BACHELOR OF COMPUTER APPLICATIONS

SEMESTER 4

DCA2204

PRINCIPLES OF FINANCIAL ACCOUNTING AND MANAGEMENT

Unit 4

Trial Balance and Final Accounts

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1. INTRODUCTION

The Arithmetical accuracy of ledger balances can be ascertained only after they have been put to test. A separate statement is prepared to test the accuracy of the ledger balances. Such a statement is called the Trial Balance – balances on trial. In the Trial Balance, the closing balances of the accounts in the General Ledger are shown along with balances from the cash book. As the primary and secondary books are maintained on the double entry concept, the balances in the Trial Balance must tally.

The purpose of preparing a Trial Balance is not only to check the arithmetical accuracy of ledger balances, but also to have an overview of the operations of the business as on a particular date. A Trial Balance is prepared not only at the year-end but also on weekly, monthly, quarterly and half yearly basis. These interim Trial Balances are used as control steps. For example, if the Trial Balance as on 31st January shows the salary figure at Rs.13.20 lakhs, and the Trial Balance as on 28th February shows the salary figure at 35.50 lakhs, it must be examined why the salary has increased significantly – whether there has been any salary revision during February, or fresh recruitments have been made, or there is an accounting error. It may be mentioned here that the salary figure as per the February Trial Balance is a cumulative figure; it includes salary for January as well.

What is trial balance ?

A trial balance is **a bookkeeping worksheet in which the balance of all ledgers are compiled into debit and credit account column totals that are equal.** A company prepares a trial balance periodically, usually at the end of every reporting period.

A Trial Balance is not a part of books of account. It is drawn as a separate statement and this becomes the source document for preparing external financial statement i.e., Profit and Loss Account and the Balance Sheet. A Trial Balance consists of all the elements of financial statements – assets, liabilities, equity, income and expenses.

1.1 Objectives

After studying this unit, you will able to

- *Prepare Trial Balance*
- *Explain the concept of rectification of errors*
- *Prepare final accounts*

2. PREPARATION OF THE TRIAL BALANCE

From the comprehensive illustration given in section 3.3 of unit 3, we can show how the Trial Balance is to be prepared. We make only one additional assumption that the capital of M/s XYZ as on 1st August 2006 was Rs. 1,05,000.

Trial Balance As on 31st August, 2006

			Dr.	Cr.
Sl. No.	**Particulars**	**L.F**	**Amount (Rs)**	**Amount (Rs)**
1	Capital A/c			1,05,000
2	Purchase A/c		57,21,500	
3	Sales A/c			49,64,500
4	Return Outward A/c			50,500
5	Return Inward A/c		45,000	
6	Total Debtors A/c		31,29,500	
7	Total creditors A.c			26,59,000
8	Bills Receivable A/c		10,75,000	
9	Bills payable A/c			25,70,000
10	Furniture A/c		1,25,000	
11	Salary A/c		2,34,000	
12	Stationery A/c		75,500	
13	Ram Kumar & Sons A/c			1,25,000
14	Cash in hand		68,500	
			1,04,74,000	**1,04,74,000**

You have to follow the debit-credit rule to prepare the Trial Balance. For example, purchases account, being expenses, shows a debit balance and, hence, the balance is shown in the column for debits. It can be seen that except item No. 14, all other balances are taken from the General Ledger – only the cash balance is taken from the cash book. The tallied Trial Balance tells that the ledger balances are properly drawn i.e., there is no casting error. But a tallied Trial Balance does not necessarily mean that there are no errors in the books of account. There can be a host possibility of errors in spite of an agreed Trial Balance. This will be discussed later.

Let us see another Trial Balance.

The following Trial Balance has been drafted by a book keeper for the preparation of final accounts of a trader. Re-draft the same.

