6. ADJUSTMENTS

6.1 Bad Debts and Provision

If a Customer fails to pay the amount due from him, the uncollectible amount is called **Bad Debts**. The accounting treatment is as under –

Method	Method 1: General treatment, i.e. Without having Provision for Bad & Doubtful Debts Account	Method 2: With a Provision / Reserve for Bad & Doubtful Debts Account
Rule	Transfer Bad Debts as per TB, to the Debit Side of P&L A/c.	1. Transfer Bad Debts as per TB, to Provision A/c. 2. Maintain Year–End Provision upto the desired amount.
Bad Debts written off	Bad Debts A/c Dr. To Sundry Debtors (by name)	Bad Debts A/c Dr. To Sundry Debtors (by name)
Transfer of Bad Debts	Profit and Loss A/c Dr. To Bad Debts A/c	Provision for Bad & Doubtful Debts Dr. To Bad Debts A/c
Creating Provision at year–end	There is no such requirement.	Profit and Loss A/c Dr. To Provision for Bad & Doubtful Debts
Treatment in B/Sheet	Not Applicable.	Closing Balance of Provision for Bad and Doubtful Debts A/c is shown in the Assets Side, as a **reduction** from "Sundry Debtors".

Note: Instead of the term "Provision for Bad and Doubtful Debts", sometimes the word "Reserve for Bad Debts" is used. The word "Provision" is considered preferable.

Illustration 4: Bad Debts and Provision for Bad and Doubtful Debts

Aruna & Co. provides the following information. Prepare Provision for Bad and Doubtful Debts A/c.

Opening Balance in Provision for Bad and Doubtful Debts A/c	**₹ 53,600**
Bad Debts written off during the year	**₹ 40,400**
Balance of Debtors at the end of the year	**₹ 10,54,000**
Provision for Bad and Doubtful Debts required to be maintained	**5% on Debtors**

Solution:

Dr. **Provision for Bad and Doubtful Debts A/c** **Cr.**

Particulars	₹	Particulars	₹
To Bad Debts written off (transfer)	40,400	By balance b/d (given)	53,600
To balance c/d (₹ 10,54,000 X 5%)	52,700	By Profit & Loss A/c **(bal. figure)**	**39,500**
Total	**93,100**	**Total**	**93,100**

Note: Provision required to be maintained is 5% of Closing Debtors. Hence, amount of provision created during the year = ₹ 39,500, is the balancing figure in the above account.

6.2 Repairs & Renewals Expense and Provision

The different accounting treatments in respect of Repairs and Renewals Expense is as under –

Method	Method 1: General Treatment Without having Provision for Repairs & Renewals Account	Method 2 With Provision for Repairs & Renewals Account
Rule	Transfer Repairs & Maintenance as per TB, to the Debit Side of P&L A/c.	1. Transfer Repairs & Maintenance as per TB, to the Debit Side of Provision A/c. 2. Maintain Provision upto the desired amount.
Repairs Exp incurred	Repairs & Maintenance A/c Dr. To Cash / Bank / Payable	Repairs & Maintenance A/c Dr. To Cash / Bank / Payable
Transfer of R & M	Profit and Loss A/c Dr. To Repairs & Maintenance A/c	Provision for Repairs & Renewals Dr. To Repairs & Maintenance A/c

Method	Method 1: General Treatment Without having Provision for Repairs & Renewals Account	Method 2 With Provision for Repairs & Renewals Account
Creating Provision at year–end	There is no such requirement.	Profit and Loss A/c Dr. To Provision for Repairs & Renewals A/c
Treatment in B/Sheet	Not Applicable.	Closing Balance of Provision for Repairs & Renewals A/c is shown in the Liabilities Side.

Illustration 5: Provision for Repairs and Renewals Account

Bala & Co. provides the following information. Prepare Provision for Repairs and Renewals A/c.

Opening Balance in Provision for Repairs and Renewals Account	**₹ 1,53,600**
Repairs, Renewals and Maintenance expenditure incurred during the year	**₹ 1,30,400**
Cost of Fixed Assets at the end of the year	**₹ 40,00,000**
Provision for Repairs and Renewals required to be maintained	**4.5% of Asset Cost**

Solution:

Dr. **Provision for Repairs and Renewals A/c** **Cr.**

Particulars	₹	Particulars	₹
To Repairs & Maintenance A/c (tfr)	1,30,400	By balance b/d (given)	1,53,600
To balance c/d (₹ 40,00,000 X 4.5%)	1,80,000	By Profit & Loss A/c **(bal. figure)**	**1,54,100**
Total	**3,10,400**	**Total**	**3,10,400**

Note: Provision required to be maintained is 4.5% of Asset Cost. Hence, amount of provision created during the year = ₹ 1,54,100, is the balancing figure in the above account.

6.3 Discount and Rebate Allowed

	Discount	Rebate
Meaning	Cash Discount is allowed to Debtors / Customers, when they make the payment before the due date.	Rebate is an allowance given to a customer, when his purchases (i.e. the Firm's Sales) exceed a certain amount, say ₹ 25,000.
Example	When a Customer is offered 3% Discount for payment within 10 days (normal credit period = 30 days), Discount Allowed on a Sale Invoice of ₹ 10,000 will be ₹ 10,000 × 3% = ₹ 300. So, the amount actually received from the customer will be ₹ 10,000 – ₹ 300 = ₹ 9,700.	When the Firm offers a Rebate of 3% if Purchases exceed ₹ 25,000, a customer who has cumulatively purchased for ₹ 36,000 (say 10 invoices during the period), will be given a Total Rebate of ₹ 36,000 × 3% = ₹ 1,080.
Nature	Discount Allowed is in the nature of **Interest Expense**, for early collection of moneys due.	Rebate is in the nature of expense to recognize the **loyalty** of the Customer.
Timing	Entries for Discount Allowed are made **during the period**, as and when every Invoice / Bill is collected.	Entries for Rebate can be passed only at the **end of the year**, i.e. when the total amount / value of purchases is known.
Effect	Treated as an **Expense** in P&L A/c.	Treated as an **Expense** in P&L A/c.

6.4 Accounting Treatment for Discount Allowed

The different accounting treatments in respect of Discount Allowed to Debtors is as under –

Method	Method 1: General Treatment	Method 2
Description	**Without having Provision for Discount on Debtors A/c**	**With Provision for Discount on Debtors A/c**
Rule	Transfer Discount Allowed as per TB, to the Debit Side of P&L A/c.	1. Transfer Discount Allowed as per TB, to the Debit Side of Provision A/c. 2. Maintain Provision upto the desired amount.
Discount allowed	Discount Allowed A/c Dr. To Sundry Debtors	Discount Allowed A/c Dr. To Sundry Debtors

Method	Method 1: General Treatment	Method 2
Tfr of Disc. Allowed	Profit and Loss A/c Dr. To Discount Allowed A/c	Provision for Discount on Debtors Dr. To Repairs & Maintenance A/c
Creating Provision at year–end	There is no such requirement.	Profit and Loss A/c Dr. To Provision for Discount on Debtors
Treatment in B/Sheet	Not Applicable.	Closing Balance of Provision for Discount Allowed on Debtors Account is shown in the Assets Side, as a **reduction** from Sundry Debtors.

Note: Instead of the term "Provision for Discount Allowed on Debtors", sometimes the word "Reserve for Discount on Debtors" is used. The word "Provision" is considered preferable.

Illustration 6: Provision for Discount Allowed on Debtors Account

Chandru & Co. provides the following information. Prepare Provision for Discount Allowed on Debtors A/c.

Opening Balance in Provision for Discount Allowed on Debtors Account	**₹ 40,000**
Discount Allowed to Debtors during the year	**₹ 67,200**
Balance of Debtors at the end of the year	**₹ 20,00,000**
Provision for Discount on Debtors required to be maintained	**1.5%**

Solution:

Dr. **Provision for Discount Allowed on Debtors A/c** **Cr.**

Particulars	₹	Particulars	₹
To Discount Allowed A/c (tfr)	67,200	By balance b/d (given)	40,000
To balance c/d (₹ 20,00,000 X 1.5%)	30,000	By Profit & Loss A/c **(bal. figure)**	**57,200**
Total	**97,200**	**Total**	**97,200**

Note: Provision required to be maintained is 1.5% of Debtors. Hence, amount of provision created during the year = ₹ 57,200, is the balancing figure in the above account.

6.5 Accounting Treatment Discount Received from Suppliers

The different accounting treatments in respect of Discount Received from Suppliers is as under –

Method	Method 1: General Treatment Without having Reserve for Discount on Creditors A/c	Method 2 With Reserve for Discount on Creditors A/c
Rule	Transfer Discount Received as per TB, to the Credit Side of P&L A/c.	1. Transfer Disc.Recd as per TB, to the Reserve A/c. 2. Maintain Reserve upto the desired amount.
Discount Received	Sundry Creditors A/c Dr. To Discount Received	Sundry Creditors A/c Dr. To Discount Received
Tfr of Disc. Received	Discount Received A/c Dr. To Profit and Loss A/c	Discount Received A/c Dr. To Reserve for Discount on Creditors
Creating Reserve at year–end	There is no such requirement.	Reserve for Discount on Creditors Dr. To Profit and Loss A/c
Treatment in B/Sheet	Not Applicable.	Closing Balance of Reserve for Discount on Creditors A/c is shown in Liabilities Side, as **reduction** from Sundry Creditors.

Illustration 7: Reserve for Discount on Creditors

Bala & Co. provides the following information. Prepare Reserve for Discount on Creditors A/c.

Opening Balance in Reserve for Discount on Creditors Account	**₹ 40,000**
Discount Received from Creditors during the year	**₹ 67,200**
Balance of Creditors at the end of the year	**₹ 20,00,000**
Reserve for Discount on Creditors required to be maintained	**1.5%**

Solution:

Dr. **Reserve for Discount on Creditors A/c** **Cr.**

Particulars	₹	Particulars	₹
To balance b/d (given)	40,000	By Discount Received A/c (tfr)	67,200
To Profit & Loss A/c **(bal. figure)**	**57,200**	By balance c/d (₹ 20,00,000 X 1.5%)	30,000
Total	**97,200**	**Total**	**97,200**

Note: The Closing Balance of Reserve for Discount on Creditors A/c will be shown in the Liabilities Side of the Balance Sheet, as a reduction from Sundry Creditors.

