**Financial Statements of Sole Proprietorship**

Financial Statements: 1. Trading Account – Gross Profit/Gross Loss

2. Profit and Loss Account – Net Profit/Net Loss

3. Balance sheet- Capital, Liabilities and Assets

**Trading and Profit and Loss Account**

Trading and Profit and Loss account is prepared to determine the profit earned or loss sustained by the business enterprise during the accounting period. It is basically a summary of revenues and expenses of the business and calculates the net figure termed as profit or loss. Profit is revenue less expenses. If expenses are more than revenues, the figure is termed as loss. Trading and Profit and Loss account summarises the performance for an accounting period. It is achieved by transferring the balances of revenues and expenses to the trading and profit and loss account from the trial balance. Trading and Profit and Loss account is also an account with Debit and Credit sides. It can be observed that debit balances (representing expenses) and losses are transferred to the debit side of the Trading and a Profit and Loss account and credit balance (representing revenues/gains) are transferred to its credit side.

**Relevant Items in Trading and Profit and Loss Account**

The different items appearing in the trading and profit and loss account are explained here under: Items on the debit side

(i) Opening stock : It is the stock of goods in hand at the beginning of the accounting year. This is the stock of goods which has been carried forward from the previous year and remains unchanged during the year and appears in the trial balance. In the trading account it appears on the debit side because it forms the part of cost of goods sold for the current accounting year.

(ii) Purchases less returns : Goods, which have been bought for resale appears as purchases on the debit side of the trading account. They include both cash as well as credit purchases. Goods which are returned to suppliers are termed as purchases return. It is shown by way of deduction from purchases and the computed amount is known as Net purchases.

(iii) Wages : Wages refer to renumeration paid to workers who are directly engaged in factory for loading, unloading and production of goods and are debited to trading account.

(iv) Carriage inwards/Freight inwards: These expenses are the items of transport expenses, which are incurred on bringing materials/goods purchased to the place of business. These items are paid in respect of purchases made during the year and are debited to the trading account.

(v) Fuel/Water/Power/Gas : These items are used in the production process and hence are part of expenses.

(vi) Packaging material and Packing charges : Cost of packaging material used in the product are direct expenses as it refers to small containers which form part of goods sold. However, the packing refers to the big containers that are used for transporting the goods and is regarded as an indirect expense debited to profit and loss account.

(vii) Salaries : These include salaries paid to the administration, go dawn and warehouse staff for the services rendered by them for running the business. If salaries are paid in kind by providing certain facilities (called perks) to the employees such as rent free accommodation, meals, uniform, medical facilities should also be regarded as salaries and debited to the profit and loss account.

(viii) Rent paid : These include office and godown rent, municipal rates and taxes, rates and taxes. The amount of rent paid is shown on the debit side of the profit and loss account.

(ix) Interest paid : Interest paid on loans, bank overdraft, renewal of bills of exchange, etc. is an expense and is debited to profit and loss account.

(x) Commission paid: Commission paid or payable on business transactions undertaken through the agents is an item of expense and is debited to profit and loss account.

(xi) Repairs : Repairs and small renewals/ replacements relating to plant and machinery, furniture, fixtures, fittings, etc. for keeping them in working condition are included under this head. Such expenditure is debited to profit and loss account.

(xii) Miscellaneous expenses : Though expenses are classified and booked under different heads, but certain expenses being of small amount clubbed together and are called miscellaneous expenses. In normal usage these expenses are called Sundry expenses or Trade expenses. It is recorded on Dr side of Profit and Loss A/C.

**Items on the credit side**

(i) Sales less returns : Sales account in trial balance shows gross total sales(cash as well as credit) made during the year. It is shown on the credit side of the trading account. Goods returned by customers are called return inwards and are shown as deduction from total sales and the computed amount is known as net sales.

(ii) Other incomes : Besides salaries and other gains and incomes are also recorded in the profit and loss account. Examples of such incomes are rent received, dividend received, interest received, discount received, commission received, etc.

**Direct expenses** means all expenses directly connected with the manufacture, purchase of goods and bringing them to the point of sale. Direct expenses include carriage inwards, freight inwards, wages, factory lighting, coal, water and fuel, royalty on production, etc. In our example-1, besides purchases, four more items of expenses are listed. These are wages, salaries, rent of building and bad debts. Out of these items, wages is treated as direct expense while the other three are treated as indirect expenses

Gross Profit = Sales – (Purchases + Direct Expenses)

50 Lakh – (25 lakh + 5 Lakh)

= 20 Lakh

Format Of Trading A/c:

XYZ Company

Trading Account

For the year ended 31st March 2019

Dr (Direct Expenses) Cr (Direct income)

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | Rs | Particulars | Rs |
| To Opening Stock  (1st April, 2018)  To Purchase XX  Less: Purchase Return xx  To Carriage on Purchase  Or Carriage inwards/Carriage  To Custom Duty/Import Duty  To Wages/Productive wages  To Manufacturing wages  To Factory Wages  To Wages & Salaries  To Factory Rent  To Coal, Gas & Water  To Freight & Octroi  To Dock & Clearing Charge  To Royalty  To Heating , Lighting & Power  To Gross Profit (bal. Fig.)  Cr> Dr | XX  XX  XX  XX  XX  XX  XX  XX  XX  XX  XX  XX  XX  XX  XX  20,000 | By Sales XX  Less: Sales Return XX  Or Return inward  Or Return (Dr)  By Closing Stock  By Gross Loss  Dr> Cr | XX  XX  XX |
|  | 1,00,000 |  | XX  1,00,000 |

Cr 1,00,000 Assume , income

(-) Dr 80,000 expenses

Gross Profit 20,000

Illustration 1. Prepare a trading account from the following particulars for the year ended March 31, 2017:

`

Opening stock 37,500

Purchases 1,05,000

Sales 2,70,000

Wages 30,000

Trading A/C

Dr For the year ended March 31, 2017 Cr

|  |  |  |  |
| --- | --- | --- | --- |
| Par.. | Rs | Par.. | Rs |
| To Opening stock  To Purchases  To Wages  To Gross Profit (bal.fig.)  Cr - Dr | 37,500  1,05,000  30,000  97,500 | By Sales a/c | 2,70,000 |
|  | 2,70,000 |  | 2,70,000 |

Cr 2,70,000 income

(-) Dr 1,72,500 expenses

Gross Profit 97,500

Illustration 3.

