

CBSE Test Paper 01
Ch-10 Financial Statements-II Adjustments

1. On which side of the balance sheet are prepaid expenses shown?
2. Following information is given in trial balance

Bad debt	Rs 3,000
Provision for bad debts	Rs 3,500
Debtors	Rs 40,000

Additional information

It is desired to make a provision for doubtful debts @ of 10% on debtors. The amount debited to profit and loss account is.

3. Is provision for discount on debtors made before making provision for doubtful debts?
4. While Preparing final accounts, what treatment is made of prepaid expenses?

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

Name of Accounts	Debit Balance(Rs)	Credit Balance(Rs)
Wages Paid	66,000	
Salary Paid	16,500	

Additional Information

Wages Rs 6,000 and salary Rs 1,500 are outstanding.

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

6. Why is it necessary to record the adjusting entries in the preparation of final accounts?

7. **Extract of Trial Balance**

as on 31st March, 2013

Name of Accounts	Debit Balance(Rs)	Credit Balance(Rs)
Bad Debts	1,600	
Provision for doubtful Debts(1st April, 2012)		5,000
Debtors	1,60,000	

Additional Information

Create a provision for doubtful debts @ 5% on debtors.

Pass necessary adjustment entries and show how will it appear in the financial statements of company.

8. From the following balances obtained from the accounts of Mr. Ranjeet, Prepare the Trading and Profit & Loss Account:

Particulars	Rs.	Particulars	Rs.
Stock on April 01, 2012	8,000	Bad debts	1,200
Purchases for the year	22,000	Rent	1,200
Sales for the year	42,000	Discount (Dr.)	600
Wages	2,500	Commission paid	1,100
Salaries & Wages	3,500	Sales Expenses	600
Advertisement	1,000	Repairs	600

Closing stock on March 31, 2013, is Rs. 4,500.

9. From the following balances, prepare the final accounts of M/s Mangal & Sons for the year ended 31st March 2018 :

	Rs.

Opening Stock	12,500
B/R	2,000
Sales	70,000
Purchases	37,500
Creditors	20,000
Salaries	3,850
Insurance	200
Debtors	32,500
Carriage	1,450
Commission	750
Interest	900
Printing	250
B/P	3,150
Returns in	1,300
Returns out	500
Bank	5,250
Rent and Taxes	1,300
Furniture	1,000
Capital	7,100

Closing Stock on 31-3-2018 Rs.15,000

10. Suresh started business on 1st April, 2013 with a capital of Rs 30,000. The following trial balance was drawn up from his books at the end of the year.

Name of Accounts	Amt(Rs)	Name of Accounts	Amt(Rs)
Drawings	4,500	Capital	40,000

Plant and fixtures	8,000	Sales	1,60,000
Purchases	1,16,000	Creditors	12,000
Carriage inward	2,000	Bills payable	9,000
Wages	8,000		
Return inward	4,000		
Salaries	10,000		
Printing	800		
Advertisement	1,200		
Trade Charges	600		
Rent	1,400		
Debtors	25,000		
Bills Receivable	5,000		
Investments	15,000		
Discount	500		
Cash at bank	16,000		
Cash in hand	3,000		
	2,21,000		2,21,000

The value of stock as at 31st March, 2014 was Rs 26,000. You are required to prepare his trading and profit and loss account for the year ended 31st March, 2014 and a balance sheet as on the date after taking the following facts into account.

- i. Interest on capital is to be provided at 6% per annum.
- ii. An additional capital of Rs 10,000 was introduced by Suresh on 1st October, 2013.
- iii. Plant and fixtures are to be depreciated by 10% per annum.
- iv. Salaries outstanding on 31st March, 2014 amounted to Rs 500.
- v. Accrued interest on investment amounted to Rs 750.
- vi. Rs 500 are bad debts and provision for doubtful debts is to be created at 5% on the balance of debtors.

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Answer

1. Prepaid expenses are shown on Assets side of balance sheet.
2. **Statement showing showing provision for doubtful debts**

Particulars	Amount
Bad Debts	3,000
(+) New Provision @ 10 %	4,000
	7,000
(-) Old Provision	(3,500)
	3,500

3. No, it is made after the provision for doubtful debts
4. Prepaid Expenses are deducted in Profit and Loss account and shown as Assets in Balance Sheet. When prepaid expenses are given in trial balance, it is to be debited in P&L A/c only.

5. **Adjustment Entries**

Dr				Cr
Date	Particulars		Debit	Credit
31/03/2013	(i) Wages A/c	Dr	6,000	
	To Outstanding Wages A/c (Being wages due)			6,000
	(ii) Salary A/c	Dr	1,500	
	To Outstanding Salary A/c (Being salary due)			1,500

Effects on Final Account
Trading Account

Dr						Cr
Date	Particulars		Amt(Rs)	Date	Particulars	Amt(Rs)
31/03/2013	To Wages A/c	66,000		31/03/2013		
	(+)Outstanding Wages	6,000	72,000			

Profit and Loss A/c

Dr						Cr
Date	Particulars		Amt(Rs)	Date	Particulars	Amt(Rs)
31/03/2013	To Salary A/c	16,500				
	(+)Outstanding Salary	1,500	18,000			

Balance Sheet

Liabilities	Amt(Rs)	Assets	Amt(Rs)
Outstanding Wages	6,000		
Outstanding salary	1,500		

6. Before financial statements are prepared, additional journal entries, called **adjusting entries**, are made to ensure that the company's financial records adhere to the revenue recognition and matching principles. Adjusting entries are necessary because a single transaction may affect revenues or expenses in more than one accounting period and also because all transactions have not necessarily been documented during the period.

