

**CBSE Test Paper 03**  
**Ch-10 Financial Statements-II Adjustments**

1. Accrued income is credited to the profit and loss account and shown in the balance sheet as a current asset. Why?
2. Rent paid on 1st October, 2010 for the year to 30th September, 2011 was Rs 1,200 and rent paid on 1st October, 2011 for the year to 30th September, 2012 was Rs 1,600. Rent payable, as shown in the profit and loss account for the year ended 31 December 2011, would be.
3. If unearned income is credited to the profit and loss account would it be correct?
4. Goods taken for personal use are recorded at what value in books of accounts and why?
5. From the following information, prepare Trading A/c for the year ended 31st March 2018:

	Rs.
Stock (as on 1.4.2017)	40,000
Purchases	4,00,000
Sales	3,80,000
Carriage inwards	20,000
Returns outward	80,000
Wages and salaries	50,000
Returns inward	20,000
Stock (31.3.2018)	1,30,000

Note - Net Realisable value (Market value) of stock as on 31.3.2018 was Rs.1,20,000

6. Why is it necessary to create a provision for doubtful debts at the time of preparation

of final accounts?

7.

**Extract of Trial Balance**  
as on 31st March, 2013

Name of Accounts	Debit Balance(Rs)	Credit Balance(Rs)
Purchases	1,00,000	

**Additional Information**

During the year the proprietor, Mr Rohan distributed goods worth Rs 10,000 as free samples.

Pass an adjusting entry and show effect on financial statements.

8. What do you mean by contingent liabilities? Give its two examples.
9. From the following trial balance of Monika Textiles as at 31st March, 2013. Prepare adjustment entries, trading and profit and loss account and balance sheet.

Name of Accounts	Debit Amount (Rs)	Credit Amount (Rs)
Stock at commencement	15,00,000	
Purchases and sales	1,09,00,000	1,80,00,000
Manufacturing wages	8,00,000	
Fuel, Power and lighting	12,00,000	
Salaries	11,00,000	
Income tax	5,50,000	
Loan to X at 10% per annum	5,00,000	
Interest on X's Loan		30,000
Apprentice premium		4,50,000
Rent	4,00,000	

Rent owing		60,000
Furniture (includes furniture of 1,00,000 purchased on 1 st October, 2011)	5,00,000	
Bills receivable and bills payable	6,00,000	1,60,000
Plant	72,00,000	
Debtors and creditors	28,00,000	13,00,000
Capital		1,00,00,000
Cash	19,50,000	
	<b>3,00,00,000</b> =====	<b>3,00,00,000</b> =====

### Additional Information

- i. Closing stock was valued at Rs 30,00,000.
- ii. Goods worth Rs 5,00,000 were sold and despatched on 28th March, 2013 but no entry was passed to this effect.
- iii. Goods costing Rs 7,00,000 were purchased and included into stock but no entry was passed to record the purchases.
- iv. Create a provision of 2% for discount on debtors.
- v. Apprentice premium received on 1st April, 2012 was for 3 years.
- vi. Depreciate furniture by 10% per annum
- vii. Salaries for the month of March, 2013 are still outstanding.

10. Following is the Trial Balance of Vandana Vohra on 31st March 2013. Draw the final accounts from the balances therefrom.

Name of Account	Debit Amount (Rs.)	Credit Amount (Rs.)
Capital		3,00,000

Stock on 1 st April, 2012	60,000	
Cash at bank	20,000	
Cash in hand	10,000	
Machinery	2,00,000	
Furniture	26,000	
Purchases	4,00,000	
Wages	1,00,000	
Carriage inwards	66,000	
Salaries	1,40,000	
Discount allowed	8,000	
Discount received		10,000
Advertising	1,00,000	
Office expenses	80,000	
Sales		10,00,000
Sundry debtors	1,80,000	
Sundry creditors		80,000
	<b>13,90,000</b> =====	<b>13,90,000</b> =====

Value of closing stock as on 31st March, 2013 was Rs. 1,00,000.

