Financial Statements I
(Without Adjustments)

PART 1
Objective Questions

• Multiple Choice Questions

1. The financial statements consist of
(a) trial balance (b) profit and loss account (c) balance sheet (d) Both (b) and (c)

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

2. Match the following.

Column I	Column II
A. Loss by Theft	(i) Net Sales – Cost of Goods Sold
B. Dock Charges	(ii) Indirect Expenses shown to Debit of Proft and Loss Account
C. Oprating Profit	(iii) Direct Expense shown to Debit of Trading Account
D. Gross Profit	(iv) Net Sales – Operating Cost

Codes

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

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

3. Profit and loss account is prepared ....
(a) for the whole year (b) for a particular period (c) on a particular date (d) None of these

Ans. (b) Profit and loss account relates to a particular period and is prepared at the end of that period. It shows the performance of the business during an accounting period.

4. Ram is the owner of a firm. He brought additional capital of ₹ 1,00,000 to the firm. The receipt of money in business is ....
(a) revenue receipt (b) capital receipt (c) revenue expenditure (d) capital expenditure

Ans. (b) If the receipts imply an obligation to return the money, these are capital receipt.

5. Choose the correct chronological order of ascertainment of the following profits from the profit and loss.
(a) Operating Profit, Net Profit, Gross Profit (b) Operating Profit, Gross Profit, Net Profit
(c) Gross Profit, Operating Profit, Net Profit (d) Gross Profit, Net Profit, Operating Profit

Ans. (c) Following is the sequence of knowing the profitability
- Gross profit by preparing trading account.
- Operating profit by deducting operating expenses from gross profit.
- Net profit after deducting non-operating expenses from operating profit and adding non-operating income.

6. Liability which is payable on the happening of an event is

(a) contingent liability (b) fluctuating liability (c) current liability (d) None of these

Ans. (a) Liabilities in respect of bill discounted, guarantee for a loan or disputed claims are the examples of contingent liabilities. These liabilities are payable on the happening of an event or contingency in future.

7. Capital expenditure .... the earning capacity or .... the operating expenses of a business.

(a) increases, reduces (b) reduces, increases (c) maintain, reduces (d) reduces, maintain

Ans. (a) increases, reduces

8. Depreciation or the expired cost of fixed assets will be

(a) revenue expenditure
(b) capital expenditure
(c) deferred revenue expenditure
(d) None of these

Ans. (a) Revenue expenditure is an expenditure, the benefit of which is consumed within the accounting period. It is treated as an expense of the current year.

9. On which assumption the expenditure is classified as capital and revenue expenditure?

(a) Going concern assumption
(b) Accrual assumption
(c) Money measurement assumption
(d) Consistency assumption

Ans. (a) Going concern assumption

10. While calculating operating profit, the following are not taken into account **(NCERT)**

(a) normal transactions
(b) abnormal items
(c) expenses of a purely financial nature
(d) Both (b) and (c)

Ans. (d) Operating profit means profit from operating activities of the business. Operating activities are the principal revenue producing activities of the enterprise and are those activities that are not investing or financing activities. That's why we will ignore abnormal items and expenses of a purely financial nature.
Operating Profit = Gross Profit – Operating Expenses

11. Which of the following is correct?

(a) Net Sales = Cash Sales + Credit Sales – Sales Return
(b) Net Sales = Cash Sales + Credit Sales + Sales Return
(c) Net Sales = Total Sales – Credit Sales
(d) Net Sales = Sales + Credit Sales

Ans. (a) Net Sales = Cash Sales + Credit Sales – Sales Return

12. Consider the following statement.

(i) Balance sheet contains only the balances of personal and real accounts.
(ii) Assets side of balance sheet is always equal to capital side.
(iii) Drawings are not shown in the balance sheet as it is a personal expense of the owner.

Alternatives

(a) Only (i) is correct
(b) Only (ii) and (iii) is correct
(c) All are correct
(d) All are incorrect

Ans. (a) Asset side of balance sheet is always equal to liabilities side of balance sheet.

Drawings are deducted from capital after adding net profit in balance sheet.

13. Which of the following statement(s) is/are true?

(i) Revenue expenditure gives benefit within the accounting period.
(ii) Revenue expenditures are non-recurring in nature.

Alternatives

(a) Both (i) and (ii) (b) Only (i) (c) Only (ii) (d) Neither (i) nor (ii)

Ans. (b) Revenue expenditures are recurring in nature. The benefit of revenue expenditures expire within a financial year.

14. Operating profit earned by Harshad Mehta in 2020-21 was ₹ 8,50,000. His non-operating incomes were ₹ 75,000 and non-operating expenses were ₹ 1,87,500. Calculate the profit earned during the year.
(a) ₹ 7,37,500 (b) ₹ 9,62,500 (c) ₹ 5,87,500 (d) ₹ 11,12,500

Ans. (a) Net Profit = Operating Profit – Non-operating Expenses + Non-Operating Income

$$= \mathbf{8{,}50{,}000 - 1{,}87{,}500 + 75{,}000 = ₹\ 7{,}37{,}500}$$

15. Opening Stock = ₹ **9,60,000**

Purchases = ₹ **27,20,000**

Sales = ₹ **39,00,000**

Gross Profit is 30% on cost

Which of the following will be the amount of closing stock?
(a) ₹ 7,80,000 (b) ₹ 6,80,000 (c) ₹ 47,60,000 (d) ₹ 12,40,000

Ans. (b) Let CoGS be **x**

Sales = CoGS + Gross Profit

$$\mathbf{39{,}00{,}000 = x + \frac{30}{100} \times x}$$

$$\mathbf{39{,}00{,}000 = x + 0.3x}$$

$$\Rightarrow \quad \mathbf{x = ₹\ 30{,}00{,}000}$$

Thus, CoGS is ₹ **30,00,000**

CoGS = Opening Stock + Purchases + Direct Expenses – Closing Stock

$$\mathbf{30{,}00{,}000 = 9{,}60{,}000 + 27{,}20{,}000} - \text{Closing stock}$$

$$\Rightarrow \quad \text{Closing Stock} = \mathbf{₹\ 6{,}80{,}000}$$

• Assertion-Reasoning MCQs

Directions *(Q. Nos 1 to 6) There are the 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 wrong
(b) Both Assertion (A) and Reason (R) are correct
(c) Assertion (A) is wrong, but Reason (R) is correct
(d) Both Assertion (A) and Reason (R) are wrong

1. Assertion (A) Warehousing expenses, export duties, royalty, etc are shown to debit side of trading account.

Reason (R) Direct expenses are shown to debit side of trading account.

