UNIT- PREPARATION OF FINANCIAL STATEMENTS

Introduction to Financial Accounting

Meaning of Accounting: Book-keeping is an art of recording the business transactions in the books of original entry and the ledges. Accountancy begins where Book-keeping ends. Accountancy means the compiliation of accounts in such a way that one is in a position to know the state of affairs of the business. The work of an accountant is to analyse, interpret and review the accounts and draw conclusion with a view to guide the management.

Book – Keeping: Book – Keeping involves the chronological recording of financial transactions in a set of books in a systematic manner.

Accounting: Accounting is concerned with the maintenance of accounts giving stress to the design of the system of records, the preparation of reports based on the recorded data and the interpretation of the reports.

Financial accounting is a specialized branch of accounting that keeps track of a company's financial transactions. Using standardized guidelines, the transactions are recorded, summarized, and presented in a financial report or financial statement such as an income statement or a balance sheet.

Companies issue financial statements on a routine schedule. The statements are considered *external* because they are given to people outside of the company, with the primary recipients being owners/stockholders, as well as certain lenders. If a corporation's stock is publicly traded, however, its financial statements (and other financial reportings) tend to be widely circulated, and information will likely reach secondary recipients such as competitors, customers, employees, labor organizations, and investment analysts.

Double Entry Book Keeping: Double entry is the fundamental concept underlying present-day bookkeeping and accounting. Double-entry accounting is based on the fact that every financial transaction has equal and opposite effects in at least two different accounts. It is used to satisfy the equation Assets =Liabilities+Equity, in which each entry is recorded to maintain the relationship. In the double-entry system, transactions are recorded in terms of debits and credits.

Capital Expenditure Vs Revenue Expenditure: Capital expenditures are for fixed assets, which are expected to be productive assets for a long period of time. Revenue expenditures are for costs that are related to specific revenue transactions or operating periods, such as the cost of goods sold or repairs and maintenance expense.

Basic Accounting Concepts (Accounting Principles):

Accounting is a system evolved to achieve a set of objectives. In order to achieve the goals, we need a set of rules or guidelines. These guidelines are termed here as “BASIC ACCOUNTING

CONCEPTS”. The term concept means an idea or thought. Basic accounting concepts are the fundamental ideas or basic assumptions underlying the theory and profit of FINANCIAL ACCOUNTING.

These concepts help in bringing about uniformity in the practice of accounting. In accountancy following concepts are quite popular.

1. Business Entity Concept: In this concept “Business is treated as separate from the proprietor”. All the transactions recorded in the book of Business and not in the books of proprietor. The proprietor is also treated as a creditor for the Business.

2. Going Concern Concept: This concept relates with the long life of Business. The assumption is that business will continue to exist for unlimited period unless it is dissolved due to some reasons or the other.

3. Money Measurement Concept: In this concept “Only those transactions are recorded in accounting which can be expressed in terms of money, those transactions which can not be expressed in terms of money are not recorded in the books of accounting”.

4. Cost Concept: Accounting to this concept, can asset is recorded at its cost in the books of account. i.e., the price, which is paid at the time of acquiring it. In balance sheet, these assets appear not at cost price every year, but depreciation is deducted and they appear at the amount, which is cost, less classification.

5. Accounting Period Concept: every Businessman wants to know the result of his investment and efforts after a certain period. Usually one-year period is regarded as an ideal for this purpose. This period is called Accounting Period. It depends on the nature of the business and object of the proprietor of business.

6. Dual Aspect Concept: According to this concept “Every business transactions has two aspects”, one is the receiving benefit aspect another one is giving benefit aspect. The receiving benefit aspect is termed as“DEBIT”, where as the giving benefit aspect is termed as “CREDIT”. Therefore, for every debit, there will be corresponding credit.

7. Matching Cost Concept: According to this concept “The expenses incurred during an accounting period, e.g., if revenue is recognized on all goods sold during a period, cost of those good sole should also be charged to that period.

8. Realisation Concept: According to this concept revenue is recognized when a sale is made. Sale is Considered to be made at the point when the property in goods posses to the buyer and he becomes legally liable to pay.

