

CBSE Test Paper 02
Ch-10 Financial Statements-II Adjustments

1. What will be the adjustment entry, if the rent of 1 month is still to be paid?
2. Goods worth Rs 3,00,000 were burnt by fire and claim of Rs 1,80,000 has been accepted by the insurance company. How it will be recorded in final accounts?
3. How is income tax paid by a sole trader shown in the balance sheet?
4. Why are prepaid expenses segregated from the current year's expenses and taken to the balance sheet as a current asset?
5. Why is provision for doubtful debts created? How is it shown in the balance sheet?

6.

Extract of Trial Balance
as on 31st March, 2013

Particulars	Debit Balance(Rs)	Credit Balance(Rs)
Capital		10,000

Additional Information

Interest on capital to be allowed @ 12% per annum.

Show effect on profit and loss account and balance sheet.

7. Show the treatment of prepaid expenses, depreciation, and closing stock at the time of preparation of final accounts?
 - i. When given inside the trial balance.
 - ii. When given outside the trial balance.
8. Prepare a trading account for the year ended 31 st March, 2013 from the following balances

	Amt (Rs.)		Amt (Rs.)
Opening stock	80,000	Purchases return	24,000

Purchases	4,00,000	Sales return	40,000
Sales	10,00,000	Carriage on purchase	16,000
Freight and octroi	13,000	Carriage on sales	20,000
Wages	60,000	Factory rent	24,000
Factory lighting	21,600	Office rent	15,000
Coal, gas and water	4,400	Import duty	64,000

Closing stock is valued at Rs. 1,20,000.

9. From the following balance of Anand, prepare, the Trading A/c, Profit and Loss A/c and the Balance Sheet as at 31st March 2018.

	Debit Balance	Credit Balances
Capital		3,60,000
Creditors		87,200
B/P		25,270
Sales		7,81,820
Bad debt Recovered		1,750
Loan		1,20,000
Debtors	38,850	
Salaries	40,000	
Discount	10,000	
Postage	2,730	
Bad Debts	2,870	
Interest	12,950	
Insurance	4,170	
Machinery	1,00,000	

Stock (Opening)	99,450	
Purchases	6,20,920	
Wages	43,000	
Buildings	2,37,800	
Selling Expenses	1,750	
Fixtures and Fittings	1,61,550	

Value of goods on hand, (31st March, 2018) was Rs.1,43,000

10. The trial balance of Ramesh Vyas as on 31st March, 2013 was as follows.

Name of Accounts	Debit Balance(Rs)	Credit Balance(Rs)
Purchases/sales	81,25,250	1,26,20,000
Provision for doubtful debts		2,60 000
Sundry debtors/sundry creditors	25,10,000	15,26,300
Bills payable		1,97,500
Opening stock	13,36,250	
Wages	11,56,850	
Salaries	2,78,750	
Furniture	3,62,500	
Postage	2,11,300	
Power and fuel	67,500	
Trade expenses	2,91,550	
Bad debts	26,250	
Loan to Ram @ 10% 1st December, 2012)	1,50,000	
Cash in hand and at bank	5,00,000	
Trade expenses accrued but not paid		35,000

Drawings A/c/capital A/c	2,22,600	5,00,000
Outstanding wages		1,00,000
	1,52,38,800	1,52,38,800

Prepare the trading and profit and loss account for the year ended 31st March, 2013 and the balance sheet as at that date after taking into consideration the following information.

- i. Stock on 31st March, 2013 was Rs 6,27,500.
- ii. Depreciation on furniture is to be charged @ 10%.
- iii. Provision for doubtful debts is to be maintained @ 5% on sundry debtors.
- iv. Sundry debtors include an item of Rs 25,000 due from a customer who has become insolvent.
- v. Goods of the value of Rs 75,000 have been destroyed by fire and insurance company admitted a claim for Rs 50,000
- vi. Received Rs 60,000 worth of goods on 27th March, 2013 but the invoice of purchases was not recorded in purchases book.

