

UNIT-3

Trading a/c.	dr	cr
P&L a/c.	dr	Cr.
Balance sheet	assets	liabilities

Trail Balance	Dr	Cr.
Trading a/c	Dr	Cr
P&L a/c	Dr	Cr
Balance sheet	Assets	Liabilities.

Expenses (Dr)

Capital Revenue.

(if expenses gives benefit is more than one year)

Capital:- Benefit received from the expenditure is more than one year.

Revenue:- Benefit received from the expenditure is less than one year.

Amount spent for getting some benefit is known as expenditure (or cost)

Hotel bill 5800 - revenue - lasts for not more than few days.

Furniture 50000 - capital - lasts for more than one year

Car 5,00,000 - capital.

driver salary 15000 - revenue.

wages paid - revenue.

taxes paid. 1700

repairs } Revenue.

Commission paid

machinery } capital
building purchased }
rent paid - revenue

Expenses - Dr

Capital expenses recorded in Assets of Balancesheet.

Revenue expenses recorded in Dr of Trading (or) P&L a/c.

Analyse revenue expenditure - direct expenditure

— indirect expenditure

direct exp. :- directly associated with production or purchases.

indirect exp = not directly associated with

(Overheads) (On cost)

direct:- wages, taxes, custom duties,

indirect:-

direct exp. recorded in Trading a/c Dr

Indirect exp. recorded in P/L a/c Dr

Dr Trading Account for the year ending ... of ... Cr

Particulars	Amount	Amount (Rs)	Particulars	Amount	Amount (Rs)
To Opening stock		xxx	By Sales	xxx	
To Purchases	xxx	} Sub xxx	Less: sales returns	xxx	xxx
Less: Purchase returns	xxx		By Closing stock		xxx
To Direct expenses		xxx			
To carriage/cartage freight inwards		xxx			
To Coal gas electricity (Motive Power)		xxx			
To Factory expenses		xxx			
To customs/Import duties		xxx			
To Octroi		xxx			
To Excise Duty		xxx			
To Royalty on Manufac- -turing.		xxx			
To other direct expenses		xxx			
To Gross Profit c/d (P&Ldc)		xxx	- Loss		
		Balancing done xxx			xxx

Dr P&L account for the year ending ... of ... Cr

Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Salaries	xxx	By Gross Profit b/d	xxx
To office & administration exp.	xxx	By commission received	xxx
To rent rates & taxes	xxx	By discount received	xxx
To bank charges	xxx	By bad debts recovered	xxx
To printing & stationery	xxx	By Interest received	xxx
To postage, telegram & telephone bills	xxx	By dividend received	xxx
To advertisement	xxx	By Miscellaneous incomes	xxx
To Commission	xxx	By Rent received	xxx
To Discount Allowed	xxx		
To Export Duties	xxx		
To Carriage/cartage freight outwards	xxx		

To Legal charges	xxx		
To Auditor charges	xxx		
To Insurance	xxx		
To Bad Debts	xxx		
To General Expenses	xxx		
To Trade Expenses	xxx		
To Net Profit Capital ac)			
	xxx Balancing		xxx

Balance sheet for the year ending --- of ---

Liabilities	Amount (Rs)	Liabilities Assets	Amount (Rs)

Problems

Q-1:- Prepare Trading account of Raji and Co. for the year ended 31st March 2005.

Dr Trading account of Raji & Co for the year ended 31st March 2005

Particulars	Amount (Rs)	Particulars	Amount (Rs)
To opening stock	10,000	By Sales	67,500
To Purchases 42,000		Less: Returns 50	
Less: Returns 200	41,800	By closing stock	12,000
To Manufacturing expenses	1,950		
To Carriage inwards	100		
To freight and duty	5,000		
To Power	300		
To Wages	5,000		
Op. To stores consumed	200		
To Gross Profit cld (P&L alc)	15,100		
	<u>79,450</u>		<u>79,450</u>
		By Gross Profit bld (Trading alc)	15,100

Ques - From the following balances prepare a profit and loss account for the year ending 31-12-2006

Dr P&L account for the year ending of 31st December 2006 Cr

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Salaries	3000	By Gross Profit b/d	24000 ✓
To Carriage Outwards	1000	By Commission received	1000.
To Discount allowed	500.	By Rent received	1000.
To Commission allowed	1500		
To Bad Debts	1000		
To Repair	1000		
To Advertisements	1000		
To Audit Fee	500		
To General charges	1000		
To Printing & Stationery	1500		
↪ To Postage.	1000		
To Insurance Premium paid	1000		
To office electricity charges	500.		
To Net Profit (Capital etc)	11,500.		
	<u>26000</u>		<u>26000</u>

Balance Sheet as at ... of ...

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital	xxx*	Land and buildings.	xxx
Less: Drawings	Sub xxx*	Plant and machinery	xxx
	xxx	Furniture & fixtures	xxx
Add/Less: Net Profit/	xxx	Motor vehicles	xxx
- Net loss	xxx.	Investments	xxx
Bank loan.	xxx	Goodwill	xxx
Unsecured loans	xxx	Patents, copy rights.	xxx
Secured loans	xxx	Trademarks	xxx
Sundry Creditors	xxx	Cash in hand	xxx
Bills Payable	xxx	Cash at Bank.	xxx
Bank overdraft	xxx	Short term investments	xxx
Outstanding expenditure	xxx	Sundry Debtors	xxx
Income received in advance	xxx	Bills receivable	xxx
		Prepaid expenses	xxx
		Outstanding incomes.	xxx
		↪ Closing Stock.	xxx

Balancing
xxx

xxx

Assets - Liabilities = Capital.

