

# Financial Statements-II

## (With Adjustments)

### PART 1

## Objective Questions

### • Multiple Choice Questions

1. Need or objective for adjustments in preparation of final accounts is .....  
(a) to know the correct financial position (b) to provide for all losses  
(c) to reduce the liability (d) to increase the assets

**Ans.** (a) to know the correct financial position

2. Entries which need to be accounted for in the books of accounts at the time of preparing final accounts are called .....  
(a) Opening entries (b) Closing entries (c) Adjustment entries (d) Final account entry

**Ans.** (c) Adjustment entries

3. In case of sole proprietor business, income tax is considered as  
(a) business expense (b) proprietor's expense (c) capital expense (d) All of these

**Ans.** (b) Income tax is considered as a personal expense of the owner in business, so income tax will be added to drawings and subtracted from capital.

4. If the rent of one month is still to be paid, the adjustment entry will be (NCERT)  
(a) debit outstanding rent account and credit rent account  
(b) debit profit and loss account and credit rent account  
(c) debit rent account and credit profit and loss account  
(d) debit rent account and credit outstanding rent account

**Ans.** (d) debit rent account and credit outstanding rent account

5. If the rent received in advance is ₹ 2,000, the adjustment entry will be (NCERT)  
(a) debit profit and loss account and credit rent account  
(b) debit rent account and credit rent received in advance account  
(c) debit rent received in advance account and credit rent account  
(d) None of the above

**Ans.** (b) debit rent account and credit rent received in advance account

6. Goods distributed as free samples. The effect of this entry will be  
(a) It is the proprietor's drawings  
(b) It is deducted from purchases in the trading account  
(c) It will be shown on the debit side of the profit and loss account  
(d) Both (b) and (c)

**Ans.** (d) Both (b) and (c)

7. Manager's commission is always treated as ..... expense.

- (a) outstanding (b) accrued (c) unearned (d) prepaid

**Ans.** (a) Manager's commission is calculated on net profit of the firm. It is considered as an outstanding expense for the firm, so it is transferred to liabilities side of balance sheet.

8. If the insurance premium paid ₹ 1,000 and prepaid insurance ₹ 300, the amount of insurance premium shown in profit and loss account will be

(NCERT)

- (a) ₹ 1,300 (b) ₹ 1,000 (c) ₹ 300 (d) ₹ 700

**Ans.** (d) Total amount of insurance premium paid = 100

$$\begin{array}{r} (-) \text{ Prepaid insurance} \\ \hline = (300) \\ \hline \text{₹ 700} \end{array}$$

9. Consider the following statement.

- (i) Interest on capital is an expense for the proprietor.  
(ii) Interest on capital is shown on the debit side of profit and loss account.  
(iii) It is added to the capital in the balance sheet.

**Alternatives**

- (a) (i), (ii), (iii) are correct (b) Both (i) and (ii) are correct  
(c) Both (ii) and (iii) are correct (d) (i), (ii), (iii) are incorrect

**Ans.** (c) Interest on capital is an expense for business.

10. Match the following.

Column I	Column II
A. Closing stock	(i) Current liability
B. Manager's commission	(ii) A court case
C. Depreciation	(iii) Valued at cost or market price, whichever is lower
D. Contingent liability	(iv) Allocation of cost

**Codes**

A	B	C	D	A	B	C	D
(a) (iii)	(iv)	(ii)	(i)	(b) (iii)	(i)	(iv)	(ii)
(c) (iii)	(iv)	(i)	(ii)	(d) (iii)	(ii)	(i)	(iv)

**Ans.** (b) (iii), (i), (iv), (ii)

11. Loan from bank @ 12% per annum is ₹ 8,00,000. Interest on loan is due for the whole year. Amount shown on liabilities side of balance sheet will be

- (a) ₹ 8,00,000 (b) ₹ 8,12,000 (c) ₹ 8,90,000 (d) ₹ 8,96,000

**Ans.** (d) Amount transferred to liability side will be as follows

$$\text{Interest} = \left( \frac{8,00,000 \times 12}{100} \right) = ₹ 96,000$$

$$\text{Total amount} = 8,00,000 + 96,000 = ₹ 8,96,000$$

12. On 20th March, 2020 stock worth ₹ 80,000 was destroyed by fire. The stock was insured and the insurance company admitted full claim.

Which of the following journal entry/entries will be passed for above situation?

- (i) Loss by Fire A/c Dr 80,000  
To Trading A/c 80,000  
(ii) Insurance Company Dr 80,000  
To Loss by Fire A/c 80,000

(iii) Profit and Loss A/c	Dr	80,000
To Loss by Fire A/c		80,000

**Alternatives**

- (a) Only (i)                      (b) Only (ii)                      (c) Both (i) and (ii)                      (d) Both (ii) and (iii)

**Ans.** (c) Both (i) and (ii)

**13.** Consider the following information.

Cost of New Machine Purchased = ₹ 1,20,000

Installation Expenses = ₹ 30,000

Estimated Life of Machine = 5 years

Residual Value after 5 years = ₹ 25,000

Company started the production with this machine from 1st October, 2020. Assuming that the firm closes its accounts on 31st December every year, find the adjusted value of machine on 31st December, 2020?

- (a) ₹ 1,43,750                      (b) ₹ 1,25,000                      (c) ₹ 1,75,000                      (d) None of these

**Ans.** (a) Value of machine = Depreciation on Machine =  $\left( \frac{1,20,000 + 30,000 - 25,000}{5} \right) \times \frac{3}{12} = ₹ 6,250$

So, adjusted value of machine = (Purchase Value + Installation Expenses – Depreciation)  
 $= (1,20,000 + 30,000 - 6,250) = ₹ 1,43,750$

**14.** ABC limited has taken a loan worth ₹ 5,50,000 from Vishal @ 10% per annum for the whole year.

Which of the following journal entries will be passed in books of ABC limited to incorporate above adjustment?

- |                          |    |        |
|--------------------------|----|--------|
| (i) Interest on Loan A/c | Dr | 55,000 |
| To Loan A/c              |    | 55,000 |
| (ii) Profit and Loss A/c | Dr | 55,000 |
| To interest on Loan A/c  |    | 55,000 |
| (iii) Trading A/c        | Dr | 55,000 |
| To Interest on Loan A/c  |    | 55,000 |

**Alternatives**

- (a) Only (ii)                      (b) Only (iii)  
 (c) Both (i) and (ii)                      (d) Both (i) and (iii)

**Ans.** (c) Both (i) and (ii)

**15** Rahul's trial balance provide you the following information.

Debtors	₹ 80,000
Bad Debts	₹ 2,000
Provision for Doubtful Debts	₹ 4,000

It is desired to maintain a provision for bad debts of ₹ 1,000. State the amount to be debited/credited in profit and loss account. (NCERT)

- (a) ₹ 5,000 (Debit)                      (b) ₹ 3,000 (Debit)                      (c) ₹ 1,000 (Credit)                      (d) None of these

**Ans.** (c) Bad Debts = 2,000  
 New Provision = 1,000  
3,000  
 (–) Old Provision = (4,000)  
(₹ 1,000)

## • Assertion-Reasoning MCQs

**Direction** (Q. Nos. 1 to 6). *There are two statements marked as Assertion (A) and Reason (R). Read the statements and choose the appropriate option from the options given below.*

- (a) Assertion (A) is correct, but Reason (R) is false
- (b) Both Assertion (A) and Reason (R) are true
- (c) Both Assertion (A) and Reason (R) are false
- (d) Assertion (A) is false, but Reason (R) is true

**1. Assertion (A)** Accrued income given in adjustment is added to respective income on the credit side of profit and loss account and also shown on asset side of balance sheet.