ACCOUNTING CONVENTIONS

Accounting is based on some customs or usages. Naturally accountants here to adopt that usage or custom. They are termed as convert conventions in accounting. The following are some of the important accounting conventions.

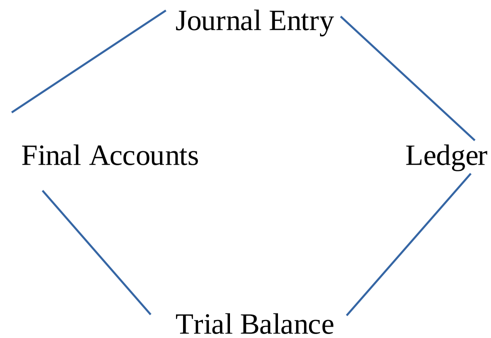
1.Full Disclosure: According to this convention accounting reports should disclose fully and fairly the information. They purport to represent. They should be prepared honestly and sufficiently disclose information which is if material interest to proprietors, present and potential creditors and investors. The companies ACT, 1956 makes it compulsory to provide all the information in the prescribed form.

2.Materiality: Under this convention the trader records important factor about the commercial activities. In the form of financial statements if any unimportant information is to be given for the sake of clarity it will be given as footnotes.

3.Consistency: It means that accounting method adopted should not be changed from year to year. It means that there should be consistent in the methods or principles followed. Or else the results of a year cannot be conveniently compared with that of another.

4. Conservatism: It is also known as ‘doctrine of prudence’. This convention warns the trader not to take unrealized income in to account. That is why the practice of valuing stock at cost or market price, which ever is lower is in vague. This is the policy of “playing safe”; it takes in to consideration all prospective losses but leaves all prospective profits.

Accounting Cycle: The accounting cycle is often described as a process that includes the following steps: identifying, collecting and analyzing documents and transactions, recording the transactions in journals, posting the journalized amounts to accounts in the general and subsidiary ledgers, preparing an unadjusted trial balance, perhaps preparing a worksheet, determining and recording adjusting entries, preparing an adjusted trial balance, preparing the financial statements/ final accounts (Trading Account, Profit & Loss Account and Balance Sheet), recording and posting closing entries, preparing a post-closing trial balance, and perhaps recording reversing entries.



Accounting Equation

The accounting equation is a basic principle of accounting and a fundamental element of the balance sheet.

Balance Sheet: The balance sheet is one of the three fundamental financial statements. The financial statements are key to both financial modeling and accounting

The equation is as follows: **Assets = Liabilities + Shareholder's Equity**

This equation sets the foundation of double-entry accounting and highlights the structure of the balance sheet. Double-entry accounting is a system where every transaction affects both sides of the accounting equation. For every change to an asset account, there must be an equal change to a related liability or shareholder's equity account.

It is important to keep the accounting equation in mind when performing journal entries.

Journal Entries: Journal Entries are the building blocks of accounting, from reporting to auditing journal entries (which consist of Debits and Credits)

The balance sheet is broken down into three major sections and their various underlying items: Assets, Liabilities, and Shareholder's Equity.

Classification of Business Transactions: All business transactions are classified into three categories:

1.Those relating to persons

2.Those relating to property(Assets)

3.Those relating to income & expenses

Types of Accounts:

Thus, three classes of accounts are maintained for recording all business transactions. They are:

1.Personal accounts

2.Real accounts

3.Nominal accounts

Rules for maintaining Books of Accounts:

1.Personal Accounts :Accounts which are transactions with persons are called “Personal Accounts” .
A separate account is kept on the name of each person for recording the benefits received from ,or given to the person in the course of dealings with him.
E.g.: Krishna’s A/C, Gopal’s A/C, SBI A/C, Nagarjuna Finanace Ltd.A/C, ObulReddy & Sons A/C , HMT Ltd. A/C, Capital A/C, Drawings A/C etc.

2.Real Accounts: The accounts relating to properties or assets are known as “Real Accounts” .Every business needs assets such as machinery , furniture etc, for running its activities .A separate account is maintained for each asset owned by the business .
E.g.: cash A/C, furniture A/C, building A/C, machinery A/C etc.

