

LESSON 5

FINAL ACCOUNTS OF SOLE TRADERS

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5.0. Aims and Objectives : In this lesson we are going to discuss

- meaning and procedure of preparation of trading account
- meaning and procedure of preparation of manufacturing account
- meaning and procedure of preparation of profit and loss account
- meaning and procedure of preparation of balance sheet.

After reading this chapter you should be able to acquire basic working knowledge about the above mentioned topics.

5.1. Introduction :

A Trial Balance marks a definite stage in the preparation of accounts. It indicates that all the transaction for a particular period has been duly entered, posted and balanced. But this it self is not the end of book-keeping work. Its a means to an end, the end being a. to find out the profit or loss made by the business firm in given period and b. to understand the financial position of the business as on a given date. A business man can ascertain these by preparing the final accounts, which is prepared on the basis of the trial balance. The Preparation of final accounts is the last step in the accounting circle. The final account includes manufacturing account, trading accounts, profit and loss account and balance sheet. Even though the balance sheet is a statement, for all practical purposes, it is treated as part of final accounts. We are concerned with trading and profit and loss account and balance sheet and the same are discussed in this chapter.

5.2. Trading Account :

Trading account is prepared mainly to know the profitability of goods bought or manufacture and sold by the business man. The difference between the selling price and cost price of the goods is the gross result. The term 'Goods' means the goods bought for resale. It does not include assets. If sale proceeds are more than the cost of goods sold, gross profit is made. If sale proceeds are less than the cost of the goods sold, gross loss is incurred.

Format:

Trading Account for the year ended on 31st December

Dr.	Rs.	Cr.	Rs.
To Opening Stock	-	By Sales less Return	-
To Purchases less Returns	-	By Closing Stock	-
To Wages	-		-
To Charges	-		-
To Freight	-		-
To Dock Charges	-		-
To Excise Duty	-		-
To Octopi	-		-
To Import duty	-		-
To Fuel, Power etc.	-		-
To Store Consumed	-		-
To Royalty Production Basis.	-		-
To Manufacturing expenses	-		-
To Gross Profit	-		-
	-		-

5.3. Manufacturing Account :

A business man purchases finished goods for resale where as a manufacturer buys raw materials, converts them in to finished goods, by incurring certain expenses, and then sells them. Thus, Trading Account is splitted into two-Manufacturing Account and Trading Account. Manufacturing account is the account to show the cost of manufacture or production. On the debit side, opening stock of raw materials, work-in-process, purchase of raw materials, carriage, manufacturing expenses and all other expenses relating to factory are

entered. On the credit side, closing stock of raw materials, work-in-process, are shown and the balance, representing the cost of production of finished goods, is transferred to Trading

Account. If one wants to know the cost of manufacturing, then as Manufacturing Account will have to be prepared.

5.4. Profit and Loss Account :

By preparing the Trading Account, its possible to find out the Gross Profit or Gross Loss made during the given period. The next step is the preparation of the Profit and Loss Account to ascertain net profit earned or net lost suffered during a given period of time. The balance of Trading Account is brought down to Profit and Loss Account. Then, the Profit and Loss Account is credited with other incomes and debited with all indirect expenses. Then the Profit and Loss Account may be balance and the balance is Net Profit or Not Loss. to be transferred to capital account, in case of sole trader or partnership firms.

Profit and Loss Account for the year ended 31 st December

Dr.	Rs.		Cr. Rs.
To Gross Loss	-	By Gross Profit	-
To Management expenses	-	By Interest Received	-
Office Salaries	-	By Discount Received	-
Rent of Office Building	-	By Commission	-
Office Lighting	-	By Income from Investment	-
Office, Rent and Taxes	-	By Apprenticeship Premium	-
Printing and Stationery	-	By Rent from tenants	-
Telephone Charges	-	By Reserve for Dis on Creditors	-
Postage	-	By Interest on Renewal of Bills	-
Legal Expenses	-	By Miscellaneous income	-
Audit Fees	-	By Net Loss	-
Insurance	-		
General expenses etc.	-		
To Selling expenses :	-		
Salesman Salaries	-		
Traveling expenses	-		
Advertising	-		
Bad Debts	-		
Selling Commission	-		
Brokerage	-		
Free Samples	-		
To Distribution expenses :	-		
Carriage out	-		
Warehouse Rent	-		
Warehouse Insurance	-		
Delivery Van expenses	-		
Packing expenses	-		
To Depreciation :	-		
Depreciation of Assets	-		
Maintenance expenses	-		
To Finance expenses :	-		
Discount Allowed	-		
Interest on Loan	-		
Interest on Capital	-		
Discount on Bills	-		
Loss by Fire	-		
To Net Profit	-		

5.5. Balance Sheet:

A Balance Sheet is a statement of the financial position at a given date. The given date is the date at which the final accounts are prepaid. Transactions are first recorded in journal. Entries in the journal are posted to ledgers. Ledger accounts are balanced and the balances are recorded in a Trial Balance. Trial Balance consists of all Accounts – Personal, Real and Nominal. From the Trial Balance, nominal accounts are transferred to Trading or Profit and Loss Account and the remaining balances are taken to Balance Sheet. However, Balance Sheet is a summary of whole of the accounting record. This is because the nominal accounts are transferred to Revenue Accounts, and Revenue account is closed by shifting the balance to the Balance Sheet. Balance Sheet is also known as a Statement of Assets and Liabilities. Balance sheet is the last and the most important link in the chain of Final Accounts and Statements. It describes the financial position of a business in a systematic standard form. It is a mirror of a business. When the assets exceed the liabilities, one can conclude that the business is sound and solvent. The function of the Balance Sheet is to show the picture of the business on a particular date.

Balance Sheet as on			
Liabilities	Rs.	Assets	Rs.
Current liabilities		Liquid assets	
Bills Payable		Cash in Hand	
Sundry Creditors		Cash at Bank	
Bank Overdraft		Cash in Transit	
Long Term Liabilities		Floating Assets	
Loan from Bank		Sundry Debtors	
Deposits		Investments	
		Bills Receivable	
Fixed Liabilities		Stock in Trade	
Capital		Prepaid expenses	
		Fixed Assets	
		Plant and Machinery	
		Buildings	
		Furniture & Fixtures	
		Land	
		Fictitious Assets	
		Advertisement	
		Miscellaneous expenses	
		Profit & Loss	
		Intangible Assets	
		Goodwill	
		Patents	
		Patterns	
		Copyright	

5.6. Adjustments :

Following are the Adjustments that are to be considered while preparing final accounts. Each and every adjustment is to be posted in two places. The following is the summary of those two places for each adjustment.

1. Closing Stock.

- i. Trading Account Credit Side, show as an item.
- ii. Balance Sheet Assets Side, show as an item.

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2. Depreciation

- i. Balance Sheet Assets Side, deduct from particular asset.

- ii. Profit and Loss Account debit side, show as an item.
- 3. Outstanding Expenses
 - i. Profit and Loss Account Debit side, add with particular expense.
 - ii. Balance Sheet Liabilities side show as an item.
- 4. Prepaid Expenses
 - i. Profit and Loss Account Debit side, deduct from particular expense.
 - ii. Balance Sheet Assets side, show as an item.
- 5. Accrued Income or Outstanding Income
 - i. Profit and Loss Account Credit side, add with particular income.
 - ii. Balance Sheet Assets side, show as an item.
- 6. Income Received in Advance
 - i. Profit and Loss Account Credit side, deduct from particular income.
 - ii. Balance Sheet Liabilities side, show as an item.
- 7. Interest on Capital
 - i. Balance Sheet Liabilities side, add with capital.
 - ii. Profit and Loss Account Debit side, show as an item.
- 8. Interest on Drawings
 - i. Balance Sheet Liabilities Side, deduct from capital.
 - ii. Profit and Loss Account Credit side, show as an item.
- 9. Bad Debts
 - i. Balance Sheet Assets side, deduct from sundry debtors.
 - ii. Profit and Loss Account Debit side, show as an item.
- 10. Provision for Bad debts
 - i. Balance Sheet Assets side, deduct from sundry debtors.
 - ii. Profit and Loss Account Debit side, show as an item.
- 11. Provision for Discount on debtors
 - i. Balance Sheet Assets side, deduct from sundry debtors.
 - ii. Profit and Loss Account Debit side, show as an item.
- 12. Provision for discount on creditors
 - i. Balance Sheet Liabilities side, deduct from sundry creditors.
 - ii. Profit and Loss Account Credit side, show as an item.
- 13. Drawings of Goods by proprietor
 - i. Balance Sheet Liabilities side, deduct from capital.
 - ii. Trading Account Credit side, show as an item.
- 14. Free Samples to customers
 - i. Trading Account Credit side, show as an item.
 - ii. Profit and Loss Account Debit side, show as an item.
- 15. Loss of Stock
 - i. Trading Account Credit side, show as an item.
 - ii. Profit and Loss Account Debit side, show as an item.
- 16. Manager Commission
 - i. Profit and Loss Account Debit side, show as an item.
 - ii. Balance Sheet Liabilities side show as an item.

Note : While calculating manager commission on Net Profit or Gross Profit due consideration is to be given whether it is based on Profit before charging such commission or after charging such commission

5.7. ILLUSTRATIONS

5.7.1. Treatment of Certain Items

i. Bad Debts given in the Trial Balance only

Illustration :1. From the following particulars, calculate Amount of Debtors balance to be shown in the balance sheet and amount of Net Profit assuming that all other items are not relevant.

Sundry debtors as per trial balance	Rs. 1, 00,000
Gross profit as per trial balance	Rs. 50,000
Bad debts as per trial balance	Rs. 1,000

Solution :

i. Calculation of Amount of Debtors to be shown in the balance sheet.

Rs. 1,00,000 No adjustment is required.

ii. Calculation of amount of Net Profit

Profit and Loss Account			
To Bad debts	1,000	By Gross Profit	50,000
To Net Profit	49,000		
	50,000		50,000

ii. Bad Debts given in the Adjustments only

Illustration :2. From the following particulars calculate Amount of Debtors balance to be shown in the balance sheet and amount of Net Profit assuming that all other items are not relevant.

Sundry debtors as per trial balance	1, 00,000
Gross profit as per trial balance	50,000
Bad debts as per Adjustments	2,000

Solution :

i. Calculation of Amount of Debtors to be shown in the balance sheet.

Sundry debtors	1,00,000
Less : Bad debts	2,000
	98,000

ii. Calculation of amount of Net Profit

Profit and Loss Account			
To Bad debts	2,000	By Gross Profit	50,000
To Net Profit	48,000		
	50,000		50,000

iii. Bad Debts given in the both Trial Balance and Adjustments

Illustration :3. From the following particulars calculate Amount of Debtors balance to be shown in the balance sheet and amount of Net Profit assuming that all other items are not relevant.

Sundry debtors as per trial balance	1, 00,000
Gross profit as per trial balance	50,000
Bad debts as per trial balance	1,000
Bad debts as per adjustments	2,000

Solution :

i. Calculation of Amount of Debtors to be shown in the balance sheet.

Sundry debtors	1,00,000
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Less : Bad debts	2,000	98,000
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ii. Calculation of amount of Net Profit

Profit and Loss Account			
To Bad debts	2,000	By Gross Profit	50,000
Existing T.B.	1,000		
Add: New Adj.	2,000	3,000	
To Net Profit	47,000		
	50,000		50,000

iv. Provision for Bad Debts given in the Trial Balance only.