Prepare a trading account of M/s Anjali from the following information related to March 31, 2017.

`

Opening stock 60,000

Purchases 3, 00,000

Sales 7, 50,000

Purchases return 18,000

Sales return 30,000

Carriage on purchases 12,000

Carriage on sales 15,000 (it is recorded on Profit & Loss a/c)

Factory rent 18,000

Office rent 18,000 (it is recorded on Profit & Loss a/c)

Dock and Clearing charges 48,000

Freight and Octroi 6,500

Coal, Gas and Water 10,000

**2. Profit and Loss Account:**

The indirect expenses are transferred to the debit side of the second part, viz. profit and loss account. All revenue/gains other than sales are transferred to the credit side of the profit and loss account. If the total of the credit side of the profit and loss account is more than the total of the debit side, the difference is the net profit for the period of which it is being prepared. On the other hand, if the total of the debit side is more than the total of the credit side, the difference is the net loss incurred by the business firm. In an equation form, it is shown as follows :

Net Profit = Gross Profit + Other Incomes – Indirect Expenses

Format of Profit and Loss Account

Dr Cr

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | Amount | Particulars | Amount |
| To Gross Loss  To Indirect Expenses (all)  To Office Rent  To Salary  To Salary & Wages  To Printing & Stationery  To Advertisements  To Electricity  To Telephone & Telegram  To Audit fee  To Postage  To Bad Debts  To Discount allowed  To Commission paid  To Insurance Premium  To Carriage outward  To Net Profit (bal. fig.)  Cr > Dr | XX  XX  XX  XX  XX  XX  XX  XX  XX  XX  XX  XX  XX  XX  XX  XX  XX  XX | By Gross Profit  By Indirect Incomes (all)  By Discount received  By Commission Received  By Discount received  By Interest on Investment  By Net Loss (bal.)  Dr > Cr | XX  XX  XX  XX  XX  XX  XX |
|  | XX |  | XX |

Illustration 6

From the following balances obtained from the few accounts of Mr. H. Balaram. Prepare the Trading Account and Profit and Loss Account.

``

Stock on Apr. 01, 2016 : 8,000 Bad debts 1,200

Purchases for the year 22,000 Rent 1,200

Sales for the year 42,000 Discount allowed 600

Purchase expenses 2,500 Commission paid 1,100

Salaries and wages 3,500 Sales expenses 600

Advertisement 1,000 Repairs 600

Closing stock on March 31, 2017 is ` 4,500

Soln.

Trading Account

Dr For the year ended 31st March 2017 Cr

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | Rs | Particulars | Rs |
| To Opening Stock  To Purchases  To Purchase expenses  To Gross Profit (bal.) | 8,000  22,000  2,500  14,000 | By Sales  By Closing stock | 42,000  4,500 |
|  | 46,500 |  | 46,500 |

Cr 46,500 – Dr 32,500 =1 4, 000

Profit & Loss Account

Dr For the year ended 31st March 2017 Cr

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | Rs | Particulars | Rs |
| To Salaries and wages To Sales expenses  To Advertisement  To Repairs  To Bad debts  To Rent  To Discount allowed  To Commission Paid  To Net Profit (bal.) | 3,500  600  1,000  600  1,200  1,200  600  1,100  4,200 | By Gross Profit | 14,000 |
|  | 14,000 |  | 14,000 |

Cr 14,000 - Dr9,800 =

1. Assets - B/S 4 & 5 – Expenses and Income – Trading and P& L a/c

2. Capital – B/S

3. Liabilities – B/S

Balance – Sheet

As on 31st March 2020

|  |  |  |  |
| --- | --- | --- | --- |
| Liabilities | Amount(Rs) | Assets | Amount(Rs) |
| Capital XX  Add, Net Profit XX  Less, Net Loss (XX)  Less, Drawings (XX)  Long Term Loan  Bank Loan  Debenture  Short Term Loan  Bank Overdraft  Outstanding expenses  Advance income  Provision for Tax  Sundry Creditors  Bills Payable | XX  XX  XX  XX  XX  XX  XX  XX  XX  XX  XX | Land & Building  Plant & Machinery  Furniture & Fixture  Computer  Equipment  Investment  Goodwill  Patent right  Sundry Debtors  Bills Receivable  Inventory  (Closing Stock)  Prepaid expenses  Accrued income  Income receivable  Cash in Hand  Cash at Bank | XX  XX  XX  XX  XX  XX  XX  XX  XX  XX  XX  XX  XX  XX  XX  XX  XX |
|  | XX |  | XX |

Total Liabilities must be equal to Total Assets

TS Grewal Book

Page 18.64

Q. 14. From the following particulars, prepare Balance – sheet as at 31st March 2019.

|  |  |  |
| --- | --- | --- |
|  | Dr (Rs) | Cr (Rs) |
| Capital  Drawings  Debtors  Creditors  Cash in hand  Cash at bank  Plant  Furniture  Net profit  General reserve  Closing stock | 44,000  64,000  3,600  72,000  1,00,000  37,000  ....  .....  1,48,000 | 4,00,000  42,000  16,600  10,000 |
|  | 4,68,600 | 4,68,600 |

Balance – Sheet

As at 31st March 2019.

|  |  |  |  |
| --- | --- | --- | --- |
| Liabilities (Cr) | Rs | Assets (Dr) | Rs |
| Capital 4,00,000  Less, Drawings (44,000)  3,56,000  Add, Net Profit 16,600  General reserve  Outsiders’ Liabilities:  Creditors | 3,72,600  10,000  42,000 | Fixed Assets:  Furniture  Plant  Current Assets:  Debtors  Cash in hand  Cash at bank  Closing stock | 37,000  1,00,000  64,000  3,600  72,000  1,48,000 |
|  | 4,24,600 |  | 4,24,600 |

Liabilities must be equal to Assets Side

**17.** Prepare Trading and Profit and Loss account and Balance sheet of Jagat Shah as at 31st March,2019 form the following balances :

Capital (Cr) 3,60,000 Salaries 60,000

Machinery 70,000 General Expenses 20,000

Sales 8,20,000 Rent 50,000

Purchases 4,00,000 Purchases Return 5,000

Sales Return 10,000 Debtors 3,00,000

Stock on 1st April 2018 1,00,000 Cash 40,000

Drawing 40,000 Carriage Outwards 20,000

Wages 1,00,000 Advertising 20,000

Carriage Inwards 5,000 Creditors 50,000

The Closing Stock was valued at Rs 2,00,000.

