

Chapter 2 - Financial Statements II

Question:1

Why is it necessary to record the adjusting entries in the preparation of final accounts?

Solution:

It is extremely important to record the adjusting entries in the preparation of final accounts.

1. This is done in order to assess the true net profit or net loss of the business organisation.
2. It helps us record those adjustments which were left or omitted and were not recorded in the accounts.
3. It assists us to separate all the financial transactions into a year-wise category. The financial statements include only those entries which belong to the current year. It rules out the previous and forthcoming years' entries which are the basis for accrual basis of accounting.
4. Further, it provides us the room for making various provisions which are made at the end of the year, after assessing the entire year's performance.

Question:2

What is meant by closing stock? Show its treatment in final accounts.

Solution:

Closing stock implies the value of unsold goods at the end of an accounting period. The valuation of closing stock is done on the basis of its cost price or the realisable value, whichever of the two is lesser.

Example: If a good with the cost price of Rs 20,000 is purchased at the end of an accounting period and its realisable value is Rs 30,000, then the closing stock will be valued at Rs 20,000 not at Rs 30,000.

Treatment of closing stock

If closing stock is given in the adjustment, then there will be two postings.

Trading Account				Balance Sheet			
Dr.		Cr.					
Particulars	Amount	Particulars	Amount	Liabilities	Amount	Assets	Amount
						Closing Stock	

If closing stock is given in the trial balance, then it needs to be shown only in the assets side of the Balance Sheet.

Question:3

State the meaning of:

- (a) Outstanding expenses
- (b) Prepaid expenses
- (c) Income received in advance
- (d) Accrued income

Solution:

(a) **Outstanding Expenses:** These refer to those expenses which belong to and are incurred in the current accounting period but are left unpaid. In other words, we can say that the services in exchange of these payments have been realised but the payments are not made. For example, if Rs 1000 wages are outstanding, then this means that labour worth Rs 1,000 has been used but has not been paid for till the end of the year.

(b) **Prepaid Expenses:** These refer to those expenses for which the benefits have not been realised but the payments have already been made in advance. These are basically the advance payments for the next year, which are made in the current accounting period.

Example: Prepaid insurance premium of Rs 1,000 means that the payment of Rs 1,000 is made in advance for the next accounting period.

(c) **Income Received in Advance:** This refers to the income received whose actual realisation of benefits will occur in the next accounting period. These are also called unearned incomes.

Example: Commission of Rs 1,200 for the year 2011-12 is received in 2010-11. This commission does not belong to the current year as it is related with the work to be done in the next accounting year i.e., 2011-12.

(d) **Accrued Income:** This refers to those incomes which have been earned during an accounting period but have not been actually realised in the current period. These are also called earned incomes.

Question:4

Give the performa of income statement and balance in vertical form.

Solution:

Income statement for the period ended

Particulars	Amount Rs	Amount Rs
Sales (Gross)		
Less: Returns		
Net Sales		
<i>Cost of goods sold</i>		
Opening Stock		
Purchases		
Less: Returns		
Carriage Inwards		
Wages		
Cost of Goods Available for Sale		
Less: Closing Stock		
Gross Profit		
Operating Expenses		
(a) Selling Expenses		
Advertising		
Discount		
Allowances		
Bad-Debts and Provisions		
Carriage Outwards		
Total Selling Expenses		
(b) General and Administration Expenses		
Salaries		
Rent and Rates		
Insurance		
Depreciation		
Postage		
Repairs		

General Expenses		
Total Operating Expenses		
Net Income from Operations (Operating profit)		
Other Income (Non-operating gains)		
Interest Earned		
Commission Earned		
Profit on Sale of Fixed Assets		
Less: Deductions (Non-operating expenses)		
Interest Paid		
Loss by Fire		
Net Non-operating Gains		
Net Income (Net profit)		

Income statement for the period ended

Particulars	Amount Rs	Amount Rs
Current Assets		
Cash in Hand		
Cash at Bank		
Bills Receivable		
Accrued Income		
Debtors		
Stock		
Prepaid Expenses		
Total Current Assets		
Less: Current Liabilities		
Bank Overdraft		
Outstanding Expenses		
Bills Payable		
Trade Creditors		
Income Received in Advance		
Total Current Liabilities		
Net Working Capital (Current assets and Current liabilities)		
Fixed Assets		
Furniture and Fixtures		
Patents		
Plants and Machinery		
Building		
Land		
Goodwill		
Total Fixed Assets		
Total Assets (After paying current liabilities)		
Capital Employed		
Long-term Liabilities		
Loan		
Mortgage		
Total Long-term Liabilities		
Net Assets (being the difference between total assets and long-term liabilities)		
Capital (Proprietor)		

Capital in the Beginning		
Add: Capital Introduced During the Current Year		
Interest on Capital, Salary, etc.		
Profit for the Current Year		
Less: Drawings During the Current Year		
Interest on Drawings		
Loss for the Current Year		
Total Capital of the Proprietor at the End of the Year		

Question:5

Why is it necessary to create a provision for doubtful-debts at the time of preparation of final accounts?

Solution:

The provision for doubtful-debts is created with the motive of minimising the effect of actual loss caused by the bad-debts. The actual figure of the current year's bad-debts will be known in the next year with the realisation of debtors. At that point of time, it will be known as to how many of the debtors have become bad. Thus, instead of waiting for the realisation of debtors, we create a provision for doubtful-debts in order to cover the expected future loss associated with the debtors becoming bad.

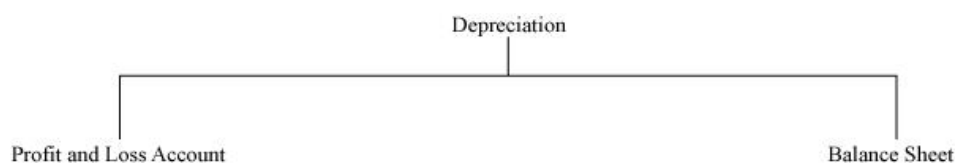
Question:6

What adjusting entries would you record for the following?

- (a) Depreciation
- (b) Discount on debtors
- (c) Interest on capital
- (d) Manager's commission

Solution:

(a)

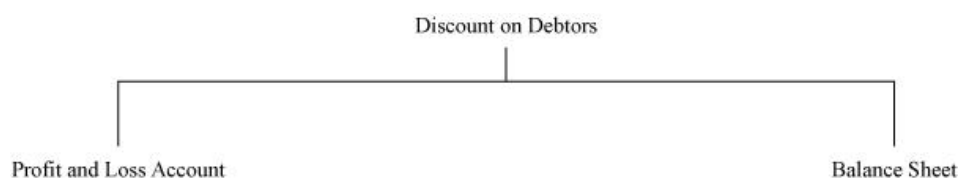


Dr. Cr.

Particulars	Amount	Particulars	Amount
Depreciation			

Liabilities	Amount	Assets	Amount
		Assets	
		Less: Depreciation	

(b)

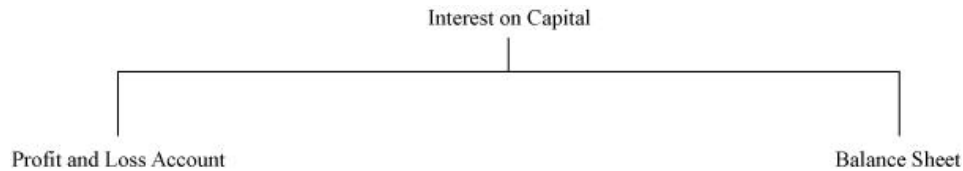


Dr. Cr.

