

Chapter 2- Accounting Equation

Q.1 What will be effect of the following on the Accounting Equation?

(i) Started business with cash ₹ 45,000

(ii) Opened a Bank Account with a deposit of ₹ 4,500

(iii) Bought goods from M/s. Sun & Co. for ₹ 11,200

The solution for this question is as follows:

S. No.	Transactions	Assets = Liabilities + Capital								
		Cash	+	Bank	+	Stock	=	Creditors		
		(₹)		(₹)		(₹)		(₹)	(₹)	
(i)	Started business with cash	45,000					=		45,000	
(ii)	Opened a Bank Account with a deposit	45,000					=		45,000	
		(4,500)	+	4,500			=			
(iii)	Bought goods from M/s. Sun & Co.	40,500	+	4,500			=		45,000	
						11,200	=	11,200		
		40,500	+	4,500	+	11,200	=	11,200	+	45,000

Therefore,

Liabilities = 11,200

Capital = 45,000

Assets = Liabilities + Capital

= 45,000 + 11,200 = 56,200

Q.2 Show the Accounting Equation for the following transactions:

		₹
(i)	Gopinath started business with cash	25,000
(ii)	Purchased goods from Shyam	10,000
(iii)	Sold goods to Sohan costing ₹ 1,800	1,500
(iv)	Gopinath withdrew from business	5,000

The solution for this question is as follows:

S. No	Transactions	Assets			=	Liabilities	+	Capital			
		Cash (₹)	+	Stock (₹)	+	Debtors (₹)	Creditors (₹)	(₹)			
(i)	Gopinath started business with	25,000					=	25,000			
		25,000					=	25,000			
(ii)	Purchased goods from Shyam			10,000			=	10,000			
(iii)	Sold goods to Sohan	25,000	+	10,000			=	10,000	+	25,000	
				(1,800)	+	1,500		=		(300)	
(iv)	Gopinath withdrew from business	25,000	+	8,200	+	1,500		=	10,000	+	24,700
		(5,000)						=			(5,000)
		20,000	+	8,200	+	1,500		=	10,000	+	19,700

Here,

Liabilities = 10,000

Capital = 19,700

Assets = 10,000 + 19,700 = 29,700

Q.3 Show the effect of the following transactions on the Accounting Equation:

(i) Started business with cash ₹ 50,000.

(ii) Salaries paid ₹ 2,000.

(iii) Wages Outstanding ₹ 200.

(iv) Interest due but not paid ₹ 100.

(v) Rent paid in advance ₹ 150.

The solution for this question is as follows:

S. No.	Transactions	Assets		=	Liabilities		+	Capital
		Cash (₹)	+	Advances Expenses (₹)	=	Outstanding Expenses (₹)		(₹)
(i)	Started business with Cash	50,000			=			50,000
(ii)	Salaries paid	50,000			=			50,000
		(2,000)			=			(2,000) (expenses)
(iii)	Wages Outstanding	48,000			=			48,000
					=	200	+	(200) (expenses)
(iv)	Interest due but not paid	4,800			=	200		47,800
					=	100	+	(100) (expenses)
(v)	Rent paid in advance	48,000			=	300	+	47,700
		(150)	+	150	=			
		47,850	+	150	=	300	+	47,700

Q.4 What will be the effect of the following on the Accounting Equation?

(i) Harish started business with cash ₹ 18,000

(ii) Purchased goods for Cash ₹ 5,000 and on credit ₹ 2,000

(iii) Sold goods for cash ₹ 4,000 (costing ₹ 2,400)

(iv) Rent paid ₹ 1,000 and rent outstanding ₹ 200

The solution for this question is as follows:

S. No.	Transactions	Assets		=	Liabilities		+	Capital
		Cash (₹)	+ Stock (₹)	=	Creditors (₹)	+ Outstanding Rent (₹)	(₹)	
(i)	Harish started business with cash	18,000		=				18,000
(ii)	Purchased goods for Cash ₹ 5,000 and on credit ₹ 2,000	18,000 (5,000)	+ 7,000	= =	2,000			18,000
(iii)	Sold goods for cash ₹ 4,000 costing ₹ 2,400	13,000 4,000	+ (2,400)	= =	2,000		+	18,000 1,600 (Profit)
(iv)	Rent paid ₹ 1,000 and Rent Outstanding ₹ 200	17,000 (1,000)	+ 4,600	= =	2,000		+	19,600 (1,200)
		16,000	+ 4,600	=	2,000	+ 200	+	18,400

Q.5 Prepare Accounting Equation from the following:

(i) Started business with cash ₹ 1,00,000 and Goods ₹ 20,000.

