

# Chapter 5 – Accounting Equation

## Question 1

What will be effect of the following on the Accounting Equation?

i.	Started business with cash	₹45,000
ii.	Opened a Bank Account with a deposit of	₹4,500
iii.	Bought goods from M/s. Sun and Co. for	₹11,200

## Solution:

S. No	Transactions	Assets				=	Liabilities+	Capital
		Cash ₹	+	Bank + ₹	Stock ₹	=	Creditors ₹	Capital ₹
(i)	Started business with cash	45,000				=		45,000
		45,000				=		45,000
(ii)	Opened a Bank Account with a deposit	- 4,500	+	4,500		=		
		40,500	+	4,500		=		45,000
(iii)	Bought goods from M/s .Sun and Co.				11,200	=	11,200	
		40,500	+	4,500 +	11,200	=	11,200 +	45,000

## Question 2.

Show the Accounting Equation on the basis of the following transactions:

i.	Gopinath started business with	₹ 25,000
ii.	Purchased goods from Shaym	10,000
iii.	Sold goods to Sohan costing ₹1,800	1,500
iv.	Gopinath withdrew from business	5,000

[Hint : Opening Capital - Loss on Sale - Drawings = Capital at the end ₹25,000 - ₹300 (i.e, ₹1800 - ₹1,500) - ₹5,000 = ₹19,700]

## Solution:

S. No	Transactions	Assets			=	Liabilities	+	Capital
		Cash ₹	+	Stock ₹	Debtors ₹	=	Creditors ₹	Capital ₹
(i)	Gopinath started business with	25,000				=		25,000
		25,000				=		25,000
(ii)	Purchased goods from Shyam			10,000			10,000	
		25,000	+	10,000		=	10,000	+ 25,000
(iii)	Sold goods to Sohan			-1,800	1,500	=		- 300
		25,000	+	8,200	1,500	=	10,000	+ 24,700
(iv)	Gopinath withdraw from business	- 5000				=		-5,000
		20,000	+	8,200	1,500	=	10,000	+ 19,700

**Question 3.**

Show the effect of the following transactions on the Accounting Equations :

i.	Started business with cash	₹50,000
ii.	Salaries paid	₹2,000
iii.	Wages outstanding	₹200
iv.	Interest due but not paid	₹100
v.	Rent paid in advance	₹150

**Solution:**

S.No	Transactions	Assets		=	Liabilities		+	Capital
		Cash ₹	+ Advance Expenses ₹	=	Outstanding Expenses ₹			Capital ₹
(i)	Started business with cash	50,000		=				50,000
		50,000		=				50,000
(ii)	Salaries paid	-2,000		=				-2,000 (expenses)
		48,000		=				48,000
(iii)	Wages Outstanding			=	200			-200
		48,000		=	200		+	47,800
(iv)	Interest due but not paid			=	100			-100 (expenses)
		48,000		=	300		+	47,700
(v)	Rent pain advance	-150	+ 150	=				
		47,850	+ 150	=	300		+	47,700

**Question 4.**What will be the effect of the following on the Accounting Equation?

- Harish started business with cash Rs.18,000
- Purchased goods for cash 5,000 and on credit Rs.2,000
- Sold goods for cash Rs.4,000 (costing Rs.2,400)
- Rent paid Rs.1,000 and rent outstanding Rs.200

(Delhi 1998)

**Solution:**

S.No	Transactions	Assets		=	Liabilities + Capital			
		Cash ₹	+ Stock ₹	=	Creditors ₹	+ Outstanding Rent ₹	+	Capital ₹
(i)	Harish started business with cash	18,000		=				18,000
		18,000		=				18,000
(ii)	Purchased goods for cash ₹5,000 and on credit ₹2,000	-5,000	+ 7,000	=	2,000			
		13,000	+ 7,000	=	2,000		+	18,000
(iii)	Sold goods for cash ₹4,000 costing ₹2,400	4,000	-2,400	=				1,600 (Profit)
		17,000	+ 4,600	=	2,000		+	19,600
(iv)	Rent paid ₹1,000 and Rent Outstanding ₹200	-1000		=		200		-1,200
		16,000	+ 4,600	=	2,000	200	+	18,400

**Question 5.**Prepare Accounting Equation from the following:

- Started business with cash Rs.1,00,000 and Goods Rs.20,000.
- Sold goods worth Rs.10,000 for cash Rs.12,000.
- Purchased furniture on credit for Rs.30,000.

