UNIT - IV

FINANCIAL ACCOUNTING

CONCEPTS

Synopsis:

1. Introduction
2. Book-keeping and Accounting
3. Function of an Accountant
4. Users of Accounting
5. Advantages of Accounting
6. Limitations of Accounting
7. Basic Accounting concepts

1. INTRODUCITON

As you are aware, every trader generally starts business for purpose of earning profit. While establishing business, he brings own capital, borrows money from relatives, friends, outsiders or financial institutions. Then he purchases machinery, plant , furniture, raw materials and other assets. He starts buying and selling of goods, paying for salaries, rent and other expenses, depositing and withdrawing cash from bank. Like this he undertakes innumerable transactions in business. Observe the following transactions of small trader for one week during the month of July, 1998.

1998		Rs.
July 24	Purchase of goods from Sree Ram	12,000
July 25	Goods sold for cash	5,000
July 25	Sold gods to Syam on credit	8,000
July 26	Advertising expenses	5,200
July 27	Stationary expenses	600
July 27	Withdrawal for personal use	2,500
July 28	Rent paid through cheque	1,000
July 31	Salaries paid	9,000
July 31	Received cash from Syam	5,000

The number of transactions in an organization depends upon the size of the organization. In small organizations, the transactions generally will be in thousand and in big organizations they may be in lakhs. As such it is humanly impossible to remember all these transactions. Further, it may not by possible to find out the final result of the business without recording and analyzing these transactions.

Accounting came into practice as an aid to human memory by maintaining a systematic record of business transactions.

1.1 History of Accounting:

Accounting is as old as civilization itself. From the ancient relics of Babylon, it can be will proved that accounting did exist as long as 2600 B.C. However, in modern form accounting based on the principles of Double Entry System came into existence in 17th Century. Fra Luka Paciolo, a Fransiscan monk and mathematician published a book *De computic et scripturies* in 1494 at Venice in Italyl. This book was translated into English in 1543. In this book he covered a brief section on 'book-keeping'.

1.2 Origin of Accounting in India:

Accounting was practiced in India thousand years ago and there is a clear evidence for this. In his famous book *Arthashastra* Kautilya dealt with not only politics and economics but also the art of proper keeping of accounts. However, the accounting on modern lines was introduced in India after 1850 with the formation joint stock companies in India.

Accounting in India is now a fast developing discipline. The two premier Accounting Institutes in India viz., chartered Accountants of India and the Institute of Cost and Works Accountants of India are making continuous and substantial contributions. The international Accounts Standards Committee (IASC) was established as on 29th June. In India the 'Accounting Standards Board (ASB) is formulating 'Accounting Standards' on the lines of standards framed by International Accounting Standards Committee.

2. BOOK-KEEPING AND ACCOUNTING

According to G.A. Lee the accounting system has two stages.

1. The making of routine records in the prescribed from and according to set rules of all events with affect the financial state of the organization; and
2. The summarization from time to time of the information contained in the records, its presentation in a significant form to interested parties and its interpretation as an aid to decision making by these parties.

First stage is called Book-Keeping and the second one is Accounting.

Book – Keeping: Book – Keeping involves the chronological recording of financial transactions in a set of books in a systematic manner.

Accounting: Accounting is concerned with the maintenance of accounts giving stress to the design of the system of records, the preparation of reports based on the recorded date and the interpretation of the reports.

Distinction between Book – Keeping and Accountancy

Thus, the terms, book-keeping and accounting are very closely related, through there is a subtle difference as mentioned below.

1. Object : The object of book-keeping is to prepare original books of Accounts. It is restricted to journal, subsidiary book and ledge accounts only. On the other hand, the main object of accounting is to record analyse and interpret the business transactions.

2. Level of Work: Book-keeping is restricted to level of work. Clerical work is mainly involved in it. Accountancy on the other hand, is concerned with all level of management.

3. Principles of Accountancy: In Book-keeping Accounting concepts and conventions will be followed by all without any difference. On the other hand, various firms follow various methods of reporting and interpretation in accounting.

3. Final Result: In Book-Keeping it is not possible to know the final result of business every year,

2.1 Meaning of Accounting

Thus, book-keeping is an art of recording the business transactions in the books of original entry and the ledges. Accountancy begins where Book-keeping ends. Accountancy means the compiliation of accounts in such a way that one is in a position to know the state of affairs of the business. The work of an accountant is to analyse, interpret and review the accounts and draw conclusion with a view to guide the management in chalking out the future policy of the business.

2.2 Definition of Accounting:

Smith and Ashburne: "Accounting is a means of measuring and reporting the results of economic activities."

R.N. Anthony: "Accounting system is a means of collecting summarizing, analyzing and reporting in monetary terms, the information about the business.

American Institute of Certified Public Accountants (AICPA): "The art of recording, classifying and summarizing in a significant manner and in terms of money transactions and events, which are in part at least, of a financial character and interpreting the results thereof."

Thus, accounting is an art of identifying, recording, summarizing and interpreting business transactions of financial nature. Hence accounting is the **Language of Business**.

2.3 Branches of Accounting:

The important branches of accounting are:

1. **Financial Accounting:** The purpose of Accounting is to ascertain the financial results i.e. profit or loass in the operations during a specific period. It is also aimed at knowing the financial position, i.e. assets, liabilities and equity position at the end of the period. It also provides other relevant information to the management as a basic for decision-making for planning and controlling the operations of the business.
2. **Cost Accounting:** The purpose of this branch of accounting is to ascertain the cost of a product / operation / project and the costs incurred for carrying out various activities. It also assist the management in controlling the costs. The necessary data and information are gatherr4ed form financial and other sources.
3. **Management Accounting :** Its aim to assist the management in taking correct policy decision and to evaluate the impact of its decisions and

actions. The data required for this purpose are drawn accounting and cost-accounting.

4. **Inflation Accounting :** It is concerned with the adjustment in the values of assest and of profit in light of changes in the price level. In a way it is concerned with the overcoming of limitations that arise in financial statements on account of the cost assumption (i.e recording of the assets at their historical or original cost) and the assumption of stable monetary unit.
5. **Human Resource Accounting :** It is a branch of accounting which seeks to report and emphasize the importance of human resources in a company's earning process and total assets. It is concerned with the process of identifying and measuring data about human resources and communicating this information to interested parties. In simple words, it is accounting for people as organizational resources.

3. FUNCTIONS OF AN ACCOUNTANT

The job of an accountant involves the following types of accounting works :

1. **Designing Work :** It includes the designing of the accounting system, basis for identification and classification of financial transactions and events, forms, methods, procedures, etc.
2. **Recording Work :** The financial transactions are identified, classified and recorded in appropriate books of accounts according to principles. This is "Book Keeping". The recording of transactions tends to be mechanical and repetitive.
3. **Summarizing Work :** The recorded transactions are summarized into significant form according to generally accepted accounting principles. The work includes the preparation of profit and loss account, balance sheet. This phase is called 'preparation of final accounts'
4. **Analysis and Interpretation Work:** The financial statements are analysed by using ratio analysis, break-even analysis, funds flow and cash flow analysis.
5. **Reporting Work:** The summarized statements along with analysis and interpretation are communicated to the interested parties or whoever has the right to receive them. For Ex. Share holders. In addition, the

accou8nting departments has to prepare and send regular reports so as to assist the management in decision making. This is 'Reporting'.

6. **Preparation of Budget :** The management must be able to reasonably estimate the future requirements and opportunities. As an aid to this process, the accountant has to prepare budgets, like cash budget, capital budget, purchase budget, sales budget etc. this is 'Budgeting'.
7. **Taxation Work :** The accountant has to prepare various statements and returns pertaining to income-tax, sales-tax, excise or customs duties etc., and file the returns with the authorities concerned.
8. **Auditing :** It involves a critical review and verification of the books of accounts statements and reports with a view to verifying their accuracy. This is 'Auditing'

This is what the accountant or the accounting department does. A person may be placed in any part of Accounting Department or MIS (Management Information System) Department or in small organization, the same person may have to attend to all this work.

4. USERS OF ACCOUNTING INFORMATION

Different categories of users need different kinds of information for making decisions. The users of accounting can be divided in two board groups (1). Internal users and (2). External users.

4.1 Internal Users:

Managers : These are the persons who manage the business, i.e. management at he top, middle and lower levels. Their requirements of information are different because they make different types of decisions.

Accounting reports are important to managers for evaluating the results of their decisions. In additions to external financial statements, managers need detailed internal reports either branch division or department or product-wise. Accounting reports for managers are prepared much more frequently than external reports.

Accounting information also helps the managers in appraising the performance of subordinates. As such Accounting is termed as " the eyes and ears of management."

4.2 External Users :

1. Investors : Those who are interested in buying the shares of company are naturally interested in the financial statements to know how safe the investment already made is and how safe the proposed investments will be.

2. Creditors : Lenders are interested to know whether their load, principal and interest, will be paid when due. Suppliers and other creditors are also interested to know the ability of the firm to pay their dues in time.

3. Workers : In our country, workers are entitled to payment of bonus which depends on the size of profit earned. Hence, they would like to be satisfied that he bonus being paid to them is correct. This knowledge also helps them in conducting negotiations for wages.

4. Customers : They are also concerned with the stability and profitability of the enterprise. They may be interested in knowing the financial strength of the company to rent it for further decisions relating to purchase of goods.

5. Government: Governments all over the world are using financial statements for compiling statistics concerning business which, in turn, helps in compiling national accounts. The financial statements are useful for tax authorities for calculating taxes.

6. Public : The public at large interested in the functioning of the enterprises because it may make a substantial contribution to the local economy in many ways including the number of people employed and their patronage to local suppliers.

7. Researchers: The financial statements, being a mirror of business conditions, is of great interest to scholars undertaking research in accounting theory as well as business affairs and practices.

5. ADVANTAGES FROM ACCOUNTING

The role of accounting has changed from that of a mere record keeping during the 1st decade of 20th century of the present stage, which it is accepted as information system and decision making activity. The following are the advantages of accounting.

1. **Provides for systematic records:** Since all the financial transactions are recorded in the books, one need not rely on memory. Any information required is readily available from these records.
2. **Facilitates the preparation of financial statements:** Profit and loss accountant and balance sheet can be easily prepared with the help of the information in the records. This enables the trader to know the net result of business operations (i.e. profit / loss) during the accounting period and the financial position of the business at the end of the accounting period.

3. **Provides control over assets:** Book-keeping provides information regarding cash in had, cash at bank, stock of goods, accounts receivables from various parties and the amounts invested in various other assets. As the trader knows the values of the assets he will have control over them.
4. **Provides the required information:** Interested parties such as owners, lenders, creditors etc., get necessary information at frequent intervals.
5. **Comparative study:** One can compare the present performance of the organization with that of its past. This enables the managers to draw useful conclusion and make proper decisions.
6. **Less Scope for fraud or theft:** It is difficult to conceal fraud or theft etc., because of the balancing of the books of accounts periodically. As the work is divided among many persons, there will be check and counter check.
7. **Tax matters:** Properly maintained book-keeping records will help in the settlement of all tax matters with the tax authorities.
8. **Ascertaining Value of Business:** The accounting records will help in ascertaining the correct value of the business. This helps in the event of sale or purchase of a business.
9. **Documentary evidence:** Accounting records can also be used as an evidence in the court to substantiate the claim of the business. These records are based on documentary proof. Every entry is supported by authentic vouchers. As such, Courts accept these records as evidence.
10. **Helpful to management:** Accounting is useful to the management in various ways. It enables the management to asses the achievement of its performance. The weakness of the business can be identified and corrective measures can be applied to remove them with the helps accounting.

6. LIMITATIONS OF ACCOUNTING

The following are the limitations of accounting.

1. **Does not record all events:** Only the transactions of a financial character will be recorded under book-keeping. So it does not reveal a complete picture about the quality of human resources, locational advantage, business contacts etc.
2. **Does not reflect current values:** The data available under book-keeping is historical in nature. So they do not reflect current values. For instance, we record the value of stock at cost price or market price, which ever is less. In

case of, building, machinery etc., we adopt historical cost as the basis. Infact, the current values of buildings, plant and machinery may be much more than what is recorded in the balance sheet.