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**Ch-10 Financial Statements-II Adjustments**

**Answer**

1. Accrued income is credited to the profit and loss account and shown in the balance sheet as a current asset because under the accrual concept of accounting income is recognised when goods or services have been sold whether the amount has been received or not.
2. Rent from Jan 1 to Sep 30 =  $1200 \times 9/12 = 900$   
 Rent from Oct 1 to Dec 31 =  $1600 \times 3/12 = 400$   
 Total Rent = Rs 1,300
3. No, it is not correct.
4. Goods taken for personal use are recorded at purchase cost because it is drawings.
- 5.

**TRADING ACCOUNT**  
**for the year ended March 31 2018**

Dr.					Cr.
Particulars		Rs.	Particulars		Rs.
To Opening Stock		40,000	By Sales	3,80,000	
To Purchases	4,00,000		Less Return inward	<u>20,000</u>	3,60,000
Less: Return outward	<u>80,000</u>	3,20,000	By Closing Stock		1,20,000
To Wages and salaries		50,000			
To Carriage inwards		20,000			
To Gross Profit (Bal. Fig.)		50,000			
		<b>4,80,000</b>			<b>4,80,000</b>

It is noted that Closing Stock will be shown at Net Realisable Value or Market Value whichever is lower. So, Closing stock is shown on market value in above question.

6. For recording business transactions, the convention of conservatism is followed which states that provision should be made for expected profit and gains should not be accounted for. As it is not possible to accurately know the amount of bad debts. Therefore, in order to bring an element of certainty in the amount of bad debts from debtors a provision for doubtful debts is created to cover the loss of possible bad debts. A firm must be convinced with the amount of net debtors which it is going to realize by the end of the financial year and for this purpose, provision for doubtful debts certainly provides a helping hand.

7. **Adjusting Entry**

Date	Particulars		L/F	Debit Amount (Rs)	Credit Amount (Rs)
	Advertisement A/c To Purchases A/c	Dr		10,000	10,000
	Total			10,000 =====	10,000 =====

**Effect on Final Accounts**

**Trading Account**

for the year ended 31st March, 2013

Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Purchases			

1,00,000			
10,000	90,000		

**Profit and Loss Accounts**  
for the year ended 31st March, 2013

Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Advertisement Expenses	10,000		

Adjusting entries are accounting journal entries that convert a company's accounting records to the accrual basis of accounting. An adjusting journal entry is typically made just prior to issuing a company's financial statements.

8. Contingent Liabilities are those liabilities which will become payable only on the happening of some specific event, otherwise not. These are not shown in the Balance Sheet. They are shown as a footnote just below the balance sheet. Some Examples of Contingent Liabilities are as follows:

- i. **Liabilities for Bill Discounted:** If a bill discounted from the bank is dishonoured by the acceptor on the due date, then only the firm will become liable to the bank, otherwise not.
- ii. **Liability in Respect of a Suit Pending in a Court of Law:** This would become an actual liability only if the suit is decided against the firm, otherwise not.
- iii. **Liability in Respect of a Guarantee Given for Another Person:** The firm would become liable to pay the amount only if the person for whom guarantee is given fails to meet his obligation, otherwise not.

9. **In the books of Monica Textiles**

**Adjustment Entries**

				<b>Debit</b>	<b>Credit</b>
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Date	Particulars		L/F	Amount (Rs)	Amount (Rs)
	Closing Stock A/c To Trading A/c (Being closing stock transferred to trading account)	Dr		30,00,000	30,00,000
	Debtors A/c To Sales A/c (Being goods sold but omitted to be recorded)	Dr		5,00,000	5,00,000
	Purchase A/c To Creditors A/c (Being goods purchased but omitted to be recorded)	Dr		7,00,000	7,00,000
	Profit and Loss A/c To Provision for Discount on Debtors A/c (Being provision for discount charged from profit and loss account)	Dr		66,000	66,000
	Apprentice Premium A/c To Apprentice Premium Received in Advance A/c (Being apprentice premium received in advance)	Dr		3,00,000	3,00,000
	Depreciation A/c To Furniture A/c (Being depreciation charged on furniture)	Dr		45,000	45,000
	Salary A/c To Salary Outstanding A/c (Being salary outstanding)	Dr		1,00,000	1,00,000
	Profit and Loss A/c To Capital A/c (Being net profit transferred to capital)	Dr		48,89,000	48,89,000