(Delhi 2011)

**Solution:**

S.No	Transactions	Assets			=	Liabilities + Capital		
		Cash ₹	+	Stock + ₹	Furniture ₹	=	Creditors ₹	+ Capital ₹
(i)	Started business with cash ₹1,00,000 and Goods ₹20,000	1,00,000		20,000		=		1,20,000
		1,00,000	+	20,000		=		1,20,000
(ii)	Sold goods worth ₹10,000 for cash ₹12,000	12,000		-10,000		=		2,000 (Profit)
		1,12,000	+	10,000		=		1,22,000
(iii)	Purchased furniture on credit for ₹30,000				30,000	=	30,000	
		1,12,000	+	10,000	+	30,000	=	30,000 + 1,22,000

**Question 6.** Prepare an Accounting Equation and Balance Sheet on the following basis:

- Ajeet started business with cash Rs.20,000.
- He purchased furniture for Rs.2,000.
- He paid rent of Rs.200.
- He purchased goods on credit Rs.3,000.
- He sold goods (cost price Rs.2,000) for Rs.5,000 on cash.

**Solution:**

S.No	Transactions	Assets					=	Liabilities + Capital		
		Cash ₹	+	Furniture ₹	+	Stock ₹	=	Creditors ₹	+ Capital ₹	
(i)	Ajeet started business with cash ₹20,000	20,000					=		20,000	
		20,000					=		20,000	
(ii)	He purchased furniture for ₹2,000	-2,000		2,000			=			
		18,000	+	2,000			=		20,000	
(iii)	He paid rent of ₹200	-200					=		-200 (Expenses)	
		17,800	+	2,000			=		19,800	
(iv)	He purchased goods on credit ₹3,000					3,000	=	3,000		
		17,800	+	2,000	+	3,000	=	3,000	+	19,800
(v)	He sold goods(cost price ₹(2,000) for ₹5,000 on cash	5,000	+		+	-2,000	=			3,000 (Profit)
		22,800	+	2,000	+	1,000	=	3,000	+	22,800

**Balance Sheet**

Liabilities	Amount ₹	Assets	Amount ₹
Capital	22,800	Cash	22,800
Creditors	3,000	Furniture	2,000
		Stock	1,000
	25,800		25,800

**Question 7.** Prepare an Accounting Equation from the following:

- Started business with cash Rs.1,00,000.
- Purchased goods for cash Rs.20,000 and on credit Rs.30,000.
- Sold goods for cash costing Rs.10,000 and on credit costing Rs.15,000 both at a profit of 20%.

(Delhi 2010)

**Solution:**

S.No	Transactions	Assets			=	Liabilities + Capital				
		Cash ₹	+	Stock ₹	+	Debtors ₹	=	Creditors ₹	+	Capital ₹
(i)	Started business with cash ₹1,00,000	1,00,000					=			1,00,000
		1,00,000					=			1,00,000
(ii)	Purchased goods for cash ₹20,000 and on credit ₹30,000	-20,000	+	50,000			=	30,000		
		80,000	+	50,000			=	30,000	+	1,00,000
(iii)	Sold goods for cash costing ₹10,000 and on credit costing ₹15,000 both at a profit of 20%	12,000	+	-10,000			=		+	2,000
				-15,000	+	18,000	=		+	3,000
		92,000	+	25,000	+	18,000	=	30,000	+	1,05,000

**Question 8.**

Develop an Accounting Equation from the following transactions :

		₹
i.	Mohan commenced business with cash	50,000
ii.	Purchased goods for cash	30,000
iii.	Purchased goods on credit	20,000
iv.	Sold goods (costing ₹10,000) for	12,000
v.	Bought furniture on credit	2,000
vi.	Paid cash to creditor	15,000
vii.	Salary paid	1,000

**Solution:**

S.No	Transactions	Assets			=	Liabilities + Capital				
		Cash ₹	+	Stock ₹	+	Furniture ₹	=	Creditors ₹	+	Capital ₹
(i)	Mohan commenced business with cash	50,000					=			50,000
		50,000					=			50,000
(ii)	Purchased goods for cash	-30,000	+	30,000			=			
		20,000	+	30,000			=			50,000
(iii)	Purchased goods on credit			20,000			=	20,000		
		20,000	+	50,000			=	20,000	+	50,000
(iv)	Sold goods costing ₹10,000 for ₹12,000	12,000	+	-10,000			=			2,000 (Profit)
		32,000	+	40,000			=	20,000	+	52,000
(v)	Bought furniture on credit					2,000	=	2,000		
		32,000	+	40,000	+	2,000	=	22,000	+	52,000
(vi)	Paid cash to creditor	-15,000					=	-15,000		
		17,000	+	40,000	+	2,000	=	7,000	+	52,000
(vi)	Salary paid	-1,000					=			-1,000
		16,000	+	40,000	+	2,000	=	7,000	+	51,000

### Question 9.

Prepare an Accounting Equation on the basis of the following transactions:

i.	Started business with cash	₹70,000
ii.	Credit purchases of goods	₹18,000
iii.	Payment made to creditors in full settlement	₹17,500
iv.	Purchase of machinery for cash	₹20,000
v.	Depreciation on machinery	₹2,000

