Prepaid Insurance	12,500	
Stores Equipment	85,000	
Accumulated Depreciation (Stores Equipment)		22,500
Land	1,16,000	
Office Equipment	26,000	
Accumulated Depreciation (Office Equipment)		8,000
Accounts Payable		1,80,000
Mortgage Notes Payable (due—2007)		3,00,000
Capital		2,64,000
Sales		12,30,000
Sales Discount	27,000	
Sales Return	16,800	
Purchases	6,92,400	
Purchase Return		39,000
Purchase Discount		15,800
Sales Salaries	1,23,000	
Delivery Expenses	34,000	
Rent Expenses	24,000	
Freight-in	18,000	
Office Salaries	68,000	
Office Expenses	7,500	
Misc. General Expenses	6,800	
Gain on disposal of Assets		3,600
Interest Expense	15,000	
Total	20,62,900	20,62,900

Adjustment on June 30 are as follows :

(a) The inventory on hand Tk. 2,53,600.
(b) Supplies of Hand : Office supplies Tk. 1,100
Stores Supplies Tk. 4,500
(c) Insurance expired during the year :
Allocable to selling expenses Tk. 4,850
Allocable to general expenses Tk. 1,300.
(d) Equipments are depreciated at the rate of 10% per annum.
(e) Accrued sales salaries Tk. 2,300.
(f) Accrued office salaries Tk. 1,050.
(g) Accrued interest on the mortgage notes payable Tk. 2,400.
(h) Income tax is estimated at 50% of the income.

Required :

1. Prepare income statement in multiple step form for the year ended on 30. 06. 2003.
2. Balance Sheet as at 30. 06. 2003.

SOLUTION :

1.

ANKHY HEALTH COMPLEX LTD.
Income Statement
For the period ended 30. 06. 2003

	Tk.	Tk.	Tk.	Tk.
(a) Sales revenue			12,30,000	
(—) Sales discount		27,000		
Sales return		16,800	43,800	
Net sales				11,86,200
(—) Cost of goods sold :				
Opening inventory			3,24,000	
(+) Purchase		6,92,400		
(+) Freight-in		18,000		
		7,10,400		
(—) Purchase discount	15,800			
Purchase return	39,000	54,800		
Net purchase			6,55,600	
Goods available for sale			9,79,600	
(—) Closing stock / Inventory			2,53,600	
Cost of goods sold				7,26,000
Gross profit				4,60,200
Operating expenses :				
Selling expenses :				
Sales salaries	1,23,000			
(+) Accrued	2,300	1,25,300		
Delivery expense		34,000		
Store supplies expense (sales) (8,000 — 4,500)		3,500		
Depreciation expenses (store equipment)		8,500		
Insurance expense		4,850		
Total selling expenses			1,76,150	
Office & Administrative expenses				
Office salaries	68,000			
(+) Accrued	1,050	69,050		
Rent expense		24,000		
Office expense		7,500		
Office supplies expense (2,900 — 1,100)		1,800		
Insurance expense (office)		1,300		
Depreciation expense (office equipment)		2,600	1,13,050	
Miscellaneous general expenses		6,800		2,89,200
Total operating expenses				1,71,000
Income from operation				
Non-operating expenses :				
Interest expense	15,000			
(+) Accrued	2,400	17,400	17,400	
(—) Non-operating income :				
Gain from disposal of assets			3,600	
Net non-operating charges				13,800
Net Income				1,57,200
Less Income tax (50% × 1,57,200)				78,600
Net income after tax				78,600

. ANKHY HEALTH COMPLEX LTD.
Balance Sheet
As at 30. 06. 2003

	Amount	Amount	Amount
Assets	Tk.	Tk.	Tk.
Current Assets :			
Cash at bank		1,20,000	
Account receivable (12,500 — 4,850 — 1,300)		3,36,000	
Merchandise Inventory		2,53,600	
Prepaid insurance		6,350	
Office supplies		1,100	
Store supplies		4,500	
Total current assets			7,21,550
Plant & Fixed assets :			
Store equipment	85,000		
Accumulated depreciation (22,500 + 8,500)	31,000	54,000	
Office equipment	26,000		
Accumulated depreciation (8,000 + 2,600)	10,600	15,400	
Land		1,16,000	
Total plant assets			1,85,400
Total assets			9,06,950
Liabilities & Owner's Equity			
Current liabilities			
Accounts payable		1,80,000	
Accrued salaries :			
Office	2,300		
Sales	1,050	3,350	
Accrued interest		2,400	
Income tax payable		78,600	
Total current liabilities			2,64,350
Long-term liabilities :			
Mortgage payable			3,00,000
			5,64,350
Owner's equity :			
Capital		2,64,000	
Net income (after tax)		78,600	
Total owner's equity			3,42,600
Total liabilities & owner's equity			9,06,950

ILLUSTRATION 7.12

The following figures extracted from the books of Chowdhury Traders as on March. 31, 2003

Name of Accounts	Tk.
Chowdhury's capital	2,28,800
Chowdhury's drawings	13,200
Plant and Machinery	99,000
Freehold property	66,000
Purchase	1,10,000
Returns outwards	1,100
Salesmen Salaries	13,200
Office expenses	2,750
Office furniture	5,500
Purchase discounts lost	1,320
Accounts receivable	29,260
Loans to Mr. Ashraf @ 10% P.a. balance on 1.4.2002	44,000
Cash at Bank	29,260
Sales	2,31,440
Inventories 1. 4. 2002	38,500
Office salaries	35,200
Accounts Payable	49,500
Postage and Telegrams	1,540
Insurance	1,760
Gas and fuel	2,970
Bad debts	660
Office rent	2,860
Freight-in	9,900
Loose tools	2,200
Freight-out	1,100
Provision for Doubtful Debts	800
Interest on loan to Mr. Ashraf	1,100
Cash in hand	2,640

Adjustments :

1. Inventories on March 31, 2003 were valued at Tk. 72,600.
2. A new machine was installed on October 1, 2002 costing Tk. 15,400 but it was not recorded in the books and no payment was made for it. Wages Tk. 1,100 paid for the erection have been debited to office salary account.
3. Depreciate Plant and Machinery by 20%, Furniture by 10% and Freehold property by 5%.
4. Loose tools were valued at Tk. 1,760 on 31.3.2003
5. Of the Account receivable Tk. 660 are bad and should be written off.
6. Maintain a provision of 5% Sundry Debtors for doubtful debts.

Required :

1. Income statement for the year ended March 31, 2003
2. Balance sheet as at that date.

SOLUTION :

1.

