

NCERT Solutions for Class 11 Accountancy Financial Accounting Part-2 Chapter 2

Financial Statements Class 11

Chapter 2 Financial Statements Exercise Solutions

Short answers : Solutions of Questions on Page Number : 422

Q1 :

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

Answer :

It is extremely important to record the adjusting entries in the preparation of final accounts.

1. This is done in order to assess the true net profit or net loss of the business organisation.
2. It helps us record those adjustments which were left or omitted and were not recorded in the accounts.
3. It assists us to separate all the financial transactions into a year-wise category. The financial statements include only those entries which belong to the current year. It rules out the previous and forthcoming years' entries which are the basis for accrual basis of accounting.
4. Further, it provides us the room for making various provisions which are made at the end of the year, after assessing the entire year's performance.

Answer needs Correction? [Click Here](#)

Q2 :

What is meant by closing stock? Show its treatment in final accounts.

Answer :

Closing stock implies the value of unsold goods at the end of an accounting period. The valuation of closing stock is done on the basis of its cost price or the realisable value, whichever of the two is lesser.

Example: If a good with the cost price of Rs 20,000 is purchased at the end of an accounting period and its realisable value is Rs 30,000, then the closing stock will be valued at Rs 20,000 not at Rs 30,000.

Treatment of closing stock

If closing stock is given in the adjustment, then there will be two postings.

Trading Account				Balance Sheet		
Dr.		Cr.		Liabilities	Amount	Assets
Particulars	Amount	Particulars	Amount			Closing Stock

If closing stock is given in the trial balance, then it needs to be shown only in the assets side of the Balance Sheet.

Answer needs Correction? [Click Here](#)

Q3 :

Write short notes on

- (a) **Outstanding expenses**
- (b) **Prepaid expenses**
- (c) **Income received in advance**
- (d) **Accrued income**

Answer :

(a) **Outstanding Expenses:** These refer to those expenses which belong to and are incurred in the current accounting period but are left unpaid. In other words, we can say

that the services in exchange of these payments have been realised but the payments are not made. For example, if Rs 1000 wages are outstanding, then this means that labour worth Rs 1,000 has been used but has not been paid for till the end of the year.

(b) **Prepaid Expenses:** These refer to those expenses for which the benefits have not been realised but the payments have already been made in advance. These are basically the advance payments for the next year, which are made in the current accounting period.

Example: Prepaid insurance premium of Rs 1,000 means that the payment of Rs 1,000 is made in advance for the next accounting period.

(c) **Income Received in Advance:** This refers to the income received whose actual realisation of benefits will occur in the next accounting period. These are also called unearned incomes.

Example: Commission of Rs 1,200 for the year 2011-12 is received in 2010-11. This commission does not belong to the current year as it is related with the work to be done in the next accounting year i.e., 2011-12.

(d) **Accrued Income:** This refers to those incomes which have been earned during an accounting period but have not been actually realised in the current period. These are also called earned incomes.

Answer needs Correction? [Click Here](#)

Q4 :

Give the performa of income statement and balance in vertical form.

Answer :

Income statement for the period ended

Particulars	Amount Rs	Amount Rs
Sales (Gross)		
<i>Less:</i> Returns		
Net Sales		
<i>Cost of goods sold</i>		
Opening Stock		
Purchases		
<i>Less:</i> Returns		

Carriage Inwards		
Wages		
Cost of Goods Available for Sale		
Less: Closing Stock		
Gross Profit		
Operating Expenses		
(a) Selling Expenses		
Advertising		
Discount		
Allowances		
Bad-Debts and Provisions		
Carriage Outwards		
Total Selling Expenses		
(b) General and Administration Expenses		
Salaries		
Rent and Rates		
Insurance		
Depreciation		
Postage		
Repairs		
General Expenses		
Total Operating Expenses		
Net Income from Operations (Operating profit)		
Other Income (Non-operating gains)		
Interest Earned		
Commission Earned		
Profit on Sale of Fixed Assets		
Less: Deductions (Non-operating expenses)		
Interest Paid		
Loss by Fire		
Net Non-operating Gains		
Net Income (Net profit)		

Income statement for the period ended

Particulars	Amount	Amount
	Rs	Rs
Current Assets		
Cash in Hand		
Cash at Bank		

Bills Receivable		
Accrued Income		
Debtors		
Stock		
Prepaid Expenses		
Total Current Assets		

Answer needs Correction? [Click Here](#)

Q5 :

Why is it necessary to create a provision for doubtful-debts at the time of preparation of final accounts?

Answer :

The provision for doubtful-debts is created with the motive of minimising the effect of actual loss caused by the bad-debts. The actual figure of the current year's bad-debts will be known in the next year with the realisation of debtors. At that point of time, it will be known as to how many of the debtors have become bad. Thus, instead of waiting for the realisation of debtors, we create a provision for doubtful-debts in order to cover the expected future loss associated with the debtors becoming bad.

Answer needs Correction? [Click Here](#)

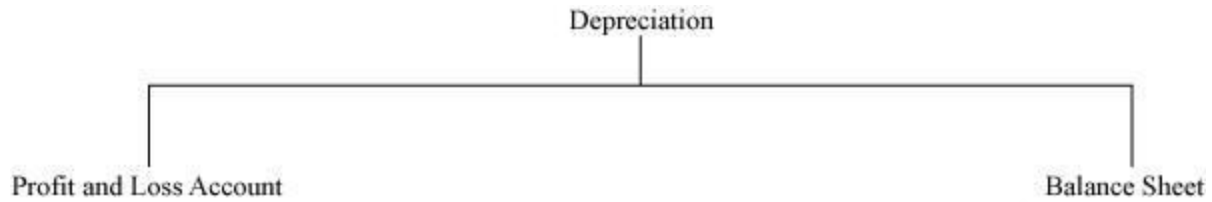
Q6 :

What adjusting entries would you record for the following?

