Chapter 07

FINAL ACCOUNTS WITH ADJUSTMENTS

Learning Objectives:

After studying the present chapter, you will be able to learn:

- Why adjustments are needed?
- When adjustments should be doe?
- How many types of adjustments are there?
- How adjustments are recorded at the time of preparation of the final accounts?

Need of Adjustments

Final product of accounting cycle is final accounts. Final accounts are being prepared at the end of each accounting period. Main objectives of preparation of final accounts are (1) to calculate earned profits during the accounting period and (2) to identify the financial position of the business at the end of the accounting period. Final accounts are prepared on the basis of matching concept, hence adjustments are required. Profit or loss is being calculated for each accounting period separately. Consequently only those expenses and incomes should be considered which are related to that particular accounting period. If any incomes or expenses of a particular accounting period includes any expenses and incomes of other accounting period, it shall be excluded. Any expenses or incomes related to that particular accounting period which are not included in the books, should be included. When final accounts are prepared after taking into account such adjustments, they are called Final Accounts with Adjustments. For example, if we prepare accounts for the accounting period 2016-17 then only those incomes and expenses should be considered which are related to 2016-17. If any income related to accounting year of 2017-18 or coming years has been included in the income of 2016-17 then it should be deducted from income of 2016-17 because it does not belong to year 2016-17. In same way any income which belongs to 2016-17 accounting period but has not been received and still due at the end of the accounting period then such income should be added to income of 2016-17. Same treatment should be done for transactions related to expenses. If such adjustments are not done then it would be difficult to identify that the calculated profit belongs to which accounting period. Thus, in order to be in compliance with the matching concept of accounting, adjustments are required.

Now question arises, what is the scope of adjustment? Cost of resources consumed is not recorded directly under double entry system of bookkeeping. In order to calculate cost of goods sold, goods purchased is adjusted from, closing stock available at the end of accounting period. Besides closing stock, expenses accounts at the end of the accounting period are also be adjusted. Salary, rent, interest etc. expenses are recorded on the cash basis during accounting period hence, outstanding expenses (due but not paid) and prepaid are to be adjusted.

In addition to this, cost of fixed assets is allocated in different accounting periods. Cost of each year (called depreciation) is to be adjusted at the end of that particular year. Depreciation is to be calculated according to Accounting Standard - 6 "Depreciation Accounting". Sales amount is recorded in the books only when process of sale is completed. Sales either increases cash or increases claim of debtors or bills receivables. Other incomes like interest, rent, dividend, commission etc. are recorded in the books on cash receipts basis. In order to determine true profit, income earned but not received and incomes received but not earned have to be adjusted against income actually received. In a nutshell, at the end of the year adjustments are done on the basis of accounting entries. Such accounting entries are called adjustment entries. Main objective of making adjustment entries in the books is to calculate true profit on the basis of accrual basis and to present the true and fair picture of financial statements.

Timings of Adjustment

Adjustment entries can be made either after or prior to the preparation of trial balance. Generally adjustment entries are made after making trial balance. In such circumstances informations related to adjustment are shown outside trial balance. All these informations are adjusted through double entry by making debit and credit while preparing final accounts. If such adjustment entries are passed prior to making trial balance then balances shown in trial balance shall be after the adjustments because these transactions are already posted in ledger. Consequently, such trial balance is called adjusted trial balance and all these adjustments shall be shown at one place either in income statement or in balance sheet.

Types of Adjustments

In order to determine true profit of business, various adjustments are needed. Various adjustments can be classified on the basis of expenses, income, provisions and othes. These are shown in figure 7.1.

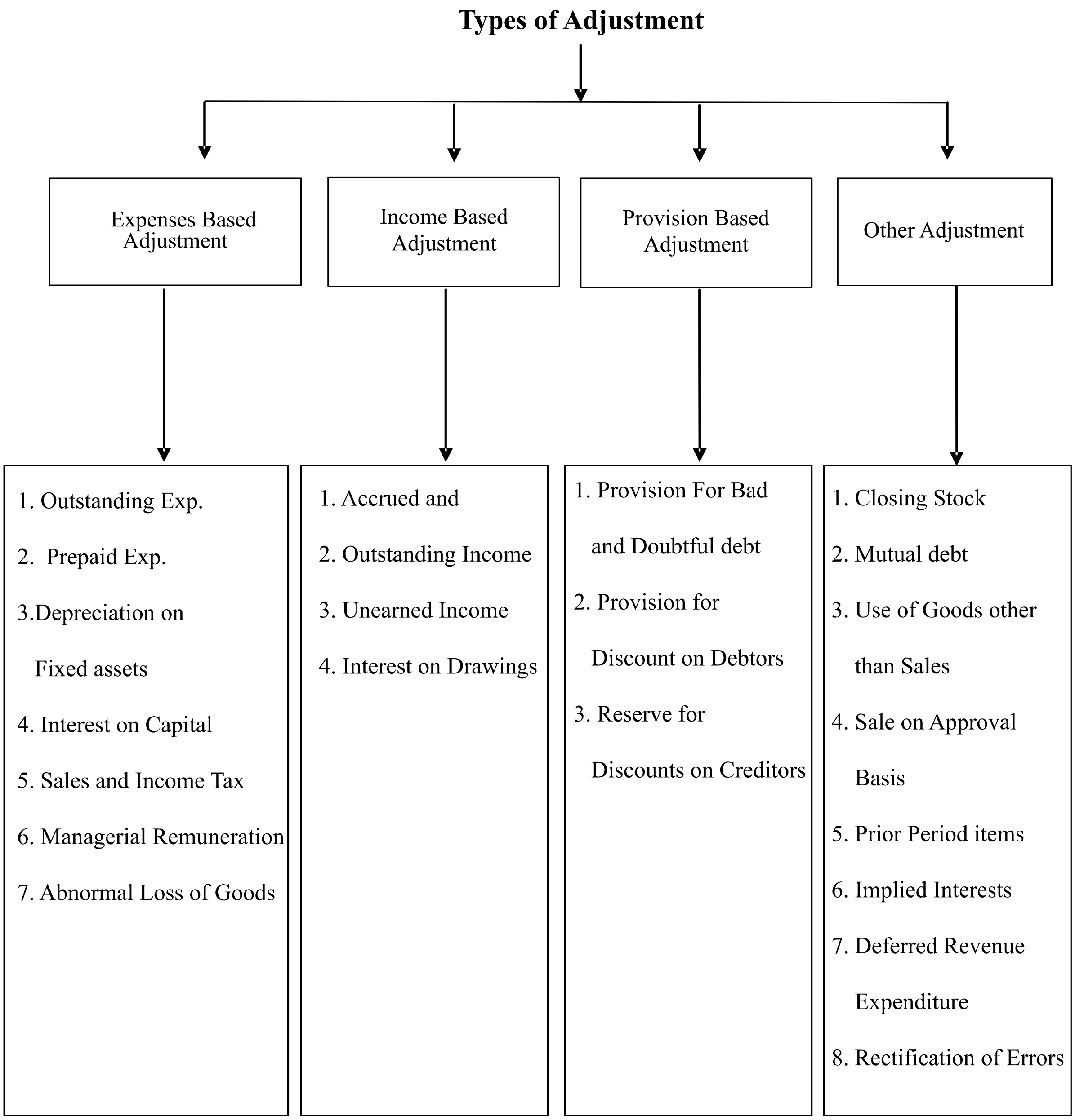

Figure 1: Types of Adjustments

A. Expenses based adjustment

(1) Outstanding expenses

Those expenses which have been incurred but not yet paid till the end of the accounting period are called outstanding expenses. If certain services or benefits have been availed during accounting period but payment for those services have not been paid, it is called outstanding expense. Suppose rent of shop is ₹

2000 per month. During entire accounting year only ₹ 20000 has been paid but actually it should be ₹ 24000 (12*2000), ₹ 4000 is still pending to pay at the end of accounting period, it shall be classified as outstanding expenses. This will be done with those expenses which are due in day to day operation of the business but recorded in books only when they are paid. For example salary, rent, interest etc. out of these some may be due at the end of accounting period and not recorded in the books. Outstanding expenses are liability for the business because payment of such expenses is still due but services have been availed. The following entry is passed to incorporate such outstanding expenses in final accounts.

Particular Expense A/c Dr

To Outstanding Expense A/c

Expenses account is nominal account and outstanding expenses account is personal account hence these are shown in debit side of profit and loss account and liabilities side of balance sheet respectively. Outstanding expenses account represents a person to whom payment is still due, hence it is called personal account. But if the above entry has been passed in the books before preparing the trial balance then outstanding expenses account shall be shown in the liability side of balance sheet only because outstanding expenses have been already adjusted against expenses.

Explanation through example:

Following are the extracts from the trial balance of a firm as on 31 March 2017

Extract of Trial Balance as on 31.03.2017

Items	Amount ₹	
	Dr.	Cr.
Salaries A/c	20,000	
Rent A/c	10,000	

Additional information

1) Salary of March Month ₹ 4000 has not yet been paid
2) Rent amounting to ₹ 2000 is still outstanding

You are required to pass necessary adjustment entries and show how the above items will appear in the final accounts

Solution

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Date	Particulars		Amount ₹ Dr.	Amount ₹ Cr.
31.03.17	Salaries A/c	Dr.	4000	
	To outstanding Salaries			4000
	(Being Salaries due but not paid)			
31.03.17	Rent A/c	Dr.	2000	
	To outstanding Rent A/c			2000
	(Being rent due but not paid)			

These itmes shall be presented in final accounts as following manner:

Profit and Loss Account

Dr. **Cr.**

Particulars		Amount ₹	Particulars	Amount ₹
To Salaries	20,000			
(as per Trial Balance)				
Add : Outstanding Salaries	4,000	24000		
To Rent (as Per trial balance)	10,000			
Add : Outstanding Rent	2000	12,000		

Balance Sheet

Liabilities		Amount ₹	Assets	Amount ₹
Outstanding Expenses				
Salaries	4000			
Rent	2000	6000		

If accountant has already adjusted the outstanding salary and outstanding rent accounts in the books of accounts before preparation of trial balance, then salary account, outstanding salary account, rent account and outstanding rent account shall be disclosed in the following manner:

Salaries Account

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Bank A/c	20000	By Balance c/d	24000
To Outstanding Salaries A/c	4000		
	24000		24000

Outstanding Salaries Account

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Balance c/d	4000	By Salaries A/c	4000
	4000		4000

In same way rent account and outstanding rent accounts shall be maintained. All these accounts shall be shown in the trial balance as follows:

Trial Balance as on 31.03.2017

Particulars	Amount ₹	
	Dr. ₹	**Cr. ₹**
Salaries A/c	24000	
Rent A/c	12000	
Outstanding Salaries A/c		4000
Outstanding Rent A/c		2000

Presentation in final account:

Profit and Loss A/c

Dr. **Cr.**

To Salaries	24000		
To Rent	12000		

Balance Sheet

Liabilities	**Amount ₹**
Outstanding Salaries	4000
Outstanding Rent	2000

Now it is clear that in both the situations presentation in final account has been made in the same way. It should be kept in mind that any item which is shown in the trial balance is recorded at only one place in final account but if it is given out side the trial balance, it shall be shown at two places in final account.

2- Prepaid Expenses

Advance payment of expense is called prepaid expenses. Prepaid expenses are those expenses which have been paid during current accounting period while services shall be received in next accounting period. In other words prepaid expenses are paid in a year in which final account is prepared but such expenses are related to next accounting year For example insurance premium ₹ 12000 has been paid on 01-01-2017 for one year and final accounts are prepared on 31-03-2017. Insurance premium related to three months (January, February, March) of ₹ 3000 should be shown in final accounts and remaining nine months insurance premium i.e., ₹ 9000 shall be treated as prepaid insurance because it belongs to next accounting period. Adjustment entry for prepaid expenses shall be depending upon what accounting treatment was done at the time of payment of prepaid expenses. There may be two alternatives of accounting treatment:

First option: Prepaid Expenses Recorded initially as an Asset

The benefit of advance payment of expenses shall be received in future hence it would be better that advance payment is to be recorded as assets. Suppose 12 months insurance premium is being paid on 1st January then the following entry shall be passed for cash payment:

		₹	₹
2017 Jan. 1	Prepaid Insurance Premium A/c Dr.	12000	
	To Cash A/c		12000

On 31st march when final accounts shall be prepared then three months premium has been due. So the following entry shall be passed:

2017 March 31	Insurance Premium A/c Dr.	3000	
	To Prepaid Insurance Premium A/c		3000

Due to above adjustment entry only ₹3000 shall be charged as current year premium and ₹ 9000 shall be transferred to next year hence, Rs, 9000 shall be shown in asset side of balance sheet as prepaid insurance.

Second option: Prepaid Expenses Recorded initially as an expense

The following entry shall be passed on payment of insurance premium

2017 Jan. 1	Insurance Premium A/c Dr.	12000	
	To Cash A/c		12000

On 31st march three months premium has been lapsed and nine months premium is in advance. So nine months premium shall be transferred to prepaid insurance account by making the following entry:

2017 March 31 Prepaid Insurance Premium A/c 9000

To Insurance Premium 9000

In practice second option is more used.

Example: Extract of trial balance of a firm as on 31st March, 2017 is as follows:

Trial Balance

Particulars	Amount ₹	
	Dr. ₹	Cr. ₹
Insurance Preimum	16000	

Additional Information: Insurance premimum of ₹ 2000 belongs to next year but payment has been made during current year.

Adjustment Entry

31.3.2017 Prepaid Insurance A/c Dr. 2000

To Insurance Premium 2000

(Being Insurance Premium paid advance)

Presentation in Final Accounts

Profit and Loss A/c as on 31.03.2017

To Insurance Premimum	16000		
Less: Prepaid	2000	14000	

Balance Sheet as on 31.03.2017

	Assets	**Amount ₹**
	Prepaid Insurance	2000

Illustration1

Following is the extract from trial balance of a Trader as on 31st March, 2017

Trial Balance as on 31st March 2017

Particulars	Amount ₹	
	Dr.	Cr.
Salaries A/c	20,000	
Rent A/c	18,000	
Insurance A/c	16,000	

Additional Information

1- Salary for the month of March 2017 ₹ 4000 has not yet been paid.