[ Gross Profit=Rs 4,10,000 Net Profit= Rs 2,40,000 Balance Sheet=Rs 6,10,000 ]

Soln. Trading and Profit and Loss account of Jagat Shah

For the year ended 31st March,2019

Dr Cr

|  |  |  |  |
| --- | --- | --- | --- |
| Par... | Rs | Particulars | Rs |
| To Opening Stock  To Purchases 4,00,000  Less, Purchase Return 5,000  To Wages  To Carriage Inwards  To Gross Profit (Bal. fig) | 1,00,000  3,95,000  1,00,000  5,000  4,10,000 | By Sales 8,20,000  Less, Sales Return 10,000  By Closing Stock | 8,10,000  2,00,000 |
|  | 10,10,000 |  | 10,10,000 |
| To Salaries  To General expenses  To Rent  To Carriage outward  To Advertising  To Net Profit (Cr-Dr) | 60,000  20,000  50,000  20,000  20,000  2,40,000 | By Gross Profit | 4,10,000 |
|  | 4,10,000 |  | 4,10,000 |

Cr 4,10,000 – Dr 1,70,000 = 2,40,000 Net Profit

Balance sheet of Jagat Shah

as at 31st March,2019

|  |  |  |  |
| --- | --- | --- | --- |
| Liabilities | Rs | Assets | Rs |
| Capital 3,60,000  Add, Net Profit 2,40,000  6,00,000  Less, Drawings 40,000  creditors | 5,60,000  50,000 | Machinery  Debtors  Cash  Closing stock | 70,000  3,00,000  40,000  2,00,000 |
|  | 6,10,000 |  | 6,10,000 |

**18.** From the following balances, prepare Trading and Profit and Loss Account and Balance Sheet:

**Debit Balances: Rs Debit Balance (Contd): Rs**

Machinery 3,50,000Rent 45,000

Debtors 2,70,000 Sundry Expenses 20,000

Drawing 90,000 Carriage 15,000

Purchases 9,50,000 **Credit Balances: Rs**

Wages 5,00,000 Capital 10,00,000

Bank 1,50,000 Creditor 1,40,000

Opening Stock 2,00,000 Sales 14,50,000

Closing Stock valued at Rs 30,000

[ Gross Loss=Rs 1,85,000 Net Loss= Rs 2,50,000 Balance Sheet Total= Rs 8,00,000 ]

Trading and Profit and Loss account of Jagat Shah

For the year ended 31st March,2019

Dr Cr

|  |  |  |  |
| --- | --- | --- | --- |
| Par... | Rs | Particulars | Rs |
| To Opening Stock  To Purchases  To Wages  To Carriage | 2,00,000  9,50,000  5,00,000  15,000 | By Sales  By Closing Stock  By Gross Loss (Dr- Cr) | 14,50,000  30,000  1,85,000 |
|  | 16,65,000 |  | 16,65,000 |
| To Gross Loss  To Rent  To Sundry expense | 1,85,000  45,000  20,000 | By Net Loss | 2,50,000 |
|  | 2,50,000 |  | 2,50,000 |

Trading a/c: Cr 14,80,000 (income) – 16,65,000 (Dr) Exp = Gross Loss

Balance sheet

as at 31st March,2019

|  |  |  |  |
| --- | --- | --- | --- |
| Liabilities | Rs | Assets | Rs |
| Capital 10,00,000  Less, Net Loss 2,50,000  7,50,000  Less, Drawing 90,000  creditors | 6,60,000  1,40,000 | Machinery  Debtors  Bank  Closing stock | 3,50,000  2,70,000  1,50,000  30,000 |
|  | 8,00,000 |  | 8,00,000 |

20 From the following balances of Anand ,prepare Trading Account, Profit and Loss Account, Balance Sheet as at 31st March ,2019:

Capital 3,60,000 Postage 2,730

Creditors 87,2000 Bad Debts 2,870

Bills Payable 25,270 Interest 12,950

Sales 7,81,820 Insurance 4,170

Bad Debts Recovered 1,750 Machinery 1,00,000

Loan 1,20,000 Stock (Opening) 99,450

Debtors 38,850 Purchase 6,20,920

Salaries 40,000 Wages 43,000

Discount 10,000 Building 2,37,800

Selling Expenses 1,750

Fixtures and Fitting 1,61,550

Values of goods on hand (31st March,2019) was Rs 1,43,000

( Closing Stock)

Gross Profit=Rs 1,61,450 Net Profit=Rs 88,730 Balance Sheet= Rs 6,81,200

Soln.

23 From the following balances, prepare Trading and Profit and Loss Account and Balance Sheet:

Machinery 2,00,000 Opening Stock 2,00,000

Building 1,50,000 Rent 45,000

Debtors 2,70,000 Sundry Expenses 20,000

Drawing 90,000 Carriage 15,000

Purchases 9,50,000 Capital 10,00,000

Wages 5,00,000 Creditors 1,40,000

Bad debts 10,000 Sales 14,50,000

Bank 1,50,000 Commission (Cr) 10,000

Closing Stock was valued at Rs 70,000 but its net realizable value was estimated at Rs 60,000. Hint : which ever is less

Gross Loss =Rs1,55,000 Net Loss=Rs 2,20,000 Balance Sheet=Rs 8,30,000

Son.