- (a) Depreciation
- (b) Discount on debtors
- (c) Interest on capital
- (d) Manager's commission

Answer :

- (a)



Dr.

Cr.

Particulars	Amount	Particulars	Amount	Liabilities	Amount	Assets	Amount
Depreciation						Assets <i>Less: Depreciation</i>	

(b)



Dr.

Cr.

Particulars	Amount	Particulars	Amount	Liabilities	Amount	Assets	Amount
Discount on Debtors						Debtors <i>Less: New Provision</i> <i>Less: Further Bad Debts</i> <i>Less: Discount on Debtors</i>	

Answer needs Correction? [Click Here](#)

Q7 :

What do you mean by provision for discount on debtors?

Answer :

The discount is allowed to those debtors who are ready to pay a huge amount in one shot. It is given in order to encourage them to repay the debt. The provision for discount on debtors is created on good debtors. The amount of good debtors is calculated by

deducting the amount of Bad Debts, further Bad Debts and new provision for Doubtful Debts. The required percentage of the good debtors is calculated and the provision for discount on debtors is deducted from the Debtors' amount in the Assets side of a Balance Sheet. As it is a loss for the business, it is shown in the Debit side of the Profit and Loss Account.

Answer needs Correction? [Click Here](#)

Q8 :

Give the journal entries for the following adjustments:

- (a) Outstanding salary at Rs 3,500.**
- (b) Rent unpaid for one month at Rs 6,000 per annum.**
- (c) Insurance prepaid for a quarter at Rs 16,000 per annum.**
- (d) Purchase of furniture costing Rs 7,000 entered in the purchases book.**

Answer :

S. No.	Particulars	L.F.	Debit Rs	Credit Rs
a)	Salaries A/c Dr. To Outstanding Salaries A/c (Salaries of Rs 3,500 is remaining outstanding)		3,500	3,500
b)	Rent A/c Dr. To Outstanding Rent A/c (Rent unpaid for one month at Rs 500 = $\frac{6000}{12}$)		500	500
c)	Prepaid Insurance A/c Dr. To Insurance A/c (Insurance paid in advance for 3 months i.e. Rs 400)		4,000	4,000
d)	Furniture A/c Dr. To Purchases A/c (Furniture was wrongly debited to Purchases Account, now rectified)		7,000	7,000

Answer needs Correction? [Click Here](#)

Long answers : Solutions of Questions on Page Number : 423

Q1 :

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

Answer :

Adjusting entries are the entries of those adjustments which are given outside the trial balance and which help us reflect the true financial position i.e., profit or loss of an organisation. According to the double-entry system, all the adjustments given outside the Trial Balance are posted at two places. The adjusting entries are necessary they enable us to post and take into account those items which are omitted or entered with the wrong amount and/or recorded under wrong heads.

The treatment of adjusting entries is necessary.

- (i) It helps us assess the true financial position of an organisation based on accrual basis of accounting.
- (ii) It helps us know the actual figure of profit or loss.
- (iii) It records the omitted entries and rectifies the errors made.
- (iv) It helps in providing depreciation and making different provisions, such as Bad Debts and depreciation.

Answer needs Correction? [Click Here](#)

Q2 :

What is meant by provision for doubtful-debts? How are the relevant accounts prepared and what journal entries are recorded in the final accounts? How is the amount for provision for doubtful-debts calculated?

Answer :

The provision for doubtful-debts is provided after deducting the amount of bad-debts from the debtors. The provision for doubtful-debts is provided because of the rationale that the actual amount of bad-debts will only be known in the next year, when the amount of debtors will get realised. Thus, it will only then be known as to how many of the debtors have become bad. Thus, in order to bridge-up the expected future loss, we create a provision for doubtful-debts.

For the provision for doubtful-debts, we prepare debtors account and provision for doubtful-debts account. For recording bad-debts, the following journal entry is passed.

Profit and Loss A/c
 To Provision for Bad and Doubtful Debts A/c

Example: An extract from a Trial Balance as on December 31, 2010.

Debtors	10,500
Provision for Doubtful Debts as on January 01, 2010	1,000
Bad Debts Account	1,500

Adjustment:

- (i) Further bad-debts amount to Rs 500.
- (ii) Create a provision for doubtful-debts at 5% on debtors.

Explanation

The provision for Doubtful Debt as on January 01, 2010 was Rs 1,000 and the Bad Debts during the year were Rs 1,500. In addition to this, there was a further Bad Debt of Rs 500 which was known at the end of the year i.e., December 31, 2010. Now we need to create a provision for Doubtful Debts at 5% on debtors.

Profit and Loss A/c

Dr.		Cr.	
Particulars	Amount	Particulars	Amount
Bad Debts	1,500		
<i>Add:</i> Further Bad Debts	500		
<i>Add:</i> New Provision for Doubtful Debts	500		
<i>Less:</i> Old Provision (given in Trial Balance)	1,000		
	1,500		

Balance Sheet

Liabilities	Amount	Assets	Amount
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Debtors	10,500	
<i>Less: Further Bad Debts</i>	<u>500</u>	
	10,000	
<i>Less: New Provision for Doubtful Debts</i>	<u>500</u>	9,500

The amount of provision for Doubtful Debts is calculated by debiting the amount of further Bad Debts from debtors and calculating the given percentage of provision on remaining debtors. This provision is added to the Bad Debts amount in the profit and loss account and deducted from debtors in the assets side of a Balance Sheet.

