

Financial Statements of Business Organisations

1. Introduction	6. Types of Profit
2. Financial Statements	7. Balance Sheet
3. Trading Account	8. Comparison of Trial Balance and Balance sheet
4. Profit & Loss Account	9. Adjustments
5. Difference between Trading Account and Profit & Loss Account	10. Illustration for preparation of Final Accounts
	— Exercise

1. Introduction

Business is an economic activity which is done with profit object. Therefore number of economic transactions take place during the year in the business entity (or an enterprise). Each business financial transaction is first recorded in journal or subsidiary books. On the basis of journal and subsidiary books, posting is done in ledger and balance of each account is found. On the basis of closing balance of each account trial balance is prepared. If total of Credit balances and debit balances of Trial balance are equal then arithmetically accounts are correct. After preparation of trial balance, next stage is called final account.

The final accounts are prepared at the end of the accounting year to know the result and financial position of the business. Various financial statements are prepared in final accounts.

2. Financial Statements

Meaning, objectives and importance of Financial Statements which are prepared for final accounts are as under.

(1) Meaning of financial statements : Financial statements are organised summaries of detail information about the financial position of an enterprise. Traditionally, following two statements are included in financial statements.

(a) Trading account and Profit & Loss Account : An Account which shows the result of profit/loss of business operations during the accounting period.

(b) Balance Sheet : A statement which shows the financial position of an enterprise.

(2) Objectives of financial statements : There are different objectives for the preparation of each financial statement. Trading Account, Profit and Loss Account and Balance Sheet are three financial statements which are prepared to obtain these objectives. Main objectives of these financial statements are as under :

(i) To know the gross profit or gross loss of an enterprise : Trading Account is prepared to know the gross profit or gross loss of an enterprise during the accounting period.

(ii) To know the Net Profit or Net Loss of an enterprise: Net Profit or Net loss of an enterprise showing account is called Profit & Loss Account. After finding (knowing) gross profit or gross loss from trading account, net profit or loss is determined from profit & Loss Account after considering business expenses and incomes. Thus, Profit & Loss Account shows the financial performance of business operation of an enterprise (during an accounting period).

(iii) **To know the financial position of an enterprise :** A Balance sheet is a statement showing assets, liabilities, receivable and capital of the business of a particular date.

Balance Sheet shows the financial position of an enterprise (business).

(iv) **For Legal requirements :** Financial statements are prepared for various legal requirements also.

Note : Trading Account and Profit and Loss Account are prepared in the form of statement also.

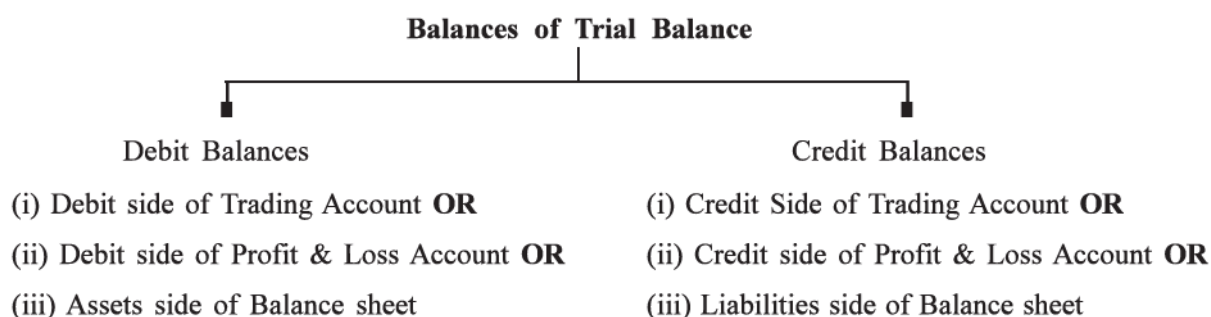
(3) **Importance of financial statements :** Information shown in financial statements is used by present and potential all stakeholders. Financial statements are used by management, present and potential investors, lenders, short term creditors, employees, customers, governments and various agencies to satisfy their need for different types of information. The importance (usefulness) of the financial statements for various users is as under:

Users of Financial Statements	Need for information
(1) Short-term Creditors : (For example, raw material suppliers, short term loan or credit providers)	Short-term creditors need information to determine the amount owing to them will be paid when due and whether they should extend, maintain or restrict the flow of credit to an individual enterprise. For this, current ratio and liquidity ratio can be used by short term creditors.
(2) Long-term Creditors : (For example, long-term loan suppliers)	Long-term creditors need information for whether their principals and the interest will be paid in time or not when it becomes due. For making decision whether to extend, maintain or restrict the flow of credit to an enterprise. These decisions can be made on the basis of the financial statements. For this, Liquidity ratios and solvency ratios can be used by the long-term creditors.
(3) Present Investor : (For example, Equity shareholders)	Present investors need information for making decisions about what is prospect of their investment? Whether they should buy or sell or hold shares? This information is obtained from the financial statements. For this Solvency ratios can be used. What is earning per share? Equity shareholders get this information from financial statements.
(4) Potential Investor : (For example, those who want to invest)	Potential investors need the information for how is the prospect of enterprise; and to determine whether they should invest or not. On the basis of the analysis of financial statement, decision can be made.
(5) Management : (For example, Owner of the enterprise, partners, Board of Directors)	Management need information to review (a) short term solvency (b) long term solvency (c) effectiveness of activities (d) profitability. This information is obtained from financial statements and future investment decision can be made.
(6) Employees :	Employees are interested in information about the stability and profitability of the enterprise. Information about the ability of enterprise to pay their salary or not, increments in their salary and retirement benefits will be paid or not can be received from financial statements.

Users of Financial Statements	Need for information
(7) Tax Authorities : (For example, State government – central government)	Tax authorities need the information to assess the tax liabilities of the enterprise. Information about the allocation of capital expenditure and revenue expenditure can be obtained from the financial statements.
(8) Customers :	Customers are interested to get information about the continuation of the enterprise. Especially when they want to establish a long term relationship with the enterprise. This information can be obtained from the financial statements.
(9) Government :	Government can get the information about the activities of the enterprise to form the policies regarding taxation from financial statements.
(10) Researchers :	<ul style="list-style-type: none"> – Researchers can get the information from financial statements and analyse profitability, liquidity, solvency etc. of the enterprise. – Researchers can forecast about the future performance of the enterprise. – Researchers can make comparative study of various enterprises and get conclusions.
(11) Public :	<ul style="list-style-type: none"> – Public gets various information from financial statements – knows the enterprise's contribution to economy of the country from financial statements – gets the information about how it is providing or will provide employment opportunity – knows what is its social contribution.

(4) **Trial balance and financial statements :** Debit and credit balances are shown in Trial balance, which are classified and shown as per rules at proper place of final accounts - Trading Account, Profit & Loss Account and Balance sheet.

Balances of all accounts are shown in the Trial Balance. Balances regarding Trading Account and Profit & Loss Accounts are closed and transferred to Trading Account and Profit & Loss Account, which is called closing entries. It has been discussed in subsequent chapter. Balances regarding balance sheet are shown in the balance sheet. Two types of balances of trial balance are as under :



Note : Particulars of all these balances are explained in the specimen of Trading Account, Profit & Loss account and Balance sheet.

3. Trading Account

In the final stage of the preparation of final accounts, trading accounts, profit and loss account and balance sheet are prepared. The first component of final accounts is trading account.

(1) **Meaning of trading account** : Trading Account is a financial statement which shows the result of buying and selling of goods and services during an accounting period.

(2) **Objective of trading account** : Trading Account is prepared to know the gross profit or gross loss during the accounting period. Gross profit is the excess of (net) sales over cost of goods sold; where as gross loss is the excess of cost of sales over sales.

$$\text{Gross Profit} = \text{Sales} - \text{Cost of sales}$$

$$\text{Gross Loss} = \text{Cost of Sales} - \text{Sales}$$

(3) **Heading of trading account** :

“Trading Account of Shri for the period ending on”

For Example : Following title of Trading Account of Shri Raman for the period Dt. 1-04-2014 to 31-03-2015. Generally the duration of trading account is 12 months.

“Trading Account of Shri Raman for the year ending 31st March, 2015”

(4) **Items of trading account** :

■ **Items to be shown on the Debit side of trading account** : Following items are shown on debit side of trading account.

(a) **Opening Stock** : Closing stock of the last accounting period becomes opening stock in the current year.

(b) **Purchase** : Purchase refers to those goods which have been brought for resale. Purchases include cash purchases and credit purchases. Purchase returns are shown by way of deduction from total purchases.

(c) **Goods purchase expenses** : Expenses relating to purchase of goods like, (i) Railway freight, (ii) Carriage inward, (iii) wages

Note : If it is a manufacturing unit, the expenses related productions are also shown on debit side of trading account. e.g. Productive wages, royalty, factory expenses (rent, taxes, power and fuel, coal and gas), oil, grease, depreciation of factory building, plant and machinery etc.

■ **Items to be shown on Credit side of trading account** :

(a) **Sales** : Sales refer to the sales of those goods which were purchased for resale. Sales returns are shown by way of deduction from total sales.

(b) **Goods going out other than sales** : Following are included in goods going out other than sales : (Now it is deducted from purchase.)

(i) Goods burnt by fire (ii) Goods distributed as sample (iii) Goods withdrawn by proprietor for personal use and (iv) Goods given as charity (donation). Now these items are shown as deduction from purchases on the Debit side of Trading Account instead of showing it on Credit side of Trading Account

(c) **Closing Stock** : Closing stock refers to unsold goods at the end of the current accounting period. According to convention of conservatism, stock is valued at cost price or market value whichever is less. Discussion in this regard is given in the subsequent chapter of it.

Note : If closing stock is shown in the trial balance, only one effect of it will be given on Assets side of Balance Sheet.

(5) **Gross Profit or Gross Loss** : If the total of credit side of trading account is more than that of debit side, the balance amount is called as gross profit. It is transferred to credit side of Profit & Loss Account. If the total of debit side of trading account is more than that of credit side, the balance amount is called as gross loss, and it is transferred to debit side of Profit & Loss Account.

(5) Specimen of Trading Account :

“Trading Account of Shri for the year ending on”

Dr

Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	✓	By Sales	✓
To Purchase	✓	Less : Sales Returns	✓
Less : Purchase Returns	✓		
Less : Goods going out	✓	By Sale of scrap goods	✓
other than sales		By Closing Stock	✓
Expenses relating to Purchase :		By Gross Loss	✓
To wages	✓	(Transferred to Profit & Loss Account)	
To Carriage Inward	✓		
To Railway Freight	✓		
To Lorry freight	✓		
To Port charges	✓		
To Dock charges	✓		
To Clearing charges	✓		
To Demurrage	✓		
To Darmayo	✓		
To Kharajat Expenses	✓		
To Wharfage	✓		
Expenses relating to Production:			
To productive wages	✓		
To Royalty	✓		
To Factory expenses	✓		
(Rent, taxes, power and fuel, coal, gas)			
Material consumed :			
To Oil and grease	✓		
To Depreciation of factory building	✓		
To Depreciation on plant and machinery (factory)	✓		
To Gross Profit	✓		
(Transferred to Profit & Loss Account)	✓ ✓ ✓		✓ ✓ ✓

- **Demurrage** : The amount of penalty payable on late removal of goods from the railway or port is called demurrage.
- **Darmayo** : Darmayo means monthly salary or wages

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(4)	When Direct expenses relating to purchase and production accounts are closed: Trading Account Dr ✓ To Wages Account ✓ To Carriage Inward Account ✓ To Railway Freight Account ✓ To Productive Wages Account ✓ To Factory expenses Account ✓ [Being purchase and production related various expense accounts are closed and transferred to trading account.]			
(5)	When Sales account is closed : Sales Account Dr ✓ To Trading Account ✓ [Being sales account is closed and transferred to trading account.]			
(6)	When Sales returns account is closed : Trading Account Dr ✓ To Sales Returns Account ✓ [Being sales returns account is closed and transferred to trading account.]			
(7)	When closing stock brought (record) in books of account: Closing Stock Account Dr ✓ To Trading Account ✓ [Being the closing stock is recorded in the books of account]			
(8)	When the credit balance (gross profit) of Trading Account transferred to Profit & Loss Account: Trading Account Dr ✓ To Profit & Loss Account ✓ [Being the result of trading account, gross profit, is transferred to Profit & Loss account.]			
(9)	When the debit balance (gross loss) of Trading Account transferred to Profit & Loss Account: Profit & Loss Account Dr ✓ To Trading Account ✓ [Being the result of trading account, gross loss, is transferred to Profit & Loss account.]			
	Total		✓✓✓✓	✓✓✓✓

■ **Illustration for preparing Trading Account :**

Illustration 1 : Prepare trading account for the year ended on 31-03-2015 from the following balances of Bhavesh :

Particulars	Debit (₹)	Credit (₹)
Stock (Dt. 1-04-2014)	40,000	
Purchase	1,64,000	
Purchase Returns		10,000
Sales		2,20,000
Sales Returns	20,000	
Wages	10,000	
Railway freight	8000	
Carriage Inward	2000	

Cost price of closing stock of goods as on 31-03-2015 was ₹ 44,000, whereas its market value is ₹ 50,000.

Note : In above illustration, only trading account related balances are given therefore total of debit and credit balances are not equal.

Ans. : **Trading Account of Bhavesh for the year ending on 31-03-2015**

Dr

Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock (Dr. 1-4-14)	40,000	By sales	2,20,000
To Purchase	1,64,000	— Sales returns	20,000
— Purchase returns	10,000		2,00,000
Purchase related expenses :		By Closing Stock	44,000
To Wages	10,000		
To Railway freight	8000		
To Carriage Inward	2000		
To Gross Profit (?)	30,000		
(Transferred to P & L A/c)			
	2,44,000		2,44,000

Note: According to convention of conservatism, stock is valued at cost price or market value whichever is lower. Here, the cost of closing stock is ₹ 44,000, whereas its market price is ₹ 50,000, therefore the lower of two, ₹ 44,000 is taken into consideration.

4. Profit and Loss Account

Profit and Loss account is a second component of final account. After preparing Trading Account, Profit and Loss account is prepared.

(1) Meaning of Profit and Loss Account : After knowing gross profit or gross loss from the trading account, the account is prepared to find out net profit or net loss after considering other income and other expenses of business is called Profit & Loss Account.

(2) Objective (Purpose) of Profit and Loss Account : The Profit and Loss Account is prepared to ascertain the Net Profit or Net Loss incurred during the accounting period. Excess total of credit side of profit and loss account is called Net Profit whereas excess total of debit side of profit & loss account is called Net Loss.

(3) Title Heading of Profit and Loss Account :

“Profit and Loss Account of Shri for the period ending on”

For Example: Following title of Profit and Loss Account of Shri Raman for the period Dt. 1-04-2014 to 31-03-2015. Generally the duration of Profit and Loss accounts is 12 months.

“Profit and Loss Account of Shri Raman for the year ending 31st March, 2015”

(4) Items of Profit and Loss Account :

■ **Items to be shown on the Debit side of Profit & Loss Account :**

- (a) **Gross Loss:** If result of trading account is shown gross loss then it is brought down to profit & loss account. Gross Loss is shown on the debit side of Profit & Loss Account.
- (b) **Administrative (Office) Expenses :** Those expenses which are incurred for the administration of the business is known as administrative expenses. e.g. Rent, taxes, office salary, insurance premium, postage exp. etc.
- (c) **Selling and Distribution Expenses :** Expenses incurred for the sales and distribution of goods are called selling and distribution expenses. e.g. carriage outward, salary and commission of salesmen, etc.
- (d) **Financial Expenses :** Financial expenses are incurred in business like interest on capital, interest on bank overdraft, interest on bank loan, interest on other loan borrowed, bank charges, bank commission etc.
- (e) **Other Expenses and Losses :** All expenses other than those given above like repairing expense, depreciation, bad debts, provision for expense or loss, donation, loss due to fire or theft, loss on sale of assets etc.

■ **Items to be shown on Credit side of Profit & Loss Account :**

- (a) **Gross Profit :** If result of trading account is shown gross profit then it is brought down to profit & loss account. Gross profit is shown first on the credit side of Profit & Loss Account.
- (b) **Other Income and Benefits :** All other incomes and benefits are shown on credit side of this account e.g. discount received, rent received, commission received etc.

(5) Net profit / Net loss :

If the total of credit side of profit & loss account is more than that of debit side, it is a credit balance and called net profit. If the total of debit side of profit & loss account is more than that of credit side, it is a debit balance and called net loss. Net profit is added in the capital of the proprietor and net loss deduct from capital of proprietor in the balance sheet. Hence, the capital of the owner will be increased by net profit and it will be decreased by net loss.

(6) Specimen of profit and loss account :

“Profit & Loss Account of Shri for the year ending on.....”

Dr

Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Gross Loss (Transferred from Trading Account)	✓	By Gross Profit (Transferred from Trading Account)	✓
Administrative Expenses :		Other Incomes (Revenues) :	
To Salary, allowances, bonus	✓	By Discount received	✓
To Rent	✓	By Rent received	✓
To Insurance Premium	✓	By Commission received	✓
To Taxes	✓	By Brokerage received	✓
To Postage expenses	✓	By Commission received from consigner	✓
To Stationery-printing expenses	✓	By interest on investment	✓
To Legal expenses	✓	By interest on loan given	✓
To Audit fees	✓	By Interest on drawings	✓
To Electricity expenses	✓	By Bad debts returned	✓
To Repairs & Maintenance expenses of assets	✓	By Profit on sale of assets	✓
To Contribution to provident fund	✓	By Sale of old news papers	✓
To Contribution to Employee State Insurance (ESI)	✓	By Sale of Scrap	✓
To Staff Welfare expenses	✓	By Miscellaneous Income etc.	✓
To Staff training expenses	✓	By Apprentice premium received	✓
Selling & Distribution expenses :		By Net Loss (Transferred to Capital Account)	✓
To Carriage Outward	✓		
To Salary of salesmen	✓		
To commission of salesmen	✓		
To Travelling expenses of salesmen	✓		
To Advertisement expenses	✓		
To Discount allowed	✓		
To Delivery van expenses	✓		
To Discount reserved	✓		
To exhibition participation exp.	✓		
To Showroom expenses	✓		
To Godown expenses	✓		
To Packing expenses	✓		
Financial Expenses :			
To interest on capital	✓		
To interest on bank overdraft	✓		
To interest on borrowed loan	✓		
To Bank charges	✓		
To Bank Commission	✓		

Particulars	Amount (₹)	Particulars	Amount (₹)
Other expenses and losses :			
To Donation	✓		
To Depreciation on assets	✓		
To Bad debts	✓		
(Trial Balance)			
+ Bad debts (Adjustment)	✓		
+ BDR (Adjustment)	✓		
	✓		
– BDR (Trial Balance)	✓		
To Loss by fire	✓		
To Loss by theft	✓		
To Loss on sale of fixed assets	✓		
To Loss on sale of investment	✓		
To Provision for expenses / loss	✓		
To Net Profit (Transferred to Capital Account)	✓		
	✓✓✓		✓✓✓

(5) Closing Entries for Profit & Loss Account : As profit & Loss account is also a ledger account, particulars recorded on debit side and credit side of it are the posting of journal entries. Income and expense accounts are closed and transferred them to Profit and Loss account. Net profit or Net loss of Profit & Loss account is transferred to capital account.

During closing entries Profit and Loss account related account which are having debit balances in ledger are closed by debiting them to Profit and Loss account and credited to respective account. And which are having credit balance in ledger are closed by debiting them to Profit and Loss account and credited to respective account.

The following are the closing entries for profit & loss account :

Closing Entries for Profit & Loss Account

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	When other expenses accounts are closed :			
	Profit & Loss Account Dr		✓	
	To Each Administrative expenses A/c			✓
	To Each Selling & Distribution expenses A/c			✓
	To Each Financial expenses A/c			✓
	To Each other expenses & losses A/c			✓
	[Being other expenses accounts are closed and transferred to profit & loss account.]			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2	When Other Incomes (Revenues) Accounts are closed : Discount received account Dr ✓ Rent received account Dr ✓ Commission received account Dr ✓ Interest on loan given account Dr ✓ Interest on drawings account Dr ✓ Interest on Investments account Dr ✓ Bad debts returned account Dr ✓ Miscellaneous Income account Dr ✓ To Profit & Loss Account ✓ [Being the accounts of other incomes transferred to Profit & Loss account.]			
3	When the credit balance (net profit) of Profit and Loss Account transferred to Capital Account Profit & Loss Account Dr ✓ To Capital Account ✓ [Being net profit of the business is transferred to capital account.]			
4	When the debit balance (net loss) of Profit and Loss Account transferred to Capital Account : Capital Account Dr ✓ To Profit & Loss Account ✓ [Being net loss of the business is transferred to Capital account.]			
	Total		✓	✓

Note : Goods account, expenses accounts and incomes account are closed by preparing Trading account and Profit & Loss account. Only personal accounts and assets accounts are shown in the Balance Sheet.

