

UNIT-V

Final Accounts with Adjustments : Adjustments of Dividends, Drawings, Outstanding incomes and expenses, Depreciation, Tax liabilities, Insurance Claims for loss of Stock and loss of Profit.

Unit-V

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|-------------------------------------|--------------|
| 13. Final Accounts with Adjustments | 13.1 – 13.72 |
| 14. Insurance Claims | 14.1 – 14.35 |

Final Accounts with Adjustments

In the previous chapter we have studied the preparation of the final accounts without any adjustments. At that time we have presumed that all important facts has been taken into consideration, while preparing the final accounts, which does not always happen. Infact, to give a true picture about the financial position of the business while closing the books of account and preparing the final accounts, the accountant may come to know about certain adjustments to be made in the books of accounts. Usually these adjustments are related to the following :

- (1) Closing Stock or Closing Inventory,
- (2) Outstanding Expenses or Accrued Expenses,
- (3) Prepaid Expenses or Unexpired Expenses,
- (4) Accrued Income,
- (5) Unearned Income,
- (6) Interest on Capital and Drawings,
- (7) Depreciation on Fixed Assets,
- (8) Provision for Bad and Doubtful debts,
- (9) Provision for Discount on Debtors and Creditors,
- (10) Commission on Profits,
- (11) Accidental Losses,
- (12) Deduction of Income tax from Salaries of Employees,
- (13) Goods sent on 'Sale or Return Basis',
- (14) Other Specific Provisions,
- (15) Other Adjustments.

(1) Closing Stock or Closing Inventory :

After valuation of the unsold stock at the end of the accounting period the following Journal Entry is passed :

Closing Stock A/c To Trading A/c	Dr.
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The stock at the end appears in the balance sheet and is carried forward to the next year. It is shown as opening stock in the trial balance of the next year and from there it is taken to the debit side of the trading account and thus closed.

Sometimes, the value of the unsold stock at the end of accounting year is shown in the trial balance. It should be noted that any balance appearing in the trial balance is taken to one place only. Since closing stock at the end is an asset it should be taken to balance sheet.

(2) Outstanding Expenses or Accrued Expenses (Liability) :

Those Expenses which accrue from day to day but usually recorded only when they are actually paid are known as Outstanding Expense. Examples of such expense are, Salaries, interest, rent etc. Some of these expenses may have remained unpaid at the end of the accounting period and, therefore, no entry might have been passed in the books of accounts. Amount of such items are both expenses and liabilities on the date of final accounts. The following Adjusting entry will be passed in case of such outstanding expenses :

Expenses A/c To Outstanding Expenses A/c	Dr.
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Expense account is a nominal account and, therefore, it will be transferred to Profit & Loss Account. While the outstanding expenses account is a personal account which represents the persons to whom the expense has to be paid. It is, therefore, shown in the balance sheet on the liability side. At the commencement of the next year the reverse entry (Outstanding expense account debit, To Expense account) will be passed.

Note : If outstanding expenses have been given inside Trial Balance, these will be shown at one place only i.e., on the liability side on the Balance Sheet.

Example : Following is the extract from the Trial Balance of a firm as on 31st March, 2015 :

Trial Balance
As on 31st March, 2015

Particulars	Dr. (Rs.)	Cr. (Rs.)
Salaries A/c	10,000	
Rent A/c	5,000	

Additional Information :

- (i) Salary for the month of March Rs. 2,009 has yet to be paid.
- (ii) Rent amounting to Rs. 1,000 is still outstanding.

You are required to pass the necessary adjusting entries and show how the above items will appear in the firm's final accounts :

Adjusting Journal Entry

Particulars	Dr.	Cr.
Salaries A/c	Rs. 2,000	
Rent A/c	Rs. 1,000	
To Outstanding Expenses A/c (Being salaries and rent due but not paid)		3,000

Treatment in final accounts :

Profit and Loss Account			
Dr.		Cr.	
Particulars	Rs.	Rs.	Particulars
To Salaries (in Trial Balance)	10,000		
Add : Outstanding	2,000	12,000	
To Rent (in Trial Balance)	5,000		
Add : Outstanding Rent	1,000	6,000	

Balance Sheet

Liabilities	Rs.	Rs.	Assets	Rs.
Accrued Salaries	2,000			
Accrued Rent	1,000	3,000		

(3) Prepaid Expenses or Unexpired Expenses (Asset) :

Those expenses which have been paid in advance are called Prepaid Expenses or Expenses paid in advance. In this regard it is customary that payments for some services as rent of the building, salaries to staff, insurance premium etc. are made in advance i.e., for the period relevant to the next accounting year. In order to ascertain true profit and loss, only those expenses which are related to the accounting period should only be charged to the Profit & Loss Account. That part of expenses which relate to next year should be carried forward. The following journal entry will be passed for the expenses paid in advance :

Prepaid Expenses A/c	Dr.
To Expense A/c	

Prepaid expense account is a representative personal account which represents the account of the person to whom payment has been made in advance, hence it is shown in the balance sheet on the asset side. Expense account is a nominal account and should be credited to the profit & loss account, preferably by deducting from the relevant expense account. At the commencement of next year prepaid expense will be written off by reversing the entry. It is necessary to correct the expenses account of the next year.

Example : Following is the extract from the Trial Balance of a firm as on 31st March, 2015 :

Trial Balance
As on 31st March, 2015

Particulars	Dr.	Cr.
	Rs.	Rs.
Insurance Premium Account	8,000	
Rent Account	4,000	

Additional Information :

- (i) Insurance premium has been paid in advance amounting to Rs. 2,000 for the next year.
- (ii) Rent Rs. 700 has been paid for the next year.

You are required to pass the necessary adjusting entries and show how the items will appear in firm's final accounts :

Adjusting Journal Entries			
Particulars		Dr. (Rs.)	Cr. (Rs.)
Prepaid Insurance Prem. A/c	Dr.	2,000	
To Insurance Prem. A/c			2,000
(Being Insurance premium paid in advance)			
Prepaid Rent A/c	Dr.	700	
To Rent A/c			700
(Being rent paid in advance)			

Treatment in final account :

Profit and Loss Account			
as on 31st March, 2015			
Dr.		Cr.	
Particulars	Rs.	Rs.	Particulars
To Insurance premium	8,000		
Less : Prepaid	2,000	6,000	
To Rent	4,000		
Less : Prepaid	700	3,300	

Balance Sheet

as on 31st March, 2015

Liabilities	Rs.	Assets	Rs.
		Prepaid Insurance Prem.	2,000
		Prepaid Rent	700

Note : 'Expenses paid in advance' if appears in trial balance, it will be shown on the assets side of balance sheet only.

