

FINAL ACCOUNTS

Question.1 What is meant by Adjusting Entries?

Answer 1.

Adjusting Entries are the entries passed to record expenses and incomes that relate to the accounting period but yet to be paid or recovered.

Question.2 Why is it necessary to pass adjusting entries when final accounts are prepared?

Answer 2.

It necessary to pass adjusting entries when final accounts are prepared, because Accrual Concept is the fundamental accounting concept and requires that all expenses, whether paid or not, should be accounted to ascertain correct profit or loss, assets and liabilities. They are recorded through the adjustment entries.

Question.3 What are Outstanding Expenses? What is its adjusting entry?

Answer 3.

Outstanding Expenses mean the expenses incurred but not yet paid. At the end of the accounting year such expenses is accounted in the books, otherwise profit will be overstated and liabilities will be understated. Its adjusting entry is:

Expenses A/c Dr.

To Outstanding Expenses A/c

(Being particular expenses provided)

Question.4 What is meant by Prepaid Expenses? How are they adjusted in the Final Accounts?

Answer 4.

Prepaid Expenses are those expenses which we pay in this year, the benefit of which expenses relates to next accounting year. Such part of the expenses is known as prepaid expenses or unexpired expenses. The unexpired part such expenses is deducted from the total expenses in the Profit and Loss Account and prepaid expenses are shown as an asset in the Balance Sheet under the head current assets.

Question.5 Define Accrued Income. What is its adjusting entry?

Answer 5.

Accrued Incomes or Outstanding Incomes are those incomes which have been earned during the accounting period but have not been received till the end of accounting period. As per the Accrual Concept of Accounting, total income of the period, both received and yet to be received, are shown in the Final Accounts otherwise the profit and assets will remain under stated.

The adjusting entry for this purpose is:

Accrued Income A/c

To Income A/c (Amount of Particular Income)

To Output CGST A/c (Amount of CGST)

To Output SGST A/c (Amount of SGST)

(Being the particular accrued income accounted in the books)

Question.6 What is Unearned Income? How is it adjusted in the Final Accounts?

Answer 6.

Unearned Income or Income Received in Advance means an income that has not been earned but is received in advance. At times an amount is received during a year in respect of an income that relates partially or fully to the next year.

It is adjusted in the Final Accounts as given below:

1. In the credit side of Profit and Loss Account by deducting from the amount under that head of income.
2. In the liabilities side of the Balance Sheet under the head current liabilities.
3. If income received in advance is shown in the trial Balance, it means that the adjusting entry is already passed. In such a case, Income Received in Advance is shown in the Balance Sheet under the head current liabilities.

Question.9 Ravi's Trail Balance as on 31st March,2019 has the following information:

Heads of Accounts	Debit	Credit
Loan (Taken on 1 st October,2018 interest @ 10% p.a.)	-	1,00,000
Interest	4,000	-

What is the amount of outstanding interest to be provided?

Answer 9.

The amount of outstanding interest to be provided

=Total Interest – Interest paid during the year

= Rs. 1,00,000 × 10/100 × 6/12 – Rs. 4,000

= Rs. 5,000 – Rs. 4,000

= Rs. 1,000

Question.10 Manish has paid salaries of Rs. 1,50,000 for the year ended 31st March, 2019. Salaries include Rs. 20,000 paid in advance for the year ending 31st March. 2020. Show how it will be shown in the Profit and Loss Account and the Balance Sheet.

Answer 10.

In the Books of Kapil
Profit and Loss Account for the Year ended 31st March

Particular	Amount	Particular	Amount
To Salaries	Rs. 1,50,000		
Less: Salaries paid in Advance	Rs. 20,000		
	1,30,000		

Balance Sheet of Rahul as at 31st March

Liabilities	Amount	Assets	Amount
		<u>Current Assets:</u>	
		Salaries paid in Advance	20,000

Question.11 Rahul's Trial Balance as on 31st March,2019 has the following information:

Heads of Accounts	Debit	Credit
Salaries and Wages	3,30,000	-
Electricity Expenses	55,000	-

Additional information: (i) Salary for the month of March, 2019 is yet to be paid. (ii) Electricity Bill for March,2019 amounted to Rs.5,200 was received on 2nd April,2019.

Question.11 Rahul's Trial Balance as on 31st March,2019 has the following information:

Heads of Accounts	Debit	Credit
Salaries and Wages	3,30,000	-
Electricity Expenses	55,000	-

Additional information: (i) Salary for the month of March, 2019 is yet to be paid. (ii) Electricity Bill for March,2019 amounted to Rs.5,200 was received on 2nd April,2019.

Answer 11.

In the Books of Rahul
Profit and Loss Account for the Year ended 31st March

Particular	Amount	Particular	Amount
To Salaries and Wages A/c	Rs. 3,30,000		
Add: Outstanding Salaries	Rs. 30,000		
	3,60,000		
To Electricity Expenses A/c	Rs. 55,000		
Add: Outstanding Electricity Expenses	Rs. 5,200		
	60,200		

Balance Sheet of Rahul as at 31st March

Particular	Amount	Particular	Amount
<u>Current Liabilities:</u>			
Outstanding Salaries	30,000		
Outstanding Electricity Expenses	5,200		

Point of Knowledge:

1.) $\text{Rs. } 3,30,000 \times \frac{1}{11} = 30,000$

Question.12 Ramesh's Trail Balance as on 31st March, 2019 given the following information:

Heads of Accounts	Debit	Credit
Investment (rate of interest 10% p.a.)	5,00,000	-
Interest Received	-	45,000

Show how the above items would appear in the Profit and Loss Account and Balance Sheet.