Answer needs Correction? [Click Here](#)

Q3 :

Show the treatment of prepaid expenses, depreciation and closing stock at the time of preparation of final accounts when they are given

(a) inside the Trial Balance

(b) outside the Trial Balance

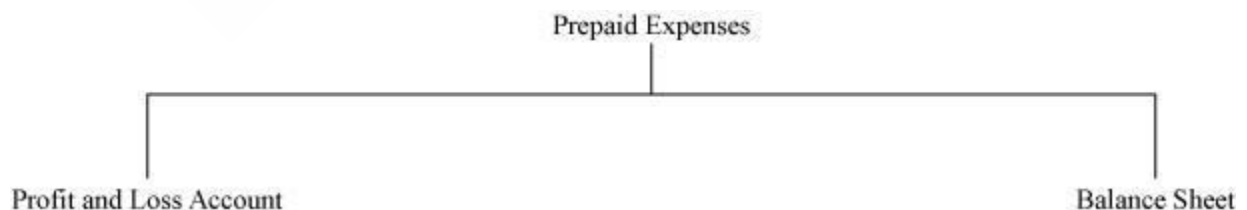
Answer :

(i) Prepaid expenses

(a) When given inside the Trial Balance: It will be posted only in the Assets side of the Balance Sheet.

Balance Sheet	
Assets	Amount
Prepaid Expenses	

(b) When given outside the Trial Balance:



Dr.		Cr.		Liabilities	Amount	Assets	Amount
Particulars	Amount	Particulars	Amount				
Concerned Expenses						Prepaid Expenses	
<i>Less:</i> Prepaid Expenses							

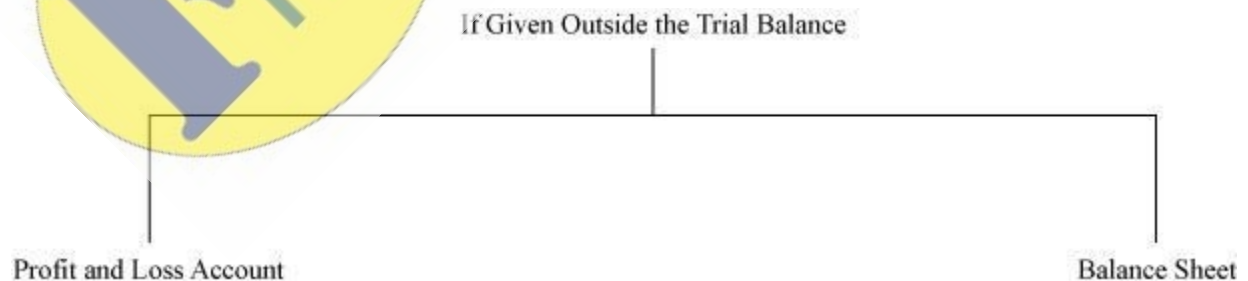
(ii) Depreciation

(a) If depreciation is given inside the Trial Balance, then it can be shown in the Debit side of the Profit and Loss A/c. It means that this depreciation amount has already been deducted from the concerned assets in the Balance Sheet.

Profit and Loss Account

Dr.		Cr.	
Particulars	Amount	Particulars	Amount
Depreciation			

(b) If depreciation is given outside the Trial Balance, i.e. in the adjustments, then it is shown in the debit side of the Profit and Loss Account and deducted from the concerned assets in the Assets side of Balance Sheet.



Answer needs Correction? [Click Here](#)

Numerical questions : Solutions of Questions on Page Number : 423

Q1 :

Prepare a trading and profit and loss account for the year ending December 31, 2005. from the balances extracted of M/s Rahul Sons. Also prepare a balance sheet at the end of the year.

<i>Account Title</i>	<i>Amount</i> <i>Rs</i>	<i>Account Title</i>
Stock	50,000	Sales
Wages	3,000	Purchases return
Salary	8,000	Discount received
Purchases	1,75,000	Provision for doubtful debts
Sales return	3,000	Capital
Sundry Debtors	82,000	Bills payable
Discount allowed	1,000	Commission received
Insurance	3,200	Rent
Rent Rates and Taxes	4,300	Loan
Fixtures and fittings	20,000	
Trade expenses	1,500	
Bad debts	2,000	
Drawings	32,000	
Repair and renewals	1,600	
Travelling expenses	4,200	
Postage	300	
Telegram expenses	200	
Legal fees	500	
Bills receivable	50,000	
Building	1,10,000	
	5,51,800	

Adjustments

1. Commission received in advance Rs 1,000.
2. Rent receivable Rs 2,000.
3. Salary outstanding Rs 1,000 and insurance prepaid Rs 800.
4. Further bad debts Rs 1,000 and provision for doubtful debts @ 5% on debtors and discount on debtors @ 2%.
5. Closing stock Rs 32,000.
6. Depreciation on building @ 6% p.a.

Answer :

Books of M/s. Rahul Sons.

Trading Account for the year ending December 31, 2005

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Opening Stock	50,000	Sales	1,80,000
Purchases	1,75,000	Less: Sales Returns	3,000
Less: Purchase Returns	2,000	Closing Stock	32,000
Wages	3,000	Gross Loss	17,000
	2,26,000		2,26,000

Profit and Loss Account for the year ending December 31, 2005

Dr.

Cr.

Particulars	Amount		Particulars	Amount	
		Rs			Rs
Gross Loss		17,000	Discount Received		500
Salary	8,000		Commission Received	4,000	
<i>Add: Outstanding Salary</i>	1,000	9,000	<i>Less: Advance Commission</i>	1,000	3,000
Discount Allowed		1,000			
Insurance	3,200		Rent	6,000	
<i>Less: Insurance Prepaid</i>	800	2,400	<i>Add: Rent Receivable</i>	2,000	8,000
Rent Rates and Taxes		4,300			
Trade Expenses		1,500	Net Loss		43,189
Bad-Debts	2,000				
<i>Add: Further Bad-Debts</i>	1,000				
<i>Add: New Provision</i>	4,050				
<i>Less: Old Provision</i>	2,500	4,550			
Discount on Debtors		1,539			
Postage		300			
Telegram Expenses		200			
Depreciation on Building		6,600			
Repair and Renewals		1,600			
Travelling Expenses		4,200			
Legal Fees		500			
		54,689			54,689

Balance Sheet for the year ending December 31, 2005

Liabilities		Amount Rs	Assets		Amount Rs
Capital	3,00,000		Debtors	82,000	
Less: Net Loss	43,189		Less: Further Bad-Debts	1,000	
Less: Drawings	32,000	2,24,811	Less: New Provision	4,050	
Bills Payable		22,000			

