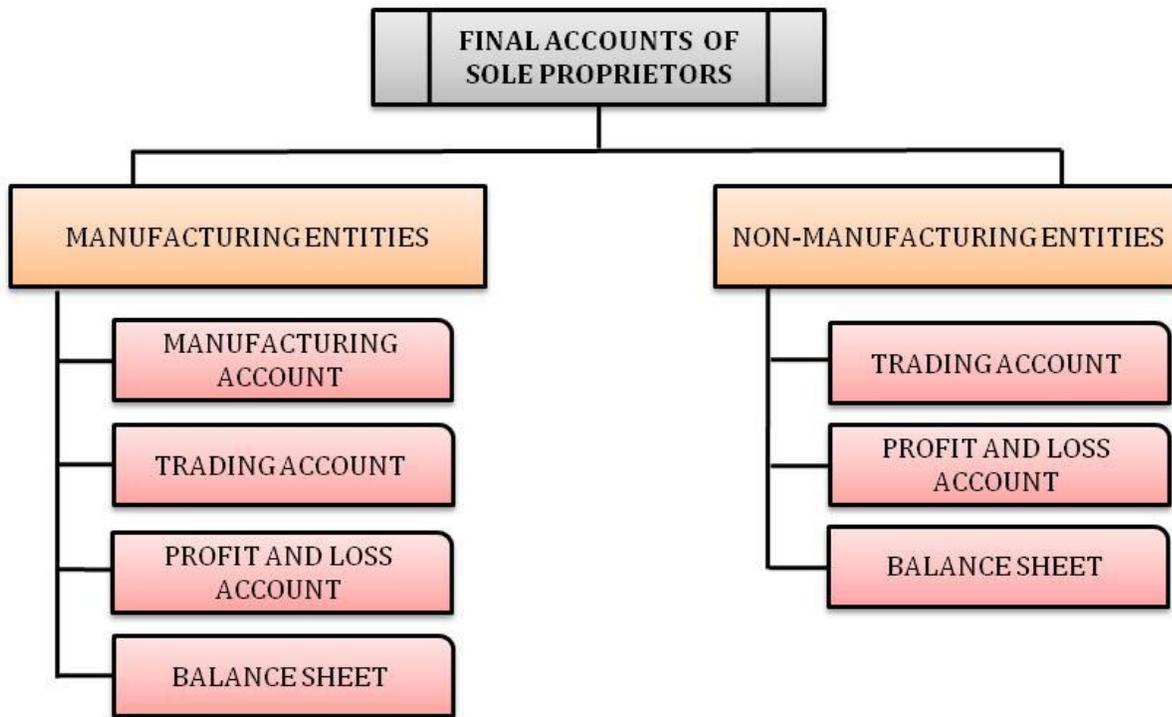


CHAPTER -7

PREPARATION OF FINAL ACCOUNTS OF SOLE PROPRIETORS
UNIT -1: FINAL ACCOUNTS OF NON-MANUFACTURING ENTITIES:



UNIT -1: FINAL ACCOUNTS OF NON-MANUFACTURING ENTITIES

INTRODUCTION:

Non-manufacturing Entities:

Non-manufacturing entities are those business organisations that are engaged in the purchase & re-sale of goods in their original form.

In other words, it can be said that these entities are into 'Trading Business'.

Financial Statements (or Final Accounts):

The financial statements are prepared to ascertain –

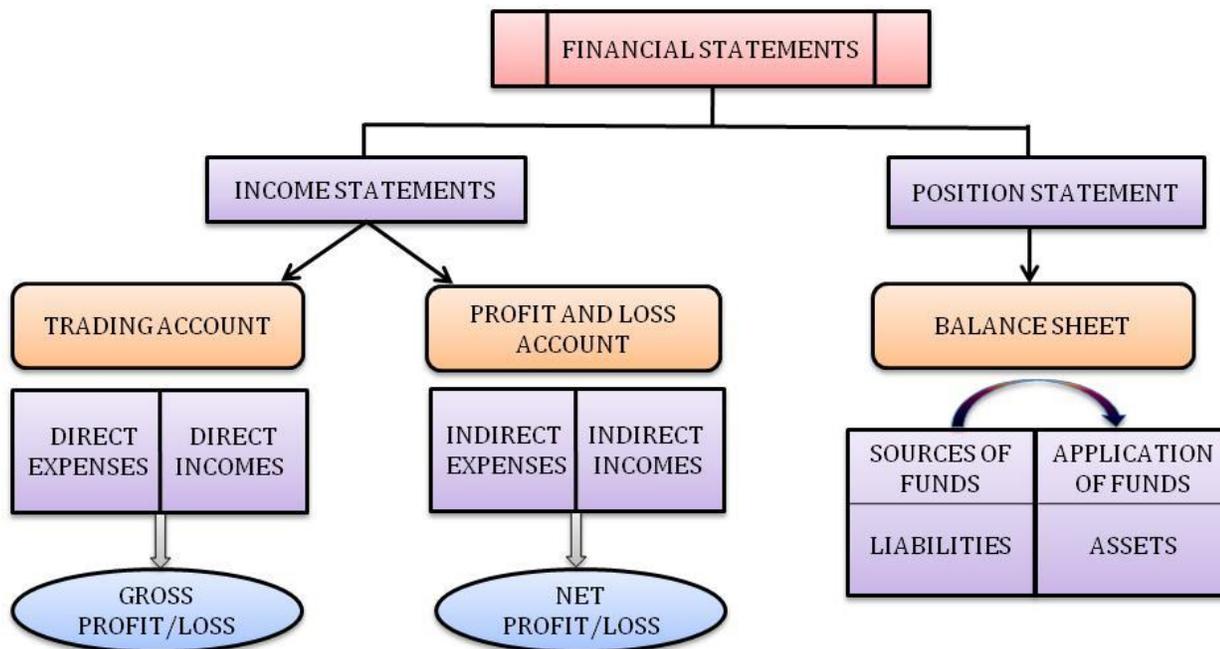
The **financial performance** of the enterprise throughout the year (i.e., profits/losses incurred), **and** the **financial position** of the business at the end of the year (with regards to the assets & liabilities of the business).

Financial Statements are the systematically organized summary of all the Ledger Accounts presented in a manner so as to provide detailed information about the financial position and the performance of the enterprise.

✚ MATCHING PRINCIPLE:

- To facilitate accurate measurement of profits, Matching Principle states that the revenues of the period must correspond with the expenses incurred to generate such revenue, **irrespective of cash received or cash paid against it**. That means in order to calculate correct gross profit sales should be compared with the cost of sales and not the total cost or total purchases therefore as per the matching principle extra cost which is debited in the Trading Account should be reversed by accounting for the closing stock.
- Due to this reason, the entries for **Outstanding Expenses** are passed.
- It can be said that matching concept arises from the concepts of Accrual & Periodicity.
- If an expense has been incurred but against it income will be generated next year, the expense should not be debited to the current year's Profit and Loss Account, but should be carried forward and shown in the Balance Sheet. **(Prepaid Expenses)**
- If payment is received in advance but the revenue is considered to be of next year as the sales are yet to be made, it should be shown in the Balance Sheet on the liabilities side as **"Income Received In Advance"** and should be credited to the Profit and Loss Account of the next year.

✚ PREPARATION OF FINAL ACCOUNTS:



TRADING ACCOUNT:

- It is a **part of the Income Statement** & the first stage in the preparation of Final Accounts in a Trading Concern.
- Trading Account is a **Nominal Account** which records **only the Sales & Direct costs of Goods Sold** in order to ascertain the Gross Profits/Losses.
- The **Gross Profit** is the profit earned out of the Core Business Operations.

- **Trading Account is based on the Matching Principle-** The revenue from the sale of goods/services are matched with the direct costs of goods sold.
- The cost of goods sold is calculated as follows-

Opening Inventory	XXX
Add:- Purchases during the year (Net)	XX
Add:- Direct Expenses	XX
Less :- Closing Inventory	(XX)
Cost of Goods Sold	XXX

- The format of Trading Account is as below:-

Name of the Trader
Trading Account
For the year ended

Dr.		Cr.	
Particulars	Amt.(₹)	Particulars	Amt. (₹)
To Opening Inventory		By Sales	
To Purchases		Less: Return Inwards	
Less: Return Outwards			
To Wages		By Closing Inventory	
Add: Outstanding Wages			
To Carriage Inwards			
To Royalty on Production			
To Factory Expenses			
To Customs Duty & Insurance			
To Gas, Water and Fuel			
To Gross Profit			
(Transferred to Profit & Loss A/c)			

Opening Inventory- In case of a trading concern, opening inventory contains various types of Finished Goods. It is basically the closing inventory (*finished goods unsold at the end of the year*) of the previous year which is recorded as the opening inventory of the current year.

Thus, in the first year of a business, there shall be No opening inventory.

Closing entry is as follows:

Trading A/c	Dr.
To Opening Stock A/c	

Purchases & Return Outwards: Purchase means **cash & credit purchases** of goods for the purpose of resale.

Return Outwards or Purchase Returns has a credit balance depicting return of goods to the suppliers from whom these were originally purchased.

As the purpose of designing financial statements is to provide necessary information to the intended users; thus, for the better understanding -Purchases is shown in the debit side of Trading Account net of purchase returns.



Purchase of Assets which are meant for use in business are not included in Purchases.
(Capital Expenditure)

Closing entry for this purpose is as follows:

Purchases Return A/c Dr. (Net Purchases transferred to Trading account)

To Purchases A/c

Trading a/c Dr.

To Purchase A/c

Carriage Inwards:

Carriage Inwards is the carriage or freight charges incurred to bring in the goods to the godown. **It is a direct expense.**



If any freight or carriage is paid on any asset, like machinery, it should be added to the cost of the asset and not debited to the Trading Account. (Capital Expenditure)

Wages: Only wages paid to the workers to bring the goods into saleable condition are direct. All other wages & salaries are indirect expenses. Thus, wages paid to workers in the godown/stores, should be debited to the Trading Account.

If any amount is outstanding, it must also be accounted for so that full wages for the period concerned are charged to the Trading Account. (**Matching & Periodicity Principle**)



Wages paid for installation of a fixed asset should be added to the cost of the asset.

Sales and Return Inwards: The sales account will have a credit balance indicating the total sales made during the year.

The Return Inwards or sales return account will have a debit balance, showing the total amount of goods returned by customer.

The net of the two amounts is entered on the credit side of the Trading Account.



1. If goods are **sold but not dispatched**, it will **not be included in sales**, but the closing inventory will be increased by the cost of such goods sold.

