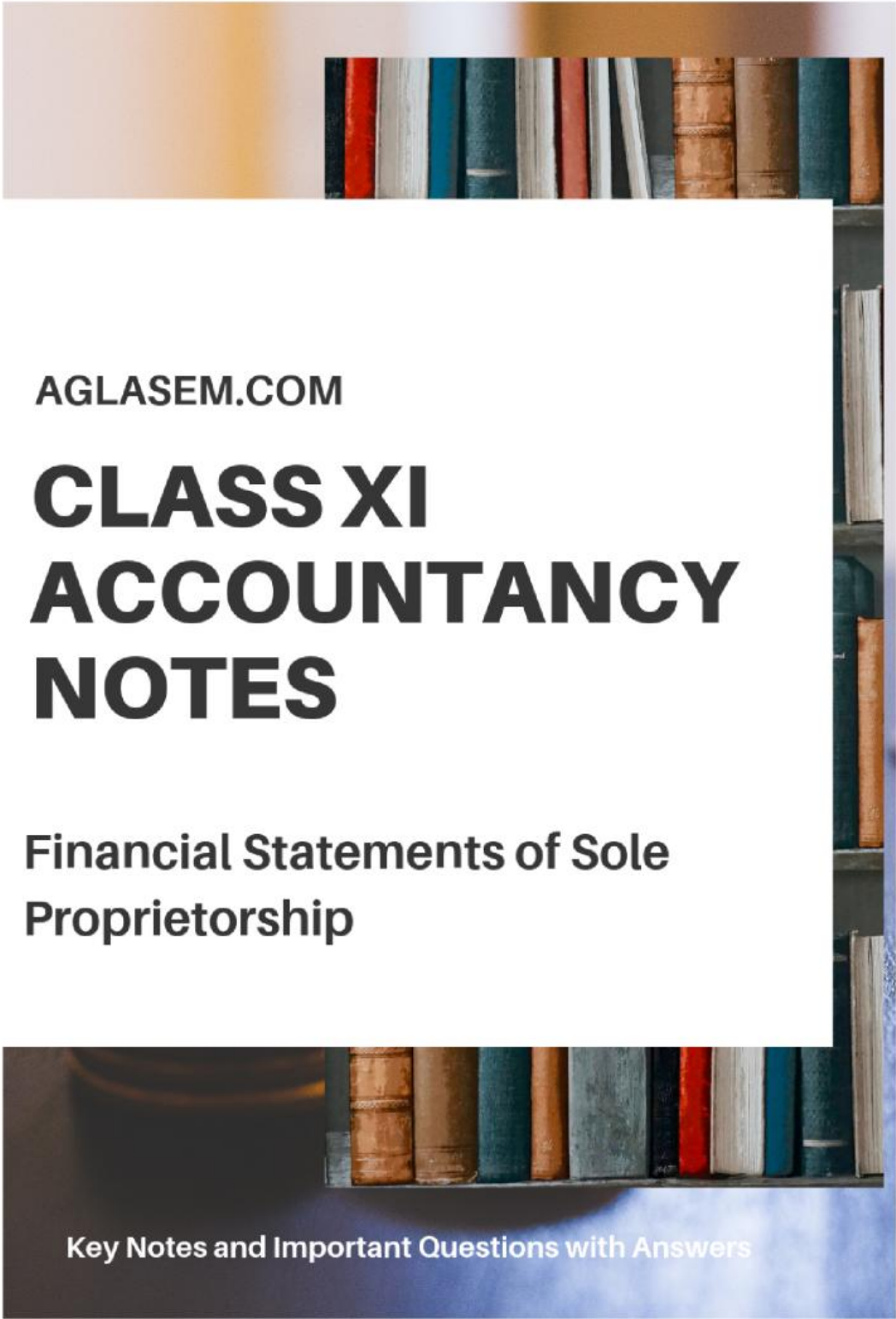




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CLASS XI ACCOUNTANCY NOTES

**Financial Statements of Sole
Proprietorship**

Key Notes and Important Questions with Answers

- ii) **Statement of Financial Position (Balance Sheet) –** Prepared to ascertain position (assets, liabilities and capital) of an enterprise at a particular point of time.
- iii) **Schedules and notes forming part of Balance sheet and income statement –** to give detail of various items shown in both the statements.

These two Financial Statements (Income Statement and Statement of Financial Position) are termed as 'Final Accounts'.

Objective of Preparing Financial Statements.

- i) To present a true and fair view of the financial performance (Profit/Loss) of the business.
- ii) To present a true and fair view of the financial position (Assets/Liabilities) of the business.

Capital Expenditure:

The non-recurring expenditure whose benefit is derived by the business for more than a year is called Capital Expenditure.

It includes amount spent or liabilities incurred to acquire or improve any fixed assets or acquiring any legal rights or first-time expenses incurred to make fixed assets workable e.g. purchase of machinery/building/furniture etc., expenses incurred to acquired Patents, Trade-mark etc. and expenditure incurred for getting an asset ready to use (like installation exp., carriage, first time expenses incurred on second hand fixed asset for making it ready to use).

Capital expenditures are recorded on the assets side of the Balance sheet.

Revenue Expenditure

The recurring and routine nature expenditures which are incurred for operating the business smoothly and which help to maintain business's earning capacity, are called Revenue expenditure e.g. expenses incurred for producing finished goods such as direct expenses, purchase of raw material and other expenses as rent, salary, repairs etc.

The benefit of these expenses last in one year (give benefit up to one year). These expenses are shown in Debit side of income statement (trading and profit and loss account).

Deferred Revenue Expenditure

The expenditure which is revenue in nature, but the heavy amount spent and benefit likely to be derived over a number of years called deferred revenue expenditure e.g. heavy expenses on advertising on launching of a new product and hence it is capitalized like any fixed asset.

Accounting treatment of Deferred Revenue Expenditure.

As per matching principle, expenses incurred in an accounting period are matched with the revenue recognized in that accounting period. So the whole deferred revenue expenditure should be spread over the number of years over which benefit is likely to be derived.

During the current accounting year (a) Only that portion of the expenditure should be charged to the profit and loss account which has facilitate the enterprise to earn revenue during current year (b) Remaining amount of expenditure be carried forward to the next year and shown in the assets side of balance sheet (It is also called a fictitious asset).

Capital Receipt.

Capital receipts are those irregular receipts that don't affect profit or loss of business; it either increases the liabilities (raising of loan) or reduces the fixed assets (by sale of fixed assets), so it will be shown in balance sheet.

Capital receipts are not made available for distribution of profit to the owner.

Revenue Receipt

Revenue receipts are received in the normal and regular course of business like Receipts from sale of goods and rendering services to customers. Income from non-operating business activities (like income from investment i.e. interest and dividend received and rent received, Commission and other fees received for non-operating business etc. These receipts increases profit and shown in the credit side of the Trading and Profit and Loss account.

Types of Expenses

Direct Expenses : Those expenses which are incurred on purchasing of goods and for converting raw material into the finished goods e.g.

Manufacturing wages, Expenses on purchases (including all duty and tax paid on purchases), Carriage/Freight/Cartage inwards, Production expenses (such as power and fuel, water etc.), factory expenses (e.g. lighting, rent and rates). Royalty based on Production etc.

Note : All direct expenses are debited to Trading account.

Indirect Expenses : Those expenses which are not directly related to production or purchase of the goods are called indirect expenses. It includes those expenses which are related to office and administration, selling and distribution of goods and financial expense etc.

These expenses are shown in the debit side of the Profit and Loss A/c.

Calculation of Gross Profit

$Gross\ Profit = Net\ Sales - Cost\ of\ Goods\ Sold$

$Net\ Sale = Total\ sale - Sales\ Return$

$Cost\ of\ Goods\ Sold = Opening\ Stock + Net\ Purchases + Direct\ Expenses\ (wages,\ Expenses\ on\ Purchases,\ Carriage\ inward\ etc.) - Closing\ stock$

$Net\ Purchases = Total\ Purchases - Purchases\ Return$

Calculation of Operating Profit

Operating Profit = Net Sales – Operating Cost

or = Gross Profit – (Office and Administrative Expenses + Selling and distribution etc.)

Operating Cost = Cost of Goods Sold + Office and Administrative Expenses + Selling and distribution exp.

Net Profit = Operating Profit + Non-operating income – Non-operating expenses.

Operating Expenses = The expenses which are related to the main or normal activities of the business e.g. office and Administrative expenses, selling and distribution expenses, Operating profit is also called EBIT (Earnings before interest and taxes)

INCOME STATEMENT

It is divided into two parts:

1. *Trading Account* which shows the gross profit or gross loss.
2. *Profit and Loss Account* which shows the net profit or net loss.

Format of Trading Account

Name of Business Firm

Trading A/c

Dr.

Cr.

Particulars	₹	Particulars	₹
To Opening Stock	.....	By Sales	.....
To Purchases	.....	Less : Sales Returns or	
Less : Purchases Return		Return inwards	.....
Returns outwards	.....	By Scrap sales	.....
To All Direct Expenses	.....	By Closing Stock	.....
To Wages	.....		
To Wages & Salaries	.....		
To Carriage of Carriage inwards			
Carriage on purchases	.....		
To Direct Expenses	.....		
To Gas, Fuel and power	.....		
To Freight, octroi and cartage	.....		
To Manufacturing Expenses or			
Productive expenses	.....		
To Custom or import duty	.....		
To Dock and clearing charge	.....		
To Excise duty	.....		
To Factory rent and lighting	.....		
To Other direct charges	.....		
To Royalty	.....		
To Gross Profit transferred to		By Gross Loss transferred to	.....
Profit and Loss A/c		Profit and Loss A/c	
(Balancing figure)	.....	(Balancing figure)	

Illustration 1

Opening stock ₹30,000, Net Purchase ₹54,600 expenses on purchase ₹5,000, Net Sales ₹100,000, closing stock ₹40,000 calculate cost of goods sold and gross profit.

