

Final Accounts—With Adjustments

MEANING OF KEY TERMS USED IN THE CHAPTER

1. Adjusting Entry	It is an entry passed in the books of account to give effect to transactions that should have been recorded in the books of account but are not recorded.
2. Closing Stock	It is the value of stock in hand at the end of the accounting year. It is valued at cost or net realisable value (market value), whichever is less.
3. Outstanding Expenses	They are expenses incurred during the year the benefit of which is consumed or exhausted during the year but have not been paid. For example, salary payable for the month of March is provided being not paid.
4. Prepaid or Unexpired Expenses	They are the expenses that have been paid but the benefit of which is not consumed or exhausted during the year.
5. Accrued Income	It is the income which has been earned but not received.
6. Income Received in Advance or Unearned Income.	It is the income which has not been earned but received during the accounting year.
7. Depreciation	It is the fall in value of fixed asset due to usage, efflux of time, obsolescence or accident.
8. Bad Debt	It is the debt that has become irrecoverable.
9. Provision for Doubtful Debts	It is the amount set aside out of profit to meet possible bad debts. This provision is made due to the Prudence Concept.
10. Provision for Discount on Debtors	It is the amount set aside out of profit to allow discount to debtors in future. This provision is made following the Prudence Concept.
11. Normal Loss	Normal loss means loss due to nature of the product which will happen and cannot be prevented say, loss due to evaporation of petrol.
12. Abnormal Loss	Abnormal loss means loss by any abnormal reason or cause say, due to fire or accident or theft.

CHAPTER SUMMARY

- **Accrual Concept** is a fundamental concept of accounting. Therefore, expenses whether paid or not, incomes whether received or not, prepaid expenses and unearned incomes need to be adjusted.
- **Adjustments** are made for: (i) Proper matching of cost with revenue for ascertaining true and fair view of the profit earned or loss incurred by the business entity for the accounting period and (ii) for showing true and fair value of assets and liabilities of the business as on the last date of the accounting period.
- **Adjustment** is recorded on the basis of the Dual Aspect Concept meaning every adjustment must appear at two places, one representing the *debit* and the other representing the *credit*.

Treatment of Items of Adjustment Appearing in the Trial Balance

<i>Item given in Trial Balance</i>	<i>Treatment in Profit and Loss Account</i>	<i>Treatment in Balance Sheet</i>
1. Closing Stock	—	Shown in the Assets side as a Current Asset.
2. Outstanding Expenses	—	Shown in the Liabilities side as a Current Liability.
3. Prepaid Expenses	—	Shown in the Assets side as a Current Asset.
4. Accrued Income	—	Shown in the Assets side as a Current Asset.
5. Unearned Income/ Income Received in Advance	—	Shown in the Liabilities side as a Current Liability.
6. Depreciation	Shown in the Debit side of the Profit and Loss A/c.	—

Solved Questions**Illustration 1.**

Given below is the Trial Balance of M/s. Gupta & Sons as at 31st March, 2020:

Heads of Accounts	Dr. Balances ₹	Cr. Balances ₹
Capital	...	7,20,000
Drawings	40,000	...
Sales	...	10,15,000
Purchases	6,20,000	...
Stock in Trade on 1st April, 2019	20,000	...
Sales Return	12,000	...
Purchases Return	...	15,000
Sundry Debtors	80,000	...
Sundry Creditors	...	30,000
Rent	22,000	...
Electricity	16,000	...
Other Expenses	32,000	...
Wages	1,12,000	...
Cash in Hand	1,22,000	...
Cash at Bank	6,32,000	...
Advance to Supplier	72,000	...
Total	17,80,000	17,80,000

Additional Information:

- (i) On scrutiny it is found that bank balance as per Bank Statement of Current Account on 31st March, 2020 was ₹ 5,78,000. A cheque of ₹ 70,000 was collected from a debtor returned dishonoured and a cheque of ₹ 16,000 was deposited by another debtor directly.
- (ii) Closing stock as on 31st March, 2020 was ₹ 40,000.
- (iii) Purchases return ₹ 2,000 was wrongly posted as sales return but correctly debited to Supplier's Account.
- (iv) Purchases Book is found overcast by ₹ 6,000.
- (v) Sales Book is found undercast by ₹ 2,000.

You are required to: (1) redraft the Trial Balance, and (2) prepare Final Accounts of M/s. Gupta & Sons.

Solution:**M/s. Gupta & Sons**

TRIAL BALANCE (Redrafted) as at 31st March, 2020

Heads of Accounts	L.F.	Dr. (₹)	Cr. (₹)
Capital		...	7,20,000
Drawings		40,000	...
Sales (₹ 10,15,000 + ₹ 2,000) (v)		...	10,17,000
Purchases (₹ 6,20,000 – ₹ 6,000) (iv)		6,14,000	...
Stock in Trade (1.4.2019)		20,000	...
Sales Return (₹ 12,000 – ₹ 2,000) (iii)		10,000	...
Purchases Return (₹ 15,000 + ₹ 2,000) (iii)		...	17,000
Sundry Debtors (₹ 80,000 + ₹ 70,000 – ₹ 16,000) (i) and (ii)		1,34,000	...
Sundry Creditors		...	30,000
Rent		22,000	...
Electricity		16,000	...
Other Expenses		32,000	...
Wages		1,12,000	...
Cash in Hand		1,22,000	...
Cash at Bank (₹ 6,32,000 – ₹ 70,000 + ₹ 16,000) (i) and (ii)		5,78,000	...
Advance to Supplier		72,000	...
Suspense Account (Balancing Figure)		12,000	...
Total		17,84,000	17,84,000

Note: Number given in the () indicates rectifying entry given on the next page.

TRADING AND PROFIT AND LOSS ACCOUNT

for the year ended 31st March, 2020			
Dr.			Cr.
Particulars	₹	Particulars	₹
To Opening Stock	20,000	By Sales	10,17,000
To Purchases	6,14,000	Less: Sales Return	10,000
Less: Purchases Return	17,000	By Closing Stock	40,000
To Wages	1,12,000		
To Gross Profit c/d	3,18,000		
	10,47,000		10,47,000
To Rent	22,000	By Gross Profit b/d	3,18,000
To Electricity	16,000		
To Other Expenses	32,000		
To Net Profit transferred to Capital A/c	2,48,000		
	3,18,000		3,18,000

BALANCE SHEET as at 31st March, 2020

Liabilities	₹	Assets	₹
Sundry Creditors	30,000	Cash in Hand	1,22,000
Capital:		Cash at Bank	5,78,000
Opening Balance	7,20,000	Sundry Debtors	1,34,000
Add: Net Profit	2,48,000	Closing Stock	40,000
	9,68,000	Advance to Suppliers	72,000
Less: Drawings	40,000	Suspense A/c	12,000
	9,28,000		
	9,58,000		9,58,000

Note: The existence of Suspense Account in both redrafted Trial Balance and Balance Sheet implies that errors still exist.

RECTIFYING JOURNAL ENTRIES

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Sundry Debtors A/c ...Dr. To Bank A/c (Being the cheque dishonoured)		70,000	70,000
(ii)	Bank A/c ...Dr. To Sundry Debtors A/c (Being the amount deposited into bank directly by debtor)		16,000	16,000
(iii)	Suspense A/c ...Dr. To Purchases Return A/c To Sales Return A/c (Being the purchase return wrongly recorded as sales return, now rectified)		4,000	2,000 2,000
(iv)	Suspense A/c ...Dr. To Purchases A/c (Being the overcasting in Purchases Book rectified)		6,000	6,000
(v)	Suspense A/c ...Dr. To Sales A/c (Being the undercasting of Sales Book rectified)		2,000	2,000

Illustration 2.

From the books of M/s. Shyam Traders, following Trial Balance is prepared on 31st March, 2020:

Debit Balances	₹	Credit Balances	₹
Purchases (Adjusted)	1,93,500	Sales	3,00,000
Wages	23,250	Bank Overdraft	24,500
Carriage on Purchases	18,000	Interest on Investment	700
Prepaid Insurance on 1st April, 2019	625	Provision for Doubtful Debts	2,500
Bad Debts	600	Cash Discount	4,500
Rent and Insurance	7,750	Capital	71,175
Salary	13,500	Creditors	18,750
Debtors	37,500	Outstanding Wages on 31st March, 2020	900
Stock on 31st March, 2020	20,500		
Investment	10,000		
Cash	14,500		
Accrued Interest on 31st March, 2020	800		
Furniture	10,500		
Plant and Machinery	50,000		
Income Tax	22,000		
	4,23,025		4,23,025

Prepare (1) Trading and Profit and Loss Account for the year ended 31st March, 2020 and (2) Balance Sheet as on that date, taking into consideration the adjustment given below:

- (i) On 1st October, 2019 plant for ₹ 10,000 was purchased on credit but no entry was passed.

- (ii) *Outstanding Expenses*: Rent ₹ 500, Salary ₹ 600.
- (iii) *Prepaid Expenses*: Insurance ₹ 250, Wages ₹ 400.
- (iv) Goods costing ₹ 2,750 were taken for personal use by the owner but no entry has been made.
- (v) Depreciate Plant and Machinery and Furniture @ 10% p.a.
- (vi) Write off ₹ 500 from debtors as bad debts and create provision for doubtful debts @ 5% and 2% provision for discount on debtors.

Solution:

TRADING AND PROFIT AND LOSS ACCOUNT

Dr. for the year ended 31st March, 2020 Cr.

Particulars	₹	Particulars	₹
To Purchases (Adjusted)	1,93,500	By Sales	3,00,000
Less: Drawings	2,750		
	1,90,750		
To Wages	23,250		
Less: Prepaid	400		
	22,850		
To Carriage on Purchases			
	18,000		
To Gross Profit c/d	68,400		
	3,00,000		3,00,000
To Salaries	13,500	By Gross Profit b/d	68,400
Add: Outstanding	600	By Interest on Investment	700
	14,100	By Cash Discount	4,500
To Rent and Insurance	7,750		
Add: Outstanding Rent	500		
	8,250		
Less: Prepaid Insurance on 31.3.2020	250		
	8,000		
Add: Prepaid Insurance on 1.4.2019	625		
	8,625		
To Bad Debts	600		
Add: Further Bad Debts	500		
Provision (New)	1,850		
	2,950		
Less: Provision (Old)	2,500		
	450		
To Provision for Discount on Debtors	703		
To Depreciation:			
on Plant and Machinery*	5,500		
on Furniture	1,050		
	6,550		
To Net Profit transferred to Capital A/c	43,172		
	73,600		73,600

*Depreciation on Plant and Machinery = ₹ 5,000 (i.e., ₹ 50,000 × 10/100) + ₹ 500 (i.e., ₹ 10,000 × 10/100 × 6/12)
= ₹ 5,500.

BALANCE SHEET as at 31st March, 2020

Liabilities	₹	Assets	₹
Current Liabilities:		Current Assets:	
Creditors	18,750	Cash	14,500
Supplier (Plant)	10,000	Accrued Interest	800
Bank Overdraft	24,500	Stock	20,500
Outstanding Expenses: Wages	900	Prepaid Insurance	250
Rent	500	Prepaid Wages	400
Salaries	600		
	2,000	Debtors	37,500
Capital:		Less: Further Bad Debts	500
Opening Balance	71,175		37,000
Add: Net Profit	43,172	Less: Provision for Doubtful Debts	1,850
	1,14,347		35,150
Less: Drawings	2,750	Less: Provision for Discount	703
	1,11,597		34,447
Less: Income Tax (Note 1)	22,000	Investments	10,000
	89,597	Fixed Assets:	
		Furniture	10,500
		Less: Depreciation	1,050
			9,450
		Plant and Machinery (₹ 50,000 + ₹ 10,000)	60,000
		Less: Depreciation	5,500
			54,500
	1,44,847		1,44,847

Note: Income Tax to be taken as drawings of the proprietor.

Illustration 3.