### Solution:

S.No	Transactions	Assets				=	Liabilities + Capital			
		Cash ₹	+	Stock ₹	+	Machinery ₹	=	Creditors ₹	Capital ₹	
(i)	Started business with cash ₹70,000	70,000							70,000	
		70,000							70,000	
(ii)	Credit purchase of goods ₹18,000			18,000			=	18,000		
		70,000	+	18,000			=	18,000	+	70,000
(iii)	Payment made to creditor ₹17,500 in full settlement	-17,500					=	-18,000	+	500 (Discount Received)
		52,500	+	18,000			=	0	+	70,500
(iv)	Purchase of machinery for cash ₹20,000	-20,000				20,000				
		32,500	+	18,000	+	20,000	=	0	+	70,500
(v)	Depreciation on machinery ₹2,000					-2,000				-2,000 (Depreciation)
		32,500	+	18,000	+	18,000	=	0	+	68,500

**Question 10.** Prove that the Accounting Equation is satisfied in all the following transactions of Suresh. Also prepare a Balance sheet.

- Commenced business with cash Rs.60,000.
- Paid rent in advance Rs.500.
- Purchased goods for cash Rs.30,000 and credit Rs.20,000.
- Sold goods for cash Rs.30,000 costing Rs.20,000.
- Paid salary 500 and salary outstanding being Rs.100
- Bought motorcycle for personal use Rs.5,000.

**Solution:**

S.No	Transactions	Assets				=	Liabilities + Capital					
		Cash ₹	+	Prepaid Rent ₹	+	Stock ₹	=	Creditors ₹	+	Salary Outstanding ₹	+	Capital ₹
(i)	Commenced business with cash ₹60,000	60,000										60,000
		60,000					=					60,000
(ii)	Paid rent in advance ₹500	-500	+	500								
		59,500	+	500			=					60,000
(iii)	Purchased goods for cash ₹30,000 and credit ₹20,000	-30,000	+			50,000		20,000				
		29,500	+	500	+	50,000	=	20,000			+	60,000
(iv)	Sold goods for cash 30,000 costing ₹20,000	30,000	+		+	-20,000						10,000 (Profit)
		59,500	+	500	+	30,000	=	20,000	+		+	70,000
(v)	Paid salary ₹500 and salary outstanding being ₹100	-5000					=					-5,000 (Drawings)
		54,000	+	500	+	30,000	=	20,000	+	100	+	64,400

**Balance Sheet**

Liabilities	Amount ₹	Assets	Amount ₹
Capital	64,400	Cash	54,000
Creditors	20,000	Prepaid Rent	500
Salary Outstandings	100	Stock	30,000
	<b>85,500</b>		<b>85,500</b>

**Question 11.**Show the effect of the following transactions on assets, liabilities and capital using the Accounting Equation.

Also prepare a Balance sheet:

- Started business with cash Rs.60,000
- Rent received Rs.2,000
- Accrued interest Rs.500
- Commission received in advance Rs.1,000
- Amount withdrawn Rs.5,000

[Hint : Capital = Opening Capital Rs.60,000 + Rent Received Rs.2,000 + Accrued Interest Rs.500 – Drawings Rs.5,000 = Rs.57,500]

**Solution:**

S.No	Transactions	Assets		=	Liabilities + Capital			
		Cash ₹	+	Accrued Interest ₹	=	Advance Commission ₹	+	Capital ₹
(i)	Started business with cash ₹60,000	60,000			=			60,000
		60,000			=			60,000
(ii)	Rent received ₹2,000	2,000			=			2,000 (Income)
		62,000			=			62,000
(iii)	Accrued interest ₹500			500	=			500 (Income)
		62,000	+	500	=			62,500
(iv)	Commission received in advance ₹1,000	1,000			=	1,000		
		63,000	+	500	=	1,000	+	62,500
(v)	Amount withdrawn ₹5,000	- 5000			=			-5,000
		58,000	+	500	=	1,000	+	57,500

**Balance Sheet**

Liabilities	Amount ₹	Assets	Amount ₹
Capital	57,500	Cash	58,000
Advance Commission	1,000	Accrued Interest	500
	58,500		58,500

**Question 12.** Prove that the Accounting Equation is satisfied in all the following transactions of Sameer Goel :

- (i) Started business with cash Rs.10,000.
- (ii) Paid rent in advance Rs.300.
- (iii) Purchased goods for cash 5,000 and credit Rs.2,000.
- (iv) Sold goods for cash Rs.8,000 costing Rs.4,000.
- (v) Paid salary Rs.450 and salary outstanding being Rs.100.
- (vi) Bought motorcycle for personal use Rs.3,000.