Trial Balance for the year ended 31st December, 2006

			Dr.	Cr.
Sl.No.	**Particulars**	**L.F**	**Amount (Rs)**	**Amount (Rs)**
1	Stock on 31st December, 2006		1,92,100	
2	Capital A/c		13,450	
3	Cash in hand		1,400	
4	Bank overdraft		9,320	
5	Sales			2,36,400
6	Purchases		1,06,400	
7	Returns inward			13,400
8	Returns outward		2,960	
9	Carriage outward		2,360	
10	Carriage inward			14,260
11	Salaries		9,600	
12	Wages		3,660	
13	Sundry Debtors		16,300	
14	Sundry creditors			37,360
15	Stock on 1st January 2006			94,120
16	Land & buildings		15,000	
17	Plant & Machinery		20,900	
18	Trade Expenses		2,090	
			3,95,540	3,95,540

The above Trial Balance, although tallied, has not been prepared carefully. For example, the closing stock (as on 31st December) does not normally figure in the Trial Balance because the closing stock is physically determined first and then valued. Again, the Trial Balance is prepared as on a particular date and not for a period.

Let us prepare the Trial Balance properly.

Trial Balance as on 31st December 2006

			Dr.	Cr.
Sl. No.	Particulars	L.F	Amount (Rs)	Amount (Rs)
1	Capital A/c			13,450
2	Cash in hand		1,400	
3	Bank overdraft			9,320
4	Sales			2,36,400
5	Purchases		1,06,400	
6	Returns inward		13,400	
7	Returns outward			2,960
8	Carriage outward		2,360	
9	Carriage inward		14,260	
10	Salaries		9,600	
11	Wages		3,660	
12	Sundry Debtors		16,300	
13	Sundry creditors			37,360
14	Stock on 1st January 2006		94,120	
15	Land & buildings		15,000	
16	Plant & Machinery		20,900	
17	Trade Expenses		2,090	
	Total		**2,99,490**	**2,99,490**

3. ERRORS AND THEIR RECTIFICATION

There are certain errors which will disturb the Trial Balance in the sense that the Trial Balance will not agree. These errors are easy to detect and their rectification is also simple. For example, if the debit column total of the Trial Balance exceeds the credit column total, the possibilities may be a casting error in any account, posting of a wrong amount and a balancing error. These errors are easy to detect and you can, within a short time, arrive at an agreed Trial Balance. In the era of advanced information technology, when you will be using software packages for accounting purposes, the possibility of these types of errors and consequently, a disagreed Trial Balance is nil.

However, there are certain errors which are not detected through a Trial Balance. In other words, a Trial Balance would agree in spite of these errors. These errors are very difficult to detect because you will not be aware of such errors. The examples of such errors are errors of principle, errors of omission, errors of commission, compensating errors, etc. An error committed because of lack of knowledge of the basic accounting principles is called an *error of principle*. For example, wages paid for installation of machinery is debited to Wages Account instead of Machinery Account. If a transaction is not recorded in the journal, it will not be reflected in the ledger and subsequently, in the Trial Balance. This is an *error of omission*. If the amount received from Mr. X is wrongly posted in the account of Mr. Y, *an error of commission* has occurred. Finally, if the effect of one error is set off by another error, then it is a case of a compensating error. For example, if the Sales Account is undercast by Rs.10,000 and say, the salary account is also undercast by the same amount, these errors get cancelled and hence will not affect the Trial Balance.

Rectification of Errors

Rectification of errors depends on the stage at which the errors are detected. There are mainly two stages in the accounting process when errors can be detected:

Stage 1: Before preparation of the Trial Balance.

Stage 2: After the Trial Balance but before preparation of the final accounts.

Stage 1: Before preparation of the Trial Balance

As the Trial Balance is not prepared it implies that the ledger balances are not drawn, i.e., account is not closed. So, it becomes easy to rectify errors detected at this stage. There can be two types of errors.

(a) An error affecting only one account or more than one account in such a way that no journal entry is possible for its rectification;

(b) An error affecting two or more accounts in such a way that a complete journal entry can be passed for its rectification.

In case of type (a) errors, we have to go to the relevant account(s) and put the figure on the right side of the account. No journal entry is necessary.

Example:

1. The Sales Account is undercast by Rs.15,000
   To rectify this error, we have to go to the Sales Account in the General Ledger and make the rectification as below:

Sales Account

Dr. Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
					By Rectification		15,000

2. Goods returned by the customer Mr. X of R 5,650 has been posted in the Return Inward Account as Rs.5,560 and in Mr. X A/c. as Rs.6,550.