Ans. (c) Warehousing expenses, export duties are indirect expenses and are shown in profit and loss account.

2. Assertion (A) ₹ 10,000 spent on installing the machine is capital expenditure.

Reason (R) Capital expenditure increase the value of fixed assets and its benefits extend upto one accounting period.

Ans. (a) ₹ 10,000 is capital expenditure asset as it is related to making the machine ready to use. Capital expenditure give benefits which extend to more than one accounting period.

3. Assertion (A) Advertising, packing expenses, interest paid on loan, legal expenses are shown to debit side of profit and loss account.

Reason (R) All indirect expenses are shown to debit side of profit and loss account.

Ans. (b) Indirect expenses are transferred to debit side of the profit and loss account while all the gains are transferred to credit side of profit and loss account.

4. **Assertion** (A) Loan taken by Anuj Enterprises from SBI is revenue receipt.

Reason (R) Revenue receipts are those receipts which arise in normal course of business.

Ans. (c) Revenue receipts are of recurring nature. Thus, loan taken by Anuj Enterprises is capital receipt.

5. **Assertion** (A) Heavy advertising to launch a new product is deferred revenue expenditure.

Reason (R) Deferred revenue expenditure is a revenue expenditure that is incurred during an accounting period but its benefit extends beyond that accounting period.

Ans. (b) Amount spent on advertising will give benefits beyond the accounting period in which it is incurred.

6. **Assertion** (A) Closing stock is valued at cost or net realisable value whichever is higher.

Reason (R) According to conservatism principle, all prospective losses are taken into consideration but not the prospective profits.

Ans. (c) According to prudence or conservatism, closing stock is valued at cost or net realisable value whichever is lower.

• Case Based MCQs

1. **Direction** *Read the following case study and answer the question no. (i) to (iv) on the basis of the same.*

Shamita studies in class 11th in Happy Public School. She comes from a CA family. She has two CA sisters and her father CA Arjun owns his firm at Darya Ganj.

She spent most of her day reading novels and devote very less hours for study. As a result, she scored very less marks in Ist term exam in accountancy. Ms Ritika Sachdeva, her accountancy teacher has now decided to give remedial classes to all weak students. Her father is also giving his time to teach her. One day, her teacher introduced the chapter financial statements in class but Shamita found it very hard. She asked her sister CA Isha to teach her financial statements. Isha showed financial statements of their father's firm which aroused her curiosity. She even grasped the concept quickly of trading account, profit and loss account and balance sheet.

Isha realised that Shamita can only progress if she is shown visual aids, real objects, things, etc. She teaches her with this method and is successful as Shamita got good marks.

(i) What is prepared in sole proprietorship business with the objective of calculating gross profit or gross loss of the business?

(a) Trading account (b) Profit and loss account (c) Balance sheet (d) None of these

Ans. (a) Trading account

(ii) Freight inward of ₹ 5,600 is outstanding at the end of year. Where it is recorded in final accounts?

(a) Trading account and balance sheet
(b) Profit and loss account and balance sheet
(c) Trading account and profit and loss account
(d) Trading account (debit) and balance sheet (assets)

Ans. (a) It is a direct expense and liability for business

(iii) Trading account is a

(a) personal account (b) real account (c) nominal account (d) asset account

Ans. (c) Trading account is a nominal account which is prepared at the end of accounting year. It helps to find out gross profit or gross loss during the accounting period.
All direct expenses are debited and all direct incomes are credited in trading account.

(iv) Closing stock is given outside of the trial balance with book value ₹ 60,000 and market value of ₹ 80,000 as on 31st March, 2020. It will be recorded in balance sheet at which amount?

(a) ₹ 60,000 (b) ₹ 80,000 (c) ₹ 20,000 (d) ₹ 1,40,000

Ans. (a) Closing stock is shown at market value or net realisable value whichever is lower.

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

Aditi is an engineer, who is working as a content developer and educator at ABC Limited. Along with her job, she is also preparing for various competitive exams.

During weekend, Aditi was studying about financial statements. After doing all the theory, she tried to attempt a question but she got struck as her balance sheet total didn't agree. Immediately, she called her friend Shweta and asked her to find her mistakes.

Shweta found her conceptual errors and also sent her correct solution for the same.

Following trading account and profit and loss account as on 31st March, 2020 and balance sheet as at that date were prepared by Aditi from the balances as on 31st March, 2020 given in her book.

Question given in Aditi's book

From the following balances, as on 31st March, 2020, prepare trading and profit and loss account and the balance sheet.

Particulars	Amt (₹)	Particulars	Amt (₹)
Capital Account	50,000	Return Outwards	2,500
Plant and Machinery	20,000	Rent	2,000
Sundry Debtors	12,000	Sales	82,000
Sundry Creditors	6,000	Manufacturing Expenses	4,000
Drawings	6,000	Trade Expenses	3,500
Purchases	52,500	Bad Debts	1,000
Wages	25,000	Carriage	750
Bank	5,000	Bills Payable	3,500
Repairs	250	Return Inwards	2,000
Stock (1st April, 2019)	10,000		

Closing stock (31st March, 2020) was valued at ₹ 7,250.