Illustration :4. From the following particulars calculate Amount of Debtors balance to be shown in the balance sheet and amount of Net Profit assuming that all other items are not relevant.

Sundry debtors as per trial balance	1,00,000
Gross profit as per trial balance	50,000
Bad debts as per trial balance	1,000
Bad debts as per adjustments	2,000
Provision for bad debts as per adjustments	800

Solution :

i. Calculation of Amount of Debtors to be shown in the balance sheet.

Sundry debtors	1,00,000
Less : Bad debts	2,000

98,000

ii. Calculation of amount of Net Profit

Profit and Loss Account			
To Bad debts	2,000	By Gross Profit	50,000
Existing T.B.	1,000		
Add: New Adj.	2,000	3,000	
To Provision for bad debts	800		
To Net Profit	47,000		
	50,000		50,000

v. Provision for Bad Debts given in Adjustments only

Illustration :5. From the following particulars calculate Amount of Debtors balance to be shown in the balance sheet and amount of Net Profit assuming that all other items are not relevant.

Sundry debtors as per trial balance	1,00,000
Gross profit as per trial balance	50,000
Bad debts as per trial balance	1,000
Bad debts as per adjustments	2,000
Provision for bad debts 2% on debtors as per adjustments.	

Solution :

i. Calculation of Amount of Debtors to be shown in the balance sheet.

Sundry debtors	1,00,000
Less : Bad debts Adjustments.	2,000
	98,000
Less : Provision for bad debts Adjustments.	2,000

1,00,000x2%.

96,000

ii. Calculation of amount of Net Profit

Profit and Loss Account		
To Bad debts Trial Balance.	1,000	By Gross Profit 50,000
To Bad debts Adjustments.	2,000	3,000
To Provision for bad debts	2,000	
To Net Profit	45,000	
	50,000	50,000

vi. Provision for Bad Debts given in both Trial Balance and Adjustments.

a. Increase

Illustration :6. From the following particulars calculate Amount of Debtors balance to be shown in the balance sheet and amount of Net Profit assuming that all other items are not relevant.

Sundry debtors as per trial balance	1,00,000
Gross profit as per trial balance	50,000
Bad debts as per trial balance	1,000
Bad debts as per adjustments	2,000
Provision for Bad debts as per trial balance	800
Provision for bad debts 2% on debtors as per adjustments.	

Solution :

i. Calculation of Amount of Debtors to be shown in the balance sheet.

Sundry debtors	1,00,000
Less : Bad debts Adjustments.	2,000
	98,000
Less : Provision for bad debts Adjustments.	1,960
98,000x2%.	

96,040

ii. Calculation of amount of Net Profit

Profit and Loss Account		
To Bad debts Trial Balance.	1,000	By Gross Profit 50,000
To Bad debts Adjustments.	2,000	3,000
To Provision for bad debts		
Adjustments.	1,960	
Less: Provision for Bad debts		
Trial Balance.	800	1,160
To Net Profit	45,840	
	50,000	50,000

b. Decrease

Illustration :7. From the following particulars calculate Amount of Debtors balance to be shown in the balance sheet and amount of Net Profit assuming that all other items are not relevant.

Sundry debtors as per trial balance	1,00,000
Gross profit as per trial balance	50,000
Bad debts as per trial balance	1,000
Bad debts as per adjustments	2,000

Provision for Bad debts as per trial balance	2,100
Provision for bad debts 2% on debtors as per adjustments.	

Solution :

i. Calculation of Amount of Debtors to be shown in the balance sheet.

Sundry debtors	1,00,000	
Less : Bad debts Adjustments.	2,000	
	98,000	
Less : Provision for bad debts Adjustments.	1,960	
98,000x2%.		
		96,040

ii. Calculation of amount of Net Profit

Profit and Loss Account			
To Bad debts Trial Balance.	1,000	By Gross Profit	50,000
To Bad debts Adjustments.	2,000 3,000	By P.B.D T.B.	2,100
To Net Profit	47,140	By P.B.D Adjustment.	1,960 140
	50,140		50,140

vii. Provision for Discount given in the Trial Balance only

Illustration :8. From the following particulars calculate Amount of Debtors balance to be shown in the balance sheet and amount of Net Profit assuming that all other items are not relevant.

Sundry debtors as per trial balance	1,00,000
Gross profit as per trial balance	50,000
Bad debts as per trial balance	1,000
Bad debts as per adjustments	2,000
Provision for Bad debts as per trial balance	800
Provision for Discount as per trial balance	300
Provision for bad debts 2% on debtors as per adjustments.	

Solution :

i. Calculation of Amount of Debtors to be shown in the balance sheet.

Sundry debtors	1,00,000	
Less : Bad debts Adjustments.	2,000	
	98,000	
Less : Provision for bad debts Adjustments.	1,960	
98,000x2%.		
		96,040

ii. Calculation of amount of Net Profit

Profit and Loss Account			
To Bad debts Trial Balance.	1,000	By Gross Profit	50,000
To Bad debts Adjustments.	2,000 3,000		
To Provision for bad debts Adjustments.	1,960		
Less: Provision for Bad debts Trial Balance.	800		
	1,160		
To Provision for Discount	300	860	
To Net profit	46,140		

50,000

50,000

viii. Provision for Discount given in the Adjustments only

Illustration :9. From the following particulars calculate Amount of Debtors balance to be shown in the balance sheet and amount of Net Profit assuming that all other items are not relevant.

Sundry debtors as per trial balance	1,00,000
Gross profit as per trial balance	50,000
Bad debts as per trial balance	1,000
Bad debts as per adjustments	2,000
Provision for Bad debts as per trial balance	800
Provision for Discount 1%	
Provision for bad debts 2% on debtors as per adjustments.	

Solution :

i. Calculation of Amount of Debtors to be shown in the balance sheet.

Sundry debtors	1,00,000
Less : Bad debts Adjustments.	2,000
	98,000
Less : Provision for bad debts Adjustments.	1,960
98,000x2%.	
	96,040
Less : Provision for Discount 1%	960

95,080

ii. Calculation of amount of Net Profit

	Profit and Loss Account	
To Bad debts Trial Balance.	1,000	By Gross Profit 50,000
To Bad debts Adjustments.	2,000	
To Provision for bad debts		
Adjustments.	1,960	
Less: Provision for Bad debts		
Trial Balance.	800	
	1,160	
To Provision for Discount 1%	960	200
To Net profit	46,800	
	50,000	50,000

ix. Provision for Discount given in both Trial Balance and Adjustments

Illustration :10. From the following particulars calculate Amount of Debtors balance to be shown in the balance sheet and amount of Net Profit assuming that all other items are not relevant.

Sundry debtors as per trial balance	1,00,000
Gross profit as per trial balance	50,000
Bad debts as per trial balance	1,000
Bad debts as per adjustments	2,000
Provision for Bad debts as per trial balance	800
Provision for Discount as per trial balance	300
Provision for Discount 1%	

Provision for bad debts 2% on debtors as per adjustments.

Solution :

i. Calculation of Amount of Debtors to be shown in the balance sheet.

Sundry debtors	1,00,000
Less : Bad debts Adjustments.	2,000
	98,000
Less : Provision for bad debts Adjustments.	1,960
98,000x2%.	
	96,040
Less : Provision for Discount 1%	960

95,080

ii. Calculation of amount of Net Profit

	Profit and Loss Account	
To Bad debts Trial Balance.	1,000	By Gross Profit 50,000
To Bad debts Adjustments.	2,000	
To Provision for bad debts		
Adjustments.	1,960	
Less: Provision for Bad debts		
Trial Balance.	800	1,160
To Provision for Discount 1%	960	
Less : Provision for Discount		
Trial Balance.	300	660
To Net Profit	45,180	

50,000

50,000

x. Manager Commission before charging such commission.

Illustration : 11.

Gross Profit	1,00,000
Expense as per Profit and Loss A/C	80,000
Manager Commission 2% before charging such commission.	

Solution:

Calculation of Manager Commission

Gross Profit	1,00,000
Less : Expenses	80,000
Net profit before commission	20,000
Less : Manager Commission $20,000 \times 2/100$.	400

Net Profit **19,600**

xi. Manager Commission after charging such commission.

Illustration : 12.

Gross Profit	1,00,000
Expense as per Profit and Loss A/C	80,000
Manager Commission 2% after charging such commission.	

Solution:

Calculation of Manager Commission

Gross Profit	1,00,000
Less : Expenses	80,000
Net Profit before commission	20,000

70

Less : Manager Commission $20,000 \times 2/102$.

392

Net Profit **19,608**

5.7.2. Preparation of Trading Account

Illustration: 13. The following balances were extracted from the books of a sole trader Mr. Anchaneyar on 30th June 2007. Prepare Trading Account for the above period:

	Rs.
Opening Stock	2,000
Closing Stock	1,500
Returns Inward	300
Returns Outward	200
Wages	350
Purchases	4,000
Sales	7,000
Freight	100
Carriage	75

Solution:

Trading Account for the year ended on 30th June 2007

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock		2,000	By Sales	7,000	
To Purchases	4,000		Less: Returns	300	6,700
Less: Returns	200	3,800	By Closing Stock		1,500
To Wages		350			
To Freight		100			
To Carriage		75			
To Gross Profit		1,875			
		8,200			8,200

5.7.3. Preparation of Manufacturing Account

Illustration :14. From the following particulars of Mr. Bhagawan, prepare Manufacturing Account for the year ended 31 st December 2007.

	Rs.		Rs.
Purchase of raw materials	13,195	Interest Bank Loan	600
Returns Inward	70	Stock, 1 st Jan. 2007	
Stock on 31st Dec. 2007		Raw Materials	400
Raw Materials	1,210	Work-in-progress	300
Work-in-progress	1,000	Finished Goods	410
Finished Goods	1,370	Sales	19,500
Productive Wages	2,000	Returns Outward	85
Factory Expenses	1,840	Carriage Outward	105
Office Expenses	300	Carriage Inward	100
Salaries	600	Discount Allowed	10
Distributing Expenses	100	Sale of Scrap	20
Selling Expenses	700	Depreciation on Machinery	500
Purchase Expenses	600	Repairs to Machinery	100
Export Duty	300	Depreciation on Office furniture	40
Import Duty	200		

Solution :

Manufacturing Account for the year ended on 31st December 2007

Particulars		Rs.	Particulars	Rs.
To Work-in-Progress		300	By Sales of Scrap	20
To Materials Consumed:			By Work-in-Progress	1,000
Opening Stock	400		By Cost of Finished goods	16,920
Purchases :	13,195			
Less : Returns	85	13,110		
		13,510		
Less : Closing Stock	1,210	12,300		
To Wages		2,000		
To Factory Expenses		1,840		
To Purchase Expenses		600		
To Import Duty		200		
To Carriage Inward		100		
To Depreciation of Machinery		500		
To Repairs to Machinery		100		
		17,490		17,490

5.7.4. Preparation of Profit and Loss Account

Illustration: 15. From the following figures, prepare profit and loss account of Mr. Cheran for the year ending 31 st December 2007.