2. **Sale of Fixed Asset** will not be included in such sales. (**Non-Operating Income**)

To Electricity Charges Maintenance Expenses To Repairs & Renewals To Depreciation Selling & Distribution Expenses To Salaries (Selling Staff) To Advertisement To Godown Rent To Carriage Outward To Bad Debts To Provision for Bad Debts To Selling Commission Financial Expenses To Bank Charges To Interest on Loans To Discount on Bills To, Discount allowed to customers Abnormal Losses To Loss on sale of assets To Loss by fire To Net Profit (Transferred to capital account)			By, Net Loss (Transferred to capital account)
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Depreciation: Depreciation is the systematic allocation of the cost of asset over its useful life. It is an **indirect, non-cash expense**.

Bad Debts: Bad debt is an amount that is irrecoverable from a debtor. It is a **loss** to the business entity. Since it is no use showing the amount due still as an asset, the account of the customer concerned is closed by being credited.

The following entries shall be passed-

1. Bad Debts Account Dr.
To, Debtor's / Customer (by name) Account
2. Profit & Loss Account Dr.

To, Bad Debts A/c

If later on, the amount is recovered, it should be treated as a gain.



If later on, the amount is recovered, it should **NOT** be credited to the party paying it. It should be credited to Bad Debts Recovered Account (P&L- Credit Side)

CERTAIN ADJUSTMENTS AND THEIR TREATMENTS:

- As per the Matching Principle & Periodicity Concept, the following adjustments must be made before Final Accounts are drawn up. Appropriate accounts must be adjusted, both by **providing for expense outstanding** and **including income accrued** and **excluding expenses** the benefit of which extends **beyond the year** of account (i.e., Prepaid Expenses) as well as the **income received in advance**.

Accounting Treatment for Expenses Outstanding -

Expense Account

Dr.

To, Expenses Accrued/outstanding Account

For Example- Rent of ₹ 1,10,000 paid during the year. Rent for the month of March 20XX has not been paid yet.

Journal Entry-

Rent A/c Dr 10,000 --
To, Outstanding Rent A/c -- 10,000

Profit & Loss Account for the year ended(Extract)

Dr.

Cr.

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To rent Account 1,10,000			
Add: Outstanding Rent 10,000	1,12,000		

Balance Sheet (Extract)

Dr.

Cr.

Liabilities	Amt. (₹)	Asset	Amt. (₹)
Outstanding Rent	10,000		

Accounting Treatment for Income Accrued-

Accrued Income Account

Dr.

To, Income Account

This shall be shown in the Profit & Loss Account as an **addition to Income Received** & on the **Asset Side** in the Balance Sheet

Carrying forward income received in advance-

Income Account

Dr.

To, Income Received in Advance Account

This shall be shown in the Profit & Loss Account as a **deduction from Income Received** & on the **Liability Side** in the Balance Sheet

Carrying forward income received in advance-

Income Account

Dr.

To, Income Received in Advance Account

This shall be shown in the Profit & Loss Account as a **deduction from Income Received** & on the **Liability Side** in the Balance Sheet

Accounting Treatment for Prepaid Expenses -

Prepaid Expense Account

Dr.

To, Expense Account

This shall be shown in the Profit & Loss Account as a **deduction from Expense** & on the **Asset Side** in the Balance Sheet

2. Provision for Bad and doubtful Debts-

When it is feared that some of the amount due from customers will not be collected, it is prudent to **recognise the anticipated loss by reducing the current year's profit** and placing the amount to the credit of a special account called "Provision for Bad and Doubtful Debts Account".



The accounts of the respective customers are **NOT** affected until the amount is actually written off as Bad Debt

- a) Bad Debts are first written off against Provision for Bad and Doubtful Debts Account, if any **or** directly by debiting Profit & Loss Account.
- b) If the existing provision falls short of the required percentage of provision (as per the entity's policy), additional provision is created by debiting Profit & Loss Account.

3. Provision for Discount on Debtors-

It is created in the same manner as the Provision for Bad and Doubtful Debts Account.

It must be noted that this provision is calculated **only on Realisable Debtors**- the amount of provision is required to be calculated after deducting the Bad Debts & Provision for Bad Debts from the total trade receivables.

4. Provision for Depreciation: A provision for depreciation account is opened to accumulate the balance of depreciation and the assets are carried at historical cost.

Depreciation Account Dr.
 To, Provision for Depreciation Account

Or

Profit and Loss Account Dr.
 To, Depreciation/ Provision for Depreciation Account

5. **Other Provisions-**

Whenever it is **expected** that a **loss**, the **amount** of which is **not certain** will occur, the proper course is to create a provision for meeting the loss if and when it occurs.

All accounts showing provisions may appear in the Balance Sheet on the **liability side**. However, for better presentation & understanding, it may also be shown as a **deduction from the Assets**.

For Example-1) The provision for Bad and Doubtful Debts and the Provision for Discount on Trade receivables are deducted from the total book debts; and

2) The provision for Depreciation is deducted from the cost of the assets concerned.

6. **Abnormal loss of Inventory by accident or fire-**

Sometimes loss of goods occurs due to fire, theft, etc. If due to accident or fire, a portion of Inventory is damaged, the following steps shall be followed-

Step 1- Ascertain the **amount of loss**

Step 2- **Abnormal Loss Account** is to be debited and **Purchase Account** or **Trading Account** is to be credited.

Step 3- Abnormal Loss Account is to be transferred to Profit & Loss Account.

Step 4- If amount of **loss is insured against risk**, then **Insurance Claim Account** is to be debited instead of Profit & Loss Account.

Till the money is not received from the insurance company, **Insurance Claim** Account will be shown in the **Assets side** of the Balance Sheet.

Step 5- The **uninsured** amount shall be written off in **Profit and Loss Account**.

The following entries shall be passed-

1	Abnormal Loss Account	Dr.	XX	-	<i>(Actual amount of loss)</i>
	To, Trading/ Profit & Loss Account		-	XX	

2	Insurance Claim Account	Dr.	XX	-	<i>(Claim admitted by Insurance Co)</i>
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Profit & Loss Account	Dr.	XX	-	(Claim not admitted)
To, Abnormal Loss Account			-	XX

7. **Goods sent on Approvable as is-**

If goods are sent to customer on sale or return on approval basis & approval of customer has not been received by the year end, the cost of such goods sent shall be **included in the Closing Stock**.

8. **Goods used other than for sale-**

Goods may be used for some other purposes, such as distributed as **free samples, used in construction of any assets**, given away as **donation** or used by **proprietor** for personal use.

The amount of such goods must be **deducted from the Purchase Account** & debited to respective heads.

9. **Commission based on profit-**

Sometimes commission is payable to manager as a fixed percentage of net profit.

Being an **indirect expense** for the company, it shall be debited to Profit & Loss Account.

If the amount is **not paid** by the end of the year, it shall be shown in the **Balance Sheet as a Liability**.

The commission may be paid as a certain percentage of net profit –before or after charging such commission.

Case 1- Commission on net profit before charging such commission-

Commission = Net Profit before Commission x Rate of Commission
--

Case 2- Commission on net profit after charging such commission-

Commission = Net Profit before Commission x [Rate of Commission / 100 + Rate of Commission]

✚ IMPORTANT ASPECTS TO BE CONSIDERED DURING PREPARATION OF FINAL ACCOUNTS:

- A clear **distinction** must be made between-
 - (i) **Capital and Revenue** Expenditures & Receipts
 - (ii) **Personal and Business** Incomes & Expenses



- **Drawings** : Drawing are the personal expenses of the Owner/ withdrawal of Capital invested by the owner/ withdrawal of stock or goods for personal use. These are shown as a **reduction to capital** in the Balance Sheet & not as an Expense in the Profit & Loss Account.

- **Income Tax:** In case of Sole Proprietorship, income tax is treated as a **personal expense**. It is debited to the Capital Account and not to the Profit and Loss Account.
- All **material information** to be **disclosed** in the Notes to Accounts
- Adherence to the **cut-off procedures:** income and expenses relating to a period of account should be separated from those of another period.

✚ COMPARISON BETWEEN INCOME STATEMENT AND POSITION STATEMENT:

Basis	Income Statement	Position Statement
Purpose	Exhibits profit/loss from operations.	Exhibits assets & liabilities of business.
Periodicity	Discloses expenditure incurred & income earned throughout the year.	Discloses the position of assets & liabilities as on date.

BALANCE SHEET:

Balance Sheet is a statement which sets out the assets and liabilities of a firm or an institution **as at a certain date.**

It shows the **financial position** of a business on a particular date.

It provides information regarding **assets owned** by the business & the **debts owed** to the Outsiders & also the **capital of the owner invested** into the business.

Sole proprietors generally present Balance Sheet in a horizontal form with “Capital and Liabilities” on the left hand side and ‘Assets’ on the right-hand side.

$$\boxed{\text{Assets} = \text{Liabilities} + \text{Capital}}$$

Thus, the total of the two-sides of the Balance Sheet must match.

Specimen of Balance Sheet is given below-

Balance sheet as at....

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/c: Balance Add/(less): Net profit/(lo (Less): Drawings		Tangible Fixed Assets: Land & Building Plant and Machinery Furniture & Fixtures Vehicles	

<p>Long Term Loans: Term Loans Other Loans</p> <p>Short Term Loans: Cash Credit Overdrafts Other Loans</p> <p>Current Liabilities: Trade payables Outstanding Expenses Advances Taken</p> <p>Provision: Provision for Bad Debts Provision for Retirement Benefits Provision for Taxation</p>	<p>Intangibles: Goodwill Patent Rights Designs & Brand Names</p> <p>Investments: Long term Investments</p> <p>Current Assets: Inventory in Trade Trade Receivables Short term Investments Prepayments Advances Bank Balances Cash in Hand</p>
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MARSHALLING (ARRANGEMENT) OF ASSETS & LIABILITIES:

The arrangement of Assets & Liabilities in a particular order in the Balance Sheet is called **Marshalling**.

In Order of Liquidity:

Under this approach, the asset, which can be **converted into cash first, are presented first**. The assets which take more time to convert into Cash are written last. Liabilities are also shown according to the urgency with which payment has to be made. Short-term liabilities are written first, followed by long-term liabilities & lastly the Capital.

Cash is the most-Liquid Asset.

