

**Little Flower Matriculation Higher Secondary School**  
**Nathakkarai, Thalaivasal - 636112**

M.Varadarajan, M.Com., M.Ed., M.Phil.,  
PG Assistant in Commerce  
E-mail: mvaradarajan76@gmail.com  
Mobile: 9786868699 & 9842868699

**11 – Accountancy**  
**Unit – 12 Final Accounts of Sole Proprietors - I**

**I. Choose the correct answer**

1. Closing stock is an item of-----.  
(a) Fixed asset **(b) Current asset** (c) Fictitious asset (d) Intangible asset
2. Balance sheet is-----  
(a) An account **(b) A statement**  
(c) Neither a statement nor an account (d) None of the above
3. Net profit of the business increases the-----  
(a) Drawings (b) Receivables (c) Debts **(d) Capital**
4. Carriage inwards will be shown  
**(a) In the trading account** (b) In the profit and loss account  
(c) On the liabilities side (d) On the assets side
5. Bank overdraft should be shown  
(a) In the trading account (b) Profit and loss account  
**(c) On the liabilities side** (d) On the assets side
6. Balance sheet shows the-----of the business.  
(a) Profitability **(b) Financial position** (c) Sales (d) Purchases
7. Drawings appearing in the trial balance is  
(a) Added to the purchases (b) Subtracted from the purchases  
(c) Added to the capital **(d) Subtracted from the capital**
8. Salaries appearing in the trial balance is shown on the  
(a) Debit side of trading account **(b) Debit side of profit and loss account**  
(c) Liabilities side of the balance sheet (d) Assets side of the balance sheet

9. Current assets does not include  
(a) Cash (b) Stock **(c) Furniture** (d) Prepaid expenses
10. Goodwill is classified as  
(a) A current asset (b) A liquid asset  
(c) A tangible asset **(d) An intangible asset**

## **II. Very short answer questions**

### **1. Write a note on trading account.**

- (i) Trading refers to buying and selling of goods with the intention of making profit.
- (ii) The trading account is a nominal account which shows the result of buying and selling of goods for an accounting period.
- (iii) Trading account is prepared to find out the difference between the revenue from sales and cost of goods sold.

### **2. What are wasting assets?**

- (i) These are the assets which get exhausted gradually in the process of excavation.
- (ii) Examples: mines and quarries.

### **3. What are fixed assets?**

- ⇒ Fixed assets are those assets which are acquired or constructed for continued use in the business and last for many years such as land and building, plant and machinery, motor vehicles, furniture, etc.

### **4. What is meant by purchases returns?**

- ⇒ Goods purchased which are returned to suppliers are termed as purchases returns or returns outward.

### **5. Name any two direct expenses and indirect expenses.**

#### **I. Direct expenses**

- (a) Carriage inwards or Freight inwards
- (b) Wages

**II. Indirect expenses**

- (a) Office and administrative expenses
- (b) Selling and distribution expenses

**6. Mention any two differences between trial balance and balance sheet.**

Basis	Trial balance	Balance sheet
1. Nature	Trial balance is a list of ledger balances on a particular date.	Balance sheet is a statement showing the position of assets and liabilities on a particular date.
2. Purpose	Trial balance is prepared to check the arithmetical accuracy of the accounting entries made.	Balance sheet is prepared to ascertain the financial position of a business.

**7. What are the objectives of preparing trading account?**

- (i) Provides information about gross profit or gross loss.
- (ii) Provides an opportunity to safeguard against possible losses
- (iii) Provides information about direct expenses and direct incomes.

**8. What is the need for preparing profit and loss account?**

- (i) Ascertainment of net profit or net loss
- (ii) Comparison of profit
- (iii) Control on expenses
- (iv) Helpful in the preparation of balance sheet

**III Short answer questions****1. What are final accounts? What are its constituents?****Final accounts**

- (i) The business entities are interested in knowing periodically the results of business operations carried on and the financial soundness of the business.
- (ii) In other words, they want to know the profitability and the financial position of the business.
- (iii) These can be ascertained by preparing the final accounts or financial statements.