(KVS 1997)

**Solution:**

S.No	Transactions	Assets				=	Liabilities + Capital					
		Cash ₹	+	Prepaid Rent ₹	+	Stock ₹	=	Creditors ₹	+	Outstanding Salary ₹	+	Capital ₹
(i)	Started business with cash ₹10,000	10,000										10,000
		10,000					=					10,000
(ii)	Paid rent in advance ₹300	-300		300								
		9,700	+	300			=					10,000
(iii)	Purchased goods for cash ₹5,000 and credit ₹2,000	-5,000	+		+	5,000	=	2,000				
						2,000	=					
		4,700	+	300	+	7,000	=	2,000			+	10,000
(iv)	Sold goods for cash ₹8,000 costing ₹4,000	8,000				-4,000						4,000 (Profit)
		12,700	+	300	+	3,000	=	2,000			+	14,000
(v)	Paid salary ₹450 and salary outstanding being ₹100	- 450					=					- 450 (Expenses)
										100		- 100 (Expenses)
		12,250	+	300	+	3,000	=	2,000	+	100	+	13,450
(vi)	Brought motorcycle for personal use ₹3,000	-3,000					=					-3,000 (Drawings)
		9,250	+	300	+	3,000	=	2,000	+	100		10,450

**Question 13.**Show the Accounting Equation on the basis of the following transactions and present a Balance sheet on the last new equation balance:

	₹
(i) Raj commenced business	70,000
(ii) Purchased goods on credit	14,000
(iii) Withdrew for private use	1,700
(iv) Goods purchased for cash	10,000
(v) Paid wages	300
(vi) Paid to creditors	10,000
(vii) Sold goods on credit for	15,000
(viii) Sold goods for cash (Cost price 3,000)	4,000
(ix) Purchased furniture for	500

**Solution:**



S.No	Transactions	Asset						=	Liabilities + Capital			
		Cash ₹	+	Stock ₹	+	Furniture ₹	+	Debtors ₹	=	Creditors ₹	+	Capital ₹
(i)	Raj commenced business	70,000							=			70,000
		70,000							=			70,000
(ii)	Purchased goods on credit			14,000					=	14,000		
		70,000	+	14,000					=	14,000	+	70,000
(iii)	Withdraw for private use	- 1,700							=			-1,700
		68,300	+	14,000					=	14,000	+	68,300
(iv)	Goods purchased for cash	-10,000	+	10,000								
		58,300	+	24,000					=	14,000	+	68,300
(v)	Paid wages	- 300							=			-300
		58,000	+	24,000					=	14,000	+	68,000
(vi)	Paid to creditors	-10,000							=	-10,000		
		48,000	+	24,000					=	4,000	+	68,000
(vii)	Sold goods on credit			-15,000	+			15,000	=			
		48,000	+	9,000	+			15,000	=	4,000	+	68,000
(viii)	Sold goods for cash (costing ₹3,000)	4,000		-3,000								1,000 (Profit)
		52,000	+	6,000	+			15,000	=	4,000	+	69,000
(ix)	Purchased furniture	- 500				500						
		51,500	+	6,000	+	500	+	15,000	=	4,000	+	69,000

**Balance Sheet**

Liabilities	Amount	Assets	Amount
Capital	69,000	Cash	51,500
Creditors	4,000	Stock	6,000
		Furniture	500
		Debtors	15,000
	73,000		73,000

**Question 14.** Raghunath had the following transaction in an accounting year:

- Commenced business with cash Rs.50,000.
- Paid into bank Rs.10,000.
- Purchased goods for cash Rs.20,000 and credit Rs.30,000.
- Sold goods for cash Rs.40,000 costing Rs.30,000.
- Rent paid Rs.500.
- Rent outstanding Rs.100.
- Bought furniture Rs.5,000 on credit.
- Bought refrigerator for personal use Rs.5,000.
- Purchased motorcycle for cash Rs.20,000.

Create an Accounting Equation to show the effect of the above transactions on his assets, liabilities and capital and also show his final Balance sheet.

**Solution:**

S.No	Transactions	Assets								=	Liabilities + Capital					
		Cash Rs.	+	Bank Rs.	+	Stock Rs.	+	Furniture Rs.	+	Motor Cycle Rs.	=	Creditors Rs.	+	Outstanding Rent Rs.	+	Capital Rs.
(i)	Commenced business with Cash Rs.50,000	50,000														50,000
		50,000									=					
(ii)	Paid in to bank Rs.10,000	-10,000	+	10,000												
		40,000	+	10,000							=					50,000
(iii)	Purchased goods for cash Rs.20,000 and credit Rs.30,000	20,000														
		-20,000			+	30,000						30,000				
		20,000	+	10,000	+	50,000					=	30,000			+	50,000
(iv)	Sold goods for cash Rs.40,000 costing Rs.30,000	-														
		40,000				30,000					=					10,000 (Expenses)
		60,000	+	10,000	+	20,000					=	30,000			+	60,000
(v)	Rent paid Rs.500	- 500									=					-500 (Expenses)
		59,500	+	10,000	+	20,000					=	30,000			+	59,500
(vi)	Rent outstanding Rs.100														-100 (Drawings)	
		59,500	+	10,000	+	20,000					=	30,000	+	100	+	59,400
(vii)	Bought Furniture on credit Rs.5,000							5,000			=	5,000				
		54,500	+	10,000	+	20,000	+	5,000			=	35,000	+	100	+	59,400
(viii)	Bought refrigerator for personal use Rs.5,000	-5,000														
		- 5,000									=					-5,000 (Drawings)
		54,500	+	10,000	+	20,000	+	5,000			=	35,000	+	100	+	54,500
(ix)	Purchased motorcycle for cash	-20,000							+	20,000	=					
		34,500	+	10,000	+	20,000	+	5,000	+	20,000	=	35,000	+	100	+	54,400