**Reason (R)** Accrued income is provided as per accrual concept of accounting.

**Ans.** (b) Under accrual concept of accounting, income is recognised when goods or services have been sold whether the amount has been received or not. Since, it is an income it is credited to profit and loss account and as it is due to the enterprise, thus shown in balance sheet.

**2. Assertion (A)** Provision for doubtful debts is shown on asset side of balance sheet by way of deduction from sundry debtors.

**Reason (R)** It is created in accordance to convention of full disclosure.

**Ans.** (a) It is created in accordance to convention of conservatism.

**3. Assertion (A)** Bad debts stated in adjustment are debited to trading account and shown on assets side by deducting them from debtors.

**Reason (R)** Bad debts is an indirect expense which is irrecoverable from debtors.

**Ans.** (d) Bad debts is an indirect expense, thus are shown on debit side of profit and loss account.

**4. Assertion (A)** Depreciation specified in adjustment is shown on debit side of trading account and on asset side by way of subtraction from value of fixed assets.

**Reason (R)** Depreciation is a direct and non-cash expense which leads to decrease in value of assets.

**Ans.** (c) Depreciation is an indirect expense and shown on debit side of profit and loss account.

**5. Assertion (A)** Goods distributed as free samples are recorded at purchase cost.

**Reason (R)** Goods distributed as sample is not a sale, but advertisement expense.

**Ans.** (b) When goods are distributed as free samples to promote sales, then stock will get reduced and it is an advertisement expenditure.

**6. Assertion (A)** Outstanding salary given in adjustment is added to salary account on debit side of profit and loss account and exhibited on liability side of balance sheet.

**Reason (R)** Outstanding salary is provided as per accrual concept of accounting.

**Ans.** (b) Outstanding expenses are provided as per accrual concept of accounting to which all expenses for the year, whether paid or not should be recorded.

## • Case Based MCQs

**Directions** *Read the following text and answer the question no. (i) to (iv) on the basis of the same.*

**1.** CA Rahul Gupta works as a chartered accountant at Netware clothing in Kamla Nagar. Netware clothing deals in Western clothes and dresses. Rahul gupta is working here for the past 8 years.

On 31st March, 2020, Rahul prepared trial balance after preparation of accounts and subsidiary books. His trial balance total also agreed. But CA Rahul, being a diligent CA checked all the books of accounts again and discovered some of the information which were not taken into consideration.

Following trial balance was prepared by CA Rahul and additional information found by him.

**Trial Balance**  
as on 31st March, 2020

Name of Accounts	Debit Balance (₹)	Credit Balance (₹)
Capital	—	2,70,000
Drawings	19,440	—
Land and Building	75,000	—
Plant and Machinery	42,810	—
Furniture and Fixtures	3,750	—
Carriage Inwards	13,110	—
Wages	64,410	—
Salaries	14,010	—
Provision for Bad Debts	—	7,410
Sales	—	2,73,690
Sales Return	5,280	—
Bank Charges	420	—
Gas and water	2,160	—
Rates and Taxes	2,520	—
Discount	—	360
Purchases	1,26,480	—
Purchases Return	—	25,380
Bills Receivable	3,810	—
Trade Expenses	5,970	—
Sundry Debtors	1,13,400	—
Sundry Creditors	—	36,510
Stock (1st April, 2019)	79,260	—
Apprentice Premium	—	1,500
Fire Insurance	1,470	—
Cash at Bank	39,000	—
Cash in Hand	2,550	—
<b>Total</b>	<b>6,14,850</b>	<b>6,14,850</b>

**Adjustments**

Charge depreciation on land and building at  $2\frac{1}{2}\%$ , on plant and machinery at 10% and on furniture and fixtures at 10%. Make provision of 5% on debtors for doubtful debts. Carry forward the following unexpired amounts

- |                                |                            |
|--------------------------------|----------------------------|
| (a) Fire insurance ₹ 375       | (b) Rates and taxes ₹ 720  |
| (c) Apprentice premium ₹ 1,200 | (d) Closing stock ₹ 88,170 |

CA Rahul immediately incorporated above adjustments while preparing final accounts of Netware clothings.

- (i) Which of the undermentioned options reflect correct treatment for following adjustment?

Make provision of 5% on debtors for doubtful debts.

- |  |
|--|
| (a) ₹ 5,670 debited to profit and loss account and deducted from sundry debtors in balance sheet.  |
| (b) ₹ 13,080 debited to profit and loss account and deducted from sundry debtors in balance sheet. |
| (c) ₹ 5,670 debited to trading account and deducted from sundry debtors in balance sheet.          |
| (d) ₹ 13,080 debited to trading account and deducted from sundry debtors in balance sheet.         |

**Ans.** (a) Provision for Doubtful Debts =  $1,13,400 \times \frac{5}{100} = ₹ 5,670$

- (ii) Which of the following will be the amount of rates and taxes shown in profit and loss account?  
 (a) ₹ 1,800 (b) ₹ 2,520 (c) ₹ 3,240 (d) ₹ 720

**Ans.**

(a) Rent and taxes	2,520
(-) Unexpired rent and taxes	(720)
	<u>₹ 1,800</u>

₹1,800 will be the amount of rates and taxes shown in profit and loss account.

- (iii) At what amount, land and building will be shown in balance sheet?  
 (a) ₹ 75,000 (b) ₹ 76,800 (c) ₹ 73,125 (d) ₹ 76,875

**Ans.** (c) Land and building = 75,000

(-) Depreciation = (1,875)

$$\left[ \frac{2.5}{100} \times 75,000 \right] \quad \underline{\underline{₹ 73,125}}$$

- (iv) Which of the undermentioned amount is correct answer for apprentice premium to be shown in profit and loss account?

(a) ₹ 300 (b) ₹ 1,500 (c) ₹ 1,200 (d) ₹ 1,800

**Ans.**

(a) Apprentice Premium =	1,500
(-) Unexpired =	(1,200)
	<u>₹ 300</u>

**2. Direction** Read the following text and answer the question no. (i) to (iv) on the basis of the same.

Aman Mathur recently cleared his final CA exam in his 1st attempt. He is now appointed as a CA in Gopal Das Textiles, Chandni Chowk. On 31st March, 2020, he prepared trial balance whose total also agreed. But later he discovered some additional information which has to be taken into account while preparing final accounts. After taking into account few adjustments, he prepared final accounts of Gopal Das Textiles. Following trial balance was prepared by CA Aman Mathur and undermentioned adjustments were discovered by him.

Name of Accounts	Debit Balance (₹)	Credit Balance (₹)
Cash in Hand	20,000	—
Cash at Bank	1,80,000	—
Purchase and Sales	22,00,000	35,00,000
Return Inwards	60,000	—
Return Outwards	—	75,000
Carriage on Purchases	44,000	—
Carriage on Sales	21,000	—
Fuel and Power	1,55,000	—
Stock (1st April, 2019)	3,60,000	—
Bad Debts	62,000	—
Bad Debts Provision	—	25,000
Debtors and Creditors	8,20,000	3,00,000
Capital	—	21,70,000
Investments	2,00,000	—
Interest on Investments	—	20,000
Loan from X (@ 18% per annum)	—	1,00,000
Repairs	15,200	—
General Expenses	1,06,000	—
Land and Buildings	18,00,000	—
Wages and Salaries	1,80,000	—
Miscellaneous Receipts	—	1,200
Bills Payable	—	52,000
Stationery	20,000	—
<b>Total</b>	<b>62,43,200</b>	<b>62,43,200</b>

**Additional Information**

- (a) Written-off ₹ 20,000 as bad debts and provision for doubtful debts is to be maintained at 5% on debtors.
- (b) Loan from X was taken on 1st August, 2018. No interest has been paid so far.
- (c) Included in general expenses is insurance premium ₹ 12,000, paid for one year ending 30th June, 2020.
- (d)  $\frac{1}{3}$  of wages and salaries is to be charged to trading account and the balance to profit and loss account.
- (e) Entire stationery was used by the proprietor for his personal purpose.
- (f) Closing stock was valued at ₹ 5,00,000.