Illustration 7: Financial Statements of Sole Proprietorship **M 19**

Following particular are extracted from the books of Mr. Sandeep for the year ended 31st December, 2018.

Particulars	Amount ₹	Particulars	Amount ₹
Debit Balances:		**Credit Balances:**	
Cash in hand	**1,500**	**Capital**	**16,000**
Purchase	**12,000**	**Bank overdraft**	**2,000**
Sales return	**1,000**	**Sales**	**9,000**
Salaries	**2,500**	**Purchase return**	**2,000**
Tax and Insurance	**500**	**Reserve for Bad debts**	**1,000**
Bad debts	**500**	**Creditors**	**2,000**
Debtors	**5,000**	**Commission**	**500**
Investments	**4,000**	**Bills payable**	**2,500**
Opening stock	**1,400**		
Drawings	**2,000**		
Furniture	**1,600**		
Bills receivables	**3,000**		
Total	**35,000**	**Total**	**35,000**

Other information:

(i) Closing stock was valued at ₹ 4,500

(ii) Salary of ₹ 100 and Tax of ₹ 200 are outstanding whereas insurance ₹ 50 is prepaid.

(iii) Commission received in advance is ₹ 100

(iv) Interest accrued on investment is ₹ 210

(v) Interest on overdraft is unpaid ₹ 300

(vi) Reserve for bad debts is to be kept at ₹ 1,000

(vii) Depreciation of furniture is to be charged @ 10%

You are required to prepare the final accounts after making above adjustments.

Solution:

1. Trading A/c of Mr. Sandeep for the year ended 31st December 2018

	Particulars	₹	₹		Particulars	₹	₹
	To Opening Stock		1,400		By Sales	9,000	
	To Purchases	12,000		**Less:**	Returns	(1,000)	8,000
Less:	Returns	(2,000)	10,000		By Closing Stock		4,500
	To Gross Profit c/d		1,100				
	Total		**12,500**		**Total**		**12,500**

2. Profit & Loss Account for the year ended 31st December 2018

	Particulars	₹	₹		Particulars	₹	₹
	To Salaries	2,500			By Gross Profit b/d		1,100
Add:	O/s Salary	100	2,600				
	To Tax and Insurance	500			By Commission	500	
Add:	O/s Taxes	200		**Less:**	Commission Received in Advance	(100)	400

Particulars		₹	₹	Particulars	₹	₹
Less:	Prepaid Insurance	(50)	650	By Interest on Investment		210
	To Bad debts		500			
	To Interest on Overdraft		300			
	To Depreciation (1,600 x 10%)		160	By Net Loss		2,500
	Total		**4,210**	**Total**		**4,210**

3. Balance Sheet as on 31st December 2018

Liabilities	₹	₹	Assets	₹	₹
Capital: Balance	16,000		**Non Current Assets:** Furniture	1,600	
Less: Net Loss	(2,500)		**Less:** Depreciation	(160)	1,440
Less: Drawings	(2,000)	11,500	Investments		4,000
Bank Overdraft		2,000	**Current Assets:**		
Interest on Overdraft		300	Interest Accrued on Investments		210
Bills Payable		2,500	Stock in trade		4,500
Sundry Creditors		2,000	Bills Receivable		3,000
Salary O/s		100	Sundry Debtors	5,000	
Tax O/s		200	**Less:** Reserve for Bad Debts	(1,000)	4,000
Commission Received in Advance		100	Prepaid Insurance		50
			Cash in Hand		1,500
		18,700			**18,700**

Note: Reserve for Bad Debts is ₹ 1,000. Since it is to be kept at ₹1,000 – no entry for the said adjustment shall be done

6.6 Accounting Treatment – Goods used other than for Sale

	Situation	Journal Entry	Treatment in Financial Statements
1.	Goods withdrawn by Proprietor for personal use	Drawings A/c Dr. To Purchases A/c	Reduce from Capital in B/Sheet. Reduce from Purc. in Trading A/c.
2.	Goods given away as Charity / Donation	Donation / Charity A/c Dr. To Purchases A/c	Add to Donation / Charity A/c. Reduce from Purc. in Trading A/c.
3.	Goods distributed as Free Samples	Samples / Advertisement A/c Dr. To Purchases A/c	Add to Samples / Advt in P&L A/c. Reduce from Purc. in Trading A/c.
4.	Goods used for repairs and maintenance of business premises or machinery	Repairs & Maintenance A/c Dr. To Purchases A/c	Add to Repairs & Maint in P&L A/c. Reduce from Purc. in Trading A/c.
5.	Goods used in business, for construction of building or machinery	Building / Machinery A/c Dr. To Purchases A/c	Add to Asset Cost in B/Sheet. Reduce from Purc. in Trading A/c.

6.7 Accounting Treatment – Income–Tax

	Sole–Proprietary Firms	Partnership Firms
Nature of Expense	Income–Tax is considered as a **Personal Expense** of the Proprietor.	Income–Tax relating to the Firm is considered just like any other Expense.
Treatment	Income–Tax is debited to Capital A/c.	Income–Tax is debited to P&L A/c.
Journal Entry	(a) For payment of Income Tax during the year: Income–Tax A/c Dr. To Cash / Bank (b) For transfer to Capital A/c at year–end: Capital A/c Dr. To Income–Tax A/c	(a) For payment of Income Tax during the year: Firm Income–Tax A/c Dr. To Cash / Bank (b) For Provision for Tax at year–end: Profit and Loss A/c Dr. To Provision for Taxation

	Sole–Proprietary Firms	Partnership Firms
NP shown by P&L A/c	Net Profit shown by P&L A/c will be Profit **Before** Tax (PBT).	Net Profit shown by P & L A/c will be Profit **After** Tax (PAT).
Effect on Balance Sheet	Capital Account is reduced to the extent of Income–Tax paid.	• If Tax Amount paid > Provision for Taxation, the difference is shown as "Receivable", i.e. Current Asset. • If Provision for Taxation > Tax Amount paid, the difference is shown as "Payable", i.e. Current Liability.

Note: In case of Partnership Firms, if the Partners' Personal Income–Tax is paid out of the Firm's Resources, it should be treated as Drawings, and should be debited to their Capital Account individually.

6.8 Treatment of Items in Trial Balance

Note: The items appearing in Trial Balance have only one effect, i.e. either in Trading and Profit & Loss A/c **or** in the Balance Sheet. The treatment is given below.

Item as per Trial Balance		Place	Treatment
Sales	Cr.	Trading	Shown on Credit Side of Trading A/c.
Opening Stock, Purchases, Wages, and Direct Expenses.	Dr.	Trading	Shown on Debit Side of Trading A/c.
Various Expense Items	Dr.	P&L A/c	Shown on Debit Side of P & L A/c.
Indirect Incomes, i.e. Rent, Interest, Dividend, Gain on Sale of Assets, etc.	Cr.	P&L A/c	Shown on Credit Side of P & L A/c.
Closing Stock	Dr.	B/Sheet	Shown on Assets Side under "Current Assets".
Prepaid Expenses	Dr.	B/Sheet	Shown on Assets Side under "Current Assets".
Accrued Income / Income Receivable	Dr.	B/Sheet	Shown on Assets Side under "Current Assets".
Income received in Advance	Cr.	B/Sheet	Shown on Liab. Side under "Current Liabilities".
Outstanding Expenses	Cr.	B/Sheet	Shown on Liab. Side under "Current Liabilities".
Interest on Capital	Dr.	P&L A/c	Shown on Debit Side of P & L A/c.
Interest on Drawings	Cr.	P&L A/c	Shown on Credit Side of P & L A/c.
Drawings	Dr.	B/Sheet	Shown on Assets Side as reduction from Capital.
Fixed Assets	Dr.	B/Sheet	Shown on Assets Side.
Depreciation	Dr.	P&L A/c	Shown on Debit Side of P & L A/c.
Debtors, Bills Receivable, Short Term Loans and Advances Receivable.	Dr.	B/Sheet	Shown on Assets Side under "Current Assets".
Creditors, Bills Payable, Short Term Loans & Advances Payable, O/s Exps	Cr.	B/Sheet	Shown on Liab. Side under "Current Liabilities".

State with reasons, whether the following statements are True or False

Statements	T / F	Hint Answer / Reference
If Closing Stock appears in the Trial Balance: The Closing Inventory is then not entered in Trading Account. It is shown only in the Balance Sheet.	True	Refer Page 8.4, Para 2.3

TREATMENT FOR ADJUSTMENTS, GIVEN BELOW TRIAL BALANCE (i.e. AFTER PREPARATION OF TB)

	Adjustment	Journal Entry	Treatment in Trading & P&L A/c	Treatment in Balance Sheet
1.	Closing Stock	Closing Stock A/c Dr. To Trading A/c	Show in Credit Side of Trading A/c.	Show in Assets Side under "Current Assets".
2.	Depreciation	Depreciation A/c Dr. To Fixed Asset A/c	Show in Debit Side of P&L A/c.	Reduce from concerned Fixed Assets.
3.	Outstanding Expense or Accrued Expenses	Respective Expense A/c Dr. To Outstanding Expenses A/c	Add to Respective Expense Head on Debit Side of Trading / P & L A/c.	Show in Liability Side under "Current Liabilities".
4.	Prepaid Expenses	Prepaid Expenses A/c Dr. To Respective Expense A/c	Reduce from Respective Expense Head on Debit Side of Trading / P&L A/c.	Show in Assets Side under "Current Assets".
5.	Outstanding Income or Income Receivable	Accrued Income A/c Dr. To Respective Income A/c	Add to Respective Income Head on Credit Side of P & L A/c.	Show in Assets Side under "Current Assets".
6.	Income Recd in Advance / Unearned Income	Respective Income A/c Dr. To Income Recd in Advance	Reduce from Respective Income Head on Credit Side of P&L A/c.	Show in Liability Side under "Current Liabilities".
7.	Further Bad Debts given outside TB (no provision)	Bad Debts A/c Dr. To Sundry Debtors A/c	Add to Bad Debts on Debit Side of P&L A/c.	Reduce from Sundry Debtors on the Assets Side.
8.	Further Bad Debts given outside TB (Provision for Doubtful Debts given)	**(a) Writing off Further Bad Debts:** Bad Debts A/c Dr. To Sundry Debtors A/c **(b) Tfr of Bad Debts to Provision:** Provision for Doubtful Debts Dr. To Bad Debts A./c **(c) Creating Provision at yr–end:** Profit and Loss A/c Dr. To Provn for Doubtful Debts	Debit Bad Debts as per TB, and further Bad Debts given outside TB, to the Provision A/c. Create further provision by debiting P&L A./c, in order to maintain Closing Balance in Provision A/c at the desired amount.	Show Debtors as under – Debtors as per TB **Less:** Further Bad Debts given outside TB **Less:** Closing Balance of Provision for Bad & Doubtful Debts
9.	Sale of goods for purposes other than sale	Respective A/c Head Dr. To Purchases A/c	Reduce from Purchases in Trading A/c.	Adjust as given in **Q.No.28 above.**
10.	Stock of Stationery, Advertisement Matl, etc.	Stock of Stnry / AdvtMatls Dr. To Respective Expense A/c.	Reduce from Respective Expense Head on Debit Side of P&L A/c.	Show in Assets Side under "Current Assets".
11.	Interest on Capital	Interest on Capital A/c Dr. To Capital A/c	Show in Debit Side of P&L A/c.	Add to Capital A/c, on the Liabilities Side.
12.	Interest on Drawings	Capital A/c Dr. To Interest on Drawings	Show in Credit Side of P&L A/c.	Reduce from Capital A/c, on the Liabilities Side.

