

CHAPTER - 4

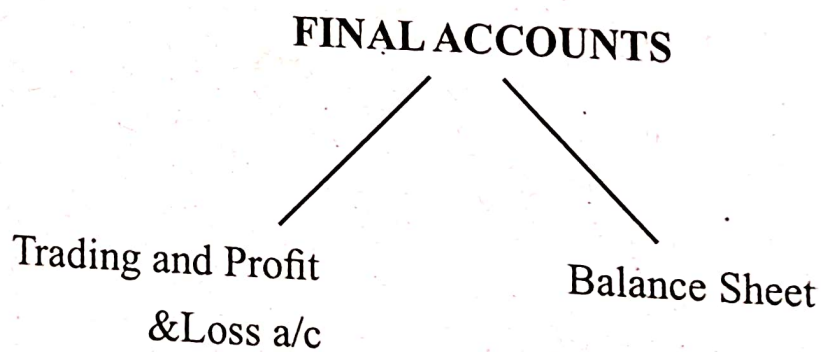
FINAL ACCOUNTS

Every business men want to know the result of the his business. That is, he is interested to know whether his business has earned profit or incurred loss during the particular period of time. So, with the help of the trial balance already prepared he is preparing the final accounts of the business concern.

Aim of preparing the Final Accounts :

1. To know the result of the business (Profit or loss)
2. To know the soundness of the business

The result of the business is found out by preparing the trading and profit and loss a/c. The soundness of the business is ascertained by preparing the balance sheet.



I TRADING AND PROFIT & LOSS ACCOUNT :

As stated earlier the profit and loss of business concern is found out by preparing this account. The first part of this account is called 'Trading account' and Profit & Loss account.

i) Trading Account :

Trading means buying and selling . The trading account shows the result of buying, and selling. In this account the 'Gross Profit' / 'Gross loss' of the business concern is calculated.

The specimen form of trading account is as follows.

Dr Trading Account			
Particulars	Amount	Particulars	Amount
To Opening stock	₹ ***	By Sales	₹ ***
" Purchases ***	***	Less Returns **	***
Less Returns **	***	" Closing Stock	***
" Carriage Inwards	***		
" Freight	***		
" Wages	***		
" Power & Fuel	***		
" Dock dues	***		
" Clearing charges	***		
" Packing charges	***		
" Factories lighting	***		
" Gross profit	***		
	****		****

Illustration 1:

From the following particulars, prepare Trading account.

Opening Stock	₹ 50,000
Purchases	" 25,000
Purchases Returns	" 12,500
Direct Expenses	" 5,000
Carriage Inwards	" 2,500
Sales	" 2,00,000
Closing Stock	" 25,000

(M.S. University Nov. 2001)

Solution :

Dr Trading Account			
Particulars	Amount	Particulars	Amount
To Op. Stock	₹ 50,000	By Sales	₹ 2,00,000
" Purchases 25,000		" Closing Stock	25,000
Less Returns 12,500	12,500		
" Direct expenses	5,000		
" Carriage Inwards	2,500		
" Gross profit	1,55,000		
	2,25,000		2,25,000

Illustration 2 :

From the following details, Calculate gross profit.

	₹		₹
Opening Stock	2,000	Returns outwards	200
Purchases	15,000	Returns inwards	700
Sales	26,000	Wages	1000
Closing Stock	3,000	Salaries	2,000
		Interest	500

(M.S. University Nov. 2002)

Solution :

Dr Trading Account			
Particulars	Amount	Particulars	Amount
To Op. Stock	2,000	By Sales	26,000
" Purchases 15,000		Less returns 700	25,300
Less Returns 200	14,800	" Closing stock	3,000
" Wages	1,000		
" Gross Profit	10,500		
	28,300		28,300

Manufacturing Account :

The firm engaged in manufacturing process, prepares manufacturing account also, in addition to the trading account. The manufacturing account is prepared to disclose the factory cost of production.

Illustration 3 :

From the following particulars prepare a manufacturing account for the year ended 31.12.1997.

	₹
Raw materials (1.1.97)	6,000
Work-in-Progress (1.1.97)	4,200
Purchases of Raw materials	45,000
Carriage inwards	5,000
Direct Wages	10,000

Indirect Wages	5,000
Depreciation on factory plant	4,000
Depreciation on factory furniture	1,200
Factory Power	3,000
Repairs to factory assets	500
Raw Materials (31.12.97)	8,000
Work-in-Progress (31.12.97)	5,000

(M.S. University Apr 99, Nov 99, Apr. 2000)

Solution :

Dr Manufacturing Account for the year ended 31.12.1997 Cr

Particulars	Amount ₹	Particulars	Amount ₹
To Raw materials (1.1.97)	6,000	By Raw materials (31.12.97)	8,000
" Work in progress (1.1.97)	4,200	" Work in progress	5,000
" Purchase of Raw materials	45,000		
" Carriage Inwards	5,000		
" Direct Wages	10,000	" Cost of Production (Balancing figure)	70,900
" Indirect Wages	5,000		
" Depreciation on factory plant	4,000		
" Depreciation on factory Furniture	1,200		
" Factory Power	3,000		
" Repairs to factory assets	500		
	83,900		83,900

Illustration 4 :

From the following particulars calculate cost of goods sold and gross profit.

	₹
Sales	38,500
Opening Stock	8,500
Purchases	30,700

Direct Expenses	4,800
Indirect Expenses	5,200
Closing Stock	9,000

(M.S. University Apr. 2001)

Solution :

Trading a/c			
Dr	Amount ₹	Particulars	Amount ₹
To Op. Stock	8,500	By Sales	38,500
" Purchases	30,700	" Closing Stock	9,000
" Direct expenses	4,800		
" Gross Profit	3,500		
	47,500		47,500

$$\begin{aligned}\text{Cost of good sold} &= \text{Sales} - \text{Gross Profit} \\ &= 38,500 - 3,500 \\ &= ₹ 35,000\end{aligned}$$

(M.S. University Apr. 2001)

Illustration 5 :

Ascertain cost of goods sold from the following figures :

	₹
Opening Stock	8,500
Purchases	30,700
Direct Expenses	4,800
Indirect Expenses	5,200
Closing Stock	9,000

(M.S. University Apr. 2000)

Solution :

Calculation of cost of goods sold

		₹
Opening Stock		8,500
Add Purchases	30,700	
Direct Expenses	4,800	35,500
		44,000
Less Closing Stock		9,000
Cost of goods sold		35,000

* Indirect expenses to be excluded

Illustration 6 :
Calculate stock at the end

Stock in the beginning	₹ 10,000
Cash Sales	30,000
Credit Sales	20,000
Purchases	35,000
Rate of gross profit on Cost 1/3	

Solution :

Dr

Trading a/c

Particulars	Amount ₹	Particulars	Amount ₹
To Op. Stock	10,000	By Sales :	
" Purchases	35,000	Cash	30,000
		Credit	20,000
" Gross Profit	12,500	" Closing Stock	7,500
	57,500		57,500

Gross Profit = $\frac{1}{3}$ on Cost
ie. Gross Profit = $\frac{1}{4}$ on sales
Gross Profit = $50,000 \times \frac{1}{4}$
= ₹12,500

ii) Profit & Loss Account :

Profit & Loss account is prepared to calculate the Net Profit / Net Loss of the business concern.

To start with the Gross Profit / Gross Loss is brought down to the profit & loss account.