5. Difference Between Trading Account and Profit and Loss Account

Trading Account and Profit & Loss Account both are financial statements. Both are prepared at the end of accounting period. Important information for management can be obtained from both accounts. Revenue incomes and revenue expenditures are recorded in both accounts. Trading Account is the part of Profit & Loss Account. In spite of these, there are following differences between Trading Account and Profit & Loss Account.

Points of Difference	Trading Account	Profit & Loss Account
(1) Meaning	The account prepared for calculating profit or loss by recording the transactions of receipts and issues of goods and expenses of production is called Trading account.	The account prepared for calculating net profit or net loss by deducting other expenses and adding other incomes in the gross profit is called Profit & Loss account.
(2) Objectives	Trading account is prepared to know gross profit or gross loss of the business.	Profit & Loss account is prepared to know net profit or net loss of the business.
(3) Items shown on the debit side of account	Opening stock, net purchases of goods and other expenses relating to purchases and production are shown on the debit side of the Trading account.	Gross loss, administrative expenses, selling and distribution expenses, financial expenses and other expenses and losses are shown on the debit side of the Profit & Loss account.
(4) Items shown on the credit side of account	Net sales and closing stock are shown on the credit side of the Trading account.	Gross profit and other incomes (revenues) of the business are shown on the credit side of the Profit & Loss account.
(5) Balance of account	Credit balance of trading account is called Gross profit and debit balance of trading account is called Gross loss.	Credit balance of profit & loss account is called Net profit and debit balance of profit & loss account is called Net loss.
(6) Where the balance of account is transferred	The balance of trading account is transferred to Profit & Loss account.	The balance of Profit & Loss account is transferred to Capital account in the balance sheet.
(7) Compulsory	It is not compulsory to prepare trading account. Many business units (entities) do not prepare separate trading account.	It is compulsory to prepare profit & loss account for all the business units.

6. Types of Profit

Generally profit is excess of incomes over expenses. Amount received after deduction of total expenses from total incomes is called profit. There are three types of profit. These are Gross Profit, Operating profit and Net Profit.

Types of Profit

Gross Profit

Operating Profit

Net Profit

Obtained from Trading A/c

Obtained from Profit & Loss A/c

Obtained from Profit & Loss A/c

(1) **Gross Profit** : Gross profit means excess of sales over cost of goods sold. Gross profit is a credit balance of trading account.

(2) **Operating Profit** : Difference between gross profit and operating expenses is called operating profit.

$$\text{Operating profit} = \text{Gross profit} - \text{Operating expenses}$$

$$\text{Operating expenses} = \text{General Administrative expenses} + \text{Selling-distribution expenses} + \text{depreciation}$$

Operating expenses are also called as managerial expenses.

(3) **Net Profit** : Net profit means excess of the total of all incomes over all expenses. Net Profit is a credit balance of Profit & Loss Account. Balance amount after effect of non-operating income/ expenses, interest and tax in operating profit is called Net Profit.

■ **Illustration of Profit & Loss Account :**

Illustration 2 : Following balances extracted from the trial balance of Dhaval as on 31-03-2015. Prepare Profit & Loss Account.

Particulars	Amount (₹)	Particulars	Amount (₹)
Gross Profit	70,000	Discount allowed	1400
Carriage Outward	2000	Loss due to fire	800
Postage	1000	Interest received	3000
Salary	12,000	Bad debts	1000
Miscellaneous Expenses	2500	Bank Charges	500
Insurance Premium	1800	Travelling expenses	600
Office expenses	1500	Advertisement expenses	1200
Discount received	4600	Audit fees	3000
Commission received	1400	Interest on loan	3500

Ans. : **Profit & Loss Account of Dhaval for the year ending on 31-03-2015**

Dr

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Particulars	Amount (₹)	Particulars	Amount (₹)
To Carriage Outward	2000	By Gross Profit	70,000
To Postage	1000	By Discount received	4600
To Salary	12,000	By Commission received	1400
To Miscellaneous Expenses	2500	By Interest received	3000
To Insurance Premium	1800		
To Office expenses	1500		
To Discount allowed	1400		
To Loss due to fire	800		
To Bad debts	1000		
To Bank Charges	500		
To Travelling expenses	600		
To Advertisement expenses	1200		
To Audit fees	3000		
To Interest on loan	3500		
To Net Profit	46,200		
(Transferred to Capital A/c)			
	79,000		79,000

Note: Since Gross profit is given in Trial Balance, trading account is not required to be prepared.

Illustration 3 : Following balances extracted from the trial balance of Poonam as on 31-03-2015.

Prepare Trading Account and Profit & Loss Account showing Operating profit. Pass closing entries for Trading Account and profit & Loss Account.

Particulars	Amount (₹)	Particulars	Amount (₹)
Stock (Dt. 1-04-2014)	2,00,000	Discount allowed	4000
Purchases	39,83,400	Rent paid	800
Sales	46,00,000	Rent received	6000
Purchase Returns	2,00,000	Interest on long term loan	15,000
Sales Returns	3,00,000	Interest received	5000
Carriage Inward	5000	Loss on sale of fixed assets	5000
Carriage Outward	7000	Profit on sale of fixed assets	8800
Wages	35,000		
Railway Freight	30,000		
Salary	24,000		
General expenses	4000		
Commission allowed	6600		

Closing Stock as on 31-03-2015 was ₹ 1,90,000.

Ans. : **Trading Account of Poonam for the year ending on 31-03-2015**

Dr

Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock (Dt. 1-04-2014)	2,00,000	By sales	46,00,000
Purchase	39,83,400	— Sales returns	3,00,000
— Purchase returns	2,00,000		43,00,000
	37,83,400		
To Carriage Inward	5000	Closing Stock (Dt. 31-03-2015)	1,90,000
To Wages	35,000		
To Railway Freight	30,000		
Gross Profit	4,36,600		
(Transfer to Profit & Loss A/c)			
	44,90,000		44,90,000

Profit & Loss Account of Poonam for the year ending 31-03-2015

Dr

Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Carriage Outward	7000	Gross Profit	4,36,600
To Salary	24,000	(Transferred from Trading Account)	
To General Expenses	4000		
To Commission allowed	6600		
To Rent Paid	800		
To Discount Allowed	4000		
To Operating Profit (c/f)	3,90,200		
	4,36,600		4,36,600
To Interest on Long –term Loan	15,000	By Operating Profit (c/f)	3,90,200
To Loss on sale of fixed assets	5000	By Rent received	6000
Net Profit (Transferred to Capital Account)	3,90,000	By Interest received	5000
		By Profit on sale of fixed assets	8800
	4,10,000		4,10,000

Closing Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2015 March 31	Trading Account Dr		45,53,400	
	To Opening Stock Account			2,00,000
	To Purchase Account			39,83,400
	To Sales Returns Account			3,00,000
	To Carriage Inward Account			5000
	To Wages Account			35,000
	To Railway Freight Account			30,000
	[Being the above mentioned accounts are closed and transferred to trading account.]			
	Sales Account Dr		46,00,000	
	Purchase Returns Account Dr		2,00,000	
	To Trading Account			48,00,000
	[Being the above mentioned accounts are closed and transferred to trading account.]			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Closing Stock Account Dr To Trading Account [Being the closing stock is recorded in the books of account]		1,90,000	1,90,000
	Trading Account Dr To Profit & Loss Account [Being the result of trading account, gross profit, is transferred to Profit & Loss account.]		4,36,600	4,36,600
	Profit & Loss Account Dr To Carriage Outward account To Salary Account To General Expenses Account To Commission given Account To Rent paid Account To Discount allowed Account To Interest on long term loan Account To Loss on sale of fixed assets [Being the above mentioned accounts are closed and transferred to Profit & Loss Account.]		66,400	7000 24,000 4000 6600 800 4000 15,000 5000
	Rent received Account Dr Interest received Account Dr Profit on sale of fixed assets Account Dr To Profit & Loss Account [Being the above mentioned accounts are closed and transferred to Profit & Loss Account.]		6000 5000 8800	19,800
	Profit & Loss Account Dr To Capital Account [Being the Net profit transferred to Capital Account.]		3,90,000	3,90,000
	Total		1,04,56,200	1,04,56,200

7. Balance Sheet

(1) **Meaning of Balance Sheet** : A Balance Sheet is a statement showing financial position of the enterprise at a given date.

According to Batliboi “A Balance Sheet may be defined as a statement prepared with a view to measures the exact financial position of business on a certain fixed date.”

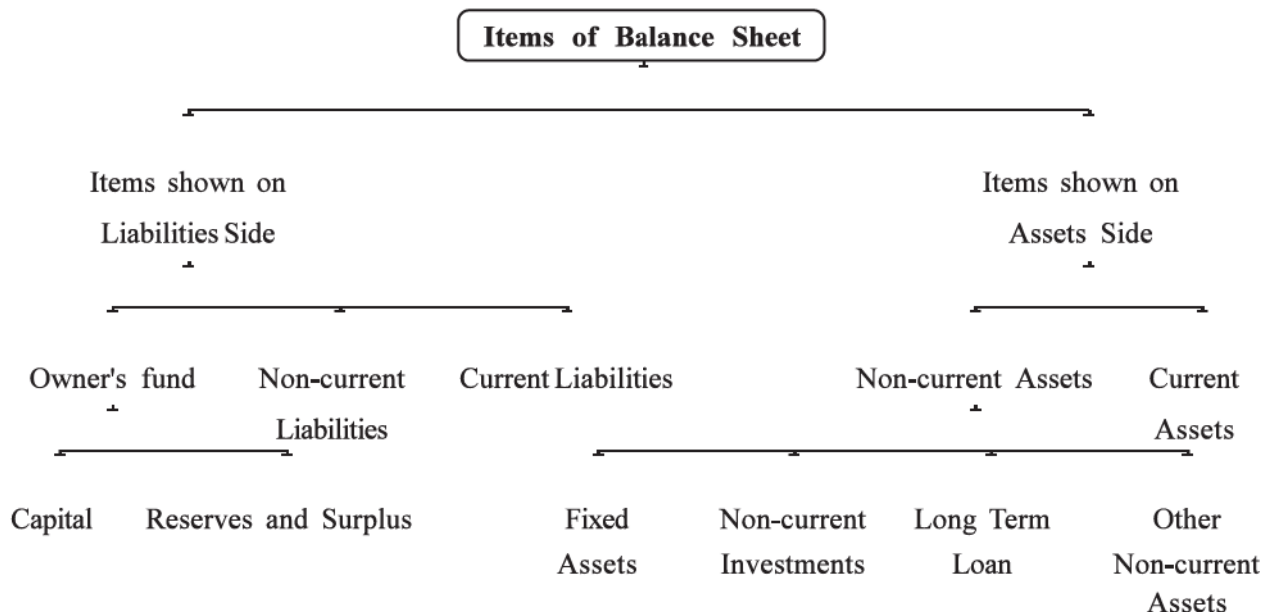
“A statement showing assets, liabilities, receivables and capital of the business on a particular date is known as Balance Sheet.”

“Balance Sheet is a statement in which one (left) side shows how many Capital-Liabilities of business are there and second (right) side shows how many Assets-Receivables of business are there.”

(2) **Objectives of Balance Sheet:** To show the financial position of a business.

(3) **Items of Balance Sheet:** Balance Sheet is not an account but it is a statement. Its left side shows “Capital and Liabilities or Liabilities”. Capital Account of the owner of the business, loan borrowed accounts and creditors’ accounts are shown on this side. The right side of the Balance Sheet shows Assets and Receivables accounts.

Items which are shown on the Liabilities side and Assets side of the Balance Sheet are as under :



■ **Items to be shown on the liabilities side :**

- (a) **Capital :** Personal capital brought in the business by the owner is known as capital. In other words, capital shows the investment made by the owner. Additional capital, interest on capital and profit are added in the capital, whereas, loss, drawings and interest on drawings are deducted from capital.
- (b) **Liabilities:** Liabilities refer to financial obligation for which enterprise is liable to pay. Normally, following items are included in liabilities. There are two types of liabilities, noncurrent liabilities and current liabilities. Current liabilities are also known as short term liabilities.
 - (i) **Non-current liabilities or Long term liabilities:** Liabilities which are not payable in short period are called long term liabilities. Normally, non-current liabilities are not payable within 12 months from the date of Balance Sheet. For example : Long term bank loan, debenture in case of company etc.
 - (ii) **Current Liabilities:** Liabilities which are payable in a short period are called current liabilities. Normally, liabilities payable within 12 months from the date of balance sheet are known as current liabilities. For example: Creditors for goods, bills payable, outstanding expenses, instalment of loan payable within 12 months.

- (iii) **Contingent Liability:** Contingent liability is a liability which is not an actual liability, but it may become one in future. It depends on future event. For example, Bills receivable received from debtor which is discounted in the bank is called contingent liability. If debtor does not pay the amount of discounted bills to bank then its amount will be paid by the enterprise. Therefore, bill discounted in the bank is a contingent liability. If discounted bill gets dishonoured in future it becomes actual liability. Contingent liability is written in the inner column of liabilities side of the balance sheet. Contingent liabilities are not shown in the total of Balance sheet.

■ **Items to be shown on the Assets side :**

Normally following items are shown on the assets side.

(a) **Non current assets :**

- (1) **Fixed Assets:** Fixed assets are long term assets. Fixed assets are not held for resale. These assets are used to generate revenue income. If it is a manufacturing company, it is used for the production of goods. For example: machinery. Fixed assets are also purchased for office use. For example: Furniture, building etc. Fixed assets are also known as Noncurrent assets. Fixed assets are of two types.
- (i) **Tangible fixed assets:** Those fixed assets which can be seen and touched are called tangible fixed assets. For example: Land-building, machinery, furniture etc.
- (ii) **Intangible fixed assets:** Those fixed assets which can neither be seen nor touched are called intangible assets. For example: Goodwill, patent, copyright, trademark. These assets have a value.

Fixed assets are shown at depreciated value in the balance sheet.

- (2) **Investments:** Investment is an expenditure on assets to earn interest, dividend or other income. For example: Investment in share, debenture, bond, fixed deposits etc.
- (3) Long term loans and advances
- (4) Other non-current assets
- (b) **Current assets:** Those assets which are convertible into cash in a short period are called current assets. Normally, assets which are converted into cash within 12 months and other current assets include the following :
- (1) Cash and Bank balance
- (2) Convertible into cash e.g. Debtors, Finished goods stock, Bills receivables, Income receivables.
- (3) Consumable goods for production e.g. raw material stock, semi-finished goods stock

Note : Stock is shown at cost price or market price whichever is less.

- **Fictitious Assets:** Those assets which cannot be seen and have zero value in the market are called fictitious assets. Deferred revenue expenditures are fictitious assets. In this expenses, the benefit is available for long period, are not written off in one year but they are

shown as fictitious assets in the balance sheet and every year certain amount is written off in the profit & loss account e.g. advertisement campaign expenses.

Note : Owners' funds are shown after deduction of fictitious assets from reserve and surplus.

(4) Presentation of balance-sheet : Balance Sheet can be prepared in two different arrangements.

(a) Particulars arranged in the order of permanency :

- (i) The asset having longest life is shown first on the asset side e.g. Goodwill and other fixed assets are shown in order of permanency and cash is shown at last. If there is deferred revenue expenditure, it would be shown at last.
- (ii) The liability which is for the longest period is shown first on the liabilities side. Capital and profit are shown first, because they are the most permanent in the business. Current liabilities are shown at last on this side.

(b) Particulars arranged in the order of Liquidity: Generally, this order is exactly opposite of the permanency order. Cash and bank balance come first on the basis of liquidity on the asset side. Thereafter, other current assets and finally, fixed assets come.

On the liabilities side, debt payable first is shown first and thereafter long term debt and capital are shown at last.

Generally, in most of the firms, Balance Sheet is prepared in the order of permanency. The order of liquidity is more suitable for banks and financial institutions.

As Balance Sheet is not an account, thus there are no closing entries of account.

Balance Sheet in order of permanency

Liabilities	Amount (₹)	Assets	Amount (₹)
(1) Capital	✓	(1) Noncurrent Assets	✓
(2) Noncurrent liabilities	✓	(2) Current Assets, Loans-advances	✓
(3) Current liabilities	✓	(3) Fictitious assets	✓
		(which are shown here separate	✓
	✓	or can be deduct from capital)	✓

Balance Sheet in order of Liquidity

Liabilities	Amount (₹)	Assets	Amount (₹)
(1) Current liabilities	✓	(1) Current Assets,	✓
(2) Noncurrent liabilities	✓	Loan-advances	
(3) Capital	✓	(2) Noncurrent Assets	✓
	✓		✓

(5) Specimen of balance-sheet : No specimen of balance sheet is given for proprietary concern or partnership firm. For Company, specimen of Balance Sheet is given in Companies Act, 2013.

After considering the above particulars, the specimen of Balance Sheet can be prepared as under. It is advisable to prepare Balance sheet in important groups (assets and Liabilities (It is not mandatory)) in the case of proprietary concern and partnership firm.

At present, accounts are prepared in computer, in which balances of accounts are shown under various groups.

Specimen of Balance sheet can be shown as under :

Balance Sheet of Shri as on

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital :		Noncurrent Assets :	
Opening Balance ✓		Fixed Assets :	
+ Addition in Capital ✓		Goodwill ✓	
+ Interest on Capital ✓		Land ✓	
+ Net Profit ✓		Building ✓	
		Leasehold Assets ✓	
		Machinery ✓	
Less :		Furniture & Fittings ✓	
Drawings ✓		Patents ✓	
+ Int. on Drawings ✓		Trademark ✓	
+ Net Loss ✓	✓	Copy rights ✓	
General Reserves	✓	Live Stocks ✓	
Capital Reserves	✓	Vehicles ✓	
Other Reserves	✓	Loose Tools ✓	
Workers Compensation fund	✓	Government Securities ✓	
Investment fluctuation fund	✓	Provident Fund Investments ✓	
Noncurrent Liabilities :		Investments in Shares, ✓	
Bank Loan	✓	Debentures or Bonds	
Other financial Instit. loan	✓		
Fixed Deposits	✓	Current Assets :	
Loan taken from friends	✓	Closing Stock ✓	
and relatives		Sundry Debtors ✓	
Current Liabilities		Cash Balance ✓	
Bank Overdraft	✓	Bank Balance ✓	
Sundry Creditors	✓	Stores & Spare parts ✓	
Bills Payable	✓	Income Receivables ✓	
Outstanding expenses	✓	Loans :	
Income received in advance	✓	Loans lent ✓	
Workman profit sharing funds	✓	Bills Receivables ✓	

Liabilities	Amount (₹)	Assets	Amount (₹)
Provision for tax	₹	Loans given to Employee	₹
Provident fund	₹	Advance paid for purchase	₹
		Expenses paid in advance	₹
		Expenses not written off	
		and Losses :	
		Deferred Revenue	₹
		Expenses	
	₹₹₹		₹₹₹

Two structures prevail for presenting Balance Sheet :

- (1) Horizontal or 'T' Form of Balance Sheet, in which liabilities are shown on the left hand side and assets are shown on the right hand side. This type of form is shown above.
- (2) Vertical or 'I' Form of Balance Sheet, which can be prepared as under.

Balance Sheet of Shri as on

Particulars (Liabilities)	Amount (₹)	Amount (₹)	Amount (₹)
(1) Owner's Fund :			
(a) Capital : Opening Capital	₹		
+ Additional Capital	₹		
+ Interest on Capital	₹		
+ Net Profit	₹	₹	
Less : Drawings	₹		
+ Interest on Drawings	₹		
+ Net Loss	₹	₹	
(b) Reserves & Surplus		₹	
General Reserves	₹		
Other Reserves	₹		
- Fictitious Assets	₹		
Net owners' funds	₹	₹	₹
(2) Non-Current Liabilities :			
(a) Secured Loans	₹		
(b) Unsecured Loans	₹		₹

Particulars (Liabilities)	Amount (₹)	Amount (₹)	Amount (₹)
(3) Current Liabilities :			
(a) Current Liabilities	✓		
(b) Provisions	✓		✓
Total			✓✓✓
Assets :			
(1) Non-Current Liabilities :			
(a) Gross Fixed Assets	✓		
— Depreciation	✓	✓	
(b) Investments		✓	✓
(2) Current Assets, Loans & Advances :			
Current Assets	✓		
Loans & Advances	✓		✓
Total Assets			✓✓✓

8. Comparison of trial balance and balance sheet :

Points of Difference	Trial Balance	Balance Sheet
(1) Meaning	Statement showing debit and credit balance of accounts is called a trial balance.	Statement Showing the financial position of the business on a particular date is called a balance sheet.
(2) Objectives	The objective of preparing trial balance is to know the arithmetical accuracy of the accounts.	The objective of preparing balance sheet is to know the financial position of the business.
(3) Time of preparing the statement	Trial balance is prepared before preparing annual accounts and sometimes more than once during the year for checking the correctness of accounts.	Balance Sheet is generally prepared at the end of the accounting year. It is a part of annual accounts.
(4) Sides	Trial balance has two sides debit & credit.	Balance Sheet has two sides- “Liabilities” and “Assets”.
(5) Accounts to be shown	The balances of the ledger accounts. i.e. personal, real and nominal accounts are shown in the trial balance.	In Balance Sheet, the balance of only personal and real accounts are shown.
(6) Necessity	It is not compulsory to prepare trial balance.	The preparation of balance sheet is essential. For the company form, balance sheet is to be prepared in the prescribed form as per companies Act, 2013.