From the following particulars extracted from the books of Saurab, prepare Trading and Profit and Loss Account for the year ended 31st March, 2020 and Balance Sheet as at 31st March, 2020 after making necessary adjustments:

Particulars	₹	Particulars	₹
Saurab's Capital Account (Cr.)	54,050	Sundry Debtors	12,000
Stock as on 1st April, 2019	23,400	Sundry Creditors	7,400
Sales	1,44,800	Loan from Dena Bank Ltd. @ 12%	10,000
Sales Return	4,300	Interest paid	450
Purchases	1,21,550	Printing and Stationery	1,700
Purchases Return	2,900	Advertisement	5,600
Carriage Inwards	9,300	Interest received	725
Rent	2,850	Audit fees	350
Salaries	4,650	Fire Insurance Premium	300
Cash at Bank	4,000	Travelling Expenses	1,165
Discount received	1,495	Postage and Telegrams	435
Investments @ 5% as on 1st April, 2019	2,500	Cash in Hand	190
Furniture (as on 1st April, 2019)	900	Deposits @ 10% as on 1st April, 2019 (Dr.)	15,000
Discount allowed	3,770	Drawings	5,000
General expenses	1,960		

Adjustments:

- (i) Value of Stock as on 31st March, 2020 is ₹ 39,300. This includes goods returned by customers on 31st March, 2020 to the value of ₹ 1,500 of which no entry was passed.
- (ii) Purchases include furniture purchased on 1st January, 2020 for ₹ 1,000.
- (iii) Depreciation should be provided on furniture @ 13% p.a.
- (iv) The Loan Account from Dena Bank in the books of Saurab was as follows:
- | | ₹ | | ₹ |
|------------------------|--------|------------------------|--------|
| 2020 | | 2019 | |
| Mar. 31 To Balance c/d | 10,000 | April 1 By Balance b/d | 5,000 |
| | | 2020 | |
| | | Mar. 31 By Bank A/c | 5,000 |
| | 10,000 | | 10,000 |
- (v) Sundry Debtors included ₹ 2,000 due from Rumant and Sundry Creditors included ₹ 1,000 due to him.
- (vi) Interest paid included ₹ 300 paid to Dena Bank.
- (vii) Interest received represents ₹ 100 from the Sundry Debtors and the balance on investments and deposits.
- (viii) Provide for interest payable to Dena Bank for interest receivable on investments and deposits.
- (ix) Provide Provision for Doubtful Debts at 5% on the balance under "Sundry Debtors". No provision need to be created for the deposits. [CA (Foundation) Nov., 1994, Modified]

Solution:

TRADING AND PROFIT AND LOSS ACCOUNT

Dr.		Cr.	
for the year ended 31st March, 2020			
Particulars	₹	Particulars	₹
To Opening Stock	23,400	By Sales	1,44,800
To Purchases	1,21,550	Less: Sales Return	
Less: Purchase of Furniture	1,000	(₹ 4,300 + ₹ 1,500)	5,800
	1,20,550	By Closing Stock	39,300
Less: Purchases Return	2,900		
	1,17,650		
To Carriage Inwards	9,300		
To Gross Profit c/d	27,950		
	1,78,300		1,78,300
To Rent	2,850	By Gross Profit b/d	27,950
To Salaries Paid	4,650	By Interest Received	725
To Interest Paid	450	Add: Interest Accrued	1,000
Add: Outstanding	300	By Discount Received	1,495
	750		
To Printing and Stationery	1,700		
To Advertisements	5,600		
To Discount Allowed	3,770		
To General Expenses	1,960		
To Audit Fees	350		
To Fire Insurance Premium	300		
To Travelling Expenses	1,165		
To Postage and Telegrams	435		
To Depreciation on Furniture @ 13% p.a.:			
on ₹ 900 for 12 months	117		
on ₹ 1,000 for 3 months	33		
	150		
To Provision for Doubtful Debts	475		
To Net Profit transferred to Capital A/c	7,015		
	31,170		31,170

The following adjustments are to be made:

- (i) Included among the Debtors is ₹ 3,000 due from Ram and included among the Creditors ₹ 1,000 due to him.
- (ii) Provision for Doubtful Debts be created @ 5% and for Discount @ 2% on Sundry Debtors.
- (iii) Depreciation on Furniture and Fittings @ 10% shall be written off.
- (iv) Personal Purchases of Hari of ₹ 600 had been recorded in the Purchases Book.
- (v) Interest on Bank Loan shall be provided for the whole year.
- (vi) A quarter of the amount of Printing and Stationery Expenses is to be carried forward to the next year.
- (vii) Credit Purchase Invoice amounted to ₹ 400 had been omitted from the books.
- (viii) Stock on 31st March, 2020 was ₹ 78,600.

Prepare (a) Trading and Profit and Loss Account for the year ended 31st March, 2020 and (b) Balance Sheet as at 31 March, 2020. [CA (Foundation) Nov., 1995, Modified]

Solution:

TRADING AND PROFIT AND LOSS ACCOUNT OF HARI
for the year ended 31st March, 2020

Dr.	₹	Cr.	₹
Particulars		Particulars	
To Opening Stock	46,800	By Sales	3,89,600
To Purchases	3,21,700	Less: Returns Inward	8,600
Add: Omitted Purchases	400	By Closing Stock*	78,600
Less: Drawings	600		
	3,21,500		
Less: Returns Outward	5,800		
	3,15,700		
To Carriage Inwards	19,600		
To Gross Profit c/d	77,500		
	4,59,600		4,59,600
To Rent and Taxes	4,700	By Gross Profit b/d	77,500
To Salaries and Wages	9,300	By Discount Earned	4,440
To Bank Interest	1,100		
Add: Outstanding	1,700		
	2,800		
To Printing and Stationery	14,400		
Less: Prepaid	3,600		
	10,800		
To Discount Allowed	1,800		
To General Expenses	11,450		
To Insurance	1,300		
To Postage and Telegrams	2,330		
To Travelling Expenses	870		
To Provision for Doubtful Debts (WN 1)	1,150		
To Provision for Discount on Debtors (WN 1)	437		
To Depreciation on Furniture	500		
To Net Profit transferred to Capital A/c	34,503		
	81,940		81,940

*Closing stock is physically verified at the year end. Thus, closing stock includes goods costing ₹ 400, the credit purchase invoice in respect of which has been omitted from books.

BALANCE SHEET OF HARI as at 31st March, 2020

Liabilities	₹	Assets	₹
Capital A/c:		Fixed Assets:	
Opening Balance	76,690	Furniture and Fittings	5,000
Add: Profit	34,503	Less: Depreciation	500
	1,11,193		4,500
Less: Drawings:		Current Assets:	
Cash	30,000	Stock	78,600
Goods	600	Sundry Debtors	23,000
	30,600	Less: Provision for Doubtful Debts	1,150
Loan:			21,850
Bank Loan	20,000	Less: Provision for Discount	437
Bank Interest due	1,700		21,413
Current Liabilities:		Bank Balance	8,000
Sundry Creditors (WN 2)	14,200	Cash Balance	380
		Prepaid Printing and Stationery Expenses	3,600
	1,16,493		1,16,493

Working Notes:

1. Calculation of Provisions:

(a) Debtors as per Trial Balance	₹ 24,000
(b) Less: Due from Ram	1,000
(c) Debtors subject to provision (a – b)	23,000
(d) Less: Provision for Doubtful Debts @ 5% on ₹ 23,000	1,150
(e) Debtors considered good (c – d)	21,850
(f) Less: Provision for Discount on Debtors @ 2% on ₹ 21,850	437
	21,413

2. Closing Creditors:

$$\begin{aligned} \text{Creditors (given) + Purchase invoice omitted} &= ₹ 14,800 + ₹ 400 - ₹ 1,000 \\ &= ₹ 14,200. \end{aligned}$$

Illustration 5.

From the following particulars, prepare Trading and Profit and Loss Account of Raman for the year ended 31st March, 2020 and Balance Sheet as at 31st March, 2020:

Particulars	Dr. (₹)	Cr. (₹)
Building.....	5,00,000	...
Machineries.....	2,00,000	...
Furniture.....	1,00,000	...
Cash at Bank.....	90,000	...
Cash in Hand.....	10,000	...
15% p.a. loan obtained by Raman on 1st April, 2019 on mortgage of his building.....	...	3,00,000
Raman's Capital.....	...	5,20,000
Sundry Debtors.....	5,00,000	...
Sundry Creditors.....	...	4,00,000
Stock on 1st April, 2019.....	1,20,000	...
Purchases.....	25,00,000	...
Sales.....	...	32,20,000
Sales Return.....	1,20,000	...
Purchases Return.....	...	1,00,000
Rent.....	60,000	...
Establishment Expenses.....	1,80,000	...
Electricity Charges.....	15,000	...
Telephone Charges.....	10,000	...
Commission on Sales.....	30,000	...
Insurance Premium.....	10,000	...
Bad Debts.....	20,000	...
Bills Receivable.....	75,000	...
Total	45,40,000	45,40,000

You are required to provide for depreciation on Building at 5% p.a.; on Machinery at 25% p.a.; on Furniture at 10% p.a. Provision for Doubtful Debts is to be made at 5% on Sundry Debtors. Raman's manager is entitled to a commission of 10% on the net profit after charging his commission. Closing Stock was not taken on 31st March but only on 7th April.

Following transactions had taken place during the period from 1st April to 7th April: Sales ₹ 2,50,000; Purchases ₹ 1,50,000; Stock on 7th April was ₹ 1,80,000 and the rate of gross profit on sales was 20%. Insurance premium mentioned in the Trial Balance was in respect of building and machineries. Interest on mortgage loan to be provided up to 31st March, 2020.

[CA (Foundation) May, 1997, Modified]

Solution:

TRADING AND PROFIT AND LOSS ACCOUNT OF RAMAN

Dr. Cr.
for the year ended 31st March, 2020

Particulars	₹	Particulars	₹
To Opening Stock	1,20,000	By Sales	32,20,000
To Purchases	25,00,000	Less: Sales Return	1,20,000
Less: Purchases Return	1,00,000	By Closing Stock (WN 1)	
To Gross Profit c/d	8,10,000		
	33,30,000		33,30,000
To Rent	60,000	By Gross Profit b/d	8,10,000
To Establishment Expenses	1,80,000		
To Electricity Charges	15,000		
To Telephone Charges	10,000		
To Commission on Sales	30,000		
To Insurance Premium	10,000		
To Bad Debts	20,000		
To Interest on Loan	45,000		
To Depreciation on Building	25,000		
To Depreciation on Machineries	50,000		
To Depreciation on Furniture	10,000		
To Provision for Doubtful Debts	25,000		
To Manager's Commission (WN 2)	30,000		
To Net Profit transferred to Capital A/c	3,00,000		
	8,10,000		8,10,000

BALANCE SHEET OF RAMAN as at 31st March, 2020

Liabilities	₹	Assets	₹
Current Liabilities:		Current Assets:	
Outstanding Manager's Commission	30,000	Cash in Hand	10,000
Sundry Creditors	4,00,000	Cash at Bank	90,000
Loans:		Sundry Debtors	5,00,000
15% p.a. Loan (on Mortgage of Building)	3,00,000	Less: Provision for Doubtful Debts	25,000
Add: Interest due	45,000	Bills Receivable	75,000
	3,45,000	Closing Stock	2,30,000
Capital Account:		Fixed Assets:	
Opening Balance	5,20,000	Furniture	1,00,000
Add: Net Profit	3,00,000	Less: Depreciation	10,000
	8,20,000	Machineries	2,00,000
		Less: Depreciation	50,000
		Building	5,00,000
		Less: Depreciation	25,000
	15,95,000		4,75,000
			15,95,000

Working Notes:

1. Calculation of Closing Stock on 31st March, 2020:	₹
(a) Stock as on 7th April, 2020	1,80,000
(b) Add: Cost of Goods sold between 1st April, 2020 to 7th April, 2020 (80% of ₹ 2,50,000)	2,00,000
(c) Less: Cost of Purchases between 1st April, 2020 to 7th April, 2020	1,50,000
Value of stock as on 31st March, 2020	<u><u>2,30,000</u></u>
2. Manager's Commission:	
Profit before charging commission = ₹ 3,30,000	
Manager's Commission = ₹ 3,30,000 × 10/110 = ₹ 30,000.	

Illustration 6.