	Rs.		Rs.
Salaries and wages	3,000	Advertising	1,000
Commission paid	200	Discount allowed	1,800
Postage and telegram	150	Rent received	1,700
Insurance	300	Interest on Investment	1,500
Interest paid	400	Bad debts	900
Carriage out	500	Brokerage paid	95
The gross profit was 45% of sales, which amounted to Rs. 65,000			

Solution :

Profit and loss A/c of Mr. Cheran for the year ending on 31 st December 2007.

Particulars	Rs.	Particulars	Rs.
To salaries	3,000	By Gross Profit 65,000 x 45%.	29,250
To Commission	200	By Rent received	1,700
To Postage and Telegram	150	By Interest on Investment	1,500
To Insurance	300		
To Interest	400		
To Carriage out	500		
To Advertisement	1,000		
To discount allowed	1,800		
To bad debts	900		
To Brokerage	95		
To Net Profit	24,105		
	32,450		32,450

5.7.5. Preparation of Balance Sheet

Illustration :16. From the following balances of Mr. Dinesh for the year ended 31 st December 2007.

	Rs
Capital	2,00,000
Closing Stock	40,000
Fixed Assets	62,000
Sundry Debtors	2,00,000
Net Profit	42,000
Creditors	75,000
Liabilities for Expenses	11,000
Drawings	6,000
Cash and bank	20,000

Solution:

Balance Sheet of Dinesh as on 31 st December 2007

Liabilities	Rs	Rs	Assets	Rs	Rs
Capital	2,00,000		Fixed Assets		62,000
Add: Net Profit	42,000		Stock		40,000
	2,42,000		Debtors		2,00,000
Less: Drawings	6,000	2,36,000	Cash and bank		20,000
Sundry Creditors		75,000			
Liabilities for Expen		11,000			
		3,22,000			3,22,000

5.7.6. Preparation of Final Accounts with Single Adjustment

Illustration :17. From the following trial balance of Mr. Elangovan prepare Trading and Profit & Loss Account for the year ended 31-12-2007 and Balance Sheet as on that date.
Stock as on 31-12-2007 is Rs.62,000

	Debit Rs.	Credit Rs.
Cash in hand	2,250	
Cash at bank	17,750	
Stock 1-1-2002	36,000	
Purchases	1,20,000	
Carriage inwards	4,200	
Factory Rent	6,000	
Return outwards		2,000
Sales		2,72,000
Sundry debtors	28,000	
Sundry Creditors		33,000
Wages	12,000	
Rent	6,000	
Salaries	8,600	
Bills receivable	4,000	
Bills payable		3,000
Bank loans		20,000
Insurance	1,200	
Advertisement	800	
Discount	1,400	
		73
Reserve fund		2,400

Furniture	6,000	
Machinery	40,000	
Business premises	50,000	
Bad debts	400	
Drawings	12,000	
Income Tax	4,000	
Return inwards	6,000	
Capital		31,800
Loan on mortgage		2,400
	3,66,600	3,66,600

Solution :

Trading Account for year ending 31 st December 2007.

Particulars	Rs	Amount	Particulars	Rs.	Amount
		Rs			Rs.
To Stock		36,000	By Sales.	2,72,000	
To Purchases	1,20,000		Less: Returns	6,000	2,66,000
Less: Returns	2,000				
		1,18,000	By Closing Stock		62,000
To Carriage Inwards		4,200			
To Factory Rent		6,000			
To Wages		12,000			
To Gross Profit		1,51,800			
		3,28,000			3,28,000

Profit & Loss Account for year ended 31st December 2007.

Particulars	Rs.	Particulars	Rs.
To Rent	6,000	By Gross Profit	1,51,800
To Salaries	8,600		
To Insurance	1,200		
To Advertisement	800		
To Discount	1,400		
To Bad Debts	400		
To Net profit	1,33,400		
	1,51,800		1,51,800

Balance Sheet as on 31st December.2007

Liabilities	Rs	Amount	Assets	Amount
		Rs.		Rs.
Sundry Creditors		33,000	Cash in hand	2,250
Bills Payable		3,000	Cash at Bank	17,750
Bank Loans		20,000	Sundry Debtors	28,000
Reserve fund		2,400	Bills Receivable	4,000
Loan on Mortgage		2,400	Furniture	6,000
Capital	31,800		Machinery	40,000
Add: Net Profit	1,33,400		Business Promises	50,000
				74
	1,65,200		Closing Stock	62,000

Less: Drawings	12,000	
	1,53,200	
Less: Income Tax	4,000	1,49,200

2,10,000

2,10,000

Illustration: 18. From the following Trial Balance of Mr. Fazhil, prepare Trading and profit and Loss Account for the year ended 31.12.2007 and Balance Sheet as on that date :

	Dr.	Cr.
Purchases and sales	70,000	1,27,000
Opening stock	28,000	
Plant and machinery	98,000	
Sundry debtors and creditors	27,000	25,000
Capital		1,00,000
Returns inward and outward	1,000	1,275
Discount allowed and received	350	800
Bank charges		75
Salary	16,800	
Carriage inward	750	
Carriage Outward	1,200	
Rent, rate and taxes	2,000	
Advertisement	2,000	
Cash at Bank	6,900	
	2,54,075	2,54,075

The stock on 31.12.2007 was valued at Rs.35,000.

Solution :

Trading Account for the year ending 31st December, 2002

Particulars	Rs.	Particulars	Rs.
To Opening stock	28,000	By Sales	1,27,000
To Purchases	70,000	Less : Returns	
Less : Returns	1,275	In wards	1,000
To Carriage inwards	750	By Stock	35,000
To Gross Profit	63,525		
	1,61,000		1,61,000

Profit & Loss Account for the year ending 31st December, 2007

Particulars	Rs	Particulars	Rs
To Discount allowed	350	By Gross profit	63,525
To Bank charges	75	By Discount received	800
To salaries and wages	16,800		
To carriage outwards	1,200		
To Rent, rates, taxes	2,000		
To Advertisements	2,000		
To Net Profit	41,900		
	64,325		64,325

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Balance Sheet as on 31st December, 2007

Liabilities		Rs.	Assets	Rs.
Creditors		25,000	Cash at Bank	6,900
Capital			Stock	35,000
Balance	1,00,000		Sundry debtors	27,000
Add: Net Profit	41,900	1,41,900	Plant and machinery	98,000
		1,66,900		1,66,900

5.7.7. Preparation of Final Accounts with several Adjustments

Illustration:19. Consider the following the balances extracted form the books of Mr. Govindhan as on 31st December 2007 prepare the final accounts

	Rs.		Rs.
Capital	20,000	Office Salaries	6,600
Debtors	8,000	Rent	3,900
Creditors	10,000	Trade expenses	2,300
Purchases	60,000	Furniture	10,000
Sales	80,000	Cash in hand	2,400
Opening stock	12,000	Drawings	4,800

Adjustments: Salaries outstanding for December 2007 amounting to Rs. 600. Rent paid in advance for January 2005 Rs.300. Depreciation on furniture @ 10% p.a. Provide interest on capital for the year @ 5% p.a. Stock on 31st December 2007 Rs. 14,000.

Solution:

Trading Account for the year ended 31st December 2007

Particulars	Rs.	Particulars	Rs.
To Opening Stock	12,000	By Sales	80,000
To Purchases	60,000	By Closing Stock	14,000
To Gross Profit	22,000		
	94,000		94,000

Profit and Loss Account for the year ended 31st December, 2007

Particulars	Rs.	Rs.	Particulars	Rs.
To Salaries	6,600		By Gross Profit	22,000
Add: Outstanding	600	7,200		
To Rent	3,900			
Less : Prepaid	300	3,600		
To Trade Expenses		2,300		
To Depreciation on Furniture		1,000		
To Interest on Capital		1,000		
To Net Profit		6,900		
		22,000		22,000

Balance Sheet as on 31st December 2007

Liability	Rs.	Assets	Rs.
Creditors	10,000	Furniture	10,000
Salary Outstanding	600	Less: Depreciation	1,000
			9,000

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Capital :	20,000	Debtors	8,000
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Add: Interest	1,000	Cash	2,400
Add: Net Profit	6,900	Rent paid in Advance	300
	27,900	Stock	14,000
Less : Drawings	4,800	23,100	
	33,700		33,700

Illustration: 20. From the following trial balance of Mr. Hari prepare Trading and profit and Loss Account for the year ended December 31, 2007 and Balance Sheet as on that date :

	Debit Rs.	Credit Rs.
Capital		40,000
Sales		25,000
Purchases	15,000	
Salaries	2,000	
Rent	1,500	
Insurance	300	
Drawings	5,000	
Machinery	28,000	
Bank Balance	4,500	
Cash	2,000	
Stock 01.01.2007	5,200	
Debtors	2,500	
Creditors		1,000
	66,000	66,000

Adjustments : Stock on 31.12.2007 Rs.4,900. Salary unpaid Rs.300. Rent paid in advance Rs.200. Insurance Prepaid Rs.90

Solution:

Trading Account for the year ending 31st December 2007

Particulars	Rs.	Particulars	Rs.
To Opening Stock	5,200	By Sales	25,000
To Purchases	15,000	By Stock	4,900
To Gross Profit	9,700		
	29,900		29,900

Profit & Loss Account for the year ended 31st December 2007

Particulars	Rs.	Rs.	Particulars	Rs.
To Salaries	2,000		By Gross Profit	9,700
Add : Unpaid	300	2,300		
To Rent	1,500			
Less : Advance	200	1,300		
To Insurance	300			
Less : Prepaid	90	210		
To Net Profit	5,890			
	9,700			9,700

Liabilities	Rs.	Assets	Rs.
Capital	40,000	Cash	2,000
Add : Net Profit	5,890	Bank Balance	4,500
	45,890	Stock	4,900
Less : Drawings	5,000	Rent prepaid	200
Creditors	1,000	Insurance prepaid	90
Salaries unpaid	300	Debtors	2,500
		Machinery	28,000
	42,190		42,190

Illustration: 21. From the following Trail Balance and additional information pertaining to Mr. Indian, prepare Trading and Profit and loss Account and Balance Sheet :

Stock on 01.04.2007	15,000	Sales	1,07,800
Purchases	62,400	Return outwards	2,400
Wages	10,600	Sundry creditors	32,500
Carriage in	1,400	Outstanding wages	1,400
Plant and Machinery	35,000	Capital	1,00,000
Coal, Gas, water	2,500	Discount	1,800
Trade Expenses	1,500	Bank overdraft	20,000
Furniture	5,000		
Loose Tools	3,200		
Depreciation on Plant & machinery	2,000		
Salaries	4,500		
Bank charges	500		
Sundry debtors	15,000		
Factory premises	1,00,000		
Commission	1,000		
Sales Returns	2,800		
Drawings	3,000		
Insurance	500		
	2,65,900		2,65,900

Adjustments : Stock on 31.03.2007 is valued at Rs.30,000. Interest on overdraft outstanding Rs.1000. Three months insurance paid in advance. Loose tools are to be valued at Rs.2,000. Provide 10 % depreciation on furniture and 5% on Factory premises.

Solution:

Trading Account for the year ending 31.03.2007.

Particulars	Rs.	Particulars	Rs.
To Stock	15,000	By Sales	1,07,800
To Purchase	62,400	Less: Returns	2,800
Less: Returns	2,400	By Closing Stock	30,000
To Wages	10,600		
To Carriage	1,400		
To Coal, gas, water	2,500		
To Gross Profit	45,500		
	1,35,000		1,35,000

Profit & Loss Account for the year ending 31.03.2007.