Mr. X's Account

Dr. Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
	To Rectification (6,550 – 5,650)		900				

Return Inward Account

Dr. Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
	To Rectification (5,650- 5,560)		90				

In case of type (b) errors rectifications will be done with the help of a journal entry. Here, please note that rectification entries are passed in the Journal Proper.

Example

1. Cash received from Ram posted to Shyam account Rs.7,000. Here both Ram's and Shyam's accounts are affected by an equal amount. The rectification entry to be passed will be:

   Shyam's Account Dr. 7,000

   To Ram's Account 7,000

   (Cash received from Ram wrongly

   Credited to Shyam, now rectified)

2. Salary paid Rs.6,000 has been posted to Rent account The rectification entry will be:

   Salary Account Dr. 6,000

   To Rent Account 6,000

   (Salary paid wrongly debited to Rent Account, now rectified)

3. Cash received from Jadu Rs.8,640 has been posted to the debit of Madhu's Account.

Here although both Jadu's and Madhu's accounts are affected, a journal entry is not possible for rectification because the error is on the same side of both the accounts. In order to rectify the error both Jadu's and Madhu's accounts are to be credited. So, to rectify the error we have to straightway open the ledger accounts:

Jadu's Account

Dr. Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
					By Rectification		8,640

Madhu's Account

Dr. Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
					By Rectification		8,640

Truly speaking, this is a type (a) error.

Stage 2: After the trial balance but before the final accounts

Once the Trial Balance is prepared, all ledger balances are drawn. In that case, to rectify any error, it should be done in such a way that the Trial Balance agrees. In other words, if an account is to be debited for rectification, another account has to be credited by the same amount.

Otherwise, the Trial Balance will not tally. This is possible only if the rectification is done with the help of journal entries.

So far as type (b) errors of stage 1 are concerned, the process of rectifying the errors is exactly the same in stage 2 as well. The same journal entries are to be passed. The difficulty arises with type (a) errors of stage 1. This is because type (a) errors do not have necessary information to complete a journal entry. You may note here that type (a) errors are of such a nature that the Trial Balance will not agree if there exist such errors. Thus, if you are in a hurry and your Trial Balance is not tallying, you can put the difference to an artificial account created temporarily and make the Trial Balance tally. Such an artificial account is called the *Suspense Account*. The existence of the 'Suspense Account' in the Trial Balance implies that there exist type (a) errors.

Once type (a) errors are detected, these are to be rectified by passing journal entries and, upon rectification of all such errors, the Suspense Account will be automatically eliminated from the Trial Balance. The technique for passing journal entries in these cases is to put the Suspense Account to fill in the unknown side or the difference in amount.

Example

1. *Purchase Account undercast by Rs.1,500*

   Here we have only one account, i.e., purchases account. But to complete the journal entry, we need at least two accounts. The unknown side will be taken care of by the Suspense Account. Thus, the rectification entry will be:

   Purchases Account Dr. 1,500 To Suspense Account 1,500

2. *Cash received from Ram Rs.650 was debited in his account.*

   Here, Ram's account should have been credited. But erroneously, his account has been debited. To rectify the error, his account should be credited by double the amount – one for setting off the error and the other for making the correct entry. Thus, the rectification entry will be:

   Suspense Account Dr.1,300

   To Ram's Account 1,300

Self-Assessment Questions - 1

1. State whether the following statements are True or False:
   a) Rectification entries are passed in the Journal Proper.
   b) A journal entry is not possible for rectification when the error is on the same side of two separate accounts.
   c) If you are in a hurry and your Trial Balance is not tallying, you can put the difference to an artificial account created temporarily and make the Trial Balance tally. Such an artificial account is called the Rectification Account.
   d) If an account is to be debited for rectification, another account has to be credited by the same amount. Or else, the Trial Balance will not tally.

4. FINAL ACCOUNTS

Accounts. This is because these are the last or the final step in the accounting trail. The Profit and Loss Account is prepared to show the financial results of a business – profit or loss – during an accounting period; and the Balance Sheet is prepared to show the financial position – position of assets and liabilities – of a business as on a particular date. The Profit and Loss Account consists of elements of income and expenses. It has two sides – debit and credit. The debit side reflects all expenses and losses, and the credit side all incomes and gains. The excess of credit over debit is known as *net profit*, and the excess of debit side total over the credit side total in the Profit and Loss Account is known as *net loss* for the period.