Points of Difference	Trial Balance	Balance Sheet
(7) Adjustment Effect	It can be prepared without incorporating the items of adjustment.	It cannot be prepared without incorporating the items of adjustment.
(8) Net profit/Net Loss	Information about net profit /net loss is not available in a Trial Balance	Information about net profit /net loss is available in Balance Sheet

Illustrations of Annual Accounts Excluding Adjustments :

Illustration 4 : Prepare annual accounts of Krupa from her trial balance as on 31-03-2015.

Trial Balance of Krupa as on 31-3-2015

Name of Account	L.F.	Debit (₹)	Credit (₹)
Opening Stock		60,000	
Capital and Drawings		12,000	2,00,000
Building		1,00,000	
Machinery		50,000	
Furniture & Fittings		10,000	
Purchase & Sales		1,15,000	3,16,000
Wages		1500	
Carriage Inwards		3000	
Purchase Returns			14,000
Sales Returns		10,000	
Discount allowed		8000	
Discount received			3000
Salary		48,000	
Advertisement expenses		4000	
Rent & Taxes		1500	
Interest received			1000
Stationery & Printing		2000	
Cash on hand		10,000	
Bank balance		80,000	
Bills receivables		5000	
Bills payables			6000
Debtors		80,000	
Creditors			60,000
		6,00,000	6,00,000

The cost price of stock as on 31-03-2015 was ₹ 10,000, whereas, its market value was ₹ 12,000.

Ans. :

Trading Account of Krupa for the year ending on 31-03-2015

Dr

Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	60,000	By Sales	3,16,000
To purchase	1,15,000	— Sales returns	10,000
— Purchase return	14,000		
To Wages	1500	By Closing Stock	10,000
To Carriage Inward	3000		
To Gross Profit (Transferred to Profit & Loss Account)	1,50,500		
	3,16,000		3,16,000

Profit & Loss Account of Krupa for the year ending 31-03-2015

Dr

Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Discount given	8000	By Gross Profit (Transferred from Trading Account)	1,50,500
To Salary	48,000	By Discount received	3000
To Advertisement Expenses	4000	By Interest received	1000
To Rent & Taxes	1500		
To Stationary & Printing	2000		
To Net Profit (Transferred to Capital)	91,000		
	1,54,500		1,54,500

Balance Sheet of Krupa as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
(1) Capital : 2,00,000		(1) Non-current assets :	
+ Profit 91,000		Building	1,00,000
2,91,000		Machinery	50,000
— Drawings 12,000	2,79,000	Furniture & Fittings	10,000
(2) Non-current liabilities :		(2) Current assets :	
(3) Current liabilities :		Cash on hand	10,000
Bills Payable	6000	Bank Balance	80,000
Creditors	60,000	Bills Receivables	5000
		Debtors	80,000
		Closing Stock	10,000
	3,45,000		3,45,000

9. Adjustments

On the basis of transaction taken place during the year, journal, ledger and trial balance are prepared. Those transactions which are recorded have effect on the trial balance.

“Adjustment means those financial transactions of business which are not recorded or wrongly recorded in accounts and it is required for rectifications.”

Accounting effects of adjustments are given to know the true and fair profit/loss and financial position of the business.

Now, let us understand adjustments about different particulars with illustration as under :

Rules for Adjustment Effect : Remember following information at the time of giving effect of adjustments.

- (1) Give debit effect and credit effect of the same amount of adjustment i.e. If Debit effect of adjustment is of ₹ 10,000 then credit effect has to be of ₹ 10,000.
- (2) As per rules of debit and credit effect, adjustment effect will be given in Trading Account, Profit & Loss Account and Balance sheet.

(1) **Closing Stock :** (i) Raw Materials, (ii) Semi-finished goods (iii) Finished goods etc. are included in Closing Stock

Accounting effect of Closing Stock :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Closing Stock Account Dr		₹	
	To Trading Account			₹
	[Being closing stock is brought in the books of account at the end of the year.]			

Effect in Final Accounts

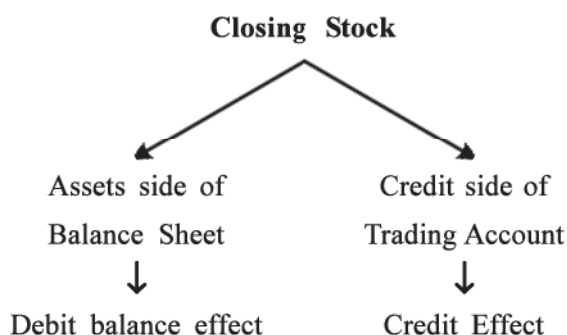


Illustration 5 : Other than Trial Balance of Rajan, Closing stock of ₹ 8000 is shown as on 31-03-2015. Final accounts are closed (ended) on 31-03-2015. Pass adjustment entry and show its effect in final (annual) accounts.

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31-3-2015	Closing Stock Account Dr To Trading Account [Being closing stock is brought in the books of account at the end of the year.]		8000	8000

Effect in Final Accounts :

Trading Account of Rajan for the year ending on 31-3-2015

Dr		Cr	
Particulars	Amount (₹)	Particulars	Amount (₹)
		By Closing Stock	8000
		Credit effect	

Balance Sheet of Rajan as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
		Current Assets : Closing Stock Debit balance effect	8000

(2) Unpaid or Outstanding Expenses : Those expenses which are incurred during the current accounting period but the same were not paid during the current accounting period are called unpaid expenses or outstanding expenses. For example unpaid rent, unpaid telephone bill etc.

Accounting effect of Unpaid Expenses :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Respective Expense Account Dr To Outstanding Expense Account [Being the adjustment entry for unpaid expense.]		✓	✓

Effect in Final Accounts :

Effect of Outstanding Expenses in Final Accounts

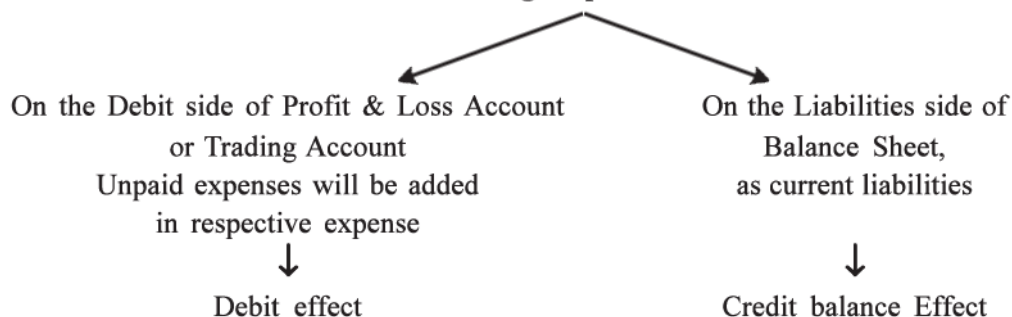


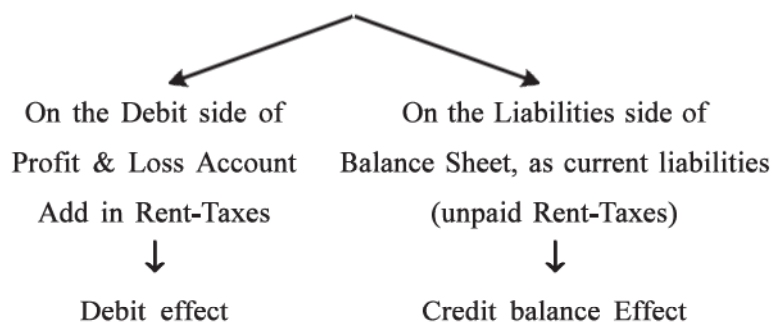
Illustration 6 : Trial Balance of Mahesh as on 31-03-2015.

Name of Account	L.F.	Debit (₹)	Credit (₹)
Rent-Taxes		11,000	

Adjustment : Rent-taxes of ₹ 1000 unpaid at the end of the year.

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31-3-2015	Rent-Taxes Account Dr To Outstanding Rent-Taxes Account [Being the adjustment entry for unpaid rent-taxes]		1000	1000

Effect in Final Accounts**Profit & Loss Account of Mahesh for the year ending on 31-03-2015**

Dr		Cr	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Rent-Taxes 11,000			
+ Outstanding 1000	12,000		
Debit effect			

Balance Sheet of Mahesh on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
Current Liabilities :			
Outstanding Rent-Taxes	1000		
Credit balance effect			

(3) Prepaid Expenses: Certain expenses like insurance premium, taxes, subscription etc. are paid in advance. Portion of these expenses paid for the next year should not be considered as expense and the same amount will be deducted.

Accounting effect of Prepaid Expenses :**Adjustment Entry**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Prepaid Expense Account Dr To Expense Account [Being the adjustment entry for expense paid in advance.]		₹	₹

Effect in Final Accounts

On the Debit side of Trading / Profit & Loss Account, prepaid expenses will be deducted from respective expenses



Credit effect

On the Assets side of Balance Sheet, (as Current Assets)



Debit balance effect

Illustration 7 : Trial Balance of Alay as on 31-03-2015.

Name of Account	L.F.	Debit (₹)	Credit (₹)
Insurance Premium		15,000	

Adjustment: Out of insurance premium paid, ₹ 3,000 insurance premiums is paid in advance.

Ans. :

Adjustment Entry

Date	Particulars	L.F.	Drખર (₹)	જમલ (₹)
31-3-2015	Prepaid Insurance premium Account Dr To Insurance premium Account [Being the adjustment entry for insurance premium paid in advance.]		3000	3000

Effect in Final Accounts

On the Debit side of Profit & Loss Account, deducted from Insurances Premium



Credit effect

On the Asset side of Balance Sheet, As Current Assets




Debit balance effect

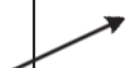
Profit & Loss Account of Alay for the year ending on 31-03-2015

Dr

Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Insurance Premium 15,000			
— Prepaid 	12,000		
Credit effect			

Balance Sheet of Alay as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
		Current Assets :	
		Prepaid Insurance Premium	
		Debit balance effect	

(4) **Outstanding Income:** At the end of an accounting year, interest on investment, commission, rent etc. are accrued but some incomes are not received.

Accounting effect of Outstanding Income :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Income Receivable Account Dr		✓	
	To Income Account			✓
	[Being the adjustment entry for income receivable]			

Effect in Final Accounts

On the Credit side of Profit & Loss Account, Income receivable will be added in respective income.



Credit effect

On the Asset side of Balance Sheet, (as Current Assets)



Debit balance effect

Illustration 8 : Trial Balance of Sanket as on 31-03-2015

Name of Account	L.F.	Debit (₹)	Credit (₹)
Rent Received			22,000

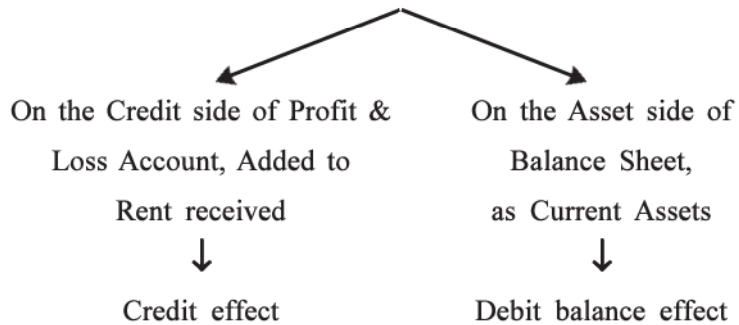
Adjustment : Rent receivable ₹ 2000.

Ans. :

Adjustment Entry

Date	Particulars	L.F.	Dr (₹)	Cr (₹)
31-3-2015	Rent Receivable Account Dr To Rent Account [Being the adjustment entry for rent receivable.]		2000	2000

Effect in Final Accounts



Profit & Loss Account of Sanket for the year ending on 31-03-2015

Dr		Cr	
Particulars	Amount (₹)	Particulars	Amount (₹)
		By Rent received 22,000 + Receivable 2000 Credit effect	24,000

Balance Sheet of Sanket as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
		Current Assets : Rent Receivables Debit balance effect	2000

(5) **Income Received in Advance:** In business, sometimes certain income or part of certain income is received in advance. e.g. rent, subscription etc.

Accounting effect of Income received in advance :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Income Account Dr To Income received in advance A/c [Being the adjustment entry for Income received in advance.]		✓	✓

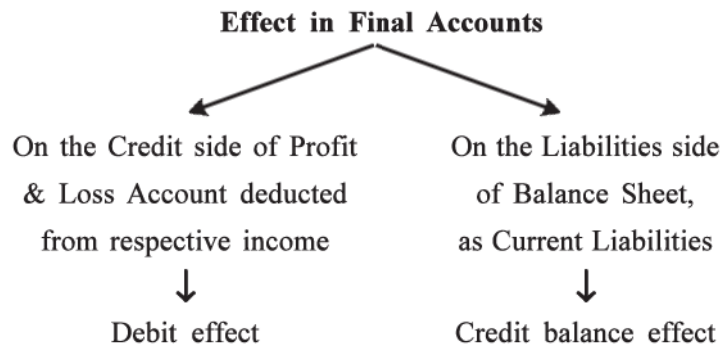


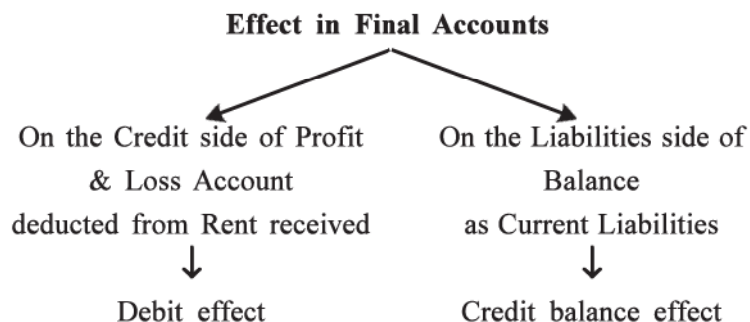
Illustration 9 : Trial Balance of Mansi as on 31-03-2015.

Name of Account	L.F.	Debit (₹)	Credit (₹)
Rent Received			26,000

Adjustment: Rent received in advance ₹ 2000.

Ans. : **Adjustment Entry**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31-3-2015	Rent Account Dr To Rent received in advance Account [Being the adjustment entry for rent received in advance.]		2000	2000



Profit & Loss Account of Mansi for the year ending on 31-03-2015

Dr		Cr	
Particulars	Amount (₹)	Particulars	Amount (₹)
		Rent received	26,000
		– Received in advance	2000
		Debit effect	24,000

Balance Sheet of Mansi as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
Current Liabilities :			
Rent received in advance	2000		
Credit balance effect			

(6) **Interest on Capital:** Interest on capital is an expense of the business and it is given as additional capital.

Accounting effect of Interest on Capital :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Interest on Capital Account Dr To Capital Account [Being the adjustment entry for Interest calculated on capital.]		✓	✓

Effect in Final Accounts

On the Debit side of Profit
& Loss Account,



Debit effect

On the Liabilities side of
Balance Sheet,
Added to Capital



Credit balance effect

Illustration 10 : Trial Balance of Manisha as on 31-03-2015.

Name of Account	L.F.	Debit (₹)	Credit (₹)
Capital			5,00,000

Adjustment: Calculate interest at 10 % on capital.

Ans. :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31-3-2015	Interest on Capital Account Dr To Capital Account [Being the adjustment entry for Interest calculated at 10% on capital.]		50,000	50,000

Effect in Final Accounts

On the Debit side of
Profit & Loss Account.

Interest on capital



Debit effect

On the Liabilities side
of Balance Sheet,
Added to Capital



Credit balance effect

Ans. : Profit & Loss Account Manisha for the year ending on 31-03-2015

Dr

Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Interest on Capital	50,000		
Debit effect			

Balance Sheet of Manisha as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital	5,00,000		
+ Int. on capital	50,000		
Credit balance effect			

(7) **Interest on Drawings:** As interest on capital of the proprietor is calculated, in the same manner Interest on drawings is to be recovered. Interest on drawings is an expense of the proprietor and an income of the business.

Accounting effect of Interest on Drawings :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Drawings Account Dr			
	To Interest on Drawings Account			
	[Being the adjustment entry for Interest calculated on drawings.]			

Effect in Final Accounts

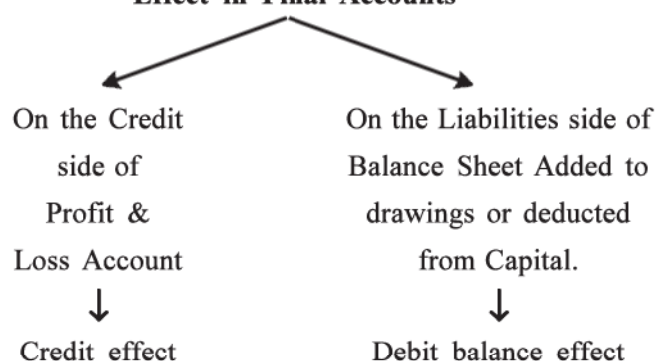


Illustration 11 : Trial Balance of Haili as on 31-03-2015.

Name of Account	L.F.	Debit (₹)	Credit(₹)
Capital			5,00,000
Drawings		10,000	

Adjustments : (1) Calculate interest at 10 % on capital. (2) Calculate interest at 5 % on drawings.

Ans. :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31-3-2015	Interest on Capital Account Dr To Capital Account [Being the adjustment entry for Interest calculated at 10% on capital.]		50,000	50,000
31-3-2015	Drawings Account Dr To Interest on Drawings Account [Being the adjustment entry for Interest calculated at 5% on drawings.]		500	500

Profit & Loss Account of Haili for the year ending on 31-03-2015

Dr

Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Interest on Capital Debit effect	50,000	By Interest on drawings Credit effect	500

Balance Sheet of Haili as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital 5,00,000 + Int. on capital 50,000 Credit balance effect 5,50,000 Less : Drawings 10,000 + Int. on drawings 500 10,500 Debit balance effect	5,39,500		

(8) **Depreciation** : Due to usage of fixed assets of business and other factors, the utility value of the assets reduced which is called depreciation. Depreciation is a type of expense. Hence, it is debited to profit & loss account and the value of asset is reduced, so the assets account is credited.

Accounting effect of depreciation :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Depreciation Account Dr To Assets Account [Being the adjustment entry for depreciation provided.]		✓	✓

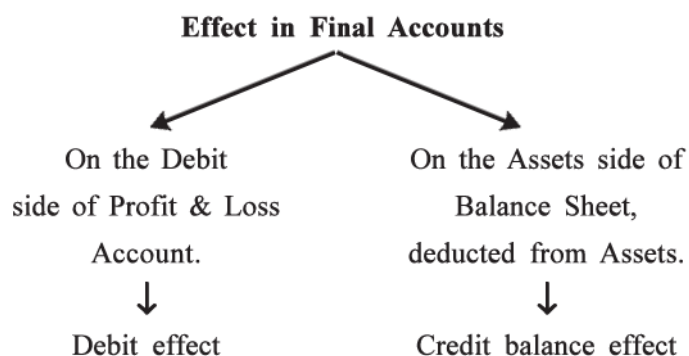


Illustration 12 : Trial Balance of Gopi as on 31-03-2015.

Name of Account	L.F.	Debit (₹)	Credit (₹)
Plant & Machinery		3,00,000	

Adjustment : Provide depreciation on plant & machinery at 10 %.

Ans. : **Adjustment Entry**

Date	Particulars	L.F.	Dr (₹)	Cr (₹)
31-3-2015	Depreciation Account Dr To Plant & Machinery Account [Being the depreciation provided at 10 % on plant & machinery.]		30,000	30,000

Profit & Loss Account of Gopi for the year ending on 31-03-2015

Dr

Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Depreciation on Plant & Machinery	30,000		
Debit effect			

Balance Sheet of Gopi as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
		Plant & Machinery 3,00,000	
		— Depreciation(10%) 30,000	
		Credit balance effect	2,70,000

(9) **Bad Debts :** In spite of all attempts made, the amount which cannot be recovered from customers is called Bad debts. This is a loss of business. After preparing trial balance and before preparing final accounts, if information about bad debt is availed then adjustment entry will be passed.

Accounting effect of Bad debts :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Bad debts Account Dr To Debtors Account [Being the adjustment entry for bad debts written off from of debtors.]		✓	✓

Effect in Final Accounts

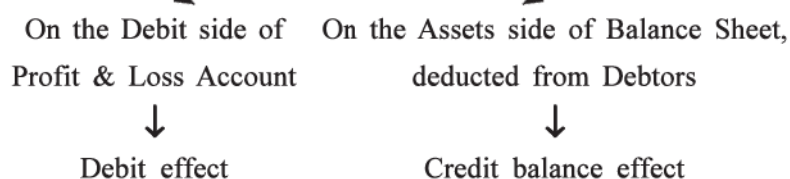


Illustration 13 : Trial Balance of Rajesh as on 31-03-2015.