3. **Estimates based on Personal Judgment:** The estimate used for determining the values of various items may not be correct. For example, debtor are estimated in terms of collectibility, inventories are based on marketability, and fixed assets are based on useful working life. These estimates are based on personal judgment and hence sometimes may not be correct.
4. **Inadequate information on costs and Profits:** Book-keeping only provides information about the overall profitability of the business. No information is given about the cost and profitability of different activities of products or divisions.

7. BASIC ACCOUNTING CONCEPTS

Accounting has been evolved over a period of several centuries. During this period, certain rules and conventions have been adopted. They serve as guidelines in identifying the events and transactions to be accounted for measuring, recording, summarizing and reporting them to the interested parties. These rules and conventions are termed as **Generally Accepted Accounting Principles.** These principles are also referred as standards, assumptions, concepts, conventions doctrines, etc. Thus, the accounting concepts are the fundamental ideas or basic assumptions underlying the theory and practice of financial accounting. They are the broad working rules for all accounting activities developed and accepted by the accounting profession.

Basic accounting concepts may be classified into two broad categories.

1. Concept to be observed at the time of recording transactions.(Recording Stage).
2. Concept to be observed at the time of preparing the financial accounts (Reporting Stage)

FINAL ACCOUNTS

INTRODUCTION: The main object of any Business is to make profit. Every trader generally starts business for the purpose of earning profit. While establishing Business, he brings his own capital, borrows money from relatives, friends, outsiders or financial institutions, then purchases machinery, plant, furniture, raw materials and other assets. He starts buying and selling of goods, paying for salaries, rent and other expenses, depositing and withdrawing cash from Bank. Like this he undertakes innumerable transactions in Business.

The number of Business transactions in an organization depends up on the size of the organization. In small organizations the transactions generally will be in thousands and in big organizations they may be in lacks. As such it is humanly impossible to remember all these transactions. Further it may not be possible to find out the final result of the Business with out recording and analyzing these transactions.

Accounting came in practice as an aid to human memory by maintaining a systematic record of Business transactions.

BOOK KEEPING AND ACCOUNTING:

According to G.A.Lee the Accounting system has two stages. First stage is Book keeping and the second stage is accounting.

[A]. *BOOK KEEPING*:

Book keeping involves the chronological recording of financial transactions in a set of books in a systematic manner

"Book keeping is the system of recording Business transactions for the purpose of providing reliable information to the owners and managers about the state and prospect of the Business concepts".

Thus Book keeping is an art of recording business transactions in the books of original entry and the ledges.

[B]. *ACCOUNTING*: Accounting begins where the Bookkeeping ends

1. SMITH AND ASHBUNNE: Accounting means "measuring and reporting the results of economic activities".

2. *R.N ANTHONY*: Accounting is a system of "collecting, summarizing, Analyzing and reporting in monster terms, the information about the Business".

3. *ICPA:* Recording, classifying and summarizing is a significant manner and in terms of money transactions and events, which are in part at least, of a financial character and interpreting the results there.

Thus accounting is an art of recording, classifying, summarizing and interpreting business transactions of financial nature. Hence accounting is the "Language of Business".

ADVANTAGE OF ACCOUNTING

The following are the advantages of Accounting…………

1. *PROVIDES FOR SYSTEMATIC RECORDS*: Since all the financial transactions are recorded in the books, one need not rely on memory. Any information required is readily available from these records.

2. *FACILITATES THE PRPARATION OF FINANCIAL STATEMENTS*: Profit and Loss account and balance sheet can be easily prepared with the help of the information in the records. This enables the trader to know the net result of Business operations (i.e. profit/loss) during the accounting period and the financial position of the business at the end of the accounting period.

3. *PROVIDES CONTROL OVER ASSETS*: Book keeping provides information regarding cash in hand, cash at hand, stack of goods, accounts receivable from various parties and the amounts invested in various other assets. As the trader knows the values of the assets he will have control over them.

4. *PROVIES THE REQUIRED INFORMATION*: Interested parties such as owners, lenders, creditors etc, get necessary information at frequent intervals.

5. *COMPARITIVE STUDY*: One can compare present performance of the organization with that of its past. This enables the managers to draw useful conclusions and make proper decisions.

6. *LESS SCOPE FOR FRAUD OR THEFT*: It is difficult to conceal fraud or theft etc. because of the balancing of the books of accounts periodically. As the work is divided among many persons, there will be check and counter check.

7. TAX MALTERS: Properly maintained Book keeping records will help in the settlement of all tax matters with the tax authorities.

8. *ASCERTAINING VALUE OF BUSINESS*: The accounting records will help in ascertaining the correct value of the Business. This helps in the event of sale or purchase of a business.

9. *DOCUMENTARY EVIDENCE*: Accounting records can also be used as evidence in the court of substantial the claim of the Business. Thus records are based on documentary proof. Authentic vouchers support every entry. As such, courts accept these records as evidence.

10. *HELPFUL TO MANAGEMENT*: Accounting is useful to the management in various ways. It enables the management to assess the achievement of its performance.

The weaknesses of the business can be identified and corrective measures can be applied to remove them with the help of accounting.

LIMITATIONS OF ACCOUNTING

The following are the limitations of accounting…………..

1.*DOES NOT RECORD ALL EVENTS*: Only the transactions of a financial character will be recorded under book keeping. So it does not reveal a complete picture about the quality of human resources, locational advantages, business contacts etc.

2.*DOES NOT REFLECT CURRENT VLAUES*: The data available under book keeping is historical in nature. So they do not reflect current values. For instance we record the values of stock at cost price or market price, which ever is less. In case of building, machinery etc., we adapt historical case as the basis. Infact, the current values of Buildings, plant and machinery may be much more than what is recorded in the balance sheet.

3. *ESTIMATES BASED ON PERSONAL JUDGEMENT*: The estimates used for determining the values of various items may not be correct. For example, debtors are estimated in terms of collectibles, inventories are based on marketability and fixed assets are based on useful working life. These estimates are based on personal judgment and hence sometimes may not be correct.

4. *INADEQUATE INFORMATION ON COSTS AND PROFITS*: Book keeping only provides information about over all profitability of the business. No information is given about the cost and profitability of different activities of products or divisions.

BASIC ACCOUNTING CONCEPTS

Accounting is a system evolved to achieve a set of objectives. In order to achieve the goals, we need a set of rules or guidelines. These guidelines are termed here as "BASIC ACCOUNTING ONCEPTS". The term concept means an idea or thought. Basic accounting concepts are the fundamental ideas or basic assumptions underlying the theory and profit of FINANCIAL ACCOUNTING. These concepts help in bringing about uniformity in the practice of accounting. In accountancy following concepts are quite popular.

1. *BUSINESS ENTITY CONEPT*: In this concept "Business is treated as separate from the proprietor". All the
Transactions recorded in the book of Business and not in the books of proprietor. The proprietor is also treated as a creditor for the Business.

2. *GOING CONCERN CONCEPT*: This concept relates with the long life of Business. The assumption is that business will continue to exist for unlimited period unless it is dissolved due to some reasons or the other.

3. *MONEY MEASUREMENT CONCEPT*: In this concept "Only those transactions are recorded in accounting which can be expressed in terms of money, those transactions which can not be expressed in terms of money are not recorded in the books of accounting".

4. *COST CONCEPT*: Accounting to this concept, can asset is recorded at its cost in the books of account. i.e., the price, which is paid at the time of acquiring it. In balance sheet, these assets appear not at cost price every year, but depreciation is deducted and they appear at the amount, which is cost, less classification.

5. *ACCOUNTING PERIOD CONCEPT*: every Businessman wants to know the result of his investment and efforts after a certain period. Usually one-year period is regarded as an ideal for this purpose. This period is called Accounting Period. It depends on the nature of the business and object of the proprietor of business.

6. *DUAL ASCEPT CONCEPT*: According to this concept "Every business transactions has two aspects", one is the receiving benefit aspect another one is giving benefit aspect. The receiving benefit aspect is termed as
"DEBIT", where as the giving benefit aspect is termed as "CREDIT". Therefore, for every debit, there will be corresponding credit.

7. *MATCHING COST CONCEPT*: According to this concept "The expenses incurred during an accounting period, e.g., if revenue is recognized on all goods sold during a period, cost of those good sole should also
Be charged to that period.

8. *REALISATION CONCEPT*: According to this concept revenue is recognized when a sale is made. Sale is
Considered to be made at the point when the property in goods posses to the buyer and he becomes legally liable to pay.

ACCOUNTING CONVENTIONS

Accounting is based on some customs or usages. Naturally accountants here to adopt that usage or custom.
They are termed as convert conventions in accounting. The following are some of the important accounting conventions.

1.*FULL DISCLOSURE*: According to this convention accounting reports should disclose fully and fairly the information. They purport to represent. They should be prepared honestly and sufficiently disclose information which is if material interest to proprietors, present and potential creditors and investors. The companies ACT, 1956 makes it compulsory to provide all the information in the prescribed form.

2.*MATERIALITY*: Under this convention the trader records important factor about the commercial activities. In the form of financial statements if any unimportant information is to be given for the sake of clarity it will be given as footnotes.

3.*CONSISTENCY*: It means that accounting method adopted should not be changed from year to year. It means that there should be consistent in the methods or principles followed. Or else the results of a year
Cannot be conveniently compared with that of another.

4. *CONSERVATISM*: This convention warns the trader not to take unrealized income in to account. That is why the practice of valuing stock at cost or market price, which ever is lower is in vague. This is the policy of "playing safe"; it takes in to consideration all prospective losses but leaves all prospective profits.

KEY WORDS IN BOOK-KEEPING

1. *TRANSACTIONS*: Any sale or purchase of goods of services is called the transaction.

    Transactions are two types.
    [a]. cash transaction: cash transaction is one where cash receipt or payment is involved in the exchange.
    [b]. Credit transaction: Credit transaction will not have cash, either received or paid, for something given or received respectively.

2.*GOODS*: Fill those things which a firm purchases for resale are called goods.

3.*PURCHASES*: Purchases means purchase of goods, unless it is stated otherwise it also represents the
Goods purchased.

4.*SALES*: Sales means sale of goods, unless it is stated otherwise it also represents these goods sold.

5.*EXPENSES*: Payments for the purchase of goods as services are known as expenses.

6.*REVENUE*: Revenue is the amount realized or receivable from the sale of goods or services.

7.*ASSETS*: The valuable things owned by the business are known as assets. These are the properties
Owned by the business.

8.*LIABILITIES*: Liabilities are the obligations or debts payable by the enterprise in future in the term
Of money or goods.

9*. DEBTORS*: Debtors means a person who owes money to the trader.

10.*CREDITORS*: A creditor is a person to whom something is owned by the business.

11.*DRAWINGS*: cash or goods withdrawn by the proprietor from the Business for his personal or Household is termed to as “drawing”.
12.*RESERVE*: An amount set aside out of profits or other surplus and designed to meet contingencies.

13.*ACCOUNT*: A summarized statements of transactions relating to a particular person, thing,
Expense or income.

14.*DISCOUNT*: There are two types of discounts..

a. cash discount: An allowable made to encourage frame payment or before the expiration of the period allowed for credit.
b. Trade discount: A deduction from the gross or catalogue price allowed to traders who buys them for resale.

CLASSIFICATION OF BUSINESS TRANSACTIONS

All business transactions are classified into three categories:

1.Those relating to persons
2.Those relating to property(Assets)
3.Those relating to income & expenses

Thus, three classes of accounts are maintained for recording all business transactions. They are:

1.Personal accounts
2.Real accounts
3.Nominal accounts

1.*Personal Accounts* :Accounts which are transactions with persons are called "Personal Accounts" .

A separate account is kept on the name of each person for recording the benefits received from ,or given to the person in the course of dealings with him.

E.g.: Krishna's A/C, Gopal's A/C, SBI A/C, Nagarjuna Finanace Ltd.A/C, ObulReddy & Sons A/C , HMT Ltd. A/C, Capital A/C, Drawings A/C etc.

2.*Real Accounts*: The accounts relating to properties or assets are known as "Real Accounts" .Every business needs assets such as machinery , furniture etc, for running its activities .A separate account is maintained for each asset owned by the business .

E.g.: cash A/C, furniture A/C, building A/C, machinery A/C etc.