Answer needs Correction? [Click Here](#)

Q2 :

Prepare a trading and profit and loss account of M/s Green Club Ltd. for the year ending December 31, 2005. from the following figures taken from his trial balance :

<i>Account Title</i>	<i>Amount Rs</i>	<i>Account Title</i>
Opening stock	35,000	Sales
Purchases	1,25,000	Purchase return
Return inwards	25,000	Creditors
Postage and Telegram	600	Bills payable
Salary	12,300	Discount
Wages	3,000	Provision for bad debts
Rent and Rates	1,000	Interest received
Packing and Transport	500	Capital
General expense	400	
Insurance	4,000	
Debtors	50,000	
Cash in hand	20,000	
Cash at bank	40,000	
Machinery	20,000	
Lighting and Heating	5,000	
Discount	3,500	

Bad debts	3,500
Investment	23,100
	<u>3,71,900</u>

Adjustments

1. Depreciation charged on machinery @ 5% p.a.
2. Further bad debts Rs 1,500, discount on debtors @ 5% and make a provision on debtors @ 6%.
3. Wages prepaid Rs 1,000.
4. Interest on investment @ 5% p.a.
5. Closing stock 10,000.

Answer :

Trading Account for the year ending December 31, 2005

Dr.

Particulars		Amount Rs	Particulars		Amount Rs
Opening Stock		35,000	Sales	2,50,000	
Purchases	1,25,000		Less: Sales Returns	(25,000)	2,25,000
Less: Purchase Returns	(6,000)	1,19,000	Closing Stock		10,000
Wages	3,000				
Less: Prepaid Wages	(1,000)	2,000			
Gross Profit		79,000			
		<u>2,35,000</u>			<u>2,35,000</u>

Profit and Loss Account for the year ending December 31, 2005

Dr.

Particulars		Amount Rs	Particulars		Amount Rs
Bad Debts	3,500		Gross Profit		79,000
<i>Add:</i> Further Bad-debts	1,500		Interest on Accrued Investment		1,000
<i>Add:</i> New Provision	2,910		Discount		1,000
<i>Less:</i> Old Provision	4,500	3,410	Interest Received		5,000
Discount on Debtors		2,280			
Postage and Telegram		600			
Salary		12,300			
Rent and Rates		1,000			
Packing and Transport		500			
General Expenses		400			
Insurance		4,000			
Discount		3,500			
Depreciation on Machinery		1,000			
Lighting and Heating		5,000			
Net Profit		52,565			

Answer needs Correction? [Click Here](#)

Q3 :

The following balances has been extracted from the trial of M/s Runway Shine Ltd.

Prepare a trading and profit and loss account and a balance sheet as on December 31, 2005.

<i>Account Title</i>	<i>Amount Rs</i>	<i>Account Title</i>	
Purchases	1,50,000	Sales	
Opening stock	50,000	Return outwards	

Return inwards	2,000	Interest received
Carriage inwards	4,500	Discount received
Cash in hand	77,800	Creditors
Cash at bank	60,800	Bill payable
Wages	2,400	Capital
Printing and Stationery	4,500	
Discount	400	
Bad debts	1,500	
Insurance	2,500	
Investment	32,000	
Debtors	53,000	
Bills receivable	20,000	
Postage and Telegraph	400	
Commission	200	
Interest	1,000	
Repair	440	
Lighting Charges	500	
Telephone charges	100	
Carriage outward	400	
Motor car	25,000	
	4,89,440	

Adjustments

1. Further bad debts Rs 1,000. Discount on debtors Rs 500 and make a provision on debtors @ 5%.
2. Interest received on investment @ 5%.
3. Wages and interest outstanding Rs 100 and Rs 200 respectively.
4. Depreciation charged on motor car @ 5% p.a.
5. Closing Stock Rs 32,500.

Answer :

Trading Account

Dr.

Particulars	Amount Rs	Particulars	Amount Rs
Opening Stock	50,000	Sales	2,50,000
Purchases	1,50,000	Less: Return Inwards	2,000
Less: Return Outwards	4,500	Closing Stock	
	1,45,500		32,500
Carriage Inwards	4,500		
Wages	2,400		
Add: Outstanding Wages	100		
	2,500		
Gross Profit	78,000		
	2,80,500		2,80,500

Profit and Loss Account

Dr.

Particulars	Amount Rs	Particulars	Amount Rs
Carriage Outward	400	Gross Profit	78,000
Printing and Stationery	4,500	Interest Received	3,500
Discount	400	Discount Received	400
Bad Debts	1,500	Interest Received on Investment	1,600

Add: Further Bad Debts	1,000	
Add: New Provision	2,600	5,100
Discount on Debtors		500
Insurance		2,500

Answer needs Correction? [Click Here](#)

Q4 :

The following balances have been extracted from the trial of M/s Haryana Chemical Ltd. You are required to prepare a trading and profit and loss account and balance sheet as on December 31, 2005 from the given information.

<i>Account Title</i>	<i>Amount Rs</i>	<i>Account Title</i>
Opening stock	50,000	Sales
Purchases	1,25,500	Purchases return
Sales return	2,000	Creditors
Cash in hand	21,200	Rent
Cash at bank	12,000	Interest
Carriage	100	Bills payable
Free hold land	3,20,000	Capital
Patents	1,20,000	
General Expenses	2,000	
Sundry Debtors	32,500	
Building	86,000	
Machinery	34,500	
Insurance	12,400	
Drawings	10,000	
Motor vehicle	10,500	
Bad debts	2,000	
Light and Water	1,200	

Trade expenses	2,000
Power	3,900
Salary and Wages	5,400
Loan a 15% (01.09.2005)	3,000
	8,56,200

Adjustments

1. Closing stock was valued at the end of the year Rs 40,000.
2. Salary amounting Rs 500 and trade expense Rs 300 are due.
3. Depreciation charged on building and machinery are @ 4% and @ 5% respectively.
4. Make a provision of @ 5% on sundry debtors.

