

Financial Accounting\* Accounting

According to the AICPA [American Institute of Certified Public Accountant], Accounting is defined as an art of recording, classifying and summarising in a significance manner items of money.

\* Functions

- ① It is profitable to invest in a particular company or not.
- ② Does it sound sensible to lend funds to a particular company or not.
- ③ Is the particular company paying its taxes on time or not.

\* Significance

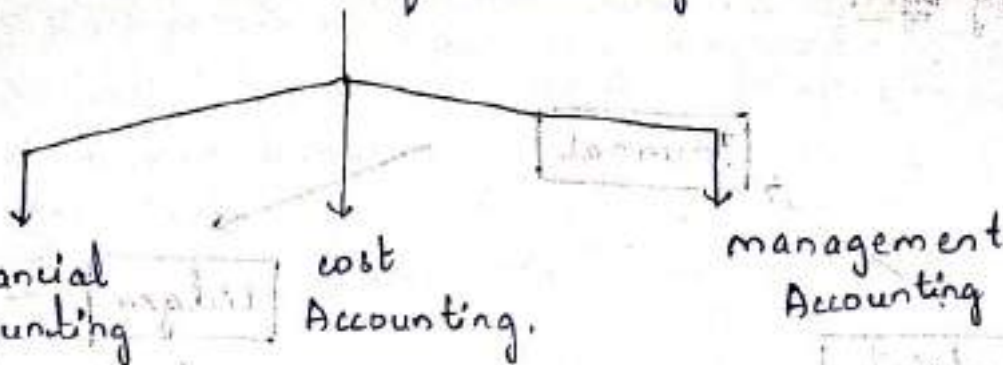
Accounting is very important for every business organisation as it helps us to:-

- ① maintain its own records of business
- ② monitor the business activities
- ③ calculate profit or loss for a given period.
- ④ shows the financial position for a given period
- ⑤ Fulfill the legal obligations

\* Users of Accounting Information

- ① Owners
- ② Creditors (or) financial institutions (Banks)
- ③ Managers
- ④ Government / Tax authorities
- ⑤ Employees

# Branches of Accounting



## \* Financial Accounting

The basic purpose of Financial Accounting is to prepare financial statements.

It includes Trading, profit and loss account [Income Statement] and balance sheet.

The basic tools are:-

- ① Journal
- ② Ledger
- ③ Trial Balance
- ④ Subsidiary Books

## \* Cost Accounting

The main purpose of cost accounting is to ascertain and control the cost of product or a department. Its main focus is to find cost of a product or a service.

Tools and techniques are:-

- ① Marginal Costing
- ② Break-even Analysis
- ③ Opportunity Cost, etc.

## \* Management Accounting

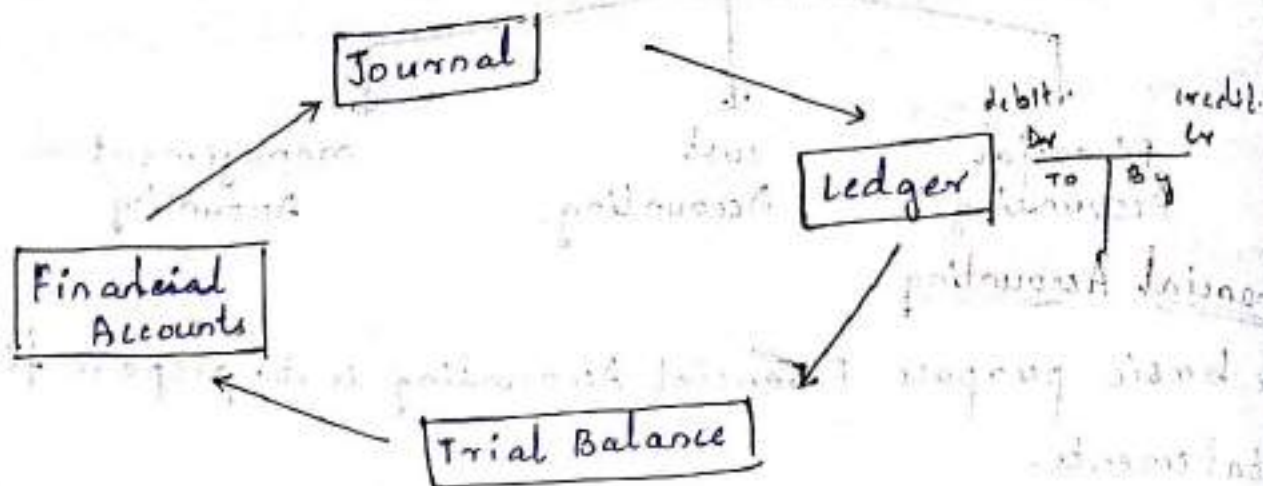
The purpose of the management accounting is to assist management in taking appropriate decisions.

Tools and techniques are:-

- ① Ratio Analysis
- ② Capital Budgeting



## ⇒ Accounting Cycle



## ⇒ Accounting Terminology

### ① Double Entry Book keeping system

For every debit there should be a corresponding credit.

### ② Account

Dr	Cr
to	By

Dr : debit  
Cr : credit

### ③ Accounting period

Account is period for one financial year.

### ④ Transaction

Exchange of money worth b/w two partners

- ① Cash transaction
- ② Credit transaction

### ⑤ Assets

- Fixed Asset
  - Tangible - seen, touched
  - Intangible - cannot be seen nor touched  
Eg: Goodwill (reputation)
- current Assets → can be converted cash < 1 year

Current Asset - ① Stock/Inventory

② Bills receivable

③ Cash in hand

④ cash at bank

⑤ debtors

⑥ Prepaid Expenses.

⑥ Stock/Inventory

① Raw material

② Work in progress

③ Finished stocks

⑦ debtors / creditors → debtors are those who owe to the business

→ creditors are those to whom business owes money

⑧ Liabilities

- current liabilities [outstanding expenses]  
creditors  
Bills Payable

⑧ creditors

⑧ Bank Overdraft

Business people can draw more than what they require.