(i) Which of the following amount of loan will be shown in balance sheet?

- (a) ₹ 1,12,000                      (b) ₹ 88,000                      (c) ₹ 1,00,000                      (d) ₹ 1,24,000

**Ans.** (a) Interest on loan =  $1,00,000 \times \frac{8}{12} \times \frac{18}{100}$   
 $= ₹ 12,000$

Amount of interest shown in balance sheet =  $1,00,000 + 12,000$

$$= ₹ 1,12,000$$

(ii) Calculate the amount of wages and salaries to be debited to profit and loss account?

- (a) ₹ 60,000                      (b) ₹ 1,80,000                      (c) ₹ 1,20,000                      (d) ₹ 3,00,000

**Ans.** (c) Amount of wages and salaries

$$\begin{aligned} \text{Shown in profit and loss account} &= \left[ 1,80,000 - \frac{1}{3} \times 1,80,000 \right] \\ &= ₹ 1,20,000 \end{aligned}$$

(iii) Which of the following will be the correct treatment for entire stationery used by proprietor for his personal purpose?

- (a) Only shown in balance sheet as drawings.
- (b) Shown as expense in profit and loss account and drawings in balance sheet.
- (c) Shown as expense in trading account and drawings in balance sheet.
- (d) None of the above

**Ans.** (a) Only shown in balance sheet as drawings.

(iv) Which of the following amount of prepaid insurance premium will be shown in balance sheet?

- (a) ₹ 6,000                      (b) ₹ 5,000                      (c) ₹ 4,000                      (d) ₹ 3,000

**Ans.** (d) Prepaid insurance premium =  $12,000 \times \frac{3}{12} = ₹ 3,000$

## PART 2

# Subjective Questions

### • Short Answer (SA) Type Questions

1. What are the adjusting entries? Why are they necessary for preparing final accounts?

Or

Why is it necessary to record the adjusting entries in the preparation of final accounts? (NCERT)

**Ans.** It is the entry passed to record expenses and incomes that relate to the accounting period but are yet to be paid or received.

The need of making various adjustments are stated below

- (i) To ascertain the true profit or loss of the business.
- (ii) To determine the true financial position of the business.
- (iii) To make a record of the transactions earlier omitted in the books.
- (iv) To rectify the errors committed in the books.
- (v) To complete the incomplete transactions.

2. State the meaning of (NCERT)

- (i) Outstanding expenses
- (ii) Prepaid expenses
- (iii) Income received in advance

**Ans.** (i) **Outstanding Expenses** Those expenses whose benefit have been derived during the current year but payment is not made at the end of the year are known as outstanding expenses.

(ii) **Prepaid Expenses** Those expenses which have been paid in current year but the benefit of which will be available in the next accounting year are known as prepaid expenses.

(iii) **Income Received in Advance** The income or portion of income which is received during the current accounting year but has not been earned is called unearned income.

3. What is meant by closing stock? Show its treatment in final accounts. (NCERT)

**Ans.** Closing stock implies the value of unsold goods at the end of an accounting period. Closing stock is valued at cost or net realisable value, whichever is lower.

If closing stock is given in adjustment, it will be shown on the credit side of trading account and will also be shown on the assets side of balance sheet under current assets. If closing stock is given in trial balance, it will only be shown on the assets side of balance sheet under current assets.

4. What is meant by provision for doubtful debts? Why is it necessary to create a provision for doubtful debts at the time of preparation of final accounts?

**Ans.** The provision for doubtful debts is estimated amount of bad debts that will arise from amount receivable from debtors. In order to bring an element of certainty in amount of debtors, a provision for doubtful debts is created to cover the loss of possible bad debts as per the principle of prudence or conservatism.

5. Consider the following extract of trial balance

**Extract of Trial Balance**  
as on 31st March, 2021

Name of Accounts	Debit Balance (₹)	Credit Balance (₹)
Commission Received		9,000

#### Additional Information

Commission earned but not received ₹ 1,800.

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



**Ans. Adjustment Entry**

**JOURNAL**

Particulars	Amt (Dr)	Amt (Cr)
Accrued Commission A/c To Commission A/c (Being commission receivable)	Dr 1,800	1,800

**Effect on Final Accounts**

<b>Profit and Loss Account</b> for the year ended 31st March, 2021			
Dr			Cr
Particulars	Amt (₹)	Particulars	Amt (₹)
		By Commission	9,000
		(+) Accrued Commission	1,800
			10,800

<b>Balance Sheet</b> as at 31st March, 2021			
Liabilities	Amt (₹)	Assets	Amt (₹)
		Accrued Commission	1,800

**6.** Consider the following extract of trial balance taken from Prakhar's Books

**Extract of Trial Balance**  
as at 31st March, 2021

Name of Accounts	Debit Balance (₹)	Credit Balance (₹)
Rent Received		15,600

**Additional Information**

Rent received but not earned ₹ 1,200.

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

**Ans. Adjustment Entry**

**JOURNAL**

Particulars	Amt (Dr)	Amt (Cr)
Rent A/c To Rent Received in Advance A/c (Being adjustment entry for unearned rent)	Dr 1,200	1,200

**Effect on Final Accounts**

<b>Profit and Loss Account</b> for the year ended 31st March, 2021			
Dr			Cr
Particulars	Amt (₹)	Particulars	Amt (₹)
		By Rent	15,600
		(-) Unearned Rent	(1,200)
			14,400

**Balance Sheet**  
as at 31st March, 2021

Liabilities	Amt (₹)	Assets	Amt (₹)
Unearned Rent	1,200		

**7.** Consider the following extract of trial balance taken from books of Harshit Enterprises.

**Extract of Trial Balance**  
as on 31st March, 2021

Name of Accounts	Debit Balance (₹)	Credit Balance (₹)
Bad Debts	10,800	—
Provision for Bad and Doubtful Debts (1st April, 2020)	—	22,500
Sundry Debtors	6,00,000	—

**Additional Information**

- (i) Write-off further bad debts ₹ 6,000.
  - (ii) Provision for doubtful debts to be maintained at 5% on sundry debtors.
  - (iii) Create a provision for discount on sundry debtors at 3%.
- Show effect on profit and loss account and balance sheet.

**Ans. Effect on Final Accounts**

**Profit and Loss Account**  
for the year ended 31st March, 2021

Dr		Cr	
Particulars	Amt (₹)	Particulars	Amt (₹)
To Bad Debts	10,800		
(+) Further Bad Debts	6,000		
	16,800		
(+) New Provision	29,700		
	46,500		
(-) Old Provision	(22,500)		
	24,000		
To Provision for Discount on Debtors	16,929		

**Balance Sheet**  
as at 31st March, 2021

Liabilities	Amt (₹)	Assets	Amt (₹)
		Sundry Debtors	6,00,000
		(-) Further Bad Debts	(6,000)
			5,94,000
		(-) New Provision for Doubtful Debts	(29,700)
		(5% on 5,94,000)	5,64,300
		(-) Provision for Discount on Debtors	(16,929)
		(3% on 5,64,300)	5,47,371

8. Consider the following extract of trial balance taken from books of Mehta Limited.

**Extract of Trial Balance**  
as at 31st March, 2021

Name of Accounts	Debit Balance (₹)	Credit Balance (₹)
Purchases	1,00,000	—
Capital	—	3,00,000

**Additional Information**

During the year, the proprietor, Mr Mehta withdrew goods worth ₹ 5,000.

