

Little Flower Matriculation Higher Secondary School
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11 – Accountancy
Unit – 13 Final Accounts of Sole Proprietors - II

I. Choose the correct answer

1. A prepayment of insurance premium will appear in
 - (a) The trading account on the debit side
 - (b) The profit and loss account on the credit side
 - (c) The balance sheet on the assets side**
 - (d) The balance sheet on the liabilities side
2. Net profit is
 - (a) Debited to capital account **(b) Credited to capital account**
 - (c) Debited to drawings account (d) Credited to drawings account
3. Closing stock is valued at
 - (a) Cost price (b) Market price
 - (c) Cost price or market price whichever is higher
 - (d) Cost price or net realisable value whichever is lower**
4. Accrued interest on investment will be shown
 - (a) On the credit side of profit and loss account (b) On the assets side of balance sheet
 - (c) Both (a) and (b)** (d) None of these
5. If there is no existing provision for doubtful debts, provision created for doubtful debts is
 - (a) Debited to bad debts account (b) Debited to sundry debtors account
 - (c) Credited to bad debts account **(d) Debited to profit and loss account**

II. Very short answer questions

1. What are adjusting entries?

⇒ Adjustment entries are the journal entries made at the end of the accounting period to account for items which are omitted in trial balance and to make adjustments for outstanding and prepaid expenses and revenues accrued and received in advance.

2. What is outstanding expense?

⇒ Expenses which have been incurred in the accounting period but not paid till the end of the accounting period are called outstanding expenses.

3. What is prepaid expense?

- (i) Prepaid expenses refer to any expense or portion of expense paid in the current accounting year but the benefit or services of which will be received in the next accounting period.
- (ii) They are also called as unexpired expenses.

4. What are accrued incomes?

- (i) Accrued income is income or portion of income which has been earned during the current accounting year but not received till the end of that accounting year.
- (ii) It generally happens in case of amount to be received on account of commission, interest, dividend, etc.

5. What is provision for discount on debtors?

- (i) Cash discount is allowed by the suppliers to customers for prompt payment of amount due either on or before the due date.
- (ii) A provision created on sundry debtors for allowing such discount is called provision for discount on debtors.

III. Short answer questions

1. What is the need for preparing final accounts?

- (i) To determine profit or loss incurred by a business in a given financial period.
- (ii) To determine the financial position of the company.
- (iii) To act as a source of information to convey the users of accounting information (owners, creditors, investors and other stakeholders) about the solvency of the company.

2. What is meant by provision for doubtful debts? Why is it created?

- (i) Provision for bad and doubtful debts refers to amount set aside as a charge against profit to meet any loss arising due to bad debt in future.
- (ii) At the end of the accounting period, there may be certain debts which are doubtful, i.e., the amount to be received from debtors may or may not be received.
- (iii) The reason may be incapacity to pay the amount or deceit.
- (iv) A provision for doubtful debts is created and is charged to profit and loss account.

Adjusting entry

Particulars	L.F.	Debit ₹	Credit ₹
Profit and loss A/c Dr. To Provision for bad and doubtful debts A/c (Provision for bad and doubtful debts created)		xxx	xxx

3. Explain how closing stock is treated in final accounts.

- (i) The unsold goods in the business at the end of the accounting period are termed as closing stock.
- (ii) The stock is valued at cost price or net realisable value, whichever is lower.
- (iii) Closing Stock is shown on the Credit Side of Trading Account.
- (iv) Closing Stock is shown on the Asset Side of Balance Sheet.

Adjusting entry

Particulars	L.F.	Debit ₹	Credit ₹
Stock (closing) A/c Dr. To Trading A/c (Closing stock brought into account)		xxx	xxx

4. Give the adjusting entries for interest on capital and interest on drawings.**I. Adjusting entries for Interest on capital**

Particulars	L.F.	Debit ₹	Credit ₹
Interest on capital A/c Dr. To Capital A/c (Interest on capital provided)		xxx	xxx

II. Adjusting entries for Interest on drawings

Particulars	L.F.	Debit ₹	Credit ₹
Capital A/c Dr. To Interest on drawings A/c (Interest on drawings provided)		xxx	xxx

5. Explain the accounting treatment of bad debts, provision for doubtful debts and provision for discount on debtors.**I. Bad debts**

- (i) Debts which cannot be recovered or irrecoverable debts are called bad debts.
- (ii) It is a loss for the business and should be charged against profit.

Adjusting entry

Particulars	L.F.	Debit ₹	Credit ₹
Bad debts A/c Dr. To Sundry debtors A/c (Bad debts written off)		xxx	xxx

II. Provision for bad and doubtful debts

- (i) Provision for bad and doubtful debts refers to amount set aside as a charge against profit to meet any loss arising due to bad debt in future.
- (ii) At the end of the accounting period, there may be certain debts which are doubtful, i.e., the amount to be received from debtors may or may not be received.
- (iii) The reason may be incapacity to pay the amount or deceit.
- (iv) A provision for doubtful debts is created and is charged to profit and loss account.

Adjusting entry

Particulars	L.F.	Debit ₹	Credit ₹
Profit and loss A/c Dr. To Provision for bad and doubtful debts A/c (Provision for bad and doubtful debts created)		xxx	xxx

III. Provision for discount on debtors

- (i) Cash discount is allowed by the suppliers to customers for prompt payment of amount due either on or before the due date.
- (ii) A provision created on sundry debtors for allowing such discount is called provision for discount on debtors.

Adjusting entry

Particulars	L.F.	Debit ₹	Credit ₹
Profit and loss A/c Dr. To Provision for discount on debtors A/c (Provision for bad and doubtful debts created)		xxx	xxx

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