2- Rent A/c amounting to ₹ 2000 is still outstanding.

3- Insurance Premium has been paid in current year amounting to ₹ 2000 for the next year.

Make Necessary adjustments entires and show them in final accounts

Solution

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Date	Particulars	LF	Amount ₹	
			Dr. ₹	Cr. ₹
31.3.17	Salaries A/c Dr. To Outstanding Salaries A/c (Being Salary due but not paid)		4000	4000
	Rent A/c Dr. To outstanding Rent A/c (Being rent due but not paid)		2000	2000
	Prepaid Insurance A/c Dr. To Insurance A/c (Being Insurance paid in advance)		2000	2000

Final Accounts

Profit and Loss Accou nt for the year ending 31.3.2017

Dr. **Cr.**

Particulars		Amount ₹	Particlars	Amount ₹
To Salaries (as given in TB)	20000			
Add: Outstanding salaries	4000	24000		
To Rent	18000			
Add: Outstanding Rent	2000	20000		
To Insurance	16000			
Less Prepaid Insurance	2000	14000		

Balance Sheet as on 31.3.2017

Liabilities		Amount ₹	Assets	Amount ₹
Outstanding Expenses			Prepaid Expenses	2000
Salaries	4000			
Rent	2000	6000		

3- Depreciation on fixed assets

A part of depreciable cost of fixed assets which is allocated to a particular accounting year is called depreciation. In simple words due to upcoming of new technology in market and continuous use of fixed assets the value of existing fixed assets is deteriorating, the deterioration of value is called depreciation. The following adjustment entry is passed for depreciation.

Depreciation A/c Dr.

To Fixed Assets A/c

Suppose 10% depreciation is to be charged on other office building of ₹ 10, 00,000 and such information is given in trial balance as follows:

Trial Balance

	Amount ₹	
	Dr. ₹	**Cr. ₹**
Office Building	10,00,000	

Additional Information: Depreciation is to be charged @ 10% on office building.

The following adjustment Entry shall be passed for charging the depreciation

Depreciation on Office Building A/c Dr. 1,00,000

To Office Building A/c 1,00,000

(Being Depreciation Charged @ 10% on ₹10,00,000)

Presentation in Final Account

Profit and Loss A/c

Dr.	Amount ₹	Cr.
To Depreciation on Office Building	1,00,000	

Balance Sheet

	Assets		Amount ₹
	Office Building	10,00,000	
	Less Depreciation	1,00,000	9,00,000

Sometimes depreciation has already given in trial balance, it means adjustment entry for depreciation has already been made before the preparation of trial balance, and then adjusted trial balance shall be as follows:

Trial Balance

Particulars	Dr. ₹	Cr. ₹
Office Building	9,00,000	
Depreciation	1,00,000	

In such circumstances office building of ₹9, 00,000 and depreciation ₹1,00,000 shall be shown in asset side of balance sheet and debit side of profit and loss account respectively at the time of preparation of final accounts.

Note: Sometimes fixed assets are purchased during the year. In such situation problem arises that whether depreciation should be charged for whole year or a part of the year. If specific information is not given then it would be better to charge depreciation for whole year. But if rate of depreciation per annum and date of purchase of fixed assets are given then depreciation shall be calculated on the basis of actual usage time of fixed assets.

4- Intrest on Capital

In order to correct determination of business profit, interest on capital contributed by owner shall be adjusted. Interest on capital should be treated as expenses and it should be shown in debit side of profit and loss account. The following adjustment entry is passed for interest on capital at the end of the year:

Intrest on Capital A/c Dr

To Capital A/c

Suppose the following information is given regarding a business:

Trial Balance

	Amount ₹	
	Dr. ₹	**Cr. ₹**
Capital A/c		10,00,000

Additional information: 12% interest is to be charged on capital.

The following adjustment entry shall be passed:

Intrest on Capital A/c Dr. 1,20,000

To Capital A/c 1,20,000

Presentation in Final Account

Profit and Loss A/c

To Interest on Capital	1,20,000	

Balance Sheet

Liabilities		Amount ₹
Capital	10,00,000	
Add: Interest on Capital	1,20,000	11,20,000

When Interest on Capital is given in Trial Balance: If interest of capital is shown in trial balance, it means adjustment entry has already been made before the preparation of trial balance. Then adjusted trial balance shall be as follows:

Adjhusted Trial Balance

Particulars	Amount ₹	
	Dr. ₹	Cr. ₹
Capital		11,20,000
Interest on Capital	1,20,000	

While preparing the final accounts interest on capital shall be shown in debit side of profit and loss account only. No accounting treatment shall be done in balance sheet.

1- Goods and service tax (GST) and Deduction of Income Tax

GST imposed on sales and services rendered by business. Business collects GST from customer and pays to government. Business plays role of mediator between government and customer. GST collected at the time of sale is recorded in a separate account 'GST payable A/C' and net sales amount excluding GST is recorded as sales. Suppose 100 units are sold at ₹ 60 per unit and GST is charged @ 12% then following entry shall be passed:

Bank A/c Dr		6720	
	To Sales A/c		6000
	To GST Payable A/c		720

Now GST collected of ₹ 720 is to be paid to government. At the time of payment to government the following entry shall be passed:

GST Payable A/c Dr.		720	
	To Bank A/c		720
(Being GST paid to Govt.)			

Note:

1) If whole GST has been paid to government before the end of the year, then there would be no impact on final account. If partial amount of GST is being paid during the year then balance of GST payable account shall be shown in liabilities side of balance sheet.

2) In trading account sales is always recorded excluding GST.
3) Sometimes both GST paid A/c and GST payable A/c are shown in trial balance then GST paid is deducted from GST payable account and net balance is shown in balance sheet.

Income tax deduction

If any employee having annual income more than minimum exemption limit given in income tax act, then it is duty of businessmen to deduct tax from salary and deposit the same into income tax department. The following entry is passed for the same:

Salaries A/c Dr.
To Bank A/c
To Income Tax deduced at source A/c
(Being Salary Paid after deducting tax)

On depositing income tax amount into income tax deptt:

Income Tax deducted at source A/c Dr.
To Bank A/c

6- Managerial Remuneration

Remuneration payable to managers of business is called managerial remuneration. The word remuneration includes salary, bonus, commission, perquisites etc. Managerial remuneration may pay either on monthly basis or in the from of percentage of net profit or partly monthly and partly percentage of net profits.

When commission is being paid in the form of a certain percentage of net profit, it is calculated at the end of the accounting year. Calculation of managerial remuneration is depending upon whether it is paid before charging commission or after charging commission from net profits.From calculation point of view the following situations may be possible:

A. **Manager's commission on profit before charging his commission**: When commission is payable in the form of a certain percentage of profit before charging such commission, Manager's commission should be calculated on the basis of net profit derived from profit and loss A/c before charging commission i.e. before debiting commission to P & L A/c. The calculation will be as follows:

$$\text{Commission} = \frac{\text{Net profit before charging commission} \times \text{rate of commission}}{100}$$

B. **Manager's commission on profit after charging his commission:** In this case manager's commission is charged on net profit available after charging his commission. Profit after commission and amount of commission both are not known. Hence, the following two alternative methods may be used to calculate manager's commission:

First alternative

Let manager's commission be X, then

X= Rate of commission × (Net Profit before charging commission – X)

Second alternative:

The following formula can be used for calculating manager's commission:

$$\text{Commission} = \frac{\text{Net Profit before charging commission * Rate of commission}}{100 + \text{Rate of commission}}$$

Explanation through example

Suppose a firm earns profit of ₹ 88000 before charging manager's commission. If manager is entitled to get 10% commission on profit before charging commission, amount of commission would be ₹ 8800 (88000*10%).

If manager is entitled to get commission @10% of profit after charging his commission then following two alternatives may be considered in order to determine manager's commission:

First alternative:

Let commission of manager be X.

$x = 10\% \text{ of } (88,000 - x)$

$x = 8,800 - 0.1\, x$

$x + 0.1\, x = 8,800$

$$x = \frac{8800}{1.1} = ₹8,000$$

Second alternative:

$$\text{Commission} = \frac{₹\, 88,000 \times 10}{110} = ₹\, 8000$$

Adjustment entry

At the end of the year the following adjustment entry is passed for outstanding managerial remuneration:

Manager's Commission A/c Dr.

To Manager's Commission Payable A/c

Presentation in final account :

Outstanding manager's commission is shown in debit side of profit and loss account and liabilities side of balance sheet. If manager's commission is shown in trial balance, it shall be shown in liability side of balance sheet only.

7- Abnormal Loss of Goods

Sometimes loss of goods takes place due to fire, theft, earthquakes etc. Such abnormal loss reduces the goods purchased for resale and is credited to purchase account. If abnormal loss of goods takes place due to fire, the following entry shall be passed:

Loss by fire A/c Dr.

To Purchases A/c

If full or partial amount of loss is recoverable from insurance company, such amount is debited to insurance company's account and balance claim amount which is not accepted by insurance company is debited to loss by fire account. In such circumstances the following entry is passed:

Insurance Company A/c Dr. (claim accepted by company)

Loss by fire A/c Dr. (claim not accepted by company)

To Purchases A/c

At the end of the accounting year loss by fire account is transferred to Profit & Loss account:

Profit and Loss A/c Dr.

To Loss by fire A/c

Presentation in final account:

First adjustment shall be made in trading account by way of deducting abnormal loss from purchase amount. Second adjustment is made in P&L account by showing abnormal loss (fire) in debit side.

(B) Income Based Adjustments

1. Accrued and outstanding Income

Income earned but neither due nor received, such income is called accrued income and income due during accounting period but not received is called outstanding income. Although both incomes (accrued and outstanding) are earned during the current year yet accrued income do not become due but outstanding income becomes due during current year. Both the incomes are not received during year. For example if a businessmen purchased 12% debenture of ₹ 100000 of Reliance Company. On which interest is due on 30 June and 31st December and company paid interest in each six months. During 2014-15 accounting year if interest due on 31 December does not receive up to 31 March, 2015 then interest of 6 month (July to December) ₹ 6000 (12%× 100000× 6/12) shall be treated as outstanding interest because it due on 31st

December but does not received up to 31 March. Next interest shall be due on 30 June but final accounts are prepared on 31st March. So interest of January, February and March is earned but neither it due nor it received. Hence interest of three months shall be called accrued interest. Accounting point of view both interest income should be recorded separately by opening two account viz., accrued and outstanding account.

Adjustment entry

At the end of the year, the following adjustment entry is passed for accrued income and outstanding income

Accrued / Outstanding Income A/c Dr.

To Respective Income A/c

Presentation in final account

Accrued and outstanding income is shown in credit side of profit and loss account by way of adding it to respective incomes. The income is due but not received hence it is an asset, so accrued and outstanding income are shown in asset side of the balance sheet of firm. If accrued and outstanding incomes are given in trial balance then these are shown in asset side of balance sheet only.

2. Unearned Deferred Income or Income Received in Advance

Income received in current accounting year but relevant services shall be rendered in the next or incoming accounting year, such income is called unearned income. Unearned income arises only when businessman received in advance before accrued. Recognition of income is deferred for some time till then such income is treated a liability. Whenever such income is received recognised immediately in the books as income. Suppose a business let out an additional shop at rent of ₹ 10,000 p.m. Business received ₹ 1, 40,000 as rent during entire accounting period. But actually ₹ 1, 20,000 (10,000*12) should be received hence ₹ 20,000 shall be treated as advance or unearned rent.

Adjustment entry

First option: Unearned income recorded initially as a liability

Receipt of cash in advance of earning revenue creates a liability, so it is logical to debit cash and create a liability account (Unearned income). The following entries may be passed for recording unearned income:

On income received in cash

Cash A/c Dr. (with current year income+ Ad.income)

To Unearned Income A/c

Adjustment entry at the end of the year

Unearned income A/c Dr. (current year income)

To respective income A/c

Example: A businessman receives ₹ 7200 as rent of 9 months on October 1, 2016. Final accounts are prepared on 31st March every year. The businessmen earn this amount at the rate of ₹ 800 per month (7200/9) during nine month period ending June 30, 2017. Rent from October 2016 to March 31, 2017 shall be treated as current year rent and remaining 3 month (April to June) rent shall be treated as unearned income. The following entries shall be passed.

01.10.2016	Cash A/c	Dr.	7200	
	To Unearned Income A/c			7200
	(Being income received in advance)			
31.03.2017	Unearned Income A/c	Dr.	4800	
	To Respective Income			4800
	(Being current six months rent transferred to rent account)			

The above entries clear indicate that the balance of unearned rent A/c is equivalent to 3 months' rent ₹ 2400 (7200-4800).

Second option: Unearned Income Recorded Initially as an Income

Receipt of cash in advance of earning, the revenue can be credited initially to a revenue income account. If the businessman has earned all the revenue within the period during which it received the cash, no adjustment entry is necessary. However, if the businessman earns only a part of the revenue at the end of the period, it must make adjustment entry. In this case the following entries are passed:

On income received in cash:

Cash A/C Dr.

To Respective income A/c

(Being income received)

Adjustment entry at the end of the year

Respective income A/c Dr.

To Unearned Income A/c

(Being unearned income recorded)

In above mentioned illustration, if unearned income is treated as revenue income, the following entry is passed:

1.10.2016 Cash A/c Dr. 7200

To Rent A/c 7200

(Being rent received)

31.03.2017 Rent A/c Dr. 2400(800 x 3)

To Unearned Income A/c 2400

(Being unearned income of three months)

Note: In both the cases current years' income of rent is ₹ 4800 and unearned income is ₹ 2400. Second option has been taken into account for solving the question in the present chapter.

Presentation in final accounts When unearned income is given outside the trial balance as a footnote, it is shown in credit side of profit and loss account by way of deducting from respective income and second adjustment is shown in liability side of balance sheet. If unearned income is shown in trial balance then it will be shown in liability side only. The way of presentation of unearned income in final accounts is as follows:

Profit and Loss A/c

Dr. **Cr.**

	Particulars	**Amount ₹**
	By Income .... Less Unearned Income	....

Balance Sheet

Liabilities	**Amount ₹**
Unearned Income	....