Particulars	Amount	Particulars	Amount
Discount on Debtors			

Liabilities	Amount	Assets	Amount
		Debtors Less: New Provision Less: Further Bad Debts Less: Discount on Debtors	

(c)



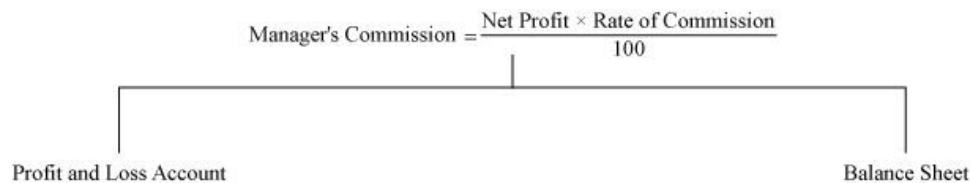
Dr.		Cr.	
Particulars	Amount	Particulars	Amount
Interest on Capital			

Liabilities	Amount	Assets	Amount
Capital Add: Interest on Capital			

(d) Manager's commission

There are two cases in manager's commission.

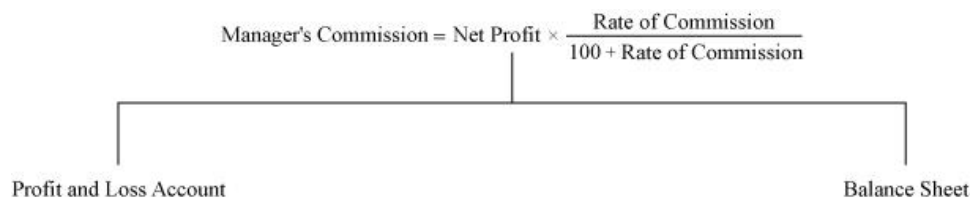
Case 1: Manager's commission based on profits before charging the manager's commission.



Dr.		Cr.	
Particulars	Amount	Particulars	Amount
Manager's Commission			

Liabilities	Amount	Assets	Amount
Outstanding Manager's Commission			

Case 2: Manager's commission based on profits after charging the manager's commission.



Dr.		Cr.	
Particulars	Amount	Particulars	Amount
Net Profit <i>before</i> Manager's Commission			
O/S Manager's Commission			
Net Profit <i>after</i> Manager's Commission			

Liabilities	Amount	Assets	Amount
Outstanding Manager's Commission			

Question:7

What is meant by provision for discount on debtors?

Solution:

The discount is allowed to those debtors who are ready to pay a huge amount in one shot. It is given in order to encourage them to repay the debt. The provision for discount on debtors is created on good debtors. The amount of good debtors is calculated by deducting the amount of Bad Debts, further Bad Debts and new provision for Doubtful Debts. The required percentage of the good debtors is calculated and the provision for discount on debtors is deducted from the Debtors' amount in the Assets side of a Balance Sheet. As it is a loss for the business, it is shown in the Debit side of the Profit and Loss Account.

Question:8

Give the journal entries for the following adjustments:

- (a) Outstanding salary at Rs 3,500.
- (b) Rent unpaid for one month at Rs 6,000 per annum.
- (c) Insurance prepaid for a quarter at Rs 16,000 per annum.
- (d) Purchase of furniture costing Rs 7,000 entered in the purchases book.

Solution:

S. No.	Particulars	L.F.	Debit Rs	Credit Rs
a)	Salaries A/c Dr. To Outstanding Salaries A/c (Salaries of Rs 3,500 is remaining outstanding)		3,500	3,500
b)	Rent A/c Dr. To Outstanding Rent A/c (Rent unpaid for one month at Rs $\frac{6000}{12}$) 500 =		500	500
c)	Prepaid Insurance A/c Dr. To Insurance A/c (Insurance paid in advance for 3 months i.e. Rs 400)		4,000	4,000
d)	Furniture A/c Dr. To Purchases A/c (Furniture was wrongly debited to Purchases Account, now rectified)		7,000	7,000

Question:9

Solution:

The treatment of adjusting entries is necessary.

- (i) It helps us assess the true financial position of an organisation based on accrual basis of accounting.
- (ii) It helps us know the actual figure of profit or loss.
- (iii) It records the omitted entries and rectifies the errors made.
- (iv) It helps in providing depreciation and making different provisions, such as Bad Debts and depreciation.

Question:10

Solution:

For the provision for doubtful-debts, we prepare debtors account and provision for doubtful-debts account. For recording bad-debts, the following journal entry is passed.

Profit and Loss A/c Dr.
 To Provision for Bad and Doubtful Debts A/c

Example: An extract from a Trial Balance as on December 31, 2010.

Debtors	10,500
Provision for Doubtful Debts as on January 01, 2010	1,000
Bad Debts Account	1,500

Adjustment:

- (i) Further bad-debts amount to Rs 500.
- (ii) Create a provision for doubtful-debts at 5% on debtors.

Explanation

The provision for Doubtful Debt as on January 01, 2010 was Rs 1,000 and the Bad Debts during the year were Rs 1,500. In addition to this, there was a further Bad Debt of Rs 500 which was known at the end of the year i.e., December 31, 2010. Now we need to create a provision for Doubtful Debts at 5% on debtors.

Profit and Loss A/c

Dr.		Cr.	
Particulars	Amount	Particulars	Amount
Bad Debts	1,500		
Add: Further Bad Debts	500		

Add: New Provision for Doubtful Debts	500		
Less: Old Provision (given in Trial Balance)	<u>1,000</u>	1,500	

Balance Sheet

Liabilities	Amount	Assets	Amount
		Debtors	10,500
		Less: Further Bad Debts	<u>500</u>
			10,000
		Less: New Provision for Doubtful Debts	<u>500</u>
			9,500

The amount of provision for Doubtful Debts is calculated by debiting the amount of further Bad Debts from debtors and calculating the given percentage of provision on remaining debtors. This provision is added to the Bad Debts amount in the profit and loss account and deducted from debtors in the assets side of a Balance Sheet.

Question:11

Show the treatment of prepaid expenses, depreciation and closing stock at the time of preparation of final accounts when:

- When given inside the Trial Balance?
- When given outside the Trial Balance?

Solution:

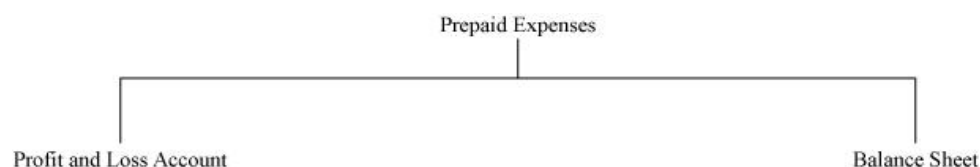
(i) Prepaid expenses

- When given inside the Trial Balance:** It will be posted only in the Assets side of the Balance Sheet.

Balance Sheet

Assets	Amount
Prepaid Expenses	

- When given outside the Trial Balance:**



Dr.

Cr.

Particulars	Amount	Particulars	Amount	Liabilities	Amount	Assets	Amount
Concerned Expenses						Prepaid Expenses	
Less: Prepaid Expenses							

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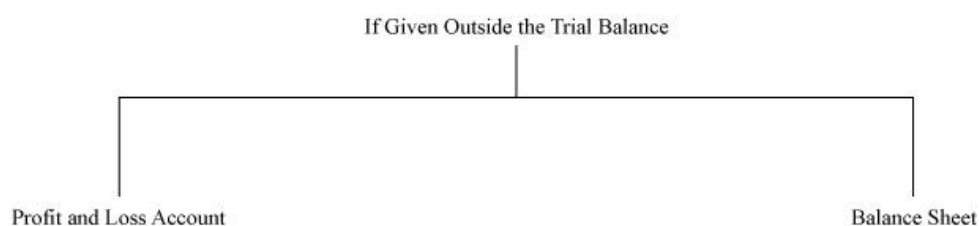
(ii) Depreciation

(a) If depreciation is given inside the Trial Balance, then it can be shown in the Debit side of the Profit and Loss A/c. It means that this depreciation amount has already been deducted from the concerned assets in the Balance Sheet.