# Accounting Concepts and Conversions

\* GAAP [generally accepted accounting principles]

① Business Entity Concept

② Accounting period Concept

Accounts should be prepared for every year. Date may change from company-to-company

③ Money Measurement Concept

Everything must be measured in terms of money

④ Going Concern Concept

In any situation/uncertainty you should continue your business

⑤ Realisation Concept

Whenever the transaction has occurred we need to note the accounts when it is sold but not when they receive the payment

⑥ Cost Concept

Whenever we get any asset we need to show the historic value

Dual Concept

For every debit there should be a corresponding and equal credit

→ Conversions

① Consistency If a company starts a method must follow the same method at least for few years

② Full Disclosure Accounts which is prepared for the company should be very fair and transparent enough for the investors

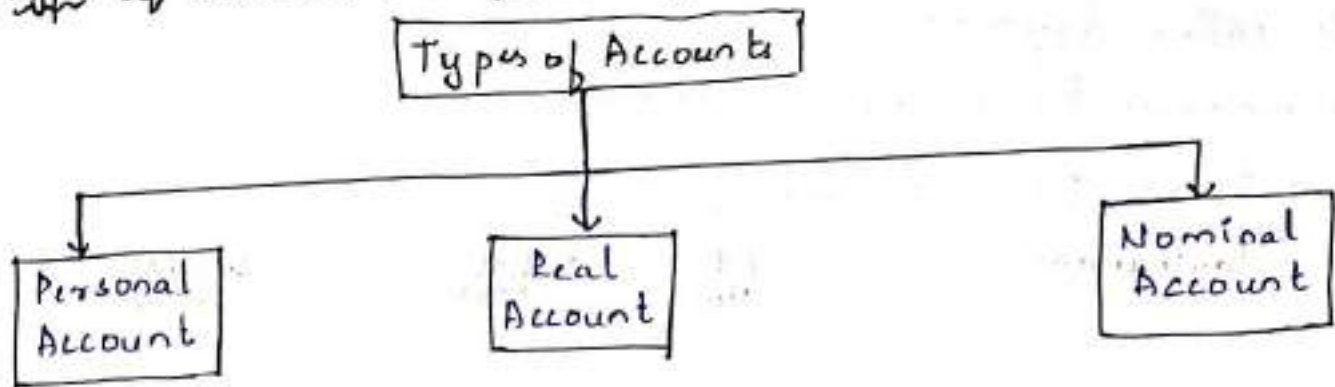
## ② Materiality:-

You need to take the transaction which have impact on the business

## ④ Conservatism:-

You need to develop an attitude that even might be having losses at times.

## → Types of Accounts and governing accounts:-



### \* Personal Account

These Accounts are open in the name of persons & firms with whom the firm deals.

rule of this Account is:-

"debit the receiver"  
and  
"credit the giver"

### \* Real Account

These are the Accounts open in the name of assets (land and building, plant and machinery, furniture and fixtures and so on)

rule of real account:-

debit what comes in  
and  
credit what goes out

### \* Nominal Account

These accounts are opened in the name of expenses, losses, profits, income and gains



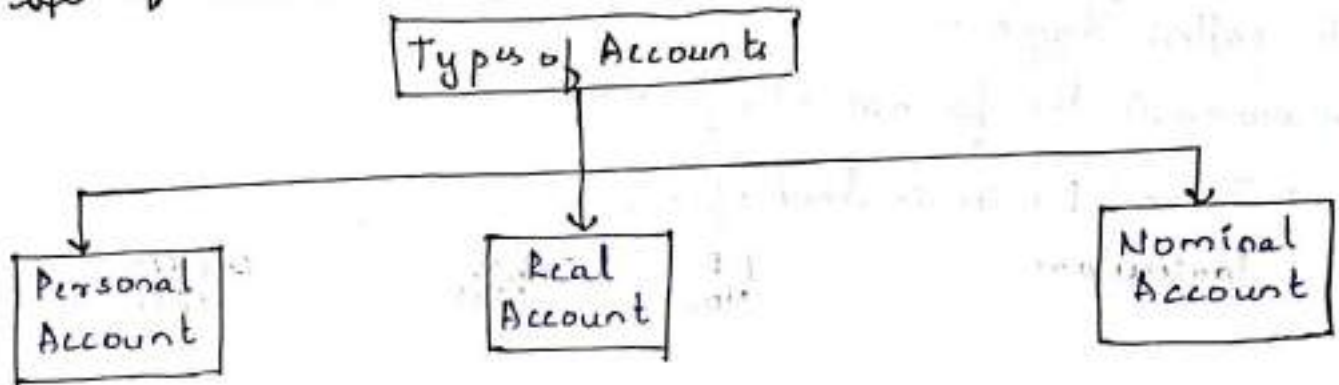
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rule of real account:-

debit what comes in  
and  
credit what goes out

#### \* Nominal Account

These accounts are opened in the name of expenses, losses, profits, income and gains

rule of nominal account → "debit all expenses and losses"  
"credit all <sup>and</sup> profit and gains"

### → Journal

Journal is the first book in which transactions are recorded in chronological order (date wise) the moment they take place in business.

• It is also called "daybook"

• The following is the format of a journal

→ Journal Entries in book of

Date	Particulars	L.F. No.	Debit (Rs)	Credit (Rs)

• recording entries in journal is called journalization

Prob: Journalize the following transactions in the books of Madhu and prepare necessary ledger accounts

Jan 1, 2014 : Madhu commenced with Rs 15000

Jan 2, 2014 : Payed into bank Rs 10,000

Jan 3, 2014 : Purchased goods from B for Rs 2,000

Jan 4, 2014 : return the goods to B for Rs 200

Jan 5, 2014 : Payed to B in full settlement of account Rs 1700

Jan 7, 2014 : Receive the interest from the bank Rs 750

Jan 9, 2014 : Sold goods for cash Rs 7000

Jan 12, 2014 : Sold goods to don for Rs 4000



Jan 15, 2014: received goods worth of Rs 100 from don with a complaint about damage

Jan 16, 2014: Payed salaries Rs 400.

Jan 17, 2014: Entertainment Rs 50

Jan 20, 2014: received a cheque from don Rs 500

Jan 25, 2014: Issued a cheque for Rs 100 towards rent.

Journal Entries in book of Madhu

Date	Particulars	L.F No	Debit (Rs)	Credit (Rs)
1/1/14	Cash A/c --- Dr To madhu capital A/c (Madhu commenced)		15000	1500
2/1/14	Bank A/c --- Dr To cash A/c (being cash paid into bank)		10,000	10,000
8/1/14	Purchase A/c --- Dr To B A/c (being purchased goods from B)		2000	2000
4/1/14	B A/c --- Dr To purchase return A/c (being returned goods to B)		2000	200
5/1/14	B A/c --- Dr To cash A/c To d/e received A/c		1800	1700 100
7/1/2014	Cash A/c --- Dr To interest rec. A/c (being interest from bank)		150	150

9/1/14	Cash A/c --- Dr To Sales A/c (being goods sold for cash)	1000	1000
12/1/14	Don a/c --- Dr To Sales A/c	4000	4000
15/1/14	Sales return a/c --- Dr To Don a/c	100	100
16/1/14	Salaries A/c --- Dr To cash a/c (being salaries paid)	400	400
17/1/14	Govt. Expenses a/c --- Dr To cash (being ent. expenses)	50	50
20/1/14	Bank a/c --- Dr To Don A/c	500	500
25/1/14	rent A/c --- Dr To bank A/c (being rent paid through cheque)	100	100

Prob 2 :- Generalize the following transactions and prepare necessary ledger accounts in the books of ABC firm.