Name of Account	L.F.	Debit (₹)	Credit (₹)
Debtors		3,56,000	

Adjustment : Write off ₹ 6000 as bad debts from debtors.

Ans. :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31-3-2015	Bad debts Account Dr To Debtors Account [Being the adjustment entry for bad debts written off from of debtors.]		6000	6000

Profit & Loss Account of Rajesh for the year ending on 31-03-2015

Dr		Cr	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Bad debts Debit effect	6000		

Balance Sheet of Rajesh as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
		Current Assets : Debtors 3,56,000 – Bad debts 6000 Credit balance effect	3,50,000

(10) **Provision for bad debts or doubtful debts:** The receivables which are doubtful and which are not likely to be received in future from the debtors and there is a doubt that the amount will not be recovered then it is probable loss; and for the same, provision is made from the current year's profit, it is called provision for bad debts. The provision made for future bad debts from current year profit is called provision for bad debts. The provision is made on the basis of past experience. Provision for bad debts is the provision against the probable loss.

Accounting effect of Bad debts provision :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit(₹)
	Profit & Loss Account Dr To Provision for bad debts Account [Being the adjustment entry for additional provision made for bad debts.]		✓	✓

Effect in Final Accounts

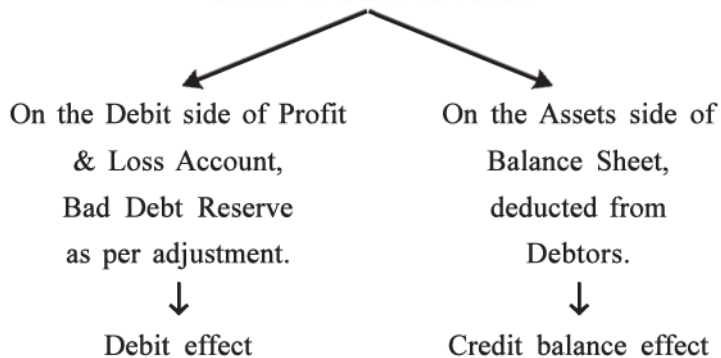


Illustration 14 : Trial Balance of Sajan as on 31-03-2015.

Name of Account	L.F.	Debit (₹)	Credit (₹)
Debtors		1,00,000	
Bad Debts Reserve			6000

Adjustment : Provide bad debt reserve at 10 %.

Ans. :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31-3-2015	Profit & Loss Account Dr To Provision for bad debts Account [Being the adjustment entry for additional provision made for bad debts.]		4000	4000

Profit & Loss Account of Sajan for the year ending on 31-03-2015

Dr

Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bad Debts Reserve 10,000 (As per Adjustment)	4000		
– Bad Debt Reserve 6000 (As per Trial Balance)			
Debit effect			

Balance Sheet of Sajan as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
		Debtors 1,00,000	90,000
		– Bad debts Reserve 10,000 (10 %)	
		Credit balance effect	

Notes : (1) The provision for doubtful debts given in trial balance is treated as old provision and the provision for doubtful debts given in adjustment is treated as new provision.

- (2) In the above illustration, the amount of new provision is more than the amount of old provision. Hence, on the debit side of Profit & Loss Account, from the new provision amount, the old provision is deducted and ₹ 4,000 is shown. In the reverse case, if old provision amount is more than the new provision then the difference amount would be shown on the credit side of the Profit & Loss Account.

Remember :

- (1) If provision for doubtful debts is given in trial balance then it should be understood that the provision is made in last year and the same is carried forward this year.
- (2) If in adjustment no information about the doubtful debts is given, then it is deemed that the provision of last year is sufficient and no addition or deduction is required to be made in the current year. Under such circumstances only one effect should be given on the asset side of the balance sheet, i.e. deducted from debtors. It is not shown in the Profit & Loss account.
- (3) In the example, it is stated that no provision for doubtful debts is required then the amount is to be shown on the credit side of the Profit & Loss account.

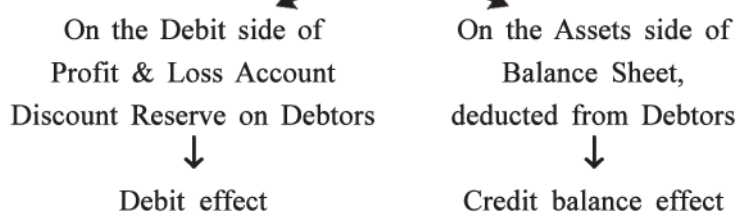
(11) Provision for Discount on Debtors: If after credit sales to customers, they make payment in due time then cash discount is given to them. The customers are to be given cash discount in future and the provision is made for the same, which is called discount reserve on debtors.

Accounting effect of Discount on Debtors :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Profit & Loss Account Dr To Discount Reserve on debtors Account [Being the adjustment entry for provision for discount on debtors.]		₹	₹

Effect in Final Accounts



Notes : (1) If the discount reserve is raised on debtors then discount allowed is transferred to discount reserve on debtors account instead of Profit & Loss Account and the discount allowed will be closed.

(2) Discount reserve on debtors' amount is calculated after deducting bad debts and bad debts reserve as per adjustment.

Now to understand the effect of the adjustment no 9,10 and 11, we will understand the following illustration.

Illustration 15 : The following balances are taken from the trial balance of Meena as on 31-03-2015.

Debtors	2,00,000	Bad Debts	10,000
Bad Debt Reserve	5000	Discount Reserve on Debtors	400
Discount Allowed	600		

Adjustments : (1) Write off ₹ 6,000 as bad debts from debtors. (2) Provision for doubtful debts at 5 % is to be made on debtors. (3) Provision for discount reserve on debtors at 1 % is to be made.

Ans. : Profit & Loss Account of Smt. Meena for the year ending on 31-03-2015 (Partial)

Particulars	Amount (₹)	Particulars	Amount (₹)
Bad debts (Trial Balance) 10,000			
+ Bad debts (Adjustment) 6000 ← Debit Effect			
+ Bad Debts Reserve 9700 ← Debit Effect			
(Adjustment) 25,700			
— Bad Debt Reserve 5000	20,700		
(Trial Balance)			
Discount given 600			
+ Discount Reserve on Debtors (Adjustment) 1843 ← Debit Effect			
2443			
— Discount Reserve on Debtors (Trial Balance) 400	2043		

Balance Sheet of Smt. Meena as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
		Debtors 2,00,000	
		– Bad Debts (Adj.) 6000	
		Credit balance effect 1,94,000	
		– Bad debts Reserve 9700	Credit Effect
		(5 %)(Adjustment) 1,84,300	
		– Discount Reserve on Debtors (Adj.) 1843	
		Credit Effect	1,82,457

Explanation : Initially, ₹ 6,000 is deducted as bad debts as per adjustment from debtors balance and the balance is ₹ 1,94,000 for debtors after bad debts, and on this balance 5 % is to be provided for doubtful debts. i.e. ₹ 9700. Provision for doubtful debts will be deducted from ₹ 1,94,000 and the balance amount will be ₹ 1,84,300. Now, on the balance of debtors ₹ 1,84,300, discount reserve on debtors is provided at 1 % i.e. ₹ 1, 843.

(12) Adjustments for goods : Sometimes adjustments for transaction pertaining to goods are required to be made.

(A) Credit purchase not recorded: Sometimes goods are purchased on credit but the same might not have been recorded in purchase book and its information is given in adjustment.

Accounting effect of unrecorded credit purchase :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Purchase Account Dr		✓	
	To Creditors Account			✓
	[Being unrecorded credit purchase now recorded.]			

Effect in Final Accounts

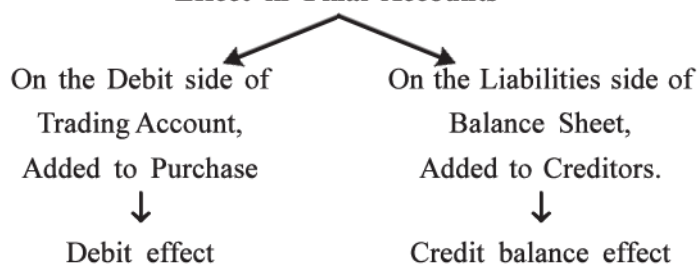


Illustration 16 : Trial Balance of Nirmi as on 31-03-2015.

Name of Account	L.F.	Debit (₹)	Credit (₹)
Purchase		5,00,000	
Creditors			80,000

Adjustment : Credit purchases of ₹ 20,000 were not recorded.

Ans. :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Purchase Account Dr To Creditors Account [Being unrecorded credit purchase now recorded.]		20,000	20,000

Trading Account of Nirmi for the year ending on 31-03-2015

Dr

Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Purchases 5,00,000 + Unrecorded purchase 20,000 Debit effect	5,20,000		

Balance Sheet of Nirmi as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors 80,000 + Unrecorded purchase 20,000 Credit balance effect	1,00,000		

(B) **Credit Sales is not recorded (Unrecorded sales)** : Sometimes goods are sold on credit but the same is not recorded in sales book and its information is provided in adjustment.

Accounting effect of unrecorded credit sales :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Debtors Account Dr To Sales Account [Being unrecorded credit sales now recorded]			

Effect in Final Accounts

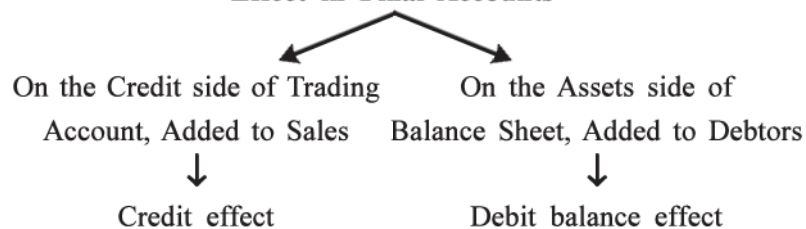


Illustration 17 : Trial Balance of Datta as on 31-03-2015.

Particulars	L.F.	Debit (₹)	Credit (₹)
Sales			6,00,000
Debtors		90,000	

Adjustment : Credit sales of ₹ 15,000 were not recorded.

Ans. :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Debtors Account Dr To Sales Account [Being unrecorded credit sales now recorded.]		15,000	15,000

Trading Account of Datta for the year ending on 31-03-2015

Dr

Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
		By Sales 6,00,000 + Unrecorded Sales 15,000 Credit effect	6,15,000

Balance Sheet of Datta as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
		Debtors 90,000 + Unrecorded Credit sales 15,000 Debit balance effect	1,05,000

(C) **Unrecorded purchase returns:** Sometimes goods returned to traders (purchase returns) but the same is not recorded in purchase returns book and its information is provided in adjustment.

Accounting effect of unrecorded credit purchase :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Creditors Account Dr To Purchase returns Account [Being unrecorded purchase returns now recorded.]		✓	✓

Effect in Final Accounts

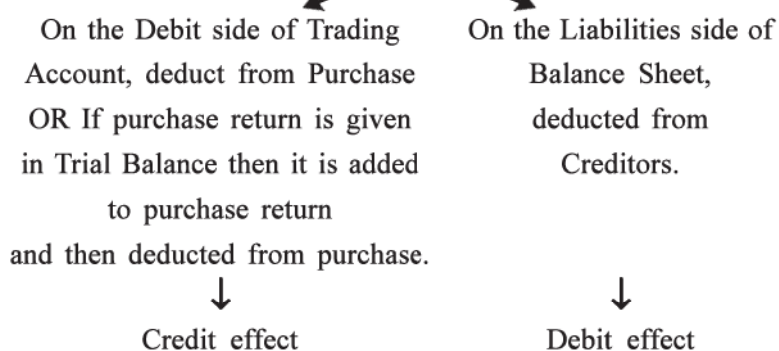


Illustration 18 : Trial Balance of Shri Pushpa as on 31-03-2015.

Particulars	L.F.	Debit (₹)	Credit (₹)
Purchase		3,00,000	
Purchase returns			20,000
Creditors			50,000

Adjustment : Credit purchase returns of ₹ 5,000 were not recorded.

Ans. :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Creditors Account Dr To Purchase returns Account [Being unrecorded credit purchase returns now recorded.]		5000	5000

Trading Account of Pushpa for the year ending on 31-03-2015

Dr		Cr	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Purchases 3,00,000			
—Purchase returns 20,000			
+ Unrecorded 5000	25,000		
Purchase returns			
Credit effect			
	2,75,000		

Balance Sheet of Pushpa as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors 50,000			
— Unrecorded 5000	45,000		
Purchase returns			
Debit balance effect			

(D) Unrecorded sales returns (Credit): Sometimes goods are returned from customers but the same is not recorded in sales returns book and its information is provided in adjustment.

Accounting effect of unrecorded credit sales returns :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Sales returns Account Dr To Debtors Account [Being unrecorded credit sales returns now recorded.]		✓	✓

Effect in Final Accounts

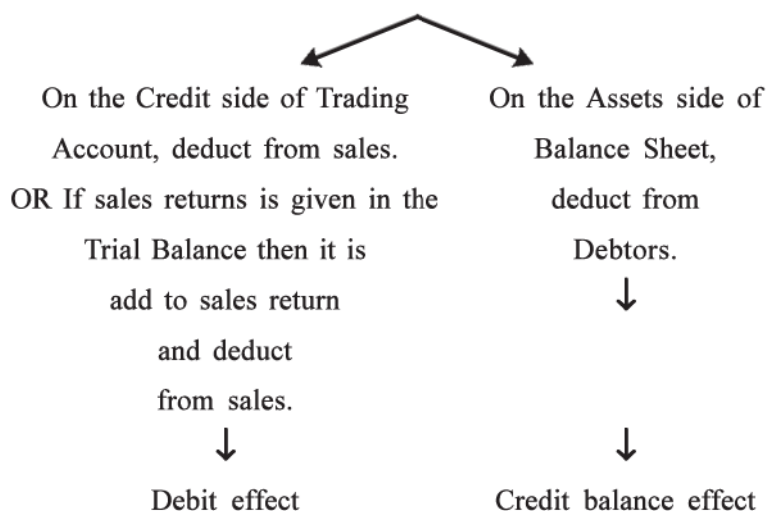


Illustration 19 : Trial Balance of Pratibha on 31-03-2015.

Particulars	L.F.	Debit (₹)	Credit (₹)
Sales			6,00,000
Debtors		90,000	
Sales return		10,000	

Adjustment : Credit sales returns of ₹ 5,000 were not recorded.

Ans. :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Sales return Account Dr To Debtors Account [Being unrecorded credit sales returns now recorded.]		5000	5000

Trading Account of Pratibha for the year ending on 31-03-2015

Dr

Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
		By Sales 6,00,000	
		– Sales returns 10,000	
		+ Unrecorded sales returns 5000	15,000
		Debit effect	5,85,000

Balance Sheet of Pratibha as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
		Debtors 90,000	
		– Unrecorded Credit sales returns 5000	85,000
		Credit balance effect	

(E) **Unrecorded goods gone out by any other way:** Goods withdrawn for personal use, goods lost due to theft, goods burnt by fire, goods go out as advertisement from business etc. are not recorded, and its information is provided in adjustment, when following are the adjustment entries are given.

Adjustment Entry

	Particulars	L.F.	Debit (₹)	Credit (₹)
(1)	Goods withdrawn for personal use : Drawings Account Dr To Purchase Account [Being the adjustment entry for goods taken for personal use.]		✓	✓
(2)	Goods lost due to theft : Loss due to theft Account Dr To Purchase Account [Being the adjustment entry for goods lost due to theft.]		✓	✓
(3)	Goods Lost due to fire : Loss due to fire Account Dr To Purchase Account [Being the adjustment entry for goods lost due to fire.]		✓	✓
(4)	Goods given as sample (advertisement) : Advertisement Account Dr To Purchase Account [Being the adjustment entry for goods lost due to fire.]		✓	✓

Effect in Final Accounts

(1) Goods withdrawn for personal use

On the Liabilities side
of Balance Sheet,
Added to Drawings.

↓
Debit effect

On the Debit side of
Trading Account,
deduct from purchase.

↓
Credit effect

(2) Goods lost due to theft

On the Debit side of
Profit & Loss Account,
loss due to theft.

↓
Debit effect

On the Debit side
of Trading Account,
deduct from purchase.

↓
Credit effect

(3) Goods lost due to fire

On the Debit side of
Profit & Loss Account,
loss due to fire.

↓
Debit effect

On the Debit side
of Trading Account,
deduct from purchase.

↓
Credit effect

(4) Goods given as sample (advertisement)

On the Debit side of
Profit & Loss Account,
Added to adv. exp.

↓
Debit effect

On the Debit side
of Trading Account,
deduct from purchase.

↓
Credit effect

Note : (1) If insurance company accepted claim of whole amount for goods burnt by fire than following adjustment entry will be passed.

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Insurance Company Account Dr To Purchase Account [Being the goods burnt by fire and insurance company accepted claim of whole amount.]		✓	✓

Effect in Final Accounts

On the assets side of
Balance Sheet

↓
Debit effect

On the Debit side of Trading
Account, deduct from purchase.

↓
Credit effect

(2) If goods destroyed by fire and Insurance Company accept a claim of partial amount then balance of loss is to be borne by the trader (business), under such circumstances the entry will be as under:

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Insurance Company Account Dr Loss due to fire Account Dr To Purchase Account [Being the goods burnt by fire and insurance company accepted claim of partial amount.]		✓ ✓	✓

Effect in Final Accounts

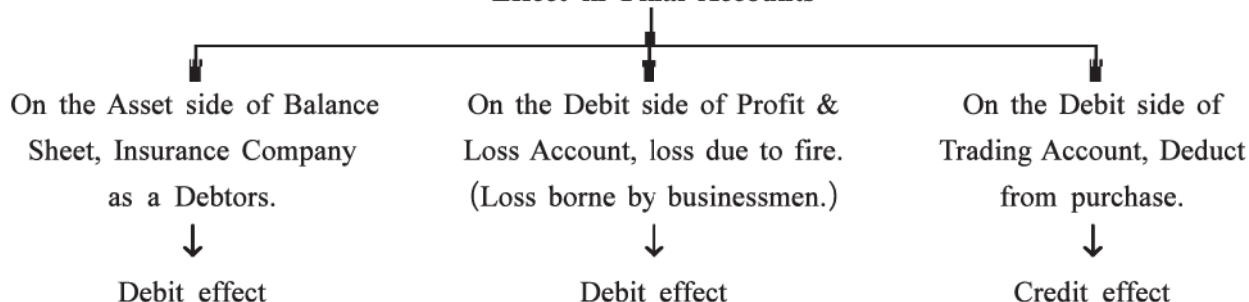


Illustration 20 : Trial Balance of Bhavna as on 31-03-2015.

Particulars	L.F.	Debit (₹)	Credit (₹)
Capital			1,00,000
Drawings		10,000	
Advertisement Expenses		4000	

- Adjustments :** (1) Goods of ₹ 1000 withdrawn for personal use.
 (2) Goods of ₹ 2000 lost due to theft.
 (3) Goods of ₹ 3000 distributed as sample.
 (4) Goods of ₹ 20,000 burnt by fire and Insurance Company accepted a claim of ₹ 15,000.

Ans. : **Trading Account of Bhavna for the year ended on 31-03-2015**

Dr		Cr	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Purchase			
— By Goods	1000		
withdrawn for			
personal use	Credit effect→		
By Goods	2000		
lost due			
to theft	Credit effect→		
By Goods	3000		
given as			
sample (adv.)	Credit effect→		
By Goods	20,000		
destroyed			
by fire	Credit effect→		

Profit & Loss Account of Bhavna for the year ending on 31-03-2015

Dr		Cr	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Advertisement exp. 4000 + Goods given as sample 3000 Debit effect	7000		
To Loss due to theft Debit effect→	2000		
To Loss due to fire Debit effect→	5000		

Balance Sheet of Bhavna as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital 1,00,000	89,000	Insurance Company Account	15,000
— Drawings 10,000		Debit effect	
+ Goods 1000			
withdrawn for personal use Debit effect			

Explanation : Goods of ₹ 20,000 destroyed by fire. Insurance company accepted a claim of ₹ 15,000. Hence, ₹ 5,000 loss (20000 – 15000) will be borne by the traders.

(13) Adjustment relating to Rectification of Errors: When in the books of accounts while writing the accounts, errors occur due to violation of the fundamental principles of accounting and effect is given in wrong account, then to rectify the same, adjustment entry is to be passed.

Illustration 21 : Trial Balance of Nirmi as on 31-03-2015.

Name of Account	L.F.	Debit (₹)	Credit (₹)
Machinery		1,00,000	
Wages		20,000	
Debtors		80,000	
Creditors			40,000
Purchase		1,40,000	
Sales			4,00,000

Adjustments : (1) Labour charges for installation of machinery ₹ 2,000 wrongly debited to wages account. (2) Credit sales of ₹ 10,000 recorded as credit purchase.