Profit and Loss Account

Dr.		Cr.	
Particulars	Amount	Particulars	Amount
Depreciation			

(b) If depreciation is given outside the Trial Balance, i.e. in the adjustments, then it is shown in the debit side of the Profit and Loss Account and deducted from the concerned assets in the Assets side of Balance Sheet.



Dr.				Cr.			
Particulars	Amount	Particulars	Amount	Liabilities	Amount	Assets	Amount
Depreciation on Concerned Assets						Concerned Assets Less: Depreciation	

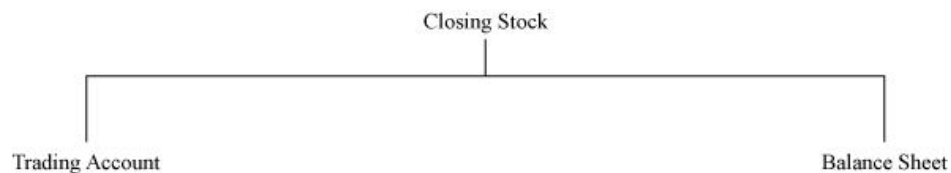
(iii) Closing stock

(a) The closing stock is valued at cost price or realisable value, whichever of the two is lesser. If given inside the Trial Balance, then it will be posted only in the Assets side of the Balance Sheet.

Balance Sheet

Liabilities	Amount	Assets	Amount
		Closing Stock	

(b) If the closing stock is given outside the Trial Balance then, it needs to be posted at two places.



Dr.		Cr.	
Particulars	Amount	Particulars	Amount
		Closing Stock	

Liabilities	Amount	Assets	Amount
		Closing Stock	

Question:12

Prepare a trading and profit and loss account for the year ending December 31, 2017. from the balances extracted of M/s Rahul Sons. Also prepare a balance sheet at the end of the year.

Account Title	Amount Rs	Account Title	Amount Rs
Stock	50,000	Sales	1,80,000
Wages	3,000	Purchases return	2,000
Salary	8,000	Discount received	500
Purchases	1,75,000	Provision for doubtful debts	2,500
Sales return	3,000	Capital	3,00,000
Sundry Debtors	82,000	Bills payable	22,000
Discount allowed	1,000	Commission received	4,000
Insurance	3,200	Rent	6,000
Rent Rates and Taxes	4,300	Loan	34,800
Fixtures and fittings	20,000		
Trade expenses	1,500		
Bad debts	2,000		
Drawings	32,000		
Repair and renewals	1,600		
Travelling expenses	4,200		
Postage	300		
Telegram expenses	200		
Legal fees	500		
Bills receivable	50,000		
Building	1,10,000		
	5,51,800		5,51,800

Adjustments

1. Commission received in advance Rs 1,000.
2. Rent receivable Rs 2,000.
3. Salary outstanding Rs 1,000 and insurance prepaid Rs 800.
4. Further bad debts Rs 1,000 and provision for doubtful debts @ 5% on debtors and discount on debtors @ 2%.
5. Closing stock Rs 32,000.
6. Depreciation on building @ 6% p.a.

Solution:

Books of M/s. Rahul Sons.

Trading Account for the year ending December 31, 2017

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Opening Stock	50,000	Sales	1,80,000
Purchases	1,75,000	Less: Sales Returns	3,000
Less: Purchase Returns	2,000	Closing Stock	32,000
Wages	3,000	Gross Loss	17,000
	2,26,000		2,26,000

Profit and Loss Account for the year ending December 31, 2017

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Gross Loss	17,000	Discount Received	500
Salary	8,000	Commission Received	4,000
Add: Outstanding Salary	1,000	Less: Advance Commission	1,000
Discount Allowed	1,000	Rent	6,000
Insurance	3,200	Add: Rent Receivable	2,000
Less: Insurance Prepaid	800	Net Loss	43,189
Rent Rates and Taxes	4,300		
Trade Expenses	1,500		
Bad-Debts	2,000		
Add: Further Bad-Debts	1,000		
Add: New Provision	4,050		
Less: Old Provision	2,500		
Discount on Debtors	1,539		
Postage	300		

Telegram Expenses	200		
Depreciation on Building	6,600		
Repair and Renewals	1,600		
Travelling Expenses	4,200		
Legal Fees	500		
	54,689		54,689

Balance Sheet for the year ending December 31, 2017

Liabilities		Amount Rs	Assets		Amount Rs
Capital	3,00,000		Debtors	82,000	
Less: Net Loss	43,189		Less: Further Bad-Debts	1,000	
Less: Drawings	32,000	2,24,811	Less: New Provision	4,050	
Bills Payable		22,000	Less: Discount on Debtors (on Rs 76,950)	1,539	75,411
Loan		34,800	B/R		50,000
Advance Commission		1,000	Buildings	1,10,000	
Outstanding Salary		1,000	Less: 6% Depreciation	6,600	1,03,400
			Rent Receivable		2,000
			Prepaid Insurance		800
			Closing Stock		32,000
			Furniture and Fittings		20,000
		2,83,611			2,83,611

Question:13

Prepare a trading and profit and loss account of M/s Green Club Ltd. for the year ending March 31, 2017. from the following figures taken from his trial balance :

Account Title	Amount Rs	Account Title	Amount Rs
Opening stock	35,000	Sales	2,50,000
Purchases	1,25,000	Purchase return	6,000
Return inwards	25,000	Creditors	10,000

Postage and Telegram	600	Bills payable	20,000
Salary	12,300	Discount	1,000
Wages	3,000	Provision for bad debts	4,500
Rent and Rates	1,000	Interest received	5,400
Packing and Transport	500	Capital	75,000
General expense	400		
Insurance	4,000		
Debtors	50,000		
Cash in hand	20,000		
Cash at bank	40,000		
Machinery	20,000		
Lighting and Heating	5,000		
Discount	3,500		
Bad debts	3,500		
Investment	23,100		
	3,71,900		3,71,900

Adjustments

1. Depreciation charged on machinery @ 5% p.a.
2. Further bad debts Rs 1,500, discount on debtors @ 5% and make a provision on debtors @ 6%.
3. Wages prepaid Rs 1,000.
4. Interest on investment @ 5% p.a.
5. Closing stock 10,000.