CHOWDHURY TRADERS
Income Statement
for the year ended March 31, 2003

	Amount Tk.	Amount Tk.	Amount Tk.	Amount Tk.
Sales				2,31,440
Less Cost of goods sold :				
Beginning inventory			38,500	
Purchase		1,10,000		
Less Returns		1,100	1,08,900	
Freight-in			9,900	
Merchandise available for sale			1,57,300	
Less Ending inventory			72,600	84,700
Gross profit				1,46,740
Less Operating expenses :				
Selling expenses :				
Salesmen salaries		13,200		
Bad debts (660 + 660)		1,320		
Allowances for bad debts :				
New allowances 5% (29,260 — 660)	1,430			
Less Old allowances	880	550		
Freight-out		1,100	16,170	
General and administrative expenses :				
Office salaries	35,200			
Less erectionof machinery	1,100	34,100		
Gas and fuel		2,970		
Office expenses		2,750		
Postage and Telegram		1,540		
Insurance		1,760		
Office rent		2,860		
Purchase discount lost		1,320		
Depreciation :				
Plant and machinery	21,450			
Furniture	550			
On freehold property	3,300			
On loose tools (2200—1760)	440	25,740	73,040	89,210
Operating profit				57,530
Interest income		1,100		
Add due		3,300		4,400
Net income				61,930

Workings :

(1) Depreciation on Machinery :

On 99,000 @ 20% for one year	=	19,800
On (15,400 + 1,100) @ 20% for half year	=	1,650
Total dep.		**21,450**

(2) Interest Income :

Int on loan to as asset — 10 % × 44,000	=	**4,400**
Interest received	=	**1,100**
Interest due		**3,300**

Allah

2.

CHOWDHURY TRADERS

Balance Sheet as at March 31, 2003

	Amount Tk.	Amount Tk.	Amount Tk.	Amount Tk.
Assets				
Current assets :			2,640	
Cash in hand			29,260	
Cash at Bank		29,260		
Accounts receivable	660			
Less : Bad debt written off	1,430	2,090	27,170	
Allowances for bad debt				
Investment interest receivable			3,300	
Inventories			72,600	1,34,970
Loan to Mr. Ashraf				44,000
Plant assets :				
Plant and machinery Beginning balance		99,000		
Add : New installation (15,400 + 1,100)		16,500		
Total Plant and machinery		1,15,500		
Less Accumulated Depreciation		21,450	94,050	
Freehold property		66,000		
Less Accumulated Depreciation		3,300	62,700	
Furniture		5,500		
Less Accumulated Depreciation		550	4,950	
Loose tools			1,760	1,63,460
Total assets				3,42,430
Liabilities and owner's equity				
Current liabilities :				
Accounts payable			49,500	
Payable for machinery			15,400	64,900
Owner's equity :				
Capital			2,28,800	
Add Net income			61,930	
			2,90,730	
Less Withdrawn			13,200	2,77,530
Total liabilities and owner's equity				3,42,430

ILLUSTRATION 7.13

The following balances are taken from the Ledger of H Enterprise on December 31, 2002 :

Title of accounts	Amounts Tk	Title of accounts	Amounts Tk
Accounts payable	29,000	Bad Debts	100
Store equipment	20,000	Furniture	3,000
Accumulated depreciation–store equipment	5,000	Accumulated depreciation—furniture	535
Loose tools	1,000	Reserve for Bad Debts	1,600
Cash at Bank	16,200	Rent and Rates	1,480
Show room expenses	1,990	Accounts receivable	9,500
Sales discount forfeited	75	Investments	6,500
Purchases	1,57,000	Inventories (1.1.2002)	27,350
Wages	10,000	Capital	47,390
Carriage inwards	1,120	Drawings	2,000
Sales	1,85,000	Cash in hand	335
Delivery Van	20,000	Loan from Azim	2,500
Accumulated depreciation—delivery van	7,500	Income tax	1,025

Adjustment to be taken into account :

(a) Write off further Tk. 300 as bad out of accounts receivable and create a reserve for bad debts at 20% on accounts receivable.

(b) Dividends accrued and due on Investments are Tk. 670. Rates paid in advance Tk. 100 and wages owing Tk. 450.

(c) On 31.12. 2002 inventories were valued at Tk. 25,000 and Loose tools at Tk. 800.

(d) Write-off 5% for depreciation on book value of store equipment, 40% on book value of Delivery Van and 5% on original cost of furniture.

(e) Provide for interest at 12% p.a. due on loan taken on 1. 3. 2002.

(f) Income tax paid has to be treated as drawings.

Required :

1. Multiple step income statement for period ended December 31, 2002.
2. Owner's equity statement.
3. Balance sheet as on December 31, 2002.

SOLUTION :

1.

H. ENTERPRISE
Income Statement
For the year ended December 31, 2002

	Amount Tk.	Amount Tk.	Amount Tk.	Amount Tk.
Sales				1,85,000
Less Cost of sales :				
Beginning inventory		27,350		
Add : Purchases		1,57,000		
Carriages inwards		1,120		
Goods available for sale			1,85,470	
Less Ending inventory			25,000	1,60,470
Gross profit				24,530
Less Operating expenses :				
Selling expenses :				
Show room expenses		1,990		
Bad debt expenses 100 + 300	400			
(+) Allowances for bad debt	1,840			
	2,240			
Less Old provision	1,600	640		
Depreciation : on store equipment	750			
Depreciation on delivery van	5,000	5,750	8,380	
General expenses :				
Wages expenses (10,000 + 450)		10,450		
Rent and taxes (1,480—100)		1,380		
Loose tools (1,000 — 800)		200		
Depreciation on furniture		150	12,180	20,560
Operating profit				3,970
Add Other revenues				
Sales discount forfeited			75	
Dividend accrued and due on investment			670	745
				4,715
Less Non operating expenses :				
Interest expenses				250
Net income				4,465

2.

H. ENTERPRISE
Owner's Equity Statement
For the year ended December 31, 2002

	Amount Tk.	Amount Tk.
Capital beginning balance		47,390
Add Profit		4,465
		51,855
Less Drawings		
Cash	2,000	
Income tax	1,025	3,025
Capital 31. 12. 2002		48,830

Depreciation :

On store equipment	5% (20,000 — 5,000)	=	750
On Delivery Van	40% (20,000 — 7,500)	=	5,000
On Furniture	5% × 3,000	=	150

Allowances for bad debts :

20% on (9,500 — 300) = Tk. 1,840

3.

