

## CHAPTER – 7

### PREPARATION OF FINAL ACCOUNTS OF SOLE PROPRIETORS



#### Unit 1

#### Final Account of Non – Manufacturing Entities

<b>FINAL ACCOUNTS INCLUDES</b>	<ul style="list-style-type: none"> <li><b>Trading</b></li> <li><b>Account Profit &amp; Loss</b></li> <li><b>Account</b></li> <li><b>Balance sheet</b></li> </ul>
<b>FUNCTIONS OF FINANCIAL STATEMENTS.</b>	<p><b>The principal function of final statements of account (Trading Account, Profit and loss Account and the Balance Sheet) is -to exhibit truly and fairly the profitability and the financial position of the business. It is essential that a proper record of transactions entered into by the business during a particular accounting period should be maintained.</b></p>

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**Question 1**

**State with reasons whether the following statement is true or false:  
The provision for discount on debtors is calculated after deducting the provision for doubtful debts from Debtors.**

**Answer:**

**True:** It is calculated after deducting the provision for doubtful debts i.e. on the balance left.

**Question 2**

**State with reasons whether the following statement is true or false:**

- 1. The debit balance in the Profit and Loss Account is surplus.**
- 2. Goodwill is a fictitious asset.**
- 3. Capital is all assets less fictitious assets.**

**Answer:**

(1) **False:** The debit balance in P & L A/c is a loss because expenses are more than revenue.

(2) **False:** Goodwill is an intangible asset

(3) **False:** Capital is all assets less (fictitious assets and outside or external liabilities).

**Question 3**

**State with reasons whether the following statement is true or I false:  
Profit and Loss Account shows the financial position of the concern.**

**Answer:**

**False:** Balance sheet shows the entire financial position of the business.

**Question 4**

**State with reasons whether the following statement is true or false:  
Freight paid on purchases of goods is added to the amount of purchases.**

**Answer:**

**True:** Such freight paid on the purchases of goods is included in the cost of purchase.

**Question 5**

**State with reasons whether the following statement is true or false: The provision for discount on debtors is calculated after deducting the provision for doubtful debts from debtors.**

**Answer:**

**True:** The provision for discount on debtors is calculated after deducting the provision for doubtful debts from debtors in order to determine the provision for discount on good debtors who may make their payment promptly after getting the discount.

**Question 6**

**Briefly explain the difference between the following: Charge against Profit and Appropriation of Profit.**

**Answer:**

**Charge against Profit:** It means a deduction from the revenue. It may be shown by writing the amount to the debit side of the profit and loss a/c to arrive at the net profit or net loss. It is done before the appropriation of profits.

**Appropriation of Profit:** It means the distribution of net profit to various heads of the accounts. It may be in any form such as dividend reserves or distribution of profits. It may be done only if there is earning of profit. It is debited to profit and loss appropriation a/c.

**Question 7**

**State with brief reasons whether the following statements are True or False: Sundry debtors are liquid assets.**

**Answer:**

**True:** Liquid assets are those assets which are readily converted into cash and will include cash balance, bills receivable, Sundry debtors and short-term investments. But it does not include prepaid expenses and inventories.

**Question 8**

**Give a Short view on Matching concept.**

**Answer:**

**Matching Principle:** This principle demands that expenses incurred to earn the revenue should be properly matched. This means the following:

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If a certain revenue and income is entered in the Trading / Profit and Loss Account all the expenses relating to it, whether or not payment has been actually made, should be debited to the Trading / Profit and Loss Account. This is why at the end of the year an entry is passed to bring into account the outstanding expenses. That is also the reason why the opening inventory of goods is debited to the Trading Account since the relevant sale is credited in the same account.

If some expense has been incurred but against it sale will take place in the next year or income will be received next year, the expense should not be debited to the current year's Profit and Loss Account but should be carried forward as an asset and shown in the Balance Sheet. It will be debited to the Profit and Loss Account only when the relevant income will also be credited. The same reason applies to depreciation of assets also. The part of the cost which is used to earn current year revenue is debited in same year.

If an income or revenue is received in the current year but the work against it has to be done and the cost in respect of it has to be incurred next year, i.e. income received in advance the income or the revenue is considered to be of next year. 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. E.g. Newspapers or magazines usually receive subscriptions in advance for a year. The part of subscription that covers copies to be supplied in the next year is treated as income received in advance.

### **Question 9**

**Write shorts notes on:**

1. Balance sheet.
2. Trading account
3. Closing entries

**Answer:**

**Balance Sheet:** The balance sheet may be defined as "a statement which sets out the assets and liabilities of a firm or an institution as at a certain date." Since even a single transaction will make a difference to some of the

assets or liabilities, the balance sheet is true only at a particular point of time. That is the significance of the word “as at.”

**Trading Account:** At the end of the year, it is necessary to ascertain the net profit or the net loss. For this purpose, it is first necessary to know the gross profit or gross loss with the helps to Trading A/c. Gross Profit is the difference between the selling price and the cost of the goods sold. Closing entries

**Closing entries:** The entries that have to be made in the journal for preparing the Trading and the Profit and Loss Account that is for transferring the various accounts to these two accounts are known as closing entries

### **Question 10**

**Differentiate the Trial balance and Balance Sheet**

**Answer:**

**Difference between trial balance and balance sheet**

<b>Trial Balance</b>	<b>Balance Sheet</b>
Checks arithmetical accuracy	Shows financial position
Debit and credit sides	Liability and assets side
All accounts written	Only real and personal account
Prepared before T.&P.L account	After tr. And P.&1. Account
Not compulsory	Compulsory
Not as a proof	As a proof
No adjustment	Adjustments Considered

### **Question 11**

**Differentiate Provision and reserve.**

**Answer:**

**Distinction between Provision and Reserve**

<b>Basis of Distinction</b>	<b>Provision</b>	<b>Reserve</b>

1. Purpose	It is created for some specific purpose and can be used for that particular purpose	It need not necessarily be created for a particular purpose e.g. General Reserve
2. Charge v/s Appropriation	It is a charge against the profit and is required to be created irrespective of the amount of profit.	It is an appropriation out of profit and can be created only if profits have been earned.
3. Disclosure in Balance Sheet	Usually, a provision is shown by way of deduction from the amount of the items for amount of the items for which is created	Reserve is shown as a separate item under the head 'Reserve and surplus' on the liabilities outside of the balance Sheet

## PRACTICAL CONTENT

### Question 12

**From the following particulars, prepare Balance Sheet as at 31<sup>st</sup> March, 2014.**

	Dr. (Rs.)	Cr. (Rs.)
Capital	.....	40,000
Drawings	4,400	.....
Debtors and Creditors	6,400	4,200
Cash in Hand	360	.....
Cash at Bank	7,200	.....
Plant	10,000	.....
Furniture	3,700	.....
Net Profit	.....	1,660
General Reserve	.....	1,000
Closing Stock	14,800	.....
	46,800	46,860

**Solution:**

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**Balance Sheet**  
**As on March 31, 2014**

Liabilities	Rs.	Assets	Rs.
Capital	40,000	Plant	10,000
Less: Drawings	(4,400)	Furniture	3,700
Add: Net Profit	<u>1,660</u>	Closing Stock	14,800
General Reserve	1,000	Debtors	6,400
Creditors	4,200	Cash at Bank	7,200
		Cash in Hand	360
	42,460		42,460

**Question 13**

**Prepare Trading and profit and Loss Account and Balance Sheet of Jagat Shah as at 31<sup>st</sup> March, 2014 from the following balances**

	₹		₹
Capital	3,600	Salaries	600
Machinery	700	General Expenses	200
Sales	8,200	Rent	500
Purchases	4,000	Purchases Returns	50
Sales Return	100	Debtors	3,000
Stock on 1 <sup>st</sup> April, 2013	1,000	Cash	400
Drawings	400	Carriage Outwards	200
Wages	1,000	Advertising	200
Carriage Inwards	50	Creditors	500

**Solution:**

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**Financial Statements of Jagat Shah  
Trading Account  
For the year ended March 31, 2014**

Particulars	₹	Particulars	₹
To Opening Stock	1,000	By Sales	8,200
To Purchases	4,000	Less: Sales Return	<u>100</u>
Less: Purchases Return	<u>(50)</u>	By Closing Stock	2,000
To Wages	1,000		
To Carriage Inwards	50		
To Gross Profit	4,100		
(Balancing Fig.)			
	10,100		10,100