Answer :

Trading Account

Dr.

Particulars	Amount Rs	Particulars	A
Opening Stock	50,000	Sales	3,50,000
Purchases	1,25,500	Less: Return	2,000
Less: Return Outwards	2,500	Closing Stock	
	1,23,000		
Carriage	100		
Power	3,900		
Gross Profit	2,11,000		
	3,88,000		

Profit and Loss Account

Dr.

Particulars	Amount Rs	Particulars	A
General Expenses	2,000	Gross Profit	
Insurance	12,400	Rent	
Bad Debts	2,000	Interest	
Add: Provision for Bad Debts	1,625	Accrued Interest on Loan	
Light and Water	1,200		
Trade Expenses	2,000		
Add: Outstanding Trade Expenses	300		
Salary and Wages	5,400		
Add: Outstanding Salary	500		

Answer needs Correction? [Click Here](#)

Q5 :

From the following information prepare trading and profit and loss account of M/s Indian sports house for the year ending December 31, 2005.

<i>Account Title</i>	<i>Amount Rs</i>	<i>Account Title</i>
Drawings	20,000	Capital
Sundry debtors	80,000	Return outwards
Bad debts	1,000	Bank overdraft
Trade Expenses	2,400	Provision for bad debts
Printing and Stationery	2,000	Sundry creditors

Rent Rates and Taxes	5,000	Bills payable
Freight	4,000	Sales
Return inwards	7,000	
Opening stock	25,000	
Purchases	1,80,000	
Furniture and Fixture	20,000	
Plant and Machinery	1,00,000	
Bills receivable	14,000	
Wages	10,000	
Cash in hand	6,000	
Discount allowed	2,000	
Investments	40,000	
Motor car	51,000	
	5,69,400	

Adjustments

1. Closing stock was Rs 45,000.
2. Provision for doubtful debts is to be maintained @ 2% on debtors.
3. Depreciation charged on : furniture and fixture @ 5%, plant and Machinery @ 6% and motor car @ 10%.
4. A Machine of Rs 30,000 was purchased on July 01, 2005.
5. The manager is entitle to a commission of @ 10% of the net profit after charging such commission.

Answer :

Trading Account

Dr.

Particulars		Amount Rs	Particulars	
Opening Stock		25,000	Sales	2,76,000
Purchases	1,80,000		<i>Less: Return Inwards</i>	7,000
<i>Less: Return Outwards</i>	2,000	1,78,000	Closing Stock	
Wages		10,000		
Freight		4,000		
Gross Profit		97,000		
		3,14,000		

Profit and Loss Account

Dr.

Particulars		Amount Rs	Particulars	
Trade Expenses		2,400	Gross Profit	
Printing and Stationery		2,000	Old Provision for Bad Debts	4,000
Rent Rates and Taxes		5,000	<i>Less: Bad Debts</i>	1,000
Discount Allowed		2,000	<i>Less: New Provision</i>	1,600
Depreciation on Motor Car		5,100		
Depreciation on Furniture and Fixtures		1,000		
*Depreciation on P & M of Rs 70,000		4,200		
**Depreciation on P & M of Rs 30,000		900		
Net Profit Before Manager's Commission		75,800		
		1,02,400		
Manager's Commission		6,891		
Net Profit After Commission		68,909	Balance b/d	

	75,800

Balance Sheet

Liabilities	Amount Rs	Assets
Capital	2,00,000	Cash in Hand
<i>Add:</i> Net Profit	68,909	Sundry Debtors
<i>Less:</i> Drawings	20,000	<i>Less:</i> New Provision
	2,48,909	
O/S Manager's Commission	6,891	Furniture and Fixtures
Bank Overdraft	12,000	<i>Less:</i> Depreciation
Creditors	60,000	
Bills Payable	15,400	Plant and Machinery
		<i>Less:</i> Depreciation 1*
		<i>Less:</i> Depreciation 2**

Answer needs Correction? [Click Here](#)

Q6 :

Prepare the trading and profit and loss account and a balance sheet of M/s Shine Ltd. from the following particulars.

<i>Account Title</i>	<i>Amount Rs</i>	<i>Account Title</i>
Sundry debtors	1,00,000	Bills payable
Bad debts	3,000	Sundry creditors
Trade expenses	2,500	Provision for bad debts

Printing and Stationary	5,000	Return outwards
Rent, Rates and Taxes	3,450	Capital
Freight	2,250	Discount received
Sales return	6,000	Interest received
Motor car	25,000	Sales
Opening stock	75,550	
Furniture and Fixture	15,500	
Purchases	75,000	
Drawings	13,560	
Investments	65,500	
Cash in hand	36,000	
Cash in bank	53,000	
	4,81,310	

Adjustments

1. Closing stock was valued Rs 35,000.
2. Depreciation charged on furniture and fixture @ 5%.
3. Further bad debts Rs 1,000. Make a provision for bad debts @ 5% on sundry debtors.
4. Depreciation charged on motor car @ 10%.
5. Interest on drawing @ 6%.
6. Rent, rates and taxes was outstanding Rs 200.
7. Discount on debtors 2%.

Answer :

Trading Account

Dr.

Particulars		Amount Rs	Particulars	
Opening Stock		75,550	Sales	1,00,000
Purchases	75,000		<i>Less: Sales Inwards</i>	6,000
<i>Less: Return Outwards</i>	4,500	70,500	Closing Stock	
Freight		2,250	Gross Loss	
		1,48,300		

Profit and Loss Account

Dr.