H ENTERPRISE

Balance Sheet, December 31, 2002

Assets	Amount Tk.	Amount Tk.	Liabilities and owner's equity	Amount Tk.	Amount Tk.
Current assets :			Current liabilities :		
Cash in hand		335	Accounts payable	29,000	
Cash at Bank		16,200	Wages payable	450	
			Interest payable on loan	250	
Accounts receivable	9,500		Total current liabilities		29,700
Less Bad debt	300		Loan from Azim		2,500
	9,200		Capital		48,830
Less Allowances for bad debt	1,840	7,360			
Inventories		25,000			
Prepaid rates		100			
Interest accrued on investment		670			
Total current assets		49,665			
Investment		6,500			
Plant assets :					
Store equipment	20,000				
Less: Acc. depreciation	5,750	14,250			
Motor van	20,000				
Less: Acc. depreciation	12,500	7,500			
Furniture	3,000				
Less: Acc. depreciation	685	2,315			
Loose tools		800			
Total of plant assets		24,865			
Total assets		81,030	**Total liabilities and owner's equity**		81,030

ILLUSTRATION 7'14

The following is the Trial Balance of Rob Trade International, as on June 30, 2003.

ROB TRADE INTERNATIONAL

Trial Balance, June 30, 2003

Name of accounts	Debit Tk.	Credit Tk.
Accounts payable		73,000
Accounts receivable	1,45,000	
Capital Account		7,00,000
Drawings	52,450	
Insurance	6,000	
General Expenses	30,000	
Salaries & Wages	2,54,800	
Equipment	2,75,000	
Freehold Land	1,00,000	
Building	3,00,000	
Inventories June 30	68,000	
Carriage on Sales	32,000	
Fuel	47,300	
Sales discount forfeited		5,000
Purchase discount lost	6,800	
Sales		9,87,800
Cost of goods sold	4,16,750	
Cash at bank	21,300	
Cash in hand	5,400	
Vat current	5,000	
Total	17,65,800	17,65,800

The following adjustments are to be made :

(1) A provision for bad doubtful debts is to create to the extent of 5% on accounts receivable.

(2) Depreciate Equipment by 10%.

(3) Wages include a sum of Tk. 20,000 spent on the erection of a cycle shed for employees and customers.

(4) Salaries for the month of June 2003 amounting to Tk. 15,000 were unpaid.

(5) Insurance includes a premium of Tk. 1,700 on a one year policy, expiring on December 31, 2003.

Required :

1. A multiple step income statement
2. Balance sheet as on June 30, 2003

SOLUTION :

ROB TRADE INTERNATIONAL

1. **Income Statement**

For the year ended June 30, 2003

	Amount Tk.	Amount Tk.	Amount Tk.	Amount Tk.
Sales				9,87,800
Less Cost of goods sold				4,16,750
Gross margin				5,71,050
Less Operating expenses :				
Selling expenses :				
Carriage on sales		32,000		
Allowances for bad debt		7,250	39,250	
General & administrative expenses :				
General expenses		30,000		
Salaries and wages	2,54,800			
Add Salaries due	15,000			
	2,69,800			
Less Wages for cycle shed	20,000	2,49,800		
Insurance	6,000			
Less Prepaid	850	5,150		
Fuel		47,300		
Depreciation on machinery		27,500	3,59,750	3,99,000
Operating profit				1,72,050
Add Sales discount forfeited				5,000
				1,77,050
Less Purchases discount lost				6,800
Net income				1,70,250

2. **ROB TRADE INTERNATIONAL**

Balance Sheet, June 30, 2003

Assets	Amount Tk.	Amount Tk.	Amount Tk.
Current assets :			
Cash in hand		5,400	
Cash at Bank		21,300	
Accounts receivable	1,45,000		
Less Allowances for bad debt	7,250	1,37,750	
Inventories		68,000	
Prepaid insurance		850	
Vat current account		5,000	2,38,300
Plant assets :			
Freehold land		1,00,000	
Building		3,00,000	
Equipment	2,75,000		
Less Depreciation	27,500	2,47,500	
Cycle shed		20,000	6,67,500
Total assets			**9,05,800**
Liabilities and owner's equity			
Current liabilities :			
Accounts payable		73,000	
Salaries payable		15,000	88,000
Capital :			
Beginning balance		7,00,000	
Add Net profit		1,70,250	
		8,70,250	
Less Withdrawals		52,450	8,17,800
Toal liabilities and owner's equity			**9,05,800**

ILLUSTRATION 7'15

The accountant of Utshab Traders extracted the following Trial Balance as on June 30, 2003.

UTSHAB TRADERS

Trial Balance As on June 30, 2003

Title of accounts	Debit Tk.	Credit Tk.
Owner's Capital		1,00,000
Owner's Withdrawals		25,000
Office equipment		15,000
Furniture and Fittings	7,500	
Store equipment	25,000	
Accumulated depreciation—Office equipment	6,000	
Accumulated depreciation—Furniture and fittings	1,500	
Accumulated depreciation—Store equipment	7,500	
Loan from Jamal @ 12% interest	15,000	
Interest paid on above	450	
Sales		1,00,000
Purchases	75,000	
Inventories 1.7.02	25,000	
Inventories 30.6.03		32,000
Establishment expenses	15,000	
Freight-in	2,000	
Freight-out		1,000
Commission received		7,500
Accounts receivable	28,100	
Cash at Bank	28,500	
Accounts payable		10,000
Total	**2,36,550**	**2,90,500**

The accountant located the following errors but is unable to proceed any further.

(a) Totalling errors in bank column of payment side of Cash Book whereby the column was undertotalled by Tk. 500.

(b) Interest on loan paid for the quarter ending March 31, 2003 Tk. 450 was omitted to be posted in the ledger. There was no further payment of interest.

(c) Charge depreciation on Equipment @ 10% and on furniture and fittings @ 5%.

Required :

1. Prepare correct trial balance as on June 30, 2003.
2. Prepare Multiple step income statement for the period.
3. Prepare balance sheet as on June 30, 2003.

SOLUTION

1.

UTSHAB TRADERS
Trial Balance (Corrected)
June 30, 2003

Title of accounts	Debit Tk.	Credit Tk.
Owner's Capital		1,00,000
Owner's Withdrawals	25,000	
Office equipment	15,000	
Furniture and Fittings	7,500	
Store equipment	25,000	
Accumulated depreciation—Office equipment		6,000
Accumulated depreciation—Furniture and fittings		1,500
Accumulated depreciation—Store equipment		7,500
Loan from Jamal @ 12% interest		15,000
Interest paid on above (450 + 450)	900	
Sales		1,00,000
Purchases	75,000	
Inventories 1.7.02	25,000	
Establishment expenses	15,000	
Freight-in	2,000	
Freight-out	1,000	
Commission received		7,500
Accounts receivable	28,100	
Cash at bank (28,500 — 500)	28,000	
Accounts payable		10,000
Total	2,47,500	2,47,500

2.