Dr Trading and Profit and Loss Account Cr

|  |  |  |  |
| --- | --- | --- | --- |
| Par…. | Rs | Par… | Rs |
| To Opening Stock  To Purchases  To Wages  To Carriage | 2,00,000  9,50,000  5,00,000  15,000 | By Sales  By Closing Stock  By Gross Loss (Dr- Cr) | 14,50,000  60,000  1,55,000 |
|  | 16,65,000 |  | 16,65,000 |
| To Gross Loss  To Bad debts  To Rent  To Sundry Expenses | 1,55,000  10,000  45,000  20,000 | By Commission (Cr)  By Net Loss (Dr – Cr) | 10,000  2,20,000 |
|  | 2,30,000 |  | 2,30,000 |

Cr 15,10,000 – Dr 16,65,000 = Gross Loss

Balance – Sheet

|  |  |  |  |
| --- | --- | --- | --- |
| Liabilities ( Cr) | Rs | Assets (Dr) | Rs |
| Capital 10,00,000  Less, Net Loss 2,20,000  Less, Drawing 90,000  Creditors | 6,90,000  1,40,000 | Machinery  Building  Debtors  Bank  Closing Stock | 2,00,000  1,50,000  2,70,000  1,50,000  60,000 |
|  | 8,30,000 |  | 8,30,000 |

**Adjustments:**

**1. Closing Stock**

**2. Outstanding/Due expenses**

**3. Prepaid Expenses/ Expenses paid in advance**

**4. Accrued/Outstanding Income/ income receivable**

**5. Income received in advance/ advance income**

**6. Depreciation on Tangible Fixed Assets**

**7. Bad Debts/ Further Bad Debts/ Additional Bad Debts**

**8. Provision for Bad Debts/Provision for Doubtful Debts**

**Or Reserve for Bad Debts**

**9. Provision for Discount on Debtors**

**10. Manager’s Commission**

**11. Interest on Capital**

**12. Goods taken by proprietor for personal use**

**13. Goods distributed among staff for staff welfare**

**14. Abnormal or Accidental Losses**

**1. Closing Stock**

**2019 March 31- Account Closed**

**a. It is recorded in cr. Side of Trading a/c.**

**b. It is recorded on Asset side of Balance sheet.**

**Note : If closing stock is given in side of Trial Balance then only recoded on asset side of B/S.**

**Journal:**

**Closing Stock a/c Dr**

**To Trading a/c**

**2. Outstanding/Due expenses: Expenses have incurred during the accounting period but amount yet not paid.**

**Eg. Trial Balance**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Dr.** | **Cr.** |
| **Wages Paid**  **Rent Paid** | **50,000**  **1,00,000** |  |

* **Outstanding Wages Rs 10,000**
* **Outstanding Rent Rs 20,000**

**Soln.**

**Trading A/C**

|  |  |  |  |
| --- | --- | --- | --- |
| **Par…** | **Rs** |  |  |
| **To Wages 50,000**  **Add, O/S 10,000** | **60,000** |  |  |

**Profit & Loss A/c**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| **To Rent Paid 1,00,000**  **Add, O/S 20,000** | **1,20,000** |  |  |

**Balance Sheet**

|  |  |  |  |
| --- | --- | --- | --- |
| **Liabilities** | **Rs** | **Assets** | **Rs** |
| **Outstanding Wages**  **Outstanding Rent** | **10,000**  **20,000** |  |  |

**3. Prepaid Expenses/ Expenses paid in advance**

**Eg. Trial Balance**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| **To Salaries Paid** | **3,00,000** |  |  |

* **Salaries paid in advance Rs 40,000**

**Soln.**

**P and L A/C**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| **To Salaries 3,00,000**  **Less, Prepaid 40,000** | **2,60,000** |  |  |

**Balance Sheet**

|  |  |  |  |
| --- | --- | --- | --- |
| **Liabilities** | **Rs** | **Assets** | **Rs** |
|  |  | **Prepaid Salaries** | **40,000** |

**4. Accrued/Outstanding Income/ income receivable: Income earned during the accounting period but amount yet not receive.**

**5. Income received in advance/ advance income**

**Eg.**

**Trial Balance**

|  |  |  |
| --- | --- | --- |
|  | **Dr. Rs** | **Cr. Rs** |
| **Commission Received**  **Rent Received** |  | **20,000**  **70,000** |

**- Commission earned but not yet received (Accrued commission) Rs 4,000**

**- Rent received in advance Rs 10,000**

**Soln.**

**Dr P and L A/C Cr**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
|  |  | **By Commission Received 20,000**  **Add, Accrued commission 4,000**  **By Rent rec. 70,000**  **Less, Advance 10,000** | **24,000**  **60,000** |

**Balance Sheet**

|  |  |  |  |
| --- | --- | --- | --- |
| **Liabilities** | **Rs** | **Assets** | **Rs** |
| **Rent received in advance** | **10,000** | **Accrued commission** | **4,000** |

**6. Depreciation on Tangible Fixed Assets**

**Eg. 11. Page 19.11**

**Trial Balance**

|  |  |  |
| --- | --- | --- |
|  |  |  |
| **Machinery** | **2,00,000** |  |

**Depreciation Charged on Machinery @ 10% P.a.**

**Soln**

**Profit and Loss A/c**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| **To Depreciation on Machinery( 2,00,000 x10/100)** | **20,000** |  |  |

**Balance – Sheet**

|  |  |  |  |
| --- | --- | --- | --- |
| **Liabilities** | **Rs** | **Assets** | **Rs** |
|  |  | **Machinery 2,00,000**  **Less, Dep, 20,000** | **1,80,000** |

**7. Bad Debts/ Further Bad Debts/ Additional Bad Debts**

**Page 19.18**

**Example 14: Trial Balance**

|  |  |  |
| --- | --- | --- |
|  |  |  |
| **Sundry Debtors- Assets**  **Bad Debts (Old) -Loss** | **1,00,000**  **2,000** |  |

**Additional Information:**

**(i) Write off Rs 1,000 as further Bad debts. (New)**

**Soln.**

**Profit and Loss A/c**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| **To Bad Debts (old) 2,000**  **Add,New Bad debt 1,000** | **3,000** |  |  |