(4) Accrued Income or Income Receivable (Asset) :

Such income which has been earned by the business during an accounting year but has not been received till the end of current year, are called Accrued Incomes or Earned or Outstanding Incomes. Adjustment entry, for it is :

Accrued Income A/c	Dr.
To (Particular) Income A/c	

Treatment in Final Account :

Such incomes on one hand will be shown on credit side of Profit & Loss Account (being an income), and on the other hand Accrued Income being the representative personal account of such persons from whom income is due, will be shown on Assets side of Balance Sheet.

Extract of Trial Balance
as on 31st March, 2015

Particulars	Dr. (Rs.)	Cr. (Rs.)
Interest Received on Investments		1,800

Adjustment : Interest on investments for three months is yet to be received Rs. 600.

Adjustment entry :

Accrued Interest A/c	Dr.	Rs. 600	
To Interest A/c			Rs. 600

(For Interest for three months receivable)

Treatment in final accounts :

Dr. **Profit & Loss Account** Cr.

Particulars	Rs.	Particulars	Rs.
		By Interest	1,800
		Add : Accrued Interest	600
			2,400

Balance Sheet

Liabilities	Rs.	Assets	Rs.
		Accrued Interest	600

Note : If accrued income appear in trial balance (not as adjustment), it is to be shown in the Balance Sheet as an asset, since it has already been included in that particular Income Account.

(5) Unearned Income or Income Received in Advance (Liability) :

The Income which has been received by the business before it being earned is called as unearned income or income received in advance. Examples are apprenticeship premium, insurance premium, advertisement fee etc. In order to ascertain the true profit or loss, it is necessary that such income is not taken into account at the time of preparing the Profit & Loss Account for the year. The following adjustment entry is passed :

Particular Income A/c	Dr.
To Income Received in Advance A/c	

If adjustment is not made, profits would be overstated and the liability would be understated.

Example : The following is the extract from the Trial Balance of a firm on 31st March, 2015. You are required to pass the necessary adjustment entries and show how the various items will appear in the firm's final account.

Extract of Trial Balance
as on 31st March, 2015

Particulars	Dr. (Rs.)	Cr. (Rs.)
Rent received for 12 months ending 30th June, 2015		12,000
Interest on Loan		20,000

Additional Information : Interest on Loan has been received in advance to the extent of Rs. 5,000.

Solution :

Adjustment Entries

Particulars	Dr. (Rs.)	Cr. (Rs.)
Rent A/c To Rent Received in Advance A/c (Being rent received in advance for 3 months)	Dr. 3,000	3,000
Interest on Loan A/c To Interest Received in Advance A/c (Being interest received in advance)	Dr. 5,000	5,000

Treatment in final account :

Profit & Loss Account

for the year ending 31st March, 2015

Particulars	Rs.	Particulars	Rs.	Rs.
		By Rent Account	20,000	
		Less : Received in advance	5,000	15,000
		By Interest Account	12,000	
		Less : Received in advance	3,000	9,000

Balance Sheet

Liabilities	Rs.	Assets	Rs.
Rent received in advance	5,000		
Interest received in advance	3,000		

Note : If Income Received in Advance appear in trial balance it will be shown on liabilities side of balance sheet.

(6) Interest on Capital and Drawings :

(i) **Interest on Capital :** In order to determine the real amount of profit earned by the Business, it is necessary to charge business with interest on the capital employed at a normal rate. Interest so charged is a loss for the business on the one hand and gain to the proprietors on the other hand. The entry for interest on capital will be passed as under :

Interest on Capital A/c	Dr.
To Capital A/c	

Interest on capital account being loss for the business, is transferred to debit side of Profit & Loss Account.

(ii) **Interest on Drawings :** As business allows interest on Capital, it is the usual practice to charge interest on Drawings. The following Journal entry is passed for Interest on Drawings :

Drawings A/c	Dr.
To Interest on Drawings A/c	

Interest on drawings is a gain for the business, thus transferred to the credit side of Profit & Loss Account.

Example : Following is the extract from the Trial Balance of a firm :

Trial Balance
as on 31st March, 2015

Particulars	Dr.	Cr.
	Rs.	Rs.
X's Capital		60,000
Y's Capital		40,000

Additional Information :

- Interest on capital is to be allowed @ 10% per annum.
- Y introduced additional capital amounting to Rs. 10,000 on 1st October, 2015.

Solution :

Adjusting Journal Entries

Particulars	Dr. (Rs.)	Cr. (Rs.)
Interest on Capital A/c To X's Capital A/c To Y's Capital A/c (Being interest on capital allowed to X on Rs. 60,000 for full year and to Y on Rs. 30,000 for full year and on Rs. 10,000 for 6 months)	Dr. 9,500	6,000 3,500

Treatment in final account :

Balance Sheet
as on 31st March, 2015

Liabilities	Rs.	Assets	Rs.
Capital Accounts :			
X	60,000		
Add : Interest on capital	6,000		66,000
Y	40,000		
Add : Interest on capital	3,500		43,500

Profit & Loss Account
for the year ending 31st March, 2015

Particulars	Rs.	Particulars	Rs.
To Interest on Capital			
X	6,000		
Y	3,500		9,500

Example : The following is the extract from the Trial Balance of a firm :

Trial Balance
as on 31st March, 2015

Particulars	Dr. (Rs.)	Cr. (Rs.)
Capital of X		60,000
Capital of Y		40,000
Drawing by X	12,000	
Drawing by Y	6,000	

Additional Information :

- Interest on Capital is to be allowed to the partners @ 10% per annum on the opening balances standing to the credit of their Capital Accounts.
- Interest on Drawings is to be charged @ 12% per annum.

You are required to pass the necessary Journal Entries and show how the different items will appear in the firm's final accounts. You may presume that the drawings were made evenly throughout the year on 15th of every month.