It is worthwhile to note here that for a corporate entity, Profit and Loss Account and the Balance Sheet are its final accounts. A non-corporate entity, however, may prepare an additional account (called the trading account) to show the gross profit earned or gross loss incurred during a particular period.

Gross profit is arrived at by deducting the direct cost of goods sold from sales proceeds. If the difference is positive, there is gross profit; and if the difference is negative, there is gross loss. From gross profit, if we deduct indirect administration and selling expenses and add other income, we get *net profit*.

From the Trial Balance given in section 4.2 of unit 4, let us prepare the final accounts of the trader:

In the Books of the Trader

Trading Account for the year ended 31st December 2006

Dr. Cr.

Particulars		Amount Rs.	Particulars		Amount Rs.
To opening stock		94,120	By sales		2,36,400
			Less Return Inward	13,400	
					2,23,000
To purchases	1,06,400		By closing stock		1,92,100
Less Return Outward	2,960	1,03,440			
To carriage Inward		14,260			
To Wages*		3,660			
To profit and Loss A/c (Gross profit transferred)		1,99,620			
		4,15,100			**4,15,100**

* It is assumed that wages are for handling purchases and hence direct expenses.

Profit and Loss Account for the year ended 31st December, 2006

Dr. Cr.

Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Salaries	9,600	By Trading Account (Gross profit transferred)	1,99,620
To Carriage Outward	2,360		
To Trade Expenses	2,090		
To capital Account (Net profit transferred)	1,85,570		
	1,99,620		**1,99, 620**

Balance Sheet for the year ended 31st December, 2006

Dr. Cr.

Liabilities		Amount (Rs)	Assets	Amount (Rs)
Capital Account]				
Balance:	13,450		Land and Buildings	15,000
Add Net Profit	1,85,570	1,99,020	Plant and Machinery	20,900
Sundry Creditors		37,360	Stock-in-trade	1,92,100
Bank overdraft		9,320	Sundry Debtors	16,300
			Cash in hand	1,400
		2,45,700		**2,45,700**

It may be noted here by way of a general rule that if an item appears in the Trial Balance, it will find its place only once in any final accounts, i.e, Trading Account or Profit and Loss Account or the Balance Sheet. On the other hand, if an item is considered from outside the Trial Balance, the same will find its place twice in the final accounts. For example, the opening stock figure appears in the Trial Balance, and hence it is shown only once in the Trading Account; whereas closing stock, which is taken from outside the Trial Balance, has found its place twice – once in the 'credit side' of the Trading Account and then in the 'asset side' of the Balance Sheet.

However, the closing stock can, in exceptional cases, form part of the Trial Balance e.g., if it is adjusted against purchases or if the Trial Balance is prepared after the profit and loss account. In that situation, the closing stock will appear only as an asset in the Balance Sheet.

We have shown above how to prepare final accounts of a sole proprietor. But as a student of the Management Course, you should be mainly dealing with corporate entities. In the next two chapters, we shall discuss corporate financial statements in greater detail.

Let us look at another example of preparation of final accounts of a sole proprietor.

Mr. Gupta runs a general store. His Trial Balance as on 31st March 2007 was as follows:

Particulars	Dr. (Rs.)	Cr. (Rs.)
Capital		12,50,000
Drawings	1,25,000	
Purchases	19,62,000	
Sales		25,90,000
Opening stock	2,20,000	
Returns Outward		22,000
Freights Inward	55,000	
Discount Received		25,000
Salaries	2,95,000	
Commission		57,500
Discount allowed	25,000	
Dividend Received		32,000
Bad Debts	19,500	
Provision for Doubtful Debts		15,000
Sundry Debtors	2,65,000	
Purchase Subsidies		64,500
Returns Inward	26,000	
Investment	2,05,000	
Furniture	2,20,000	
Sundry Creditors		2,00,000
Salesmen's Commission	15,000	
Office expenses	72,500	
Sales Tax	1,22,000	
Cash in Hand and at Bank	6,29,000	
	42,56,000	**42,56,000**

Additional Information

(a) Mr. Gupta purchased a running business of Mr. Gour for Rs.6,00,000 on 31st March 2007. He took over stock of Rs.3,25,000, Debtors Rs.2,65,000, Furniture Rs,75,000 and Creditors Rs.75,000. No entry was passed for this transaction.

