

Chapter 6 Accounting Equations

Short Answer Question

Question 1

Give two basic purposes of the accounting equation.

Solution: The two basic purposes of the accounting equation are.

- (i) The accounting equation is always equal it ensures the accuracy in the recording of a business transaction.
- (ii) It helps in preparation of the balance sheet.

Question 2

Which of the following equations are correct?

- I. Assets = Capital + Liabilities
- II. Assets = Capital – Liabilities
- III. Assets = Liabilities – Capital
- IV. Capital = Assets – Liabilities
- V. Capital = Assets + Liabilities
- VI. Liabilities = Capital + Assets
- VII. Liabilities = Capital – Assets
- VIII. Liabilities = Assets – Capital

Solution: Equations I, IV, VIII are the correct.

Question 3

The position of a businessman on 30th June 1994 was as follows –

Cash ₹5,000, Debtor ₹20,000, Machinery ₹60,000, Stock ₹25,000, Capital ₹75,000. Calculate his liabilities.

Solution: Liabilities = Assets- Capital

$$\begin{aligned}\text{Liabilities} &= ₹5,000 + ₹20,000 + ₹60,000 + ₹25,000 - ₹75,000 \\ &= ₹1,10,000 - ₹75,000 \\ &= ₹35,000\end{aligned}$$

Question 4

What entry (debit or credit) would you make to (a) increase in revenue (b) decrease in expense (c) record drawing (d) record the fresh capital introduced by owner.

Solution: (a) Increase in revenue: Credit

(b) A decrease in expense: Credit

(c) Record drawing: Debit in Capital Account

(d) Record the fresh capital introduced by the owner: Credit in Capital Account

Question 5

If a transaction has the effect of decreasing an asset, is the decrease recorded as a debit or credit? If the transaction has the effect of decreasing a liability, is the decrease recorded as a debit or credit?

Solution: (i) A decrease in Asset will be recorded on the credit side.

(ii) A Decrease in Liability will be recorded on the debit side.

Question 6

Name the transaction that will

- (i) Decrease the assets and decrease the capital
- (ii) Increase the assets and increase the liabilities
- (iii) Increase the assets and decrease another asset
- (iv) Decrease the assets and decrease the liabilities

Solution: (i) Decrease the assets and decrease the capital – Drawings or expenses

(ii) Increase the assets and increase the liabilities – Purchase of an asset on credit

(iii) Increase the assets and decrease another asset – Purchase or sale of an asset in cash

(iv) Decrease the assets and decrease the liabilities – Payment of a liability

Question 7

What will be the effect of the following on the accounting equation-

- (i) Purchased goods for ₹20,000 from Mahesh on credit
- (ii) Sold goods to Suresh costing ₹8,000 for ₹10,000 in cash
- (iii) Paid wages ₹500
- (iv) Withdrew in cash for private use ₹2,000
- (v) Paid to creditors ₹2,000

Solution: (i) + Stock + Creditors

(ii) +Cash – Stock + Capital

(iii) – Cash – Capital

(iv) – Cash – Capital

(v) – Cash – Creditor

Question 8

If the total asset of a business is ₹2,00,000 and the net worth (capital) is ₹1,50,000. Calculate creditors.

Solution

Creditor (Liabilities)= Assets – Capital

= ₹2,00,000- ₹1,50,000 = ₹50,000

Question 9

A business on 1st April 2011 with a capital of ₹5,00,000. On 31st March 2012, his assets were worth ₹7,80,000 and liabilities ₹70,000. Find out his closing capital and profits earned during the year.

Solution

Closing Capital= Closing Assets-Closing liabilities

= 7,80,000 – ₹70,000 = ₹ 7,10,000

Profit = Closing Capital – Opening Capital

₹7,10,000- ₹ 5,00,000= ₹2,10,000

Question 10

On which side will the increase in the following account be recorded? Also, mention the nature of the account.

1. Cash 5. Proprietor's Account
2. Machinery 6. Rent Received
3. Debtor 7. Salary Paid
4. Creditor 8. Interest Received

Solution

Properties	Accounts	Nature
Cash	Debit	Asset
Machinery	Debit	Asset
Debtor	Debit	Asset
Creditor	Credit	Liability
Proprietor's Account	Credit	Capital
Rent Received	Credit	Income
Salary Paid	Debit	Expenses
Interest Received	Credit	Income

Question 11

On which side will the increase in the following account be recorded? Also, mention the nature of the account.

1. Furniture 5. Salary Outstanding
2. Bank 6. Subash- a customer
3. Proprietor's Account
4. Salary Paid

Solution

Properties	Accounts	Nature
Furniture	Credit	Asset

Bank	Credit	Asset
Proprietor's Account	Debit	Capital A/c
Salary Paid	Credit	Expenses
Salary Outstanding	Debit	Liability
Subash- a customer	Credit	Asset

Very Short Questions

Question 1

What is an accounting equation?

Solution: An accounting equation is an accounting formula which indicates that a company's assets are always equal to the total of liabilities and capital.

Question 2

Give fundamental accounting equation.