The format of Balance Sheet as per this arrangement is given below-

Liabilities	Amount (₹)	Assets	Amount (₹)
Bills Payable		Cash in Hand	
Trade Creditors		Cash at Bank	
Loans		Government Securities	
Outstanding Expenses		Other Investments	
Reserves & Surplus		Bills Receivable	
Capital		Sundry Debtors	
		Stock	
		Furniture & Fixtures	
		Plant and Machinery	
		Land & Building	

In order of Permanence:

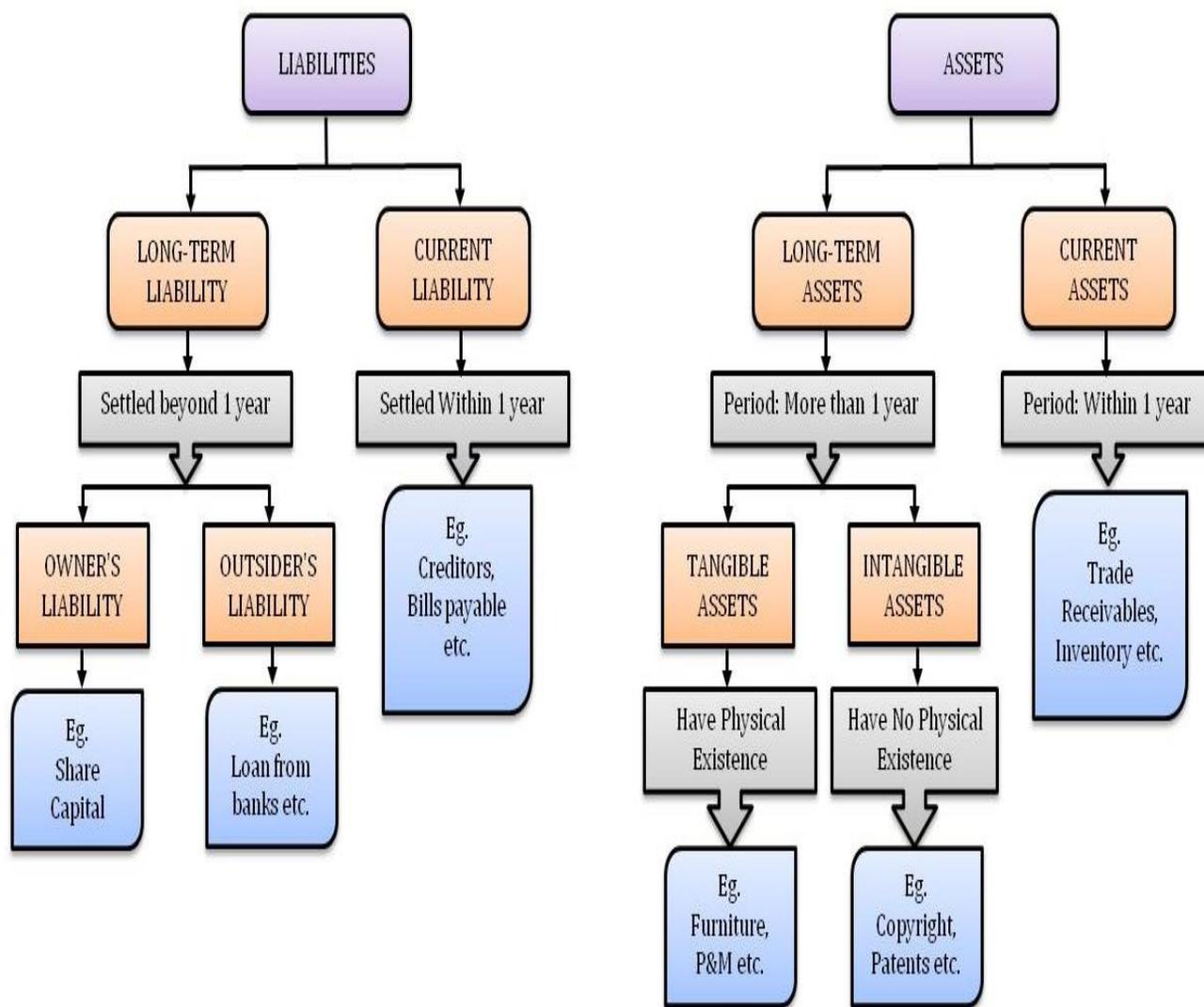
Assets, which are to be used, for long terming the business and are **not meant to be sold are presented first**. Assets, which are most liquid, such as cash in hand, are presented at the bottom.

Capital is shown first, followed by Long-term Liabilities & then Short-term Liabilities.

The format of Balance Sheet as per this arrangement is given below-

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital		Land & Building	
Reserves & Surplus		Plant and Machinery	
Outstanding Expenses		Furniture & Fixtures	
Loans		Stock	
Trade Creditors		Sundry Debtors	
Bills Payable		Bills Receivable	
		Other Investments	
		Government Securities	
		Cash at Bank	
		Cash in Hand	

CLASSIFICATION OF ASSETS & LIABILITIES:



❖ **Current Assets:** - these assets are meant to be converted into cash as quickly as possible. Generally within one year.

❖ **Long Term Assets:** - Those that are meant to be used by the firm over a long period and not sold the former type of assets is also called fixed assets.

OPENING ENTRY:

- A firm closes the books of account at the end of each year and starts new books in the beginning of each year.
- The first entry in the journal is to record **the closing balances of various assets and liabilities at the end of the previous year as the opening balances in the beginning of the new year.**
- The balance sheet prepared at the end of the year records these balances and is the basis for this first entry. **It is called the opening entry.**

- The assets shown in the balance sheet are debited and the liabilities and the capital account credited.

PROVISIONS , RESERVES & RESERVE FUND:

Provision-

When an **anticipated liability or loss** is likely or certain to be incurred, however, the **amount or the date** on which they arise **cannot be ascertained** with reasonable accuracy, a provision is made.

Provision is a **charge against profit** for the purpose of providing any liability or loss.

It does not involve any payment of Cash.

Reserves-

Reserve is an **amount set aside** until it is needed for some particular use.

The reserves are primarily of two types: capital reserves and revenue reserves.

Capital Reserves are generally not distributed as profits. (Eg - profit from sale of fixed assets, etc)

Revenue Reserves are created by retaining profits. They are usually available for distribution as profits in the future.

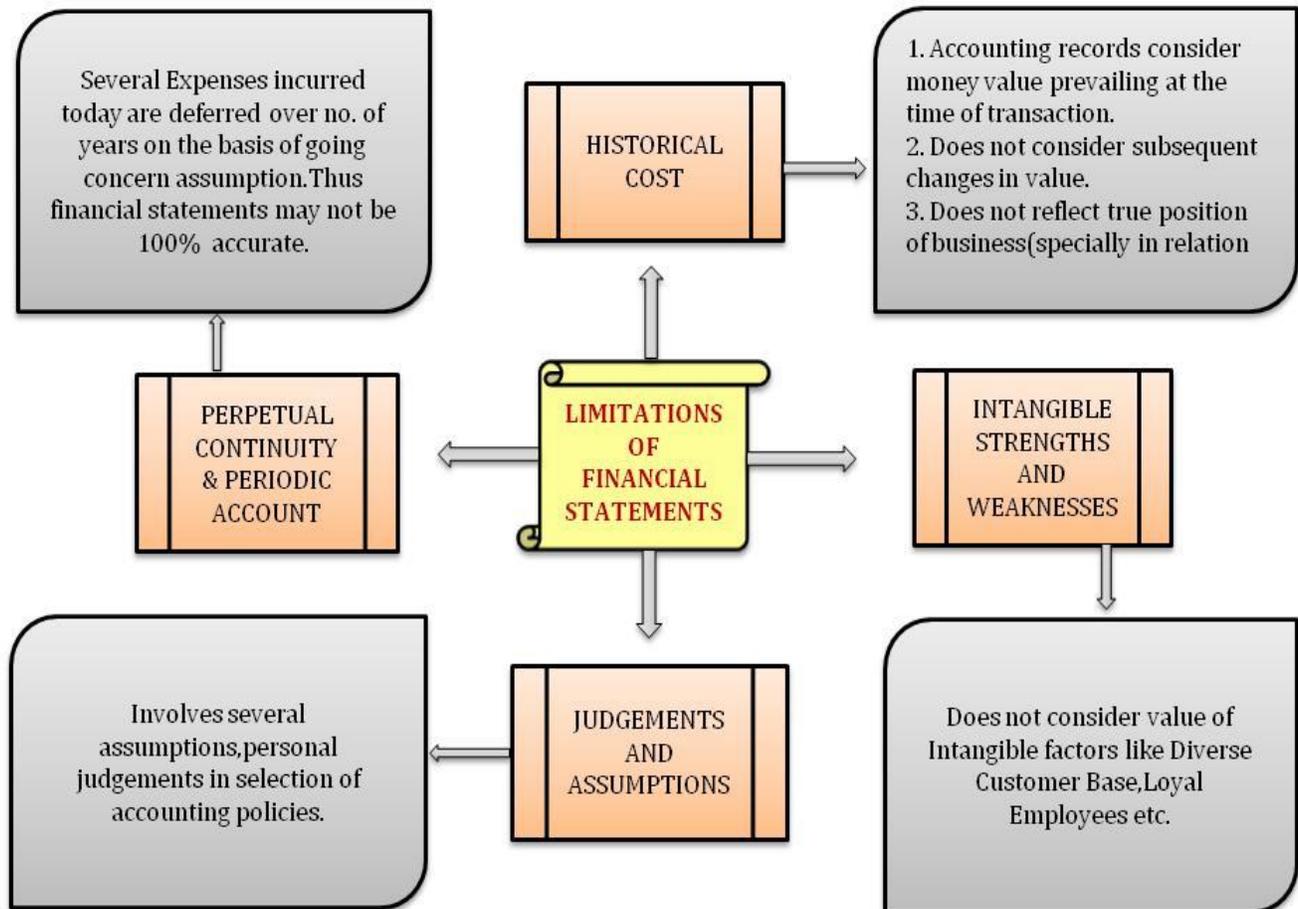
Reserve Fund-

Reserves **represented by earmarking assets** are called Reserve Fund. It signifies the amount standing to the credit of the reserve that is **invested outside the business** in securities which are **readily realisable**.

A reserve fund is usually created either to **replace a fixed asset** at the end of its useful life or to **repay a liability in future**.