1/4/14: ABC firm commenced business with Rs 40,000

2/4/14: deposited into bank Rs 30,000

4/4/14: sold goods worth Rs 60,000

5/4/14: Paid rent Rs 4,000

5/4/14: Advertising Rs 3,000

6/4/14: Sold goods worth Rs 50,000 to Suresh



4/4/14: Suresh pays Rs 48000 in full settlement of account  
 10/4/14: bought goods worth Rs 48000 from Kamal  
 11/4/14: paid Rs 40000 to Kamal A/c  
 Journal entries in book of ABC

Date	Particulars	L.F. No.	Debit (Rs)	Credit (Rs)
11/4/14	Cash A/c — Dr To ABC capital A/c		40000	40000
21/4/14	To Bank A/c — Dr To Cash A/c (being deposited into bank)		30000	30000
4/4/14	Cash A/c — Dr To Sales A/c (being goods sold for cash)		60000	60000
5/4/14	Rent A/c — Dr To cash A/c (being rent paid)		4000	4000
5/4/14	Adv. expenses A/c — Dr To cash A/c (being advertisement incurred)		3000	3000
6/4/14	Suresh A/c — Dr To Sales A/c (being goods sold to)		50,000	50,000
7/4/14	Cash A/c — Dr discount paid — Dr To Suresh A/c		48600 1400	50000
10/4/14	Purchase A/c — Dr To Kamal A/c (being goods purchased from Kamal)		48000	48000

11/4/14	Kamal A/c -- Dr To cash A/c (being paid to Kamal)	40,000	40,000
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\* Journalise the following transactions and prepare necessary ledger account in the books of Madan.

- 1/03/14 → Madan started business with a capital of Rs 6000
- 3/03/14 → bought furniture from Furniture mart Rs 2000
- 8/03/14 → bought goods from Devika and sons Rs 14000
- 9/03/14 → sold goods to Mahendra Singh Rs 2000
- 10/03/14 → returned goods to Devika and sons Rs 1000
- 11/03/14 → cash sales Rs 75000
- 12/03/14 → sold goods to Rao and Bros Rs 14000
- 13/03/14 → sold goods to Bombay Shoppe Rs 15000
- 14/03/14 → Bombay shoppe pays us Rs 14000 in full settlement of account
- 18/03/14 → paid salaries Rs 500
- 26/03/14 → paid telephone bills Rs 300
- 27/03/14 → paid Devika and sons account Rs 12500 in full settlement of account
- 28/03/14 → paid wages Rs 400
- 31/03/14 → withdrew for personal use Rs 500.

Journal entries in book of Madan.

Date	Particulars	L.F	Debit (Rs)	Credit (Rs)
1/03/14	Cash A/c --- Dr To Madan capital A/c (being started with capital)		60,000	60,000
3/03/14	Furniture A/c --- Dr To cash A/c		2,000	2,000



8/03/14	Purchase A/c — Dr To Devika and sons A/c (being goods purchased from Devika and Sons)	14000	14000
9/03/14	Mahendra Singh A/c — Dr To Sales A/c (being sold goods to Mahendra)	2000	2000
10/03/14	Devika and Sons A/c — Dr To Purchase return A/c (being returning goods to Devika and sons)	1000	1000
12/03/14	Cash A/c — Dr To Sales A/c	15000	15000
12/03/14	Roa and Bros A/c — Dr To Sales A/c (being sold goods to Roa and Bro)	14000	14000
13/03/14	Bombay Shoppe A/c — Dr To Sales A/c (being sales goods to Bombay Shoppe)	15000	15000
14/03/14	Bombay shoppe cash A/c — Dr discount paid — Dr To Bombay Shoppe A/c (being paid full settlement)	14000 4000	18000
15/03/14	Salaries A/c — Dr To Cash A/c (being paid salaries)	500	500
26/03/14	Telephone Expenses A/c — Dr To Cash A/c (being paid telephone bills)	300	300
27/03/14	Devika and sons A/c — Dr To Cash A/c To discount A/c	13500 500	14000
28/03/14	Wages A/c — Dr To cash A/c (being paid wages)	400	400

31/03/14	Drawing Alc -- Dr To Cash Alc	500	500
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- \* Journalise the following transactions in the books of Aryan
- 2017, April 1st → Aryan commenced with Rs 50,000
- 3/04/17 → Purchased land and building for Rs 50,000
- 5/04/17 → Cash deposited into bank Rs 2000
- 8/04/17 → Bought goods worth Rs 10000
- 10/04/17 → purchased goods from Kiran worth Rs 20000
- 12/04/17 → goods return to Kiran worth Rs 500
- 13/04/17 → Paid to Kiran in full settlement to Kiran Rs ~~2400~~ 2400
- 15/04/17 → Telephone charges Rs 500
- 20/04/17 → Sold goods to Mahesh worth Rs 50000
- 21/04/17 → Mahesh returned goods worth of Rs 200
- 24/04/17 → Salaries pay Rs 500
- 25/04/17 → Interest received worth Rs 500.

Journalise the entries in the books of Aryan

Date	Particulars	LF no	Debit (Rs)	(Credit)
1/04/17	Cash Alc -- Dr To Aryan's <sup>capital</sup> Alc (being started with business)		50,000	50000
3/04/17	Land & building Alc -- Dr To Cash Alc (being purchased land & building)		50,000	50,000



6/04/17	to Bank A/c -- Dr to Cash A/c	2000	2000
6/04/17	Purchase A/c -- Dr to Cash A/c (being purchased goods)	70000	70000
10/04/17	Purchase A/c -- Dr to <sup>Kiran</sup> Sales A/c	3000	3000
12/04/17	Kiran A/c -- Dr to purchase return A/c (being goods return to kiran)	500	500
13/04/17	Kiran A/c -- Dr to Cash A/c to discount <sup>paid</sup> A/c <sub>received</sub>	<sup>25</sup> <del>30</del> 00 400	2900
15/04/17	Telephone Expenses A/c -- Dr to Cash A/c (being paid to telephone charges)	500	500
20/04/17	Mahesh A/c -- Dr to Sales A/c	50000	50000
21/04/17	Sales return A/c -- Dr to Mahesh A/c	200	200
24/04/17	Salaries A/c -- Dr to Cash A/c (being salaries paid)	500	500
25/04/17	Cash A/c -- Dr	500	500

→ ledger

ledger is the book that contains several accounts. The process of preparation of A/c's from Journal into ledger is called

"Posting the ledger"

• Egi of ledger A/c's includes sales A/c, purchase A/c, sales return A/c, purchase return A/c and etc.