3.NominalAccounts: Accounts relating to expenses, losses, incomes and gains are known as “Nominal Accounts”. A separate account is maintained for each item of expenses, losses, income or gain.
E.g.: Salaries A/C, stationery A/C, wages A/C, postage A/C, commission A/C, interest A/C, purchases A/C, rent A/C, discount A/C, commission received A/C, interest received A/C, rent received A/C, discount received A/C.
Before recording a transaction, it is necessary to find out which of the accounts is to be debited and which is to be credited. The following three different rules have been laid down for the three classes of accounts….

1.Personal Accounts: The account of the person receiving benefit (receiver) is to be debited and the account of the person giving the benefit (given) is to be credited.

Rule: “Debit --- The Receiver
Credit -- The Giver”

2.Real Accounts: When an asset is coming into the business, account of that asset is to be debited .When an asset is going out of the business, the account of that asset is to be credited.
Rule: “Debit --- What comes in
Credit - What goes out”

3. Nominal Accounts: When an expense is incurred or loss encountered, the account representing the expense or loss is to be debited . When any income is earned or gain made, the account representing the income of gain is to be credited.

Rule: "Debit --- All expenses and losses
Credit -- All incomes and gains"

JOURNAL

The first step in accounting therefore is the record of all the transactions in the books of original entry viz., Journal and then posting into ledges.

Journal: The word Journal is derived from the Latin word 'journ' which means a day. Therefore, journal means a 'day Book' in day-to-day business transactions are recorded in chronological order. Journal is treated as the book of original entry or first entry or prime entry. All the business transactions are recorded in this book before they are posted in the ledges. The journal is a complete and chronological(in order of dates) record of business transactions. It is recorded in a systematic manner. The process of recording a transaction in the journal is called "Journalising". The entries made in the book are called "Journal Entries".

The proforma of Journal is given below.

Date	Particulars	L.F. no	Debit RS.	Credit RS.
1998 Jan 1	Purchases account to cash account(being goods purchased for cash)		10,000/-	10,000/-

LEDGER

All the transactions in a journal are recorded in a chronological order. After a certain period, if we want to know whether a particular account is showing a debit or credit balance it becomes very difficult. So, the ledger is designed to accommodate the various accounts maintained the trader. It contains the final or permanent record of all the transactions in duly classified form. "A ledger is a book which contains various accounts." The process of transferring entries from journal to ledger is called "POSTING".

Proforma for ledger: **LEDGER BOOK**

Particulars account

Date	Particulars	Lfno	Amount	Date	Particulars	Lfno	amount

TRAIL BALANCE

A trail balance is a statement of debit and credit balances. It is prepared on a particular date with the object of checking the accuracy of the books of accounts. It indicates that all the transactions for a particular period have been duly entered in the book, properly posted and balanced. The trail balance doesn't include stock in hand at the end of the period. All adjustments required to be done at the end of the period including closing stock are generally given under the trail balance.

Proforma for Trail Balance:

Trail balance for MR………………………………… as on …………

NO	***NAME OF ACCOUNT (PARTICULARS)***	***DEBIT AMOUNT(RS.)***	***CREDIT AMOUNT(RS.)***

Trail Balance: Specimen of trial balance

	Debit balances	Credit balances
1	Debtors accounts	Creditors account
2	Asset accouts such as plant,furniture	Liabilities account
3	Expenses accounts such as rent paid	Incomes account
4	Losses accounts such as goods destroyed in fire	Gains accounts
5	Purchases accounts	Profits account
6	Sales return account	Loan account
7	Drawings accounts	Bank overdraft account
8	Carriage inward	Sales accont
9	Discount allowed	Purchase returns account
10	Office expenses	Trade expenses
11	Manufacturing expenses	Carriage outward
12		Discount received

