

## Chapter -10

### Financial Statements-II

#### I: Fill in the blanks:-

1. Closing stock is valued at \_\_\_\_\_ price whichever is less.
2. Trading Account is prepared to ascertain \_\_\_\_\_.
3. Profit and loss Account is disclosed \_\_\_\_\_ of the business.
4. Balance sheet shows \_\_\_\_\_ of the business enterprise.
5. Assets-Capital = \_\_\_\_\_.
6. Decreasing in the value of fixed assets is called \_\_\_\_\_.
7. Bad debts recovered is recorded in \_\_\_\_\_ Account.
8. Patent is a \_\_\_\_\_ Asset.
9. Profit on sale of fixed asset is known as \_\_\_\_\_.
10. Provision for discount on debtors is calculated at a certain percentage on amount of \_\_\_\_\_ debtors.
11. The expenses paid which are related to the next year are called \_\_\_\_\_.
12. The expenses incurred but not paid upto the end of financial year are called as \_\_\_\_\_.

#### II: Multiple Choice Questions:-

1. Closing stock is value of .....  
a) Cost price    b) Market price  
c) Sales price    d) Cost price or Market price whichever is lower
2. Opening Stock appearing in the trail Balance will be shown in .....  
a) Trading account    b) Profit and Loss account  
c) Balance sheet    d) Trading A/c and also in Balance sheet
3. Stock appearing outside the trail balance will be shown in ....  
a) Trading account    b) Balance sheet  
c) Trading A/c and Balance Sheet    d) Profit and Loss account
4. Liabilities have ..... balance  
a) Debit    b) Credit  
c) Either debit or credit    d) No balance
5. Net Loss is ..... of the business  
a) A Liability    b) An Asset  
c) An Expense    d) An extraordinary loss
6. Capital is the difference between .....  
a) Income and Expenses    b) Sales and cost of goods sold  
c) Assets and liabilities    d) none of the above
7. Interest on capital is ..... for the business.  
a) Revenue    b) Expenses  
c) Gain    d) None of the above
8. Sales tax(GST) payable is a .....  
a) Current asset    b) Capital account  
c) Expenses account    d) Liability account

9. Where do you show the Bad debts given in the Trail Balance at the time of preparation of Financial Statements?
- |                  |                        |
|------------------|------------------------|
| a) Trading A/c   | b) Profit and Loss A/c |
| c) Balance Sheet | d) None of the above   |
10. In which account do you show the depreciation given in the Trail Balance at the time of preparation of Financial Statements?
- |                            |                      |
|----------------------------|----------------------|
| a) Profit and Loss account | b) Trading Account   |
| c) Balance Sheet           | d) None of the above |
11. Bank overdraft is shown as a ..... .
- |                   |               |
|-------------------|---------------|
| a) Liability      | b) Contingent |
| c) Unsecured Loan | d) Provision  |
12. Full claim accepted by Insurance Company on the Loss of goods by fire is credited to ..... A/c
- |                          |                        |
|--------------------------|------------------------|
| a) Trading A/c           | b) Profit and Loss A/c |
| c) Insurance Company A/c | d) None of the above   |
13. A surplus of revenue over its cost is known as ..... of the business
- |            |                      |
|------------|----------------------|
| a) Capital | b) Profit            |
| c) Asset   | d) None of the above |
14. Net profit is equal to ...
- |   |
|---|
| a) Sales - cost of goods sold                         |
| b) Sales - closing stock + purchases                  |
| c) Opening stock + purchases - closing stock          |
| d) Gross profit - Administrative and selling expenses |
15. Which one show the financial results of the concern for a period
- |                  |                        |
|------------------|------------------------|
| a) Trading A/c   | b) Profit and Loss A/c |
| c) Balance Sheet | d) None of the above   |
16. Which of the following is not an intangible asset?
- |                       |               |
|-----------------------|---------------|
| a) Account Receivable | b) Trade mark |
| c) Franchise          | d) Good will  |

### III: True or False:-

1. Prepaid expenses are assets of the business.
2. Unearned income is the liability of the business.
3. Accrued income or income due but not received are two different things.
4. Unearned income means income received in advance.
5. Outstanding expenses account is a liability account.
6. Provision for discount on debtor is created only on good debtors.
7. Bad debts are recoverable from the debtors.
8. Depreciation is the decline in the value of fixed assets due to wear and tear, passage of time etc.,
9. Interest on drawings is an expense for the business.
10. The statement of assets and liabilities is balance sheet.