Solution: Assets = Liabilities + Capital

Question 3

If the capital of a firm is ₹5,00,000 and outside liabilities are ₹2,00,000. Evaluate total assets of the company.

Solution: Total Assets ₹7,00,000

Question 4

If total assets of a company are ₹10,00,000 and capital is ₹4,00,000. Calculate creditors

Solution: Creditors ₹6,00,000

Question 5

'X' commenced business on April 1st 2013 with a capital of ₹6,00,000. On 31st March, 2014 his assets were worth ₹8,00,000 and liabilities ₹50,000. Find out his closing capital and profits earned during the year.

Solution: Closing capital ₹7,50,000, profit ₹1,50,000

Question 6

What is debit?

Solution: When an amount is entered on the left-hand side of an account, it is a debit and the account is said to be debited.

Question 7

What is credit?

Solution: When an amount is entered on the right-hand side of an account, it is a credit and the account is said to be credited.

Question 8

Why are the rules of credit and debit same for both capital and liabilities?

Solution: The rules of credit and debit are same for both capital and liabilities because the business entity concept capital is also treated as liability of a firm.

Question 9

Name the side on which increase in capital is recorded.

Solution: Credit side

Practical Questions

Question 1

Prepare accounting equation from the following.

		₹
1.	Sandeep started business with cash	1,00,000
2.	Purchased furniture for cash	5,000
3.	Purchased goods for cash	20,000
4.	Purchased goods on credit	36,000
5.	Paid for rent	700
6.	Goods costing ₹40,000 sold at a profit of 20% for cash	

Solution:

Accounting Equation						
S.No	Transaction		Assets	=	Liabilities +	Capital
		Cash +	Furniture +	Stock	= Creditors	
1.	Sandeep began his company with cash	1,00,000				1,00,000
		1,00,000				1,00,000
2.	Bought furniture with cash	- 5,000	+ 5,000			
		95,000	5,000			1,00,000
3.	Bought goods with cash	- 20,000		+ 20,000		
		75,000	5,000	20,000		1,00,000
4.	Bought goods on credit			+ 36,000	+ 36,000	
		75,000	5,000	56,000	36,000	1,00,000
5.	Paid for rent	-700				-700
		74,300	5,000	56,000	36,000	99,300
6.	Goods costing ₹40,000 sold at a 20% profit for cash	+48,000		- 40,000		+8,000
		1,22,300	5,000	16,000	36,000	1,07,300

Working Note:

Cost of Goods Sold = 40,000

Add: Profit 20% of Rs 40,000 = 8,000

Hence, Selling Price = 48,000

Question 2 (A)

Show the Accounting Equation on the basis of the following and present a balance sheet on the last new equation balances:

		₹
1.	Manu started business with cash	50,000
2.	Bought furniture for	500
3.	Bought goods on credits	4,000
4.	Sold goods on cash (cost ₹500) for	700
5.	Rent Received	200
6.	Bought goods for cash	1,000
7.	Withdrew for personal use	700
8.	Paid to creditors	400
9.	Paid for salaries	200

Solution:

Accounting Equation						
S.No	Transaction		Assets	=	Liabilities +	Capital
		Cash +	Furniture +	Stock	= Creditors	
1.	Manu began his company with cash	50,000				50,000
		50,000				50,000
2.	Bought furniture	- 500	+ 500			
		49,500	500			50,000
3.	Bought goods on credit			+ 4,000	+ 4,000	
		49,500	500	4,000	4,000	50,000
4.	Sold goods on cash (cost ₹500) for	+700		-500		(+200 profit)
		50,200	500	3,500	4,000	50,200
5.	Received rent	+200				(+200 Income)
		50,400	500	3,500	4,000	50,400
6.	Bought goods for cash	-1,000		+1,000		
		49,400	500	4,500	4,000	50,400
7.	Withdrew for personal use	-700				-700 (withdrew)
		48,700	500	4,500	4,000	49,700
8.	Paid to creditors	-400			-400	
		48,300	500	4,500	3,600	49,700

9.	Salaries paid	-200				-200
		48,100	500	4,500	3,600	49,500

On Balance Sheet Entry

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	3,600	Cash	48,100
Capital	49,500	Furniture	500
		Stock	4,500
	53,100		53,100

Question 2 (B)

Prove that the accounting equation is satisfied in all the following transactions of Rajaram. Also prepare a balance sheet.

1. Started business with cash ₹1,20,000
2. Purchased a typewriter for cash ₹8,000 for office use
3. Purchased goods for ₹50,000 on cash
4. Purchased goods for ₹40,000 on credit
5. Goods costing ₹60,00 sold for ₹80,000 on credit
6. Paid for rent ₹1,500 and for salaries ₹2,000
7. Received ₹800 for commission
8. Withdrew for private use ₹5,000 in cash

Solution:

Accounting Equation							
S.No	Transaction		Assets	=		Liabilities +	Capital
		Cash +	Typewriter +	Stock +	Debtors	= Creditors	
1.	Started business with cash	1,20,000					1,20,000
		1,20,000					1,20,000
2.	Purchased a typewriter	- 8,000	+ 8,000				
		1,12,000	8,000				1,20,000
3.	Purchased goods on credit	-50,000		+50,000		+ 4,000	
		62,000	8,000	50,000		4,000	1,20,000
4.	Purchased goods on cash			+40,000		40,000	
		62,000	8,000	90,000		40,000	1,20,000
5.	Goods costing ₹60,00 sold for ₹80,000 on credit			-60,000	+80,000		+20,000 (profit)
		62,000	8,000	30,000	80,000	40,000	1,40,000
6.	Paid for rent	-3,500					-3,500 (Expenses)
		58,500	8,000	30,000	80,000	40,000	1,36,500
7.	Commission Received	+800					+800 (Income)
		59,300	8,000	30,000	80,000	40,000	1,37,300
8.	Cash withdrawal for private use	-5,000					-5,000 (Withdrawal)
		54,300	8,000	30,000	80,000	40,000	1,32,300

Ranjan's Balance Sheet

Liabilities	Amount	Assets	Amount
Creditor	40,000	Cash	54,300
Capital	1,32,000	Typewriter	8,000
		Stock	30,000
		Debtor	80,000
	1,72,300		1,72,300

Question 3

Prepare Accounting Equation from the following:

- (a) Started business with Cash ₹ 2,00,000.

(b) Purchased goods for Cash ₹ 60,000 and on Credit ₹ 1,50,000.

(c) Sold goods for Cash costing ₹ 40,000 at a profit of 20% and on Credit costing ₹ 72,000 at a profit of 25%.

(d) Paid for Rent ₹ 5,000.

Solution:

Accounting Equation						
S.No	Transaction		Assets	=	Liabilities +	Capital
		Cash +	Stock +	Debtors	= Creditors	
1.	Started business with cash	2,00,000				2,00,000
		2,00,000				2,00,000
2.	Bought product for ₹60,000 Cash and on ₹1,50,000 credit	-60,000	+2,10,000		+1,50,000	
		+1,40,000	2,10,000		1,50,000	2,00,000
3.	Sold goods for ₹40,000 cash at 20% profit on ₹72,000 credit at 25% profit	+48,000	-1,12,000	+90,000	+ 4,000	+26,000 (Profit)
		+1,88,000	98,000	90,000	1,50,000	2,26,000
4.	Rent paid	- 5,000				-5,000 (Expenses)
		+1,83,000	98,000	90,000	1,50,000	2,21,000

Working Note:

Calculating selling price of product sold

Cost of goods sold = 40,000

Add: 20% profit of ₹40,000 = 8,000

Hence, selling price for goods sold for cash = **48,000**

Cost of goods sold = 72,000

Add: 20% profit of ₹72,000 = 18,000

Hence, selling price for goods sold for cash = **90,000**

Total Profit = 8,000 + 18,000 = Rs 26,000

Total Cost of Goods Sold = 40,000 + 72,000 = **Rs 1,12,000**

Question 4

Prepare accounting equation from the following.

		₹
1.	Kunal started business with cash	2,50,000
2.	He purchased furniture for cash	35,000
3.	He paid commission	2,000
4.	He purchased goods on credit	40,000
5.	He sold goods(Costing ₹20,000) for cash	26,000

Solution:

Accounting Equation						
S.No	Transaction		Assets	=	Liabilities +	Capital
		Cash +	Furniture +	Stock	= Creditors	
1.	Kunal started his company with cash	+2,50,000				2,50,000
		2,50,000				2,50,000
2.	Purchased furniture for cash	-35,000	+35,000		+1,50,000	
		2,15,000	35,000			2,50,000
3.	Paid commission	-2,000				-2,000 (Expense)
		2,13,000	35,000			2,48,000
4.	He purchased goods on credit			+40,000	+40,000	
		2,13,000	35,000	40,000	40,000	2,48,000
5.	He sold goods(Costing ₹20,000) for cash	+26,000		-20,000		+6,000 (Profit)
		2,39,000	35,000	20,000	40,000	2,54,000

Question 5

Mohit has the following transaction. Prepare accounting equation

		₹
1.	Business started with cash	1,75,000
2.	Purchased goods from Rohit	50,000
3.	Sold goods on credit to Manish (costing ₹17,500)	20,000
4.	Purchased furniture for office use	10,000
5.	Cash paid to Rohit in full settlement	48,500
6.	Cash received from Manish	20,000
7.	Rent Paid	1,000
8.	Cash withdrawn for personal use	3,000

Solution:

	Accounting Equation						
S.No	Transaction		Assets	=		Liabilities +	Capital
		Cash +	Stock +	Debtors	Furniture	=Creditors	
1.	Business Started with cash	+1,75,000					+1,75,000
		1,75,000					1,75,000
2.	Goods purchased from Rohit		+50,000			+50,000	
		1,75,000	50,000			50,000	1,75,000
3.	Goods sold to Manish on credit		-17,500	+20,000			+2,500 (Profit)
		1,75,000	32,500	20,000		50,000	1,77,500
4.	Furniture purchased for office	-10,000			+10,000		
		1,65,000	32,500	20,000	10,000	50,000	1,77,500
5.	Paid full cash to Rohit	-48,500				-50,000	+1,500 (Gain)
		1,16,500	32,500	20,000	10,000	0	1,79,000
6.	Received cash from Manish	+20,000		-20,000			
		1,36,500	32,500	0	10,000		1,79,000
7.	Rent Paid	-1,000					-1,000 (Expense)
		1,35,500	32,500		10,000		1,78,000
8.	Cash withdrew for private use	-3,000					-3,000 (Drawings)
		1,32,500	32,500		10,000		1,75,000

Question 6

What will be the effect of the following on the Accounting Equation?