Particulars	Rs	Particulars	Rs.
To Trade expenses	1,500	By Gross profit	45,500
To Depreciation on Plant	2,000	By Discount	1,800
To Salaries	4,500		
To Back Charges	500		
To Commission	1,000		
To Insurance	500		
Less: Paid in advance	125		
To Dep. on Furniture	500		
To Dep. on Premises	500		
To Loose Tools- Loss	1,200		
To Interest Outstanding	1000		
To Net Profit	29,725		

47,300

47,300

Balance Sheet as on 31st December, 2007

Liabilities	Rs	Rs.	Assets	Rs.	Rs.
Outstanding wages		1,400	Stock		30,000
Bank overdraft		20,000	Loose tools		2,000
Interest Outstanding		1,000	Insurance Prepaid		125
Sundry creditors		32,500	Debtors		15,000
Capital	1,00,000		Furniture	5,000	
Add: Net Profit	29,725		Less: Depreciation	500	4,500
	1,29,725		Factory Premises	1,00,000	
Less: Drawings	3,000	1,26,725	Less: Depreciation	5,000	95,000
			Plant & Machinery		35,000

1,81,625**1,81,625**

Note : Depreciation on Plant and Machinery has been Credited to Plant and Machinery before preparation of Trial Balance. Therefore, it will appear only on debit side of Profit and Loss Account. Similarly, 'Outstanding wages' has been adjusted before preparation of Trial Balance. thus, it will also be shown only on liabilities side of the balance sheet.

Illustration: 22. The Following is the Trial Balance of Mr. Jayaraman Agencies as on 31 st March 2007. Prepare Trading and Profit and Loss Account for the year ended 31 st March 2007 and a Balance Sheet as on that date :

	Rs.	Rs.
Capital		1,00,000
Buildings	15,000	
Drawings	18,000	
Motor Van	25,000	
Furniture	7,500	
Loan from Mr. A @ 12%		15,000
Interest Paid	900	
Sales		1,00,000
Purchases	75,000	
Opening Stock	25,000	
Establishment	15,000	

Wages	2,000
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Insurance	1,000	
Commission		7,500
Sundry Debtors and Creditors	28,100	10,000
Bank	20,000	
	2,32,500	2,32,500

Adjustments : Closing Stock Rs. 32,000. Outstanding wages Rs. 500. Prepaid Insurance Rs. 300. Commission received in advance Rs. 800. Interest on capital 10% p.a. Depreciate building by 2.5%, furniture by 10% and motor van by 10%. Interest on drawings Rs. 500

Solution :

Trading Account for the year ended 31st March 2007

Particulars	Rs.	Rs.	Particulars	Rs.
To Opening Stock		25,000	By Sales	1,00,000
To Purchases		75,000	By Closing Stock	32,000
To Wages	2,000			
Add: Outstanding	500	2,500		
To Gross Profit		29,500		
		1,32,000		1,32,000

Profit & Loss Account for the year ended 31st March 2007

Particulars	Rs	Rs	Particulars	Rs	Rs
To Insurance	1,000		By Gross Profit		29,500
Less : Prepaid	300	700	By Interest Drawings		500
To Interest on Loan	900		By Commission	7,500	
Add : Outstanding	900	1,800	Less : Advance	800	6,700
To Establishment		15,000			
To Depreciation					
Buildings	375				
Furniture	750				
Motor Van	2,500	3,625			
To Interest on Capital		10,000			
To Net Profit		5,575			
		36,700			36,700

Balance Sheet as on 31st March 2007

Liabilities	Rs.	Assets	Rs.
Outstanding Wages	500	Cash at Bank	20,000
Commission in Advance	800	Sundry Debtors	28,100
Sundry Creditors	10,000	Closing Stock	32,000
Loan from A	15,000	Prepaid Insurance	300
Add: Interest	900	Buildings	15,000
Capital	1,00,000	Less: Depreciation	375
Add: Net Profit	5,575	Furniture & Fittings	7,500
Interest on Capital	10,000	Less: Depreciation	375
	1,15,575	Motor Van	25,000
Less : Drawings	18,000	Less : Depreciation	750
	97,575		6,750
Less: Interest on Draws	500		
	97,075		
	1,24,275		1,24,275

Illustration:23. The following are the balances extracted from the books of Mr. Kannan as on 31.12.2007. Prepare Trading and Profit and Loss Account for the year ending 31.12.2007 and a Balance Sheet as on that date.

Debit Balances	Rs.	Credit Balances	Rs.
Drawings	4,000	Capital	20,000
Cash at Bank	1,700	Sales	16,000
Wages	6,500	Sundry Creditors	4,500
Purchases	2,000		
Stock 01.01.2007	6,000		
Buildings	10,000		
Sundry Debtors	4,400		
Bills Receivable	2,900		
Rent	450		
Commission	250		
General Expenses	800		
Furniture	500		
	40,500		40,500

Adjustments: Stock on 31.12.2007 was Rs. 4,000. Interest on capital at 6% to be provided. Interest on Drawings at 5% to be provided. Wages yet to be paid Rs. 100. Rent prepaid Rs. 50.

Solution:

Trading Account for the year ending 31st December 2007

Particulars	Rs.	Particulars	Rs.
To Opening Stock	6,000	By Sales	16,000
To Purchases	2,000	By Closing Stock	4,000
To Wages	1,000		
Add: Outstanding	100		
To Gross Profit	10,900		
	20,000		20,000

Profit & Loss Account for the year ended 31 st December 2007

Particulars	Rs	Rs	Particulars	Rs
To Rent	450		By Gross Profit	10,900
Less: Prepaid	50	400	By Interest on drawings	200
To Interest on capital		1,200		
To Commission		250		
To General Expenses		800		
To Net Profit		8,450		
		11,100		11,100

Balance Sheet as on 31 st December 2007

Liabilities	Rs.	Assets	Rs.
Creditors	4,500	Cash in hand	6,500
Wages Outstanding	100	Cash at bank	1,700
Capital	20,000	Stock	4,000
Add: Net Profit	8,450	Rent prepaid	50
Interest	1,200	Debtors	4,400
	29,650	B/R	2,900
Less: Drawings	4,000	Furniture	500
	25,650		
Less: Interest	200	Buildings	10,000
	25,450		
	30,050		30,050

Illustration: 24 . Form the following Trial Balance and the adjoining information provided by Mr. Logesh, prepare a Trading and Profit and Loss Account for the year ending 31 st March 2007 and a Balance Sheet as on that date :

	Dr. Rs	Cr. Rs
Land and Buildings	20,000	
Machinery	50,000	
Furniture	4,000	
Opening Stock	16,300	
Purchases	80,000	
Salaries	6,000	
Carriage on sales	1,500	
Freight on purchases	2,000	
Customs duty on purchases	3,000	
Advertising	5,400	
Wages	20,000	
Rent	3,000	
General Expenses	3,200	
Postage and Stationery	1,500	
Repairs to Machinery	2,000	
9% Loan to Krishna	5,000	
Prepaid Insurance	200	
Sundry Debtors	20,000	
Cash at Bank	3,350	
Capital		80,000
Sundry Creditors		8,000
Discount received		400
Outstanding expenses		1,550
Sales		1,50,500
Provision for Repairs		6,000
	2,46,450	2,46,450

Adjustments :

- Stock on 31st March 2007 amounted Rs. 14,900.
- Machinery worth Rs. 10,000 was purchased on 1st October 2006. Wages Rs. 500 were paid to workmen for its installation which have been debited to wages account.
- Depreciation is to be written off @ 3% on Land and Buildings 10% Machinery and 5% on Furniture.
- Provision for repairs is to be credited with Rs. 1,500 every year.

Solution:

Trading Account for the year ending 31st March 2007			
Particulars	Rs.	Particulars	Rs.
To Opening Stock	16,300	By Sales	1,50,500
To Purchases	80,000	By Stock	14,900
To Freight on Purchases	2,000		
To Custom Duty	3,000		
To Wages	20,000		
Less: Capital Expenses	500		
To Gross Profit	44,600		
	1,65,400		1,65,400

Profit & Loss Account for the year ended 31 st March 2007.

Particulars	Rs	Particulars	Rs
To Interest 5000x9%.	450		
To Salaries	6,000	By Gross Profit	44,600
To Carriage	1,500	By Discount	400
To Advertisements	5,400		
To Rent	3,000		
To General Expenses	3,200		
To Postage and Stationery	1,500		
To Repairs to Machinery	2,000		
To Provision for repairs	1,500		
To Depreciation on L& B	600		
To Depreciation on Furniture	200		
To Depreciation on Machinery	4,525		
4,000 + 525.			
To Net Profit	15,125		
	45,000		45,000

Balance Sheet as on 31 st March 2007

Liabilities	Rs	Assets	Rs.
Creditors	8,000	Cash at bank	3,350
Outstanding expenses	1,550	Stock	14,900
Provision for Repairs		9% Loan	5,000
6,000+1,500.	7,500	Debtors	20,000
		Prepaid Insurance	200
Capital	80,000	Land and Building	20,000
Add : Net Profit	15,125	Less: Depreciation	600
Interest Outstanding	450	Furniture	4,000
		Less: Depreciation	200
		Machinery	50,000
		Add: Capital Expdr	500
			50,500
		Less: Depreciation	4,525
			45,975
	1,12,625		1,12,625

Illustration: 25. The following are the ledger balances extracted form the books of Mr. Muthu.

	Rs.		Rs.
Capital	50,000	Sales	3,01,000
Bank Overdraft	8,400	Return inwards	5,000
Furniture	5,200	Discount Cr.	800
Business Premises	40,000	Taxes & Insurance	4,000
Creditors	26,600	General Expenses	8,000
Opening Stock	44,000	Salaries	18,000
Debtors	36,000	Commission allowed	4,400
Rent form tenants	2,000	Carriage on purchases	3,600
Purchases	2,20,000	Provision for Doubtful debts	1,000
		Bad debts written off	1,600

Adjustments: Stock on hand on 31-12-2007 was estimated as Rs. 40,120. Write off depreciation on business premises Rs. 600 and furniture Rs.520. Make a provision of 5% on debtors for bad & doubtful debts. Allow interest on Capital at 5% and carry forward Rs.1,400 for unexpired insurance. Prepare Final Accounts for the year ended 31-12-2007.