**Balance – Sheet**

|  |  |  |  |
| --- | --- | --- | --- |
| **Liabilities** | **Rs** | **Assets** | **Rs** |
|  |  | **SundryDebtors 1,00,000**  **Less, New Bad 1,000** | **99,000** |

**Journal: a. Bad Debts Dr**

**To Debtors a/c**

**b. Profit and Loss a/c Dr**

**To Bad Debts**

**Note: If received as Bad Debts recovered, which was previously Written Off as Bad debts**

**Journal.**

**a. Cash a/c Dr - Assets**

**To Bad Debts recovered - P/L Cr**

**b. Bad Debts recovered Dr**

**To Profit and Loss a/c**

**8. Provision for Bad Debts/Provision for Doubtful Debts**

**Or Reserve for Bad Debts**

**Journal:**

**Profit and Loss A/c Dr**

**To Provision for Doubtful Debts a/c**

**(Being the Provision made for Doubtful Debts)**

**Illustration 6: Page 19.25**

**: Trial Balance**

|  |  |  |
| --- | --- | --- |
|  |  |  |
| **Sundry Debtors- Assets** | **3,00,000** |  |

**Create a Provision for Doubtful Debts @ 5% on Debtors**

**Sol**

**Profit and Loss A/c**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| **To Provision for Doubtful Debts 5/100 x 3,00,000** | **15,000** |  |  |

**Balance – Sheet**

|  |  |  |  |
| --- | --- | --- | --- |
| **Liabilities** | **Rs** | **Assets** | **Rs** |
|  |  | **SundryDebtors 3,00,000**  **Less, Provision for Doubtful D 15,000** | **285,000** |

**9. Provision for Discount on Debtors**

**a. It is recorded on Dr side of P/L A/C.**

**b. It is deducted from Debtors after deducting Bad debts and P.D.D.**

**10. Managers’ Commission: It is payable when Net Profit is earned in the firm.**

**a. It is recorded on Dr side of Profit and Loss a/c.**

**b. It is recorded on Liabilities side of B/S.**

**Case 1: If managers’ commission is payable % of net profit before charging such commission**

**= Profit before commission x %/100**

**Case 2: Case 1: If managers’ commission is payable % of net profit after charging such commission**

**= Profit before commission x %/100 + %**

**11. Interest on Capital**

**a. It is recorded on Dr side of P/L a/c.**

**b. It is added to Capital in B/S.**

**12. Goods taken by proprietor for personal use. It is treated as Drawings**

**a. It is deducted from Purchase in Trading A/c.**

**b. It is deducted from Capital in B/S.**

**13. Goods distributed among staff for staff welfare**

**Or Goods distributed as Free Sample (Advertisements)/ as Charity**

**a. It is deducted from Purchase.**

**b. It s recorded on Dr side of P/L a/c.**

**14. Abnormal or Accidental Losses.**

**Goods destroyed by fire, accident and theft Rs 10,000**

**(i) If goods were not insured**

**a. It is deducted from Purchase**

**b. It is recorded on Dr side of P/L a/c.**

**(ii) If goods were insured and accepted full amount.**

**a. It is deducted from Purchase.**

**b. It is recorded on Assets side of Balance Sheet**

**Insurance Company a/c 10,000**

**(iii) If goods were insured and Clam accepted by Insurance Company Partial amount i.e Rs 6,000**

**a. It is deducted from Purchase Rs 10,000**

**b. . It is recorded on Dr side of P/L a/c Rs 4,000.**

**c. It is recorded on Assets side of Balance Sheet**

**Insurance Company a/c 6,000**

**15. Hidden Adjustments.**

**Ex. 1. Trial Balance as on 31st Ashadh 2077**

**2076 Shrawn 1 - 2077 Ashadh 31**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Dr. balance ( Rs)** | **Cr. Balance (Rs)** |
| **10% Loan (Debenture/ Bank Loan)**  **20% Investment (on 31 Asoj 2076)** | **1,00,000** | **50,000** |

**Adjustments - Nil**

**Son.**

**P and L a/c**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| **To Interest on Loan (O/S)**  **(50,000 x 10/100) 1 year** | **5,000** | **By Interest on Investment**  **(1,00,000x 20/100 x 9/12) 9 months (O/S)** | **15,000** |

**Balance Sheet**

**As at 31st Ashadh 2077**

|  |  |  |  |
| --- | --- | --- | --- |
| **Liab.** |  | **Assets** |  |
| **10% Loan (Debenture/ Bank Loan)**  **Interest on Loan (O/S)** | **50,000**  **5,000** | **20% Investment (on 31 Asoj 2076)**  **O/S (Accrued)Interest on Investment** | **1,00,000**  **15,000** |

**Ex. 2. Trial Balance as on 31st Ashadh 2077**

**2076 Shrawn 1 - 2077 Ashadh 31**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Dr. balance ( Rs)** | **Cr. Balance (Rs)** |
| **10% Loan (Debenture/ Bank Loan)**  **Interest Paid on Loan**  **20% Investment (on 31 Asoj 2076)**  **Interest on Investment (Interest received on investment)** | **5,000**  **1,00,000** | **50,000**  **12,000** |

**Soln.**

**P and L a/c**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| **To Interest on Loan**  **(50,000 x 10/100) 1 year** | **5,000** | **By Interest on Investment**  **12,000**  **Add, Accrued 3,000** | **15,000** |

**Balance Sheet**

**As at 31st Ashadh 2077**

|  |  |  |  |
| --- | --- | --- | --- |
| **Liab.** |  | **Assets** |  |
| **10% Loan (Debenture/ Bank Loan)** | **50,000** | **20% Investment (on 31 Asoj 2076)**  **O/S (Accrued)Interest on Investment** | **1,00,000**  **3,000** |