- (i) Harish started business with cash ₹ 1,80,000
- (ii) Purchased goods for cash ₹ 60,000 and on credit ₹ 30,000
- (iii) Sold goods for cash ₹ 40,000; costing ₹ 24,000
- (iv) Rent paid ₹ 5,000; and rent outstanding ₹ 2,000
- (v) Sold goods on credit ₹ 50,000 (costing ₹ 38,000)
- (vi) Salary paid in advance ₹ 3,000

Solution:

	Accounting Equation							
S.No	Transaction		Assets	=		Liabilities +		Capital
		Cash +	Stock +	Debtors	Prepaid Salary	=Creditors+	Outstanding Rent	
1.	Harish started business with cash	+1,80,000						+1,80,000
		1,80,000						1,80,000
2.	Purchased goods for ₹60,000 cash and on ₹ 30,000 credit	-60,000	+90,000			+30,000		
		1,20,000	90,000			30,000		1,80,000
3.	Sold goods for ₹40,000 cash costing ₹ 24,000	+40,000	-24,000					+16,000 (Profit)
		1,60,000	66,000			30,000		
4.	Rent paid ₹5,000. Rent outstanding ₹2,000	-5,000				+2,000		-7,000 (Expense)

		1,55,000	66,000			30,000	2,000	1,89,000
5.	Sold goods on ₹50,000 credit (costing ₹ 38,000)		-38,000	+50,000				+12,000 (Profit)
		1,55,000	28,000	50,000		30,000	2,000	2,01,000
6.	Salary paid in advance ₹ 3,000	-3,000			+3,000			
		1,52,000	28,000	50,000	3,000	30,000	2,000	2,01,000

Question 7

Use Accounting Equation to show the effect of the following transactions of M/s Royal Traders.

		₹
1.	Business started with cash	1,20,000
2.	Purchased goods for cash	10,000
3.	Rent received	5,000
4.	Salary outstanding	2,000
5.	Prepaid insurance	1,000
6.	Received interest	700
7.	Sold goods for cash(costing ₹5,000)	7,000
8.	Goods destroyed by fire	500

Solution:

Accounting Equation						
S.No	Transaction		Assets	=	Liabilities +	Capital
		Cash +	Stock +	Prepaid Insurance	=Outstanding Salary	
1.	Business Started with cash	+1,20,000				+1,20,000
		1,20,000				1,20,000
2.	Goods purchased for cash from Rohit	-10,000	+10,000			
		1,10,000	10,000			1,20,000
3.	Received rent	+5,000				+5,000 (Income)
		1,15,000	10,000			1,25,000
4.	Salary outstanding				+2,000	-2,000 (Expense)
		1,15,000	10,000		2,000	1,23,000
5.	Prepaid insurance	-1,000		+1,000		
		1,14,000	10,000	1,000	2,000	1,23,000
6.	Received interest	+700				+700 (Income)
		1,14,700	10,000	1,000	2,000	1,23,700
7.	Sold goods for cash(costing ₹5,000)	+7,000	-5,000			+2,000 (Profit)
		1,21,700	5,000	1,000	2,000	1,25,700
8.	Goods destroyed by fire		-500			-500
		1,21,700	4,500	1,000	2,000	1,25,200

Question 8 (A)

Prepare Accounting Equation from the following.

- Started business with cash ₹ 75,000 and goods ₹ 25,000
- Paid for Rent ₹ 2,000
- Bought goods for cash ₹ 30,000 and on credit for ₹ 44,000
- Goods costing ₹ 50,000 sold at a profit of 25%, out of which ₹ 27,500 received in Cash
- Purchased a Motor-cycle for personal use ₹ 20,000

Solution:

Accounting Equation						
S.No	Transaction		Assets	=	Liabilities +	Capital
		Cash +	Stock +	Debtor	=Creditors	
1.	Started business with ₹75,000 cash and ₹25,000 goods	+75,000	25,000			1,00,000
		75,000	25,000			1,00,000
2.	Rent paid	-2,000				-2,000 (Expense)

		73,000	25,000			98,000
3.	Bought goods for ₹30,000 cash and on ₹44,000 credit	-30,000	+74,000		+44,000	
		43,000	99,000		44,000	98,000
4.	Goods costing ₹ 50,000 sold at a 25% profit , out of which ₹ 27,500 received in Cash	+27,500	-50,000	+35,000		+12,500 (Profit)
		70,500	49,000	35,000	44,000	1,10,500
5.	Purchased a Motor-cycle for personal use	-20,000				-20,000 (Drawings)
		50,500	49,000	35,000	44,000	90,500

Working Note:

Calculating selling price

Cost of goods sold = 50,000

Add: 25% profit of ₹50,000 = 12,500

Hence, selling price for goods sold = **62,000**

Less cash received – 27,500

Credit sales = **35,000**

Question 8 (B)

Prepare Accounting Equation from the following and also prepare a Balance Sheet:-

1. Raghu started business with Cash ₹1,50,000
2. Bought goods for cash ₹80,000 and on credit for ₹40,000
3. Goods costing ₹75,000 sold at a profit of 3312 %. Half the payment received in cash
4. Goods costing ₹10,000 sold for ₹12,000 on credit
5. Paid for Rent ₹2,000 and for salaries ₹4,000
6. Goods costing ₹20,000 sold for ₹18,500 for Cash

Solution:

Accounting Equation						
S.No	Transaction		Assets	=	Liabilities +	Capital
		Cash +	Stock +	Debtors	= Creditors	
1.	Raghu Started business with cash	+1,50,000				+1,50,000
		1,50,000				1,50,000
2.	Bought goods for ₹80,000 cash and ₹40,000 credit	-80,000	+1,20,000		+40,000	
		70,000	1,20,000		40,000	1,50,000
3.	Goods costing ₹75,000 sold at 3312 % profit. Half the payment received in cash	+50,000	-75,000	+50,000		25,000 (Profit)
		1,20,000	45,000	50,000	40,000	1,75,000
4.	Goods costing ₹10,000 sold for ₹12,000 on credit		-10,000	+12,000		+2,000 (Profit)
		1,20,000	35,000	62,000	40,000	1,77,000
5.	Paid for Rent ₹2,000 and for salaries ₹4,000	-6,000				-6,000(expense)
		1,14,000	35,000	62,000	40,000	1,71,000
6.	Goods costing ₹20,000 sold for ₹18,500 for Cash	+18,000	-20,000			-1,500(loss)
		1,32,500	15,000	62,000	40,000	1,69,500

Working Note:

Calculating selling price

Cost of goods sold = ₹75,000

Add: 3312 % profit of ₹75,000 = 25,000

Hence, selling price for goods sold = **1,00,000**

Less: cash received (50%) = -50,000

Credit sales = **50,000**

Raghu's business record on balance sheet

Liabilities	Amount	Assets	Amount

Creditors	40,000	Cash	1,32,500
Capital	1,69,500	Stock	15,000
		Debtor	62,000
	2,09,500		2,09,500

Question 9

If the Capital of a business is ₹ 1,20,000 and Outside liabilities are ₹ 20,000, calculate total assets of the business.

Solution: The total assets of a business can be calculated as.

Assets = Liabilities + Capital

= 20,000 + 1,20,000

= 1,40,000

Question 10

If total assets of a business are ₹ 1,30,000 and capital is ₹ 80,000, calculate creditors.

Solution: The creditor can be calculated as

Assets = Liabilities + Capital

1,30,000 = Liabilities + 80,000

Liabilities = + 80,000 – 1,30,000

Hence, Liabilities = Rs 50,000

Question 11

'A' commenced his cloth business on 1st April, 2011 with a capital of ₹ 3,00,000. On 31st March, 2012 his assets were worth ₹ 5,00,000 and liabilities ₹ 1,00,000. Find out his closing capital and profits earned during the year.

Solution: Opening capital as on 31st March 2011 = ₹ 3,00,000

1. Closing capital calculation as on 31st March 2012

Assets = Liabilities + Capital

₹5,00,000 = ₹1,00,000 + Capital

Capital = + ₹1,00,000 – ₹5,00,000

Hence, Closing capital = **₹4,00,000**

2. Profit earned calculation from March 31st 2011 to March 31st 2012

Closing capital = Opening capital + Additional Capital + Profit – Drawing

₹4,00,000 = ₹3,00,000 + 0 + Profit – 0

Profit = – ₹3,00,000 + ₹4,00,000

So, the profit earned within the year is **₹1,00,000**

Question 12 (A)

Yogesh commenced business on 1st April, 2011 with a Capital of ₹ 5,00,000 and a loan of ₹ 1,00,000 borrowed from Citi Bank. On 31st March, 2012, his assets were ₹ 8,00,000. Calculate his closing capital and profits earned during the year.

Solution: Opening capital as on 31st March 2011 = ₹ 5,00,000

1. Closing capital calculation as on 31st March 2012

Assets = Liabilities + Capital

₹8,00,000 = ₹1,00,000 + Capital

Capital = + ₹1,00,000 – ₹8,00,000

Hence, Closing capital = **₹7,00,000**

2. Profit earned calculation from March 31st 2011 to March 31st 2012

Closing capital = Opening capital + Additional Capital + Profit – Drawing

₹7,00,000 = ₹5,00,000 + 0 + Profit – 0

Profit = + ₹7,00,000 – ₹5,00,000

So, the profit earned within the year is **₹2,00,000**

Question 12 (B)

If in the above case, the proprietor had introduced fresh capital of ₹ 40,000 and had withdrawn ₹ 10,000 for personal purposes, calculate his profits.