CBSE Test Paper 02
Ch-10 Financial Statements-II Adjustments

Answer

1. The entry for the adjustment of Outstanding rent for 1 month will be as follows:

Narration: Being the rent due for a month credited to Outstanding rent account.

Rent A/c	Dr.
To Outstanding Rent A/c	

Rent to be paid is a nominal account and has been debited.

Outstanding rent is a current liability and therefore, has been credited.

2. Goods worth Rs 3,00,000 will be deducted from purchases on the debit side of trading account. Insurance claim of 1,80,000 will be shown on the assets side of the balance sheet and the remaining amount of Rs. 1,20,000 will be shown on the debit side of profit and loss A/c
3. By way of deduction from capital, as it is considered as drawings by the proprietor.
4. Prepaid expenses are segregated from the current year's expenses and taken to the balance sheet as a current asset because such expenses relate to the next year, which have been paid in advance. Therefore, with reference to the accrual basis of accounting they are considered independent of the current year's expenses.
5. The provision for doubtful debts is the estimated amount of bad debt that will arise from accounts receivable that have been issued but not yet collected. It is identical to the allowance for doubtful accounts. The provision is used under accrual basis accounting so that an expense is recognized for probable bad debts as soon as invoices are issued to customers, rather than waiting several months to find out exactly which invoices turned out to be uncollectible. Thus, the net impact of the provision for doubtful debts is to accelerate the recognition of bad debts into earlier reporting periods. The Bad Debts Provision is shown in the balance sheet on the asset side by way of deduction from debtors or on liability side under the head provisions.

6.

Adjusting Entry

Particulars		Debit	Credit
Interest on Capital A/c	Dr	1,200	
To Capital			1,200

Effect on Final Accounts**Profit and Loss Account**

for the year ended 31st March, 2013

Dr			Cr
Particulars	Amt(Rs)	Particulars	Amt(Rs)
To Interest on Capital A/c	1,200		

Balance Sheet

as at 31st March, 2013

Liabilities		Amt(Rs)	Assets	Amt(Rs)
Capital				
Opening Balance	10,000			
(+)Interest on capital	1,200	11,200		

Working notes: Opening capital =Rs. 10000 Rate of interest = 12% Interest on capital = $10000 \times 12/100 = 1200$

7. **When given Inside the Trial Balance: Treatment of closing stock:** The closing stock will be shown only in the balance sheet since the closing stock has already been taken into account while computing the cost of goods.

Treatment of depreciation: If depreciation account appears in trial balance, it will be posted to the debit side of the profit and loss account only.

Treatment of prepaid expense: Prepaid expenses will only appear in the asset side of the balance sheet. **When given Outside the Trial Balance: Treatment of closing stock:** Closing stock will appear at the asset side of the balance sheet and also is shown at the credit side of the trading a/c.

Treatment of depreciation: Depreciation is shown on the debit side of Profit & Loss A/c as an expense or loss and also deducted from the value of the respective asset on the asset side of the Balance Sheet.

Treatment of prepaid expense: Prepaid expenses are deducted in the Profit & loss a/c from the concerned expenses and shown in the Assets side of the balance sheet.

8.

Trading Account
for the year ended 31st March, 2013

Dr.					Cr.
Particulars		Amt (Rs.)	Particulars		Amt (Rs.)
To Opening Stock		80,000	By Sales	10,00,000	
To Purchases	4,00,000		(-) Sales Returns	<u>40,000</u>	9,60,000
(-) Purchases Return	<u>24,000</u>	3,76,000	By Closing Stock		1,20,000
To Freight and Octroi		13,000			
To Wages		60,000			
To Factory Lighting		21,600			
To Coal, Gas and Water		4,400			
To Carriage on Purchase		16,000			
To Factory Rent		24,000			
To Import Duty		64,000			
To Gross Profit Transferred to Profit and Loss A/c		4,21,000			
		<u>10,80,000</u>			<u>10,80,000</u>

Notes : 1. Since closing stock is appearing outside the trial balance, it will be shown in the trading account as well as asset side of balance sheet. 2. The following items will

not appear inside the trading account, these will be shown in the Profit & Loss account: (a) Carriage on sales (b) Office Rent

9.