Solution :

Adjusting Journal Entries

Particulars	Dr. (Rs.)	Cr. (Rs.)
Interest on Capital A/c To X's Capital A/c To Y's Capital A/c (Being interest on capital provided @ 10% per annum)	Dr. 10,000	6,000 4,000
X's Drawings A/c Y's Drawings A/c To Interest on Drawings A/c (Being interest on drawings charged for six months @ 12% per annum on the total amount)	Dr. 720 Dr. 360	1,080

Treatment in final account :

Profit & Loss Account
for the year ending 31st March, 2015

Particulars	Rs.	Particulars	Rs.
To Interest on Capital :		By Interest on Drawings :	
X	6,000	X	720
Y	4,000	Y	360
	10,000		1,080

Balance Sheet
as on 31st March, 2015

Liabilities	Rs.		Assets	Rs.
X's Capital	60,000			
Add : Interest on Capital	6,000			
	66,000			
Less : Drawings & Interest thereon [12,000 + 720]	12,720	53,280		
Y's Capital	40,000			
Add : Interest on Capital	4,000			
	44,000			
Less : Drawings & Interest thereon [6,000 + 360]	6,360	37,640		

(7) Depreciation on fixed assets :

The value of fixed assets diminishes due to wear and tear and effluence of time, which is called depreciation. There are various methods of providing depreciation, but in adjustment entry about final accounts normally it is to be calculated at a fixed percentage on opening balance of the assets. However, there is any addition, depreciation is also provided for that part only for the period for which the new asset has been used. The adjustment entry will be :

Depreciation A/c	Dr.
To Fixed Assets A/c	

Depreciation Account will appear on the debit side of Profit & Loss Account and the book value of Asset will be reduced by the amount of depreciation. Hence, only the balance will appear in the balance sheet.

Example : On 31st March, 2015 the value of Building and Taxi Car in the books of a trader was Rs. 4,00,000 and Rs. 50,000 respectively. It was decided to write off depreciation on Building @ 5% and Taxi Car @ 20% per annum. Pass necessary adjustment entry and also show the treatment in final accounts.

Solution :

Adjustment Entry

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
2015 Mar. 31	Depreciation Account	Dr.	30,000	
	To Building Account			20,000
	To Taxi Car Account			10,000
	(Depreciation written off on Building and Taxi Car)			

Treatment in final account :

Profit & Loss Account
for the year ending 31st March, 2015

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To Depreciation on :			
Building	20,000		
Taxi Car	10,000		
			30,000

Balance Sheet
as on 31st March, 2015

Liabilities	Rs.	Assets	Rs.	Rs.
		Building	4,00,000	
		Less : Depreciation	20,000	3,80,000
		Taxi Car	50,000	
		Less : Depreciation	10,000	40,000

When depreciation account is given in trial balance, it means, that depreciation has already been written off. Depreciation being loss is to be taken to debit side of Profit & Loss Account.

(8) Provision for Bad and Doubtful debts :

(a) Bad debts : Debtors who are unable to make payment of their dues or debts which are not recoverable are called Bad debts. It is a business loss and for which the following entry is passed :

Bad debts A/c	Dr.	To be transferred to Profit & Loss A/c
To Sundry Debtors A/c		Debtor's balance is reduced

(b) Provision for Bad and doubtful debts : The principal purpose of making this provision is to bring down the balance of debtors to its real realisable value. The Journal Entry for making provision is :

Profit & Loss A/c	Dr.	To be charged to Profit & Loss A/c
To Provision for Bad debts A/c		It is shown as a deduction from Debtors

Example : The following are the extracts from trial balance of M/s Martin Bros. as on 31st March, 2015.

Trial Balance
as on 31st March, 2015

Particulars	Dr.	Cr.
	Rs.	Rs.
Sundry Debtors	40,000	
Bad Debts	2,000	

Additional Information : It is learnt on 31st March, 2015 that one of the debtors for Rs. 5,000 shall be able to give only 60% of his dues. On the basis of past experience it is learnt that on an average 5% of the debtors were weak and may not be able to make payment. The following Journal entries will be passed :

Solution : Adjusting Journal Entries

	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Bad debts A/c To Sundry Debtors A/c (For further bad debts written off)	Dr. 3,000	3,000
2.	Profit & Loss A/c To Provision for Doubtful Debts A/c [5% on (40,000 - 3,000 = Rs. 37,000 net debtors)]	Dr. 1,850	1,850

Treatment in final accounts :

Profit & Loss Account

for the year ended 31st March, 2015

Particulars	Rs.	Rs.	Particulars	Rs.
To Bad Debts (as given in the Trial Balance)	2,000			
Add : Additional bad debts	3,000			
Add : Provision for doubtful debts	1,850	6,850		

Balance Sheet

as on 31st March, 2015

Liabilities	Rs.	Assets	Rs.	Rs.
		Sundry Debtors		40,000
		Less : Bad debts (New)	3,000	
		Less : Provision for doubtful debts	1,850	4,850
				35,150

Note : When Provision for doubtful debts appear in Trial balance, it is written on credit side of Profit & Loss Account or deducted from the new provision required to be maintained.

(9) Provision for Discount on Debtors and Creditors :

(a) Provision for Discount on Debtors : Discount may be allowed to the debtors on account of their making prompt payments. The following Journal Entry is passed when discount is allowed :

Discount Allowed A/c .	Dr.
To Sundry Debtors A/c	

Provision for discount on debtors is maintained on the same lines on which provision for bad and doubtful debts is maintained. The following Journal entry is passed :

Profit and Loss A/c	Dr.
To Provision for Discount on Debtors A/c	

It should be noted that provision for discount will be created only on good debtors i.e., in order to ascertain the balance for discount on debtors on a particular date, the rate at which discount is allowed to customers be calculated on sundry debtors which remains after deduction of new provision for bad debts. Since discount is to be allowed for prompt payment which is possible only from good debts.

(b) Provision for Discount on Creditors : A firm may like to create a provision or reserve for discount on creditors on a similar pattern as provision for discount on debtors is made. It is shown on the credit side of Profit and Loss Account, and by way of deduction from Creditors on the liability side of Balance Sheet. The adjustment entries are passed as follows :

- (i) On receipt of additional discount from creditors :
Sundry Creditors A/c
 To Discount Received A/c
 Dr.
- (ii) For creating a reserve for discount on creditors :
Reserve for Discount on Creditor's A/c
 To Profit & Loss A/c
 Dr.

Illustration 13.1 :

A firm creates a Provision for Doubtful Debts at 5% on Debtors. On 1st January, 2013 the actual bad debts amounted to Rs. 1,200. The Sundry Debtors on 31st December, 2013 were Rs. 20,000. During the year 2014 the actual Bad debts were Rs. 1,500 and Debtors at the end were Rs. 15,000. During the year 2015, the actual Bad debts amounted to Rs. 2,000. The Debtors at the end were Rs. 40,000. In 2015 it was also decided to create a provision of 5% for discount on Debtors also.

You are required to show the Ledger Accounts, Profit & Loss Account and Balance Sheet of the firm for three years.

Solution :

Ledger

Dr. Bad Debts Account Cr.