• Proforma :-  
debit side (Dr)

			(Credit side) Cr		
date	Particulars	Rs.	date	Particulars	Rs.
	To			By	

• The format of a ledger A/c is of two parts

① left hand side is called Debit side.

② Right hand side is called Credit side.

• Debit side starts with 'To'

• Credit side starts with 'By'

→ ABC firm  
Dr.

Cash A/c

date	Particulars	Rs.	date	Particulars	Rs.
1/04/14	To Capital A/c	40000	2/4/14	By Bank A/c	30000
4/04/14	To Sales A/c	60000	5/4/14	By Rent A/c	4000
7/04/14	To Suresh A/c	50,000	5/4/14	By Adv. Expenses A/c	3000
			11/4/14	By kamal A/c	40,000
			31/4/14	By Balad	73,000
				(1,50,000 - 77,000)	
		1,50,000			1,50,000



Dr. Capital A/c			Cr.		
date	Particulars	Rs.	date	Particular	Rs.
31/12/14	To Balance c/d	40,000	1/1/15	By Cash A/c	40,000
		<u>40,000</u>			<u>40,000</u>

Dr. Bank A/c			Cr.		
date	Particular	Rs.	date	Particular	Rs.
31/12/14	To Cash A/c	30,000	31/12/14	By Bal c/d	30,000
		<u>30,000</u>			<u>30,000</u>

Sales A/c					
Date	Particulars	Rs.	Date	Particulars	Rs.
5/4/14	To Bal c/d	1,10,000	4/4/14	By cash A/c	60,000
			6/4/14	By Suresh A/c	50,000
		1,10,000			1,10,000

[illegible]

Adv. Expenses A/c					
Date	Particulars	Rs.	Date	Particulars	Rs.
5/6/14	To Cash A/c	3000	31/8/14	By Bal c/d	3000
		<u>3000</u>			<u>3000</u>





Dr.

kamal A/c

Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
11/4/14	To Cash A/c	40,000	10/4/14	By Purchase A/c	48,000
11/4/14	To Balad [48,000 - 40,000]	8,000			
		48,000			48,000

Dr. Hadar's Account Ledger

Cash A/c

Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
1/03/14	To Capital A/c	60,000	3/3/14	By Furniture A/c	2000
11/03/14	To Sales A/c	45,000	18/03/14	By Salaries A/c	500
14/03/14	To Bombay Shoppe A/c	15,000	26/03/14	By Tel. Expenses A/c	800
			27/03/14	By devika & Sons A/c	13,500
			28/03/14	By wages	400
			31/03/14	By Drawing A/c	500

Capital A/c

Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
31/03/14	To Balad	60,000	1/3/14	By Cash A/c	60,000
		60,000			60,000



# Furniture A/c

Dr.					Cr.
Date	Particulars	Rs.	Date	Particulars	Rs.
01/03/14	To Cash A/c	2000	31/03/14	By Balad	2000
		2000			2000

# Purchase A/c

Dr.					Cr.
Date	Particulars	Rs.	Date	Particulars	Rs.
01/03/14	To Devika and Sons A/c	14000	31/03/14	By Balad	14,000
		14,000			14,000

# Devika and Sons A/c

Dr.					Cr.
Date	Particulars	Rs.	Date	Particulars	Rs.
10/03/14	To Purchase returns A/c	1000	8/03/14	By Purchase A/c	14,000
27/03/14	To Cash A/c	13000	31/03/14	By Balad	5000
	To dis paid	500			
		14,500			14,500





Dea and Bros A/c

Dr.			Cr.		
Date	Particulars	Rs.	Date	Particular	Rs.
12/03/14	To Sales Account	14,000	31/03/14	By Balad	14,000
		14,000			14,000

Bombay Shopes A/c

Dr.			Cr.		
Date	Particulars	Rs.	Date	Particulars	Rs.
13/03/14	To Sales A/c	15,000	14/03/14	By cash A/c	14,000
				By discount recd.	1,000
		15,000			15,000

Salaries A/c

Dr.			Cr.		
Date	Particulars	Rs.	Date	Particulars	Rs.
18/03/14	To cash A/c	500	31/03/14	By Balad	500
		500			500

Telephone Expenses A/c

Dr.			Cr.		
Date	Particulars	Rs.	Date	Particulars	Rs.
26/03/14	To cash A/c	300	31/03/14	By balad	300
		300			300

Wages A/c					
Date	Particulars	Rs.	Date	Particulars	Rs.
28/03/14	To Cash A/c	400	31/03/14	By Balad	400
		400			400

Drawing A/c					
Date	Particulars	Rs.	Date	Particulars	Rs.
31/03/14	To Cash A/c	500	31/03/14	By Balad	500
		500			500



## \* Trial Balance :-

Trial balance is a statement containing debit and credit balances of various accounts taken out from the ledger books as on particular date.

A Trial Balance must agree as on that date

### \* Items showing a debit balance :-

- ① Debtors Account
- ② All the fixed assets (land & building, plant and machinery, furniture, business premises)
- ③ Expenses A/c
- ④ Losses A/c's
- ⑤ Purchase A/c
- ⑥ Sales return A/c
- ⑦ Drawings A/c
- ⑧ Discount allowed
- ⑨ Cash A/c
- ⑩ Bank A/c
- ⑪ Carriage inwards
- ⑫ Carriage outwards
- ⑬ Trade Expenses
- ⑭ Factory rents
- ⑮ Bills receivable
- ⑯ Stock
- ⑰ Fuel and Power
- ⑱ Salaries, wages, repairs

Items showing a credit balance:-

- ① Capital A/c
- ② Sales A/c
- ③ Purchase returns A/c
- ④ Sundry creditors (Total)
- ⑤ Bills payable
- ⑥ discount received / interest / rent
- ⑦ Bad debts
- ⑧ General reserves / reserve funds

→ Proforma of Trial Balance:-

Trial Balance for period ending

Particulars	Debit (Rs)	Credit (Rs)

→ Make a Trial Balances from the accounts prepared for the period ending 2013 from the following info.