#### Balance Sheet

Liabilities	Amount ₹	Assets	Amount ₹
Capital	54,400	Cash	34,500
Creditors	35,000	Bank	10,000
Rent Outstanding	100	Stock	20,000
		Furniture	5,000
		Motorcycle	20,000
	89,500		89,500

**Question 15.** Prepare an Accounting Equation from the following:

- Started business with cash Rs.50,000 and goods Rs.30,000.
- Purchased goods for cash 30,000 and on credit from Karan Rs.20,000.
- Goods costing Rs.40,000 were sold for Rs.55,000.
- Withdraw cash for personal use Rs.10,000.
- Rent outstanding Rs.2,000.

(MSE Chandigarh)

**Solution:**

S.No	Transactions	Assets		=		Liabilities + Capital			
		Cash ₹	+	Stock ₹	=	Creditors ₹	+	Outstanding Rent ₹	+ Capital ₹
(i)	Started business with cash ₹50,000 and goods ₹30,000	50,000	+	30,000	=				80,000
		50,000	+	30,000	=				80,000
(ii)	Purchased goods for cash ₹30,000 and on credit from Kiran ₹20,000	- 30,000	+	30,000					
				20,000		20,000			
		20,000	+	80,000	=	20,000			80,000
(iii)	Goods costing ₹40,000 were sold for ₹55,000	55,000		- 40,000					15,000 (Profit)
		75,000	+	40,000	=	20,000			95,000
(iv)	Withdraw cash for personal use ₹10,000	- 10,000							- 10,000 (Drawings)
		65,000	+	40,000	=	20,000			85,000
(v)	Rent outstanding ₹2,000							2,000	- 2,000 (Expenses)
		65,000	+	40,000	=	20,000 +		2,000	83,000

**Question 16.**Show an Accounting Equation on the basis of the following transactions:

- D. Mahapatra commenced business with cash Rs.1,50,000; goods Rs.60,000; machinery Rs.1,00,000 and furniture Rs.50,000.
- 1/3rd of the above goods sold at a profit of 10% on cost and half of the payment is received in cash.
- Depreciation on machinery provided @10%.
- Cash withdrawn for personal use 10,000.
- Interest on drawings charged @5%.
- Goods sold to Gupta for Rs.10,000 and received a Bill Receivable for the same amount for 3 months.
- Received Rs.10,000 from Gupta against the Bills Receivable on its maturity.

[Hints:

- Opening Capital Rs.3,60,000 = Cash Rs.1,50,000 + Stock Rs.60,000 + Machinery Rs.1,00,000 + Furniture Rs.50,000
- Liabilities: Nil]

**Solution:**

S.No	Transactions	Assets						Liabilities + Capital	
		Cash + Rs.	Stock + Rs.	Machinery + Rs.	Furniture + Rs.	Debtors + Rs.	Bills Receivables Rs.	=	Capital Rs.
(1)	Started business with cash Rs Rs.1,50,000 Stock Rs.60,000 Machinery Rs.1,00,000 Furniture Rs.50,000	1,50,000	60,000	1,00,000	50,000				1,50,000 60,000 1,00,000 50,000
		1,50,000 +	60,000 +	1,00,000 +	50,000			=	3,60,000
(ii)	1/3 <sup>rd</sup> of above goods sold at a profit of 10% on cost and half of it received in cash (WN 1)	11,000	(20,000)			11,000			2,000 (Profit)
		1,61,000 +	40,000 +	1,00,000 +	50,000 +	11,000		=	3,62,000
(iii)	Depreciate machinery by 10% (Rs.1,00,000 × 10%)			(10,000)					(10,000) Expense
		1,61,000 +	40,000 +	90,000 +	50,000 +	11,000		=	3,52,000
(iv)	Cash withdrawn for personal use	(10,000)						=	(10,000)
		1,51,000 +	40,000 +	90,000 +	50,000 +	11,000		=	3,42,000
(v)	Interest on drawings charged @ 5%								- 500 + 500
		1,51,000 +	40,000 +	90,000 +	50,000 +	11,000		=	3,42,000
(vi)	Goods sold to Gupta for Rs.10,000 and received a Bill Receivable for the same amount		(10,000)				10,000		
		1,51,000 +	30,000 +	90,000 +	50,000 +	11,000 +	10,000	=	3,42,000
(vii)	Received Rs.10,000 from Gupta against the Bill Receivable on its maturity	10,000					(10,000)		
		1,61,000 +	30,000 +	90,000 +	50,000 +	11,000 +	0	=	3,42,000