Solution:

Trading Account for the year ending March 31, 2017

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Opening Stock	35,000	Sales	2,50,000
Purchases	1,25,000	Less: Sales Returns	(25,000)
Less: Purchase Returns	(6,000)	Closing Stock	10,000
	1,19,000		
Wages	3,000		
Less: Prepaid Wages	(1,000)		
Gross Profit	79,000		
	2,35,000		2,35,000

Profit and Loss Account for the year ending March 31, 2017

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Bad Debts	3,500	Gross Profit	79,000
<i>Add:</i> Further Bad-debts	1,500	Interest on Accrued Investment	1,155
<i>Add:</i> New Provision	2,910	Discount	1,000
<i>Less:</i> Old Provision	4,500	Interest Received	5,400
	3,410		
Discount on Debtors	2,280		
Postage and Telegram	600		
Salary	12,300		
Rent and Rates	1,000		
Packing and Transport	500		
General Expenses	400		
Insurance	4,000		
Discount	3,500		
Depreciation on Machinery	1,000		
Lighting and Heating	5,000		
Net Profit	52,565		
	86,555		86,555

Balance Sheet

as on March 31, 2017

Liabilities	Amount Rs	Assets	Amount Rs
Creditors	10,000	Cash in Hand	20,000
Bills Payable	20,000	Cash at Bank	40,000
Capital	75,000		
<i>Add:</i> Net Profit	52,565	Debtors	50,000
	1,27,565	<i>Less:</i> Further Bad-Debts	1,500
		<i>Less:</i> New Provision	2,910
		<i>Less:</i> Discount on Debtors	2,280
			43,310
		Investment	23,100
		<i>Add:</i> Interest on Investment	1,155
			24,255
		Machinery	20,000
		<i>Less:</i> Depreciation	1,000
			19,000
		Prepaid Wages	1,000

		Closing Stock	10,000
	1,57,565		1,57,565

Question:14

The following balances has been extracted from the trial of M/s Runway Shine Ltd. Prepare a trading and profit and loss account and a balance sheet as on March 31, 2017.

<i>Account Title</i>	<i>Amount</i> <i>Rs</i>	<i>Account Title</i>	<i>Amount</i> <i>Rs</i>
Purchases	1,50,000	Sales	2,50,000
Opening stock	50,000	Return outwards	4,500
Return inwards	2,000	Interest received	3,500
Carriage inwards	4,500	Discount received	400
Cash in hand	77,800	Creditors	1,25,000
Cash at bank	60,800	Bill payable	6,040
Wages	2,400	Capital	1,00,000
Printing and Stationery	4,500		
Discount	400		
Bad debts	1,500		
Insurance	2,500		
Investment	32,000		
Debtors	53,000		
Bills receivable	20,000		
Postage and Telegraph	400		
Commission	200		
Interest	1,000		
Repair	440		
Lighting Charges	500		
Telephone charges	100		
Carriage outward	400		
Motor car	25,000		
	4,89,440		4,89,440

Adjustments

1. Further bad debts Rs 1,000. Discount on debtors Rs 500 and make a provision on debtors @ 5%.
2. Interest received on investment @ 5%.
3. Wages and interest outstanding Rs 100 and Rs 200 respectively.
4. Depreciation charged on motor car @ 5% p.a.

5. Closing Stock Rs 32,500.

Solution:

Trading Account

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Opening Stock	50,000	Sales	2,50,000
Purchases	1,50,000	Less: Return Inwards	2,000
Less: Return Outwards	4,500	Closing Stock	32,500
	1,45,500		
Carriage Inwards	4,500		
Wages	2,400		
Add: Outstanding Wages	100		
	2,500		
Gross Profit	78,000		
	2,80,500		2,80,500

Profit and Loss Account

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Carriage Outward	400	Gross Profit	78,000
Printing and Stationery	4,500	Interest Received	3,500
Discount	400	Discount Received	400
Bad Debts	1,500	Interest Received on Investment	1,600
Add: Further Bad Debts	1,000		
Add: New Provision	2,600		
	5,100		
Discount on Debtors	500		
Insurance	2,500		
Postage and Telegraph	400		
Commission	200		
Interest	1,000		
Add: Outstanding Interest	200		
	1,200		
Repair	440		
Lighting Charges	500		
Telephone Charges	100		

Depreciation on Motor Car	1,250		
Net Profit	66,010		
	83,500		83,500

Balance Sheet

Liabilities		Amount Rs	Assets		Amount Rs
Creditors		1,25,000	Cash in Hand	77,800	
			<i>Add:</i> Interest Received	1,600	79,400
Bills Payable		6,040	Cash at Bank		60,800
Capital	1,00,000		Investment		32,000
<i>Add:</i> Net Profit	66,010	1,66,010	Debtors	53,000	
			<i>Less:</i> Further Bad Debts	1,000	
Outstanding Interest		100	<i>Less:</i> New Provision	2,600	
Outstanding Wages		200	<i>Less:</i> Discount on Debtors	500	48,900
			Motor Car	25,000	
			<i>Less:</i> Depreciation	1,250	23,750
			Bills Receivable		20,000
			Closing Stock		32,500
		2,97,350			2,97,350

Question:15

From the following Trial Balance you are required to prepare trading and profit and loss account for the year ending March 31, 2017 and Balance Sheet on that date.

Particulars	Amount ()	Particulars	Amount ()
Opening stock	25,000	Sales	7,00,000
Furniture	16,000	Creditors	72,500
Purchases	5,55,300	Bank Overdraft	50,000
Carriage Inwards	4,700	Provision for bad and doubtful debts	2,100
Bad debts	1,800	Discount	500
Wages	52,000	Capital	2,00,000
Debtors	80,000	Purchases Return	20,000
Sales Return	15,000		
Rent	24,000		
Miscellaneous Expenses	3,400		
Salaries	68,000		

Cash	8,900		
Drawings	14,000		
Buildings	1,60,000		
Advertising	10,000		
Interest on Bank Overdraft	7,000		
	<u>10,45,100</u>		<u>10,45,100</u>

Adjustments

1. Closing stock valued at 36,000.
2. Private purchases amounting to 5,000 debited to purchases account.
3. Provision for doubtful debts @ 5% on debtors.
4. Sign board costing 4,000 includes in advertising.
5. Depreciate furniture by 10%.

Solution:

Trading A/c

Dr. For the year ended 31st March, 2017 Cr.

Particulars	Amount ()	Particulars	Amount ()
Opening Stock	25,000	Sales	7,00,000
Purchases	5,55,300	Less: Sales Return	(15,000)
Less: Private Purchases	(5,000)	Closing Stock	36,000
Less: Purchases Return	<u>(20,000)</u>		
Carriage Inwards	4,700		
Wages	52,000		
Gross Profit c/d	1,09,000		
	<u>7,21,000</u>		<u>7,21,000</u>

Profit and Loss A/c

Dr. For the year ended 31st March, 2017 Cr.

Particulars	Amount ()	Particulars	Amount ()
Bad debts	1,800	Gross Profit b/d	1,09,000
Provision for Doubtful debts	4,000	Discount Received	500
Less: Old Provision	<u>(2,100)</u>	Net Loss to be transferred	4,600
Rent	24,000		
Miscellaneous Expenses	3,400		
Salaries	68,000		
Advertising	10,000		
Less: Sign Board	<u>(4,000)</u>		
Interest on Bank Overdraft	7,000		
Depreciation on Furniture	2,000		
	<u>1,14,100</u>		<u>1,14,100</u>

Balance Sheet

Dr. As at 31st March, 2017 Cr.

Liabilities	Amount ()	Assets	Amount ()
Capital	2,00,000	Furniture	16,000
Less: Drawings	(19,000)	Add: Sign Board	4,000
Less: Net Loss	<u>(4,600)</u>	Less: Depreciation	<u>(2,000)</u>
	1,76,800	Building	1,60,000
Creditors	72,500	Debtors	80,000

Bank Overdraft	50,000	Less: Provision (New) (4,000)	76,000
		Closing Stock	36,000
		Cash	8,900
	2,98,900		2,98,900

Question:16

From the following information prepare trading and profit and loss account of M/s Indian sports house for the year ending March 31, 2017.