Specimen form of profit & loss account is as follows :

Dr

Profit & Loss Account

Cr

Particulars	₹	Particulars	₹
To Salaries	***	By Gross Profit	***
" Rent, Rates, Taxes	***	" Commission earned	***
" Printing & Stationery	***	" Discount received	***
" Postage & Telegram	***	" Apprentice premium	***

" Insurance Premium	***		
" Repairs	***		
" Trade expenses	***		
" Interest	***		
" General expenses	***		
" Office Lighting	***		
" Advertisement	***		
" Carriage Outwards	***		
" Discount	***		
" Travelling expenses	***		
" Bad Debts	***		
" Depreciation	***		
" Net Profit	***		

Illustration 7 :

Prepare profit and loss account for the year ending 31.3.99

	₹		₹
Gross Profit	25,000	Stationary	75
Salaries	5,600	Rent	650
Insurance	200	Interest on loan	225
Discount allowed	400	Repairs	125
Discount received	300	Office Expenses	55
Commission earned	100	General Expenses	875
Advertisement	450	Postage	175
Taxes	150	Printing Charges	375
Travelling Expenses	500		

(M.S. University Nov. 2002)

Solution :

Dr

Profit & Loss Account

Cr

Particulars	₹	Particulars	₹
To Salaries	5,600	By Gross Profit	25,000
" Insurance	200	" Discount received	300
" Discount allowed	400	" Commission earned	100
" Advertisement	450		
" Taxes	150		
" Travelling Expenses	500		

" Stationery	75		
" Rent	650		
" Interest on Loan	225		
" Repairs	125		
" Office expenses	55		
" General expenses	875		
" Postage	175		
" Printing charges	375		
" Net Profit	15,545		
	25,400		25,400

II BALANCE SHEET :

Balance sheet is a statement of the financial position of a concern on a given date. It contains assests and liabilities. On the left side of the Balance sheet 'Liabilities' are shown and on the right side 'Assets' are shown.

The specimen of the balance sheet is given below.

Balance Sheet

Liabilities	₹	Assets	₹
Capital ***		Cash in hand ***	
Add Net Profit ***		Cash at Bank ***	
***		Sunday Debtors ***	
Less Drawings ***		Bills Rec eivable ***	
Less Income Tax ***	***	Furniture & Fittings ***	
Sundry Creditors ***	***	Plant & Machinery ***	
Bank Overdraft ***	***	Land & Buildings ***	
Bills payable ***	***	Patents ***	
Mortgage ***	***	Goodwill ***	
Reserve Fund ***	***	Loose Tools ***	
	****	Closing Stock ****	

Difference between Balance Sheet and Trial Balance

Balance Sheet	Trial Balance
1. It is a statement of assets and liabilities	1. It is statement containing balances of ledger accounts.
2. It is to know the financial position of the concern	2. It is to know the arithmetic accuracy of accounts.
3. It includes closing stock.	3. It includes opening stock
4. It is necessary to prepare BalanceSheet	4. It is not absolutely necessary to prepare trial balance.
5. It is prepared by giving effect to adjustment	5. It is prepared without giving effect to adjustments.

Illustration 8 :

From the following information prepare Balance Sheet.

	₹
Capital	5,00,00
Sundry Creditors	50,000
Debentures	2,00,000
Sundry Debtors	1,00,000
Assets	7,75,000
Cash at bank	25,000
Other Liabilities	1,00,000
Profit	50,000

(M.S. University Apr. 2000)

Solution :

BALANCE SHEET

Liabilities	₹	Assets	₹
Capital 5,00,000		Assets 7,75,000	
Add Net profit 50,000	5,50,000	Sundry Detors 1,00,000	
Debentures 2,00,000		Cash at Bank 25,000	
Sundry Creditors 50,000			
Other liabilities 1,00,000			
	9,00,000		9,00,000

PREPARATION OF FINAL ACCOUNTS

Illustration 9 :

From The following Trial balance prepare the trading and profit and Loss a/c and a balance sheet as on that date.

Trial Balance			
Debit	₹	Credit	₹
Opening Stock	45,000	Capital	75,000
Purchases	2,25,000	Sales	4,20,750
Machinery	75,000	Creditors	15,000
Trade charges	10,000	Bad debts provision	200
Carriage inwards	2,500	Bills payable	2,000
Carriage outwards	1,500		
Factory rent	1,500		
Discount	350		
Insurance premium	700		
Debtors	60,000		
Office rent	3,000		
Printing and Stationery	600		
General expenses	17,800		
Bills receivable	3,000		
Drawings	6,000		
Salaries	18,000		
Manufacturing wages	21,000		
Furniture	7,500		
Cash at Bank	14,500		
	5,12,950		5,12,950

Closing stock is valued at ₹ 35,000

Solution :

Trading and Profit & Loss a/c			
Dr	₹	Cr	₹
To Opening Stock	45,000	By Sales	4,20,750
" Purchases	2,25,000	" Closing stock	35,000
Carriage inwards	2,500		
" Factory rent	1,500		
" Manufacturing wages	21,000		
" Gross Profit	1,60,750		
	4,55,750		4,55,750

To Trade charges	10,000	By Gross Profit	1,60,750
" Carriage outwards	1,500	" Bad debts Provi.	200
" Discount	350		
" Insurance Premium	700		
" Office rent	3,000		
" Printing & Stationary	600		
" General Expenses	17,800		
" Salaries	18,000		
" Net Profit	1,09,000		
	1,60,950		1,60,950

Balance Sheet of Mr. Raman as on 31.12.1999

Liabilities	₹	Assets	₹
Capital	75,000	Machinery	75,000
Add Net profit	1,09,000	Debtors	60,000
	1,84,000	Bills Receivable	3,000
Less Drawings	6,000	Furniture	7,500
Creditors	15,000	Cash at Bank	14,500
Bills Payable	2,000	Closing Stock	35,000
	1,95,000		1,95,000

FINAL ACCOUNTS - ADJUSTMENTS

In order to make the final accounts give a true picture of the business (true profit / loss) various adjustments must be taken into account. All items which need to be brought into account at the time of preparing final accounts are called "adjustments". Journal entries passed to effect the required adjustments are called "adjusting entries".

The following are some of the common adjustments.

1. Closing Stock
2. Outstanding Expenses
3. Prepaid Expenses
4. Accrued Incomes
5. Income received in advance
6. Depreciation
7. Bad debts

8. Provision for bad and doubtful debts
9. Provision for discount on debtors
10. Provision for discount on creditors
11. Interest on capital
12. Interest on Drawings
13. Loss of stock by fire
14. Goods distributed as free sample
15. Manager's Commission

1. Closing Stock :

The unsold stock at the end of the accounting period is known as closing stock.

Adjusting Entry :

Closing Stock a/c Dr
 To Trading a/c

The Closing stock will appear

- i) Credit side of trading account.
- ii) Asset side of Balance sheet.

2. Outstanding Expenses :

Expenses incurred but not yet paid during the accounting period is called outstanding expenses.

(E.g) Salary Outstanding, Rent Outstanding etc.

Adjusting Entry :

Expenses (Salaries) a/c Dr
 To Outstanding expenses (Salary) a/c

The outstanding expenses is shown on the

- i) Debit side of the P & L a/c as addition to the particular expense.
- ii) Liability side of the Balance-Sheet

3. Prepaid Expenses :

Expenses which have been paid in advance are called prepaid expenses.

(Eg) Prepaid Insurance

Adjusting Entry

Prepaid expenses (insurance) a/c Dr
 To expenses (insurance) a/c

Prepaid expenses will be shown

- i) debit side of P & L a/c as deduction from the particulars expenses
- ii) Asset side of the Balance Sheet.

4. Accrued (Outstanding) Income :

Income earned but not yet received during the accounting period is called accrued incomes.

(E.g) Accrued Commission

Adjusting Entry

Accrued Income (Commission) a/c Dr
 To income (Commission) a/c

Accrued income will be shown on the

- i) Credit side of P & L a/c as addition to particular income
- ii) Asset side of Balance Sheet.

5. Income Received in advance :

Income received during the accounting period for the work to be done in future is called income received in advance.

(E.g) Apprentice premium, Rent etc received in advance.