**Profit and Loss Account  
For the year ended March 31, 2014**

Particulars	₹	Particulars	₹
To Salaries	600	By Gross Profit b/d	4,100
To General Expenses	200		
To Rent	500		
To carriage Outwards	200		
To Advertising	200		
To Net profit c/d	2,400		
(Balancing Fig.)			
	4,100		4,100

**Balance sheet  
As on March 31, 2014**

Liabilities	₹	Assets	₹
Capital	3,600	Fixed Assets	
Less: Drawings	(400)	Machinery	700
Add: Net Profit	<u>2,400</u>	Current Assets	
Current Liabilities		Closing Stock	2,000
Creditors	500	Debtors	3,000
		Cash	400
	6,100		6,100

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**Question 14**

**Trial Balance on 31<sup>st</sup> March, 2014 revealed the following balances:**

Debit Balances	₹	Debit Balances (Contd.)	₹
Plant and Machinery	90,000	Freight out	1,200
Purchases	58,000	Rent. Rates and Taxes	2,000
Sales Return	1,000	Advertisement	2,000
Opening Stock	40,000	Cash at Bank	6,900
Discount Allowed	350	Credit Balances	
Bank Charges	75	Capital A/c	1,10,000
Sundry Debtors	45,000	Sales	1,27,000
Salaries	6,800	Purchase Return	1,275
Wages	10,000	Discount Received	800
Freight in	750	Sundry Creditors	25,000

**Stock on 31<sup>st</sup> March, 2014 was valued at Rs. 35,000**

**Prepare trading and profit and loss Account for the year ended 31<sup>st</sup> March, 2014 and Balance Sheet as at that date.**

**Solution:**

**Financial Statement of Chatter Sen**

**Trading Account**

**For the year ended March 31, 2014**

**Dr.**

**Cr.**

Particulars	₹	Particulars	₹
To Opening Stock	40,000	By Sales	1,27,000
To Purchases	58,000	Less: Sales return	<u>1,000</u>
Less: Purchases Return	<u>1,275</u>	By Closing Stock	35,000
To Wages	10,000		
To Freight Inwards	750		
To Gross Profit c/d	53,525		
(Balancing Fig.)			
	1,61,000		1,61,000

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**Profit and Loss Account**  
**For the Year ended March 31,2014**

Dr.

Cr.

Particulars	₹	Particulars	₹
To Discount Allowed	350	By Gross Profit b/d	53,525
To Bank Charges	75	By Discount Received	800
To Salaries	6,800		
To Freight Outwards	1,200		
To Rent Rates and Taxes	2,000		
To Advertisements	2,000		
To Net Profit c/d (Balancing Fig.)	41,900		
	54,325		54,325

**Balance Sheet**  
**As on March 1, 2014**

Particulars	₹	Particulars	₹
Capital	1,10,000	Fixed Assets	
Add: Net Profit	41,900	Plant and Machinery	90,000
Current Liabilities		Current Assets	
Sundry Creditors	25,000	Closing Stock	35,000
		Sundry Debtors	45,000
		Cash at Bank	6,900
	1,76,900		1,76,900

**Question 15**

**The balance sheet of Mr. Popat lal a merchant on 31<sup>st</sup>March, 2017 stood as below:**

Liabilities	Amount	Assets	Amount
Capital	2,40,000	Fixed Assets	1,25,600
Trade payables	1,64,000	Inventories	2,06,400
Bank Overdraft	1,46,000	Trade receivables	1,88,000

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		Less: Provision Cash	6,200	1,81,800
				36,200
		5,50,000		5,50,000

**Required**

**Show opening journal entry on 1<sup>st</sup> April, 2017 in the books of Mr. Popat lal**

**Solution:**

		(Dr.)	
1.4.2017	Fixed Assets A/c Dr.	1,25,600	
	Inventories A/c Dr.	2,06,400	
	Trade receivables A/c Dr.	1,88,000	
	Cash A/c Dr.	36,200	
	To Trade payables A/c		1,64,000
	To Bank Overdraft A/c		1,46,000
	To Provision for Doubtful Debts A/c		6,200
	To Capital A/c		2,40,000

**Question 16**

**The following trial balance was taken from the books of Habib - ur - Rehman on December 31, 19...**

Cash	13,000	
Sundry debtors	10,000	
Bill receivable	8,500	
Opening stock	45,000	
Building	50,000	
Furniture and fittings	10,000	
Investment (Temporary)	5,000	
Plant and Machinery	15,500	
Bills payable		9,000
Sundry creditors		20,000
Habib's capital		78,200
Habib's drawings	1,000	
Sales		100,000

Sales discount	400	
Purchases	30,000	
Freight in	1,000	
Purchase discount		500
Sales salary expenses	5,000	
Advertising expenses	4,000	
Miscellaneous sales expenses	500	
Office salary expenses	8,000	
Misc. general expenses	1,000	
Interest income		1,000
Interest expenses	800	
	<b>2,08,700</b>	<b>2,08,700</b>

**Solution:**

**Habib – ur – Rehman**  
**Income Statement / Profit and loss Account for the year ended**  
**December 31, 19...**

Gross	100,000		
Less: Sales discount	400		
Net Sales			99,600
Cost of Goods Sold:			
Opening Stock		45,000	
Purchases	30,000		
Add: Freight in	1,000		
	31,000		
Less Purchase discount	500		
Net Purchase		30,500	
Cost of goods available for sale	75,500		
Less closing stock	10,000		
Cost of goods sold			65,500
Gross profit			34,100

<b>Operating Expenses</b>			
<b>Selling Expenses:</b>			
Sales Salary expenses	5,000		
Advertising expenses	4,000		
Misc. selling expenses	500		
<b>General Expenses:</b>		9,500	
Office salaries expenses	8,000		
Misc. general expenses	1,000		
		9,000	
<b>Total operating expenses</b>			18,500
<b>Net profit from operations</b>			15,600
<b>Other Expenses and Income:</b>			
Interest income	1,000		
Interest expenses	800		
<b>Net increase</b>			200
<b>Net income</b>			15,800

**Habib - ur - Rehman Balance Sheet**  
**As at December 31, 19....**

<b>Current Assets:</b>		
<b>Cash</b>	13,000	
Sundry debtors	10,000	
Bills receivable	8,500	
Stock on Dec. 31 , 19	10,000	
<b>Investment</b>	5,000	
<b>Total Current Assets</b>		46,500
<b>Fixed Assets:</b>		
Buildings	50,000	
Plant and Machinery	15,500	

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Furniture and fittings	10,000	
Total Fixed Assets		75,500
Total Assets		1,22,000
Liabilities:		
Current Liabilities		
Sundry creditors	20,000	
Bills Payable	9,000	
Total Current Liabilities		29,000
Fixed Liabilities		
Habib's capital	78,200	
Net income for the year	15,800	
	94,000	
Less: Drawings	1,000	
		93,000
Total Liabilities and Capital		1,22,000

**Question 17**

Opening Inventory	1,00,000
Purchases	6,72,000
Carriage Inwards	30,000
Wages	50,000
Sales	11,00,000
Returns inward	1,00,000
Return Outward	72,000
Closing inventory	2,00,000

**Required**

From the above information prepare a trading Account of M/s. ABC traders for the year ended 31<sup>st</sup> March, 2017 and pass necessary closing entries in the journal proper of M/s. ABC Traders.