(b) Closing stock as on 31st March 2007 was not valued. Mr. Gupta earned a uniform rate of gross profit of 25% on net sales.

(c) Provision for doubtful debts is to be maintained at 7% on debtors.

(d) Purchases include purchases of furniture on 1st January 2007 worth Rs.45,000

(e) Sales include sale of old furniture for Rs.16,000 on 1st October, 2006 (WDV of such furniture on 1st April 2006 was Rs.26,000)

(f) Furniture was to be depreciated by 10% p.a.

You are required to prepare the Trading Account and the Profit and Loss Account of Mr. Gupta for the year ended 31st March 2007 and also a Balance Sheet as on the same date.

Solution

In the Books of Mr. Gupta Trading Account for the year ended 31st March, 2007

Dr. Cr.

Particulars	Rs.	Amount	Particulars	Rs.	Amount
To opening stock		2,20,000	By sales	25,90,000	
To Purchases	19,62,000		Less: Returns	(26,000)	
Add: Freights	55,000		“Sales of furniture	(16,000)	
	20,17,000		“Sales tax	(1,22,000)	24,26,000
Less: Returns	(22,000)				
“Subsidies	(64,500)		“Closing Stock (balancing figure)		2,86,000
‘Purchase of furniture	(45,000)	18,85,500			
“Profit & Loss A/c (Gross Profit Transferred) (-25% of Rs.24,26,000)		6,06,500			
		27,12,000			**27,12,000**

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

Dr. Cr.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To salaries	2,95,000	By Trading A/c (Gross Profit Transferred)	6,06,500
“Office Expenses	72,500	“ Discount	25,000
“Discount	25,000	“Commission	57,500
“Salesmen’s Commission	15,000	“Dividend	32,000
“Bad Debts	19,500	“	
“Provision for Doubtful debts	24,750		
“Loss on Sale of Furniture	8,700		
“Depreciation on Furniture	21,825		
“Capital A/c (Net Profit Transferred)	2,38,725		
	7,21,000		**7,21,000**

Balance Sheet as on 31st March 2007

Liabilities	Rs.	Amount Rs.	Assets	Rs.	Amount Rs.
Capital	12,50,000		Goodwill	2,20,000	10,000
Add: Net Profit	2.38.725		Furniture	75.000	
			Add: Taken over	45,000	
Less: Drawing	14,88,725		Add: Purchases	3,40,000	
			Less: Sold	26,000	
		13,63,725		3.14.000	
Sundry Creditors (2,00,000+75,000)	1,25,000	2,75,000	Less: Depreciation (21,825 – 1,300)	20,525	2,93,475
			Investments		2,05,000
			Stock (2,86,000+3,25,000)		6,11,000
			Debtors	2,65,000	
			Add: Taken over	2,65,000	
				5,30,000	
			Less: Provision @ 7½ %	39,750	4,90,250
			Cash & Bank balance	6,29,000	
			Less: Paid to Mr. Gour		
				6,00,000	29,000
		16,38,725			16,38,725

Working Notes

1. Provision for doubtful Debts:

Debtors as per the Trial Balance	2,65,000
Add: Debtors taken over	2,65,000
	5,30,000
Provision for doubtful debts	
@ 7 ½ % on Rs. 5,30,000	39,750
Less: Provision already made	15,000
Provision to be created	24,750

2. Loss on Sale of Furniture:

	Rs.
WDV of furniture sold on 1.4.95	26,000
Less: Depreciation for six months	1,300
	24,700
Less: Sale proceeds	16,000
Loss on sale	8,700

3. Depreciation on Furniture:

On Rs.26,000 for 6 months	1,300
On Rs.1,94,000 (Rs.2,20,000-Rs.26,000) for one year	19,400
On Rs.45,000 for 3 months	1,125
	21,825