Working Note 1:

Rs.60,000 × 1/3 = Rs.20,000 × 110% = Rs.22,000

Half received in Cash = Rs.11,000

### Question 17.

Show an Accounting Equation on the basis of the following transactions :

		₹
i.	Sunil started business with Cash	1,50,000
ii.	He purchased a building and furniture for	1,00,000
iii.	He purchased goods from Ram on credit	50,000
iv.	He paid cartage	500
v.	He sold to Shyam on credit goods costing ₹6,000 for	9,000
vi.	Received rent from tenants	1,000
vii.	Received security deposit from tenants	1,500
viii.	Purchased stationary for cash	100
ix.	Invested in shares (personal)	50,000
x.	Received interest in cash	200
xi.	Introduced fresh capital	25,000
xii.	Goods destroyed by fire	500

**Solution:**

S.No	Transactions	Assets						=	Liabilities + Capital						
		Cash Rs.	+	Building and Furniture Rs.	+	Stock Rs.	+	Debtors Rs.	=	Creditor Rs.	+	Security Deposit Rs.	+	Capital Rs.	
(i)	Sunil started business with cash Rs.1,50,000	1,50,000												1,50,000	
		1,50,000							=					1,50,000	
(ii)	Building and Furniture purchased for Rs.1,00,000	- 1,00,000			1,00,000										
		50,000	+		1,00,000									1,50,000	
(iii)	Purchased goods from Ram on credit					50,000			=	50,000					
		50,000	+		1,00,000	+	50,000		=	50,000			+	1,50,000	
(iv)	Paid cartage Rs.500	- 500												-500 (Expense)	
		49,500	+		1,00,000	+	50,000		=	50,000			+	1,49,500	
(v)	Sold goods on credit goods costing Rs.6,000 for Rs.9,000					- 6,000	+	9000						3,000 (Profit)	
		49,500	+		1,00,000	+	44,000	+	9,000	=	50,000		+	1,52,500	
(vi)	Received rent from tenants of Rs.1,000	1000												1,000 (Income)	
		50,500	+		1,00,000	+	44,000	+	9,000	=	50,000		+	1,53,500	
(vii)	Received Security Deposits from tenants of Rs.1,500	1,500										1,500			
		52,000	+		1,00,000	+	44,000	+	9,000	=	50,000	+	1,500	+	1,53,500
(viii)	Purchased stationary for cash Rs.100	-100												-100	
		51,900	+		1,00,000	+	44,000	+	9,000	=	50,000	+	1,500	+	1,53,400
(ix)	Invested in shares (personal) Rs.50,000	- 50,000												- 50,000 (Drawings)	
		1,900	+		1,00,000	+	44,000	+	9,000	=	50,000	+	1,500	+	01,03,400
(x)	Received interest of Rs.200 in cash	200												200 (Income)	
		2,100	+		1,00,000	+	44,000	+	9,000	=	50,000	+	1,500	+	1,03,600
(xi)	Introduced fresh capital of Rs.25,000	25,000												25,000	
		27,100	+		1,00,000	+	44,000	+	9,000	=	50,000	+	1,500	+	1,28,600
(xii)	Goods of Rs.500 were destroyed by fire					-500								-500 (Loss)	
		27,100	+		1,00,000	+	43,500	+	9,000	=	50,000	+	1,500	+	1,28,100

**Question 18.**Create an Accounting Equation on the basis of the following transactions:

- Commenced business with cash Rs.50,000, goods Rs.30,000 and furniture Rs.20,000.
- Sold goods to Ajay on credit costing Rs.4,000 for Rs.5,000.
- Sold goods for cash costing Rs.12,000 for Rs.16,000.
- Purchased goods for cash Rs.40,000.
- Purchased goods on credit for Rs.20,000.
- Paid rent Rs.3,000 including Rs.2,000 in advance.
- Paid salaries Rs.2000.
- Sold goods costing Rs.8,000 for Rs.10,000.
- Salaries outstanding Rs.1,000.
- Charge depreciation on furniture Rs.500.