Solution :

$$\begin{aligned}\text{Cost of Goods sold} &= \text{Opening stock} + \text{Net Purchase} + \text{expenses on purchase} - \text{Closing Stock} \\ &= ₹ 30,000 + ₹ 54,600 + ₹ 5,000 - ₹ 40,000 \\ &= ₹ 49,600 \\ \text{Gross Profit} &= \text{Net sales} - \text{Cost of goods sold} \\ &= ₹ 100,000 - ₹ 49,600 \\ &= ₹ 50,400\end{aligned}$$

Illustration 2

Net sales during the year is ₹ 3,00,000, Gross profit is 25% on sales. Find out cost of goods sold.

Solution :

$$\text{Gross Profit} = ₹ 300,000 \times \frac{25}{100} = ₹ 75,000$$

$$\begin{aligned}\text{Cost of goods sold} &= \text{Net Sales} - \text{Gross Profit} \\ &= ₹ 300,000 - ₹ 75,000 \\ &= ₹ 2,25,000\end{aligned}$$

Illustration 3

Net sales during the year is ₹ 6,00,000. Gross profit is 25% on cost. Find out gross profit and cost of good sold.

Solution :

Here, Gross Profit is 25% on cost

Hence, If cost is ₹ 100, Gross Profit will be ₹ 25 and sales will be ₹ 125

Thus, If sales is ₹ 125, Gross Profit will be ₹ 25

If sales is ₹ 600,000, Gross Profit will be $600,000 \times \frac{25}{125}$ ₹ 1,20,000

Cost of goods sold = Net Sales – Gross Profit

$$= ₹ 6,00,000 - ₹ 1,20,000 = ₹ 4,80,000$$

Note : Gross profit 25% or $\frac{1}{4}^{th}$ on cost is equal to $\frac{1}{5}^{th}$ on sales

$$\text{Gross profit} = ₹ 6,00,000 \times \frac{1}{5}^{th} = ₹ 1,20,000$$

Illustration 4

Calculate Net Sales and Gross Profit from the following information.

Cost of goods sold ₹ 2,00,000

Gross profit 20% on sale

Solution

Let sale = x

Sale = Cost of good sold + Gross Profit

$$x = ₹ 200,000 + .20x$$

$$x = ₹ 250,000$$

$$\text{Gross Profit} = ₹ 250,000 - ₹ 200,000 = ₹ 50,000$$

Note : Gross Profit 20% or $\frac{1}{5}^{th}$ on sale, equal to $\frac{1}{4}^{th}$ on cost

$$\text{Gross Profit} = ₹ 200,000 \times \frac{1}{4} = ₹ 50,000$$

Illustration 5

Calculate Gross Profit

	₹
Total Purchase	680,000
Purchase Return	30,000
Direct Expenses	70,000
Carriage Outwork	15,000
3/4 of the goods are sold ₹ 600,000	

Solution

$$\begin{aligned}\text{Cost of goods sold} &= \text{Total Purchase} - \text{Purchase Return} - \text{Direct Expenses} \\ &= ₹ 6,80,000 - ₹ 30,000 + ₹ 70,000 = ₹ 7,20,000 \\ \text{Cost of } 3/4 \text{ of the goods sold} &= ₹ 7,20,000 \times \frac{3}{4} = ₹ 5,40,000\end{aligned}$$

$$\begin{aligned}\text{Gross Profit} &= \text{Sales} - \text{Cost of goods sold} \\ &= ₹ 6,00,000 - ₹ 5,40,000 \\ &= ₹ 60,000\end{aligned}$$

Illustration 6

Calculate the amount of operating profit from the following balances:

	₹
Net sales	5,00,000
Cost of goods sold	3,00,000
Operating Expenses	1,20,000

Solution

$$\begin{aligned}\text{Operating Cost} &= \text{Cost of Goods Sold} + \text{Operating Expenses} \\ &= ₹ 3,00,000 + ₹ 1,20,000 \\ &= ₹ 4,20,000 \\ \text{Operating Profit} &= \text{Net Sales} - \text{Operating Cost} \\ &= ₹ 5,00,000 - ₹ 4,20,000 \\ &= ₹ 80,000\end{aligned}$$

Illustration 7

Calculate the value of closing stock from the following information :

	₹		₹
Purchase	93,000	Wages	20,000
Sales	1,20,000	Carriage Outward	3,200

Rate of Gross Profit 40% on sales

Solution

Trading Account for the year ended

Dr.

Particulars	₹	Particulars	₹
To Purchases	93,000	By Sales	1,20,000
Wages	20,000	By Closing Stock (Bal. Fig.)	41,000
To Gross Profit (Transferred to Profit & Loss Account)	48,000		
	1,61,000		1,61,000

Illustration 8

This information is provided by Mr. Rohit

Stock as on 01.04.2015 Rs. 20,000

During the year Sales was Rs. 4,00,000; Purchases Rs. 2,90,000; Carriage Inwards Rs. 8,000; Clearing charges Rs. 10,000; Sales Returns Rs. 3,000; Purchases Returns Rs. 4,000; Carriage Outwards Rs. 5,000 and Stock on 31.03.2016 was Rs. 30,000.

Calculate cost of goods sold and prepare Trading Account for the year ending 31.03.2016

Solution :

Trading Account for the year ended on March 31, 2016

Dr.

Particulars	₹	Particulars	₹
To Opening Stock	20,000	By Sales 4,00,000	
To Purchases 2,90,000		Less : Sales Returns (3,000)	3,97,000
Less: Returns 4,000	2,86,000	By Closing Stock	1,30,000
To Carriage Inwards	8,000		
To Clearing Charges	10,000		
To Gross Profit (Transferred to Profit & Loss Account)	1,03,000		
	4,27,000		4,27,000

Cost of goods sold = Net Sales – Gross Profit

$$= ₹ 3,97,000 - ₹ 1,03,000$$

Adjusted Purchase :

Closing Stock A/c *Dr.*

This entry reduces the amount in the purchases account and is also known as adjusted purchases which is shown on the debit side of the trading and profit and loss account.

Illustration 9

31st March, 2015 from the following information. Adjusted purchase ₹ 25,00,000; Freight outwards ₹ 15,000; Wages ₹ 1,68,000; Octroi charges ₹ 2,000; Carriage inwards ₹ 20,000; Fuel & Power ₹ 30,000; Office rent ₹ 18,000; Trade expenses ₹ 10,000; Sales ₹ 32,00,000; Closing Stock ₹ 1,50,000

Trading Account
for the year ending 31st March, 2015

Cr.

<i>Particulars</i>	<i>₹</i>	<i>Particulars</i>	<i>₹</i>
<i>To Adjusted Purchases</i>	<i>25,00,000</i>	<i>By Sales</i>	<i>32,00,000</i>
<i>To Wages</i>	<i>1,68,000</i>		
<i>To Octroi Charges</i>	<i>2,000</i>		
<i>To Carriage Inwards</i>	<i>20,000</i>		
<i>To Fuel and Power</i>	<i>30,000</i>		
<i>To Gross Profit transferred to profit or loss A/c</i>	<i>4,80,000</i>		
	<i>32,00,000</i>		<i>32,00,000</i>

Format of Profit and Loss Account

Profit and Loss A/c for the year ending.....

Dr.

Cr.

Particulars	₹	Particulars	₹
To Gross Loss (Transferred from Trading A/c)		By Gross Profit (Transferred from Trading A/c)	
Office & Admin. Expenses		By Rent Received	
To Salaries		By Rent (Cr.)	
To Rent Rates Taxes		By Discount Received	
To Printing and Stationery		By Discount (Cr.)	
To Salaries & Wages		By Rebates	
To Postages and Telephones		By Commission Received	
To Office Lighting		By Interest Received	
To Insurance Premium		By Dividend Received	
To Legal Expenses		By Bad Debts Recovered	
To Establishment Expenses		By Apprentice fees or premium	
To Audit Fees		By Gain on Sale of Fixed Asset	
To Trade Expenses		By Miscellaneous Receipts	
To Travelling Expenses		By Net Loss (If Dr. Side > Cr. Side)	
To General Expenses		(Transferred to Capital Account)	
Selling & Distribution Exp.			
To Carriage and Freight Outwards			
To Commission			
To Brokerage			
To Advertisement			
To Publicity			
To Bad Debts			
To Export Duty			
To Packing Expenses			
To Salaries of Salesman			
To Delivery Van Expenses			
Financial Exp.			
To Interest paid on loans			
To Interest (Dr.)			
To Discounts (Dr.)			
To Rebate Allowed			

To Bank Charges			
Miscellaneous Exp.			
To Repairs			
To Depreciation on Fixed Assets			
To Conveyance Expenses			
To Entertainment Expenses			
To Donations & Charity			
To Loss on Sale of Fixed Assets			
To Stable Expenses			
To Loss by Fire			
To Loss by theft			
To Unproductive Expenses			
To Net Profit Transferred to Capital Account			
(If Cr. side > Dr. side)			

- * The words 'To' and 'By' are generally not used these days.
- * The name of Business Firm is stated on the top of trading & P & L A/c.

Illustration 10

From the following information, prepare a Profit & Loss Account for the year ending 31st March 2016.