FINAL ACCOUNTS :
TRADING ACCOUNT

Trading account of MR………………….. for the year ended …………………

Particulars	Amount	Particulars	Amount
To opening stock To purchases xxxx Less: returns xx To carriage inwards To wages To freight To customs duty, octroi To gas, fuel, coal, Water To factory expenses To other man. Expenses To productive expenses To gross profit c/d	Xxxx Xxxx Xxxx Xxxx Xxxx Xxxx Xxxx Xxxx Xxxx Xxxx	By sales xxxx Less: returns xxx By closing stock	 Xxxx Xxxx
	Xxxx		Xxxx

PROFIT AND LOSS ACCOUNT

PROFIT AND LOSS A/C OF MR…………………….FOR THE YEAR ENDED…………

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
TO office salaries	Xxxxxx	By gross profit b/d	Xxxxx
TO rent,rates,taxes	Xxxxx	Interest received	Xxxxx
TO Printing and stationery	Xxxxx	Discount received	Xxxx
TO Legal charges		Commission received	Xxxxx
Audit fee	Xxxx	Income from	
TO Insurance	Xxxx	investments	
TO General expenses	Xxxx	Dividend on shares	Xxxx
TO Advertisements	Xxxxx	Miscellaneous	Xxxx
TO Bad debts	Xxxx	investments	
TO Carriage outwards	Xxxx	Rent received	xxxx
TO Repairs	Xxxx		
TO Depreciation	Xxxxx		
TO interest paid	Xxxxx		
TO Interest on capital	Xxxxx		
TO Interest on loans	Xxxx		
TO Discount allowed	Xxxxx		
TO Commission	Xxxxx		
TO Net profit ------ à	Xxxxx		
(transferred to capital a/c)			
	xxxxxx		Xxxxxx

BALANCE SHEET

BALANCE SHEET OF.. AS ON ……………………………………

Liabilities and capital	Amount	Assets	Amount
Capital xxxxxx		Cash in hand	Xxxx
Add:		Cash at bank	Xxxx
Net Profit xxxx		Bills receivable	Xxxx
-------		Debtors	Xxxx
xxxxxxx		Closing stock	Xxxx
--------		Investments	Xxxx
		Furniture and fittings	Xxxx
Less:		Plats&machinery	
Drawings xxxx		Land &buildings	Xxxx
---------	Xxxx	Patents, tm ,copyrights	Xxxx
Equity shares	Xxxx	Goodwill	Xxxx
Preference shares	Xxxx	Prepaid expenses	
Debentures	Xxxx	Outstanding incomes	Xxxx
Long term loans	Xxxx		Xxxx
Creditors	Xxxx		Xxxx
Bills payable	Xxxx		
Bank overdraft	Xxxx		
Loans	Xxxx		
Mortgage			
Reserve fund	Xxxx		
	XXXX		XXXX

PROBLEMS ON JOURNAL, TRIAL BALANCE AND FINAL ACCOUNTS

Pass the following Journal Entries in Journal Book of Mr. Yadav & Co

10th April	:	Commenced business with a capital of Rs1,00,000
11th April	:	Purchased goods from Veeru for Rs 20,000
13th April	:	Purchased Goods for Cash 15,000
14th April	:	Purchased Goods from Abhiram for cash 9,000
16th April	:	Bought Goods from Shyam on credit 12,000
17th April	:	Sold goods worth 15,000 to Tarun
19th April	:	Sold goods for cash 20,000
20th April	:	Sold goods to Utsav for cash 6,000
21st April	:	Sold goods to Pranav on credit 17,000
22nd April	:	Returned goods to Veeru 3,000
23rd April	:	Goods returned from Tarun 1,000
25th April	:	Goods taken by the proprietor for personal use 1,000
26th April	:	Bought Land for 50,000
27th April	:	Purchased machinery for cash 45,000
28th April	:	Bought computer from Intel Computers for 25,000
28th April	:	Cash sales 15,000
29th April	:	Cash purchases 22,000
30th April	:	Bought furniture for proprietor's residence and paid cash 10,000

Answer:

In the Journal Book of Mr. Yadav & Co

Date	Particulars	Amount (Debit) (Rs)	Amount (Credit) (Rs)
10th April	Cash a/c To Capital a/c [Being the business started with the capital]	1,00,000	100000
11th April	Goods a/c or Purchases a/c To Veeru a/c [Being the value of stock purchased from Mr. Veeru on credit]	20,000	20,000
13th April	Goods a/c or Purchases a/c To Cash a/c [Being the value of stock purchased for cash]	15,000	15,000
14th April	Goods a/c or Purchases a/c To Cash a/c [Being the value of stock purchased for cash]	9,000	9,000
16th April	Goods a/c or Purchases a/c To Shyam a/c [Being the value of stock purchased from Mr. Shyam]	12,000	12,000
17th April	Tarun a/c To Goods a/c or Sales a/c	15,000	15,000

Date	Particulars	Amount (Debit) (Rs)	Amount (Credit) (Rs)
	[Being the value of stock sold on credit to Mr. Tarun]		
19th April	Cash a/c To Goods a/c or Sales a/c [Being the value of goods sold for cash]	20,000	20,000
20th April	Cash a/c To Goods a/c or Sales a/c [Being the value of stock sold to Mr. Utsav for cash]	6,000	6,000
21st April	Pranav a/c To Goods a/c or Sales a/c [Being the value of stock sold to Mr. Pranav on credit]	17,000	17,000
22nd April	Veeru a/c To Goods a/c or Purchase Returns a/c [Being the value of goods returned to Mr. Veeru vide returns]	3,000	3,000
23rd April	Goods a/c or Sales Return a/c To Tarun a/c [Being the value of stock returned by Mr. Tarun vide returns]	1,000	1,000
25rd April	Drawings a/c To Goods a/c [Being the value of stock taken by the proprietor]	1,000	1,000
26th	Land a/c	50,000	

Date	Particulars	Amount (Debit) (Rs)	Amount (Credit) (Rs)
April	To Cash a/c [Being the amount paid for land purchased]		50,000
27th April	Machinery a/c To Cash a/c [Being the amount paid for the purchase of machinery]	45,000	45,000
28th April	Computers a/c To Intel Computers a/c [Being the value of a computer purchased from M/S Intel Computers on credit]	25,000	25,000
29th April	Cash a/c To Goods a/c or Sales a/c [Being the value of stock sold for cash]	15,000	15,000
29th April	Goods a/c or Purchase a/c To Cash a/c [Being the value of stock purchased for cash]	22,000	22,000
30th April	Drawings a/c To Cash a/c [Being the amount of cash paid for furniture purchased for proprietor's residence]	10,000	10,000

Pass the following journal entries in the Journal Book of Surya & Co:

1 June: Paid wages to Ram in cash Rs 10000

2 June : Paid insurance by cheque Rs 50000

3 June: Paid Shyam by cheque Rs 6000

4 June: Bought stationary Rs 3000

5 June: Paid rent to Krishna by cheque Rs 20000

6 June: Paid into bank Rs 15000

7 June: Withdrew goods for personal use Rs 5000

8 June: Ranjeeth is insolvent by Rs 25000

9 June: Paid interest to bank Rs 4000

10 June: Interest received from Jayesh Rs 8000

Answer:

Journal entries in the Journal Book of Surya & Co:

Date	Particulars	Debit (Rs)	Credit (Rs)
1 June	Wages a/c To Cash a/c (Being wages paid to Ram in cash)	10000	 10000
2 June	Insurance a/c To bank a/c (Being Insurance paid to bank)	50000	 50000
3 June	Shyama/c To bank a/c (Being Shyam paid through cheque)	6000	 6000
4 June	Stationary a/c To Cash a/c (Being Stationary paid in cash)	3000	 3000
5 June	Rent a/c To bank a/c (Being Rent paid through cheque)	20000	 20000
6 June	Bank a/c To cash a/c (Being cash deposited in bank)	15000	 15000
7 June	Drawings a/c	5000	

	To Goods a/c (Being goods withdrawn for personal use)		5000
8 June	Bad debts a/c To Ranjeetha/c (Being Ranjeeth insolvent)	25000	25000
9 June	Bank Interest a/c To Cash a/c (Being Interest paid to bank in cash)	4000	4000
10 June	Cash a/c To interest received a/c (Being interest received in cash)	8000	8000