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
2013 Dec. 31	To Sundry Debtors	1,200	2013 Dec. 31	By Provision Doubtful Debts A/c	1,200
2014 Dec. 31	To Sundry Debtors	1,500	2014 Dec. 31	By Provision for Doubtful Debts A/c	1,500
2015 Dec. 31	To Sundry Debtors	2,000	2015 Dec. 31	By Provision for Doubtful Debts A/c	2,000

Dr.

Provision for Doubtful Debts Account

Cr.

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
2013 Dec. 31	To Bad Debts A/c	1,200	2013 Jan. 1	To Balance b/d	2,000
	By balance c/d	1,000	2013 Dec. 31	By P&L A/c	200
		2,200			2,200
2014 Dec. 31	To Bad Debts A/c	1,500	2014 Jan. 1	By Balance b/d	1,000
	To Balance c/d	750	2014 Dec. 31	By P&L A/c	1,250
		2,250			2,250
2015 Dec. 31	To Bad Debts A/c	2,000	2015 Jan. 1	By Balance b/d	750
	To Balance c/d	2,000	2015 Dec. 31	By P&L A/c	3,250
		4,000			4,000
			2016 Jan. 1	By Balance b/d	2,000

Dr. Provision for Discount on Debtors Account Cr.					
Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
2015 Dec. 31	To Balance c/d	1,900	2015 Dec. 31	By P&L A/c (5% on Rs. 38,000)	1,900

Dr. Profit & Loss Account Cr.					
Date	Particulars	Rs.	Rs.	Particulars	Rs.
2013	To Bad Debts	1,200			
	Add : New provision	1,000			
		2,200			
	Less : Old provision	2,000	200		
2014	To Bad Debts	1,500			
	Add : New provision	750			
		2,250			
	Less : Old provision	1,000	1,250		
2015	To Bad Debts	2,000			
	Add : New provision	2,000			
		4,000			
	Less : Old provision	750	3,250		
	To Provision for discount on Debtors		1,900		

Balance Sheet

Liabilities	Rs.	Assets	Rs.	Rs.
		2013		
		Sundry Debtors	20,000	
		Less : Provision for Doubtful Debts	1,000	19,000
		2014		
		Sundry Debtors	15,000	
		Less : Provision for Doubtful Debts	750	14,250
		2015		
		Sundry Debtors	40,000	
		Less : Provision for Doubtful Debts	2,000	38,000
		Less : Provision for Discount	1,900	36,100

Illustration 13.2 :

A trader maintains provision of 5% against bad and doubtful debts and 3% for discount on debtors and a reserve for discounts on creditors at 2%. On 1st April, 2012 it had the following balances :

Provision for Bad and Doubtful Debts	Rs.
Provision for Discount on Debtors	700
Reserve for Discount on Creditors	285
	480

During the year 2012-13, bad debts, discount allowed to debtors and discount received from creditors amounted to Rs. 595, Rs. 880 and Rs. 984 respectively while for 2013-14 these amounted to Rs. 180, Rs. 700 and Rs. 680 respectively. Sundry Debtors were Rs. 12,000 on March 31, 2013 and Rs. 8,000 on March 31, 2014. Sundry Creditors on these dates were Rs. 21,000 and Rs. 19,500 respectively.

Show Provision for Bad and Doubtful Debts Account, Provision for Discount on Debtors Account and Reserve for Discount on Creditors Account. Also show these items in Profit and Loss Account.

Solution : Ledger :

Dr. Provision for Bad and Doubtful Debts Accounts Cr.					
Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
2013 Mar. 31	To Bad Debts	595	2012 Apr. 1	By Balance b/d	700
	To Balance c/d	600	2013 Mar. 31	By Profit & Loss A/c (Balancing figure)	495
		1,195	2007		1,195
2014 Mar. 31	To Bad Debts	180	2013 Apr. 1	By Balance b/d	600
	To Profit & Loss A/c (Balancing figure)	20			
	To Balance c/d	400	2014 Apr. 1	By Balance b/d	400
		600			

Dr. Provision for Discount on Debtors Account Cr.					
Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
2013 Mar. 3	To Discount Allowed	880	2012 Apr. 1	By Balance b/d	285
	To Balance c/d	342	2013 Mar. 31	By Profit & Loss A/c (Balancing figure)	937
		1,222			1,222

2014 Mar., 31	To Discount Allowed	Rs. 700	2013 Apr., 1	By Balance b/d	Rs. 342
Mar., 31	To Balance c/d	228	2014 Mar., 31	By Profit & Loss A/c (Balancing figure)	586
		928			928
			2014 Apr. 1	By Balance b/d	228

Dr. Reserve for Discount on Creditors Account Cr.

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
2012 Apr. 1	To Balance b/d	480	2013 Mar. 31	By Discount Received By Balance c/d	984 420
2013 Mar. 31	To Profit & Loss A/c (Balancing figure)	924			
		1,404	2014 Mar. 31	By Discount Received	680
2013 Apr. 1	To Balance b/d	420	Mar. 31	By Balance c/d	390
2014 Mar. 31	To Profit & Loss A/c (Balancing figure)	650			
		1,070			1,070
2014 Apr. 1	To Balance b/d	390			

Dr. Profit & Loss Account Cr.

for the year ended 31st March, 2013

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Bad Debts	395		By Discount Received	984	
Add : New Provision for and Doubtful	600		Add : New Reserve	420	
	995			1,404	
Less : Old Provision	500	495	Less : Old Reserve	480	924
To Discount Allowed	880				
Add : New Provision for Discount	342				
	1,222				
Less : Old Provision	285	937			

Dr. Profit & Loss Account for the year ended 31st March, 2014 Cr.					
Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Discount Allowed	700		By Old Provision for Bad and Doubtful Debts	600	
Add : New Provision for Discount	228		Less : Bad Debts	180	
	928		New Provision	400	580
Less : Old Provision for Discount	342	586	By Discount Received	680	
			Add : New Reserve for Discount on Creditors	390	20
				1,070	
			Less : Old Reserve	420	650

(10) Commission on Profit :

Payment of commission to the manager is made as a fixed percentage of profit which is calculated as under :

$$\text{Manager's Commission} = \frac{\text{Profit before Commission} \times \text{Rate}}{100}$$

If computation of commission is to be done after charging such commission, it is calculated as under :

$$\text{Manager's Commission} = \text{Profit before Commission} \times \frac{\text{Rate}}{100 + \text{Rate}}$$

The adjustment entry for commission on profit shall be as under :