<i>Account Title</i>	<i>Amount Rs</i>	<i>Account Title</i>	<i>Amount Rs</i>
Drawings	20,000	Capital	2,00,000
Sundry debtors	80,000	Return outwards	2,000
Bad debts	1,000	Bank overdraft	12,000
Trade Expenses	2,400	Provision for bad debts	4,000
Printing and Stationery	2,000	Sundry creditors	60,000
Rent Rates and Taxes	5,000	Bills payable	15,400
Freight	4,000	Sales	2,76,000
Return inwards	7,000		
Opening stock	25,000		
Purchases	1,80,000		
Furniture and Fixture	20,000		
Plant and Machinery	1,00,000		
Bills receivable	14,000		
Wages	10,000		
Cash in hand	6,000		
Discount allowed	2,000		
Investments	40,000		
Motor car	51,000		
	5,69,400		5,69,400

Adjustments

1. Closing stock was Rs 45,000.
2. Provision for doubtful debts is to be maintained @ 2% on debtors.
3. Depreciation charged on : furniture and fixture @ 5%, plant and Machinery @ 6% and motor car @ 10%.
4. A Machine of Rs 30,000 was purchased on October 01, 2016.
5. The manager is entitle to a commission of @ 10% of the net profit after charging such commission.

Solution:

Trading Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Opening Stock	25,000	Sales	2,76,000
Purchases	1,80,000	Less: Return Inwards	7,000
Less: Return Outwards	2,000	Closing Stock	45,000
Wages	10,000		
Freight	4,000		
Gross Profit	97,000		
	3,14,000		3,14,000

Profit and Loss Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Trade Expenses	2,400	Gross Profit	97,000
Printing and Stationery	2,000	Old Provision for Bad Debts	4,000
Rent Rates and Taxes	5,000	Less: Bad Debts	1,000
Discount Allowed	2,000	Less: New Provision	1,600
Depreciation on Motor Car	5,100		
Depreciation on Furniture and Fixtures	1,000		
*Depreciation on P & M of Rs 70,000	4,200		
**Depreciation on P & M of Rs 30,000	900		
Net Profit Before Manager's Commission	75,800		
	1,02,400		1,02,400
Manager's Commission	6,891		
Net Profit After Commission	68,909	Balance b/d	75,800
	75,800		75,800

Balance Sheet

Liabilities	Amount Rs	Assets	Amount Rs
Capital	2,00,000	Cash in Hand	6,000

Add: Net Profit	68,909		Sundry Debtors	80,000	
Less: Drawings	20,000	2,48,909	Less: New Provision	1,600	78,400
O/S Manager's Commission		6,891	Furniture and Fixtures	20,000	
Bank Overdraft		12,000	Less: Depreciation	1,000	19,000
Creditors		60,000			
Bills Payable		15,400	Plant and Machinery	1,00,000	
			Less: Depreciation 1*	4,200	
			Less: Depreciation 2**	900	94,900
			Bills Receivable		14,000
			Investments		40,000
			Motor Car	51,000	
			Less: Depreciation	5,100	45,900
			Closing Stock		45,000
		3,43,200			3,43,200

Working Notes

1. Manager's Commission

$$\begin{aligned}
 &= \text{Net Profit before commission} \times \frac{10}{110} \\
 &= 75,800 \times \frac{10}{110} \\
 &= \text{Rs } 6,891
 \end{aligned}$$

2. Out of the machinery of Rs 1,00,000, Rs 30,000 worth of machinery was purchased on 01/October/2016. Therefore, the depreciation on this machinery will be for 6 months at 6% p.a.

$$\begin{aligned}
 \text{*Depreciation on machinery (30,000) = } & 30,000 \times \frac{6}{12} \times \frac{6}{100} = \text{Rs } 900
 \end{aligned}$$

**The rest of the machinery of Rs 70,000 will bear depreciation at 6% p.a.

$$\begin{aligned}
 \text{Depreciation on machinery (70,000) = } & 70,000 \times \frac{6}{12} = \text{Rs } 900
 \end{aligned}$$

Note: As per our solution Gross Profit is Rs 97,000, however, as per book it is Rs 1,01,000.

Question:17

Prepare the trading and profit and loss account and a balance sheet of M/s Shine Ltd. from the following particulars.

<i>Account Title</i>	<i>Amount Rs</i>	<i>Account Title</i>	<i>Amount Rs</i>
Sundry debtors	1,00,000	Bills payable	85,550
Bad debts	3,000	Sundry creditors	25,000
Trade expenses	2,500	Provision for bad debts	1,500
Printing and Stationary	5,000	Return outwards	4,500
Rent, Rates and Taxes	3,450	Capital	2,50,000
Freight	2,250	Discount received	3,500
Sales return	6,000	Interest received	11,260
Motor car	25,000	Sales	1,00,000
Opening stock	75,550		
Furniture and Fixture	15,500		
Purchases	75,000		
Drawings	13,560		
Investments	65,500		
Cash in hand	36,000		
Cash in bank	53,000		
	4,81,310		4,81,310

Adjustments

1. Closing stock was valued Rs 35,000.
2. Depreciation charged on furniture and fixture @ 5%.
3. Further bad debts Rs 1,000. Make a provision for bad debts @ 5% on sundry debtors.
4. Depreciation charged on motor car @ 10%.
5. Interest on drawing @ 6%.
6. Rent, rates and taxes was outstanding Rs 200.
7. Discount on debtors 2%.

Solution:**Trading Account**

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Opening Stock	75,550	Sales	1,00,000
Purchases	75,000	Less: Sales Inwards	6,000
			94,000

Less: Return Outwards	4,500	70,500	Closing Stock	35,000
Freight		2,250		
			Gross Loss	19,300
		1,48,300		1,48,300

Profit and Loss Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Gross Loss	19,300	Discount	3,500
Bad Debts	3,000	Interest Received	11,260
<i>Add:</i> Further Bad-Debts	1,000	Interest on Drawings	814
<i>Add:</i> New Provision	4,950	Net Loss	27,482
<i>Less:</i> Old Provision	1,500		
Discount on Debtors	1,881		
Trade Expenses	2,500		
Printing and Stationery	5,000		
Rent, Rates and Taxes	3,450		
<i>Add:</i> O/S Rent, Rates and Taxes	200		
Depreciation on Furniture	775		
Depreciation on Motor Car	2,500		
	43,056		43,056

Balance Sheet

Liabilities	Amount Rs	Assets	Amount Rs
Bills Payable	85,550	Sundry Debtors	100,000
Sundry Creditors	25,000	<i>Less:</i> Further Debts	1,000
Capital	2,50,000	<i>Less:</i> New Provision	4,950
<i>Less:</i> Net Loss	27,482	<i>Less:</i> Discount on Debtors	1,881
<i>Less:</i> Drawings	13,560		
<i>Less:</i> Interest on Drawings	814	Motor Car	25,000
	2,08,144	<i>Less:</i> Depreciation	2,500
			22,500
Outstanding Rent, Rates and Taxes	200	Furniture and Fixtures	15,500
		<i>Less:</i> Depreciation	775
			14,725

	Investments	65,500
	Cash in Hand	36,000
	Cash in Bank	53,000
	Closing Stock	35,000
	3,18,894	3,18,894

Note: In NCERT book, the Gross Loss is Rs 17,050, the Net Loss is Rs 27,344 and the Total of Balance Sheet is Rs 3,19,032. However, as per the solution Net Loss and the Total of the Balance Sheet are Rs 27,482 and Rs 3,18,894 respectively.

Question:18

Following balances have been extracted from the trial balance of M/s Keshav Electronics Ltd. You are required to prepare the trading and profit and loss account and a balance sheet as on March 31, 2017.