	account)				
	Total			96,00,000 =====	96,00,000 =====

**Trading and Profit and loss Account**  
for the year ended 31st March, 2013

Particulars		Amount (Rs)	Particulars		Amount (Rs)
To Opening Stock		15,00,000	By Sales	1,80,00,000	
To Purchases	1,09,00,000		(+)Debtors	5,00,000	1,85,00,000
(+Creditors	7,00,000	1,16,00,000	By Closing Stock		30,00,000
To Manufacturing wages		8,00,000			
To Fuel, Power and Lighting		12,00,000			
To Gross Profit c/d		64,00,000			
		<b>2,15,00,000</b> =====			<b>2,15,00,000</b> =====
To Rent		4,00,000	By Gross Profit b/d		64,00,000
To Provision for Discount			By Interest on X's Loan	30,000	
on Debtors		66,000	(+)Accrued Interest	20,000	50,000
To Depreciation on furniture(W.N)		45,000	By Apprentice Premium	4,50,000	

To Salaries	11,00,000		(-)Received in Advance	3,00,000	1,50,000
(+)Outstanding(W.N)	1,00,000	12,00,000			
To Net Profit Transferred to capital A/c		48,89,000			
		<b>66,00,000</b> =====			<b>66,00,000</b> =====

**Balance Sheet**  
as on 31st March,2013

<b>Liabilities</b>		<b>Amount (Rs)</b>	<b>Assets</b>		<b>Amount (Rs)</b>
Bills Payable		1,60,000	Cash		19,50,000
Creditors	13,00,000		Bills Receivable		6,00,000
(+)Purchases	7,00,000	20,00,000	Debtors	28,00,000	
Rent Owing		60,000	(+)Sales	5,00,000	
Apprentice Premium Received in Advance		3,00,000	(-)Provision for Discount	66,000	32,34,000
Salary Outstanding		1,00,000	Closing stock		30,00,000
Capital	1,00,00,000		Loan to X		5,00,000
(+)Net Profit	48,89,000		Accrued Interest on X Loan		20,000
	1,48,89,000		Furniture	5,00,000	

(- )Drawings(Income Tax)(W.N)	5,50,000	1,43,39,000	(- )Depreciation	45,000	4,55,000
			Plant		72,00,000
		<b>1,69,59,000</b> =====			<b>1,69,59,000</b> =====

Adjusting entries are accounting journal entries that convert a company's accounting records to the accrual basis of accounting. An adjusting journal entry is typically made just prior to issuing a company's financial statements. Adjusting entries almost always involve a

- Balance Sheet Account (Interest Payable, Prepaid Insurance, Accounts Receivable, etc.) and an
- Income Statement Account (Interest Expense, Insurance Expense, Service Revenues, etc.)

10.

### Trading And Profit & Loss Account

For the year ended -----

Particulars	Amount	Particulars	Amount
To Opening Stock	60,000	By Sales	10,00,000
To Purchase	4,00,000	By Closing Stock	1,00,000
To Wages	1,00,000		
To Carriage Inwards	66,000		
To Gross Profit c/d	4,74,000		
	<b>11,00,000</b> =====		<b>11,00,000</b> =====
To Salaries	1,40,000	By Gross Profit b/d	4,74,000
To Discount Allowed	8,000	By Discount Received	10,000

To Advertising	1,00,000		
To Office Expense	80,000		
To Net Profit	1,56,000		
	<b>4,84,000</b> =====		<b>4,84,000</b> =====

### Balance Sheet

As on -----

Liabilities	Amount	Assets	Amount
Capital		Cash	10,000
3,00,000			
Net Profit	4,56,000	Bank	20,000
1,56,000			
Creditors	80,000	Closing Stock	1,00,000
		Machinery	2,00,000
		Furniture	26,000
		Debtors	1,80,000
	<b>5,36,000</b> =====		<b>5,36,000</b> =====

A trading, profit and loss account shows the business's financial performance over a given time period.