Particulars	Rs
Sundry debtors	32,000
Stock - 1/1/2013	12,000
Cash in hand	35,000
Cash at bank	1545
Plant and Machinery	17,500
Sundry creditors	10,650
Trade expenses	1,075
Sales	2,34,500



Salaries	2225
Carriage Outwards	400
Rent	400
Bill payable	1500
Purchases	2,18,870
Discount (debtors)	1100
Capital	19,500
Business premises	34,500

Particulars	Debit (Rs)	Credit (Rs)
Sundry Debtors	32,000	
opening stock	20,000	
Cash in hand	35	
Cash at bank	1,545	
P & M	17,500	10,650
Sundry creditors	10,75	
Trade expenses		2,34,500
Sales		
Salaries	2225	
Carriage Outwards	400	
Rent	400	1,500
Bill Payable		
Purchases	2,18,870	
Discount	1100	
Capital		19,500
Business premises	34,500	
	3,32,150	3,32,150

Prepare a Trial Balance for following info

Particulars	Rs.
Capital	1,00,000
Machinery	30,000
Stock	16,000
wages	50,000
Carriage Inwards	500
Salaries	5,000
Factory rent	24,000
Repairs	400
Fuel and power	2,500
Building	40,000
Sundry Debtors	28,000
Sales	2,03,000
Purchases	1,22,000
creditors	12,500
Returns outward	2,000
Returns inward	3,600
Drawings	2,000
Discount allowed	750
Discount received	250
Office Expenses	1,000
Manufacturing Expenses	600
Bills Payable	8,500
Bills receivable	.
Cash in hand	5,000
Cash at bank	2,400
Office rent	15,400
	1,800



Particulars	Debit (Rs)	Credit (Rs)
		1,00,000
Capital		
Machinery	80,000	
Stock	16,000	
Wages	50,000	
Carriage Inwards	500	
Salaries	5000	
Factory rent	24,000	
Repairs	400	
Fuel and power	2500	
Building	40,000	
Sundry debtors	20000	
Sales	0	2,03,600
Purchases	1,22,000	
Creditors		12,500
Returns outwards		2000
Returns inward	3600	
Drawings	2000	
Discount allowed	750	
Discount received		250
Office Expenses	1000	
Manufacturing Expenses	600	
Bills Payable	<del>2500</del>	8500
Bills receivable	5000	
Cash in hand	2400	
Cash at bank	15400	
Office rent	1800	
	321850	326850

Q Prepare the trial balance for the following:-

Particulars	Rs.
Capital	64000
Sales	1,74,000
Purchases	1,54,000
Carriage returns	1,300
Purchase returns	2000
Carriage outwards	1,800
Sales return	4000
Furniture	600
Premises	24,000
Motor van	3000
Opening stock	32,000
Debtors	26,000
Drawing	2,000
Creditors	8,700

Particular	Debit (Rs)	Credit (Rs)
Capital		64,000
Sales		1,74,000
Purchases	1,54,000	
Carriage returns	1,300	
Purchase returns	2,000	2,000
Carriage outwards	1,800	
Sales return	4,000	
Furniture	600	



Premises	24,000	
Motor van	3000	
Opening stock	32000	
Debtors	26000	
Drawing	2000	
creditors		8700
	2,48,700	2,48,700

### → Final Accounts:-

The process of preparing Final accounts is of two stages.

- ① Trading Account  
Profit and loss Account
- ② Balance Sheet

### \* Trading Account

Trading Account shows gross profit respectively for the given accounting period. Gross Profit or gross loss is the excess of Sales revenue over cost of production or cost of goods sold.

$$\text{Gross Profit} = \text{Net Sales} - \text{Cost of goods sold}$$

$$\text{Cost of goods sold} = \text{Opening stock} + \text{Purchases} + \text{Direct expenses} - \text{closing stock}$$

• If the cost of good sold is more than sales revenue, it results in gross loss.

### • Proforma Trading Account for the given period ---

Particulars	Rs	Particulars	Rs
To Opening stock	xxx	By Sales	xxx
Purchase xxx		- Sales return	xx

to Purchase returns (C) xx			xxx
To wages	xxx	By closing stock	xx
To Factory rent	xx	By gross loss transferred to profit and loss A/c	xxx
To Manufacturing exp	xx		
to Freight	xx		
to carriage inwards	xx		
to Fuel and Power	xx		
to Power, gas and water	xx		
To Gross profit transfer to Profit and loss A/c	xxx		
	xxxx		xxx

Q. Prepare a Trading account from the following extract of Trial Balance from the books of Kamal for the year Ending December 31st, 2013.

Trial Balance for the period ending 2013

Particulars	Debit Rs.	Credit Rs.
		3,25,000
Sales		
Purchase	2,40,000	
Freight	5000	
Sales return	5000	
Purchase return	5	5600
Wages	40,000	
Salaries	20,000	
Carriage Inwards	10,000	
opening stock	25,000	25000



Adjustment Closing stock has on 31st Dec, 2013 was Rs 40,000  
 Credit  
 Dr. Trading Account for the given period

Particulars	Rs	Particulars	Rs
To Purchase 2,40,000		By Sales 3,25,000	
- Purchase returns 15,600		- Sales return 5,000	
	2,34,400	Net Sales →	3,20,000
To Freight 5000		By Trading Closing Stock	40,000
To wages 40,000			
To Carriage Inwards 10,000			
To opening stock 25,000			
To Gross profit → 46,600			
(3,60,000 - 3,14,400)	3,60,000		3,60,000

→ Trial Balance for the period ending 31.3.2014.

Particulars	Debit (Rs)	Credit (Rs)
Drawings (B)	4,000	
Discount allowed (P&L)	1,500	
Discount received (P&L)		500
Office Expenses (P&L)	2,000	
Manufacturing Expenses T	1,200	
Bills Payable (B)	17,000	
Bills receivable (B)	10,000	
Cash in hand (B)	4,800	
Cash at bank (B)	30,800	
Office rent P&L	3,600	
Bharathi Capital B		2,00,000

Machinery	60,000	
Stock (1.4.2014)	32,000	
wages	1,00,000	
carriage inwards	1,000	
Salaries	10,000	
Factory rent	4,800	
repairs	800	
Fuel and power	5,000	
Furniture	11,000	
Buildings	80,000	
Sundry debtors	40,000	4,07,200
Sales		
Purchases	2,44,000	25,000
creditors		
Returns inwards	7,200	
Returns outwards		4,000

Dr. Adjustment : closing stock Rs 40,000  
Trading A/c for the given period 31-3-2014

	Rs.		Rs.
To Opening Stock	32,000	By Sales	4,07,200
To Purchase 2,44,000		Sales Returns	7,200
Purchase return 4,000			
	2,40,000	By closing stock	40,000
To wages	1,00,000		
To carriage inwards	1,000		
To manufacturing expenses	12,000		
To fuel and power	5,000		
To factory rent	4,800		
To Gross profit	36,000		
	4,40,000		4,40,000