	Provisions	Reserves
1	Provision is a charge against profit	Reserve is an appropriation of profit
2	Creation of reserve has nothing to do with the amount of net profit	Creation of reserve depends on the amount of profits earned by the business.
3	Reserves may be earmarked against a particular asset (Reserve Fund)	Provisions are not earmarked against any particular asset
4	Reserves are presented on the Liability Side of the Balance Sheet	Provisions may be presented on the Liability Side/as a reduction from Assets

LIMITATIONS OF FINANCIAL STATEMENTS:



SUMMARY OF ALL ADJUSTMENTS:

Sr No	Adjustment	Trading Account	Profit & Loss Account	Balance Sheet
1	Closing Stock	Credit Side	-	Asset Side
2	Outstanding Expenses	Debit Side <i>(Added to the respective Expenses)</i>		Liability Side
3	Prepaid Expenses	Debit Side <i>(Deduct from the respective Expenses)</i>		Asset Side
4	Income Outstanding	Credit Side <i>(Added to the respective Income)</i>		Asset Side
5	Incomes Received in Advance	Credit Side <i>(Deduct from the respective Income)</i>		Liability Side
6	Bad Debts	-	Debit Side	Asset Side <i>(Deduct from Debtors)</i>

7	Provision for Bad or Doubtful debts	-	Debit Side	Asset Side <i>(Deduct from Debtors after additional bad debts, if any)</i>
8	Provision for Discount on Debtors	-	Debit Side	Asset Side <i>(Deduct from debtors after providing for provision for bad debts)</i>
9	Depreciation	-	Debit Side	Asset Side <i>(Deduct from Respective Asset)</i>
10	Interest on Capital	-	Debit Side	Liability Side <i>(Add to Capital)</i>
11	Interest Drawings		Credit Side	Liability Side <i>(Deduct to Capital)</i>
12	Loss by Fire	Credit Side <i>(with full amount of loss)</i>	Debit Side <i>(Actual loss, if any)</i>	Asset Side <i>(with insurance claim admitted by Insurance Co.)</i>
13	Goods withdrawn for personal use	Credit Side or Deduct from Purchases.	-	Liability Side <i>(Deduct from Capital as Drawings)</i>
14	Goods Distributed as free Samples	Credit Side or Deduct from Purchases.	Debit Side	-
15	Sale of Goods on Approval Basis, approval not yet received	Credit Side. <i>(Deduct from Sales -the selling price of goods sold and add to stock at cost price.)</i>	-	Asset Side. <i>(Deduct from Debtors the selling price of such sales and show the cost price of such sales along with closing stock.)</i>

UNIT -2: FINAL ACCOUNTS OF MANUFACTURING ENTITIES:

✚ MANUFACTURING ACCOUNT-

- Manufacturing account is prepared to **ascertain the cost of goods produced** in an accounting period to **analyse the cost effectiveness** of manufacturing activities.
- Manufacturing costs of finished goods are then transferred from the Manufacturing Account to Trading Account.

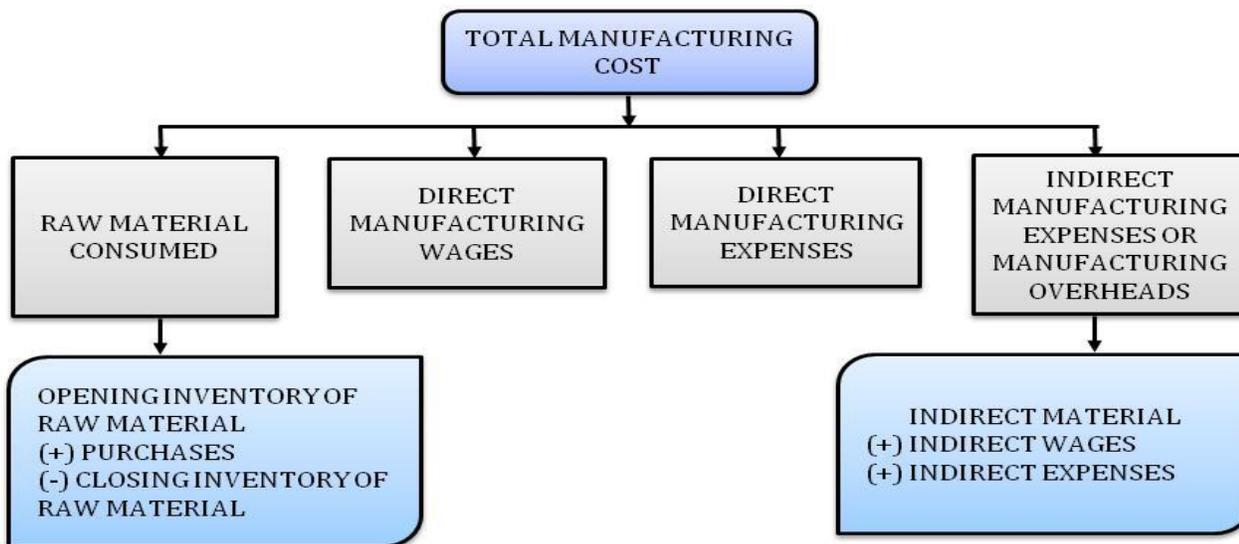
Purpose-

- (1) The total cost of manufacturing the finished products are **set out in detail**, with appropriate classifications, **the constituent elements of such cost**.
- (2) Provides **details of factory cost** and facilitates **reconciliation of financial books with cost records**
- (3) Also serves as a basis of **comparison of manufacturing operations from year to year**

Comparison between Manufacturing Account & Trading Account-

	Manufacturing Account	Trading Account
1	It shows the cost of production	It shows Gross Profit or Gross Loss
2	It deals with Raw Material & Work in Progress	It deals with Finished Goods Only .
3	It always has a Debit Balance	It may have a Debit or Credit Balance
4	Prepared only by Manufacturing Businesses	Prepared by all types of Businesses

✚ MANUFACTURING COSTS-



- ❖ If there remain unfinished goods at the beginning and at the end of the accounting period, cost of such **unfinished goods (also termed as Work-In-Process)** is shown in the Manufacturing Account

Direct Manufacturing Expenses-

Direct manufacturing expenses are **costs**, other than material or wages, which are **incurred for a specific product or saleable service**.

Examples of direct manufacturing expenses are –

- (i) *Royalties for using license or technology if based on units produced,*
- (ii) *Hi recharge of the plant and machinery used on hire, if based on units produced, etc.*

(When royalty or hire charges are based on units produced, these expenses directly vary with production.)

The aggregate of Direct Material + Direct Wages + Direct Expenses is called *Prime Cost*.

Indirect Manufacturing Expenses Or Overhead Expenses-

Indirect material means materials which cannot be linked directly with the units produced, for example, stores consumed for repair and maintenance work, small tools, fuel and lubricating oil, etc.

Indirect wages are those which cannot be directly linked to the units produced, for example, wages for maintenance works, holding pay, etc.

Indirect expenses are those which cannot be directly linked to the units produced, for example, training expenses, depreciation of plant and machinery, depreciation of factory shed, insurance premium for plant and machinery, factory shed, etc.

BY-PRODUCTS-

- In most manufacturing operations, the production of the main product is accompanied by the production of a **subsidiary product** which has a **value on sale**.
- The subsidiary product is termed as a by-product because its **production is not consciously undertaken** but results out of the production of the main product.
- This is a secondary product **produced without incurring any additional expenses** from the same production process in which the main product is produced.
- They are **generally valued at realizable value, if** their costs cannot be separately identified.
- **Accounting Treatment-** The sale value of the by-product must be **credited to Manufacturing Account** so as to reduce to that extent, the cost of manufacture of main product.

The Specimen of a Manufacturing Account is given below-

Manufacturing Account

Particulars	Units	Amt. (₹)	Particulars	Units	Amt. (₹)
To Raw Material Consumed: Opening Inventory			By By-Products at net realizable value		
Add: Purchases			By Closing work in progress		
Less: Closing Inventory					
To Direct Wages			By Trading Account		
To Direct Expenses: Prime Cost			(Cost of Production)		
To Factory Overheads: Royalty					
Hire Charges					
To Indirect Expenses: Repairs & Maintenance					
Depreciation					
Factory Cost					
To opening work in progress					

Important Points to be considered-

- The Manufacturing Account should have an additional column showing the quantities as follows-
Raw Material-at the beginning, at the end of the year and the purchases during the year
Work in Progress - opening and closing **amounts**.
Finished Goods- quantity manufactured
- For determining the value of closing inventory, in the absence of specific instruction to the contrary, it must be assumed that sales have been on “**first in-first out**” basis.

Illustration 1

Show by means of Journal Entries how the following items should be adjusted when preparing the Final Accounts of a firm for the year ended 31st March, 2019.

- Closing stock at market value as on March 31, 2019 was ₹ 1,00,000 (cost ₹ 80,000). Stock is being valued on a consistent basis of cost or market price whichever is lower.
- No entry had been passed in the books for stock withdrawn from the business by the proprietor ₹ 10,000.

- (iii) Legal charges include ₹ 20,000 for cost of stamp and registration of new building acquired during the year.
- (iv) Patents and trademarks were acquired at a cost of ₹ 28,000 in 2018 and every year 1/14th is being written-off.
- (v) Proprietor had withdrawn for personal use goods for which the cost was ₹ 3,500 but the market value on the date of withdrawal was ₹ 4,500. Sales were credited by ₹ 3,000.
- (vi) Purchase include purchase of furniture for office use worth ₹ 10,000.
- (vii) An amount of ₹ 25,000 received in respect of new capital introduced by the proprietor was wrongly credited to Sundry Debtors Account.
- (viii) An amount of ₹ 5,000 received from a debtor was wrongly credited to Sales Account.
- (ix) Goods costing ₹ 8,000 were despatched out on 29th March. The sale, however, took place on 2nd April, 2019, when an invoice of ₹ 9,000 was raised against the customer.