Illustration 2

The following information is available in Trial Balance of a Trader on 31.03.2017

Trial Balance as on 31.03.2017

Particulars	**Amount ₹**	
	Dr. ₹	**Cr. ₹**
6% loan	40,000	
Investment in 9% Debenture of Cipla Company	60,000	
(Interest payable on 30th June and 31 st December)		
Interest on 6% loan received upto 31st Jnaury 2017		2000
Interest on Investment in 9% debenture (June and Dec.)		5400
Rent received for 12 months on october, 1, 2016		12000
Accrued Interest on 9% debenture on 1.4.16	1350	

Make necessary adjustment entires and show effect of them on final accounts.

Solution

1. On examine the above trial balance it is found that ₹ 2000 as interest on 6% loan is received only for ten months up to January 31, 2017. Two months viz., February and March interest is due but not received. Hence outstanding interest is ₹400 (6% of ₹40,000 – 2000).

2. Interest on 9% debenture of cipla is due on 30th June and 31st December every year. In current year total interest of ₹5400 received, out of which ₹1350 belongs to accounting year 2015-16 because on 30th June 2016 interest of six months were received out of which three months interest belonging to January, February and March 2016 as shown in trial balance. In current year also non interest has been received after 31st March, 2016 so three months interest ₹1350 (60,000*9%*3/12) accrued but neither it due nor received.

3. On October 2016 twelve months rent is received so six months rent (April 2017 to 30th September 2017) shall be treated as unearned rent.

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Date	Particulars	L.F.	Amount₹	
			Dr. ₹	Cr. ₹
	Outstanding Interest A/c Dr. To Interest A/c (Being Interest on loan due but not received)		400	400
	Accrued Interest A/c Dr. To Interest on 9% debenture (Being intrest earned for Jan -March 2017, not due not received)		1350	1350
	Rent A/c Dr. To Unearned rent A/c (Being interest received in advance)		6000	6000

Profit and loss account for the year ending 31.3.2017

Cr.

		Particulars		Amount₹
		By Interest on Loan	2000	
		Add: Outstanding Interest	400	2400
		By Interest on Investment	5400	
		Add Accrued Interest 31.3.17	1350	
		Less:Accrued Interest on 1.4.16		5400
		By Rent		
		Less: Unearned Rent		6000

Balance Sheet as on 31.3.17

Liabilities	Amount₹	Assets	Amount ₹
Unearned Rent	6000	Outstanding Interest	400
		Accrued Interest	1350

3. Interest on Drawings

Cash, goods or any other assets withdrawn by the owner for his personal use are termed as drawings. Sometimes interest on drawings is calculated by the businessman; hence adjustment is required at the time of preparation of final account. Interest on drawings is an income for business

Calculation of Interest on Drawings

Interest on drawings is calculated from the date of drawings to the date of preparation of final accounts. For example a businessman withdraws ₹ 1,00,000 on July 1 for his son's marriage and rate of interest is 10%. Interest for 9 months from July to March shall be calculated. If businessman withdraws different amount on different dates then interest on drawing shall be calculated separately by keeping in mind the duration of drawings.

When businessman withdraws a fixed amount on certain time interval then interest may be calculated one time on total amount withdrawn instead of separate calculation for each withdrawal. At the time of calculating interest on drawings, remember the following:

1. When businessman draws a fixed sum on the fixed day of every month, interest is charged on the whole amount for 6.5 months at an agreed rate per annum.
2. When businessman draws a fixed sum on the last day of every month, interest is charged on the whole amount for 5.5 months at an agreed rate per annum.
3. When a businessman draws a fixed sum in the middle of every month, interest is charged on the whole amount for 6 months at an agreed rate per annum.

Note: in above cases if fixed amount drawn on quarter basis then 7.5, 6 and 4.5 months shall be considered instead of 6.5, 6 and 5.5 respectively.

Adjustment entry

At the end of the accounting year interest on drawings may be either transferred to capital account directly or first transferred to drawing accounts and then transferred to capital account. The following either adjustment entry may be passed:

Capital A/c	Dr	or	Drawing A/c	Dr.
To Interest on Drawing A/c			To Interest on Drawing A/c	

Presentation in final accounts

If interest on drawings is given outside the trial balance, it will be shown in credit side of profit and loss account and liabilities side of balance sheet by subtracting from capital account, if it is given inside the trial balance then it will be shown in credit side of profit and loss account only. The presentation of interest on drawing in final account shall be as follows:

Profit and Loss account

Dr. **Cr.**

	Particulars	**Amount₹**
	By Interest On Drawings	....

Balance Sheet

Liabilities		**Amount ₹**
Capital	....	
Less: Drawings	....	
Less: Interest on Drawing	....	....

(C) Provision Based Adjustments

1-Provision for Bad and Doubtful Debts

The person to whom credit sales is made is called debtor. Sometimes some debtors are not able to pay the dues due to weak financial position, when it is confirmed that a particular debtor is not able to pay his dues this due amount shall be treated as bad debt. When there is a doubt whether due amount will be received or not, such amount shall be treated as doubtful debt. Provision is made for such debts is known as provision for doubtful debts. When some part of the amount of debtors is not recovered then unrecovered part of debtor's amount is called bad debts. Generally bad debts get recorded and charged to profit and loss account in an accounting year in which credit sales have been made. To ensure proper matching of revenue and expenses and calculate true profit, it is necessary that expenses on account of non-recovery of amount from debtors are treated as expense in the period in which credit sales were made. As an exact amount of bad debts cannot be calculated at the time of sale, it is suggested that provision for bad and doubtful debts is created in the year of sale and charged to profit and loss account of that year

In order to be in compliance with the matching and conservative concepts, provision for bad and doubtful debts is made. It is difficult to estimate correct amount of bad debts at the time of sale. So estimate provision on credit sales is to be made and charged to profit and loss account in the same year so that impact of such transaction could not be on other accounting year.

The amount of bad debts is recorded only when the businessman becomes certain about non recovery and bad debts recorded are charged against provision for bad and doubtful debts account created for this purpose. Generally amount of provision is determined on the basis of past experience. It is calculated on debtors balance at a fixed percentage. Debtors can be classified in three categories viz., good, doubtful and bad. There is a no need to make any provision on good debtors but bad debtors are fully written off. Provision is created on balance of doubtful debts at a fixed percentage.

Adjustment entries

Bad debts and provision for doubtful debts are loss for business. So provision is to be created in the year in which sales takes place.

1. For Doubtful debts

   Profit and Loss A/c Dr.
   To Provision for Bad & Doubtful A/c

2. For Bad Debts

   a. If provision for bad and doubtful debts account is not given in trial balance

      Bad Debts A/c Dr.
      To Debtors A/c

   b. If provision for bad and doubtful debts account is given in trial balance

      Provision for Bad and Doubtful Debts A/c Dr.
      To Bad-Debt A/c

3. If amount of bad debts and provision for doubtful debts of current year is excess to existing balance of provision for doubtful debts then for difference amount the above entry no.1 shall be passed. If existing provision exceeds, then the following entry shall be passed for transfer of excess amount to credit side of profit and loss account.

Provision for Doubtful Debts A/c Dr.
To Profit and Loss A/c

In order to determine the excess or deficit amount of provisions, the following calculations may be done:

	₹
Bad debts (Given in Trial Balance)	....
Add: Further bad debts (given in additional information)	....
Add: Provosion for doubtful debts required at the end of the year (New Provision)	....
Less: Provosion balance at the begining of the year (Old Provision)	....
Balance to be credited (-ve) or debited (+ve) to Profit & Loss A/c	....

Note: If balance comes positive then profit and loss account is debited and if it comes negative then profit and loss account is credited .

4. If bad debts for earlier years is recovered in current year, the following two entries are passed

At the time of recovery

Cash/Bank A/c Dr.
To bad-debts recovered A/c

At the end of the accounting year:

Bad debts recovered A/c Dr.
To Provision for Bad and Doubtful Debts A/c
OR
To Profit and Loss A/c

Presentation in final accounts

For example trial balance of a businessman is given as follows:

Trial Balance as on 31.03.2016

Particulars	Dr. ₹	Cr. ₹
Debtors	1,20,000	
Provision for Bad and Doubtful debts (as 01.04.2015)		5000
Bad debts	3600	

Additional information: Provision for bad and doubtful debts is to be made @10%

31st March 2016

At the end of current accounting year provision is to be made @10% on debtors so amount of provision would be ₹ 12000 (10% of 120000)

Profit and Loss A/c For the year ending 31.03.2016

Particulars		Amount ₹
To Provision for Bad and Doubtful debt on 31.03.16	12000	
Add: Bad debts given in trial balance	3600	
	15600	
Less: Opening Balance of PBD on 1.4.16	5000	10600

Balance Sheet as on 31.3.16

	Assets		Amount ₹
	Debtors	120000	
	Less : Provision	12000	1,08,000

31st march 2017 Trial balance of this businessman on 31.3.2017 is given as follows:

Trial Balance as on 31.3.2017

Particulars	Dr. ₹	Cr. ₹
Debtors	58600	
Bad debts	400	
Provision for Bad and doubtful debts (1.4.16)		12000

Bad debts of ₹600 and maintain a provision for bad and doubtful debts @10%.

Profit and Loss account for year ending 31.3.2017

Dr.

Particulars		Amount₹
To Provision for Bad and doubtful debts		
Closing Balance on 31.3.17 (10% of (58600-600)	5800	
Add: Bad debts in Trial balance	400	
Add:Further Bad debts(Given in adjustment)	600	
	6800	
Less Opening Balance 1.4.2016	12000	(5200)

Note: since there is a negative balance, either it should show in credit side of profit and loss account or it should be sustracted while getting total of debit side of profit and loss account.

Balance Sheet as on 31.3.2017

	Assest		**Amount ₹**
	Debtors	58600	
	Less:Further Bad debts	600	
		58000	
	Less: Provision	5800	52200

Important points:

- If bad debts are given in adjustments outside the trial balance, it should be subtracted from balance of debtors for the purpose of calculation of provision on debtor.
- Provision created during current year is debited to profit and loss account and treated as expense for the year. Bad debts account is closed by transfer to provision for bad and doubtful account and not to profit and loss account.
- To find out the amount to be recorded in profit and loss account, either provision for bad and doubtful debt account is prepared or statement can be prepared as discussed in the earlier paragraph.
- Amount of provision for bad and doubtful debts for current year can be calculated as follows:

Balance of Provosion to be maintained = (Given % X (Balance of Debtors in trial balance minus Further Bad debts given in adjustment minus mutual debts minus Sale on approval basis minus Good Debtors))

Illustration 3 A Partial Trial Balance of a trader is given below

Trial Balance as on 31.3.2017

Particulars	**Amount ₹**	
	Dr. ₹	**Cr. ₹**
Debtors	2,55,000	
Bad debts.	10,000	
Provosion for doubtful debts (1.4.16)		20,000

Additional Information

1. After preparing trial Balance it is known that a debtor Ramesh has become insolvement and therefore, the entire amount of ₹ 5000 due from him is irrecovereble.
2. Keep the provision for bad debts @ 10% on debtors

Make necessary adjustment entires and show their effect in final accounts.

Solution

Journal Proper

Date	Particulars	L.F.	Amount ₹ Dr.₹	Amount ₹ Cr.₹
	Bad debts A/c Dr. To Debtors A/c (Being amount due from Ramesh Proved Bad)		5000	5000
	Profit and Loss A/c Dr. To Provision for Bad and doubtful debts A/c (Being Provision for bad debt maintained (25000 + 10000 + 5000-20,000)		20000	20000

Final Account

Profit and Loss A/c a for the year end 31.3.2017

Particulars		Amount ₹
To Provision for Bad and doubtful debts		
Balance to be maintained (as on 31.3.2017)	25000	
Add : Bad debts given in Trial balance	10,000	
Add : Additional Bad debts	5000	
	40,000	
Less : Balance of Provision on 1.4.16 (Old Provision)	20,000	20,000

Note: Provision for Bad and doubtful debts to be maintained is calculated as follows: = (2,55,000-5000) x 10% = 25000

Balance Sheet as on 31.3.2017

		Assets		Amount ₹
		Debtors	2,55,000	
		Less: Bad Debt	5000	
		Less: Provision for doubtful debts	25,000	2,25,000

2. **Provision for Discount on Debtors**

In order to promote debtors for quick payment of their dues, cash discount is given. This discount is loss for the business. Cash discount is given to good debtor. Hence, while determining the amount of provision for discount on debtors, bad and doubtful debts should be deducted from debtors' amount. For example 5% provisions for doubtful debts and 2% provision for discount on debtors are to be created on debtor amounting to ₹40,000, the calculation shall be made as follows:

Provosion for doubtful debts = ₹40000 x 5 % = ₹2000

Provosion on for Discouint = (40000 - 2000) x 2% = ₹760

Adjustment entries

1. **On provision for discount on debtors**

Profit and loss account A/c Dr.
To Provision for Discount on Debtors A/c

2. **On transfer of discount to provision for discount on debtors account**

Provision for discount on debtor A/c Dr.
To Discount A/c

Presentation in final account

Provision for discount on debtors is shown in debit side of profit and loss account and asset side of balance sheet by way of deducting from debtor account.

3. **Reserve For Discount on Creditors**

Creation of reserve for discount on creditors is violating the conservative concept of accounting but it is acceptable accounting practices. Just like provision for discount on debtors, provision for discount on creditors is created by passing following adjustment entry:

Reserve for Discount on Creditors A/c Dr.
To Profit and Loss A/c

Presentation in final account

Amount of provision is credited to profit and loss account and deducted from creditors in the balance sheet.

Illustration 4 The Following information are given in Trial Balance of a trader on 31.3.2017

Particulars	Dr. ₹	Cr. ₹
Debtors	1,00,000	
Provision for Bad debts		10,000
Provision for Discount on Debtors		4,000
Bad debts	6000	
Discount	2000	

Additional Information

1- Additional Bad debts is ₹2000
2- Additional Discount is ₹1000
3- Create a provision for Bad debts @ 10% on debtors
4- Create provision for discount @ 5% on debtors

You are required to make -

1- Necessary adjustment entries
2- Provision for bad debts account
3- Provision for discount on debtors
4- Show in final accounts

Solution

1 Adjustment entires

Journal Proper

Date	Particulars	Amount ₹	
		Dr. ₹	**Cr. ₹**
1	Bad debts A/c Dr. Discount A/c Dr. To Debtors A/c (Being additional bad debts and discount on debtors)	2000 1000	 3000
2	Provision for Bad debts A/c Dr. To Bad debts A/c (Being Bad debts written of)	8000	 8000
3	Provision for Discount on Debtors A/c To Discount (Being discount written of (2000+1000)	3000	 3000
4	Profit and loss A/c Dr. To Provision for Bad debts (Being amount changed from Profit and loss to maintain a provision 10% on debtors)	7700	 7700
5	Profit and Loss A/c Dr. To Provision for Discount (Being amount changed from P & L A/c for keeping the provision @ 5% (4365+3000-4000))	3365	 3365

Note: Amounts of entry 4 and 5 are derived from their respective ledger accounts.