	Adjustment	Journal Entry	Treatment in Trading & P&L A/c	Treatment in Balance Sheet
13.	Goods sent on Approval, confirmation not received till year–end	**(a) For reversing the Sales:** Sales A/c (**SALE PRICE**) Dr. To Sundry Debtors A/c **(b) For including Stock–in–Hand:** Stock with Customers A/c Dr. To Trading A/c (**COST**)	• Reduce Sale Value of Goods from Sales A/c, in Trading A/c Cr. Side • Include Cost of such Goods on Credit Side of Trading A/c, as "Stock with Customers".	• Reduce Sale Value of goods from Sundry Debtors. • Show "Stock with Customers" as Current Assets.
14.	Abnormal Loss of Stock by accident, fire, etc.	**(a) For recognizing the Loss:** Abnormal Loss A/c Dr. To Trading A/c **(b) For treating Insurance Claim:** Insurance Claim Receivable Dr. Profit and Loss A/c Dr. To Abnormal Loss A/c	• Show **Value of Abnormal Loss** on Credit Side of Trading A/c. • Show **Net Value of Loss** (Value of Loss less amount of claim accepted by Insurance Company) on the Debit Side of P&L A/c.	Show the amount of claim accepted by Insurance Company, as a Receivable on the Assets Side, under Current Assets.
15.	Commission to Manager based on Net Profit	Manager's Commission Dr. To Commission Payable A/c	Show in Debit Side of P&L A/c. (See **Note** below)	Show in Liability Side under "Current Liabilities".

Note: Computation of Manager's Commission is as under –

(a) Commission on NP **before** charging such Commission: $\text{Profit before Commission} \times \dfrac{\text{Rate of Commission}}{100}$

(b) Commission on NP **after** charging such Commission: $\text{Profit before Commission} \times \dfrac{\text{Rate of Commission}}{(100 + \text{Rate of Commission})}$

Illustration 8: Financial Statements

From the following Trial Balance and additional information, prepare the Financial Statements of Krishna & Co, a Proprietary Firm, for the year ended 31st March.

Trial Balance as on 31st March (in ₹ 000s)	Dr.	Cr.
Capital of Krishna		1750
Opening Stock	940	
Machinery and Furniture	1200	
Investments in Government Bonds	500	
Drawings	250	
Purchases	4040	
Sales		6350
Wages	520	
Office Salaries	280	
Insurance	36	
Stationery	23	
Office Rent	300	
Advertisement & Marketing	30	
Sundry Debtors	2050	
Sundry Creditors		1670
Advances from Customers		420
Cash and Bank Balances	21	
Total	10190	10190

1. Physical Stock in Hand at the end of the year = ₹ 9,20,000
2. Sales include ₹ 50,000 on approval basis, for which confirmation is still awaited from customers. These goods were sold at 25% profit on cost.
3. Purchases made but goods in transit to the tune of ₹ 30,000. No entry has been passed for these purchases in the books.
4. Depreciation on Machinery and Furniture to be charged at 10%.
5. Provision for Bad and Doubtful Debts to be created at 2% on Debtors.
6. Wages accrued = ₹ 20,000. Prepaid Insurance = ₹ 6,000.
7. Interest Income on Investments, at 10% is accrued, and not considered in the books yet.
8. Manager is entitled to Commission at 10% of the Net Profits after charging such commission.
9. Stock of Stationery Items at the end of the year = ₹ 3,000.
10. Goods worth ₹ 60,000 have been distributed as free samples, for which no entry has been passed in the books.
11. Goods worth ₹ 1,00,000 have been withdrawn by Proprietor for his personal use.
12. There was a fire in godown during the year, and goods valued at ₹ 4,00,000 have been estimated as lost. However, the Insurance Claim issued a Claim Acceptance Letter for ₹ 2,50,000 only.

Solution: **Trading A/c of Krishna & Co. for the year ended 31st March (in ₹000s)**

Particulars	₹000s	₹000s	Particulars	₹000s	₹000s
To Opening Stock		940	By Sales	6350	
To Purchases as per TB	4040		**Less:** Goods sent on approval	50	6300
Add: Goods in Transit	30				
Less: Free Samples	(60)		By Abnormal Loss		400
Less: Withdrawn by Proprietor	(100)	3910			
To Wages	520		By Closing Stock	920	
Add: Accrued Wages	20	540	**Add:** Goods sent on approval (**WN 1**)	40	
To Gross Profit (bal. figure)		2300	**Add:** Goods in Transit	30	990
Total		**7690**	**Total**		**7690**

Profit & Loss A/c of Krishna & Co. for the year ended 31st March (in ₹000s)

Particulars	₹000s	₹000s	Particulars	₹000s	₹000s
To Office Salaries		280	By Gross Profit b/d		2300
To Insurance	36		By Interest on Investments		50
Less: Prepaid at end	(6)	30	(Accrued Income)		
To Stationery	23				
Less: Stock of Stationery	(3)	20			
To Office Rent		300			
To Advertisement & Marketing		30			
To Samples		60			
To Abnormal Loss (400 – 250)		150			
To Depreciation		120			
To Provision for Bad Debts		40			
To Manager's Commn (**WN 2**)		120			
To Net Profit (bal. fig)		**1200**			
Total		**2350**	**Total**		**2350**

Balance Sheet as at 31st March

Liabilities	₹000s	₹000s	Assets	₹000s	₹000s
Capital	1750		**Fixed Assets:**		
Add: Net Profit	1200		Machinery & Furniture	1200	
Less: Drawings (given)	(250)		**Less:** Depreciation at 10%	120	1080
Less: Goods withdrawn	(100)	2600			
			Investments		500
Current Liabilities			**Current Assets**		
Sundry Creditors (1670 + 30)		1700	Stock in Trade		990
Advances from Customers		420	Stock of Stationery Items		3
Wages Payable		20	Accrued Income on Investments		50
Manager's Commission Payable		120	Insurance Claim Receivable		250
			Prepaid Insurance		6
			Sundry Debtors	2050	
			Less: Goods on approval	(50)	
				2000	
			Less: Provision for Bad Debts 2%	(40)	1960
			Cash and Bank Balances		21
Total		**4860**	**Total**		**4860**

Notes:

1. On goods sent on approval, Profit = 25% on Cost, i.e. 1/4th on Cost = 1/5th on Sale Price. Cost of Goods sent on Approval = ₹50,000 less 1/5th thereon = ₹40,000.
2. Net Profit before considering Manager's Commission = ₹13,20,000. Hence, Manager's Commission = NP × 10/110 = ₹1,20,000.

Illustration 9: Computation of Revised Figures

Hari Co gives the following Manufacturing A/c and related Notes. You are required to prepare the Revised Manufacturing A/c.

Particulars		₹000s	Particulars	₹000s
To Materials Consumed:			**By Net Factory Cost of production, transferred to Trading A/c (bal. fig)**	**6,400**
	Opening Stock of Raw Materials	**900**		
Add:	**Purchases of Raw Materials**	**3,400**	**By NRV / Sale Value of By–Products**	**100**
	Sub–Total	**4,300**		
Less:	**Closing Stock of Raw Materials**	**(300)**		
	Net balance = Materials Consumed	**4,000**		

Particulars	₹000s	Particulars	₹000s
To Direct Manufacturing Wages	800		
To Direct Expenses, if any	300		
Sub–Total Prime Cost	5,100		
To Production Overheads	9006,000		
Sub–Total Gross Factory Cost	750		
Add: Opening Stock of WIP	(250)		
Less: Closing Stock of WIP			
Total	**6,500**	**Total**	**6,500**

Notes:

- **Purchase of Machinery ₹3,00,000 had been wrongly included in Raw Material Purchase A/c. Machinery is depreciated at 10% by the Firm.**
- **Wages include ₹1,00,000 paid to Labour at Office, which has no connection with Production Activity.**
- **Direct Expenses and Production Overheads include the following items –**

Direct Expenses	₹000s
Hire Charges for Machinery	30
Delivery Charges to Customers	20
Royalty on Production	180
Technical Support Fees (Production)	70
Total	**300**

Production OH	₹000s
Electricity Charges (of which 25% relates to Office)	400
Depreciation on Machinery	160
Lubricants, Consumables and Machinery Maintenance	200
Indirect Labour and Other Production Overheads	140
Total	**900**

Solution: **Working Notes for treatment of various items**

- Purchase of Machinery will be reduced from the Value of Raw Materials Purchase. 10% Depreciation thereon will be added back to the amount of Depreciation on Machinery, i.e. 10% on 3,00,000 = 30,000.
- Wages paid to Labour at Office will be reduced from Direct Manufacturing Labour, and will be added back to Indirect Labour / Salaries debited to Profit and Loss Account.
- Delivery Charges to Customers is an item of "Selling and Distribution OH". It will be reduced from Direct Expenses, and will be debited as an Expense in Profit and Loss Account.
- Electricity Charges relating to Office, i.e. 25% on 4,00,000 = 1,00,000 will be reduced from Production Overheads debited to Manufacturing Account. This amount will be debited as an Expense in Profit and Loss Account.
- Revised Amount of Production Overheads is as under –