UTSHAB TRADERS
Income Statement
For the year ended June 30, 2003

	Amount Tk.	Amount Tk.	Amount Tk.
Sales			1,00,000
Less cost of goods sold :			
Beginning inventory		25,000	
Purchases		75,000	
Freight-in		2,000	
		1,02,000	
Less Ending inventory		32,000	70,000
Gross profit			30,000
Operating expenses :			
Selling expenses :			
Freight-out	1,000		
Depreciation on store equipment	2,500	3,500	
Administrative and general expenses :			
Establishment expenses	15,000		
Depreciation :			
Office equipment	1,500		
Furniture	375	16,875	20,375
Operating profit			9,625
Add Commission received			7,500
			17,125
Less : Interest expenses (900 + 450)			1,350
Net income			15,775

3.

UTSHAB TRADERS
Balance Sheet as at June 30, 2003

Assets	Amount Tk.	Amount Tk.	Amount Tk.
Current assets :			
Cash at bank		28,000	
Accounts receivable		28,100	
Inventories		32,000	88,100
Plant assets :			
Office equipment	15,000		
Accumulated depreciation (6,000 + 1500)	7,500	7,500	
Store equipment	25,000		
Accumulated depreciation (7,500 + 2,500)	10,000	15,000	
Furniture and fittings	7,500		
Accumulated depreciation (1,500 + 375)	1,875	5,625	28,125
Total assets			1,16,225
Liabilities and owner's equity			
Current liabilities :			
Accounts payable		10,000	
Interest on loan due		450	10,450
Loan from Jamal			15,000
Owner's equity :			
Capital		1,00,000	
Profits		15,775	
		1,15,775	
Less Withdrawals		25,000	90,775
Total liabilities and owner's equity			1,16,225

ILLUSTRATION 7.16

The accountant of Johur Traders extracted the following Trial Balance as on June 30, 2003.

JOHUR TRADERS
Trial Balance
June 30, 2003.

Title of accounts	Dr. Tk.	Cr. Tk.
Owner's Capital		1,00,000
Owner's Withdrawals	25,000	
Office equipment	15,000	
Furniture and Fittings	7,500	
Store equipment	25,000	
Accumulated depreciation—Office equipment		6,000
Accumulated depreciation—Furniture and fittings		1,500
Accumulated depreciation—Store equipment		7,500
Loan from Kamal @ 10% interest		15,000
Interest paid on above	1,125	
Sales		1,30,700
Purchases	1,05,000	
Inventories 1.7.02	25,000	
Establishment expenses	15,000	
Freight-in	2,000	
Freight-out	1,000	
Sale discount forfeited		7,525
Accounts receivable	28,100	
Cash at bank	25,100	
Accounts payable		10,000
Purchases discount lost	3,400	
Total	2,78,225	2,78,225

Other information :

a. The value of ending inventory as on June 30 was Tk. 34,200.

b. On June 30, after preparing the trial balance one credit customer returns goods of Tk. 1,500 that cost to firm was Tk. 1,200.

c. Sales includes good in transit on June 30 is Tk. 5,000, term of that sale was FOB destination and the cost of sale of that goods were Tk. 4,000.

d. One quarter interest on loan taken was accrued but not paid.

e. Charge depreciation on Equipment @ 10% and on furniture and fittings @ 5%.

Required :

1. Prepare multiple step income statement for the period.
2. Prepare balance sheet as on June 30, 2003.

SOLUTION :

1.

JOHUR TRADERS
Income Statement
For the year ended June 30, 2003.

	Amount Tk.	Amount Tk.	Amount Tk.
Sales revenue		1,30,700	
Less : Return but not recorded	1,500		
Goods in transit	5,000	6,500	1,24,200
Less Cost of goods sold :			
Beginning inventory		25,000	
Purchases		1,05,000	
Freight-in		2,000	
		1,32,000	
Ending inventory	34,300		
Add : Cost of goods returned but not recorded	1,200		
Cost of goods in transit	4,000	39,500	92,500
Gross margin			31,700
Less : Operating expenses :			
Selling expenses			
Freight-out	1,000		
Depreciation on store equipment	2,500	3,500	
General & administrative expenses :			
Establishment expenses	15,000		
Depreciation : Office equipment	1,500		
Furniture	375	16,875	20,375
Operating income			11,325
Add Sales discount forfeited			7,525
			18,850
Less Interest expenses (1,125 + 375)		1,500	
Purchase discount lost		3,400	4,900
Net income			13,950

2.

JOHUR TRADERS
Balance Sheet
As at June 30, 2003

Assets	Amount Tk.	Amount Tk.	Liabilities and owner's equity	Amount Tk.	Amount Tk.
Current assets :			Current liabilities :		
Cash at bank	25,100		Accounts payable	10,000	
Accounts receivable *	21,600		Interest due	375	10,375
Inventories	39,500	86,200	Loan		15,000
Plant assets :			Owner's equity:		
Office equipment	15,000		Capital	1,00,000	
Less Accumulated Dep.	7,500	7,500	*Add* Profit	13,950	
Store equipment	25,000			11,39,950	
Less Accumulated Dep.	10,000	15,000	Less Withdrawn	25,000	88,950
Furniture and fittings	7,500				
Less Accumulated dep.	1,875	5,625			
Total Assets		1,14,325	**Total liabilities and owner's equity**		1,14,325

		Tk.	Tk.
*Accounts receivable :	Balance in trial balance		28,100
	Less : Merchandise returns	1,500	
	Merchandise in transit	5,000	6,500
	Adjusted accounts receivable		21,600

ILLUSTRATION 7'17

The following is the schedule of balances as on 31.12 2002 extracted from the books of Afzal, who carries on business under the same name and style Afzal and Sons, in Dhaka.

AFZAL AND SONS
Trial Balance
December 31, 2002.