4. Goodwill on Purchase of Business:

A. Net Assets taken over	Rs.
Furniture	75,000
Stock	3,25,000
Debtors	2,65,000
Less: Creditors	(75,000)
	5,90,000
B. Payments made	6,00,000
C. Goodwill (B-A)	10,000

Self-Assessment Questions - 2

2. The Profit and Loss Account and the Balance Sheet are together called the ______________ .
3. The Profit and Loss Account is prepared to show the ___________ of a business during an accounting period.
4. The Profit and Loss Account consists of elements of _________ .
5. In the Profit and Loss Account, the __________ reflects all expenses and losses while the ____________ shows all incomes and gains.
6. ___________ is arrived at by deducting the direct cost of goods sold from sales proceeds.

5. SUMMARY

- The Trial Balance puts the ledger balances on trial. It not only checks the arithmetical accuracy of ledger balances but also helps to have an overview of the operations of the business.
- There are certain accounting errors which affect the agreement of the Trial Balance. These are easy to detect.
- Some accounting errors exist in spite of an agreed Trial Balance (e.g., errors of principle, errors of omission, compensating errors, etc.). These are difficult to detect.
- Rectification of accounting errors depends on the stage at which they are detected.
- Final accounts in case of a sole proprietorship firm consist normally of the Trading Account, Profit and Loss Account and the Balance Sheet. A partnership firm has one additional account after Profit and Loss Account, namely Profit and Loss Appropriation Account. A corporate entity prepares only two statements of final accounts – a Profit and Loss Account and a Balance Sheet.
- **Error of Principle:** An error committed because of lack of proper knowledge of accounting principles or concepts.
- **Error of Omission:** Omission of recording a transaction in the primary books.
- **Error of Commission:** Error of posting the amount in one account instead of another account.
- **Compensation Error:** One error compensates the other error by an identical amount.
- **Trading Account:** It shows the gross profit or loss earned or incurred by a business entity during an accounting period.
- **Profit and Loss Account:** It shows the net profit or loss earned or incurred by a business entity during an accounting period.
- **Profit and Loss Appropriation Account:** It shows the distribution of partnership profits among partners.
- **Balance Sheet:** It shows the position of assets and liabilities of a business entity as on a particular date.

- **Suspense Account:** It is an artificial account which appears in the Trial Balance to account for undetected errors. Once the errors are detected and rectified, the Suspense Account stands eliminated.
- **Gross Profit:** It is arrived at by deducting the direct cost of goods sold from sales proceeds.
- **Net Profit:** It is the residual of gross profit after setting off indirect expenses and, of course, it includes other income.

6. TERMINAL QUESTIONS

Short answer type questions

1. What is a Trial Balance?
2. Why is Trial Balance prepared?
3. What are the two stages where errors can be detected?

Long answer type questions

4. What is a Suspense Account? How is it squared off?
5. The following are the extracts from the Trial Balance of a firm. You are required to show the treatment of provision in the Final accounts

Trial Balance as on 31st December 2009

Creditors Reserve for discount on creditors Discount	400	30,000 300

i) Create a reserve for discount on creditors @2%

6. Prepare Trading and Profit and Loss Account and Balance Sheet from the following particulars as at 31st March 2012.

Trial Balance

Particulars	Dr. (Rs)	Cr. (Rs)
Capital / Drawings	1,400	10,000
Cash in hand	1,500	-
Bank overdraft @ 5%	-	2,000
Purchase and Sales	12,000	15,000
Returns	1,000	2,000
Establishments charges	2,500	-
Taxes and Insurance	500	-
Provision for Doubtful Debts	-	1,000
Bad Debts	500	-
Sundry Debtors and Creditors	5,000	1,850
Commission	-	500
Investments	4,000	-
Stock on 1 April 2010	3,000	-
Furniture	600	-
Bills Receivable & Bills payable	3,000	2,500
Collected Sales Tax	-	150
Total	**35,000**	**35,000**

Further, you are required to take into consideration the following information:

- Salary Rs.100 and taxes Rs.400 are outstanding but insurance Rs.50 prepaid
- Commission amounting to Rs.100 has been received in advance for work to be done next year.
- Interest accrued on investments Rs.210
- Provision for doubtful Debts is to be maintained at 20%
- Depreciation on furniture is to be charged at 10% p.a.
- Stock on 31st March 2012 was valued at Rs.4,500

- A fire occurred on 25th March 2012 in the godown and stock of the value of Rs.1,000 was destroyed. It was fully insured and the insurance company admitted the claim in full.