  Elec.Charges (400 – 100) = 300 + Depreciation on Machinery (160+30) = 190 + Lubricants 200 + Others 140 = **830.**

Dr. **Manufacturing Account for the year ended .... (Revised)** **Cr.**

Particulars		₹000s	Particulars	₹000s
To Materials Consumed:			By Net Factory Cost of production,	
Opening Stock of Raw Materials		900	Transferred to Trading A/c (b/f)	**5,910**
(+) Purchases of Raw Materials		3,400 – 300 = 3,100	By NRV / Sale Value of By–Products	100
Sub–Total		4,000		
(–) Closing Stock of Raw Materials		(300)		
	Materials Consumed	3,700		
To Direct Manufacturing Labour		800 – 100 = 700		
To Direct Expenses		300 – 20 = 280		
	Prime Cost	4,680		
To Production Overheads		830		
	Gross Factory Cost	5,510		
(+) Opening Stock of WIP		750		
		6,260		
(–) Closing Stock of WIP		(250)		
Total		**6,010**	**Total**	**6,010**

Illustration 10: Financial Statements

The following Trial Balance is the Trial Balance of a Proprietor as on 31st March. Prepare Trading and Profit and Loss Account for the year ending 31st March and a Balance Sheet as at that date.

Particulars	Dr (₹)	Cr (₹)
Capital		4,00,000
Sundry Creditors		5,20,000
Plant	5,00,000	
Office Furniture	26,000	
Opening Stock	4,80,000	
Motor Van	1,20,000	
Sundry Debtors	4,57,000	
Cash in Hand	4,000	
Cash at Bank	65,000	
Wages	15,00,000	
Salaries	1,40,000	
Purchases	21,35,000	
Sales		48,00,000
Bills Payable		56,000
Bills Receivable	72,000	
Return Inwards	93,000	
Provision for Doubtful Debts		25,000
Drawings	70,000	
Returns Outwards		55,000
Advertisement	60,000	
Factory Rent	8,000	
Insurance	63,000	
General Expenses	10,000	
Bad Debts	25,000	
Discount	65,000	37,000
Total	**58,93,000**	**58,93,000**

Additional Information to be considered –

- **Closing Stock on 31 March is ₹ 5,20,000**
- **During the year, Plant and Machinery was purchased for ₹3,00,000 but it was debited to Purchases Account.**
- **3 months Factory Rent is due, but not paid ₹3,000.**
- **Provide Depreciation at 5% p.a. on Furniture, and 10% on Machinery and Motor Van.**
- **Further Bad Debts ₹7,000**
- **Provision for Doubtful Debts to be increased to ₹30,000 at year–end.**
- **Provision for Discount on Debtors to be made at 2%.**

Solution:

1.Trading A/c of .... for the year ended 31st March

Particulars		₹	Particulars		₹
To Opening Stock		4,80,000	By Sales	48,00,000	
To Purchases	21,35,000		(–) Sales Returns	(93,000)	47,07,000
(–) Plant & M/c Purchase	(3,00,000)		By Closing Stock		5,20,000
Materials Purchase	18,35,000				
(–) Purchase Returns	(55,000)	17,80,000			
To Wages		15,00,000			
To Factory Rent	8,000				
Add: Rent Outstanding	3,000	11,000			
To Gross Profit c/d		**14,56,000**			
Total		**52,27,000**	**Total**		**52,27,000**

2.Profit and Loss A/c of .... for the year ended 31st March

Particulars		₹	Particulars	₹
To Salaries		1,40,000	By Gross Profit b/d	14,56,000
To Advertisement		60,000	By Discount Received	37,000
To Insurance		63,000		
To General Expenses		10,000		
To Discount Allowed		65,000		
To Provision for Doubtful Debts	**(WN 1)**	37,000		
To Provision for Disc. on Debtors		8,400		
To Depreciation on Assets	**(WN 2)**	93,300		
To Net Profit tfrd to Capital A/c		**10,16,300**		
Total		**14,93,000**	**Total**	**14,93,000**

3.Balance Sheet of ....as on 31st March

Liabilities		₹	Assets		₹
Capital: Balance as per TB	4,00,000		**Fixed Assets:**Net Block	**(WN 2)**	8,52,700
Add: Profit for the year	10,16,300		**Current Assets:**Inventories		5,20,000
Less: Drawings as per TB	(70,000)	13,46,300	Trade Receivables (Debtors)	4,57,000	
			Less: Further Bad Debts	(7,000)	
Current Liabilities:			Net Balance	4,50,000	
Sundry Creditors	5,20,000		Less: Provn for Doubtful Debts	(30,000)	
Bills Payable	56,000			4,20,000	
Factory Rent Payable	3,000	5,79,000	Less: Provn for Disc on Drs 2%	(8,400)	4,11,600
			Bills Receivable		72,000
			Cash at Bank		65,000
			Cash in Hand		4,000
Total		**19,25,300**	**Total**		**19,25,300**

WN 1: Provision for Bad and Doubtful Debts A/c

Particulars	₹	Particulars	₹
To Bad Debts (as per TB) – i.e. written off	25,000	By balance b/d (as per TB) – i.e. given	25,000
To Sundry Debtors A/c – i.e. further Bad Debts	7,000	By Profit and Loss A/c	**37,000**
To balance c/d – i.e. Provn required at year end	30,000	– Provision / Expense transferred (**bal.fig**)	
Total	**62,000**	**Total**	**62,000**

WN 2: Depreciation on Assets

Particulars		Furniture	Machinery	Motor Vans	Total
	Cost of Asset	TB: 26,000	5,00,000 + 3,00,000 = 8,00,000	TB: 1,20,000	9,46,000
Less:	Depreciation	5% = 1,300	10% = 80,000	10% = 12,000	93,300
	Net Block	**24,700**	**7,20,000**	**1,08,000**	**8,52,700**

Illustration 11: Financial Statements

From the following Trial Balance and additional information of Mr. Hrishikesh, a Proprietor,prepare Trading Account, Profit and Loss Account for the year ended 31stMarch, and a Balance Sheet as at that date.

Particulars	Dr (₹)	Cr (₹)
Bad Debts	**23,000**	
Rent	**1,10,000**	**65,000**
Wages	**2,09,000**	
Building	**6,00,000**	
Machinery	**1,60,000**	
Salaries	**4,16,000**	
Debtors (includes Shyam's dishonoured Bills Receivable of ₹8,000)	**3,37,000**	

Particulars	Dr (₹)	Cr (₹)
Discount Allowed/ Received	**10,000**	**10,000**
Purchases/Sales	**6,74,000**	**10,07,000**
Capital		**13,83,000**
Printing and Stationery	**1,46,000**	
Commission Received		**30,000**
Creditors		**1,90,000**
Total	**26,85,000**	**26,85,000**

Additional Information:

1. **Wages include the following amounts – (a) ₹40,000 spent on additions to Building during the year. (b)₹20,000 for erection of New Machine during the year.**
2. **Provide 10% Depreciation on Machine and Building.**
3. **Discount of ₹10,000 was initially allowed to a Customer and was then reversed since he had not satisfied the conditions relating to the Discount Allowance. The reversal of Discount was posted to the credit of Discount Received A/c.**
4. **Remuneration of ₹20,000 paid to an Employee stands posted to his Personal Account.**
5. **Creditors include ₹55,000 received from Mr. K and credited to his account. The amount written off as Bad Debt last year.**
6. **Goods costing ₹5,000 were taken by the Proprietor for personal use.**
7. **Goods costing ₹6,000 were sent to a Customer on Sale or Return basis for ₹7,000 on 30th March.**
8. **Loss of Stock due to fire on 25th March in the godownwas₹10,000. Insurance Company admitted the claim at 60%.**
9. **Half of the amount of Shyam's dishonoured Bills Receivable is irrecoverable.**
10. **Create a Provision of 5% on other Debtors.**
11. **50% of Printing and Stationery is to be carried forward for next year.**
12. **One third of the Commission Received is in respect of work to be done next year.**
13. **Rent has been paid for 11 months but has been received for 13 months.**
14. **Included amongst Debtors as ₹30,000 due from Om and included among Creditors ₹10,000 due to him.**
15. **Stock in Hand is ₹4,88,880.**
16. **Manager is given Commission of 20% after charging his Commission.**

Solution:

1.Trading A/c of .... for the year ended 31st March

Particulars		₹	Particulars		₹
To Purchases	6,74,000		By Sales	10,07,000	
(–) Goods for Personal Use	(5,000)	6,69,000	(–) Goods sent on approval	(7,000)	10,00,000
To Wages	2,09,000		By Abnormal Loss (Fire)		10,000
(–) Capitalised in Building	(40,000)		By Closing Stock: in Hand	4,88,880	
(–) Capitalised in Machinery	(20,000)	1,49,000	Add: Stock with Customer on		
			Approval basis	6,000	4,94,880
To Gross Profit c/d		**6,86,880**			
Total		**15,04,880**	**Total**		**15,04,880**

2.Profit and Loss A/c of .... for the year ended 31st March

Particulars		₹	Particulars		₹
To Salaries	4,16,000		By Gross Profit b/d		6,86,880
Add: Wrong Debit to Personal A/c	20,000	4,36,000	By Bad Debts Recovered		55,000
To Printing & Stationery	1,46,000		By Commission Received	30,000	
Less: Prepaid 50%	73,000	73,000	Less: 1/3rd for future period	(10,000)	20,000
To Rent Expense: Paid	1,10,000		By Rent Income Received	65,000	
Add: Payable 1 month (1/11)	10,000	1,20,000	Less: 1/13th = Advance Rent	(5,000)	60,000
To Abnormal Loss of Stock by Fire		4,000			
To Bad Debts (given)	23,000				
Add: Shyam – Further Bad Debts	4,000	27,000			
To Provision for Doubtful Debts	**(WN 1)**	14,600			
To Depreciation	**(WN 2)**	82,000			
To Net Profit before Commission		**65,280**			
Total		**8,21,880**	**Total**		**8,21,880**