Page no. 19.65

**3 . Following trial balance has been extracted from the books of prasad on 31st march,2019**

|  |  |  |  |
| --- | --- | --- | --- |
| Particular  Machinery  Cash at bank  Cash in hand  Wages  Purchases  Stock on 1st April,2018  Sundry debtors  Bills receivable  Rent  Commission  General expenses  Salaries  total | Dr  4,00,000  1,00,000  50,000  1,00,000  8,00,000  6,00,000  4,40,000  2,90,000  45,000  25,000  80,000  50,000  29,80,000 | Particular  Capital  Sales  Sundry creditors  Interest received | Cr  9,00,000  16,00,000  4,50,000  30,000  29,80,000 |

Adjustments:

a. Outstanding salaries were rs 45,000

b. Depreciate machinery at 10%

c. Outstanding Wages Rs 5,000

d. Rent prepaid Rs 10,000 (Rent paid in advance)

e. Provide for interest on capital @5%per annum

f. Stock on 31st march,2019 Rs 8,00,000

Prepare Trading, P/L and Balance Sheet for the year ended 31st march,2019

Ans Gross profit rs 8,95,000 net profit rs 6,05,000 balance sheet 20,50,000

Soln

Trading and Profit Loss A/C

Dr. For the year ended 31st march,2019 Cr

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | Rs | Particulars | Rs |
| To Opening Stock  To Purchases  To Wages 1,00,000  Add, Outstanding 5,000  To Gross Profit (Cr – Dr) | 6,00,000  8,00,000  1,05,000  8,95,000 | By Sales  By Closing Stock | 16,00,000  8,00,000 |
|  | 24,00,000 |  | 24,00,000 |
| To Rent 45,000  Less, Prepaid ( 10,000)  To Commission  TO General expenses  To Salaries 50,000  Add, O/S 45,000  To Depreciation on Machinery  ( 400,000 x 10/100)  To interest on capital  ( 900,000 x 5/100)  To Net Profit (Cr – Dr)w.n | 35,000  25,000  80,000  95,000  40,000  45,000  6,05,000 | By Gross Profit  By Interest received | 8,95,000  30,000 |
|  | 9,25,000 |  | 9,25,000 |

Balance- Sheet

|  |  |  |  |
| --- | --- | --- | --- |
| Liabilities (Cr) | Rs | Assets (Dr) | Rs |
| Capital 9,00,000  Add, Net Profit 6,05,000  Add, Interest on  Capital 45,000  Sundry creditors  Outstanding salaries  Outstanding Wages | 15,50,000  4,50,000  45,000  5,000 | Machinery 4,00,000  Less, Dep. 40,000  Cash at bank  Cash in hand  Sundry debtors  Bills receivable  Rent prepaid  Closing Stock | 3,60,000  1,00,000  50,000  4,40,000  2,90.000  10,000  8,00,000 |
|  | 20,50,000 |  | 20,50,000 |

Net Profit =Cr 9,25,000 - Dr 3,20,000 = 6,05,000

4. from the following trial balance of shradha as on 31st March,2019, prepare trading and profit/loss and balance sheet

|  |  |  |
| --- | --- | --- |
| Head account  Capital  Drawing  Sales  Purchases  Stock1st April,2018  Return outward/ Pur. Return  Carriage inward  Wages  Power  Machinery  Furniture  Rent  Salary  Insurance  8% bank loan  Debtors  Creditors  Cash in hand | Debit  …  18,000  ….  82,600  42,000  …...  1,200  4,000  6,000  50,000  14,000  22,000  15,000  3,600  …..  20,600  …..  1,500 | Credit  80,000  …  1,55,000  ……….  ……………..  1,600  …  …  …  ….  ….  …  …  …  25,000  …..  18,900  …… |
| total | 2,80,500 | 2,80,500 |

Adjustments:

* Closing stock rs 64,000
* Wages outstanding rs 2,400
* Bad debts rs 600
* Provision for doubtful debts to be 5% on Debtors
* Rent is paid for 11 months . one month rent to be paid.
* Insurance premium is paid per annum, ended 31st may,2019 (Prepaid )
* Loan from the bank was taken on 1st october,2018
* Provide depreciation on machinery@10% and on furniture @5%

Ans Gross profit Rs 82,400 net profit Rs 32,100 balance sheet Rs 1,43,400

Soln.

Trading & Profit & Loss Account

For the year ended 31st March 2019

|  |  |  |  |
| --- | --- | --- | --- |
| Par.. | Rs | Par… | Rs |
| To Opening Stock  To Purchases 82,600  Less, Return outward 1,600  To Carriage inward  To Wages 4,000  Add, O/S 2,400  To Power  To Gross Profit (CR- DR) | 42,000  81,000  1200  6,400  6,000  82,400 | By Sales  By Closing stock | 1,55,000  64,000 |
| Total | 2,19,000 |  | 2,19,000 |
| To Bad debts  To Provision for d.d.  ( 20,600 – 600) x 5%  To Rent 22,000  Add, O/S 2,000  (22,000/11)  To Insurance 3,600  Less, Prepaid  (3600 x 2 month) 6,00  12  To Interest on Bank Loan  (25,000 x 8/100 x 6/12)  To depreciation on machinery  10% x 50,000  Depn. on furniture @5% x14000  To Salary    To Net Profit (Cr – Dr) | 600  1,000  24,000  3,000  1,000  5,000  7,00  15,000  32,100 | By Gross Profit | 82,400 |
|  | 82,400 |  | 82,400 |

CR 21,9,000 – 1,36,600=

82,400 – 50,300 = 32,100 Net Profit

Balance- Sheet

As at 31st March 2019

|  |  |  |  |
| --- | --- | --- | --- |
| Liabilities | Rs | Assets | Rs |
| Capital 80,000  Add, Net Profit 32,100  1,12,100  Less, Drawings 18,000  8% bank loan  Outstanding interest on Bank Loan  creditors  Outstanding Rent  Outstanding Wages | 94,100  25,000  1,000  18,900  2,000  2,400 | Machinery 50,000  Less, Dep. 5,000  Furniture 14,000  Less, Dep. 7,00  Cash in hand  Debtors 20,600  Less, Bad D. 600  20,000  Less, P.D.D 5%  ( 5 X 20,000/100) 1,000  Prepaid nsurance  Closing Stock | 45,000  13,300  1,500  19,000  600  64,000 |
|  | 1,43,400 |  | 1,43,400 |