11. Balance sheet discloses financial position of the business.
12. A person to whom the business owes is called Debtors.
13. Provision for discount on debtors can be estimated only after computing the provision for doubtful debts.
14. Balance sheet is a account.
15. Life insurance premium is treated as business expenses.

#### **IV: Very Short Answer Questions:-**

1. Give the meaning of adjustment?
2. State any one adjustment?
3. What is closing stock?
4. What is Outstanding expenses?
5. On which side of the balance sheet, Prepaid expenses are shown?
6. Give the meaning of prepaid expenses?
8. What is meant by an Accrued income?
9. What is meant by Interest on capital?
10. Give the meaning of Provision for doubtful debts?
11. Write the meaning of Provision for discount on debtors?
12. What is Bad debts?
13. What is unearned income (Income received in advance)?
14. How do you treat, Provision for discount on debtors given in adjustments while preparing Financial statements?
15. How will you treat accrued income given in adjustments while preparing financial statements?
16. What adjustment entry would you pass for depreciation?
17. How will you treat interest on capital in the financial statements?
18. Give the adjustment entry for interest on drawings?
19. How will you calculate commission payable to manager on profit before charging of such commission?
20. State any one example for Current Asset.

#### **Section-D: Twelve Marks Problems.**

1. From the following Trail Balance, prepare trading and profit and loss account for the year ending 31-3-2016 and the Balance Sheet as on that date.

<b>Name of the Account</b>	<b>Debit (Rs)</b>	<b>Credit (RS)</b>
Capital		30,000
Drawings	1,760	
Purchases and Sales	8,900	15,000
Stock (on 1-4-2015)	1,200	
Returns	280	450
Wages	800	
Buildings	22,000	
Freight charges	2,000	
Trade expenses	200	
Advertisement	240	
Interest		650
Taxes and Insurance	430	
Debtors and Creditors	6,500	1,200
Bills receivable and bills payable	1,500	700
Cash at bank	1,200	
Cash in hand	190	
Salaries	800	
<b>Total</b>	<b>48,000</b>	<b>48,000</b>

**Adjustments:**

1. Stock on 31-3-2016 was valued at Rs 10,000.
2. Insurance prepared to the extent of Rs 100.
3. Outstanding salaries Rs 200.
4. Depreciate buildings by 5%.
5. Provide PDD at 5% on debtors.

**(Ans: Gross Profit Rs 12,270. Net Profit Rs 9,725. Balance Sheet Total Rs 40,065)**

2. From the following Trail Balance, prepare financial statements for the year ended march 31<sup>st</sup> 2017.

<b>Debit Balances</b>	<b>Rs.</b>	<b>Credit Balances</b>	<b>Rs.</b>
Machinery	8,000	Capital	18,000
Cash at Bank	2,000	Sales	32,000
Cash in hand	1,000	Sundry Creditors	9,000
Wages	2,000	Commission received	600
Purchases	16,000		
Stock on 1-4-2016	12,000		
Sundry Debtors	8,800		
Bills Receivable	5,800		
Rent	900		
Legal expense	500		

General expenses	1,600		
Bad debts	1,000		
<b>Total</b>	<b>59,600</b>	<b>Total</b>	<b>59,600</b>

**Adjustments:**

1. Stock on 31-3-2017 Rs 16,000.
2. Depreciate machinery at 10%
3. Rent prepaid Rs 200.
4. Provide PDD at 5% on sundry debtors.
5. Commission received in advance Rs 400.