Answer 12.

In the Books of Kapil
Profit and Loss Account for the Year ended 31st March

Particular	Amount	Particular	Amount
		Interest Received	45,000
		Add: Accrued Interest	5,000
			50,000

Balance Sheet of Kapil as at 31st March

Liabilities	Amount	Assets	Amount
		Investment A/c	Rs. 5,00,000
		Add: Accrued Interest	Rs. 5,000
			5,05,000

Question.13 Ramesh's Trail Balance given the following information:

Heads of Accounts	Debit	Credit
Furniture	10,00,000	-
Building	20,00,000	-

Depreciation is provided @ 10% p.a. on the fixed assets. Show how this will be shown in the Profit and Loss Account.

Answer 13.

In the Books of Ramesh

Profit and Loss Account for the Year ended 31st March

Particular	Amount	Particular	Amount
To Depreciation on Plant and Machinery A/c Rs. 10,00,000 x $\frac{10}{100}$	1,00,000		
To Depreciation on Plant and Machinery A/c Rs. 20,00,000 x $\frac{10}{100}$	2,00,000		

Question.14 Sanjiv's Trial Balance as on 31st March, 2019 shows the following information:

Heads of Accounts	Debit	Credit
Purchases	2,80,000	-
Sales	-	3,50,000
Carriage on Purchases	10,000	-

Sanjiv took goods costing Rs.20,000 for his personal use but entry was not passed in the books of account. Show the treatment in the Final Accounts.

Answer 14.

In the Books of Sanjeev
Trading Account for the Year ended 31st March

Particular	Amount	Particular	Amount
To Purchases A/c Rs. 2,80,000		By Sales A/c	3,50,000
Less: Stock Drawings Rs. 20,000	2,60,000		
To Carriage on Purchases A/c	10,000		

Balance Sheet of Sanjeev as at 31st March

Liabilities	Amount	Assets	Amount
<u>Long Term Liabilities and Capital:</u>			
Capital -			
Less: Goods Drawings Rs. 20,000			
Add: Net Profit -			

Question 24. Ramesh valued stock at the end of the year at Rs. 1,00,000. Goods costing Rs. 5,000 were destroyed by fire during the accounting period. Show the treatment if the goods are not insured.

Answer 24:

In the books of Ramesh

Trading A/c

Particulars	Amount	Particulars	Amount
To Purchases -		By Closing Stock	1,00,000
Less: Loss by fire 5,000	-		

Profit and Loss A/c

Particulars	Amount	Particulars	Amount
To Loss by fire	5,000		

Balance Sheet

Liabilities	Amount	Assets	Amount
		Current Assets:	
		Insurance Claim	Nil

Question 3: Following Trial Balance has been extracted from the books of Pawan as on 31st March, 2024:

Particulars	Dr. (Rs.)	Particulars	Cr. (Rs.)
Machinery	4,00,000	Capital	9,00,000
Cash at Bank	1,00,000	Sales	16,00,000
Cash in Hand	50,000	Sundry Creditors	4,50,000
Wages	1,00,000	Interest Received	30,000
Purchases	8,00,000		
Stock on 1 st April, 2023	6,00,000		
Sundry Debtors	7,30,000		
Rent	45,000		
Commission	25,000		
General Expenses	80,000		
Salaries	50,000		
	29,80,000		29,80,000

Additional Information:

(i) Outstanding salaries were Rs. 45,000.

(ii) Depreciate Machinery at 10%.

(iii) Wages outstanding were Rs. 5,000.

(iv) Rent prepaid Rs. 10,000.

(v) Provide for interest on capital @ 5% per annum.

(vi) Stock on 31st March, 2024 Rs. 8,00,000.

Prepare Trading and Profit and Loss Account for the year ended 31st March, 2024 and Balance Sheet as at that date.

In the Books of M/s. Ram Prasad & Sons
Trading Account Profit & Loss for the year ended March 31, 2024

Dr.			Cr.	
Particulars		Amount (Rs.)	Particulars	Amount (Rs.)
To Opening Stock		6,00,000	By Sales	16,00,000
To Purchases		8,00,000	By Closing Stock	8,00,000
To Wages	1,00,000			
Add: Outstanding Wages	5,000	1,05,000		
To Gross Profit (B/F)		8,95,000		
		24,00,000		24,00,000
To Rent	45,000		By Gross Profit	8,95,000
Less: Prepaid Rent	(10,000)	35,000	By Interest Received	30,000
To Commission		25,000		
To General Expenses		80,000		
To Salaries	50,000			
Add: Outstanding Salaries	45,000	95,000		
To Depreciation on Machinery		40,000		
To Interest on Capital A/c		45,000		
To Net Profit (Balancing Figure)		6,05,000		
		9,25,000		9,25,000

Balance Sheet as on March 31, 2024

Liabilities		Amount (Rs.)	Assets		Amount (Rs.)
Capital	9,00,000	15,50,000	Fixed Assets		3,60,000
Add: Net Profit	6,05,000		Machinery	4,00,000	
Add: Interest on Capital	45,000		Less: 10% Depreciation	(40,000)	
Current Liabilities		4,50,000 45,000 5,000	Current Assets		8,00,000 7,30,000 10,000 1,00,000 50,000
Sundry Creditors			Closing Stock		
Outstanding Salary			Sundry Debtors		
Outstanding Wages			Prepaid Rent		
			Cash at Bank		
			Cash in Hand		
		20,50,000			20,50,000