<i>Account Title</i>	<i>Amount Rs</i>	<i>Account Title</i>	<i>Amount Rs</i>
Opening stock	2,26,000	Sales	6,80,000
Purchases	4,40,000	Return outwards	15,000
Drawings	75,000	Creditors	50,000
Buildings	1,00,000	Bills payable	63,700
Motor van	30,000	Interest received	20,000
Freight inwards	3,400	Capital	3,50,000
Sales return	10,000		
Trade expense	3,300		
Heat and Power	8,000		
Salary and Wages	5,000		
Legal expense	3,000		
Postage and Telegram	1,000		
Bad debts	6,500		
Cash in hand	79,000		
Cash at bank	98,000		
Sundry debtors	25,000		
Investments	40,000		
Insurance	3,500		
Machinery	22,000		
	11,78,700		11,78,700

The following additional information is available :

1. Stock on December 31, 2017 was Rs 30,000.
2. Depreciation is to be charged on building at 5% and motor van at 10%.
3. Provision for doubtful debts is to be maintained at 5% on Sundry Debtors.
4. Unexpired insurance was Rs 600.
5. The Manager is entitled to a commission @ 5% on net profit before charging such commission.

Solution:

Trading Account

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Opening Stock	2,26,000	Sales	6,80,000
Purchases	4,40,000	Less: Sales Return	10,000
Less: Returns Outwards	15,000		6,70,000
Freight Inwards	3,400	Closing Stock	30,000
Heat and Power	8,000		
Gross Profit	37,600		
	7,00,000		7,00,000

Profit and Loss Account

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Trade Expenses	3,300	Gross Profit	37,600
Salary and Wages	5,000	Interest Received	20,000
Legal Expenses	3,000		
Postage and Telegram	1,000		
Bad Debts	6,500		
Add: New Provision	1,250		
Depreciation on Building	5,000		
Depreciation on Motor Van	3,000		
Insurance	3,500		
Less: Unexpired Insurance	600		
Net Profit	26,650		
	57,600		57,600

Manager's Commission Payable	1,269	Balance b/d	26,650
Net Profit after Commission	25,381		
	26,650		26,650

Balance Sheet

Liabilities		Amount Rs	Assets		Amount Rs
Capital	3,50,000		Cash in Hand		79,000
Add: Net Profit	25,381		Cash at Bank		98,000
Less: Drawings	75,000	3,00,381	Buildings	1,00,000	
Creditors		50,000	Less: Depreciation	5,000	95,000
Bills Payable		63,700			
Manager's Commission Payable		1,269	Motor Van	30,000	
			Less: Depreciation	3,000	27,000
			Sundry Debtors	25,000	
			Less: New Provision	1,250	23,750
			Investments		40,000
			Machinery		22,000
			Unexpired Insurance		600
			Closing Stock		30,000
		4,15,350			4,15,350

Note:

In NCERT, Q-7 adjustment (5) is a misprint. The answer represents the Net Profit after the Manager's Commission. However, in the adjustment, the Net Profit has been mentioned before the Manager's Commission.

Question:19

From the following balances extracted from the books of Raga Ltd. Prepare a trading and profit and loss account for the year ended March 31, 2017 and a balance sheet as on that date.

Account Title	Amount Rs	Account Title	Amount Rs
Drawings	20,000	Sales	2,20,000

Land and Buildings	12,000	Capital	1,01,110
Plant and Machinery	40,000	Discount	1,260
Carriage inwards	100	Apprentice premium	5,230
Wages	500	Bills payable	1,28,870
Salary	2,000	Purchases return	10,000
Sales return	200		
Bank charges	200		
Coal, Gas and Water	1,200		
Purchases	1,50,000		
Trade Expenses	3,800		
Stock (Opening)	76,800		
Cash at bank	50,000		
Rates and Taxes	870		
Bills receivable	24,500		
Sundry debtors	54,300		
Cash in hand	30,000		
	4,66,470		4,66,470

The additional information is as under:

1. Closing stock was valued at the end of the year Rs, 20,000.
2. Depreciation on plant and machinery charged at 5% and land and building at 10%.
3. Discount on debtors at 3%.
4. Make a provision at 5% on debtors for doubtful debts.
5. Salary outstanding was Rs 100 and Wages prepaid was Rs 40.
6. The manager is entitled a commission of 5% on net profit after charging such commission.

Solution:

Trading Account

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Opening Stock	76,800	Sales	2,20,000
Purchases	1,50,000	Less: Sales Return	200
Less: Purchases Return	10,000		
	1,40,000	Closing Stock	20,000
Carriage Inwards	100		
Wages	500		
Less: Prepaid	40		
	460		
Coal, Gas and Water	1,200		
Gross Profit	21,240		
	2,39,800		2,39,800

Profit and Loss Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Salary	2,000	Gross Profit	21,240
<i>Add:</i> Outstanding Salary	100	Discount	1,260
Bank Charges	200	Apprentice Premium	5,230
Trade Expenses	3,800		
Rates and Taxes	870		
Depreciation on Plant and Machinery	2,000		
Depreciation on Land and Building	1,200		
Provision for Doubtful Debts	2,715		
Discount on Debtors	1,548		
Net Profit	13,297		
	27,730		27,730
Manager's Commission	633	Balance b/d	13,297
Net Profit after Commission	12,664		
	13,297		13,297

Balance Sheet

Liabilities	Amount Rs	Assets	Amount Rs
Capital	1,01,110	Cash at Bank	50,000
<i>Add:</i> Net Profit	12,664	Land and Building	12,000
<i>Less:</i> Drawings	20,000	<i>Less:</i> Depreciation	1,200
	93,774	Plant and Machinery	40,000
Bills Payable	1,28,870	<i>Less:</i> Depreciation	2,000
Outstanding Salary	100	Bills Receivable	24,500
Outstanding Manager's Commission	633	Sundry Debtors	54,300
		<i>Less:</i> New Provision	2,715
		<i>Less:</i> Discount on Debtors	1,548
		Cash in Hand	30,000
		Closing Stock	20,000
		Prepaid Wages	40
	2,23,377		2,23,377

Question:20

From the following balances of M/s Jyoti Exports, prepare trading and profit and loss account for the year ended March 31, 2017 and balance sheet as on this date.

<i>Account Title</i>	<i>Debit Amount Rs</i>	<i>Account Title</i>	<i>Credit Amount Rs</i>
Sundry debtors	9,600	Sundry creditors	2,500
Opening stock	22,800	Sales	72,670
Purchases	34,800	Purchases returns	2,430
Carriage inwards	450	Bills payable	15,600
Wages	1,770	Capital	42,000
Office rent	820		
Insurance	1,440		
Factory rent	390		
Cleaning charges	940		
Salary	1,590		
Building	24,000		
Plant and Machinery	3,600		
Cash in hand	2,160		
Gas and Water	240		
Octroi	60		
Furniture	20,540		
Patents	10,000		
	1,35,200		1,35,200

Closing stock Rs 10,000.

1. To provision for doubtful debts is to be maintained at 5 per cent on sundry debtors.
2. Wages amounting to Rs 500 and salary amounting to Rs 350 are outstanding.
3. Factory rent prepaid Rs 100.
4. Depreciation charged on Plant and Machinery @ 5% and Building @ 10%.
5. Outstanding insurance Rs 100.

