

CBSE Test Paper 05
Ch-10 Financial Statements-II Adjustments

1. Is it correct the debts written-off as bad, if recovered subsequently are credited to the debtor's account?
2. Where is closing stock appearing in the trial balance shown?
3. Calculate the commission payable to the manager, if net profit of a firm before charging manager's commission is Rs 21,000 and the manager is entitled to 5% commission after charging such commission.
4. What do you understand by the adjustment entry?
5. Give the adjustment entry and the treatment in final accounts of the following:
 - i. Accrued income
 - ii. Unearned income
6. Mention any four important adjustments that are made for the preparation of trading and profit and loss account.

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

Name of Accounts	Debit Balance(Rs)	Credit Balance(Rs)
Rent Received		9,000

Additional Information

Rent received but not earned Rs 1,200.

Pass an adjusting entry and show how will this appear in final accounts.

8. Following is the extract from a trial balance

Trial Balance
as on

Name of Accounts	Debit Balance(Rs)	Credit Balance(Rs)
Machinery A/c	4,00,000	
Furniture A/c	2,00,000	

Provision for Depreciation: on Machinery		12,000
on Furniture		54,200

Additional Information

Depreciation is to be charged on machinery at 10% per annum on original cost and on furniture at 10% per annum by the diminishing balance method. Show the effect in financial statements.

9. From the following balances, as on 31st March, 2018 prepare the Trading Account, Profit and Loss Account and the Balance Sheet:

	Rs.
Capital Account	1,00,000
Returns outward	5,000
Plant and Machinery	40,000
Rent	4,000
Sundry Debtors	24,000
Sales	1,64,000
Sundry Creditors	12,000
Manufacturing Expenses	8,000
Purchases	1,05,000
Life Insurance Premium	12,000
Trade Expenses	7,000
Bad Debts	2,000
Wages	50,000
Carriage	1,500
Bank	10,000
Bills Payable	7,000
Repairs	500
Returns Inward	4,000

Stock 1-4-2017	20,000
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The closing stock (31st March 2018) was valued at Rs.14,500.

10. From the following balances of M/s Nilu Sarees as on 31st March 2014. Prepare trading and profit and loss account and balance sheet as on date.

Particulars	Amt (Rs.)	Particulars	Amt (Rs.)
Opening stock	10,000	Sales	2,28,000
Purchases	78,000	Capital	70,000
Carriage inwards	2,500	Interest	7,000
Salaries	30,000	Commission	8,000
Commission	10,000	Creditors	28,000
Wages	11,000	Bills Payable	23,700
Rent and taxes	2,800		
Repeir	5,000		
Telephone expenses	1,400		
Legal charges	1,500		
Sundry expenses	2,500		
Cash in hand	12,000		
Debtors	30,000		
Machinery	60,000		
Investments	90,000		
Drawings	18,000		

Closing stock as on 31st March, 2014 Rs. 22,000.

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Answer

1. No, it is not correct when had debts are recovered, they are credited to bad debts recovered account.
2. It is shown only on the assets side of the balance sheet and not in the Trading Account.
3. Manager's Commission

=(rate of interest /100 + rate of interest)

$$= \frac{5}{100+5} \times 21,000 = 1,000$$

4. It is the entry passed to record expenses and incomes that relate to the accounting period but, are yet to be paid or received. It takes into account the Accrual basis of accounting.
5. **1. When given Outside the Trial Balance:**

Accrued Income: It is income earned but not received. So it is shown in the credit side of the P & L A/c by way of addition to the concerned income account and also on the Assets side of the Balance Sheet.

Accrued Income A/c	Dr
To Income A/c	

Unearned Income: It is the income that is received in advance so it is shown by way of deduction from the concerned income account and also in the liability side of the balance sheet.

Income A/c	Dr
To Unearned income A/c	

2. When given inside the Trial Balance:

- a. **Accrued Income:** It will appear only in the Asset side of Balance Sheet.
- b. **Unearned Income:** It will appear only in the Liability side of Balance Sheet.

6. The trading profit and loss account is made up of two separate accounts within the general ledger.

- i. The trading account.
- ii. The profit and loss account.

The purpose of the two accounts is to separately identify the gross profit and net profit of the business. The trading account is the top part of the trading profit and loss account and is used to determine the gross profit. The profit and loss account is the lower part of the trading profit and loss account and is used to determine the net profit of the business. The following are some adjustments:

- **Outstanding Expense:** Added to the expense paid during the year on the debit side.
Expense A/c Dr
 To Outstanding Expense A/c
- **Prepaid Expense:** Deducted from the respective expenses on the debit side
Prepaid Expense A/c Dr
 To Expense A/c
- **Interest On Capital:** Shown on the debit side of the P/L A/c.
Interest on capital A/c Dr
 To Capital A/c
- **Interest on Drawings:** Shown on the credit side of the Profit & Loss A/c.
Drawings A/c Dr
 To Interest on Drawings A/c

7.