## Constituents

- ❖ The final accounts or financial statements include the following:
  - (a) Income Statement or Trading and Profit and Loss Account and
  - (b) Position Statement or Balance Sheet.
- ❖ The purposes of preparing the financial statements are:
  - (i) To ascertain the financial performance of an enterprise and
  - (ii) To ascertain the financial position of an enterprise.

## **2. What is meant by closing entries? Why are they passed?**

### I. Closing entries

- (i) Balances of all the nominal accounts are required to be closed on the last day of the accounting year to facilitate the preparation of trading and profit and loss account.
- (ii) It is done by passing necessary closing entries in the journal proper.
- (iii) Purchases has debit balance and purchases returns has credit balance.
- (iv) At the end of the accounting year, the balance in purchases returns account is closed by transferring to purchases account.
- (v) Similarly, sales account has credit balance and sales returns has debit balance.
- (vi) At the end of the accounting year, the balance in sales returns account is closed by transferring to sales account.

### II. Closing entry passed

#### **For closing purchases returns account**

Particulars	Debit ₹	Credit ₹
Purchases returns A/c Dr. To Purchases A/c (Closing of purchase returns account by transferring to purchases account)	xxx	xxx

### 3. What is meant by gross profit and net profit?

#### I. Gross profit

- (i) Trading account is prepared to find out the difference between the revenue from sales and cost of goods sold.
- (ii) Cost of goods sold refers to directly related cost.
- (iii) If the amount of sales exceeds the cost of goods sold, the difference is gross profit.

#### ❖ Formula:

- (a)  $\text{Sales} - \text{Cost of goods sold} = \text{Gross profit}$
- (b)  $\text{Sales} - \text{Gross profit} = \text{Cost of goods sold}$

#### II. Net profit

- (i) Profit and loss account contains all the items of indirect expenses and losses and indirect incomes and gains in addition to gross profit or gross loss pertaining to the accounting period.
- (ii) Debiting all indirect expenses and losses and crediting all indirect incomes and gains, if the total of the credit side of the profit and loss account exceeds the debit side, the difference is termed as net profit.

### 4. "Balance sheet is not an account"- Explain.

- (i) Balance sheet is a statement which gives the position of assets and liabilities on a particular date.
- (ii) A balance sheet is a part of the final accounts.
- (iii) However, the balance sheet is a statement and not an account.
- (iv) It has no debit or credit sides and as such the words 'To' and 'By' are not used before the names of the accounts shown therein.

**5. What are the advantages of preparing a balance sheet?**

- (i) Balance sheet helps to ascertain the financial position of the business.
- (ii) Balance sheet provides detailed information about assets and liabilities for a particular accounting period.
- (iii) Balance sheet is that it provides information regarding owners' equity and capital at a given period.
- (iv) Balance sheet provides up to date financial aspects of the business.
- (v) Balance sheet provides full information about trade debtors and trade creditors at a given period.

**6. What is meant by grouping and marshalling of assets and liabilities?**

- (i) The assets and liabilities shown in the balance sheet are grouped and presented in a particular order.
- (ii) The term 'grouping' means showing the items of similar nature under a common heading.
- (iii) For example, the amount due from various customers will be shown under the head 'Sundry debtors.'
- (iv) Similarly, under the head 'Current assets', the balance of cash, bank, debtors, stock and other current assets will be shown.
- (v) 'Marshalling' is the arrangement of various assets and liabilities in a proper order.

❖ Marshalling can be made in one of the following two ways:

- (a) (a) In the order of liquidity
- (b) (b) In the order of permanence

M.Varadarajan, M.Com., M.Ed., M.Phil.,  
PG Assistant in Commerce  
E-mail: mvaradarajan76@gmail.com  
Mobile: 9786868699 & 9842868699