Solution:

Trading Account for the year ending 31 st December 2007

Particulars	Rs	Particulars	Rs.
To Opening Stock	44,000	By Sales	3,01,000
To Purchases	2,20,000	Less: Returns	5,000
To Carriage on Purchases	3,600	By Closing Stock	40,120
To Gross Profit	68,250		
	3,36,120		3,36,120

Profit & Loss Account for the year ending 31st December 2007

Particulars	Rs	Rs	Particulars	Rs
To Taxes & Insurance	4,000		By Gross Profit	68,520
Less: Prepaid	1,400	2,600	By Rent	2,000
To General Expenses		8,000	By Discount	800
To Salaries		18,000		
To Commission		4,400		
To Bad Debts		1,600		
To Provision for Bad Debts	1,800			
Less: Existing Provision	1,000	800		
To Depreciation:				
Business Premises		600		
Furniture		520		
To Int. on Capl 50,000x5%.		2,500		
To Net Profit		32,300		
		71,320		71,320

Balance Sheet as on 31st December, 2007

Liabilities	Rs.	Assets	Rs.
Creditors	26,600	Debtors	36,000
Bank overdraft	8,400	Less: P. B.D	1,800
Capital	50,000	Stock	40,120
Add: Net Profit	32,300	Prepaid Insurance	1,400
Interest on Capital	2,500	Furniture	5,200
		Less: Depreciation	520
		Business Premises	40,000
		Less: Depreciation	600
	1,19,800		1,19,800

Illustration: 26. From the following Trial Balance of Mr. Naveen prepare a Trading and profit and Loss Account for the year ended December 31, 2007 and a Balance Sheet as on that date :

	Dr. Rs	Cr. Rs
Capital		4,250
Drawings	710	
Plant & Machinery	950	
Stock on 1st January	1,460	
Purchases and Sales	10,362	11,906
Purchases and Sales returns	210	291
General Expenses	440	
Rent	120	
Rates	200	
Apprentice Premium		80
Bank overdraft		240
Bank Debts	172	
Debtors & Creditors	4,200	2,000
Cash on hand	48	
Bad Debts reserve		105
	18,872	18,872

Adjustments: Depreciate Plant & Machinery at 10% p.a. Increase bad debts reserve to 5% on sundry debtors. Rent accrued in Rs. 40 Rates of Rs. 80 are paid in advance. Stock on hand as on 31st December is Rs. 1,700. Apprentice premium received in advance is Rs. 20

Solution:

Trading Account for the year ended 31st December 2007.

Particulars	Rs.	Rs.	Particulars	Rs	Rs.
To Stock		1,460	By Sales	11,906	
To Purchases	10,362		Less: Returns	210	11,696
Less: Returns	291	10,071	By Stock		1,700
To Gross Profit		1,865			
		13,396			13,396

Profit & Loss Account for the year ended 31st December, 2007

Particulars	Rs	Rs	Particulars	Rs	Rs
To General expenses		440	By Gross Profit		1,865
To Rent	120		By Apprentice Prm	80	
Add: Accrued	40	160	Less: Advance	20	60
To Rates	200				
Less: Advance	80	120			
To Bad Debts		172			
To P.B.D Adjustment.	210				
Less: P.B.D TrialBal.	105	105			
To Depreciation on P&M		95			
To Net Profit		833			
		1,925			1,925

Balance Sheet as on 31st December 2007

Liabilities	Rs.	Assets	Rs.
Rent Accrued	40	Cash in hand	48
Apprentice Prem Adv.	20	Stock	1,700
Bank overdraft	240	Rates paid in advance	80
Creditors	2,000	Debtors	4,200
Capital :	4,250	Less: P.B.D	210
Add: Net Profit	833	Plant & Machinery	950
	5,083	Less: Depreciation	95
Less Drawings	710		855
	4,373		
	6,673		6,673

Illustration: 27. The following are the balances extracted from the books of Mr. Oliver as on 31 st December 2007.

Rajesh's capital	20,000	Reserve for discount on Debtors	200
Drawings	3,500	Loan at 9%	5,000
Building	10,000	Salaries	4,400
Machinery	2,500	Wages	7,500
Furniture and fittings	600	Rent	2,750
Opening Stock	12,500	Traveling expenses	1,250
Cycle	400	Postage and telegram	135
Purchase	75,000	Rate and tax	90
Sales	1,25,000	Carriage inward	2,500
Sales return	5,000	Bad debts	300
Duty paid on purchase	15,000	Carriage outwards	750
Sundry debtors	10,000	Interest paid	375
Sundry creditors	7,500	General charges	900
Reserve for bad debts	400	Cash on hand	250
Cash at bank	2,400		

Adjustments : Stock on 31-12-2007 Rs. 14,000. Provide the following outstanding : salary Rs.400 Rent Rs.250 Wages Rs.600 and Interest outstanding Rs.75. Maintain the reserve for doubtful debtors at 5% and reserve for Discount on debtors at 2 ½ %. Provide depreciation for Building 2 ½ %, Machinery 10%, Furniture 6% and Cycle 15%. Prepare trading and profit loss A/c for the year ended 31.12.2007 and a balance sheet on that date

Solution:

Trading Account for the year ending December 31.2007

Particulars	Rs	Particulars	Rs
To Opening Stock	12,500	By Sales	1,25,000
To Purchase	75,000	Less: Returns	5000
Add: Duty	15,000	By Stock	14,000
To Wages	7,500		
Add: Outstanding	600		
To Carriage inward	2500		
To Gross Profit	20,900		
	1,34,000		1,34,000

Profit & Loss Account for the year ended 31 December 2007

Particulars	Rs	Particulars	Rs
To Salaries	4,400	By Gross Profit	20,900
Add: Outstanding	400		
To Rent	2,750		
Add: Outstanding	250		
To Traveling expenses	1,250		
To Postage	135		
To Rent and Tax	90		
To Bad Debts	300		
To Carriage outwards	750		
To Interest	375		
Add: Outstanding	75		
To General charges	900		
To Depreciation:			
Building	250		
Machinery	250		
Furniture	36		
Cycle	60		
To P.B.D Adjustment.	500		
Less: P.B.DTri.Bal.	400		
To Provision for DisAdj.	238		
Less: P.B.DTri.Bal.	200		
To Net Profit	8,491		
	20,900		20,900

Balance Sheet as on December 31, 2007

Liabilities	Rs	Asset	Rs.
Outstanding:		Cash	250
Salary	400	Cash at bank	2,400
Wages	600	Stock	14,000
Rent	250	Debtors	10,000
Interest	75	Less: P.B.D 10,000x5%.	500
Creditors	7500		9,500
Loan	5000	Less: P.D 9,500x2.5%.	238
Capital:	20,000	Building	10,000
Add: Net Profit	8,491	Less: Depreciation	250
	28,491	Machinery	2,500
		Less: Depreciation	250
Less: Drawings	3,500	Furniture	600
	24,991	Less: Depreciation	36
		Cycle	400
		Less: Depreciation	60
	38,816		38,816

Illustration: 28. The following trial balance was extracted from the books of Mr. Prem as on 31st December 2007

Debit balances	Rs.	Credit balances	Rs.
Plant and Machinery	20,000	Capital account	80,000
Manufacturing wages	34,500	Sundry creditors	44,560
Salaries	15,850	Bank loan	15,000
Furniture	10,000	Purchase Returns	1,740
Freight on purchase	1,860	Sales	2,50,850
Freight on sales	2,140	Provision for bad debts	2,000
Buildings	24,000		
Manufacturing expenses	9,500		
Insurance	4,250		
Good will	25,000		
General expenses	8,200		
Factory fuel and power	1,280		
Sundry debtors	78,200		
Factory lighting	950		
Opening Stock	34,200		
Motor car	12,000		
Purchase	1,02,000		
Sales Returns	3,100		
Bad Debts	1,400		
Interest and bank charges	400		
Cash at bank	4,200		
Cash in hand	1,120		

Prepare the trading and profit loss account and balance sheet after taking into consideration the following information: Stock in hand on 31st December 2007 was valued at Rs.30,500 Depreciate plant and Machinery by 10% , Furniture 5% and Motor car by Rs. 1,000. Bring provision for bad debts to 5% on sundry debtors. A commission of 1% on the G.P. is to be provided to works manager.

Solution:

Trading Account for the year ending 31st December 2007

Particulars	Rs	Rs.	Particulars	Rs	Rs.
To Opening Stock		34,200	By Sales	2,50,850	
To Purchase	1,02,000		Less: Returns	3,100	2,47,750
Less: Returns	1,740	1,00,260			
To Freight on Purchase		1,860	By Stock		30,500
To Manufacturing wages		34,500			
To Manufacturing Exp		9,500			
To Factory Fuel & Power		1,280			
To Factory lighting		950			
To Gross Profit		95,700			
		2,78,250			2,78,250

Profit & Loss Account for the year ended 31 st December 2007

Particulars	Rs.	Particulars	Rs
To Salaries	15,850	By Gross Profit	95,700
To Freight on sales	2,140		
To Insurance and tax	4,250		

Cash	62
Discount	330
Wages	754
Carriage Inward	1,240
Credit balances	
Capital	15,000
Returns Outward	840
Interest on Loan to Ashok	25
Rent Outstanding	130
Creditors	3,000
Provision for bad Debts	1,200
Sales	27,914

Adjustments:

1. The Manager is entitled to commission of 10% of the net profit after charging such commission.
2. Increase Bad Debts by Rs.600.
3. Make provision for Doubtful Debts at 10% and provision for Discount on Debtors at 5%
4. Stock valued at Rs. 1,500 destroyed by fire on 25th Dec.2007 but the Insurance Company admitted a claim for Rs. 950 only and paid it in January 2008.
5. Rs. 200 out of the Advertisement is to be carried forward to the next year.
6. The value of closing stock is Rs. 18,792.

Solution:

Trading Account for the year ended 31st December 2007

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock		17,445	By Sales	27,914	
To Purchases	12,970		Less: Returns	554	27,360
Less : Returns	840	12,130	By Closing Stock		18,792
To Wages		754	By Stock destroyed		1,500
To Carriage Inward		1,240			
To Gross Profit		16,083			
		47,652			47,652

Profit & Loss Account for the year ended 31 st December 2007

Particulars	Rs	Rs	Particulars	Rs	Rs
To Rent		820	By Gross Profit		16,083
To Advertisement Expenses	954		By Interest	25	
Less: Prepaid	200	754	Add: Accrued	25	50
To Bad Debts Tril Bal.	400		By P.B.D Tril Bal.	1,200	
Add: Bad Debts Adj.	600	1,000	Less: P.B.D Adj.	340	860
To Discount		330			
To Loss on Stock by fire		550			
To Carriage Outward		725			
To Provision for Discount		153			
To Commission to Manager		1,151			
To Net Profit		11,510			
		16,993			16,993
					90

Debit Balances	Rs.	Credit Balances	Rs
Opening Stock	6,000	Capital	40,000
Salaries	6,000	Return Outwards	500
Drawings	6,000	Loan from Y 6%.	5,000
Carriage Inwards	1,000	Rent Outstanding	100
Carriage Outwards	500	Creditors	13,000
Return Inwards	800	Outstanding Expenses	1,900
Loan to X 8%.	3,000	Bad Debts Provision	1,000
Rent	1,200	Discount	300
Goodwill	5,000	Sales	73,700
Wages	100	Subletting Rent	500
Insurance Premium	600		
Bank	8,500		
Purchases	60,000		
Debtors	30,000		
Advertisements	3,000		
Bad Debts	500		
Discount	600		
Cash	200		
Furniture	3,000		

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Solution:

Trading Account for the year ended 31st December 2007					
Particulars	Rs.	Rs.	Particulars	Rs	Rs.
To Opening Stock		6,000	By Sales	73,700	
To Purchases	60,000		Less: Returns	800	72,900
Less: Returns	500		By Drawings		500
		59,500	By Closing Stock		9,500
To Wages		100			
To Carriage Inwards		1,000			
To Gross Profit		16,300			
		82,400			82,400