Following is the Trial Balance of Arihant as at 31st March, 2020:

Particulars	Dr. (₹)	Cr. (₹)
Capital.....	...	14,00,000
Drawings.....	75,000	...
Opening Stock.....	80,000	...
Purchases	16,20,000	...
Freight on Purchases.....	15,000	...
Wages	1,10,000	...
Sales .....	...	25,00,000
Salaries	1,00,000	...
Travelling Expenses	23,000	...
Miscellaneous Expenses	35,000	...
Printing and Stationery	27,000	...
Advertisement Expenses.....	25,000	...
Postage and Telegrams	13,000	...
Discounts Allowed	7,600	...
Discount Received .....	...	14,500
Bad Debts written off (after adjusting recovery of bad debts of ₹ 6,000 written off during 2018-19) ..	14,000	...
Building.....	10,00,000	...
Machinery	75,000	...
Furniture.....	40,000	...
Debtors	1,50,000	...
Provision for Doubtful Debts .....	...	19,000
Creditors.....	...	1,60,000
12% Investments (Purchased on 1st January, 2020).....	6,00,000	...
Bank Balance.....	83,900	...
Total	<u><u>40,93,500</u></u>	<u><u>40,93,500</u></u>

Adjustments:

- (i) Closing Stock ₹ 2,50,000. Its Net Realisable Value (Market Value) was ₹ 2,25,000.
 - (ii) Goods worth ₹ 5,000 were taken for personal use, but no entry was made in the books.
 - (iii) Machinery worth ₹ 35,000 purchased on 1st April, 2017 was wrongly written off to Profit and Loss Account. This asset is to be brought into account on 1st April, 2019 charging depreciation at 10% p.a. by Straight Line Method up to 31st March, 2020.
 - (iv) Depreciate Building @ 2½% p.a., Machinery @ 10% p.a. and Furniture @ 10% p.a.
 - (v) Provision for Doubtful Debts should be 6% on Debtors.
 - (vi) The Manager is entitled to a commission of 5% of Net Profit after charging his commission.
- Prepare Trading and Profit and Loss Account for the year ended 31st March, 2020 and Balance Sheet as at that date.

Solution: TRADING AND PROFIT AND LOSS ACCOUNT for the year ended 31st March, 2020

Particulars	₹	Particulars	₹
To Opening Stock	80,000	By Sales	25,00,000
To Purchases	16,20,000	By Closing Stock	2,25,000
Less: Drawings (Goods for Personal Use) 5,000	16,15,000		
To Freight on Purchases	15,000		
To Wages	1,10,000		
To Gross Profit c/d	9,05,000		
	27,25,000		27,25,000
To Depreciation:		By Gross Profit b/d	9,05,000
Building	25,000	By Discount Received	14,500
Machinery (WN 2)	11,000	By Bad Debts Recovered	6,000
Furniture	4,000	By Interest Accrued on Investments	18,000
To Salaries	1,00,000		
To Travelling Expenses	23,000		
To Miscellaneous Expenses	35,000		
To Printing and Stationery	27,000		
To Advertisement Expenses	25,000		
To Postage and Telegrams	13,000		
To Discount Allowed	7,600		
To Provision for Doubtful Debts (WN 1)	10,000		
To Manager's Commission Outstanding (5/105 × ₹ 6,62,900)	31,567		
To Net Profit transferred to Capital A/c	6,31,333		
	9,43,500		9,43,500

BALANCE SHEET as at 31st March, 2020

Liabilities	₹	Assets	₹
Capital	14,00,000	Building	10,00,000
Less: Drawings (Cash)	75,000	Less: Depreciation	25,000
Drawings (Goods)	5,000	Machinery	75,000
	13,20,000	Add: Profit and Loss A/c (WN 2)	28,000
Add: Net Profit	6,31,333		1,03,000
Machinery Purchased on 1st April, 2017 wrongly written off, Capitalised on 1st April, 2019 [WN 2(i)]	28,000	Less: Depreciation	11,000
	19,79,333	Furniture	40,000
Creditors	1,60,000	Less: Depreciation	4,000
Outstanding Manager's Commission	31,567	Debtors	1,50,000
		Less: Provision for Doubtful Debts	9,000
		Investments	6,00,000
		Accrued Interest on Investments	18,000
		Bank Balance	83,900
		Closing Stock	2,25,000
	21,70,900		21,70,900

Working Notes:

1. Dr. PROVISION FOR DOUBTFUL DEBTS ACCOUNT Cr.			
Particulars	₹	Particulars	₹
To Bad Debts A/c (₹ 14,000 + ₹ 6,000)	20,000	By Balance b/d	19,000
To Balance c/d (6% on ₹ 1,50,000)	9,000	By Profit and Loss A/c (Balancing Figure)	10,000
	29,000		29,000

2. (i) *Book Value of Machinery wrongly charged to Profit and Loss A/c* = Original Cost – Depreciation for 2 years
 = ₹ 35,000 – (₹ 35,000 × 10% × 2) = ₹ **28,000** (Machinery Capitalised on 1st April, 2019)
- (ii) *Calculation of Depreciation on Machinery:*
- | | |
|--|---------------|
| | ₹ |
| (a) On Machinery wrongly charged to Profit and Loss A/c (on SLM Basis) (₹ 35,000 × 10/100) | 3,500 |
| (b) On other Machinery (10% of ₹ 75,000) | 7,500 |
| | 11,000 |
3. Since Net Realisable Value (Market Value) ₹ 2,25,000 of closing stock is lower than its cost, closing stock is taken at ₹ 2,25,000.

Illustration 7.

Pass adjusting and closing entries in the books of Banerjee & Co. for the following adjustments:

- (a) Salaries outstanding ₹ 10,000.
- (b) Insurance paid ₹ 5,000 including paid in advance ₹ 1,000.
- (c) Goods purchased from Amitabh & Co. ₹ 2,000 and taken into stock but omitted to be recorded in the Purchases Book. Purchases given in the Trial Balance 30,000.
- (d) Goods worth ₹ 1,000 given as charity, and worth ₹ 4,500 distributed as samples.
- (e) Interest accrued on securities but not received ₹ 2,500.
- (f) Apprenticeship premium ₹ 30,000 received in the beginning of the accounting period was for three years.
- (g) Charge depreciation on furniture of ₹ 60,000 at 10%.
- (h) Wages paid to the firm's own workmen for erection of machinery ₹ 3,000 was debited to Wages Account. Wages given in the Trial Balance is ₹ 40,000.
- (i) A cheque amounting to ₹ 10,000 received from a customer was dishonoured. The returned cheque was correctly entered in the Cash Book but was posted therefrom to Machinery Account.
- (j) A dishonoured Bills Receivable for ₹ 12,000 returned by the Bank with whom it had been discounted, had been credited to Bank Account and debited to Bills Receivable Account.
- (k) Make a provision for doubtful debts at 5%. Sundry Debtors given in the Trial Balance ₹ 42,000.

Solution:**In the Books of Banerjee & Co.**

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(a)	(i) Salaries A/c ...Dr. To Salaries Outstanding A/c (Being the adjusting entry for salaries outstanding)		10,000	10,000
	(ii) Profit and Loss A/c ...Dr. To Salaries A/c (Being the closing entry for transfer of salary to Profit and Loss Account)		10,000	10,000
(b)	(i) Prepaid Insurance A/c ...Dr. To Insurance A/c (Being the adjusting entry for prepaid insurance)		1,000	1,000
	(ii) Profit and Loss A/c ...Dr. To Insurance A/c (₹ 5,000 – ₹ 1,000) (Being the closing entry for insurance)		4,000	4,000
(c)	Purchases A/c ...Dr. To Amitabh & Co. (Being adjusting entry for goods purchased but not recorded)		2,000	2,000

(d)	(i) Charity A/c Advertisement A/c To Purchases A/c (Being adjusting entry for goods given as charity and as samples)	...Dr. ...Dr.	1,000 4,500	5,500
	(ii) Trading A/c To Purchases A/c (₹ 30,000 + ₹ 2,000 – ₹ 5,500) (Being the closing entry for purchases)	...Dr.	26,500	26,500
(e)	(i) Accrued Interest on Securities A/c To Interest on Securities A/c (Being adjusting entry for accrued interest)	...Dr.	2,500	2,500
	(ii) Interest on Securities A/c To Profit and Loss A/c (Being the closing entry for interest on securities)	...Dr.	2,500	2,500
(f)	(i) Apprentice Premium A/c To Apprentice Premium Received in Advance A/c (Being the adjusting entry for apprenticeship Premium)	...Dr.	20,000	20,000
	(ii) Apprentice Premium A/c (₹ 30,000 – ₹ 20,000) To Profit and Loss A/c (Being the closing entry for apprentice premium)	...Dr.	10,000	10,000
(g)	(i) Depreciation on Furniture A/c To Furniture A/c (Being adjusting entry for depreciation on furniture)	...Dr.	6,000	6,000
	(ii) Profit and Loss A/c To Depreciation on Furniture A/c (Being the closing entry for depreciation on furniture)	...Dr.	6,000	6,000
(h)	(i) Machinery A/c To Wages A/c (Being the adjusting entry for wrongly debiting the Wages Account)	...Dr.	3,000	3,000
	(ii) Trading A/c To Wages A/c (₹ 40,000 – ₹ 3,000) (Being the closing entry for wages)	...Dr.	37,000	37,000
(i)	Sundry Debtors A/c To Machinery A/c (Being the adjusting entry for wrongly debiting the Machinery A/c)	...Dr.	10,000	10,000
(j)	Sundry Debtors A/c To Bills Receivable A/c (Being the adjusting entry for wrongly debiting the Bills Receivable dishonoured to Bills Receivable Account)	...Dr.	12,000	12,000
(k)	Profit and Loss A/c To Provision for Doubtful Debts A/c (Being the adjusting and closing entry for provision for doubtful debts) [5/100 (₹ 42,000 + ₹ 10,000 + ₹ 12,000)]	...Dr.	3,200	3,200

Illustration 8.

From the following Trial Balance of Ganesh, prepare Trading and Profit and Loss Account for the year ending 31st March, 2020 and Balance Sheet as on that date after taking into consideration the adjustments given at the end of the Trial Balance.

TRIAL BALANCE
as on 31st March, 2020

Particulars	Dr. (₹)	Cr. (₹)
Sales .....	...	7,40,000
Purchases (adjusted)	6,99,200	...
Wages	900	...
Capital A/c.....	...	48,500
Insurance Expenses (Accidental Insurance of Employees).....	300	...
Carriage in.....	400	...
Carriage out.....	500	...
Lighting.....	600	...
Rates and Insurance (Including Premium of ₹ 300 p.a. paid up to 30th September, 2020)	400	...
Stock as on 31st March, 2020	61,250	...
Cash in hand and at bank.....	1,750	...
Discount earned .....	...	600
Buildings.....	30,000	...
Discount allowed.....	100	...
Debtors	6,000	...
Creditors.....	...	20,000
Furniture.....	8,000	...
Dividends received .....	...	300
Total	8,09,400	8,09,400

Adjustments:

- (i) Insurance Expenses includes employers contribution ₹ 150. Wages are shown 'net' after deducting insurance contribution borne by the employers.
- (ii) Owing to the nature of employment, some employees are housed in the building of the business. The rental value of such portion is assessed at ₹ 500 p.a.
- (iii) Sales as shown in the Trial Balance include the sale of old furniture (effected half way through the year) realising ₹ 200. The book value of the furniture at the commencement of the period was ₹ 300. The depreciation has been written off at 20% p.a.
- (iv) The manager is to get a commission of 1/5th on the net profits after charging his commission but before considering income from dividend.
- (v) Depreciate building by 5%.

Solution:**Ganesh**

TRADING AND PROFIT AND LOSS ACCOUNT

Dr. *for the year ended 31st March, 2020* Cr.

Particulars	₹	Particulars	₹
To Purchases (Adjusted)	6,99,200	By Sales	7,40,000
To Wages	900	Less: Sale of Furniture	200
Add: Accidental Insurance	150		
Add: Rental Value of Building (WN 1)	500		
	1,550		
To Carriage Inwards	400		
To Gross Profit <i>c/d</i>	38,650		
	7,39,800		7,39,800
To Insurance Expenses (₹ 300 – ₹ 150)	150	By Gross Profit <i>b/d</i>	38,650
To Carriage Outwards	500	By Discount Earned	600
To Rates and Insurance	400	By Dividend Received	300
Less: Prepaid	150	By Rental Value of Building Occupied by Employees	500
	250		
To Lighting	600		
To Discount allowed	100		
To Loss on Sale of Furniture (WN 2)	70		
To Depreciation on:			
Building	1,500		
Furniture	1,570		
	3,070		
To Manager's Commission (WN 3)	5,835		
To Net Profit transferred to Capital A/c	29,475		
	40,050		40,050

BALANCE SHEET OF GANESH

as at 31st March, 2020

Liabilities	₹	Assets	₹
Sundry Creditors	20,000	Cash in Hand and at Bank	1,750
Manager's Commission due	5,835	Sundry Debtors	6,000
Capital	48,500	Closing Stock	61,250
Add: Net Profit	29,475	Prepaid Insurance	150
	77,975	Furniture	8,000
		Less: Book Value of Furniture Sold	300
			7,700
		Less: Depreciation	1,540
			6,160
		Building	30,000
		Less: Depreciation	1,500
			28,500
	1,03,810		1,03,810

Working Notes:

1. Accidental Insurance and rental value of building occupied by workers are part of wages.	
2. Calculation of depreciation on furniture and loss on sale of furniture:	₹
(i) Furniture sold: Book Value at the beginning	300
Less: Depreciation for 6 months (₹ 300 × 20/100 × 6/12)	30
Book Value of the Furniture at the time of Sale	270
Less: Selling Price	200
Loss on Sale of Furniture	<u>70</u>
(ii) Furniture in Hand [₹ 8,000 – ₹ 300 (Book Value of Furniture Sold)]	<u>7,700</u>
Depreciation 20% of ₹ 7,700	1,540
Add: 6 months depreciation on furniture sold [WN 2 (i)]	30
Total Depreciation on Furniture	<u><u>1,570</u></u>
3. Calculation of Manager's Commission:	
Net Profit before dividend income	
= ₹ (38,650 + 600 + 500 – 150 – 500 – 250 – 600 – 100 – 70 – 3,070) = ₹ 35,010	
Manager's commission = ₹ 35,010 × 20/120 = ₹ 5,835 .	