Title of accounts	Debit Tk.	Credit Tk.
Cash in hand	14,000	
Accounts receivable	56,000	
Investories 1.1.02	62,000	
Office equipment	57,400	
Buildings	60,000	
Motor Car	20,000	
Accounts payable		43,000
12% Loan from Siddique 1.02.02		30,000
Allowances for doubtful accounts		3,000
Purchases	1,40,000	
Purchases returns		2,600
Sales		2,30,000
Sales Returns	4,200	
Salaries	13,100	
Rent for showroom	5,500	
Interest on loan from Siddique	2,700	
Sales discount	2,400	
Purchase discounts		1,600
Freight on purchases	1,200	
Carriage outwards	2,000	
Printing and Stationery	1,800	
Electricity charges	2,200	
Insurance premium	5,500	
Bad debts	2,000	
Bank charges	4,600	
Motor car expenses	3,600	
Afzal's Capital		1,62,000
Afzal's Drawings	12,000	
Total	**4,72,200**	**4,72,200**

Prepare Multiple-step income statement for the year ended December 31, 2002 and the Balance Sheet as at that date after making provision for the following :

1. Depreciate: (a) Building used for business by 5% ; (b) Office equipment by 10%
2. Value of inventories at the close of the year was Tk. 44,000 including stationery Tk 100.
3. Reserve for bad debts is to be maintained at 5% of accounts receivable
4. Insurance premium includes Tk. 4,000 paid towards proprietor's life insurance policy and the balance of the insurance charge cover the period from 1. 4. 2002 to 30. 6. 2003
5. Half of the buildings are used for residential purposes of Mr. Afzal.

SOLUTION :

1.

AFZAL AND SONS
Income Statement
For the year ended December 31, 2002.

		Amount Tk.	Amount Tk.	Amount Tk.
Sales			2,30,000	
Sales returns			(4,200)	
Sales discounts			(2,400)	
				2,23,400
Less Cost of goods sold :				
Beginning inventories			62,000	
Purchase		1,40,000		
Purchase returns		(2,600)		
Purchase discount		(1,600)	1,35,800	
Freight-in			1,200	
Goods available for sale			1,99,000	
Ending inventory (Tk. 44,000 — 100)			43,900	
				1,55,100
Gross margin				68,300
Less Operating expenses :				
Selling expenses :				
Show room rent		5,500		
Carriage outwords		2,000		
Bad dept expenses :				
Bad-debt written off	2,000			
Add New provision (5% × 56,000)	2,800			
	4,800			
Less Old provision	3,000	1,800	9,300	
General & administrative expenses :				
Salaries		13,100		
Printing and stationary (Tk. 1,800 —100)		1,700		
Electricity		2,200		
Insurance (Tk. 5,500 — 4,000) × 9/15		900		
Motor car expenses		3,600		
Depreciation :				
Building (1/2 × 60,000 × 5%)		1,500		
Office equipment		5,740	28,740	38,040
Operating income				30,260
Less Other expenses :				
Interest on loan (2,700 + 600 due)			3,300	
Bank charge			4,600	7,900
Net income				22,360

Working :

(i) Interest on loan due :

Total interest Payable $12\% \times \frac{11}{12} \times 30,000 = 3,300$

Interest paid $= 2,700$

Due $= 600$

(II) Insurance expenses :

Insurance Premium $= 5,500$

Less : Premium for personal life policy $= 4000$

Premium for business $= 1,500$

Expired = 9 month

Total period 1. 4. 02 to 30.6.03 = 15 month

$\therefore$ **Insrance Premium — expenses** $1,500 \times \frac{9}{15} = 900$

2.

AFZAL AND SONS
Balance Sheet
As on December 31, 2002.

Assets	Amount Tk.	Amount Tk.	Liabilities and owner's equity	Amount Tk.	Amount Tk.
Current assets :			Current liabilities :		
Cash in hand		14,000	Accounts payable	43,000	
Accounts receivable	56,000		Interest on loan due	600	43,600
Less Allowance for			Loan		30,000
Doubtful debts	2,800	53,200			
Merchandise		43,900	Owner's equity :		
Stationery		100	Capital	1,62,000	
Prepaid insurance		600	*Add* Profit	22,360	
Total current assets		**1,11,800**		1,84,360	
Plant assets :			*Less* Drawings (12,000 + 4,000)	16,000	1,68,360
Buildings	60,000				
Less Accumulated dep.	1,500	58,500			
Office equipment	57,400				
Less Accumulated dep.	5,740	51,660			
Motor car		20,000			
Total plant assets		**1,30,160**			
Total assets (1,11,800 + 1,30,160)		**2,41,960**	**Total liabilities and owner's equity**		**2,41,960**

ILLUSTRATION 7·18

The following figures have been credited from the records of Variety Stores, a proprietorship concern as at December 31, 2002 :

Title of accounts	Tk.	Title of accounts	Tk.
Furniture	15,000	Insurance	6,000
Proprietor's Capital Account	54,000	Show room rent	22,000
Cash in hand	3,000	Accounts receivable	60,000
Beginning inventories	50,000	Sales	6,00,000
Premises	34,600	Advertisement	10,000
Drawings	5,000	Postage and Telephone	3,400
Provision for bad debts	3,000	Bad Debts	2,000
Cash at bank	10,000	Printing and stationery	9,000
Purchases	3,00,000	General charges	13,000
Salaries	1,19,000	Accounts payable	40,000
Carriage outwards	41,000	Advances from customers	6,000

Additional information :

1. The ending inventory as on December 31, 2002 was Tk. 40,000;
2. Merchandise worth Tk. 2,500 have been destroyed by fire, a claim to the extent of Tk. 2,100 has been admitted by the insurance company ;
3. Charge depreciation on furniture at 10%;
4. There was an outstanding liability for rent of Tk. 2,000;
5. An advance of Tk. 4,000 paid to an employee against his salary of January 2003 had been debited to the Salary Account.

6. The office premises were sublet from December 1, 2002 for a monthly rental of Tk. 1,000, but the rent for December has not been received.
7. Reserve for bad debts is to be maintained at 5% of accounts receivable.

Required :

1. Prepare multiple step income statement for the period.
2. Prepare balance sheet as on December 31, 2002.

SOLUTION :

1.

VARIETY STORES

Income Statement

For the year ended December 31, 2002.