3.*NominalAccounts*:Accounts relating to expenses, losses, incomes and gains are known as "Nominal Accounts". A separate account is maintained for each item of expenses, losses, income or gain.

E.g.: Salaries A/C, stationery A/C, wages A/C, postage A/C, commission A/C, interest A/C, purchases A/C, rent A/C, discount A/C, commission received A/C, interest received A/C, rent received A/C, discount received A/C.

Before recording a transaction, it is necessary to find out which of the accounts is to be debited and which is to be credited. The following three different rules have been laid down for the three classes of accounts….

1.*Personal Accounts*: The account of the person receiving benefit (receiver) is to be debited and the account of the person giving the benefit (given) is to be credited.

Rule: "Debit----The Receiver
Credit---The Giver"

2.*Real Accounts*: When an asset is coming into the business, account of that asset is to be debited .When an asset is going out of the business, the account of that asset is to be credited.

Rule: "Debit----What comes in
Credit---What goes out"

3. *Nominal Accounts*: When an expense is incurred or loss encountered, the account representing the expense or loss is to be debited . When any income is earned or gain made, the account representing the income of gain is to be credited.

Rule: "Debit----All expenses and losses
Credit---All incomes and gains"

JOURNAL

The first step in accounting therefore is the record of all the transactions in the books of original entry viz., Journal and then posting into ledges.

JOURNAL: The word Journal is derived from the Latin word 'journ' which means a day. Therefore, journal means a 'day Book' in day-to-day business transactions are recorded in chronological order.

Journal is treated as the book of original entry or first entry or prime entry. All the business transactions are recorded in this book before they are posted in the ledges. The journal is a complete and chronological(in order of dates) record of business transactions. It is recorded in a systematic manner. The process of recording a transaction in the journal is called "JOURNALISING". The entries made in the book are called "Journal Entries".

The proforma of Journal is given below.

Date	Particulars	L.F. no	Debit RS.	Credit RS.

1998 Jan 1	Purchases account to cash account(being goods purchased for cash)		10,000/-	10,000/-

LEDGER

All the transactions in a journal are recorded in a chronological order. After a certain period, if we want to know whether a particular account is showing a debit or credit balance it becomes very difficult. So, the ledger is designed to accommodate the various accounts maintained the trader. It contains the final or permanent record of all the transactions in duly classified form. "A ledger is a book which contains various accounts." The process of transferring entries from journal to ledger is called "POSTING".

Posting is the process of entering in the ledger the entries given in the journal. Posting into ledger is done periodically, may be weekly or fortnightly as per the convenience of the business. The following are the guidelines for posting transactions in the ledger.

1. After the completion of Journal entries only posting is to be made in the ledger.
2. For each item in the Journal a separate account is to be opened. Further, for each new item a new account is to be opened.
3. Depending upon the number of transactions space for each account is to be determined in the ledger.
4. For each account there must be a name. This should be written in the top of the table. At the end of the name, the word "Account" is to be added.
5. The debit side of the Journal entry is to be posted on the debit side of the account, by starting with "TO".
6. The credit side of the Journal entry is to be posted on the debit side of the account, by starting with "BY".

<u>Proforma for ledger</u>: ***<u>LEDGER BOOK</u>***

Particulars account

Date	Particulars	Lfno	Amount	Date	Particulars	Lfno	amount

sales account

Date	Particulars	Lfno	Amount	Date	Particulars	Lfno	amount

cash account

Date	Particulars	Lfno	Amount	Date	Particulars	Lfno	amount

TRAIL BALANCE

The first step in the preparation of final accounts is the preparation of trail balance. In the double entry system of book keeping, there will be credit for every debit and there will not be any debit without credit. When this principle is followed in writing journal entries, the total amount of all debits is equal to the total amount all credits.

A trail balance is a statement of debit and credit balances. It is prepared on a particular date with the object of checking the accuracy of the books of accounts. It indicates that all the transactions for a particular period have been duly entered in the book, properly posted and balanced. The trail balance doesn't include stock in hand at the end of the period. All adjustments required to be done at the end of the period including closing stock are generally given under the trail balance.

DEFINITIONS: *SPICER AND POGLAR :*A trail balance is a list of all the balances standing on the ledger accounts and cash book of a concern at any given date.

J.R.BATLIBOI:

A trail balance is a statement of debit and credit balances extracted from the ledger with a view to test the arithmetical accuracy of the books.

Thus a trail balance is a list of balances of the ledger accounts' and cash book of a business concern at any given date.

PROFORMA FOR TRAIL BALANCE:

Trail balance for MR…………………………………. as on …………

NO	NAME OF ACCOUNT (PARTICULARS)	DEBIT AMOUNT(RS.)	CREDIT AMOUNT(RS.)

Trail Balance

Specimen of trial balance

1	Capital	Credit	Loan
2	Opening stock	Debit	Asset
3	Purchases	Debit	Expense
4	Sales	Credit	Gain
5	Returns inwards	Debit	Loss
6	Returns outwards	Debit	Gain
7	Wages	Debit	Expense
8	Freight	Debit	Expense
9	Transport expenses	Debit	Expense
10	Royalities on production	Debit	Expense
11	Gas, fuel	Debit	Expense
12	Discount received	Credit	Revenue
13	Discount allowed	Debit	Loss
14	Bas debts	Debit	Loss
15	Dab debts reserve	Credit	Gain
16	Commission received	Credit	Revenue
17	Repairs	Debit	Expense
18	Rent	Debit	Expense
19	Salaries	Debit	Expense
20	Loan Taken	Credit	Loan

21	Interest received	Credit	Revenue
22	Interest paid	Debit	Expense
23	Insurance	Debit	Expense
24	Carriage outwards	Debit	Expense
25	Advertisements	Debit	Expense
26	Petty expenses	Debit	Expense
27	Trade expenses	Debit	Expense
28	Petty receipts	Credit	Revenue
29	Income tax	Debit	Drawings
30	Office expenses	Debit	Expense
31	Customs duty	Debit	Expense
32	Sales tax	Debit	Expense
33	Provision for discount on debtors	Debit	Liability
34	Provision for discount on creditors	Debit	Asset
35	Debtors	Debit	Asset
36	Creditors	Credit	Liability
37	Goodwill	Debit	Asset
38	Plant, machinery	Debit	Asset
39	Land, buildings	Debit	Asset
40	Furniture, fittings	Debit	Asset
41	Investments	Debit	Asset
42	Cash in hand	Debit	Asset
43	Cash at bank	Debit	Asset
44	Reserve fund	Credit	Liability
45	Loan advances	Debit	Asset
46	Horse, carts	Debit	Asset
47	Excise duty	Debit	Expense
48	General reserve	Credit	Liability
49	Provision for depreciation	Credit	Liability
50	Bills receivable	Debit	Asset
51	Bills payable	Credit	Liability
52	Depreciation	Debit	Loss
53	Bank overdraft	Credit	Liability
54	Outstanding salaries	Credit	Liability
55	Prepaid insurance	Debit	Asset
56	Bad debt reserve	Credit	Revenue
57	Patents & Trademarks	Debit	Asset
58	Motor vehicle	Debit	Asset
59	Outstanding rent	Credit	Revenue

FINAL ACCOUNTS

In every business, the business man is interested in knowing whether the business has resulted in profit or loss and what the financial position of the business is at a given time. In brief, he wants to know (i)The profitability of the business and (ii) The soundness of the business.

The trader can ascertain this by preparing the final accounts. The final accounts are prepared from the trial balance. Hence the trial balance is said to be the link between the ledger accounts and the final accounts. The final accounts of a firm can be divided into two stages. The first stage is preparing the trading and profit and loss account and the second stage is preparing the balance sheet.

TRADING ACCOUNT

The first step in the preparation of final account is the preparation of trading account. The main purpose of preparing the trading account is to ascertain gross profit or gross loss as a result of buying and selling the goods.

Trading account of MR……………………. for the year ended ……………………

Particulars	Amount	Particulars	Amount
To opening stock	Xxxx	By sales xxxx	
To purchases xxxx		Less: returns xxx	Xxxx
Less: returns xx	Xxxx	By closing stock	Xxxx
To carriage inwards	Xxxx		
To wages	Xxxx		
To freight	Xxxx		
To customs duty, octroi	Xxxx		
To gas, fuel, coal, Water	Xxxx		
To factory expenses			
To other man. Expenses	Xxxx		
To productive expenses	Xxxx		
To gross profit c/d	Xxxx		
	Xxxx		
	Xxxx		Xxxx

Finally, a ledger may be defined as a summary statement of all the transactions relating to a person , asset, expense or income which have taken place during a given period of time. The up-to-date state of any account can be easily known by referring to the ledger.

PROFIT AND LOSS ACCOUNT

The business man is always interested in knowing his net income or net profit.Net profit represents the excess of gross profit plus the other revenue incomes over administrative, sales, Financial and other expenses. The debit side of profit and loss account shows the expenses and the credit side the incomes. If the total of the credit side is more, it will be the net profit. And if the debit side is more, it will be net loss.

PROFIT AND LOSS A/C OF MR…………………….FOR THE YEAR ENDED…………

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
TO office salaries	Xxxxxx	By gross profit b/d	Xxxxx
TO rent,rates,taxes	Xxxxx	Interest received	Xxxxx
TO Printing and stationery	Xxxxx	Discount received	Xxxx
TO Legal charges		Commission received	Xxxxx
Audit fee	Xxxx	Income from investments	
TO Insurance	Xxxx		
TO General expenses	Xxxx	Dividend on shares	Xxxx
TO Advertisements	Xxxxx	Miscellaneous investments	Xxxx
TO Bad debts	Xxxx		
TO Carriage outwards	Xxxx	Rent received	xxxx
TO Repairs	Xxxx		
TO Depreciation	Xxxxx		
TO interest paid	Xxxxx		
TO Interest on capital	Xxxxx		
TO Interest on loans	Xxxx		
TO Discount allowed	Xxxxx		
TO Commission	Xxxxx		
TO Net profit-------→ (transferred to capital a/c)	Xxxxx		
	xxxxxx		Xxxxxx

BALANCE SHEET

The second point of final accounts is the preparation of balance sheet. It is prepared often in the trading and profit, loss accounts have been compiled and closed. A balance sheet may be considered as a statement of the financial position of the concern at a given date.

DEFINITION: A balance sheet is an item wise list of assets, liabilities and proprietorship of a business at a certain state.

J.R.botliboi: A balance sheet is a statement with a view to measure exact financial position of a business at a particular date.

Thus, Balance sheet is defined as a statement which sets out the assets and liabilities of a business firm and which serves to as certain the financial position of the same on any particular date. On the left-hand side of this statement, the liabilities and the capital are shown. On the right-hand side all the assets are shown. Therefore, the two sides of the balance sheet should be equal. Otherwise, there is an error somewhere.

BALANCE SHEET OF .... AS ON ....

Liabilities and capital	Amount	Assets	Amount
Creditors	Xxxx	Cash in hand	Xxxx
Bills payable	Xxxx	Cash at bank	Xxxx
Bank overdraft	Xxxx	Bills receivable	Xxxx
Loans	Xxxx	Debtors	Xxxx
Mortgage	Xxxx	Closing stock	Xxxx
Reserve fund	Xxxx	Investments	Xxxx
Capital xxxxxx		Furniture and fittings	Xxxx
Add:		Plats&machinery	
Net Profit xxxx		Land & buildings	Xxxx
-------		Patents, tm	Xxxx
xxxxxxx		,copyrights	Xxxx
--------		Goodwill	
		Prepaid expenses	Xxxx
Less:		Outstanding incomes	Xxxx
Drawings xxxx	Xxxx		Xxxx
---------	XXXX		XXXX

Advantages: The following are the advantages of final balance .

1. It helps in checking the arithmetical accuracy of books of accounts.
2. It helps in the preparation of financial statements.
3. It helps in detecting errors.
4. It serves as an instrument for carrying out the job of rectification of entries.

5. It is possible to find out the balances of various accounts at one place.

FINAL ACCOUNTS -- ADJUSTMENTS

We know that business is a going concern. It has to be carried on indefinitely. At the end of every accounting year. The trader prepares the trading and profit and loss account and balance sheet. While preparing these financial statements, sometimes the trader may come across certain problems .The expenses of the current year may be still payable or the expenses of the next year have been prepaid during the current year. In the same way, the income of the current year still receivable and the income of the next year have been received during the current year. Without these adjustments, the profit figures arrived at or the financial position of the concern may not be correct. As such these adjustments are to be made while preparing the final accounts.