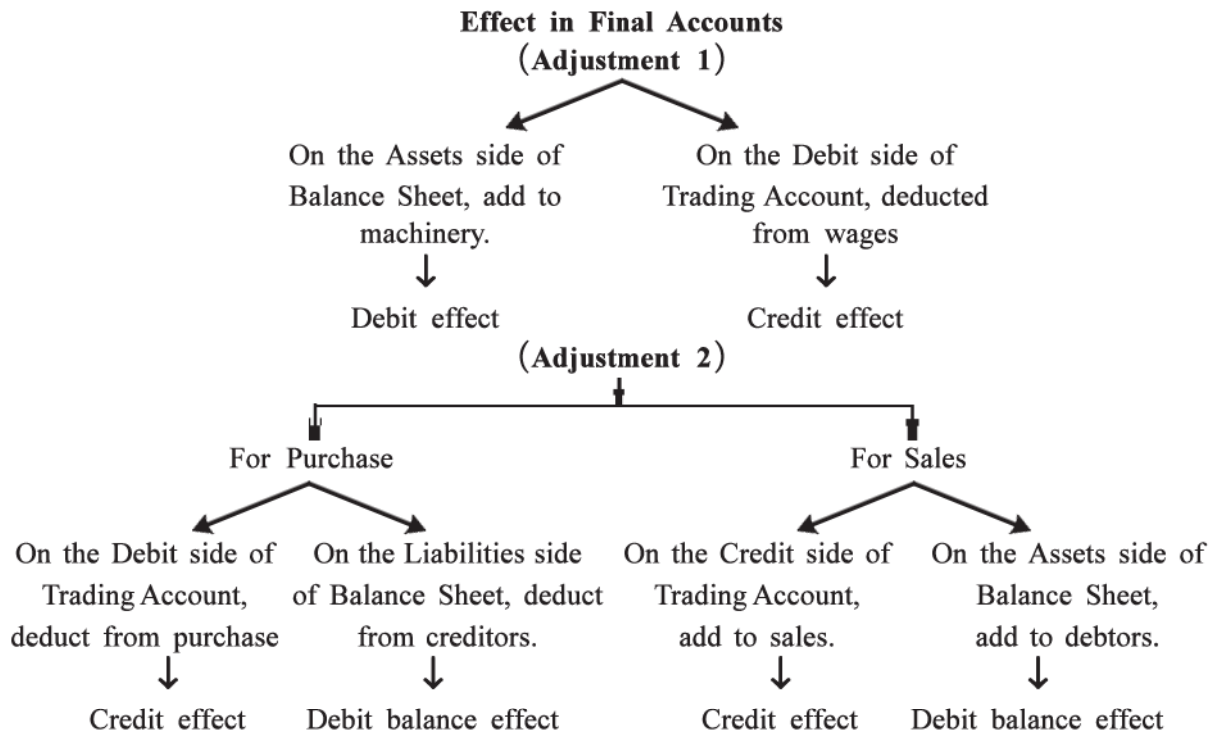
Ans. :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31-3-2015	Machinery Account Dr To Wages Account [Being the adjustment entry for rectification of installation charges wrongly debited to labour charges]		2000	2000
31-3-2015	Creditors Account Dr To Purchase Account [Being the adjustment entry for rectification of credit sales wrongly recorded as credit purchase.]		10,000	10,000
31-3-2015	Debtors Account Dr To Sales Account [Being the adjustment entry for credit sales not recorded.]		10,000	10,000

Explanations : Adjustment No. 1 : Wages for installation of machinery is capital expenditure, hence it should be debited to machinery account. It should not be debited to wages account. To rectify the same, machinery account debited and wages account credited.

Adjustment No. 2: Credit sale is wrongly debited to credit purchase account. The amount of purchase and creditors is wrongly recorded. Hence showing excess amount. Therefore, credit purchase entry is reversed.



Trading Account of Nirmi for the year ending on 31-03-2015

Dr			Cr
Particulars	Amount (₹)	Particulars	Amount (₹)
To Purchase 1,40,000		By Sales 4,00,000	
– Wrongly rec. purchase 10,000	1,30,000	+ Unrecorded sales 10,000	4,10,000
(2) Credit effect			
– To Wages 20,000	18,000	(3) Credit effect	
machinery installation 2000			
(1) Credit effect			

Balance Sheet of Nirmi as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
		Machinery 1,00,000	
		+ Installation charges 2000	1,02,000
		(1) Debit balance effect	
Creditors 40,000		Debtors 80,000	
– wrongly recorded purchase 10,000	30,000	+ Unrecorded sales 10,000	90,000
(2) Debit balance effect		(3) Debit balance effect	

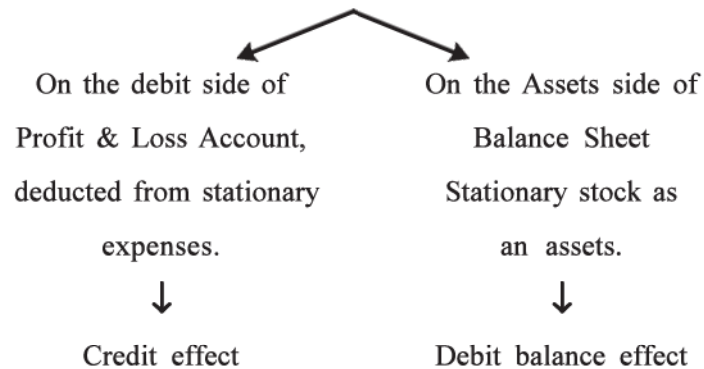
(14) **Stationary stock** : If at the end of the year there is an unused stationary stock then its information is given in adjustment.

Accounting effect of stationary stock :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Stationary stock Account Dr To Stationary expense account [Being the adjustment entry for stationary stock at the end of the year]		✓	✓

Effect in Final Accounts



Note : The adjustment entry for the stock of postage and stamps, stock of advertisement, packing materials etc. can be passed in the same manner.

Illustration 22 : Trial Balance of Chirag as on 31-03-2015.

Name of Account	L.F.	Debit (₹)	Credit (₹)
Stationary expense		14,000	

Adjustments : Stationary stock of ₹ 2000 as on 31-03-2015.

Ans. :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31-3-2015	Stationary stock Account Dr To Stationary expense account [Being the adjustment entry for stationary stock at the end of the year.]		2000	2000

Profit & Loss Account of Chirag for the year ending on 31-03-2015

Dr

Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Stationary expense 14,000	12,000		
— Stationary stock 2000			
Credit effect			

Balance Sheet of Chirag as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
		Stationary stock	2000
		Debit balance effect	

(15) Commission on Profit: Many times the manager of the firm gets commission on profit in addition to his salary which being an expense of the firm has to be debited to Profit & Loss account and credited to outstanding commission account.

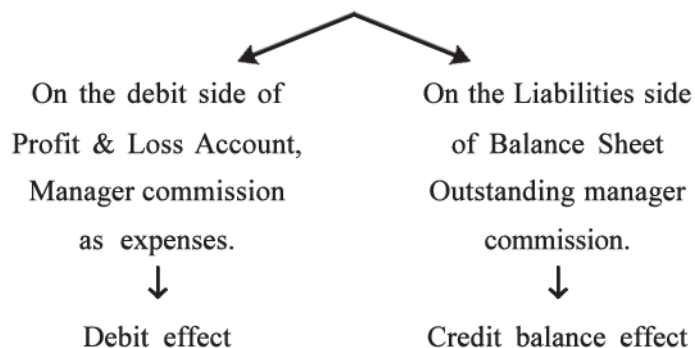
For example: The profit of a business at the end of the year is ₹ 3,30,000 and the manager of the firm is to be paid 10% commission. Adjustment entry will be passed as under.

Accounting effect of commission on profit :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Manager commission Account Dr		33,000	
	To Outstanding commission account			33,000
	[Being the adjustment entry for commission of manager on profit.]			

Effect in Final Accounts



Note : In the above example, if manager is to be given commission on net profit after charging such commission on profit, then the calculation of manager's commission will be as under. The adjustment entry and the two effects will be same as above.

$$\begin{aligned}
 \text{Manager's commission} &= \frac{\text{Net Profit} \times \text{Rate of Commission}}{100 + \text{Rate of Commission}} \\
 &= \frac{3,30,000 \times 10}{100 + 10} \\
 &= 30,000
 \end{aligned}$$

OR

$$\begin{aligned}
 \text{Suppose Net profit after manager's commission} &= 100 \\
 + \text{Manager's commission} &= 10 \\
 \hline
 \text{Net profit before manager's commission} &= 110
 \end{aligned}$$

₹ Profit before commission	₹ Manager's commission	
110	10	} ₹ 30,000 Manager's commission
3,30,000	(?)	

(16) Adjustment for Reserves: Sometimes in order to increase the financial strength of business and considering the future difficulties, the firm transfers some portion of profit to general reserve. This general reserve is a part of profit only, which is shown separately, and not added to the capital.

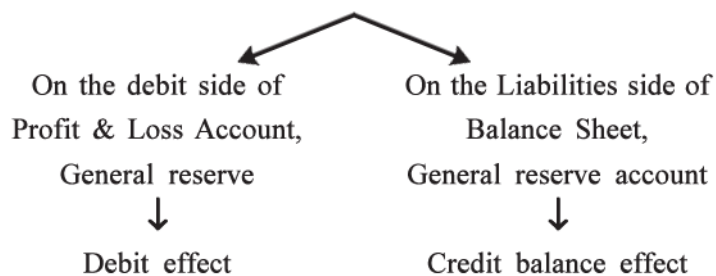
Illustration 23 : The net profit of firm of Harish for the year ended 31-03-2015 is ₹ 5,00,000, out of which ₹ 50,000 is to be transferred to General Reserve. Pass the adjustment entry for the same.

Ans. :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Profit & Loss Account Dr To General reserve account [Being amount transferred to General reserve from the net profit at the end of the year.]		50,000	50,000

Effect in Final Accounts



Profit & Loss Account of Harish for the year ending on 31-03-2015

Dr		Cr	
Particulars	Amount (₹)	Particulars	Amount (₹)
General Reserve Debit effect →	50,000		
Net Profit (Capital account)	4,50,000		

Balance Sheet of Harish as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital			
+ Net Profit	4,50,000		
Gen. Reserve			
Credit bal. effect	50,000		

(17) **Implied or Hidden adjustment:** Those adjustments which are not given below the trial balance but are implied or understood from the details given in trial balance and the effects of same are to be given in the annual accounts, are called hidden or implied adjustments. Let us understand such hidden adjustments through illustration.

- | | | |
|------------------------|-------------------------|------------------------|
| (a) Unpaid salary | (b) Insurance premium | (c) Bank loan interest |
| (d) Leasehold building | (e) Investment interest | |

Trial Balance of R. K. Traders as on 31-03-2015

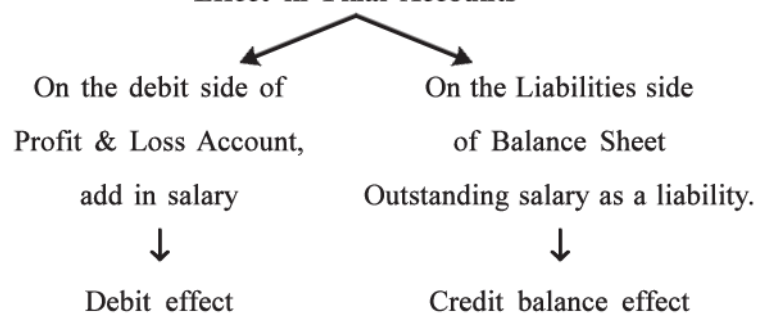
Name of Account	L.F.	Debit (₹)	Credit (₹)
(a) Salary (up to dt. 28-02-2015)		1,21,000	
(b) Insurance –premium (including premium of ₹ 6000 up to dt. 30-09-2015)		20,000	
(c) 12 % Bank loan			1,00,000
Interest on bank loan paid		10,000	
(d) Leasehold building (Lease expires on dt. 31-03-2019)		5,00,000	
(e) Investment in 12 % debentures of ABC company		2,00,000	
Interest received on investment			12,000

Explanation : (a) Unpaid salary : Here from the trial balance, the salary ₹ 1,21,000 is paid for 11 months. Hence 1 month's (March 2015) salary is unpaid.

$$\begin{aligned}
 \text{1 month salary} &= \frac{\text{11 months' salary paid}}{\text{11 months}} \\
 &= \frac{1,21,000}{11}
 \end{aligned}$$

$$\text{1 month salary} = ₹ 11,000$$

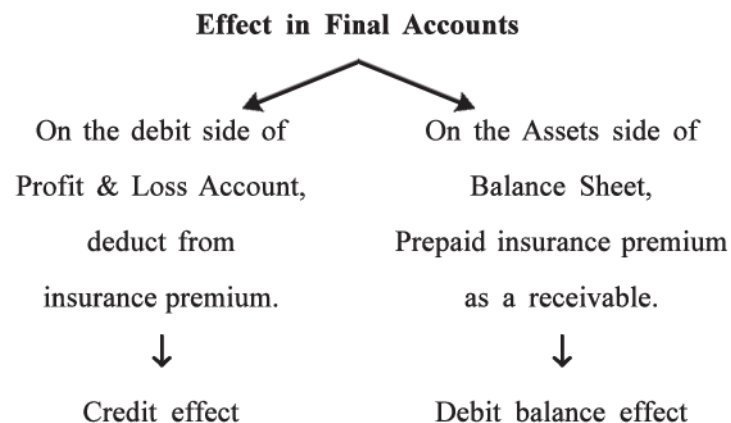
Effect in Final Accounts



- (b) Insurance premium: Insurance premium of ₹ 6,000 is paid up to 30-09-2015. Accounting year is ended on dt. 31-03-2015. Hence 6 months (1-04-2015 to 30-09-2015) insurance premium is paid in advance.

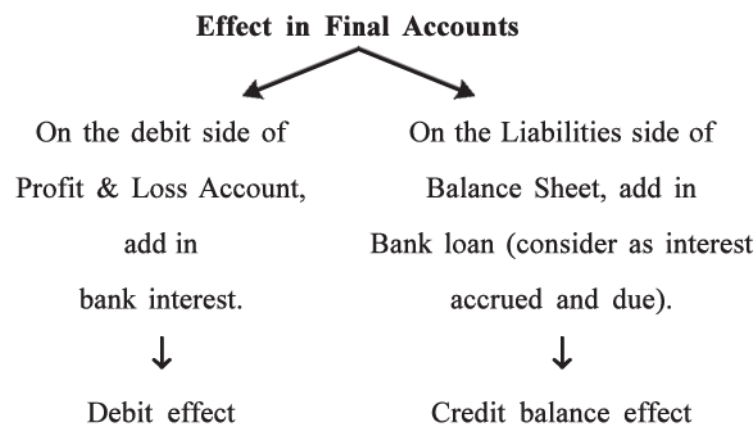
$$\begin{aligned} 6 \text{ months insurance premium} &= \frac{6000}{2} \\ &= ₹ 3000 \end{aligned}$$

Insurance Premium paid in advance, ₹ 3000 :



- (c) Bank loan interest : 12 % bank loan interest = 1,00,000 × 12 % = ₹ 12,000

$$\begin{aligned} \text{Total bank loan interest} &= ₹ 12,000 \\ - \text{Paid bank loan interest} &= ₹ 10,000 \\ \hline \text{Unpaid interest} &= ₹ 2000 \end{aligned}$$



- (d) Leasehold building :

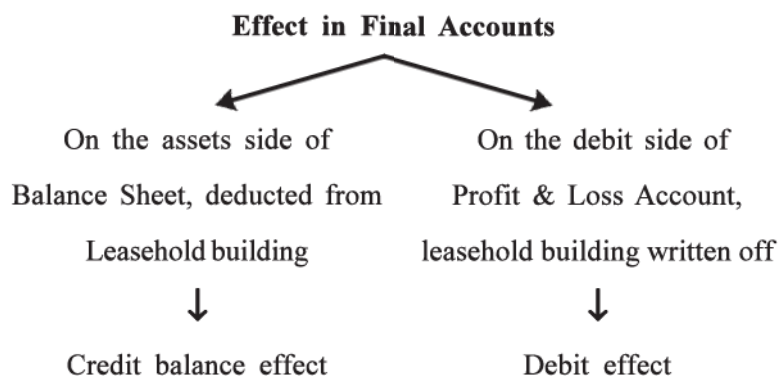
Value of Leasehold building = ₹ 5,00,000

Period of the lease = 5 years [expire on 31-03-2019]

[2014-15, 2015-16, 2016-17, 2017-18, 2018-19]

$$\text{Annual amount written off} = \frac{5,00,000}{5} = ₹ 1,00,000$$

Written off Leasehold building is ₹ 1,00,000 :



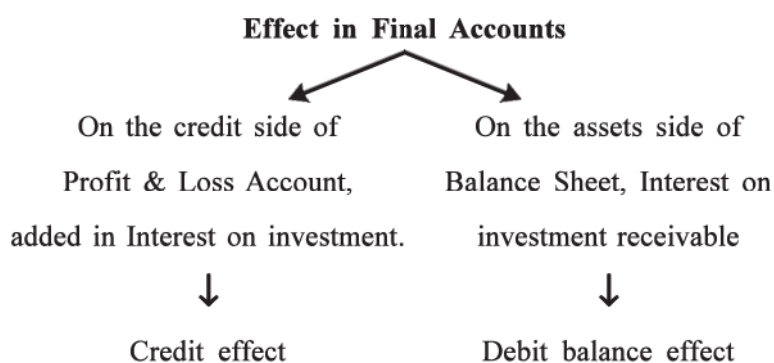
(e) Interest receivable on investment :

Investment in 12 % ABC Company's debenture = ₹ 2,00,000

Total Interest receivable = 2,00,000 12 % = ₹ 24,000

– Actual received interest = ₹ 12,000

Interest yet to be receivable = ₹ 12,000



Profit & Loss Account of R. K. Traders for the year ending on 31-03-2015

Dr

Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Salary 1,21,000		Interest on investment 12,000	
+ Unpaid salary 11,000	1,32,000	+ Interest receivable 12,000	24,000
(1) Debit effect		(5) Credit effect	
To Insurance – premium 20,000			
– Prepaid ins. premium 3,000	17,000		
(2) Credit effect			
To Bank loan interest 10,000			
+ Unpaid 2,000	12,000		
(3) Debit effect			
To Leasehold building written off 1,00,000			
(4) Debit effect			

Balance Sheet of R. K. Traders as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
Unpaid salary (1) Credit effect	11,000	Leasehold building 5,00,000 – Written off 1,00,000 (4) Credit effect	4,00,000
12 % Bank loan 1,00,000 + Unpaid interest 2000 (3) Credit effect	1,02,000	Prepaid insurance premium (2) Debit effect	3000
		12 % ABC Company debenture 2,00,000 Interest receivable on investment 12,000 (5) Debit effect	2,00,000 12,000

After understanding different adjustments in detail, entries of these adjustments and their effects in final accounts can be briefly summarised in a chart as follows:

No.	Adjustment	Adjustment Entry	First Effect	Second Effect
(1)	Closing Stock	Closing Stock A/c Dr To Trading A/c	Trading account credit side (Credit effect)	Balance sheet assets side as an assets (Debit effect)
(2)	Outstanding expense	Expense A/c Dr To Outstanding expense A/c	Trading account or Profit & Loss account, addition in the respective expense (Debit effect)	Balance sheet liabilities side as liability (Credit effect)
(3)	Prepaid expense	Prepaid expense A/c Dr To Expense A/c	Trading account or Profit & Loss account, deduction from the respective expense (Credit effect)	Balance sheet assets side as an assets (Debit effect)
(4)	Income receivable	Income receivable A/c Dr To Income A/c	Profit & Loss account, addition to the respective income (Credit effect)	Balance sheet assets side as an assets (Debit effect)
(5)	Income received in advance	Income A/c Dr To Income received in advance A/c	Profit & Loss account, deduction from respective income (Debit effect)	Balance sheet liabilities side as a liability (Credit effect)
(6)	Interest on capital	Interest on capital A/c Dr To Capital A/c	Profit & Loss account debit side (Debit effect)	Balance sheet liabilities side as addition to capital (Credit effect)
(7)	Interest on drawings	Drawings A/c Dr To Interest on drawings A/c	Profit & Loss account credit side (Credit effect)	Balance sheet liabilities side addition to drawings and deduction from capital (Debit effect)