		Amount Tk.	Amount Tk.	Amount Tk.
Sales				6,00,000
Less Cost of sale :				
Beginning inventory		50,000		
Purchases		3,00,000	3,50,000	
Less Closing inventory			(40,000)	
Fire loss			(2,500)	3,07,500
Gross profit				2,92,500
Less Operating expenses :				
Selling expenses :				
Showroom rent (22,000 + 2,000)		24,000		
Carriage outwards		41,000		
Bad debt expenses :				
Bad debt written off	2,000			
Add new for doubtful dest Provision	3,000			
	5,000			
Less Old provision	3,000	2,000		
Advertisement expenses		10,000	77,000	
Advertisement and general expenses :				
Salaries	1,19,000			
Less Advance	4,000	1,15,000		
Insurnace		6,000		
Postage & Telephone		3,400		
Printing & stationery		9,000		
General charges		13,000		
Depreciation on furniture		1,500		
Fire loss (2,500 — 2,100)		400	1,48,300	2,25,300
Operating income				67,200
Add Rent income				1,000
Net income				**68,200**

2. **VARIETY STORES**

Balance Sheet as on December 31, 2002

Assets	Amount Tk.	Amount Tk.	Liabilities and owner's equity	Amount Tk.	Amount Tk.
Current assets			Current liabilities :		
Cash in hand		3,000	Accounts payable	40,000	
Cash at bank		10,000	Rent due	2,000	
Accounts receivable	60,000				
Less Provision for doubtful	3,000	57,000	Customers advances	6,000	48,000
Inventories		40,000	Owner's equity :		
Rent receivable		1,000	Capital	54,000	
Salaries advance		4,000	*Add* Profit	68,200	
Insurance company—claims admitted		2,100		1,22,200	
Total current asset		1,17,100	*Less* Withdrawals	5,000	1,17,200
Plant assets :					
Furniture	15,000				
Less : Accumulated Dep.	1,500	13,500			
Premises		34,600			
Total plant assets		48,100			
Total assets (1,17,100 + 48,100)		1,65,200	**Total liabilities and owner's equity**		1,65,200

ILLUSTRATION 7·19

Abdul Malek has extracted the following Trial Balance for his business Sun-moon Traders as on March 31, 2003 :

SUN-MOON TRADERS

Trial Balance as on March 31, 2003

Name of accounts	Debit (Tk.)	Credit (Tk.)
Drawings	16,000	
Cash	5,260	
Equipment	30,000	
Accumulated depreciation—Equipment		10,000
Beginning inventory	50,000	
Office salaries	12,000	
Accounts receivable	50,000	
Sales salaries	40,000	
Bank	21,000	
Capital		34,000
Rent	9,000	
Electricity	6,000	
Motor car	10,240	
Advertising	9,000	
Accounts payable		35,000
Purchases	4,02,500	
Postage and telephone	3,000	
Sales		6,10,000
Discount on sale	11,400	
General charges	4,000	
Miscellaneous expenses	9,600	
Total	6,89,000	6,89,000

Adjustments :

(a) Inventory on March 31, 2003 at market value was Tk. 80,000 (Cost Tk. 75,000). The inventory includes goods costing Tk. 5,000 lost in transit. The loss was not covered by insurance.

(b) Discount allowed to customer amounting to Tk. 1,000 had been posted to the credit of accounts payable.

(c) Cash withdrawn from bank for business use Tk. 4,000 had not been entered in the bank account but wrongly posted to accounts receivable.

(d) Sale on account Tk. 4,000 had not yet been recorded.

(e) Telephone bill for Tk. 1,000 remain unpaid.

(f) Depreciate : Equipment by Tk. 4,000 and motor car by Tk. 2,000.

(g) Estimated bad debt expenses for the period to be Tk. 2,500.

(h) Advertising includes cost of a campaign run during the year Tk. 6,000. It is expected that the effect of this campaign will be felt for at least three years.

(i) On March 30, 2003 merchandise that cost Tk. 10,000 was sent to an expected customer on sale or return basis at a price of Tk. 15,000 which was recorded as normal sale. Confirmation of sale not yet received.

Required :

(1) Prepare a multiple step income statement.

(2) Prepare a classified balance sheet.

SOLUTION :

Workings

(i)	**Sale :**		Tk.
	Sales as per trial balance		6,10,000
	Add Sales not yet recorded		4,000
			6,14,000
	Less Sales on sale or return basis		15,000
			5,99,000
	Less Sales discount		11,400
	Net sale		**5,87,600**
(ii)	**Ending inventories :**		
	Balance as per record		75,000
	Add Goods on sale or return basis		10,000
	Inventories before adjustment of loss		85,000
	Less Goods damaged in transit		5,000
	Adjusted ending inventory		**80,000**
(iii)	**Bank balance**		
	As per trial balance		21,000
	Less Withdrawn but not posted to bank		4,000
	Adjusted balance		**17,000**
(iv)	**Accounts payable**		
	Balance as per trial balance		35,000
	Less : Wrong posting for discount allowed		1,000
	Adjusted balance		**34,000**
(v)	**Accounts receivable**		
	Balance as per trial balance		50,000
	Add Unrecorded sale		4,000
	Add Wrong credit for withdrawal from bank		4,000
			58,000
	Less Unrecorded discount	1,000	
	Sale on sale or return basis	15,000	16,000
	Adjusted accounts receivable		**42,000**

SUN-MOON TRADERS
Income Statement
For the year ended March 31, 2003

	Amount Tk.	Amount Tk.	Amount Tk.
Sales (Working—i)			5,87,600
Less Cost of sale :			
Beginning inventory	50,000		
Add Purchase	4,02,500		
Total	4,52,500		
Less Ending inventory before loss adjustment (working—ii)	85,000		3,67,500
Gross profit			2,20,100
Less Operating expenses :			
Selling and distribution expenses			
Sales salaries	40,000		
Advertisement	9,000		
Bad debt	2,500	51,500	
General and administrative expenses :			
Office salaries	12,000		
Rent expense	9,000		
Electricity	6,000		
Telephone expense (3,000 + 1,000 due)	4,000		
General expense	4,000		
Miscellaneous expenses	9,600		
Depreiciation expense — Motor car	2,000		
Equipment	4,000	50,600	1,02,100
Operating income			1,18,000
Less Non-operating expense :			
Merchandise lost in transit (not covered by insurance)			5,000
Net income			**1,13,000**

2. **SUN-MOON TRADERS**
Balance Sheet
as on March 31, 2003

Assets		Amount Tk.	Amount Tk.	Liabilities and owner's equity	Amount Tk.	Amount Tk.
Current assets :				Current liabilities :		
				Accounts payable	34,000	
Cash		5,260		Telephone bills payable	1,000	35,000
Accounts receivable	42,000			Owner's equity :		
Less Estimated bad debt	2,500	39,500		Capital	34,000	
Bank		17,000		*Add* Net profit	1,13,000	
Inventories		80,000	1,41,760		1,47,000	
Fixed asset :				*Less* Drawings	16,000	1,31,000
Equipment	30,000					
Less Accumulated dep.	14,000	16,000				
Motor car	10,240					
Less Accumulated dep.	2,000	8,240	24,240			
Total Assets			**1,66,000**	**Total liabilities and owner's equity**		**1,66,000**

ILLUSTRATION 7·20

The Trial balance of Fashion Centre contains the following accounts at December 31, 2000.