Particulars	₹	Particulars	₹
To Managers' Commission 20/120 of 65,280 To Net Profit transferred to Capital A/c	10,880 **54,400**	By Net Profit before Commission b/d	65,280
Total	**65,280**	**Total**	**65,280**

3.Balance Sheet of ....as on 31st March

Liabilities		₹	Assets		₹
Capital: Balance as per TB	13,83,000		**Fixed Assets:**Net Block	**(WN 2)**	7,38,000
Add: Profit for the year	54,400				
Less: Drawing of Goods	(5,000)	14,32,400	**Current Assets:**		
			Inventories (from Trading A/c)		4,94,880
Current Liabilities:			Trade Receivables (Debtors)	**(WN 1)**	2,81,400
Sundry Creditors **(WN 3)**	1,25,000		Prepaid Expenses: Prtg & Stnry		73,000
Rent Expense Payable	10,000		Insurance Claim Receivable		6,000
Commission Payable	10,880				
Advance Income Received:					
Commission	10,000				
Rent	5,000	1,60,880			
Total		**15,93,280**	**Total**		**15,93,280**

General Notes

- Discount Allowed and Received₹10,000 are not two separate transactions with Debtors and Creditors. It represents reversal of entry but in wrong account. Hence, it should not be considered as Income or Expense.
- Om's balance of ₹30,000 lying in both Debtors and Creditors can be subtracted from the respective Debtors and Creditors balance, on account of Mutual Transactions / Owings.
- Recovery of Bad Debts constitutes a separate Income Item and is credited to the Profit and Loss Account.
- Cost of Goods sent on Sale on Approval Basis is included in Inventory, whereas the Sale Value thereof is excluded from Sales during the period.

WN 1: Computation of Debtors and Bad Debts Provision

	Particulars	₹
	Debtors as per Trial Balance	3,37,000
Less:	Debtors for Goods sent on Approval included in Sales, now reversed	7,000
Less:	Employee's Salary wrongly included in Personal A/c (included in Debtors) now reversed	20,000
Less:	Bad Debts towards 50% of Shyam's Bills Receivable Dishonoured	4,000
Less:	Om's Balance in Debtors and Creditors A/c, now set–off	10,000
	Net Debtors Balance	**2,96,000**
Less:	Provision for Doubtful Debts at 5% on "**Other**" Debtors = 2,96,000 – 4,000 Shyam recoverable	14,600
	Net Debtors as per Balance Sheet	**2,81,400**

WN 2: Depreciation on Assets

	Particulars	Building	Machinery	Total
	Cost of Asset (TB + Wages)	6,00,000 + 40,000 = 6,40,000	1,60,000 + 20,000 = 1,80,000	8,20,000
Less:	Depreciation	10% = 64,000	10% = 18,000	82,000
	Net Block	**5,76,000**	**1,62,000**	**7,38,000**

WN 3: Sundry Creditors: Given 1,90,000 less Bad Debts Recovered 55,000 less Mutual Owings Om 10,000 = **1,25,000**

Illustration 12: Preparation of Fin.Statements – Medical Professional – Cash Basis Income Recognition N 02

A doctor, after retiring from Govt. Service, started private practice on 1st April, with ₹20,000 of his own and ₹30,000 borrowed at an interest of 15% per annum on the security of his Life Policies. His accounts for the year were kept on a cash basis and the following is his summarized Cash Account:

Receipts	₹	Payments	₹
Own Capital	20,000	Medicines purchased	24,500
Loan	30,000	Surgical Equipments	25,000
Prescription Fees	52,500	Motor Car	32,000
Gift from Patients	13,500	Motor Car Expenses	12,000
Visiting Fees	25,000	Wages and Salaries	10,500
Fee from Lectures	2,400	Rent of Clinic	6,000
Pension Received	30,000	General Charges	4,900
		Household Expenses	18,000
		Household Furniture	2,500
		Expenses on Daughter's Marriage	21,500
		Interest on Loan	4,500
		Balance at Bank	11,000
		Cash in Hand	1,000
Total	1,73,400	Total	1,73,400

Prepare his Capital A/c and Income and Expenditure A/cfor the year ended 31stMarch and Balance Sheet on that date. One–third of the Motor–Car Expenses may be treated as applicable to the private use of car and₹3,000 of the Wages and Salaries are in respect of Domestic Servants.

The Stock of Machines in hand on 31stMarch was valued at ₹9,500.

Solution: **A. Income and Expenditure Account for the year ended 31st March**

Particulars		₹	Particulars	₹
To Medicines Consumed:			By Prescription Fees	52,500
Purchases	24,500		By Gift from Patients (= Income in kind)	13,500
Less: Closing Stock	(9,500)	15,000	By Visiting Fees	25,000
To Motor Car Expenses	(12,000 – Personal 4,000)	8,000	By Fee from Lectures	2,400
To Wages and Salaries	(₹10,500 – ₹3,000)	7,500		
To Rent for Clinic		6,000		
To General Charges		4,900		
To Interest on Loan		4,500		
To Net Income	**(balancing figure)**	**47,500**		
Total		**93,400**	**Total**	**93,400**

B. Balance Sheet as on 31st March

Capital and Liabilities	₹	Properties and Assets	₹
Capital	48,500	**Non–Current Assets:** Motor Car	32,000
Non–Current Liabilities: Loan	30,000	Surgical Equipments	25,000
		Current Assets: Stock of Medicines	9,500
		Cash at Bank	11,000
		Cash in Hand	1,000
Total	**78,500**	**Total**	**78,500**

C. Capital Account for the year ended 31st March

Particulars		₹	Particulars	₹
To Drawings:			By Cash / Bank	20,000
– Motor Car Expenses (1/3rd of ₹12,000)		4,000	By Cash / Bank (Pension)	30,000
– Household Expenses		18,000	By Net Income from Practice	47,500
– Daughter's Marriage Expenses		21,500	(from Income and Expenditure A/c)	
– Wages of Domestic Servants		3,000		
– Household Furniture		2,500		
To balance c/d	**(balancing figure)**	**48,500**		
Total		**97,500**	**Total**	**97,500**

Illustration 13: Preparation of Financial Statements

From the following particulars extracted from the books of Ganguli, prepare Trading and Profit & Loss A/c and Balance Sheet as at 31st March after making the necessary adjustments–

Particulars	₹000s	Particulars	₹000s
Ganguli's Capital Account (Cr.)	54,050	Interest Received	725
Opening Stock	23,400	Balance at Bank (Dr.)	4,000
Sales	1,44,800	Discounts received	1,495
Sales Return	4,300	Investments (at 5%)	2,500
Purchases	1,21,550	Furniture	900
Purchases Return	2,900	Discounts Allowed	3,770
Carriage Inwards	9,300	General Expenses	1,960
Rent	2,850	Audit Fees	350
Salaries	4,650	Fire Insurance Premium	300
Sundry Debtors	12,000	Travelling Expenses	1,165
Sundry Creditors	7,400	Postage and Telegrams	435
Loan from K (at 12%)	10,000	Cash in Hand	190
Interest paid	450	Deposits at 10% (Dr.)	15,000
Printing and Stationery	1,700	Drawings	5,000
Advertisement	5,600		

Adjustments: (₹in 000s)

(a) **ValueofStockason31stMarchis₹39,300.ThisincludesgoodsreturnedbyCustomerson31stMarchtothevalueof₹1,500 for which no entry has been passed in the books.**

(b) **Purchases include Furniture purchased on 1stJanuary for ₹1,000.**

(c) **Depreciation should be provided on Furniture at 10% perannum.**

(d) **The Loan Account from K in the books of Ganguli appears asfollows:**

Year	Particulars	₹	Year	Particulars	₹
End	To balance c/d	10,000	Beginning	By balance b/d	5,000
			End	By Bank	5,000
		10,000			10,000

(e) **Sundry Debtors include ₹2,000 due from Robert and Sundry Creditors include ₹1,000 due tohim.**

(f) **Interest paid include ₹300 paid toK.**

(g) **Interest received represents ₹100 from the Sundry Debtors and the balance on Investments andDeposits.**

(h) **Provide for Interest payable to K and for Interest Receivable on Investments andDeposits.**

(i) **Make Provision for Doubtful Debts at 5% on the balance under Debtors. No such provision need to be made for Deposits.**

Solution:

1. Trading A/c of Ganguli for the year ended 31st March

Particulars	₹000s	₹000s	Particulars	₹000s	₹000s
To Opening Stock		23,400	By Sales	1,44,800	
To Purchases	1,21,550		**Less:** Returns (4,300 + 1,500)	(5,800)	1,39,000
Less: Transfer to Furniture A/c	(1,000)		By Closing Stock		39,300
Less: Returns	(2,900)	1,17,650			
To Carriage Inwards		9,300			
To Gross Profit c/d		27,950			
Total		**1,78,300**	**Total**		**1,78,300**

2. Profit & Loss Account for the year ended 31st March

Particulars	₹000s	Particulars	₹000s
To Salaries	4,650	By Gross Profit b/d	27,950
To Rent	2,850	By Interest (725 + Accrued 1,000 **WN 2**)	1,725
To Advertisement	5,600	By Discount Received	1,495
To Printing & Stationery	1,700		
To Interest (450 + Accrued 300 **WN 2**)	750		
To Discount allowed	3,770		
To General Expenses	1,960		
To Travelling Expenses	1,165		
To Fire Insurance Premium	300		
To Postage & Telegrams	435		
To Provision for Doubtful Debts **(WN 1)**	475		
To Depreciation on Furniture **(WN 3)**	115		
To Audit Fees	350		
To Capital A/c (Net Profit transferred)	7,050		
Total	**31,170**	**Total**	**31,170**

3. Balance Sheet as on 31st March

Liabilities	₹000s	₹000s	Assets	₹000s	₹000s
Capital: Balance	54,050		**Non Current Assets:** Furniture	900	
Add: Net Profit	7,050		**Add:** Additions during the year	1,000	
Less: Drawings	(5,000)	56,100	**Less:** Depreciation **(WN 3)**	(115)	1,785
Loan from K		10,000	**Investments**		2,500
Interest accrued on K's Loan **WN 1**		300	**Deposits**		15,000
Sundry Creditors (7,400 – 1,000)		6,400	**Current Assets:**		
			Interest Accrued **WN 2**		1,000
			Stock in trade		39,300
			Sundry Debtors	9,500	
			Less: Provision **(WN1)**	(475)	9,025
			Cash at Bank		4,000
			Cash in Hand		190
		72,800			**72,800**

WorkingNotes:

1. Calculations of Provision for DoubtfulDebts

	Particulars	₹000s
	Sundry Debtors as per Trial Balance	12,000
Less:	Sales Returns notrecorded	1,500
Less:	Set off of Robert A/c against SundryCreditors	1,000
	Adjusted balance of Sundry Debtors	**9,500**
	Provision for Doubtful Debts @ 5%	**475**

2. Computation of Interest Accrued (₹000s)

	Interest accrued on –	Loan from K @ 12%	Investments @ 5% & Deposits @ 10%
	Annual Interest	**[Note]** 5000 × 12% = 600	(2,500 × 5%) + (15,000 × 10%) = 1,625
Less:	Actual Interest as per Trial Bal.	Given = 300	725 – 100 = (625)
	Accrued Interest	**300**	**1,000**

Note: Since Additional Loan of ₹5,000 is taken only at Year End, Interest will not be charged on such amount.