Dr. Profit and Loss A/c for the year ending 31/03/14

Particulars	Rs.	Particulars	Rs.
To dis. allowed To office expenses To office rents	1600 2000 3,600	By gross profit By Discount received	56,000 500
To Salaries	10,000		
To repairs	800		
To net profit	38,600		
	56,000		56,000

Balance sheet as on 31/3/14

Liabilities		Rs.	Assets		Rs.
Capital	2,00,000		<u>Fixed Assets</u>		
(+) net profit	38,600		Machinery	60,000	
	<u>2,38,600</u>		Furniture	11,000	
(-) drawings	4,000		Buildings	80,000	
	<u>2,34,600</u>				
<u>current liabilities</u>			<u>current Asset</u>		
Bills Payable		17,000	Bills receivable	10,000	
creditors		25,000	Cash in hand	4,800	
			Cash at bank	30,800	
			S. debtors	40,000	
			closing stock	40,000	
		<u>2,76,000</u>			<u>2,76,000</u>

• Profit and Loss Account

Profit and loss account shows net profit or net loss for the end of a given period.

From the Gross profit, transferred from Trading A/c, deduct all the expenses relating to office, selling and distribution dept. <sup>Add</sup> all non-operating incomes (commission received, rent received, interest received, discount received, etc)

• Proforma:-

Dr. Profit and Loss A/c for the year ending —

Cr.

Particulars	Rs	Particulars	Rs
To Dis allowed	xxx	By Gross Profit	xx
To Salaries	xx	By commission rec.	xx
To Electricity	xx	By interest rec.	xx
To carriage outwards	xx	By discount rec.	xx
To Office rents	xx	By profit on sale of fixed assets	xx
To Rent	xx	By net loss	(xx)
To Trade Expenses	xx		
To Interest paid / commission paid	xx		
To Bad debts	xx		
To Provision for depreciation	xx		
To Traveling expenses	xx		
To Repairs	xx		
To Stationery	xx		
To Postage	xx		
To Net Profit	xx		
	(xxx)		
	xxx		xxx



\* Balance sheet :-

• Proforma

Balance sheet as on - . . . .

Liabilities	Rs.	Assets	Rs.
<u>Long-term liabilities</u>		<u>Fixed Assets:</u>	
Capital xxx		Plant and Machinery xxx	
(-) Drawings (1) xx		(-) Provision for depreciation (1) xx	
xxx		xxx	
(+) net profit (1) xx			
		Land and Building xxx	
Bank overdraft xxx		(-) Provision for depreciation - xx	
Debentures xx		xxx	
<u>current liabilities</u>		<u>current Assets</u>	
Creditors xx		Stock/Inventory xx	
Bills Payable xx		Sundry Debtors xxx	
Out standing Expenses xx		(-) Bad debts - xx	
		xxx	
		Bills receivable xx	
		Cash at bank xx	
		Prepaid Expenses xx	
	xxxx		xxxx

• Balance sheet is a statement of assets and liabilities of a business as of given date. It shows a true financial statement position of a business as on given date.

→ From the following Trial Balance of ABC prepare Final Accounts for year ending 31/12/14. Closing stock on 31st dec. 14 was valued at Rs 2,50,000

Dr. Trial Balance for the year end 31/12/14.

Particulars	Rs.	Particulars	Rs.
← stock (1-1-2010)	2,00,000	Sundry Creditors B	1,50,000
← Purchase	7,50,000	Purchase returns T	30,000
← Sales Return	80,000	Sales T	25,00,000
← Freight and carriage	15,000	Commission received P	33,000
← wages	3,65,000	Capital B	17,00,000
Salaries P	1,20,000	Interest on Bank deposits P	20,000
Repairs P	10,000	Bills payable B	62,000
Trade and expenses P	40,000		
Rent and taxes P	2,40,000		
Cash in hand B	57,000		
Bills receivable B	40,000		
Sundry debtors B	5,50,000		
B Plant and Machinery	116,00,000		
Drawings B	1,66,000		
B Bank deposit/cash at bank	2,00,000		
	<u>44,95,000</u>		



Dr. Trading A/c for the given period 31/12/14 Cr.			
Particulars	Rs.	Particulars	Rs.
To Opening stock	2,00,000	By Sales 25,00,000	
To Purchase 7,50,000		By Sales return 1,80,000	
(-) To Purchase return 30,000			2,42,000
	7,20,000	By Closing stock	2,50,000
To Freight and carriage 75,000			
To wages 3,65,000			
To gross profit 13,10,000			
	2,67,000		2,67,000

Dr. Profit and Loss A/c for the year ending 31/12/14 Cr.			
Particulars	Rs.	Particulars	Rs.
To Salaries 1,20,000		By gross profit 13,10,000	
To Repairs 12,000		By commission received 33,000	
To Trade expenses 40,000		By Interest on bank deposit 20,000	
To Rent and Taxes 2,40,000			
To net profit 9,51,000			
	13,63,000		13,63,000

Dr. Balance Sheet as on 31/12/14 Cr.			
Liabilities	Rs.	Assets	Rs.
<u>Long-term liabilities</u>		<u>Fixed Assets</u>	
Capital 17,00,000		Plant and Machinery 14,00,000	
(+) net Profit (+) 9,51,000			
	26,51,000		
(-) drawing (-) 1,66,000			
	24,85,000		24,85,000

<u>current liabilities</u>		<u>current Assets</u>	
Bills Payable	82,000	By cash in hand	57,000
Sundry creditors	150,000	By bills receivable	40,000
		By sundry debtors	5,50,000
		Cash at bank	2,00,000
		Closing Stock	2,50,000
	26,97,000		26,97,000



## Adjustments

### ① Closing Stock



### ② Outstand Expenses:-

It is also as accrued expenses (or) unpaid expenses.  
 The Income which is earned but not yet received is called outstanding expenses

→ Trial Balance

particulars	debit	credit
wages	5000	

Adj: O/s wages Rs 2000

Dr.		Cr.	
Trading Alc			
Particulars	Rs.	Particulars	Rs.
To wages 5000			
1+1 O/s wages + 2000			
	7000		

→ Balance Sheet

Liabilities	Rs	Assets	Rs
O/s wages	2000		

③ Prepaid Expenses / Unexpired / paid in advance

→

Trial Balance

Particulars	Dr. Rs.	Cr. Rs.
Rent	5000	

Adj: rent prepaid  
Rs. 2000

Dr. Profit & Loss A/c

Particulars	Rs.	Particulars	Rs.
To Rent 5000			
→ prepaid 2000			
	3000		

Balance sheet.

Liabilities	Rs.	Assets	Rs.
		Prepaid Exp.	2000

④ Depreciation:-

- Reduced in value of Assets, it is charged only on the fixed assets.