Pass an adjusting entry and show effect on financial statements.

**Ans. Adjusting Entry**

**JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Drawings A/c Dr To Purchases A/c		5,000	5,000

**Effect on Financial Statements**

**Trading Account**

for the year ended 31st March, 2021

Dr		Cr	
Particulars	Amt (₹)	Particulars	Amt (₹)
To Purchases 1,00,000			
(-) Goods withdrawn by Proprietor (5,000)	95,000		

**Balance Sheet**

as at 31st March, 2021

Liabilities	Amt (₹)	Assets	Amt (₹)
Capital 3,00,000			
(-) Goods Withdrawn by Proprietor (5,000)	2,95,000		

9. Consider the following trial balance of Rohan Limited.

**Extract of Trial Balance**  
as at 31st March, 2021

Name of Accounts	Debit Balance (₹)	Credit Balance (₹)
Purchases	1,00,000	—

**Additional Information**

During the year the proprietor, Mr Rohan distributed goods worth ₹ 10,000 as free samples.

Pass an adjusting entry and show effect on financial statements.

**Ans. Adjusting Entry**

**JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Advertisement A/c Dr To Purchases A/c		10,000	10,000

**Effect on Financial Statements**

**Trading Account**

Dr for the year ended 31st March, 2021 Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Purchases 1,00,000			
(-) Goods Distributed as Free Sample (10,000)	90,000		

**Profit and Loss Account**

Dr for the year ended 31st March, 2021 Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Advertisement Expenses	10,000		

**10.** Consider the following extract of trial balance taken from books of Manisha Enterprises.

**Extract of Trial Balance**  
as at 31st March, 2020

Name of Accounts	Debit Balance (₹)	Credit Balance (₹)
Creditors	—	18,26,400
Debtors	40,00,000	—
Purchases	7,22,500	—
Sales	—	7,98,920

**Additional Information**

- (i) Credit sales of ₹ 9,000 were not recorded in books of accounts.
- (ii) Received ₹ 98,000 worth of goods on 29th March, 2020 but the invoice of purchases was not recorded.

**Ans.**

**Trading Account**

Dr for the year ended 31st March, 2020 Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Purchases 7,22,500		By Sales 7,98,920	
(+) Omitted Purchases 98,000	8,20,500	(+) Credit Sales 9,000	8,07,920

**Balance Sheet**

as on 31st March, 2020

Liabilities	Amt (₹)	Assets	Amt (₹)
Creditors 18,26,400		Debtors 40,00,000	
(+) Omitted Purchases 98,000	19,24,400	(+) Credit Sales Not Recorded 9,000	40,09,000

11. Following trial balance is prepared on 31st March, 2019 from a trader's book

Particulars	Dabit Balance (₹)	Credit Balance (₹)
Cash in Hand	22,000	—
Wages	20,000	—
Sales	—	5,02,000
Furniture	2,00,000	—
Bills Receivable	45,000	—
Opening Stock	84,000	—
Creditors	—	33,000
Purchases	3,60,000	—
Sales Return	6,000	—
Rent	32,000	—
Debtors	90,000	—
Insurance	22,000	—
Bad Debts	6,000	—
Carriage	4,800	—
Capital	—	3,50,000
Commission	—	6,800
<b>Total</b>	<b>8,91,800</b>	<b>8,91,800</b>

Taking into consideration the adjustments given below. Pass the journal entries for the same.

- (i) Closing stock ₹ 1,00,000
- (ii) Outstanding rent ₹ 4,200 and outstanding wages ₹ 9,000
- (iii) Prepaid insurance ₹ 7,900 and accrued commission ₹ 1,200
- (iv) Charge depreciation on furniture @ 10% p.a.

Ans.

#### JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
(i)	Closing Stock A/c Dr To Trading A/c (Being the closing stock recorded)		1,00,000	1,00,000
(ii)	Rent A/c Dr Wages A/c Dr To Rent Outstanding A/c To Wages Outstanding A/c (Being the outstanding rent and wages recorded)		4,200 9,000	4,200 9,000
(iii)	Prepaid Insurance Premium A/c Dr To Insurance Premium A/c (Being the adjustment for prepaid insurance premium recorded)		7,900	7,900
	Accrued Commission A/c Dr To Commission A/c (Being the adjustment made for accrued commission)		1,200	1,200
(iv)	Depreciation A/c Dr To Machinery A/c (Being the depreciation charged on machinery)		20,000	20,000

**Working Note**

$$\text{Depreciation of Machinery} = 2,00,000 \times \frac{10}{100} = ₹ 20,000$$

- 12.** The net profit of a firm amounts to ₹ 31,500 before charging commission. The manager of the firm is entitled to a commission of 5% on the net profits. Calculate the commission payable to the manager in each of the following alternative cases and also show its effect on final accounts.

- (i) If the manager is allowed commission on the net profit before charging such commission.  
(ii) If the manager is allowed commission on the net profit after charging such commission.  
Also, show its treatment in final accounts ending on 31st March, 2021.

**Ans.** (i) Manager's Commission = Net Profit before Charging such Commission  $\times \frac{\text{Rate of Commission}}{100}$

$$= 31,500 \times \frac{5}{100} = ₹1,575$$

(ii) Manager's Commission = Net Profit before Charging such Commission  $\times \frac{\text{Rate of Commission}}{100 + \text{Rate of Commission}}$

$$= 31,500 \times \frac{5}{105} = ₹1,500$$

**Effect on Final Accounts**

Profit and Loss Account for the year ended 31st March, 2021			
Dr			Cr
Particulars	Amt (₹)	Particulars	Amt (₹)
To Manager's Commission	1,500		

  

Balance Sheet as at 31st March, 2021			
Liabilities	Amt (₹)	Assets	Amt (₹)
<b>Current Liabilities</b>			
Manager's Commission Outstanding	1,500		

- 13.** Consider the following extract of trial balance of ABC Limited

Extract of the Trial Balance as on 31st December, 2020		
Name of Accounts	Debit Balance (₹)	Credit Balance (₹)
Loan to Kartik	16,000	

**Adjustment** Interest on Kartik's loan is due to be received @ 12% per annum for the whole year. Pass an adjusting entry and show effect on financial statements.

**Ans.** Adjustment Entries

**JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Kartik's Loan A/c Dr To Interest on Loan A/c (Being the interest on Kartik's loan due to be received)		1,920	1,920
	Interest on Loan A/c Dr To Profit and Loss A/c (Being the interest on loan credited to profit and loss account)		1,920	1,920

**Working Note**

$$\text{Interest of Loan} = 16,000 \times \frac{12}{100} = ₹ 1,920$$

**Effect on Final Accounts**

<b>Profit and Loss Account</b> for the year ended 31st December, 2020			
Dr			Cr
Particulars	Amt (₹)	Particulars	Amt (₹)
		By Interest on Loan	1,920

<b>Balance Sheet</b> as at 31st December, 2020			
Liabilities	Amt (₹)	Assets	Amt (₹)
		Kartik's Loan	16,000
		(+) Interest	1,920
			17,920

**14.** Consider the following extract of trial balance from books of Prateek Limited.

<b>Extract of Trial Balance</b> as at 31st March, 2021		
Particulars	Debit Balance (₹)	Credit Balance (₹)
Capital A/c	—	10,00,000
Drawings A/c	1,60,000	—

**Adjustment** Charge ₹ 6,000 as interest on drawings.

Pass an adjusting entry and show effect on financial statements.