- (i) Manager's Commission A/c Dr.
To Outstanding Commission A/c
- (ii) Profit & Loss A/c Dr.
To Manager's Commission A/c

Example : A trader gives 5% commission on profits to his Manager and 2% to the Dy. Manager on 'Net Profits after charging such commissions' in addition to their salaries. If the Net Profits before charging any of such Commission is Rs. 2,04,000, find out the amount of Commission payable to Manager and Deputy Manager :

Solution : Amount of Commission :

(1) Commission to Manager = $\frac{2,04,000 \times 5}{100} = \text{Rs. } 10,200$

(2) Commission to Dy. Manager = $\frac{2,04,000 \times 2}{102} = \text{Rs. } 4,000$

Adjusting Journal Entries

	Particulars	Dr. (Rs.)	Cr. (Rs.)
(1)	Manager's Commission A/c Dr. Dy. Manager's Commission A/c Dr. To Outstanding Commission A/c (Commission payable to Manager & Dy. Manager)	10,200 4,000	14,200

(2)	Profit & Loss Account To Manager's Commission A/c To Dy. Manager Commission A/c (Commission payable transferred P & L A/c)	Dr.	14,200	10,200 4,000
-----	---	-----	--------	-----------------

(11) Accidental Losses :

In business there may be several types of casual losses such as loss by fire, loss by theft, or flood etc. These Losses may be of two types : (i) loss of asset, and (ii) loss of goods. The adjustment entries in this regard will be as under :

(i) For loss of on Asset (Furniture) by Fire :

Loss by Fire A/c Dr.
To Furniture A/c

(ii) For loss of Goods by Fire :

Loss by Fire A/c Dr.
To Purchases A/c

(a) If goods are insured and the insurance company accepts the claim in full :

Insurance Company's A/c Dr.
To Loss by Fire A/c

(b) If insurance company accepts the claim in part :

Insurance Company's A/c Dr. (amount of claim accepted)
Profit & Loss A/c (Balance of loss) Dr.

To Loss by Fire A/c

(c) When amount of claim is received from the insurance company :

Bank A/c Dr.
To Insurance Company A/c

(12) Deduction of Income Tax from Salaries :

The adjustment entries in this regard will be as follows :

(i) On deduction of income tax from salaries :

Salaries A/c Dr. (Gross Salary)
To Cash A/c (Actual amount paid)
To Income Tax (for Employees) A/c (Tax deducted)

(ii) On deposit of tax deducted at source : (TDS)

Income Tax for Employees A/c Dr.
To Cash/Bank A/c

When amount of salaries is shown after deduction of tax in trial balance and amount of tax is shown as an adjustment below the trial balance, the adjustment entry will be:

Salaries A/c Dr.
To Income Tax for employees A/c

(13) Goods, Sent to Customers on 'Approval or Return Basis' :

Sometimes, goods are sold to customers on the condition that if they are not approved, the same may be returned back. In such condition if approval of the customers has not been received till the end of the accounting year, it cannot be treated as sale. In case it has been recorded as sale in account books it has to be adjusted by making reverse entry for it. Further the value of such goods

is reduced from sales and to be added to in the value of closing stock. The following Journal Entry is to be passed :

(i) Sales A/c Dr. with the selling price
To Debtors A/c

(ii) Closing Stock A/c Dr. with the cost price
To Trading A/c.

(14) Other Specific Provision :

As has been explained in next chapter, if any provision is required to be made for a future contingency or for some expected expenses, the Provision/Reserve may be made by passing the following entry :

Profit & Loss A/c Dr.
To Provision for (Specific) Expense A/c

The following example will illustrate this adjustment :

Illustration 13.3 :

A trader purchased machinery on 1st January, 2013 for Rs. 1,00,000, the useful life was estimated to be five years. The estimated amount of repairs during the period of useful life of the machinery is estimated to be Rs. 10,000. It is decided to transfer Rs. 2,000 each year to a Repairs Reserve Account for this purpose. Actual repairs were : in 2013 (Nil), 2014 (Rs. 1,000), and 2015 (Rs. 1,500).

Pass necessary Journal entries and show the Repairs Reserve Account for three years.

Solution :

Journal

Date	Particulars	Dr. Rs.	Cr. Rs.
2013 Jan., 1	Machinery Account Dr. To Bank Account (Machinery purchased)	1,00,000	1,00,000
Dec., 31	Profit & Loss Account Dr. To Repairs Reserve A/c (Repairs reserve created out of profit)	2,000	2,000
2014 Dec. 31	Repairs A/c Dr. To Cash A/c (Actual repairs to Machinery)	1,000	1,000
Dec., 31	Repairs Reserve A/c Dr. To Repairs A/c (Repairs transferred to Reserve A/c)	1,000	1,000
Dec., 31	Profit & Loss A/s Dr. To Repairs Reserve A/c	2,000	2,000
2015 Dec., 31	Repairs A/c Dr. To Cash A/c (Actual Repairs to Machinery)	1,500	1,500

Dec., 31	Repairs Reserve A/c To Repairs A/c (Repairs transferred to Reserve A/c)	Dr.	1,500	1,500
Dec., 31	Profit & Loss A/c To Repairs Reserve A/c (Amount transferred form Profit & Loss A/c to Reserve A/c)	Dr.	2,000	2,000

Dr.		Repair Reserve Account			Cr.	
Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.	
2013 Dec. 31	To Balance c/d	2,000	2013 Dec. 31	By Profit & Loss A/c	2,000	
2014 Dec. 31	To Repairs A/c To Balance c/d	2,000 3,000	2014 Jan. 1	By Balance b/d	2,000	
		4,000	Dec. 31	By P & L A/c	2,000	
2015 Dec. 31	To Repairs A/c To Balance c/d	1,500 3,500	2015 Jan. 1	By Balance b/d	3,000	
		5,000	Dec. 31	By P & L A/c	2,000	
			2016 Jan. 1	By Balance b/d	3,500	

(15) Other Adjustments :

In addition to above adjustments there may be some other adjustments also as regards goods :

- (i) Goods distributed as Charity and as Free Samples
- | | |
|------------------|-----|
| Charity A/c | Dr. |
| Free Samples A/c | Dr. |
| To Purchases A/c | |
- (ii) Goods taken away for personal use by the proprietor :
- (a) Drawing A/c
- | | |
|------------------|-----|
| To Purchases A/c | Dr. |
|------------------|-----|
- (b) Capital A/c
- | | |
|----------------|-----|
| To Drawing A/c | Dr. |
|----------------|-----|

Illustration 13.4 :

Pass necessary adjustment and closing entries for the following adjustments as at 31st March, 2015 :

- Stock on 31st March, 2015 was Rs.,35,000.
- Salaries at the rate of Rs. 3,000 per month were paid for 11 months only.
- Insurance premium paid Rs. 14,000 (including premium of Rs. 6,000 per annum paid up to 30th June, 2015).