(2) **Provision for Bad debts A/c**

Dr. Cr.

Particulars	Amount ₹	Particulars	Amount₹
To Bad debts (Posting From Journal)	8000	By Balance b/d (given in T.B.)	10000
To Balance c/d (To be maintained(1,00,000-2000-1000) x 10%)	9700	By Profit and Loss A/c (B/F)	7700
	17700		17700

(3)

Provision for Discount on debtors A/c

Dr. **Cr.**

Particulars	Amoun₹	Particulars	Amount₹
To Discount	3000	By Balance b/d	4000
To Balance c/d (1,00,000-2000-1000-9700) x 5%	4365	By Profit and Loss A/c (B/F)	3365
	73654		73654

(4) Final Accounts

Profit Loss A/c 31.3.2017

Particulars			Amount₹
To Provision for Bad debts			
Balance to be maintained on 31.3.2017 (new provision)		9700	
Add: Bad debts given in Trial Balance		6000	
Add: Additional Bad debts		2000	
	1770		
Less: Balance on 1.4.16 (Old Provision)	10000		7700
To Provision for Discount on Debtors			
New Provision 31.3.17	4365		
Add Discount	2000		
Add Additional discount	1000		
	7365		
Less Old Provision	4000		
			3365

Balance Sheet 31.03.2017

	Assets		Amount₹
	Debtors Less Additional bad debt and discount Less New Provision for Bad debts Less New Provision for Discount	1,00,000 3,000 97000 9700 87300 4365	 82935

(D) Other Adjustments

1. Closing Stock

Unsold goods available at the end of current accounting year are known as closing stock. Normally, closing stock does not appear in trial balance because valuation process of closing stock is not complete till the preparation of trial balance. Closing stock cannot be directly calculated from books because goods account is not maintained in the ledger. Purchase and sales accounts are also opened separately. Hence, stock in the beginning of the year, purchases made during the year and sales are recorded in separate accounts. To find out closing stock, physical stock checking is done and goods in stock are listed. Then pricing of goods is done and value of stock is determined. As per accounting standard -2 "Valuation of Inventories", closing stock is normally valued at market price or cost price whichever is lower. This principle is known as LCM principle. Hence, value of stock at the end is given in the question and generally appears outside the trial balance. If closing stock is valued before preparation of trial balance then it is shown in the trial balance.

Adjustment entry

A. If closing stock is given outside the trial balance as footnote

Closing Stock A/c Dr.

To Trading A/c

While preparing final accounts, closing stock is recorded on credit side of trading account and simultaneously, in order to complete double entry, it is shown in assets side of balance sheet

B. If closing stock is given in trial balance:

If closing stock is given in trial balance, the following adjustment entry is passed

Closing Stock A/c Dr.

To Purchase A/c

In such situation closing stock is shown in assets side of balance sheet. It would not be shown in trading account because closing stock has been already adjusted against purchase amount. Hence, when purchase and closing stock both are shown in trial balance, it clearly indicates that purchase account given in trial balance is Adjusted Purchase.

Although cost of goods sold (opening stock + purchase - closing stock) should be shown in debit side of trading account yet from the full disclosure point of view opening stock and purchase are shown in debit side of trading account and closing stock is shown in credit side of trading account. While solving practical problems of final account the following accounting treatment should keept in mind:

1. If closing stock appears in trial balance, it will be shown in asset side of balance sheet only.
2. If closing stock is shown outside the trial balance as footnote, it will be shown in credit side of trading account and assets side of balance sheet.
3. Closing stock is valued according to the LCM principle.
4. If final accounts of manufacturing concern are prepared, closing stock of raw material and work in progress shall be shown in stock manufacturing account and closing stock of finished goods shall be shown in trading account.
5. If adjusted purchase is given in trial balance, it means closing stock has already been deducted from current year's purchase.
6. By nature closing stock is a real account. So it should be shown in balance sheet only but due to the concept of full disclosure it is shown in credit side of trading account otherwise it is deducted from purchase amount.

Above mentioned accounting treatment may be understood through the following example:

Trial Balance

Particulars	Amount ₹	
	Dr. ₹	Cr. ₹
Opening Stock	20,000	
Purchase	60,000	
Sales		80,000

Closing stock at the end of year ₹ 30000

Impact on the final accounts

If closing stock is given outside the trial balance, it will be shown in trading account and balance sheet while preparing final account as given below:

Trading Account

Particulars	Amount ₹	Particulars	Amount ₹
To Opening Stock	20000	By Sales	80,000
To Purchase	60,000	By Closing Stock	30,000
To G.P.	30,000		
	1,10,000		1,10,000

Balance Sheet

	Assets	Amount ₹
	Closing Stock	30,000

Opening and closing stock amount may be adjusted against purchase account. In such a situation closing stock is shown in trial balance. Then trial balance shall be as follows:

Trial Balance

Particulars	Amount ₹	
Adjusted Purchase (20000 + 60000-30000)	50000	
Sales		80000
Closing Stock	30000	

Presentation in final account

Trading Account

To Adjusted Purchase	50000	By Sales	80000
To Gross Profit	30000		
	80000		80000

Balance Sheet

	Assets	Amount ₹
	Closing Stock	30000

Now it is clear that when closing stock is given outside the trial balance then it will be shown in two places at the time of preparation of trial balance i.e. trading account and balance sheet. If it is given in trial balance, it will be shown only in balance sheet

2. Mutual debts

Sometimes credit purchase is made from a person and credit sales are also made to him, in such a situation same person is included in both the lists of debtors and creditors of business. If sundry creditors and sundry debtors include amount due to and due from the same person, the lower of the two amounts is known as mutual debt or common debt and is cancelled by passing following entry.

Sundry Creditors A/c Dr.

To Sundry Debtors A/c

While preparing final accounts, amount of mutual debt should be deducted from creditors in liabilities side and also deducted from debtors in assets side of balance sheet. It is to be noted here that common debts are treated as good debt. Thus, provision for doubtful debts is computed on debtors after deducting of mutual debt

3. Goods Used Other than Sale

If goods purchased are not sold but used for other purposes, it is recorded at cost price. Hence the amount used for other purposes is subtracted from the purchase account. Adjustment entries are made as follows:

a. Goods withdrawn by owner for personal use

    Drawings A/c Dr.
        To Purchases A/c

b. On donation of goods

    Charity and Donation A/c Dr.
        To Purchases A/c

c. On goods distributed as free samples

    Free Samples A/c Dr.
        To Purchases A/c

d. On goods given to employee as gift

    Gifts and Presents A/c Dr.
        To Purchases A/c

e. On goods used for office as expenses

    Office Expenses A/c Dr.
        To Purchase A/c

So it is clear whenever goods are used for other than sale, purchase account is credited and respective head is debited.

Presentation in final account

If goods purchase are not sold but are used for other purposes, the amount shall be debited to P&L A/c and subtracted from purchase account in trading account. In the case of drawing, amount is added to drawing and shown in liabilities side by way of deducting from capital account

1. **Goods Sale on Approval Basis**

Sometimes a customer buys goods on condition that he would retain goods only when he liked otherwise he will return in certain time period, such sale is called goods sale on approved basis. Since such transactions are small, goods supplied on approved basis are recorded as sales and no separate account is opened. But this cannot be treated as sales until the buyer expreses consent or implied consent of the buyer is obtained. Therefore, if the time given to the buyer to approve the goods purchased has not expired and books are to be closed, the following journal entry is passed to nullify the effect of the entry passed earlier.

1. On cancellation of sales

   Sales A/c Dr.

   To Debtors A/c

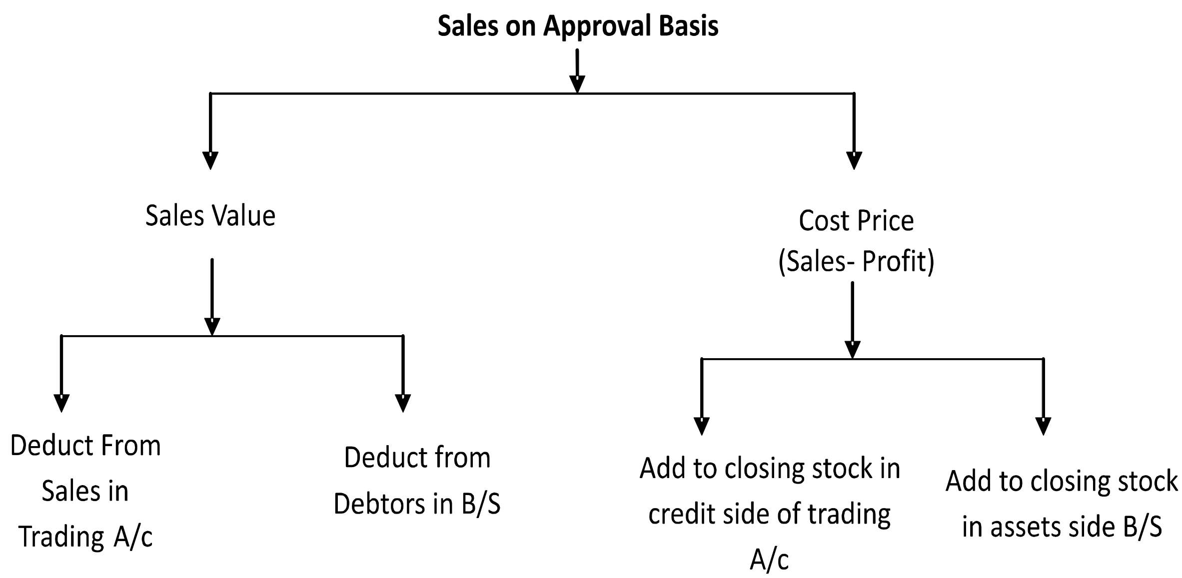
2. For goods kept by customer

   Stock on approval A/c Dr.

   To Trading A/c

Presentation in final account

The amount of goods sold on approval is subtracted from sales in trading account and also subtracted from debtors in balance sheet. The cost of goods sold on approval is credited to trading account and is also recorded in assets side of balance sheet by way of adding to closing stock. Presentation in final account can be better understood in the following manner:



5. Prior Period items

Those incomes and expenses which arise in the current period as a result of errors and omissions in the preparation of final accounts of one or more prior period is called prior period items. As per Indian accounting standard-5, amount of prior period items should be separately disclosed in the profit and loss account. Suppose rent paid of 2014 has not been recorded in the books but it came to know in the year 2016-17, while preparing final account of 2016-17 the rent paid is to be recorded in profit and loss account under the head prior period items.

6. Implied Interest

Sometimes information relating to interest payable and interest receivable is not given in the additional information but is contained in the trial balance itself indirectly. Adjustment should be made for such transactions. It is referred to as hidden adjustment. Suppose in the beginning of the year 12% loan of ₹ 1, 00,000 has been taken. The annual interest would be ₹ 12000 but in trial balance only ₹ 9000 is shown in debit side. It clear indicates current year interest of ₹ 3000 is still due. Adjustment is to be done. Such interest is called implied interest. The following adjustment entry is passed for such interest.

For payable outstanding interest

Interest A/c Dr.
To Outstanding Interest

For receivable accrued interest

Accrued Interest A/c Dr.
To Interest A/c

Explanation through an example:

Trial Balance as on 31.3.2017

	Dr.	Cr.
18% Investment (1.4.2016)	2,00,000	
24% Loan (1.10.2016)		4,00,000
Interest on Investment		18,000
Interest on Loan	40,000	

On observation of above trial balance, it is found that on 1.4.2016 Investment of ₹ 2, 00,000 has been made. So on 31.3.2017 one year interest to be received. Interest of one year is ₹ 36,000 (18% of 2, 00,000). In trial balance interest on investment of ₹ 18,000 has been shown. It implies ₹ 18,000 interest is implied interest i.e. ₹ 18,000 interest has been earned but not yet received. So the following adjustment entry shall be passed:

Accrued Interest on investment A/c Dr. 18000
To Interest on Investment 18000

Interest on 24% loan is due on 31.3.2017 for six months of ₹ 48,000 but only ₹ 40,000 has been paid as interest as shown in trial balance. Hence, ₹ 8,000 is an implied interest and still due. The following adjustment entry shall be passed.

Interest on Loan A/c Dr. 8000
To Outstanding Loan A/c 8000

In final accounts similar accounting treatment shall be made as discussed for outstanding expenses and accrued income.

7. Deferred Revenue Expenditure

Sometimes the amount of revenue expenditure incurred in large-scale and business gets benefits from such expenditure for more than one year such expenditure is called Deferred Revenue expenditure. For example heavy expenditure has been incurred on advertisement and its effect shall remain for three years then it is called deferred revenue expenditure.

While preparing final accounts deferred revenue expenditure should be written off during the life of the deferred revenue expenditure. The benefit of three years shall be received on incurring ₹90,000 on advertisement then every year ₹30,000 shall be debited to profit and loss account and balance amount shall be shown in the asset side of the balance sheet. In first year presentation in final account shall be as follows:

Profit and Loss account

Dr.

To Advertisement (90000/3)	30000	

Balance Sheet

	Assets		Amount ₹
	Advertisement Less Write off	90,000 30,000	60,000

8. Rectification of Errors

Adjustment entries related to rectification of errors have been explained in detail in chapter 5.

Illustration 5 The Following information are given in a Trial Balance of a Trader.