**(Ans: Gross Profit Rs 18,000. Net Profit Rs 13,160. Balance Sheet Total Rs 40,560)**

3. Prepare the Trading and Profit and Loss Account and a Balance Sheet of M/s Shine Ltd, from the following particulars.

<b>Account Title</b>	<b>Rs</b>	<b>Account title</b>	<b>Rs</b>
Sundry debtors	21,000	Bills Payables	18,000
Bad debts	2,000	Sundry Creditors	10,000
Printing and stationary	4,000	Return outwards	5,000
Freight	3,000	Capital	1,00,000
Sales returns	2,000	Sales	1,22,000
Motor car	20,000	Discount received	1,000
Opening stock	25,000	Interest received	8,000
Furniture and fixtures	15,000		
Purchases	75,000		
Drawings	10,000		
Cash in hand	7,000		
Investments	80,000		
<b>Total</b>	<b>2,64,000</b>		<b>2,64,000</b>

**Adjustments:**

1. Closing stock was valued at Rs 30,000.
2. Further bad debts Rs 1,000. Make a provision for bad debts at 5% on sundry.
3. Depreciate motor car by 10% and furniture and fixture by 5%.
4. Accrued interest on investments Rs 2,000.
5. Provide interest on capital at 5%.

**(Ans: Gross Profit Rs 52,000. Net Profit Rs 47,250. Balance Sheet Total Rs 1,70,250)**

4. The following balances have been extracted from the Trial Balance of M/s Kolkata Stores, Davanagere. You are required to prepare the Trading and Profit and Loss account for the year ended 31/3/2016 and prepare Balance Sheet on that date.

Debit balance	Rs.	Credit balance	Rs.
Opening stock	20,000	Capital	64,000
Furniture	10,000	Sales	1,10,000
Drawings on 1/4/2015	10,000	Bank overdraft	10,000
Purchases	95,000	Bad debts provision	5,000
Bad debts	2,000	Bills Payable	6,000
Carriage	5,000	Apprenticeship premium	2,000
Bank deposit	15,000		
Bank charges	1,000		
Coal, gas and water	8,000		
Trade expenses	4,000		
Rent, rates and taxes	7,000		
Debtors	20,000		
<b>Total</b>	<b>1,97,000</b>	<b>Total</b>	<b>1,97,000</b>

**Adjustments:**

1. Closing stock Rs 10000.
2. Further bad debts Rs 2000. New Provision at 5% on debtors and discount on debtors at 3%.
3. Interest on drawings at 6%.
4. Depreciate furniture at 10%.
5. Apprenticeship premium received in advance Rs 500.

**(Ans: Gross Profit Rs 8,000. Net Loss Rs 19,673. Balance Sheet Total Rs 50,227)**

- 5.** The following were the balance extracted from the books of Ramesh Traders as on march 31<sup>st</sup> 2016.

Name of the accounts	Debit balance (Rs)	Credit balance (Rs)
Purchases and Sales	50,000	1,23,000
Returns	3,000	2,000
Debtors and Creditors	32,000	9,000
Fuel and power	8,000	
Carriage on purchases	2,000	
Carriage on sales	5,000	
Opening Stock	14,000	
Freehold Land	30,000	
Machinery	25,000	
Patents	15,000	
Drawings and capitals	12,000	95,000

Sundry and expenses	3,000	
Salaries	7,000	
Bills Receivable and Bills Payable	13,500	5,000
Repair and Renewals	14,500	
<b>Total</b>	<b>2,34,000</b>	<b>2,34,000</b>

Taking in to account the following adjustments prepare Trading and Profit and Loss Account and Balance Sheet on march 31<sup>st</sup> 2016.

1. Closing stock Rs 30,000.
2. o/s salaries Rs 500.
3. Interest on drawings at 6%.
4. Depreciate machinery at 10%.
5. Provide for the manager commission at 5% on net profit after charging such commission.

**(Ans: Gross Profit Rs 78,000. Net Profit Rs 44,019. Balance Sheet Total Rs 1,43,000)**

- 6.** From the following Trial Balance of Shri Narendra, Prepare his Trading and Profit and Loss Account for the year ended 31<sup>st</sup> March 2017, and Balance Sheet as that date.