Illustration 9.

From the following Trial Balance of Sachin as on 31st March, 2020, prepare Trading and Profit and Loss Account for the year ended 31st March, 2020 and a Balance Sheet as on that date, after making the necessary adjustments as given hereunder:

Particulars	Dr. (₹)	Cr. (₹)
Sachin's Capital Account.....	...	1,60,000
Sachin's Drawings.....	24,000	...
Furniture and Fixtures	8,000	...
Plant and Machinery	60,000	...
Patents (Expected Life 10 years from 01.04.2019).....	40,000	...
Stock on 01.04.2019	40,000	...
Purchases	1,70,000	...
Salaries	14,800	...
Wages	30,000	...
Sundry Debtors	20,400	...
Sales .....	...	2,64,000
Cash in Hand	13,250	...
Land.....	28,350	...
Loan from Kapil (@ 6% on 01.10.2019).....	...	20,000
Postage and Fax.....	3,000	...
Rent	7,200	...
Bad Debts.....	800	...
Sundry Creditors.....	...	24,000
Discount.....	...	1,200
Carriage Inwards.....	400	...
Interest on Loan.....	300	...
Insurance	1,600	...
Travelling Expenses	1,000	...
Sundry Expenses	600	...
Cash at Bank.....	20,500	...
Bank Overdraft .....	...	15,000
Total	<u>4,84,200</u>	<u>4,84,200</u>

Adjustments:

- (i) Stock on 31st March, 2020 is valued at ₹ 30,000.
- (ii) A new machine was installed on 1st April, 2019 for ₹ 3,000. No entry in this respect was passed in the books. Wages ₹ 1,000 paid for installation of the machine were debited to Wages Account.
- (iii) Of the sundry debtors ₹ 200 are bad and to be written off. You are required to maintain a provision for doubtful debts @ 5% on debtors and a provision for discount on debtors @ 2%.
- (iv) Goods costing ₹ 2,000 were distributed as samples for publicity.
- (v) Depreciate plant and machinery at 20% and furniture and fixtures at 10%.
- (vi) Goods costing ₹ 1,000 were sent to a customer for ₹ 1,200 on 27th March, 2020 on sale or return basis. This was recorded as actual sale.

Solution:

TRADING AND PROFIT AND LOSS ACCOUNT

Dr.		for the year ended 31st March, 2020		Cr.	
Particulars	₹	Particulars	₹	₹	₹
To Opening Stock	40,000	By Sales	2,64,000		
To Purchases	1,70,000	Less: Goods Sent on			
Less: Samples	2,000	Approval Basis	1,200		2,62,800
To Carriage Inwards	400	By Closing Stock	30,000		
To Wages	30,000	Add: Stock with			
Less: Installation charges	1,000	Customer at Cost	1,000		31,000
To Gross Profit c/d	56,400				
	<u>2,93,800</u>				<u>2,93,800</u>
To Salaries	14,800	By Gross Profit b/d			56,400
To Postage and Fax	3,000	By Discount Received			1,200
To Rent and Taxes	7,200				
To Insurance	1,600				
To Travelling Expenses	1,000				
To Sundry Expenses	600				
To Interest on Loan	300				
Add: Accrued Interest	300				
To Advertisement	2,000				
(Samples)					
To Bad Debts	800				
Add: Further Bad Debts	200				
	<u>1,000</u>				
Add: New Provision for					
Doubtful Debts	950				
To Provision for discount on					
Debtors	361				
To Depreciation on:					
Plant and Machinery:					
Old	12,000				
New	800				
Furniture	800				
Patents	4,000				
	<u>17,600</u>				
To Net Profit transferred to Capital A/c	6,889				
	<u>57,600</u>				<u>57,600</u>

BALANCE SHEET as at 31st March, 2020

Liabilities	₹	Assets	₹
Loan from Kapil	20,000	Cash in Hand	13,250
Add: Accrued Interest	300	Cash at Bank	20,500
Sundry Creditors	24,000	Closing Stock	30,000
Supplier of Machinery	3,000	Add: Goods on Approval	1,000
Bank Overdraft	15,000	Sundry Debtors	20,400
Capital	1,60,000	Less: Goods on Approval	1,200
Add: Net Profit	6,889		19,200
	1,66,889	Less: Bad Debts	200
Less: Drawings	24,000		19,000
	1,42,889	Less: Provision for Doubtful Debts	950
			18,050
		Less: Provision for Discount on Debtors	361
		Furniture and Fixtures	8,000
		Less: Depreciation	800
		Plant and Machinery	60,000
		Add: New Machinery (₹ 3,000 + ₹ 1,000)	4,000
			64,000
		Less: Depreciation (₹ 12,000 + ₹ 800)	12,800
		Patents	40,000
		Less: Written off	4,000
		Land	28,350
			2,05,189
	2,05,189		2,05,189

Illustration 10.

From the following Trial Balance and information, prepare Trading and Profit and Loss Account of Ajit for the year ended 31st March, 2020 and a Balance Sheet as on that date:

Particulars	Dr. (₹)	Cr. (₹)
Capital.....	...	1,00,000
Drawings.....	12,000	...
Land and Building.....	90,000	...
Plant and Machinery.....	20,000	...
Furniture.....	5,000	...
Sales.....	...	1,40,000
Returns Outward.....	...	6,000
Debtors.....	18,400	...
Loan from Atal on 1.7.2019 @ 6% p.a.....	...	30,000
Purchases.....	80,000	...
Returns Inward.....	5,000	...
Carriage.....	10,000	...
Sundry Expenses.....	600	...
Printing and Stationery.....	500	...
Insurance Expenses.....	1,000	...
Provision for Doubtful Debts.....	...	1,000
Provision for Discount on Debtors.....	...	380
Bad Debts.....	400	...
Opening Stock on 1.4.2019.....	21,300	...
Salaries and Wages.....	18,500	...
Creditors.....	...	12,000
Trade Expenses.....	800	...
Cash at Bank.....	4,600	...
Cash in Hand.....	1,280	...
Total	2,89,380	2,89,380

Additional Information:

- (i) Value of Closing Stock on 31st March, 2020 was ₹ 27,300.
- (ii) Fire occurred on 23rd March, 2020 and general goods of ₹ 10,000 were destroyed. The insurance company accepted claim for ₹ 6,000 only and paid the claim money on 10th April, 2020.
- (iii) Bad debts amounting to ₹ 400 are to be written off. Provision for doubtful debts is to be made at 5% and for discount at 2% on debtors.
- (iv) Received ₹ 6,000 worth of goods on 27th March, 2020 but the Invoice of purchases was not recorded in Purchases Book.
- (v) Ajit took away goods worth ₹ 2,000 for personal use but no record was made thereof.
- (vi) Charge depreciation at 2% on Land and Building, 20% on plant and machinery and 5% on furniture.
- (vii) Insurance prepaid amounts to ₹ 200.

Solution:

TRADING AND PROFIT AND LOSS ACCOUNT

Dr.		Cr.	
for the year ended 31st March, 2020			
Particulars	₹	Particulars	₹
To Opening Stock	21,300	By Sales	1,40,000
To Purchases	80,000	Less: Returns Inward	5,000
Less: Returns Outward	6,000	By Loss of Stock by Fire	10,000
	74,000	By Closing Stock	27,300
Add: Omitted Purchases	6,000		
	80,000		
Less: Drawings	2,000		
To Carriage	10,000		
To Gross Profit c/d	63,000		
	1,72,300		1,72,300
To Sundry Expenses	600	By Gross Profit b/d	63,000
To Printing and Stationery	500	By Provision for Discount on Debtors	380
To Insurance Expenses	1,000	Less: Provision Required	342
Less: Prepaid	200		38
To Bad Debts	400		
Add: Additional	400		
Add: New Provision 5/100 of (₹ 18,400 – ₹ 400)	900		
	1,700		
Less: Old Provision	1,000		
To Salaries and Wages	18,500		
To Trade Expenses	800		
To Loss of Stock by fire	4,000		
To Interest on Loan	1,350		
(₹ 30,000 × 6/100 × 9/12)			
To Depreciation:			
Land and Building	1,800		
Plant and Machinery	4,000		
Furniture	250		
	6,050		
To Net Profit transferred to Capital A/c	29,738		
	63,038		63,038

BALANCE SHEET OF MR. AJIT as at 31st March, 2020

Liabilities	₹	Assets	₹
Current Liabilities:		Current Assets:	
Creditors 12,000		Cash in Hand 1,280	
Add: Omitted Purchases 6,000	18,000	Cash at Bank 4,600	
Loan:		Debtors 18,400	
Loan from Atal 30,000		Less: Further Bad Debts 400	
Add: Interest 1,350	31,350	18,000	
Capital:		Less: Provision for Doubtful Debts @ 5% 900	
Opening Balance 1,00,000		17,100	
Add: Net Profit 29,738		Less: Provision for Discount 342	16,758
1,29,738		Closing Stock 27,300	
Less: Drawings: (in Cash) 12,000		Insurance Company (Claim) 6,000	
(in Goods) 2,000 14,000	1,15,738	Prepaid Insurance 200	
		Fixed Assets:	
		Land and Building 90,000	
		Less: Depreciation 1,800	88,200
		Plant and Machinery 20,000	
		Less: Depreciation 4,000	16,000
		Furniture 5,000	
		Less: Depreciation 250	4,750
	1,65,088		1,65,088

Illustration 11.

From the following Trial Balance of Samar as on 31st March, 2020, you are requested to prepare Trading and Profit and Loss Account for the year ended 31st March, 2020 and a Balance Sheet as on that date after making necessary adjustments.

Particulars	Dr. (₹)	Cr. (₹)
Sundry Debtors.....	5,00,000	...
Sundry Creditors.....	...	2,00,000
Outstanding liabilities for expenses.....	55,000	...
Wages.....	1,00,000	...
Carriage Outward.....	1,10,000	...
Carriage Inward.....	50,000	...
General Expenses.....	70,000	...
Cash Discount.....	20,000	...
Bad Debts.....	10,000	...
Motor car.....	2,40,000	...
Printing and Stationery.....	15,000	...
Furniture and Fittings.....	1,10,000	...
Advertisement.....	85,000	...
Insurance.....	45,000	...
Salesman's Commission.....	87,500	...
Postage and Telephone.....	57,500	...
Salaries.....	1,60,000	...
Rates and Taxes.....	25,000	...
Capital Account.....	...	14,43,000
Drawings.....	20,000	...
Purchases.....	15,50,000	...
Sales.....	...	19,87,500
Stock on 1st April, 2019.....	2,50,000	...
Cash at Bank.....	60,000	...
Cash in Hand.....	10,500	...
Total	36,30,500	36,30,500

The following adjustments are to be made:

- (i) Stock on 31st March, 2020 was valued at ₹ 7,25,000.
- (ii) A provision for Doubtful Debts is to be created to the extent of 5% on Sundry Debtors.
- (iii) Depreciate Furniture and Fittings by 10% and Motor Car by 20%.
- (iv) Samar had withdrawn goods worth ₹ 25,000 during the year.
- (v) Sales include goods worth ₹ 75,000 sent out to Chand on approval and remain unsold on 31st March, 2020. The cost of the goods was ₹ 50,000.
- (vi) The salesmen were entitled to a commission of 5% on total sales.
- (vii) Debtors include ₹ 25,000 bad debts.
- (viii) Printing and Stationery expenses of ₹ 55,000 relating to 2018–19 had not been provided in that year but were paid in 2019–20 by debiting outstanding liabilities.
- (ix) Purchases include purchase of furniture worth ₹ 50,000.