Solution:**Trading Account**

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Opening Stock	22,800	Sales	72,670
Purchases 34,800		Closing Stock	10,000
Less: Purchases Return 2,430	32,370		
Carriage Inwards	450		
Wages 1,770			
Add: Outstanding Wages 500	2,270		
Factory Rent 390			
Less: Prepaid Rent 100	290		
Gas and Water	240		
Octroi	60		
Cleaning Charges	940		
Gross Profit	23,250		
	82,670		82,670

Profit and Loss Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Office Rent	820	Gross Profit	23,250
Insurance 1,440			
Add: Outstanding Insurance 100	1,540		
Depreciation on Plant and Machinery	180		
Salary 1,590			
Add: Outstanding Salary 350	1,940		
Provision for Doubtful Debts	480		
Depreciation on Building	2,400		
Net Profit	15,890		
	23,250		23,250

Balance Sheet

Liabilities		Amount Rs	Assets		Amount Rs
Capital	42,000	57,890	Sundry Debtors	9,600	9,120
Add: Net Profit	15,890		Less: New Provision	480	
Sundry Creditors		2,500	Building	24,000	21,600
Bills Payable		15,600	Less: Depreciation	2,400	
Outstanding Salary		350	Plant and Machinery	3,600	3,420
Outstanding Wages		500	Less: Depreciation	180	
Outstanding Insurance		100	Cash in Hand		2,160
			Furniture		20,540
			Patents		10,000
			Closing Stock		10,000
			Prepaid Factory Rent		100
		76,940			76,940

Note: As per solution Net Profit is Rs 15,890 and Total of the Balance Sheet is Rs 76,940. However, NCERT shows Net Profit Rs 15,895 and Total of the Balance Sheet Rs 76,945.

Question:21

The following balances have been extracted from the books of M/s Green House for the year ended March 31, 2017, prepare trading and profit and loss account and balance sheet as on this date.

Account Title	Amount Rs	Account Title	Amount Rs
Purchases	80,000	Capital	2,10,000
Bank balance	11,000	Bills payable	6,500
Wages	34,000	Sales	2,00,000
Debtors	70,300	Creditors	50,000
Cash in hand	1,200	Return outwards	4,000
Legal expenses	4,000		
Building	60,000		
Machinery	120,000		
Bills receivable	7,000		
Office expenses	3,000		
Opening stock	45,000		

Gas and fuel	2,700		
Freight and Carriage	3,500		
Factory lighting	5,000		
Office furniture	5,000		
Patent right	18,800		
	4,70,500		4,70,500

adjustments :

- (a) Machinery is depreciated at 10% and buildings depreciated at 6%.
- (b) Interest on capital @ 4%.
- (c) Outstanding wages Rs 50.
- (d) Closing stock Rs 50,000.

Solution:

Trading Account

Dr.			Cr.	
Particulars	Amount Rs		Particulars	Amount Rs
Opening Stock	45,000		Sales	2,00,000
Purchases	80,000		Closing Stock	50,000
Less: Return Outwards	4,000	76,000		
Wages	34,000			
Add: Wages Outstanding	50	34,050		
Gas and Fuel		2,700		
Freight and Carriage		3,500		
Factory Lighting		5,000		
Gross Profit		83,750		
		2,50,000		2,50,000

Profit and Loss Account

Dr.			Cr.	
Particulars	Amount Rs		Particulars	Amount Rs
To Legal Expenses	4,000	By Gross Profit	83,750	
To Office Expenses	3,000			
To Depreciation on Machine	12,000			

To Depreciation on Building	3,600	
To Interest on Capital	8,400	
To Net Profit*	52,750	
	83,750	83,750

Balance Sheet

Liabilities		Amount Rs	Assets		Amount Rs
Capital	2,10,000		Bank Balance		11,000
Add: Interest on Capital	8,400		Debtors		70,300
Add: Net profit	52,750	2,71,150	Cash in Hand		1,200
			Building	60,000	
Bills Payable		6,500	Less: Depreciation	3,600	56,400
Creditors		50,000	Machinery	1,20,000	
Outstanding Wages		50	Less: Depreciation	12,000	1,08,000
			Bills Receivable		7,000
			Patent Right		18,800
			Office Furniture		5,000
			Closing Stock		50,000
		3,27,700			3,27,700

Question:22

From the following balances extracted from the book of M/s Manju Chawla on March 31, 2017. You are requested to prepare the trading and profit and loss account and a balance sheet as on this date.

Account Title	Amount Rs	Amount Rs
Opening stock	10,000	
Purchases and Sales	40,000	80,000
Returns	200	600
Wages	6,000	
Dock and cleaning charges	4,000	
Lighting	500	

Misc. Income		6,000
Rent		2,000
Capital		40,000
Drawings	2,000	
Debtors and Creditors	6,000	7,000
Cash	3,000	
Investment	6,000	
Patent	4,000	
Land and Machinery	43,000	
Donations and Charity	600	
Sales tax collected		1,000
Furniture	11,300	
	1,36,600	1,36,600

Closing stock was Rs 2,000.

(a) Interest on drawings @ 7% and interest on capital @ 5%.

(b) Land and Machinery is depreciated at 5%.

(c) Interest on investment @ 6%.

(d) Unexpired rent Rs 100.

(e) Charge 5% depreciation on furniture.

Solution:

Trading Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Opening Stock	10,000	Sales	80,000
Purchases	40,000	Less: Sales Return	200
Less: Purchases Return	600	Closing Stock	2,000
	39,400		
Wages	6,000		
Dock and Cleaning Charges	4,000		
Gross Profit	22,400		
	81,800		81,800

Profit and Loss Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Lighting	500	Gross Profit	22,400
Donations and Charity	600	Miscellaneous Income	6,000
Interest on Capital	2,000	Rent	2,000
Depreciation on Furniture	565	Less: Unearned Rent	100
Depreciation on Land and Machinery	2,150	Interest on Drawings	140
Net Profit	24,985	Interest on Investment	360
	30,800		30,800

Balance Sheet

Liabilities	Amount Rs	Assets	Amount Rs
Capital	40,000	Debtors	6,000
Add: Interest on Capital	2,000	Cash	3,000
Add: Net Profit	24,985	Investment	6,000
Less: Drawings	2,000	Add: Interest on Investment	360
Less: Interest on Drawings	140	Patent	4,000
	64,845		
Creditors	7,000	Land and Machinery	43,000
Sales Tax Collected	1,000	Less: Depreciation	2,150
Unearned Rent	100		
		Furniture	11,300
		Less: Depreciation	565
		Closing Stock	2,000
	72,945		72,945

Note: In the NCERT textbook, the answer provided for question number 11 is different from the solution. However, the answer should be

Gross profit = Rs 22,400 instead of Rs 21,900

Net profit = Rs 24,985 instead of Rs 25,185

Total of Balance Sheet = Rs 72,945 instead of Rs 71,185

Question:23

The following balances were extracted from the books of M/s Panchsheel Garments on March 31, 2017.

Account Title	Debit Amount ()	Account Title	Credit Amount ()
Opening stock	16,000	Sales	1,12,000
Purchases	67,600	Return outwards	3,200
Return Inwards	4,600	Discount	1,400
Carriage inwards	1,400	Bank overdraft	10,000
General expenses	2,400	Commission	1,800
Insurance	4,000	Creditors	16,000
Scooter expenses	200	Capital	50,000
Salary	8,800		
Cash in hand	4,000		
Scooter	8,000		
Furniture	5,200		
Buildings	65,000		
Debtors	6,000		
Wages	1,200		
	1,94,400		1,94,400

Prepare the trading and profit and loss account for the year ended March 31, 2017 and a balance sheet as on that date.

- (a) Unexpired insurance 1,000.
 (b) Salary due but not paid 1,800.
 (c) Wages outstanding 200.
 (d) Interest on capital 5%.
 (e) Scooter is depreciated @ 5%.
 (f) Furniture is depreciated @ 10%.
 (g) Closing stock was 15,000.