Adjusting Entry

Income (Apprentice Premium) a/c Dr
 To income (App. Premium) received in advance a/c

Income received in advance will be shown on the

- i) Credit side of P&L a/c as deduction from the particular expenses
- ii) Liability side of the balance sheet.

6. Depreciation :

Decrease in the value of an asset is called depreciation.

(E.g) Depreciation of furniture, machinery etc.

Adjusting Entry

1. Depreciation a/c Dr
 To Asset (Furniture) a/c

Transfer Entry

2. Profit & Loss a/c
 To Depreciation a/c

Depreciation will be shown on the

- i) Debit side of the P&L a/c
- ii) Asset side of the Balance Sheet as deduction from the particular asset

7. Bad Debts :

Debts which cannot be recovered from the debtors are called bad debts. It is a loss to the business.

Adjusting entry

1. Bad Debts a/c Dr
 To Sundry Debtors a/c

Transfer Entry

2. Profit & Loss a/c Dr
 To Bad debts a/c

Bad debts will be shown on the

- i) Debit side of the P&L a/c
- ii) Asset side of the Balance sheet as deduction from sundry debtors.

8. Provision for bad and doubtful Debts :

Provision made to meet the anticipated loss on debts is called provision for bad and doubtful debts

Adjusting Entry

- Profit and Loss a/c Dr
 To provision for Doubtful debts a/c

Provision for bad and doubtful debts will be shown on the :

- i) Debit side of the P&L a/c

- ii) Asset side of the Balance Sheet as deduction from sundry debtors (after deducting Bad debts, if any)

9. Provision for discount on debtors :

Provision made to allow discount to good debtors for prompt payment is called provision for discount on debtors.

Adjusting Entry

- Profit & Loss a/c Dr

 To provision for Discount on Debtors a/c

Provision for discount on debtors will be shown on the

- i) Debit side of profit and loss account.
- ii) Asset side of the Balance Sheet as deduction from sundry debtors (after deduction bad debts and provision for bad debts, if any)

10. Provision for discount on creditors :

Provision for an anticipated profit on creditors for prompt payment by the firm is called provision for discount on creditors.

Adjusting Entry

- Provision for discount on creditors a/c Dr

 To profit & Loss a/c

Provision for discount on creditors will be shown on the

- i) Credit side of the P&L a/c
- ii) Liability side of the Balance Sheet as deduction from sundry creditors

11. Interest on Capital :

Interest allowed on capital employed in the business is called 'Interest on Capital'. It is an expense to business and income to the owner.

Adjusting entry

1. Interest on capital a/c Dr
 To capital a/c

Transfer Entry

2. Profit & Loss a/c Dr
 To Interest on Capital a/c

Interest on capital will be shown on the

- Debit side of the profit & Loss a/c
- Liability side of the balance sheet as addition to the capital.

12. Interest on Drawings :

Interest charged on drawings is called interest on drawings. It is income to the business and expense to the owner.

Adjusting Entry

- Drawings a/c Dr
To Interest on Drawings a/c

Transfer Entry

- Interest on Drawings a/c Dr
To profit&Loss a/c

Interest on Drawings will be shown on the

- Credit side of the P&L a/c
- Liability side of the balance sheet as addition to the drawings.

13. Loss of stock by fire :

The loss of stock by fire will be shown on the

- Credit side of the trading a/c (with the amount of stock destroyed by fire)
- Debit side of P&L a/c (with the amount of stock destroyed by fire, less claim from insurance company)
- Asset side of the Balance sheet (with the amount receivable from insurance company)

14. Goods distributed as free sample :

This will be shown on the

- Debit side of Trading a/c as deduction from purchases
- Debit side of profit and loss a/c as expense.

15. Manager's Commission :

Manager's commission is an expense to the business. It is usually given as a percentage calculated from profit

- If the commission is calculated on the profit **before** charging such commission,

the commission calculated is = $\frac{\% \text{ of Commission}}{100} \times \text{Profit}$

- If the commission will be shown on the **after** charging such commission,

the commission is calculated as = $\frac{\% \text{ of Commission}}{100 + \% \text{ of Commission}} \times \text{Profit}$

Manager's commission will be shown on the

- Debit side of the P&L a/c
- Liability side of the Balance sheet as commission payable.

Illustration 10 :

The following are the balances extracted from the books of Thiru. Patel as on 31.3.2000. Prepare profit and loss account for the year ended 31 Dec. 2000 and a Balance sheet as on that date :

	₹	₹
Capital	-	1,00,000
Opening Stock	20,000	-
Machinery	40,000	-
Purchases	70,000	-
Purchase returns	-	1,000
Sales	-	90,000
Sales returns	1,000	-
Wages	2,000	-
Salaries	5,000	-
Office rent	2,000	-
Insurance	1,000	-
Sundry Debtors	50,000	-
Sundry Creditors	-	29,000
Cash	4,000	-
Bank Balance	25,000	-
	<u>2,20,000</u>	<u>2,20,000</u>

Adjustments :

- Closing stock is alued at ₹ 20,000
- Outstanding Salaries ₹ 1000
- Prepaid Insurance ₹500
- Bad Debts ₹ 1000
- Provide 10% depreciation on machinery (M.S. University Ap.2002)

Solution:

Trading and Profit & Loss Account of Thiru. Patel
for the period ended 31 March 2000

Dr		Cr	
Particulars	₹	Particulars	₹
To Opening Stock	20,000	By Sales	90,000
" Purchases 70,000		Less returns 1,000	89,000
Less returns 1,000	69,000	" Closing Stock	20,000
" Wages	2,000		
" Gross Profit	18,000		
	1,09,000		1,09,000
To Salaries 5,000		By Gross Profit	18,000
Add outstanding 1,000	6,000		
" Office rent	2,000		
" Insurance 1,000			
Less Prepaid 500	500		
" Bad debts	1000		
" Depreciation			
Machinery 10%	4,000		
" Net Profit	4,500		
	18,000		18,000

Balance Sheet of Thiru. Patel as on 31 March 2000

Liabilities	₹	Assets	₹
Capital 1,00,000		Machinery 40,000	
Add Net profit 4,500	1,04,500	less depn. 4,000	36,000
Sundry Creditors 29,000		Sundry debtors 50,000	
" Outstanding Salary 1,000		Less bad debts 1,000	49,000
		Cash 4,000	
		Bank Balance 25,000	
		Closing Stock 20,000	
		Prepaid Insurance 500	
	1,34,500		1,34,500

Illustration 11 :

The following ledger balances were extracted from the books of Madhumathi. You are required to prepare trading and profit and loss and Balance sheet as on 31st March 2000.

	₹		₹
Capital	10,000	Returns inwards	300
Drawings	2,000	Returns outwards	580
Purchases	20,800	Carriage inwards	400
Stock (1.4.1995)	6,900	Wages	325
Sales	27,500	Salaries	900
Creditors	8,100	Interest	480
Rent	1,000	Carriage outwards	700
Discount (Cr)	270	Insurance	900
Furniture and fixtures	900	Bank Loan	3,000
Machinery	5000	Cash in hand	575
Travelling expenses	650		
Bad debts	120		
Debtors	7,500		

Adjustments :

- Closing stock was valued at ₹ 8900
- Insurance prepaid ₹ 250
- Outstanding expenses: Salaries ₹ 100; Rent ₹200
- Interest on Bank Loan ₹ 150
- Depreciate machinery and furniture by 10% each
- Provide for doubtful debts at 5% on Debtors.