**Ans. Adjustment Entries**

**JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Drawings A/c Dr To Interest on Drawings A/c (Being the interest charged on drawings)		6,000	6,000
	Interest on Drawings A/c Dr To Profit and Loss A/c (Being the interest on drawings credited to profit and loss account)		6,000	6,000

**Effect on Final Accounts**

<b>Profit and Loss Account</b> for the yeared 31st March, 2021			
Dr			Cr
Particulars	Amt (₹)	Particulars	Amt (₹)
		By Interest on Drawings	6,000

<b>Balance Sheet</b> as at 31st March, 2021			
Liabilities	Amt (₹)	Assets	Amt (₹)
Capital	10,00,000		
(-) Drawings	(1,60,000)		
	8,40,000		
(-) Interest on Drawings	(6,000)		
	8,34,000		

## • Long Answer (LA) Type Questions

- From the following trial balance of Sh. Prakash, prepare trading and profit and loss account for the year ended 31st March, 2020 and balance sheet as at that date.

Particulars	Debit Balance (₹)	Credit Balance (₹)
Purchases and Sales	5,50,000	10,40,000
Return Inwards	30,000	—
Return Outwards	—	18,000
Carriage	24,800	—
Wages and Salaries	1,17,200	—
Trade Expenses	4,400	—
Rent	—	26,000
Insurance	4,000	—
Audit Fees	2,400	—
Debtors and Creditors	2,20,000	1,24,200
Bills Receivable and Bills Payable	6,600	4,400
Printing and Advertising	11,000	—
Commission	—	2,000
Opening Stock	72,000	—
Cash in Hand	25,600	—
Cash at Bank	53,600	—
Bank Loan	—	40,000
Interest on Loan	3,000	—
Capital	—	5,00,000
Drawings	30,000	—
Fixed Assets	6,00,000	—
	17,54,600	17,54,600

### Additional Information

- Stock at the end ₹ 1,20,000.
- Depreciation to be charged on fixed assets @ 10%.
- Commission earned but not received amounting to ₹ 800.
- Rent received in advance ₹ 2,000.
- 8% interest to be allowed on capital and ₹ 1,800 to be charged as interest on drawings.

Ans.

### Trading and Profit and Loss Account for the year ending 31st March, 2020

Dr		Cr	
Particulars	Amt (₹)	Particulars	Amt (₹)
To Opening Stock	72,000	By Sales	10,40,000
To Purchases	5,50,000	(-) Return Inwards	(30,000)
(-) Return Outwards	(18,000)	By Closing Stock	1,20,000
To Carriage	24,800		
To Wages and Salaries	1,17,200		
To Gross Profit (transferred to profit and loss account)	3,84,000		
	11,30,000		11,30,000
To Trade Expenses	4,400	By Gross Profit b/d	3,84,000
To Insurance	4,000	By Commission	2,000
To Audit Fees	2,400	(+) Accrued	
To Printing and Advertising	11,000	Commission	800
To Interest on Loan	3,000	By Rent	26,000
To Depreciation on Fixed Assets	60,000	(-) Received in	
To Interest on Capital	40,000	Advance	(2,000)
To Net Profit (transferred to capital account)	2,87,800	By Interest on Drawings	1,800
	4,12,600		4,12,600



**Balance Sheet**  
as at 31st March, 2020

Liabilities	Amt (₹)	Assets	Amt (₹)
Bank Loan	40,000	Cash in Hand	25,600
Bills Payable	4,400	Cash at Bank	53,600
Creditors	1,24,200	Bills Receivable	6,600
Rent Received in Advance	2,000	Debtors	2,20,000
Capital	5,00,000	Closing Stock	1,20,000
(+) Interest on Capital	40,000	Accrued Commission	800
(+) Net Profit	2,87,800	Fixed Assets	6,00,000
	8,27,800	(-) Depreciation	(60,000)
(-) Drawings	(30,000)		
(-) Interest on Drawings	(1,800)		
	7,96,000		
	9,66,600		9,66,600

2. Following balances have been extracted from the trial balance of M/s Keshav Electronics Ltd. You are required to prepare the trading and profit and loss account and balance sheet as on 31st December, 2019.

Particulars	Amt (₹)	Particulars	Amt (₹)
Opening Stock	2,26,000	Sales	6,80,000
Purchases	4,40,000	Return Outwards	15,000
Drawings	75,000	Creditors	50,000
Buildings	1,00,000	Bills Payable	63,700
Motor Van	30,000	Interest Received	20,000
Freight Inwards	3,400	Capital	3,50,000
Sales Return	10,000		
Trade Expenses	3,300		
Heat and Power	8,000		
Salary and Wages	5,000		
Legal Expenses	3,000		
Postage and Telegram	1,000		
Bad Debts	6,500		
Cash in Hand	79,000		
Cash at Bank	98,000		
Sundry Debtors	25,000		
Investments	40,000		
Insurance	3,500		
Machinery	22,000		
	11,78,700		11,78,700

The following additional information is available

- (i) Stock on 31st December, 2019 was ₹ 30,000.
- (ii) Depreciation is to be charged on building @ 5% and motor van @ 10%.
- (iii) Provision for doubtful debts is to be maintained @ 5% on sundry debtors.
- (iv) Unexpired insurance was ₹ 600.
- (v) The manager is entitled to commission @ 5% on net profit after charging such commission.

Ans.

Dr		Trading and Profit and Loss Account for the year ending 31st December, 2019		Cr
Particulars	Amt (₹)	Particulars	Amt (₹)	
To Opening Stock	2,26,000	By Sales	6,80,000	
To Purchases	4,40,000	(-) Return	(10,000)	6,70,000
(-) Return outwards	(15,000)	By Closing Stock		30,000
To Freight Inward	3,400			
To Heat and Power	8,000			
To Gross Profit (transferred to profit and loss account)	37,600			
	7,00,000			7,00,000
To Depreciation on Building	5,000	By Gross Profit b/d		37,600
Motor Car	3,000	By Interest Received		20,000
To Bad Debts	6,500			
(+) Provision on Debtors	1,250			
To Insurance	3,500			
(-) Prepaid Insurance	(600)			
To Trade Expenses	3,300			
To Salary and Wages	5,000			
To Legal Expenses	3,000			
To Postage and Telegram	1,000			
To Manager's Commission $\left(26,650 \times \frac{5}{105}\right)$	1,269			
To Net Profit (transferred to capital account)	25,381			
	57,600			57,600

**Balance Sheet**  
as at 31st December, 2019

Liabilities	Amt (₹)	Assets	Amt (₹)
Capital	3,50,000	Building	1,00,000
(+) Net Profit	25,381	(-) Depreciation	(5,000)
	3,75,381	Motor Car	30,000
(-) Drawings	(75,000)	(-) Depreciation	(3,000)
	3,00,381	Debtors	25,000
Manager's Commission	1,269	(-) Provision on Debtors	(1,250)
Bills Payables	63,700		23,750
Creditors	50,000	Prepaid Insurance	600
		Cash in Hand	79,000
		Cash at Bank	98,000
		Investment	40,000
		Machinery	22,000
		Closing Stock	30,000
	4,15,350		4,15,350

3. The following is the trial balance of Mr Chidambram on 31st March, 2020.

Particulars	Debit Balance (₹)	Credit Balance (₹)
Cash in Hand	10,800	—
Cash at Bank	52,600	—
Purchases/Sales	8,13,500	19,75,600
Returns	13,600	10,000
Wages	2,09,600	—
Power	94,600	—
Carriage on Sales	64,000	—
10% Bank Loan	—	1,00,000
Carriage on Purchases	40,800	—
Stock (on 1st April, 2019)	1,15,200	—
Buildings	6,00,000	—
Freehold Land	2,00,000	—
Machinery	4,00,000	—
Salaries	3,00,000	—
Patents	1,50,000	—
General Expenses	60,000	—
Insurance	12,000	—
Drawings/Capital	1,04,900	14,20,000
Sundry Debtors/Creditors	2,90,000	26,000
	35,31,600	35,31,600

Taking into account the following adjustments, prepare trading and profit and loss account and the balance sheet.