① A building is bought for <sup>2,50,000</sup> ~~25~~ lakhs and the life of the asset is 10 years after which it can be sold for Rs 50,000. Calculate depreciation per year.

Sol: 
$$\text{Depreciation} = \frac{\text{Cost of Asset} - \text{Scrap} + \text{Installation}}{\text{life of the asset}}$$

$$= \frac{2,50,000 - 50,000}{10}$$

$$= \frac{2,00,000}{10}$$

$$= 20,000 \text{ p.a.}$$



②

## Trial balance

Particulars	Dr.	Cr.
Buildings	20,000	

Adjustment: Depreciation

## Balance Sheet

Liabilities	Rs	Assets	Rs
		Build 20,000	
		(-) dep 10%	
			18,000

## P and L A/c

Particulars	Rs	Particulars	Rs
To dep on building	2000		

④ written off bad debts and provision for bad doubtful debts

## Trial Balance

Particulars	Rs	Cr.
debtors	50,000	

Adjustments:

- a) written off bad debts Rs 5000  
 b) create 5% reserve for bad and doubtful debts

## Balance Sheet

Liabilities	Rs	Assets	Rs
		debtors 50,000	
		(-) bad debts 5000	
			45,000
		(-) R.B.D (-) 2250	
			42750

## Dr P and L A/c

Particulars	Rs		Rs
To bad debts	5000		
To R.B.D	2250		

## → Overview of Adjustments

### ① closing stock

Trading Acc  
(credit side)      Assets

### ② Prepaid Expenses

Assets  
(-) from  
concern's term

### ③ Outstanding Expenses

Liabilities  
(+) to concern's term

### ④ Depreciation

P and L - debit side  
(-) from  
concern's  
fixed asset

### ⑤ written off Bad debts

P and L Acc  
+ debit side  
(-) from  
Debtors



→ From the following Trial Balance of Suresh as at Dec 31, 2013.  
Prepare Trading, Profit and Loss Account for the year ended  
December 31, 2013 and a Balance Sheet as on date:-

	debit (Rs)	credit (Rs)
Purchase of materials T	32,000	
productive wages T	13,000	
		60,000
Sales T		
Salaries P	4,000	
Travelling Expenses B	1,000	
Carriage Inwards T	550	
Insurance P	300	
Commission T	650	
Rent and Taxes P	1000	
Cash in hand B	350	
Cash at bank B	5,550	
Repairs P	600	
Sundry expenses P	110	
		6100
mortgage B		
Buildings B	8,000	
Machinery B	3,000	
Furniture B	1,000	
Stock on hand (1.1.2013)	11,500	
		21,310
Capital B		
Sundry debtors B	9000	
Sundry creditors B		4200

Adjust the following :-

① Prepaid rent Rs 100 ✓

② depreciate the following

• Buildings @ 10% p.a

• Machinery @ 20% p.a

• Furniture @ 15% p.a

③ Provide for bad debts Rs 100

④ outstanding Insurance Rs 50 ✓

⑤ Closing stock Rs 12,000 ✓

Dr. Trading Account for the year ending 31/12/13 Cr.

Particulars	Rs.	Particulars	Rs.
To opening stock	11,500	By Sales	60,000
To Purchases	32,000	By closing stock	12,000
To carriage inwards	550		
To productive wages	13,000		
To gross profit transferred to P&L A/c	14,950		
(75000 -	72,000		72,000

Dr. Profit and Loss A/c for the year ending 31/12/13 Cr.

Particulars	Rs.	Particulars	Rs.
To Salaries	4000	By gross profit	14950
To travelling expenses	1000		
To Insurance 300	300		
to outstanding 50	350		
To comission	650		
To Rent and taxes 1000			
to prepaid rent 100	900		



To Bad debts	100	
To Sundry Expenses	110	
To repairs	600	
To dep on Building	800	
To dep on machinery	600	
To dep on Furniture	150	
To net profit	5690	
	14,950	14,950

### Balance Sheet as on 31/12/13

Liabilities	Rs	Assets	Rs
capital - 21,310		Buildings 8000	
(-) net profit (+) 5690	27,000	(-) dep @ 10% 800	7200
mortgage	6100	Machinery 3000	
		(-) dep @ 20% 600	2400
<u>current liabilities</u>		Furniture 1000	
sundry creditors 4000		(-) dep @ 15% 150	850
o/s Insurance 50		<u>current Asset</u>	
		cash in hand 350	
		cash at bank 5,550	
		debtors 9000	
		(-) Bad debts 100	8900
		prepaid rent 100	
		closing Stock 12,000	
	27,350		37,350

① Prepare the Trading Account (Trading Account, Profit and Loss Account, Balance Sheet)

Debit	Rs.	Credit	Rs.
opening Stock	5,000	Capital	20,000
purchases	29,200	Sales	62,000
sundry debtors	25,000	Sundry Creditors	13,400
Bills receivable	2,800	Bills Payable	5,000
Plant	10,000	Loans and Mortgage	18,000
Interest on loan	300	Bank overdraft	2,400
wages	15,000		
Buildings	24,000		
loose tools (Assets)	600		
Cash on hand	600		
Stationery	500		
Salaries	8,200		
Discount	100		
	1,21,300		1,21,300

• Adjustments:-

- ① Closing stock : Rs 5600
- ② Written off loose tools : Rs 540
- ③ Interest on mortgage @ 15% p.a
- ④ Interest on capital @ 5% p.a
- ⑤ Provide 5% reserve for doubtful debts



Dr. Trading Account for the year ending 31/12/14

Particulars	Rs.	Particulars	Rs.
To Opening Stock	5000	By Sales	62,500
To Purchases	29,200	By closing stock	5,600
To wages	15,000		
By gross profit	(38,900)		
	68,100		68,100

Dr. Profit and Loss Account for the year ending 31/12/14

Particulars	Rs.	Particulars	Rs.
To interest on loan	300	By gross profit	18,400
To Reserve on doubtful debts	1250		
To Stationery	500		
To Salaries	8200		
To discount	100		
To loose written off	540		
To loan interest @ 15%	2700		
To Interest on capital	1000		
To net Profit	4310		
	18,400		18400

# Balance Sheet as on 31/12/14

Liabilities	Rs.	Assets	Rs.
Capital 20,000		Plant 10,000	
H) Interest on Capital 10,000		Building 24,000	
@ 5% 21,000		loose tools 600	
H) net profit 4310		1-) written off 540	
	25310		60
Loan 18,000			
H) Interest @ 15% 2700			
	20,700		
Bank overdraft	2400		
<u>current liabilities</u>		<u>current Assets</u>	
Sundry creditors 13,400		debtors 25,000	
Bills Payable 5,000		1-) R.D.B @ 5% 1250	
			23,750
		Bills receivable 2800	
		cash on hand 600	
		closing stock 5600	
	66,810		66,810