Trial Balance

The accounts which appear on the Debit side of The Trial Balance are as follows:

1. Debtors
2. Purchases
3. Sales returns or Return Inwards
4. Drawings
5. Assets like Plant and Machinery, Furniture, Plant and Building
6. Expenses like Rent paid, salary paid, interest paid
7. Bills receivables
8. Discount allowed on sales
9. Carriage inwards i.e. expenses incurred during purchases of goods
10. Carriage Outwards i.e. expenses incurred during the sales of goods
11. Losses incurred such as goods destroyed by fire or goods damaged during transit

The accounts which appear on the Credit side of The Trial Balance are as follows:

1. Creditors
2. Sales
3. Purchase Returns or Return outwards
4. Capital
5. Income received like rent received, Interest received
6. Profits
7. Bank overdraft
8. Discount received on Purchases
9. Provisions made such as Provision for Bad and doubtful debts, Provision for discount to be given to debtors
10. Reserves and funds such as general reserve funds, Worksman’s compensation funds
11. Bills Payable

Problem:

Make a trial balance as on 31 March 2020 from the following information:

Particulars	Amount (Rs)
Sundry Debtors	32000
Opening stock of goods as on 1 March 2020	22000
Cash in hand	1835
Cash in bank	1545
Plant and machinery	15700
Sundry Creditors	10650
Trade expenses	1075
Sales	234500
Salaries	2225
Carriage Outwards	400
Rent Paid	900
Bills Payable	7500
Purchases	218870
Discount allowed	1100
Capital	79500
Business Premises	34500

Answer:

Trial Balance as on 31 March 2020

Particulars	Debit (Rs)	Credit (Rs)
Sundry Debtors	32000	
Opening stock of goods as on 1 March 2020	22000	
Cash in hand	1835	
Cash in bank	1545	
Plant and machinery	15700	
Sundry Creditors		10650
Trade expenses	1075	
Sales		234500
Salaries	2225	
Carriage Outwards	400	
Rent Paid	900	
Bills Payable		7500
Purchases	218870	
Discount allowed	1100	
Capital		79500
Business Premises	34500	
Total	**332150**	**332150**

2.

Prepare a Trial Balance from the following as on 31 June 2020

Particulars	Amount (Rs)
Capital	100000
Machinery	30000
Opening Stock of goods	16000
Wages	50000
Carriage Inwards	500
Carriage Outwards	1000
Salaries	5000
Factory Rent	2400
Repairs	400
Fuel and Power	2400
Building	111000
Sundry debtors	20000
Sales	203600
Purchases	122000
Rent Received	5000
Interest Received	2000
Profits	60000
Bank overdraft	1000
Creditors	12500
Returns Outward	2000
Returns inward	3600
Drawings	2000
Discount Allowed	750
Discount received	250
Office Expenses	1000
Manufacturing Expenses	600
Bills Payable	8500
Bills Receivable	5000
Cash in hand	2400
Cash in bank	15400
Office rent	1800
Interest Paid	6600
Provision for Bad and doubtful debts	2000
Reserves	3000

Answer:

Particulars	Debit (Rs)	Credit (Rs)
Capital		100000
Machinery	30000	
Opening Stock of goods	16000	
Wages	50000	
Carriage Inwards	500	
Carriage Outwards	1000	
Salaries	5000	
Factory Rent	2400	
Repairs	400	
Fuel and Power	2400	
Building	111000	
Sundry debtors	20000	
Sales		203600
Purchases	122000	
Rent Received		5000
Interest Received		2000
Profits		60000
Bank overdraft		1000
Creditors		12500
Returns Outward or Purchase Returns		2000
Returns inward or Sales Returns	3600	
Drawings	2000	
Discount Allowed	750	
Discount received		250
Office Expenses	1000	
Manufacturing Expenses	600	
Bills Payable		8500
Bills Receivable	5000	
Cash in hand	2400	
Cash in bank	15400	
Office rent	1800	
Interest Paid	6600	
Provision for Bad and doubtful debts		2000
Reserves		3000
Total	**399850**	**399850**

Trading Account problem.