Gross Profit ₹ 70,000; Rent ₹ 5,000; Salary ₹ 15,000; Wages ₹ 8,000; Commission paid ₹ 7,000; Interest on loans ₹ 5,000; Advertising ₹ 3,000; Discount Received ₹ 2,000; Printing & Stationery ₹ 1,000; Legal charges ₹ 2,500; Bad Debts ₹ 1,500; Depreciation ₹ 1,000; Income received on Investment ₹ 3,000; Loss by Fire ₹ 2,200; Bad Debts recovered ₹ 200; Freight outward ₹ 600, Audit Fee ₹ 450.

Solution :

Profit and Loss A/C of for the year ending 31st March, 2016

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Rent	5,000	By Gross Profit	70,000
To Salary	15,000	By Discount received	2,000
To Commission	7,000	By Bad debts Recovered	200

To Interest on Loans	5,000	By Income from Investment	3,000
To Advertising	3,000		
To Printing and Stationery	1,000		
To Legal Charges	2,500		
To Bad Debts	1,500		
To Depreciation	1,000		
To Loss by Fire	2,200		
To Freight outward	600		
To Audit Fee	450		
To Net Profit	30,950		
(to transferred to Capital A/C)			
	75,200		75,200

Illustration 11

From the following balances obtained from the accounts of Mr. Hemant, prepare the Trading and Profit & Loss Accounts:

Particulars	₹	Particulars	₹
Stock on April 01, 2015	8,000	Bad debts	1,200
Purchases for the year	22,000	Rent	1,200
Sales for the year	42,000	Discount (Dr.)	600
Wages	2,500	Commission paid	1,100
Salaries & Wages	3,500	Sales Expenses	600
Advertisement	1,000	Repairs	600

Closing stock on March 31, 2016 is ₹ 4,500.

Solution :

Books of Mr. Hemant Trading and Profit & Loss Account for the year ended on March, 31, 2016

Dr.		Cr.	
Particulars	₹	Particulars	₹
Opening stock	8,000	Sales	42,000
Purchases	22,000	Closing stock	4,500
Wages	2,500		
Gross Profit c/d	14,000		
	46,500		46,500

<i>Particulars</i>	<i>₹</i>	<i>Particulars</i>	<i>₹</i>
Salaries and Wages	3,500	Gross Profit b/d	14,000
Rent	1,200		
Advertisement	1,000		
Commission	1,100		
Discount	600		
Bad debts	1,200		
Sales Expenses	600		
Repairs	600		
Net Profit (transferred to capital)	4,200		
	14,000		14,000

BALANCE SHEET

Meaning of Balance Sheet

Balance sheet is a summarised statement of assets and liabilities, prepared generally at the end of financial year to show the financial position of the business. All liabilities are put on the left hand side of balance sheet where all assets are shown on its right hand side.

GROUPING AND MARSHALLING OF ASSETS AND LIABILITIES

Grouping : *The term 'Grouping' means putting together items of a similar nature under a common heading. For example, under the heading 'trade creditors, the balances of the ledger accounts of all the suppliers from whom goods have been purchased on credit, will be shown.*

Marshalling : *It refers to the order in which the various assets and liabilities are shown in the Balance Sheet. The assets and liabilities can be shown either in the order of liquidity or in the order of performance.*

Order of Liquidity

- The assets are arranged in the order of their liquidity i.e., the most liquid asset (e.g., cash in-hand), is shown first. The least liquid asset (e.g., goodwill) is shown last.*
- The liabilities are arranged in the order of timing i.e., the liabilities which are to be paid immediately (e.g., Creditors) are shown first and which are to be paid later are shown at last (long-term loans).*

A general format of a Balance Sheet in order of liquidity is shown below :

Balance Sheet of

As at.....

Liabilities	₹	Assets	₹
Current Liabilities: <i>Bank Overdraft</i> <i>Bills Payable</i> <i>Sundry Creditors</i> <i>Outstanding Expenses</i> <i>Income received-in-advance</i> Long-term Liabilities: <i>Long term loan</i> Reserve and Surplus Capital <i>Add : Interest on Capital</i> <i>Add : Net Profit</i> <i>Less : Drawings</i> <i>Less : Interest on Drawings</i> <i>Less : Income Tax</i> <i>Less : Life Insurance Premium</i> <i>Less : Net Loss</i>		Current Assets: <i>Cash-in hand</i> <i>Cash at Bank</i> <i>Bills Receivable</i> <i>Short Term Investment</i> <i>Sundry Debtors</i> <i>Prepaid Expenses</i> <i>Accrued Income</i> <i>Closing Stock</i> Investment: (long term) Fixed Assets: <i>Furniture an Fixture</i> <i>Plant & Machinery</i> <i>Building</i> <i>Land</i> <i>Goodwill</i>	

Order of Permanence : This order is exactly reverse of the liquidity order.

1. The assets are arranged in the order of their performance i.e., the least liquid asset (e.g., goodwill) is shown first and the most liquid asset (e.g., Cash-in-hand) is shown last.
2. The least urgent payment to be made (e.g., short-term creditors) is shown last.
3. A company is required to prepare the balance sheet in order of performance.

A general format of a Balance Sheet in the order of performance is shown below :

Balance Sheet of

Liabilities	₹	Assets	₹
Capital		Fixed Assets:	
Opening Balance XX		Goodwill	
Add: Net Profit XX		Land	
(Less: Net Loss)		Building	
Less: Drawings <u>XX</u>	XXX	Plant & Machinery	
Long-term Liabilities:		Furniture & Fixtures	
Long term loan		Investment: (long term)	
Current liabilities:		Current Assets:	
Income received-in-advance		Closing stock	
Outstanding Expenses		Accrued Income	
Sundry Creditors		Prepaid expenses	
Bills Payable		Sundry Debtors	
Bank Overdraft		Bills Receivable	
		Cash at Bank	
		Cash in Hand	

Illustration 12

From the following Trial Balance of Shri Hemant Babu prepare Trading and Profit and Loss A/C for the year ending 31st March 2016 and Balance Sheet as on that date. The Closing Stock on 31st March 2016 was valued at ₹ 25,000.

Debit Balances	₹	Credit Balances	₹
Stock (1-4-2015)	20,000	Sundry Creditors	15,000
Purchases	75,000	Purchase Returns	3,000
Sales Return	8,000	Sales	2,50,000
Freight and Carriage	7,500	Commission	3,300
Wages	36,500	Capital	1,70,500
Salaries	12,000	Interest on Bank Deposit	2,000
Repairs	1,200	B/P	6,200
Trade Expenses	4,000		

Add : Net Profit	95,100		Closing Stock	25,000
	<u>2,65,600</u>		Bank Deposit	20,500
Less : Drawings	16,600	2,49,000	Plant & Machinery	1,60,000
		<u>2,70,200</u>		<u>2,70,200</u>

Note :- The heading of Trading A/c and Profit & Loss A/c is put collectively as 'Trading and Profit & Loss A/c'. The first part of this Account is Trading A/c, whereas the second part is Profit & Loss A/c.

Adjustment in preparation of financial statement of Sole-proprietor

Meaning of Adjustment entries : Those entries which need to be passed at the end of the accounting year to show the accurate profit or loss and fair financial position of the business.

Need of Adjustment : There are number of transactions that may not find the place in the Trial Balance due to any reason such as Closing Stock (because it is valued at the end of the year), Manager's Commission based on Net profits (because its calculation requires preparation of Income Statement first). These transactions can only be taken into account by passing Adjustment entries so that their impact on the profitability and financial position can be shown.

Closing Stock : The closing stock represents the cost of unsold goods lying in the stores at the end of the accounting period.

Outstanding Expenses : When expenses of an accounting period remain unpaid at the end of an accounting period, they are termed as outstanding expenses.

As they relate to the earning of revenue during the current accounting year, it is logical that they should be duly charged against the revenue for computation of the correct amount of profit or loss.

Prepaid Expenses : At the end of the accounting year, it is found that the benefits of some expenses have not yet been fully received; a portion of its benefit would be received in the next accounting year. This portion of expenses, is carried forward to the next year and is termed as prepaid expenses.

Accrued Income : It may sometime happen that certain items of income such as a interest on loan, commission, rent, etc. are earned during the current accounting year but have not been actually

Illustration 13

The following were the balances extracted from the books of Roshan as on March 13, 2016

<i>Debit Balance</i>	<i>₹</i>	<i>Credit Balance</i>	<i>₹</i>
<i>Cash in hand</i>	540	<i>Sales</i>	98,780
<i>Cash at bank</i>	2,630	<i>Return</i>	500
<i>Purchases</i>	40,675	<i>Outwards</i>	
<i>Return inwards</i>	680	<i>Capital</i>	62,000
<i>Wages</i>	8,480	<i>Sundry</i>	6,300
<i>Fuel and Power</i>	4,730	<i>Creditors</i>	
<i>Carriage on sales</i>	3,200	<i>Rent</i>	9,000
<i>Carriage on purchases</i>	2,040		
<i>Opening stock</i>	5,760		
<i>Building</i>	32,000		
<i>Freehold land</i>	10,000		
<i>Machinery</i>	20,000		
<i>Salaries</i>	15,000		
<i>Patents</i>	7,500		
<i>General expenses</i>	3,000		
<i>Insurance</i>	600		
<i>Drawings</i>	5,245		
<i>Sundry Debtors</i>	14,500		
	1,76,580		1,76,580

Taking into account the following adjustments, prepare Trading and Profit and Loss account and Balance Sheet as on March 31, 2016 :

- Stock in hand on March 31, 2016 was ₹ 6,800.
- Machinery is to be depreciated at the rate of 10% and patents @ 20% p.a.
- Salaries for the month of March, 2016 amounting to ₹ 1,500 were outstanding.
- Insurance includes a premium of ₹ 170 on a policy expiring on September 30, 2016
- Rent receivable ₹ 1,000.