3. Depreciation = (900 × 10%) + (1,000 × 10% × 3/12) = 90 + 25 = 115.

Illustration 14: Preparation of Financial Statements

From the following balances and information, prepare Trading and Profit & Loss Account of Mr. X for the year ended 31st March and a Balance Sheet as on that date – **(₹)**

Particulars	Dr.	Particulars	Cr.
Plant and Machinery	3,600	X's Capital Account	10,000
Depreciation on Plant and Machinery	400	Purchases Return	300
Repairs to Plant	520	Sales	49,800
Wages	5,400	Bank Overdraft	760
Salaries	2,100	Salaries Outstanding	400
Income Tax of Mr. X	100	Provision for Bad Debts	1,000
Cash in Hand and Bank	400	Bills Payable	1,600
Land and Building	14,900	Discount on Purchases	708
Depreciation on Building	500	Creditors	6,252
Purchases	25,000		
Accrued Income	300		
Bills Receivable	3,000		
Bad Debts	200		
Debtors	7,000		–
Opening Stock	7,400		
Total	**70,820**	**Total**	**70,820**

Other Information:

(i) **Stock on 31st March was ₹6,000.**

(ii) **Write off further ₹600 for Bad Debts and maintain a Provision for Bad Debts at 5% onDebtors.**

(iii) **Goodscosting₹1,000weresenttoCustomerfor₹1,200onMarchonsaleorreturnbasis.Thiswasrecordedasactualsales.**

(iv) **₹240 paid as Rent of the Office were debited to Landlord Account and were included in the list ofDebtors.**

(v) **General Manager is to be given Commission at 10% of Net Profit after charging the Commission of the Works Manager and his own. Works Manager is to be given Commission at 12% of Net Profit before charging the Commission of General Manager and hisown.**

Solution:

1. Trading Account of Mr. X for the year ended 31st March

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		7,400	By Sales	49,800	
To Purchases	25,000		**Less:** Sale on Approval Basis (Selling Price)	(1,200)	48,600
Less: Returns	(300)	24,700			
To Wages		5,400	By Closing Stock	6,000	
To Gross Profit c/d		**18,100**	**Add:** Stock with Customer (Cost)	1,000	7,000
Total		**55,600**	**Total**		**55,600**

2. Profit and Loss Account of Mr. X for the year ended 31st March

Particulars	₹	₹	Particulars	₹	₹
To Repairs to Plant		520	By Gross Profit b/d		18,100
To Salaries		2,100	By Discount on Purchases		708
To Rent		240	By Provision for Bad Debts **(WN 2)** (1,000 – 248)		752
To Bad Debts (200 + 600)		800			
To Depreciation on –					
Plant & Machinery	400				
Building	500	900			
To Commission to –					
Works Manager **(WN 2)**	1,800				
General Manager **(WN 2)**	1,200	3,000			
To Net Profit (Trf. to Capital A/c)		12,000			
Total		**19,560**	**Total**		**19,560**

3. Balance Sheet of Mr. X as at 31st March

Liabilities	₹	₹	Assets	₹	₹
Capital Account	10,000		Land and Building		14,900
Less: Income Tax	(100)		Plant and Machinery		3,600
Add: Net Profit	12,000	21,900	Stock in Hand	6,000	
Bank Overdraft		760	**Add:** Stock with Customer	1,000	7,000
Bills Payable		1,600	Debtors **(WN 1)**	4,960	
Sundry Creditors		6,252	**Less:** Provision for Bad Debts	248	4,712
Salaries Outstanding		400	Bills Payable		3,000
Commission Payable to Manager		3,000	Accrued Income		300
			Cash in hand and at Bank		400
Total		**33,912**	**Total**		**33,912**

Working Notes:

1. **Computation of Debtors & Provisionthereon:**

	Particulars	₹
	Debtors as per Trial Balance	7,000
Less:	Debtors on account of goods sold on approvalbasis	(1,200)
	Landlord Account wrongly taken as Debtors	(240)
	Bad Debts written off	(600)
	Actual Debtors	**4,960**
	Provision for Bad Debts required (Closing Balance) = 5% on Debtors ₹4,960	248

2. **Computation ofCommission:**

(a) Profit before deducting Commission = 19,560 – (520 +2,100 + 240 + 800 + 900) = ₹15,000

(b) Calculation of Commission of Works Manager = ₹15,000 × 12% = ₹1,800

(c) Calculation of Commission of General Manager = $(15,000 – 1,800) \times \frac{10}{110}$ = ₹1,200

Illustration 15: Preparation of Financial Statements

From the following particulars prepare Trading and Profit & Loss Account and a Balance Sheet of Mr. R–

	Dr. (₹)	Cr. (₹)
Building	5,00,000	–
Machineries	2,00,000	–
Furniture	1,00,000	–
Cash at Bank	90,000	–
Cash in Hand	10,000	–
18% p.a. Loan obtained by Mr. R (taken on 1st June)	–	3,00,000
R's Capital	–	5,20,000
Sundry Debtors / Sundry Creditors	5,00,000	4,00,000
Opening Stock	1,20,000	–
Purchases / Sales	25,00,000	32,20,000
Sales Return / Purchases Return	1,20,000	1,00,000
Rent	60,000	–
Establishment Expenses	1,80,000	–
Electricity Charges	15,000	–
Telephone Charges	10,000	–
Commission on Sales	30,000	–
Insurance Premium	10,000	–
Bad Debts	20,000	–
Bills Receivable	75,000	–
Total	45,40,000	45,40,000

You are required to provide for Depreciation on Buildings at 5% p.a. on Machineries at 25% p.a. on Furniture at 10% p.a. Provision for Bad Debts is to be made at 5% on Sundry Debtors. Mr. R's Manager is entitled to a Commission of 10% on the Net Profit after charging his Commission. Closing Stock was not taken on 31st March but only on 7th April. Following transactions had taken place during the period from 1st April to 7th April. Sales ₹2,50,000, Purchases ₹1,50,000, Stock on 7th April was ₹1,80,000 and the Rate of Gross Profit on Sales was 20%. Insurance Premium mentioned in the Trial Balance was in respect of Building and Machineries. Interest on Mortgage Loan to be provided up to 31st March.

Solution: **Trading and Profit and Loss Account of Mr. R for the year ended 31st March**

Particulars	₹	₹	Particulars	₹	₹
To Opening		1,20,000	By Sales	32,20,000	
Stock To	25,00,000		**Less:** Returns	1,20,000	31,00,000
Purchases	1,00,000	24,00,000	By		2,30,000
Less:		8,10,000	ClosingStock(**WN1)**		
Returns					
To Gross Profit c/d					
Total		**33,30,000**	**Total**		**33,30,000**
To Rent		60,000	By Gross Profit b/d		8,10,000
To Establishment Expenses		1,80,000			
To Electricity Charges		15,000			
To Telephone Charges		10,000			
To Commission on Sales		30,000			
To Insurance Premium		10,000			
To Bad Debts		20,000			
To Provision for Bad Debts (5,00,000 × 5%)		25,000			
To Interest on Loan ($\frac{18}{100}$ x 3,00,000 x $\frac{10}{12}$)		45,000			
To Depreciation on –					
Building (5,00,000 × 5%)	25,000				
Machineries (2,00,000 × 20%)	50,000				
Furniture (1,00,000 × 10%)	10,000	85,000			
To Manager's Commission **(WN 3)**		30,000			
To Net Profit transferred to Capital A/c		3,00,000			
Total		**8,10,000**	**Total**		**8,10,000**

Balance Sheet of Mr. R as at 31st March

Liabilities	₹	₹	Assets	₹	₹
Capital: Opening Balance	5,20,000		**Non Current Assets**		
Add: Net Profit	3,00,000	8,20,000	Building	5,00,000	
Non Current Liabilities			**Less:** Depreciation	25,000	4,75,000
18% Mortgage Loan		3,00,000	Machineries	2,00,000	
Current Liabilities			**Less:** Depreciation	50,000	1,50,000
Interest accrued on Loan		45,000	Furniture	1,00,000	
Sundry Creditors		4,00,000	**Less:**Depreciation	1,000	
Commission due to Manager		30,000	**CurrentAssets**		90,000
			Closing Stock		
			Sundry Debtors	5,00,000	2,30,000
			Less: Provision for BadDebts BillsReceivable	25,000	4,75,000
			Cash at Bank		75,000
			Cash on Hand		90,000
					10,000
Total		**15,95,000**	**Total**		**15,95,000**

WorkingNotes: **1. Memorandum Trading A/c for the period from 1st April to 7th April**

Particulars	₹	Particulars	₹
To Opening Stock **(Bal. fig.)**	**2,30,000**	By Sales	2,50,000
To Purchases	1,50,000	By Closing Stock	1,80,000
To Gross Profit c/d (2,50,000 × 20%)	50,000		
Total	**4,30,000**	**Total**	**4,30,000**

2. Manager'sCommission:(a)ProfitbeforechargingCommission=3,30,000(b)Commission=₹ 3,30,000 × $\frac{10}{110}$ = ₹ 30,000

Illustration 16: Preparation of Financial Statements

The following is the Trail Balance of Hari as at 31st March:

Particulars	Dr. (₹)	Particulars	Cr. (₹)
Opening Stock	**46,800**	**Hari's Capital Account**	**76,690**
Returns Inward	**8,600**	**Sales**	**3,89,600**
Purchases	**3,21,700**	**Sundry Creditors**	**14,800**
Carriage Inwards	**19,600**	**Bank Loan @ 14% p.a.**	**20,000**
Rent & Taxes	**4,700**	**Discount Earned**	**4,440**
Salaries & Wages	**9,300**	**Return Outward**	**5,800**
Sundry Debtors	**24,000**		–
Bank Interest	**1,100**		–
Printing and Stationery Expenses	**14,400**		–
Bank Balance	**8,000**		–
Furniture & Fittings	**5,000**		–
Discount Allowed	**1,800**		–
General Expenses	**11,450**		–
Insurance	**1,300**		–
Postage & Telegram Expenses	**2,330**		–
Cash Balance	**380**		–
Travelling Expenses	**870**		–
Drawings	**30,000**		–
Total	**5,11,330**	**Total**	**5,11,330**

The following adjustments are to be made:

(a) Included amongst the Debtors is ₹3,000 due from Ram and included among the Creditors ₹1,000 due tohim.