7. ANSWERS

Self - Assessment Questions

1. a) True b) True c) False d)True
2. Final Accounts
3. Financial results
4. Income and expenses
5. Debit side; Credit side
6. Gross profit

Terminal Questions

Short answer type questions

1. A trial balance is a bookkeeping worksheet in which the balance of all ledgers are compiled into debit and credit account column totals that are equal. A company prepares a trial balance periodically, usually at the end of every reporting period.
2. The Arithmetical accuracy of ledger balances can be ascertained only after they have been put to test. A separate statement is prepared to test the accuracy of the ledger balances. Such a statement is called the Trial Balance.
3. There are mainly two stages in the accounting process when errors can be detected:

   Stage 1: Before preparation of the Trial Balance.

   Stage 2: After the Trial Balance but before preparation of the final accounts.

Long answer type questions

4. If the accountant is in a hurry and the Trial Balance is not tallying, they put the difference to an artificial account created temporarily and make the Trial Balance tally. Such an artificial account is called the Suspense Account. The existence of the 'Suspense

Account' in the Trial Balance implies that there exist type (a) errors. Type (a) errors are of such a nature that the Trial Balance will not agree if there exist such errors.

5. Profit and Loss account for the year ended 31st December, 2009

		By Discount 300 New reserve for Discount 600 900 Less: Old reserve for Discount 400	**Rs.** 500

Balance Sheet as on 31st December 2009

Liabilities		**Assets**	**Rs.**
Creditors 30,000 Less: New prov 600	29,400		

6. Trading and Profit and loss Account for the period ended 31st March 2012

Dr. Cr.

Particulars		**Rs**	**Particulars**		**Rs**
To Opening Stock		3,000	By Sales	15,000	
To Purchase	12,000		*Less:* Sales Returns	1,000	14,000
Less: Purchases			By Closing Stock		4,500
Returns	2,000	10,000	By Abnormal Loss of Stock		1,000
To Gross Profit c/d		6,500			
		19,500			19,500
To Establishment charges paid	2,500		By Gross Profit b/d		6,500

Add: Sales outstanding	100	2,600	By Commission	500	
To Taxes and insurance	500		*Less:* Unearned Comm.	100	400
Add: Outstanding taxes	400		By Interest accrued on investment		210
	900		By Claims form insurance Co.		1,000
Less: Prepaid	50	850			
To Interest on bank overdraft		100			
Bad Debts	500				
Add: Closing Provision for Doubtful Debts	1,000				
	1,500				
Less: Opening provision	1,000	500			
To Depreciation for furniture		60			
To Abnormal Loss of Stock		1,000			
To Net Profit transferred to Capital A/c		3,000			
Total		**8,110**			**8,110**

Balance Sheet as at 31st March 2012

Particulars		**Rs**	**Particulars**		**Rs**
Bills Payable		2,500	Cash in Hand		1,500
Sundry Creditors		1,850	Bills Receivable		3,000
Sales Tax		150	Insurance Co.		1,000
Outstanding expenses:			Investment	4,000	

Salaries	100		*Add :* Accrued interest	210	4,210
Taxes	400	500	Prepaid Insurance		50
Unearned commission		100	Closing Stock		4500
Bank overdraft	2,000		Sundry Debtors	5,000	
Add: Interest on Bank overdraft	100	2,100	*Less:* Provision	1,000	4,000
Capital :			Furniture	600	
Opening Balance	10,000		*Less:* Depreciation	60	540
Add: Net Profit	3,000				
	13,000				
*Less:*Drawings	1,400	11,600			
Total		**18,800**			**18,800**

8. CASE STUDY

Study the process of Trial Balance preparation of a real manufacturing company and comment on their financial position.

9. REFERENCES

- R. L. Gupta, Radhaswamy (2010). *Financial Accounting*. S. Chand and Company.
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