(M.S.University Nov.2001)

Solution :

Trading and profit & Loss account of Madhumathi
for the period ended 31 March 2000

Dr		Cr	
Particulars.	₹	Particulars	₹
To Opening Stock	6,900	By Sales	27,500
" Purchases 20,800		Less returns 300	27,200
Less returns 580	20,220	" Closing Stock	8,900
" Carriage inwards	400		
" Wages	325		
" Gross Profit	8,255		
	36,100		36,100

To Rent	1000	By Gross profit	8,255
Add outstanding	200	" Discount	270
" General expenses	650		
" Bad Debts	120		
Add provision for doubtful debts	375		
" Salaries	900		
Add outstanding	100		
" Carriage outwards	700		
" Insurance	900		
Less prepaid	250		
" Depreciation:			
Machinery 10%	500		
Furniture 10%	90		
" Net Profit	2610		
	8525		8525

Balance sheet of Madhumathi as on 31 March 2000

Liabilities	₹	Assets	₹
Capital	10,000	Furniture&fixtures	900
Add net profit	2,610	Less Depreciation	90
	12,610	Machinery	5,000
Less Drawings	2,000	Less Depreciation	500
Sundry Creditors	8,100	Debtors	7,500
Bank Loan	3,000	Less provision for doubtful debts	375
Outstanding expenses:		Cash in hand	575
Salary	100	Prepaid insurance	250
Rent	200	Closing Stock	8900
Interest on loan	150		
	450		
	22,160		22,160

Illustration 12:

From the following Trial Balance, prepare trading and profit and loss account for the year ending 31.12.2001 and a balance sheet on that date:

Trial balance

	Debit(₹)	Credit(₹)
Capital	-	4,250
Drawings	710	-
Plant&Machinery	950	-
Stock as on 1st Jan	1,460	-
Purchases and Sales	10,362	11,906
Purchases and Sales return	210	291
General Expenses	440	-
Rent	120	-
Rates	200	-
Apprentice Premium	-	80
Bank overdrafts	-	240
Bad debts	172	-
Debtors and creditors	4,200	2000
Cash in hand	48	-
bad debts reserve	-	105
	18,872	18,872

Make provision for the following :

- Depreciate plant and machinery at 10% p.a
- Increase bad debts reserve to 5% on sundry debtors.
- Rent accrued is ₹ 40 *outstanding*
- Rates of ₹80 are paid in advance.
- Stock in hand as on 31 Dec is ₹1,700

(M.S.University Apr.2001)

Solution :

Trading and Profit and Loss Account

Dr				for the year ended 31 Dec 2001		Cr	
Particulars		₹		Particulars		₹	
To Opening Stock		1,460		By Sales		11,906	
" Purchases 10,362				<u>Less</u> returns		<u>210</u>	
<u>Less</u> returns 291		10,071		" Closing Stock		1,700	
" Gross Profit		1,865					
		13,396				13,396	

To General expenses	440	By Gross profit	1,865
" Rent	120	" Apprentice premium	80
<u>Add outstanding</u>	<u>40</u>		
" Rates	200		
<u>Less paid in advance</u>	<u>80</u>		
" Bad debts	172		
<u>Add Provision 5%</u>	<u>210</u>		
	382		
<u>Less old reserve</u>	<u>105</u>		
" Depreciation:			
Plant & Machine 10%	95		
" Net Profit	853		
	1945		1945

Balance Sheet as on 31 Dec 2001

Liabilities	₹	Assets	₹
Capital	4,250	Plant and Machinery	950
<u>Add net profit</u>	<u>853</u>	<u>Less . Depn.</u>	<u>95</u>
	5,103		855
<u>Less Drawings</u>	<u>710</u>	Debtors	4,200
	4,393	<u>Less reserve pro.</u>	<u>210</u>
Bank overdraft	240		3,990
Creditors	2,000	Cash in hand	48
Outstanding Rent	40	Prepaid rates	80
	6,673	Closing stock	1,700
			6,673

Illustration 13:

Shree Kumar provides the following information and requests you to prepare final accounts on 31.3.02.

Furniture	2,00,000	Office Expenses	6,800
(Purchased on 1.7.01)		Creditors	96,000
Motor vehicles	1,00,000	Bills payable	1,600
(Purchased on 1.10.01)		Bank O/D	4,000
Opening Stock	75,000	12% Loan	70,000
Debtors	3,88,000	Capital	5,00,000

Bills receivable	10,000	Sales	7,43,000
12% investment	50,000	Purchases return	5,000
Cash in hand	15,000	Bad debts recovered	4,500
Drawings	6,000	Interest	3,000
Purchases	5,25,000	Sales tax collected	4,000
Sales return	10,000	Interest paid on 12% loan	3,000
Carriage	5,200	Carriage on sales	1,800
Selling Expenses	12,800	Salaries	22,500

Additional information :

- Stock at the end ₹ 42,000
- Loss of stock by fire on 31st March ₹ 1,200 but the insurance company accepted the claim for ₹ 950 only.
- Depreciate furniture and motor vehicles by 10%
- 12% loan was taken on 1.7.01 first instalment of ₹ 10,000 was repaid on 1st December 2001.

(M.S. University Nov.2003)

Solution

Trading and profit and Loss account of Shree kumar for the period ended 31 march 2002

Particulars	₹	Particulars	₹
To Opening Stock	75,000	By Sales	7,43,000
" Purchases	5,25,000	<u>Less Returns</u>	<u>10,000</u>
<u>Add Returns</u>	<u>5,000</u>	" Closing Stock	42,000
" Carriage	5,200	" Loss of stock by fire	1,200
" Gross profit	1,76,000		
	7,76,200		7,76,200
To Selling expenses	12,800	By Gross Profit	1,76,000
" Office expenses	6,800	" Interest on 12%	
" Interest paid on		investment	3000
12% loan	3,000	<u>Add Accured</u>	<u>3000</u>
<u>Add outstand</u>	<u>2,900</u>	" Bad debts recovered	4,500
	5,900	" Sales tax collected	4,000
" Sales tax payable	4,000		

" Carriage on sales	1,800		
" Salaries	22,500		
" Loss of fire 1,200			
Less Claim from insurance Co. 950	250		
" Depreciation:			
Furniture 10% (9 months)	15,000		
Machinery 10% (6 months)	5,000		
" Net Profit	1,16,450		
	1,90,500		1,90,500

Workings : Interest on 12% Loan

$$12/100 \times 70000 \times 5/12 = 3500$$

$$12/100 \times 60000 \times 4/12 = 2400$$

$$\text{Total} = 5900$$

Balance sheet of Shre Kumar as on 31 Dec March 2002

Liabilities	₹	Assets	₹
Capital	5,00,000	Furniture	2,00,000
Add net profit	1,16,450	Less Depn 15,000	1,85,000
	6,16,450	Motor vehicle	1,00,000
Less Drawings	6,000	Less depreciation	5,000
	6,10,450		95,000
Creditors	96,000	Debtors	3,88,000
Bills payable	1,600	Bills receivables	10,000
Bank O/D	4,000	12% Investment	50,000
12% loan	70,000	Cash in hand	15,000
Outstanding interest	2,900	Closing stock	42,000
Outstanding sales tax	4,000	Claim receivable from insurance company	950
		Accrued interest on Inv	3,000
	7,88,950		7,88,950

Illustration 14:

From the following trial balance of Mr. Kannappan as on 31.3.2000 prepare trading account and profit and loss account for the year ended 31.3.2000, and a balance sheet as on that date after making necessary adjustment.