The adjustments to be made to final accounts will be given under the Trial Balance. While making the adjustment in the final accounts, the student should remember that "every adjustment is to be made in the final accounts twice i.e. once in trading, profit and loss account and later in balance sheet generally". The following are some of the important adjustments to be made at the time of preparing of final accounts:-

1. *CLOSING STOCK* :-

(i)*If closing stock is given in Trail Balance*: It should be shown only in the balance sheet "Assets Side".

(ii)*If closing stock is given as adjustment* :

1. First, it should be posted at the credit side of "Trading Account".
2. Next, shown at the asset side of the "Balance Sheet".

2.*OUTSTANDING EXPENSES* :-

(i)*If outstanding expenses given in Trail Balance*: It should be only on the liability side of Balance Sheet.

(ii)*If outstanding expenses given as adjustment* :

1. First, it should be added to the concerned expense at the debit side of profit and loss account or Trading Account.
2. Next, it should be added at the liabilities side of the Balance Sheet.

3.*PREAPID EXPENSES* :-

(i)*If prepaid expenses given in Trial Balance*: It should be shown only in assets side of the Balance Sheet.

(ii)*If prepaid expense given as adjustment* :

1. First, it should be deducted from the concerned expenses at the debit side of profit and loss account or Trading Account.
2. Next, it should be shown at the assets side of the Balance Sheet.

4.*INCOME EARNED BUT NOT RECEIVED [OR] OUTSTANDING INCOME [OR] ACCURED INCOME* :-

(i)*If incomes given in Trial Balance*: It should be shown only on the assets side of the Balance Sheet.

(ii)*If incomes outstanding given as adjustment*:

1. First, it should be added to the concerned income at the credit side of profit and loss account.
2. Next, it should be shown at the assets side of the Balance sheet.

5. *INCOME RECEIVED IN ADVANCE: UNEARNED INCOME*:-

(i)*If unearned incomes given in Trail Balance* : It should be shown only on the liabilities side of the Balance Sheet.

(ii)*If unearned income given as adjustment* :

1. First, it should be deducted from the concerned income in the credit side of the profit and loss account.
2. Secondly, it should be shown in the liabilities side of the Balance Sheet.

6.*DEPRECIATION*:-

(i)*If Depreciation given in Trail Balance*: It should be shown only on the debit side of the profit and loss account.

(ii)*If Depreciation given as adjustment*

1. First, it should be shown on the debit side of the profit and loss account.
2. Secondly, it should be deduced from the concerned asset in the Balance sheet assets side.

7.*INTEREST ON LOAN [OR] CAPITAL* :-

(i)*<u>If interest on loan (or) capital given in Trail balance</u>* :It should be shown only on debit side of the profit and loss account.

(ii)*<u>If interest on loan (or)capital given as adjustment</u>* :

1. First, it should be shown on debit side of the profit and loss account.
2. Secondly, it should added to the loan or capital in the liabilities side of the Balance Sheet.

8.*<u>BAD DEBTS</u>*:-

(i)*<u>If bad debts given in Trail balance</u>* :It should be shown on the debit side of the profit and loss account.

(ii)*<u>If bad debts given as adjustment</u>*:

1. First, it should be shown on the debit side of the profit and loss account.
2. Secondly, it should be deducted from debtors in the assets side of the Balance Sheet.

9.*<u>INTEREST ON DRAWINGS</u>* :-

(i)*<u>If interest on drawings given in Trail balance</u>*: It should be shown on the credit side of the profit and loss account.

(ii)*<u>If interest on drawings given as adjustments</u>* :

1. First, it should be shown on the credit side of the profit and loss account.
2. Secondly, it should be deducted from capital on liabilities side of the Balance Sheet.

10.*<u>INTEREST ON INVESTMENTS</u>* :-

(i)*<u>If interest on the investments given in Trail balance</u>* :It should be shown on the credit side of the profit and loss account.

(ii)*<u>If interest on investments given as adjustments</u>* :

1. First, it should be shown on the credit side of the profit and loss account.
2. Secondly, it should be added to the investments on assets side of the Balance Sheet.

Note: Problems to be solved on final accounts

SUBSIDIARY BOOKS

In a small business concern, the numbers of transactions are limited. These transactions are first recorded in the journal as and when they take place. Subsequently, these transactions are posted in the appropriate accounts of the ledger. Therefore, the journal is known as "Book Of Original Entry" or "Book of Prime Entry" while the ledger is known as main book of accounts.

On the other hand, the transactions in big concern are numerous and sometimes even run into thousands and lakhs. It is inconvenient and time wasting process if all the transactions are going to be managed with a journal.

Therefore, a convenient device is made. Smaller account books known as subsidiary books or subsidiary journals are disturbed to various sections of the business house. As and when transactions take place, they are recorded in these subsidiary books simultaneously without delay. The original journal (which is known as Journal Proper) is used only occasionally to record those transactions which cannot be recorded in any of the subsidiary books.

TYPES OF SUBSIDIARY BOOKS:-- Subsidiary books are divided into eight types. They are,

1.Purchases Book
2.Sales Book
3.Purchase Returns Book
4.Sales Returns Book
5.Cash Book
6.Bills Receivable Book
7.Bills Payable Book
8.Journal Proper

1. *PURCHASES BOOK* :- This book records all credit purchases only. Purchase of goods for cash and purchase of assets for cash. Credit will not be recorded in this book. Purchases book is otherwise called Purchases Day Book, Purchases Journal or Purchases Register.

2. *SALES BOOK* :-This book is used to record credit sales only. Goods are sold for cash and sale of assets for cash or credit will not be recorded in this book. This book is otherwise called Sales Day Book, Sales Journal or Sales Register.

3.*PURCHASE RETURNS BOOK* :- This book is used to record the particulars of goods returned to the suppliers .This book is otherwise called Returns Outward Book.

4.*SALES RETURNS BOOK* :- This book is used to record the particulars of goods returned by the customers. This book is otherwise called Returns Inward Book.

5.*CASH BOOK* :- All cash transactions , receipts and payments are recorded in this book. Cash includes cheques, money orders etc.

6.*BILLS REEECEIVABLE BOOK* :- This book is used to record all the bills and promissory notes are received from the customers.

7.*BILLS PAYABLE BOOK* :- This book is used to record all the bills or promissory notes accepted to the suppliers.

8.*JOURNAL PROPER* :- This is used to record all the transactions that cannot be recorded in any of the above mentioned subsidiary books.

FORMAT FOR PURCHASE BOOK

Date	Name of supplier	Invoice No	Lf no	Details	Amount(Rs.)

FORMAT FOR SALES BOOK

Date	Name of customer	Invoice No	Lf no	Details	Amount(Rs.)

FORMAT FOR PURCHASE RETURNS BOOK

Date	Name of supplier	Debit note No	Lf no	Details	Amount(Rs.)

FORMAT FOR SALES RETURNS BOOK

Date	Name of supplier	Credit note No	Lf no	Details	Amount(Rs.)

CASH BOOK

Cash book plays an important role in accounting. Whether transactions made are in the form of cash or credit, final statement will be in the form of receipt or payment of cash. So, every transaction finds place in the cash book finally.

Cash book is a principal book as well as the subsidiary book. It is a book of original entry since the transactions are recorded for the first time from the source of documents. It is a ledger in a sense it is designed in the form of cash account and records cash receipts on the debit side and the cash payments on the credit side. Thus, a cash book fulfils the functions of both a ledger account and a journal.

Cash book is divided into two sides. Receipt side (debit side) and payment side (credit side). The method of recording cash sample is very simple. All cash receipts will be posted on the debit side and all the payments will be recorded on the credit side.

Types of cash book: cash book may be of the following types according to the needs of the business.

- Simple cash book
- Double column or two column cash book
- Three column cash book
- Petty cash book

SINGLE COLUMN CASH BOOK: The simple cash book is a record of only cash transactions. The model of the cash book is given below.

CASH BOOK

Date	Particulars	Lf no	Amount	Date	Particulars	Lf no	Amount

TWO COLUMN CASH BOOK: This book has two columns on each side one for discount and the other for cash. Discount column on debit side represents loss being discount

allowed to customers. Similarly, discount column on credit side represents gain being discount received.

Discount may be two types.

(i)Trade discount
(ii)cash discount

TRADE DISCOUNT: when a retailer purchases goods from the wholesaler, he allows some discount on the catalogue price. This discount is called as Trade discount. Trade discount is adjusted in the invoice and the net amount is recorded in the purchase book. As such it will not appear in the book of accounts.

CASH DISCOUNT: When the goods are purchased on credit, payment will be made in the future as agreed by the parties. If the amount is paid early as promptly a discount by a way of incentive will be allowed by the seller to the buyer. This discount is called as cash discount. So cash discount is the discount allowed by the seller to encourage prompt payment from the buyer. Cash discount is entered in the discount column of the cash book. The discount recorded in the debit side of the cash book is discount allowed. The discount recorded in the credit side of the cash book is discount received.

CASH DISCOUNT COLUMN CASH BOOK

Date	particulars	Lf no	Disc. Allo wed	cash	Date	Particulars	Lf No	Disc Recei Ved.	cash

PETTY CASH BOOK: We have seen that all the cash receipts and payments will be recorded in the cash book. But in the case of big concerns if all transactions like postage, cleaning charges, etc., are recorded in the cash book, the cash book becomes bulky and un wieldy. So, all petty disbursement of cash is recorded in a separate cash book called petty cash book.

Note: Problems to be solved on subsidiary books

PROBLEMS FOR TRIAL BALANCE (1-5)

Problem # 9.1: Prepare a Trial Balance for Shining Brothers Pvt. Ltd. at March 31st, 2017?

Description	*Amount*	*Description*	*Amount*	*Description*	*Amount*
Bank Loan	Rs. 14,000	Insurance Expense	Rs. 7,300	Equipments	Rs. 40,000
Marketable Security	6,500	Owner's Investments	95,000	Maintenance Exp.	5,000
Bill Payable	1,000	Rent & Rates Expense	400	Miscellaneous Expenses	4,800
Unearned Revenue	3,500	Acc. Dep. _ Equipments	14,000	Accrued Expenses	1,500
Sundry Debtors	12,000	Accrued Revenue	15,000	Dep. Exp. _ Equipments	2,000
Outstanding Salaries	2,500	Machinery	25,000	Unexpired Insurance	8,500
Prepaid Rent	2,000	Drawings	3,500	Vendor's Payables	500

Shining Brothers Pvt. Ltd.

Trial Balance

As on March 31st, 2017

S. No	*Description*	*Ref*	*Amount (Rs.)* Dr.	Cr.
1	Bank Loan			
2	Marketable Security			
3	Bill Payable			
4	Unearned Revenue			
5	Sundry Debtors			
6	Outstanding Salaries			
7	Prepaid Rent			
8	Insurance Expense			
9	Owner's Investments			
10	Rent & Rates Expense			
11	Accumulated Dep. _ Equipments			
12	Accrued Revenue			
13	Machinery			
14	Drawings			
15	Equipments			
16	Maintenance Exp.			
17	Miscellaneous Expenses			
18	Accrued Expenses			
19	Depreciation Exp. _ Equipments			
20	Unexpired Insurance			
21	Vendor's Payables			
	Total		**Rs. 132,000**	**Rs. 132,000**

Problem # 9.2: There are several Mistakes in the Umer & Brothers (Pvt.) Ltd. Trial Balance. You are requested to identify Errors and make corrected Trial Balance?