Solution

Dr.		In the books of		Cr.	
Journal		Journal		Journal	
Date	Particulars	L.F.	₹	₹	₹
2019 March 31	Closing Stock A/c (Note 1) Dr.		80,000		
(i)	To Trading A/c (Being the adjustment for Closing Stock)			80,000	
(ii)	Drawing A/c Dr. To Purchases A/c (Being the adjustment for goods withdrawn by the proprietor)		10,000		10,000
(iii)	Building A/c Dr. To Legal Changes A/c (Being cost of stamps & registration charges wrongly debited to Legal Charges Account, now adjusted)		20,000		20,000
(iv)	Depreciation on Patent & Trademarks A/c Dr. To Patent & Trademarks A/c (Being the amount of depreciation written-off)		2,000		2,000
(v)	Drawing A/c (Note 2) Dr. To Sales A/c (₹ 3,500 - ₹ 3,000) (Being the adjustment for goods withdrawn by the proprietor)		500		500
(vi)	Furniture A/c Dr. To Purchases A/c (Being the purchase of furniture for office use wrongly debited to Purchases Account, now rectified)		10,000		10,000
(vii)	Sundry Debtors A/c Dr. To Capital A/c (Being capital introduced by proprietor wrongly credited to Sundry Debtors Account, now rectified)		25,000		25,000
(viii)	Sales A/c Dr. To Sundry Debtors A/c (Being cash paid by debtor wrongly credited to Sales Account, now rectified)		5,000		5,000
(ix)	Goods-in-Transit A/c Dr. To Trading A/c (Being the adjustment for goods in transit)		8,000		8,000

Working Notes:

- (1) Closing stock is to be valued at cost or market price whichever is lower. In this case, cost price is ₹ 80,000 which is lower than the market price ₹ 1,00,000. Therefore, only ₹ 80,000 is to be adjusted.
- (2) Cost of goods withdrawn by the proprietor will be treated as drawings. The market value of goods ₹ 4,500 is immaterial. Sales Account has already been credited by ₹ 3,000. Therefore, the balance (₹ 3,500 – ₹ 3,000) ₹ 500 is to be adjusted by debiting Drawings Account and crediting Sales/Purchases Account.

Illustration 2

Prepare a Trading Account and a Profit and Loss Account for the year ended 31st December 2019 and a Balance Sheet as on that date from the following Trial Balance and the adjustment items:

Particulars	Dr.(₹)	Cr. (₹)	Particulars	Dr. (₹)	Cr. (₹)
Opening stock	46,000		Office electricity expenses	9,400	
Purchases and Sales	4,42,000	8,20,000	Telephone charges	4,400	
Sales returns and Purchases returns	8,000	12,000	Cash at Bank	18,000	
Discount received		2,200	Printing and Stationery	11,200	
Wages	43,500		Postage stamps	1,090	
Salaries	66,000		Furniture	2,00,000	
Carriage inwards	39,100		Petty cash	210	
Advertising expenses	10,200		Prepaid printing	1,200	
Bills receivable and payable	9,000	10,000	Insurance premium	3,000	
12% Bank loan (taken on 1 st November 2019)		1,50,000	Carriage outwards	12,000	
Office equipment	1,99,700		Bad debts	800	
Land and building	3,36,000		Interest on Bank loan paid	1,500	
Provision for doubtful debts		3,200	Capital Account		4,76,900
Sundry Debtors and Sundry Creditors	45,000	40,000	Reserve for Discount on creditors	1,700	
Rates and taxes	5,300		TOTAL	15,14,300	15,14,300

Adjustment items :

- (a) Closing stock was valued at 38,000 on 31st December 2019.
- (b) Goods worth 2,500 were distributed by salesmen as free samples, but no entry has been made for this.
- (c) Depreciate furniture by 7.5% p.a. and office equipment by 10% p.a.
- (d) Reserve for discount on creditors to be maintained at 2%.
- (e) Provision for doubtful debts to be maintained at 2%.

- (f) Create a provision for discount on debtors at 2%
 (g) Commission of ₹ 1,300 was earned but not yet received.
 (h) Rates and taxes of ₹800 was paid in advance for 2020.
 (i) Creditors include a debt of ₹ 4,000 to Mr Nayak who is also included in the list of debtors for ₹ 5,000 and, therefore, to be set off before calculating the reserves.

Solution**Trading and Profit & Loss Account for the year ended 31st December, 2019**

Dr.	₹	₹	Cr.	₹	₹
To Opening Stock		46,000	By Sales	8,20,000	
To Purchases	4,42,000		Less: Sales Returns	8,000	8,12,000
Less : Purchases Returns	12,000	4,30,000	By Advertisement expenses		2,500
To Wages		43,500	By Closing stock		38,000
To Carriage inward		39,100			
To Gross Profit c/d		2,93,900			
		8,52,500			8,52,500
To Salaries		66,000	By Gross Profit b/d		2,93,900
To Advertisement expenses	10,200		By Reserve for discount on creditors (Note 1)		1,220
Add Goods distributed as free sample	2,500	12,700	By Accrued commission		1,300
To Bank interest	1,500		By Provision for Doubtful debts:		
Add: Outstanding	1,500	3,00	Old	3,200	
To Rates & Taxes	5,300		Less : New 5% on ₹ 41,000	2,050	1,150
Less: Paid in advance	800	4,500			
To Office electricity		9,400			
To Telephone charges		4,400			
To Printing & stationery		11,200			
To Postage & stamps		1,090			
To Insurance premium		3,000			
To Carriage outwards		12,000			
To Bad debts		800			
To Depreciation :					
On Furniture	15,000				
On Office equipment	19,970	34,970			
To Prov. For disc. On Debtors @ 2% on ₹ 38,950		779			
To Net Profit (transferred to capital)		1,33,731			
		2,97,570			2,97,570

Balance Sheet as at 31st December, 2019

Liabilities	₹	₹	Assets	₹	₹
Capital (1.1.2019)	4,76,900		Land & Building		3,36,000
Add: Net Profit	1,33,731	6,10,631	Office Equipment	1,99,700	
12% Bank Loan	1,50,000		Less: Depreciation	19,970	1,79,739
Add: Outstanding Interest	1,500	1,51,500	Furniture	2,00,000	
Sundry Creditors	40,000		Less: Depreciation	15,000	1,85,000
Less: Debtors Set-off	4,000		Closing Stock		38,000
	36,000		Sundry Debtors	45,000	
Less: Reserve for Discount on Creditors	720	35,280	Less: Creditors set-off	4,000	
Bills Payable		10,000		41,000	
			Less: Provision for doubtful debts	2,050	
				38,950	
			Less: Provision for discount on Debtors	779	38,171
			Bill Receivable		9,000
			Cash at Bank		18,000
			Petty Cash		210
			Rates Paid in Advance		800
			Accrued Commission		1,300
			Prepaid Printing		1,200
		8,07,411			8,07,411

Working Notes: (1) When Reserve for Discount on Creditors Account is maintained, any discount received is credited to this account.

For creating a new reserve, the balance of Reserve for Discount on Creditors is also taken into consideration. Thus,

Dr. Reserve for Discount on Creditors Account Cr.

Particulars	₹	Particulars	₹
To Balance b/d	1,700	By Discount Received A/c	2,200
To Profit and Loss A/c (Balancing figure)	1,220	By Balance c/d ₹ (2% of 36,000)	720
	2,920		2,920

(2) Provision for Doubtful Debts and Discount	₹
Debtors as per Trial balance	45,000
Less: Set-off with creditors	4,000
	41,000
Less: Provision for bad debts (new)5%	2,050
	38,950
Less: Provision for Discount @2%	779
	38,171

Illustration 3

The following is the Trial Balance of Mr Bharat on 31st December, 2019:

Particulars	Dr. ₹	Cr. ₹	Particulars	Dr. ₹	Cr. ₹
Capital		4,000	Bills payable		560
Sundry creditors		5,200	Bills Receivable	720	
Plant & Machinery	5,000		Returns inwards	930	
Office furniture and fittings	260		Provision for doubtful debts		250
Stock as on 1 st January, 1997	4,800		Drawings	700	
Motor van	1,200		Returns Outwards		550
Sundry debtors	4,570		Rent	600	
Cash in hand	40		Factory lighting and heating	80	
Cash at bank	650		Insurance	630	
Wages	15,000		General expenses	100	
Salaries	1,400		Bad debts	250	
Purchases	21,350		Discount	650	370
Sales		48,000	TOTAL	58,930	58,930

The following adjustments are to be made :

- Stock on 31st December, 2019 ₹ 5,200.
- 3 months factory lighting and heating is due, but not paid ₹ 30;
- 5% depreciation to be written-off on furniture;
- Write-off further bad debts ₹ 70;
- The provision for doubtful debts to be increased to ₹ 300 and provision for discount on debtors @2% to be made;
- During the year machinery was purchased for ₹ 2,000, but it was debited to Purchases Account.

You are required to make the necessary Journal entries and prepare Trading and Profit and Loss Account and the Balance Sheet.

Solution**In the books of Bharat**

Dr.		Journal		Cr.	
Date	Particulars		₹		₹
2019	Adjustment Entries				
Dec.	Factory Lighting and Heating A/c	Dr.	30		
31	To Outstanding Factory Lighting and Heating A/c				30
	(Being adjustment for outstanding factory lighting and heating)				
	Depreciation A/c	Dr.	13		
	To Office Furniture & Fittings A/c				13
	(Being amount written-off as depreciation on furniture @ 5% on ₹ 260)				
	Bad Debts A/c	Dr.	70		
	To Sundry Debtors A/c				70
	(Being bad debts written-off)				
	Plant & Machinery A/c	Dr.	2,000		
	To Purchases A/c				2,000

	(Being purchase of machinery wrongly debited to Purchases Account, now rectified)		
	Profit & Loss A/c Dr. 134 To Provision for Bad & Doubtful Debts A/c (₹ 300 - ₹ 250) 50 To Provision for Discount on Debtors A/c 84 (Being the creation of necessary provision for bad and doubtful debts and discount on Debtors)		
	Closing Entries Trading A/c Dr. 38,710 To Opening Stock A/c 4,800 To Purchases A/c 18,800 To Wages A/c 15,000 To Factory Lighting and Heating A/c 110 (Being various accounts transferred to the Trading Account)		
	Sales A/c Dr. 47,070 To Trading A/c 47,070 (Being Sales Account transferred to the Trading Account)		
	Closing Stock A/c Dr. 5,200 To Trading A/c 5,200 (Being closing stock transferred to the credit of the Trading Account)		
	Trading A/c Dr. 13,560 To Profit & Loss A/c 13,560 (Being gross profit transferred to Profit & Loss Account)		
	Profit & Loss A/c Dr. 3,713 To Salaries A/c 1,400 To Rent A/c 600 To Insurance A/c 630 To General Expenses A/c 100 To Discount A/c 650 To Bad Debts A/c 320 To Depreciation on Furniture & Fittings A/c 13 (Being various expenses transferred to the debit of the Profit & Loss Account)		
	Discount A/c Dr. 370 To Profit & Loss A/c 370 (Being discount received transferred to the credit of the Profit & Loss Account)		
	Profit & Loss A/c Dr. 10,083 To Capital A/c 10,083 (Being net profit transferred to Capital Account)		

Bharat

Dr. Trading and Profit & Loss Account for the year ended 31st December, 2019 Cr.