Solution:

Trading Account

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Opening Stock	16,000	Sales	1,12,000
Purchases	67,600	Less: Return Inwards	4,600
Less: Return Outwards	3,200		1,07,400
Carriage Inwards	1,400	Closing Stock	15,000
Wages	1,200		
Add: Outstanding Wages	200		
Gross Profit	39,200		
	1,22,400		1,22,400

Profit and Loss Account

Dr.	Cr.
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Particulars	Amount Rs	Particulars	Amount Rs
General Expenses	2,400	Gross Profit	39,200
Insurance	4,000	Discount	1,400
<i>Less: Unexpired Insurance</i>	1,000	Commission	1,800
Scooter Expenses	200		
Salary	8,800		
<i>Add: Outstanding Salary</i>	1,800		
Interest on Capital	2,500		
Depreciation on Scooter	400		
Depreciation on Furniture	520		
Net Profit	22,780		
	42,400		42,400

Balance Sheet

Liabilities	Amount Rs	Assets	Amount Rs
Capital	50,000	Cash in Hand	4,000
<i>Add: Interest on Capital</i>	2,500	Scooter	8,000
<i>Add: Net Profit</i>	22,780	<i>Less: Depreciation</i>	400
Bank Overdraft	10,000	Furniture	5,200
Creditors	16,000	<i>Less: Depreciation</i>	520
Outstanding Salary	1,800	Buildings	65,000
Outstanding Wages	200	Debtors	6,000
		Unexpired Insurance	1,000
		Closing Stock	15,000
	1,03,280		1,03,280

Question:24

Prepare the trading and profit and loss account and balance sheet of M/s Control Device India on March 31, 2017 from the following balance as on that date.

<i>Account Title</i>	<i>Debit Amount Rs</i>	<i>Credit Amount Rs</i>
Drawings and Capital	19,530	67,500
Purchase and Sales	45,000	1,12,500
Salary and Commission	25,470	1,575
Carriage	2,700	
Plant and Machinery	27,000	
Furniture	6,750	
Opening stock	42,300	
Insurance premium	2,700	
Interest		7,425
Bank overdraft		24,660
Rent and Taxes	2,160	
Wages	11,215	
Returns	2,385	1,440
Carriage outwards	1,485	
Debtors and Creditors	36,000	58,500
General expenses	6,975	
Octroi	530	
Investment	41,400	
	2,73,600	2,73,600

Closing stock was valued Rs 20,000.

- (a) Interest on capital @ 10%.
- (b) Interest on drawings @ 5%.
- (c) Wages outstanding Rs 50.
- (d) Outstanding salary Rs 20.
- (e) Provide a depreciation @ 5% on plant and machinery.
- (f) Make a 5% provision on debtors.

Solution:

Trading Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Opening Stock	42,300	Sales	1,12,500
Purchases	45,000	Less: Sales Return	2,385
Less: Purchases Return	1,440	Closing Stock	20,000
Carriage	2,700		

Wages	11,215		
Add: Outstanding Wages	50	11,265	
Octroi		530	
Gross Profit		29,760	
		1,30,115	1,30,115

Profit and Loss Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Salary	25,470	Gross Profit	29,760
Add: Outstanding Salary	20	Commission	1,575
Insurance Premium	2,700	Interest	7,425
Rent and Taxes	2,160	Interest on Drawings	977
Carriage Outwards	1,485	Net Loss	8,973
General Expenses	6,975		
Interest on Capital	6,750		
Depreciation on P & M	1,350		
Provision on Debtors	1,800		
	48,710		48,710

Balance Sheet

Liabilities	Amount Rs	Assets	Amount Rs
Capital	67,500	Plant and Machinery	27,000
Add: Interest on Capital	6,750	Less: Depreciation	1,350
Less: Net Loss	8,973	Furniture	6,750
Less: Drawings	19,530	Debtors	36,000
Less: Interest on Drawings	977	Less: New Provision	1,800
Bank Overdraft	24,660	Investment	41,400
Creditors	58,500	Closing Stock	20,000
Outstanding Wages	50		
Salary Outstanding	20		
	1,28,000		1,28,000

Question:25

The following balances appeared in the trial balance of M/s Kapil Traders as on March 31, 2017

	<i>Rs</i>
Sundry debtors	30,500
Bad debts	500
Provision for doubtful debts	2,000

The partners of the firm agreed to records the following adjustments in the books of the Firm: Further bad debts Rs.300. Maintain provision for bad debts 10%. Show the following adjustments in the bad debts account, provision account, debtors account, profit and loss account and balance sheet.

Solution:**Profit and Loss Account**

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Bad Debts	500		
<i>Add:</i> Further Bad Debts	300		
<i>Add:</i> New Provision	3,020		
<i>Less:</i> Old Provision	2,000		
	<hr/>		
	1,820		

Balance Sheet

Liabilities	Amount Rs	Assets	Amount Rs
		Debtors	30,500
		<i>Less:</i> Further Bad Debts	300
		<i>Less:</i> New Provision	3,020
			<hr/>
			27,180

Debtors Account

Dr.

Cr.

Date	Particulars	Amount Rs	Date	Particulars	Amount Rs
2017 March 31	Balance b/d	30,500	2017 March 31	Further Bad Debts	300
			March 31	Provision for Doubtful Debts	3,020
			March 31	Balance c/d	27,180
		30,500			30,500

Bad Debts Account

Dr.

Cr.

Date	Particulars	Amount Rs	Date	Particulars	Amount Rs
2017 March 31	Balance b/d (As per the Trial Balance)	500	2017 March 31	Provision for Doubtful Debts	800
March 31	Sundry Debtors	300			
		800			800

Provision for Doubtful Debts Account

Dr.

Cr.

Date	Particulars	Amount Rs	Date	Particulars	Amount Rs
2017 March 31	Bad Debt	800	2016 April 01	Balance b/d (Old Provision)	2,000
			April 01	Profit and Loss (Balancing figure)	1,820
March 31	Balance b/d (New Provision)	3,020			
		3,820			3,820

Prepare the bad debts account, provision for account, profit and loss account and balance sheet from the following information as on March 31, 2017

	<i>Rs</i>
Debtors	80,000
Bad debts	2,000
Provision for doubtful debts	5,000

Adjustments:

Bad Debts Rs 500 Provision on Debtors @ 3%.

Solution:

Profit and Loss Account

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Bad Debts 2,000		Old Provision for Doubtful Debts	5,000
Add: Further Bad Debts 500			
Add: New Provision for Bad Debts 2,385	4,885		
Balancing figure	115		
	5,000		5,000

Balance Sheet

Liabilities	Amount Rs	Assets	Amount Rs
		Debtors 80,000	
		Less: Further Bad Debts 500	
		Less: New Provision on Debtors 2,385	77,115
			77,115

Bad Debts Account

Dr.			Cr.		
Date	Particulars	Amount Rs	Date	Particulars	Amount Rs
2017			2017		
Dec.31	Balance b/d	2,000	Dec.31	Provision for Doubtful Debts	2,500

	(as per the Trial Balance)			
Dec.31	Sundry Debtors	500		
		2,500		2,500

Provision for Doubtful Debts Account

Dr.

Cr.

Date	Particulars	Amount Rs	Date	Particulars	Amount Rs
2017			2017		
Dec.31	Bad Debts	2,500	Jan.01	Balance b/d (Old Provision)	5,000
Dec.31	Balance b/d (New Provision)	2,385			
Dec.31	Profit and Loss (Balancing Figure)	115*			
		5,000			5,000

***Note:** In this case, the old provision exceeds the sum total of Bad debts and the New Provision. Thus, the balancing figure is Rs 115 and is calculated as $\text{Rs } 2,500 + \text{Rs } 2,385 - \text{Rs } 5,000 = \text{Rs } (115)$