Solution

Books of Roshan Trading and Profit and Loss Account for the year ended March 31, 2016

Dr.

Cr.

Particulars	₹	Particulars	₹
Opening stock	5,760	Sales	98,780
Purchases 40,675		Less Return inwards (680)	98,100
Less Return outwards (500)	40,175	Closing stock	6,800
Wages	8,480		
Fuel and Power	4,730		
Carriage on purchases	2,040		
Gross profit c/d	43,715		
	1,04,900		1,04,900
Salaries 15,000		Gross profit b/d	43,715
Add Outstanding Salaries 1,500	16,500	Rent	9,000
		Add Accrued rent 1,000	10,000
Carriage	3,200		
General expenses	3,000		
Insurance 600			
Less Prepaid Insurance (85)	515		
Depreciation : machinery 2,000			
Patent 1,500	3,500		
Net profit (transferred to capital account)	27,000		
	53,715		53,715

Balance Sheet as at March 31, 2016

Liabilities	₹	Assets	₹
Sundry creditors	6,300	Cash in hand	540
		Cash at bank	2,630
Salaries outstanding	1,500	Sundry debtors	14,500
		Insurance prepaid	85

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Capital	62,000		Stock	6,800
Add Net Profit	27,000		Rent Accrued	1,000
			Freehold Land	10,000
	<u>89,000</u>			
			Building	32,000
Less Drawings	(5,245)	83,755	Machinery	20,000
			Less Depreciation	(2,000)
			Patents	7,500
			Less Depreciation	(1,500)
				6,000
		91,555		91,555

Bad Debts : The debtors from whom amounts cannot be recovered are treated in the books of accounts as bad and are termed as bad debts.

Further Bad Debts : These Bad debts is a loss that occurred after preparation of Trial Balance. Further bad debts be added in the bad debts already appearing in the Profit and Loss A/c and Debtors would be reduced with the same amount.

Provision for Bad Debts : In the balance sheet, debtors appears on the assets side of the Balance Sheet, which is their estimated realisable value during next year. It is quite possible that the whole of the amount may not be realized in future. However, it is not possible to accurately know the amount of such bad debts.

Hence, a reasonable estimate of such loss is provided in the book. Such provision is called provision for bad debts. Provision for doubtful debts is shown as a deduction from the debtors on the asset side of the balance sheet.

Note : The provision for doubtful debts brought forward from the previous year is called the opening provision or old provision. When such a provision already exists, the loss due to bad debts during the current year are adjusted against the same and while making provision for doubtful debts required at the end of the current year is called new provision. The balance of old provision as given in trial balance should also be taken into account.

Provision for discount on Debtors : Discount is allowed to

customers to encourage them to make prompt payment. The discount likely to be allowed to customers in an accounting year can be estimated and provided for by creating a provision for Discount on debtors.

Provision for discount on debtors is made on good debtors which are arrived at by deducting further bad debts and provision for bad debts out of Debtors shown in the Balance sheet.

To write off bad debts	Bad Debts A/c Dr. To Debtors	(i) Debit side of P&L A/c. (ii) Deduct from debtors on the assets side of Balance Sheet.
Provision for bad and doubtful debts	(I) provision for Doubtful Debts A/c Dr. To Debtors A/c	(i) Debit side of P & L A/c. (ii) Deduct from debtors on the assets side of Balance Sheet.
Provision Discount on debtors	(ii) P & L A/c Dr. To Provision for Discount on Debtors A/c	(i) Debit side of P & L A/c. (ii) Deduct from debtors on the assets side of Balance Sheet.

Illustration 14

An exact from a trial balance on March 31, 2016 is given below :

PARTICULARS	₹
Sundry Debtors	32,000
Bad Debts	2,000
Provision for Bad Debts	3,500

Additional Information

Write-off further Bad Debts Rs. 1,000 and create a provision for Doubtful Debts @ 5% on debtors.

Solution

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2016 March 31	(a) <i>Bad debts A/c</i> <i>Dr.</i> <i>To sundry debtors A/c</i> <i>(Entry for further Bad Debts)</i>		1,000	1,000
	(b) <i>Provision for Doubtful Debts A/c</i> <i>Dr.</i> <i>To Bad-debts A/c</i> <i>(Bad debts adjust against provision)</i>		3,500	3,500
	(c) <i>Profit & Loss A/c</i> <i>Dr.</i> <i>To provision for doubtful debts A/c</i> <i>(Amount charges from P & L A/c)</i>		1,050	1,050

'Profit and Loss Account'
for the year ended March 31, 2016

Dr.

Cr.

Particulars	₹	Particulars	₹
<i>Provision for doubtful debts:</i>			
<i>Bad debts</i> 2,000			
<i>Add: Further bad debts</i> 1,000			
<i>Add: New provision</i> 1,550			
	4,550		
<i>Less: Old provision</i> 3,500			
	1,050		

'Only relevant items.

Balance Sheet* as at March 31, 2016

Liabilities	₹	Particulars	₹
		<i>Sundry debtors</i> 32,000	
		<i>Less Further Bad-debts</i> (1,000)	
		31,000	
		<i>Less Provision for</i> (1,550)	
		<i>doubtful debts</i>	29,450

*Only relevant items in debit side of P & L A/C

Note : The amount of new provision for doubtful debts has been calculated as follows : Rs. 31,000×5/100 = Rs. 1,550

Illustration 15

The following balances were extracted from the books of Shri Himanshu Traders on March 31, 2016

Name of the Ledger A/c	₹	Name of the Ledger A/c	₹
Capital	1,00,000	Rent (Cr.)	2,100
Drawings	17,600	Railway freight on sales	16,940
Purchases	80,000	Carriage inwards	2,310
Sales	1,40,370	Office expenses	1,340
Purchases return	2,820	Printing and Stationery	660
Stock on April 01, 2015	11,460	Postage and Telegram	820
Bad debts	1,400	Sundry debtors	62,070
Bad debts Provision on		Sundry creditors	18,920
April 01, 2015	3,240	Cash in bank	12,400
		Cash in hand	2,210
Rates and Insurance	1,300	Office furniture	3,500
Discount (Cr.)	190	Salaries and Commission	9,870
B/R	1,240	Addition to buildings	7,000
Sales returns	4,240		
Wages	6,280		
Buildings	25,000		

Prepare the trading and profit and loss account and a balance sheet as on March 31, 2016 after keeping in view the following adjustments :

- i) Depreciate old building by ₹ 625 and addition to building at 2% and office furniture at 5%.
- ii) Write-off further Bad Debts ₹ 570.
- iii) Increase the Bad Debts Reserve to 6% of Debtors.
- iv) ₹ 570 are outstanding for salary.
- v) Rent receivable ₹ 200 on March 31, 2016
- vi) Unexpired insurance ₹ 240.
- vii) Stock was valued at ₹ 14,290 on March 31, 2016.

Solution

Books of Himanshu Traders Trading and Profit & Loss Account for the year ended on March 31, 2016

Dr.

Cr.

Particulars	₹	Particulars	₹
Opening stock	11,460	Sales	1,40,370
Purchases 80,000		Less : Sales Return (4,240)	1,36,130
Less: Purchase return (2,820)	77,180		
Carriage inwards	2,310	Closing stock	14,290
Wages	6,280		
Gross profit c/d	53,190		
	1,50,420		1,50,420
Railway freight on sales	16,940	Gross profit c/d	53,190
Office expenses	1,340	Rent	2,100
Postage and Telegram	820	Add Accrued rent	200
Printing and Stationery	660	Discount	190
Salary and Commission 9,870			
Add Outstanding salary 570	10,440		
Rates and Insurance 1,300			
Less: Unexpired (240)	1,060		
insurance			
Bad debts 1,400			
Add: Further bad debts 570			
Add: New bad debts provision 3,690			
	5660		
Less: Old provision for (3,240)	2,420		
Bad debts			
Depreciation on building	625		
Depreciation on additions	140		
Depreciation on Furniture	175		
Net profit (transferred to capital account)	21,060		
	55,680		55,680

Balance Sheet as on March, 31, 2016

Liabilities		₹	Assets		₹
Sundry creditors		18,920	Cash at bank		12,400
Outstanding salaries		570	Cash in hand		2,210
			B/R		1,240
Capital	1,00,000				
Add: Net profit	21,060		Debtors	62,070	
	<u>1,21,060</u>				
			Less: Further Bad Debts	570	
Less: Drawings	(17,600)	1,03,460		<u>61,500</u>	
			Less: New provision for	(3,690)	57,810
			Bad Debts		
			Accrued Rent		200
			Prepaid Insurance		240
			Building	25,000	
			Less Depreciation	(625)	24,375
			Addition to building	7,000	
			Less Depreciation	(140)	6,860
			Office Furniture	3,500	
			Less Depreciation	(175)	3,325
			Closing stock		14,290
		1,22,950			1,22,950

Manager's Commission

The manager of the business is sometimes given the commission on the net profit of the company. The percentage of the commission is applied on the profit either before charging such commission or after charging such commission . In the absence of any such information, it is assumed that commission is allowed as a percentage of the net profit before charging such commission.