Profit & Loss Account for the year ended 31 st December 2007					
Particulars		Rs	Rs	Particulars	Rs
To Salaries		6,000		By Gross Profit	16,300
Less: Paid to Proprietor		2,400	3,600	By Discount	300
To Salaries to Proprietor			2,400	By Rent by subletting	500
To Carriage Outwards			500	By Interest accrued	240
To Rent			1,200		
To Bad Debts			500		
To P.B.D Adjustment.		1,500			
Less : P.B.D Tril Bal.		1,000	500		
To Advertisement			3,000		
To Discount			600		
To Insurance Premium		600			
Less : Unexpired		150	450		
To Outstanding Interest			300		
To Depreciation of Furniture			300		
To Net Profit			3,990		
			17,340		17,340

Balance Sheet as on 31st December 2007			
Liabilities	Rs.	Assets	Rs.
Creditors	13,000	Cash	200
Y's Loan	5,000	Bank	8,500
Liability for other Exp	1,900	Debtors	30,000
Rent Outstanding	100	Less: P.B.D Tril.Bal.	1,500
Interest Outstanding	300	Loan to X	3,000
Capital	40,000	Closing Stock	9,500
Add: Net Profit	3,990	Unexpired Insurance	150
	43,990	Interest Accrued	240
Less : Drawings Cash.	6,000	Furniture	3,000
	37,990	Less: Depreciation	300
Less: Drawings Goods.	500	Good will	5,000
	37,490		
	57,790		57,790

5.8. Lesson End Activities

5.8.1. Preparation of Trading Account

Exercise: 1. Prepare Trading Account of Miss. Archana for the year ending 31.12.2007 from the following information :

	Rs.
Opening Stock	80,000
Purchases	8,60,000
Freight Inward	52,000
Wages	24,000
Sales	14,40,000
Purchase Returns	10,000
Sales Returns	3,16,000
Closing Stock	1,00,000
Import duty	30,000

5.8.2. Preparation of Manufacturing Account

Exercise: 2. The following are the balances in the Ledger of Miss. Bharathi for the year ended 31 st March 2007.

	Rs.
Opening Stock :	
Raw Materials	20,000
Work-in progress	3,000
Finished goods	10,800
Purchase of raw materials	50,000
Sales	2,40,000
Fuel and coal	1000
Wages	32,000
Factory expenses	40,000
Office expenses	30,000
Depreciation on Plant Machinery	3,000
Closing Stock :	
Raw Materials	20,000
Work-in-Progress	4,000
Finished goods	8,000

Prepare manufacturing Account for the year ended 31 st March 2007.

Exercise : 3. The following are the balances in the Ledger of Miss. Chitra for the year ended 31 st March 2007

	Rs.
Stock on 01.01.2007	
Raw Materials	10,000
Work-in-process	5,000
Finished goods	20,000
Stock on 31.12.2007	
Raw Materials	5,000
Work-in-process	15,000
Finished goods	30,000
Purchase of Raw Materials	50,000
Direct Wages	10,000
Carriage Charges on purchase of raw materials	5,000
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Factory Power	5,000
Depreciation on Factory Machines	5,000
Purchase of Finished Goods.	30,000
Cartage paid on Finished Goods purchased	2,000

5.8.3. Preparation of Profit and Loss Account

Exercise: 4. From the following balance extracted at the close of the year ended 31 st Dec. 2007, prepare Profit and Loss account of Miss. Devi as at that date.

	Rs.		Rs.
Gross profit	55,000	Repairs	500
Carriage on sales	500	Telephone expenses	520
Office Rent	500	Interest Dr..	480
General Expenses	900	Fire Insurance Premium	900
Discount to customers	360	Bad Debts	2,100
Interest from Bank	200	Apprentice Premium Cr..	1,500
Traveling expenses	700	Printing & Stationery	2,500
Salaries	900	Trade expenses	300
Commission	300		

Exercise:5. From the following balances, taken from the Trial Balance of Miss. Ilakkiya, prepare a Trading and Profit and Loss Account for the year ending 31 st Dec. 2007.

	Dr.Rs.	Cr.Rs
Stock on 01.01.2007	2,000	
Purchases and Sales	20,000	30,000
Returns	2,000	1,000
Carriage	1,000	
Carriage	1,000	
Rent	1,000	
Interest received		2,000
Salaries	2,000	
General Expenses	1,000	
Discount		500
Insurance	500	

The Closing Stock on 31 st December, 2007 is Rs. 5,000.

5.8.4. Preparation of Balance Sheet

Exercise: 6. Prepare Balance Sheet of Miss. Farzana as at 31 st December 2007.

	Rs
Capital	10,00,000
Closing Stock	2,00,000
Fixed Assets	3,10,000
Sundry Debtors	10,00,000
Profit & Loss Account	2,10,000
Sundry Creditors	3,75,000
Liabilities for Expenses	55,000
Drawings	30,000
Cash and bank	1,00,000

5.8.5. Preparation of Final Accounts with single Adjustment

Exercise:7. From the following balances extracted from the books of Miss Gomathi. Prepare a Trading and Profit and Loss Account and a Balance Sheet.

Particulars	Rs.	Particulars	Rs
Opening Stock	1,250	Plant and Machinery	6,230
Sales	11,800	Returns Outwards	1,380
Depreciation	667	Cash in hand	895
Commission Cr..	211	Salaries	750
Insurance	380	Debtors	1,905
Carriage Inwards	300	Discount Dr..	328
Furniture	670	Bills Receivable	2,730
Printing Charges	481	Wages	1,589
Carriage Outwards	200	Returns Inwards	1,659
Capital	9,228	Bank overdraft	4,000
Creditors	1,780	Purchases	8,679
Bills Payable	541	Petty Cash in hand	47
		Bad Debts	180

The Value of Stock on 31 st December, 2007 was Rs. 3,700.

5.8.6. Preparation of Final Accounts with several Adjustments

Exercise:8. From the following Trial Balance and additional information for Miss. Hema, you are required to prepare a Profit & Loss Accounts for the year ended 31 December 2007.

Particulars	Dr. Rs.	Cr. Rs.
Capital		20,000
Sundry Debtors	5,400	
Drawings	1,800	
Machinery	7,000	
Sundry Creditors		2,800
Wages	10,000	
Purchases	19,000	
Opening Stock	4,000	
Bank Balance	3,000	
Carriage Charges	300	
Salaries	400	
Rent and Taxes	900	
Sales		29,000
	51,800	51,800

Additional Information : Closing Stock Rs. 1,200. Outstanding Rent and Taxes Rs. 100. Charge depreciation on machinery at 10%. Wages prepaid Rs. 400.

Exercise: 9. The following are the Balances extracted from the Books of Miss. Indhu as on December 31,2007.

	Rs.		Rs.
Capital	2,00,000	Loan @9%	50,000
Drawings	35,000	Salaries	44,000
Buildings	1,00,000	Wages	75,000
Machinery	25,000	Rent	27,500
Furniture & fittings	6,000	Traveling expenses	12,500
Opening Stock	1,25,000	Postage telegrams	1,350
Cycle	4,000	Rates& taxes	900
Purchase	7,50,000	Carriage inwards	25,000
Sales	12,50,000	Carriage outwards	7,500
Sales returns	50,000	Interest paid	3,750
Duty paid on purchase	1,50,000	General charges	9,000
Sundry debtors	1,00,000	Carriage outwards	7,500

Sundry creditors	75,000	Interest paid	3,750
Reserve for Bad & doubtful debts	4,000	General charges	9,000
Reserve for Discount on Debtors	2,000	Bad debts	3,000
Cash in the bank	24,000	Cash in hand	2,500

Provide the following: outstanding Salary Rs.4,000; Rent Rs.2,500; Wages Rs.6,000 and Interest outstanding. Maintain the reserve for doubtful debts at 5% and reserve for Discount on Debtors at 2 ½ %. Provide depreciation for building 2 1/2 % Machinery 10% furniture 6% cycle 15%. Prepare final Accounts.

Exercise:10. Prepare Trading and Profit and Loss a/c and Balance Sheet from the following particulars Miss. Jaya as on 31-12-2007

Particulars	Dr Rs.	Cr.Rs.
Capital		10,000
Cash in hand	1,500	
Bank O.D. @ 5%		2,000
Purchases and Sales	12,000	15,000
Returns	1,000	2,000
Establishment charges	2,500	
Taxes Insurance	500	
Bad debts reserve		1,000
Bad Debts	500	
Sundry Debtors and creditors	5000	1,850
Commission		650
Investments	4,000	
Stock as on 1 st Jan, 1996	3,000	
Drawings	1,500	
Furniture	500	
Bills Receivable and Payable	3,000	2,500
Total	35,000	35,000

Adjustments: Salary Rs.100 and Taxes Rs.400 are outstanding but Insurance Commission amounting to Rs.100 has been received in advance. Interest accrued on investment Rs.210. Bad Debts Reserve is to be maintained at Rs.1,000. Depreciation on furniture is to be charged at 10%. Stock on 31 st Dec.1993 was valued at Rs.4,500.

Exercise: 11. From the following Trial Balance of Miss. Kalaivani as at 31 st December 2007. Prepare Trading and Profit and Loss Account for the year ended 31 st Dec.2007 and a Balance Sheet as on that date.

Particulars	Dr. Rs.	Cr Rs.
Capital		80,000
Drawings	6,000	
Machinery	25,000	
Stock 1-1-07	15,000	
Purchases	82,000	
Returns inwards	2,000	
Sundry Debtors	20,600	
Furniture	5,000	
Freight and Duty	2,000	
Carriage outwards	500	
Rent, Rates & Taxes	4,600	
Printing and Stationery	800	

Trade Expenses	400	
Sundry Creditors		10,000
Sales		1,20,000
Return outwards		1,000
Postage and Telegram	800	
Provision for doubtful Debts		400
Discount		800
Rent Received		1200
Insurance Charges	700	
Salaries and wages	21,300	
Cash in hand	6,200	
Cash at bank	20,500	
	2,13,400	2,13,400

Adjustments: Stock on 31.12.2007 was valued at Rs.14,600. Write off Rs.600 as bad debts. Provision for doubtful debts to be made at 5% on debtors. Create a provision for discount on debtors and on creditors at 2%. Depreciate machinery by 20% and furniture by 5%. Insurance prepaid was Rs.100.

Exercise: 12. The following balances of Miss. Lawanya as on 30 th June 2007.

Capital	5,000	Loans Borrowed	25,000
Drawings	3,000	Sundry Debtors	10,000
Buildings	15,000	Deposits Dr.	1,000
Plant and Machinery	15,000	Purchases	2,20,000
Furniture and fittings	4,000	Opening stock	15,000
Lorry	10,000	Sales	3,00,000
Creditors for trade	5,000	Carriage inwards	2,000
Freight and duty on purchases	25,000	Insurance	500
Carriage outwards	1,000	Commission on sales	1,000
Salaries	6,000	Reserve for Bad debts	300
Wages	20,000	Reserve for discount on debtors	150
Lighting charges	1,000	Discount allowed to customers	1,500
Taxes and license	1,200	Cash on hand	150
Postage and telegrams	150	Over draft with bankers	24,750
General charges	700	Lorry maintenance	3,500
Interest paid	2,250		

Adjustments:

- Stock on hand 30-6-2007 Rs.2000
- Provide the following
 - Salaries due Rs.600
 - Wages due Rs. 1,000
 - Interest due on Loans Rs.500 On overdraft Rs.250
 - Lorry maintenance due Rs.500
 - Insurance prepaid Rs.125.
- Maintain the reserve for Doubtful Debts at 5% and Reserve for discount at 5% and Reserve for discount 2 ½ % on debtors.
- Provide Depreciation on: Building 5%; Plant and Machinery 10%; lorry 25%.
Prepare Trading and Profit and Loss account for the year ended 30 th June 2007 and Balance Sheet as on that date.

