

## 9. FINAL ACCOUNT OF A PROPRIETRY CONCERN

---

**Q.1. Answer in one sentence only.**

**1) What is a Trading Account?**

**Ans.** An account which gives the overall preview of all trading activities of a business firm, known as Trading Account.

**2) What do you mean by Profit and Loss Account?**

**Ans.** A part of the final account prepared by the business concern on the basis of indirect expenses and indirect incomes to ascertain net profit or net loss of the business is called Profit and Loss Account.

**3) Why Balance Sheet is prepared?**

**Ans.** Balance Sheet is prepared to know the financial position of a business unit.

**4) State the meaning of Final Accounts.**

**Ans.** Final Accounts are financial statements which confirm and explain working results (profit or loss) and financial position of a business for a specific period of time and on a particular date.

**5) What is Net Profit?**

**Ans.** When the total of credit side of Profit and Loss Account (indirect incomes side) is greater than the debit side of Profit and Loss Account (indirect expenses side), it is known as Net Profit [Credit balance of Profit and Loss A/c].

**6) What do you mean by Gross Profit?**

**Ans.** In the Trading A/c, when total of credit side is greater than the total of debit side, it is known as Gross Profit. [Credit balance of Trading A/c]

**7) State the meaning of Accrued Income.**

**Ans.** The income which is due and supposed to be received in the accounting year, but actually not received during the accounting year, is known as Accrued Income.

**8) State the meaning of Outstanding Expenses.**

**Ans.** The expenses which are incurred during the current accounting year, but not paid partly or fully during the current accounting year are known as Outstanding Expenses.

**9) What is Depreciation?**

**Ans.** Continuous, gradual and permanent decrease in the value of a fixed assets due to factors like wear and tear, passage of time, etc. is known as Depreciation.

**10) What do you mean by Prepaid Expenses?**

**Ans.** The expenses which are paid before they are not partly or fully due for payment during the current accounting year are known as Prepaid Expenses.

**Q.2. Give the word/term or phase which can substitute each of the following statement.**

<b>Statement</b>	<b>Ans.</b>
(1) Expenses paid before it is due.	<b>Prepaid expenses</b>
(2) Income due but not yet received.	<b>Accrued income</b>
(3) Carriage paid on sale of goods.	<b>Carriage outward</b>
(4) Statement of Assets and Liabilities.	<b>Balance Sheet</b>
(5) Account prepared to know Net Profit or Net Loss.	<b>Profit and Loss A/c</b>
(6) Value of goods remaining unsold at the end of the year.	<b>Closing stock</b>
(7) The provision made to compensate the loss on account of likely debts.	<b>Provision for bad and doubtful debts</b>
(8) The accounts prepared at the end of the accounting year to know the profit or loss and financial position of business.	<b>Final Accounts</b>
(9) An amount spent on promoting sale of goods.	<b>Selling expenses</b>
(10) An additional information provided below the Trial Balance.	<b>Adjustments</b>

**Q.3. Select the most appropriate alternatives given below and rewrite the sentence.**

- 1) **Capital** is excess of assets over liabilities.
- 2) Discount earned is transferred to credit side of **Profit and Loss** Account.
- 3) **Balance Sheet** is a statement which shows the financial position of business on a specific date.
- 4) Outstanding expenses are shown on the **liability** side of Balance Sheet.
- 5) Interest on Drawing is credited to **Profit and Loss** Account.
- 6) Debit balance of Trading Account means **Gross Loss**.
- 7) Carriage Inward is debited to **Trading** Account.
- 8) Excess of credit over to debit in Profit and Loss Account indicates **Net Profit**.
- 9) Closing stock is always valued at cost or market price which is **less**.
- 10) When Specific date is not given, in that case interest on drawing is charged for **six** month.

**Q.4. State whether the following statements are True or False with reasons.**

- 1) In every adjustment at least there are three effects.

**Ans. This statement is False.**

Adjustments means those financial transactions of business which are not recorded or wrongly recorded in accounts and are required to be rectified and for this purpose, at least two effects are to be passed for every adjustment.

- 2) Every item of Trial Balance has only one effect.

**Ans. This statement is True.**

In trial balance, balance of every ledger account is recorded, therefore in final accounts, we have to pass only one effect of every item of Trial Balance either in Trading No or in Profit and Loss No or in Balance Sheet.

- 3) Income due but not received is a liability.

**Ans. This statement is False.**

When any amount/income is receivable, it is an asset for business.

- 4) Goodwill is not a fictitious asset.

**Ans. This statement is False.**

Goodwill is intangible/invisible asset for the business. Main factor affecting value

of goodwill is the earning capacity of the business which can't be steady during the life period of business. So we can say that Goodwill is a fictitious asset.

**5) Credit balance of Profit and Loss A/c shows net profit.**

**Ans. This statement is True.**

When total of credit side (indirect incomes) of Pro (indirect expenses), then difference of amount is known as net profit.

**Q.5. Fill in the blanks.**

- 1) Gross Profit is transferred to **Profit and Loss** Account.
- 2) Debit Balance of Trading Account indicates **gross loss**.
- 3) Income Receivable appears on **asset** side of Balance Sheet.
- 4) Interest on Bank Loan is debited to **Profit and Loss** A/c.
- 5) Profit and Loss account is prepared to find out **net working** results of the business.
- 6) All indirect/operating expenses are transferred to **Profit and Loss** Account.
- 7) Interest of proprietor's drawing is credited to **Profit and Loss** Account.
- 8) An excess of debit over credit in the Profit and Loss A/c represents the **net loss**.
- 9) All direct expenses are transferred to **Trading A/c** Account.
- 10) Balance Sheet is a **statement** of assets and liabilities of business.

**Q. 6. Find the odd one.**

- 1) Rent, Salary, Insurance, Plant and Machinery.

**Ans. Plant and Machinery.**

- 2) Purchases, Closing stock, Debtors, Factory Rent.

**Ans. Debtors.**

- 3) Capital, Bills Payable, Debtors, Outstanding wages.

**Ans. Debtors.**

4) Advertisement, Travelling Expenses, Factory Rent, Insurance.

Ans. **Factory Rent.**

5) Cash in Hand, Debtors, Outstanding Income, Reserve for Doubtful Debts.

Ans. **Reserve for Doubtful Debts.**

**Q. 7. Do you agree or disagree with the following statement.**

1) Reserve for bad debts is created by debiting Profit and Loss Account.

Ans. **Agree.**

2) Balance Sheet is a statement as well as an account.

Ans. **Disagree.**

3) Indirect Expenses are debited to Trading Account.

Ans. **Disagree.**

4) Bank Overdraft is treated as an Internal Liability.

Ans. **Disagree.**

5) Capital is excess of Liabilities over Assets.

Ans. **Agree.**