Particulars	₹	₹	Particulars	₹	₹
To Opening stock		4,800	By Sales	48,000	
To Purchases	21,350		Less: Returns inwards	930	47,070
Less: Returns outwards	550		By Closing stock		5,200
	20,800				
Less: Machinery purchase	2,000	18,800			
To Wages		15,000			
To Factory lighting & heating	80				
Add: Outstanding	30	110			
To Gross Profit c/d		13,560			
		52,270			52,270
To Salaries		1,400	By Gross Profit b/d		13,560
To Rent		600	By Discount		370
To Insurance		630			
To General expenses		100			
To Discount		650			
To Bad debts	250				
Add: Further bad debts	70	320			
To Provision for doubtful debts					
New	300				
Less: Old	250	50			
To Prov. For disc. On debtors @2% on ₹ 4,200		84			
To Depreciation on furniture @5% on ₹ 260		13			
To Net Profit (transferred to Capital Account)		10,083			
		13,930			13,930

Balance Sheet of Bharat as at 31st December, 2019

Liabilities	₹	₹	Assets	₹	₹
Capital Opening balance	4,000		Plant & Machinery	5,000	
Add: Net Profit	10,083		Addition	2,000	7,000
	14,083		Motor van		1,200
Less: Drawings	700	13,383	Office furniture	260	
Bills payable		560	Less: Depreciation @5%	13	247
Sundry creditors		5,200	Sundry debtors	4,570	
Outstanding factory lighting & heating		30	Less: Further bad debts	70	
				4,500	
			Less: Provision for bad debts	300	
				4,200	

To Salaries	30,000	3,71,000	By Gross Profit b/d	3,71,000
Add: Outstanding	3,000		By Interest	1,62,000
	33,000			4,000
Less: Prepaid	2,000	31,000		
To Rent		15,000		
To Printing and Stationery		8,000		
To Insurance	12,000			
Less: Prepaid	2,000	10,000		
To Office expenses	12,000			
Add: Outstanding	8,000	20,000		
To Bad debts		7,000		
To Provision for Bad debts:				
New	10,000			
Less: Old	6,000	4,000		
To Provision for depreciation (10% of Rs 20,000)		2,000		
To Net Profit (transferred to capital)		69,000		
		1,66,000		1,66,000

Balance Sheet of Hari as at 31st March, 2019

Liabilities	₹	₹	Assets	₹	₹
Capital:			Furniture (at cost)	20,000	
Opening balance	1,00,000		Less: Provision for Depreciation	4,000	16,000
Less: Net Profit during the year	69,000		(₹ 2,000 + ₹ 2,000)		
	1,69,000		Stock-in-trade		60,000
Less: Drawings:(24,000+6,000)	30,000	1,39,000	Debtors	2,00,000	
Creditors		1,20,000	Less: Provision for Bad debts	10,000	1,90,000
Outstanding Liabilities :			Prepaid expenses:		
Salaries	3,000		Salaries	2,000	
Office Expenses	8,000	11,000	Insurance	2,000	4,000
		2,70,000			2,70,000

Illustration 5.

The following is the schedule of balances as on 31.3.19 extracted from the books of Shri Gavaskar, who carries on business under the same name and style of M/s Gavaskar Viswanath & Co., at Mumbai:

Particulars	Dr. ₹	Cr. ₹	Particulars	Dr. ₹	Cr. ₹
Cash in hand	1,400		Interest on loan from Viswanath	2,700	
Cash at bank	2,600		Rates & taxes	2,100	
Sundry Debtors	86,000		Discount allowed to Debtors	2,400	
Stock on 1.4.2018	62,000		Discount received from creditors		1,600
Furniture & fixtures	21,400		Freight on purchases	1,200	
Office equipment	16,000		Carriage outwards	2,000	
Buildings	60,000		Drawings	12,000	
Motor car	20,000		Printing and Stationery	1,800	
Sundry creditors		43,000	Electricity charges	2,200	

Loan from Viswanth		30,000	Insurance premium	5,500	
Provision for bad debts		3,000	General office expenses	3,000	
Purchases	1,40,000		Bad debts	2,000	
Purchase Returns		2,600	Bank charges	1,600	
Sales		2,30,000	Motor car expenses	3,600	
Sales Returns	4,200		Capital A/c		1,62,000
Salaries	11,000				
Rent for godown	5,500		TOTAL	4,72,200	4,72,200

Prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and the Balance Sheet as at that date after making provision for the following:

- Depreciate: (a) Building used for business by 5 percent: (b) Furniture and fixtures by 10 percent: One Steel table purchased during the year for ₹ 1,400 was sold for same price but the sale proceeds were wrongly credited to Sales Account : (c) Office equipment by 15 percent; Purchase of a typewriter during the year for ₹ 4,000 has been wrongly debited to purchase ; and (d) Motor car by 20 percent.
- Value of stock at the close of the year was ₹ 44,000.
- One month's rent for godown is outstanding.
- One month's salary is outstanding.
- Interest on loan from Viswanath is payable at 12 percent per annum, this loan was taken on 1.5.2018.
- Provision for bad debts is to be maintained at 5 per cent of Sundry Debtors.
- Insurance premium includes ₹ 4,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 1.4.2018 to 30.6.2019.
- Half of the buildings are used for residential purposes of Shri Gavaskar.

Solution

M/s Gavaskar Viswanath & Co.

Dr.		Trading and Profit & Loss Account for the year ended 31 st March , 2019		Cr.	
Particulars	₹	₹	Particulars	₹	₹
To Opening stock		62,000	By Sales	2,30,000	
To Purchases	1,40,000		Less: Sale of furniture included in sale	1,400	
Less: Typewriter included in purchases	4,000			2,28,600	
	1,36,000		Less: Sales Returns	4,200	2,24,400
Less: Purchase Returns	2,600	1,33,400	By Closing stock		44,000
To Freight on purchase		1,200			
To Gross Profit c/d		71,800			
		2,68,400			2,68,400
To Salaries	11,000		By Gross Profit b/d		71,800
Add: Outstanding	1,000	12,000	By Discount received		1,600
To Rent for Godown	5,500				
Add: Outstanding	500	6,000			
To Provision for Doubtful debts New	4,300				

Less: Old	3,000	1,300		
To Rent and taxes		2,100		
To Discount allowed		2,400		
To Carriage outwards		2,000		
To Printing and stationery		1,800		
To Electricity charges		2,200		
To insurance premium (Note 1)		1,200		
To Depreciation (Note 2)		10,500		
To General office expenses		3,000		
To Bad debts		2,000		
To Bank charges		1,600		
To Interest on loan	2,700			
Add: Outstanding (Note 3)	600	3,300		
To Motor car		3,600		
To Net Profit (transferred to capital)		18,400		
		73,400		73,400

Balance Sheet of M/s Gavaskar Viswanath & Co. as at 31st March, 2019

Liabilities	₹	₹	Assets	₹	₹
Capital Account	1,62,000		Fixed Assets		
Add: Net Profit	18,400		Building	60,000	
	1,80,400		Less: Depreciation	3,000	57,000
Less: Drawings	12,000		Motor Car	20,000	
	1,68,400		Less: Depreciation	4,000	16,000
Less: Insurance premium	4,000		Office equipment (₹ 16,000 + ₹ 4,000)	20,000	
Less: ½ of Depreciation of Buildings	1,500	1,62,900	Less: Depreciation	3,000	17,000
Loan from Viswanath	30,000		Furniture & fixtures (₹21,400 - ₹1,400)	20,000	
Add: Outstanding	600	30,600	Less: Depreciation	2,000	18,000
Sundry Creditors		43,000	Current Assets		
Outstanding expenses :			Stock in trade		44,000
Salaries	1,000		Sundry Debtors	86,000	
Rent	500	1,500	Less: Provision for doubtful debts	4,300	81,700
			Cash at bank		2,600
			Cash in hand		1,400
			Prepaid insurance (Note 1)		300
		2,38,000			2,38,000

Working Notes:

(1) Insurance Premium	₹	(2) Calculation of Depreciation	₹	₹
Insurance premium as per Trial Balance	5,500	On Building @5% on ₹ 60,000	3,000	
Less: Proprietor's life insurance policy premium	4,000	Less: ½ for private use	1,500	1,500
Premium for 15 months	1,500	On Motor car @20% on ₹ 20,000		4,000

Less: Prepaid for 3 months	300	On Furniture & fittings @10% (` 21,400 - ₹1,400)		2,000
Charged to Profit and Loss A/c	1,200	On Office equipment as per Trial Balance Addition (typewriter)	16,000 4,000	3,000
			20,000	10,500

- (3) Calculation of Interest on Loan : $(₹ 30,000 \times 12 \times 11) / 100 \times 12 = 3,300$;
Outstanding ₹ 3,300 - ₹ 2,700 = ₹ 600.

Illustration 6

Following is the Trial Balance of Sri Rahul as at 31.12.2019. You are required to prepare Trading and Profit and Loss Account for the year ended 31.12.2019 and a Balance Sheet as on that date after making necessary adjustments:

Debit Balances	₹	Credit Balances	₹
Purchases	60,000	Sales	1,00,000
Sales Ledger Balances	30,400	Purchases Ledger Balances	24,400
Returns Inward	2,000	Discount Received	600
Discount Allowed	2,000	Returns Outward	2,400
Building	44,000	Capital	53,200
Depreciation on Building	2,000	Suspense Account	2,000
Income Tax	2,000	Goods Sent on Consignment	5,000
Wages	4,000	Profit on Consignment	1,000
Salaries	6,000	Apprenticeship Premium (for the year ending 31.3.2020)	2,400
Consignment Stock(31.2.2019)	1,200	Provision for Bad Debts	2,000
Stock-in-Trade(1.1.2019)	20,000	Commission	1,600
Trade Expenses	4,000		
Insurance	400		
Cash at Bank	12,600		
Deposit with Asha	4,000		
	1,94,600		1,94,600

Adjustments :

- Stock-in-trade on 31.12.2019 was valued at ₹ 20,000.
- Stock valued at ₹ 4,000 was destroyed by fire on 25.12.2019 for which insurance company admitted a claim of ₹ 2,400 only.
- Deposit with Asha was realized together with interest @ 10% p.a. for 6 months and deposited the same into Fixed Deposit Account with Bank of India on 1.10.2019 bearing interest @ 16% p.a., but no entry had since been made.
- Out of purchases, goods of ₹ 4,000 was distributed as free samples.
- Suspense Account represents a cheque received from Bapi, a customer, in settlement of ₹ 2,400 due from him. The cheque was duly deposited and credited by the Bank.
- Maintain provision for bad debts @5% on Debtors and provision for discount @ 2% on both Debtors and Creditors.

Solution

Sri Rahul

Dr. Trading and Profit & Loss Account for the year ended 31st December, 2019 Cr.