**Solution:**

Particulars	Amount	Particulars	Amount
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To Opening inventory		1,00,000	By Sales	11,00,000	
To Purchases	6,72,000		Less: Returns Inward by closing Inventory	1,00,000	10,00,000
Less: Returns	(72,000)	6,00,000			2,00,000
To Carriage		30,000			
To Wages		50,000			
To Gross profit		4,20,000			
		12,00,000			12,00,000

**In the Books of M/s. ABC Traders  
Journal Proper**

Date	Particulars		Amount	Amount
March 31	Returns outwards A/c To Purchase A/c  (Being the transfer of returns to Purchase account)	Dr.	72,000	72,000
	Sales A/c To Returns Inward A/c (Being the transfer of returns to sales account)	Dr.	1,00,000	1,00,000
	Sales A/c To Trading A/c  (Being the transfer of balance of sales account to trading account)	Dr.	10,00,000	10,00,000
	Trading A/c To Opening Inventory A/c To Purchases A/c To Wages A/c To Carriage Inwards A/c  (Being the transfer of balances of opening Inventory, Purchases and wages accounts)	Dr.	7,80,000	1,00,000 6,00,000 50,000 30,000



Closing Inventory, A/c To Trading A/c  (Being the incorporation of value of closing inventory)	Dr.	2,00,000	2,00,000
Trading A/c To Gross Profit  (Being the amount of gross profit)	Dr.	4,20,000	4,20,000
Gross Profit To Profit and loss a/c  (Being the transfer of gross profit to profit and	Dr.	4,20,000	4,20,000

**Question 18**

**Revenue, Expenses and Gross Profit Balances of M/s ABC Traders for the year ended on 31st March 2016 were as follows:**

Gross Profit `4,20,000, Salaries `1,10,000, Discount (Cr.), `18,000, Discount (Dr.) `19,000, Bad Debts `17,000, Depreciation `65,000, Legal Charges `25,000, Consultancy Fees `32,000, Audit Fees `1,000, Electricity Charges `17,000, Telephone, Postage and Telegrams `12,000, Stationery `27,000, Interest paid on Loans `70,000. Required

**Prepare Profit and Loss Account of M/s ABC Traders for the year ended on 31st March, 2016.**

**Solution:**

**In the Books of M/s ABC Traders Profit and Loss Account for the year ended 31<sup>st</sup> March, 2016**

Particulars	Amount	Particulars	Amount
To Salaries	1,10,000	By Gross Profit	4,20,000
To Legal Charges	25,000	By Discount	18,000
To Consultancy Fees	32,000		
To Audit Fees	1,000		
To Electricity Charges	17,000		

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To Telephone postage	12,000		
To Stationary	27,000		
To Depreciation	65,000		
To Discount allowed	19,000		
To Bad Debts	17,000		
To Interest	70,000		
To Net Profit	43,000		
	4,38,000		4,38,000

**Question 19**

The following is the Trial Balance of C. Wanchoo on 31st Dec. 2017

**Trial Balance on 31<sup>st</sup> December, 2017**

Particulars		
Capital Account		10,00,000
Inventory Account	2,00,000	
Cash in hand	1,44,000	
Machinery Account	7,36,000	
Purchases Account	18,20,000	
Wages Account	10,00,000	
Salaries Account	10,00,000	
Discount Allowed A/c	50,000	
Discount Received A/c		30,000
Sundry Office Expenses Account	6,00,000	
Sales Account		50,00,000
Sums owing by customer (Trade receivables)	8,50,000	
Trade payables (Sums owing to suppliers)		3,70,000
<b>Total</b>	<b>64,00,000</b>	<b>64,00,000</b>

**Value of Closing inventory on 31<sup>st</sup> Dec. 2017 was 2,70,000 Required**

**Prepare closing entries for the above items and prepare Trading and Profit and Loss Account.**

**Solution:**

Date	Particulars	L.F		
Dec. 31	Trading account To inventory Account To Purchase A/c To Wages A/c  (Being the accounts in the Trial Balance which have to be transferred to the Trading Account debit side)	Dr.	30,20,000	2,00,000 18,20,000 10,00,000
Dec. 31	Sales Account To Trading A/c  (Being the amount of Sales transferred to the credit of Trading Account)	Dr.	50,00,000	50,00,000
Dec. 31	Inventory (Closing ) A/c To Trading A/c  (Being the Value of Inventory on hand on 31 <sup>st</sup> Dec. 2016)	Dr.	2,70,000	2,70,000
Dec. 31	Trading A/c To Profit and Loss A/c  (Being the transfer of gross profit.)	Dr.	22,50,000	22,50,000
Dec.	Profit and Loss A/c To Discount Allowed Account To Salaries A/c To Sundry office Expenses A/c  (Being the various expense accounts transferred to the P&L Account)	Dr.	16,50,000	50,000 10,00,000 6,00,000

Dec.	Discount Received A/c To P&L Account  (Being the credit balance of discount received transferred to Profit and loss A/c)	Dr.	30,000	30,000
Dec.	Profit and Loss A/c To Capital A/c  (Being The transfer to Net Profit to the Capital Account)	Dr.	6,30,000	6,30,000

**Trading A/c**

Particulars		Particulars	
To inventory A/c	2,00,000	By Sales A/c	50,00,000
To Purchases	18,20,000	By Inventory (Closing)	2,70,000
To Wages	10,00,000		
To Gross Profit trfd. To P&L A/c	22,50,000		
	<b>52,70,000</b>		<b>52,70,000</b>

**Profit and Loss Account for the year ended December 31, 2017**

Particular		Particulars	
To Salaries	10,00,000	By Gross Profit	22,50,000
To Discount allowed	50,000	(Trfd. From trading	
To Sundry office Expenses	6,00,000	Account) By Discount	33,000
To Net Profit Transferred to Capital A/c	6,30,000	Received	
	22,80,000		22,80,000

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**From the following Trial Balance prepare Trading and Profit and Loss Account for the Year ended 31<sup>st</sup> December, 2009 and Balance Sheet as on the Date:**

Drawings	10000	
Stock as on 1-1-2009	46000	
Purchase and Purchase returns	150000	600
Cash in hand	34000	
Bank Balance	22660	
Free hold Premises	38600	
Trade expenses	840	
Printing, Stationery and advertising	1640	
Professional charges	280	
Commission received		3300
Investment as on 1 <sup>st</sup> jan @10%	4000	
Investment Deposits		200
Sundry debtors and creditors	36000	29000
Wages	25000	
Salaries	14000	
Rent Rates and Insurance	4000	
Capital		114700
Income tax	1600	
Discount allowed and received	6300	4600
Sales Returns and Sales	500	20800
Bills Receivables and Bills Payables	3200	10000
Office Furniture	3050	
Bad Debts Provision		670
	371070	371070

### **Adjustment**

1. Provide for wages Rs. 5000
2. Write off 5% depreciation on freehold premises and 10% on office furniture
3. Insurance to the extent of Rs. 200 belongs to 2010.
4. Closing stock as on 31.3.2010 is Rs. 52000
5. Charge interest on capital @5%

**Solution:****Trading and Profit and Loss A/c for the year ending 31<sup>st</sup> Dec., 2009**

Particulars	Rupees	Particulars	Rupees
Opening Stock	46,000	Sales	20800
Purchases	150000	Less Sales return	500
Less Purchase Returns	600	Closing Stock	52000
Wages A/c	25000		
Add outstanding wages	5000		
Gross Profit c/f	34100		
	259,500		2,59,500
Trade Expenses	840	Balance b/f	34100
Painting, Stationary & Advt.	1640	Commission Received	3300
Professional Charges	280	Interest on Deposit	200
Salaries	14000	Add: Accrued Interest	400
Discount	6300	200	4600
Rent, Rates & Insurance	4000	Discount received	
Loss Prepaid	200		
Interest on Capital	5735		
Depreciation on Premises	1930		
Depreciation on Furniture	305		
Net Profit	7570		
	42400		42400

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**Balance Sheet as on 31<sup>st</sup> December, 2009**

Particulars	Rupees	Particulars	Rupees
Capital	114700	Freehold Premises	38600
Add: Profit	7570	Less: Depreciation	<u>1930</u>
Add: interest on Capital	5735	Office Furniture	3050
	128005	Less: Depreciation	<u>305</u>
Less: Drawings	10000	Closing Stock	52000
Less: Income Tax	1600	Debtors	36000
Sundry Creditors	29000	Less: Prov. For Debtors	<u>670</u>
Bills Payable	10000	Bills Receivable	3200

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Outstanding Wages	5000	Investment	4000	
		Add: accrued interest	<u>200</u>	4200
		Prepaid insurance		200
		Bank		22660
		Cash		3400
	160405			160405

# Past Examination Question

## MAY 2018

### Question 1

State with reasons, whether the following statement is true or false:

**If Closing Stock appears in the Trial Balance: The closing inventory is then not entered in Trading Account. It is shown only in the balance sheet.**

### Answer:

**True:** If closing stock appears in the Trial Balance, then closing stock is not entered in the trading account, but only shown in the Balance Sheet. This is because it has already been adjusted to arrive at cost of goods sold.

### Question 2

**The following are the balances extracted from the books of Shri Raghuram as 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 Return		18,000
Sales		15,00,000
Sales Return	24,000	
Freight Inwards	62,000	
Carriage Outwards	8,500	



Rent of Go down	55,000	
Rates and Taxes	24,000	
Salaries	72,000	
Discount allowed	7,500	
Discount Received		12,000
Drawings	20,000	
Printing and Stationary	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	
<b>Total</b>	<b>30,73,400</b>	<b>30,73,400</b>

**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:**

- (a) Depreciate Building by 5%, Furniture and Fixtures by 10%, Office Equipment by 15% and Motor Car by 20%.  
 (b) Value of stock at the close of the year was ` 4,10,000.  
 (c) One month rent for go down is outstanding.