- Stock in hand on 31st March, 2020 is ₹ 1,36,000.
- Machinery is to be depreciated at the rate of 10% p.a. and patent at the rate of 20% p.a.
- Salaries for the month of March, 2020 amounting to ₹ 30,000 were unpaid.
- Insurance includes a premium of ₹ 1,700 for 2020-21.
- Wages include a sum of ₹ 40,000 spent on the erection of a cycle shed for employees and customers.
- A provision for doubtful debts is to be created to the extent of 5% on sundry debtors.
- Bank loan was taken on 1st October, 2019.

Ans.

**Trading and Profit and Loss Account**  
for the year ended 31st March, 2020

Dr		Cr	
Particulars	Amt (₹)	Particulars	Amt (₹)
To Opening Stock	1,15,200	By Sales	19,75,600
To Purchases	8,13,500	(-) Return	(13,600)
(-) Return	(10,000)	By Closing Stock	1,36,000
To Wages	2,09,600		
(-) Wages Paid on Erection of a Cycle Shed	(40,000)		
To Carriage Inward	40,800		
To Power	94,600		
To Gross Profit	8,74,300		
(Transferred to profit and loss account)			
	20,98,000		20,98,000
To Carriage Outward	64,000	By Gross Profit b/d	8,74,300
To Salaries	3,00,000		
(+) Outstanding	30,000		
To General Expenses	60,000		

Particulars	Amt (₹)	Particulars	Amt (₹)
To Insurance	12,000		
(-) Prepaid	(1,700)		
To Depreciation on Machinery	40,000		
Patents	30,000		
To Provision for Doubtful Debts	14,500		
To Outstanding Interest on Bank Loan (for 6 months)	5,000		
To Net Profit Transferred to Capital A/c	3,20,500		
	8,74,300		8,74,300

**Balance Sheet**  
as at 31st March, 2020

Liabilities	Amt (₹)	Assets	Amt (₹)
Bank Loan	1,00,000	Cash in Hand	10,800
(+) Outstanding Interest	5,000	Cash at Bank	52,600
Creditors	26,000	Debtors	2,90,000
Outstanding Salaries	30,000	(-) Provision	(14,500)
			2,75,500
Capital	14,20,000	Prepaid Insurance	1,700
Opening Balance		Closing Stock	1,36,000
(+) Net Profit	3,20,500	Building (6,00,000 + 40,000)	6,40,000
	17,40,500		
(-) Drawings	(1,04,900)	Land	2,00,000
	16,35,600	Machinery	4,00,000
		(-) Depreciation	(40,000)
			3,60,000
		Patents	1,50,000
		(-) Depreciation	(30,000)
			1,20,000
	17,96,600		17,96,600

4. From the following ledger balances of Mr Navjot Singh, prepare the trading and profit and loss account for the year ended 31st March, 2020 and the balance sheet as at that date after making the necessary adjustments.

Particulars	Amt (₹)	Particulars	Amt (₹)
Trade Expenses	1,600	Purchases	1,64,000
Freight and Duty	4,000	Stock (1st April, 2019)	30,000
Carriage Outwards	1,000	Plant and Machinery (1st April, 2019)	40,000
Sundry Debtors	41,200	Plant and Machinery (additions on 1st October, 2019)	10,000
Furniture and Fixtures	10,000		
Return Inwards	4,000	Drawings	12,000
Printing and Stationery	800	Capital	1,60,000
Rent, Rates and Taxes	9,200	Provision for Doubtful Debts	1,600
Sundry Creditors	20,000	Rent for Premises Sublet	3,200
Sales	2,40,000	Insurance Charges	1,400
Return Outwards	2,000	Salaries and Wages	42,600
Postage and Telegraphs	1,600	Cash in Hand	12,400
		Cash at Bank	41,000

### Additional Information

- (i) Stock on 31st March, 2020 was ₹ 28,000.
- (ii) Write-off ₹ 1,200 as bad debts.
- (iii) Provision for doubtful debts is to be maintained @ 5%.
- (iv) Provision for depreciation on furniture and fixtures at 5% p.a. and on plant and machinery at 20% p.a.
- (v) Insurance prepaid was ₹ 200.
- (vi) A fire occurred in the godown and stock of the value of ₹ 10,000 was destroyed. It was insured and the insurance company admitted full claim.

**Ans.**

### Trading and Profit and Loss Account for the year ending 31st March, 2020

Dr		Cr	
Particulars	Amt (₹)	Particulars	Amt (₹)
To Opening Stock	30,000	By Sales	2,40,000
To Purchases	1,64,000	(-) Return Inwards	(4,000)
(-) Return Outwards	(2,000)	By Loss of Stock by Fire	10,000
To Freight and Duty	4,000	By Closing Stock	28,000
To Gross Profit (Transferred to profit and loss account)	78,000		
	2,74,000		2,74,000
To Trade Expenses	1,600	By Gross Profit b/d	78,000
To Carriage Outwards	1,000	By Rent for Premises	3,200
To Depreciation on Furniture and Fixtures	500		
To Depreciation on Plant and Machinery			
(40,000 × 20/100)	8,000		
(10,000 × 20/100 × 6/12)	1,000		
To Printing and Stationery	800		
To Rent, Rates and Taxes	9,200		
To Insurance	1,400		
(-) Prepaid	(200)		
To Salaries and Wages	42,600		
To Postage and Telegraphs	1,600		
To Provision for Doubtful Debts	2,000		
(Closing) (40,000 × 5/100)			
(+) Further Bad Debts	1,200		
	3,200		
(-) Provision for Doubtful Debts	(1,600)		
(Opening)			
To Net Profit			
(transferred to capital account)	12,100		
	81,200		81,200

**Balance Sheet**  
as at 31st March, 2020

Liabilities	Amt (₹)	Assets	Amt (₹)
Sundry Creditors	20,000	Cash in Hand	12,400
Capital		Cash at Bank	41,000
Opening Balance	1,60,000	Sundry Debtors	41,200
(+) Net Profit	12,100	(-) Further Bad Debts	(1,200)
	1,72,100	(-) Provision for Doubtful Debts	40,000
(-) Drawings	(12,000)		(2,000)
	1,60,100	Closing Stock	28,000
		Insurance Claim	10,000
		Prepaid Insurance	200
		Furniture and Fixtures	10,000
		(-) Depreciation	(500)
		Plant and Machinery	50,000
		(-) Depreciation	(9,000)
	1,80,100		41,000
			1,80,100

**Note** Sometimes, the balance in the provision for doubtful debts account is more than sufficient to meet the bad debts and the new provision required. Thus, remaining amount is then credited to the profit and loss account.

5. Prepare a trading and profit and loss account for the year ending 31st December, 2020 from the balances extracted from M/s Rahul and Sons. Also prepare a balance sheet at the end of the year.