Trading Account

Dr — for the year ended 31st March, 2020 — Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Opening Stock	10,000	By Sales (**82,000 – 2,000**)	80,000
To Net Purchases (**52,500 – 2,500**)	50,000	By Closing Stock	7,250
To Wages	25,000	By Gross Loss	5,250
To Manufacturing Expenses	4,000		
To Trade Expenses	3,500		
	92,500		92,500

Profit and Loss Account

Dr — for the year ended 31st March, 2020 — Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Gross Loss	5,250	By Net Loss	9,250
To Repairs	250		
To Rent	2,000		
To Bad Debts	1,000		
To Carriage	750		
	9,250		9,250

Balance Sheet
as on 31st March, 2020

Liabilities		Amt (₹)	Assets	Amt (₹)
Capital	50,000		Plant and Machinery	20,000
(–) Net Loss	(9,250)		Sundry Debtors	12,000
Drawing	(6,000)	34,750		
Sundry Creditors		6,000		
Bills Payable		3,500		
		44,250		32,000

(i) Which of the following is correct amount of gross profit/gross loss?
(a) Gross profit ₹ 2,500 (b) Gross loss ₹ 2,500 (c) Gross profit ₹ 5,000 (d) Gross loss ₹ 5,000

Ans. (b)

Trading Account
Dr for the year ended 31st March, 2020 Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Opening Stock	10,000	By Net Sales	80,000
To Net Purchases	50,000	By Closing Stock	7,250
To Wages	25,000	By Gross Loss	2,500
To Manufacturing Expenses	4,000		
To Carriage	750		
	89,750		89,750

(ii) Which of the undermentioned net profit/net loss is correct?
(a) Net loss ₹ 9,250 (b) Net profit ₹ 9,250 (c) Net profit ₹ 10,000 (d) Net loss ₹ 10,000

Ans. (a)

Profit and Loss Account
Dr for the year ended 31st March, 2020 Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Gross Loss	2,500	By Net Loss	9,250
To Repairs	250		
To Trade Expenses	3,500		
To Bad Debts	1,000		
To Rent	2,000		
	9,250		9,250

(iii) Total of balance sheet is ....
(a) ₹ 94,250 (b) ₹ 44,250 (c) ₹ 84,250 (d) ₹ 74,250

Ans. (b)

Balance Sheet
as on 31st March, 2020

Liabilities		Amt (₹)	Liabilities	Amt (₹)
Capital	50,000		Closing stock	7,250
(–) Net Loss	(9,250)		Sundry Debtors	12,000
Drawings	(6,000)	34,750	Plant and Machinery	20,000
Sundry Creditors		6,000	Bank	5,000
Bills Payable		3,500		
		44,250		44,250

(iv) Opening Stock + Purchases – Purchases Return + Direct Expenses – Closing Stock = ……… .
(a) Cost of Raw Material (b) Gross Profit (c) Closing Capital (d) Cost of Goods Sold

Ans. (d) Cost of Goods Sold

PART 2

Subjective Questions

• Short Answer (SA) Type Questions

1. What are financial statements and what information is provided by them? **(NCERT)**

Ans. Financial statements are the final/end products of an accounting process, which begins with the identification of accounting information and recording it in the books of primary entry.

Financial statements are prepared following the accounting concepts and conventions. These statements are prepared at the end of accounting period and give information about the financial position and performance of an enterprise.

Trading and profit and loss account present a true and fair view of the financial performance of the business in the form of profit and loss during the year. Balance sheet presents a true and fair view of the financial position of the business.

2. What are the objectives of preparing financial statements? **(NCERT)**

Ans. The basic objectives of preparing financial statements are

(i) To present a true and fair view of the working of the business.
(ii) To help to judge the effectiveness of the management.
(iii) To provide sufficient and reliable information to various users interested in financial statements.
(iv) To facilitate efficient allocation of resources.
(v) To disclose various accounting policies.
(vi) To provide information about the cash flows.
(vii) To provide information about the earning capacity.
(viii) To provide financial data on assets (economic resources) and liabilities (obligations) of an enterprise.

3. What are the features of a trading account?

Ans. Features of trading account are

(i) Trading account is the first stage in the preparation of final accounts.
(ii) It provides information about gross profit and gross loss.
(iii) Balance of trading account is transferred to profit and loss account.
(iv) Trading account is a nominal account.
(v) Trading account relates to a particular accounting period and is prepared at the end of that period.
(vi) Trading account records only revenue items and not capital items.

4. Discuss the need of preparing a balance sheet. **(NCERT)**

Ans. The need and importance of preparing a balance sheet is stated in the following points

(i) It helps to ascertain the true financial position of the business at a particular point of time.
(ii) It helps in ascertaining the nature and cost of various assets of the business such as the amount of closing stock, amount owing from debtors, amount of fictitious assets, etc.
(iii) It helps in determining the nature and amount of various liabilities of the business.
(iv) It gives information about the exact amount of capital at the end of the year and the addition or deduction made into it in the current year.
(v) It helps in finding out whether the firm is solvent or not. The firm is solvent if the assets exceed the external liabilities. It would be insolvent if opposite is the case.
(vi) It helps in preparing the opening entries at the beginning of the next year.

5. Distinguish between capital receipts and revenue receipts.

Ans. The differences between capital receipts and revenue receipts are

Basis	Capital Receipts	Revenue Receipts
Meaning	The amount received in form of capital introduced, loans taken and sale proceeds of the fixed assets is known as capital receipts.	The amount received mainly by selling of goods and services is known as revenue receipts.
Nature	Capital receipts are capital in nature.	Revenue receipts are revenue (i.e., day-to-day activities) in nature.
Shown	Capital receipts are shown on the liabilities side of balance sheet.	Revenue receipts are shown on the credit of either trading account or profit and loss account.
Examples	Sale of fixed assets, capital contribution and loans taken, etc., are some examples of capital receipts.	Profit on sale of assets, sale of goods, interest received on loans (advanced), royalty, etc., are some examples of revenue receipts.

6. State whether the following statements are items of capital or revenue expenditure, with reason.

(i) Expenditure incurred on repairs and white washing at the time of purchase of an old building in order to make it usable.

(ii) Registration fees paid at the time of purchase of a building.

(iii) Depreciation on plant and machinery.

Ans. (i) **Capital Expenditure** Any expenditure on purchase of an asset to make it usable is capital expenditure.

(ii) **Capital Expenditure** Registration fee is part of cost of an asset.

(iii) **Revenue Expenditure** Depreciation is charged on yearly basis throughout the life of an asset.