(ii) Sold goods worth ₹ 10,000 for cash ₹ 12,000.

(iii) Purchased furniture on credit for ₹ 30,000.

The solution for this question is as follows:

S. No.	Transaction	Assets			=	Liabilities	+	Capital
		Cash	+	Stock	+	Furniture	=	Creditors
		(₹)		(₹)		(₹)		(₹)
(i)	Started business with cash ₹ 1,00,000 and Goods ₹ 20,000	1,00,000	+	20,000			=	1,20,000
(ii)	Sold goods worth ₹ 10,000 for cash ₹ 12,000	1,00,000	+	20,000			=	1,20,000
		12,000		(10,000)			=	+ 2,000
(iii)	Purchased furniture on credit for ₹ 30,000	1,12,000	+	10,000			=	1,22,000
						30,000	=	30,000
		1,12,000	+	10,000	+	30,000	=	30,000 + 1,22,000

Q.6 Prepare an Accounting Equation and Balance Sheet on the following basis:

(i) Ajeet started business with cash ₹ 20,000.

(ii) He purchased furniture for ₹ 2,000.

(iii) He paid rent of ₹ 200.

(iv) He purchases goods on credit ₹ 3,000.

(v) He sold goods (cost price ₹ 2,000) for ₹ 5,000 on cash.

The solution for this question is as follows:

S. No.	Transaction	Assets			=	Liabilities	+	Capital
		Cash (₹)	+	Furniture (₹)	+	Stock (₹)	=	(₹)
(i)	Ajit started business ₹ 20,000	20,000					=	20,000
(ii)	He purchased furniture for ₹ 2,000	20,000 (2,000)	+	2,000			=	20,000
(iii)	He paid Rent of ₹ 200	18,000 (200)	+	2,000			=	20,000 (200) (expense)
(iv)	He purchased goods on credit ₹ 3,000	17,800	+	2,000		3,000	=	19,800 3,000
(v)	He sold goods (cost price ₹ (2,000) for ₹ 5,000 on cash	17,800 5,000	+	2,000	+	3,000 (2,000)	=	19,800 3,000 (Profit)
		22,800	+	2,000	+	1,000	=	3,000 + 22,800

The balance sheet is prepared as follows

Balance Sheet

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital	22,800	Cash	22,800
Creditors	3,000	Furniture	2,000
		Stock	1,000
	25,800		25,800

Q.7 Prepare an Accounting Equation from the following:

(i) Started business with cash ₹ 1,00,000.

(ii) Purchased goods for cash ₹ 20,000 and on credit ₹ 30,000.

(iii) Sold goods for cash costing ₹ 10,000 and on credit costing ₹ 15,000 both at a profit of 20%.

The solution for this question is as follows:

S. No.	Transaction	Assets			=	Liabilities	+	Capital
		Cash	+	Stock	+	Debtors	=	Creditors
		(₹)		(₹)		(₹)		(₹)
(i)	Started business with cash ₹ 1,00,000	1,00,000					=	1,00,000
(ii)	Purchased goods for cash ₹ 20,000 and on credit ₹ 30,000	1,00,000					=	1,00,000
		(20,000)	+	20,000				
				30,000			=	30,000
(iii)	Sold goods for cash costing ₹ 10,000 and on credit costing ₹ 15,000 both at a profit of 20%	80,000	+	50,000			=	30,000 + 1,00,000
		12,000	+	(10,000)			=	2,000
				(15,000)	+	18,000	=	3,000
		92,000	+	25,000	+	18,000	=	30,000 + 1,05,000

Q.8 Develop an Accounting Equation from the following transactions:

		₹
(i)	Mohan commenced business with cash	50,000
(ii)	Purchased goods for cash	30,000

(iii)	Purchased goods on credit	20,000
(iv)	Sold goods (costing ₹ 10,000) for	12,000
(v)	Bought furniture on credit	2,000
(vi) (vii)	Paid cash to a creditor Salary paid	15,000 1,000

The solution for this question is as follows:

Q.9 Prepare an Accounting Equation on the basis of the following transactions:

(i) Started business with cash ₹ 70,000.

(ii) Credit purchase of goods ₹ 18,000.

(iii) Payment made to creditors in full settlement ₹ 17,500.

(iv) Purchase of machinery for cash ₹ 20,000.

(v) Depreciation on machinery ₹ 2,000.