Particulars	₹	₹	Particulars	₹	₹
To Stock-in-trade		20,000	By Sales	1,00,000	
To Purchases	60,000		Less: Returns Inward	2,000	98,000
Less: Goods distributed as free sample	4,000		By Stock Lost by Fire		4,000
	56,000		By Closing Stock		20,000
Less: Goods Sent on Consignment	5,000				
	51,000				
Less: Returns Outward	2,400	48,600			
To Wages		4,000			
To Gross Profit c/d		49,400			
		1,22,000			1,22,000
To Salaries		6,000	By Gross Profit b/d		49,400
To Trade Expenses		4,000	By Profit on Consignment		1,000
To Insurance		400	By Discount Received		600
To Discount Allowed	2,000		By Apprenticeship Premium	2,400	
Add: Discount Allowed to Bapi (Note 2)	400	2,400	Less: Received in Advance	600	1,800
To Depreciation on Building		2,000	By Commission		1,600
To Prov. For Discount on Debtors (Note 4)		532	By Interest on Deposit with Asha		200
To Stock Lost by Fire (4,000 - ₹ 2,400)		1,600	By Accrued Interest on Deposit with SBI		168
To Advertisement		4,000	By Provision for Bad Debts:		
(Goods distributed as free sample)			Old	2,000	
To Net Profit (transferred to Capital)		34,924	Less: New (Note 3)	1,400	600
			By Reserve for Disc. On Creditors (Note 5)		488
		55,856			55,856

Balance Sheet of Sri Rahul as at 31st December, 2019

Liabilities	₹	₹	Assets	₹	₹
Capital:			Building		44,000
Opening balance	53,200		Stock-in-trade		20,000
Add: Net Profit	34,924		Consignment Stock		1,200
	88,124		Sales Ledger Balances (30,400-2,400)	28,000	
Less: Income Tax (Drawings)	2,000	86,124	Less: Provision for Bad Debts (Note 3)	1,400	
Purchase Ledger Balances (Note 6)	24,400			26,600	
Less: Reserve for Discount on Creditors	488	23,912	Less: Provision for Discount on Debtors	532	26,068
Apprenticeship Premium recd. In advance		600	Deposit with Bank of India		4,200
			Accrued Interest on Deposit with BOI		168
			Insurance Claim		2,400
			Cash and Bank		12,600
		<u>1,10,636</u>			<u>1,10,636</u>

Working Notes:

- (1) Deposit with Asha was realized along with in interest @10% p.a. on 30.6.2019 and ₹ 4,200 was received. It was deposited with Bank of India at a interest of 16% p.a. on 1.10.1993 Therefore, accrued interest on this deposit will be ₹ 168 ($3/12 \times 16/100 \times ₹ 4,200$)
- (2) For adjustment of Suspense Account, the following entry is to be passed:
- | | | |
|---------------------------|-----|--------|
| Suspense Account | Dr. | ₹2,000 |
| Discount Allowed Account | Dr. | ₹400 |
| To Sundry Debtors Account | | ₹2,400 |
- (3) Calculation of Provision for Bad Debts
- | | |
|---|---------------|
| Sales Ledger Balance (i.e. Sundry Debtors) | ₹30,400 |
| Less: Adjustment of cheque received from Bapi | (2,000) |
| Less: Discount allowed to Bapi | (400) |
| Final balance of Debtors | <u>28,000</u> |
- Provision for bad debts to be maintained @5% on Debtors, i.e. 5% of ₹ 28,000 = ₹ 1,400.
- (4) Provision for discount on debtors will be @2% on ₹ (28,000 - 1,400) = 532.
- (5) Reserve for discount on creditors will be @ 2% on ₹ 24,400 = ₹ 488.
- (6) Purchases Ledger balances means Sundry Creditors. Similarly, Sales Ledger balances means Sundry Debtors.

Illustration 7

From the following Trial Balance of Sri Sengupta and the additional information, prepare a Trading and Profit and Loss Account for the year ending on 31.12.2019 and a Balance Sheet as at that date:

Debit Balances	₹	Credit Balances	₹
Materials Consumed	1,75,000	Capital	75,000
Stock on 31.12.2019	37,500	Sales	3,00,000
Debtors	30,000	Creditors	25,000
Wages – Productive	45,000	Commission Received	1,500
Wages – Others	7,500	Special Rebate Received	2,000
Salaries	7,500	Suspense Account – Sri Roy	27,500
Electric Charges	2,500		
Freight and Insurance on Purchases	1,500		
Delivery Charges	1,000		
Depreciation	5,000		
Commission Paid	1,000		
Special Rebate Allowed	1,000		
Plant and Machinery	32,500		
Furniture	6,500		
Land and Building	47,500		
Suspense Account – Smt. Banerjee	10,000		
Drawings	7,500		
Cash	2,000		
Bank	10,500		
	4,31,000		4,31,000

Additional information :

- Salary includes the proprietor's salary of ₹3,000 for the year.
- Suspense Account of Sri Roy represents a cheque received from him against sale proceeds of goods sent to him on consignment. Goods costing ₹32,500 were sent to him on consignment. 4/5th of the goods were sold by him for ₹45,000. He is entitled to a commission at 10% sale proceeds. The only entry passed in this connection was for the cheque received from him.
- Suspense Account of Smt. Banerjee represents an advance of ₹10,000 to her in connection with a joint venture agreement entered into with her for which she is to get 2/5th share of profit. It is ascertained that the venture has earned a profit of ₹7,500.
- The scrutiny of the Schedule of Debtors reveals the following: (i) ₹7,500 fully realizable; (ii) ₹5,000 – 75% realizable; (iii) ₹2,500 – 50% realizable; (iv) Provision for doubtful debts has to be provided for at 5% on the balance besides the amount that may be required as above.

Solution

Sri Sengupta

Dr. Trading and Profit & Loss Account for the year ended 31st December, 2019 Cr.

Particulars	₹	Particulars	₹
To Materials Consumed	1,75,000	By Sales	3,00,000
To Wages – Productive	45,000	By Goods Sent on Consignment	32,500
To Freight and insurance on Purchases	1,500		
To Gross Profit c/d	1,11,000		
	<u>3,32,500</u>		<u>3,32,500</u>
To Wages – Others	7,500	By Gross Profit b/d	1,11,000
To Salaries	7,500	By Commission Received	1,500
Less: Proprietor's salary	<u>3,000</u>	By Special Rebate Received	2,000
To Electric Charges	2,500	By Profit on Consignment (Note 1)	14,500
To Delivery Charges	1,000	By Profit on Joint Venture (3/5 th of ₹ 7,500)	4,500
To Depreciation	5,000		
To Commission Paid	1,000		
To Special Rebate Allowed	1,000		
To Provision for Doubtful Debts (Note 4)	3,250		
To Net Profit (transferred to Capital)	1,07,750		
	<u>1,33,5000</u>		<u>1,33,500</u>

Balance Sheet of Sri Sengupta as at 31st December, 2019

Liabilities	₹	₹	Assets	₹	₹
Capital:			Land and Building		47,500
Opening Balance	75,000		Plant and Machinery		32,500
Add: Net Profit	1,07,750		Furniture		6,500
	<u>1,82,750</u>		Closing Stock		37,500
Less: Drawing:	10,500	1,72,250	Stock on Consignment		6,500
(7,500 + 3,000)			Debtors	30,000	
Creditors		25,000	Less: Provision for Doubtful Debts	3,250	26,750
			Amount Due from Smt. Banerjee (Note 3)		14,500
			Amount Due from Sri Roy (Note 2)		13,000
			Cash at Bank		10,500
			Cash in Hand		2,000
		<u>1,97,250</u>			<u>1,97,250</u>

Working Note:

(1)

Dr.		Consignment to Sri Roy Account		Cr.	
Particulars	₹	Particulars	₹		
To Goods Sent on Consignment A/c	32,500	By Sri Roy A/c – Sales Proceeds	45,000		
To Sri Roy A/c – Commission 10% on ₹ 45,000	45,000	By Stock on Consignment A/c (1/5 of 32,500)	6,500		
To Profit on Consignment A/c	14,500				
	51,500				51,500

(2)

Dr.		Sri Roy Account		Cr.	
Particulars	₹	Particulars	₹		
To Consignment to Sri Roy A/c	45,500	By Suspense A/c – Sri Roy	27,500		
		By Consignment A/c (commission)	4,500		
		By Balance c/d	13,000		
	45,500				45,500

(3)

Dr.		Smt. Banerjee Account		Cr.	
Particulars	₹	Particulars	₹		
To Suspense A/c – Smt. Banerjee	10,000	By Balance c/d	14,500		
To Share of Profit – 3/5 of ₹ 7,500	4,500				
	14,500				14,500

(4) Calculation of Provision for Doubtful Debts

(i) On ₹7,500	₹	Nil
(ii) On ₹5,000 @ 25%		1,250
(iii) On ₹2,500 @ 50%		1,250
(iv) On ₹15,000 @ 5%		<u>750</u>
		<u>3,250</u>

PRACTICE PROBLEMS

1. From the below mentioned information, prepare a Trading Account of M/s. Ketan Traders for the year ended 31st March, 2019:

Particulars	Amt (₹)	Particulars	Amt (₹)
Wages	16,000	Stock (1.04.2018)	22,000
Royalties	11,000	Sales	3,80,000
Sales Returns	24,000	Purchases	1,90,000
Goods withdrawn by Ketan for Personal use	16,000	Purchases Returns	6,400
Factory Rent	4,200	Manufacturing Expenses	8,400
Stock (31.03.2019)	36,000	Motive Power	16,000
		Freight	7,400

2. From the following Trial balance of J D & Sons, you are required to prepare Trading Account and Profit & Loss A/c for the year ended 31st March, 2018.

Debit Balances	Amt (₹)	Credit Balances	Amt (₹)
Wages	9,200	Purchases Returns	6,520
Purchases	66,800	Sales	1,52,900
Carriage Inward	3,350	Commission received	18,000
Sales returns	4,800	Rent Received	9,000
Opening Stock	31,300	Discount Received	4,600
Salary	17,400		
Royalty	4,800		
Rent, Rates & Taxes	12,680		
Bad debts	500		
Carriage Outward	3,720		
Printing & Stationery	2,400		
Advertisement	18,000		
Discount Allowed	1,520		
Insurance	5,800		
Factory Rent	7,000		
Commission paid	1,800		
	1,91,020		1,91,020

Adjustment: 1) Closing stock ₹ 56,850

3. Mr. Shyamal runs a factory, which produces detergents. Following details were available in respect of his manufacturing activities for the year ended 31-03-2019.