Name of Accounts	Amt (₹)	Name of Accounts	Amt (₹)
Stock	50,000	Sales	1,80,000
Wages	3,000	Purchase return	2,000
Salary	8,000	Discount received	500
Purchases	1,75,000	Provision for bad debts	2,500
Sales return	3,000	Capital	3,00,000
Sundry debtors	82,000	Bills payable	22,000
Discount allowed	1,000	Commission received	4,000
Insurance	3,200	Rent	6,000
Rent, rates and taxes	4,300	Loan	34,800
Fixtures and fittings	20,000		
Trade expenses	1,500		
Bad debts	2,000		
Drawings	32,000		
Repair and renewals	1,600		
Travelling expenses	4,200		
Postage	300		
Telegram expenses	200		
Legal fees	500		
Bills receivable	50,000		
Building	1,10,000		
	5,51,800		5,51,800

**Adjustments**

- (i) Commission received in advance ₹ 1,000.
- (ii) Rent received ₹ 2,000.
- (iii) Salary outstanding ₹ 1,000 and insurance prepaid ₹ 800.
- (iv) Further bad debts ₹ 1,000 and provision for bad debts @ 5% on debtors and discount on debtors @ 2%.
- (v) Closing stock ₹ 32,000.
- (vi) Depreciation on building @ 6% p.a.

Ans.

Trading and Profit and Loss Account as at 31st December, 2020			
Dr		Cr	
Particulars	Amt (₹)	Particulars	Amt (₹)
To Opening Stock	50,000	By Sales	1,80,000
To Purchases	1,75,000	(-) Sales Return	(3,000)
(-) Purchases Return	(2,000)	By Closing Stock	32,000
To Wages	3,000	By Gross Loss (Transferred to profit and loss account)	17,000
	2,26,000		2,26,000
To Gross Loss b/d	17,000	By Discount Received	500
To Salary	8,000	By Commission Received	4,000
(+) Outstanding Salary	1,000	(-) Advance	(1,000)
To Discount Allowed	1,000	By Rent Received	6,000
To Insurance	3,200	(+) Accrued Rent	2,000
(-) Prepaid Insurance	(800)	By Net Loss (Transferred to capital account)	43,189
To Rent, Rates and Taxes	4,300		
To Trade Expenses	1,500		
To Bad Debts	2,000		
(+) Further Bad Debts	1,000		
(+) New Provision	4,050		
(+) Discount	1,539		
(-) Old Provision	(2,500)		
To Postage	300		
To Telegram Expenses	200		
To Repair and Renewals	1,600		
To Travelling Expenses	4,200		
To Legal Fees	500		
To Depreciation on Building	6,600		
	54,689		54,689

Balance Sheet as at 31st December, 2020			
Liabilities	Amt (₹)	Assets	Amt (₹)
Capital	3,00,000	Sundry Debtors (WN)	75,411
(-) Net Loss	(43,189)	Bills Receivable	50,000
	2,56,811	Fixture and Fitting	20,000
(-) Drawings	(32,000)	Prepaid Insurance	800
Bills Payable	22,000	Building	1,10,000
Loan	34,800	(-) Depreciation @ 6%	(6,600)
Advance Commission	1,000	Rent (Accrued)	2,000
Outstanding Salary	1,000	Closing Stock	32,000
	2,83,611		2,83,611

**Working Note**

	Amt (₹)
Sundry Debtors	82,000
(-) Further Bad Debts	(1,000)
	81,000
(-) Provision (5%)	(4,050)
	76,950
(-) Discount (2%)	(1,539)
	75,411

6. From the books of M/s Aggarwal, the following trial balance has been prepared on 31st March, 2020

**Trial Balance**  
as on 31st March, 2020

Name of Accounts	Debit Balance (₹)	Name of Accounts	Credit Balance (₹)
Purchases	19,35,000	Sales	30,00,000
Wages	2,32,500	Sales Tax Collected	2,45,000
Carriage on Purchases	1,80,000	Interest on Investment	7,000
Prepaid Insurance (1st April, 2019)	6,250	Provision for Doubtful Debts	25,000
Bad Debts	6,000	Cash Discount	45,000
Rent and Insurance	77,500	Capital	7,11,750
Salary	1,35,000	Creditors	1,87,500
Debtors	3,75,000	Outstanding Wages	9,000
Stock (31st March, 2020)	2,05,000	(31st March, 2020)	
Investment	1,00,000		
Cash	1,45,000		
Accrued Interest (31st March, 2020)	8,000		
Furniture	1,05,000		
Plant of Factory	5,00,000		
Income Tax	2,20,000		
	42,30,250		42,30,250

Prepare the trading and profit and loss account for the year ended 31st March, 2020 and the balance sheet as at that date, taking into consideration the adjustments given below

- (i) On 1st October, 2019, plant worth ₹ 1,00,000 was purchased on credit but no entry has been passed.
- (ii) Outstanding expenses rent ₹ 5,000 and salary ₹ 6,000.
- (iii) Prepaid expenses insurance ₹ 2,500 and wages ₹ 4,000.
- (iv) Goods worth ₹ 27,500 were taken for personal use by the owner but no entry has been made.
- (v) Write-off depreciation on plant and furniture @ 10% p.a.
- (vi) Write-off ₹ 5,000 from debtors as bad debts and create provision for doubtful debts @ 5% and 2% provision for discount on debtors.

**Ans.**

**Trading and Profit and Loss Account**  
for the year ending 31st March, 2020

Dr		Cr	
Particulars	Amt (₹)	Particulars	Amt (₹)
To Purchases	19,35,000	By Sales	30,00,000
(-) Goods Taken for Personal Use	(27,500)		
To Wages	2,32,500		
(-) Prepaid Wages	(4,000)		
To Carriage on Purchases	1,80,000		



Particulars	Amt (₹)	Particulars	Amt (₹)
To Gross Profit (Transferred to profit and loss account)	6,84,000		
	30,00,000		30,00,000
To Rent and Insurance 77,500			
(+) Outstanding Rent 5,000		By Gross Profit b/d	6,84,000
	82,500	By Interest on Investment	7,000
(-) Prepaid Insurance (2,500)		By Discount Received	45,000
	80,000		
(+) Prepaid Insurance Last Year 6,250	86,250		
To Bad Debts 6,000			
(+) Further Bad Debts 5,000			
(+) Provision on Debtors 18,500			
	29,500		
(-) Old Provision (25,000)	4,500		
To Depreciation on Plant 50,000			
(+) New Plant 5,000	55,000		
To Salary 1,35,000			
(+) Outstanding 6,000	1,41,000		
To Depreciation on Furniture	10,500		
To Provision for Discount on Debtors	7,030		
To Net Profit (transferred to capital account)	4,31,720		
	7,36,000		7,36,000

**Balance Sheet**  
as at 31st March, 2020

Liabilities	Amt (₹)	Assets	Amt (₹)
Capital 7,11,750		Plant (old) 5,00,000	
(+) Net Profit 4,31,720		(-) Depreciation (50,000)	4,50,000
	11,43,470	New Plant (1st October, 2019) 1,00,000	
(-) Drawings (27,500)		(-) Depreciation (for 6 months) (5,000)	95,000
	11,15,970	Prepaid Wages	4,000
(-) Income Tax Paid (2,20,000)	8,95,970	Prepaid Insurance	2,500
Sales Tax Collected 2,45,000		Furniture 1,05,000	
Outstanding wages 9,000		(-) Depreciation (10,500)	94,500
Creditors 1,87,500		Debtors 3,75,000	
Outstanding Rent 5,000		(-) Further Bad Debts (5,000)	
Outstanding Salary 6,000			3,70,000
Creditors for Plant 1,00,000		(-) Provision for Doubtful Debts (18,500)	
			3,51,500
		(-) Provision for Discount (7,030)	3,44,470
		Investment	1,00,000
		Cash	1,45,000
		Accrued Interest	8,000
		Closing Stock	2,05,000
	14,48,470		14,48,470