The solution for this question is as follows:

S. No.	Transaction	Assets			=	Liabilities	+	Capital
		Cash (₹)	+	Stock (₹)	+	Machinery (₹)		(₹)
(i)	Started business with Cash ₹ 70,000	70,000						70,000
(ii)	Credit purchase of goods ₹ 18,000	70,000		18,000		= 18,000		70,000
(iii)	Payment made to creditor ₹ 17,500 in full settlement	70,000 (17,500)	+	18,000		= 18,000 (18,000)	+	70,000 500 (Discount Received)
(iv)	Purchase of Machinery for Cash ₹ 20,000	52,500 (20,000)	+	18,000		= 20,000		70,500
(v)	Depreciation on Machinery ₹ 2,000	32,500	+	18,000	+	20,000 (2,000)	=	70,500 (2,000) (Depreciation)
		32,500	+	18,000	+	18,000	=	68,500

Q.10 Prove that the Accounting Equation is satisfied in all the following transactions of Suresh. Also prepare a Balance Sheet.

(i) Commenced business with cash ₹ 60,000.

(ii) Paid rent in advance ₹ 500.

(iii) Purchased goods for cash ₹ 30,000 and credit ₹ 20,000.

(iv) Sold goods for cash ₹ 30,000 costing ₹ 20,000.

(v) Paid salary ₹ 500 and salary outstanding being ₹ 100.

(vi) Bought motorcycle for personal use ₹ 5,000.

The solution for this question is as follows:

S. No.	Transactions	Assets			=	Liabilities + Capital		
		Cash ₹.	+ Prepaid Rent ₹.	+ Stock ₹.	=	Creditors ₹.	+ Outstanding Salary ₹.	+ Capital ₹.
(i)	Commenced business with cash ₹.60,000	60,000						60,000
(ii)	Paid rent in advance ₹.500	60,000			=			60,000
		(500)	500					
(iii)	Purchased goods for cash ₹.30,000 and credit ₹.20,000	59,500	500		=			60,000
		(30,000)		50,000		20,000		
(iv)	Sold goods for cash 30,000 costing ₹.20,000	29,500	500	50,000	=	20,000		60,000
		30,000		(20,000)				10,000 (Profit)
(v)	Paid salary ₹.500 and salary outstanding being ₹.100	59,500	500	30,000	=	20,000		70,000
		(5000)			=			(5,000) (Drawings)
	Total	54,000	+ 500	+ 30,000	=	20,000 +	100 +	64,400

Here,

Liabilities = 20,000 + 100 = 20,100

Capital = 64,400

Assets = 64,400 + 20,100 = 84,500

Balance sheet is prepared as follows

Balance Sheet			
Liabilities	Amount (₹)	Assets	Amount (₹)
Capital	64,400	Cash	54,000
Creditors	20,000	Prepaid Rent	500
Salary Outstanding	100	Stock	30,000
	84,500		84,500

Q.11 Show the effect of the following transactions and also prepare a Balance Sheet:

(i) Started business with cash ₹ 60,000.

(ii) Rent received ₹ 2,000.

(iii) Accrued interest ₹ 500.

(iv) Commission received in advance ₹ 1,000.

(v) Amount withdrawn ₹ 5,000.

The solution for this question is as follows:

S. No.	Transaction	Assets		=	Liabilities		+	Capital
		Cash (₹)	+	Accrued Interest (₹)	=	Advance Commission (₹)		(₹)
(i)	Started business with Cash ₹ 60,000	60,000			=			60,000
(ii)	Rent Received ₹ 2,000	60,000			=			60,000
		2,000			=			2,000 (Income)
(iii)	Accrued Interest ₹ 500	62,000			=			62,000
				500	=			500 (Income)
(iv)	Commission received in advance ₹ 1,000	62,000	+	500	=			62,500
		1,000			=	1,000		
(v)	Amount withdrawn ₹ 5,000	63,000	+	500	=	1,000	+	62,500
		(5,000)			=			(5,000)
		58,000	+	500	=	1,000	+	57,500

Balance sheet is prepared as follows

Balance Sheet			
Liabilities	Amount (₹)	Assets	Amount (₹)
Capital	57,500	Cash	58,000
Advance Commission	1,000	Accrued Interest	500
	58,500		58,500

Q.12 Prove that the Accounting Equation is satisfied in all the following transactions of Sameer Goel:

- (i) Started business with cash ₹ 10,000.**
- (ii) Paid rent in advance ₹ 300.**
- (iii) Purchased goods for cash ₹ 5,000 and credit ₹ 2,000.**
- (iv) Sold goods for cash ₹ 8,000 costing ₹ 4,000.**
- (v) Paid salary ₹ 450 and salary outstanding being ₹ 100.**
- (vi) Bought motorcycle for personal use ₹ 3,000.**

The solution for this question is as follows:

S. No.	Transactions	Assets					=	Liabilities + Capital				
		Cash ₹.	+	Prepaid Rent ₹.	+	Stock ₹.	=	Creditors ₹.	+	Outstanding Salary ₹.	+	Capital ₹.
(i)	Started business with cash ₹.10,000	10,000										10,000
(ii)	Paid rent in advance ₹.300	10,000					=					10,000
		(300)		300								
(iii)	Purchased goods for cash ₹.5,000 and credit ₹.2,000	9,700		300			=					10,000
		(5,000)				5,000	=	2,000				
(iv)	Sold goods for cash ₹.8,000 costing ₹.4,000	4,700		300		7,000	=	2,000				10,000
		8,000				(4,000)						4,000 (Profit)
(v)	Paid salary ₹.450 and salary outstanding being ₹.100	12,700		300		3,000	=	2,000				14,000
		(450)					=					(450) (Expenses)
(vi)	Brought motorcycle for personal use ₹.3,000	12,250		300		3,000	=	2,000	+	100		13,450
		(3,000)					=					(3,000) (Drawings)
	Total	9,250	+	300	+	3,000	=	2,000	+	100		10,450

Here,

$$\text{Liabilities} = 2000 + 100 = 2100$$

$$\text{Capital} = 10,450$$

$$\text{Assets} = 10,450 + 2100 = 12,550$$

Q.13 Show the Accounting Equation on the basis of the following transactions and present a Balance Sheet on the last new equation balance:

		₹
(i)	Raj commenced business with cash	70,000
(ii)	Purchased goods on credit	14,000
(iii)	Withdrew for Private use	1,700
(iv)	Goods purchased for cash	10,000
(v)	Paid wages	300
(vi)	Paid to creditors	10,000
(vii)	Sold goods on credit for	15,000
(viii)	Sold goods for cash (cost price was Purchased motorcycle for cash ₹ 3,000)	4,000
(ix)	Purchased furniture for	500

The solution for this question is as follows:

Sr. No.	Transactions	Asset				=	Liabilities + Capital		
		Cash Rs.	+	Stock Rs.	+	Furniture Rs.	+	Debtors Rs.	= Creditors Rs. + Capital Rs.
(i)	Raj commenced business	70,000							= 70,000
(ii)	Purchased goods on credit	70,000							= 70,000
				14,000					= 14,000
(iii)	Withdraw for private use	70,000		14,000					= 14,000 70,000
		(1,700)							= (1,700)
(iv)	Goods purchased for cash	68,300		14,000					= 14,000 68,300
		(10,000)		10,000					
(v)	Paid wages	58,300		24,000					= 14,000 68,300
		(300)							= (300)
(vi)	Paid to creditors	58,000		24,000					= 14,000 68,000
		(10,000)							= (10,000)
(vii)	Sold goods on credit	48,000		24,000					= 4,000 68,000
				(15,000)			15,000		=
(viii)	Sold goods for cash (costing Rs.3,000)	48,000		9,000			15,000		= 4,000 68,000
		4,000		(3,000)					1,000 (Profit)
(ix)	Purchased furniture	52,000		6,000			15,000		= 4,000 69,000
		(500)				500			
	Total	51,500	+	6,000	+	500	+	15,000	= 4,000 + 69,000

Balance sheet is prepared as follows

Balance Sheet

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital	69,000	Cash	51,500
Creditors	4,000	Stock	6,000
		Furniture	500
		Debtors	15,000
	73,000		73,000

Q.14 Raghunath had the following transactions in an accounting year:

- (i) Commenced business with cash ₹ 50,000.**
- (ii) Paid into bank ₹ 10,000.**
- (iii) Purchased goods for cash ₹ 20,000 and credit ₹ 30,000.**
- (iv) Sold goods for cash ₹ 40,000 costing ₹ 30,000.**
- (v) Rent paid ₹ 500.**
- (vi) Rent outstanding ₹ 100.**
- (vii) Bought furniture ₹ 5,000 on credit.**
- (viii) Bought refrigerator for personal use ₹ 5,000.**
- (ix) Purchased motorcycle for cash ₹ 20,000.**

Create an Accounting Equation to show the effect of the above and also show his Balance Sheet.