Assets = Capital + Liabilities

So, it must be balanced
same on both
sides.

Q3: The following are the figures extracted from the books of Krishna Murthy on 30-09-2006

Dr Trading and P&L account for the year ending 30/09/2006. Cr

Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Opening stock	20,000	By Sales	90,000
To Purchases 60,000		Less: Returns	—
Less: Returns —	60,000	By Closing stock	40,000
To Wages	22,000		
To Carriage	400		
To Gross Profit c/d (P&L a/c)	27,600		
	<u>1,30,000</u>		<u>1,30,000</u>
To Depreciation	1200	By Gross Profit b/d (Trading a/c)	27,600
To Salaries	10,000	By Commission	800
To Insurance	1000		
To Office expenses	100		
To Net Profit (Capital a/c) —	16,100		
	<u>28,400</u>		<u>28,400</u>

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital 50,000		Plant and Machinery	20,000
Add: Net Profit 16,100	66,100	Furniture	11,500
		Sundry Debtors	15,000
		Bills receivable	10,000
Sundry Creditors	29,000	Closing stock	40,000
Bills Payable	5,000		
Bank loan	5,400		
	<u>96,500</u>		<u>96,500</u>

1) Closing stock, if it is given as adjustment first it is credit to trading account and also record in the assets side of the balance sheet.

Closing stock. Credited to trading ac.

Recorded in the asset side of the balance sheet.

2) Outstanding expenses:-

payable but not paid.

salaries	50,000	12	6,00,000
			5,00,000 (paid)
			<u>1,00,000 (payable).</u>

Outstanding expenses Added to corresponding expenses

Recorded in the liabilities side of balance sheet.

If it is given as adjustment first it is added to corresponding expenditure and also recorded in the liabilities side of the balance sheet.

3) Prepaid expenses:- (excess).

If it is given as argument first it is deducted from the corresponding expenditure and also recorded in the assets side of the balance sheet.

Prepaid expenses Deducted from corresponding expenses.

Recorded in the assets side of balance sheet.

4) Outstanding incomes:- income yet to receive or receivable.

commission	8000
	6000 (received)
	<u>2000 (receivable).</u>

If it is given as argument, first it is added to corresponding income and also recorded in the assets side of balance sheet.

Outstanding incomes Added to corresponding income

Recorded in the assets side of balance sheet.

5) Income received in advance:-

If it is given as adjustment, first it is deducted from corresponding income and also recorded in the liabilities side of the balance sheet.

Incomes received
in advance

Deducted from corresponding income.
Recorded in the liabilities side of the balance
sheet.

(6) Depreciation:- Decrease in the value of a fixed asset

If it is given as adjustment, first it is debited P&L a/c and deducted from the corresponding assets in the assets side of the balance sheet.

Depreciation Debited to P&L a/c.
Deducted from the corresponding asset in the assets
side of the balance sheet.

(7) Appreciation:- Increase in the value of a fixed asset.

If it is given as adjustment, first it is credited to P&L a/c and added to the corresponding asset in the assets side of the balance sheet.

Appreciation Credited to P&L a/c.
Added to the corresponding asset in the assets
side of the balance sheet.

(8) Bad Debts:-

If it is given as adjustment, first it is debited to P&L a/c and deducted from the debtors on the assets side of the balance sheet.

Bad Debts Debited to P&L a/c.
Deducted from the debtors on the assets side of the
balance sheet.

(9) Provision for bad debts / Reserve for bad debts

If it is given as adjustment, first it is calculated and deducted from the debtors in the assets side of the balance sheet and it is recorded in the P&L a/c in comparison with RBD given in the trial balance. ~~Trial balance is less than.~~

If RBD given in the trial balance is less than RBD given in the adjustments, the difference is debited to P&L a/c.

If RBD given in the trial balance is more than RBD given in the adjustments, the difference is credited to P&L a/c.

- Reserve for Bad Debts
- Deducted from the Debtors after deducting the bad debts given in the adjustment from assets side of balance sheet
 - It is also recorded in the P&L ac in comparison with RBD given in the Trial balance.
 - If RBD given in the trial balance is less than the RBD given in the adjustments the ~~diff~~ difference is debited to P&L ac.
 - If RBD given in the trial balance is more than the RBD given in the adjustments the difference is credited to P&L ac.

(10) Interest on Capital:-

If it is given as adjustment first, it is calculated on capital and added to capital in the liabilities side of the balance sheet and also debited to P&L.

Interest on Capital.	Debited to P&L ac.
	Added to capital in the liabilities side of balance sheet.

(11) Interest on Drawings:-

If it is given as adjustment first it is calculated on drawings and deducted from capital in the liabilities side of the balance sheet and also ~~de~~ credited to P&L ac.

Interest on Drawings	Credited to P&L ac.
	Deducted from capital in the liabilities side of balance sheet.