1. Commission on net profits before charging such commission

$$\text{Commission} = \frac{\text{Net profit before commission} \times \text{Rate of Commission}}{100}$$

2. Commission on net profits after charging such commission.

$$\text{Commission} = \frac{\text{Net profit before commission} \times \text{Rate of Commission}}{100 + \text{Rate of Commission}}$$

If full claim not accepted by Insurance Company	2) Insurance Company A/c Profit & Loss A/c To loss by A/c	Dr. Dr.	
2) Goods taken by the proprietor for his personal use	Drawings A/c To Purchase A/c	Dr.	1) Deduct the amount of goods from the purchases in Trading A/c. 2) Deduct the amount from the capital on the liabilities side of Balance Sheet.
3) Goods distributed as free sample	Advertisement A/c To Purchase A/c	Dr.	1) Deduct the amount from the purchases on the debit side of Trading A/c. 2) Show on the debit side of P & L A/c.
4) Goods given as charity	Charity A/c To Purchase A/c	Dr.	1) Deduct the amount of goods from the purchases in Trading A/c. 2) Show on the debit side of P & L A/c.

Key Points :

1. **If closing stock** shown in Trial Balance then it will be shown in balance sheet only. It is assumed that purchases amount already get adjusted in trial balance.
2. **Salary and wages** will be shown in profit and loss A/c debit side (assuming that salary is prominent) while wages and salary will be shown in trading A/c debit side, (wages are prominent).
3. **Freight, carriage, cartage** will be shown in Dr. side of trading A/c. if inward word attached with these then it also debited to trading A/c, if outward word attached with these item then it will be debited to profit and loss account.
4. Any expenses related to factory are debited to trading account like factory lighting, factory rent if factory word is not given then lighting and rent will be debited to profit and loss account.
5. **Trade expenses** always debited to profit and loss A/c not as name indicate trading A/c.
6. **Packaging material** : Cost of packaging material used in

product are direct expenses as it refers to small containers which form part sold, it will debited to trading A/c.

7. **Packing** : The packing refers to the big containers that are used for transporting the goods and regarded as indirect expenses and debited to profit and loss account.
8. **Adjusted purchases** mean the amount of purchases is adjusted by way of adding opening stock and reduced by the amount of closing stock, e.g., purchases Rs. 1,00,000; opening stock Rs. 12,000, closing stock Rs. 8,000. Calculate adjusted purchases.

$$\text{Adjusted purchases} = \text{purchases} + \text{opening stock} - \text{closing stock}$$
$$= \text{Rs. } 1,00,000 + \text{Rs. } 12,000 - \text{Rs. } 8,000 = \text{Rs. } 1,04,000$$

When adjusted purchases is given in trial balance, then there is no need of debiting opening stock and crediting closing stock in trading A/c.

In this case closing stock will be shown in balance sheet only.

Remember

While preparing Final Account the items which are given inside the Trial Balance are written only once either in Income Statement or in the Balance Sheet. (Assuming that they have been already adjusted in the respective account). On the other hand, the items which are given outside the Trial Balance (known as adjustment) are to be written twice because the double entry in respect of all adjustments is to be completed in the final accounts itself.

Table Showing Adjustment at a Glance

Adjustment	Adjustment Entry	Treatment in Trading A/c	Treatment in Profit & Loss A/c	Treatment in Balance Sheet
1. Closing Stock	Closing Stock A/c To Trading A/c	Dr.		Shown on the credit side
2. Outstanding Expenses	Expenses A/c To Outstanding Expenses A/c	Dr.	Added to the respective expense on the debit side	Shown on the liabilities side
3. Prepaid or unexpired expenses	Prepaid Expenses A/c To Expenses A/c	Dr.	Deducted from the respective expense on the debit side	Shown on the assets side
4. Depreciation	Depreciation A/c To Asset A/c	Dr.	Shown on the debit side	Deducted from the concerned asset on the assets side
5. Accrued Income (Income earned but not received)	Accrued Income A/c To Income A/c	Dr.	Added to the respective income on the credit side	Shown on the assets side
6. Unearned Income (Income received in advance)	Income A/c To Unearned Income A/c	Dr.	Deducted from the respective income on the credit side	Shown on the liabilities side
7. Interest on capital	Interest on Capital A/c To Capital A/c	Dr.	Shown on the debit side	Added to the capital on the liabilities side
8. Interest on Drawings	Drawings A/c To Interest on Drawings A/c	Dr.	Shown on the credit side	Added to the drawings and then deducted from capital
9. Interest on Loan (taken from someone)	Interest on Loan A/c To Loan A/c	Dr.	Shown on the credit side	Added to the loan on the liabilities side
10. Further Bad-debts	Bad-debts A/c To Sundry Debtors A/c	Dr.	Added to Bad-debts (given in Trial Balance) on the debit side.	Deducted from debtors on the assets side

11.	Provision for Doubtful debts	Profit & Loss A/c To Provision for Doubtful Debts A/c	Dr. Dr.		Added to Bad-debts on the debit side	Deducted from Debtors on the assets side
12.	Provision for discount on Debtors	Profit & Loss A/c To Provision for Discount on Debtors A/c	Dr. Dr.		Shown on the debit side as a separate item	Deducted from Debtors on the assets side
13.	Abnormal loss of stock	Insurance Company A/c Profit & Loss A/c To Purchases A/c	Dr. Dr.	Total amount of loss is deducted from purchases on the debit side	Amount not recovered from the insurance company is shown on the debit side	Amount recovered from the insurance company is shown on the assets side.
14.	Charity in the form of goods	Charity A/c To Purchases A/c	Dr.	Deducted from purchases on the debit side	Shown on the debit side	
15.	Goods distributed as free samples	Free samples A/c To Purchases A/c	Dr.	-do-	Shown on the debit side	
16.	Drawings in goods	Drawings A/c To Purchases A/c	Dr.	-do-		Deducted from capital on the liabilities side.
17.	Manager's Commission	Manager's Commission A/c To Outstanding Commission A/c	Dr.		Shown on the debit side	Shown on the liabilities side.
18.	Goods sold but omitted to be recorded	Debtors A/c To Sales A/c	Dr.	Added to sales on the credit side		Added to Debtors on the assets side.
19.	Goods purchased but omitted to be recorded	Purchases A/c To Creditors A/c	Dr.	Added to purchases on the debit side		Added to Creditors on the liabilities side.
20.	Sale of goods in approval basis	(i) Sales A/c To Debtors A/c (Sale value of goods) (ii) Closing Stock A/c To Trading A/c (Cost price of goods)	Dr. Dr.	Deducted from sales on the credit side Added to closing stock on the credit side		Deducted from debtors on the assets side. Added to closing stock on the assets side.

Illustration 16

Given below is the Trial Balance of Anjana & Co. as on 31st March, 2016.

Particulars	L.F.	Debit (₹)	Credit (₹)
Opening Stock		18,100	
Purchases less Returns		3,10,000	
Sales less Returns			6,90,000
Carriage Inward		900	
Carriage Outward		800	
Discount Received			1,350
Discount Allowed		830	
Factory Heating and Lighting		12,100	
Wages		21,000	
Interest Received			1,000
Insurance		6,500	
Postage and Telegram		100	
Rent		18,700	
Accidental Trade Expenses		1,400	
Computers		31,200	
Sales Tax Collected			31,500
Manufacturing Expenses		69,920	
Cash in hand		8,500	
Plant & Machinery		1,34,800	
Motor Vehicles		3,10,000	
Income Tax		12,00	
Customer's A/c Supplier's A/c		11,000	13,500
Bank Overdraft			9,500
Capital Account			2,14,000
		9,60,850	9,60,850

Prepare (i) Trading and Profit and Loss Account for the year ended 31st March, 2016 and (ii) Balance Sheet as at that date, taking into consideration the adjustments given below :

Adjustments :

- (i) Closing stock was valued at ₹ 12,000.
- (ii) Half of wages are in respect of work to be done in next year.
- (iii) Depreciate Motor Vehicles and Plant and Machinery @ 10% p.a.
- (iv) Depreciate computers ₹ 10,600.
- (v) Create provisions for discount @ 5% on debtors.
- (vi) Goods costing ₹ 1000 distributed as free sample.

Solution

Books of Anjana & Co.
TRADING AND PROFIT & LOSS ACCOUNT
for the year ended 31st March, 2016

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Opening Stock	18,100	By Sales less returns	6,90,000
To purchases less return 3,10,000	3,09,000	By Closing Stock	12,000
Less : Free Sample 1,000			
To Carriage Inward	900		
To Factory heating and lighting	12,100		
To Wages 21,000			
Less : Prepaid 10,500	10,500		
To Manufacturing expenses	62,920		
To Gross Profit c/d	2,88,480		
	7,02,000		7,02,000
To Carriage Outward	800	By Gross Profit b/d	2,88,480
To Discount Allowed	830	By Discount Received	1,350
To Provision for Discount on Debtors	550	By Interest Received	1,000
To Postage and Telegram	100		
To Insurance	6,500		
To Accidental Trade Expenses	1,400		
To Rent	18,700		
To Depreciation on Motor Vehicles	31,000		
To Depreciation on Plant & Machinery	13,480		
To Advertisement	1,000		
To Depreciation on Computers	10,600		
To Net Profit transferred to Capital A/c	2,05,870		
	2,89,830		2,89,830

BALANCE SHEET
as at 31st March, 2016

Liabilities	₹	Assets	₹
Supplier's A/c	13,500	Cash in hand	8,500
Sales Tax Collected	31,500	Customer's A/c	11,000
Bank Overdraft	9,500	Less : Provisions for	
Capital	2,14,000	Doubtful Debts	550
Add : Net Profit	2,05,870	Stock	12,000
	4,19,870	Prepaid Wages	10,500
Less : Income Tax	12,000	Computers	31,200
	4,07,870	Less : Depreciation	10,600
		Motor Vehicles	3,10,000
		Less : Depreciation	31,000
		Plant & Machinery	1,34,800
		Less : Depreciation	13,480
	4,62,370		4,62,370

Notes :-

- i) Sales Tax collected is a receipt collected on behalf of the Government and should be shown on the liabilities side of the balance sheet, till it is paid off to the Government.
- ii) Income Tax to be taken as drawings.