The solution for this question is as follows:

S. No.	Transactions	Assets								=	Liabilities + Capital					
		Cash ₹.	+	Bank ₹.	+	Stock ₹.	+	Furniture ₹.	+	Motor Cycle ₹.	=	Creditors ₹.	+	Outstanding Rent ₹.	+	Capital ₹.
(i)	Commenced business with Cash ₹.50,000	50,000														50,000
(ii)	Paid in to bank ₹.10,000	50,000									=					50,000
		(10,000)		10,000												
(iii)	Purchased goods for cash ₹.20,000 and credit ₹.30,000	40,000		10,000							=					50,000
		(20,000)				20,000										
(iv)	Sold goods for cash ₹.40,000 costing ₹.30,000					30,000						30,000				
		20,000		10,000		50,000					=	30,000				50,000
(v)	Rent paid ₹.500					(30,000)					=					10,000 (Expenses)
		40,000														
(vi)	Rent paid ₹.500	60,000		10,000		20,000					=	30,000				60,000
		(500)									=					(500) (Expenses)
(vii)	Rent outstanding ₹.100	59,500		10,000		20,000					=	30,000				59,500
														100		(100) (Drawings)
(viii)	Bought Furniture on credit ₹.5,000	59,500		10,000		20,000					=	30,000		100		59,400
								5,000			=	5,000				
(ix)	Bought refrigerator for personal use ₹.5,000	54,500		10,000		20,000		5,000			=	35,000		100		59,400
		(5,000)									=					(5,000) (Drawings)
(x)	Purchased motorcycle for cash	54,500		10,000		20,000		5,000			=	35,000		100		54,500
		(20,000)								20,000	=					
	Total	34,500	+	10,000	+	20,000	+	5,000	+	20,000	=	35,000	+	100	+	54,400

Balance sheet is prepared as follows

Balance Sheet

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital	54,400	Cash	34,500
Creditors	35,000	Bank	10,000
Rent Outstanding	100	Stock	20,000
		Furniture	5,000
		Motor Cycle	20,000
	89,500		89,500

Q.15 Prepare an Accounting Equation from the following:

- (i) Started business with cash ₹ 50,000 and goods ₹ 30,000.**
- (ii) Purchased goods for cash ₹ 30,000 and on credit from Karan ₹ 20,000.**
- (iii) Goods costing ₹ 40,000 were sold for ₹ 55,000.**
- (iv) Withdrew cash for personal use ₹ 10,000.**
- (v) Rent outstanding ₹ 2,000.**

The solution for this question is as follows:

S. No.	Transactions	Assets		=	Liabilities		+	Capital
		Cash (₹)	+	Stock (₹)	Creditors (₹)	+	Outstanding Rent (₹)	(₹)
(i)	Started business with cash ₹ 50,000 and goods ₹ 30,000	50,000	+	30,000				80,000
(ii)	Purchased goods for cash ₹ 30,000 and on credit from Karan ₹ 20,000	50,000	+	30,000				80,000
		(30,000)		30,000				
				20,000	20,000			
(iii)	Goods costing ₹ 40,000 were sold for ₹ 55,000	20,000	+	80,000	=	20,000	+	80,000
		55,000		(40,000)				15,000 (Profit)
(iv)	Withdrew cash for personal use ₹ 10,000	75,000	+	40,000	=	20,000	+	95,000
		(10,000)						(10,000) (Drawings)
(v)	Rent outstanding ₹ 2,000	65,000	+	40,000	=	20,000	+	85,000
							2,000	(2,000) (Expenses)
		65,000	+	40,000	=	20,000	+	2,000
								83,000

Q.16 Show an Accounting Equation for the following transactions:

(i) D. Mahapatra commenced business with cash ₹ 50,000 and ₹ 1,00,000 by cheque; goods ₹ 60,000; machinery ₹ 1,00,000 and furniture ₹ 50,000.

(ii) 1/3rd of above goods sold at a profit of 10% on cost and half of the payment is received in cash.

(iii) Depreciation on machinery provided @ 10%.

(iv) Cash withdrawn for personal use ₹ 10,000.

(v) Interest on drawings charged @ 5%.

(vi) Goods Sold to Gupta for ₹ 10,000 and received a Bill Receivable for the same amount for 3 months.

(vii) Received ₹ 10,000 from Gupta against the Bills Receivable on its maturity.

The solution for this question is as follows:

S. No.	Transactions	Assets							= Liabilities + Capital
		Cash + ₹.	Bank + ₹.	Stock + ₹.	Machinery + ₹.	Furniture + ₹.	Debtors. + ₹.	Bills Receivables ₹.	= Capital ₹.
(1)	Started business with cash ₹.50,000 and Bank ₹.1,00,000 Stock ₹.60,000 Machinery ₹.1,00,000 Furniture ₹.50,000	50,000	1,00,000	60,000	1,00,000	50,000			1,50,000 60,000 1,00,000 50,000
(ii)	1/3 rd of above goods sold at a profit of 10% on cost and half of it received in cash (WN)	50,000 11,000	1,00,000	60,000 (20,000)	1,00,000	50,000	11,000		= 3,60,000 2,000 (Profit)
(iii)	Depreciate machinery by 10% (₹.1,00,000 × 10%)	61,000	1,00,000	40,000	1,00,000 (10,000)	50,000	11,000		= 3,62,000 (10,000) Expense
(iv)	Cash withdrawn for personal use	61,000 (10,000)	1,00,000	40,000	90,000	50,000	11,000		= 3,52,000 (10,000)
(v)	Interest on drawings charged @ 5%	51,000	1,00,000	40,000	90,000	50,000	11,000		= 3,42,000 (500) 500
(vi)	Goods sold to Gupta for ₹.10,000 and received a Bill Receivable for the same amount	51,000	1,00,000	40,000 (10,000)	90,000	50,000	11,000	10,000	= 3,42,000
(vii)	Received ₹.10,000 from Gupta against the Bill Receivable on its maturity	51,000 10,000	1,00,000	30,000	90,000	50,000	11,000	10,000 (10,000)	= 3,42,000
	Total	61,000 +	1,00,000	30,000 +	90,000 +	50,000 +	11,000 +	NIL	= 3,42,000

Q.17 Prepare Accounting Equation from the following:

(a) Started business with cash ₹ 1,00,000.

(b) Purchased goods for cash ₹ 20,000 and on credit ₹ 30,000.

(c) Sold goods for cash costing ₹ 10,000 and on credit costing ₹ 15,000 both at a profit of 20%.

(d) Paid salaries ₹ 8,000.

The solution for this question is as follows:

S. No.	Transactions	Assets			=	Liabilities		+	Capital
		Cash (₹)	+	Stock (₹)	+	Debtors (₹)	=	Creditors (₹)	Capital (₹)
(i)	Started business with cash	1,00,000							1,00,000
(ii)	Purchased goods for Cash ₹ 20,000 and on credit ₹ 30,000	1,00,000 (20,000)	+	50,000			=	30,000	1,00,000
(iii)	Sold goods for cash costing ₹ 10,000 and on credit costing ₹ 15,000 both at profit of 20%	80,000 12,000	+	50,000 (25,000)	+	18,000	=	30,000	1,00,000 5,000 (Profit)
(iv)	Paid Salaries ₹ 8,000	92,000 (8,000)	+	25,000	+	18,000	=	30,000	1,05,000 (8,000) (Expenses)
		84,000	+	25,000	+	18,000	=	30,000	97,000

Q.18 Show the accounting equation on the basis of following transactions:

(a) Ram started business with ₹ 25,000.

(b) Purchased goods from Shyam ₹ 10,000.

(c) Sold goods to Sohan costing ₹ 1,500 for ₹ 1,800.

The solution for this question is as follows:

S. No.	Transaction	Assets					=	Liabilities	+	Capital
		Cash (₹)	+	Stock (₹)	+	Debtors (₹)	=	Creditors (₹)		
(i)	Ram Started Business with Cash	25,000							+	25,000
(ii)	Purchased Goods from Shyam		+	10,000				10,000		
	New A/c Equation	25,000	+	10,000			=	10,000	+	25,000
(iii)	Sold Goods to Sohan costing ₹.1,500 for ₹.1,800			(1,500)	+	1,800			+	300 (Profit)
		25,000	+	8,500	+	1,800	=	10,000	+	25,300

Q.19 If the capital of a business is ₹ 3,00,000 and liabilities are ₹ 50,000, loss ₹ 70,000, calculate the total assets of the business.

We know that total assets of a business can be calculated by

$$\begin{aligned}
 \text{Total Assets} &= \text{Capital} - \text{Loss} + \text{Liabilities} \\
 &= 3,00,000 - 70,000 + 50,000 \\
 &= ₹ 2,80,000
 \end{aligned}$$

Q.20 If total assets of a business are ₹ 1,30,000 and net worth is ₹ 80,000, calculate the creditors.

The value of creditors can be calculated as follows

Creditors = Total Assets – Net worth

$$= 1,30,000 - 80,000$$

$$= 50,000$$

Q.21 A commenced his cloth business on 1st April, 2018 with a capital of ₹ 30,000. On 31st March 2019, his assets were worth ₹ 50,000 and liabilities of ₹ 10,000. Find out his closing capital and profits earned during the year.

The solution for this question is as follows:

Here Capital = 30,000

Assets = 50,000

Liabilities = 10,000

Now,

Closing Capital = Assets – Liabilities

$$= 50,000 - 10,000$$

$$= ₹ 40,000$$

Profit = Closing Capital – Opening Capital

$$= 40,000 - 30,000$$

$$= ₹ 10,000$$

Q.22 If capital of a business is ₹ 1,40,000 and liabilities are of ₹ 80,000, calculate the total assets of the business.