Solution:

TRADING AND PROFIT AND LOSS ACCOUNT OF SAMAR

Dr.		for the year ended 31st March, 2020		Cr.	
Particulars	₹	Particulars	₹		₹
To Opening Stock	2,50,000	By Sales:	19,87,500		
To Purchases	15,50,000	Less: Goods sent on approval			
Less: Drawings	25,000	basis (at selling price)	75,000		19,12,500
Purchases of Furniture	50,000	By Closing Stock	7,25,000		
To Wages	1,00,000	Add: Stock on approval basis			
To Carriage Inwards	50,000	(at cost)	50,000		7,75,000
To Gross Profit <i>c/d</i>	8,12,500				
	<u>26,87,500</u>				<u>26,87,500</u>
To Salaries	1,60,000	By Gross Profit <i>b/d</i>			8,12,500
To Postage and Telephone	57,500				
To Insurance	45,000				
To Rates and Taxes	25,000				
To General Expenses	70,000				
To Printing and Stationery	15,000				
To Depreciation:					
on existing furniture	11,000				
on additional furniture	5,000				
on motor car	48,000				64,000
To Salesmen's Commission	87,500				
Add: Outstanding Commission					
(5% of ₹ 19,12,500 – ₹ 87,500)					
(₹ 95,625 – ₹ 87,500)	8,125				95,625
To Advertisement					85,000
To Carriage Outwards					1,10,000
To Bad Debts	10,000				
Add: Further Bad Debts	25,000				
Required provision for					
Doubtful Debts					
(5% of ₹ 4,00,000)	20,000				55,000
To Discount					20,000
To Net Profit transferred to Capital A/c	10,375				
	<u>8,12,500</u>				<u>8,12,500</u>

BALANCE SHEET OF SAMAR as at 31st March, 2020

Liabilities	₹	Assets	₹
Capital	14,43,000	Furniture and Fittings	1,10,000
Add: Net Profit	10,375	Add: Addition during the year	50,000
	14,53,375		1,60,000
Less: Drawings		Less: Depreciation	16,000
(₹ 20,000 + ₹ 25,000)	45,000	Motor Car	2,40,000
	14,08,375	Less: Depreciation	48,000
Less: Printing and Stationery		Closing Stock	7,25,000
of Last Year	55,000	Add: Stock on Approval Basis	50,000
Salesmen's Commission Outstanding	13,53,375	Sundry Debtors	5,00,000
Sundry Creditors	8,125	Less: Goods sent on Approval Basis	75,000
	2,00,000		4,25,000
		Less: Bad Debts	25,000
			4,00,000
		Less: Provision for Doubtful Debts	20,000
		Cash at Bank	60,000
		Cash in Hand	10,500
	15,61,500		15,61,500

Illustration 12.

Given below is the Trial Balance of Ramesh as on 31st March, 2020:

Particulars	Dr. (₹)	Cr. (₹)
Land and Building	1,20,000	...
Office Machinery	70,000	...
Furniture and Fittings	20,000	...
Stock on 1st April, 2019	16,000	...
Purchases	90,000	...
Sales .....	...	2,20,000
Salaries	20,000	...
Bad Debts	10,000	...
Debtors	35,000	...
Creditors .....	...	40,000
Sales Return	10,000	...
Rent	15,000	...
Advertisement	18,000	...
Drawings	5,000	...
Loan to Ashok @ 16% p.a. on 1st October, 2019	20,000	...
Wages	33,000	...
Interest on Loan to Ashok .....	...	1,000
Bills Receivable	10,000	...
Trademark	8,000	...
Provision for Doubtful Debts .....	...	8,000
Discount	1,000	...
Wages Payable .....	...	2,000
Capital .....	...	1,90,000
Bank Overdraft .....	...	40,000
Total	5,01,000	5,01,000

Additional Information:

- (i) The value of stock on 31st March, 2020, ₹ 30,000.
- (ii) Sales include ₹ 5,000 for the goods sold on approval to Hemant. Goods are sold at a profit of 25% on cost. Approval was not received till 31st March.
- (iii) Furniture purchased during the year for ₹ 5,000 was wrongly debited to Purchases Book.
- (iv) A cheque of ₹ 8,000 received from customers was deposited in the bank in the last week of March. It was reported to have been dishonoured.
- (v) Samples costing ₹ 4,000 were distributed during the year.
- (vi) Write off further bad debts ₹ 2,000. Also create a provision for doubtful debts at 10% on debtors.
- (vii) Depreciate furniture by 10% and office machinery by 5%.

Prepare Trading and Profit and Loss Account for the year ended 31st March, 2020 and a Balance Sheet as on that date.

Solution:

TRADING AND PROFIT AND LOSS ACCOUNT OF RAMESH

Dr.		for the year ended 31st March, 2020		Cr.	
Particulars	₹	Particulars	₹	₹	₹
To Opening Stock	16,000	By Sales	2,20,000		
To Purchases	90,000	Less: Sales on Approval	5,000		
Less: Transferred to Furniture A/c	5,000		2,15,000		
	85,000	Less: Sales Return	10,000		2,05,000
Less: Samples	4,000	By Closing Stock			30,000
To Wages	33,000	By Stock with Customers			
To Gross Profit c/d	1,09,000	on Approval (At Cost)			4,000
	2,39,000				2,39,000
To Salaries	20,000	By Gross Profit b/d			1,09,000
To Prov. for Doubtful Debts (New)	3,600	By Interest on Loan to Ashok	1,000		
Add: Bad Debts (₹ 10,000 + ₹ 2,000)	12,000	Add: Accrued Interest	600		1,600
	15,600				
Less: Existing Provision	8,000				
To Rent, Rates and Taxes	15,000				
To Advertisement	18,000				
To Discount	1,000				
To Samples	4,000				
To Depreciation on Furniture	2,500				
To Depreciation on Machinery	3,500				
To Net Profit transferred to Capital A/c	39,000				
	1,10,600				1,10,600

BALANCE SHEET OF RAMESH as at 31st March, 2020

Liabilities		₹	Assets		₹
Capital	1,90,000		Land and Building		1,20,000
Add: Net Profit	39,000		Machinery	70,000	
	2,29,000		Less: Depreciation	3,500	66,500
Less: Drawings	5,000	2,24,000	Furniture	20,000	
Creditors		40,000	Add: Transfer from Purchases	5,000	
Wages Payable		2,000		25,000	
Bank Overdraft	40,000		Less: Depreciation	2,500	22,500
Add: Dishonour of Cheque	8,000	48,000	Loan to Ashok		20,000
			Bills Receivable		10,000
			Trademark		8,000
			Debtors	35,000	
			Less: Sale on Approval	5,000	
				30,000	
			Further Bad Debts	2,000	
				28,000	
			Add: Cheque Dishonour	8,000	
				36,000	
			Less: Provision for Doubtful Debts	3,600	32,400
			Accrued Interest		600
			Closing Stock		30,000
			Stock with customers on Approval		4,000
		3,14,000			3,14,000

Illustration 13.

From the following Trial Balance and additional information, prepare the Trading and Profit and Loss Account of Mukul for the year ended 31st March, 2020 and Balance Sheet as at that date:

Particulars	Dr. (₹)	Cr. (₹)
Drawings.....	10,000	..
Capital .....	..	1,70,000
Plant and Machinery	1,10,000	..
Sales .....	..	1,65,000
Purchases	84,000	..
Sales Return.....	5,000	..
Purchases Return .....	..	4,000
Bad Debts.....	5,000	..
Bad Debts Recovered.....	..	26,450
Freight Inwards	5,000	..
Freight Outwards.....	7,000	..
Discount.....	2,000	1,000
Commission.....	4,000	3,000
Rent	3,000	4,000
Interest	2,500	3,000
Office and Administrative Expenses.....	6,000	..
Selling and Distribution Expenses	10,000	..
Creditors .....	..	2,02,000
Debtors	2,15,000	..
Bills Payable.....	..	5,600
Bills Receivable	10,000	..
Loan Given.....	20,000	..
Loans Taken .....	..	50,000
Investments.....	50,000	..
Opening stock.....	54,000	..
Cash in hand.....	5,000	..
Cash at Dena Bank	45,550	..
Bank overdraft at Canara Bank .....	..	20,000
Wages and Salaries	1,000	..
Total	6,54,050	6,54,050

Additional Information:

- (i) Closing Stock at market price as at 31st March, 2020 was ₹ 61,500. However, its cost was ₹ 80,000.
- (ii) Provide for depreciation on Plant and Machinery @ 10% p.a.
- (iii) Goods costing ₹ 10,000 were destroyed due to fire on 30th March, 2020. The Insurance Company accepted claim to the extent of 60% only and paid the claim money on 10th April, 2020.
- (iv) Goods worth ₹ 10,000 were sent to a customer on approval basis and have been accounted in the books as actual sale. These goods remained unapproved on 31st March, 2020. The cost of such goods was ₹ 8,000.
- (v) Received credit purchase invoice of ₹ 10,500 on 27th March, 2020 and recorded in the books but the goods were not received till the end of the accounting year.
- (vi) Manager is entitled to a commission of 5% of net profit after charging the commission.

Solution:

TRADING AND PROFIT AND LOSS ACCOUNT			
for the year ended 31st March, 2020			
Dr.		Cr.	
Particulars	₹	Particulars	₹
To Opening Stock	54,000	By Sales A/c	1,65,000
To Purchases	84,000	Less: Sales Return	5,000
Less: Purchases Return	4,000	Goods Sent for Approval	10,000
	80,000		1,50,000
To Freight Inwards	5,000	By Loss of Stock due to Fire	10,000
To Wages and Salaries	1,000	By Closing Stock (Note 1)	61,500
To Gross Profit c/d	1,00,000	Add: Goods Sent for Approval	8,000
		Goods in Transit (Note 3)	10,500
			80,000
	2,40,000		2,40,000
To Bad Debts	5,000	By Gross Profit b/d	1,00,000
To Freight Outwards	7,000	By Commission	3,000
To Rent	3,000	By Interest	3,000
To Interest	2,500	By Rent Received	4,000
To Commission	4,000	By Bad Debts Recovered	26,450
To Discount	2,000	By Discount	1,000
To Office and Administrative Expenses	6,000		
To Selling and Distribution Expenses	10,000		
To Depreciation on Plant and Machinery	11,000		
To Loss of Stock due to Fire	10,000		
Less: Insurance Claim admitted	6,000		
	4,000		
To Manager's Commission (Note 4)	3,950		
5/105 of ₹ 82,950 (i.e., ₹ 1,37,450 – ₹ 54,500)			
To Net Profit transferred to Capital A/c	79,000		
	1,37,450		1,37,450

BALANCE SHEET
as at 31st March, 2020

Liabilities	₹	Assets	₹
Capital:		Fixed Assets:	
Opening Balance	1,60,000	Plant and Machinery	1,10,000
Add: Net Profit	79,000	Less: Depreciation	11,000
Additional Capital	10,000	Investments	50,000
	2,49,000	Current Assets:	
Less: Drawings	10,000	Debtors	2,15,000
Loan	50,000	Less: Goods sent for approval	10,000
Current Liabilities:		Bills Receivable	10,000
Creditors	2,02,000	Loan	20,000
Bills Payable	5,600	Closing Stock:	
Bank Overdraft at Canara Bank	20,000	Stock in Hand	61,500
Manager's Commission Outstanding	3,950	With Customers for Approval	8,000
		In transit	10,500
		Insurance Co. (Claim due)	6,000
		Cash in Hand	5,000
		Cash at Dena Bank	45,550
	5,20,550		5,20,550

Notes:

1. Closing Stock is valued at (market price) i.e., ₹ 61,500 as per Prudence Concept that Closing Stock is valued at cost or net realisable value (market price), whichever is lower.
2. Goods with customers (not yet approved as sales) are treated as unsold and included in closing stock at cost ₹ 8,000.
3. Received credit purchase invoice of ₹ 10,500 on 27th March, 2020 and recorded in the books but the goods were not received till the end of accounting year. Hence, the same are treated as part of Closing Stock (Goods-in-Transit).
4. Manager's commission may be calculated as follows:

Let total commission payable be X

$$X = 5/100 (\text{Profit before commission} - \text{commission})$$

$$X = 1/20 (\text{₹ } 82,950 - X)$$

$$20X = \text{₹ } 82,950 - X$$

$$21X = \text{₹ } 82,950$$

$$X = \text{₹ } 82,950/21 = \text{₹ } 3,950.$$

Illustration 14.