<b>Name of the accounts</b>	<b>Debit (Rs)</b>	<b>Credit (Rs)</b>
Opening stock	36,000	
Purchases and sales	204,000	3,26,000
Drawing and capital	24,000	1,25,000
Carriage outwards	8,000	
Bills Receivable and bills payable	18,000	20,000
Investments	10,000	
Salaries	38,000	
Wages	33,000	
Sundry debtors and creditors	40,000	50,000
Buildings	50,000	
Insurance and taxes	8,000	
Commission		7,000
Returns	6,000	4,000
Plant and machinery	60,000	
Cash and bank	17,000	
Bank over draft		20,000
<b>Total</b>	<b>5,52,000</b>	<b>5,52,000</b>

**Adjustments:**

1. Closing stock valued at Rs 52,000.
2. Outstanding Expenses: Interest on bank over draft Rs 1,000 and salary Rs 2,000.
3. Commission accrued Rs 1,000.
4. Depreciate plant and machinery by 10%.
5. Provide discount on debtors at 5%.

**(Ans: Gross Profit Rs 1,03,000. Net Profit Rs 45,000. Balance Sheet Total Rs 2,39,000)**

7. Prepare Financial Statements for the year ending March 31<sup>st</sup> 2016, from the Trail Balance and adjustments given below.

**Trail balance as on 31-3-2016.**

<b>Name of accounts</b>	<b>Debit (Rs)</b>	<b>Credit (Rs)</b>
Drawings and capital	5,000	30,000
Opening Stock	13,200	
Purchases and sales	40,000	60,000
Debtors and creditors	10,000	8,500
Salary	500	
Bad debits	300	
Printing and stationary	1,200	
Wages	1,000	
Postage	800	
Bills Receivables and Bills Payables	3,000	3,000
Furniture	7,500	
Cash in hand	1,500	
Bank overdraft		2,000
Machinery	18,000	
Commission received		1,500
Advertisement	3,000	
<b>Total</b>	<b>1,05,000</b>	<b>1,05,000</b>

**Adjustments:**

1. Closing stock Rs 10,300.
2. Depreciate machinery at 5% and furniture at 10%.
3. Create provision for doubtful debts at 5% on debtors and discount on debtors at 2%.
4. Interest on capital at 5%.
5. Provide for the manager commission at 10% on net profit before charging such commission.

**(Ans: Gross Profit Rs 16,100. Net Profit Rs 7,164. Balance Sheet Total Rs 47,960)**

8. From the following Trail Balance of Shri Krishna, prepare his Trading and Profit and Loss Account for the ended 31/12/2016 and Balance Sheet as on that date.

<b>Name of the accounts</b>	<b>Debit (Rs)</b>	<b>Credit (Rs)</b>
Commission received		3,000
Cash at bank	3,500	
Purchases and Sales	41,000	99,000
Returns	4,000	1,000



Wages	12,500	
Carriage inward	2,000	
Carriage on sales	3,500	
Opening stock	6,000	
Buildings	40,000	
Machinery	20,000	
Capital		60,000
Salary	15,000	
Sundry debtors and creditors	22,500	8,000
General expenses	3,000	
Insurance	2,000	
Rent received		5,000
Drawings	5,000	
Provision for doubtful debts		4,000
<b>Total</b>	<b>1,80,000</b>	<b>1,80,000</b>

**Adjustments:**

1. Outstanding salary for the month of December 2016, Rs 1,000.
2. Rent due but not received Rs 2,000.
3. Further bad debts Rs 1,000 and make for doubtful debts at 5% on debtors.
4. Stock was valued on 31/12/2016, Rs 7,000.
5. Depreciate machinery at 10% and building by 5%.

**(Ans: Gross Profit Rs 41,500. Net Profit Rs 24,925, Balance Sheet Total 88,925)**

**9. Prepare the Trading and Profit and Loss Account and Balance**

Sheet of the M/s Natural Device Bengaluru on march 31<sup>st</sup>, 2017 from the following balances as on that date.

<b>Account Title</b>	<b>Debit (Rs)</b>	<b>Credit (Rs)</b>
Drawings and Capital	19,530	67,500
Purchases and Sales	45,000	1,12,500
Salary and Commission	25,470	1,575
Wages	13,915	
Plant and Machinery	27,000	
Furniture	6,750	
Opening Stock	42,300	
Insurance premium	2,700	
Interest		7,425
Bank over draft		24,660
Carriage outwards	3,645	
Returns	2,385	1,440
Debtors and creditors	36,000	58,500
General expenses	6,925	
Octroi	530	
Investments	41,400	
<b>Total</b>	<b>2,73,600</b>	<b>2,73,600</b>

**Adjustments:**

1. Interest on capital at 10%.
2. Interest on drawings at 5%.
3. Outstanding Expenses were: Wages Rs 50. Salary Rs 20.
4. Make provision for doubtful debts on debtors at 5%.
5. Depreciate plant and machinery at 5%.