No.	Adjustment	Adjustment Entry	First Effect	Second Effect
(8)	Depreciation on Assets	Depreciation A/c Dr To Assets A/c	Profit & Loss account debit side (Debit effect)	Balance sheet assets side deduction from respective fixed assets (Credit effect)
(9)	Bad debts	Bad debts A/c Dr To Debtors A/c	Profit & Loss account debit side, bad debts as per adjustment (Debit effect)	Balance sheet assets side deduction from debtors (Credit effect)
(10)	Provision for doubtful debts	Profit & Loss A/c Dr To Bad debt reserve A/c	Profit & Loss account debit side, bad debts reserves as per adjustment (Debit effect)	Balance sheet assets side deduction from debtors (Credit effect)
(11)	Discount reserve on debtors	Profit & Loss A/c Dr To Discount reserve on debtors A/c	Profit & Loss account debit side (Debit effect)	Balance sheet assets side deduction from debtors (Credit effect)
(12)	Adjustment relating to Goods :			
(i)	Unrecorded credit purchase	Purchase A/c Dr To Creditors	Trading account debit side addition to purchase (Debit effect)	Balance sheet liabilities side addition to creditors (Credit effect)
(ii)	Unrecorded credit Sales	Debtors A/c Dr To Sales A/c	Trading account credit side addition to sales (Credit effect)	Balance sheet Assets side addition to debtors (Debit effect)
(iii)	Unrecorded credit purchase returns	Creditors A/c Dr To Purchase return A/c	Trading account debit side addition to purchase returns and deduction from purchase (Credit effect)	Balance sheet liabilities side deduction from creditors (Debit effect)
(iv)	Unrecorded credit Sales returns	Sales return A/c Dr To Debtors A/c	Trading account credit side addition to sales returns and deduction from sales (Debit effect)	Balance sheet Assets side deduction from debtors (Credit effect)
(v)	Goods withdrawn for personal use and the same is not recorded.	Drawings A/c Dr To Purchase A/c	Trading account debit side deduct from purchase. (Credit effect)	Balance sheet liabilities side deduction from Capital (Debit effect)
(vi)	Goods lost due to theft	Loss due to theft Dr To Purchase A/c	Trading account debit side deduct from purchase. (Credit effect)	Profit & Loss account debit side as loss due to theft (Debit effect)

No.	Adjustment	Adjustment Entry	First Effect	Second Effect
(vii)	Goods distributed as sample for advertisement	Adver. exp. A/c Dr To Purchase A/c	Trading account debit side deduct from purchase. (Credit effect)	Profit & Loss account debit side as advertisement expense (Debit effect)
(viii)	Goods given as donation	Donation A/c Dr To Purchase A/c	Trading account debit side deduct from purchase. (Credit effect)	Profit & Loss account debit side as donation expense (Debit effect)
(ix)	Goods destroyed by fire	Loss due to fire A/c Dr To Purchase A/c	Trading account debit side deduct from purchase. (Credit effect)	Profit & Loss account debit side as loss due to fire (Debit effect)
(x)	Goods destroyed by fire and insurance co. accepted full claim	Insurance Co. A/c Dr To Purchase A/c	Trading account debit side deduct from purchase. (Credit effect)	Balance sheet asset side, Insurance company as debtor (Debit effect)
(xi)	Goods destroyed by fire and insurance co. accepted partial claim	Insurance Co. A/c Dr Loss due to fire A/c Dr To Purchase A/c	Trading account debit side deduct from purchase. (Credit effect)	Accepted Claim amount in Balance sheet asset side, Insurance company as debtor and In Profit & Loss account debit side as loss due to fire (Total amount – Claim amount) (Debit effect)
(13)	Stationary Stock	Stationary Stock Dr To Stationary expense A/c	Profit & Loss account debit side deduction from stationary expense (Credit effect)	Balance sheet asset side, stationary stock (Debit effect)
(14)	Commission payable on profit	Commission A/c Dr To unpaid commission A/c	Profit & Loss account debit side as commission account (Debit effect)	Balance sheet liabilities side, as unpaid comm. (Credit effect)
(15)	Write off proportionate part of leasehold property	Profit & Loss A/c Dr To Leasehold property A/c	Profit & Loss account debit side. (Debit effect)	Balance sheet asset side, deduction from Leasehold property (Credit effect)
(16)	Amount transfer to General reserve from profit	Profit & Loss A/c Dr To General Reserve A/c	Profit & Loss account debit side General reserve account. (Debit effect)	Balance sheet liabilities addition to General reserve if it is otherwise as General reserve (Credit effect)

Accounting effects of adjustments are given in Trading Account, Profit & Loss Account and Balance Sheet. Due to these adjustments, following accounting effects are possible.

(a) Adjustment which is only affected to Trading Account :

- (1) Labour expense recorded as railway freight.
- (2) Goods given as charity, recorded as personal drawing.
- (3) Purchases recorded as sale etc.

(b) List of adjustments which are affected to Trading Account and Profit & Loss Account :

- | | |
|--------------------------------------------------------------------------|---------------------------------|
| (1) Goods lost due to theft | (2) Goods distributed as sample |
| (3) Goods given in donation | |
| (4) Goods destroyed by fire (claim is not accepted by Insurance company) | |

(c) List of adjustments which are affected to Trading Account and Balance Sheet :

- | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|
| (1) Closing Stock | (2) Unrecorded credit purchase |
| (3) Unrecorded credit purchase returns | (4) Unrecorded credit sales |
| (5) Unrecorded credit sales returns | |
| (6) Goods destroyed by fire (Full amount of claim is accepted by Insurance company) | |
| (7) Outstanding expenses which are related to Trading Account (wages, Carriage inward etc.) | |
| (8) Goods withdrawn for personal use | |
| (9) Adjustments relating to rectification of errors which are affected to Trading Account and Balance Sheet. (e.g. Labour charges for machinery installation wrongly debited to labour expense account) | |

(d) List of adjustments which are only affected to Profit & Loss Account :

- (1) Salary expenses recorded as postage expense i.e. expenses on profit & loss account debit side but recorded as other expense.
- (2) Income on Profit & Loss account credit side but recorded as other income. i.e. commission income recorded as dividend income.

(e) List of adjustments which are affected to Profit & Loss Account and Balance Sheet :

- | | |
|----------------------------------------------------------------------------------------------------------------|-------------------------------------|
| (1) Outstanding expenses – expenses related to Profit & Loss Account (Salary, Rent etc.) | |
| (2) Prepaid expenses – expenses related to Profit & Loss Account (Salary, Rent etc.) | |
| (3) Income receivables – Income related to Profit & Loss Account (Interest, Dividend, Commission etc.) | |
| (4) Income received in advance – Income related to Profit & Loss Account (Interest, Dividend, Commission etc.) | |
| (5) Interest on capital | |
| (6) Interest on drawings | (7) Depreciation on Assets |
| (8) Bad debts | (9) Provision for Bad debts |
| (10) Discount reserve on debtors | (11) Manager's commission on profit |
| (12) Amount transfer to General Reserve account | |

(f) List of adjustments which are affected to only Balance Sheet :

- (1) Asset is recorded in wrong asset account e.g. By mistake, machinery purchase is recorded in furniture account.
- (2) Liability is recorded in wrong liability account e.g. By mistake, entry recorded in expense creditors instead of goods creditors.

(g) List of adjustments which are affected to Trading Account, Profit & Loss Account and Balance Sheet :

- (1) Goods destroyed by fire and partial claim is accepted by insurance company.
- (2) Goods lost due to theft and partial claim is accepted by insurance company.

10. Illustrations for Preparation of Annual Accounts

■ Adjustments Related to Trading Account and Profit & Loss Account

Illustration 24 : Prepare final account from the Trial Balance and adjustments of Pratibha as on 31-03-2015.

Name of Account	Debit (₹)	Credit (₹)
Capital- Drawings	15,000	1,39,000
Adjusted Purchase-Sales	5,00,000	8,50,000
Goods Return	40,000	—
Discount	4000	6000
Rent	5000	—
Debtors-Creditors	1,00,000	80,000
Commission	6000	—
Bills	15,000	25,000
Cash Balance	10,000	—
Bank Balance	25,000	—
Building	1,00,000	—
Furniture	30,000	—
Machinery	2,00,000	—
Wages	5000	—
Carriage Inward	5000	—
10 % Bank Loan and Bank loan Interest	10,000	1,00,000
Closing Stock	30,000	
Office Expenses	1,00,000	
	12,00,000	12,00,000

Adjustments : (1) Goods of ₹ 10,000 lost due to theft. (2) Goods of ₹ 5000 distributed as sample. (3) Goods of ₹ 6000 burnt by fire. (4) Goods of ₹ 3000 given as charity.

Ans. : **Trading Account of Pratibha for the year ending on 31-03-2015**

Dr

Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Purchase 5,00,000		By Sales 8,50,000	
— Goods gone in other ways		— Sales return 40,000	8,10,000
As theft 10,000			
As sample 5000			
By fire 6000			
As charity 3000 24,000	4,76,000		
To Wages 5000			
To Carriage Inward 5000			
To Gross Profit (Transferred to Profit & Loss A/c) 3,24,000			
	8,10,000		8,10,000

Profit & Loss Account of Pratibha for the year ending on 31-03-2015

Dr

Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
Administrative Expenses :		By Gross Profit	3,24,000
To Rent	5000	(Transferred from Trading A/c)	
To Office expenses	1,00,000	By Discount received	6000
Sales-distribution Expenses :			
To Commission	6000		
To Advertisement Exp. A/c	5000		
To Discount given	4000		
Financial Expenses :			
To Interest on Bank loan	10,000		
Other Expenses and Losses :			
To loss due to theft	10,000		
To Loss due to fire	6000		
To Charity expense	3000		
To Net Profit	1,81,000		
(Transfer to Capital A/c)			
	3,30,000		3,30,000

Balance Sheet of Pratibha as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital	1,39,000	Non Current Assets :	
+ Net Profit	1,81,000	Fixed Assets : Building	1,00,000
(From P & L A/c)	3,20,000	Furniture	30,000
— Drawings	15,000	Machinery	2,00,000
	3,05,000	Current Assets :	
Non Current Liabilities :		Debtors	1,00,000
10 % Bank Loan	1,00,000	Bills receivables	15,000
Current Liabilities :		Cash balance	10,000
Creditors	80,000	Bank balance	25,000
Bills Payable	25,000	Closing stock	30,000
	5,10,000		5,10,000

New Purchase = Opening stock + Purchase — Purchase return — Closing stock

Illustration 25 : Prepare final account from the Trial Balance and adjustments of Rajesh as on 31-03-2015.

Trial Balance of Rajesh as on 31-03-2015

Debit Balance	Amount (₹)	Credit Balance	Amount (₹)
Drawings	12,000	Capital	4,00,000
Purchase	6,00,000	Sales	9,98,000
Stock (Dt. 1-04-2014)	60,000	Purchase return	20,000
Carriage Inward	10,000	Interest on debenture received	10,000
Sales return	40,000	Discount received	4000
Salaries	1,20,000	Commission received	2000
Wages	40,000	10 % Bank Loan	2,00,000
Office expenses	80,000	Bills payable	15,000
Debtors	90,000	Creditors	70,000
Bills receivables	30,000	Outstanding rent	1000
Advertisement expenses	50,000		
Stationery-Printing	6000		
Machinery	90,000		
Buildings	3,00,000		
Furniture	60,000		
Rent	12,000		
Investment in 10 % Debenture	1,00,000		
Interest on Bank loan	20,000		
	17,20,000		17,20,000

Adjustments :

- (1) Closing Stock of ₹ 1,10,000 out of which market value of 50 % stock is 10 % more.
- (2) Unrecorded credit purchase ₹ 40,000.
- (3) Unrecorded credit purchase return ₹ 5000.
- (4) Unrecorded credit sales ₹ 50,000.
- (5) Unrecorded credit sales return ₹ 15,000.
- (6) Outstanding wages ₹ 10,000.
- (7) Goods destroyed by fire of ₹ 10,000 and insurance company accepted a claim of the whole amount.
- (8) Goods of ₹ 5000 withdrawn for personal use.
- (9) Labour charges for installation of machinery ₹ 5000 wrongly debited to labour charges.

Ans. : **Trading Account of Shri Rajesh for the year ending on 31-03-2015**

Dr

Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	60,000	By Sales	9,98,000
To Purchase	6,00,000	+ Unrecorded sales	50,000
+ Unrecorded purchase	40,000		10,48,000
—	6,40,000	— Sales return	40,000
Purchase return	20,000	+ Unrecorded sales return	15,000
+ Unrecorded purchase return	5,000		55,000
	6,15,000		9,93,000
— Goods given other than sales :		By Closing Stock	1,10,000
Loss from fire	10,000		
Goods drawn	5,000		
	15,000		
To Carriage Inward	10,000		
To Wages	40,000		
+ Outstanding	10,000		
	50,000		
— Labour for machinery installation	5,000		
	45,000		
To Gross Profit	3,88,000		
(Transferred to Profit & Loss A/c)			
	11,03,000		11,03,000

Profit & Loss Account of Shri Rajesh for the year ending on 31-03-2015

Dr

Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
Administrative Expenses :		By Gross Profit	3,88,000
To Salaries	1,20,000	(Transferred from Trading A/c)	
To Office expenses	80,000	By Interest on debenture received	10,000
To Stationery-printing	6,000	By Discount received	4,000
To Rent	12,000	By Commission received	2,000
Sales-distribution Expenses :			
To Advertisement expense	50,000		
Financial Expenses :			
To Interest on Bank loan	20,000		
To Net Profit	1,16,000		
(Transfer to Capital A/c)			
	4,04,000		4,04,000

Balance Sheet of Shri Rajesh as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital :		Non Current Assets :	
Capital	4,00,000	Fixed Assets :	
+ Net Profit	1,16,000	Building	3,00,000
(From P&L A/c)	5,16,000	Furniture	60,000
— Drawings	12,000	Machinery	90,000
+ Goods	5000	+ Labour for	5000
withdrawn for	17,000	installation of machinery	95,000
personal use		Investment :	
Non Current Liabilities :		Investment in 10 % debenture	1,00,000
10 % Bank Loan	2,00,000	Current Assets :	
Current Liabilities :		Debtors	90,000
Bills payables	15,000	+ Unrecorded credit	50,000
Creditors	70,000	Sale	1,40,000
+ Unrecorded	40,000	— Unrecorded sales	15,000
credit purchase	1,10,000	return	1,25,000
— Unrecorded	5000	Bills receivables	30,000
purchase return	1,05,000	Closing stock	1,10,000
Outstanding rent	1000	Insurance Company	10,000
Outstanding wages	10,000		
	8,30,000		8,30,000

■ **Illustration for preparing Profit & Loss Account and Balance Sheet :**

Illustration 26 : The following is the trial balance of Dhaval as on 31-03-2015.

Trial Balance of Dhaval as on 31-03-2015

Name of Account	Debit (₹)	Credit (₹)
Gross Profit	—	5,00,000
Salary	99,000	—
General Expenses	11,000	—
Tax-Insurance	12,000	—
Sundry Debtors	2,00,000	—
Closing Stock	22,000	—

Name of Account	Debit (₹)	Credit (₹)
Bank Overdraft	—	10,000
Commission	—	15,000
Advertisement Expenses	15,000	—
Interest	5000	—
Furniture	80,000	—
Building	3,00,000	—
Motorcar	1,00,000	—
Capital	—	2,38,000
Drawings	10,000	—
Bad-Debts	6000	—
Bad-debts Reserve	—	10,000
Loan	—	40,000
Creditors	—	20,000
Bills Receivable	5000	—
Bills Payable	—	15,000
Carriage outward	4000	—
Discount allowed	8000	—
Discount received	—	4000
General Reserve	—	30,000
Cash Balance	5000	—
	8,82,000	8,82,000

Adjustments :

- (1) Salary outstanding at ₹ 4,500 per month of two employees for one month.
- (2) ₹ 2000 being insurance premium for the year ending on 30-09-2015.
- (3) Commission of ₹ 3000 is receivable.
- (4) Calculate 10 % interest on Capital and 12 % interest on Drawings
- (5) Calculate depreciation at 5% on furniture, at 10 % on building and at 20 % on motorcar.
- (6) Write off ₹ 10,000 as bad debts from debtors
- (7) Provide 5 % bad debt reserve.
- (8) Provide 2 % debtors discount reserve
- (9) Transfer ₹ 20,000 to General Reserve

From the above information, prepare final account of Dhaval for the year ending as on 31-03-2015.

Ans. : Profit & Loss Account of Shri Dhaval for the year ending on 31-03-2015

Dr

Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
Administrative Expenses :		By Gross Profit	5,00,000
To Salary 99,000		(Transferred from Trading A/c)	
+ Unpaid salary 9000	1,08,000	By Commission 15,000	
To General Expenses	11,000	+ Receivables 3000	18,000
To Tax-Insurance 12,000		By Discount received	4000
— Prepaid 1000	11,000	By Interest on drawings	1200
Sales-distribution Expenses :			
To Advertisement expense	15,000		
To Carriage outward	4000		
Financial Expenses :			
To Interest	5000		
To Interest on Capital	23,800		
Other Expenses and Losses :			
Bad Debts(Trial Balance) 6000			
+ Bad Debts (Adj) 10,000			
+ Bad Debts Reserve 9500			
(Adjustment) 25,500			
— Bad Debts Reserve 10,000	15,500		
(Adjustment)			
Discount reserve on debtors :			
Discount allowed 8000			
+ Disc. Res. on debtors 3610			
(Adjustment)	11,610		
Depreciation :			
Furniture 4000			
Building 30,000			
Motor Car 20,000	54,000		
To General Reserve A/c	20,000		
To Net Profit	2,44,290		
(Transfer to Capital A/c)			
	5,23,200		5,23,200

Balance Sheet of Dhaval as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital :		Non Current Assets :	
Capital 2,38,000		Fixed Assets :	
+ Int. on capital 23,800		Furniture 80,000	
+ Net Profit 2,44,290		— Depreciation (5%) 4000	76,000
(From P&L A/c) 5,06,090		Building 3,00,000	
— Drawings 10,000		— Depreciation (10%) 30,000	2,70,000
+ Int. on 1200 11,200	4,94,890	Motorcar 1,00,000	
drawings		— Depreciation (20%) 20,000	80,000
General Reserve 30,000		Current Assets :	
+ Current year addition 20,000	50,000	Sundry Debtors 2,00,000	
Non Current Liabilities :		— Bad Debts 10,000	
Loan 40,000	40,000		1,90,000
Current Liabilities :		— Bad Debt Reserve 9500	
Bank Overdraft 10,000	10,000	(5%) 1,80,500	
Creditors 20,000	20,000	Discount reserve on 3610	1,76,890
Bills Payable 15,000	15,000	debtors (2%)	
Unpaid salary 9000	9000	Closing stock 22,000	
		Bills receivables 5000	
		Cash Balance 5000	
		Prepaid Insurance premium 1000	
		Commission receivables 3000	
	6,38,890		6,38,890

Explanation :

- (1) Two employee unpaid salary.

Monthly salary = ₹ 4500

No of Employee = $\times 2$

1 Month unpaid salary = ₹ 9000

- (2) ₹ 2000 being insurance premium up to 30-09-2015 and final account date is 31-03-2015. Hence, from 1-04-2015 to 30-09-2015, 6 months insurance premium paid in advance. (prepaid)

6 months prepaid insurance premium = $\frac{2000}{2} = ₹ 1000$

- (3) First, ₹ 10,000 deducted as bad debts from Debtors, and on the balance amount ₹ 1,90,000, 5 % is to be provided as Bad debt reserve. Now balance amount of debtors ₹ 1,80,500, discount reserve on debtors is provided at 2 %.

Illustration 27 : Prepare final accounts from the following Trial Balance as on 31-03-2015 of Pushpa.

Trial Balance of Pushpa as on 31-3-2015

Name of Account	Debit (₹)	Credit (₹)
Drawings – Capital	24,000	3,00,000
Purchase-Sales	2,96,000	8,00,000
Goods Returns	80,000	20,000
Provident fund -Contribution to Provident fund	10,000	1,00,000
Provident Fund Investment-Int. on provident fund investment	1,00,000	8000
Debtors-Creditors	2,00,000	1,50,000
Discount	46,000	14,000
Bad-Debts & Bad Debts Reserve	30,000	45,000
Bills Receivables-Bills Payable	15,000	25,000
Goods stock (Dt. 1-04-2014)	80,000	—
Demurrage	3000	—
Tolai	1000	—
Carriage Inward	18,000	—
Trade Expenses	90,000	—
Cash Balance	16,000	—
Bank Balance	25,000	—
Fixed Assets (Cost Price ₹ 5,00,000)	4,00,000	—
Advertisement Expenses	28,000	—
	14,62,000	14,62,000

Adjustments :

- (1) Stock as on 31-03-2015 is ₹ 2,00,000 out of which market value of 30% stock is 20 % more. Market value of 50 % stock is less by 10 %. Whereas remaining stock need to repairs expenses of ₹ 2000.
- (2) Goods of ₹ 5000 given as advertisement.
- (3) Credit sales of ₹ 10,000 wrongly recorded as credit purchase.
- (4) Write off ₹ 20,000 as bad debts from debtors and provide 10 % Bad debt reserve.
- (5) Calculate 10 % interest on Capital and 5 % interest on Drawings.
- (6) Calculate depreciation at 10 % on fixed assets as per straight line method.