Exercise: 13. Miss. Malathi books show the following balances prepare his Trading and Profit and loss a/s for the year ended 31 st December 2007 and Balance Sheet as that date

Particulars	Rs	Particulars	Rs.
Drawings	5,000	Capital	1,08,850
Bills Receivable	4,500	Loan at 6% p.a.	20,000
Land and Building	37,770	Sales	3,50,000
Sundry Debtors	62,000	Interest on Investments	5,640
Wages and Salaries	40,970	Sundry Creditors	59,000
Returns inwards	2,780	Commission Received	630
Purchases	2,56,590	Returns outwards	6,430
Postage and telegrams	5,620		
Stock at Commencement	89,680		
Printing and Stationery	880		
Traveling Expenses	12,000		
Interest on loan paid	300		
Petty Cash	70		
Bank balance	8,800		
Commission	470		
Repairs	3,620		
Furniture	500		
Investments	19,000		
	5,50,550		5,50,550

Adjustments : The closing stock Rs.1,28,960 on 31-12-2007. Commission received but not earned Rs.130. Travelling Expenses were overdrawn by the employees to the extent of Rs.2000. Create at 5% Reserve for Doubtful Debts on sundry Debtors and 2% Reserve for discount on Debtors and Creditors. Interest on loan due for 9 months. One-fourth of wages and salaries should be charged to Trading Account.

Exercise:14. The following are the balances extracted from the books of Miss. Nathiya as on 31-12-2007

Particulars	Dr.Rs	Cr Rs
Capital		12,500
Drawings	6,200	
Furniture and fittings	1,750	
Typewriter	1,200	
Purchases	1,80,000	
Sales		2,35,000
Lorry	12,000	
Travelling Expenses	900	
Sundry Creditors		10,000
Insurance premium	500	
Audit fees	600	
Postage and telegrams	150	
Bad Debts	500	
Interest paid	250	
Rent and Taxes	5,000	
Return out wards		5,000
Return inwards	10,000	
Carriage outwards	8,000	
Salaries	11,000	
Advertisement	1,200	
Cycle	200	

Opening stock	21,500	
Sundry Debtors	12,000	
Provision for Bad & Doubtful Debts		400
Commission earned		9000
Discount allowed	5000	
Cash on hand	450	
Bank Overdraft		6,500
	2,78,400	2,78,400

Adjustments:

- Stock on 31-12-2007 Rs.17,500
- Provide the following Outstanding; Interest Rs.250; Salaries Rs.1,000; Rent Rs.500; Audit fee Rs.500;
- Prepaid Expenses: Insurance Premium Rs.125; Advertisement Rs.200
- Maintain Provision for Bad & Doubtful Debts at 5% on Debtors
- Provide Depreciation
 - Furniture and Fitting - @ 10%
 - Cycle - @ 15%
 - Typewriter - @ 15%

Prepare Trading and Profit & Loss Account for the above period ended and a Balance Sheet as that date.

Exercise: 15. The following are the balances extracted from the books Miss. Oviya as on 31-12-2007 Prepare Final Accounts.

Particulars	Rs.	Particulars	Rs
Capital	20,000	Creditors	4,800
Buildings	15,000	Cash on Hand	300
Machinery	10,000	Cash at Bank	4,700
Furniture	1,000	Salaries	14,000
Motor Cycle	8,000	Rent paid	4,000
Purchases	94,000	Commission Cr.	1,400
Purchases returns	1,000	Rates & Taxes	600
Sales	1,40,000	Bad Debts	200
Sales Returns	500	Interest	400
Debtors	15,000	Dividend	500
Sundry Expenses	800	Discount allowed	700
Rent received	1,500	Provision for Bad Debts	300
Stock 1-1-2007	11,000		
Bank Overdraft	10,700		

Adjustments:

- Closing Stock valued at Rs.10,000 31-12-2007
- Salaries outstanding Rs.1,000
- Rent received in advance Rs.200
- Dividend accrued but not yet received Rs.150
- Provide depreciation on Machinery at 10% Buildings at 5%
- Interest on Capital at 8%
- Maintain provision for Bad Debts at 5% on Debtors.
- Provide 2% each for discount on and debtors on creditors

Exercise: 16. The following Trial balances extracted from the books of a Merchant Miss. Padmavathi on 31-12-2007

Particulars	Dr.Rs.	Cr. Rs.
Furniture & Fittings	640	
Motor Vehicles	6,250	
Buildings	7,500	
Capital		12,500
Bad Debts	125	
Bad & Doubtful Debts Provision		200
Sundry Debtors and Creditors	3,800	2,500
Stock 1-1-2007	3,460	
Purchases and Sales	5,475	15,450
Bank overdraft		2,850
Sales and Purchases Returns	200	125
Advertising	450	
Interest on Bank overdraft	118	
Commission		375
Cash	650	
Taxes and Insurance Premium	782	
General Expenses	1,250	
Salaries	3,300	
	34,000	34,000

Adjustments :

- 1) Stock on hand on 31.12.2007 Rs. 3,250
- 2) Depreciation Buildings @ 5% Furniture @ 10% Motor Vehicles @ 20% per annum.
- 3) Rs. 85 is due for interest on Bank overdraft
- 4) Salaries Rs. 300 and Taxes Rs. 200 are outstanding
- 5) Insurance Premium amounting Rs. 100 Prepaid
- 6) One-third of the commission received is in respect of work to be done next year.
- 7) Write of a further sum of Rs. 100 as bad debts from Debtors and create provision for Bad & Doubtful debts to be made @ 5% on debtors.

Prepare a Trading and Profit & Loss Account and the Balance Sheet for the above year.

Exercise: 17. Prepare Trading, Profit & Loss A/c and Balance Sheet from the following Trial Balance of Miss. Queen.

Debit Balances	Rs.	Credit Balances	Rs.
Sundry Debtors	92,000	Capital	70,000
Plant & Machinery	20,000	Purchase Returns	2,600
Interest	430	Sales	2,50,000
Rent, Rates, Taxes & Insurance	5,600	Sundry Creditors	60,000
Conveyance charges	1,320	Bank Overdraft	20,000
Wages	7,000		
Sales Returns	5,400		
Purchases	1,50,000		
Opening stock	60,000		
Drawings	22,000		
Trade Expenses	1,350		
Salaries	11,200		
Advertising	840		
Discount	600		

Bad debts	800	
Business Premises	12,000	
Furniture & Fixtures	10,000	
Cash in hand	2,060	
	4,02,600	4,02,600

Adjustments :

- i. Stock on hand on 31.12.2007 Rs. 90,000.
- ii. Provide depreciation on premises at 2.5%; Plant & Machinery at 7.5% and Furniture & Fixtures at 10%.
- (iii) Write off Rs. 800 as further bad debts.
- (iv) Provide for doubtful debts at 5% on sundry debtors.
- (v) Outstanding rent was Rs. 500 and outstanding wages Rs. 400.
- (vi) Prepaid insurance Rs. 300 and prepaid salaries Rs. 700.

Exercise: 18. From following Trial Balance extracted for the Books of Miss. Ramya, prepare Trading, Profit & Loss A/c and Balance Sheet for the year ended 31.12.2007.

Debit Balances	Rs.	Credit Balances	Rs.
Cash at Bank	2,610	Creditors	4,700
Book Debts	11,070	Discounts	150
Salaries	4,950	Creditors for expenses	400
Carriage inwards	1,450	Returns outwards	2,520
Carriage outwards	1,590	Sales	80,410
Bad debts	1,310	Capital	40,000
Office expenses	5,100		
Purchases	67,350		
Returns inwards	1,590		
Furniture & Fixtures	1,500		
Stock	14,360		
Insurance	3,300		
Depreciation on property	1,200		
Freehold Property	10,800		
	1,28,180		1,28,180

Adjustments :

- i. Make provision for doubtful debts at 5%
- ii. Calculate discount on creditors @ 2%
- (iii) Office expenses include stationery purchased Rs. 800.
- (iv) Carriage inwards includes carriage paid on purchase of furniture Rs. 50.
- (v) Outstanding salaries Rs. 150.
- (vi) Prepaid insurance Rs. 300.
- (vii) Stock on hand Rs. 10,700

Exercise: 19. The following are the Ledger balances extracted from the books of Miss. Sathiya as on 31.12.2007.

	Rs.		Rs.
Debit Balances :			
Drawings	3,000	Repairs	360
Goodwill	6,000	Printing & Stationery	110
Land & Buildings	12,000	Bad debts	640
Plant & Machinery	8,000	Advertisement	6,700
Loose tools	600		
Bills receivable	1,600		
Stock, 1st Jan. 2007	8,000		80,720
Purchases	10,200		
Wages	4,000	Credit Balances :	
Carriage inwards	200	Sales	24,000
Carriage outwards	80	Provision for Bad debts	900
Coal, Gas & Coke	1,160	Provision for discount on debtors	342
Sales return	400	Loan at 6%	4,000
Furniture & Fixtures	240	Sundry creditors	8,000
General expenses	1,050	Purchase returns	500
Provision for Discount on Crs	320	Discount received	300
Interest loan	120	Commission received	400
Salaries	1,000	Bills payable	2,278
Rent, Rates & Taxes	560		
Discount allowed	300		80,720
Cash at bank	5,000		
Cash in hand	80		
Sundry debtors	9,000		

Adjustments : Closing stock on 31.12.2007 amounted to Rs. 15,654. Depreciate Plant & Machinery at 5% loose tools at 15% and furniture & Fixtures at 20%. Provide for Bad & Doubtful Debts at 5% and for discount on Debtors and Creditors at 2%. Outstanding : Wages Rs. 200; and Rent, Rates & Taxes Rs. 100. Write off one-third of advertisement. Interest on loan has been paid for six months only. A bill for Rs. 1,000 included in Bills Receivable has been dishonored. The Manager is entitled to a commission of 5% on net profits after changing such commission.

Prepare final accounts for the year ended 31.12.2007.

Exercise: 20. From the following figures extracted from the books of Miss. Thenmozhi you are required to prepare a Trading and Profit & Loss Account for the year ended 31 st March, 2007 and a Balance Sheet as on that date after making the necessary adjustments.

Particulars	Rs.	Particulars	Rs.
Capital	2,28,800	Stock 01.04.1989	38,500
Drawings	13,200	Wages	35,200
Plant and Machinery	99,000	Sundry Creditors	41,000
Freehold property	66,000	Postage and Telegrams	1,540
Purchases	1,10,000	Insurance	1,760
Returns Outwards	1,100	Gas and Fuel	2,970
Salaries	13,200	Bad Debts	660
Office Expenses	2,750	Office Rent	2,360
Office Furniture	5,500	Freight	9,900
Discounts A/cDr..	1,320	Loose Tools	2,200
Sundry Debtors	29,260	Factory Lighting	1,100
Loan to Krishna @		Provision for D/D	880
			102

10% p.a.-balance on 01.04.2006	44,000	Interest on Loan to Shri Krihsna	1,100
Cash at Bank	29,260	Cash on hand	2,640
Bills Payable	5,500	Sales	2,31,440

Adjustments :

1. Stock on 31 st March 2007 was valued at Rs.72,600.
2. A New machine was installed during the year costing Rs. 15,400, but it was not recorded in the books as no payment was made for it. Wages Rs. 1,100 paid for its erection has been debited to wages account.
3. Depreciate :
Plant and Machinery by 33 1/3 %.
Furniture by 10%
Freehold Property by 5%
4. Loose tools were valued at Rs. 1,760 on 31.03.2007.
5. Of the Sundry Debtors Rs. 600 are bad and should be written off.
6. Maintain a provision of 5% on Sundry Debtors for doubtful debts.
7. The Manager is entitled to a commission of 10% of the net profits after charging such commission.