(d) Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2017

(e) Reserve for bad debts is to be maintained at 5% of Sundry debtors.

(f) 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.

### Solution:

#### M/s Raghuram & Associates Trading Account for the year ended 31<sup>st</sup> March, 2018

Particulars	Details	Amount	Particulars	Details	Amount
To Opening		3,20,000	By Sales	15,00,000	
To Purchases	12,00,000		Less: Sales	24,000	14,76,000
Less: Purchase	18,000	11,82,000	By Closing		4,10,000
Return			Stock		
To Freight		62,000			
To Gross Profit		3,22,000			
		18,86,000			18,86,000

#### M/s Raghuram & Associates Profit and Loss Account for the year ended 31<sup>st</sup> March, 2018

Particulars	Details	Amount	Particulars	Details	Amount
To Salaries		72,000	By Gross profit		3,22,000
			b/d		
To Rent for go down	55,000		By Discount		12,000
Add: Outstanding	5,000	60,000	Received		
To Provision for					
Doubtful Debts		16,200			
To Rent and Taxes		24,000			
To Discount Allow		7,500			
To Carriage outwards		8,500			
To Printing and		6,000			
To Electricity Charges		14,000			

To Insurance premium		4,800			
To Depreciation (W.N.2)		80,000			
To General expenses		11,000			
To Bank Charges		3,800			
To interest on loan	4,400				
Add: Outstanding	100				
To Motor car expenses		4,500			
		13,000			
To Net Profit		8,700			
Transferred to Capital A/c		3,34,000			3,34,000

### Balance Sheet

Liabilities	Details	Amount	Assets	Details	Amount
Capital	14,11,400		Land & Less:	5,00,000	
Add: Net profit	8,700		Motor	25,000	4,75,000
Less Drawings	(20,000)		Less:	1,00,000	
Less: Proprietor's	(42,000)	13,58,100	Depreciation	20,000	80,000
Loan From	60,000		Office Less:		
Add: Outstanding	100	60,100	Depreciation		
Sundry		62,000	Furniture &	2,00,000	
Outstanding		5,000	Less:	30,000	1,70,000
			Stock in	50,000	
			Trade	5,000	45,000
			Sundry		4,10,000
			Less:	2,80,000	
			Provision	14,000	2,66,000
			for doubtful		22,000
			Cash at Bank		16,000
			Cash in Bank		
			Prepaid		1,200
			insurance		

14,85,200

14,85,200

**Working Notes:****Insurance premium**

Insurance Premium as given in trial balance	48,000
Less: Personal premium	(42,000)
Less: Prepaid for 3 month	(12,000)
Transfer to Profit and Loss A/c	4,800

**(1) Depreciation**

Building @5% on 5,00,000	25,000
Motor Vehicles @20% on 1,00,000	20,000
Furniture & Fittings @10% on 50,000	5,000
Office Equipment @15% on 2,00,000	30,000
Total	80,000

**(2) Interest on Loan**

Interest on Loan $60,000 \times 10\% \times /12 = 4,500$
Less: Interest as per Trial Balance = (4,400)
Amount (Outstanding) 100

**(3)****Provision for bad debts A/c**

Particulars	Amount	Particulars	Amount
To bad debts A/c	12,200	By balance b/d	10,000
To balance c/d (5% of 2,80,000)	14,000	By P&L A/c	16,200
	26,200		26,200

**NOV 2019**

**Question 1**

**The Balance sheet of Mittal on 1<sup>st</sup> January, 2018 was as follows:**

Liabilities	Amount	Assets	Amount
Trade payables	16,00,000	Plant & Machinery	31,00,000
Expenses payables	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
	<b>69,50,000</b>		<b>69,50,000</b>

**During 2018 his Profit and Loss account revealed a net profit of Rs. 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 receivable as at 31<sup>st</sup> December 2018.

**But while preparing the Profit and loss account he had forgotten to provide for:**

- (1) outstanding expenses totaling Rs. 1,85,000 and
- (2) prepaid insurance to the extent of Rs. 25,000

**His current assets and liabilities on 31<sup>st</sup> December, 2018 were:**

- Trade receivables ₹ 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. [10 marks]**

**Solution:**

**Profit & Loss A/c (Revised) for the year ended 31-12-2018**

Particulars	Rs.	Particulars	Rs.
To Outstanding Expenses	1,85,000	By Balance b/d	15,10,000
To Net Profit	13,50,000	By Prepaid insurance	25,000
	<b>15,35,000</b>		<b>15,35,000</b>

### Balance sheet as on 31-12-2018

Liabilities		Rs.	Assets		Rs.
Capital	51,00,000		Plant & Machinery	31,00,000	
Add: Net Profit	13,50,000		Less: Depreciation @10%	<u>3,10,000</u>	<u>27,90,000</u>
	3,06,000		Furniture and Fixture	4,00,000	
Interest on Capital (6% of Rs. 51,00,000)	67,56,000	61,36,000	Less: Depreciation @5%	<u>20,000</u>	<u>3,80,000</u>
Less: Drawings	6,20,000		Trade receivable	21,00,000	
Trade Payables		13,84,000	Less: Provision for	<u>1,05,000</u>	<u>19,95,000</u>
Outstanding Expenses		1,85,000	Doubtful Debts @5%		
			Inventories		19,95,000
			Prepaid Insurance		25,000
			Cash at Bank		5,20,000
		<b>7705000</b>			<b>7705000</b>

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## Unit 2

### Final Accounts of Manufacturing Entities

<b>DIRECT MANUFACTURING EXPENSES</b>	Direct manufacturing expenses are costs, other than material or wages, which are incurred for a specific product or saleable service.
<b>A MANUFACTURING ACCOUNT SERVES THE FOLLOWING FUNCTIONS</b>	It shows the total cost of manufacturing the finished products. It provides details of factory cost and facilitates reconciliation of financial books with cost records. The Manufacturing Account may also be used for various other purposes. For example, if the output is carried to the Trading Account at market prices, it discloses the profit or loss on manufacture.
<b>INDIRECT MANUFACTURING EXPENSES OR OVERHEAD EXPENSES</b>	Indirect Manufacturing expenses these are also called Manufacturing overhead, Production overhead, Works overhead, etc. Overhead = Indirect Material + Indirect Wages + Indirect Expenses
<b>BY-PRODUCTS</b>	By-product is a secondary product. This is produced from the same raw materials, which are used for producing the main product and without incurring any additional expenses from the same production process.

#### **Question 1**

**Give a Classification of Manufacturing Cost.**

**Answer:**

Manufacturing cost is the sum of costs of all resources consumed in the process of making a product. The manufacturing cost is classified into three categories: direct materials cost, direct labour cost and manufacturing overhead. It is a factor in total delivery cost.

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**Question 2****Write a Short Note on Overhead****Answer:**

These are also called Manufacturing overhead, Production overhead, Works overhead, etc. Overhead is defined as total cost of indirect material, indirect wages and indirect expenses.

**Overhead = Indirect Material + Indirect Wages + Indirect 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.

Accordingly, indirect manufacturing expenses comprise indirect material, indirect wages and indirect expenses of the manufacturing division.

**Question 3****Write short note on By-products.****Answer:**

By-products generally have insignificant value as compared to the value of main product. They are generally valued at net realisable value, if their costs cannot be separately identified. It is often treated, as “Miscellaneous income” but the correct treatment would be to credit the sale value of the by-product to Manufacturing Account so as to reduce to that extent, the cost of manufacture of main product.

**Question 4****Differentiate between Direct Manufacturing Expenses and Indirect Manufacturing expenses****Answer:**

Direct manufacturing expenses are costs, other than material or wages, which are incurred for a specific product or saleable service. Indirect Manufacturing expenses are also called Manufacturing overhead, Production overhead, Works overhead, etc. Overhead is defined as total cost of indirect material, indirect wages and indirect expenses.