The solution for this question is as follows:

Here Capital = 1,40,000

Liabilities = 80,000

Therefore,

$$\begin{aligned}\text{Total Assets} &= \text{Liabilities} + \text{Capital} \\ &= 80,000 + 1,40,000 \\ &= ₹ 2,20,000\end{aligned}$$

Q.23 Calculate the total assets if:

(i) Capital is ₹ 40,000.

(ii) Creditors are ₹ 25,000.

(iii) Revenue during the period is ₹ 50,000.

(iv) Expenses during the period are ₹ 40,000.

The solution for this question is as follows:

Here Capital = 40,000

Creditors = 25,000

Revenue = 50,000

Expenses = 40,000

Now,

$$\begin{aligned}\text{Capital after Adjustment} &= \text{Capital} + \text{Revenue} - \text{Expenses} \\ &= 40,000 + 50,000 - 40,000 \\ &= ₹ 50,000\end{aligned}$$

$$\begin{aligned}\text{Total Assets} &= \text{Capital after adjustment} + \text{Creditors} \\ &= 50,000 + 25,000 \\ &= ₹ 75,000\end{aligned}$$

Q.24 (a) A had a capital of ₹ 75,000 on 1st April, 2018. He had also goods amounting to ₹ 15,000 which he had purchased on credit and the payment had not been made. Find out the value of the total assets of the business.

(b) After a period of one month, he came to know that he had suffered a loss of ₹ 1,700. He withdrew ₹ 800 for his personal use. Find out his capital and assets of the business.

(a) The solution for this question is as follows:

Here Capital = 75,000

Creditors= 15,000

Therefore,

Total Assets = Capital + Creditors

= ₹. 75,000 + ₹. 15,000

= ₹. 90,000

(b) The solution for this question is as follows:

Here,

Capital = 75,000

Creditors = 15,000

Loss = 1700

Withdrawal or Drawings = 800

Therefore,

Revised Capital = Capital – Loss – Drawings

= ₹. 75,000 – ₹. 1,700 – ₹. 800

= ₹. 72,500

Now,

Assets = Revised Capital + Creditors

= ₹. 72,500 + ₹. 15,000

= ₹. 87,500

Q.25 (a) Mohan started a business on 1st April, 2018 with a capital of ₹ 10,000 and borrowed ₹ 3,000 from a friend. He earned a profit of ₹ 5,000 during the year ended 31st March, 2019 and withdrew cash ₹ 4,000 for personal use. What is his capital on 31st March, 2019?

(b) Mahesh started a business with a capital of ₹ 15,000 on 1st April, 2018. During the year, he made a profit of ₹ 3,000. He owes ₹ 2,500 to suppliers of goods. What is the total of assets in his business on 31st March, 2019?

(a) The solution for this question is as follows:

Here Capital from 2018 = 10,000

Creditors = 3,000

Drawings = 4,000

Profit = 5,000

Capital on 31st March 2019 = Capital as on April 01, 2018 + Profit – Drawings

$$= ₹.10,000 + ₹.5,000 - ₹.4,000$$

$$= ₹.11,000$$

(b) The solution for this question is as follows:

Here Capital from 2018 = 15,000

Creditors = 2,500

Profit = 3,000

Now,

Total Assets on 31st March 2019 = Capital on April 01, 2018 + Profit + Creditors

$$= ₹15,000 + ₹3,000 + ₹2,500$$

$$= ₹20,500$$

Q.26 Mohan started a business on 1st April, 2018 with a capital of ₹ 25,000 and a loan of ₹ 12,500 borrowed from Shyam. During 2018-19 he had introduced additional capital of ₹ 12,500 and had withdrawn ₹ 7,500 for personal use. On 31st March, 2019 his assets were ₹ 75,000. Find out his capital as on 31st March, 2019 and profit made or loss incurred during the year 2018-19.

The solution for this question is as follows:

Here,

Capital = 25,000

Loan = 12,500

Additional Capital = 12,500

Drawings = 7,500

Assets = 75,000

Now,

Capital on March 2019 = Assets- Loan obtained from Shyam

$$= 75,000 - 12,500$$

$$= 62,500$$

To determine whether profit or loss was made, we will add the following values

Profit or Loss = Capital as on March 31, 2019 + Drawings – (Additional Capital + Capital as on April 01, 2018)

$$= 62,500 + 7,500 - (12,500 + 25,000)$$

$$= 70,000 - 37,500$$

$$= 32,500$$

Q.27 On 31st March, 2019, the total assets and external liabilities were ₹ 2,00,000 and ₹ 6,000 respectively. During the year, the proprietor had introduced capital of ₹ 20,000 and withdrawn ₹ 12,000 for personal use. He made a profit of ₹ 20,000 during the year. Calculate the capital as on 1st April, 2018.