5.9. Model Answers to Check your Progress :

Ex:1.

$$\text{G.P. : } 14,40,000 - 3,60,000 = 11,24,000 + 1,00,000 = 12,24,000 - 80,000 + 8,50,000 + 52,000 + 24,000 + 30,000. \quad \mathbf{1,88,000}$$

Ex:2.

$$\text{Cost of Goods Manufactured : } 3,000 + 50,000 + 32,000 + 1,000 + 40,000 + 3,000. - 4,000. = \quad \mathbf{1,24,000}$$

Ex:3.

$$\text{Cost of Goods Manufactured : } 5,000 + 55,000 + 10,000 + 5,000 + 5,000 + 5,000. - 15,000. = \quad \mathbf{70,000}$$

Ex:4.

$$\text{N.P : } 55,000 + 200 + 1500. - 500 + 500 + 900 + 360 + 700 + 900 + 300 + 500 + 520 + 480 + 900 + 2100 + 2500 + 300. = \quad \mathbf{45,240}$$

Ex:5.

$$\text{G.P : } 28,000 + 5,000. - 2,000 + 19,000 + 1,000 + 1,000. = \quad \mathbf{10,000}$$

$$\text{N.P : } 10,000 + 2,000 + 500. - 1,000 + 2,000 + 1,000 + 1,000 + 500. = \quad \mathbf{8,000}$$

Ex :6.

$$\text{Liabilities: } 10,00,000 + 2,10,000. - 30,000. + 3,75,000 + 55,000 \quad \mathbf{16,10,000}$$

$$\text{Assets : } 3,10,000 + 2,00,000 + 10,00,000 + 1,00,000 \quad \mathbf{16,10,000}$$

Ex:7.

$$\text{G.L : } 29,000 + 2,700. - 4,000 + 17,800 + 9,600 + 300. = \quad \mathbf{2,700}$$

$$\text{N.L : } 2,700. + 400 + 1,000 + 700. = \quad \mathbf{4,800}$$

$$\text{Liabilities: } 100 + 2,800 + 20,000 - 4,800 - 1,800 = \quad \mathbf{16,300}$$

$$\text{Assets : } 3,000 + 5,400 + 1,200 + 400 + 6,300 = \quad \mathbf{16,300}$$

Ex:8.

$$\text{G.P : } 1,20,000 + 14,000. - 12,000 + 90,000 + 7,500 + 600. = \quad \mathbf{20,900}$$

N.P : $20,900 - 4,400 + 400 + 2,750 + 250 + 1,250 + 135 + 90 + 750 + 900 + 375 + 75 + 250$
 $+ 36 + 60 + 500 + 300 - 400 + 238 - 200. =$ **8,490.**
 Liabilities: $20,000 + 8,492 + 3,500 = 24,992 + 7,500 + 5,000 + 75 + 400 + 250 + 600 =$ **38,816**
 Assets : $9,750 + 2,250 + 564 + 340 + 14,000 + 9,263 + 2,400 + 250 =$ **38,816.**

Ex:9.

G.P : $14,000 + 4,500. - 3,000 + 10,000. =$ **5,500**
 N.P : $5,500 + 550 + 210 + 1,000. - 2,500 + 850 + 500 + 100 + 50 + 1,000. =$ **2,260**
 Liabilities: $10,000 - 1,500 + 2,260 + 2,000 + 2,500 + 1,850 + 100 + 400 + 100 =$ **17,710**
 Assets : $1,500 + 4,000 + 3,000 + 4,210 + 450 + 50 + 4,500 =$ **17,710**

Ex:10.

G.P : $1,18,000 + 14,600. - 15,000 + 81,000 + 2,000. =$ **34,600**
 N.P : $34,600 + 1,200 + 200 + 800. - 500 + 4,600 + 800 + 400 + 800 + 1,200 + 600$
 $+ 21,300 + 380 + 5,250. =$ **970**
 Liabilities: $80,000 + 970 - 6,000 = 74,990 + 9,800 =$ **84,770**
 Assets : $20,000 + 4,750 + 14,600 + 18,620 + 20,500 + 6,200 + 100 =$ **84,770**

Ex:11.

G.P : $3,00,000 + 20,000. - 15,000 + 2,20,000 + 25,000 + 21,000 + 2,000. =$ **37,000**
 N.P : $37,000. - 7,200 + 2,750 + 4,000 + 375 + 1,000 + 1,000 + 1,200 + 150 + 750 + 1,000$
 $+ 1,500 + 200 + 88 + 5,150. =$ **10,380**
 Liabilities: $5,000 + 10,386 - 3,600 = 11,786 + 600 + 1,000 + 500 + 5,000 + 25,500 + 25,500 =$ **69,386**
 Assets : $150 + 1,000 + 926 + 20,000 + 7,500 + 3,600 + 13,500 + 14,250 + 125 =$ **69,386**

Ex:12.

G.P: $3,47,220 + 1,28,960. - 89,680 + 2,50,160 + 10,243. =$ **1,26,096**
 N.P: $1,26,096 + 5,640 + 500 + 1,180. - 30,726 + 5,620 + 880 + 10,000 + 1,200 + 470$
 $+ 3,620 + 3,100 + 1,178. =$ **66,272**
 Liabilities: $1,08,850 + 76,622 - 50,000 = 1,35,472 + 130 + 900 + 57,820 + 20,000 =$ **2,59,322**
 Assets : $70 + 8,800 + 19,000 + 4,500 + 57,722 + 1128,960 + 2,000 + 37,770 + 500 =$ **2,59,322**

Ex:13.

G.P : $2,25,000 + 17,500. - 21,500 + 1,75,000 + 12,000. =$ **34,000**
 N.P : $34,000 + 9,000. - 900 + 375 + 1,100 + 150 + 700 + 500 + 5,500$
 $+ 8,000 + 12,000 + 1,000 + 5,000 + 175 + 30 + 180. =$ **7,390.**
 Liabilities: $12,500 + 7,390 - 6,200 = 13,690 + 10,000 + 6,500 + 2,250 =$ **32,440**
 Assets : $1,575 + 1,020 + 170 + 11,400 + 450 + 17,500 + 325 =$ **32,440**

Ex:14.

G.P : $1,39,500 + 10,000. - 11,000 + 93,000. =$ **45,500**
 N.P : $45,500 + 1,300 + 1,400 + 650 + 96. - 800 + 15,000 + 4,000 + 600$
 $+ 650 + 400 + 1,000 + 750 + 1,600 + 985. =$ **23,161**
 Liabilities: $20,000 + 23,161 + 1,600 = 44,761 + 4,704 + 10,700 + 1,000 + 200 =$ **61,365**
 Assets : $14,250 + 9,000 + 10,000 + 150 =$ **61,365**

Ex:15.

G.P : $15,250 + 3,250. - 3460 + 5350. =$ **9,690**

N.P : $9,690 + 250. - 210 + 450 + 203 + 1,250 + 3,600 + 882 + 375 + 64 + 1250. =$ **1,656**
 Liabilities : $12,500 + 1,656 = 14,156 + 2,500 + 2,850 + 300 + 200 + 85 + 125 =$ **20,216**
 Assets : $576 + 5,000 + 7,125 + 3,515 + 650 + 325 + 100 =$ **20,216**

Ex:16.

G.P : $2,44,600 + 90,000. - 60,000 + 14,7400 + 7400. =$ **1,19,800**
 N.P : $1,19,800. - 1350 + 10500 + 1320 + 840 + 5800 + 600 + 430 + 6160 + 800. =$ **90,000**
 Liabilities: $70,000 - 22,000 + 90,000 = 1,38,000 + 60,000 + 20,000 + 900 =$ **2,18,900**
 Assets : $86,640 + 2,060 + 90,000 + 1,000 + 18,500 + 1,17,00 + 9,000 =$ **2,18,900**

Ex:17.

G.P : $7,88,200 + 10,500. - 14,360 + 64,830 + 1,400. =$ **8,730**
 N.L : $8,730 + 150 + 94. - 5,100 + 3,000 + 4,300 + 1,863 + 1,590 + 600 + 1,200. =$ **8,679**
 Liabilities: $40,000 + 8,679 = 31,321 + 550 + 4,606 =$ **36,477**
 Assets : $2,610 + 10,517 + 200 + 300 + 1,550 + 10,800 =$ **36,477**

Ex:18.

G.P : $23,600 + 15,654. - 8,000 + 9,700 + 200 + 4,200 + 1,160. =$ **15,994**
 N.P : $15,994 + 400 + 140. - 80 + 1,000 + 660 + 360 + 110 + 700 + 1,050 + 240 + 240 +$
 $148 + 2,000 + 400 + 90 + 48 + 448. =$ **8,960**
 Liabilities : $40,000 - 3,000 + 8,960 + 748 + 2,278 + 4,120 + 7,840 =$ **60,946**
 Assets : $80 + 5,000 + 600 + 9,310 + 15,654 + 510 + 192$
 $+ 7,600 + 12,000 + 4,000 + 6,000. =$ **60,946.**

Ex:19.

G.P : $2,47,750 + 30,500. - 34,200 + 1,00,260 + 1,860 + 34,500 + 9,500 + 1,280 + 950. =$ **95,700**
 N.P : $95,700. + 15,850 + 2,140 + 4,250 + 8,200 + 1,400 + 400 + 2,000$
 $+ 500 + 1,000 + 1910 + 957+. =$ **57,093**
 Liabilities: $80,000 + 57,093 = 1,37,093 + 957 + 15,000 + 44,560 =$ **1,97,610**
 Assets : $1,120 + 4,200 + 30,500 + 18,000 + 9,500 + 11,000 + 74,290 + 24,000 + 25,000$ **1,97,610**

Ex:20.

G.P : $2,31,440 + 72,600. - 38,500 + 1,08,900 + 34,100 + 2,970 + 9,900 + 1,100. =$ **1,08,570**
 N.P : $1,08,570 + 4,400. - 13,200 + 2,750 + 1,540 + 1,760 + 2,860 + 1,320 + 1,870$
 $+ 42,790 + 4,080. =$ **40,800**
 Liabilities: $2,28,800 + 40,800 - 13,400 = 2,56,400 + 5,500 + 59,400 + 4,080 =$ **3,25,380**
 Assets : $77,000 + 62,700 + 4,950 + 1,760 + 72,600 + 27,170 + 47,300 + 29,460 + 2,640$ **3,25,380**

5.10 References :

Financial Accounting – R.L. Gupta – Sultan chand & Sons
 Advanced Accounting – S.N. Mageswari – Vikas Publishers