### **Question 5**

#### **Explain Outstanding Expenses With their Adjustment Entry**

#### **Answer:**

**Outstanding Expenses:** Outstanding Expenses refer to those expenses incurred and unpaid during the accounting period. For example, salary, rent, interest etc. are expenses which are incurred but remain unpaid during the accounting period. In order to ascertain the correct Profit and Loss made during the year, it is essential the such related expenses are treated kas Salary Outstanding, Interest Outstanding and Rent Outstanding etc: The following necessary adjustment entry is:

<b>Expense (Salaries) Account</b>	<b>Dr.</b>	<b>***</b>
<b>To Outstanding Expenses (Salaries) A/c</b>		<b>***</b>

### **Question 6**

**From the following information, calculate cost of goods sold:**

	Rs.
Stock of materials on 1.1.2003	35,000
Stock of material on 31.12.2003	5,000
Purchase of materials	62,000
Purchase Return	2,000
Wages	10,000
Factory expenses	3,500
Freight and Carriage	4,000
Other direct expenses	2,500

#### **Solution:**

### Calculation of Cost of Goods Sold

Opening Stock of raw material		35,000
Add: Purchases	62,000	
Less: Purchase Return	(2,000)	60,000
Freight and Carriage		4,000
		99,000
Less: Closing stock of raw material	5,000	
Cost of Raw Material Consumed		94,000
Add: Direct Expenses		
Wages	10,000	
Factory Expenses	3,500	
Other direct Expenses	2,500	16,000
<b>Cost of Goods sold</b>		<b>1,10,000</b>

#### **Question 7**

**From the following information of Janson's Ltd. On 31<sup>st</sup> March 2003 you are required to prepare trading, Profit and Loss A/c and Balance Sheet.**

	Rs.		Rs.
Opening Stock	5,000	Capital	89,500
Bills Receivable	22,500	Commission (Cr.)	2,000
Purchases	1,95,000	Return Outwards	2,500
Wages	14,000	Trade Expense	1,000
Insurance	5,500	Office Furniture	5,000
Sundry Debtors	1,50,000	Cash in Hand	2,500
Carriage Inwards	4,000	Cash at Bank	23,750
Commission (Dr.)	4,000	Rent & Rates	5,500
Interest on Capital	3,500	Carriage Outwards	7,250
Stationary	2,250	Sales	2,50,000
Return Inwards	6,500	Bills Payable	15,000
		Creditors	98,250

	Closing Stock	12,500
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**Solution:****Trading Profit & Loss A/c of Jansons Ltd. For the year ending 31<sup>st</sup> March, 2003**

Particulars	Amount Rs.	Particulars	Amount
To Opening Stock	5,000	By Sales	2,50,000
To Purchase	1,95,000	Less: Sales Return	6,600
Less: Purchase Return	1,92,000	By Closing Stock	1,25,000
2,500			
To Wages	14,000		
To Carriage Inward	4,000		
To Gross Profit c/d	1,53,000		
	<b><u>3,68,500</u></b>		<b><u>3,68,500</u></b>
To Insurance	5,500	By Gross Profit b/d	1,53,000
To Commission	4,000	By Commission	2,000
To Interest on Capital	3,500		
To Stationary	2,250		
To Trade Expenses	1,000		
To Rent & Taxes	5,500		
To Carriage Outward	7,250		
To Net Profit c/d	1,26,000		
	1,55,000		1,55,000

**Balance Sheet of Jansons Ltd.**

Liabilities	Amount Rs.	Assets	Amount Rs.
Creditors	98,250	Cash in Hand	2,500
Bills Payable	15,000	Cash in Bank	23,750
Capital		Bills Receivable	22,500
89,000	2,15,500	Stock	1,25,000
Add: Net profit		Sundry Debtors	1,50,000
1,26,000		Office Fixtures	5,000
	3,28,750		3,28,750

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**Question 8**

From the following particulars of Mrs. Raman & Co. You are required to prepare Trading, Profit and Loss Account and Balance Sheet for the year ended 31<sup>st</sup> Dec. 2003:

Particulars	Rs.	Particulars	Amount
Sales	65,000	Discount Allowed	100
Sales Return	500	Discount Received	500
Stock at the beginning	8,000	Salaries	3,000
Purchases	29,000	Interest paid	400
Purchases Return	300	Furniture	3,000
Direct Wages	5,000	Buildings	20,000
Direct Expenses	5,000	Plant and Machinery	20,000
Carriage Inwards	4,000	Cash in Hand	1,000
Capital at the beginning	30,000	Bills Payable	6,200
Drawings	5,000	Reserve for Bad and	500
Sundry Debtors	10,000	Doubtful Debts	300
Sundry Creditors	12,000	Bad Debts	8,000
		Closing Stock at the end	

**Additional Information**

- (1) Outstanding Salaries Rs. 500
- (2) Interest on Capital at 10% P.A
- (3) Depreciation on Plant and Machinery at 10% P.A and Buildings at 5% P.A
- (4) Prepaid of Interest Rs. 100
- (5) Provision for Bad and Doubtful Debts at 10% on Debtors

**Solution:****Trading Profit and Loss Account for the year ended 31<sup>st</sup> Dec. 2003**

Particulars	Amount Rs.	Particulars	Amount Rs.
To Opening Stock	8,000	By Sales	65,000
To Purchase	29,000	Less: Sales Return	<u>500</u>
			64,500

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Less: Purchases Return <u>300</u>	28,700	By Closing Stock	8,000
To Carriage Inward	4,000		
To Direct Wages	5,000		
To Direct Expenses	5,000		
To Gross Profit c/d	21,800		
	72,500		72,500
To Discount allowed	100	By Gross profit b/d	21,800
To Salaries 3,000		By Discount Received	5000
Add: Outstanding <u>500</u>	3,500		
To Interest paid 400			
Less: Prepaid Expenses <u>100</u>	300		
To Bad Debts 2300			
Add: 10% of Provisions for Doubtful Debts <u>1,000</u>			
	1,300		
Less: Existing of Doubtful Debits <u>500</u>	800		
To interest in Capital At 10% P.A	3,000		
To Depreciation 10% on Plant and Machinery	2,000		
5% on Buildings	1,000		
To Net Profit C/d	11,600		

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**Balance Sheet as on 31<sup>st</sup> Dec. 2003**

Liabilities		Amount Rs.	Assets		Amount Rs.
Capital	30,000		Cash in hand		1,000
Add: Net Profit	<u>11,600</u>		Furniture		3,000
Add: Interest on Capital	<u>3,000</u>		Closing Stock		8,000
	44,600		Plant and Machinery	20,000	
Less: Drawings	<u>5,000</u>	<u>39,600</u>	Less: Depreciation	<u>2,000</u>	18,000
Sundry Creditors		12,000	Building	20,000	
Outstanding Salary		500	Less: Depreciation	<u>1,000</u>	19,000
Bills Payable		6,200	Prepaid interest		100
			Sundry Debtors		

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		10,000 Less: Provision for Doubtful Debts 800	9,200
	58,300		58,300

**Question 9**

**The following are the particulars of Mr. I. M. Pandey for the year ended 31 Dec. 2003**

Capital	1,00,000	Sundry Creditors	50,000
Land & Building	1,00,000	Plant & Machinery	30,000
Good will	30,000	Investment	25,000
Furniture and Fixtures	15,000	Cash in Hand	20,000
Bill Receivable	15,000	Cash at bank	5,000
Bills Payable	24,000	Drawings	20,000
Sundry Debtors	40,000	Long – Term Loans	2,00,000
Commission Paid	5,000	Salaries	20,000
Dividend Paid	4,000	Coal and Fuel	15,000
Bank Overdraft	23,000	Factory rent & rates	20,000
Discount Allowed	3,000	General Expenses	4,000
Carriage Inward	15,000	Advertisement	5,000
Carriage Outwards	7,000	Provision for Bad & Doubtful Debt	2,000
Opening Stock		Sales	8,50,000
Raw Materials	1,50,000	Sales Return	10,000
Finished goods	75,000		
Purchase of Raw Materials	5,00,000		
Purchase Returns	5,000		
Direct Wages (Factory)	80,000		



Power	30,000		
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### Additional information

- (1) Stock at the end of the year Rs. 1,00,000
- (2) A provision for doubtful debts at 5% on Sundry Debtors
- (3) Interest on Capital at 5% P.A
- (4) Depreciation on Building Rs. 1,000 and Rs. 3,000 on Machinery to be Provided
- (5) Accrued commission Rs. 12,500
- (6) Interest has accrued on investment Rs. 15,000
- (7) Salary Outstanding Rs. 2,000
- (8) Prepaid Interest Rs. 1,500

**You are required to prepare Manufacturing, Trading and Profit and Loss Account for the year ended 31<sup>st</sup> Dec. 2003**