The following is the Trial Balance of Bhavesh as on 31st March, 2020:

Particulars	Dr. (₹)	Cr. (₹)
Cash in Hand.....	5,000	...
Land and Building.....	80,000	...
Plant and Machinery.....	50,000	...
Debtors.....	25,000	...
Creditors.....	...	40,000
Stock on 1st April, 2019.....	10,000	...
15% Investment on 1st April, 2019.....	20,000	...
Purchases.....	95,000	...
Sales.....	...	1,90,000
Bank Overdraft.....	...	20,000
Wages.....	28,000	...
Salaries.....	16,000	...
Rent.....	15,000	...
Bad Debts.....	6,000	...
Drawings.....	5,000	...
Bills Receivable.....	15,000	...
Bills Payable.....	...	21,000
Carriage Inwards.....	6,000	...
Customs Duty on Purchases.....	16,000	...
Fire Insurance Premium.....	4,000	...
Advertisement.....	30,000	...
Provision for Doubtful Debts.....	...	2,000
Interest on Investments.....	...	2,000
Sundry Expenses.....	11,000	...
Furniture.....	20,000	...
General Reserve.....	...	25,000
Capital.....	...	1,57,000
Total	4,57,000	4,57,000

Additional Information:

- (i) Stock on 31st March, 2020 was valued at ₹ 40,000.
- (ii) Included in debtors are ₹ 8,000 due from Ram and included in creditors are ₹ 6,000 due to Ram.
- (iii) Bills Receivable include a bill of ₹ 5,000 received from Mohan, which has been dishonoured.
- (iv) Sales include ₹ 5,000 for the goods sold on approval basis. Approval was not received till 31st March. Goods are sold at a profit of 25% on cost.
- (v) Wages include ₹ 5,000 spent on the erection of machinery on 1st April, 2019.
- (vi) Provision for doubtful debts is to be maintained at 5% of debtors.
- (vii) Prepaid rent amounted to ₹ 2,000.
- (viii) Depreciate machinery by 10%.

Prepare Trading and Profit and Loss Account for the year ended 31st March, 2020 and Balance Sheet as on that date.

Solution:

TRADING AND PROFIT AND LOSS ACCOUNT

Dr. *for the year ended 31st March, 2020* Cr.

Liabilities	₹	Assets	₹
To Opening Stock	10,000	By Sales	1,90,000
To Purchases	95,000	Less: Goods Sent on Approval	5,000
Add: Customs Duty	16,000	By Closing Stock	40,000
To Wages	28,000	Add: Stock with Customers	
Less: For Machine	5,000	at cost (₹ 5,000 × 100/125)	4,000
To Carriage Inwards	6,000		
To Gross Profit c/d	79,000		
	2,29,000		2,29,000
To Salaries	16,000	By Gross Profit b/d	79,000
To Rent	15,000	By Interest on Investments	2,000
Less: Prepaid	2,000	Add: Accrued Interest	1,000
To Bad Debts	6,000	By Provision for Doubtful Debts	2,000
To Fire Insurance Premium	4,000	Less: New Provision for	
To Advertisement	30,000	Doubtful Debts	950
To Sundry Expenses	11,000	By Net Loss transferred to Capital A/c	2,450
To Depreciation on Machinery	5,500		
[10/100 (₹ 50,000 + ₹ 5,000)]			
	85,500		85,500

BALANCE SHEET
as at 31st March, 2020

Liabilities	₹	Assets	₹
Capital	1,57,000	Land and Building	80,000
Less: Drawings	5,000	Plant and Machinery	50,000
	1,52,000	Add: Installation Cost	5,000
Less: Net Loss	2,450		55,000
Bank Overdraft	20,000	Less: Depreciation	5,500
Bills Payable	21,000	Furniture	20,000
Creditors	40,000	15% Investments	20,000
Less: Common Debts	6,000	Prepaid rates and taxes	2,000
General Reserve	25,000	Bills Receivable	15,000
		Less: Dishonoured	5,000
		Accrued Interest	1,000
		Debtors	25,000
		Less: Sale on approval	5,000
		Common Debts	6,000
		Add: Bill Receivable Dishonoured	5,000
			19,000
		Less: Provision for Doubtful	
		Debts	950
		Closing Stock ₹ (40,000 + 4,000)	44,000
		Cash in Hand	5,000
	2,49,550		2,49,550

Illustration 15.

Following is the Trial Balance of Mahesh as on 31st March, 2020. Prepare Trading and Profit and Loss Account for the year ending on 31st March, 2020 and a Balance Sheet as at 31st March, 2020 from it:

Debit Balances	₹	Credit Balances	₹
Opening Stock	75,000	Sales	6,30,000
Machinery (Purchased on 1.7.2019)	1,90,000	10% Bank Loan (taken on 1st July, 2019)	50,000
Furniture (Purchased on 1.7.2019)	1,00,000	Capital Account	5,19,000
Debtors	2,07,000	Creditors	90,000
Bills Receivable	10,000	Bills Payable	15,600
12% Investment (Purchased on 1.7.2019)	50,000	Purchases Return	5,000
Cash in Hand	10,000	Discount Received	1,000
Cash at Bank	5,000	Commission	3,750
Purchases	5,25,000	Interest Received	3,000
Sales Return	10,000	Bad Debts Recovered	2,500
Wages	18,500		
Carriage Inwards	500		
Carriage Outwards	350		
Rent	3,000		
Insurance	3,600		
Salaries	11,200		
Discount Allowed	2,000		
Bad Debts	5,000		
Interest on Bank Loan	2,500		
Selling and Distribution Expenses	15,800		
Income Tax Paid	1,000		
Drawings	10,650		
Loose Tools	3,750		
Building	60,000		
	13,19,850		13,19,850

Additional Information:

- (i) Rent is payable at the rate of ₹ 300 per month. Insurance Premium was paid for the year ending on 30th June, 2020.
- (ii) Remuneration of ₹ 2,000 paid to Ashok, a temporary employee, stands debited to his Personal Account.
One-third of the commission received is in respect of work to be done next year.
- (iii) Provide depreciation at 10% p.a. on Machinery and 10% on Furniture. Depreciate Building by 5%.
- (iv) Sundry Debtors include ₹ 5,000 which had become bad. Create provision for doubtful debts @ 10% and create a provision for discount on debtors @ 2%.
- (v) A fire occurred on 10th March, 2020 in the godown and stock of ₹ 10,000 was destroyed, it was fully insured but the insurance company admitted the claim to the extent of 60% only.
- (vi) Goods costing ₹ 20,000 were taken by Mahesh for his personal use but no entry has been made in the books of account.
- (vii) Goods costing ₹ 30,000 were distributed as samples but no entry has been made in the books of account.
- (viii) Manager is entitled to a commission of 10% on Net Profit before charging his commission.

(ix) Wages include a sum of ₹ 4,000 spent on the erection of a cycle shed for employees and visitors. Wages ₹ 10,000 paid for erection of machinery have been debited to Wages Account.

(x) Stock on 31st March, 2020 was valued at ₹ 93,600. Loose tools are valued at ₹ 1,250.

Solution:

TRADING AND PROFIT AND LOSS ACCOUNT

Dr.		Cr.	
for the year ended 31st March, 2020			
Particulars	₹	Particulars	₹
To Opening Stock	75,000	By Sales	6,30,000
To Purchases	5,25,000	Less: Sales Return	10,000
Less: Purchases Return	5,000	By Closing Stock	93,600
	5,20,000		
Less: Loss of Stock by Fire	10,000		
	5,10,000		
Less: Goods taken for Personal Use	20,000		
	4,90,000		
Less: Goods distributed as samples	30,000		
	4,60,000		
To Wages	18,500		
Less: Cost of Erection of a Cycle Shed (Building)	4,000		
	14,500		
For Erection of Machinery	10,000		
	4,500		
To Carriage Inwards	500		
To Gross Profit c/d	1,73,600		
	7,13,600		7,13,600
To Carriage Outwards	350		
To Rent Paid	3,000	By Gross Profit b/d	1,73,600
Add: Outstanding	600	By Discount Received	1,000
	3,600	By Bad Debts Recovered	2,500
To Insurance Paid	3,600	By Interest Received	3,000
Less: Prepaid	900	Add: Accrued Interest	1,500
	2,700	[(₹ 50,000 × 12/100 × 9/12) – ₹ 3,000]	4,500
To Salaries	11,200	By Commission	3,750
Add: Salary to Ashok	2,000	Less: Received in Advance	1,250
	13,200		2,500
To Discount Allowed	2,000		
To Bad Debts	5,000		
Add: Further Bad Debts	5,000		
	10,000		
To Interest on Bank Loan Paid	2,500		
Add: Outstanding	1,250		
	3,750		
To Selling and Distribution Expenses	15,800		
To Provision for Doubtful Debts	20,000		
To Provision for Discount on Debtors	3,600		
To Depreciation on:			
Machinery	15,000		
(₹ 2,00,000 × 10/100 × 9/12)			
Furniture (₹ 1,00,000 × 10/100)	10,000		
Building (₹ 64,000 × 5/100)	3,200		
	28,200		
To Loss on Revaluation of Loose Tools	2,500		
To Loss of Stock by Fire (₹ 10,000 – ₹ 6,000)	4,000		
To Sales Promotion Expenses (Samples)	30,000		
To Manager's Commission (10/100 × ₹ 44,400)	4,440		
To Net Profit transferred to Capital A/c	39,960		
	1,84,100		1,84,100

BALANCE SHEET
as at 31st March, 2020

Liabilities	₹	Assets	₹
Current Liabilities		Current Assets	
Creditors	90,000	Cash in Hand	10,000
Bills Payable	15,600	Cash at Bank	5,000
Outstanding Rent	600	Debtors	2,07,000
Unearned Commission	1,250	Less: Further Bad Debts	5,000
Manager's Commission	4,440		2,02,000
Bank Loan	50,000	Less: Salary to Ashok	2,000
Add: Outstanding Interest	1,250		2,00,000
	51,250	Less: Provision for Doubtful Debts	20,000
Capital			1,80,000
Opening Balance	5,19,000	Less: Provision for Discount on Debtors	3,600
Add: Net Profit	39,960		1,76,400
	5,58,960	Bills Receivable	10,000
Less: Drawings	10,650	Prepaid Insurance	900
Income Tax	1,000	Loose Tools (₹ 3,750 – ₹ 2,500)	1,250
Goods taken for Personal Use	20,000	Insurance Company (Claim)	6,000
	31,650	Accrued Interest on Investment	1,500
	5,27,310	Closing Stock	93,600
		12% Investment	50,000
		Fixed Assets	
		Machinery (₹ 1,90,000 + ₹ 10,000)	2,00,000
		Less: Depreciation	15,000
			1,85,000
		Furniture	1,00,000
		Less: Depreciation	10,000
			90,000
		Building	60,000
		Add: Cost of Cycle Shed	4,000
			64,000
		Less: Depreciation	3,200
			60,800
	6,90,450		6,90,450

Note: Depreciation on furniture has been charged for the full year because a flat rate of 10% (and not 10% p.a.) has been given, whereas depreciation on machinery has been charged for 9 months from 1st July to 31st March.

Illustration 16.

From the following Trial Balance of Ajay, you are required to prepare Trading and Profit and Loss Account for the year ending 31st March, 2020 and a Balance Sheet as on that date:

Particulars	Dr. (₹)	Cr. (₹)
Purchases	1,30,295	...
Sales .....	...	1,80,500
Cash in Hand	500	...
Cash at Bank.....	9,500	...
Stock on 1st April, 2019.....	40,000	...
Wages	22,525	...
Sales Return	2,400	...
Purchases Return.....	...	195
Repairs.....	1,675	...
Debtors	30,000	...
Creditors.....	...	30,305
Bad Debts.....	2,310	...
Discount Allowed.....	800	...
Discount Received .....	...	530
Capital.....	...	37,500
Interest on Loan.....	600	...
Salaries	8,000	...
Postage and Telegram	800	...
Freight Inwards	500	...
Insurance.....	1,000	...
Charity.....	125	...
Rent	2,000	...
Machinery.....	16,000	...
Loan @ 12% p.a.....	...	20,000
Total	2,69,030	2,69,030

Adjustments:

- (i) Purchases include a machine purchased on 1st October, 2019 for ₹ 4,000 and Wages include ₹ 2,000 paid on its installation.
- (ii) Provide for depreciation on Machinery @ 10% p.a.
- (iii) Value of Stock on 31st March, 2020 was ₹ 40,925.
- (iv) Salaries unpaid ₹ 800 and Rent is paid up to 30th June, 2020.
- (v) Write off further bad debts ₹ 400 and create a provision of 5% on debtors for doubtful debts.
- (vi) Prepaid Insurance is ₹ 300.