Solution: Opening capital as on 31st March 2011 = ₹ 5,00,000

1. Closing capital calculation as on 31st March 2012

Assets = Liabilities + Capital

₹8,00,000 = ₹1,00,000 + Capital

Capital = + ₹1,00,000 – ₹8,00,000

Hence, Closing capital = **₹7,00,000**

2. Profit earned calculation from March 31st 2011 to March 31st 2012

Closing capital = Opening capital + Additional Capital + Profit – Drawing

₹7,00,000 = ₹5,00,000 + 40,000 + Profit – 10,000

₹7,00,000 = ₹5,30,000 + Profit

Profit = + ₹7,00,000 – ₹5,30,000

So, the profit earned within the year is **₹1,70,000**

Question 13

Give one example of each of the following transactions

1. Increase in an asset and a liability
2. Decrease in an asset and a liability
3. Increase in assets and capital
4. Decrease in assets and capital

Solution:

The example of each of transactions are mentioned below

Transaction	Example
1. Increase in an asset and a liability	Products bought on credit
2. Decrease in an asset and a liability	Paid Cash to creditors
3. Increase in assets and capital	Additional capital brought in by the proprietor
4. Decrease in assets and capital	Paid salary in Cash

Question 14

On which side the increase in the following accounts will be recorded? Also mention the nature of account: –

1. Furniture
2. Rent Paid
3. Commission Received
4. Salary Paid
5. Proprietor's Paid
6. Debtor
7. Creditor

Solution:

The account details are mentioned below.

Account	Increase Side	Nature
1. Furniture	Debit	Asset
2. Rent Paid	Debit	Expense
3. Commission Received	Credit	Income
4. Salary Paid	Debit	Expense
5. Proprietor's Paid	Credit	Capital
6. Debtor	Debit	Asset
7. Creditor	Credit	Liability

Question 15

On which side the decrease in the following accounts will be recorded? Also mention the nature of account: –

1. Cash Bank

2. Bank Overdraft
3. Rent Paid
4. Outstanding Rent
5. Prepaid Insurance
6. Manoj, Proprietor of the business

Solution:

The account details are mentioned below.

Account	Decrease Side	Nature
1. Cash Bank	Credit	Asset
2. Bank Overdraft	Debit	Liability
3. Rent Paid	Credit	Expense
4. Outstanding Rent	Debit	Liability
5. Prepaid Insurance	Credit	Asset
6. Manoj, Proprietor of the business	Debit	Capital

Question 16

From the following transactions, state the nature of accounts and state the accounts which will be debited and credited:

1. Ganesh started business with Cash ₹ 2,00,000
2. Purchased goods for Cash ₹ 60,000
3. Sold goods for cash ₹ 75,000
4. Purchased goods from Nakul on Credit for ₹ 80,000
5. Sold goods to Bhushan on Credit for ₹ 50,000
6. Paid Cash to Nakul ₹ 20,000
7. Received Cash from Bhushan ₹ 10,000
8. Paid salary ₹ 20,000

Solution:

Transaction	Nature of account (Debit)	Nature of account (Credit)
Ganesh started business with Cash ₹ 2,00,000	Cash A/c- Debit (Asset)	Capital A/c- Credit (Liability)
Purchased goods for Cash ₹ 60,000	Purchases- Debit (Expense)	Cash A/c- Credit (Asset)
Sold goods for cash ₹ 75,000	Cash A/c- Debit (Asset)	Sales A/c- Credit (Revenue)
Purchased goods from Nakul on Credit for ₹ 80,000	Purchases A/c- Debit (Expense)	Nakul A/c- Credit (Liability)
Sold goods to Bhushan on Credit for ₹ 50,000	Bhushan A/c- Debit (Asset)	Sales A/c- Credit (Revenue)
Paid Cash to Nakul ₹ 20,000	Nakul A/c- Debit (Liability)	Cash A/c- Credit (Asset)
Received Cash from Bhushan ₹ 10,000	Cash A/c- Debit (Asset)	Bhushan A/c- Credit (Asset)
Paid salary ₹ 20,000	Salary A/c- Debit (Expense)	Cash A/c- Credit (Asset)

Question 17

Open 'T' shape account for Machinery and write the following on the proper side.

	₹
Machinery purchased for	₹ 5,00,000
Machinery sold	₹ 1,20,000
Machinery discarded	₹ 50,000
New Machinery purchased	₹ 2,00,000
Machinery destroyed	₹ 40,000

Solution:

Particular	Amount	Particular	Amount
Record increase in Machinery on this side		Record decrease in Machinery on this side	
Machinery purchased for	₹ 5,00,000	Machinery sold	₹ 1,20,000
New Machinery purchased	₹ 2,00,000	Machinery discarded	₹ 50,000
		Machinery destroyed	₹ 40,000

Total	₹ 7,00,000	Total	₹ 2,10,000
		Balance	₹ 4,90,000
	₹ 7,00,000		₹ 7,00,000

Question 18

Open 'T' shape account of our creditor 'Raghubir' and write the following transactions on the proper side.