### Solution:

#### Manufacturing Account

Particulars	Amount	Particulars	Amount
To Opening Stock of Raw Materials	1,50,000	By Cost of Manufactured Goods transferred to Trading A/c	8,05,000
To Purchase 5,00,000			
Less: Purchase Return <u>5,000</u>	4,95,000		
To Carriage Inward	15,000		
To Direct Wages	80,000		
To Power	30,000		
To Coal and Fuel	15,000		
To Factory Rent and Rates	20,000		
	8,05,000		8,05,000

#### Trading Profit and Loss Account

Particulars	Amount	Particulars	Amount
To Opening Stock of finished	75,000	Sales	8,50,000

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goods		Less: Sales Return <u>10,000</u>	
To Cost of goods transferred from manufacturing A/c	8,05,000	By Closing Stock	
To Gross Profit c/d	60,000		
	9,40,000		9,40,000
To Carriage Outward	7,000	By Gross Profit b/d	60,000
To Discount Allowed	3,000	By Accrued Commission	12,500
To Commission Paid	5,000	By Accrued Interest	15,000
To Dividend Paid	4,000		
To General Expenses	4,000		
To Advertisement	5,000		
To Salaries	20,000		
Add: Outstanding	<u>2,000</u>	22,000	
To Interest Paid	7,000		
Less Prepaid	<u>1,500</u>	5,500	
To Provision for Bad & Doubtful Debts	2,000		
Add: Bad debts	<u>4,000</u>		
	6,000		
Less: Old Provision for Doubtful Debts	<u>2,000</u>	4,000	
To Depreciation on Building	1,000		
Machinery	<u>3,000</u>	4,000	
To Interest on Capital @5% P.A	5,000		
To Net Profit c/d	19,000		
	87,500		87,500

### Balance Sheet as on 31<sup>st</sup> Dec. 2003

Liabilities	Amount Rs.	Assets	Amount Rs.
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Capital	1,00,000		Sundry Debtors	40,000	
Add: Net Profit	<u>19,000</u>		Less: Provision for Bad & Doubtful Debts	<u>2,000</u>	38,000
	1,19,000		Goodwill		30,000
Add: Interest on Capital	<u>5,000</u>		Furniture & Fixtures		15,000
	1,24,000		Bill Receivables		15,000
Less: Drawings	<u>20,000</u>	1,04,000	Land & Building	1,00,000	
Bills Payable		24,000	Less: Depreciation	<u>1,000</u>	99,000
Sundry Creditors		50,000	Plant & Machinery	30,000	
Salary Outstanding		2,000	Less: Depreciation	<u>3,000</u>	27,000
Long-Term Loans		2,00,000	Accrued Commission		12,500
Bank Overdraft		23,000	Accrued Interest		15,000
			Prepaid Interest		1,500
			Cash in Hand		20,000
			Cash at bank		5,000
			Investments		25,000
			Stock at the end		1,00,000
		4,03,000			4,03,000

### **Question 10**

**The following is the trial balance of Durga Industries Ltd. as on 31st March, 2010. Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2010 and a Balance Sheet as on that date in the form prescribed under the Companies Act, 1956.**

Particulars	Amount	Particulars	Amount
Investment	35,000	Share Capital	4,00,000
Calls in Arrear	1,000	Sales	3,00,000
Land & Building	45,000	Sundry Creditors	17,000
Machinery	3,00,000	General Reserve	5,000
Furniture	15,000	Profit on Consignment	13,000
Custom duty	3,800	Loan From bank	45,000
Wages	31,400	Dividend	3,000
Salaries	45,200		
Insurance	2,800		
Purchases	1,60,000		
Bill Receivables	21,200		

General Expenses	6,900		
Sundry Debtors	60,000		
Opening Inventory	65,000		
Cash at Bank	8,800		
Cash in hand	900		
Directors Fees	1,000		
	8,03,000		8,03,000

**The following information is to be taken into consideration:**

- (a) Closing Inventory Rs. 86,000
- (b) Depreciate Machinery at 10%
- (c) Outstanding Salary Rs. 4,000
- (d) Transfer Rs. 5,000 to General Reserve
- (e) The authorized capital of the company is Rs. 6,00,000 divided into Equity Shares of Rs. 10 each

**Solution:**

**T Format of Profit & Loss**

Durga Industries Ltd.

Trading and Profit and Loss Account

For the year ended 31<sup>st</sup> March, 2010

Particulars	Amount	Particulars	Amount
To Opening Inventory	65,000	By Sales	3,00,000
To Purchases	1,60,000	By Closing Inventory	86,000
To Custom Duty	3,800		
To Wages	31,400		
To Gross Profit c/d	1,25,800		
	3,86,000		3,86,000
To Salaries		By Gross Profit b/d	1,25,800

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45200	49,200	By Profit on Consignment	13,000
Add: Outstanding	2,800		
<u>4,000</u>	6,900		
To Insurance	1,000	By Dividend	3,000
To General Expenses			
To Directors fees	30,000		
To Depreciation on Machinery 10% X 3,00,000	18,165		
To Provision for Income Tax @30% on Rs. 51,900	33,735		
To Net Profit c/d			
	1,41,800		1,41,800
To General Reserve	5,000	By Net Profit b/d	33,735
To Balance c/d	28,735		
	33,735		33,735

### Durga Industries Ltd.

#### Balance Sheet as on 31<sup>st</sup> March, 2010

Liabilities	Amount Rs.	Assets	Amount Rs.
<b>Share Capital:</b>	6,00,000	<b>Fixed Assets:</b>	
Authorized 60,000 Equity Shares of Rs. 10 each		Land and Building	45,000
Issued and Subscribed 40,000 equity Shares of Rs. 10 each fully called 4,00,000	3,99,000	Machinery	2,70,000
Less: Calls in arrear 1,000		Less Depreciation	15,000
		30,000 (10% X 3,00,000)	35,000
<b>Reserves and Surplus:</b>		Furniture	
		<b>Investments:</b>	
		Current Asset,	

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General Reserve (25,000 + 5,000)	30,000	<b>Loans &amp; Advances:</b>	86,000
Profit and Loss Account	28,735	(A) Current Assets:	60,000
<b>Secured Loans:</b>	45,000	Closing Inventory	8,800
<b>Loan from bank:</b>		Sundry Debtors	900
<b>Unsecured Loans:</b>		Cash at Bank	
Current Liabilities & Provisions		Cash in hand	21,200
(A) Current Liabilities:	17,000	(B) Loans & Advances	
Sundry Creditors	4,000	Bills Receivable	
Outstanding Salary		Miscellaneous Expenditure	
(B) Provisions:	18,165		
Provision for income Tax			
5,41,900			
	5,41,900		5,41,900

## Past Examination Question

### DEC 2020

#### Question 1

Following are the Manufacturing A/c, Creditors A/c and Trading A/c provided by M/s Shivam related to financial year 2019-20. There are certain figures missing from these accounts

#### Raw Material A/c

Particular	Amount (Rs)	Particular	Amount (Rs)
To Opening Stock A/c	1,27,000	By Raw Materials Consumed	-
To Creditors A/c	-	By Closing Stock	-

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**Creditors A/c**

Particular	Amount (Rs)	Particular	Amount (Rs)
To Bank A/c	23,50,000	By Balance b/d	15,70,000
To Balance C/d	6,60,000		

**Manufacturing A/c**

Particular	Amount (Rs)	Particular	Amount (Rs)
To Raw Material A/c	-	By Trading A/c	17,44,000
To wages	3,65,000		
To Description	2,15,000		
To Direct Expenses	2,49,000		

**Additional Information**

- I. Purchase of machinery worth Rs. 12,00,000 on 1<sup>st</sup> April, 2019 has been omitted Machinery are chargeable at a depreciation of 15%
- II. Wages include the following:
  - Paid to factory workers - Rs. 3,15,000
  - Paid to labour at office - Rs. 50,000
- III. Direct expenses including following:
  - Electricity charges -Rs. 80,000 of which 25% pertained to office
  - Fuel charges - Rs. 25000
  - Freight inwards -Rs. 32000
  - Delivery charges to customers -Rs. 22,000

**You are required to prepare revised Manufacturing A/c and Raw Material A/c.**

**Answer:**

**In the books of Shivam  
Row Material A/c**

Particular	Amt	Particular	Amt
To op. stock a/c	12700033	By Raw material consumed	915000
To creditor a/c	1440000	By closing stock (b/f)	652000
	1567000		1567000

### Manufacturing A/c

Particular	Amt	Particular	Amt
To Row material consumed (b/f)	915000	By Trading a/c (Note – 5)	1832000
To Depreciation a/c	395000		
To wages	315000		
To Direct Expenses	207000		
	1832000		1832000