Solution:

TRADING AND PROFIT AND LOSS ACCOUNT

Dr.

for the year ended 31st March, 2020

Cr.

Particulars	₹	Particulars	₹
To Opening Stock	40,000	By Sales	1,80,500
To Purchases	1,30,295	Less: Sales Return	2,400
Less: Machine Purchased	4,000	By Closing Stock	40,925
Purchases Return	195		
	4,195		
To Wages	22,525		
Less: Wages for Inst. of Machine	2,000		
To Freight Inwards	500		
To Gross Profit c/d	31,900		
	2,19,025		2,19,025
To Repairs	1,675	By Gross Profit b/d	31,900
To Discount Allowed	800	By Discount Received	530
To Interest on Loan	600		
Add: Outstanding	1,800		
To Salaries	8,000		
Add: Outstanding	800		
To Postage and Telegram	800		
To Insurance	1,000		
Less: Prepaid	300		
To Charity	125		
To Rent	2,000		
Less: Prepaid	400		
To Provision for Doubtful Debts	1,480		
To Bad Debts	2,310		
Add: Further Bad Debts	400		
To Depreciation on Machinery @ 10%:			
On ₹ 16,000	1,600		
On ₹ 6,000 for Half Year	300		
To Net Profit transferred to Capital A/c	9,440		
	32,430		32,430

BALANCE SHEET as at 31st March, 2020

Liabilities	₹	Assets	₹
Outstanding Salaries	800	Cash in Hand	500
Creditors	30,305	Cash at Bank	9,500
Outstanding Interest on Loan	1,800	Rent Prepaid	400
Loan @ 12% p.a.	20,000	Insurance Prepaid	300
Capital	37,500	Debtors	30,000
Add: Net Profit	9,440	Less: Further Bad Debts	400
			29,600
		Less: Provision for Doubtful Debts	1,480
		Stock	40,925
		Machinery	16,000
		Add: New Machinery	4,000
		Wages for Installation	2,000
			22,000
		Less: Depreciation	1,900
			20,100
	99,845		99,845

Illustration 17.

Following is the Trial Balance of Kiran as on 31st March, 2020. Compile his Trading and Profit and Loss Account for the year ended 31st March, 2020 and Balance Sheet as on that date, bearing in mind the adjustments given, which must be incorporated.

Particulars	Dr. (₹)	Particulars	Cr. (₹)
Drawings	24,450	Capital	3,30,000
Purchases	2,75,000	Creditors	42,000
Cash and Bank balances	19,000	Bank Overdraft	7,500
Wages	19,000	Sales	4,00,000
Printing and Stationery	2,700	Bank Loan	1,50,000
Audit Fees	1,500	General Reserve	58,000
Commission	6,000	Advertisement — Outstanding Expenses	3,000
Returns Inward	5,000	Returns Outward	4,400
Legal charges (Retainership fee for 2 years)	10,600	Commission and Discounts	2,750
Debtors	85,000		
Freight	8,400		
Bank Interest	7,200		
Carriage — Delivery to clients	6,500		
Fixed Assets	4,50,000		
Fuel and Power	13,800		
Expenses prepaid in the earlier accounting year	3,500		
Advertisement expenses	15,000		
Expenses for current year	45,000		
	<u>9,97,650</u>		<u>9,97,650</u>

Adjustments:

1. Closing Stock cost is ₹ 65,000 though the net realisable value (market value) is lower by ₹ 5,000.
2. Goods worth ₹ 4,000 were taken home, without recording the accounting entry.
3. Depreciation rate for assets 10% p.a.
4. Goods of the value of ₹ 5,000 were burnt and the insurance company admitted the claim for ₹ 3,000 only. This fact is not accounted for. (ISC 1991, Modified)

Solution:**Kiran**

Dr.		Cr.	
TRADING AND PROFIT AND LOSS ACCOUNT for the year ended 31st March, 2020			
Particulars	₹	Particulars	₹
To Purchases	2,75,000	By Sales	4,00,000
Less: Returns Outward	4,400	Less: Returns Inward	5,000
	<u>2,70,600</u>	By Goods Lost by Fire	5,000
Less: Goods used for personal purpose	4,000	By Closing Stock (Note 1)	60,000
	2,66,600		
To Freight	8,400		
To Wages	19,000		
To Fuel and Power	13,800		
To Gross Profit c/d	1,52,200		
	<u>4,60,000</u>		<u>4,60,000</u>

Final Accounts—With Adjustments

20.37

To Printing and Stationery	2,700	By Gross Profit <i>b/d</i>	1,52,200
To Audit fees	1,500	By Commission and Discounts	2,750
To Commission	6,000		
To Legal charges	5,300		
To Bank interest	7,200		
To Carriage Outwards	6,500		
To Advertisement expenses	15,000		
To Other expenses (₹ 45,000 + ₹ 3,500)	48,500		
To Depreciation	45,000		
To Goods Lost by Fire (₹ 5,000 – ₹ 3,000)	2,000		
To Net Profit transferred to Capital A/c	15,250		
	1,54,950		1,54,950

BALANCE SHEET
as at 31st March, 2020

Liabilities	₹	Assets	₹
Capital		Fixed Assets	
Balance as on 1st April, 2019	3,30,000	Cost	4,50,000
Add: Net Profit	15,250	Less: Depreciation	45,000
	<u>3,45,250</u>		4,05,000
Less: Drawings (₹ 24,450 + ₹ 4,000)	28,450	Current Assets	
General Reserve	58,000	Stock-in-Trade (Cost ₹ 65,000) (Note 1)	60,000
Non-current Liabilities		Debtors	85,000
Bank Loan	1,50,000	Insurance claim	3,000
Current Liabilities		Legal charges (Advance)	5,300
Bank Overdraft	7,500	Cash and Bank	19,000
Creditors	42,000		
Outstanding Expenses: Advertisement (Note 2)	3,000		
	5,77,300		5,77,300

Notes:

1. As per Prudence Concept or Convention of Conservatism, Closing Stock is valued at cost or net realisable value (market value), whichever is less. Thus, Closing Stock is taken at net realisable value (market value), it being lower than cost price.
2. Outstanding Advertisement Expenses of ₹ 3,000 appears in Trial Balance. It means that adjustment entry for Outstanding Advertisement Expenses has already been passed in the books of account. At the time of preparation of Final Accounts, Outstanding Advertisement Expenses will be shown as liability in the Balance Sheet.

Advanced Level Questions

Illustration 18.

Following balances were extracted from the books of Modern Traders on 31st March, 2020:

Particulars	₹	Particulars	₹
Capital	8,50,000	Sales	12,00,000
Drawings	50,000	Postage and Courier	8,000
Plant and Machinery	4,00,000	Bad Debts	4,000
Accumulated Depreciation	90,000	Provision for Doubtful Debts	8,000
Stock on 1st April, 2019	1,50,000	Discount Received	4,000
Purchases	8,20,000	Rent Revenue	12,000
Sundry Debtors	2,06,000	Insurance	7,000
Furniture	50,000	Salaries	2,00,000
Freight Inwards	20,000	Wages	13,000
Carriage Outwards	5,000	Cash in Hand	62,000
Rent, Rates and Taxes	46,000	Cash at Bank	2,55,000
Printing and Stationery	8,000	General Reserve	50,000
Sundry Creditors	95,000	Input IGST	20,000
Input CGST	15,000	Output IGST	45,000
Input SGST	15,000		

Prepare Profit and Loss Account for the year ended 31st March, 2020 and the Balance Sheet as at that date giving effect to the following:

- (a) Closing Stock valued at cost was ₹ 1,72,000 whereas its net realisable value (market value) was ₹ 1,50,000.
- (b) Wages Outstanding were ₹ 5,000.
- (c) Provision for Doubtful Debts is to be maintained at 5% of Sundry Debtors.
- (d) Depreciate Plant and Machinery by 10% and Furniture by 5% on Written Down Value Method.
- (e) Sundry Creditors include ₹ 10,000 due to Nayak who is also included in Sundry Debtors at ₹ 15,000.
- (f) New furniture for ₹ 12,000 was purchased on 1st April, 2019. Old furniture valued at ₹ 2,000 was exchanged and balance was paid by cheque. Purchase of furniture was recorded at the net value of furniture, *i.e.*, ₹ 10,000.
- (g) A fire occurred on 27th March, 2020 destroying stock costing ₹ 10,000. Insurance company conveyed acceptance of claim of ₹ 7,500 on 10th April, 2020. Final Accounts were prepared on 1st July, 2020.

Solution:

Dr.		TRADING AND PROFIT AND LOSS ACCOUNT for the year ended 31st March, 2020		Cr.	
Particulars	₹	Particulars	₹		
To Opening Stock	1,50,000	By Sales	12,00,000		
To Purchases	8,20,000	By Closing Stock	1,50,000		
To Freight Inwards	20,000	By Loss of Stock by Fire	10,000		
To Wages	13,000				
Add: Outstanding	5,000				
To Gross Profit c/d	3,52,000				
	<u>13,60,000</u>				<u>13,60,000</u>
To Postage and Courier	8,000	By Gross Profit b/d	3,52,000		
To Printing and Stationery	8,000	By Discount Received	4,000		
To Rent, Rates and Taxes	46,000	By Rent	12,000		
To Carriage Outwards	5,000				
To Depreciation on Plant and Machinery	31,000				
To Bad Debts	4,000				
Add: Provision for Doubtful					
Debts (Required)	9,800				
	<u>13,800</u>				
Less: Provision for Doubtful					
Debts (Old)	8,000				
To Insurance	7,000				
To Salaries	2,00,000				
To Depreciation on Furniture (5% of ₹ 50,000)	2,500				
To Loss of Stock by Fire (₹ 10,000 – ₹ 7,500)	2,500				
To Net Profit transferred to Capital A/c	52,200				
	<u>3,68,000</u>				<u>3,68,000</u>

BALANCE SHEET as at 31st March, 2020

Liabilities	₹	Assets	₹
Capital	8,50,000	Plant and Machinery	4,00,000
Less: Drawings	50,000	Less: Accumulated Depreciation	1,21,000
	<u>8,00,000</u>	(₹ 90,000 + 10% of ₹ 3,10,000)	
Add: Net Profit	52,200	Sundry Debtors	2,06,000
Outstanding Wages	5,000	Less: Amount due from Nayak	10,000
General Reserve	50,000		<u>1,96,000</u>
Sundry Creditors	95,000	Less: Provision for Doubtful Debts	9,800
Less: Amount due to Nayak	10,000	Input SGST A/c	5,000
	<u>85,000</u>	Cash in Hand	62,000
		Cash at Bank	2,55,000
		Furniture	50,000
		Less: Depreciation	2,500
		Insurance Company	7,500
		Closing Stock	1,50,000
	<u>9,92,200</u>		<u>9,92,200</u>

Notes:

1. Modern Traders filed the claim for loss by fire for ₹ 10,000. Since the accounts were finalised on 1st July, 2020 and Insurance Company admitted claim for ₹ 7,500, Loss of Stock by fire of ₹ 2,500 is debited to Profit and Loss Account.
2. Old furniture, which was exchanged for ₹ 2,000, had the same book value. Hence, no entry is passed.

3. Input IGST shall be first adjusted against Output IGST. Thereafter, balance in Input CGST ₹ 15,000 shall be adjusted against Output IGST and balance in Input SGST shall be adjusted against Output IGST leaving a balance of ₹ 5,000.

Illustration 19.