Particulars		Amount Rs	Particulars	
Gross Loss		19,300	Discount	
Bad Debts	3,000		Interest Received	
<i>Add: Further Bad-Debts</i>	1,000		Interest on Drawings	
<i>Add: New Provision</i>	4,950		Net Loss	
<i>Less: Old Provision</i>	1,500	7,450		
Discount on Debtors		1,881		
Trade Expenses		2,500		
Printing and Stationery		5,000		
Rent, Rates and Taxes	3,450			
<i>Add: O/S Rent, Rates and Taxes</i>	200	3,650		
Depreciation on Furniture		775		
Depreciation on Motor Car		2,500		

43,056

Balance Sheet

Liabilities	Amount Rs	Assets	
Bills Payable	85,550	Sundry Debtors	100,000
Sundry Creditors	25,000	<i>Less: Further Debts</i>	1,000
Capital	2,50,000	<i>Less: New Provision</i>	4,950
<i>Less: Net Loss</i>	27,482	<i>Less: Discount on Debtors</i>	1,881
<i>Less: Drawings</i>	13,560		
<i>Less: Interest on Drawings</i>	814	Motor Car	25,000
	2,08,144	<i>Less: Depreciation</i>	2,500
Outstanding Rent, Rates and Taxes	200	Furniture and Fixtures	15,500
		<i>Less: Depreciation</i>	775
		Investments	

Answer needs Correction? [Click Here](#)

Q7 :

Following balances have been extracted from the trial balance of M/s Keshav Electronics Ltd. You are required to prepare the trading and profit and loss account and a balance sheet as on December 31, 2005.

<i>Account Title</i>	<i>Amount Rs</i>	<i>Account Title</i>
Opening stock	2,26,000	Sales
Purchases	4,40,000	Return outwards

Drawings	75,000	Creditors
Buildings	1,00,000	Bills payable
Motor van	30,000	Interest received
Freight inwards	3,400	Capital
Sales return	10,000	
Trade expense	3,300	
Heat and Power	8,000	
Salary and Wages	5,000	
Legal expense	3,000	
Postage and Telegram	1,000	
Bad debts	6,500	
Cash in hand	79,000	
Cash at bank	98,000	
Sundry debtors	25,000	
Investments	40,000	
Insurance	3,500	
Machinery	22,000	
	11,78,700	

The following additional information is available :

- 1. Stock on December 31, 2005 was Rs 30,000.**
- 2. Depreciation is to be charged on building at 5% and motor van at 10%.**
- 3. Provision for doubtful debts is to be maintained at 5% on Sundry Debtors.**
- 4. Unexpired insurance was Rs 600.**
- 5. The Manager is entitled to a commission @ 5% on net profit before charging such commission.**

Answer :

Trading Account

Dr.

Particulars		Amount Rs	Particulars	
Opening Stock		2,26,000	Sales	6,80,000
Purchases	4,40,000		Less: Sales Return	10,000
Less: Returns Outwards	15,000	4,25,000	Closing Stock	
Freight Inwards		3,400		
Heat and Power		8,000		
Gross Profit		37,600		
		7,00,000		

Profit and Loss Account

Dr.

Particulars		Amount Rs	Particulars	
Trade Expenses		3,300	Gross Profit	
Salary and Wages		5,000	Interest Received	
Legal Expenses		3,000		
Postage and Telegram		1,000		
Bad Debts	6,500			
Add: New Provision	1,250	7,750		
Depreciation on Building		5,000		

Depreciation on Motor Van		3,000
Insurance	3,500	
<i>Less: Unexpired Insurance</i>	600	2,900
Net Profit		

Answer needs Correction? [Click Here](#)

Q8 :

From the following balances extracted from the books of Raga Ltd. Prepare a trading and profit and loss account for the year ended December 31, 2005 and a balance sheet as on that date.

<i>Account Title</i>	<i>Amount Rs</i>	<i>Account Title</i>
Drawings	20,000	Sales
Land and Buildings	12,000	Capital
Plant and Machinery	40,000	Discount
Carriage inwards	100	Apprentice premium
Wages	500	Bills payable
Salary	2,000	Purchases return
Sales return	200	
Bank charges	200	
Coal, Gas and Water	1,200	
Purchases	1,50,000	
Trade Expenses	3,800	
Stock (Opening)	76,800	
Cash at bank	50,000	
Rates and Taxes	870	
Bills receivable	24,500	
Sundry debtors	54,300	
Cash in hand	30,000	

	4,66,470	
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The additional information is as under:

1. Closing stock was valued at the end of the year Rs, 20,000.
2. Depreciation on plant and machinery charged at 5% and land and building at 10%.
3. Discount on debtors at 3%.
4. Make a provision at 5% on debtors for doubtful debts.
5. Salary outstanding was Rs 100 and Wages prepaid was Rs 40.
6. The manager is entitled a commission of 5% on net profit after charging such commission.

Answer :

Trading Account

Dr.

Particulars	Amount Rs	Particulars	
Opening Stock	76,800	Sales	2,20,000
Purchases	1,50,000	<i>Less: Sales Return</i>	200
<i>Less: Purchases Return</i>	10,000	Closing Stock	20,000
Carriage Inwards	100		
Wages	500		
<i>Less: Prepaid</i>	40		
Coal, Gas and Water	1,200		
Gross Profit	21,240		
	2,39,800		

Profit and Loss Account

Dr.

Particulars		Amount Rs	Particulars
Salary	2,000		Gross Profit
<i>Add:</i> Outstanding Salary	100	2,100	Discount
Bank Charges		200	Apprentice Premium
Trade Expenses		3,800	
Rates and Taxes		870	
Depreciation on Plant and Machinery		2,000	
Depreciation on Land and Building		1,200	
Provision for Doubtful Debts		2,715	
Discount on Debtors		1,548	
Net Profit		13,297	

Answer needs Correction? [Click Here](#)

Q9 :

From the following balances of M/s Jyoti Exports, prepare trading and profit and loss account for the year ended March 31, 2006 and balance sheet as on this date.