Ans. : **Trading Account of Pushpa for the year ending on 31-03-2015**

Dr

Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	80,000	By Sales	8,00,000
To Purchase	2,96,000	+ Unrecorded sales	10,000
— Wrongly recorded	10,000		8,10,000
purchase	2,86,000	— Sales return	80,000
— Goods given for	5000		
advertisement			
— Purchase return	20,000		
	2,61,000		
To Demurrage	3000		
To Tolai	1000		
To Carriage Inward	18,000		
To Gross Profit	5,55,000	By Closing Stock	1,88,000
(Transferred to P & L A/c)		(As per WN-1)	
	9,18,000		9,18,000

Profit & Loss Account of Pushpa for the year ending on 31-03-2015

Dr

Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
Administrative Expenses :		By Gross Profit	5,55,000
To Contribution to Provi. Fund	10,000	(Transferred from Trading A/c)	
To Trade Expenses	90,000	By Discount received	14,000
Sales-distribution Expenses :		By Interest on drawings	1200
To Discount given	46,000		
To Advertisement exp.	28,000		
+ Goods given as adv.	5000		
	33,000		
Financial Expenses :			
To Interest on Capital	30,000		
Other Expenses and Losses :			
Bad debt reserve account :			
Bad Debts (Trial Bal.)	30,000		
+ Bad Debts (Adj.)	20,000		
+ Bad Debts Reserve	19,000		
(Adjustment)	69,000		
— Bad Debts Res.	45,000		
(Trial Balance)			
To Depreciation on Fixed assets	50,000		
To Net Profit (To Capital A/c)	2,87,200		
	5,70,200		5,70,200

Balance Sheet of Pushpa as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital :		Non Current Assets :	
Capital 3,00,000		Fixed Assets 4,00,000	
+ Int. on capital 30,000		– Depreciation 50,000	3,50,000
+ Net Profit 2,87,200		(Cost price 5,00,000 × 10 %)	
(From P&L A/c) 6,17,200		Investment :	
– Drawings 24,000		Provident Fund Investments	1,00,000
+ Int. on 1200 25,200	5,92,000	Current Assets :	
drawings		Debtors 2,00,000	
Non-Current Liabilities :		+ Unrecorded sales 10,000	
Current Liabilities :			2,10,000
Provident Fund 1,00,000		– Bad Debts 20,000	
+ Int. on PF Investment 8000	1,08,000		1,90,000
Bills Payable	25,000	– Bad Debt Res.(10%) 19,000	1,71,000
Creditors 1,50,000		Bills receivables	15,000
– Wrongly recorded 10,000	1,40,000	Cash Balance	16,000
purchase		Bank Balance	25,000
		Closing stock	1,88,000
	8,65,000		8,65,000

Explanation : Note no. 1 : Closing Stock 2,00,000

30 %	50 %	Remaining 20 %
60,000	1,00,000	40,000
60,000	90,000	38,000
	[1,00,000 – 10 %]	[40,000 – 2000]
60,000 + 90,000 + 38,000 = 1,88,000		

Market value of 30 % stock is more, hence cost value will be considered.

Market value of 50 % stock is less, hence market value will be considered.

20 % stock has required repairing therefore repairing cost will be deducted from stock value.

Illustration 28 : Prepare final accounts of Nirmi Traders from the following Trial Balance as on 31-03-2015 and adjustments.

Trial Balance of Nirmi Traders as on 31-03-2015

Name of Account	Debit Balance (₹)	Credit Balance (₹)
Capital	—	3,00,000
Drawings	18,000	—
Land & Building	2,00,000	—
Machinery (Office)	1,40,000	—
Furniture and fixtures	25,000	—
Leasehold Building (Dt. 1-04-2014 for five years)	50,000	—
Sales	—	5,00,000
Purchase Returns	—	12,000
Debtors	90,000	
12 % Loan from Sajan (Dt. 1-10-2014)	—	30,000
Purchase	2,00,000	—
Sales returns	10,000	—
Freight	15,000	—
Sundry expenses	1000	—
Stationery -printing	2500	—
Insurance premium	14,200	—
Bad-Debts	15,000	—
Bad-Debts Reserve	—	14,000
Discount Reserve on Debtors	—	500
Commission received	—	8000
Goods Stock (Dt. 1-04-2014)	11,000	—
Salary and wages	54,000	—
Creditors	—	30,000
Dead Stock	5000	—
Bank Overdraft	—	21,000

Name of Account	Debit (₹)	Credit (₹)
Cash Balance	40,800	—
Carriage Inward	11,000	—
Carriage Outward	4000	—
Bills	18,000	10,000
Discounts allowed	1000	—
	9,25,500	9,25,500

Adjustments :

- (1) Closing stock as on 31-03-2015 was valued at ₹ 41,000.
- (2) Fire occurred in business as on 31-01-2015 due to which goods of ₹ 10,000 were destroyed and the insurance company accepted a claim of ₹ 7000.
- (3) Out of debtors, ₹ 5000 are not recoverable so they are to be written off. Provide Bad debt reserve 10 % and discount reserve 2 % on debtors.
- (4) Nirmi withdrew goods of ₹ 1000 for personal use which are not recorded in the books of accounts.
- (5) Credit purchases of ₹ 5000 were not recorded.
- (6) Calculate depreciation, at 10 % on land and building, at 20 % on machinery and at 5 % on furniture and fixtures.
- (7) Insurance premium included ₹ 1200 for the next year.
- (8) Commission of ₹ 1000 is receivable.

Ans. : Trading Account of Nirmi Traders for the year ending on 31-03-2015

Dr

Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	11,000	By Sales	5,00,000
To Purchase	2,00,000	— Sales return	10,000
+ Unrecorded purchase	5000		
	2,05,000		
— Purchase return	12,000		
	1,93,000		
— Goods burnt	10,000		
by fire			
Withdrawn for	1000		
personal use	11,000		
	1,82,000		
To Freight	15,000		
To Carriage Inward	11,000		
To Gross Profit	3,12,000	By Closing Stock	41,000
(Transferred to P & L A/c)			
	5,31,000		5,31,000

Profit & Loss Account of Nirmi Traders for the year ending on 31-03-2015

Dr

Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
Administrative Expenses :		By Gross Profit	3,12,000
To Sundry expenses	1000	(Transferred from Trading A/c)	
To Stationery-printing	2500	By Commission	8000
To Insurance Premium	14,200	+ Receivables	1000
— Prepaid	1200		9000
	13,000		
To Salary-wages	54,000		
Sales-distribution Expenses :			
To Carriage outward	4000		
Financial Expenses :			
To Interest on loan	1800		
Other Expenses and Losses :			
To written off Leasehold building	10,000		
Bad Debts (Trial Bal.)	15,000		
+ Bad Debts (Adj.)	5000		
+ Bad Debts Res.(Adj.)	8500		
	28,500		
— Bad Debts Reserve	14,000		
(Trial Balance)	14,500		
Dis. reserve on debtors A/c :			
Discount given	1000		
+ Disc. Res. on debtors	1530		
(Adjustment)	2530		
— Disc. Res. on debtors	500		
(Trial Balance)	2030		
To Loss due to fire	3000		
Depreciation :			
Land-Building	20,000		
+ Machinery	28,000		
+ Furniture-Fixture	1250		
	49,250		
To Net Profit	1,65,920		
(Transfer to Capital A/c)			
	3,21,000		3,21,000

Balance Sheet of Nirmi Traders as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital :		Non Current Assets :	
Capital 3,00,000		Fixed Assets :	
+ Net Profit 1,65,920		Land & Building 2,00,000	
(Transferred from P & L A/c) 4,65,920		– Depreciation (10%) 20,000	1,80,000
– Drawings 18,000		Machinery 1,40,000	
+ Goods 1000 19,000	4,46,920	– Depreciation (20%) 28,000	1,12,000
withdrawn for personal use		Furniture and Fixtures 25,000	
Non Current Liabilities :		– Depreciation (5%) 1250	23,750
12 % Sajan's Loan 30,000		Leasehold Building 50,000	
+ Int. on loan 1800	31,800	– Written off (1/5) 10,000	40,000
Current Liabilities :		Dead stock	5000
Creditors 30,000		Current Assets :	
+ Unrecorded credit 5000	35,000	Debtors 90,000	
purchase		– Bad Debts 5000	
Bank Overdraft 21,000			85,000
Bills Payable 10,000		– Bad Debt Res. (10%) 8500	
			76,500
		– Discount reserve on debtors (2%) 1530	74,970
		Cash Balance	40,800
		Bills receivables	18,000
		Closing stock	41,000
		Insurance Company account	7000
		Prepaid Insurance premium	1200
		Commission receivables	1000
	5,44,720		5,44,720

Explanation : (1) Outstanding interest on Sajan's Loan.

Loan was taken from Sajan as on 1-10-2014;.

Final Account date : 31-03-2015

Unpaid interest on loan duration = 6 months

Interest = $30,000 \times 12\% \times \frac{6}{12} = ₹ 1800$

Outstanding Interest = ₹ 1800

Illustration 29 : From the following Trial Balance of Abhishek as on 31-03-2015 and additional information, prepare final account as on 31-03-2015.

Trial Balance of Abhishek as on 31-03-2015

Name of Account	Debit (₹) Balance	Credit (₹) Balance
Capital	—	5,40,000
Drawings	24,000	—
Opening Stock	40,000	—
Purchase	3,00,000	—
Sales	—	5,00,000
Goods return	30,000	50,000
Salary	1,44,000	—
Audit fees	15,000	—
Rent-Taxes-Insurance	20,000	—
Stationery-Printing	5000	—
Unpaid salary	—	12,000
Prepaid Insurance premium	2000	—
Carriage Inward	3000	—
Commission	—	3000
Debtors-Creditors	1,00,000	80,000
Building	2,00,000	—
Addition in Building (Dt. 31-12-2014)	50,000	—
Machinery (Office)	1,00,000	—
Vehicles	50,000	—
Bills	10,000	15,000
Dividend	—	4000
Investment in ABC Company's Shares	40,000	—
Advertisement suspense account	15,000	—
Furniture	5000	—
Maintenance expense	12,000	—

Name of Account	Debit (₹)	Credit (₹)
Electricity expense	28,000	—
Bonus	12,000	—
Discount	5000	6000
	12,10,000	12,10,000

Adjustments :

- (1) Closing stock is of ₹ 2,01,000 which is included stationery stock of ₹ 1000. Market value of goods of ₹ 20,000 out of which goods stock is less by 20 %.
- (2) Unrecorded credit sales ₹ 10,000.
- (3) Vehicles were purchased on 31-12-2014. Scrap Value of Vehicles is ₹ 10,000 and estimated life is 5 years.
- (4) Calculate depreciation on building at 10 % and rate of depreciation on machinery is 15 %.
- (5) Purchase of furniture of ₹ 5000 is wrongly debited to purchase account. This furniture was purchased on 1-10-2014. Rate of depreciation on furniture is 10 %.
- (6) Calculate interest on capital at 6 %. Addition capital of ₹ 1,00,000 was brought into business on 1-1-2015.
- (7) Expense incurred for advertisement campaign at the beginning of the year is transferred to advertisement suspense account. This expense is to be written off in 5years.

Ans. : Trading Account of Shri Abhishek for the year ending on 31-03-2015

Dr

Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	40,000	By Sales	5,00,000
To Purchase	3,00,000	+ Unrecorded Sales	10,000
— Furniture purchase	5000		5,10,000
	2,95,000	— Sales return	30,000
— Purchase return	50,000		4,80,000
	2,45,000		
To Carriage Inward	3000	By Closing Stock	1,96,000
To Gross Profit	3,88,000	(Working Note No. 1)	
(Transferred to P & L A/c)			
	6,76,000		6,76,000

Profit & Loss Account of Shri Abhishek for the year ending on 31-03-2015

Dr

Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
Administrative Expenses :		By Gross Profit	3,88,000
To Salary	1,44,000	(Transferred from Trading A/c)	
To Audit Fees	15,000	By Commission	3000
To Rent & Tax	20,000	By Dividend received	4000
To Stationery-printing 5000		By Discount received	6000
— Stationery stock 1000	4000		
To Electricity Exp.	28,000		
To Bonus	12,000		
Sales-distribution Expenses :			
To Discount Allowed	5000		
To advertisement campaign exp. written off	3000		
Financial Expenses :			
To Interest on Capital	27,900		
Other Expenses and Losses :			
To repairs & Maintenance Exp.	12,000		
Depreciation :			
Vehicles 2000			
+ Building 21,250			
+ Furniture 750			
+ Machinery 15,000	39,000		
To Net Profit	91,100		
(Transfer to Capital A/c)			
	4,01,000		4,01,000

Balance Sheet of Shri Abhishek as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital :		Non Current Assets :	
Capital 4,40,000		Fixed Assets :	
+ Additional Capital 1,00,000		Building 2,00,000	
5,40,000		+ Addition in Buildg. 50,000	
+ Interest on Capital 27,900		(Dt. 31-12-2014)	
(WN 5)		2,50,000	
+ Net Profit 91,100		– Depreciation (WN-3) 21,250	2,28,750
(Transferred from P & L A/c) 6,59,000		Machinery 1,00,000	
– Drawings 24,000	6,35,000	– Depreciation 15,000	85,000
Non Current Liabilities :	–	Vehicles 50,000	
Current Liabilities :		– Depreciation (WN-2) 2000	48,000
Outstanding Salary 12,000		Furniture 5000	
Creditors 80,000		+ Recorded at purchase a/c 5000	
Bills Payable 15,000		10,000	
		– Depreciation (WN-4) 750	9250
		Investment :	
		Investment in shares of ABC Ltd.	40,000
		Current Assets :	
		Prepaid Insurance premium	2000
		Debtors 1,00,000	
		+ Unrecorded credit sales 10,000	1,10,000
		Bills receivables	10,000
		Stationery stock	1000
		Closing stock	1,96,000
		Fictitious Assets :	
		Adver. Suspense A/c 15,000	
		– Written off 3000	12,000
	7,42,000		7,42,000

Explanation :

WN 1 :	Total Closing Stock	=	₹ 2,01,000
	– Stationery Stock	=	₹ 1000
	Goods Stock	=	₹ 2,00,000
	– Under valuation	=	₹ 4000
	[20,000 × 20 %]		
	Value of Closing Stock	=	₹ 1,96,000

WN 2 : Depreciation on Vehicles :

$$\text{Depreciation} = \frac{\text{Cost Price} - \text{Scrap Value}}{\text{Useful life}}$$

$$= \frac{50,000 - 10,000}{5}$$

$$= \frac{40,000}{5}$$

$$\text{Annual Depreciation} = ₹ 8000$$

$$3 \text{ Months Depreciation} = \frac{8000}{12} \times 3$$

$$3 \text{ Months Depreciation} = ₹ 2000$$

WN 3 : Depreciation on Building :

$$\text{Depreciation on Opening Balance} = ₹ 2,00,000 \times 10 \% = ₹ 20,000$$

$$+ \text{ Depreciation on Addition in Building} = ₹ 50,000 \times 10 \% \times \frac{3}{12} = ₹ 1250$$

$$\text{Total Depreciation} = ₹ 21,250$$

WN 4 : Depreciation on furniture :

$$\text{Depreciation on Opening Balance} = ₹ 5000 \times 10 \% = ₹ 500$$

$$+ \text{ Depreciation on new purchase furniture} = ₹ 5000 \times 10 \% \times \frac{6}{12} = ₹ 250$$

$$\text{Total Depreciation} = ₹ 750$$

WN 5 : Interest on Capital :

$$\text{Interest on Opening Balance} = ₹ 4,40,000 \times 6 \% = ₹ 26,400$$

$$+ \text{ Interest on additional capital} = ₹ 1,00,000 \times 6 \% \times \frac{3}{12} = ₹ 1500$$

$$\text{Total Depreciation} = ₹ 27,900$$

Illustration 30 : From the following Trial Balance of Sajan as on 31-03-2015 and additional information, prepare final account as on 31-03-2015 :

Trial Balance of Mansi as on 31-03-2015

Name of Account	Debit (₹)	Credit (₹)
Trading Account (Credit balance)	—	1,90,000
Capital	—	2,40,000
Drawings	14,000	—
Fixed Assets	1,63,000	—
Office Expenses	26,000	—
Bank Overdraft	—	5000
Rent	6000	—
Insurance	12,000	—
Salary - Wages	1,20,000	—
Customers-Traders	80,000	90,000
Bills Receivables-Bills Payables	8000	12,000
Bad debt reserve	—	5000
Discount	2000	3000
Prepaid Insurance premium	1000	—
Outstanding office expense	—	1000
Closing Stock	15,000	—
Stationery stock	1000	—
Cash Balance	8000	—
Selling-distribution expenses	90,000	—
	5,46,000	5,46,000

Adjustments :

- (1) (1) After preparing trading account, it was found that Sajan has taken goods for personal use of ₹ 2000, which is not recorded in books. Outstanding Carriage Inward ₹ 1000.
- (2) Calculate interest on capital is 10 %.
- (3) Outstanding Interest on Bank overdraft ₹ 300.
- (4) After preparing trading account, it was found that ₹ 5000 received from debtors, which is wrongly credited to sales account.
- (5) Provide depreciation on fixed assets at 10 %.
- (6) Unrecorded purchases ₹ 5000
- (7) Goods of ₹ 10,000 are destroyed by fire, for which the Insurance Company has accepted a claim of ₹ 8000.
- (8) A machinery of ₹ 10,000 sold for ₹ 8000 for cash on dt. 1-10-2014 for cash which is not recorded in the book.

Ans. : Adjusted Trading Account of Sajan for the year ending on 31-03-2015

Dr

Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Outstanding Carriage Inward	1000	By Gross Profit	1,90,000
To Cash received from debtors, wrongly credited to sales a/c	5000	By Purchase a/c (Goods taken for personal use) 2000	
To Unrecorded credit purchase	5000	By Goods destroyed by fire 10,000	
To Gross Profit (Adjusted) (Transferred to P & L A/c)	1,91,000		12,000
	2,02,000		2,02,000

Note : Goods withdrawn for personal use is deducted from purchase. Since, adjusted trading account is prepared and purchase amount is available, purchase is credited here.

Profit & Loss Account of Sajan for the year ending on 31-03-2015

Dr

Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
Administrative Expenses :		By Gross Profit	1,91,000
To Office expenses	26,000	(Transferred from Trading A/c)	
To Rent	6000		
To Insurance	12,000	By Discount received	3000
To Salary–wages	1,20,000		
Sales-distribution Expenses :			
To Discount Allowed	2000		
To Selling & distribution exp.	90,000		
Financial Expenses :			
To Interest on Capital	24,000		
To Outstanding Interest on bank overdraft	300		
Other Expenses and Losses :			
To Loss due to fire	2000		
To Loss on sale of fixed assets	1500		
To Depreciation on fixed assets [500 + 15,300]	15,800	To Net Loss (Transfer to Capital A/c)	1,05,600
	2,99,600		2,99,600

Balance Sheet of Sajan as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital :		Non Current Assets :	
Opening Balance 2,40,000		Fixed Assets 1,63,000	
+ Interest on Capital 24,000		– Sales of fixed 10,000	
	2,64,000	assets	
– Net Loss 1,05,600			1,53,000
(From P & L A/c) 1,58,400		– Depreciation (10 %) 15,300	1,37,700
– Drawings 14,000		Current Assets :	
+ Goods		Customers (Debtors) 80,000	
withdrawn for		– Cash received 5000	
household use 2000 16,000	1,42,400	(credited to sales a/c)	
Current Liabilities :			75,000
Bank overdraft 5000		– Bad debt reserve 5000	70,000
+ Outstanding Interest 300	5300	Bills receivables	8000
Traders (Creditors) 90,000		Prepaid Insurance premium	1000
+ Unrecorded credit 5000	95,000	Closing stock	15,000
purchase		Stationery stock	1000
Bills Payable	12,000	Cash balance 8000	
Outstanding office expenses	1000	+ Sales value of 8000	16,000
Outstanding Carriage Inward	1000	fixed assets	
		Insurance company account	8000
	2,56,700		2,56,700

Explanation : For Fixed Assets :

Fixed Assets sold on 1-10-2014

Original Cost	₹ 10,000
– 6 months depreciation	₹ 500
(1-4-2014 to 1-10-2014)	
$(10,000 \times 10 \% \times \frac{6}{12})$	
Book value	₹ 9500
(As on 1-10-2014)	
Sales Value	Loss
8000	1500

₹ 10,000 is deducted from fixed assets, which is included depreciation of ₹ 500. Hence depreciation of ₹ 500 is shown in Profit & Loss Account.