7. Calculate gross profit from the following.

Opening Stock	₹ 20,000	Purchases	₹ 3,50,000
Carriage on Purchases	₹ 3,000	Closing Stock	₹ 90,000
Sales	₹ 6,50,000	Office Rent	₹ 15,000
Carriage on Sales	₹ 6,000	Return Inward	₹ 10,000

Ans. Cost of Goods Sold (CoGS) = Opening Stock + Purchases − Purchase Return + Direct Expenses − Closing Stock

= **20,000 + 3,50,000 + 3,000 − 90,000 = 3,73,000 − 90,000** = ₹ 2,83,000

Where, carriage on purchases is direct expense.

Gross Profit = Net Sales − CoGS = Sales − Sales Return − CoGS

= **6,50,000 − 10,000 − 2,83,000** = ₹ 3,57,000

8. Calculate the amount of gross profit and operating profit on the basis of the following balances extracted from the books of M/s Rajiv and Sons for the year ended 31st March, 2020.

Particulars	Amt (₹)
Opening Stock	1,50,000
Net Sales	33,00,000
Net Purchases	18,00,000
Direct Expenses	1,80,000
Administration Expenses	1,35,000
Selling and Distribution Expenses	1,95,000
Loss due to Fire	60,000
Closing Stock	2,10,000

Ans. **Trading Account**

Dr for the year ending 31st March, 2020 Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Opening Stock A/c	1,50,000	By Sales A/c	33,00,000
To Purchases A/c	18,00,000	By Closing Stock A/c	2,10,000
To Direct Expenses A/c	1,80,000		
To Gross Profit (Balancing figure)	13,80,000		
	35,10,000		35,10,000

Operating Profit = Gross Profit – (Operating Expenses* + Operating Income)

= **13,80,000** – (**3,30,000** + **0**) = ₹ 10,50,000

Note *(i) Loss due to fire is a non-operating expense.*

*(ii) *Operating Expenses = Administration Expenses + Selling and Distribution Expenses = 1,35,000 + 1,95,000 = ₹ 3,30,000*

9. Calculate the gross profit from the following for 50% goods sold. Total purchases during the current year are ₹ 9,00,000, Return outward ₹ 50,000, Lighting ₹ 30,000, Wages ₹ 80,000 and Electricity ₹ 8,000 and 1/2nd goods are sold for ₹ 8,00,000.

Ans. Cost of Goods Sold (CoGS) = Opening Stock + Total Purchases – Return Outward + Direct Expenses – Closing Stock

= 0 + 9,00,000 – 50,000 + (30,000 + 80,000) – 0

= 8,50,000 + 1,10,000 = ₹ 9,60,000

1/2nd value of CoGS = 9,60,000 × 1/2 = ₹ 4,80,000

Gross Profit (for 1/2nd goods only) = Value of Sales (for half goods) – Half value of CoGS

Gross Profit (for 1/2nd goods only) = 8,00,000 – 4,80,000

= ₹ 3,20,000

10. Calculate closing stock from the following details.

Particulars	Amt (₹)
Opening Stock	20,000
Cash Sales	60,000
Purchases	70,000
Credit Sales	40,000

Rate of gross profit on cost $33\frac{1}{3}\%$.

Ans. Total Sales = Cash Sales + Credit Sales = **60,000** + **40,000**

∴ Total Sales = ₹ 1,00,000

Gross Profit is $\frac{100}{3}\%$ on cost.

Let cost be **x**

∴ Gross Profit = $x \times \frac{100}{300} = \frac{x}{3}$

Sales = Cost + Gross Profit ⇒ 1,00,000 = $x + \frac{x}{3} \Rightarrow \frac{4x}{3} = 1,00,000$

∴ (Cost) $x = \frac{1,00,000}{4} \times 3$ = ₹ 75,000

Cost = Opening Stock + Purchases + Direct Expenses – Closing Stock

⇒ Closing Stock = Opening Stock + Purchases + Direct Expenses – Cost

= **20,000** + **70,000** + Nil – **75,000** = ₹ 15,000

11. Calculate opening stock from the following details

Particulars	Amt (₹)
Closing Stock	20,000
Cash Sales	60,000
Net Purchases	70,000
Net Credit Sales	40,000
Return Outward	5,000
Return Inward	7,000

Rate of gross profit on cost $33\frac{1}{3}\%$.

Ans. Net Sales = Cost of Goods Sold (CoGS) + Gross Profit (GP)

Cash Sales + Net Credit Sales = CoGS + GP

$$60{,}000 + 40{,}000 = x + x \times \frac{1}{3} \qquad \left[\therefore 33\frac{1}{3}\% = \frac{1}{3}\right]$$

$$1{,}00{,}000 = x + \frac{x}{3} \Rightarrow 1{,}00{,}000 = \frac{3x + x}{3} = \frac{4x}{3} \Rightarrow x = \frac{1{,}00{,}000 \times 3}{4} = 75{,}000$$

CoGS = Opening Stock + Net Purchases + Direct Expenses – Closing Stock

75,000 = Opening Stock + 70,000 + **0 – 20,000**

∴ **75,000 – 50,000** = Opening Stock

∴ Opening Stock = ₹ **25,000**

12. From the following information, find cost of goods sold and net sales.

Particulars	Amt (₹)	Particulars	Amt (₹)
Opening Stock	3,00,000	Wages	6,000
Purchases	8,40,000	Freight	10,800
Closing Stock	2,40,000	Carriage Inwards	3,000

The percentage of gross profit on sales is 20%.

Ans.

Calculation of Cost of Goods Sold	**Amt (₹)**
Opening Stock	3,00,000
(+) Purchases	8,40,000
Wages	6,000
Freight	10,800
Carriage Inwards	3,000
	11,59,800
(–) Closing Stock	(2,40,000)
Cost of Goods Sold	9,19,800

Calculation of Net Sales

Let sales = **100**, gross profit will be = ₹ **20**.

Therefore, cost of sales will be = **100 – 20** = ₹ **80**.

When cost of sales is 80, then sales =**100**.

When cost of sales is 1, then sales = **100**/ 80.