S. No	***Heads of Accounts***	***Ref***	***Debit***	***Credit***
1	Umer Owner Equity			1,551
2	Umer Drawings		560	
3	Equipments		2,850	
4	Sales			2,850
5	Due from Customers			530
6	Purchases		1,260	
7	Purchase Return		364	
8	Bank Loan			996
9	Creditors		528	
10	Taxes		720	
11	Cash in Hand		226	
12	Note Payable		680	
13	Inventory			264
14	Repair		461	
15	Return Inward			98
	Total		**Rs. 7,649**	**Rs. 6,289**

S. No	***Heads of Accounts***	***Ref***	***Debit***	***Credit***
1	Umer Owner Equity			
2	Umer Drawings			
3	Equipments			
4	Sales			
5	Due from Customers			
6	Purchases			
7	Purchase Return			
8	Bank Loan			
9	Creditors			
10	Taxes			
11	Cash in Hand			
12	Note Payable			
13	Inventory			
14	Repair			
15	Return Inward			
	Total			

Problem # 9.3: Prepare Trial Balance as on 31.03.2012 from the following balances of Ms. Maliha Afzal

Drawings Rs. 74,800 Purchases Rs. 295,700 Stock (1.04.2011) Rs. 30,000 Bills receivable Rs. 52,500

Capital Rs. 250,000 Furniture Rs. 33,000 Discount allowed Rs. 950 Sales Rs. 335,350

Rent Rs. 72,500 Freight Rs. 3,500 Printing charges Rs. 1,500 Sundry creditors 75,000

Insurance Rs. 2,700 Sundry expenses Rs. 21,000 Discount received Rs. 1,000 Bank loan Rs. 120,000

Stock (31.03.2012) Rs. 17,000 Income tax Rs. 9,500 Machinery Rs. 215,400 Bills payable Rs. 31,700

Ms. Maliha Afzal

Trial Balance

As on 31st March, 2012

			Amount (Rs.)	
S. No	***Heads of Accounts***	***Ref***	***Dr***	***Cr***
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
	Total		**Rs. 813,050**	**Rs. 813,050**

Problem # 9.4: Prepare Trial Balance from the following balances of Mr. Akhtar as on 31.12.2016

Capital Rs. 420,000	Cash in hand Rs. 25,000	Building Rs. 115,000	Cash at bank Rs. 84,700
Machinery Rs. 60,000	Sundry Creditors Rs. 68,000	Furniture Rs. 11,000	Rent Rs. 48,000
Car Rs. 68,000	Opening stock Rs. 86,000	Commission Rs. 1,400	Rates and Taxes Rs. 2,600
Purchases Rs. 94,000	Bad debts Rs. 3,200	Sales Rs. 196,000	Insurance Rs. 2,400
General Expenses Rs. 800	Sundry debtors Rs. 16,200	Reserve for doubtful debts Rs. 7,300	Salaries Rs. 94,000
Closing Stock Rs. 12,000	Unearned Revenue Rs. 16,000	Interest received Rs. 5,000	

Mr. Akhtar

Trial Balance

As on 31st December, 2016

S. No	***Heads of Accounts***	***Ref***	***Amount (Rs.)***	
			Dr	***Cr***

Problem # 9.5: The following balances are extracted from the books of Ms. Maria Waseem, Prepare Trial Balance as on 30.6.2015

Owner's Equity Rs. 470,200	Machinery Rs. 158,800	Cash in hand Rs. 6,000	Account receivable Rs. 48,000
Building Rs. 320,000	Repairs Rs. 5,400	Stock Rs. 33,000	Insurance premium Rs. 3,300
Account payable Rs. 26,000	Sales Rs. 290,000	Commission Rs. 750	Telephone charges Rs. 6,450
Rent & Taxes Rs. 6,300	Furniture Rs. 11,000	Purchases Rs. 165,000	Discount earned Rs. 1,100
Loan from Sidra Rs. 51,000	Salaries Rs. 70,600	Reserve fund Rs. 5,900	Discount allowed Rs. 650
Note receivable Rs. 8,600	Drawings Rs. 5,000	Bad debts Rs. 1,350	Bills payable Rs. 6,000

Ms. Maria Waseem

Trial Balance

As on 30th June, 2015

S. No	***Heads of Accounts***	***Ref***	***Amount (Rs.)***	
			Dr	***Cr***

FINAL ACCOUNTS SOLUTION

Format of Trading Account
(Trading Account) for the Year Ended...

Particulars		Amount Rs.	Particulars		Amount Rs.
Opening Stock		------	Sales	---------	
Purchases	------		***Less:*** Returns Inwards		-------
Less: Returns Outwards	------	------	Or, Sales Returns	-------	-------
Wages		------	Closing Stock		-------
Wages and Salaries		------	Gross Loss		-------
Carriage Inwards		------	(transferred to Profit & Loss Account)		
Freight Inwards		------			
Gas & Fuel		------			
Power & Water		------			
Factory Rent & Rates		------			
Manufacturing Expenses		------			
Dock and Clearing Expenses		------			
Import and Customs Duty		------			
Royalties		------			
Packaging Expenses		------			
Gross Profit (Transferred to Profit & Loss Account)		------			
	------		------		

(Pro-forma) Profit and Loss Account
For the Year Ended on (Closing Date Of The Accounting Period)

Dr.	Rs.		Rs. Cr.
Trading Account (For gross Loss)		Trading Account Either of (Gross Profit)	
Rent and Rates			
Lighting and Heating		Incidental Income or Gains	
Office Salaries		Rebate	
Office Salaries and Wages		Cash Discount Received	
Office Insurance		Commission Received	
Sundry Expenses or		Bank Interest Received	
General Expenses		Interest or Income on	
Printing and Stationery		Investments	
Repairs and Renewals		Rent Received	

Telephone
Accountancy Fees
Legal Charges
Audit Fees
Staff Bonuses
Bank Charges and Commission
Interest Paid (on mortgage loan, or bank loan or on capital)
Premium on Lease Commission
Motor Expenses
Advertising
Traveller's Salaries and Commission
Sales Room Expenses
Cash Discount Allowed
Bad Debts
Free Samples
Loss on Sale of Fixed Assets
Brokerage
Carriage Outward
Warehouse Expenses
Warehouse Rent
Warehouse Insurance
Delivery Van Expenses
Packing Expenses
Depreciation on Different Assets
Provision or Reserve for Bad and Doubtful Debts; Provision or Reserve for Discount on Debtors; Any other provisions for Expenses e.g., Loss by fire
Interest on loan; Cos of discounting the bill
Capital Account for gross loss
(Transfer of net profit if, any)

Gain on the Sale of Fixed Assets Investments etc.
Bad Debts Recovered
Special Bonuses Received from Suppliers
Provision or Reserve for Discount on Creditors
Capital Account
Either of the two
(Transfer of net loss if any)

SUMMARY TABLE OF ADJUSTMENTS

S. No.	Name of the item	Adjustment Entry	Treatment in Trading and Profit & Loss Account	Treatment in Balance Sheet
1.	**Closing Stock**	Closing Stock Dr. To Trading A/c	Show on **Credit side** of Trading Account.	Show as **current asset**.
2.	**Depreciation on Fixed Assets**	Depreciation A/c Dr. To Fixed Assets	Show on **Debit Side** of Profit & Loss Account.	Deduct from **Fixed Assets** individually.
3.	**Outstanding Expenses**	Expenses Account Dr. To Outstanding Expenses A/c	In Trading/Profit & Loss A/c add to the particular expense on the **debit side**.	Show as a **current liability.**
4.	**Accrued Income**	Accrued Income Dr. To Income A/c	Add to specific income on the **credit** side of Profit & Loss A/c	Show as a **current asset.**
5.	**Prepaid Expenses**	Prepaid Expenses Dr. To Expenses A/c	Deduct from the particular expense on **debit side** either in Trading Account or Profit & Loss Account as the may be.	Show as a **current assets**.
6.	**Unearned Income or (Income received in advance)**	Income A/c Dr. To Unearned Income	In Profit & Loss Account from the relevant income on the **credit side**.	Show as **current liability.**
7.	**Bad Debts (Additional)**	Bad Debts A/c Dr. To Debtors	Show in Profit & Loss A/c on the **debit side**.	Deduct from the **Debtors** on the Assets side.
8.	**Provision for Doubtful Debts**	Profit & Loss A/c Dr. To Provision for Doubtful Debts **additional Bad Debts.**	Show on the **debit side** of Profit & Loss Account **after deducting**	Deduct from **Debtors** on the assets side,
9.	**Provision for Discount on**	Profit & Loss A/c Dr. To Provision for Doubtful Debts	Show on the **Debit side** of Profit & Loss Account. Doubtful Debts.	Deduct from Debtors **after deducting** additional Bad Debts and Provision for
10.	**Interest on Capital**	Int. on Capital A/c Dr. To Capital A/c	Show on the debit side of Profit & Loss Account.	Add to Capital A/c on the Liabilities side.
11.	**Interest on Drawings**	Capital A/c Dr. To Interest on Drawings A/c	Show on the credit side of Profit & Loss Account.	Deduct from the **Capital on** the Liabilities.
12.	Manager's Commission on Profit	Profit & Loss A/c Dr. To Manager's Commission A/c	Show on the debit side of Profit & Loss Account.	Show as a Current Liability.

10. From the following particulars prepare a trading and profit and loss account : Opening Stock Rs. 1,50,000; Purchases Rs. 4,50,000; Salaries Rs. 50,000; Other expenses Rs. 20,000; Sales Rs. 6,00,000.

Closing stock could not be ascertained but it is known that goods are sold at cost plus 50 per cent. The manager of the business is entitled to a commission of 5 per cent on net profits after charging such commission.

SOLUTION :

Trading Account

	Rs.		**Rs.**
Opening Stock	1,50,000	Sales	6,00,000
Purchases		Stock at the end	2,00,000
Profit and Loss Account	4,50,000	**(Balancing Figure)**	
(Gross Profit)			
	2,00,000		
	8,00,000		8,00,000

Profit and Loss Account

	Rs.		**Rs.**
Salaries	50,000		
Other expenses	20,000	Trading Account	2,00,000
Manager's commission	6,190	**(Gross Profit)**	
Net Profit	1,23,810		
	2,00,000		2,00,000

32. A trader maintained Provision for Doubtful debts @ 5%, a Provision for Discount @ 2% on debtors and Reserve for discount @ 2% on creditors which on 1 January 1993 stood at Rs. 1,500, Rs. 500 and Rs. 400 respectively.

His balances on 31-12-1993 and on 31-12-1994 were :

	31-12-1993	31-12-1994
	Rs.	Rs.
Bad debts written off	1,800	300
Discount allowed	600	200

Sundry Debtors	20,000	6,000
Discount received	300	50
Sundry Creditors	15,000	10,000

Show necessary accounts in the Ledger.

SOLUTION :

Bad Debts Account

	Rs.		Rs.
31.12.1993 Sundry Debtors	1,800	**31.12.1993** Pro. for Doubtful Debts	1,800
31-12-1994 Sundry Debtors	300	**31-12-1994** Pro. for Doubtful Debts	300

Provision for Doubtful Debts

31.12.1993	Rs.	**1-1-1993**	Rs.
Bad Debts Account	1,800	Balance b/d	1,500
Balance c/d **(5% on Rs. 20,000)**	1,000	**31-12-1993**	
		Profit and Loss Account **(Balancing Figure)**	1,300
	2,800		2,800
31-12-1994		**1-1-1994**	
Bad Debts Account	300	Balance b/d	1,000
Profit and Loss Account	400		
Balance c/d **(5% on Rs. 6,000)**	300		
	1,000		1,000

Discount Allowed Account

	Rs.		Rs.
31-12-1993		**31-12-1993**	
Sundry Debtors	600	Provision for Discount on Debtors	600
31-12-1994		**31-12-1994**	
Sundry Debtors	200	Provision for Discount on Debtors	200

Provision for Discount on Debtors

	Rs.		Rs.
31-12-1993		**31-12-1993**	

Discount Allowed Account	600	Balance b/d	500
Balance c/d	380	Profit and Loss Account	480
[2% on Rs. 19,900 (20,000-100)]			
	980		980
31-12-1994		**31-12-1994**	
Discount Allowed	200	Balanced b/d	380
Profit and Loss Account	66		
Balance c/d	114		
[2% on 5,700 (6,000–300)]	380		380
		1-1-1995 Balance b/d	114

Discount Received Account

	Rs.		Rs.
31-12-1993		**31-12-1993**	
Reserve for Discount on Creditors	300	Sundry Creditors	300
31-12-1994			
Reserve for Discount on Creditors	50	**31-12-1994** Sundry Creditors	50