- Apprenticeship premium received on 31st October, 2014 Rs. 9,000 was for three years.
- Interest accrued on securities Rs. 10,000.
- Depreciation at 10% on office furniture of Rs. 20,000 and at 5% on plant valued at Rs. 3,00,000 be provided.
- Bad debts during the year amounted to Rs. 2,000.
- Make provision for doubtful debts on debtors at 5% and as per trial balance debtors were of Rs. 40,000.
- Make provision for discount on debtors and creditors at 2%. Creditors as per trial balance were Rs. 20,000.

Solution :

		Adjustment and Closing Entries		
Particulars		L.F.	Amount Rs.	Amount Rs.
(i)	Closing Stock A/c To Trading A/c (Being adjustment entry for closing stock)	Dr.	35,000	35,000
(ii)	(a) Salary A/c To Salary outstanding A/c (Being adjusting entry for outstanding salary)	Dr.	3,000	3,000
	(b) Profit & Loss A/c To Salary A/c (being closing entry for transfer of salary account to profit and loss account)	Dr.	3,000	3,000
(iii)	(a) Prepaid Insurance Premium A/c To Insurance Premium A/c (Being adjusting entry for insurance paid in advance for three months at the rate of Rs. 6,000 per annum)	Dr.	1,500	1,500
	(b) Insurance Premium A/c To Profit & Loss A/c (Being the closing entry for transfer of insurance prem. account)	Dr.	1,500	1,500
(iv)	(a) Apprentice Premium Suspense A/c To Apprentice Premium A/c (Being the adjusting entry for apprentice premium of six months transferred from Premium Suspense Account)	Dr.	1,500	1,500
	(b) Apprentice Premium A/c To Profit and Loss Account (Being the closing entry for transfer of Apprentice premium to Profit and Loss Account)	Dr.	1,500	1,500
(v)	(a) Interest Accrued A/c To Interest A/c (Being adjusting entry for accrued interest on securities brought into the account)	Dr.	10,000	10,000
	(b) Interest A/c To Profit and Lots Account (Being closing entry for transfer of Interest account)	Dr.	10,000	10,000

(7) Insurance Company To Loss by Fire A/c (Insurance claims admitted by Insurance Co., not entered in books now recorded.)	Dr.	1,20,000	1,20,000
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Illustration 13.6 :

The following facts were revealed while scrutinizing the books of accounts for the year ending on 31st March, 2015 :

- Goods used for personal purposes worth Rs. 400, distributed as free samples worth Rs. 4,000 and gave to the office staff for their personal use worth Rs. 600.
- Goods worth Rs. 3,800 were destroyed by fire, for which the insurance company has admitted the claim for Rs. 2,000.
- Included in the sales costing Rs. 8,000 were sale of goods of Rs. 10,000 on 'sale on approval' basis for which consent of the customer was not received up to 31st March.
- Included in the creditors are stationery Rs. 500, coal Rs. 300 owing by the proprietor. These items has been debited to advertisement and fuel accounts respectively.
- In trial balance debtors appear at Rs. 44,000 including the amount of Rs. 4,000 in respect of a bankrupt whose estate is expected to realise 50 paise in the rupee. A provision for doubtful debts is to be made at 5% on debtors.
- Rs. 6,000 being the cash lost stands debited to suspense account in the books.
- Material costing Rs. 800 and wages Rs. 1,400 used in connection with repair of a Temple by way of charity are included in purchases and wages respectively.
- Investments Costing Rs. 6,000 were sold for Rs. 8,000 and were passed through sales book. Pass necessary Journal entries for the above adjustments.

Solution :**Adjustment Journal Entries**

	Particulars	Dr.	Cr.	
		Amount Rs.	Amount Rs.	
(i)	Drawings A/c Advertisement A/c Salaries A/c To Purchases A/c (Goods used for personal use, distributed as free samples and personal use for office staff)	Dr. Dr. Dr.	400 4,000 600	5,000

(ii)	Insurance Company A/c Loss by Fire A/c To Purchases A/c (Goods destroyed by fire which was insured, claim admitted in part)	Dr. Dr.	Rs. 2,000 1,800	Rs. 3,800
(iii)	Sales A/c : To Customer's or Debtors A/c (Goods sent on 'sale or approval' basis wrongly treated as sales, now corrected)	Dr.	10,000	10,000
	Stock on 'Sale or Approval' A/c To Trading A/c (Cost of the goods lying with customers included in stock, now corrected)	Dr.	8,000	8,000
(iv)	Drawing A/c To Advertisement A/c To Fuel A/c (Stationery and coal used by the proprietor wrongly debited to advertisement and fuel accounts, now corrected)	Dr.	800	500 300
(v)	Bad Debts A/c To Sundry Debtors A/c (Bad debts written off)	Dr.	2,000	2,000
	Profit and Loss A/c To Provision for Doubtful Debts A/c (Provision for doubtful debts created at 5% on Rs. 42,000)	Dr.	2,100	2,100
(vi)	Cash Lost A/c To Suspense A/c (Cash lost wrongly debited to Suspense A/c. now corrected)	Dr.	6,000	6,000
(vii)	Charity A/c To Purchases A/c To Wages A/c (Materials and wages incurred for repair of a temple by way of charity, now recorded)	Dr.	2,200	800 1,400
(viii)	Sales A/c To Investment A/c To Profit and Loss A/c (Sale of investment wrongly passed through sales book, now corrected)	Dr.	8,000	6,000 2,000

Conclusion : As is clear from the above discussion and examples, the following points should be taken into consideration, while final accounts are being prepared by the students :

- (1) If the items of Outstanding expenses, Unearned or income received in advance are appearing in trial balance only one entry is needed for those to be shown in Liabilities side of the Balance Sheet. Similarly if Prepaid Expenses, Accrued Income and Closing stocks appear in trial balance, these should be shown on Assets side of Balance Sheet.
- (2) If any item is given outside the trial balance (as an adjustment), it should be shown at two places. Treatment of these items may be understood from the following : Exhibit No. 13.1 :

Exhibit 13.1
Treatment of Items of Adjustments
(Appearing outside the Trial Balance)