(b) Provision for Bad and Doubtful Debts to be created at 5% and for Discount @ 2% on SundryDebtors.

(c) Depreciation on Furniture & Fittings @ 10% shall be writtenoff.

(d) Personal Purchases of Hari amounting to ₹600 had been recorded in the Purchases DayBook.

(e) Interest on Bank Loan shall be provided for the wholeyear.

(f) A quarter of the amount of Printing and Stationery Expenses is to be carried forward to the nextyear.

(g) Credit Purchase Invoice amounting to ₹400 had been omitted from thebooks.

(h) Stock on 31stMarch was ₹78,600.

Prepare Trading & Profit and Loss A/c for the year ended 31stMarch, and Balance Sheet as on 31stMarch.

Solution: **1. Trading and Profit and Loss A/c of Mr. Hari for the year ended 31st March**

	₹	₹		₹	₹
To Opening		46,800	By Sales	3,89,600	
Stock To	3,21,700		**Less:** Returns	(8,600)	3,81,000
Purchases	400		By Closing		78,600
Add: Omitted Invoices	(5,800)		Stock		
Less: Returns	(600)	3,15,700			

	₹	₹		₹
Less: Drawings		19,600		
To Freight & Carriage To Gross Profit c/d		77,500		
Total		**4,59,600**	**Total**	**4,59,600**
To Rent and Taxes		4,700	By Gross profit b/d	77,500
To Salaries and Wages To Bank Interest	1,100	9,300	By DiscountReceived	4,440
Add: [Due (20,000 × 14%) – 1,100]	1,700	2,800		
To Printing & Stationery	14,400			
Less: Prepaid (1/4th of 14,400)	3,600	10,800		
To Discount allowed		1,800		
To General Expenses To Insurance		11,450		
		1,300		
		2,330		
To Postage & Telegrams Expenses To Travelling Expenses		870		
To Provision forBadDebts	WN 1	1,150		
To Reserve for DiscountonDebtors	WN 1	437		
To Depreciation on Furniture & Fittings		500		
To Net Profit		34,503		
Total		**81,940**	**Total**	**81,940**

2. Balance Sheet of Hari as at 31st March (₹)

Liabilities	Amount	Amount	Assets	Amount	Amount
Capital OpeningBalance	76,690		**Non Current Assets**		
Add: NetProfit	34,503		Furniture&Fittings	5,000	
Less: Drawings Cash	(30,000)		**Less:** Depreciationat10%	500	4,500
Goods	(600)	80,593	**Current Assets**		
Non Current Liabilities			Sundry Debtors **(WN 1) Less:**	23,000	
Bank Loan		20,000	Provision for Bad Debts **Less:**	(1,150)	
Current Liabilities			Provision for Discount Stock	(437)	21,413
Bank Interest Due		1,700	Prepaid Expenses		78,600
Sundry Creditors **(WN2)**		14,200	Bank Balance		3,600
			Cash Balance		8,000
					380
Total		**1,16,493**	**Total**		**1,16,493**

Working Notes:

1. Sundry Debtors		
	Balance given in TB	24,000
Less:	Due toRam	(1,000)
	Revised Balance	**23,000**
Provision for Bad Debts @ 5%		1,150
Provision for Discount 2% on (23,000 – 1,150)		437

2. Sundry Creditors		
	Balance given in TB	14,800
Less:	Set off in respect of Ram	(1,000)
Add:	Purchase Invoice omitted	400
	Revised Balance	**14,200**

Illustration 17: Preparation of Financial Statements

From the following Trial Balance of Hari, prepare Trading and Profit & Loss Account for the year ended 31st March and a Balance Sheet as onthatdate: Trial Balance as at 31st March

	Dr. (₹)		Cr. (₹)
Furniture	**20,000**	**Capital**	**1,00,000**
Purchases	**1,50,000**	**Interest Earned**	**4,000**

	Dr. (₹)		Cr. (₹)
Debtors	**2,00,000**	**Sales**	**3,21,000**
Salaries	**30,000**	**Purchases Return**	**5,000**
Wages	**20,000**	**Creditors**	**1,20,000**
Rent	**15,000**	**Provision for Bad Debts**	**6,000**
Sales Return	**10,000**	**Provision for Depreciation**	**2,000**
Bad Debts written off	**7,000**		
Drawings	**24,000**		
Printing & Stationary	**8,000**		
Insurance	**12,000**		
Opening Stock	**50,000**		
Office Expenses	**12,000**		
Total	**5,58,000**	**Total**	**5,58,000**

Additional Information:

(a) **Depreciation Furniture by 10% on Original Cost.**

(b) **AProvisionforDoubtfulDebtsistobecreatedtotheextentof5%onSundryDebtors.**

(c) **OutstandingSalariesfortheYearis₹3,000.Salariesincluded₹2,000paidinAdvance.**

(d) **Insurance amounting to ₹2,000 isprepaid.**

(e) **Provide for Outstanding Office Expenses ₹8,000.**

(f) **Stock used for Private Purpose ₹6,000.**

(g) **Closing Stock ₹60,000.**

Solution: **1. Trading and Profit and Loss Account for the year ended 31stMarch**

Particulars	₹	₹	**Particulars**	₹	₹
To Opening Stock		50,000	By Sales	3,21,000	
To Purchases	1,50,000		**Less:** SalesReturn	(10,000)	3,11,000
Less: PurchaseReturns	(5,000)		By Closing Stock		60,000
Less: Stock used forprivatepurpose	(6,000)	1,39,000			
To Wages		20,000			
To Gross Profit c/d		1,62,000			
Total		**3,71,000**	**Total**		**3,71,000**
To Salaries	30,000		By Gross Profit b/d		1,62,000
Add: Outstanding for theyear	3,000		By Interest Earned		4,000
Less: Paid in Advance	(2,000)	31,000			
To Rent		15,000			
To Printing & Stationery		8,000			
To Insurance	12,000				
Less: Prepaid	(2,000)	10,000			
To OfficeExpenses	12,000				
Add: Outstanding for theyear	8,000	20,000			
To Bad Debt written off		7,000			
To Provision for Bad Debts (5% × 2 Lakhs)	10,000				
Less: Opening Balanceavailable	(6,000)	4,000			
To Provision forDepreciation		2,000			
To Capital A/c (Net Profit transferred)		69,000			
Total		**1,66,000**	**Total**		**1,66,000**

2. Balance Sheet As on 31st March

Liabilities		₹	₹	Assets		₹	₹
Capital:	Balance	1,00,000		**Fixed Assets:**	Furniture (Cost)	20,000	
Add:	Net Profit	69,000		**Less:**	Provision for Deprn.	4,000	16,000
Less:	Drawings (24,000 +6,000)	30,000	1,39,000	**Current Assets:**	Stock in trade		60,000
Current Liabilities					Debtors	2,00,000	
	Creditors		1,20,000	**Less:**	Provn. for BadDebts	(10,000)	1,90,000
	Outstanding Salaries		3,000		Prepaid Salaries		2,000
	Outstanding Office Expenses		8,000		Prepaid Insurance		2,000
Total			**2,70,000**	**Total**			**2,70,000**

Illustration 18: Preparation of Financial Statements **N 18**

Mr. Fazhil is a Proprietor in business of Trading. An abstract of his Trading and P & L Account is as follows:

Trading and P & L A/c for the year ended 31st March 2018

Particulars	₹	Particulars	₹
To Cost of Goods sold	22,00,000	By Sales	45,00,000
To Gross Profit c/d	?		
Total	?	Total	45,00,000
To Salaries paid	12,00,000	By Gross Profit b/d	?
To General Expenses	6,00,000	By Other Income	45,000
To Selling Expenses	?		
To Commission to Manager (on Net Profit before charging such Commission)	1,00,000		
To Net Profit	?		
Total	?	Total	?

Selling Expenses amount to 1% of Total Sales. You are required to compute the missing figures.

Solution:

Trading A/c of Krishna & Co. for the year ended 31st March (in ₹000s)

Particulars	₹	Particulars	₹
To Cost of Goods Sold	22,00,000	By Sales (given)	45,00,000
To Gross Profit (bal. fig. given) (Sales – COGS)	23,00,000		
Total	**45,00,000**	**Total**	**45,00,000**
To Salaries (given)	12,00,000	By Gross Profit b/d (from Trading A/c)	23,00,000
To General Expenses (given)	6,00,000	By Other Income (given)	45,000
To Selling Expenses (1% of 45,00,000)	45,000		
To Commission (given)	1,00,000		
To Net Profit (bal. fig)	**4,00,000**		
Total	**23,45,000**	**Total**	**23,45,000**

Illustration 19: Preparation of Financial Statements **M 19**

Following particular are extracted from the books of Mr. Sandeep for the year ended 31st December, .