The following are the objectives of making adjustments ;

- To show the assets and liabilities at their actual value.

- to overcome the limitations of trial balance
- Providing for depreciation and reserves to arrive at net profit. the purpose is to make provision for wear and tear of fixed asset and reserves for unforeseen losses which might accrue.
- to account for all incomes pertaining to current year. The purpose is to adjust the accrued and unaccrued incomes.
- to account for all expenses pertaining to current year. the purpose is to adjust the outstanding and prepaid expenses so that p/l a/c show actual position.

7. The following entries will be passed for recording the provision for doubtful debts :

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Date	Particulars		LF	Dr.(₹)	Cr.(₹)
Mar 31	Provision for Doubtful Debts A/c	Dr.		1,600	
	To Bad Debts A/c (Being bad debts transferred to old provision)				1,600
Mar 31	Profit and Loss A/c	Dr.		4,600	
	To Provision for Doubtful Debts A/c (Being creation of provision at 5% on debtors)				4,600

The Provision for doubtful debts will be recorded in financial statements in the following manner:

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

Dr				Cr
Particulars		Amt(₹)	Particulars	Amt(₹)
To Provision for Doubtful Debts A/c :				
Bad Debts	1,600			
Add : New Provision on Rs 1,60,000 @ 5%	8,000			

	9,600			
Less : Old Provision	(5,000)	4,600		

Balance Sheet
as at 31st March, 2013

Liabilities	Amt(₹)	Assets		Amt(₹)
		Debtors	1,60,000	
		Less :New Provision (@5% on ₹1,60,000)	8,000	1,52,000

8.

Trading account

Particulars	Rs.	Particulars	Rs.
To Opening stock	8,000	by Sales	42,000
To Purchases	22,000	by Closing stock	4,500
To Wages	2,500		
To gross profit c/d	14000		
	46,500		46,500

Profit and loss A/c

Particulars	Rs.	Particulars	Rs.
To Salaries and Wages	3,500	By gross profit b/d	14,000
To Rent	1,200		
To Advertisement	1,000		
To Commission	1,100		
To Discount	600		
To Bad debts	1,200		
To Sales Expenses	600		

To Repairs	600		
To Net Profit (transferred to capital)	4,200		
	14,000		14,000

9.

TRADING AND PROFIT AND LOSS ACCOUNT
(for the year ended 31st March, 2018)

Particulars		Rs.	Particulars		Rs.
To Opening Stock		12,500	By Sales	70,000	
To Purchases	37,500		Less : Sale Return	1,300	68,700
Less : Purchase Return	<u>500</u>	37,000	By Closing Stock		15,000
To Carriage		1,450			
To Gross Profit		32,750			
		<u>83,700</u>			<u>83,700</u>
To Insurance Premium		200	By Gross Profit		32,750
To Salaries		3,850			
To Interest Paid		900			
To Printing		250			
To Rent		1,300			
To Commission		750			
To Net Profit		25,500			
		<u>32,750</u>			<u>32,750</u>

BALANCE SHEET

(AS AT 31-03-2018)

Liabilities		Rs.	Assets	Rs.
Capital	7,100		Bank	5,250

Add : Net Profit	<u>25,500</u>	32,600	Bills Receivables	2,000
Bills Payables		3,150	Debtors	32,500
Creditors		20,000	Stock	15,000
			Furniture	1,000
		<u>55,750</u>		<u>55,750</u>

10.

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

Dr					Cr
Particulars		Amt(Rs)	Particulars		Amt(Rs)
To Purchases		1,16,000	By Sales	1,60,000	
To Wages		8,000	Less : Returns Inward	(4,000)	1,56,000
To Carriage Inward		2,000	By Closing Stock		26,000
To Gross Profit transferred to Profit & Loss A/c		56,000			
		1,82,000			1,82,000
To Salaries	10,000		By Gross Profit transferred from trading A/c		56,000
Add : Outstanding Salaries	500	10,500	By Accrued Interest on Investment		750
To Printing		800			
To Advertisement		1,200			
To Trade Charges		600			
To Rent		1,400			

To Interest on Capital(W.N)(1,200 + 900)		2,100			
To Depreciation on plant & fixtures		800			
To Bad Debts	500				
Add : New Provision	1,225	1,725			
To Net Profit Transferred to Capital A/c		37,125			
		56,750			56,750

Balance Sheet
as at 31st March,2014

Liabilities		Amt(Rs)	Assets		Amt(Rs)
Bills Payable		9,000	Cash in hand		3,000
Creditors		12,000	Cash at bank		16,000
Salaries Outstanding		500	Bills Receivable		5,000
Capital(30,000 + 10,000)	40,000		Debtors	25,000	
Add :Interest on Capital	2,100		Less : Bad Debts	(500)	
Profit transferred from Profit & Loss A/c	37,125			24,500	
	79,225		Less :Provision for Bad Debts(5% on ₹ 24,500)	(1,225)	23,375
(-)Drawings	(4,500)	74,725	Closing Stock		26,000
			Investments	15,000	

			(+)Accrued Interest	750	15,750
			Plants and fixtures	8,000	
			(-)Depreciation	(800)	7,200
		96,225			96,225

Note :

Calculation of Interest on Capital:

On ₹ 30,000 @ 6% p.a. for 6 months (from April to September) = ₹900

On ₹40,000 @ 6% p.a. for 6 months (from October to March) = ₹1,200

Total interest = 1200+900=₹2100