Trial Balance

Particulars	₹	Particulars	₹
Kannappan's drawings	22,000	Kannappan's capital	80,000
Furniture & fixtures	4,000	Return outward	2,000
Plant & Machinery	30,000	Sales	1,80,000
Op Stock	20,000	Creditors	12,000
Purchases	1,20,000	Ramesh's 6% loan	10,000
Salaries and wages	22,400	Discount	1,600
Debtors	20,400		
Return inward	15,000		
Postage & Telegram	1,500		
Rent, Rates & Taxes	2,600		
Bad debts written off	400		
Trade Expenses	1,200		
Interest on Ramesh's loan	150		
Insurance	1,800		
Travelling Expenses	500		
Sundry Expenses	300		
Cash	13,050		
Bank	10,300		
	2,85,600		2,85,600

Adjustments :

- Closing Stock - ₹ 25,000
- Of the debtors ₹ 400 are bad and should be written off. Create a reserve for bad debts at 5% on sundry debtors and a reserve for discount on debtors 2½%
- Salaries ₹ 1,800 for March 2000 are outstanding
- Interest on capital is to be calculated at 5% p.a and on drawings ₹ 830
- Prepaid insurance amounted to ₹ 700
- Depreciate furniture and fixtures by 7½% and plant and machinery 10%
- Make a reserve for discount on creditors @ 2½%

(M.S. University Nov. 2002)

**Trading and profit & loss account of Mr.Kannappan
for the period ended 31 March 2000**

Particulars	₹	Particulars	₹
To Opening Stock	20,000	By Sales	1,80,000
Purchases	1,20,000	Less returns	15,000
Less returns	2,000	"Closing Stock	25,000
Gross profit	52,000		
	1,90,000		1,90,000
To Salaries and wages	22,400	By Gross Profit	52,000
Add outstanding	1,800	" Discount	1600
" Postage & Telegram	1,500	" Reserve for discount	
" Rent, rates & Taxes	2,600	on Creditors	300
" Trade expenses	1,200	" Interest on drawings	830
" Bad debts	400		
" Add further bad	400		
" Add reserve for			
bad debts	1,000		
" Add reserve for			
discount on debtors	475		
" Interest on Ramesh			
loan	150		
Add outstanding	450		
" Insurance	1800		
" Less prepaid	700		
" Travelling exp	500		
" Sundry exp	300		
" Depreciation:			
Furniture 7½%	300		
Machinery 10%	3,000		
" Interest on capital 5%	4000		
" Net Profit	13,155		
	54,730		54,730

Balance sheet of Mr.Kannappan as on 31 March 2000

Liabilities	₹	Assets	₹
Capital	80,000	Furniture	4,000
Add Net profit	13,155	Less depreciation	300
	93,155	Plant & machinery	30,000
Add Int on capital	4,000	Less depreciation	3,000
	97,155	Debtors	20,400
Less Drawings	22,000	Less Bad debts	400
	75,155		20,000
Less Int. on Drawings	830	Less reserve for	1,000
	74,325	doubtful debts	19,000
Sundry Creditors	12000	Less reserve for	
Less Reserve	300	discount on debtors	475
6% Ramesh Loan	10,000	Cash	13,050
Outstanding Salary	1,800	Bank	10,300
Interest on Ramesh loan	450	Closing stock	25,000
		Prepaid insurance	700
	98,275		98,275

Illustration 15 :

The following information appear in the books of a concern:

	₹
Provision for doubtful debts on 1.1.97	6,500
Bad debts written off during the year	8,000
Sundry debtors on 31.12.97	1,12,500

Of the sundry debtors ₹ 2000 was bad and provision for doubtful debts was to be maintained at 5% on sundry debtors.

Show bad debts and provision for doubtful debts and the relevant extracts of P&L and balance sheet.

(M.S. University Apr. 2002)

Solution :

Dr					
Bad debts a/c					
1997		₹	1997		₹
	To Balance b/d	8,000		By provision for	10,000
	“ S.debtors	2000		Doubtful debts	10,000
		10,000			

Dr					
Provision for Bad debts a/c					
1997		₹	1997		₹
Dec 31	To Bad debts.	10,000	Jan 1	By Balance b/d	6,500
	Balance c/d	5,525	Dec31	“ Profit&Loss	9,025
		15,525			15,525

Workings

Workings

Debtors	1,12,500
Less Bad Debts	2,000
	1,10,500

Provision

$$5\% \text{ on debtors} = \frac{5}{100} \times 1,10,500 = 5525$$

Profit & Loss a/c			
Dr			Cr
To Bad debts	8,000	₹	
" Add further Bad debts.	2,000		₹
	10,000		
Add New Provision	5,525		
	15,525		
Less Old provision	6500	9025	

Balance Sheet			
	₹		₹
Sundry Debtors	1,12,500		
Less Bad debts	2,000		
	1,10,500		
Less Pro.dou. debts	5,525		
			1,04,975
			1,04,975

Illustration 16 :

The following figures appear in the books of Vinayagam

1997	Bad and doubtful debts provision	1,200
Jan 1	Discount allowed provision	560
Dec 31	Discount allowed during the year	930
	Bad debts written off	470
	Bad debts recovered	25
	Debtors	10,060

Write off further ₹ 240 (definitely bad). Create a discount allowed provision of 2%. Create a bad and doubtful provision of 10%. Prepare provision for doubtful debts account, bad debts account and provision for discount account.

(M.S.University Nov.2002)

Solution :

Solution :

Bad debts a/c				Cr	
Dr		₹	1997	₹	
1997	To Balance b/d	470	1997	By Recovery	25
	“ S.debtors	240		“ Balance c/d	685
		710			710

Provision for bad debts a/c					
1997		₹	1997		₹
Dec 31	To Bad debts	685	Jan 11	To Balance c/d	1,200
	“ Balance c/d	982	Dec 31	“ Profit&loss a/c	467
		1,667			1,667

Workings :

Sundry Debtors	10,060
Less further bad	240
	9820

$$\text{Provision for bad debts } 10\% = \frac{10}{100} \times 9820 = 982$$

Provision for bad debts a/c				Cr	
1997		₹	1997		₹
Dec 31	Discount	930	Jan 1	By Balance c/d	560
	" Balance c/d	177		" Profit&loss a/c	547
		1,107			1,107

Workings:

Sundry Debtors	10,060
Less further bad debts	240
	<u>9820</u>
Less pro. for bad debts	982
	<u>8,838</u>
Less provision for discount 2%	<u>176.78</u>

EXERCISES

1. From the following calculate Gross profit.

Opening Stock	1,00,000
Purchases	1,20,000
Carriage inwards	10,000
Sales	5,00,000
Closing Stock	50,000

(M.S. University Ap. 2001)

(Ans : Gross Profit 3,20,000)

2. From the information given below prepare trading account.

Opening Stock	1,00,000
Purchases	1,50,000
Purchases return	25,000
Direct expenses	10,000
Carriage inwards	5,000
Sales	4,00,000
Closing Stock	50,000

(M.S. University Nov. 2000)

(Ans : Gross Profit 2,10,000)

3. From the following particulars, prepare of factory manufacturing account and ascertain the cost of production.

Stock (1.1.93):	4,801
Raw materials	7,602
Work in progress	14,400
Finished goods	57,500
Purchases of raw materials	1,32,500
Sales	601
Return inwards	15,601
Factory wages	1,201
Factory electricity	5,600
Factory salaries	600
Factory rent, rates	802
Factory lighting	3,200
Factory repairs	4,600
Factory depreciation	
Stock (31.12.93):	
Raw materials	5,601
Work in progress	12,000
Finished goods	6,001

(Ans: Cost of Production ₹92,305)

(M.S. University Apr. 2000)

4. From the following information ascertain gross profit and net profit.

Stock at start	2,400	Carriage in	524
Purchases	15,205	Manufacturing wages paid	2,800
Sales	20,860	Manufacturing wages owing	96
Closing Stock	3,840	Loss due to fire	1,000
Return outwards	185	Indirect Expenses	200
Return inwards	860		

(M.S. University Nov. 2002)

(Ans : Gross profit 3000; Net profit 1800)

5. From the following particulars, calculate cost of goods and gross profit.

Opening Stock	30,000
Purchases	21,000
Purchases returns	1,000

Sales	78,000
Direct Expenses	5,000
Closing Stock	12,000

(Ans : Gross profit ₹ 35,000 , Cost of goods sold ₹ 43,000)