5. Trial Balance of a business as at 31st March, 2019 is given below:

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | Dr. (Rs.) | Particulars | Cr. (Rs.) |
| Stock in 1st April,2018 | 25,000 | Sales | 2,27,800 |
| Furniture | 8,000 | Commission | 500 |
| Plant and Machinery | 1,50,000 | Returns Outward/Purchase Return | 1,000 |
| Debtors | 30,000 | Creditors | 40,000 |
| Wages | 12,000 | Capital | 1,50,000 |
| Salaries | 20,000 |  |  |
| Bad Debts | 1,000 |  |  |
| Purchases | 1,20,000 |  |  |
| Electricity Charges | 1,200 |  |  |
| Telephone Charges | 2,400 |  |  |
| General Expenses | 3,000 |  |  |
| Postage Expenses | 1,800 |  |  |
| Returns Inward/ Sales Return | 900 |  |  |
| Insurance Premium | 1,500 |  |  |
| Cash in Hand | 2,500 |  |  |
| Cash at Bank | 40,000 |  |  |
|  | 4,19,300 |  | 4,19,300 |

Prepare Trading and Profit and Loss Account for the year ended 31st March,2019 and Balance Sheet as at that date after taking into account the following adjustments:

i) Closing Stock was valued at Rs.7,000.

ii) Outstanding liabilities for wages were Rs.600 and salaries Rs.1,400.

iii) Depreciation is to be provided @ 5% p.a. on fixed assets.

iv) Plant and Machinery includes a machine purchased for Rs.10,000 on 1st October,2018.

v) Insurance premium paid in advance Rs.200.

[Gross profit- Rs.77,300; Net profit- Rs.35,800; Balance Sheet Total- Rs.2,27,800.]

Soln.

Trading and Profit and Loss Account

for the year ended 31st March,2019

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | Rs | Particulars | Rs |
| To Opening Stock  To Purchases 1,20,000  Less, Return (1,000)    To Wages 12,000  Add, Outstanding 600  To Gross Profit | 25,000  1,19,000  12,600  77,300 | By Sales 2,27,800  Less, Return 900  By Closing Stock | 2,26,900  7,000 |
| Indirect expenses | 2,33,900 | Indirect income | 2,33,900 |
| To Salaries 20,000  Add, O/S 1,400  To Bad Debts  To Electricity Charges  To Telephone Charges  To General Expenses  To Postage Expenses  To Insurance Premium  1,500  Less, Prepaid 200  To Dep. On Furniture  (5% of 8,000)  To Dep. On Plant (w.n.)  To Net Profit (Cr -Dr) | 21,400    1,000  1,200  2,400  3,000  1,800  1,300  400  9,500  35,800 | By Gross Profit  By Commission | 77,300  500 |
|  | 77,800 |  | 77,800 |

Cr 2,33,900 – Dr 1,56,600 = 77,300

Dep, on Plant:

1,40,000 x 5/100 ( 1 year) = 7,000

10,000 x 5/100 x 6/12 = 2,500

9,500

77,800 – 42,000 = 35,800

Balance Sheet

as at 31st March 2019

|  |  |  |  |
| --- | --- | --- | --- |
| Liabilities (Cr.) | Rs | Assets (Dr.) | Rs |
| Capital 1,50,000  Add,Net Profit 35,800  Creditors  Outstanding Wages  O/S Salaries | 1,85,800  40,000  600  1,400 | Furniture 8,000  Less, Dep. 400  Plant and Machinery  1,50,000  Less, Dep. 9,500  Debtors  Cash in Hand  Cash at Bank  Closing Stock  Prepaid Insurance | 7,600  1,40,500  30,000  2,500  40,000  7,000  200 |
| Total | 2,27,800 | Total | 2,27,800 |

6. Following are the balances extracted from the books of Narain on 31st March,2019:

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | Rs. | Particulars | Rs. |
| Narain’s Capital | 3,00,000 | Sales | 15,00,000 |
| Narain’s Drawings | 50,000 | Sales Return | 20,000 |
| Furniture and Fittings | 26,000 | Discounts (Dr.) | 16,000 |
| Bank Overdraft | 42,000 | Discounts (Cr.) | 20,000 |
| Creditors | 1,38,000 | Insurance | 20,000 |
| Business Premises | 2,00,000 | General Expenses | 40,000 |
| Stock on 1st April,2018 | 2,20,000 | Salaries | 90,000 |
| Debtors | 1,80,000 | Commission (Dr.) | 22,000 |
| Rent from Tenants (P/L CR.) | 10,000 | Carriage on Purchases (T.) | 18,000 |
| Purchases | 11,00,000 | Bad Debts Written off (P/L) | 8,000 |

Additional Information;

i) Closing Stock at cost as on 31st March,2019 was Rs.2,00,600, whereas its Net Realizable Value (Market Value) was Rs.2,05,000.

ii) Depreciate: Business Premises by Rs.3,000 and Furniture and Fittings by Rs.2,500.

iii) Make a provision of 5% on debtors for doubtful debts.

iv) Carry forward Rs.2,000 for unexpired insurance. (Prepaid )

v) Outstanding salary was Rs.15,000.

Prepare Trading and Profit and Loss Account for the year and Balance Sheet as at that date.

[Gross Profit- Rs.3,42,600; Net Profit- Rs.1,49,100; Balance Sheet Total-Rs.5,94,100.]

[Hints:1. Closing Stock will be taken at Rs. 2,00,600; being lower of Cost and Net Realisable Value (Market Value) following the Prudence Concept.

2. Rs.2,000 out of Insurance Expenses are Prepaid Insurance.]

Soln.