### Working 1}

#### Creditors A/c

Particular	Amt	Particular	Amt
To Bank a/c	2350000	By Bal. b/d	1570000
To Bal. c/d	660000	By Row material (b/f)	1440000
	3010000		3010000

### (2) Calculation of Depreciation

Depreciation (as per Manu A/C)	215000
(+) Dep. on Machinery omitted (1200000 @ 15 %)	180000
<b>Total</b>	<b>395000</b>

<b>(3) Wages as per Manufacture A/c</b>	<b>365000</b>
(-) Paid to labour at office	(50000)
Revised Bal. of Wages	<b>315000</b>



**(4) Direct Expenses as per manufacture A/C 249000**

(-) Electricity charges of office	(20000)
(-) Delivery charges to customer	(22000)
<b>Revised Bal. of direct Exp</b>	<b>207000</b>

**(5) Revised Balance to be Transfer to Trading A/C**

<b>Current Balance</b>	<b>1744000</b>
(+) Depreciation on Machinery	180000
(-) Wages paid to Labour at office	(50000)
(-) Office Exp	(42000)
<b>Revised Balance</b>	<b><u>1832000</u></b>

**IAN 2021****Question 2**

**Mr. K is engaged in business of selling magazines Several of his customer pay money in advance for subscribe his magazines Information related to year ended 31<sup>st</sup> March, 2020 has been given below:**

**On 1<sup>st</sup> April, 2019 he had a balance of Rs. 3,00,000 advances from customer of which Rs. 2,25,000 is related to year 2019-20 while remaining pertains to year 2020-21 During the year 2019 he made cash sales of Rs. 7,50,000.**

**i. Total income for the year 2019-20**

**Solution:****Calculation of income for the year 2019-20**

Particulars	Amount
Cash sales during the year	7,50,000
(+) Advance received during the year (working notes)	1,80,000
Total money received during the year	6,80,000

**Question 3**

**Total money received during the year if the closing balance as on 31<sup>st</sup> March 2020 in advance Customer Account is Rs. 2,55,000**

**Solution:**

Particulars	Amount
Cash sales during the year	5,00,000
(+) Advance received during the year (Working notes)	1,80,000
Total money received during the year	6,80,000

**Working notes:**

**Advance from customers A/c**

Dr.				Cr.			
Date	Particulars	J.F	Amount Rs.	Date	Particulars	J.F	Amount Rs.
	To sales A/c		2,25,000	1-4-19	By Balance b/d		3,00,000
	(Advance related to current year transferred to sales)				By Bank (B.f)		1,80,000
31-3-20	To balance c/d		2,55,000				
			4,80,000				4,80,000

**July 2021**

**Question 4**

**Karuna decided to start business of fashion garments under the name of M/s. Designer**

**Wear on 1<sup>st</sup> April, 2020. She had a saving of about ₹ 10,00,000. She invested ₹ 3,00,000 out of her savings and borrowed equal amount for Bank. She purchased a commercial space for ₹ 5,00,000 and further spent ₹ 1,00,000 on its renovation to make it ready for business.**

**Loan and interest repaid by her in the first year are as follows:**

30 <sup>th</sup> June, 2020	- ₹ 15,000 principal + ₹ 9,000 interest
30 <sup>th</sup> September, 2020	- ₹ 15,000 principal + ₹ 8,550 interest
31 <sup>st</sup> December, 2020	- ₹ 15,000 principal + ₹ 8,100 interest
31 <sup>st</sup> March, 2021	- ₹ 15,000 principal + ₹ 7,650 interest

**In view of further capital requirements transferred ₹ 2,00,000 from her saving bank account to the bank account of the business. She paid security deposit of ₹ 10,000 was purchased. All payments were made by cheque and all receipts in cash were deposited in the bank.**

**At the end of the year, her business showed the following results:**

Particulars	Amount	Particulars	Amount
Total Sales	20,00,000	Total Purchase	17,00,000
Electricity Expenses	40,000	Telephone Charges	50,000
paid	60,000	Travelling Expenses	45,000
Cartage Outwards	5,000	Maintenance Expenses	25,000
Entertainment Expenses	15,000	Electricity Expenses	20,000
Misc. Expenses		Payable	

**Other Information:**

1. She withdrew ₹ 5,000 by cheque each month for her personal expenses.
2. Depreciation on Building @ 5% p.a. and on furniture @ 10% p.a.
3. Closing stock in hand as on 31<sup>st</sup> March, 2021: ₹ 5,50,000

**Prepare trading account, Profit and loss account for the year ended 31-3-2021 and Balance Sheet as on that date.**

**Answer:**

**Trading & Profit and Loss A/c of Karuna for the year ending 31<sup>st</sup> March 2021**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Purchase A/c	17,00,000	By Sales A/c	20,00,000
To Gross Profit c/d	8,50,000	By Closing Stock	5,50,000
	25,50,000		25,50,000
		By Gross Profit b/d	8,50,000
To Electricity expenses 40,000			
Add: Electricity Payable 20,000	60,000		

To Carriage outwards	60,000		
To Entertainment expenses	5,000		
To Misc. expenses	15,000		
To Telephone Charges	50,000		
To Travelling Expenses	45,000		
To Maintenance Expenses	25,000		
To Internet	33,000		
To Dep. on Furniture (10,000×10%×6/12)	500		
To Dep. on Buildings (60,000× 5%)	30,000		
To Net Profit (transf. to Capital A/c)	5,26,200		
	8,50,000		

Note: As the date of purchase of Furniture is not known, depreciation has been calculated for 6 months

### Balance sheet of 'Karuna' as on 31<sup>st</sup> March 2021

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital	5,00,000		Furniture	10,000	
Less: Drawing	(60,000)		Less: Depreciation	500	9,500
Ad: Net Profit	5,26,200	9,66,200	Building	6,00,000	
Bank Loans		2,40,000	Less: Depreciation	(30,000)	5,70,000
Electricity		20,000	Bank		89,700
			Security Deposit		7,000
			Closing Stock		5,50,000
		12,26,200			12,26,200
		0			

Working Note 1: Calculation of Total Principal and Interest

	Principal	Interest
30 <sup>th</sup> Jan 2020	15,000	9,000
30 <sup>th</sup> September 2020	15,000	8,550
31 <sup>st</sup> December 2020	15,000	8,100
31 <sup>st</sup> March 2021	15,000	7,650
	60,000	33,300

Working Note 2:

Dr.		Capital A/c		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)		
To Balance c/d	5,00,000	By Bank	3,00,000		
		By Bank	2,00,000		
			5,00,000		

Dr.		Bank Loan A/c		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)		
To Bank (Repayment)	60,000	By Bank A/c	3,00,000		
To Balance c/d	24,000				
	3,00,000		5,00,000		

Dr.		Bank A/c		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)		
To Capital A/c	3,00,000	By Bank Loan A/c	60,000		
To Bank Loan A/c	3,00,000	By Building A/c	6,00,000		
To Capital	2,00,000	By Interest A/c	33,300		
To Sales A/c	20,00,000	By Security Deposit A/c	7,000		
		By Furniture A/c	10,000		
		By Electricity A/c	40,000		
		By Cartage Outwards A/c	60,000		
		By Entertainment Expenses A/c	5,000		
		By Miscellaneous Expenses a/c	15,000		
		By Purchase A/c	17,00,000		
		By Telephone Charges A/c	50,000		
		By Travelling Expenses, A/c	45,000		
		By Maintenance Expenses A/c	25,000		
		By Drawing A/c	60,000		
		By Balance c/d	89,700		
	28,00,000		28,00,000		

**Dec 2021****Question 1**

On 31<sup>st</sup> March, 2021 the Trial Balance of Mr. Black was as follows:

<i>Particulars</i>	<i>Debit (₹)</i>	<i>Particulars</i>	<i>Credit (₹)</i>
Stock on 1/4/2020		Sundry Creditors	1,50,000
Raw Materials	2,10,000	Bills Payables	75,000
Work-in-Progress	95,000	Sale of scrap	25,000
Finished Goods	1,55,000	Commission received	4,500
Sundry Debtors	2,40,000	Provision for doubtful debts	16,500
Carriages on Purchase	15,000	Capital account	10,00,000
Bills Receivables	1,50,000	Sales	16,72,000
Wages	1,30,000	Bank overdraft	85,000
Salaries	1,00,000		
Telephone and Postage	10,000		
Repairs to office furniture	3,500		
Cash at Bank	1,70,000		
Office Furniture	1,00,000		
Repairs to Plant	11,000		
Purchases	8,50,000		
Plant and Machinery	7,00,000		
Rent	60,000		
Lighting	13,500		
General Expenses	<u>15,000</u>		
	<b>30,28,000</b>		<b>30,28,000</b>

The following additional information is available:

Stocks on 31<sup>st</sup> March, 2021 were:

Raw material	₹ 1,62,000
Finished goods	₹ 1,81,000
Work-in-progress	₹ 78,000

Salaries and wages unpaid for the year ended 31<sup>st</sup> March, 2021 were respectively, ₹ 9,000 and ₹ 20,000.