When cost of sales is ₹ **9,19,800**, then sales = **100 / 80 × 9,19,800** = ₹ **11,49,750**

13. Trading account of M/s Volvoline Technologies is given below

Trading Account

Dr for the year ended 31st December, 2020 Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Opening Stock	3,37,500	By Net Sales	12,82,500
To Net Purchases	5,12,500	By Closing Stock	2,67,500
To Wages and Salaries	1,57,500		
To Freight Inwards	33,500		
To Other Direct Expenses	60,000		
To Gross Profit c/d	4,49,000		
	15,50,000		15,50,000

Pass closing journal entries on the basis of the above trading account. Also, transfer the gross profit to profit and loss account.

Ans.

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Date	Particulars		LF	Amt (Dr)	Amt (Cr)
	Trading A/c	Dr		11,01,000	
	To Opening Stock A/c				3,37,500
	To Net Purchases A/c				5,12,500
	To Wages and Salaries A/c				1,57,500
	To Freight Inwards A/c				33,500
	To Other Direct Expenses A/c				60,000
	(Being the opening stock, net purchases, wages and salaries, freight inwards and other direct expenses transferred to trading account)				
	Net Sales A/c	Dr		12,82,500	
	Closing Stock A/c	Dr		2,67,500	
	To Trading A/c				15,50,000
	(Being the net sales and closing stock transferred to trading account)				
	Trading A/c	Dr		4,49,000	
	To Profit and Loss A/c				4,49,000
	(Being the gross profit transferred to profit and loss account)				

14. From the following information, prepare trading account for the year ended 31st March, 2020.

Particulars	Amt (₹)
Cost of Goods Sold	45,00,000
Sales	72,00,000
Closing Stock	2,40,000
Wages	25,000

Ans.

Trading Account
Dr — for the year ended 31st March, 2020 — Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Cost of Goods Sold	45,00,000	By Sales	72,00,000
To Gross Profit Transferred to Profit and Loss A/c	27,00,000		
	72,00,000		72,00,000

Note *Wages has not been shown on the debit side and closing stock has not been shown on the credit side of the trading account because it has already been adjusted while calculating the cost of goods sold.*

15. From the following details, calculate operating profit.

Particulars	Amt (₹)
Net Profit	2,00,000
Rent Received	20,000
Gain on Sale of Machine	30,000
Interest on Loan	40,000
Donation	4,000

Ans. Net Profit = Operating Profit – Non-operating Expenses + Non-operating Income

Net Profit = Operating Profit – (Interest on Loan + Donation) + (Rent Received + Gain on Sale of Machine)

2,00,000 = Operating Profit – (40,000 + 4,000) + (20,000 + 30,000)

2,00,000 = Operating Profit – 44,000 + 50,000

Operating Profit = 2,00,000 – 6,000

∴ Operating Profit = ₹ 1,94,000

16. Calculate gross profit, operating profit and net profit from the following.

Particulars	Amt (₹)	Particulars	Amt (₹)
Opening Stock	4,00,000	Commission Paid	4,800
Purchases	38,00,000	Commission Received	12,000
Sales	50,00,000	Travelling Expenses	9,600
Purchases Return	1,40,000	Office Expenses	7,000
Sales Return	2,00,000	Interest on Long-term Loans	44,000
Wages	1,60,000	Dividend on Investments	5,600
Advertising	24,000	Printing and Stationery	7,200
Salaries	3,56,000	Loss on Sale of Machinery	70,000
Rent and Taxes	1,24,000	Carriage Outwards	2,800
Lighting	30,000	Loss by Theft	50,200
		Gain on Sale of Building	1,00,000

Closing stock was valued at ₹ 5,00,000.

Ans.

Trading and Profit and Loss Account

Dr — for the year ended .... — Cr

Particulars		Amt (₹)	Particulars		Amt (₹)
To Opening Stock		4,00,000	By Sales	50,00,000	
To Purchases	38,00,000		(–) Sales Return	(2,00,000)	48,00,000
(–) Purchases Return	(1,40,000)	36,60,000	By Closing Stock		5,00,000
To Wages		1,60,000			
To Gross Profit Transferred to Profit and Loss A/c		10,80,000			
		53,00,000			53,00,000
To Advertising		24,000	By Gross Profit b/d		10,80,000
To Salaries		3,56,000	By Commission Received		12,000
To Rent and Taxes		1,24,000			
To Lighting		30,000			
To Commission Paid		4,800			
To Travelling Expenses		9,600			
To Office Expenses		7,000			
To Printing and Stationery		7,200			
To Carriage Outwards		2,800			
To Operating Profit c/d		5,26,600			
		10,92,000			10,92,000
To Interest on Long-term Loans		44,000	By Operating Profit b/d		5,26,600
To Loss on Sale of Machinery		70,000	By Dividend on Investments		5,600
To Loss by Theft		50,200	By Gain on Sale of Building		1,00,000
To Net Profit Transferred to Capital A/c		4,68,000			
		6,32,200			6,32,200

17. From the following information, prepare a balance sheet of Mr Raghav as at 31st March, 2021. (i) in order of permanence (ii) in order of liquidity. (either of two methods can come in 4 marks)

Particulars	Amt (₹)	Particulars	Amt (₹)
Plant and Machinery	2,00,000	Furniture and Fixtures	40,000
Prepaid Expenses	2,000	Accrued Income	4,000
Income Received in Advance	4,000	Outstanding Expenses	2,000
Bills Payable	6,000	Bills Receivables	4,000
Sundry Debtors	2,00,000	Sundry Creditors	1,98,000
Bank Overdraft	20,000	Investments in Shares of X Ltd.	20,000
Long-term Loan from Bank	2,00,000	Closing Stock	1,70,000
Capital	4,00,000	Building	2,00,000
Land	20,000	Goodwill	20,000
Drawings	20,000	Net Profit	1,20,000
Cash in Hand	10,000	Cash at Bank	38,000
Income Tax Paid	2,000		

Ans. (i)