**Solution:**

S.No	Transactions	Assets								= Liabilities + Capital							
		Cash Rs.	+	Stock Rs.	+	Furniture Rs.	+	Debtors Rs.	+	Prepaid Rent Rs.	=	Creditors Rs.	+	Salary Outstanding Rs.	+	Capital Rs.	
(i)	Cash Stock Furniture Capital	50,000		30,000		20,000										1,00,000	
		50,000	+	30,000	+	20,000					=					1,00,000	
(ii)	Sold goods to Ajay on credit costing Rs.4,000 for Rs.5,000			-4,000				5,000								1,000	
		50,000	+	26,000	+	20,000	+	5,000			=					1,01,000	
(iii)	Sold goods for cash costing Rs.12,000 for Rs.16,000	16,000		-		12,000	+									4,000	
		66,000	+	14,000	+	20,000	+	5,000			=					1,05,000	
(iv)	Purchased goods for cash Rs.40,000	- 40,000		40,000													
		26,000	+	54,000	+	20,000	+	5,000			=					1,05,000	
(v)	Purchased goods on credit for Rs.20,000			20,000								20,000					
		26,000	+	74,000	+	20,000	+	5,000			=	20,000	+			1,05,000	
(vi)	Paid rent Rs.3,000 including Rs.2,000 in advance	- 3,000								2,000						- 1,000	
		23,000	+	74,000	+	20,000	+	5,000	+	2,000	=	20,000	+			1,04,000	
(vii)	Paid salaries Rs.2000	-2,000														-2,000	
		21,000	+	74,000	+	20,000	+	5,000	+	2,000	=	20,000	+			1,02,000	
(viii)	Sold goods costing Rs.8,000 for Rs.10,000	10,000		-8,000												2,000	
		31,000	+	66,000	+	20,000	+	5,000	+	2,000	=	20,000	+			1,04,000	
(ix)	Salaries outstanding Rs.1,000													1,000		- 1,000	
		31,000	+	66,000	+	20,000	+	5,000	+	2,000	=	20,000	+	1,000	+	1,03,000	
(x)	Charge depreciation on furniture Rs.500					-500										-500	
		31,000	+	66,000	+	19,500	+	5,000	+	2,000	=	20,000	+	1,000	+	1,02,500	

**Question 19.** Prepare Accounting Equation from the following:

- Started business with cash Rs.1,00,000.
- Purchased goods for cash Rs.20,000 and on credit Rs.30,000.
- Sold goods for cash costing Rs.10,000 and on credit costing Rs.15,000 both at profit of 20%.
- Paid salaries Rs.8,000.

[Delhi 2012]

**Solution:**

Sr.No	Transaction	Assets			=	Liabilities + Capital				
		Cash ₹	+	Stock ₹	+	Furniture ₹	=	Creditors ₹	+	Capital ₹
a.	Started business with cash	1,00,000								1,00,000
		1,00,000					=			1,00,000
b.	Purchased goods for cash 20,000 and on credit 30,000	-20,000	+	50,000			=	30,000		
		80,000	+	50,000			=	30,000	+	1,00,000
c.	Sold goods for cash costing ₹10,000 and on credit costing ₹15,000 both at profit of 20%.	12,000	+	-25,000	+	18,000				5,000 (Profit)
		92,000	+	25,000	+	18,000	=	30,000	+	1,05,000
d.	Paid Salaries ₹8,000	-8,000								-8,000 (Expense)
		84,000	+	25,000	+	18,000	=	30,000	+	97,000

**Question 20.**Show the accounting equation on the basis of following transactions:

- Ram started business with Rs.25,000.
- Purchased goods from Shyam Rs.10,000.
- Sold goods to Sohan costing Rs.1,500 for Rs.1,800.

[MSE Chandigarh 2015]

**Solution:**

Sr.No	Transaction	Assets			=	Liabilities + Capital				
		Cash ₹	+	Stock ₹	+	Debtors ₹	=	Creditors ₹	+	Capital ₹
a.	Ram started business with cash	25,000								25,000
		25,000					=			25,000
b.	Purchased goods from Shyam			10,000				10,000		
		25,000	+	10,000			=	10,000	+	25,000
c.	Sold goods to Sohan costing ₹1,500 for ₹1,800			- 1,500	+	1,800			+	300 (Profit)
		25,000	+	8,500	+	1,800	=	10,000	+	25,300

**Question 21.**If the capital of a business is Rs.3,00,000 and liabilities are Rs.50,000, loss 70,000, calculate the total assets of the business.

**Solution:**

$$\begin{aligned}
 \text{Total Assets} &= \text{Capital} - \text{Loss} + \text{Liabilities} \\
 &= ₹3,00,000 - ₹70,000 + ₹50,000 \\
 &= ₹2,80,000
 \end{aligned}$$

**Question 22.**If total assets of a business are Rs.1,30,000 and net worth is Rs.80,000, calculate the creditors.

[Hint: Net worth = Assets – Liabilities]

**Solution:**

$$\begin{aligned}
 \text{Creditors} &= \text{Total Assets} - \text{Net worth} \\
 &= ₹1,30,000 - ₹80,000 \\
 &= ₹50,000
 \end{aligned}$$

**Question 23.**A commenced his cloth business on 1<sup>st</sup> April 2014 with a capital of Rs.30,000. On 31<sup>st</sup> March 2015, his assets were worth Rs.50,000 and liabilities of Rs.10,000. Find out his closing capital and profits earned during the year.

**Solution:**

$$\begin{aligned}
 \text{Closing Capital} &= \text{Assets} - \text{Liabilities} \\
 &= ₹50,000 - ₹10,000 \\
 &= ₹40,000
 \end{aligned}$$

$$\begin{aligned}
 \text{Profit} &= \text{Closing Capital} - \text{Opening Capital} \\
 &= ₹40,000 - ₹30,000 \\
 &= ₹10,000
 \end{aligned}$$

**Question 24.** If capital of a business is Rs.1,40,000 and liabilities are of Rs.80,000, calculate the total assets of the business.