# Chapter Test

## Multiple Choice Questions

- Which of the following is the journal to record accrued income?  
 (a) Accrued Income A/c Dr  
     To Concerned Income A/c  
 (b) Concerned Income A/c Dr  
     To Accrued Income A/c  
 (c) Cash A/c Dr  
     To Concerned Income A/c  
 (d) Cash A/c Dr  
     To Accrued Income A/c
- Debtors given in trial balance of Rajeev Enterprises are ₹ 30,000. After creating a provision for doubtful debts @ 5% on debtors, at what value the debtors will be shown in balance sheet?  
 (a) ₹ 30,000 (b) ₹ 28,500 (c) ₹ 31,500 (d) Nil

- Extract of Trial Balance**  
as on 31st March, 2020

Name of Accounts	Debit Balance (₹)	Credit Balance (₹)
12% Bank Loan	—	40,000
Interest Paid	3,800	—

- Amount of outstanding interest will be .....  
 (a) ₹ 4,800 (b) ₹ 5,000 (c) ₹ 5,500 (d) ₹ 1,000
- Net profit of a firm before charging manager's commission is ₹ 21,000. If manager is entitled to 5% commission after charging such commission, how much manager will get as commission?  
 (a) ₹ 1,050 (b) ₹ 1,000 (c) ₹ 2,100 (d) ₹ 2,000
  - Goods worth ₹ 3,00,000 were burnt by fire and claim of ₹ 1,80,000 has been accepted by insurance company. .... will be shown on the debit side of profit and loss account.  
 (a) ₹ 1,80,000 (b) ₹ 1,20,000 (c) ₹ 3,00,000 (d) Nil
  - Which of the following statement(s) is/are true?  
 (i) Goods taken for personal use by proprietor will be shown on debit side of profit and loss account.  
 (ii) Goods taken for personal use by proprietor will be deducted from purchases.  
 (iii) Goods taken for personal use by proprietor will be deducted from capital.

### Alternatives

- (a) Both (i) and (ii) (b) Both (ii) and (iii) (c) Both (i) and (iii) (d) All of the these

## Short Answer (SA) Type Questions

- What will be the treatment of the following at the time of preparation of final accounts if given as an adjustment outside trial balance?  
 (i) Provision for discount on creditors @ 10% (ii) Bad debts @ ₹ 5,500  
 Creditors and debtors given in trial balance are ₹ 3,00,000 and ₹ 2,35,000 respectively.
- On 28th March, 2021 stock worth ₹ 80,000 were destroyed by fire. The stock was insured and the insurance company admitted a claim of ₹ 60,000 only. Give the necessary journal entries and show how it will be treated in the final accounts.
- Consider the following extract of trial balance taken from books of Raghu Enterprises.

### Extract of Trial Balance as on 31st March, 2021

Name of Accounts	Debit Balance (₹)	Credit Balance (₹)
Sundry Debtors	32,000	—
Bad Debts	2,000	—
Provision for Doubtful Debts	—	3,500

**Additional Information**

Write-off further bad debts ₹ 1,000 and create a provision for doubtful debts @ 5% on debtors.

Pass necessary journal entries and show relevant accounts (excluding final accounts)

4. Consider the following extract of trial balance taken from books of Dolly Limited and show their effect on financial statements.

**Extract of Trial Balance**  
as at 31st March, 2020

Name of Accounts	Debit Balance (₹)	Credit Balance (₹)
10% loan (1st October, 2019)	—	2,50,000

5. Consider the following extract of trial balance taken from books of Jain Enterprises and show their effect on financial statements.

**Extract of Trial Balance**  
as at 31st March, 2019

Name of Accounts	Debit Balance (₹)	Credit Balance (₹)
Insurance	3,000	

- (i) Insurance includes an annual premium of ₹ 600 on a policy expiring on 30th September, 2019.  
(ii) Closing stock included goods costing ₹ 5,600 which were sold and recorded as sales but not delivered to the customer.  
(iii) Closing stock ₹ 28,000.

**Long Answer (LA) Type Questions**

1. Prepare trading and profit and loss account for the year ended 31st March, 2021 and a balance sheet as on that date from the following trial balance.

Name of Accounts	Amt (₹)	Name of Accounts	Amt (₹)
Stock on 1st April, 2020	16,000	Sales Less Return	1,10,000
Purchases Less Return	38,000	Sundry Creditors	15,000
SP Kumar	1,500	Capital	33,900
Wages	7,700	Mortgage and Interest Due	7,800
Carriage Inwards	1,300	Rent Outstanding	500
Carriage Outwards	750		
Salaries	20,000		
Advertisements	4,500		
Trade Expenses	2,400		
Rent	6,000		
Establishment	2,700		
Stable Expenses	1,050		
Mortgage Interest	300		
Sundry Debtors	20,000		
Cash in Hand	1,250		
Machinery	43,750		
	1,67,200		1,67,200

**Additional Adjustments**

- (i) Closing stock was ₹ 23,000.  
(ii) Provision for doubtful debts be created on sundry debtors @ 5% and a provision for discount on sundry debtors at 2%.  
(iii) Salary of ₹ 1,500 paid to SP Kumar, an employee of the firm, stands debited to his personal account and it is to be corrected.  
(iv) A stationery bill for ₹ 100 remains unpaid and unrecorded.  
(v) Write-off one-third of advertisement expenses.  
(vi) Sundry creditors include ₹ 5,000 loan taken from Mr Sudhir on 1st September, 2020 bearing interest @ 12% per annum.

2. The following trial balance has been extracted from the books of Shri Manjul Kumar on 31st March, 2020.

Particulars	Debit Balance (₹)	Credit Balance (₹)
Plant and Machinery	10,00,000	—
Furniture and Fixtures	1,20,000	—
Capital Account/Drawings Account	20,000	17,60,000
Loose Tools	2,00,000	—
Goodwill	1,00,000	—
Opening Stock (1st April, 2019)	2,00,000	—
Returns	80,000	40,000
Discount	—	60,000
Purchases/Sales	21,20,000	46,80,000
Wages and Other Expenses	10,00,000	—
Provision for Doubtful Debts	—	20,000
Carriage Inwards	1,20,000	—
Salaries	4,16,000	—
General Expenses and Insurance	7,20,000	—
Rent and Taxes	1,44,000	—
Postage and Telegrams	40,000	—
Bank Overdraft	—	2,00,000
Sundry Debtors/Creditors	5,60,000	2,40,000
K Maheshwari	20,000	—
Cash and Bank Balances	1,40,000	—
	70,00,000	70,00,000

The following additional information is available

- Stock on 31st March, 2020 was ₹ 3,08,000.
- Depreciation is to be charged on plant and machinery at 5% p.a. and furniture and fixtures at 6% p.a. Loose tools are revalued at ₹ 1,60,000.
- Provision for doubtful debts is to be maintained at 5% on sundry debtors.
- Remuneration of ₹ 20,000 paid to Mr K Maheshwari, a temporary employee, stands debited to his personal account and it is to be corrected.
- Unexpired insurance was ₹ 4,000.

Prepare trading and profit and loss account for the year ended 31st March, 2020 and a balance sheet as on that date.

## Answers

### Multiple Choice Questions

1. (a) 2. (b) 3. (d) 4. (b) 5. (b) 6. (b)