Items of Adjustment	Adjusting Entry	Treatment in Trading A/c	Treatment in Profit & Loss A/c	Treatment in Balance Sheet
1. Closing Stock	Closing Stock A/c To Trading A/c	Dr. Shown on the Credit Side	×	Shown on the assets side as a Current Asset
2. Outstanding Expenses (Accrued Expenses)	Respective Expenses A/c To Outstanding Expenses A/c	Dr. Added to the respective expenses	Added to the respective expenses	Shown on the liabilities side as a Current Liability
3. Prepaid Expenses (Unexpired Expenses)	Prepaid Expenses A/c To Respective Expenses A/c	Dr. Deducted from the respective expenses	Deducted from the respective expenses	Shown on the Assets side as a Current Asset
4. Accrued Income (or Income earned but not received)	Accrued Income A/c To Respective Income A/c	Dr. ×	Added to the respective Income on the credit side.	Shown on the Assets sides a Current Asset
5. Unearned Income (or Income received in advance)	Respective Income A/c To Unearned Income A/c	Dr. ×	Deducted from the respective income on the credit side.	Shown on the liabilities side as a Current Liability.
6. Depreciation	Depreciation A/c To Respective Asset A/c	Dr. ×	Shown on the debit side as a separate item.	Shown on the assets side by way of deduction from the value of concerned fixed asset.

132

Items of Adjustment	Adjusting Entry	Treatment in Trading A/c	Treatment in Profit & Loss A/c	Treatment in Balance Sheet
7. Additional Bad Debts	Bad Debts A/c To Sundry Debtors A/c	Dr. ×	Shown on the debit side by way of addition to bad debts	Shown on the assets side by way of deduction from Sundry Debtors
8. Provision for Bad & Doubtful debts (New)	Profit & Loss A/c To Provision for Doubtful Debts A/c	Dr. ×	Shown on the debit side as a separate item	Shown on the asset side by way of deduction from Sundry Debtors
9. Provision for Discount on Debtors	Profit & Loss A/c To Provision for Discount on Debtors A/c	Dr. ×	Shown on the debit side as a separate item	Shown on the asset side by way of deduction from Sundry Debtors.
10. Reserve for Discount of Creditors	Reserve for Discount on Creditors A/c To Profits & Loss A/c	Dr. ×	Shown on the credit side as a separate item	Shown on the liabilities side by way of deduction from Sundry Creditors.
11. Interest on Capital	Interest on Capital A/c To Capital A/c	Dr. ×	Shown on the debit side as a separate item.	Shown by way of addition to the Capital.
12. Interest on Drawings	Capital A/c To Interest on Drawings	Dr. ×	Shown on the credit side as a separate item.	Shown by way of deduction from the Capital.
13. Manager's Commission on Profit	Manager's Commission A/c To Accrued Commission A/c	Dr. ×	Shown on the debit side as a separate item.	Shown on the Liability side as a Current Liability.
14. Abnormal Loss of Stock	Loss of Stock A/c To Trading A/c	Dr. Total value is shown on the credit side.	Total value of irrecovered loss of stock is shown on the debit side	Amount due form the insurancy company if any will as appear a Current Asset.

1326

Illustration 13.7 :

Prepare Trading and Profit and Loss Account and Balance Sheet for the year ended 31st March, 2015 for the following balances extracted from the books of Mr. Asif Ali :

Debit Balances	Rs.	Credit Balances	Rs.
Drawings	6,300	Capital Account	1,56,000
Cash in hand and at Bank	3,870	Discount Received	2,985
Bills Receivable	7,860	Loan Account	15,000
Land and Buildings	32,580	Purchases Returns	4,455
Furniture	5,130	Sales	2,84,505
Manufacturing Wages	46,875	Provision for Bad debts	4,650
Discount Allowed	3,960	Sundry Creditors	18,675
Bank Charges	105		
Office Salaries	6,420		
Purchases	1,99,080		
Stock (1st April, 2014)	60,255		
Sales Returns	4,875		
Carriage Inwards	8,175		
General Expenses	2,680		
Plant & Machinery	21,645		
Rent, Rates and Taxes	8,630		
Sundry Debtors	65,745		
Bad Debts	1,380		
Insurance	705		
Total	4,86,270	Total	4,86,270

Closing Stock on 31st March, 2015 was valued at Rs. 63,705. Depreciate Plant & Machinery by 10% and Furniture by 5%. Raise the Provision for Bad debts to Rs. 7,500. Adjust Insurance paid in advance Rs. 180 and interest on Loan Rs. 225 due but not put through the books.

Solution :

Trading and Profit & Loss Account
for the year ending 31st March, 2015

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock		60,255	By Sales	2,84,505	
To Purchases	1,99,080		Less : Return	4,875	2,79,630
Less : Returns	4,455	1,94,625	By Closing Stock		63,705
To Manufacturing Wages		46,875			
To Carriage Inwards		8,175			
To Gross Profit c/d		33,405			
		3,43,335			3,43,335

To Discount Allowed		3,960	By Gross Profit b/d	33,405
To Bank Charges		105	By Discount Received	2,985
To Office Salaries		6,420		
To General Expenses		2,680		
To Rent, Rates and Taxes		8,630		
To Bad Debts		1,380		
To Insurance	705			
Less : Prepaid	180	525		
To Depreciation on :				
Plant & Machinery @ 10%		2,165		
Furniture @ 5%		256		
To Provision for Bad Debts	7,500			
Less : Old Provision	4,650	2,850		
To Interest on Loan		225		
To Net Profit Carried to Capital		7,194		
		36,390		36,390

Balance Sheet
an on 31st March, 2015

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Sundry Creditors		18,675	Cash in Hand and at Bank		3,870
Loan Account	15,000		Bill Receivable (B/R)		7,860
Add : Interest	225	15,225	Sundry Debtors	65,745	
Capital	1,56,000		Less : Reserve	7,500	58,245
Less : Drawings	6,300		Closing Stock		63,705
	1,49,700		Insurance Prepaid		180
Add : Net Profit	7,194	1,56,894	Furniture	5,130	
			Less : Depreciation	256	4,874
			Plant & Machinery	21,645	
			Less : Depreciation	2,165	19,480
			Land and Buildings		32,580
					1,90,794
		1,90,794			

Illustration 13.8
The following is the Trial Balance of M/s Kasturi Agencies as on 31 March, 2015. Prepare Trading and Profit and Loss A/c for the year ended 31st March, 2015 and a Balance Sheet on that date :

	Debit (Rs.)	Credit (Rs.)
Capital	—	1,00,000
Drawings	18,000	—
Buildings	15,000	—
Furniture	7,500	—
Motor van	25,000	—
Loan from Ram @ 12% interest	—	15,000
Interest paid on above	900	—
Sales	—	1,00,000
Purchases	75,000	—
Opening stock	25,000	—
Establishment expenses	15,000	—
Wages	2,000	—
Insurance	1,000	—
Commission received	—	7,500
Sundry Debtors	28,100	—
Bank Balance	20,000	—
Sundry Creditors	—	10,000
	2,32,500	2,32,500

Additional informations :

(i) The value of stock on 31st March, 2015 was Rs. 32,000; (ii) Outstanding wages Rs. 500; (iii) Prepaid insurance Rs. 300; (iv) Commission received in advance Rs. 800; (v) Allow interest on capital @ 10%; (vi) Depreciation : Building 2.5% Furniture 10%, Motor Van 10%; (vii) Charge interest on Drawing Rs.500.