Particulars	Amount ₹	Particulars	Amount ₹
Debit Balances:		Credit Balances:	
Cash in hand	1,500	Capital	16,000
Purchase	12,000	Bank overdraft	2,000
Sales return	1,000	Sales	9,000
Salaries	2,500	Purchase return	2,000
Tax and Insurance	500	Reserve for Bad debts	1,000
Bad debts	500	Creditors	2,000

Particulars	Amount ₹	Particulars	Amount ₹
Debtors	**5,000**	**Commission**	**500**
Investments	**4,000**	**Bills payable**	**2,500**
Opening stock	**1,400**		
Drawings	**2,000**		
Furniture	**1,600**		
Bills receivables	**3,000**		
	35,000		**35,000**

Other information:

(i) Closing stock was valued at ₹ 4,500

(ii) Salary of ₹ 100 and Tax of ₹ 200 are outstanding whereas insurance ₹ 50 is prepaid.

(iii) Commission received in advance is ₹ 100

(iv) Interest accrued on investment is ₹ 210

(v) Interest on overdraft is unpaid ₹ 300

(vi) Reserve for bad debts is to be kept at ₹ 1,000

(vii) Depreciation of furniture is to be charged @ 10%

You are required to prepare the final accounts after making above adjustments.

Solution:

1. Trading A/c of Mr. Sandeep for the year ended 31st December

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		1,400	By Sales	9,000	
To Purchases	12,000		**Less:** Returns	(1,000)	8,000
Less: Returns	(2,000)	10,000	By Closing Stock		4,500
To Gross Profit c/d		1,100			
Total		**12,500**	**Total**		**12,500**

2. Profit & Loss Account for the year ended 31st December

Particulars	₹	₹	Particulars	₹	₹
To Salaries	2,500		By Gross Profit b/d		1,100
Add: O/s Salary	100	2,600			
To Tax and Insurance	500		By Commission	500	
Add: O/s Taxes	200		**Less:** Commission Received in Advance	(100)	400
Less: Prepaid Insurance	(50)	650	By Interest on Investment		210
To Bad debts		500			
To Interest on Overdraft		300			
To Depreciation (1,600 x 10%)		160	By Net Loss		2,500
Total		**4,210**	**Total**		**4,210**

3. Balance Sheet as on 31st December

Liabilities	₹	₹	Assets	₹	₹
Capital: Balance	16,000		**Non Current Assets:** Furniture	1,600	
Less: Net Loss	(2,500)		**Less:** Depreciation	(160)	1,440
Less: Drawings	(2,000)	11,500	Investments		4,000
Bank Overdraft		2,000	**Current Assets:**		
Interest on Overdraft		300	Interest Accrued on Investments		210
Bills Payable		2,500	Stock in trade		4,500
Sundry Creditors		2,000	Bills Receivable		3,000
Salary O/s		100	Sundry Debtors	5,000	
Tax O/s		200	**Less:** Reserve for Bad Debts	(1,000)	4,000
Commission Received in Advance		100	Prepaid Insurance		50
			Cash in Hand		1,500
		18,700			**18,700**

Note: Reserve for Bad Debts is ₹ 1,000. Since it is to be kept at ₹1,000 – no entry for the said adjustment shall be done

Illustration 20: Final Accounts – Revised P&L and Balance Sheet **N 19**

The balance sheet of Mittal on 1st January, 2018 was as follows:

Liabilities	Amount ₹	Assets	Amount ₹
Trade payables	16,00,000	Plant & Machinery	31,00,000
Expenses payable	2,50,000	Furniture & Fixture	4,00,000
Capital	51,00,000	Trade receivables	14,50,000
		Cash at bank	7,00,000
		Inventories	13,00,000
	69,50,000		69,50,000

During 2018, his profit and loss account revealed a net profit of ₹ 15,10,000. This was after allowing for the following:

(i) Interest on capital @ 6% p.a.

(ii) Depreciation on plant and machinery @ 10% and on Furniture and Fixtures @ 5%.

(iii) A provision for Doubtful debts @ 5% of the trade receivables as at 31st December 2018.

But while preparing the profit and loss account he had forgotten to provide for (1) outstanding expenses totalling ₹ 1,85,000 and (2) prepaid insurance to the extent of ₹ 25,000.

His current assets and liabilities on 31stDecember, 2018 were: Trade receivable ₹ 21,00,000, Cash at bank ₹ 5,20,000 and Trade payabales ₹ 13,84,000. During the year he withdrew ₹ 6,20,000 for domestic use. Closing inventories is equal to net trade receivables at the year–end.

You are required Draw up revised Profit and Loss account and Balance Sheet at the end of the year.

Solution: **Revised Profit & Loss A/c of Krishna & Co. for the year ended 31st December 2018**

Particulars		₹	Particulars	₹
To Expenses Outstanding	1,85,000		By Gross Profit	22,51,000
Less: Prepaid Expenses	(25,000)	1,60,000		
To Depreciation				
Plant and Machinery(31,00,000 x10%)	3,10,000			
Furniture and Fixtures(4,00,000 x 5%)	20,000	3,30,000		
To Provision for Bad Debts (21,00,000 x 5%)		1,05,000		
To Interest on Capital(51,00,000 x 6%)		3,06,000		
To Net Profit after Adjustments (WN 1)		**13,50,000**		
Total		**22,51,000**	**Total**	**22,51,000**

Balance Sheet as at 31st March

Liabilities	₹	₹	Assets	₹	₹
Capital	51,00,000		**Fixed Assets:**		
Add: Net Profit	13,50,000		Plant & Machinery	31,00,000	
Add: Interest on Capital	3,06,000				
Less: Drawings (given)	(6,20,000)	61,36,000	**Less:** Depreciation at 10%	(3,10,000)	27,90,000
			Furniture & Fixtures	4,00,000	
			Less: Depreciation at 10%	(20,000)	3,80,000
Current Liabilities:					
Trade Payables		13,84,000	**Current Assets**		
Outstanding Expenses		1,85,000	Inventories		19,95,000
			Prepaid Insurance		25,000
			Trade Receivables	21,00,000	
			Less: Provision for Bad Debts 5%	(1,05,000)	19,95,000
			Cash at Bank		5,20,000
Total		**77,05,000**	**Total**		**77,05,000**

Working Notes: **1. Computation of Net Profit**

Particulars	₹
Net Profit as per Profit and Loss before Adjustments	15,10,000
Add: Prepaid Insurance	25,000
Less: Outstanding Expenses	(1,85,000)
Total	**13,50,000**

State with reasons, whether the following statements are True or False

Statements	T/F	Reasoning
1. Net Profit is reflected in higher Cash Balances.	False	When whole or part of Revenue is not realized in Cash or when the realized Revenue is utilized to increase the Stock, Net Profit may not be reflected in higher Cash Balance.
2. Lower Net Worth always means Net Loss during the year. [**Note:** Net Worth is the sum of Capital, Reserves and Profit and LossA/c]	False	In case of Loss, P&L is reduced and so the Net Worth. But Net Worth may also be reduced by Drawings. So, lower Net Worth may not essentially reflect Net Loss.
3. Profit and Loss Account shows the financial position of the concern.	False	It shows the Financial Results of a concern for a particular period. Financial Position is reflected in the Balance Sheet.
4. A withdrawal of Cash from the business by the Proprietor should be charged to Profitand Loss Account as an Expense.	False	Cash withdrawal by the Proprietor should be treated as his Drawings, and not a Business Expense chargeable to P&L.It should be deducted from the Proprietor's Capital.
5. Fixed Assets are stated in the Balance Sheet at their Market Value.	False	Fixed Assets are not to be stated at their Market Value. They are shown at Cost lessDepreciation.
6. A Profit and Loss Account is a Point Statement whereas a Balance Sheet is a Period Statement.	False	Since P&L is prepared for a particular accounting period, it is a Periodic Statement. Since Balance Sheet is prepared as on a particular date, it is a PointStatement.
7. The Proprietor of a Shop feels that he has made a Loss due to Closing Stock beingzero.	False	The level of Closing Stock does not directly determine the Profits of a business. The operational efficiency and otherfactors affecting Cost determine the Profits.
8. Trial Balance is prepared after preparing the Profit and LossAccount.	False	Trial Balance is prepared before preparing P&L. Through Trial Balance, all Ledger Balances are put on trial to ascertain whether equality of debit and credit is maintained.
9. Provision for Discount on Debtors is calculated before deducting the Provision for Doubtful Debts fromDebtors.	False	Provision for Doubtful Debts is deducted to compute the amount of Good Debtors, who may make payment foravailing Discount. So, the Provision for Discount on Debtors is calculated on the balance so arrived (i.e. Good Debtors).
10. The Gains from sale of Capital Assets need not be added to Revenue to ascertain the Net Profit of abusiness.	True	Profit on Sale of Capital Assets should not be added to ascertain the true Net Profit of a business, because it is not due to normal business operations.
11. Freight and Cartage Expenses paid on Purchases of goods is added to the amount of purchase.	True	Freight paid to bring the Goods purchased into the businesspremises are included in the 'Cost of Purchase'. **[Note]**
12. Provision for Bad Debts is debited to Sundry Debtors A/c.	False	Provisions for Bad Debts is debited to P&L. In the BalanceSheet, it is shown as deduction from 'Debtors'.
13. Debit Balance in Profit & Loss Account is Surplus.	False	It is Deficit or Loss, as Expenses are more than Revenues.
14. Assets and Liabilities of a particular accounting period are shown in the Balance Sheet.	False	A Balance Sheet shows the position of the Assets and Liabilities as on a particular date.
15. Debit balance of Profit & Loss A/c is a real asset.	False	Debit balance of Profit & Loss A/c is not a Real Asset.

Statements	T/F	Reasoning
16. Under the Liquidity Approach, Assets which are most liquid are presented at the bottom of the Balance Sheet.	False	Under the Liquidity Approach, Assets which are most liquid are presented first, while under Permanent Approach they are presented at the bottom of the Balance Sheet.
17. The value of Human Resources is generally shown as Asset in the BalanceSheet.	False	The value of Human Resources cannot be measured in monetary terms. Thus, it is not shown in the Balance Sheetas per Money Measurement Concept.

Note: Alternatively, the statement may be taken as 'false' since for accounting purposes, these expenses are not added to the amount of purchases, but are shown separately in the Trading Account.