6. Ascertain the cost of goods sold from the following :

Opening Stock	15,000
Purchases	65,000
Wages paid	9,000
Closing stock	20,000

(M.S. University Apr. 2001)

(Ans : ₹ 69,000)

7. Find out the cost of goods sold from the following :

Opening Stock	₹ 7,400
Purchases	40,000
Carriage inwards	1,600
Carriage outwards	400
Closing stock	5,000

(M.S. University 2002)

(Ans : ₹ 44,000)

8. Calculate stock at the end

Direct expenses	22,000
Stock in the beginning	5,000
Sales	45,000
Purchase	20,000

Rate of Gross profit on cost $\frac{1}{4}$

(M.S. University 2002)

(Ans : ₹ 11,000)

9. Calculate the stock in the beginning.

Sales	₹ 80,000
Purchases	60,000
Stock at end	8,000

loss on cost $\frac{1}{6}$

(M.S. University Nov 2000)

(Ans : Stock at beginning ₹ 44,000, Gross Loss 16,000)

10. Calculate the stock in the beginning

Sales	₹ 1,60,000
Purchases	1,20,000
Stock at end	16,000

Loss on sales = $\frac{2}{12}$

(M.S. University Ap. 2001)

(Ans : Stock in the beginning ₹ 82,667, Gross Loss ₹ 26,667)

11. From the following prepare profit and loss amount

Gross profit	₹ 1,00,000
Salary paid	5,000
Rent paid	2,000
Discount received	1,000
Depreciation written off	500
Discount paid	100
Repair Expenses	1,500

(M.S. University Ap. 2001)

(Ans : Net Profit ₹ 91,900)

12. From the following information prepare balance - sheet :

Capital	₹ 4,00,000
Furniture	1,00,000
Bank Balance	50,000
Cash in hand	75,000
Profit	25,000
B/R	50,000
B/P	40,000
S. Debtors	30,000
S. creations	50,000
Goodwill	60,000
Building	1,50,000

[Ans : Balance - sheet total : 5,15,000]
[M.S. University, B.Com April 2001]

13. The following is the trial balance of a person on 31st December 1999

Debit	₹	Credit	₹
Cash in hand	540	Sales	98,780
Cash at bank	2630	Returns out	500
Purchases	40,675	Capital	71,000
Returns inwards	680	Creditors	6,300
Wages	10,480		
Fuel	4,730		
Carriage outwards	3,200		
Carriage inwards	2,040		
Opening stock	5,760		
Premises	30,000		
Land	10,000		
Machinery	20,000		
Patents	7,500		
Salaries	15,000		
Sundry Expenses	3,000		
Insurance	600		
Drawings	5,245		
Debtors	14,500		
	1,76,580		1,76,580

Closing Stock ₹16,800

Prepare trading, P&L account and Balance sheet

[Ans : Gross Profit - ₹ 51,715; Net Profit - ₹ 29,915,
B/S. Total - 1,01,970]

[M.S. University, B.Com April 2001]

14. From the following balances, you are required to prepare manufacturing, trading and profit and loss account.

Opening Stock	₹		
Finished goods	49,140	Sales	12,00,000
Work-in-progress	3000	Trade Discount	10,200
Raw material	25,920	Carriage outwood	6,960
Chemicals	1,170	Salaries	67,200
Purchases :		General expenses	54,930
Raw material	4,27,860	Cash discount	15,300

Chemicals	37,110	Depreciation :	
Factory on cost	36,000	Plant	48,000
Factory wages	4,68,000	Office building	1,200
Closing Stock :		Factory building	1,200
Raw materials	20,580		
Work in progress	6,000		
Chemicals	2,280		
Finished goods	37,140		

[Ans : Cost of production - 10,19,400 ; Gross profit - 1,68,600
Net profit - 12,510]

[M.S. University, B.Com April 2000]

15. From the trial balance given below, prepare final accounts for the year ending 31.3.2000.

Trial Balance

Debit	₹	Credit	₹
Opening Stock	9,300	Bank interest	200
Repairs	310	Purchases return	440
Machinery	12,670	Creditors	12,370
Furniture	1,330	Sales	20,560
Office expenses	750	Capital	24,500
Trade expenses	310	Loan	5,000
Land and Buiding	15,400		
Bank charges	50		
Purchases	15,450		
Sales return	120		
Advertisement	500		
Cash in hand	160		
Cash at bank	5,870		
Sundry expenses	150		
Insurance	500		
Travelling expenses	200		
	63,070		63,070

Adjustments :

- Closing stock on 31.3.99 - ₹ 7,585
- Prepaid insurance ₹ 250
- Depreciate land and building 5%; Plant & Machinery 10%
[And : Gross profit - 3715 ; Net Loss- 642 ; B/s Total - 41228]
[M.S. University, B.Com April 2001]

16. From the following particular's, Prepare Trading and Profit and Loss Account for the year ended 31.12.2004 and a Balance Sheet as on that date

	₹		₹
Sales	83,000	Discount received	200
Opening Stock	8,200	Sales Returns	600
Land and Building	13,700	Furniture	7,400
Debtors	9,300	Travelling Expenses	5,300
Creditors	6,100	Salaries	16,900
Bills receivable	1,500	Purchase Return	100
Wages	12,600	Insurance	600
Purchases	33,600	Capital	29,600
Carriage inwards	600	Plant	10,000
		Bank Over Draft	5,000
		Cash	3,700
	<u>1,24,000</u>		<u>1,24,000</u>

Adjustments :

- Closing Stock was valued at ₹ 7,000
- Provide 10% Depreciation on plant
- Insurance was prepaid for a quarter
- An amount of ₹ 3,000 was due to workers

[Ans GP ₹34,500; NP 8050; B/S ₹ 51250/-]
[M.S. University Nov. 2009]

17. From the Trial balance given below, prepare trading account and profit and loss account for the year ended 31.3.97 and the balance sheet as on that date :

Debit	₹	Credit	₹
Stock (1.4.96)	55,000	Discount received	200
Purchases	1,92,500	Interest	1,000
Wages	12,500	Sales	2,93,500
Carriage Inwards	4,000	Bills payable	18,500
Insurance	3,500	Sundry creditors	93,250
Bills receivable	22,500	Capital	1,93,500
Sundry debtors	1,50,000		
Commission	4,000		
Interest	3,500		
Trade expenses	3,450		
Furniture (1.4.96)	6,000		
Cash and Bank	42,250		
Rent & Rates	12,750		
Office expenses	8,000		
Buildings	20,000		
Plant and machinery	60,000		
	<u>5,99,950</u>		<u>5,99,950</u>

Adjustments :

- Closing stock on 31.3.97 - ₹ 50,000
- Outstanding expenses on 31.3.97 - Rent ₹ 200
- Prepaid insurance ₹ 100
- Provide ₹ 600 for doubtful debts
- Depreciate : Building 2½ % ; Machinery 10%
[Ans : GP - 79500 ; NP 38,300 ; BS - 3,43,750]
[M.S. University, April 2004,]

18. From the following balances as at 31st Dec 1995 of a trader, prepare trading, Profit and loss account and a balance Sheet.

Debit	₹	Credit	₹
Salaries	11,000	S.Creditors	19,000
Rent	2,600	Sales	64,000
Cash	2,000	Capital	60,000
Debtors	80,000	Loans	20,000
Trade. expenses	1,200		

Purchases	50,000		
Advances	5,000		
Bank balance	11,200		
	1,63,000		1,63,000

Adjustments :

- The closing stock ₹ 18,000
- One month's salary is in arrear
- One month's rent has been paid in advance
- Provide 10% for doubtful debts.

[Ans : GP - 32,000 ; NP - 8,400, B/S - 1,08,400]

[M.S. University, Nov 2005]

19. From the following particulars for the year ending 31 Dec 2002, prepare trading, profit and loss a/c and a balance sheet as on that date.