⇒ From the following Trial Balance and adjustments of Swaraj Emporium, prepare Trading and profit and loss Account for the year ended December 31, 2013 and a Balance sheet as on that date

	Rs.	Rs.
• Sundry debtors B	64,000	
Stock (1.1.2013) T	44,000	
cash in hand B	70	
• Plant and Machinery B	35,000	21,300
Sundry creditors B		
• Trade Expenses P	2,150	
Sales T		2,69,000
Salaries P	4,450	
Carriage outwards P	800	
• Rent P	1,600	
Bills Payable B		15,000
Purchases T	2,31,740	
Discounts P	2,200	
• Business premises B.A	69,000	
Capital B		1,59,000
Cash at bank B	3,090	

### Adjustments:

- ① The Stock as on December 31, 2013 was Rs 24,900 ✓
- ② Rent was unpaid to the extent of Rs 170 ✓
- ③ Outstanding trade expenses were Rs 300 ✓
- ④ Write off for bad debts Rs 800 ✓

- Dr. Trading Account for the year ending 31/12/13

Dr. Profit and Loss A/c for the year ending 31/12/13				Cr.
Particulars	Rs	Particulars	Rs.	
To Trade Expenses 2150	2150	By gross profit	12160	
(+) Outstanding trade + 300 exp	2450	By net loss	(8550)	
To Salaries	4450			
To Carriage outwards	800			
To Rent 1800				
(+) Rent unpaid (+) 170	1970			
To discounts	2200			
To discount allowed	0			
To dep. on B. premises	1280			





⇒ The Trial Balance of Kamal for the year ending March 14 revealed the following balances

Debit Balances	Rs.	Credit Balances	Rs.
Plant and Machinery B.	1,60,000	Capital Account B	2,00,000
Purchases T	1,36,000	Sales T	2,50,000
Sales Returns T	2000	Purchase returns T	6,550
Opening Stock T	60,000	discount received P	1,600
Discount allowed P	700	Sundry Creditors B	50,000
Bank charges	150		
sundry debtors B.	90,000		
Salaries P.	13,600		
wages T	20,000		
Freight T	1,500		
Carriage outwards P	2,400		
Rent and Taxes P	4000		
Advertisements	4000		
Cash In hand B	13,800		
	5,08,150		5,08,150

Adjustments:-

- Closing stock was valued at Rs 70,000.
- Provide discount on debtors @ 4% p.a
- Provide for depreciation on plant @ 10% p.a
- Salaries yet to be paid Rs 500

Prepare Trading, profit and loss account for the year ending Dec 31, 2014 and a balance sheet as on that date.

Dr. Trading Account for the year ending dec 31, 2014

Particulars	Rs.	Particulars	Rs.
To Opening stock	50,000	By Sales 2,50,000	
To Purchases 1,36,000		(-) By Sales returns (-) 2000	
(+) To Purchase returns (-) 6,550			2,43,000
	1,29,450	By Closing stock	70,000
To wages	20,000		
To Freight	1500		
To gross profit	(107050)		
	3,18,000		3,18,000

Dr. Profit and loss Account for the year ending dec 31, 2014

Particulars	Rs.	Particulars	Rs.
To discount allowed	700	By discount received	1600
To Salaries 13,600		By gross profit	107050
(+) Salaries lobe paid (+) 500			
	14,100		
To rents and taxes	4,000		
To carriage outwards	2,400		
To Advertisements	4,000		
To depreciation on plant @ 10% p.a	16,000		
To debtors	3600		
To Bank charges	150		
To net profit	(63700)		
	108650		108650



# Balance Sheet as on 31/12/14

Liabilities	Rs	Assets	Rs
Capital 2,00,000		Plant & Machinery 1,50,000	
+ net profit <u>63,700</u>	2,63,700	dep. on plant @ 10% 15,000	1,44,000
sundry creditors	50,000	Sundry debtors 90,000	
salaries	500	prepaid debtors <u>- 3600</u>	86,400
		cash in hand	13,800
		By closing stock	70,000
	3,14,200		3,14,200

Prepare Trading and P&L A/c for the year ending 31/12/2013 and a Balance Sheet on that date from the given trial balance.

Particulars	Rs.	Rs.
Sales ↑		1,25,000
Purchases ↑	18,000	
Sales returns ↑	2,700	
Purchase returns ↑		3,600
Discount received ↓		1,250
Discount allowed ↓	1,850	
Opening Stock ↑	6,675	
Salaries ↓	2,300	
Electricity and gas ↓	1,500	
Rent and rates ↓	1,000	
Sundry expenses ↓	2,350	
Premises B-Asset	50,000	
Equipment B	15,000	
Vehicles	10,750	
Debtors B	11,420	
Bank Overdraft B		425
Cash B-A	60	
Creditors B		7750
Capital B		55,000
Drawings B	5,220	
Long-term loan B-L		16,500
Total	2,09,525	2,09,525

- Adjust the following:-
- Closing Stock Rs 15,000
  - Outstanding salaries Rs 2000
  - Prepaid rent and rates Rs 1000
  - Provide depreciation on equipment at 10% p.a

Dr. Trading Account for the year ending 31/12/2013 Cr.

Particulars	Rs.	Particulars	Rs.
To opening stock	6,675	By sales 1,25,000	
To purchases 78000		(-) By sales returns (-) 2700	
To purchase returns (-) 3600			122300
	74400	By closing stock	15,000
Prepaid rent and rates	1000		
By gross profit	56,225		
	137800		137800

Dr. Profit & Loss A/c for the year ending 31/12/2013 Cr.

Particulars.	Rs.	Particulars.	Rs.
To Salaries 23000		By gross profit	56,225
(+) Outstanding Salaries + 2000		By discount received	1250
	25,000		
To rent and rates 1000			
Prepaid rent and rates - 1000			
	0		
To sundry expenses	2350		
Dep. on equipment @ 10%	1500		
	18850		
To discount allowed	1500		
To electricity and gas	1500		
To net profit	25275		
	57475		57475



# Balance Sheet as on 31/12/18

Liability	Rs.	Assets	Rs.
creditors	1750	Equipment	15000 - 1500
capital	55,000		13,500
net profit	25275	Premises	50,000
	<u>80275</u>	debtors	11,420
(-) drawings	(-) 5020	cash	60
	75055	prepaid	1000
Outstanding salaries	2000	closing stock	15000
loan	16500	vehicle	10750
Bank Over draft	425		
	<u>101730</u>		<u>101730</u>