TRADING AND PROFIT AND LOSS A/C

(for the year ended 31st March, 2018)

Particulars	Rs.	Particulars	Rs.
To Opening Stock	99,450	By Sales	7,81,820
To Purchases	6,20,920	By Closing Stock	1,43,000
To Wages	43,000		
To Gross Profit	1,61,450		
	<u>9,24,820</u>		<u>9,24,820</u>
To Discount Allowed	10,000	By Gross Profit	1,61,450
To Salaries	40,000	By Bad Debt Recovered	1,750
To Bad Debts	2,870		
To Postage	2,730		
To Interest Paid	12,950		
To Selling Expenses	1,750		
To Insurance	4,170		
To Net Profit	88,730		
	<u>1,63,200</u>		<u>1,63,200</u>

BALANCE SHEET

(AS AT 31ST MARCH, 2018)

Liabilities		Rs.	Assets	Rs.
Capital	3,60,000		Stock	1,43,000
(+) Net Profit	<u>88,730</u>	4,48,730	Fixtures	1,61,550

Loan		1,20,000	Building	2,37,800
Bills Payables		25,270	Machinery	1,00,000
Creditors		87,200	Debtors	38,850
		<u>6,81,200</u>		<u>6,81,200</u>

10.

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

Dr			Cr		
Particulars		Amt(Rs)	Particulars		Amt(Rs)
To Opening Stock		13,36,250	By Sales		1,26,20,000
To purchases	81,25,250		By Closing Stock		6,27,500
Add : Omitted Purchases	60,000				
Less : Loss of goods by fire	(75,000)	81,10,250			
To Wages		11,56,850			
To Power and Fuel		67,500			
To Gross Profit transferred to Profit & Loss A/c		25,76,650			
		1,32,47,500			1,32,47,500
To Loss of goods by fire		25,000	By Gross Profit b/d		25,76,650
To Salaries		2,78,750	By Provision for Doubtful Debts	2,60,000	

			(Old Provision)		
To Postage		2,11,300	Less : 5% Provision (New Provision)	1,24,250	1,35,750
To Trade Expenses		2,91,550	By accrued interest on Loan to Ram (10% on Rs.1,50,000 for 4 months)		5,000
To Bad Debts	26,250	3,040			
Add : Further Bad Debts	25,000	51,250			
To Depreciation on Furniture		36,250			
To Net Profit Transferred to Capital A/c		18,23,300			
		27,17,400			27,17,400

Balance Sheet
as at 31st March,2013

Liabilities		Amt(Rs)	Assets		Amt(Rs)
Current Liabilities			Current Assets		
Creditors	15,26,300		Claim by Insurance Company		50,000
Add : Omitted Purchases	60,000	15,86,300	Cash in Hand and at Bank		5,00,000
Bills Payable		1,97,500	Closing Stock		6,27,500

Outstanding wages (note 1)		1,00,000	Debtors	25,10,000	
Trade Expenses Accrued (note1)		35,000	Less : Bad Debts	(25,000)	
Capital				24,85,000	
Opening Balance	5,00,000		Less : Provision for doubtful debts	(1,24,250)	23,60,750
Less : Drawings	(2,22,600)		Loan to Ram	1,50,000	
	2,77,400		Add :Accrued Interest	5,000	1,55,000
Add : Net Profit	18,23,300	21,00,700	Fixed Assets		
			Furniture	3,62,500	
			Less : Depreciation	(36,250)	3,26,250
		40,19,500			40,19,500

Following entry will be passed to record the omitted purchases.

Purchases A/c	Dr	60,000	
To Supplier (Creditor)			60,000

Note: 1. Since the amount of outstanding wages and Accrued trade expenses is given inside the Trial Balance, these will only be shown in Liability side of Balance sheet.