Following Trial Balance was extracted from the books of Mohan on 31st March, 2020:

Particulars	Debit Balances ₹	Credit Balances ₹
Capital	...	3,00,000
Drawings	50,000	...
Debtors	2,00,000	...
Creditors	...	1,00,000
Loan	...	95,000
Interest on Loan	3,000	...
Cash	20,000	...
Provision for Doubtful Debts	...	7,000
Stock on 1st April, 2019	68,000	...
Motor Vehicles	1,00,000	...
Bank	35,000	...
Land and Building	1,20,000	...
Bad Debts	5,000	...
Purchases	6,60,000	...
Sales	...	11,00,000
Purchases Return	...	15,000
Sales Return	80,000	...
Carriage Outwards	25,000	...
Carriage Inwards	30,000	...
Salaries	90,000	...
Rent and Insurance	30,000	...
Advertising	35,000	...
Discount Received	...	5,000
General Expenses	34,000	...
Bills Receivable	60,000	...
Bills Payable	...	20,000
Rent Received	...	3,000
Total	16,45,000	16,45,000

Prepare Trading and Profit and Loss Account for the year ended 31st March, 2020 and Balance Sheet as at that date after taking into account the following:

- Stock as on 31st March, 2020 was valued at ₹ 70,000.
- All debtors are considered good for recovery.
- Depreciate Motor Vehicles by 20%.

- (d) Bank intimation of customer's cheque of ₹ 10,000 being dishonoured is not recorded in the books.
- (e) Travelling expenses of ₹ 5,000 paid to sales person was wrongly debited to his Personal Account and was included in debtors.
- (f) Amount of ₹ 6,000 received from Ronit was credited to his account and was included in creditors. This amount was written off as bad debt in previous year.
- (g) Drawings included an amount of ₹ 2,000 being amount drawn in cash. It was used by Mohan for purchase of stationery used in business.

Solution:

Dr. TRADING AND PROFIT AND LOSS ACCOUNT for the year ended 31st March, 2020 Cr.			
Particulars	₹	Particulars	₹
To Opening Stock	68,000	By Sales	11,00,000
To Purchases	6,60,000	Less: Sales Return	80,000
Less: Purchases Return	15,000	By Closing Stock	70,000
To Carriage Inwards	30,000		
To Gross Profit c/d	3,47,000		
	<u>10,90,000</u>		<u>10,90,000</u>
To General Expenses	34,000	By Gross Profit b/d	3,47,000
To Advertising	35,000	By Rent Received	3,000
To Rent and Insurance	30,000	By Discount Received	5,000
To Salaries	90,000	By Bad Debts Recovered	6,000
To Carriage Outwards	25,000	By Provision for Doubtful Debts (Written Back)	2,000
To Interest on Loan	3,000	(₹ 7,000 – ₹ 5,000)	
To Stationery	2,000		
To Travelling Expenses	5,000		
To Depreciation on Motor Vehicles	20,000		
To Net Profit transferred to Capital A/c	1,19,000		
	<u>3,63,000</u>		<u>3,63,000</u>

BALANCE SHEET as at 31st March, 2020

Liabilities	₹	Assets	₹
Capital	3,00,000	Debtors	2,00,000
Less: Drawings (₹ 50,000 – ₹ 2,000)	48,000	Less: Travelling Expenses to Sales Person	5,000
	<u>2,52,000</u>		<u>1,95,000</u>
Add: Net Profit	1,19,000	Add: Customer's cheque Dishonoured	10,000
Loan	95,000	Bank (₹ 35,000 – ₹ 10,000)	25,000
Creditors	1,00,000	Cash	20,000
Less: Amount of Bad Debts Recovered	6,000	Motor Vehicles	1,00,000
Bills Payable	20,000	Less: Depreciation	20,000
		Land and Building	1,20,000
		Bills Receivable	60,000
		Closing Stock	70,000
	<u>5,80,000</u>		<u>5,80,000</u>

Unsolved Questions

1. Following Trial Balance as on 31st March, 2020 is extracted from the books of Mohan:

Heads of Accounts	Dr. (₹)	Cr. (₹)
Mohan's Capital A/c.....	...	3,00,000
Mohan's Drawings.....	12,500	...
Furniture.....	50,000	...
Plant and Machinery.....	70,000	...
Stock on 1st April, 2019.....	45,000	...
Bills Receivable.....	10,000	...
Bills Payable.....	...	15,000
Sundry Debtors.....	1,40,000	...
Sundry Creditors.....	...	1,60,000
Purchases.....	2,00,000	...
Sales.....	...	3,75,000
Carriage Inwards.....	2,500	...
Carriage Outwards.....	1,250	...
Freight.....	3,000	...
Manufacturing Wages.....	55,000	...
Fuel and Power.....	2,000	...
Factory Expenses.....	13,500	...
Salaries.....	45,000	...
Rent.....	15,000	...
Prepaid Rent.....	6,000	...
Outstanding Salaries.....	...	5,000
Discount.....	1,000	2,000
Printing and Stationery.....	1,500	...
General Expenses.....	4,500	...
Cash in Hand.....	10,750	...
Cash at Bank.....	1,68,500	...
Provision for Doubtful Debts.....	...	2,000
Provision for Discount on Debtors.....	...	1,000
Bad Debts.....	3,000	...
Total	8,60,000	8,60,000

Additional Information:

Errors:

- (a) Purchases include sales return of ₹ 5,000 and sales include purchases return of ₹ 4,000.
- (b) Goods withdrawn by the proprietor for own consumption ₹ 2,000 were included in purchases.
- (c) Wages paid for installation of plant and machinery amounting to ₹ 2,000 were included in Wages Account.
- (d) Samples distributed for publicity costing ₹ 2,500, but not recorded in the books.
- (e) An advance of ₹ 5,000 to a supplier was wrongly included in the list of Sundry Debtors.
- (f) A dishonoured bill receivable for ₹ 2,000 returned by the Bank with whom it had been discounted, had been credited to Bank Account and debited to Bills Receivable Account.

Adjustments:

- (i) Charge depreciation on plant and machinery @ 15% and on furniture @ 10%.
- (ii) Create provision for doubtful debts @ 5% and provision for discount on debtors at 2%.
- (iii) Closing stock is valued at ₹ 80,000.

Prepare Trading and Profit and Loss Account for the year ended 31st March, 2020.

2. Following is the Trial Balance of M/s. Radha Krishna & Co. as on 31st March, 2020:

Debit Balances	₹	Credit Balances	₹
Stock on 1st April, 2019	85,000	S. Radhakrishna's capital	5,00,000
Purchases	4,57,500	Bills Payable	40,000
Salaries	64,000	Sundry Creditors	1,95,000
Wages	33,500	Loans on Mortgage	2,50,000
Building	4,60,000	Returns Outward	5,000
Plant and Machinery	2,00,000	Sales	8,05,000
Furniture and Fittings	25,500	Provision for Doubtful Debts	5,000
Rent	24,000		
Carriage Inwards	3,500		
Dock charges	27,000		
Sundry Debtors	3,20,000		
Bills Receivable	35,000		
Insurance	4,500		
Discount	2,500		
General Expenses	3,500		
Rates and Taxes	14,500		
Customs Duty	23,000		
Repairs	7,000		
Bad Debts	10,000		
	18,00,000		18,00,000

Prepare Trading and Profit and Loss Account and Balance Sheet taking into consideration the following adjustments:

- Provide for interest on loan for the year at 12% p.a.
- Create 5% provision on Debtors for Doubtful Debts.
- Stocks taken on 31st March, 2020 were ₹ 1,27,500.
- Depreciation to be charged on Furniture and Fittings at 10%, Plant and Machinery at 5% and Building at 2.5%.

3. Following are the Ledger Accounts of Rustomji for the year ended 31st March, 2020:

Ledger Accounts	₹	Ledger Accounts	₹
Building	30,000	Cash in Hand	670
Sundry Debtors	19,000	Bad Debts	200
Sundry Creditors	38,000	Loan from Mohan	5,000
Income Tax	2,050	Investments	13,000
Loose Tools	2,000	Provision for Doubtful Debts	3,200
Cash at Bank	32,400	Insurance	1,700
Sundry Expenses	3,980	Furniture	6,000
Purchases	3,14,000	Stock on 1st April, 2019	54,700
Bank Interest (Cr.)	150	Capital	94,780
Wages	20,000	Discount Received	1,070
Carriage Inwards	2,240	Discount Allowed	1,260
Sales	3,70,000	Drawings	4,000
Motor Van	25,000	Bills Payable	20,000

You are required to prepare Trading and Profit and Loss Account for the year ended 31st March, 2020 and Balance Sheet as on that date.

You are also given the following information:

- Of the Sundry Debtors ₹ 600 are bad and should be written off.
- Maintain a provision of 5% on Sundry Debtors for Doubtful Debts.
- Dividend accrued and due on investment is ₹ 270.
- Insurance paid in advance ₹ 200, Wages outstanding ₹ 900.
- Stock on 31st March, 2020 was valued at ₹ 30,000 and loose tools were valued at ₹ 1,600.
- Depreciation on Building 5% and on 40% Motor Van.
- Provide for interest at 12% p.a. due on loan raised on 1st June, 2019.

4. The Trial Balance of Shanmuganathan as on 31st March, 2020 was as follows:

Particulars	Dr. (₹)	Particulars	Cr. (₹)
Purchases	1,60,000	Sales	2,52,400
Carriage Inwards	2,505	Provision for Doubtful Debts	5,200
Sundry Debtors	50,200	Sundry Creditors	30,526
Opening Stock	26,725	Bills Payable	3,950
Manufacturing Wages	23,137	Outstanding Wages	2,000
Salaries	5,575	Trade Expenses accrued but not paid	700
Furniture	7,250	Capital A/c	50,000
Advertisement	3,000		
Postage	1,226		
Power and Fuel	1,350		
Trade Expenses	5,831		
Bad Debts	525		
Loan at 15% p.a. to Subbu, 1st December, 2019	3,000		
Cash in Hand and at Bank	50,000		
Drawings A/c	4,452		
	<u>3,44,776</u>		<u>3,44,776</u>

Prepare Trading and Profit and Loss Account for the year ended 31st March, 2020 and Balance Sheet as on that date taking into account the following information:

- Depreciate Furniture at 10% p.a.
- Sundry Debtors include an item of ₹ 500 due from a customer who has become insolvent and nothing is recoverable from his estate.
- Provision for Doubtful Debts is to be maintained at 5% on Sundry Debtors.
- Goods of the value of ₹ 1,500 have been destroyed by fire and the Insurance Company has admitted a claim for ₹ 1,000.
- Stock on 31st March, 2020 was ₹ 12,550.

5. From the following Trial Balance of M/s. Shradha & Sons as on 31st March, 2020, prepare Trading and Profit and Loss Account and Balance Sheet:

Particulars	Debit ₹	Credit ₹
Capital	...	8,00,000
Drawings	1,80,000	...
Sales	...	15,50,000
Purchases	8,26,000	...
Stock on 1.4.2019	4,20,000	...
Returns Outward	...	16,000
Carriage Inwards	12,000	...
Wages	40,000	...
Power	60,000	...
Machinery	5,00,000	...
Furniture	1,40,000	...
Rent	2,20,000	...
Salary	1,50,000	...
Insurance	36,000	...
8% Bank Loan	...	2,50,000
Debtors	2,06,000	...
Creditors	...	1,89,000
Cash in Hand	15,000	...
Total	28,05,000	28,05,000

Adjustments:

- Closing Stock ₹ 6,40,000.
- Wages outstanding ₹ 24,000.
- Bad Debts ₹ 6,000.
- Provision for Doubtful Debts to be 5%.
- Rent is paid for 11 months.
- Insurance premium is paid per annum, benefit of which will end on 31st May, 2020.
- Loan from the bank was taken on 1st October, 2019.
- Provide depreciation on machinery @ 10% and on furniture @ 5%.

GUIDE TO ANSWERS

1. Gross Profit—₹ 1,40,500; Net Profit—₹ 46,497; Balance Sheet Total—₹ 5,11,997.

[Hints:

- Rectification Entries.** (a) Dr. Sales Return A/c and Cr. Purchases A/c by ₹ 5,000; Dr. Sales A/c and Cr. Purchases Return A/c by ₹ 4,000. (b) Dr. Drawings A/c and Cr. Purchases A/c by ₹ 2,000. (c) Dr. Plant and Machinery A/c and Cr. Wages A/c by ₹ 2,000. (d) Dr. Advertisement or Sales Promotion Expenses A/c and Cr. Purchases A/c by ₹ 2,500. (e) Dr. Advance to Supplier and Cr. Sundry Debtors by ₹ 5,000. (f) Dr. Sundry Debtors and Cr. Bills Receivable A/c by ₹ 2,000.
 - Calculation of Purchases.** Purchases – Returns Inward wrongly included in Purchases – Returns Outward – Goods drawn by Proprietor – Free Samples = ₹ 1,86,500.]
5. Gross Profit—₹ 8,24,000; Net Profit—₹ 3,21,000; Balance Sheet Total—₹ 14,34,000.