Balance Sheet
as at 31st March, 2021

Liabilities		Amt (₹)	Assets	Amt (₹)
Capital			**Fixed Assets**	
Opening Balance	4,00,000		Goodwill	20,000
(+) Net Profit	1,20,000		Land	20,000
	5,20,000		Building	2,00,000
(–) Drawings	(20,000)		Plant and Machinery	2,00,000
(–) Income Tax	(2,000)	4,98,000	Furniture and Fixtures	40,000
Long-term Liabilities			**Investments**	
Long-term Loan		2,00,000	Shares of Raghav Ltd.	20,000
Current Liabilities			**Current Assets**	
Income Received-in-Advance		4,000	Closing Stock	1,70,000
Sundry Creditors		1,98,000	Accrued Income	4,000
Outstanding Expenses		2,000	Prepaid Expenses	2,000
Bills Payable		6,000	Sundry Debtors	2,00,000
Bank Overdraft		20,000	Bills Receivable	4,000
			Cash at Bank	38,000
			Cash in Hand	10,000
		9,28,000		9,28,000

(ii)

Balance Sheet
as at 31st March, 2021

Liabilities		Amt (₹)	Assets	Amt (₹)
Current Liabilities			**Current Assets**	
Bank Overdraft		20,000	Cash in Hand	10,000
Bills Payable		6,000	Cash at Bank	38,000
Outstanding Expenses		2,000	Bills Receivable	4,000
Sundry Creditors		1,98,000	Sundry Debtors	2,00,000
Income Received in Advance		4,000	Prepaid Expenses	2,000
Long-term Liabilities			Accrued Income	4,000
Long-term Loan		2,00,000	Closing Stock	1,70,000
Capital			**Investments**	
Opening Balance	4,00,000		Shares of Raghav Ltd.	20,000
(+) Net Profit	1,20,000		**Fixed Assets**	
	5,20,000		Furniture and Fixtures	40,000
(–) Drawings	(20,000)		Plant and Machinery	2,00,000
(–) Income Tax	(2,000)	4,98,000	Building	2,00,000
			Land	20,000
			Goodwill	20,000
		9,28,000		9,28,000

• Long Answer (LA) Type Questions

1. What is a balance sheet? What are its characteristics? **(NCERT)**

Ans. The balance sheet is a statement prepared for showing the financial position of the business summarising its assets and liabilities at a given date. It is prepared at the end of the accounting period after the trading and profit and loss account have been prepared. The assets reflect debit balances and liabilities (including capital) reflect credit balances.

It is called a balance sheet because it is a statement of balances of ledger accounts which have not been closed till the preparation of the trading and profit and loss account.

Features/Characteristics of balance sheet are as follows

(i) Balance sheet is prepared at a particular point of time and not for a particular period.
(ii) It is only a statement and not an account.
(iii) It is prepared after the preparation of trading and profit and loss account.
(iv) It shows the financial position of the business.
(v) It is a summary of balances of those ledger accounts which have not been closed by transferring to the trading and profit and loss account.
(vi) It shows the nature and value of assets.
(vii) It shows the nature and amount of liabilities.
(viii) The total of assets side must be equal to the liabilities side.

2. Distinguish between profit and loss account and balance sheet.

Ans. The differences between profit and loss account and balance sheet are

Basis	Profit and Loss Account	Balance Sheet
Types of Account	Only nominal accounts are entered in profit and loss account.	It records personal and real accounts.
Objective	The objective of preparing profit and loss account is to ascertain the net profit or loss of the business.	The purpose of preparing balance sheet is to understand the financial position of the firm.
Sides	The left hand side of the profit and loss account is the debit and the right hand side is credit.	It has liabilities at its left hand side and assets at right hand side.
Nature	Profit and loss account is an account. We use the word 'To' before accounts at the debit side and 'By' at the credit side.	Balance sheet is not an account, it is a statement. We do not use 'To' or 'By' in it.
Specific Date/Period	Profit and loss account shows the performance of the accounting period, generally a year.	Balance sheet shows the position of assets and liabilities on a particular date.
Types of Expenditure	Revenue expenditure is recorded in the profit and loss account.	Capital expenditure is entered on the assets side of the balance sheet.

3. Distinguish between capital expenditure and revenue expenditure and state whether the following statements are items of capital or revenue expenditure.

(i) Expenditure incurred on repairs and white washing at the time of purchase of an old building in order to make it usable.
(ii) Expenditure incurred to provide one more exit in a cinema hall in compliance with a government order.
(iii) Registration fees paid at the time of purchase of a building.
(iv) Expenditure incurred in the maintenance of a tea garden which will produce tea after 4 years.
(v) Depreciation charged on a plant.
(vi) The expenditure incurred in erecting a platform on which a machine will be fixed.
(vii) Advertising expenditure, the benefits of which will last for 4 years. **(NCERT)**

Ans. The differences between capital expenditure and revenue expenditure are

Basis	Capital Expenditure	Revenue Expenditure
Effect on Earning Capacity	Capital expenditure increases the earning capacity of business.	Revenue expenditure is incurred to maintain the earning capacity.
Purpose	It is incurred to acquire fixed assets for operation of business.	It is incurred on day-to-day conduct of business.
Nature	Capital expenditure is non-recurring in nature.	Revenue expenditure is generally recurring in nature.
Period	Its benefit extend to more than one accounting year.	Its benefit normally extend to one accounting year.
Recorded	Capital expenditure (subject to depreciation) is recorded in balance sheet.	Revenue expenditure (subject to adjustment for outstanding and prepaid amount) is transferred to trading and profit and loss account.

(i) Expenditure incurred on repairs and white washing at the time of purchase of an old building in order to make it usable — Capital Expenditure

(ii) Expenditure incurred to provide one more exit in a cinema hall in compliance with a government order — Capital Expenditure

(iii) Registration fees paid at the time of purchase of a building — Capital Expenditure

(iv) Expenditure incurred in the maintenance of a tea garden which will produce tea after 4 years — Revenue Expenditure

(v) Depreciation charged on a plant — Revenue Expenditure

(vi) The expenditure incurred in erecting a platform on which a machine will be fixed — Capital Expenditure

(vii) Advertising expenditure, the benefits of which will last for 4 years—Deferred Revenue Expenditure.