① on December 31, 2020, the following information was available from the books of Kalyan & Co.

Stock (1-1-2020)	–	Rs. 20,000
Purchases	–	Rs. 1,80,000.
Stock (31-12-2020),	–	Rs. 60,000
Sales	–	Rs. 1,90,000
Carriage Inwards	–	Rs. 5,000
wages	–	Rs. 25,000.
Purchase Returns	–	Rs. 20,000
Sales Returns	–	Rs. 10,000.

Prepare a Trading Account.

Solⁿ. Kalyan's & Co Trading Account for the year Ending.

Dr. Cr.

Particulars	Amount	Particulars	Amount
To opening stock	20,000	By Sales 1,90,000	
To Purchases 1,80,000		(–) Sales Returns 10,000	1,80,000
(–) Pur. Returns 20,000	1,60,000	By closing stock	60,000
To carriage Inwards	5,000		
To wages	25,000		
To Gross profit	30,000		
	2,40,000		2,40,000

Profit & Loss Account Problem.

① From the following Trial Balance of Sri & Sons, Prepare the Trading and Profit & Loss Account for the year ended 31st March, 2020.

Trial Balance As on 31st March, 2020.

Particulars	Debit (Rs.)	Credit (Rs.)
Capital	–	29,000
Drawings	760	–
Purchases	8900	–
Sales	–	15,000
Sales Returns	280	–
Purchase Returns	–	450.
Stock (1-4-2019)	1200	–
wages	800	–
Building	22,000	–
Freight and carriage.	2,000	–
Trade Expenses	200	–
Advertisement	240	–
Interest	–	350
Taxes and Insurance	130	
Debtors and Creditors	6500	1200
Bills Receivables and Bills payables.	1500	700.
Cash at bank.	1200	
Cash in hand	190	
Salaries	800	
	46,700	46,700.

* Stock on 31st march, 2020 was Valued at Rs. 1500.

Solⁿ. Trading and profit and Loss Account of Sri & Son's Co. (2)
for the year ended 31st march, 2020.

Dr. Cr.

Particulars		Amount	Particulars		Amount
To opening stock		2,00.	By sales	15,000	
To Purchases	8900		(−) Sales Returns	280	14,720
(−) Pur. Returns	450	8,450	By closing stock.		1500
To wages		800			
To Freight & carriage.		2,000			
To Gross profit		3770.			
		16,220			16,220

Dr. Profit & Loss Account Cr.

Particulars	Amount	Particulars	Amount
To Trade Expenses	200	By Gross profit	3770
To advertisement	240	By Interest	350.
To taxes & insurance	130		
To salaries	800		
To Net Profit	2750		
	4,120		4,120

② Prepare (a) trading Account (b) Profit and Loss Account ④ and (c) Balance sheet from the following Trial Balance for the year ending. 31.3.2002.

Trial Balance As on 31.3.2002.

Particulars	Amount (Debit)	Amount (Credit)
Drawings	4,000	–
Discount allowed	1500	–
Discount received	–	500
office Expenses	2,000	–
Manufacturing expenses	1,200	–
Bills Payable	–	17,000
Bills Receivables	10,000	–
cash in hand	4,800	–
Cash at Bank	30,800	–
office Rent	3,600	–
Capital	–	2,00,000
machinery	60,000	–
stock (1.4.2001)	32,000	–
wages	1,00,000	–
carriage Inwards	1,000	–
Factory Rent	4,800	–
Repairs	800	–
fuel and Power	5,000	–
Furnitures	11,000	–
Buildings	80,000	–
Sundry Debtors	40,000	–
Sales	–	4,07,200
Purchases	2,44,000	–
creditors		25,000
Return Inwards	7,200	
Return outwards	–	4,000.

Adjustment : Closing stock is Rs. 40,000.

Solⁿ:-

Trading Account for the year ending 31.3.2002.

Dr. | Cr.