Reserve for Discount on Creditors

	Rs.		Rs.
1-1-1993		**31-12-1993**	
Balance b/d	400	Discount Received	300
31-12-1993		Balance c/d (2% on Rs. 15,000)	300
Profit and Loss Account	200		
	600		600
1-1-1994		**31-12-1994**	
Balance b/d	300	Discount Received	50
		Profit and Loss Account	50
		Balance c/d **(2% on Rs. 10,000)**	200
	300		300
1-1-1995			
Balance b/d	200		

Profit and Loss Account for The Year Ending On 31-12-1993

		Rs.			Rs.
Provision for Doubtful			Discount Received	300	
Debts Account		1,300	***Add :*** Reserve for		
Discount Allowed	600		discount on Creditors	300	
Add : Provision for				600	
Discount on Debtors	380		***Less :*** Old Reserve	400	200
	980				
Less : Old Provision	500	480			

Profit And Loss Account For the Year Ending On 31-12-1994

	Rs.		Rs.
Provision for Discount		Provision for Doubtful Debts	400
on Creditors	50	Provision for Discount on Debtors	66

No.	Particulars	Debit Rs.	Credit Rs.
(1)	Capital	–	16,000
(2)	Opening stock	17,500	–
(3)	Drawings	3,305	–
(4)	Returns inward	550	–
(5)	Deposit with X	1,400	–
(6)	Return outward	–	840
(7)	Carriage inward	1240	–
(8)	Carriage outward	725	–
(9)	Rent	800	–
(10)	Rent outstanding	–	150
(11)	Purchases	13,000	–
(12)	Sundry debtors	5,000	–
(13)	Sundry creditors	–	4,000
(14)	Furniture	1,500	–
(15)	Sales	–	29,000
(16)	Wages	850	–
(17)	Cash	1,370	–
(18)	Goodwill	1,800	–
(19)	Advertisement	950	–
		49,990	49,990

Trading and Profit and Loss Account
for the year ending 31 December 2007

		Rs.		Rs.
Opening Stock		17,500	Sales	29,000
Purchases	13,000		***Less :*** Returns Inward	550
Less : Returns				28,450
outward	840	12,160	Profit and Loss A/c **(loss by fire)**	2,000
Wages		850	Stock at the end	18,790
Carriage Inward		1,240		
Gross Profit c/d		17,490		
		49,240		49,240
Carriage outward		725	Gross Profit b/d	17,490
Rent		800	Insurance Company	1,500
Advertisement		950		
Bed Debts		600		
Reserve for bad Debts		220		
Trading Account **(loss by fire)**		2,000		
Depreciation on Furniture		150		
Net Profit transferred to Capital Account	13,545			
		18,990		18,990

Balance sheet As on 31 December 2007

Liabilities			Assets		
Rent outstanding		150	Goodwill		1,800
Capital	16,000		Deposit with **X**		1,400
Add : Net Profit	13,545		Cash in hand		1,370
	29,545		Furniture	1,500	
Less : Drawings	3,305	26,240	***Less :*** Depreciation	150	1,350

Creditors	4,000	Debtors	5,000	
		Less : Bad Debts	600	
			4,400	
		Less : Provision	220	4,180
		Insurance company		1,500
		Stock at the end		18,790
30,390		30,390		

35. **Shri Goyal**

Trading And Profit and Loss Account
For the Year Ended On 31 December 2008

	Rs.	Rs.		Rs.	Rs.		
Purchases	3,49,600		Sales		3,70,000	***Less :*** Drawings	2,000
3,47,600							
Wages	10,450						
Add : Contribution to							
National Insurance :							
by Employer	75						
by Employees	75						
	10,600						
Add : Rental value of the							
housing facilities	250	10,850					
Carriage Inwards		200					
Profit and Loss Account		11,350					
(Gross Profit)							
		3,70,000			3,70,000		
Carriage Outwards		250	Trading Account		11,350		
Lighting		300	**(Gross Profit)**				
Rates and Insurance	200		Discount Earned		150		
Less: Prepaid	75	125	Dividends Received		300		
Discount Allowed		50	Rent Earned **(Rental value of**				
Depreciation on :			**housing facilities)**		250		
Plant and Machinery	2,250						
Furniture	400	2,650					
Manager's Commission		1,446					
Net Profit		7,229					
		12,050			12,050		

Balance Sheet As On 31 December 2008

Liabilities		Rs.	**Assets**		Rs.
Capital	34,250		Plant and Machinery	15,000	
Add : Net Profit	7,229		***Less :*** Depreciation	2,500	12,750
	41,479		Furniture	4,000	
Less : Drawings	2,000	39,479	***Less :*** Depreciation	400	3,600
(Goods to son)			Stock in Trade		30,625
Sundry Creditors		10,000	Sundry Debtors		3,000
Outstanding Commission			Prepaid Insurance		75
to Manager		1,446	Cash in hand and at Bank		875

36. **M/s. ABC Company**

Trading And Profit and Loss Account

For the Year Ended On 31 March 2002

		Rs.			**Rs.**		
Opening stock		23,2,00	Sales		2,32,000		
Purchases	58,000		***Less :*** Returns		4,350	***Less :*** Returns	1,160
		2,27,650					
	56,840		Profit and Loss Account		8,700		
Add : Unrecorded			**(Loss by fire)**				
Purchases	2,900	59,740	Stock at the end		20,300		
Wages		20,010					
Gross Profit c/d		1,53,700					
		2,56,650			2,56,650		
Interest on capital		7,250	Gross Profit b/d		1,53,700		
(5% on Rs. 1,45,000)			Insurance Company		5,800		
trading Account	8,700		Interest on Drawings		232		
(Loss by fire)			Interest on Loan	870			
Office Expenses		23,345	***Add :*** Accrued	570	1,450		
			(1,450 – 870)				
Advertisement	15,950		Apprenticeship				
Less : Carried forward	14,500	1,450	Premium	3,480			
Manager's Commission		11,054	***Less :*** Received				
(10/110 × 1,21,597)			in advance	2,320	1,160		
Net Profit transfered			**(2/3 of 3,840)**				
to Capital Account		1,10,543					
		1,62,342			1,62,342		

Balance Sheet As On 31 March 2002

Liabilities		**Rs.**	**Assets**		**Rs.**
Capital		1,45,000	Land and Building		1,59,500
Add : Interest on Capital		7,250	Plant and Machinery		13,050
Net Profit		1,10,543	Furniture and Fixtures		7,250
Less : Drawings	8,700	2,62,793	Investment		8,700
Interest on			Bills Receivable		10,150
Drawings	232	8,932	Sundry Debtors		58,000
		2,53,861	Insurance Company		5,800
Sundry Creditors	45,820		Loan	14,500	
Add : Unrecorded			***Add :*** Accrued		
Purchases	2,900	48,720	Interest	580	15,080
Bills Payable		7,250	Advertisement Suspense		
Manager's Commission			Account		14,500
Outstanding		11,054	Stock at the end		20,300
Apprenticeship premium			Cash at Bank		10,150
received in advance		2,320	Cash in hand		725
		3,23,205			3,23,205

37. Mr. Rishab

Trading And Profit and Loss Account

For the Year Ended On 31 March 2006

		Rs.			Rs.
Opening stock		21,300	Sales	1,40,000	
Purchases	84,000		***Less :*** Returns	5,000	1,35,000
Less : Returns	4,000	80,000	Profit and Loss Account		10,000
Carriage		10,000	**(Loss by fire)**		
Gross Profit c/d		61,000	Closing Stock		27,300
		1,72,300			1,72,300
Sundry Expenses		600	Gross Profit b/d		61,000
Printing and Stationery		500	Provision for discount on		
Insurance	1,000		Debtors **(380 – 342)**		38
Less : Prepaid	200	800	Provision for discount on		
Salaries and Wages		18,500	Creditors		360
Trade Expenses		800	Profit of Textile Department		10,000
Trading Account **(Loss by fire)**		10,000	Insurance Comapany		6,000
Interest on loan		1,350	Provision for Doubtful		
Bad Debts	400		Debts **(1,000 – 900)**		100
Additional	400	800			
Depreciation on :					
Land and Buildings	1,800				
Plant and Machinery	4,000				
Furniture	250	6,050			
Net Profit transferred					
to Capital Account		38,098			
		77,498			77,498

Balance Sheet As on 31 March 2006

Liabilities		**Rs.**	**Assets**		**Rs.**
Capital		1,00,000	Land and Building	90,000	
Add : Net Profit		38,098	***Less :*** Depreciation	1,800	88,200
Less: Drawings :		1,38,098	Plant and Machinery	20,000	
As per T. B.	12,000		***Less :*** Depreciation	4,000	16,000
Goods	2,000	14,000	Furniture	5,000	
		1,24,098		250	
Loan from Gayanand	30,000		***Less :*** Depreciation		4,750
	Stock:				
Add : Accrued Interest	1,350	31,350	General goods	27,300	
			Textile goods	8,000	35,300
Creditors	12,000		Debtors	18,400	
Add : Omitted	6,000		***Less :*** Additional		
	18,000		Bad Debts	400	
Less : Provision				18,000	
for Discount	360	17,640	***Less :*** P. D. D.	900	
				17,100	
			Less : Provision for		
			Discount	342	16,758
			Insurance Company		6,000
			Prepaid Insurance		200
			Cash at Bank		4,600
			Cash in hand		1,280
		1,73,088			1,73,088

WORKING NOTE

	Rs.
Purchases	80,000
Add : Omitted Invoices	6,000
	86,000
Less : Drawings	2,000
	84,000

39. The following is the trial Balance of Hari as at 31 December, 1999 :

Dr. (Rs.)	Cr. (Rs.)		
Hari's Capital Account	—	76,690	
Stock 1 January, 1999	46,800	—	
Sales		—	3,89,600
Returns Inwards	8,600	—	
Purchases	3,21,700	—	
Returns Outwards	—	5,800	
Carriage Inwards	19,600	—	
Rent & Taxes	4,700	—	
Salaries & Wages	9,300	—	
Sundry Debtors	24,000	—	
Sundry Creditors	—	14,800	
Bank Loan @ 14% p.a.	—	20,000	
Bank Interest	1,100	—	
Printing and Stationery Expenses	14,400	—	
Bank Balance	8,000	—	
Discount Earned	—	4,440	
Furniture & Fittings	5,000	—	
Discount Allowed	1,800	—	
General Expenses	11,450	—	
Insurance	1,300	—	
Postage & Telegram Expenses	2,330	—	
Cash Balance	380	—	
Travelling Expenses	870	—	
Drawings	30,000	—	
5,11,330	5,11,330		

The following adjustments are to be made :

(i) Included among the Debtors is Rs. 3,000 due from Ram and included among the Creditors Rs. 1,000 due to him.

(ii) Provision for Bad and Doubtful Debts be created at 5% and for Discount @ 2% on Sundry Debtors.

(iii) Depreciation on Furniture & Fittings @ 10% shall be written off.

(iv) Personal Purchases of Hari amounting to Rs. 600 had been recorded in the Purchases Day Book.

(v) Interest on Bank Loan shall be provided for the whole year.

(vi) A quarter of the amount of stationery expense is to be carried forward to the next accounting period.

(vii) Credit purchase invoice amounting to Rs. 400 had been omitted from the books.

(viii) Stock on 31-12-1999 was Rs. 78,600.