4. The following trial balance is extracted from the books of M/s Ram on 31st March, 2020. You are required to prepare trading and profit and loss account and the balance sheet as on that date. **(NCERT)**

Name of Account	Debit Balance (₹)	Name of Account	Credit Balance (₹)
Debtors	12,000	Apprenticeship Premium	5,000
Purchases	50,000	Loan	10,000
Coal, Gas and Water	6,000	Bank Overdraft	1,000
Factory Wages	11,000	Sales	80,000
Salaries	9,000	Creditors	13,000
Rent	4,000	Capital	20,000
Discount	3,000		
Advertisement	500		
Drawings	1,000		
Loan	6,000		
Petty Cash	500		
Sales Return	1,000		
Machinery	5,000		
Land and Building	10,000		
Income Tax	100		
Furniture	9,900		
Total	1,29,000		1,29,000

Ans.

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

Dr | | | | Cr

Particulars	Amt (₹)	Particulars		Amt (₹)
To Purchases	50,000	By Sales	80,000	
To Coal, Gas and Water	6,000	(–) Sales Return	(1,000)	79,000
To Factory Wages	11,000			
To Gross Profit Transferred to Profit and Loss A/c	12,000			
	79,000			79,000
To Salaries	9,000	By Gross Profit b/d		12,000
To Rent	4,000	By Apprenticeship Premium		5,000
To Discount	3,000			
To Advertisement	500			
To Net Profit transferred to Capital A/c	500			
	17,000			17,000

Balance Sheet
as on 31st March, 2020

Liabilities		Amt (₹)	Assets	Amt (₹)
Capital	20,000		Debtors	12,000
(+) Net Profit	500		Loan	6,000
	20,500		Machinery	5,000
(–) Drawings	(1,000)		Land and Building	10,000
Income tax	(100)	19,400	Furniture	9,900
Creditors		13,000	Petty Cash	500
Loan		10,000		
Bank Overdraft		1,000		
		43,400		43,400

5 The following is the trial balance of Manju Chawla on 31st March, 2021. You are required to prepare trading and profit and loss account and a balance sheet as on that date. **(NCERT)**

Name of Account	Debit Balance (₹)	Credit Balance (₹)
Opening Stock	10,000	—
Purchases and Sales	40,000	80,000
Returns	200	600
Productive Wages	6,000	—
Dock and Clearing Charges	4,000	—
Donation and Charity	600	—
Delivery Van Expenses	6,000	—
Lighting	500	—
Sales Tax Collected	—	1,000
Bad Debts	600	—
Miscellaneous Incomes	—	6,000
Rent from Tenants	—	2,000
Royalty	4,000	—
Capital	—	40,000
Drawings	2,000	—
Debtors and Creditors	6,000	7,000
Cash	3,000	—
Investment	6,000	—
Patents	4,000	—
Land and Machinery	43,000	—

Closing Stock ₹ 2,000

Ans.

Trading and Profit and Loss Account
Dr — for the year ended 31st March, 2021 — Cr

Particulars		Amt (₹)	Particulars		Amt (₹)
To Opening Stock		10,000	By Sales	80,000	
To Purchases	40,000		(−) Sales Return	(200)	79,800
(−) Purchases Return	(600)	39,400	By Closing Stock		2,000
To Productive Wages		6,000			
To Dock and Clearing Charges		4,000			
To Royalty		4,000			
To Gross Profit Transferred to Profit and Loss A/c		18,400			
		81,800			81,800
To Donation and Charity		600	By Gross Profit b/d		18,400
To Delivery Van Expenses		6,000	By Rent From Tenants		2,000
To Lighting		500	By Miscellaneous Incomes		6,000
To Bad Debts		600			
To Net Profit transferred to Capital A/c		18,700			
		26,400			26,400

Balance Sheet
as at 31st March, 2021

Liabilities		Amt (₹)	Assets	Amt (₹)
Capital	40,000		Investment	6,000
(+) Net Profit	18,700		Patents	4,000
	58,700		Land and Machinery	43,000
(−) Drawings	(2,000)	56,700	Cash	3,000
Creditors		7,000	Debtors	6,000
Sales Tax Collected		1,000	Suspense Account	700
			Closing Stock	2,000
		64,700		64,700

Note *There is a difference of ₹ 700 in debit side of trial balance, so it will be shown in the assets side of the balance sheet.*

6 From the following balances of M/s Nilu Sarees as on 31st March, 2021. Prepare trading and profit and loss account and balance sheet as on that date. **(NCERT)**

Particulars	Amt (₹)	Particulars	Amt (₹)
Opening Stock	10,000	Sales	2,28,000
Purchases	78,000	Capital	70,000
Carriage Inwards	2,500	Interest	7,000
Salaries	30,000	Commission	8,000
Commission	10,000	Creditors	28,000
Wages	11,000	Bills Payable	2,370
Rent and Taxes	2,800		
Repair	5,000		
Telephone Expenses	1,400		
Legal Charges	1,500		
Sundry Expenses	2,500		
Cash in Hand	12,000		
Debtors	30,000		
Machinery	60,000		
Investments	90,000		
Drawings	18,000		

Closing stock as on 31st March, 2021 ₹ 22,000.

Ans.

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

Dr | | | Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Opening Stock	10,000	By Sales	2,28,000
To Purchases	78,000	By Closing Stock	22,000
To Carriage Inwards	2,500		
To Wages	11,000		
To Gross Profit Transferred to Profit and Loss A/c	1,48,500		
	2,50,000		2,50,000
To Salaries	30,000	By Gross Profit Transferred from Trading A/c	1,48,500
To Commission	10,000	By Interest	7,000
To Rent and Taxes	2,800	By Commission	8,000
To Repair	5,000		
To Telephone Expenses	1,400		
To Legal Charges	1,500		
To Sundry Expenses	2,500		
To Net Profit transferred to Capital A/c	1,10,300		
	1,63,500		1,63,500

Balance Sheet
as at 31st March, 2021

Liabilities		Amt (₹)	Assets	Amt (₹)
Capital	70,000		Machinery	60,000
(+) Net Profit	1,10,300		Investment	90,000
	1,80,300		Debtors	30,000
(−) Drawings	(18,000)	1,62,300	Cash in Hand	12,000
Creditors		28,000	Closing Stock	22,000
Bills Payable		2,370		
Suspense Account		21,330		
		2,14,000		2,14,000

Note *(i) Total of debit side of trial balance is ₹ 3,64,700 and total of credit side of trial balance is ₹ 3,43,370. The difference in credit side is ₹ 21,330.*

(ii) Difference in credit side of trial balance ₹ 21,330 will be treated as liabilities and posted in liabilities side of balance sheet.