<i>Account Title</i>	<i>Debit Amount Rs</i>	<i>Account Title</i>
Sundry debtors	9,600	Sundry creditors
Opening stock	22,800	Sales
Purchases	34,800	Purchases returns

Carriage inwards	450	Bills payable
Wages	1,770	Capital
Office rent	820	
Insurance	1,440	
Factory rent	390	
Cleaning charges	940	
Salary	1,590	
Building	24,000	
Plant and Machinery	3,600	
Cash in hand	2,160	
Gas and Water	240	
Octroi	60	
Furniture	20,540	
Patents	10,000	
	1,35,200	

Closing stock Rs 10,000.

- 1. To provision for doubtful debts is to be maintained at 5 per cent on sundry debtors.**
- 2. Wages amounting to Rs 500 and salary amounting to Rs 350 are outstanding.**
- 3. Factory rent prepaid Rs 100.**
- 4. Depreciation charged on Plant and Machinery @ 5% and Building @ 10%.**
- 5. Outstanding insurance Rs 100.**

Answer :

Trading Account

Dr.

Particulars	Amount Rs	Particulars
Opening Stock	22,800	Sales
Purchases	34,800	Closing Stock
<i>Less: Purchases Return</i>	2,430	
	32,370	
Carriage Inwards	450	
Wages	1,770	
<i>Add: Outstanding Wages</i>	500	
	2,270	
Factory Rent	390	
<i>Less: Prepaid Rent</i>	100	
	290	
Gas and Water	240	
Octroi	60	
Cleaning Charges	940	
Gross Profit	23,250	
	82,670	

Profit and Loss Account

Dr.

Particulars	Amount Rs	Particulars
Office Rent	820	Gross Profit
Insurance	1,440	
<i>Add: Outstanding Insurance</i>	100	
	1,540	
Depreciation on Plant and Machinery	180	
Salary	1,590	
<i>Add: Outstanding Salary</i>	350	
	1,940	

Provision for Doubtful Debts	480
Depreciation on Building	2,400

Answer needs Correction? [Click Here](#)

Q10 :

The following balances have been extracted from the books of M/s Green House for the year ended December 31, 2005, prepare trading and profit and loss account and balance sheet as on this date.

<i>Account Title</i>	<i>Amount</i> <i>Rs</i>	<i>Account Title</i>
Purchases	80,000	Capital
Bank balance	11,000	Bills payable
Wages	34,000	Sales
Debtors	70,300	Creditors
Cash in hand	1,200	Return outwards
Legal expenses	4,000	
Building	60,000	
Machinery	120,000	
Bills receivable	7,000	
Office expenses	3,000	
Opening stock	45,000	
Gas and fuel	2,700	
Freight and Carriage	3,500	
Factory lighting	5,000	
Office furniture	5,000	
Patent right	18,800	
	4,70,500	

adjustments :

(a) Machinery is depreciated at 10% and buildings depreciated at 6%.

(b) Interest on capital @ 4%.

(c) Outstanding wages Rs 50.

(d) Closing stock Rs 50,000.

Answer :

Trading Account

Dr.

Particulars		Amount Rs	Particulars
Opening Stock		45,000	Sales
Purchases	80,000		Closing Stock
<i>Less: Return Outwards</i>	4,000	76,000	
Wages	34,000		
<i>Add: Wages Outstanding</i>	50	34,050	
Gas and Fuel		2,700	
Freight and Carriage		3,500	
Factory Lighting		5,000	
Gross Profit		83,750	
		2,50,000	

Profit and Loss Account

Dr.

Particulars	Amount Rs	Particulars
To Legal Expenses	4,000	By Gross Profit
To Office Expenses	3,000	
To Depreciation on Machine	12,000	
To Depreciation on Building	3,600	
To Interest on Capital	8,400	
To Net Profit*	52,750	
	83,750	

Balance Sheet

Liabilities	Amount Rs	Assets
Capital	2,10,000	Bank Balance

Answer needs Correction? [Click Here](#)

Q11 :

From the following balances extracted from the book of M/s Manju Chawla on March 31, 2005. You are requested to prepare the trading and profit and loss account and a balance sheet as on this date.

Account Title	Amount Rs
Opening stock	10,000
Purchases and Sales	40,000
Returns	200

Wages	6,000
Dock and cleaning charges	4,000
Lighting	500
Misc. Income	
Rent	
Capital	
Drawings	2,000
Debtors and Creditors	6,000
Cash	3,000
Investment	6,000
Patent	4,000
Land and Machinery	43,000
Donations and Charity	600
Sales tax collected	
Furniture	11,300
	1,36,600

Closing stock was Rs 2,000.

- (a) **Interest on drawings @ 7% and interest on capital @ 5%.**
- (b) **Land and Machinery is depreciated at 5%.**
- (c) **Interest on investment @ 6%.**
- (d) **Unexpired rent Rs 100.**
- (e) **Charge 5% depreciation on furniture.**

Answer :

Trading Account

Dr.

Particulars		Amount Rs	Particulars	
Opening Stock		10,000	Sales	80,000
Purchases	40,000		<i>Less: Sales Return</i>	200
<i>Less: Purchases Return</i>	600	39,400	Closing Stock	
Wages		6,000		
Dock and Cleaning Charges		4,000		
Gross Profit		22,400		
		81,800		

Profit and Loss Account

Dr.

Particulars		Amount Rs	Particulars	
Lighting		500	Gross Profit	
Donations and Charity		600	Miscellaneous Income	
Interest on Capital		2,000	Rent	2,000
Depreciation on Furniture		565	<i>Less: Unearned Rent</i>	100
Depreciation on Land and Machinery		2,150	Interest on Drawings	
Net Profit		24,985	Interest on Investment	
		30,800		

Balance Sheet

Liabilities		Amount Rs	
Capital	40,000		Debtors
<i>Add:</i> Interest on Capital	2,000		

Answer needs Correction? [Click Here](#)

Q12 :

The following balances were extracted from the books of M/s Panchsheel Garments on December 31, 2005.