**(Ans: Gross Profit Rs 29,700. Net Loss Rs 8,973. Balance Sheet Total 1,28,000)**

- 10.** Prepare the Trading and Profit and Loss Account and Balance Sheet of Naveen Traders, Raichur from the following particulars.

**Trial balance as on 31/3/2017**

<b>Account Title</b>	<b>Debit (Rs)</b>	<b>Credit (Rs)</b>
Sundry Debtors and Creditors	100,000	25,000
Bad debts	3,000	
Printing and Stationery	7,500	
Rent ,Rates and Taxes	3,450	
Freight	2,250	
Returns	6,000	4,500
Motor car	25,000	
Openings Stock	75,550	
Furniture	15,500	
Purchases and Sales	75,000	1,00,000
Drawings and Capital	13,560	2,50,000
Investments	65,500	
Cash at Bank	89,000	
Bills Payable		85,550
Provision for bad debts		1,500
Interest Received		11,260
Discount Received		3,500
<b>Total</b>	<b>4,81,310</b>	<b>4,81,310</b>

**Adjustments:**

1. Closing stock was valued Rs 35,000.
2. Depreciate furniture at 5% and motor car at 10%.
3. Further bad debts Rs 1,000 make a provision for bad debts at 2%.
4. Interest on drawing at 6%.
5. O/S Rent,Rate and Taxes Rs 200.

**(Ans: Gross Profit Rs 17,050. Net Loss Rs 27,344. Balance Sheet Total Rs 3,19,032)**

- 11.** From the following Trail Balance of a Trader, prepare Trading and Profit and Loss Account for the year ending 31/3/2017 and Balance Sheet as on that date.

<b>Name of the Accounts</b>	<b>Debit (Rs)</b>	<b>Credit (Rs)</b>
Capital		20,000
Drawings	1,700	
Machinery	12,000	
Scooter	2,600	
Debtors and Creditors	3,600	2,600
Purchases and Sales	2,000	4,200
Wages	800	
Cash	2,600	
Salaries	800	
Repairs	190	
Stock on 1/4/2016	1,600	
Rent	450	
Manufacturing Expenses	150	
Bills Payable		2,350
Bad debts	500	
Carriage on Sales	160	
<b>Total</b>	<b>29,150</b>	<b>29,150</b>

**Adjustments :**

1. Closing stock as on 31/3/2017 Rs 1,600.
2. Depreciate machinery by 10% and scooter by 15%.
3. Rs 150 are due for wages.
4. Paid rent Rs 50 in advance.

**(Ans: Gross Profit Rs 1,100. Net Loss Rs 2,540 . Balance Sheet Total Rs 20,860)**

- 12.** From the following Trial Balance of Mahesh as on 31/3/2017, prepare Financial Statements

<b>Name of the accounts</b>	<b>Debit (Rs)</b>	<b>Credit (Rs)</b>
Capital		1,20,000
Drawings	15,000	
Bills Receivable	22,000	
Machinery	20,000	
Debtors and Creditors	60,000	58,000
Wages	39,000	
Purchases and Sales	2,52,000	3,55,000

Commission		5,500
Rent and Taxes	6,000	
Stock on 1/4/2016	90,000	
Salaries	10,500	
Travelling expenses	2,000	
Insurance	600	
Repairs	3,400	
Bad debts	3,500	
Furniture	9,000	
Returns	5,000	2,000
Cash in Hand	500	
Cash at Bank	2,000	
<b>Total</b>	<b>5,40,500</b>	<b>5,40,500</b>

**Adjustments:**

1. Stock on hand on 31/3/2017 was Rs 1,00,000.
2. Create 5% provision on debtors.
3. Commission earned but not received Rs 500.
4. O/S wages 1000 Rs and salaries Rs 1,500 .
5. Depreciate machinery by 5% and furniture by 10%.

**(Ans: Gross Profit Rs 70,000. Net Profit Rs 43,500. Balance Sheet Total 1,48,700)**

**13.** From the following Trail Balance prepare a Trading, Profit and Loss Account and Balance Sheet after taking into account the adjustments given here under.