Trial Balance as on 31.3.2017

Particulars	**Amount ₹**	
	Dr	**Cr**
Plant	30000	
Building	50000	
Capital		80,000
Purchase	40000	

Additional Information

1. Depreciation is to be charged on plant and building 10% and 5% respectively)
2. Interest on Capital is to be allowed @ 10%
3. Goods costing ₹ 5000 were donated to orphan house

You are required to pass necessary adjustment entires and show effect on final accounts

Solution

JOURNAL PROPER

	Particulars		Amount ₹	
			Dr.	**Cr.**
	Depreciation A/c	Dr.	5500	
	To Plant A/c			3000
	To Building A/c			2500
	(Being depreciation changed)			
	Interest on Capital	Dr.	8000	
	To Capital A/c			8000
	(Being Int. on capital allowed)			
	Charity A/c	Dr.	5000	
	To purchases			5000
	(Being goods given in charity away			

Final Accounts

Trading Account for the year ending 31.3.2017

To Purchases	40,000		
Less : Goods Given			
as Charity	5,000	35,000	

Profit and loss account for the year ending 31.3.17

To. Int. on Capital	8000		
To Depreciation	5500		
To Charity	5000		

Balance Sheet

Liabilities		Amount	Assets		Amount
Capital	80000		Plant	30000	
Add. Interest on Capital	8000	88000	Less Dep.	3000	27000
			Buildings	50000	
			Less Dep.	2500	47500

₹

Illustration 6: Trial Balance of M/s Pandit Bross as on March 31, 2017

Trial Balance

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
Cash	1,000	Capital	22,000
Bank	5,000	Sales	1,25,000
Wages	8,000	Creditors	15,000
Salaries	25,000		
Furniture	15,000		
Rent of Building	13,000		
Debtors	15,500		
Bad Debts	4,500		
Purchases	75,000		
	1,62,000		**1,62,000**

Adjustments:

1. Rent of building for one month was paid in advance.
2. Closing Stock amounted to ₹ 10,000
3. Wages outstanding amounted of ₹ 500
4. Salaries included ₹ 5,000 paid in advance to an employee.
5. Furniture was to be depreciated @ 10% p.a.
6. Debtors included bad debts ₹ 2,500

Required:

1. Adjustment entries
2. Trial Balance after adjustment
3. Closing entries
4. Trading and profit and loss account
5. Trial balance after closing entries
6. Balance Sheet as at March 31, 2017

Solution

(1) Adjustment Entries

1	Advance Rent A/c	Dr.	1,000	
	To Rent of Bulding A/c			1,000
2	Closing Stock A/c	Dr.	10,000	
	To Purchases A/c			10,000
3	Wages A/c	Dr.	500	
	To Wages Outstanding A/c			500
4	Advance Salaries A/c	Dr.	5,000	
	To Salaries A/c			5,000
5	Depreciation on Furnitures A/c	Dr.	1,500	
	To FurnituresA/c			1,500
6	Bad Debts A/c	Dr.	2,500	
	To Debtors A/c			2,500

(2) Adjusted Trial Balance as on March 31, 2017

Dr. **Cr.**

	Amount ₹		**Amount ₹**
Cash	1,000	Capital	22,000
Bank	5,000	Sales	1,25,000
Wages	8,500	Creditors	15,000
Salaries	20,000	Wages Outstanding	500
Advance Salary	5,000		
Furniture	13,500		
Depreciation on Furniture	1,500		
Rent of Building	12,000		
Advance Rent	1,000		
Debtors	13,000		
Bad Debts	7,000		
Purchases	65,000		
Closing Stock	10,000		
	1,62,500		**1,62,500**

(3) **Closing Entries**

1	Trading Account	Dr.	73,500	
	To purchases A/c			65,000
	To Wages A/c			8,500
2	Sales A/c	Dr.	1,25,000	
	To Trading A/c			12,5000
3	Trading A/c	Dr.	51,500	
	To Profit and Loss A/c			51500
4	Profit and Loss A/c	Dr.	40,500	
	To Salaries A/c			20,000
	To Bad Debts A/c			7,000
	To Rent of Building A/c			12,000
	To Depreciation on Furniture A/c			1,500
5	Profit and Loss A/c	Dr.	11,000	
	To Capital A/c			11,000

(4)

Trading Account fo r the year ending March 31, 2017

Dr. **Cr.**

To Purchases (adjusted for closing stock)	65,000	By Sales	1,25,000
To Wages	8,500		
To Profit and Loss A/c (Gross Profit)	51,500		
	1,25,000		**1,25,000**

Profit and Loss Account for the year ending March 31, 2017

Dr. **Cr.**

To Salaries	20,000	By Trading A/c (Gross Profit)	51,500
To Bad Debts	7,000		
To Rent of Building	12,000		
To Depreciation on Furniture	1,500		
To Capital Account (Net Profit)	11,000		
	51,500		**51,500**

(5)

Trial Balance (After Closing of temporary accounts) as on March 31, 2017

Particulars	Amount ₹ (Dr.)		Amount ₹ (Cr.)
Cash	1,000	Capital	33,000
Bank	5,000	Creditors	15,000
Advance Salary	5,000	Wages Outstanding	500
Furniture	13,500		
Advance Rent	1,000		
Debtors	13,000		
Closing Stock	10,000		
	48,500		**48,500**

(6)

Balance Sheet as on March 31, 2017

Liabilities	**Amount (₹)**	**Assets**	**Amount (₹)**
Creditors	15,000	Cash	1,000
Wages Outstanding	500	Bank	5,000
Capital Account	33,000	Debtors	13,000
		Closing Stock	10,000
		Advance Rent	1,000
		Advance Salary	5,000
		Furniture	13,500
	48,500		**48,500**

Illustration 7. Prepare Trading and Profit and Loss Account for the year ended 31st March, 2017 and Balance Sheet as at that date from the following Trial Balance of Aditya.

Trial Balance as on March 31, 2017

Dr. Particulars	₹	Particulars	Cr. ₹
Drawings	45,000	Capital	1,60,000
Goodwill	80,000	Bills Payable	33,800
Land and Buildings	60,000	Creditors	70,000
Plant and Machinery	40,000	Purchase Returns	2,650
Loose Tools	3,000	Sales	4,18,000
Bills Receivable	3,000		
Stock, 1st April, 2016	40,000		
Purchases	2,51,000		
Wages	20,000		
Carriage Outwards	500		
Carriage Inwards	1,000		
Coal	5,800		
Salaries	35,000		
Rent, Rates & Taxes	2,800		
Discount	1,500		
Cash at Bank	25,000		
Cash in hand	400		
Sundry Debtors	45,000		
Repairs	1,800		
Printing & Stationery	500		
Bad Debts	1,200		
Advertisements	3,500		
Sales Returns	2,000		
Furniture	11,200		
General Expenses	5,250		
	6,84,450		6,84,450

Adjustments:

1. Closing Stock on 31st March, 2017 was ₹ 35000.
2. Depreciation to be charged on Plant & Machinery, Tools and Furniture by 10% and Land and Buildings by 5 %.
3. Provide ₹ 1,500 for wages
4. Advertisements prepaid are ₹ 500.
5. Provide 5% on Debtors against bad debts and 2% against discount.

Solution:

Dr. **Trading and Profit and Loss account of Aditya for the year ending 31st March, 2017** **Cr.**

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		40,000	By Sales	4,18,000	
To Purchases	2,51,000		Less:Sales	2,000	4,16,000
Less Purchases Returns	2,650	2,48,350	Returns		
To Wage s	20,000		By Closing Stock		35,000
Add:Wages Outstanding	1500	21,500			
To Carriage Inwards		1,000			
To Coal		5,800			
To Gross Profit c/d		1,34,350			
		4,51,000			**4,51,000**
To Salaries		35,000	By Gross Profit b/d		**1,34,350**
To Rent, Rates & Taxes		2,800			
To Discount	1,500				
Add : Provision for Discount on Debtors	855	2,355			
To Carriage Outwards		500			
To Repairs		1,800			
To Printing and Stationery		500			
To Advertisement	3,500				
Less:Advertisement Prepaid	5,00	3,000			
To General Expenses					
To Bad Debts	1,200	5,250			
Add : Provision for Bad & Doubtful Debts	2,250	3,450			
To Depreciation on :-					
Plant & Machinery	4000				
Tool	300				
Furniture	1120				
Land & Buildings	3000	8,420			
To Net Profit Transferred to Capital Account		71275			
		1,34,350			**1,34,350**

Balance Sheet of Aditya as on 31st March, 2017

Liabilities	₹	₹	Assets	₹	₹
Bills Payable		33,800	**Fixed Assets**		
Sundry Creditors		70,000	Goodwill		80,000
Wages Outstanding		1,500			
Capital	1,60,000		Land& Buildings	60,000	
Add : Net Profit	71,275		Less: Depreciation	3,000	57,000
Less : Drawings	45,000	1,86,275			
			Plant & Machinery	40,000	
			Less : Depreciation	4,000	36,000
			Furniture	11,200	
			Less : Depreciation	1,120	10,080
			Loose Tools	3,000	
			Less : Depreciation	300	2,700
			Current Assets		
			Cash at Bank		25,000
			Cash in Hand		400
			Bills Receivable		3,000
			Sundry Debtors	45,000	
			Less : Provision for Bad & Doubtful Debts	2,250	
				42750	
			Less : Provision for Discount on Debtors	855	41,895
			Stock		35,000
			Advertisement Prepaid		500
		291575			291575

Illustration 8: On 31st March, 2017 the following Trial Balance was prepared from the books of Aditya.

Particulars	Dr. (₹)	Cr. (₹)
Sundry Debtors	30,600	
Sundry Creditors		10,000
Bills Receivable	5,000	
Plant and Machinery	75,000	
Purchases	1,90,000	
Capital Account		70,000
Freehold Premises	50,000	
Salaries	21,000	
Wages	24,400	
Postage and Stationery	1,750	
Carriage in	1,750	
Carriage out	1,000	
Bad Debts	950	
Bad Debts Provision		350
Office General Charges	1,500	
Cash at Bank	5,300	
Cash in Hand	800	
Bills Payable		7,000
Rserve		20,000
Sales		3,31,700
Closing Stock	30,000	
	4,39,050	**4,39,050**

The Following adjustments are required

a) Aditya gets a salary of ₹ 12,000 per annum.

b) Allow 10% interest on Capital

c) Bad Debts Provision to be adjusted to 2½ % on Sundry Debtor

d) 10% of the net profit is to be credited to the Reserve.

e) It was discovered in April, 2016 that stock sheets as on 31st March, 2016 were overcast by ₹ 1,000. However, no entry was passed in April, 2016.

f) Depreciate Plant and Machinery @ 10% p.a. and Freehold Premises @ 2% p.a.

Prepare final accounts.

Solution:

Dr. **Trading and Profit & Loss ccount of Mr. Aditya** **Cr.**

for the year ending March 31, 2017

Particulars		₹	Particulars	₹
To Purchases (adjusted)		1,89,000	By Sales	3,31,700
To wages		24,400		
To Carriage Inwards		1,750		
To Gross Profit c/d		1,16,550		
		3,31,700		3,31,700
To Salaries		21,000	By Gross Profit b/d	1,16,550
To Postage & Stationery		1,750		
To Carriage Outwards		1,000		
To Office General Charges		1,500		
To Bad Debt	950			
Add: Provision for Bad & Doubtful Debts	765			
	1,715			
Less:ExistingProvision	350	1,365		
To Depreciation on :				
Plant and Macinery	7,500			
Freehold Premises	1,000	8,500		
To Overcasting of Opening Stock		1,000		
To Interest on Capital		7,000		
To Salary to Aditya		12,000		
To Reserve - 10% of ₹ 61,435		6,144		
To Capital Account - Transfer of net profit		55,291		
		1,16,550		**1,16,550**

Balance Shet of Mr. Aditya as on March 31, 2017

Liabilities	₹	₹	Assets	₹	₹
Bills Payable		7,000	Fixed Assets		
Sundry Creditors		10,000	Freehold Premises	50,000	
Reserve : Balance b/f	20,000		Less: Depreciation	1,000	49,000
Add:Current year's contribution	6,144	26144	Plant and Machinery	75,000	
Capital	70,000		Less : Depreciation	7,500	67,500
Add : Interest on Capital	7,000		Current Assets		
Aditya's Salary	12,000		Stock		30,000
Net Profit	55,291		Sundry Debtors	30,600	
		1,44,291	Less : Provision for Bad Doubtful Debts	765	29,835
			Bills receivable		5,000
			Cash at Bank		5,300
			Cash in Hand		800
		1,87,435			1,87,435

Illustration 9

From the following Trial balance of Hari and additional information, prepare Trading and Profit & Loss Account for the year ended 31st March, 2017 and a Balance Sheet as on that date.

Trial Balance

Particulars	Dr. (₹)	Cr. (₹)	Particulars	Dr. (₹)	Cr. (₹)
Capital		1,00,000	Bad Debt Written off	7,000	-
Furniture	20,000	-	Creditors	-	1,20,000
Purchases	1,50,000	-	Drawings	24,000	-
Debtors	2,00,000	-	Provision for Bad Debts	-	6,000
Interest Earned	-	4,000	Printing & Stationery	8,000	-
Salaries	30,000	-	Insurance	12,000	
Sales	-	3,21,000	Opening Stock	50,000	-
Purchase Returns	-	5,000	Office Expenses	12,000	-
Wages	20,000	-	Provision for Depreciation	-	2,000
Rent	15,000	-	Sales Return	10,000	-

Additional Information:

(a) Depreciate Furniture by 10% on original cost

(b) A provision for doubtful debts is to be created to the extent of 5% on Sundry Debtors

(c) Salaries for the months of March 2015 amounting to ₹ 3,000 were unpaid. However, salaries included ₹ 2,000 paid in advance

(d) Insurance amounting to ₹ 2,000 is prepaid

(e) Provide for outstanding office expenses ₹ 8,000

(f) Stock used for private purpose ₹ 6,000

(g) Closing Stock ₹ 60,000

Solution

Trading and Profit and loss account
for the year ending on 31st March 2017

To opening stock		50,000			
To Purchases	1,50,000		By Sales	3,21,000	
Less Returns	5,000		Less : Returns	10,000	3,11,000
	1,45,000				
Less : Goods for personal use	6,000	1,39,000	By Closing Stock		60,000
To Wages		20,000			
To Gross Profit c/d		1,62,000			
		3,71,000			3,71,000
			By Gross Profit b/d		1,62,000
To Salaries	30,000				
Add : Outstanding	3,000		By Interest		4,000
	33,000				
Less : Prepaid	2,000	31,000			
To Office expenses	12,000				
Add : Outstanding	8,000	20,000			
To Rent		15000			
To Insurance	12,000				
Less : Prepaid	2,000	10,000			
To Printing & Stantionery		8000			
To Bad debts	7000				
Add: Provision for bad debts	10,000				
Less : existing provision	6,000	11,000			
To Depreciation on Furniture		2,000			
To Net profit transferred to Capital A/c		69,000			
		1,66,000			1,66,000

Balance Sheet as on 31st March, 2017

Liabilities		Amount₹	Assets		Amount₹
Capital	1,00,000		Furniture	20,000	
Add : Net Profit	69,000		Less:Depreciation	4,000	16,000
	1,69,000		Stock		60,000
Less : Drawings	24,000		Debtors	2,00,000	
Less : Goods for personal use	6,000	1,39,000	Less : Provision	10,000	1,90,000
Creditors		1,20,000	Prepaid Salaries		2,000
Outstanding Expenses			Prepaid Insurance		2,000
Salaries	3,000				
Office	8,000	11,000			
		2,70,000			**2,70,000**

Graded Problems

Illustration10

Prepare Trading and profit and Loss Account and Balance Sheet of as on 31st March, 2017 from the following balances of Mirza.