<i>Account Title</i>	<i>Debit Amount Rs</i>	<i>Account Title</i>
Opening stock	16,000	Sales
Purchases	67,600	Return outwards
Return Inwards	4,600	Discount
Carriage inwards	1,400	Bank overdraft
General expenses	2,400	Commission
Insurance	4,000	Creditors
Scooter expenses	200	Capital
Salary	8,800	
Cash in hand	4,000	
Scooter	8,000	
Furniture	5,200	
Buildings	65,000	
Debtors	6,000	
Wages	1,200	
	1,94,400	

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

- (a) Unexpired insurance Rs 1,000.
- (b) Salary due but not paid Rs 1,800.
- (c) Wages outstanding Rs 200.
- (d) Interest on capital 5%.
- (e) Scooter is depreciated @ 5%.
- (f) Furniture is depreciated Rs @ 10%.

Answer :

Trading Account

Dr.

Particulars		Amount	Particulars	
		Rs		
Opening Stock		16,000	Sales	1,12,000
Purchases	67,600		Less: Return Inwards	4,600
Less: Return Outwards	3,200	64,400	Closing Stock	
Carriage Inwards		1,400		
Wages	1,200			
Add: Outstanding Wages	200	1,400		
Gross Profit		39,200		
		1,22,400		

Profit and Loss Account

Dr.

Particulars		Amount Rs	Particulars
General Expenses		2,400	Gross Profit
Insurance	4,000		Discount
<i>Less: Unexpired Insurance</i>	1,000	3,000	Commission
Scooter Expenses		200	
Salary	8,800		
<i>Add: Outstanding Salary</i>	1,800	10,600	
Interest on Capital		2,500	
Depreciation on Scooter		400	
Depreciation on Furniture		520	
Net Profit		22,780	
		42,400	

Answer needs Correction? [Click Here](#)

Q13 :

Prepare the trading and profit and loss account and balance sheet of M/s Control Device India on December 31, 2006 from the following balance as on that date.

<i>Account Title</i>	<i>Debit Amount Rs</i>	<i>Credit Amount Rs</i>
Drawings and Capital	19,530	
Purchase and Sales	45,000	
Salary and Commission	25,470	
Carriage	2,700	
Plant and Machinery	27,000	
Furniture	6,750	
Opening stock	42,300	

Insurance premium	2,700
Interest	
Bank overdraft	
Rent and Taxes	2,160
Wages	11,215
Returns	2,385
Carriage outwards	1,485
Debtors and Creditors	36,000
General expenses	6,975
Octroi	530
Investment	41,400
	2,73,600

Closing stock was valued Rs 20,000.

(a) Interest on capital @ 10%.

(b) Interest on drawings @ 5%.

(c) Wages outstanding Rs 50.

(d) Outstanding salary Rs 20.

(e) Provide a depreciation @ 5% on plant and machinery.

(f) Make a 5% provision on debtors.

Answer :

Trading Account

Dr.

Particulars	Amount Rs	Particulars
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Opening Stock		42,300	Sales	1,12,500
Purchases	45,000		<i>Less: Sales Return</i>	2,385
<i>Less: Purchases Return</i>	1,440	43,560	Closing Stock	
Carriage		2,700		
Wages	11,215			
<i>Add: Outstanding Wages</i>	50	11,265		
Octroi		530		
Gross Profit		29,760		
		1,30,115		

Profit and Loss Account

Dr.

Particulars	Amount Rs	Particulars
Salary	25,470	Gross Profit
<i>Add: Outstanding Salary</i>	20	Commission
Insurance Premium		Interest
Rent and Taxes		Interest on Drawings
Carriage Outwards		Net Loss
General Expenses		
Interest on Capital		
Depreciation on P & M		
Provision on Debtors		
	48,710	

Answer needs Correction? [Click Here](#)

Q14 :

The following balances appeared in the trial balance of M/s Kapil Traders as on March 31, 2006

Sundry debtors

Bad debts

Provision for doubtful debts

The partners of the firm agreed to records the following adjustments in the books of the Firm: Further bad debts Rs.300. Maintain provision for bad debts 10%. Show the following adjustments in the bad debts account, provision account, debtors account, profit and loss account and balance sheet.

Answer :

Profit and Loss Account

Dr.

Particulars	Amount Rs	Particulars	Amount Rs
Bad Debts	500		
<i>Add:</i> Further Bad Debts	300		
<i>Add:</i> New Provision	3,020		
<i>Less:</i> Old Provision	2,000		
	1,820		

Balance Sheet

Liabilities	Amount Rs	Assets	Amount Rs
		Debtors	30,500
		<i>Less: Further Bad Debts</i>	300
		<i>Less: New Provision</i>	3,020
			27,180

Debtors Account

Dr.

Cr.

Date	Particulars	Amount Rs	Date	Particulars	Amount Rs
2006			2006		
March 31	Balance b/d	30,500	March 31	Further Bad Debts	300
			March 31	Provision for Doubtful Debts	3,020
			March 31	Balance c/d	27,180
		30,500			30,500

Answer needs Correction? [Click Here](#)

Q15 :

Prepare the bad debts account, provision for account, profit and loss account and balance sheet from the following information as on December 31, 2005

Debtors

Bad debts

Provision for doubtful debts

Answer :

Profit and Loss Account

Dr.

Particulars		Amount Rs	Particulars
Bad Debts	2,000		Old Provision for Doubtful Debts
<i>Add:</i> Further Bad Debts	500		
<i>Add:</i> New Provision for Bad Debts	2,385	4,885	
Balancing figure		115	
		5,000	

Balance Sheet

Liabilities	Amount Rs	Assets
		Debtors 80,000
		<i>Less:</i> Further Bad Debts 500
		<i>Less:</i> New Provision on Debtors 2,385

Bad Debts Account

Dr.

Cr.

Date	Particulars	Amount Rs	Date	Particulars	Amount Rs
2005 Dec.31	Balance b/d (as per the Trial Balance)	2,000	2005 Dec.31	Provision for Doubtful Debts	2,500
Dec.31	Sundry Debtors	500			
		2,500			2,500

Answer needs Correction? [Click Here](#)



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