Chapter Test

Multiple Choice Questions

1. The benefit of .... generally lasts between 3 to 7 years.

(a) revenue expenditure (b) capital expenditure
(c) deferred revenue expenditure (d) working capital expenditure

2. Which of the following is correct?

(a) Gross Profit = Net Profit – Other Income + Indirect Expenses
(b) Gross Profit = Net Profit – Indirect Expenses + Other Incomes
(c) Gross Profit = Net Profit + Cost of Goods Sold
(d) Gross Profit = Net Profit – Cost of Goods Sold

3. Which of the following is the journal entry for unsold stock at the end of the accounting year 31st March, 2021 of ₹ 40,500?

(a)	Closing Stock A/c	Dr	40,500	
	To Profit and Loss A/c			40,500
(b)	Trading A/c	Dr	40,500	
	To Profit and Loss A/c			40,500
(c)	Closing Stock A/c	Dr	40,500	
	To Trading A/c			40,500
(d)	Trading A/c	Dr	40,500	
	To Closing Stock A/c			40,500

4. If sales are ₹ 60,000 and the rate of gross profit on cost of goods sold is 25%. Cost of goods sold will be

(a) ₹ 45,000 (b) ₹ 50,000 (c) ₹ 48,000 (d) None of these

5. Match the following and tick the correct option.

Column I	Column II
A. Trading account	(i) Net Purchase + Opening Stock – Closing Stock
B. Cost of goods sold	(ii) Debit side of trading account
C. Adjusted purchases	(iii) For the year ended
D. Wages	(iv) Opening Stock + Purchases + Direct Expenses – Closing Stock

Codes

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

6. Net sales during the year, 2020 is ₹ 2,85,000. Gross profit is 25% on sales. Find out cost of goods sold.

(a) ₹ 2,85,000 (b) ₹ 2,13,750 (c) ₹ 71,250 (d) Zero

7. Which of the following is correct?

(a) Operating Profit = Operating Profit – Non-Operating Expenses – Non-Operating Incomes
(b) Operating Profit = Net Profit + Non-Operating Expenses + Non-Operating Incomes
(c) Operating Profit = Net Profit + Non-Operating Expenses – Non-Operating Incomes
(d) Operating Profit = Net Profit – Non-Operating Expenses + Non-Operating Incomes

Short Answer (SA) Type Questions

1. What is the purpose of preparing trading and profit and loss account?

2. What are closing entries? Give examples of closing entries of trading account.

3. Calculate closing stock from the following details.

Opening stock ₹ 80,000; cash sales ₹ 2,40,000; credit sales ₹ 1,60,000; purchases ₹ 2,80,000. Rate of gross profit on cost $33\frac{1}{3}$%.

4. Calculate net purchases from the following details.

Particulars	Amt (₹)
Gross Profit	90,000
Net Profit	48,000
Net Sales	3,00,000
Return Inward	10,000
Return Outward	20,000
Freight Inward	5,000
Wages	10,000
Lighting	15,000
Closing Stock	20,000

Opening stock is one and half times of closing stock.

5. Calculate closing stock and cost of goods sold from the following items.

Opening stock ₹ 30,000, sales ₹ 96,000, carriage inwards ₹ 6,000, sales return ₹ 6,000, gross profit ₹ 36,000, purchases ₹ 60,000 and purchase return ₹ 5,400.

Long Answer (LA) Type Questions

1. Following is the trial balance of PC Mukherjee as on 31st March, 2021.

Debit Balances	Amt (₹)	Credit Balances	Amt (₹)
Stock [1 st April, 2020]	20,000	Discount Received	1,500
Purchases	1,16,000	Return Outwards	5,200
Wages	4,000	Sales	1,97,300
Return Inwards	7,040	Bills Payable	6,000
Carriage on Purchases	4,720	Sundry Creditors	11,200
Carriage on Sales	1,420	Creditors for Rent	1000
Office Salaries	9,600	Capital	80,000
Duty on Imported Goods	5,400	Loan from Damodar	20,000
Rent and Taxes	4,800	Commission	2,400
Cash	2,200		
Bank Balance	15,640		
Bad Debts	1,200		
Discount Allowed	1,280		
Land and Building	40,000		
Scooter	13,200		
Scooter Repairs	1,700		
Bills Receivable	7,000		
Commission	3,600		
Sundry Debtors	50,800		
Interest on Damodar 's Loan	3,000		
Drawings	12,000		
	3,24,600		3,24,600

Prepare a trading and profit and loss account for the year ended 31st March, 2021 and the balance sheet as at that date. The stock on 31st March, 2021 was ₹ 44,000.

2. Following is the trial balance of Vandana Vohra as on 31st March, 2020. Draw the final accounts from the balances therefrom.

Name of Account	Debit Balance (₹)	Credit Balance (₹)
Capital	—	3,00,000
Stock on 1 st April, 2019	60,000	—
Cash at Bank	20,000	—
Cash in Hand	10,000	—
Machinery	2,00,000	—
Furniture	26,000	—
Purchases	4,00,000	—
Wages	1,00,000	—
Carriage Inwards	66,000	—
Salaries	1,40,000	—
Discount Allowed	8,000	—
Discount Received	—	10,000
Advertising	1,00,000	—
Office Expenses	80,000	—
Sales	—	10,00,000
Sundry Debtors	1,80,000	—
Sundry Creditors	—	80,000
	13,90,000	13,90,000

Value of closing stock as on 31st March, 2020 was ₹ 1,00,000.

Answers

Multiple Choice Questions

1. *(c)* **2.** *(a)* **3.** *(c)* **4.** *(c)* **5.** *(c)* **6.** *(b)* **7.** *(c)*