Particulars	₹
M. Mirza's Capital Account	1,19,400
M. Mirza's Drawings Account	10,550
Sundry Creditors	59,630
15% Loan Account (Credit)	20,000
Cash in hand	3,030
Cash at Bank	18,970
Sundry Debtors (including Badri Das for dishonoured bill of ₹ 1,000)	62,000
Bill Receivable	9,500
Provision for Doubtful Debts	2,500
Fixtures and Fittings	8,970

Plant and Machinery	28,800
Stock, Ist April 2015	89680
Purchases	2,56,590
Manufacturing Wages	40,970
Sales	3,56,430
Returns Inwards	2,780
Salaries	11,000
Rent and Taxes	5,620
Interest and Discount (Debit)	5,870
Travelling Expenses	1,880
Repairs and Renwals	3,370
Insurance (Including Premium of ₹ 300 per annum paid up to 30th	400
September, 2016)	3,620
Bad Debts	5,640
Commission Received	

Stock in hand on 31st March, 2017 was ₹ 1,28,960. Write off half of Badri Da's dishonoured bill. Create a provision of 5% on Sundry Debtor Charge 10% interest on Capital. Manufacturing Wages include ₹ 1,200 for erection of new machinery purchased last year. Depreciate Plant and Machinery by 15% and Fixtures and Fitting by 10% per annum. Commission earned but not received amounts to ₹ 600. Interest on loan for the last two months is not paid.

Solution:

Dr. Trading and Profit and Loss Account of Mr. M. Mirza Cr.
for the year ended 31st March, 2017

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		89,680	By Sales	3,56,430	
To Purchases		2,56,590	Less: Sales		
To Manufacturing Wages	40,970		Returns	2,780	3,53,650
Less : Charged to Plant &	1,200	39,770	By closing		
Machinery			stock		1,28,960
To Gross Profit c/d					
		96,570			
		4,82,610			4,82,610

To Salaries		11,000			96,570
To Rent & Taxes		5,620			
To Interest & Discount	5,870		By Gross Profit b/d		
Add : Interest Outstanding	500	6,370	By Commission	5,640	
			Add : Accrued	600	
To Travelling Expenses		1880			6,240
To Repairs & Renewals		3,370			
To Insurance	400				
Less : Insurance Prepaid	150	250			
To Bad Debts	3,620				
Add : Half of Badri Dass's Dishonoured bill	500				
	4,120				
Add : Provision for Bad & Doubtful Debts required (5% on ₹ 61,000)	3,050				
	7,170				
Less : Existing Provision for Bad & Doubtful Debts	2,500	4,670			
To Depreciation on :					
Plant & Machinery @ 15%	4,500				
Furniture & Fixture @ 10%	897	5,397			
To Interest on Capital		1,940			
To Capital Account - Transfer of Net profit		52,313			
		1,02,810			**1,02,810**

Balance Sheet of Mr. M. Mirza as on 31st March 2017

Liabilities	₹	₹	Assets	₹	₹
Sundry Creditors		59,630	Fixed Assets :		
15% Loan			Plant & Machinery	28,800	
Account	20,000		Add : Wages for		
Add : Interest	500		erection of the new	1,200	
Outstanding		20,500	machine		
Capital Account	1,19,400			30,000	
Less : Drawings	10,550		Less : Depreciation	4,500	25,500
during the year	1,08,850				
Add : Interest on	11,940		Fixtures & Fittings	8,970	
Capital		173103	Less : Depreciation	897	8,073
Add: Net Profit	52313				
					-
			Current Assets :		18,970
			Cash at Bank		3,030
			Cash at Hand		9,500
			Bills Receivable	62,000	
			Sundry Debtors	500	
			Less : bad Debts	61,500	
			Less : Provision for	3,050	58,450
			Bad & Doubtful Debts		
			Stock		1,28,960
			Insurance Prepaid		150
			Commission Accrued		600
		2,53,233			**2,53,233**

Illustration 11 On 31st march, 2017 the following Trial Balance was extracted from the books of Vishwas.

Particulars	Dr. ₹	Cr. ₹
Capital Account		90,000
Plant and Machinery	80,000	
Sales		4,07,000
Purchases	2,60,000	
Returns	6,000	5,750
Opening Stock	30,000	
Discount	350	800
Bank Charges	75	
Sundry Debtors	45,000	
Sundry Creditors		25,000
Salaries	26,800	
Manufacturing Wages	40,000	
Carriage in	750	
Carriage Out	1,200	
Bad Debts Provision		525
Rent, Rates and Taxes	10,000	
Advertisement	2,000	
Cash in hand	900	
Cash in Bank	6,000	
Furniture & Fittings	20,000	
	5,29,075	**5,29075**

You are asked to prepare the final accounts for the year ended 31st March, 2017. The following adjustments are required

1. Closing Stock ₹ 35,000
2. Depreciation on Plant and Machinery @ 15% p.a. and on Furniture & Fittings @ 10% p.a. to be provided
3. Bad Debts Provision to be adjusted to ₹ 500
4. Interest on capital to be allowed at 10% per annum.
5. 15% of the profits remaining after providing interest on capital is to be carried to General Reserve

Solution

Dr. **Trading and Profit and Loss Account of Mr. Vishwas** **Cr.**

for the year ending 31st March, 2017

Particulars	**₹**	**₹**	**Particulars**	**₹**	**₹**
To Opening Stock		30,000	By Sales	4,07,000	
To Purchases	2,60,000		Less: Sales Returns	6,000	4,01,000
Less : Purchases Returns	5,750	2,54,250			
To Manufacturing Wages		40,000	By Closing Stock		35,000
To Carriage Inwards		750			
To Gross Profit c/d		1,11,000			
		4,36,000			4,36,000
To Salaries		26,800	By Gross Profit b/d		1,11,000
To Carriage Outwards		1,200	By Discount		800
To Rent, Rates & Taxes		10,000	By Provision for Bad & Doubtful Debts	525	
To Advertisement		2,000	Less : Required	500	25
To Discount		350			
To Bank Charges		75			
To Depreciation on :					
Plant and machinery	12,000				
Furniture & Fittings	2,000	14000			
To Interest on Capital		9,000			
To General Reserve (15% of ₹ 48,400)		7,260			
To Capital Account (Transfer of net profit)		41,140			
		1,11,825			**1,11,825**

Balance Sheet of Mr. Vishwas as on March, 31, 2017

Liabilities	₹	₹	Assets	₹	₹
Sundry Creditors		25,000	Fixed Assets :		
General Reserve		7,260	Plant & Machinery	80,000	
Capital	90,000		Less: Depreciation @ 15%	12,000	68,000
Add : Interest on Capital	9,000		Furniture & Fittings	20,000	
Net profit for the year	41,140	1,40,140	Less : Depreciation @ 10%	2,000	18,000
			Current Assets :		
			Stock		35,000
			Sundry Debtors	45,000	
			Less : Provision for Bad & Doubtful Debts	500	44,500
			Cash at Bank		6,000
			Cash in Hand		900
		1,72,400			**1,72,400**

Illustration 12 The following is the Trial Balance of Hari at 31st March, 2017

Particulars	₹	Particulars	₹
Hari's Capital Account	76,690	Bank Interest (Dr.)	1,100
Stock 1.4.2016	46,800	Printing and Stationery Expenses	14,400
Sales	3,89,600	Bank Balance	8,000
Returns Inwards	8,600	Discount Earned	4,440
Purchases	3,21,700	Furniture & Fittings	5,000
Returns Outwards	5,800	DIscount Allowed	1,800
Carriage Inwards	19,600	General Expenses	11,450
Rent & Taxes	4,700	Insurance	1,300
Salaries & Wages	9,300	Postage & Telegram Expenses	2,330
Sundry Debtors	24,000	Cash Balance	380
Sundry Creditors	14,800	Travelling Expenses	870
Bank Loan @ 14% p.a.	20,000	Drawings	30,000

The following adjustments are to be made

a) Included amongst the Debtors ₹ 3,000 due from Ram and included among the Creditors ₹ 1,000 due to him

b) Provision for Bad and Doubtful Debts be created at 5% and for Discount @ 2% on Sundry Debtors

c) Depreciation on Furniture & Fitting @ 10% shall be written of

d) Personal purchases of Hari amounting to ₹ 600 had been recorded in the purchases Day Book

e) interest on Bank Loan shall be provided for the whole year

f) A quarter of the amount of Printing and Stationery Expenses is to be carried forward to the next year

g) Credit purchase Invoice amounting to ₹ 400 had been omitted from the Books

h) Stock on 31.03.2017 was ₹ 78,600

Prepare (i) Trading & Profit and Loss Account for the year ended 31.3.2017 and (ii) Balance Sheet as on 31st March, 2017.

Dr. **Trading and Profit & Loss Account** **Cr.**

for the year ending on 31 March 2017

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		46,800	By Sales	3,89,600	
To Purchases	3,21,700		Less : Returns	8,600	3,81,000
Add : Omitted Purchases	400		By Closing		78,600
Less Drawings	600		Stock		
	3,21,500				
Lerss : Return	5,800	3,15,700			
To Carriage Inwards		19,600			
To Gross Profit c/d		77,500			
		4,59,600			4,59,600
To Rent and Taxe s		4,700	By Gross		
To Salarikes & Wages		9,300	Profit b/d		
To Bank Interest Paid	1,100		By Discount		77,500
Add : Outstanding	1,700	2,800	earned		4,440
To Printing & Stationery	14,400				
Less : Prepaid	3,600	10,800			
To Discount allowed		1,800			
To General expenses		11,450			
To Insurance		1,300			
To Postage &					
Telegrams		2,330			
To Travelling Expenses		870			
To Provision for Bad &					
Doubtful Debts					
(5% of ₹ 23,000)		1,150			
To Provision for					
Discount on Debtors					
(2% of ₹ 21,850)		437			
To Depreciation on					
Furniture					
To Net Profit		500			
transferred to Capital					
A/c		34,503			
		81,940			81,940

Balance Sheet as at 31st March 2017

Liabilities		₹	Amount	Assets	₹	Amount
Capital Account :				Current Assets :		
Opening Balance		76690		Stock		78,600
Add : Profit		34503		Sundry Debtors	24,000	
Less : Drawings				Less : Common		
Cash	30,000			Debt	1,000	
Goods	600	30,600	80,593	Less: Provision for		
				Bad & Doubtful	1,150	
Bank Loan			20,000	Debts		
Bank Interest due			1,700	Less : Provision for		
Sundry Creditors				Discount	437	21,413
		14,800		Printint & Stationery		
Less:CommonDebt		1,000	14,200	Bank Balance		3,600
				Cash Balance		8,000
Add : omitted invoice		400		Furniture and fittings	5000	380
				Less: Depreciation	500	4500
			1,16,493			1,16,493

1 Provision for Discount on Debtors (2% of 24000-1000 Common debt - 1150 Provosion).

2 A purchase of ₹ 400 ommited now added in purchase and creditor

Illustration 13: From the following particulars prepare Trading and Profit and Loss account and a balance sheet of Mr. 'R' as on 31-3-2017

Particulars	Debit ₹	Credit ₹
Building	5,00,000	
Machineries	2,00,000	
Furniture	1,00,000	
Cash at Bank	90,000	
Cash on hand	10,000	
18 % p.a. loan obtained by Mr. R on 1-6-201₹ on mortagage of his building		
R's capital		3,00,000
Sundry debtors/Sundry creditors	5,00,000	5,20,000
Stock on 1-4-2016	1,20,000	4,00,000
Purchases/Sales	25,00,000	32,20,000
Sales returns/Purchases returns	1,20,000	1,00,000
Rent	60,000	
Establishment expenses	1,80,000	
Electricity charges	15,000	
Telephone charges	10,000	
Commission on sales	30,000	
Insurance premium	10,000	
Bad debts	20,000	
Bills receivable	75,000	
	45,40,000	**45,40,000**

You are required to provide for depreciation on building at 5% p.a. ; on machineries at 25% p.a. ; on furniture at 10% p.a. Provision for bad and doubtful debts is to be made at 5% on sundry debtors, Mr. R's manager is entitled to a cfommission of 10% on the net profit after charging his commission. Closing stock was not taken on 31-3-2017 but only on 7-4-2017. Following transactions had taken place during the period from 1-4-2017 to 7-april, 2017 sales ₹ 2,50,000, purchases ₹1,50,000 stock on 7th April 2017 was ₹ 1,80,000 and the rate of gross profit on sales was 20%. Insurance premium mentioned in the trial balance was in respect of building and machineries. Interest on mortgage loan to be provided up to 31-3-2017 [CA (F) May, 1997] (Modified)