SOLUTION :

Hari

Trading And Profit and Loss Account

For the Year Ending on 31 March 1999

		Rs.			**Rs.**	
Opening Stock		46,800	Sales	3,89,600		
Purchases	3,21,700		***Less :*** Returns	8,600	3,81,000	
Add : Omitted Invoice	400		Stock at the end		78,600	***Less :*** Returns
	3,22,100					
	5,800					
	3,16,300					
Less : Drawings	600	3,15,700				
Freight and Carriage		19,600				
Gross Profit c/d		77,500				
		4,59,600			4,59,600	
Rent and Taxes		4,700	Gross Profit b/d		77,500	
Salaries and Wages		9,300	Discount		4,440	
Bank Interest	1,100					
Add : Accrued	1,700	2,800				
Printing and Stationery	14,400					
Less : Prepaid **(1/4)**	3,600	10,800				
Discount Allowed		1,800				
General Expenses		11,450				
Insurance		1,300				

Postage and Telegrams	2,330		
Travelling Expenses	870		
Provision for Bad Debts	1,150		
Provision for Discount on Debtors	437		
Depreciation On :			
Furniture and Fittings	500		
Net Profit transferred to Capital Account	34,503		
	81,940		81,940

Balance Sheet as on 31 December 1999

Liabilities	**Rs.**	**Rs.**	***Assets***	**Rs.**	**Rs.**
Capital	76,690		Furniture and Fittings	5,000	
Add : Net Profit	34,503		***Less :*** Depreciation	500	4,500
	1,11,193		Debtors	24,000	
Less : Drawings :			***Less :*** Common Debt	1,000	
Cash	(30,000)			23,000	
Goods	**(600)**	80,953	***Less :*** Provision for		
Bank Loan		20,000	Doubtful Debts	1,150	
Bank Interest Accrued		1,700		21,850	
			Less : Provision for		
Sundry Creditors	14,800		Discount	437	21,413
Less : Common Debts	1,000		**(2% of Rs. 21,850)**		
	13,800		Stock at the end		78,600
Add : Invoice Omitted	400	14,200	Prepaid Expenses :		
			Printing and stationery		3,600
			Cash in hand		380
			Cash at Bank		8,000
		1,16,493			1,16,493

2. From the following Trial Balance of 'Mr. Yamin' for the year ending 31-3-2000, and additional information given, prepare Trading and Profit & Loss Account and a Balance Sheet as at that date :

Trial Balance

Dr. (Rs.)	Cr. (Rs.)		
Opening Stock	1,00,000	—	
Capital	—	9,00,000	
Debtors and Creditors	1,20,000	70,000	
Purchases and Sales	8,00,000	14,00,000	
Returns	30,000	20,000	
Carriage	16,000	—	
Wages and Salaries	50,000	—	
Commission	—	26,000	
Machinery	1,60,000	—	
Furniture	40,000	—	
Bad debts	16,000	—	
Provision for doubtful debts	—	20,000	
B/R and B/P	60,000	14,000	
Taxes and Insurance	34,000	—	
Land and Buildings	8,00,000	—	
Discount allowed	24,000	—	
Bank		1,00,000	—
Drawings	1,00,000	—	
24,50,000	24,50,000		

Additional Information :

(i) Value of closing stock, as on 31-3-2000 is Rs. 80,000.

(ii) Insurance prepaid is Rs. 4,000. Wages and salaries outstanding is Rs. 2,000.

(iii) Provide for doubtful debts on the debtors @ 10%.

(iv) Depreciate Machinery and Furniture @ 10% and @ 15% respectively.

(v) Goods of the value of Rs. 10,000 were taken by the proprietor for his own use but no entry was made in the books of accounts.

SOLUTION :

Mr. Y

Trading And Profit and Loss Account

For the Year Ending on 31 March 2000

		Rs.			**Rs.**
Opening Stock		1,00,000	Sales	14,00,000	
Purchases	8,00,000		***Less :*** Returns	30,000	13,70,000
Less : Returns	20,000		Stock at the end		80,000
	7,80,000				
Less : Drawings	10,000	7,70,000			
Carriage		16,000			
Wages and Salaries	50,000				
Add : Outstanding	2,000	52,000			
Gross Profit c/d		5,12,000			
		14,50,000			14,50,000
Bad Debts		16,000	Gross Profit b/d		5,12,000
Taxes and Insurance	34,000		Commission		26,000
Less : Prepaid	4,000	30,000	Provision for Doubtful		
Discount Allowed		24,000	Debts **(20,000–12,000)**		8,000
Depreciation on :					
Machinery		16,000			
Furniture		6,000			
Net Profit transferred to					
Capital Account		4,54,000			
		5,46,000			5,46,000

Balance Sheet of Mr. Y As On 31 March 2000

Liabilities	**Rs.**	**Rs.**	***Assets***	**Rs.**	**Rs.**
Capital	9,00,000		Cash at Bank		1,00,000
Add : Net Profit	4,54,000		Debtors	1,20,000	
	13,54,000		***Less :*** Provision	12,000	1,08,000
Less : Drawings			Bills Receivable		60,000
(1,00,000+10,000)	1,10,000	12,44,000	Prepaid Insurance		4,000
Creditors			Stock in hand		80,000
For Goods		70,000	Land and Building		8,00,000
For Wages and Salaries		2,000	Machinery	1,60,000	
Bills Payable		14,000	***Less :*** Depreciation	16,000	1,44,000

		Furniture 40,000	
		Less : Depreciation 6,000	34,000
	13,30,000		13,30,000

5. From the following Trial Balance of Vee Kay Traders, prepare Trading and Profit and Loss Account for the year ended 31st March, 2002 and a Balance sheet as on that date :

Debit Balances	Rs.	*Credit Balances*	Rs.
Plant and Machinery	19,720	Capital	80,000
Manufacturing wages	34,965	Sundry Creditors	54,160
Salaries	15,965	Bank Loan	10,000
Fixtures and Fittings	9,480	Purchases Returns	1,140
Carriage inwards	1,980	Reserve for Bad and	
Carriage outward	2,150	Doubtful debt	2,000
Freehold works	25,000	Sales	2,46,850
Manufacturing expenses	9,455		
Insurance and Taxes	4,175		
Goodwill	30,000		
General expenses	8,142		
Factory Fuel and Power	1,276		
Sundry Debtors	78,140		
Factory lighting	986		
Stable expenses for distribution	2,473		
Stock on 1 April, 2001	34,170		
Horses and Carts	5,165		
Purchases	97,165		
Sales Returns	3,170		
Discount allowed	928		
Bad debts	1,485		
Interest and Bank Charges	475		
Cash at Bank	7,540		
Cash in hand	145		
	3,94,150		3,94,150

Adjustments :

(a) Stock on 31 March, 2002 Rs. 29,630.

(b) Depreciation — Plant and Machinery 10%, Furniture and Fittings – 5%, Horses and Carts Rs. 1,000.

(c) Bring reserve for bad and doubtful debts to 5%.

(d) Unexpired insurance Rs. 300 and Taxes Rs. 190.

(e) A commission of one per cent on the gross profit to be provided to works manager.

(f) A commission of 5% on net profit after charging the works manager's commission to be credited to the general manager. **[B.Com. Punjab]**

SOLUTION :

Veek Kay Traders

Trading And Profit and Loss Account

For The Year Ending 31 March 2002

		Rs.			**Rs.**
Opening stock		34,170	Sales	2,46,850	
Purchases	97,165		***Less :*** Returns	3,170	2,43,680
Less : Returns	1,140	96,025	Closing stock		29,630
Carriage inwards		1,980			
Manufacturing expenses		9,455			
Factory fuel and power		1,276			
Factory lighting		986			
Manufacturing wages		34,965			
Gross Profit c/d		94,453			
		2,73,310			2,73,310
Salaries		15,965	Gross Profit b/d		94,453
Carriage outwards		2,150			
Insurance and taxes	4,175				
Less : prepaid	490	3,685			
General expenses		8,142			
Stable expenses		2,473			
Discount allowed		928			
Bad debts		1,485			
Provision for					
Doubtful Debts **(3,907–2,000)**		1,907			
Interest and bank charges		475			
Depreciation on :					
Plant and machinery	1,972				
Furniture & fittings	474				
horses and carts	1,000	3,446			
Commission to works manager		945			
Commission to general manager		2,517			

Net Profit transferred			
to Capital Account	50,335		
	94,453		94,453

Balance Sheet As on 31 March 2002

Liabilities		**Rs.**	***Assets***		**Rs.**
Capital	80,000		Goodwill		3,000
Add : Net Profit	50,335	1,30,335	Plant & Machinery	19,720	
Bank loan		10,000	***Less :*** Depreciation	1,972	17,748
Sundry Creditors		54,160	Furniture & fitting	9,480	
Outstanding Commission to :			***Less :*** Depreciation	474	9,006
Works manager	945		Freehold works		25,000
General Manager	2,517	3,462	Horses and carts	5,165	
			Less : Depreciation	1,000	4,165
			Closing Stock		29,630
			Sundry Debtors	78,140	
			Less : Provision		
			for doubtful debts	3,907	74,233
			Cash at bank		7,540
			Cash in hand		145
			Prepaid insurance		300
			Prepaid taxes		190
		1,97,957			1,97,957

12. From the following figures extracted from the books of Shri Govind, prepare a trading and profit and loss account for the year ended 31 March, 1999 and balance sheet as on that date after making necessary adjustments :

	Rs.		Rs.
Shri Govind's capital	2,28,800	Stock 1-4-1998	38,500
Shri Govind's drawings	13,200	Wages	35,200
Plant and machinery	99,000	Sundry creditors	44,000
Freehold property	66,000	Postage and telegrams	1,540
Purchases	1,10,000	Insurance	1,760
Returns outward	1,100	Gas and fuel	2,970
Salaries	13,200	Bad debts	660
Office expenses	2,750	Office rent	2,860
Office furniture	5,500	Freight	9,900

Discount account (Dr.)	1,320	Loose tools	2,200
Sundry debtors	29,260	Factory lighting	1,100
Loan to Shri Krishna @ of 10%		Provision for doubtful debts	880
–balance on 1-4-1998	44,000	Interest on loan to	
Cash at bank	29,260	Shri Krishna	1,000
Bills payable	5,500	Cash on hand	2,640
Sales		231,440	

Adjustments :

(i) Stock on 31 March 1999 was valued at Rs. 72,600.

(ii) A new machine was installed during the year costing Rs. 15,400 but it was not recorded in the books as no payment was made for it. Wages paid for its erection have been debited to wages account.

(iii) Depreciate plant and machinery by 33-1/3%; furniture by 10% and freehold property by 5%.

(iv) Loose tools were valued at Rs. 1,760 on 31-3-1999.

(v) Of the sundry debtors Rs. 660 are bad and should be written off.

(vi) Maintain a provision of 5% on sundry debtors for doubtful debts.

(vii) The manager is entitled to a commission of 10% of the net profits after charging such commission.

SOLUTION :

Shri Govind

Trading And Profit and Loss Account

For The Year Ending On 31 March 1999

		Rs.			**Rs.**
Opening Stock		38,500	Sales		2,31,440
Purchases	1,10,000		Stock at the end		72,600
Less : Returns	1,100	1,08,900			
Wages	35,200				
Less : For erection of					
Machine	1,100	34,100			
Gas and Fuel		2,970			
Freight		9,900			
Factory Lighting		1,100			
Gross Profit c/d		1,08,570			
		3,04,040			3,04,040
Postage and Telegrams		1,540	Gross Profit b/d		1,08,570
Salaries		13,200	Interest on Loan	1,100	
Office expenses		2,750	***Add :*** Outstanding	3,300	4,400

Insurance		1,760		
Office Rent		2,860		
Discount		1,320		
Bad Debts **(660 + 660)**			1,320	
Provision for Bad Debts **(1,430–880)**		550		
Depreciation on :				
Machinery	38,500			
Furniture	550			
Freehold Property	3,300	42,350		
Loss on Revaluation of Loose Tools		440		
Manager's Commission		4,080		
Net Profit		40,800		
		1,12,970		1,12,970

Balance Sheet As On 31 March 1999

Liabilities		**Rs.**	***Assets***		**Rs.**	
Capital	2,28,800		Plant and Machinery	99,000		
Add : Net Profit	40,800		***Add :*** New Machine	16,500		
	2,69,600		**(15,400 + 1,100)**	1,15,500		
Less : Drawings	13,200	2,56,400	***Less :*** Depreciation		38,500	77,000
Bills Payable		5,500	Freehold Property	66,000		
Sundry Creditors		59,400	***Less :*** Depreciation	3,300	62,700	
Manager's Commission			Office Furniture		5,500	
Outstanding		4,080	***Less :*** Depreciation	550	4,950	
			Loose Tools	2,200		
			Less : Loss on Revaluation	440	1,760	
			Sock at the end		72,600	
			Debtors	28,600		
			Less : Provision	1,430	27,170	
			Loan to Shri Krishna	44,000		
			Add : Interest thereon	3,300	47,300	
			Cash at Bank		29,260	
			Cash in hand		2,640	
		3,25,380			3,25,380	

17. From the following Trial Balance of Fatima on December 31, 2001, prepare the Final Accounts.

Trial Balance of F as on December 31, 2001

Debit Balances	Amount Rs.	*Credit Balances*	Amount Rs.
Drawings	6,000	Bank Overdraft	25,000
Wages	15,500	Interest on Investment	5,800
Stock	12,800	Bills Payable	4,600
Loan to Gaurav	4,000	Interest on Loan to Gaurav	320
Rent	5,000	Capital	1,00,000
General Expenses	1,480	Reserve for Bad and	
Investments	60,000	Doubtful Debts	250
Purchases	1,60,000	Sales	2,30,000
Freight and Carriage	2,100	Sundry Creditors	12,590
Goodwill	40,000		
Bills Receivable	6,200		
Rates and Taxes	1,800		
Sales Return	2,100		
Insurance	900		
Cash in hand	2,500		
Savings Bank	1,200		
Postage and Telegram	3,800		
Land and Building	25,000		
Plant and Machinery	10,000		
Sundry Debtors	16,500		
Packing Charges	400		
Bad Debts	1,280		
	3,78,560		3,78,560

Adjustments :

(i) Closing stock as on 31 December 2001— Rs. 16,000.