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Particulars		Amt(Rs.)	Amt(Rs)
Rent A/c	Dr	1,200	

To Rent Received in Advance A/c			1,200
(Being rent received in advance adjusted)			

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

Dr				Cr
Particulars	Amt(Rs)	Particulars		Amt(Rs)
		By Rent	15,600	
		Less :Unearned Rent	1,200	14,400

Balance Sheet
as at 31st March, 2013

Liabilities	Amt(Rs)	Assets	Amt(Rs)
Unearned Rent	1,200		

Unearned rent or Rent received in advance will be shown as Current Liability.

8. **Profit and Loss Account**
for the year ended.....

Dr				Cr
Particulars		Amt(Rs)	Particulars	Amt(Rs)
To Depreciation on Machinery(10% on Rs 4,00,000)	40,000			
On Furniture $10/100 \times (\text{Rs } 2,00,000 - \text{Rs } 54,200)$	14,580	54,580		

Note :

Since depreciation on Furniture is to be charged at diminishing balance, it will be

calculated on the written down value of furniture (i.e.Rs. 2,00,000-Rs. 54,200).

Balance Sheet

as at 31st March, 2013

Liabilities	Amt(Rs)	Assets		Amt(Rs)
		Machinery A/c	4,00,000	
		(-) Provision for Depreciation	1,60,000	2,40,000
		Furniture	2,00,000	
		(-) Provision for Depreciation	68,780	1,31,220

9.

TRADING AND PROFIT AND LOSS ACCOUNT

for the year ended 31st March, 2018

Particulars		Rs.	Particulars		Rs.
To Opening Stock		20,000	By Sales	1,64,000	
To purchases	1,05,000		Less : Returns	<u>4,000</u>	1,60,000
Less : Returns	<u>5,000</u>	1,00,000	By Closing Stock		14,500
To Wages		50,000	By Gross Loss c/d		5,000
To Carriage		1,500			
To Manufacturing Expenses		8,000			
Total		1,79,500	Total		1,79,500
To Gross Loss b/d		5,000	By Net Loss c/d		18,500
To Repairs		500			
To Trade		7,000			

Expenses					
To Rent		4,000			
To Bad Debts		2,000			
Total		18,500	Total		18,500

BALANCE SHEET
AS AT 31ST MARCH, 2018

Liabilities		Rs.	Assets	Rs.
Capital	1,00,000		Plant & Machinery	40,000
Less : L.I.P.	12,000		Closing Stock	14,500
Less : Net Loss	<u>18,500</u>	69,500	sundry Debtors	24,000
Sundry Creditors		12,000	Bank	10,000
Bills Payable		7,000		
Total		88,500	Total	88,500

Profit & Loss account is prepared on the last day of the accounting year in order to determine the net result of the business. Only indirect expense and indirect revenue are shown in it.

Trading account is prepared by entities to know the profit of the business by the operating activities.

Balance sheet shows the financial position of the entity at a point of time.

10. The financial statements of M/s Nilu Sarees will be prepared in the following manner:

1. Preparation of Trading and Profit & Loss Account:

Trading and Profit and Loss Account
for the year ended 31 March, 2014

Dr			Cr
	Amt		Amt

Particulars	(Rs.)	Particulars	(Rs.)
To Opening Stock	10,000	By Sales	2,28,000
To Purchases	78,000	By Closing Stock	22,000
To Carriage Inward	2,500		
To Wages	11,000		
To Gross Profit transferred to Profit & Loss A/c	1,48,500		
	<u>2,50,000</u>		<u>2,50,000</u>
To Salaries	30,000	By Gross Profit b/d	1,48,500
To Commission	10,000	By Interest	7,000
To Rent and Taxes	2,800	By Commission	8,000
To Repair	5,000		
To Telephone Expenses	1,400		
To Legal Charges	1,500		
To Sundry Expenses	2,500		
To Net Profit	1,10,300		
	<u>1,63,500</u>		<u>1,63,500</u>

2. Preparation of Balance Sheet:

Balance Sheet as at 31st March, 2014

Liabilities		Amt (Rs.)	Assets	Amt (Rs.)
Capital	70,000		Machinery	60,000
Add : Net Profit (transferred from Profit &				

Loss A/c)	<u>1,10,300</u>		Investment	90,000
	1,80,300		Debtors	30,000
Less: Drawings	<u>(18,000)</u>	1,62,300	Cash in Hand	12,000
Creditors		28,000	Closing Stock	22,000
Bills Payable		23,700		
		<u>2,14,000</u>		<u>2,14,000</u>