Solution

Dr. **Trading and Profit and Loss Account** **Cr.**

for the yerar ended 31st March, 2017

Liabilities	₹	₹		₹	₹
To Opening Stock		1,20,000	By Sales	32,20,000	
To Purchases	25,00,000		Less :		
Less:Returns	1,00,000	24,00,000	Returns	1,20,000	31,00,000
To Gross profit c/d		8,10,000	By Closing stock		2,30,000
		33,30,000			33,30,000
To Rent		60,000	By Gross profit b/d		8,10,000
To Establishment expenses		1,80,000			
To Electricity Charges		15,000			
To Telephone		10,000			
charge		30,000			
To Commission on sales		10,000			
To Insurance premium					
To Bad debts					
Add: Provision for doubtful debts	20,000				
$\left(\frac{5}{100} \times 5,00,000\right)$	25,000	45,000			
To Interest on loan $\left(\frac{18}{100} \times 3,00,000 \ \frac{10}{2}\right)$		45000			
To Depreciation					
On Building					
On Machinery					
On Furniture	25,000				
To Manager's	50,000				
commission	10,000	85,000			
$\left(\frac{10}{110} \times 3,30,000\right)$					
To Net Profit		30,000			
		3,00,000			
		8,10,000			8,10,000

Balance sheet as at 31st March, 2017

Liabilities	₹	₹	Assets	₹	₹
Capital Account :			Building	5,00,000	
Opening Balance	5,20,000		Less:	25,000	4,75,000
Add : Profit	3,00,000	8,20,000	Depreciation		
18% Mortgage Loan		3,00,000			
Interest accrued on Loan		45,000	Machineries	2,00,000	
Sundry Creditors		4,00,000	Less:	50,000	1,50,000
Commission due to			Depreciation		
R's Manager		30,000			
			Furniture	1,00,000	
			Less :	10,000	90,000
			Depreciation		
			Closing Stock		2,30,000
			Sundry Debtors	5,00,000	
			Less : Provision		
			for		
			Bad & Doubtful	25,000	
			Debts		4,75,000
			Bills Receivable		75,000
			Cash at Bank		90,000
			Cash on Hand		10,000
		15,95,000			15,95,000

Working Note: calculation of closing stock

			₹
Stock on April 7, 2017			1,80,000
Add: cost of sales	2,50,000		
Less : Gross Profit @ 20% on sales	50000	2,00,000	
		3,80,000	
Less : Purchases during the intervening period			1,50,000
Values of Stock as on 31-3-2017		2,30,000	

Illustration 14 From the following particulars for the yerar ending 31st March, 2017 of M/s ABC company, prepare Trading and Profit and Loss Account and Balance Shset on that date:

Particulars	₹	Particulars	₹
Stock 1-4-2016	23,200	Advertisement	15,950
Capital 1-4-2016	1,45,000	Apprenticeship premium	3,480
Purchases	58,000	Bill Receivable	10,150
Sales	2,32,000	Bill payable	7,250
Office Expenses	23,345	Sundry Debtors	58,000
Return Inward	4,350	Plant and Machinery	13,050
Interest on Loan	870	Sundry Creditors	45,820
Return Outward	1,160	Loan (Dr.), @ 10% on 1-4-2016	14,500
Drawings	8,700	Investment	8,700
Wages	20,010	Cash at Bank	10,150
Land and Building	1,59,500	Cash in hand	725
Furniture and Fixtures	7,250	Stock 31-3-2017	20,300

Adjustment to be made for the current year are :

1. Interest on Capital to be allowed at 5% for the year
2. Interest on drawings to be charged to him as ascertained for the year ₹ 232.
3. Apprenticeship premium is for three years received in advance on Ist April, 2016.
4. Stock valued at ₹ 8,700 destroyed by fire on 25-3-2017, but the Insurance company admitted a claim of ₹ 5,800 only to be paid in the year 2018.
5. ₹ 14,500 out of expenses is to be carried forward.
6. The Manager is entitled to a commission of 10% at the net profit calculated after charging such commission.
7. The Stock includes material worth ₹ 2,900 for which bill had not been received and therefore, not yet accounted for. [CA (PE-I)] Nov. 2002] (Modified)

Solution:

Trading and Profit and Loss Account
for the year ending 31st March, 2017

Dr. **Cr.**

Particulars	₹	₹	Particulars	₹	₹
To Opening stock		23,200	By Sales	2,32,000	
			Less : Return Inward	4,350	2,27,650
To Purchases	58,000		By Closing Stock		20,300
Less : Return outward	1,160				
	56840		By Loss of Stock by fire		8,700
Add : Unrecorded Purchases	2,900	59,740			
		20,010			
		1,53700			
		2,56650			2,56,650
To Wages					
To Gross Profited c/d			By Gross Profit b/d		153,700
			By Interest on drawings		232
			By Interest on loan	870	
To Interest on capital (5% on ₹ 1,45,000)			Add : Accrued Intersst (₹ 1,450,- ₹ 870)	580	1,450
		7,250	By Apprenticeship premium	3,480	
To Loss of Stock by fire (₹ 8,700 - ₹ 5,800)		2,900	Less : Received in advance (2/3 x ₹ 3,480)	2,320	1,160
To Office expenses		23,345			
To Advertisement	15,950				
Less : Carried Forward	14,500	1450			
To Manager's commission (10/110 x 1,21,597)		11,054			
		1,10,543			
To Net profit		**1,56,542**			**1,56,542**

Balance Sheet as on 31st March, 2017

Liabilities	₹	₹	Assets	₹	₹
Capital	1,45,000		Land and buildings		1,59,500
Add : Interest on			Plant and machinery		13,050
Capital	7250		Furniture and fixtures		7,250
Add : Net Profit	1,10,543		Investments		8,700
Less : Drawings	2,62,793		Bills receivable		10,150
Interest on drawings	8,700		Sundry debtors		58,000
Sundry creditors	232	2,53,861	Insurance claim		
Add : Unrecorded	45,820		receivable		5,800
purchases			Loan	14,500	
Bills payable	2,900	48,720	Add : Accrued interest	580	15,080
Manager's		7,250	Advertisement		14,500
Commission			Cash at bank		10,150
Payable		11,054	Cash in hand		725
Apprenticeship			Closing Stock		20300
premium received		2,320			
in advance					
		3,23,205			**3,23,205**

Illustration 15. Mr. Neel has prepared the following Trial Balance from his Ledger as on 31st March, 2017.

Particulars	Debit ₹	Credit ₹
Stock as on Ist April, 2016	5,00,000	-
Purchases and Returns	31,00,000	45,000
Sales and Returns	55,000	41,50,000
Cash in Hand	2,50,000	-
Cash at Bank	5,00,000	-
Trader's Capital	-	
Rates and Taxes		22,59,200

Drawings	50,000	
Salaries	45,000	
Postage and Telegram	95,000	
Insurance	1,05,000	
Salesman Commission	90,000	
Printing and Stationery	78,000	
Advertisement	95,500	
Furniture and Fittings	1,70,000	
Motor Car	5,50,000	
Discounts	48,000	
General Expenses	50,000	
Carriage Inward	65,700	
Carriage outward	10,000	75,000
Wages	22,000	
Sundry Debtors	50,000	
Creditors	10,00,000	
		4,00,000
	69,29,200	**69,29,200**

You are required to prepare Trading and Profit & Loss Account for the year ended on 31st March, 2017 and Balance Sheet as on that date after making the necessary adjustment :

1. Closing Stock as on 31st March, 2017, ₹ 1,45,000
2. Neel has withdrawn goods worth ₹ 50,000 during the year
3. Purchases include purchase of furniture worth ₹ 1,00,000
4. Debtors include ₹ 50,000 of bad debts.
5. Sales include goods worth ₹ 1,50,000 sent out to NN & Co. on approval and remained unsold as on 31st March, 2016. The cost of goods was ₹ 1,00,000
6. Provision for bad debts is to be created at 5% of Sundry Debtor
7. Depreciate Furniture and Fittings by 10% and Motor Car by 20%
8. The salesman is entitled to comission of 10% on total sales

[CA (PE-I)] May 2004

Solution

Dr. **Trading and Profit & Loss Account of Mr. Neel** **Cr.**

for the year ending 31st March, 2017

Particulars	Amount	Amount	Particulars	Amount.	Amount
To Opening Stock		5,00,000	By Sales	41,50,000	
To Purchases	31,00,000		Less : Returns	55,000	
Less : Returns	45,000			40,95,000	
	30,55,000		Less : Goods sent on approval	1,50,000	39,45,000
Less : For personal use	50,000				
Less : Purchase of	1,00,000		By Closing Stock	1,45,000	
Furniture		29,05,000	Add : Cost of goods		2,45,000
To Carriage Inwards		10,000	sent on approval	1,00,000	
To Wages		50,000			
To Gross Profit c/d		7,25,000			41,90,000
		41,90,000			
					7,25,000
To Rates and Taxes		50,000	By Gross Profit b/d		75,000
To Salaries		95,000	By Discounts Received		5,02,300
To Postage and Telegram		1,05,000	By Net Loss		
To Salesman's Commission	78,000				
Add : Outstanding	3,16,500	3,94,500			
To Insurance		90,000			
To Advertisement		1,70,000			
To Printing and Stationery		95,500			
To Bad Debts		50,000			
To Provision for Doubtful Debts (5% of ₹ 8,00,000)		40,000			
To Discounts Allowed		50,000			
To General Expenses		65,700			
To Carriage Outward		22,000			
To Depreciation :					
Furniture and Fittings	65,000				
Motor Car	9,600	74,600			
		13,02,300			**13,02,300**

Balance Sheet as at 31st March 2017

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital	22,59,200		Furniture & Fittings	5,50,000	
Less : Net Loss	5,02,300		Addition	1,00,000	
	17,56,900			6,50,000	
Less : Drawings	95,000	16,61,900	Less : Depreciation	65,000	5,85,000
(45,000 + 50,000)					
Sundry Creditors		4,00,000	Motor Car	48,000	
Outstanding			Less : Depreciation	9,600	38,400
Salesman's				10,00,00	
Commission		3,16,500	Sundry Debtors	0	
			Less : Sales on approval	1,50,000	
			Less : Bad Debts	8,50,000	
			Less Provision for	50,000	
			Doubtful Debts	40,000	7,60,000
			Cash in Hand		2,50,000
			Cash at bank		5,00,000
			Closing Stock		
			Add : Cost of goods	1,45,000	
			Sent on approval	1,00,000	2,45,000
		23,78,400			23,78,400

Illustration 16

The accountant of Kunal ascertained the business profits; but due to his defective knowledge or otherwise, a number of discrepancies have crept in the Trading and Profit and Loss Account prepared by him. You are required to Draft these accounts properly, ascertaining the cost of goods produced. The account prepared by the accountant is as under

Dr. **Trading and Profit and Loss Account** **Cr.**

for the year ended 31st March, 2016

Particulars	₹	₹		**Particulars**	₹	₹
To Purchases of				By Last Year's		
Raw Materials		1,34,950		Balance		43,100
Add : Returns		700		By Opening Stock		
Inwards		1,35,650		Raw materials	4,000	
Add : Closing Stock				Work in Progress	3,000	
Raw Materials	12,150			Finished Stock	4,100	11,100
Work in Progress	10,000			By Sales	1,71,000	
Finished Stock	13,700	35,850	1,71,500	Less: Returns	850	1,70,150
To Wages				Outwards		
Productive			20,000			
To Factory Expenses			16,400	By Carriage Outward	1,050	
To Factory Expenses			5,800	Less :Carriage Inward	1,000	50
Paid in Advance				By Trade Discount	3,000	
To General Office			2,500	on Purchases		
Expenses				Less : Cash Discount	100	2,900
To Salaries			6,000	Allowed		
To Distribution			1,000	By Net Loss		9,400
Expenses						
To Sales Expenses		7,000				
Less:Purchase Exp.		6,000				
To Export duty		3,000	1,000			
Less : Import duty		2,000				
To Interest on Bank			1000			
Loan			6,000			
To Depreciation on						
Plant			5,000			
To Depreciation on						
Office Furniture			500			
			2,36,700			**2,36,700**

Solution

Manufacturing, Trading and Profit and Loss Account of Mr. Kunal

Dr. **for the year ending 31st march, 2016** **Cr.**

Particulars	₹	₹	₹	Particulars	₹	₹
To Work in Progress b/d			3,000	By Work in Progress		**10,000**
To Materials Consumed				By Cost of Goods Manufactured c/f		**1,66,350**
Opening Stock RM		4,000				
Purchase (less trade Discount)		1,31,950				
		1,35,950				
Less : Returns	850					
Stock	12,150	13,000	1,22,950			
To Wages			20,000			
To Purchasing Expenses			6,000			
To Depreciation on Plant			5,000			
To Factory Expenses			16,400			
To Import Duty			2,000			
To Carriage			1,000			
			1,76,350			**1,76,350**
To Opening Stock of Finished Goods			4,100	By Sales	1,71,000	
				Less : Returns Inwards	700	1,70,300
To Cost of Manfacturing Goods b/f			1,66,350	By Stock of Finished Goods		13,700
To Gross Profit c/d			13,550			
						1,84,000
			1,84,000			
				By Gross Profit b/d		13,550
To General Office Expenses			2,500	By Net Loss transferred to Capital Account		13,600
To Salaries			6,000			
To Distribution Expenses			1,000			
To Sales Expenses			7,000			
To Export Duty			3,000			
To Interest on Bank Loan			6,000			
To Carriage Outwards			1,050			
To Discount			100			
To Depreciation on Office Furniture			500			
			27,150			**27,150**

Summary:

In order to ensure the compliance of matching concept of accounting, adjustments are required. At the end of accounting year, adjustments are made on the basis of accounting entries, such entries are called adjustment entries. Adjustment entries can be made either prior or after preparation of final accounts. If adjustment entries are made prior to the preparation of trial balance in that situation due to posting in ledger all the balances appeared in trial balance shall be done after adjustment. Such trial balance shall be called adjusted trial balance. Adjustments used while preparing the final account may be classified on the basis of expenses, income, provisions and other If adjustments are given in the trial balance then its impact shall be shown either in trading account or profit and loss account or balance sheet. But if adjustments are given outside the trial balance then it shall have its impact on two places in final accounts either in balance sheet and profit and loss account or balance sheet or trading account or trading account and profit and loss account.