**Solution:**

$$\begin{aligned}
 \text{Total Assets} &= \text{Liabilities} + \text{Capital} \\
 &= ₹80,000 + ₹1,40,000 \\
 &= ₹2,20,000
 \end{aligned}$$

**Question 25.** Calculate the total assets if:

- Capital is Rs.40,000.
- Creditors are Rs.25,000.
- Revenue during the period is Rs.50,000.
- Expenses during the period are Rs.40,000.

(Delhi 2001)

**Solution:**

$$\begin{aligned}
 \text{Capital after adjustments} &= \text{Capital} + \text{Revenue} - \text{Expenses} \\
 &= ₹40,000 + ₹50,000 - ₹40,000 \\
 &= ₹50,000
 \end{aligned}$$

$$\begin{aligned}
 \text{Total Assets} &= \text{Capital after adjustment} + \text{Creditors} \\
 &= ₹50,000 + ₹25,000 \\
 &= ₹75,000
 \end{aligned}$$

**Question 26.a.** A had a capital of Rs.75,000 on 1st April 2015. He had also goods amounting to Rs.15,000 which he had purchased on credit and the payment had not been made. Find out the value of the total assets of the business.

b. After a period of one month, he came to know that he had suffered a loss of Rs.1,700. He withdrew Rs.800 for his personal use. Find out his capital and assets of the business.

**Solution:**

$$\begin{aligned}
 \text{a. Total Assets} &= \text{Capital} + \text{Creditors} \\
 &= ₹75,000 + ₹15,000 \\
 &= ₹90,000
 \end{aligned}$$

$$\begin{aligned}
 \text{b. Revised Capital} &= \text{Capital} - \text{Loss} - \text{Drawings} \\
 &= ₹75,000 - ₹1,700 - ₹800 \\
 &= ₹72,500
 \end{aligned}$$

$$\begin{aligned}
 \text{Assets} &= \text{Revised Capital} + \text{Creditors} \\
 &= ₹72,500 + ₹15,000 \\
 &= ₹87,500
 \end{aligned}$$

**Question 27.a.** Mohan started a business on 1<sup>st</sup> April 2014 with a capital of Rs.10,000 and borrowed Rs.3,000 from a friend. He earned a profit of Rs.5,000 during the year ended 31<sup>st</sup> March, 2015 and withdrew cash Rs.4,000 for private use. What is his capital on 31<sup>st</sup> March, 2015?

b. Mahesh started a business with capital of Rs.15,000 on 1<sup>st</sup> April, 2014. During the year he made a profit of Rs.3,000. He owes Rs.2,500 to suppliers of goods. What is the total of assets in his business on 31<sup>st</sup> March, 2015?

**Solution:**



a. Capital on March 31, 2015	=	Capital on April 01, 2014 + Profit - Drawings
	=	₹10,000 + ₹5,000 - ₹4,000
	=	₹11,000
b. Total Assets on March 31, 2015	=	Capital on April 01, 2014 + Profit + Creditors
	=	₹15,000 + ₹3,000 + ₹2,500
	=	₹20,500

**Question 28.** Mohan started a business on 1<sup>st</sup> April 2014 with a capital of Rs.25,000 and a loan of Rs.12,500 borrowed from Shyam. During 2014-15 he had introduced additional capital of Rs.12,500 and had withdrawn Rs.7,500 for personal use. On 31<sup>st</sup> March 2015 his assets were Rs.75,000. Find out his capital as on 31<sup>st</sup> March, 2015 and profit made or loss incurred during the year 2014 – 15.

**Solution:**

Capital on March 31, 2015	=	Assets - Loan from Shyam
	=	₹75,000 - ₹12,500
	=	₹62,500
Profit (or Loss) during the year 2014 - 15	=	Capital on March 31, 2015 + Drawings - (Additional Capital + Capital on April 01, 2014)
	=	₹62,500 + ₹7,500 - (₹12,500 + ₹25,000)
	=	₹70,000 - ₹37,500
	=	₹32,500

**Question 29.** On 31<sup>st</sup> March, 2015, the total assets and external liabilities were Rs.2,00,000 and Rs.6,000 respectively. During the year, the proprietor had introduced capital of Rs.20,000 and withdrawn Rs.12,000 for personal use. He made a profit of Rs.20,000 during the year. Calculate the capital as on 1<sup>st</sup> April, 2014.

**Solution:**

Capital on March 31, 2015	=	Total Assets - External Liabilities
	=	₹2,00,000 - ₹6,000
	=	₹1,94,000
Capital on April 01, 2014	=	Capital on March 31, 2015 - Additional Capital + Drawings - Profit
	=	₹1,94,000 - ₹20,000 + ₹12,000 - ₹20,000
	=	₹1,66,000