Illustration 17

From the following balances of Mr. Ashok. You are required to prepare trading and profit and loss account and a balance sheet on March 31, 2015.

Debit Balance	₹	Credit Balance	₹
Plant and Machinery	1,30,000	Sales	3,00,000
Debtors	50,000	Return outwards	2,500
Interest	2,000	Creditors	2,50,000
Wages	1,200	Bills payable	70,000
Salary	2,500	Provision for bad debts	1,550
Carriage Inwards	500	Capital Rent received	2,20,000
Carriage Outwards	700	Rent received	10,380
Return Inwards	2,000	Commission received	16,000

Factory rent	1,450	
Office rent	2,300	
Insurance	780	
Furniture	22,500	
Buildings	2,80,300	
Bills receivable	3,000	
Cash in hand	22,500	
Cash at bank	35,000	
Commission	500	
Opening stock	60,000	
Purchases	2,50,000	
Bad debts	3,500	
	8,70,430	8,70,430

Adjustment

1. Provision for Bad Debts @ 5% p.a. and further Bad debts ₹ 2,000.
2. Rent received in Advance ₹ 6,000.
3. Prepaid Insurance ₹ 200.
4. Depreciation on furniture @ 5% p.a., plant and machinery @ 6% p.a., building @ 7% p.a..
5. Closing stock amounting ₹ 70,000 on 31.03.2015.
6. Goods costing ₹ 1,000 were used by proprietor.

Solution

Books of Mr. Ashok Trading and Profit and Loss Account for the year ended March 31, 2015

Particulars	₹	Particulars	₹
Opening stock	60,000	Sales	3,00,000
Purchases	2,50,000	Less Return	(2,000)
Less : Return	2,500	Closing Stock	70,000
Less : Goods Personal Use	1,000		
	2,46,500		
Wages	1,200		
Carriage inwards	500		
Factory rent	1,450		
Gross profit c/d	58,350		

Illustration 18

From the following Adjustments and with the help of Trial Balance prepare a Trading A/c Profit and Loss A/c and Balance sheet as on 31st Dec. 2015.

<i>Dr. Balance</i>	<i>₹</i>	<i>Cr. Balance</i>	<i>₹</i>
<i>Insurance Charges</i>	<i>2,400</i>	<i>Capital</i>	<i>1,70,000</i>
<i>Salaries & Wages</i>	<i>19,400</i>	<i>S. Creditors</i>	<i>20,000</i>
<i>Cash in Hand</i>	<i>200</i>	<i>Sales</i>	<i>1,20,000</i>
<i>Cash at Bank</i>	<i>26,500</i>	<i>Returns outwards</i>	<i>1,200</i>
<i>Trade Expenses</i>	<i>400</i>	<i>Provision for doubtful debts</i>	<i>400</i>
<i>Postage & Telegrams</i>	<i>800</i>	<i>Discount</i>	<i>800</i>
<i>Drawings</i>	<i>6,000</i>	<i>Rent of Premises, Subject for</i>	<i>1,200</i>
<i>Plant & Machinery</i>		<i>one year to 30th June 2015</i>	
<i>Balance on 1st Jan, 2015</i>	<i>1,20,000</i>		
<i>Addition on 1st July, 2015</i>	<i>5,000</i>		
<i>Stock on 1st Jan, 2015</i>	<i>15,000</i>		
<i>Purchases</i>	<i>82,000</i>		
<i>Returns Inward</i>	<i>2,000</i>		
<i>S. Debtors</i>	<i>20,800</i>		
<i>Furniture & Fixture</i>	<i>5,000</i>		
<i>Freight & Duty</i>	<i>2,000</i>		
<i>Carriage Outwards</i>	<i>500</i>		
<i>Rent, Rates & Taxes</i>	<i>4,600</i>		
<i>Printing & Stationery</i>	<i>1,000</i>		

Adjustments

1. Stock on 31st Dec. 2015 was valued at Rs. 24,000 and stationery unused at the end was Rs. 250.
2. The provision for Doubtful Debts is to be maintained at 6% on Sundry Debtors.
3. Create a provision for discount on Sundry Debtors at 2%.
4. Write off Rs. 800 as Bad-Debts.
5. Provide depreciation on Plant and Machinery @ 10% p.a.
6. Insurance is paid up to 31st March 2015.
7. A fire occurred on 25th Dec. 2015 in the Godown and Stock of the value of Rs. 6,000 was destroyed. It was insured and the Insurance co. admitted a claim of Rs. 4,000.

Solutions

Trading and Profit & Loss Account the year ending 31st Dec. 2015

Particulars	Amount	Particulars	Amount
To Opening Stock	15,000	By Sales 1,20,000	
To Purchases 82,000		Less Return <u>2,000</u>	1,18,000
Less Return (1,200)		By Closing stock	24,000
<u>80,800</u>			
Less : Loss by fire (6,000)	74,800		
To Freight & duty	2,000		
To Gross Profit c/d	50,200		
	<u>1,42,000</u>		<u>1.42 000</u>
To Insurance charges 2,400		By Gross Profit	50,200
Less : Prepaid insurance (600)	1,800	By Discount	800
To Salaries & wages	19,400	By Rent of premises sublet 1,200	
To Trade expenses	400	Less : Rent received in adv. (600)	600
To Postage & telegram	800		
To carriage outwards	500		
To Rent, Rates & wages	4,600		
To Printing & Stationery 1,000			
Less : Unused (250)	750		
To Bad debts	800		
Add : New reserve	1,200		
<u>2,000</u>			
Less : Old reserve (400)	1,600		
To Provision for discount on debtor	376		
To Depreciation on Plant & Mac. (12,000 + 250)	12,250		
To loss by fire 6,000			
Less : Insurance Claim 4,000	2,000		
To Net Profit transferred to Capital	7,124		
	<u>51,600</u>		<u>51,600</u>

Balance Sheet As on 31st Dec. 2015

Liabilities	₹	Assets	₹
S. Creditor	20,000	Cash in hand	200
Rent received in advance	600	Cash at Axis Bank	26,500
Capital	1,70,000		
Add : Net Profit	7,124	S. Debtor	20,800
	1,77,124		
Less : Drawings	6,000	Less : Bad Debts	(800)
	1,71,124		20,000
		Less : New Reserve	(1,200)
			18,800
		Less : Discount	(376)
			18,424
		Insurance company (Claim)	4,000
		Closing stock	24,000
		Stationery unused	250
		Prepaid insurance	600
		Furniture & fixture	5,000
		Plant & Mac.	1,20,000
		Add : Addition	(5,000)
			1,25,000
		Less : Depreciation	(12,250)
			1,12,750
	1,91,724		1,91,724

Illustration 19

(Comprehensive) The following is the Trial Balance of Ali Mushabbar Traders on 31st March, 2016

Particulars	L.F.	Debit (₹)	Credit (₹)
Purchases / Sales		2,12,000	3,15,000
Stock (1.4.2015)		16,000	
Returns		3,000	1,800
Debtors / Creditors		81,000	16,100
Goodwill		17,000	
Bills Receivable / Bills Payable		8,000	3,900
Machinery		70,000	
Drawings		48,000	

Motor Car	2,30,000	
Provision for Doubtful Debts		1,200
Cash Balance	11,700	
Freehold Property	2,13,000	
Fire Insurance Premium	2,400	
Bad Debts	1,200	
Carriage on Sales	1,350	
Carriage on Purchases	2,350	
Establishment Expenses	3,800	
Horses and Carts	11,000	
Custom Duty	2,100	
Donations (Charity)	3,100	
Loan		3,00,000
Interest on Loan	1,000	
Capital Account		3,00,000
	9,38,000	9,38,000

Prepare Trading and Profit & Loss Account and Balance Sheet as at 31st March, 2016 after considering the following adjustments :

- (i) Value of goods on hand at the end of the year was ₹ 20,000.
- (ii) Depreciate Machinery @ 10% p.a. and Motor car @ 5% p.a.
- (iii) Provision for doubtful debts to be maintained @ 5% on Debtors.
- (iv) Create provision for discount on Debtors @ 5%.
- (v) Further bad debts are ₹ 1,400.
- (vi) The manager is entitled to a commission @ 10% on net profit before charging his commission.

Solution

Books of Ali Mushabbar Traders TRADING AND PROFIT & LOSS ACCOUNT for the year ended 31st March, 2006

Dr.

Cr.