FASHION CENTRE
Trial Balance
As on December 31, 2000

Accounts name and titles	Debit Tk.	Credit Tk.
Cash	16,700	
Accounts receivable	33,700	
Merchandise inventory 31.12.2000	50,000	
Store supplies	5,500	
Store equipment	85,000	
Accumulated depreciation (Store equipment)		18,000
Delivery equipment	48,000	
Accumulated depreciation (Delivery equipment)		6,000
Notes payable		51,000
Accounts payable		48,500
Capital		1,10,000
Drawings	12,000	
Sales		7,46,600
Sales return and allowance	4,200	
Cost of goods sold	4,91,800	
Salaries expense	1,40,000	
Advertising expense	26,400	
Utilities expense	17,000	
Repair expense	9,100	
Delivery expense	16,700	
Rent expense	24,000	
Total	9,80,100	9,80,100

Additional data :

(a) Store supplies on hand total Tk. 2,000.

(b) Depreciation is Tk. 9,000 on the store equipment and Tk. 7,000 on delivery equipment

(c) Interest of Tk. 11,000 is accrued on notes payable.

(d) Physical count shows that actual merchandise inventory on hand at 31.12.2000 is Tk. 45,000. Also found that the cause of difference is a sale of Tk. 7,000 that cost Tk. 5,000 but inventory was not updated.

(e) Tk. 30,000 notes payable due for payment in next year.

Required : (1) Multiple step income statement

(2) Classified balance sheet.

SOLUTION:

(1)

FASHION CENTRE

Income Statement

For the year ended December 31, 2000

	Amount Tk.	Amount Tk.	Amount Tk.
Sales		7,46,600	
Less : Return and allowances		4,200	7,42,400
Less : Cost of goods sold		4,91,800	
Omitted from record		5,000	4,96,800
Gross margin			2,45,600
Less : Operating expenses :			
Selling expenses :			
Advertisementr expenses	26,400		
Delivery expenses	16,700		
Store supplies used (5500 — 2000)	3,500		
Depreciation on delivery equipment	7,000		
Store equipment	9,000	62,600	
General and administrative expenses :			
Salaries expenses	1,40,000		
Utilities expenses	17,000		
Repair expenses	9,100		
Rent expenses	24,000	1,90,100	2,52,700
Operating loss			7,100
Add : Interest expenses			11,000
Net loss			**18,100**

(2)

FASHION CENTRE

Balance Sheet As on December 31, 2000

Assets		Amount Tk.	Amount Tk.	Liabilities and owner's equity	Amount Tk.	Amount Tk.
Current assets :				Current liabilities :		
Cash		16,700		Accounts payable	48,500	
Accounts receivable		33,700		Notes payable	30,000	
Merchandise Inventory*		45,000		Interest payable	11,000	89,500
Store supplies		2,000	97,400	Long terms liabilities :		
Plant assets :				Notes payable	51,000	
Store equipment	85,000			*Less* Treated as current liabilities	30,000	21,000
Less : Accumulated Dep.	27,000	58,000		Owner's equity :		
Delivery equipment	48,000			Capital	1,10,000	
Less Accumulated Dep.	13,000	35,000	93,000	*Less* Drawings	12,000	
					98,000	
				Less : Net loss	18,100	79,900
Total assets			1,90,400	**Total liabilities and owner's equity**		1,90,400

Merchandise Inventory :

Inventory as per record	50,000
Less Sales but cost have not been updated	5,000
Actual inventory	45,000

FINANCIAL STATEMENTS OF JOINT STOCK COMPANY

There is no statutory obligation upon sole proprietorship or partnership firms to prepare final accounts, but companies have a statutory obligation to prepare financial statements (Balance sheet and Profit and Loss account) as required by section 185 of the companies Act, 1994.

The general principles of preparing the financial statements of Joint Stock Company are the same as in the case of the sole proprietorship or partnership firms. But in addition to these principles, a joint stock company must conform to certain legal provisions as given in the Companies Act 1994 in respect of forms and contents of balance sheet and profit and loss account. It may be remembered that the provisions of the Companies Act 1994 relating to forms and contents of balance sheet and profit and loss accounts are not applicable to insurance, banking, railway, gas and electricity companies which are governed by special acts relating to such companies.

Legal position regarding balance sheet and profit and loss accounts of Limited companies :

Section 185. Forms and contents of balance sheet and profit and loss account :

(1) The balance sheet of a company shall contain a summary of the property and assets and of the capital and liabilities of the company giving a true and fair view of affairs as at the end of the financial year, and it shall, subject to provisions of this section be in the form set out in part—I of schedule 1. Or as near thereto as circumstances admit or in such other form as may be approved by the government either generally or in any particular case; and in preparing the balance sheet due regard shall be had, as far as may be, to the general instructions for preparation of balance sheet under the heading "Notes" at the end of the part :

Provided that nothing contained in this sub-section shall apply to any insurance or banking company or any company engaged in the generation or supply of electricity or to any other class of company for which a form of balance sheet has been specified in or under the law governing such class of company.

(2) Every profit and loss account of a company shall give a true and fair view of the profit and or loss of the company for the financial year and shall, subject as aforesaid, comply with the requirements of Part II of Schedule XI so far as applicable thereto :

Provided that nothing contained in this sub-section shall apply to any insurance or banking company or any company engaged in the generation or supply of electricity or to any other class of company for which a form of profit and loss account has been specified in or under the law governing such class of company.

(3) The Government may, by notification in the official Gazette, exempt any class of companies from the requirements of Schedule XI if, in its opinion, it is necessary to grant the exemption in the public interest; and any such exemption may be granted either unconditionally or subject to such conditions as may be specified in the notification.

ILLUSTRATION 7.21

The registered capital of AB limited is Tk. 5,00,000 consisting of 50000 equity shares of Tk.10 each. The following was the trial balance of AB limited as on December 2001.

AB LIMITED
Trial Balance
December 31, 2001

Title of accounts	Debit Amount Tk.	Credit Amount Tk.
Investment in shares,	50,000	
Purchases	4,90,000	
Selling expenses	79,100	
Inventories 1.1.01	1,45,700	
Salaries and wages	52,000	
Cash in hand	18,000	
Discount on issue of Debenture	2,000	
Preliminary expenses	1,000	
Accounts receivable	91,600	
Interest on bank overdraft	7,800	
Interest on debenture upto 30.9.01	3,750	
Audit fees	5,000	
Income tax paid in advance	10,000	
Freehold property at cost	3,50,000	
Techinical know-how fees at cost paid during the year	1,50,000	
Furniture	50,000	
Accumulated depreciation—Furniture		15,000
Accounts payable		87,850
Equity share capital fully paid up		4,00,000
5% Mortgage debenture		1,50,000
Sales		6,70,350
Dividends		4,250
Retained earnings 1.1.01		28,500
Bank overdraft		1,50,000
Total	**15,05,950**	**15,05,950**

Additional data :

1. Inventories was valued Tk 1,42,000.
2. Purchase includes Tk. 5,000 worth of merchandise distributed among valued customers.
3. Salaries and wages include Tk. 5,000 being wages incurred for installation of electrical fittings on July 1, 2001, which were recorded under "furniture".
4. Depreciation on furniture to be charged at 10% on its cost.
5. Tk. 1,000 of discounts on issue of Debenture to be written off.
6. Provide Provision for taxation Tk. 4,000.
7. Technical know-how fees is to be written off over a period of 10 years, Tk. 500 of preliminary expenses is to be written off.
8. Accounts receivable include Tk. 16,000 debts due for more than six months.