(ii) Goods worth Rs. 700 were sent on 25-12-2001 as "Sale on Approval Basis" for Rs. 800 and the approval was not received before the end of the month.

(iii) 20% of the goodwill is to be written off.

(iv) Further bad debts was estimated at Rs. 350.

(v) Increase Reserve for Bad Debts to the extent of Rs. 1,500.

(vi) Depreciate Land and Building by 3% and Plant and Machinery by 10%.

(vii) Goods worth Rs. 800 were distributed as free samples.

SOLUTION :

Fatima

Trading And Profit and Loss Account

For The Year Ending 31 December 2001

		Rs.			**Rs.**
Opening Stock		12,800	Sales	2,30,000	
Purchases	1,60,000		***Less :*** Returns	2,100	2,27,900
Less : Free Samples	800	1,59,200	Stock at the end	16,000	
Wages		15,500	***Add :*** Sale on Approval	700	16,700
Freight and Carriage		2,100			
Packing Charges		400			
Gross Profit c/d		5,600			
		2,44,600			2,44,600
Goodwill (Amortization of)		8,000	Gross Profit b/d		54,600
Bad Debts	1,280		Interest on Investments		5,800
(+) Additional	350	1,630	Interest on Loan to Gaurav		320
Provision for Doubtful Debts		1,250			
Depreciation on :					
Land and Building	750				
Plant and Machinery	1,000	1,750			
Advertisement **(free samples)**		800			
Rent		5,000			
General Expenses		1,480			
Rates and Taxes		1,800			
Insurance		900			
Postage and Telegrams		3,800			
Net Profit transferred to Capital Account		34,310			
		60,720			60,720

Balance Sheet As on 31 December 2001

Liabilities		**Rs.**	***Assets***	**Rs.**
Capital	1,00,000		Cash in hand	2,500
Add : Net Profit	34,310		Saving Bank	1,200
	1,34,310		Bills Receivable	6,200

Less : Drawings	6,000	1,28,310	Loan to Gaurav		4,000
Bills Payable		4,600	Sundry Debtors	16,500	
Bank Overdraft		25,000	***Less :*** Bad Debts	(350)	
Sundry Creditors		12,590	***Less :*** Reserve for		
			Bad Debts	(1,500)	14,650
			Stock at the end		16,700
			Investments		60,000
			Plant and		10,000
			Machinery	10,000	
			Less : Depreciation	1,000	9,000
			Land and Building	25,000	
			Less : Depreciation	750	24,250
			Goodwill	40,000	
			Less : Amortised	8,000	32,000
		1,70,500			1,70,500

Attention Please

Goods sent on approval are not treated as sales and also not available at the time of stock taking. Hence cash price of the goods should be included in the sales.

18. Mrs. Ghosal submits to you the following Trial Balance which she has not been able to agree. Prepare the Trial Balance after correcting the errors committed by her and prepare a Trading Account and Profit & Loss Account for the year ended 31 December, 2001 and a Balance Sheet as at that date after giving effect to the undermentioned adjustments :

	Dr. Rs.	Cr. Rs.
Capital	—	15,000
Drawings	3,250	—
Stock (1.1.2001)	17,445	—
Returns Inward	—	554
Carriage Inward	1,240	—
Deposit with Bank	—	1,375
Returns Outward	840	—
Carriage Outward	—	725
Loan to Chatterjee @ 5% p.a. (on 1.1.2001)	—	1,000
Interest on the above	—	25
Rent	820	—

Rent Outstanding	130	—	
Stock (31.12.2001)		18,792	
Purchases	12,970	—	
Debtors	4,000	—	
Creditors	—	3,000	
Provision for Doubtful Debts	—	1,200	
Advertisement Expenses	954	—	
Bad Debts	400	—	
Patents	500	—	
Sales	—	27,914	
Discount allowed	—	330	
Wages	754	—	
Cash		62	—
Goodwill	1,730	—	
	45,095	69,915	

Adjustments :

(i) The manager of Mrs. Ghosal is entitled to a commission of 10% of the net profit calculated after charging such commission.

(ii) Increase bad debts by Rs. 600. Provision for doubtful debts is to be 10% and provision for discount on debtors is to be 5% on sundry debtors.

(iii) Stock valued at Rs. 1,500 was destroyed by fire on 25 December 2001 but the insurance company admitted a claim of Rs. 950 only and paid it in 2002.

(iv) Rs. 200 out of advertisement expenses are to be carried forward to next year.

SOLUTION :

Mrs. Ghosal

Trial Balance As on 31 December 2001

Debit Balances	**Rs.**	**Credit Balances**	**Rs.**
Drawings	3,250	Capital	15,000
Stock **(1-1-2001)**	17,445	Returns Outward	840
Returns Inward	554	Interest on Loan	25
Carriage Inward	1,240	Outstanding Rent	130
Deposit with Bank	1,375	Creditors	3,000
Carriage Outward	725	Provision for Doubtful Debts	1,200
Loan to Chatterjee		Sales	27,914
@ 5% on 1-1-2001	1,000		
Rent	820		
Purchases	12,970		

Debtors	4,000	
Advertisement Expenses	954	
Bad Debts	400	
Patents	500	
Discount Allowed	330	
Wages	754	
Cash	62	
Goodwill	1,730	
48,109		48,109

Stock at the end, Rs. 18,792 would not be shown in the trial balance since the purchases are not adjusted.

Trading And Profit and Loss Account

For The Year Ending on 31 December 2001

		Rs.			**Rs.**	
Opening Stock		17,445	Sales	27,914		
Purchase	12,970		***Less :*** Returns	554	27,360	
Less : Returns	840	12,130	Profit and			
Carriage Inward		1,240	Loss Account **(Stock Destroyed)**			1,500
Wages		754	Stock at the end		18,792	
Gross Profit c/d		16,083				
		47,652			47,652	
Rent		820	Gross Profit b/d		16,083	
Advertisement Expenses	954		Insurance Company		950	
Less : Prepaid	200	754	Provision for Doubtful			
Bad Debts	400		Debts **(1,200-340)**		860	
Additional Bad Debts	600	1,000	Interest on Loan	25		
Discount Allowed		330	***Add :*** Accrued	25	50	
Trading Account		1,500				
Provision for Discount on Debtors		153				
Carriage Outward		725				
Manager's Commission		1,151				
Net Profit transferred to Capital Account		11,510				
		17,943			17,943	

Balance Sheet As on 31 December 2001

Liabilities		**Rs.**	***Assets***		**Rs.**	
Capital	15,000		Goodwill		1,730	
Add : Net Profit	11,510		Patents		500	
	26,510		Deposit with Bank		1,375	
Less : Drawings	3,250	23,260	Loan to Chatterjee		1,000	
Creditors		3,000	Interest Accrued thereon			25
Manager's Commission unpaid		1,151	Stock in hand			18,792
Outstanding Rent		130	Debtors	4,000		
			Less : Additional Bad Debts	600		
				3,400		
			Less : Provision for Doubtful Debts	340		
				3,060		
			Less : Provision for Discount	153	2,907	
Insurance Company			950			
			Prepaid Advertisement		200	
			Cash in hand		62	
		27,541			27,541	

Attention Please

Manager's Commission is calculated as under :

$\frac{10}{110} \times 12,661\ (17,943-5,282)$ = Rs. 1,151

19. The following Trial Balance as on December 31, 2002 has been extracted from the books of Garima. You are required to prepare the Final Accounts.

Trial Balance of Garima as on December 31, 2002

Debit Balances	Amount Rs.	*Credit Balances*	Amount Rs.
Cash in hand	600	Capital	50,000
Cash at Bank	4,100	Sundry Creditors	30,000
Purchases	2,12,300	Bills Payable	4,200
Sales Return	4,500	Sales	3,57,300
Transportation	18,700	Purchases Returns	1,080
Wages	60,200		
Salaries	17,800		

Printing and Stationery	4,500
Rent, Rates and Taxes	12,880
Factory Rent	8,500
Fuel and Gas	6,100
Carriage Outwards	800
Commission	1,500
Stable Expenses	6,200
Bills Receivable	2,150
Sundry Debtors	5,000
Furniture	4,300
Loose Tools	1,400
Horse and Cart	2,500
Postage and Telephone	3,800
Factory Manager's Salary	18,750
Opening Stock	46,000

4,42,580 4,42,580

Adjustments :

(i) Stock as on 31 December 2002 was valued at Rs. 50,600.

(ii) At the end of the year, it was ascertained that there was shortage of goods worth Rs. 4,500. It was decided to write off 10% of it as natural shortage and to recover the remainder from Godown keeper.

(iii) Provide 10% p.a. depreciation on Furniture. Furniture worth Rs. 300 was purchased on 1 September 2002.

(iv) Depreciate horse and carts by 10%.

(v) A bill for 3 months valued at Rs. 1,000, discounted at 10% with the Banker was dishonoured on 29-12-2002. The intimation from the Banker was received on 2-1-2003.

(vi) Outstanding salaries— Rs. 250.

(vii) Loose tools were revalued at Rs. 1,200.

SOLUTION :

Garima

Trading And Profit and Loss Account

For the Year Ending on 31 December 2002

		Rs.			**Rs.**
Opening Stock		46,000	Sales	3,57,300	
Purchases	2,12,300		***Add :*** Shortages	4,500	
Less : Returns	1,080	2,11,220		3,61,800	

Transportation		18,700	***Less :*** Sales Returns	4,500	3,57,300	
Wages		60,200	Stock at the end		50,600	
Factory Rent		8,500				
Fuel and Gas		6,100				
Factory Manager's Salary		18,750				
Gross Profit c/d		38,430				
		4,07,900			4,07,900	
Shortages		4,500	Gross Profit b/d		38,430	
Salaries	17,800		Godown Keeper		4,050	***Add :*** Outstanding
	250	18,050	Net Loss transferred to			
Printing and Stationery		4,500	Capital Account		1,0610	
Rent, Rates and Taxes		12,880				
Carriage Outwards		800				
Commission		1,500				
Stable Expenses		6,200				
Postage and Telephone		3,800				
Depreciation on :						
Furniture	410					
Horse and cart	250					
Loose Tools	200	860				
		53,090			53,090	

Balance Sheet As on 31 December 2002

Liabilities		**Rs.**	***Assets***		**Rs.**
Bills Payable		4,200	Cash in hand		600
Sundry Creditors		30,000	Cash at Bank	4,100	
Outstanding Salaries		250	***Less :*** Bills Receivable		
Capital	50,000		Discounted Dishonoured	1,000	3,100
Less : Net Loss	10,610	39,390	Bills Receivable		2,150
			Sundry Debtors	5,000	
			Add : Bills Receivable		
			Discounted Dishonoured	1,000	6,000
			Goldown Keeper		4,050
			Stock at the end		50,600
			Horse and Cart	2,500	
			Less : Depreciation	250	2,250
			Loose Tools	1,400	

		Less : Loss on Revaluation	200	1,200
		Furniture	4,300	
		Less : Depreciation **(400+10)**	410	3,890
	73,840			73,840

Attention Please

When the discounted bills receivable is dishonoured, the bank balance is reduced and debtors are increased. The entry is.

Debtors' Account Dr.

To Bank Account