Particulars	₹	Particulars	₹
To Opening Stock	16,000	By Sales 3,15,000	
To purchases 2,12,000		Less : Returns <u>3,000</u>	3,12,000
Less : Returns 1,800	2,10,200	By Closing Stock	20,000
To Carriage on Purchases	2,350		
To Custom Duty	2,100		
To Gross Profit c/d	1,01,350		
	3,32,000		3,32,000
To Carriage on Sales	1,350	By Gross Profit b/d	1,01,350
To Fire Insurance Premium	2,400		
To Bad Debts 1,200			
Add : Further Bad Debts 1,400			
	2,600		
Add : New Provision 3,980			
	6,580		
Less : Old Provision 1,200	5,380		
To Provisions for Discount on Debtors	3,781		
To Interest on Loan	1,000		
To Establishment Expenses	3,800		
To Donations	3,100		
To Depreciation on Machinery	7,100		
To Depreciation on Motor Car	11,500		
To Manager's Commission	6,204		
To Net Profit transferred to Capital A/c	55,835		
	1,01,350		1,01,350

BALANCE SHEET
as at 31st March, 2006

Liabilities	₹	Assets	₹
Creditors	16,100	Cash Balance	700
Bills Payable	3,900	Debtors 81,000	
Outstanding Commission	6,204	Less : Bad Debts 1,400	
Loan	3,00,000		79,600
Capital 3,00,000		Less : Provision for	
Add : Net Profit 55,835		Bad Debts 3,980	
	3,55,835		75,620
Less : Drawings 48,000	3,07,835	Less : Provision for	
		Discount 3,781	71,839
		Bills Receivable	8,000
		Stock	20,000
		Horses and Carts	11,000
		Motor Car 2,30,000	
		Less : Depreciation 11,500	2,18,500
		Machinery 70,000	
		Less : Depreciation 7,000	63,000
		Free hold property	2,13,000
		Goodwill	17,000
	6,34,039		6,34,039

Note :— Net profit before commission ₹ 62,039
Commission @ 10% ₹ 6,204

Illustration 20

The following balances were extracted from the books of Mr. Sandeep Rana on 31st Dec. 2016

Ledger Accounts	Dr. Balance	Cr. Balance
Capital		
Drawings	2,000	
General Expenses	2,500	
Building	11,000	
Machinery	9,340	
Stock (1.1.2013)	16,200	
Power	2,240	

Wages	7,200	
Sundry Debtors	6,280	
Sundry Creditors		2,500
Charity	105	
Bad Debts	550	
Bank Overdraft		11,180
Sales		65,360
Purchases	47,000	
Scooter	2,000	
Bad Debts Provision		900
Commission		1,320
Trade Expenses	1,780	
Bills Payable		3,850
Cash	100	24,500
Total	1,09,610	1,09,610

Prepare final accounts for the year ended 31st Dec. 2016 after taking into account the following :

1. Stock on 31st Dec. 2016 was valued at ₹ 23,500
2. Write off further Bad Debts ₹ 160 and maintain the provision for Bad Debts at 5% on Sundry Debtors.
3. Depreciate Machinery by 10% and Scooter by ₹ 240.
4. Provide ₹ 750 for outstanding interest on bank overdraft.
5. Prepaid insurance is to the extent of ₹ 50, Commission receivable amounting to ₹ 50.
6. Provide Manager's Commission at 10% on net profit after charging such commission.

Solution :

Trading and Profit & Loss Account
For the year ending 31st Dec. 2016

Dr.

Cr.

Particulars	₹	Particulars	₹
To Opening Stock	16,200	By Sales	65,360
To Purchase	47,000	By Closing Stock	23,500
To Power	2,240		
To Wages	7,200		
To Gross Profit (B.F.)	16,220		
	88,860		88,860
To General Expenses	2,500	By Gross Profit	16,220
To Taxes & Insurance 1,315		By Commission 1,320	
Less : Prepaid (50)	1,265	Add : Receivable Com. 50	1,370
To Interest on Bank Overdraft	750		
To Dep. on Machinery 934			
Scooter 240	1,174		
To Bad Debts 550			
Add : Further bad debts 160			
Add : New Reserve 306			
	1,016		
Less : Old Reserve (900)	116		
To Charity	105		
To Trade Expenses	1,780		
To Manager Commission	900		
Payable (9,900 × 10/110)			
To Net Profit transferred to Capital A/c	9,000		
	17,590		17,590

Balance Sheet As on Dec. 31,2016

Liabilities		₹	Assets		₹
S. Creditors		2500	Cash		100
Bank Overdraft	11,180		Debtors	6,280	
Add : O/s Interest	(750)	11,930	Less : Further Bad Debts	(160)	
				6,120	
			Less: New Reserve	(306)	5,814
Bills Payable		3,850	Prepaid Insurance		50

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Manager Commission Payable	900	Closing Stock	23,500
Capital	24,500	Machinery	9,340
Add : Net Profit	9,000	Less : Depreciation	(934)
Less : Drawings	(2,000)		8,406
	31,500	Scooter	2,000
		Less : Depreciation	(240)
		Building	11,000
		Commission Receivable	50
	50,680		50,680

Illustration 21

Give journal entries for the following adjustments in final accounts :

- Closing Stock ₹ 70,000.
- Outstanding salaries ₹ 15,000.
- Insurance premium amounting to ₹ 18,000 is paid in advance.
- ₹ 1900 received for rent related to the next accounting period.
- Interest accrued but not received during the accounting year ₹ 1,500.
- Write off ₹ 600 as further bad debts.
- Goods costing ₹ 8,000 destroyed by fire and insurance company admitted a claim for ₹ 5,000 only.
- Goods costing ₹ 10,000 (Market value ₹ 11,000) were taken by proprietor for personal use.

Solution

JOURNAL

Particulars	L.F.	Dr. (₹)	Cr. (₹)
(I Closing Stock A/c Dr. To Trading A/c (Closing Stock transferred to Trading A/c)		70,000	70,000
(ii) Salaries A/c Dr. To Outstanding Salaries A/c (Outstanding salaries accounted in the books)		15,000	15,000

(iii) Prepaid Insurance Premium A/c Dr. To Insurance Premium A/c (Prepaid Insurance accounted in the books)		18,000	18,000
(iv) Rent Received A/c Dr. To Rent Received in Advance A/c (Rent received in advance accounted in the books)		1,900	1,900
(v) Accrued Interest A/c Dr. To Interest Received A/c (Accrued interest accounted in the books)		1,500	1,500
(vi) Bad debts A/c Dr. To Sundry Debtors A/c (Further Bad-debts written off)		600	600
(vii) Loss by Fire A/c Dr. To Purchase A/c (Goods destroyed by fire)		8,000	8,000
Insurance Co. Dr. Profit & Loss A/c Dr. To Loss by Fire A/c (Claim accepted by insurance co. and balance transferred to Profit & Loss A/c)		5,000 3,000	8,000
(viii) Drawings A/c Dr. To Purchase A/c (Goods taken by proprietor for personal use)		10,000	10,000

Illustration 22

Give journal entries for the following adjustment in final account :

- (i) Depreciation on furniture by 10% (cost of furniture ₹ 10,000)
- (ii) Goods worth ₹ 1,800 distributed as free sample.
- (iii) Rent received for 12 month ending 30th, June 2012 (Account closed 31st March, 2012) ₹ 6,000.

Solution

JOURNAL

Particulars	L.F.	Dr. (₹)	Cr. (₹)
(I Depreciation A/c Dr. To Furniture A/c (Depreciation charged on furniture)		1,000	1,000
(ii) Advertisement (or free sample) A/c Dr. To Purchase A/c (Goods distributed as free sample)		1,800	1,800
(iii) Rent A/c Dr. To rent received in advance A/c (Rent for 3 month received in advance)		1,500	1,500

Illustration involving adjustment for GST and GST Set-off.

Illustration—From the following Trial balance prepare trading and profit and loss Account and Balance sheet.

Debit Balances	Rs.	Credit balances	Rs.
Purchases	15,000	Capital	27,500
Opening Stock	3,000	Sales	33200
Salaries	4550	Creditors	10250
Bills Receivable	23000	Bills Payable	850
Machinery	6000	Outstanding Rent	350
Sundry Debtors	10,000	Commission	4500
Wages	2300	Output CGST	5000
Rent	1400	Output SGST	5000
Bad debts	600	Output IGST	4000
Discount Allowed	1250		
Insurance	300		
Bank	6000		
Advertisement	4250		
Input CGST	4000		
Input SGST	4000		
Input IGST	5000		
	90,650		90,650

Adjustments :

- Closing stock is Rs. 3000.
- Goods costing Rs. 500 were distributed as free sample and goods of Rs. 1000 were taken by the proprietor for personal use. CGST and SGST @ 6% each were levied on these goods.

- (iii) Goods costing Rs. 1000 were destroyed by fire. IGST @ 12% was levied on these goods.

The goods were insured and the Insurance Company admitted a claim of Rs. 900.

- (iv) A credit sales of Rs. 1500, on which IGST @ 12% was levied was not recorded in the sales Book.

Dr. Trading and Profit and Loss Account Cr.