Debit	₹	Credit	₹
Salaries	5,500	Creditors	9,500
Rent	1,300	Sales	32,000
Cash	1,000	Capital	30,000
Debtors	40,000	Loans	10,000
Trade Expenses	600		
Purchases	25,000		
Advances	2,500		
Bank balance	5,600		
	81,500		81,500

Adjustments :

- The closing stock is ₹ 9,000
- Out standing salary ₹ 500
- Rent prepaid ₹ 200
- Calculate 5% interest on capital

[M.S. University, April 2004]

[Ans : Gross profit 16,000 ; Net Profit 6,800 ; B/s total 58,300]

20. From the following trial balance and other information, you are required to prepare trading & profit & loss account for the year ended 31st Dec-2002 and balance sheet are on that date.

	Dr ₹	Cr ₹
Drawings & Capital	20,000	2,04,000
Cash at Bank	48,000	-
Machinery	50,000	-
Bills Receivable & Payable	15,000	9,000
Purchases & Sales	2,05,000	3,50,000
Returns inwards & outwards	4,000	5,000
Wages	20,000	-
Stock (1.1.02)	30,000	-
Carriage inwards	2,000	-
Discounts	1,000	2000
Salaries	30,000	-
Debtors & Creditors	45,000	50,000
Commission received	-	4,000
Other Assets (fixed)	1,22,000	-
Rent	16,000	-
Cash in hand	10,000	-
Bad debts	6,000	-
	6,24,000	6,24,000

Adjustments :

- Closing Stock on 31.12.02 ₹ 35000
- Write of 6% provision for doubtful debts
- Depreciation : 10% on all fixed assets
- Salary outstanding ₹ 3,000

[Ans : GP - 1,29,000 ; NP - 59,100, B/S - 3,05,100]

[M.S. University, Nov 2004, April 2005]

21. The following trial balance is extracted from the books of Mohideen on 31 Dec 1999

Debit	₹	Credit	₹
Furniture	600	Capital	12,000
Motor Vehicle	6,500	Provision for bad debts	200
Buildings	7,500	Sundry creditors	3,000
Bad debts	100	Sales	15,000
Sundry debtors	3,800	Bank O/D	3,000
Stock on Jan 1, 1999	3,500	Purchases returns	200
Purchases	5,500	Commission	600
Sales Returns	200		
Advertising	450		
Interest	200		
Cash	650		
Taxes and insurance	1,200		
General expenses	800		
Salaries	3,000		

The following adjustments are to be made.

1. Stock in hand on 31 Dec 1999 ₹ 3,200
 2. Depreciate buildings at 5%; Furniture at 10% and motor vehicle at 20%
 3. ₹ 100 are due for interest on bank OD.
- Prepare trading and P&L a/c for the year ending 31 Dec 1999 and a balance sheet as on that date.

[And : GP - 9200, NP - 2415 B/s Total - 20515]

[M.S. University, Nov 2000]

22. On 31st December, 1999 the following trial balance was extracted from the books of Manickam:

	Debit ₹	Credit ₹
Capital	-	50,000
Plant & Machinery	80,000	-
Sales	-	1,77,000
Purchases	60,000	-
Returns	1,000	-
Opening stock	30,000	750

Discount	350	800
Bank Charges	75	-
Debtors	45,000	-
Creditors	-	25,000
Salaries	6,800	-
Wages	10,000	-
Carriage in	750	-
Carriage out	1,200	-
Bad debts provision	-	525
Rent, Rates and taxes	10,000	-
Advertisement	2,000	-
Cash in hand	900	-
Cash at bank	6,000	-
	2,54,075	2,54,075

You are asked to prepare the trading and profit and loss accounts for the year ended 31 st December 1999 and the balance sheet as on that date. The following adjustments are required.

- i) Closing stock ₹ 35,000
- ii) Depreciation of plant and machinery at 6%
- iii) Bad debts provision to be adjusted to ₹ 500
- iv) Interest on capital to be allowed at 5% p.a.
- v) ₹ 2000 of the profit is to be carried to reserve fund

(M.S. University Nov.2003; Nov.2011)

(Ans: Gross Profit : 1,11,000, Net Profit : 82,100, General Reserve 2000, B/S Total 1,61,600)

Debit Balance	₹	Credit Balance	₹
Purchases	1,62,505	Sales	2,52,400
Sundry debtors	50,200	Provision for doubtful debts	5,200
Opening stock	26,725	Sundry Creditors	30,526
Wages	23,137	Bills payable	3,950
Salaries	5,575	Outstanding wages	2,000
Furniture	7,250		
Postage	4,226		
Power and fuel	1,350	Accrued but not paid	700
Trade expenses	5,831	Capital account	10,000

Bad debts	525		
Loan at 15% p.a to Subbu 1st Sept 1999	3,000		
Cash in hand & at bank	10,000		
Drawings account	4,452		
	3,04,776		3,04,776

Prepare the trading and profit and Loss a/c for the year ended 31.12.99 and the balance sheet as on that date taking into account the following information.

- Depreciate furniture at 10% p.a
- Sundry debtors an item of ₹ 500 due from a customer who has become insolvent and nothing is recoverable from his estate.
- Provision for doubtful debts is to be maintain at 5% on sundry debtors.
- Goods of the value of ₹ 1,500 have been destroyed by fire and the insurance company has admitted the claim for ₹ 1,000
- Stock at 31st December 1999 was ₹ 12,550.

[And : GP - 52733, NP - 37716 B/s Total - 80440]

[M.S. University, Nov 2002, April 2003]

24. From the following particulars prepare trading and profit and loss account and balance sheet as at 31.12.94.
Sundry Debtors ₹ 52,000; Creditors ₹ 22,000; Cash in hand ₹ 2,392; Furniture ₹ 3,500; Motor car ₹ 22,000; Purchases ₹ 1,45,000; Sales ₹ 2,92,000; Sales returns ₹ 2,600; Salaries ₹ 8,420; Opening Stock ₹ 11,400; Motor Car expenses ₹ 6,108; Rent rates and taxes ₹ 3,600; Insurance premium (paid on 1.10.94) ₹ 2,400; Cash at bank ₹ 6,200; Machinery ₹ 24,000; wages ₹ 23,600; General expenses ₹ 2,680; Carriage inwards ₹ 2040; Carriage outwards ₹ 1,630; Fuel and power ₹ 6,430; Capital ₹ 20,000; Drawings ₹ 8,000.

Adjustments :

- Closing stock was ₹ 35,000
- Goods worth ₹ 2000 were distributed as free samples.
- ₹ 1000 paid for machinery erection was debited to wages.

- Write off further bad debts ₹ 2000 and create a provision for doubtful debts at 5% on sundry Debtors
- Depreciate machinery by 10% and motor car 20%
- Commission of ₹ 3,600 has been earned but not received till the close of accounting year.
- ₹ 10,000 borrowed from Paranjothi on 1.7.94 was repaid. But interest at 10% p.a. still remains unpaid.