1. Purchased goods from Raghubir on credit for ₹ 50,000
2. Returned goods to Raghubir for ₹ 5,000
3. Paid to Raghubir ₹ 30,000
4. Purchased goods from Raghubir on credit for ₹ 16,000
5. Paid to Raghubir ₹ 20,000

Solution:

Particular	Amount	Particular	Amount
Record increase in Machinery		Record decrease in Machinery	
Purchased goods from Raghubir on credit	₹ 50,000	Returned goods to Raghubir for	₹ 5,000
Purchased goods from Raghubir on credit	₹ 16,000	Paid to Raghubir	₹ 30,000
		Paid to Raghubir	₹ 20,000
Total	₹ 66,000	Total	₹ 55,000
		Balance	₹ 11,000
	₹ 66,000		₹ 66,000

Question 19

Put the following on the proper side of Cash account, Debtor's account and Creditor's account.

1. Sold goods for cash ₹ 60,000
2. Sold goods to Hari on credit ₹ 20,000
3. Purchased goods from Krishan on credit ₹ 36,000
4. Purchased goods from Krishan for cash ₹ 10,000
5. Cash received from Hari ₹ 15,000
6. Cash paid to Krishan ₹ 28,000

Solution:

Dr.	Cash Account		Cr.
Particular	Amount	Particular	Amount
Record increase in Machinery		Record decrease in Machinery	
Sold goods for cash	₹ 60,000	Purchased goods from Krishan for cash	₹ 10,000
Cash received from Hari	₹ 15,000	Cash paid to Krishan	₹ 28,000
Total	₹ 75,000	Total	₹ 38,000
		Balance	₹ 37,000
	₹ 75,000		₹ 75,000

Dr.	Debtors Account		Cr.
Particular	Amount	Particular	Amount
Record increase in Machinery		Record decrease in Machinery	
Sold goods to Hari on credit	₹ 20,000	Cash received from Hari	₹ 15,000
Total	₹ 20,000	Total	₹ 15,000
		Balance	₹ 5,000
	₹ 20,000		₹ 20,000

Dr.	Creditors Account		Cr.
Particular	Amount	Particular	Amount
Record increase in Machinery		Record decrease in Machinery	
Purchased goods from Krishan on credit	₹ 36,000	Cash paid to Krishan	₹ 28,000
Total	₹ 36,000	Total	₹ 28,000
		Balance	₹ 8,000
	₹ 36,000		₹ 36,000

Question 20

From the following transactions prepare the Proprietor's Account in 'T' shape.

2013		₹
April 1	Commenced business with Cash	5,00,000
August 1	Introduced additional Capital	1,00,000
Dec 31	Drawings	40,000
2014		
Feb. 28	Drawings	20,000
March 31	Net Profit shown by Profit & Loss A/c	1,25,000

Solution:

Dr.	Capital Account		Cr.
Particular	Amount	Particular	Amount
Record increase in Machinery		Record decrease in Machinery	
Commenced business	₹ 5,00,000	Drawings	₹ 40,000
Introduced additional capital	₹ 1,00,000	Drawings	₹ 20,000
Profit earned	₹ 1,25,000		
Total	7,25,000	Total	60,000
		Balance	6,65,000
	7,25,000		7,25,000

Question 21

Prepare the Accounting Equation on the basis of the following

1. Started business with cash ₹ 1,40,000 and Stock ₹ 2,50,000.
2. Sold goods (costing ₹ 50,000) at a profit of 25% on the cost.
3. Deposited into bank account ₹ 1,80,000.
4. Purchased goods from Mohan ₹ 80,000.

Solution:

Accounting Equation						
S.No	Transaction		Assets	=	Liabilities +	Capital
		Cash +	Stock +	Bank	=Creditors	
1.	Started business with ₹ 1,40,000 cash and ₹ 2,50,000 Stock	+1,40,000	+1,40,000			3,90,000
		1,40,000	1,40,000			1,40,000
2.	Goods (costing Rs 50,000) sold at a profit of 25% on cost	+62,500	-50,000			+12,500 (Profit)
		2,02,500	2,00,000			4,02,500
3.	Deposited into bank	-1,80,000		+1,80,000	+44,000	
		22,500	2,00,000	1,80,000		4,02,500
4.	Purchased goods from Mohan		+80,000		+80,000	+12,500 (Profit)
		22,500	2,80,000	1,80,000	80,000	4,02,500

Working Note.

Selling price calculation

Cost of Goods Sold = 50,000

Add: Profit 20% of Rs 50,000 = 12,500

Hence, Selling Price = 62,500

Question 22

Prepare Accounting Equation on the basis of the following transactions.

1. Started business with cash ₹ 70,000.
2. Credit purchase of goods ₹ 18,000.
3. Payment made to creditors in full settlement ₹ 17,500.
4. Purchase of machinery for cash ₹ 20,000.