Exercise

1. Select the correct answer from the following options are given :

- (1) Debit balance of Trading Account means
 - (a) Gross Profit
 - (b) Gross Loss
 - (c) Net Profit
 - (d) Net Loss
- (2) Credit balance of Profit & Loss Account means
 - (a) Gross Profit
 - (b) Gross Loss
 - (c) Net Profit
 - (d) Net Loss
- (3) Which balance of the following balances of trial balance is shown in the Profit & Loss Account?
 - (a) Salary-Wages
 - (b) Wages-Salary
 - (c) Outstanding Salary-Wages
 - (d) Outstanding Wages-Salary
- (4) Where closing stock of stationery of Trial Balance is shown?
 - (a) Debit side of Trading Account
 - (b) Credit side of Profit & Loss Account
 - (c) Deducted from stationery expense in Profit & Loss account
 - (d) Assets side of Balance-sheet
- (5) Where provident fund interest of trial balance is shown?
 - (a) Credit side of Profit & Loss Account
 - (b) Debit side of Profit & Loss Account
 - (c) Added in provident fund investment on asset side of balance sheet
 - (d) Added in provident fund on liabilities side of balance sheet
- (6) At which price closing stock is shown in the final accounts?
 - (a) Original Cost
 - (b) Cost Price
 - (c) Market Price
 - (d) Cost price or market price whichever is lower
- (7) Adjusted purchase means
 - (a) Purchase + purchase expenses
 - (b) Purchase – Purchase return
 - (c) Opening stock + purchase – closing stock
 - (d) Opening stock + purchase – purchase return – closing stock
- (8) shows the financial-economic position of the business.
 - (a) Trial Balance
 - (b) Trading Account
 - (c) Profit & Loss Account
 - (d) Balance-sheet
- (9) If bad debt reserve is given only in Trial Balance then where its effect would appear in final accounts?
 - (a) Debit side of Profit & Loss Account
 - (b) Credit side of Profit & Loss Account
 - (c) Deducted from debtors, from assets side of balance sheet
 - (d) Added in assets side of debtors in balance sheet
- (10) If goods destroyed by fire and insurance company accepted a claim of full amount then where its effect would appear in final accounts?
 - (a) Only on credit side of Trading Account
 - (b) Debit side of Trading Account (deducted from purchase) and debit side of Profit & Loss Account
 - (c) Debit side of Trading Account (deducted from purchase) and assets side of Balance Sheet
 - (d) Credit side of Trading Account, debit side of Profit & Loss Account and assets side of Balance sheet

- (11) If depreciation on fixed assets is shown in the Trial balance then where its effects would appear in the balance sheet?
- Debit side of Profit & Loss Account
 - Added in Fixed assets on assets side of Balance sheet
 - Deducted from Fixed assets on assets side of Balance sheet
 - Credit side of Profit & loss account

2. Answer the following questions in one sentence :

- | | |
|------------------------------------|-----------------------------------|
| (1) What are financial statements? | (2) What are closing entries? |
| (3) What are adjustment entries ? | (4) What is an adjusted purchase? |
| (5) What is Demurrage? | (6) What is Wharfage? |

3. Answer the following questions :

- State objectives of financial statements.
- State the importance of financial statement.
- Explain the meaning of Gross Profit, Operating Profit and Net Profit.
- Explain the difference between Trading Account and Profit & Loss Account.
- Explain the difference between Trial Balance and Balance sheet.
- Explain objectives of Profit & Loss Account.
- Explain the objectives of Balance sheet.
- What is Trading Account? Write the particulars to be shown in Trading Account and closing entries for preparing Trading Account.
- State the specimen of Balance Sheet in order of permanency and liquidity.
- What are Final Accounts? State the objectives of preparing final accounts.

4. Pass adjustment entry for the following and also show its effect in final accounts :

- Closing stock of ₹ 1,00,000 out of which ₹ 2000 stationery stock.
Out of total goods, goods of ₹ 50,000 required repairing expense of ₹ 2000.
- The following expenses are outstanding at the end of the year, Rent-rates ₹ 5,000, Salary ₹ 3000.
- Following revenues are receivable at the end of the year, Trainee employee's premium ₹ 2000, Commission ₹ 1,000
- Brokerage of ₹ 2700 is received in advance
- Proprietor's capital in the business is ₹ 3,00,000 on which 12 % interest is payable.
- Drawings of proprietor after 9 months from the business amounted to ₹ 40,000.
- Credit sale of ₹ 10,000 is recorded as credit purchase.
- Purchase return of ₹ 3000 is recorded as credit sales
- Fixed assets of ₹ 1,00,000 is purchased on dt. 1-07-2015. Accounting year of firm is ended on as on 31-03-2016. Calculate depreciation at 12%.
- Debtors are amounting to ₹ 1,00,000 out of which write off ₹ 10,000 as bad debts, provide 10 % as bad debts reserve and 2 % as bad debts reserve on debtors.
- Goods of ₹ 10,000 destroyed by fire. Insurance company has accepted a claim of ₹ 8000.
- ₹ 1000 labour charge of machinery installation is wrongly debited to labour account.

5. While preparing final accounts of Suresh for the year ended 31-03-2015, close the following accounts and write journal entries to close the accounts :

(1) Wages-Salary A/c :

Dr				Cr			
Date	Particulars	L. F.	Amount (₹)	Date	Particulars	L. F.	Amount (₹)
	To Cash A/c		60,000				

(2) Interest received A/c :

Dr				Cr			
Date	Particulars	L. F.	Amount (₹)	Date	Particulars	L. F.	Amount (₹)
					By Bhavna A/c		4000

(3) Sales A/c :

Dr				Cr			
Date	Particulars	L. F.	Amount (₹)	Date	Particulars	L. F.	Amount (₹)
					By Cash A/c		5000
					By Customers A/c		1,00,000
					(As per salesbook)		

(4) Suresh's Drawings A/c :

Dr				Cr			
Date	Particulars	L. F.	Amount (₹)	Date	Particulars	L. F.	Amount (₹)
	To Cash A/c		12,000				
	To Purchase A/c		4000				

6. Prepare final account from the Trial Balance and adjustments of Dipak as on 31-03-2015 :

Name of the Account	Debit (₹)	Credit (₹)
Capital - Drawings	18,000	3,00,000
Adjusted Purchase-Sales	8,00,000	12,91,000
Goods Return	50,000	—
Discount	6000	8000
Rent	7000	—
Debtors-Creditors	1,10,000	90,000
Commission	8000	—

Name of the Account	Debit (₹)	Credit (₹)
Bills	20,000	30,000
Cash Balance	20,000	—
Bank Balance	90,000	—
Building	1,50,000	—
Furniture	40,000	—
Machinery	3,00,000	—
Wages	60,000	—
Carriage Inward	60,000	—
10 % Bank Loan and Bank loan Interest	20,000	2,00,000
Closing Stock	40,000	—
Office Expenses	1,20,000	—
Total	19,19,000	19,19,000

Adjustments :

- (1) Goods of ₹ 12,000 lost due to theft.
- (2) Goods of ₹ 15,000 distributed as sample.
- (3) Goods of ₹ 16,000 burnt by fire
- (4) Goods of ₹ 1500 given as charity.

7. Prepare final accounts from the Trial Balance and adjustments of Pankaj as on 31-03-2015 :

Name of the Account	Debit (₹)	Credit (₹)
Capital-Drawings	18,000	6,00,000
Purchase-Sales	9,00,000	15,00,000
Purchase Return	—	30,000
Sales Return	60,000	—
Stock (1-04-2014)	90,000	—
Carriage Inward	15,000	—
Salary	1,80,000	—
Wages	60,000	—
Office Expenses	1,20,000	—
Debenture interest received	—	15,000
Discount received	—	6000
Commission received	—	3000
10 % Bank Loan	—	3,00,000
Bills Payable	—	22,500

Name of the Account	Debit (₹)	Credit (₹)
Debtors	1,35,000	—
Bills Receivables	45,000	—
Creditors	—	1,02,000
Outstanding rent	—	1500
Advertisement Expenses	75,000	—
Stationery-printing expenses	9000	—
Machinery	1,35,000	—
Building	4,50,000	—
Furniture	90,000	—
Rent	18,000	—
Investment in 10 % Debentures	1,50,000	—
Bank Loan Interest	30,000	—
	25,80,000	25,80,000

Adjustments :

- (1) Closing Stock of ₹ 1,65,000 out of which market value of 50 % of stock is 10 % more and market value of remaining goods is 10 % less.
- (2) Unrecorded credit purchase ₹ 60,000.
- (3) Unrecorded credit purchase return ₹ 7500.
- (4) Unrecorded credit sales ₹ 75,000.
- (5) Unrecorded credit sales return ₹ 22,500.
- (6) Outstanding wages ₹ 15,000.
- (7) Goods of ₹ 15,000 destroyed by fire and insurance company accepted a claim of whole amount.
- (8) Goods of ₹ 7500 withdrawn for personal use.
- (9) Labour charges for installation of machinery ₹ 7500 wrongly debited to labour charges.

8. Following is the Trial Balance of R. K. Stores as on 31-03-2015 :

Name of the Account	Debit (₹)	Credit (₹)
Gross Profit	—	3,00,000
Salary	54,000	—
General Expenses	6600	—
Tax-Insurance	7200	—
Sundry Debtors	1,20,000	—
Closing Stock	13,200	—

Name of the Account	Debit (₹)	Credit (₹)
Bank Overdraft	—	6000
Commission	—	9000
Advertisement Expenses	9000	—
Interest	3000	—
Furniture	48,000	—
Building	1,80,000	—
Motorcar	60,000	—
Capital	—	1,42,800
Drawings	6000	—
Bad-Debts	3600	—
Bad-debts Reserve	—	6000
Loan	—	24,000
Creditors	—	12,000
Bills Receivable	3000	—
Bills Payable	—	9600
Carriage-outward	4000	—
Discount given	3200	—
Discount received	—	2400
General Reserve	—	30,000
Cash Balance	21,000	—
	5,41,800	5,41,800

Adjustments :

- (1) Salary was paid up to 31-12-2014.
- (2) ₹ 1200 being insurance premium for the year ending on 30-09-2015.
- (3) Commission of ₹ 2000 is receivable.
- (4) Calculate 10 % interest on Capital and 12 % interest on Drawings
- (5) Calculate depreciation at 5 % on furniture, at 10 % on building and at 20 % on motorcar.
- (6) From debtor of ₹ 20,000 write off 50 %.
- (7) Provide 5 % bad debt reserve.
- (8) Provide 2 % debtors discount reserve
- (9) Transfer ₹ 10,000 to General Reserve

From the above information, prepare final account of R. K. Stores for the year ending as on 31-03-2015.

9. Prepare final accounts from the Trial Balance and adjustments of Pushpa Traders as on 31-03-2015 :

Trial Balance of Pushpa Traders as on 31-03-2015

Name of the Account	Debit (₹)	Credit (₹)
Drawings – Capital	26,400	3,30,000
Purchase-Sales	3,24,900	8,80,000
Goods Returns	88,000	22,000
Provident-Fund and Contribution to Provident fund	11,000	1,10,000
Provident Fund Investment and Interest on provident fund investment	1,10,000	8800
Debtors-Creditors	2,20,000	1,65,000
Discount	50,600	15,400
Bad-Debts & Bad Debts Reserve	33,000	49,500
Bills	16,500	27,500
Goods stock (1-04-2014)	88,000	—
Demurrage	3300	—
Carriage Inward	21,000	—
Trade Expenses	1,00,000	—
Cash Balance	10,000	—
Bank Balance	35,100	—
Fixed Assets (Cost Price ₹ 6,00,000)	4,80,000	—
Advertisement Expenses	10,000	—
Other Income	—	19,600
	16,27,800	16,27,800

Adjustments :

- (1) Stock as on 31-03-2015 is ₹ 2,02,000 out of which ₹ 2000 of stock was for advertisement good stock and from the remaining stock the market value of 30 % stock is 20 % more. Market value of 30 % stock is less by 20 %. Whereas remaining stock needs to be repaired at the expenses of ₹ 5000.
- (2) Goods of ₹ 7500 given as advertisement.
- (3) Credit sales of ₹ 10,000 wrongly recorded as credit purchase.
- (4) Write off ₹ 30,000 as bad debts from debtors and provide 10 % Bad debt reserve.
- (5) Calculate 10 % interest on Capital and 6 % interest on Drawings
- (6) Calculate depreciation at 10 % on fixed assets as per straight line method.

10. Prepare final accounts from the Trial Balance and adjustments of Nirmi as on 31-03-2015.

Name of the Account	Debit (₹)	Credit (₹)
Capital	—	2,70,000
Drawings	16,200	—
Land & Building	1,80,000	—
Machinery (Office)	1,26,000	—
Furniture	22,500	—
Leasehold Building (Date : 1-04-2014 for five years)	45,000	—
Sales	—	4,50,000
Purchase Return	—	10,800
Debtors	81,000	—
12 % Loan from Dattu (Date : 1-10-2014)	—	27,000
Purchase	1,80,000	—
Sales return	9000	—
Freight	13,500	—
Sundry expenses	3150	—
Insurance premium	14,200	—
Bad-Debts	12,080	—
Bad-Debts Reserve	—	12,600
Discount Reserve on Debtors	—	450
Commission received	—	6000
Goods Stock (Date : 1-04-2014)	9900	—
Salary	42,000	—
Wages	6600	—
Creditors	—	28,200
Dead Stock	4500	—
Bank Overdraft	—	18,900
Cash Balance	36,720	—
Carriage Inward	6000	—
Carriage Outward	7500	—
Bills	12,000	7000
Discount	5100	2000
	8,32,950	8,32,950

Adjustments :

- (1) Closing stock as on 31-03-2015 was valued at ₹ 50,000.
- (2) Fire occurred in business on 31-01-2015 due to which goods of ₹ 8000 were destroyed and the insurance company accepted a claim of 70 %.

- (3) Out of debtors, ₹ 6000 are not recoverable so they are to be written off. Provide Bad debt reserve 5 % and discount reserve 2 %.
- (4) Credit purchases of ₹ 6000 and Credit purchase return of ₹ 1000 were not recorded.
- (5) Calculate depreciation, at 10 % on fixed assets.
- (6) Insurance premium includes ₹ 3200 for the next year.
- (7) 50 % Commission is received.

11. Prepare final accounts from the Trial Balance and adjustments of Sajan Readymade Stores as on 31-03-2015.

Trial Balance of Sajan Readymade Stores as on 31-03-2015

Name of the Account	Debit (₹)	Credit (₹)
Capital	—	1,08,000
Drawings	4800	—
Opening Stock	8000	—
Purchase	70,000	—
Sales	—	1,30,000
Goods return	6000	10,000
Salary	30,000	—
Audit fees	5000	—
Rent-Taxes-Insurance	4800	—
Stationery-Printing	1200	—
Unpaid salary	—	2500
Prepaid Insurance premium	400	—
Carriage Inward	900	—
Commission	—	800
Debtors-Creditors	29,600	14,000
Building	40,000	—
Addition in Building (31-12-2014)	10,000	—
Machinery (Office)	20,000	—
Vehicles	8000	—
Bills	5000	6000
Dividend	—	1000
Investment in Ram-Rahim Company's Shares	10,000	—
Advertisement suspense account	4000	—
Furniture	6000	—
Maintenance expense	3000	—
Electricity expense	3600	—
Bonus	2500	—
Discount	1000	—
Bad Debt Reserve	—	1500
	2,73,800	2,73,800

Adjustments :

- (1) Closing stock is of ₹ 12,600, out of which goods worth ₹ 4600 requires repairing of ₹ 600. Remaining stock's market value is less by 20 %.
- (2) Unrecorded credit sales ₹ 4400.
- (3) Expense incurred for advertisement campaign on 1-10-2014 is transferred to advertisement suspense account. This expense is to be written off in 5 years.
- (4) Vehicles of ₹ 20,000 were purchased on 1-04-2009. Scrap Value of Vehicles is ₹ 4000 and estimated life is 10 years. Depreciation is to be calculated by straight line method.
- (5) Purchase of furniture of ₹ 2000 is wrongly debited to purchase account. Furniture was purchased on 1-10-2014. Rate of depreciation on furniture is 20 %.
- (6) Calculate interest on capital is 6 %. Addition capital of ₹ 8000 was brought into business on 1-10-2014.
- (7) Calculate depreciation on building at 10 % and rate of depreciation on machinery is 20 %.

12. Prepare final accounts from the following Trial Balance and adjustments of Baldev as on 31-03-2016.

Trial Balance of Baldev as on 31-03-2016

Debit Balance	Amount (₹)	Credit Balance	Amount (₹)
Drawings	45,000	Trading Account	5,70,000
Fixed Assets	6,75,000	Capital	7,50,000
Office expenses	82,500	Bank overdraft	18,000
Rent	22,500	Traders	3,00,000
Insurance	45,000	Bills payable	37,500
Salaries-Wages	3,75,000	Bad debt reserve	21,000
Customers	2,25,000	Discount	10,500
Bills receivables	22,500	Outstanding office expenses	3000
Discount	7500		
Prepaid insurance premium	3750		
Closing Stock	45,000		
Cash Balance	22,500		
Selling & distribution expenses	1,20,000		
Bonus	18,750		
	17,10,000		17,10,000

Adjustments :

- (1) After preparing trading account, it was found that Baldev has taken goods for personal use of ₹ 7500, which is not recorded in the book. Outstanding Carriage Inward ₹ 3750.
- (2) Calculate interest on capital is 5 %.
- (3) Outstanding Interest on Bank overdraft ₹ 750.

- (4) After preparing trading account, it was found that ₹ 22,500 received from debtors, which is wrongly credited to sales account.
- (5) Provide depreciation on fixed assets at 10 %.
- (6) Unrecorded credit purchases ₹ 12,000.
- (7) Goods of ₹ 22,500 are destroyed by fire, for which the Insurance company has accepted a claim of 90 % amount.
- (8) A fixed asset of ₹ 30,000 sold for ₹ 22,500 for cash on dt. 1-10-2015 which is not recorded in the book.

13. The following balances are taken from the books of Vipul as on 31-03-2015. Prepare final accounts :

Name of Account	Amount (₹)	Name of Account	Amount (₹)
Capital	2,17,000	Debtors	1,40,000
Drawings	36,000	Creditors	60,000
Sales	6,00,000	Furniture (Dt. 1-4-2014)	1,60,000
Purchase	3,00,000	Addition in Furniture	40,000
Sales return	5000	(Dt. 1-10-2014)	
Purchase return	4000	Office expenses	30,000
Opening stock	10,000	Bad debts	5000
Salary (for 11 months)	1,10,000	Bad debt reserve	6000
10 % Loan from bank	1,00,000	Insurance premium	24,000
Interest on 10 % loan from bank	5000	Cash balance	50,000
Bills receivables	6000	Bank overdraft	18,000
Bills payable	5000	Commission received	5000
Investment in 12 % Debenture	1,00,000		
Interest on 12 % debenture	6000		

Adjustments :

- (1) Stock of goods is ₹ 1,50,000 at the end of the year. From which the market value of 50 % goods is ₹ 80,000 and the market value of 50% goods is ₹ 70,000.
- (2) Credit sales of ₹ 60,000 is not recorded.
- (3) Calculate 20 % depreciation on furniture.
- (4) Life Insurance premium of Vipul of ₹ 3000 is included in the insurance premium.
- (5) Write off additional bad debts of ₹ 15,000 and provide 5% bad debt reserve on debtors.
- (6) Additional capital of ₹ 17,000 brought in the business as on dt. 1-10-2014. Calculate 10 % interest on capital.
- (7) Invoice of ₹ 10,000 for purchase is received from the creditor which is not recorded by an error.

14. As on 31-03-2015 the ratio of capital and reserve is 4:1 in the business of Bhavna. The balances of other accounts on that date are as under. Prepare final accounts from the balances and adjustments :

Name of Account	Amount (₹)	Name of Account	Amount (₹)
Opening Stock	30,000	Bad debt reserve	6000
Purchase	1,00,000	Rent paid (₹ 1200 per month)	12,000
Sales	2,50,000	Carriage inward	4000
Debtors	1,00,000	Cash balance	30,000
Creditors	20,000	Office expense	20,000
Machinery (Office)	2,00,000	Rent received	3000
10 % loan taken from Pratibha (From dt. 1-10-2014)	50,000	Patents	20,000
Insurance premium	9000	Discount received	2000
Advertisement expense	6000	Depreciation on furniture	2000
Furniture	8000		

Adjustments :

- (1) Closing stock is ₹ 80,000 of which market value of 10 % goods is 20 % less. Goods of ₹ 10,000 needs to be repaired for ₹ 1,000.
- (2) Goods of ₹5000 are distributed as free sample, which is not recorded.
- (3) Goods of ₹ 6000 withdrawn by Bhavna for her personal use, which is recorded in the sales book. Purchase invoice of ₹ 4000 is not recorded in the purchase book.
- (4) Insurance premium of ₹ 3000 paid for the year ending as on 30-06-2015 is included in insurance premium.
- (5) Out of total debtors a debtor of ₹ 10,000 is declared insolvent and his receiver has declared first and final dividend of 80 paise per rupee. Provide 5 % bad debt reserve on debtors.
- (6) Calculate 20 % depreciation on machinery.
- (7) Patents are to be revalued at ₹ 17,000.
- (8) Office salary of ₹ 1500 is outstanding. Which is included in office expenses.