Required :

a. Income statement for year ended December 31, 2001.

b. Statement of retained earnings.

c. Balance sheet as December 31, 2001 according to company Act 1994. (Use Horizontal form).

SOLUTION :

AB LIMITED

Income Statement

For the year ended December 31, 2001

	Amount Tk.	Amount Tk.	Amount Tk.
Sales (net)			6,70,350
Less Cost of goods sold :			
Beginning inventory		1,45,700	
Add Purchases		4,90,000	
		6,35,700	
Less distributed among valued customer		5,000	
Goods available for slae		6,30,700	
Less ending Inventory		1,42,500	4,88,200
Gross margin			1,82,150
Less Operating expenses :			
Salaries and wages	52,000		
Less Wages for installation of electrical fittings	5,000	47,000	
Selling expenses		79,100	
Advertisement—distribution of goods		5,000	
Discount on issue of debenture written off		1,000	
Preliminary expenses written off		500	
Interest on bank overdraft		7,800	
Interest on debenture (3,750 + 1,875)		5,625	
Audit fees		5,000	
Technical know-how fees		15,000	
Depreciation on furniture 10% (50,000) + 10% (5,000) (1/2)		5,250	
Provision for taxation		4,000	1,75,275
Net operating profit			6,875
Add Dividend received			4,250
Net income			11,125

AB LIMITED

Retained earnings statement

For the year ended December 31, 2001

	Amount Tk.
Retained earnings balance 1.1.01	28,500
Add Net income during 2001	11,125
Balance 31.12.01	39,625

AB LIMITED

Balance Sheet as on December 31, 2001

Liabilities	Amount Tk	Assets		Amount Tk
Share capital :		Fixed assets :		
Authorised : 50000 shares ot Tk. 10 each	5,00,000	Freehold property		3,50,000
Issued, Subscribed, called up and paid up :		Furniture	50,000	
40000 shares of Tk. 10 each	4,00,000	*Add* Electrical installation	5,000	
Reserve and surplus :			55,000	
Retained earnings	39,625	*Less* Accumulated depreciation	20,250	34,750
Secured loans :		Technical know-how	1,50,000	
5% Mortgage loan	1,50,000	*Less* Written off	15,000	1,35,000
Interest on debenture outstanding	1,875	Investment :		
Unsecured loan :		Investment in shares		50,000
Bank overdraft	1,50,000	Current assets, Loans & advances :		
Current liabilities & provision:		A. Current Assets		
A. Accounts payable	87,850	Inventories	1,42,500	
B. Provision for taxation	4,000	Accounts receivables	91,600	
		Cash in hand	18,000	2,52,100
		B. Loan & Advances		
		Advance tax		10,000
		Misc. expenses (not yet adjusted)		
		Preliminary expenses	500	
		Discount on issue of debenture	1,000	1,500
Total liabilities	8,33,350	**Total assets**		8,33,350

ILLUSTRATION 7.22

Colin Powel Ltd. submits you the following Trial Balance as of December 31, 2001

COLIN POWEL LTD.

Trial Balance as of December 31, 2001

Name of accounts	Debit Tk.	Credit Tk.
Cash in hand	20,000	
Investment	70,000	
Accounts receivable	3,02,000	
Inventory	56,000	
Prepaid expenses	54,000	
Land	1,60,000	
Plant & equipment	11,67,000	
Other assets (non-current)	15,63,000	
Accounts payable		1,40,000
Wages, interest and taxes payable		2,22,000
Unearned revenue		33,000
Debentures		12,00,000
Other liabilities		3,36,000
Common stock		1,90,000
Retained earnings		11,08,000
Sales		27,95,000
Interest revenue		23,000
Gain on condemnation of land by govt.		2,00,000
Cost of goods sold	15,65,000	
Selling, general and administrative expenses	6,40,000	
Loss from tidal bore charge to Chittagong Branch	1,50,000	
Interest expense	70,000	
Income tax expense	2,73,000	
Operating loss on discontinued operations	57,000	
Dividends	1,00,000	
Total	**62,47,000**	**62,47,000**

Additional information :

1. Inventory includes spoiled and unslable goods worth Tk. 6,000.
2. Selling, general and administrative expenses incorrectly include Tk. 15,000 for office furniture purchases (other assets). The purchases were made on December 30.
3. The prepaid expenses were paid on September 1 and relate to a 3 year insurance policy that went into effect on September 1.
4. The unearned revenue relates to rental of an unused portion of the corporate offices the Tk. 33,000 received on April 1 and represents payment in advance for one year's rental.
5. Plant and equipment includes Tk. 10,000 for equipment repairs that were erroneously recorded as equipment purchases. The repairs were made on December 30.
6. Other assets include Tk. 8,000 for miscellaneous office supplies, which were purchased on mid October. At the end of year count reveals that only Tk. 6,500 of office supplies remain.

Required :

(a) Adjusting entries to record the above additional information.

(b) A classified Income Statement for the year ended December 31, 2001.

(c) A classified Balance Sheet as on December 31, 2001. (The vertical format given in schedule 11, of companies Act, 1994).

SOLUTION :

(a)

COLIN POWEL LTD.

Adjusting Entries

		Debit Tk.	Credit Tk.
(1)	Cost of goods sold	6,000	
	Inventory		6,000
(2)	Other Assets	15,000	
	Selling, general and administrative expense		15,000
(3)	Expenses $\frac{4}{36} \times$ Tk. 54,000	6,000	
	Prepaid expenses		6,000
(4)	Unearned Revenue $\frac{9}{12} \times$ Tk. 33,000	24,750	
	Rental income		24,750
(5)	Repairs expense	10,000	
	Plant & equipment		10,000
(6)	Supplies Expense (Tk. 8,000—Tk. 6,500)	1,500	
	Other Assets		1,500