The solution for this question is as follows:

Here,

Total Assets = 2,00,000

Liabilities = 6,000

Additional Capital = 20,000

Drawings = 12,000

Profit = 20,000

Now,

Capital as on March 31, 2019 = Total Assets – External Liabilities

= 2,00,000 – 6,000

= ₹ 1,94,000

Capital on April 01, 2018 = Capital on March 31, 2019 – Additional Capital + Drawings – Profit

= 1,94,000 – 20,000 + 12,000 – 20,000

= ₹ 1,66,000

Q.28 Show an Accounting Equation on the basis of the following transactions:

		₹
(i)	Sunil started business with cash	1,50,000
(ii)	Opened a Bank Account by depositing ₹ 25,000 out of cash	

(iii)	He sold his personal car for ₹ 50,000 and deposited the amount in the firm's Bank Account	
(iv)	He purchased a building and furniture for	1,00,000
(v)	He purchased goods from Ram on credit	50,000
(vi)	He paid cartage	500
(vii)	He sold to Shyam on credit goods costing ₹ 6,000 for	9,000
(viii)	Received rent from tenants	1,000
(ix)	Received security deposit from tenants	1,500
(x)	Purchased stationery for cash	100
(xi)	Invested in shares (personal)	50,000
(xii)	Received interest in cash	200
(xiii)	Introduced fresh capital	25,000
(xiv)	Goods destroyed by fire	500

The solution for this question is as follows:

S. No.	Transactions	Assets						=	Liabilities + Capital								
		Cash ₹.	+	Bank ₹.	+	Building and Furniture ₹.	+	Stock ₹.	+	Debtors ₹.	=	Creditors ₹.	+	Security Deposit ₹.	+	Capital ₹.	
(i)	Sunil started business with cash ₹.1,50,000	1,50,000									=						1,50,000
(ii)	Opened Bank Account by depositing ₹.25,000 from cash	1,50,000									=						1,50,000
		(25,000)		25,000							=						
(iii)	Sold personal car for ₹.50,000 and deposited money in Bank A/c	1,25,000		25,000							=						1,50,000
				50,000							=						50,000
(iv)	Building and Furniture purchased for ₹.1,00,000	1,25,000		75,000							=						2,00,000
		(1,00,000)				1,00,000					=						
(v)	Purchased goods from Ram on credit	25,000		75,000		1,00,000					=						2,00,000
								50,000			=	50,000					
(vi)	Paid Cartage ₹.500	25,000		75,000		1,00,000		50,000			=	50,000					2,00,000
		(500)									=						(500) (Exp.)
(vii)	Sold to Shyam on credit goods costing ₹.6,000 for ₹.9,000	24,500		75,000		1,00,000		50,000			=	50,000					1,99,500
								(6,000)		9,000	=						3,000 (Profit)
(viii)	Received rent from tenants of ₹.1,000	24,500		75,000		1,00,000		44,000		9,000	=	50,000					2,02,500
		1,000									=						1,000 (Income)
(ix)	Received Security Deposits from tenants of ₹.1,500	25,500		75,000		1,00,000		44,000		9,000	=	50,000					2,03,500
		1,500									=			1,500			
		27,000		75,000		1,00,000		44,000		9,000	=	50,000		1,500			2,03,500

(x)	Purchased Stationery for Cash of ₹.100	(100) = (100) (Exp.)														
(xi)	Invested in Shares (personal) ₹.50,000	26,900	75,000	1,00,000	44,000	9,000	=	50,000	1,500	2,03,400						
		(50,000) = (50,000) (Drawings)														
(xii)	Received Interest of ₹.200 in Cash	26,900	25,000	1,00,000	44,000	9,000	=	50,000	1,500	1,53,400						
		200 = 200 (Income)														
(xiii)	Introduced fresh Capital of ₹.25,000	27,100	25,000	1,00,000	44,000	9,000	=	50,000	1,500	1,53,600						
		25,000 = 25,000														
(xiv)	Goods of ₹.500 were destroyed by fire	52,100	25,000	1,00,000	44,000	9,000	=	50,000	1,500	1,78,600						
		(500) = (500) (Loss)														
	Total	52,100	+	25,000	+	1,00,000	+	43,500	+	9,000	=	50,000	+	1,500	+	1,78,100