(M.S. University Nov.2003)

(Ans : Gross profit 1,38,930; Net Profit 1,05,692; B/S Total 1,40,192)

25. From the under noted Trial balance of Mr. Ramaswamy prepare a Trading and Profit and Loss a/c for the year ended 31.12.2000 and a Balance sheet as on that date

Debit	₹	Credit	₹
Cash in hand	800	Capital	75000
Purchases	100000	Bank loan	10500
Opening stock	20000	Bills payable	9000
Sundry Debtors	40000	Provision for bad and doubtful debts	1200
Furniture	15000	Sundry creditors	22000
Machinery	20000	Provision for discount on debtors	700
Buildings	15000	Sales	166000
Discount allowed	400	Commission	300
Bad debts	700	Discount earned	800
Wages & Salaries	24000		
Trade expenses	10000		
Manufacturing expenses	15000		
Income Tax	8200		
Advertisement	14000		
Provision for discount on creditors	300		
Insurance premium	2100		
	285500		285500

Adjustments

- Closing Stock ₹40,000
- Depreciation for Furnitures 15%; Machinery 10%; Building 5%
- Write off bad debts ₹1000
- Maintain provision for doubtful debts @ 5%
- Create a provision @ 2% each for discount on debtors and creditors

(Ans: Gross profit 47000, Net Profit 14249, B/S Total 1,22,109)
(M.S. University 2007)

26. Write down adjustment journal entries for the following items

- Write off ₹2100 depreciation on Furniture
- Provide ₹1300 for provision for doubtful debts
- Charge ₹1100 interest on capital
- Interest receivable ₹600
- Prepaid insurance premium ₹400
- Investments of book value ₹14000, were sold for ₹15000

Provision for Bad Debts:

27. From the following particulars prepare the provision for bad debts account.

1990 Jan 1	Provision for bad debts	2,500
Dec 31	Bad debts	1,870
	Debtors	20,000

Make a provision for bad debts at 5% on debtors.

(Ans: Provision for Bad Debts a/c Total 2870); (M.S. University Nov. 1999)

28. The following informations appear in the books of a concern.

Provision for doubtful debts 1.1.05	6,500
Bad debts written off during the year	4,000
Sundry debtors on 31.12.05	75,000

Of the sundry debtors ₹2000 was bad and provision for doubtful debt was to be maintained at 5% on sundry debtors.

Show journal, bad debts account, provision for doubtful debts account and the relevant extracts of profit and loss account and balance sheet.

(Ans: Bad debts a/c total 6,000; Provision for bad debts a/c Total 9,650
P&L Account 3,150, B/S 69,350)
(M.S. University 2007)

Theory Questions

Part -A

Short Answers.

- What is Final Accounts?
- What are the objectives of preparing Final Accounts?
- Explain Trading Account?
- What is Profit and Loss Account?
- Explain Balance Sheet.
- What is Bad Debts?

Choose the best answer

- A lease is an example of
 - a current asset
 - a fixed asset
 - a wasting asset
 - liquid asset
 (Ans: a)
- When the balance of Reserve for Bad Debts, account is in excess of the estimated sums, it is transferred to
 - Sundry Debtors Account
 - Reserve for Discount on Debtors Account
 - Profit and Loss Account
 - Sundry Creditors Account
 (Ans: c)
- Insurance paid in advance by a business unit is
 - an asset
 - a liability
 - a loss
 - none of the above
 (Ans: a)
- Prepaid Commission is
 - an asset
 - a liability
 - an expense
 - none of the above
 (Ans: a)
- Excess of sales over cost of goods sold is
 - Net profit
 - Net loss
 - Gross profit
 - Gross loss
 (Ans: c)
- Summary of assets and liabilities
 - Balance sheet
 - Trading account
 - Profit and loss account
 - Income and expenditure a/c
 (Ans: a)

7. Building is

- a) Current asset
- ☒ b) Fixed asset
- c) Intangible asset
- d) Depleting asset

8. Income received in advance by a business unit is

- a) an asset
- ☒ b) a liability
- c) a loss
- d) none of the above

9. Prepaid rent is

- a) an asset
- ☒ c) an expense
- b) a liability
- d) none of the above

10. Purchases are equal to which of the following?

- ☒ a) Cost of goods sold + opening stock - closing stock
- b) Cost of goods sold - opening stock
- c) Cost of goods sold - opening stock - closing stock
- d) None of the above

11. Profit and loss account means

- ☒ a) recording of expenses and incomes, sales expenses, office and maintenance expenses
- b) recording of manufacturing, purchasing and direct expenses
- c) recording of assets and liabilities
- d) recording financial position of the company

12. Final account is prepared by

- ☒ a) Business concern
- b) Non - trading association
- c) Banking company
- d) Government company

13. The object of preparing balance sheet is

- a) To find out the gross profit and gross loss of the company particular period
- ☒ b) To find out the financial position of the company for a particular period
- c) To find out the net profit of the company
- d) To check the arithmetical accuracy of the accounts

14. Which item is appearing in the Balance sheet?

- a) Opening stock
- ☒ b) Closing stock
- c) Purchases
- d) Sales

15. Goodwill is a

- a) tangible assets
- b) liquid asset
- c) floating asset
- ☒ d) intangible asset

16. Assets = ?

- ☒ a) capital - liabilities
- b) capital - Depreciation
- c) liabilities - assets
- d) capital + liabilities

17. Closing entries are necessary

- a) to close the business
- b) to close the journal entries
- ☒ c) to prepare financial accounts
- d) none of the above

18. The manufacturing account is prepared

- a) to ascertain the profit or loss on the goods sold.
- b) to show the sales proceeds from the goods produced
- ☒ c) to ascertain the cost of the goods manufactured
- d) to ascertain the gross profit

19. Carriage inwards paid is debited to

- ☒ a) Trading account
- b) Profit and loss account
- c) Balance sheet
- d) none of the above

20. The ledger balances in personal and real accounts are shown in the

- a) Trading account
- b) Nominal account
- c) Profit and loss account
- ☒ d) Balance sheet

21. While valuing closing stock, only _____ expense is taken

- a) Indirect
- ☒ b) Direct
- c) Cash
- d) None

22. In the trail Balance provision are shown on _____ side

- a) debit
- ☒ b) credit
- c) liability
- d) None

23. Capital = Asset - _____
 a) Assets ☐ b) liabilities ☒
 c) Capital ☐ d) None ☐ (Ans: b)
24. If assets are more than liabilities, then it is
 a) debit ☐ b) credit ☐
☒ c) capital ☐ d) None ☐ (Ans: c)
25. Final accounts means
 a) Trading a/c ☐ b) Profit & Loss a/c ☐
☒ c) Trading, Profit & Loss a/c and Balance - sheet ☐
 d) Balance sheet ☐ (Ans: c)
26. Prepaid expenses are
 a) Wasting Assets ☐ b) Liquid Assets ☒
 c) Fictitious Assets ☐ d) Fixed Assets ☐ (Ans: b)
27. Bank overdraft is a
☒ a) current liability ☐ b) fixed liability ☐
 c) current assets ☐ d) fixed assets ☐ (Ans: a)
28. Import duty is debited to
☒ a) Trading Account ☐ b) Profit & Loss Account ☐
 c) Balance Sheet ☐ d) None of the above ☐ (Ans: a)
29. Free sample using by manufacturers is debited to
 a) Trading account ☐ b) Profit & Loss account ☒
 c) Balance sheet ☐ d) None of the above ☐ (Ans: b)
30. Outstanding wages is
 a) An Asset ☐ b) An Income ☐
 c) An Expenditure ☐ ☒ d) A liability ☐ (Ans: d)
31. When the total credit side is less than the total of debit side of profit and loss a/c, it is
 a) Gross loss ☐ b) Gross profit ☐
☒ c) Net loss ☐ d) None of the above ☐ (Ans: c)

32. In sole tradership, capital of the proprietor is
☒ a) An Asset ☐ b) An Income ☐
☐ c) A Liability ☐ d) None ☐ (Ans: a)
33. Income in advance by a business unit is
 a) An Asset ☐ b) A Liability ☒
 c) A Loss ☐ c) None ☐ (Ans: b)
34. Excess of sales over cost of goods sold is
 a) Net Profit ☐ b) Net loss ☐
☒ c) Gross Profit ☐ d) Gross loss ☐ (Ans: c)
35. Interest on capital is
☒ a) an expenditure for the business ☐
 b) an income for the business ☐
 c) profit for the business ☐
 d) loss for the business ☐ (Ans: a)

Part-B

1. Distinguish between Trial Balance and Balance Sheet.
2. Give the format of trading account.
3. Explain Balance Sheet.