Particulars	Amount	Particulars	Amount
To opening stock	32,000	By Sales 4,07,200	
To Purchases 2,44,000		(–) Sales Return 7,200	4,00,000
(–) Pur Returns 4,000	2,40,000	By closing stock	40,000
To wages	1,00,000		
To carriage Inwards	1,000		
To manufacturing Expenses	1200		
To Fuel and Power	5,000		
To factory Rent	4,800		
To Gross profit (transferred to profit and Loss Account)	56,000		
	4,40,000		4,40,000

Profit and Loss Account for the year ending 31.3.2002

Dr. | Cr.

Particulars	Amount	Particulars	Amount
To Salaries	10,000	By Gross profit	56,000.
To repairs	800	By Discount received	500
To discount allowed	1500		
To office expenses	2000		
To office rent	3,600		
To Net profit (transferred to capital Account in the Balance Sheet)	38,600		
	56,500		56,500

Balance sheet As on 31.3.2002.

Liabilities		Amount	Assets	Amount
Capital	2,00,000		Buildings	80,000
(+) Net profit	38,600		Plant & machinery	60,000
	2,38,600		Furniture & Fixtures	11,000
(-) Drawings	4,000	2,34,600	Stock	40,000
Sundry creditors		25,000	Sundry debtors	40,000
			Bills receivables	10,000
Bills Payable		17,000	Cash at Bank	30,800
			Cash in hand	4,800.
		2,76,600		2,76,600

Balance sheet problem with Adjustments.

① From the following Trial Balance of ABC Company, Prepare Trading Account, Profit & Loss Account and Balance sheet.

Trial Balance

Debit Balances.	Rs.	credit Balances.	Rs.
Electricity	14,000	Interest	16,000
Land	1,40,000	Discount	6,000
Interest	16,000	Sales	8,00,000
wages	50,000	Returns (Purchase Return)	10,000
opening stock	20,000	Sundry creditors	60,000
Rent	24,000	Capital	3,02,000
Purchases	3,00,000	Bills Payable	15,000
office Expenses	30,000		
Building	4,00,000		
salaries	90,000		
Power gas and water	30,000		
Returns (Sales Return)	20,000		
furniture	15,000		
Sundry Debtors	60,000		
	12,09,000		12,09,000

Adjustments :- (A)

① outstanding salaries Rs. 10,000.
② closing stock Rs. 80,000
③ Depreciate buildings @ 10 % per annum.
④ Interest Received in advance Rs. 2,000.
⑤ write off bad debts Rs. 10,000.

Solⁿ:

Trading Account

Dr. Cr.

Particulars	Amount	Particulars	Amount
To opening stock	20,000	By Sales 8,00,000	
To Purchases 3,00,000		(–) Sales Return 20,000	7,80,000
(–) Pur Returns 10,000	2,90,000	By closing stock.	80,000
To Power, gas and water	30,000		
To wages	50,000		
To Gross Profit (transferred to Profit & Loss Account)	4,70,000		
	8,60,000		8,60,000

Profit & Loss Account

Dr. Cr.

Particulars	Amount	Particulars	Amount
To Salaries 90,000		By Gross profit	4,70,000
(+) outstanding salaries (A) 10,000	1,00,000	By discount received	6,000
To electricity	14,000	By interest received 16,000	
To interest	16,000	(–) received in Advance (A) 2,000	14,000
To Rent	24,000		
To bad debt (A)	10,000		
To office expenses	30,000		
To depreciation. (Buildings @ 10%) (A)	40,000		
To Net Profit (transferred to capital A/c)	2,56,000		
	4,90,000		4,90,000

Balance sheet.

Liabilities		Amount	Assets		Amount
Capital	3,02,000		Land		1,40,000
(+) Net profit	2,56,000	5,58,000	Buildings	4,00,000	
Sundry creditors		60,000	(-) depreciation	40,000	3,60,000
Bills Payable		15,000	Furniture		15,000
			stock (closing stock)		80,000
outstanding Salaries (A)		10,000	Sundry Debtors	60,000	
interest received in advance (A)		2,000	(-) New Bad debts (A)	10,000	50,000
		6,45,000			6,45,000

Working Notes:-

depreciation @ 10% on Buildings.

Buildings = 4,00,000 X 10%.

⇒ 40,000.