Particulars	Rs.	Particulars	Rs.
To opening stock	3000	By sales	33200
To Purchases	15000	Add: unrecorded	1500
Less: Advertisement	500		34700
(Free Sample)	14500		
Less: Drawings	1000	By loss by fire	1120
To wages	2300	By closing stock	3000
To Gross profit c/d	20020		
	38820		38820
To salaries	4550	By Gross profit s/d	20000
To Rent	1400	By Commission	4500
To Bad debts	600		
To Discount allowed	1250		
To Insurance	300		
To Advertisement	4250		
(+) free sample	500		
To Less by Fire	220		
To Net profit	11450		
transferred to Capital A/c			
	24520		24520

Balance Sheet

Liabilities		Rs.	Assets	Rs.
Capital	27500		Machinery	6000
(+) Net profit	11450		Bills Receivable	23000
	38950		Sundry debtors	10,000
(+) Drawing	<u>1120</u>	37830	Add: Unrecorded	<u>1680</u>
			Credit Sales	
			Bank	6000
Creditors		10250	Insurance Claim due	900
Bills Payable		850	Closing Stock	3000
Outstanding rent		350		
Output CGST		210		
Output SGST		1090		
		50580		50580

* Journal Entries for adjustment of GST and GST set off

Journal

Date	Particulars	LF.	Dr. Rs.	Cr. Rs.
	Advertisement A/c Dr. (free sample)		560	
	To purchases A/c			500
	To Input CGST A/c			30
	To Input SGST A/c			30
	(Being Goods distributed as free sample)			
	Drawing A/c Dr.		1120	
	To Purchases A/c			1000
	To Input CGST A/c			60
	To Input SGST A/c			60
	(Being goods used by proprietor)			
	Loss by Fire (Stock) A/c Dr.		1120	
	To Trading A/c			1000
	To Input IGST A/c			120
	(Being loss of stock by Fire)			
	Insurance Company A/c Dr.		900	
	Profit and Loss A/c Dr.		220	
	To Loss by Fire (Stock) A/c			1120
	(Being claim admitted by Insurance Company)			
	Sundry Debtors A/c Dr.		1580	
	To Sales A/c			1500
	To Output IGST A/c			180
	(Being Credit sales recorded)			
	Output IGST A/c Dr.		4120	
	To Input IGST A/c			4120
	(Being input IGST set of against output IGST)			

	Output CGST A/c	Dr.		3910	
	To Input CGST A/c				3910
	(Being input CGST set off against output CGST)				
	Output SGST A/c	Dr.		3910	
	To Input SGST A/c				3910
	(Being input SGST set off against output SGST)				
	Output CGST A/c	Dr.		880	
	To Input IGST A/c				880
	(Being input IGST set off against output CGST)				

EXERCISE

Q1. The Trial Balance of Veer Singh Bros. show the following balances. Prepare Trading and Profit and Loss Account for the year ended 31st March, 2016 and Balance Sheet as on 31st March 2016.

Particulars	₹	Particulars	₹
Capital Account	6,60,000	Cash	15,000
Creditors	36,000	Drawings	24,000
Bank Overdraft	16,500	Freehold Property	2,10,000
Interest on Bank Overdraft	1,650	Plant and Machinery	3,80,000
Debtors	59,400	Computers	1,22,000
Purchases	2,47,400	Rent	6,900
Sales	4,30,950	Insurance and Taxes	12,300
Return Inward	11,400	Fire Insurance Premium	6,000
Return Outward	6,300	Electricity	2,700
Stock (Opening)	18,000	Factory Lighting	5,100
Freight Inward	5,700	Salaries to Storekeeper	8,400
Patents	12,000	Coal, Gas and Power	1,800

The following adjustments are to be made :

- (i) The value of stock in hand on 31.3.2016 was ₹ 50,700.
- (ii) Depreciation to be charged on Computers @ 10% p.a. and on Plant and Machinery @ 5% p.a.
- (iii) Interest on bank overdraft was outstanding ₹ 300.
- (iv) Insurance was prepaid ₹ 1,500.
- (v) Manager's commission to be provided @ 10% p.a. on Net Profits after charging his commission.

Ans. Net Profit ₹ 1,18,727 Capital ₹ 75,472

Balance Sheet Total ₹ 8,19,400

Gross Profit ₹ 1,98,550

Q2. From the following figures, prepare trading and profit and loss account for the year 31st March, 2016 and a balance sheet as on that date :

	₹
Opening stock	40,000
Purchases	1,80,000
Sales	3,20,000
Sales returns	5,500
Wages	22,000
Carriage	1,200
Bad debts	600
Bad debts provision	1,000
Sundry debtors	50,300
Sundry creditors	15,800
Office furniture	5,300
Plant and machinery	78,000
Establishment charges	5,100
Advertisement	5,500
Goodwill	10,000
Duty and clearing charges	4,200
Commission (Cr.)	800
Capital	1,20,000
Personal expenses	15,000
Investments	16,100
Cash	16,000
Rent and insurance	2,800

Adjustments :

- 1) Rent outstanding amounted to ₹500 and insurance unexpired amounted to ₹300.
- 2) Commission amounting to ₹120 has been received in advance.
- 3) Write off ₹300 as bad debts and provision for doubtful debts at 2.5% on sundry debtors.
- 4) Depreciate plant and machinery by 5%.
- 5) Wages for March 2016 was unpaid.
- 6) Stock on 31st March, 2016 was ₹34,000. (market value ₹40,000)

Ans. Net Profit ₹ 81,130

Balance Sheet ₹ 2,04,550

Gross Profit ₹ 99,100

Q3. From the following Trial Balance extracted from the books of Lucky Gupta prepare Trading and Profit & Loss Account for the year ending 31st March, 2016 and a Balance Sheet as at that date :—

Particulars	Dr.(₹)	Cr.(₹)
Furniture	640	
Loose Tools	6,250	
Buildings	7,500	
Capital Account		13,500
Bad-Debts	125	
Provision for Bad-Debts		200
Sundry Debtors and Creditors	3,800	2500
Stock on 1st April, 2015	3,460	
Purchases and Sales	5,475	15,450
Bak Overdraft		2,850
Sales Return and Purchases Return	200	125
Stationery	450	
Interest Account	118	
Commission		375
Cash in hand	1,650	
Taxes and Insurance	1,250	
General Expenses	782	
Salaries	3,300	
	35,000	35,000

The following adjustments are to be made :

- (i) Stock in hand on 31st March, 2016 was ₹ 3,250.
- (ii) Depreciate Building at 5% and Furniture at 10%. Loose Tools are revalued at ₹ 5,000 at the end of the year.
- (iii) Salaries ₹ 300 and taxes ₹ 120 are outstanding.
- (iv) Insurance amounting to ₹ 100 is prepaid.
- v) Write off a further ₹ 100 as Bad-Debts and provision for Doubtful Debts to be made equal to 5% on Sundry Debtors.
- vi) Half of the stationery was used by the proprietor for his personal purposes.

Ans. Net Profit ₹ 2,171, Gross Profit ₹ 9,690, Balance Sheet ₹ 21,216

Q4. Give journal entries for the following adjustment in final accounts.

- i) Salaries ₹ 15,000 are outstanding.
- ii) Insurance amounting to ₹ 20,000 is paid in advance.
- iii) ₹ 2,000 for rent have been received in advance.
- iv) Goods cost ₹ 3,000 used by owner.
- v) Goods worth ₹ 5,000 distributed as free sample.
- vi) Write off ₹ 1,000 as further bad debts.
- vii) Commission earned but not received ₹ 2,000.
- viii) Stock of the value of ₹ 4,000 was destroyed by fire a claim of ₹ 3,000 has been admitted by insurance company.

Q5. From the following balances, prepare Trading, Profit and Loss A/c and Balance Sheet as at 31st March 2016 :—

	₹		₹
Stock (1st April 2015)	20,000	Goodwill	16,000
Purchases	2,92,000	Furniture and Fittings	58,000
Duty and Clearing Charges	34,000	Repair Charges	2,900
Capital	1,60,000	Bank	24,000
Sales	5,90,000	Salaries	1,10,000
Rent	10,000	General Expenses	18,000
Returns Inwards	16,000	Debtors	2,30,000
Cash Discount allowed	15,000	Creditors	1,35,000
Cash Discount received	19,000		
Drawings	58,100		

Take the following adjustments into account :

- General expenses include ₹ 5,000 chargeable to Furniture purchased on 1st October 2015.
- Create a reserve of 5% on debtors for Bad and Doubtful Debts after treating ₹ 30,000 as a bad-debt.
- Rent for two months is outstanding.
- Depreciation on Furniture and Fittings for the year is to be at the rate of 10% per annum.
- Closing Stock was ₹ 42,000, but there was a loss by fire on 20th March to the extent of ₹ 8,000. Insurance Company admitted the claim in full.
- Goods costing ₹ 2,500 were used by the proprietor.
 - Goods costing ₹ 1,500 were distributed as free samples.

Ans. Gross Profit ₹ 2,82,000, Net Profit ₹ 1,00,550, Balance Sheet ₹ 3,36,950.

Q6. Problems based on missing information. Fill in the missing figures in the following :—

TRADING AND PROFIT & LOSS ACCOUNT
for the year ended 31st March, 2016

Dr.			Cr.
Particulars	₹	Particulars	₹
To Opening Stock		By Sales	
To Purchase		Less : Sales Return	
Less : Return	1,000		
To Wages	1,800	By Closing Stock	20,000
To Carriage Inward	200		
To Gross Profit b/d	17,000		1,15,000
		By Gross Profit b/d	
To Insurance	600	By Discount received	1,500
To Rent	5,000		
To Salaries	12,500	By Net Loss	
Add: Outstanding Salaries			
To Bad Debts	200		
Add: Further Bad Debts	100		
	300		
Add : New Provision			
	900		

Less : Old Provision	-----	400	
To Provision for Discount on Debtors		388	
To Depreciation Building	2,250		
Furniture	700	2,950	
		22,838	22,838

Balance Sheet
as at 31st March, 2016

Liabilities	₹	Assets	₹
Bills Payable	3,000	Cash in hand	-----
Creditors	-----	Cash in bank	15,000
Outstanding Salaries	1,000	Sundry Debtors	20,100
Capital	-----	Less : Further Bad Debts-----	-----
Less Net Loss	-----	Less: Provision for	600
	75,662	Bad-debts	-----
		Less : Provision for discount on debtors	-----
			19,012
		Closing Stock	
		Furniture	7,000
		Less : Depreciation	700
		Building	45,000
		Less Depreciation	2,250
			42,750
	1,08,162		1,08,162

Ans. Sales ₹ 95,000, Stock ₹ 15,000, Salaries ₹ 13,500, Capital ₹ 80,000, Net Loss ₹ 4,338, Creditors ₹ 28,500, Cash ₹ 5,100