Trading and Profit and Loss Account

for the year ended 31st March,2019

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | Rs | Particulars | Rs |
| To Opening Stock  To Purchases  To Carriage on Purchase    To Gross Profit (Total Cr- Total Dr) | 2,20,000  11,00,000  18,000  3,42,600 | By Sales 15,00,000  Less Return 20,000  By Closing Stock | 14,80,000  2,00,600 |
|  | 16,80,600 |  | 16,80,600 |
| To Salaries 90,000  Add, O/S 15,000  To Bad Debts Written  To Discounts (Dr.)  To General Expenses  To Insurance 20,000  Less, Prepaid 2,000  To Commission (Dr)  To Depreciation On B. Premises  To Dep. On Furniture  To Provision for d.d  1,80,000 x 5/100  To Net Profit (Cr -Dr) | 1,05,000    8,000  16,000  40,000  18,000  22,000  3,000    2,500  9,000  1,49,100 | By Gross Profit  By Rent from Tenants  By Discount (Cr) | 3,42,600  10,000  20,000 |
|  | 3,72,600 |  | 3,72.600 |

Cr 3,72,600 – Dr 2,23,500 = Net Profit 1,49,100

P.D.D. = Provision for Doubtful Debts

Balance – Sheet

As at 31st March 2019

|  |  |  |  |
| --- | --- | --- | --- |
| Liabilities | Amount (Rs) | Assets | Amount(Rs) |
| Capital 3,00,000  Add,Net Profit 1,49,100  Less, Drawings 50,000  Bank Overdraft  Creditors  Outstanding salary | 3,99,100  42,000  1,38,000  15,000 | Furniture and Fittings 26,000  Less, Dep, 2500  Business Premises  2,00,000  Less, Dep 3,000  Debtors 1,80,000  Less, P.D.D 9,000  Closing Stock  Prepaid Insurance | 23,500  1,97,000  1,71,000  2,00,600  2,000 |
| Total | 5,94,100 | Total | 5,94,100 |

7 Following balances are taken From the books if niranjan.prepare trading,profit and loss account and balance sheet for the year ended 31st March 2019

|  |  |  |  |
| --- | --- | --- | --- |
| Particular  Capital  Opening stock  Furniture  Sales  Purchases return  Rent  Salaries  Bad debts (Old )  Sundry debtors  Bills payable  Advertisement expenses  Patents (Copy right) | Amount  12,00,000  4,50,000  15,000  43,50,000  40,000  50,000  2,40,000  10,000  4,00,000  8,000  60,000  48,000 | Particular  Drawing  Plant and machinery  Purchases  Insurance  Sales return  Trade expenses  Wages  6% investment  Sundry creditors  Cash  Miscellaneous income | Amount  2,10,000  2,40,000  29,50,000  15,000  70,000  20,000  4,00,000  5,00,000  1,90,000  1,22,000  12,000 |

Adjustments

A Closing stock Rs 7,50,000

B Depreciate machinery by 10% and furniture by 20%

C Wages rs 50,000 and salaries rs 20,000 are outstanding

D Write off rs 50,000 as further bad debts and create 5% provision for doubtful debts also create a reserve for discount on debtors @ 2%

E. Investment were made on 1st July 2018 and no interest has been received so far

[Gross profit 12,20,000 net profit 7,38,350 balance sheet 19,96,350]

Soln.

Trading & Profit & Loss A/c

For the year ended 31st March 2019

|  |  |  |  |
| --- | --- | --- | --- |
| Par… | Rs | Par … | Rs |
| To Opening stock  To Purchases 29,50,000  Less, P. Return 40,000  To Wages 4,00,000  Add, O/S 50,000  To G.P (CR – DR) | 4,50,000  29,10,000  4,50,000  12,20,000 | By Sales 43,50,000  Less, S, Return 70,000  By Closing stock | 42,80,000  7,50,000 |
|  | 50,30,000 |  | 50,30,000 |
| To Dep. On Machinery  To Dep. On Furniture  To Salaries 2,40,000  Add, O/S 20,000  To Old Bad Debts 10,000  Add, New Bad 50,000  Add, New P.D.D 17,500  Add, Provision f.d. 6,650  To Rent  To Advertisement expenses  To Insurance  To Trade expenses  To Net Profit | 24,000  3,000  2,60,000  84,150  50,000  60,000  15,000  20,000  7,38,350 | By G.P.  By Interest on Investment (Accrued)  5,00,000 x 6/100 x 9/12  By Miscellaneous income | 12,20,000  22,500  12,000 |
|  | 12,54,500 |  | 12,54,500 |

Balance Sheet

|  |  |  |  |
| --- | --- | --- | --- |
| Labilities | Rs | Assets | RS |
|  |  | Sundry debtors 4,00,000  Less, New Bad Debts 50,000  3,50,000  Less, New P.D.D. 5% 17,500  3,32,500  Less, P.for Discount 2% 6,650 | 3,25,850 |

8 The following trial balance of Mahesh prepare his final accounts for the year ended 31st March 2019

|  |  |  |
| --- | --- | --- |
| Head of account  Purchase  Sales  Return inward  Return outward  Carriage  Wages  Miscellaneous expenses  Insurance  Repair  Debtors  Creditor  Printing and stationery  Advertisement  Bills receivable  Bills payable  Opening stock  Cash in hand  Interest on bank loan  Machinery  Furniture  Drawing  Commission  12% bank loan  Capital  Rent received  Cash at bank  total | Debit  2,50,000  ……  12,000  ……  8,000  60,000  2,000  1,200  8,000  1,15,000  ……  6,000  15,000  4,000  ….  30,000  12,000  2,800  2,80,000  34,000  20,000  ….  ….  …  …  28,000  8,88,000 | Credit  ……  5,00,000  …..  10,000  …..  ….  ….  …  …  ….  1,00,000  ….  ….  ….  2,000  …..  …..  …..  ….  ….  ….  1,000  30,000  2,40,000  5,000  ….  8,88,000 |

Adjustments

Closing stocks on 31st March 2019 rs 21,000

Rent of rs 1,200 has been received in advance

Outstanding liability for Miscellaneous expenses is rs 12,000

Commission earned during the year but not received was rs 2,100

Goods costing rs 2,000 were taken by the proprietor for his personal use but entry was not

pass in the books of account.

[Gross profit 1,73,000 net profit 1,32,100 balance sheet 4,96,100 ].