**Machinery is to be depreciated by 10% and office furniture by 7½%. A provision for doubtful debts is to be maintained @1% of sales. Rent is to be charged as to 3/4 to factory and 1/4 to office. Lighting is to be charged as to 2/3 to factory and 1/3 to office.**

**Prepare the Manufacturing Account, Trading Account and Profit and Loss Account for the year ended on 31st March, 2021. (15 Marks)**

**Answer:**

**In the books of Mr. Black**

**Manufacturing Account for the year ended 31<sup>st</sup> March, 2021**

Particulars		Particulars	
Raw material consumed:		By Closing Stock of Work in Progress	78,000
To Opening Stock of Raw Materials	2,10,000	By Sale of Scrap	25,000
		By Cost of goods Manufactured	
<b>Add: Purchases</b>	8,50,000	(Transferred to Trading Account)	11,90,000
<b>Less: Closing Stock</b>	1,62,000		
	8,98,000		
To Opening Stock of WIP			95,000
To Wages	1,30,000		
<b>Add: Outstanding Wages</b>	20,000		1,50,000
To Carriage on Purchases			15,000
To Repairs to Plant			11,000
To Rent (3/4)			45,000
To Lighting (2/3)			9,000
To Depreciation of Plant			70,000
			12,93,000
			12,93,000

**Trading Account for the year ended 31<sup>st</sup> March, 2021**

Particulars		Particulars	
To Opening Stock of finished goods	1,55,000	By Sales	16,72,000
To Cost of goods transferred from Manufacturing A/c	11,90,000	By Closing Stock	1,81,000
To Gross Profit c/d	5,08,000		
	18,53,000		18,53,000

**Profit and Loss Account for the year ended 31<sup>st</sup> March, 2021**

Particulars		Particulars	
To Salaries	1,00,000	By Gross Profit b/d	5,08,000

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Add: Outstanding	9,000	1,09,000	By Commission	4,500
To Telephone & Postage		10,000		
To Repairs to Furniture		3,500		
To Depreciation of furniture		7,500		
To Rent (1/4)		15,000		
To Lighting (1/3)		4,500		
To General Expenses		15,000		
To Provision for doubtful Debts: Required (1% of ₹ 1,67,200)	16,720			
Less: Existing Provision	16,500	220		
To Net Profit		3,47,780		
		5,12,500		5,12,500

## June 2022

### Question 1

The following is the trial balance of Mr. B for the year ended 31st March, 2021

Particulars	Dr.	Particulars	Cr.
<i>Opening Stock:</i>		<i>Sundry Creditors</i>	1,75,000
Raw Material	5,25,000	<i>Purchase Return</i>	17,500
Finished Goods	2,62,500	<i>Capital</i>	3,50,000
Purchase of Raw Material	17,50,000	<i>Bills Payable</i>	84,000
Land & Building	3,50,000	<i>Long Term Loan</i>	7,00,000
Loose Tools	1,05,000	<i>Provision for bad and doubtful debts</i>	7,000
Plant and Machinery	1,05,000	<i>Sales</i>	29,75,000
Investments	87,500	<i>Bank Overdraft</i>	80,500
Cash in Hand	70,000		
Cash at Bank	17,500		
Furniture and Fixtures	52,500		
Bills Receivables	52,500		
Sundry Debtors	1,40,000		
Drawings	70,000		
Salaries	70,000		
Coal and Fuel	52,500		
Factory rent and rates	70,000		
General Expenses	14,000		
Advertisement	17,500		



Sales Return	35,000		
Bad Debts	14,000		
Direct Wages (Factory)	2,80,000		
Power	1,05,000		
Interest paid	24,500		
Discount allowed	10,500		
Carriage inwards	52,500		
Carriage outwards	24,500		
Commission paid	17,500		
Dividend paid	14,000		
	<u>43,89,000</u>		<u>43,89,000</u>

**Additional Information:**

1. Stock of finished goods at the end of the year was ` 3,50,000.
2. A provision for doubtful debts is to be created @ 5% on Sundry Debtors.
3. Provide Depreciation on building 3,500 and Plant and Machinery 10,500.
4. Accrued commission is 43,750. Interest has accrued on investment 52,500.
5. Salary Outstanding is ` 7,000 and Prepaid Interest is ` 5,250.

**You are required to prepare Manufacturing, Trading and Profit & Loss Account for the year ended 31st March, 2021 and Balance Sheet as at that date. (20 Marks)**

**Answer:**

**In the books of Mr. B**

**Manufacturing Account for the year ended 31<sup>st</sup> March, 2021**

Particulars			Particulars	
To Opening Stock of Raw Materials		5,25,000	By Cost of Manufactured goods transferred to Trading A/c	28,28,000
To Purchase	17,50,000			
Less: Purchase Return	17,500	17,32,500		
To Carriage Inwards		52,500		
To Direct Wages		2,80,000		
To Power		1,05,000		
To Coal and fuel		52,500		
To Factory Rent and Rates		70,000		

To Depreciation on Machinery		10,500	
		<b>28,28,000</b>	<b>28,28,000</b>

### Trading Account for the year ended 31<sup>st</sup> March, 2021

Particulars		Particulars		
To Opening Stock of finished goods	2,62,500	By Sales	29,75,000	
To Cost of goods transferred from Manufacturing A/c	28,28,000	Less: Sales Return	35,000	29,40,000
		By Closing Stock		3,50,000
To Gross Profit c/d	1,99,500			
	<b>32,90,000</b>			<b>32,90,000</b>

### Profit and Loss Account for the year ended 31<sup>st</sup> March, 2021

Particulars		Particulars		
To Carriage Outward		24,500	By Gross Profit b/d	1,99,500
To Discount Allowed		10,500	By Accrued Commission*	43,750
To Commission Paid		17,500	By Accrued Interest	52,500
To Dividend Paid		14,000		
To General Expenses		14,000		
To Advertisement		17,500		
To Salaries	70,000			
Add: Outstanding	7,000	77,000		
To Interest Paid	24,500			
Less: Prepaid	5,250	19,250		
To Provision for Bad & Doubtful Debts	7,000			
Add: Bad Debts	14,000			
Less: Old Provision for Doubtful Debts	7,000	14,000		
To Depreciation on Building		3,500		
To Net Profit c/d		84,000		
		<b>2,95,750</b>		<b>2,95,750</b>

\*Alternatively Accrued Commission may be treated as Expenses, in that case total Commission will be ` 61,250 (` 17,500 + ` 43,750) and Net Loss will be ` 3,500.

### Balance Sheet as on 31<sup>st</sup> March, 2021

Capital and Liabilities		Assets		
Capital	3,50,000	Plant & Machinery	1,05,000	
Add: Net Profit**	84,000	Less: Depreciation	10,500	94,500

	4,34,000		Land & Building	3,50,000	
Less: Drawings	70,000	3,64,000	Less: Depreciation	3,500	3,46,500
Bills Payable		84,000	Furniture & Fixtures		52,500
Sundry Creditors		1,75,000	Investments		87,500
Salary Outstanding		7,000	Closing Stock		3,50,000
Long-Term Loans		7,00,000	Loose Tools		1,05,000
Bank Overdraft		80,500	Sundry Debtors	1,40,000	
			Less: Provision forBad & Doubtful Debts	7,000	1,33,000
			Bills Receivable		52,500
			Accrued Commission		43,750
			Accrued Interest		52,500
			Prepaid Interest		5,250
			Cash in Hand		70,000
			Cash at Bank		17,500
		<b>14,10,500</b>			<b>14,10,500</b>

\*\*If Accrued Commission is treated as expenses in that case Net Loss of ` 3,500 will be deducted from Capital Account and Closing Capital figure will be ` 2,76,500 and Accrued Commission ` 43,750 will appear under liability side of Balance Sheet.

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