	₹
Opening work-in-progress (9000 units)	26,000
Closing work-in-progress (14,000 units)	48,000
Opening inventory of Raw Materials	2,60,000
Closing inventory of Raw Materials	3,20,000
Purchases	8,20,000
Hire charges of Machinery @ ₹ 0.70 per unit Manufactured	
Hire charges of factory	2,60,000
Direct wages-contracted @ ₹ 0.80 per unit Manufactured	
and @ ₹ 0.40 per unit of closing W.I.P.	
Repairs and maintenance	1,80,000
Units produced-5,00,000 units	

Required a Manufacturing Account of Mr. Shyamal for the year ended 31-03-2019. **(Nov 2019)**

4. Mr. Fazhil is a proprietor in business of trading. An abstract of his Trading and P&L account is as follows:

Trading and P&L A/c for the year ended 31st March, 2018

Particulars	(₹)	Particulars	(₹)
To Cost of Goods sold	<u>22,00,000</u>	By Sales	45,00,000
To Gross Profit C/d	_____?		<u>45,00,000</u>
To Salaries paid	12,00,000	By Gross Profit B/d	_____?
To General Expenses	6,00,000	By Other Income	45,000
To Selling Expenses	?		
To Commission to Manager (On net profit before charging such commission)	<u>1,00,000</u>		
To Net Profit	_____?		
	_____?		_____?

Selling expenses amount to 1% of total Sales.

You are required to compute the missing figures.

(Nov 2018)

5. The following are the balances extracted from the books of Shri Raghuramas on 31.03.2018, who carries on business under the name and style of M/s Raghuram and Associates at Chennai:

Particulars	Debit (₹)	Credit (₹)
Capital A/c		14,11,400
Purchases	12,00,000	
Purchase Returns		18,000
Sales		15,00,000
Sales Returns	24,000	
Freight Inwards	62,000	
Carriage Outwards	8,500	
Rent of Godown	55,000	
Rates and Taxes	24,000	
Salaries	72,000	
Discount allowed	7,500	
Discount received		12,000
Drawings	20,000	
Printing and Stationery	6,000	
Insurance premium	48,000	
Electricity charges	14,000	
General expenses	11,000	
Bank charges	3,800	
Bad debts	12,200	
Repairs the Motor vehicle	13,000	
Interest on loan	4,400	
Provision for Bad-debts		10,000
Loan from Mr. Rajan		60,000
Sundry creditors		62,000
Motor vehicles	1,00,000	
Land and Buildings	5,00,000	
Office equipment	2,00,000	
Furniture and Fixtures	50,000	
Stock as on 31.03.2017	3,20,000	
Sundry debtors	2,80,000	
Cash at Bank	22,000	
Cash in Hand	16,000	
Total	30,73,400	30,73,400

Prepare Trading and Profit and Loss Account for the year ended 31.03.2018 and the Balance Sheet as at that date after making provision for the following:

- Depreciate Building by 5%, Furniture and Fixtures by 10%, Office Equipment by 15% and Motor Car by 20%.
- Value of stock at the close of the year was ₹ 4,10,000.
- One month rent for godown is outstanding.
- Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2017
- Reserve for bad debts is to be maintained at 5% of Sundry debtors.
- Insurance premium includes ₹ 42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 01.04.2017 to 30.06.2018. **(May 2018)**

6. Following is a Trial Balance of Vijay Traders. You are required to prepare Trading Account and Profit & Loss Account for the year ended 31st March, 2018 and Balance Sheet as on that date

Trial Balance as on 31st March, 2018

Debit Balance	Amt (₹)	Credit Balance	Amt (₹)
Rent, Rates & Taxes	3,500	R.D.D.	2,500
Insurance	1,000	Loan from Prakash	34,7000
Wages	6,000	Sales	92,300
Repairs	9,400	Capital	45,000
Drawings	3,000	Sundry Creditors	18,000
Sundry Debtors	15,000	Sundry Income	7,500
Purchases	40,000	Bills Payable	17,000
Discount	900	Discount Received	3,000
General Expenses	3,600		
Furniture	40,000		
Plant & Machinery	50,000		
Stock (1.4.2017)	12,000		
Bank	7,500		
Bad Debts	600		
Bills Receivable	27,500		
	2,20,000		2,20,000

Adjustment:

- Prepaid Insurance ₹ 400
- Create 10% R.D.D. on Sundry Debtors and 6% discount on Debtors.
- Outstanding expenses : General Expenses ₹1,400 and Wages ₹ 1,000
- Depreciate Furniture by 10% and Plant & Machinery by 4%
- Sundry Income of ₹ 1,500 received in advance.
- Stock on 31st March 2018, amounted to ₹30,000.

7. Following particulars are extracted from the books of Mr. Sandeep for the year ended 31st December, 2018.

Particulars	Amount	Particulars	Amount
Debit Balances:	₹	Credit Balances:	₹
Cash in hand	1,500	Capital	16,000
Purchase	12,000	Bank overdraft	2,000
Sales return	1,000	Sales	9,000
Salaries	2,500	Purchase return	2,000
Tax and Insurance	500	Provision for Bad debts	1,000
Bad debts	500	Creditors	2,000
Debtors	5,000	Commission	500
Investments	4,000	Bills payable	2,500
Opening stock	1,400		
Drawings	2,000		
Furniture	1,600		
Bills receivables	3,000		
	35,000		35,000

Other information:

- Closing stock was valued at ₹ 4,500
- Salary of ₹ 100 and Tax of ₹ 200 are outstanding whereas insurance ₹ 50 is prepaid.
- Commission received in advance is ₹100.
- Interest accrued on investment is ₹ 210
- Interest on overdraft is unpaid ₹ 300
- Reserve for bad debts is to be kept at ₹ 1,000
- Depreciation on furniture is to be charged @10%

You are required to prepare the final accounts after making above adjustments.

(May 2019)

8. The balance sheet of Mittal on 1st January, 2018 was as follows: **insert table**

Liabilities	Amount	Assets	Amounts
	₹		₹
Trade payables	16,00,000	Plant & Machinery	31,00,000
Expenses payable	2,50,000	Furniture & Fixture	4,00,000
Capital	51,00,000	Trade receivables	14,50,000
		Cash at bank	7,00,000
		Inventories	13,00,000
	69,50,000		69,50,000

During 2018, his profit and loss account revealed a net profit of ₹ 15,10,000. This was after allowing for the following :

- (i) Interest on capital @ 6% p.a.
(ii) Depreciation on plant and machinery @ 10% and on Furniture and Fixtures @5%.
(iii) A provision for Doubtful debts @ 5% of the trade receivables as at 31st December 2018.

But while preparing the profit and loss account he had forgotten to provide for
(1) Outstanding expenses totalling ₹ 1,85,000 and (2) prepaid insurance to the extent of ₹ 25,000.

His current assets and liabilities on 31st December, 2018 were: Trade receivables ₹ 21,00,000; Cash at bank ₹ 5,20,000 and Trade payables 13,84,000. During the year he withdrew ₹ 6,20,000 for domestic use. Closing inventories is equal to net trade receivables at the year-end.

You are required Draw up revised Profit and Loss account and Balance Sheet at the end of the year. **(Nov 2019)**

9. The following is the trial balance of Hari as at 31st December, 2017:

	Dr.	Cr.
	₹	₹
Hari's Capital Account	-	76,690
Stock 1 st January, 2017	46,800	-
Sales	-	3,89,600
Returns inward	8,600	-
Purchases	3,21,700	-
Returns outward	-	5,800
Carriage inwards	19,600	-
Rent & taxes	4,700	-
Salaries & wages	9,300	-
Sundry debtors	24,000	-
Sundry creditors	-	14,800
Bank loan @ 14% p.a.	-	20,000
Bank interest	1,100	-
Printing and stationary expenses	14,400	-
Bank balance	8,000	-
Discount earned	-	4,440
Furniture & fittings	5,000	-
Discount allowed	1,800	-
General expenses	11,450	-
Insurance	1,300	-
Postage & telegram expenses	2,330	-
Cash balance	380	-
Travelling expenses	870	-
Drawings	30,000	-
	5,11,330	5,11,330

The following adjustments are to be made:

- (1) Included amongst the debtors is ₹ 3,000 due from Ram and included among the creditors ₹ 1,000 due to him.
 - (2) Provision for bad and doubtful debts be created at 5% and for discount @ 2% on sundry debtors.
 - (3) Depreciation on furniture & fittings @ 10% shall be written off.
 - (4) Personal purchases of Hari amounting to ₹ 600 had been recorded in the purchases daybook.
 - (5) Interest on bank loan shall be provided for to whole year.
 - (6) A quarter of the amount of printing and stationary expenses is to be carried forward to the next year.
 - (7) Credit purchase invoice amounting to ₹ 400 had been omitted from the books.
 - (8) Stock on 31.12.2017 was ₹ 78,600.
- Prepare (i) Trading & profit and loss account for the year ended 31.12.2017 and (ii) Balance sheet as on 31st December, 2017. **(RTP Nov 2018)**

10. The following are the balances as at 31st March, 2017 extracted from the books of Mr. XYZ.

	₹		₹
Plant and Machinery	19,550	Bad debts recovered	450
Furniture and Fittings	10,250	Salaries	22,550
Bank Overdraft	80,000	Salaries payable	2,450
Capital Account	65,000	Prepaid rent	300
Drawings	8,000	Rent	4,300
Purchases	1,60,000	Carriage inward	1,125
Opening Stock	32,250	Carriage outward	1,350
Wages	12,165	Sales	2,15,300
Provision for doubtful debts	3,200	Advertisement Expenses	3,350
Provision for Discount on debtors	1,375	Printing and Stationery	1,250
Sundry Debtors	1,20,000	Cash in hand	1,450
Sundry Creditors	47,500	Cash at bank	3,125
Bad debts	1,100	Office Expenses	10,160
		Interest paid on loan	3,000

Additional Information:

1. Purchases include sales return of ₹ 2,575 and sales include purchases return of ₹ 1,725.
2. Goods withdrawn by Mr. XYZ for own consumption ₹ 3,500 included in purchases.

3. Wages paid in the month of April for installation of plant and machinery amounting to ₹ 450 were included in wages account.
4. Free samples distributed for publicity costing ₹ 825.
5. Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
6. Depreciation is to be provided on plant and machinery @ 15% p.a. and on furniture and fittings @ 10%p.a.
7. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2017 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2017, and a Balance Sheet as on that date. Also show the rectification entries. **(RTP May 2018)**