Key Terminologies

1- Outstanding Expenses

2- Prepaid Expenses

3- Depreciation

4- Interest on Capital

5- Goods and Sales Tax

6- Income Tax

7- Abnormal Loss of Goods

8- Accrued Income

9- Outstanding Income

10- Unearned Income

11- Interest on Drawings

12- Doubtful Debt

13- Mutual Debt

14- Goods Sale on approval basis

15- Prior Period Items

16- Deferred Revenue Expenditure

Adjusted Trial Balance

Multiple Choice Questions

1. On which basis of accounting concept adjustment entries are required?

   (A) Traditional concept

   (B) Accounting year concept

   (C) Matching concept

(D) Going concern concept

2. Which adjustment is not included in balance sheet, while preparing the final accounts?

(A) Outstanding expenses

(B) Prepaid expenses

(C) Interest on drawing

(D) Free sample

3. When prepaid expenses were recorded as an asset initially, what will be adjustment entry at the end of the year?

(A) Particular Expenditure A/c Dr.

To Prepaid exp.

(B) Prepaid Expenses A/c Dr.

To Particular exp. A/c.

(C) Prepaid expenses A/c Dr.

To Profit and Loss A/c

(D) Profit and Loss A/c Dr.

To Prepaid expenses A/c

4. A trader earned `63000 profit before charging manager's commission. Manager is entitled to get commission @ 5% on profits after charging his commission. What will be the amount of manager's commission?

(A) ₹ 3150

(B) ₹ 3000

(C) ₹ 3316

(D) None of above

5. Given

Trial Balance on 31.03.2017

Particulars	Debit ₹	Credit ₹
Debtors	60,000	
Provision for Bad Debt		4000
Bad Debt	1000	

At the end of the year a provision for doubtful debts is to be made @ 5% on debtor In addition to above mentioned bad debts , there is no possibility to recover ₹500 from a debtor. Mr. Ram has both creditor and debtor of firm for ₹ 1000 and ₹1500 repectively. Goods sale on approval basis of ₹500 on which no approval has been received till end of the year. Determine amount charged to profit and loss account?

(A) ₹ 2850 (B) ₹ 400 (C) ₹ 2900 (D) ₹ 1100

6. Goods sale on approval basis of ₹ 5000. Selling price is determined b adding 25% profit on cost. Which statement is correct with reference to adjustment at the end of the year?

(A) ₹ 5000 shall be deducted from debtors and sales

(B) ₹ 5000 shall be deducted from debtors and ₹ 4000 added to closing stock

(C) ₹ 5000 shall be deducted from sales and ₹ 4000 added in closing stock

(D) All of above

7. If bad debts are given in the trial balance it means?

(A) Bad debts has been already deducted from debtors

(B) Bad debts shall show in debit Side of P & L A/c only at the time of preparing the final account

(C) while calculating the provision for bad and doubtful debts , bad debts shall not be deducted from debtors

(D) All of above

8. Which accounting standard (AS) is related to Prior period items?

(A) AS-5 (B) AS-3 (C) AS-6 (D) AS-10

Answers: 1 (C), 2. (D), 3. (A), 4. (B), 5. (B), 6. (D), 7. (D), 8. (A).

Very Short Answer Questions

1. Write any three adjustments based on expenses.
2. Out of interest on capital and interest on drawings, which is income and which is an expense for business?
3. Which accounting concept does restrict to create reserve on creditors?
4. What is mutual debt?
5. What is difference between accrued and outstanding income?
6. When do we do adjustment entries in the books?
7. On which accounting conept, adjustments are required?
8. While recording abnormal loss of goods, which account is credited?
9. Write any two business transactions, for which for which purchase account is credited while recording in the books?

Short Answer Questions

1. On 1.4.2016 a trader deposited ₹ 80000 in fixed deposit in Punjab National Bank @ 10% P.A. He

received ₹ 6000 in cash for interest up to 31.3.2017. While preparing final account on 31.3.2017, what adjustment entry shall be passed?

2. Salary of ₹ 50,000 for 10 months is shown in trial balance. Pass adjustment entry at the end of the year.
3. A Trader received of ₹ 20,000 as commission during the year 2015. Out of this commission the amount of ₹ 2000 and ₹ 4000 are for the year 2016 and 2017 respectively. Pass adjustment entry for commission on 31 March 2015. (RBSE-1993)
4. Write the name of adjustment based on income and expenses
5. Differentiate between outstanding income and accrued income.
6. A trader received ₹ 5200 for 13 months rent on first day of accounting year. Prepare rent account and close it at the end of the year.
7. A trader paid commission of ₹ 5000 during 2017 whose 1/5 work is incomplete. Pass adjustment entry on 31 December, 20017. (RBSE -2002)
8. In the beginning of the year provision for discount on debtors was ₹ 500. During the year discount of ₹ 400 was allowed. Give journal entry to close discount account. (RBSE- 2000)
9. What adjustment entry is made on sale of goods on approved basis?
10. Differentiate between outstanding expenses and prepaid expenses
11. While preparing final account, where does sale of goods on approved basis is shown?
12. Given

	₹
Sundry debtors	50,000
Common debts	5,000
Sale of goods on approval basis	4000
Additional Bad-debts	1000

A provision is to be made of 5% on debtors for bad and doubtful debts. Calculate provision amount. (Ans. ₹ 2000)

Essay Type Questions

1. How will you deal with the following items which are shown in trial balance, while preparing final accounts?
   1. Income Tax
   2. Outstanding Rent
   3. Advance Premium
   4. Closing Stock
   5. Interest on Capital

2. How will you deal with the following when preparing final accounts? Compare all the three cases.

Case -1

Trial Balance

Particulars	Dr. ₹	Cr. ₹
6% Loan account		40000

Case - 2

Trial Balance

Particulars	Dr. ₹	Cr. ₹
6% Loan account		40000
Interest on loan	2800	

Case - 3

Trial Balance

Particulars	Dr. ₹	Cr. ₹
6% Loan		40000
Interest on loan	1600	

1. Give adjustment entries for the following items appearing outside the trial balance.

a. Closing Stock

b. Provision for Bud debts

c. Interest on Capital

d. Loss of stock by Fire

3. What do you mean by adjustment entries? Why is it necessary? Write the names of different types of it.

4. What do you understand by provision for Bad and Doubtful Debts account? Why is it created and how is it opened?

Numerical Question

1- The Following Trial Balance was prepared in the books of Shri Ram Naryan & Sons as 31st March 2017

Name of Accounts	Debit ₹	Credit ₹
Drawing & Capital	5,000	1,00,000
Purchases and Sales	68,000	1,50,000
Sundry Debtors	40,000	-
Stock	30,000	-
Return Inward	3,000	-
Bank Overdraft	-	12,000
Salaries	17,000	-
Office heating & Lighting	2,000	-
Lease-hold property	80,000	-
Commission Received	-	2,000
Travelling Expenses	3,000	-
Printing & Stationary	1,000	-
Furniture	9,000	-
Provision for Doubtful Debts	-	4,000
Wages & Fright	10,000	-
Total	2,68,000	2,68,000

Prepare adjustment entries for the year ending 31st March, 2017 and Final accounts

1- Stock as valued at ₹ 15,000

2- Wages are still in arrear of ₹ 1,000

3- Only 75% work is completed of the commission received

4- Charge depreciation 5% on lease-held property and 10% on furniture

5- Provision for Doubtful Debts is to be maintained @ 6% on Debtors

6- A new machinery was purchased for ₹ 10,000 and payment was made by cheque, but no entry had been passed for it in the books

7- Salary ₹ 2,000 is relating to the next year

(Ans.; G.P. ₹53000, NP ₹30200, B/S ₹148700)

1- Following is the Trial Balance of the business of Mr. Aditya as on 31st December 2016

Name of Accounts	Debit ₹	Credit ₹
Capital	-	6,200
Building	6,000	-
Cash Balance	700	-
Investment purchase on 1-4-1997	1,200	-
Furniture	600	-
Debtors & Creditors	1,420	1,100
Int. on Investment For half year	-	100
Discount	20	-
Printing & Stationary	50	-
Rent & Rates	1,700	-
Wages & Octori	710	-
Purchases and Sales	8,000	12,600
Return	600	1,000
Total ₹	21,000	21,000

After considering the Following adjustments prepare final accounts with passing adjustment entries:

1- Cost Price of Stock at the end is ₹ 1,400 and Market Price is ₹ 1,300
2- ₹ 30 is outstanding for printing
3- ₹ 300 could not be realized from debtor
4- Depreciate building and furniture @ 5% P.a. and 10% P.A. respectively
5- X withdraw goods of ₹ 300 for personal use.

(Ans. GP 5590, NP 3580 B/s 10610) RBSE 1998

1- Following was the trial balance Viswas as on 31 March, 2017

Capital		1,25,000
Building	75,000	-
Stock	34,500	-
Purchases and Sales	54,750	1,28,500
Return	2,000	1,250
Furniture	6,500	-
Motor Car	60,000	-
Bad Debts	1,750	-
Provision for Doubtful Debts	-	3,000
Interest	1,000	-
Commission		3,750
Tax and Insurance	8,000	-
Cash	6,500	
Bank Overdarft		54,500
Car Expenses	9,000	
General Expenses	8,000	-
Salaries	33,000	
Debtors & Creditors	40,000	24,000
Total ₹	3,40,000	3,40,000

Prepare Trading and Profit and Loss Account and Balance Sheet taking in to account the following adjustment).

1. Stock at the end was ₹ 32,500
2. Depreciate Building by 10% and Motor Car by 15%
3. Salaries has been paid for 11 months only
4. Goods worth ₹ 1,500 given away as charity
5. Write off ₹ 500 further bad debts and increase provision for doubtful debts by 5% on debtor
6. The Motor car is wholly used for private purposed by the proprietor

(Ans. G.P. ₹ 72,500 N.P. ₹ 13025, B/s ₹ 201525) RBSE- 1999

1- The following balances were extracted form the Books of Mr. Anil on 31st March 2017

Title of Accounts	₹
Stock	68,000
Purchases	7,40,000
Sales	11,00,000
Selling Expenses	70,000
Capital	5,00,000
Creditors	1,20,000
Carriage Inward	8,000
Factory Fuel and Fright	32,000
Bill Payable	24,000
Bank Loan	40,000
Bill Receivable	50,000
Fire Insurance Premium	4,000
Return Outward	4,000
Debtors	1,74,000
Machinery	2,00,000
Building	2,80,000
Salaries and Wages	94,000
Interest on Bank Loan	4,000
Commission Received	6,000
Provision for Doubtful debts	6,000
Bad Debts	4,000
Drawing	60,000
Cash Balance	10,000
Accured Commission	2,000

Other Information

1- Stock on 31st March, 2017 was of ₹ 98,800
2- No entry has been passed in the books of account for Credit Purchases of furniture ₹ 5,000
3- Fire Insurance Premium of ₹ 300 is prepaid and outstanding interest on Bank Loan is ₹ 400
4- Provision for doubtful debt is to be maintained at 5% onDebtors
5- Charge Depreciation 5% on Building and 10% on Machinery per annum
6- Provision for Commission to Manager 10% on Net Profit before Charging such Commission

Prepare trading account, Profit & Loss Account for the year ending 31st March, 2017 and the Balance Sheet on that date.

(Ans G.P. ₹ 3,54,800, N.P. ₹ 1,33,200 B/S/ ₹ 7,77,400)

Q.5 31 The following balances were extracted form the Books of Mr. Pratik as on 31st March. 2017

Particular	Amount	Particular	Amount
Stock	34,000	Bills payable	12,000
Purchase	3,70,000	Bank Loan	20,000
Sales	5,50,000	Bill Receivable	25,000
Selling Expenses	35,000	Fire Insurance Premium	2,000
Capital	2,50,000	Return Outward	2,000
Creditors	60,000	Debtors	87,000
Return Inward	4,000	Machinery	1,00,000
Factory Fuel and Power	16,000	Building	1,40,000
Salaries & Wages	47,000	Baddebts	2,000
Interest on Bank Loan	2,000	Drawings	30,000
Commission Received	3,000	Cash in Hand	6,000
Provision for Doubtful Debts	3,000		

Other Information

1- Stock on 31st March, 2016 was of ₹ 49,400
2- Credit Purchase of ₹ 1,000 and Credit Sales of ₹ 3,000 were not recorded in books
3- Fire Insurance Premium of ₹ 500 is prepaid, outstanding interest on Bank Loan is ₹ 400 and Accured commission is ₹ 1,000
4- Provision for doubtful debts is to be maintained at 5% on Debtors

5- Charge Depreciation 5% on Building and 10% on Machinery per annum

6- Provide for manager commission @ 10% on Net Profit after charging such Commission

Prepare Trading Account, Profit & Loss Account for the yra ending 31st December 2016 and the Balance Sheet on that Date

Ans: Gross Profit ₹ 1,79,400, N.P. ₹ 70,000 B/s ₹ 3,90,400

1. From the following balance and information, prepare Trading and Prfit & Loss accounts for Mr. X for the year ended 31st March, 2017 and Balance Sheet as on that date

Particulars	Amount	Amount
Plant and Machinery	3600	
X's Capital Account	-	10,000
Depreciation on Plant & Machinery	400	-
Repair to Plant	520	-
Wages	5,400	-
Salaries	2,100	-
Income Tax of Mr. X	100	-
Cash in Hand & bank	400	-
Land & Building	14900	-
Depn. on Land & Building	500	-
Purchases	25,000	-
Purchases Return		300
Sales	-	49,800
Bank Overdraft	-	760
Acured Income	300	-
Salaries Outstanding	-	400
Bill Receivable	3,000	-
Provision for Bad-Debts	-	1,000
Bill Payable	-	1,600
Bad Debts	200	-
Discount on Purchase	-	708
Debtors	7,000	-
Creditor		6,252
Stock 1-4-2016	7,400	
Total ₹	70,820	70,820

Adjustment

1- Stock on 31st March, 2017 was of ₹ 6,000

2- Write off further ₹ 600 for Bad debts and maintain a provision for Bad debts at 5% on debtors.

3- ₹ 240 paid as Rent of the office was debited to landlord account and were included in the list of debtor

4- General manager is entitled to a commission at 10% of net profit after chargining the commission of the works manager and his own

5- Works Manager to be given commission at 12% of net profit before charging the commission of General Manager and his own.

(Ans.: Gross Profit ₹ 18300, Net Profit ₹ 12112 and Balance Sheet ₹ 34052)