1. Stock as on 31/12/2016 was valued at Rs 18,400.
2. Write further bad debts Rs 300 and provision for doubtful debts at 5% on debtors.
3. Outstanding expenses were Rent Rs 200 and salaries Rs 500 .
4. Unexpired insurance amounted to Rs 400.
5. Depreciate plant and machinery by 5% and furniture and fittings by 10%.

**Trail balance as at 31/12/2016.**

<b>Name of the Accounts</b>	<b>Debit (Rs)</b>	<b>Credit (Rs)</b>
Drawings and Capital	9,000	40,000
10% investments	10,000	
Interest on Investment		900
Opening Stock	14,000	
Purchases and Sales	65,000	96,500
Carriage	1,400	
Return Inwards	1,500	
Sundry Debtors and Creditors	10,300	8,000
B/R and B/P	5,000	6,600
Salaries	7,000	

Wages	4,000	
Plant and Machinery	12,000	
Furniture and Fittings	4,000	
Trade expenses	700	
Rent, Taxes and Insurance	2,300	
Discount	200	
Cash in Hand	600	
Cash at Bank	4,600	
Bad debts	400	
<b>Total</b>	<b>1,52,000</b>	<b>1,52,000</b>

**(Ans: Gross Profit Rs 29,000. Net Profit Rs 17,300. Balance Sheet Total Rs 63,600)**

**14.** From the following Trail Balance of Sri Chandan Traders Mysore, prepare the Financial Statements for the year ending 31/12/2016.

<b>Name of the Accounts</b>	<b>Debit (Rs)</b>	<b>Credit (Rs)</b>
Capital		25,000
Drawings	2,500	
Land and Buildings	5,000	
Plant and Machinery	3,000	
Purchases and Sales	40,000	50,000
Returns	5,000	4,000
Stock on 1/1/2016	7,500	
Furniture	5,000	
Salaries	1,150	
Insurance	200	
Debtors and Creditors	7,600	5,500
B/R and B/P	2,400	2,000
Commission		300
Interest		100
Carriage Inwards	300	
Wages	1,200	
Investments	2,000	
Printing and Stationary	800	
Cash in Hand	3,250	
<b>Total</b>	<b>86,900</b>	<b>86,900</b>

**Adjustments:**

1. Closing stock was valued at Rs 13,000.
2. O/S Liabilities were: wages Rs 400 and salaries Rs 500.
3. Insurance was prepaid to the extent of Rs 50.
4. Depreciate land and building at 5% and plant and machinery at 10%.
5. Make provision for doubtful debts at 5% on debtors.

**(Ans: Gross Profit Rs 12,600. Net Profit Rs 9,470. Balance Sheet Total Rs 40,370)**

- 15.** From the following particulars of Ledger Balances of Sri Vignesh a retailer, Bagalkot for the year ending 31/12/2016 Prepare the Trading and Profit and Loss account and Balance Sheet as on that date.

**Trail Balance as on 31/12/2016.**

<b>Name of the accounts</b>	<b>Debit (Rs)</b>	<b>Credit (Rs)</b>
Capitals		30,000
Drawings	2,500	
Reserve		2,000
Sundry Debtors and Creditors	40,000	25,000
Purchases	75,000	
Sales		135,000
Stock on 1/1/2016	30,000	
Purchase Return		2,000
Sales Return	3,000	
Commission		1,000
Bills Payables		10,000
Salaries	7,500	
Advertisement	1,000	
Bad Debts	300	
Rent	800	
Land and Building	25,000	
Furniture	5,000	
Govt Securities	10,000	
Cash at Bank	4,900	
<b>Total</b>	<b>2,05,000</b>	<b>2,05,000</b>

**Adjustments:**

1. Stock on 31/12/2016 Rs 20,000.
2. Interest at 5% on Govt securities earned but not received
3. Depreciate land and building at 2% and furniture at 10%
4. O/S salaries Rs 500.
5. Make provision for doubtful debts at 2% on debtors.

**(Ans: Gross Profit Rs 49,000. Net Profit Rs 38,600. Balance Sheet Total 1,03,600)**