Solution:

Accounting Equation						

S.No	Transaction		Assets	=	Liabilities +	Capital
		Cash +	Stock +	Machinery	=Creditors	
1.	Started business with cash	70,000.				70,000.
		70,000.				70,000.
2.	Credit purchase of goods		+ 18,000		+ 18,000	
		70,000	18,000		18,000	70,000
3.	Payment made to creditors in full settlement	-17,500			-18,000	+500 (Gain)
		52,500	18,000		0	70,500
4.	Purchase of machinery for cash	-20,000		20,000		
		32,500	18,000	20,000		70,500

Question 23

Prepare accounting equation from the following

1. Started business with cash ₹ 50,000 and goods ₹ 30,000
2. Purchased goods for cash ₹ 30,000 and on credit from Karan ₹ 20,000
3. Goods costing ₹ 40,000 were sold for ₹ 55,000 for cash
4. Withdrew cash for personal use ₹ 10,000
5. Rent outstanding ₹ 2,000

Solution:

	Accounting Equation					
S.No	Transaction		Assets =	Liabilities + Capital		
		Cash +	Stock + =	Machinery	=Creditors	
1.	Initiated business with cash and goods	+50,000	+30,000			80,000
		50,000	30,000			80,000
2.	Bought goods for cash on credit from Karan	-30,000	+50,000	+20,000		
		20,000	80,000	20,000	80,000	
3.	Goods costing ₹ 40,000 were sold for ₹ 55,000 for cash	+55,000	-40,000			+15,000 (Profit)
		75,000	40,000	20,000		95,000
4.	Withdrew cash for personal use ₹ 10,000	-10,000				-10,000 (Drawings)
		65,000	40,000	20,000		85,000
5.	Rent outstanding ₹ 2,000				+2,000	-2,000 (Expense)
		65,000	40,000	20,000	2,000	83,000

Question 24

Show the accounting equation on the basis of the following transactions and present a Balance Sheet of the last new equation balance.

	₹
Mohan commenced business with	₹ 70,000
Purchased goods on Credit	₹ 14,000
Withdrew for private use	₹ 1,700
Purchased goods for Cash	₹ 10,000
Paid wages	₹ 300
Paid to Creditors	₹ 10,000
Sold goods on Credit at par	₹ 15,000
Sold goods for Cash (cost price was ₹ 3,000)	₹ 4,000
Purchased furniture for cash	500

Solution:

	Accounting Equation					
S.No	Transaction		Assets =		Liabilities + Capital	
		Cash +	Stock +	Debtors +	Furniture	=Creditors
1.	Mohan commenced business with	+70,000				70,000
		70,000				70,000
2.	Purchased goods on Credit		+14,000			+14,000
		70,000	14,000			14,000

3.	Withdrew for private use	-1,700					-1,700 (Drawings)
		68,300	14,000			14,000	68,300
4.	Purchased goods for Cash	-10,000	+10,000				
		58,300	24,000			14,000	68,300
5.	Paid wages	-300					-300 (Expense)
		58,000	24,000			14,000	68,000
6.	Paid to Creditors	-10,000				-10,000	
		48,000	24,000			4,000	68,000
7.	Sold goods on Credit at par		-15,000	+15,000			
		48,000	9,000	+15,000		4,000	68,000
8.	Sold goods for Cash (cost price was ₹ 3,000)	+4,000	-3,000				+1,000 (Profit)
		52,000	6,000	15,000		4,000	69,000
9.	Purchased furniture for cash	-500			+500		
		51,500	6,000	15,000	500	4,000	69,000

Balance Sheet as on			
Liabilities	Amount	Assets	Amount
Creditors	4,000	Cash	51,500
Capital	69,000	Stock	6,000
		Debtor	15,000
		Furniture	500
	73,000		73,000

Question 25

Prove that the accounting equation is satisfied in the following transactions.

Brij Mohan commenced business with Cash	₹ 1,00,000
Bought goods for Cash	₹ 60,000
1/3rd of the above goods sold at a profit of 20% on cost. Half the payment received in Cash	
Purchased typewriter for office use	₹ 15,000
Purchased goods on Credit from X	₹ 25,000
Paid to X	₹ 15,000
Paid Salary	₹ 3,000
Received commission	₹ 500
Sold goods for Cash (Cost ₹ 50,000)	₹ 60,000

Solution:

Accounting Equation							
S.No	Transaction	Assets =				Liabilities + Capital	
		Cash +	Stock +	Typewriter +	Debtors	=Creditors	
1.	Brij Mohan commenced business with Cash	+70,000					70,000
		70,000					70,000
2.	Bought goods for Cash		+14,000			+14,000	
		70,000	14,000			14,000	70,000
3.	1/3rd of the above goods sold at a profit of 20% on cost. Half the payment received in Cash	-1,700					-1,700 (Drawings)
		68,300	14,000			14,000	68,300
4.	Purchased typewriter for office use	-10,000	+10,000				
		58,300	24,000			14,000	68,300
5.	Purchased goods on Credit from X	-300					-300 (Expense)
		58,000	24,000			14,000	68,000
6.	Paid to X	-10,000				-10,000	
		48,000	24,000			4,000	68,000
7.	Paid Salary		-15,000	+15,000			
		48,000	9,000	+15,000		4,000	68,000
8.	Received commission	+4,000	-3,000				+1,000 (Profit)
		52,000	6,000	15,000		4,000	69,000
9.	Sold goods for Cash (Cost ₹ 50,000)	-500			+500		
		51,500	6,000	15,000	500	4,000	69,000