



Q5. Use accounting equation to show the effect of the following transactions of M/s Royal Traders:

- (a) Started business with cash 1,20,000
- (b) Purchased goods for cash 10,000
- (c) Rent received 5,000
- (d) Salary outstanding 2,000
- (e) Prepaid Insurance 1,000
- (f) Received interest 700
- (g) Sold goods for cash (costing Rs 5,000) 7,000
- (h) Goods destroyed by fire 500

Answer:

S.No	Explanation	Assets			= Liabilities + Capital	
		Cash	Stock	Prepaid Expenses	Outstanding Expenses	
(a)	Increase in cash	1,20,000				
	Increase in capital					1,20,000
(b)	Increase in stock	1,20,000	10,000			
	Increase in cash	(10,000)				
(c)	Increase in cash	1,10,000	10,000			
	Increase in capital (Profit)	5,000				5,000
(d)	Increase in outstanding expenses	1,15,000	10,000			
	Decrease in capital (Expense)				2,000	(2,000)
(e)	Increase in prepaid expenses	1,15,000	10,000			
	Decrease in cash	(1,000)		1,000		
(f)	Increase in cash	1,14,000	10,000			
	Increase in capital (Profit)	700				700
(g)	Increase in cash	1,14,700	10,000			
	Decrease in stock		(5,000)			
(h)	Increase in capital (Profit)					2,000
	Decrease in stock	1,21,700	5,000	1,000		
			(500)			

*****END*****