(R.U.BCA., 2002)

Solution :

M/s Kasturi Agencies
Trading and Profit & Loss Account
for the year ended 31st March, 2015

	Rs.	Rs.		Rs.	Rs.
To Opening Stock		25,000	By Sales		1,00,000
To Purchases		75,000	By Closing Stock		32,000
To Wages	2,000				
Add : Accrued	500	2,500			
To Gross Profit c/d.		29,500			
		1,32,000			1,32,000
To Establishment Expenses		15,000	By Balance b/d		29,500
To Insurance	1,000		By Interest on drawings		500
Less : prepaid	300	700	By Commission	7,500	
To Interest on Loan		1,800	Less Advance	800	6,700
15000 × 12% for one year					
To Interest on Capital		10,000			
@ 10% on Rs. 1,00,00					
To Depreciation on :					
Building 15,000 × 2.5%		375			
Furniture 7,500 × 10%		750			
Motor Van 25,000 × 10%		2,500			
To Net Profit c/d to Capital A/c		5,575			
		36,700			36,700

Balance Sheet as at 31 at March, 2015

Liabilities	Rs.	Amount	Assets	Rs.	Amount
Capital	1,00,000		Bank		Rs.
Add : Net Profit	5,575		Prepaid Insurance		20,000
Interest	10,000		Debtors		300
	1,15,575		Closing Stock		28,100
Less : Drawings	(18,000)		Motor van	25,000	32,000
Int. on drawings	(500)		Less : Depreciation		
Loan of Ram		97,075	Furniture	2,500	22,500
Interest Accrued on Loan		15,000	Furniture	7,500	
Wages outstanding		900	Less : Depreciation		
Sundry Creditors		500	Buildings	750	6,750
Commission received in Advance		10,000	Less : Depreciaion		
		800	Buildings	15,000	14,625
				375	
		1,24,275			
					1,24,275

Illustration 13.9 :

The following is the Trial Balance of Mr. Rohit as at 31st March, 2015.

Name of Account	Debit Rs.	Credit Rs.
Capital Account	—	86,690
Stock on 1st April, 2014	—	—
Sales	46,800	3,89,600
Returns inward	18,600	—
Purchases	3,21,700	—
Returns outward	—	5,800
Freight and carriage	8,600	—
Rent and taxes	5,700	—
Salaries and wages	9,300	—
Sundry Debtors	24,000	—
Sundry Creditors	—	14,800
Bank loan@ 6% p.a.	—	20,000
Bank interest	900	—
Printing and advertising	14,600	—
Miscellaneous income	—	250
Cash at Bank	8,000	—
Discount earned	—	4,190
Furniture and fittings	5,000	—
Discount allowed	1,800	—
General expenses	11,450	—
Insurance	1,300	—
Postage and telegrams	2,330	—
Cash in hand	380	—
Travelling expenses	870	—
Drawings	40,000	—
	5,21,330	5,21,330

The following adjustments should be made :

- Included amongst the Debtors in Rs. 3,000 due from Krishna and included among the creditors Rs. 1,000 due to him.
- Provision for bad and doubtful debts be created at 5% and provision for discount @ 2% on sundry debtors.
- Depreciation on furniture and fittings @ 10% shall be written off.
- Personal purchases amounting to Rs. 600 has been included in the purchases book.
- Interest on bank loan shall be provided for the whole year.
- Closing stock Rs. 78,600.
- Omitted to be recorded purchase invoices of Rs. 400.

Prepare Trading and Profit and Loss Account and Balance Sheet.

Solution :

Mr. Rohit

(R.U.BBA, 2002)

Trading and Profit & Loss Account
for the year ended 31st March, 2015

	Rs.	Rs.		Rs.	Rs.
To Opening Stock		46,800	By Sales	3,89,600	
To Purchases	3,21,700		Less : Return Inward	(8,600)	3,81,000
Add : Purchase omitted	400		By Stock Closing		78,600
	<u>3,22,100</u>				
Less : Return outward	(5,800)				
Personal Purchases	(600)	3,15,700			
To Freight & Carriage		18,600			
To Gross Profit c/d		78,500			
		<u>4,59,600</u>			<u>4,59,600</u>
To Salaries & Wages		9,300	By Gross Profit b/d		78,500
To Rent & Taxes		5,700	By Miscellaneous Income		250
To Printing & Adversiting		14,600	By Discount earned		4,190
To General Expenses		11,450			
To Insurance		1,300			
To Discount allowed		1,800			
To Bank Interest	900				
Add Int. Outstanding	<u>300</u>	1,200			
To Postage & Telegram		2,330			
To Travelling Expenses		870			
To Depreciation on Furniture 10% of Rs. 5,000		500			
To Prov. for Doubtful debts (24,000 - 1,000 = 23,000 × 5%)		1,150			
To Prov. for discount (23000 - 1150 = 21,850 × 2%)		437			
To Net Profit carried to Capital		<u>32,303</u>			
		<u>82,940</u>			<u>82,940</u>

Balance Sheet
as on 31st March, 2015

Liabilities	Rs.	Assets	Rs.	Rs.
Creditors 14,800 + unrecorded Purchases 400 - Krishna 1,000		Cash in hand		380
Bank Loan	Rs. 20,000	Cash at Bank		8,000
Add Interest Accrued	300	Closing Stock		78,600
Capital	86,690	S. Debtors : 24,000 - 1000 of Krishna = 23,000		
Add : Net Profit	32,303	Less : Prov. for Doubtful debts	1,150	
Less : Drawings (40,000 + 600)	<u>(40,600)</u>	Less : Prov. for discount	21,850	
	78,393	Furniture	5,000	21,413
		Less : Depreciation	500	4,500
				<u>1,12,893</u>
				1,12,893

Illustration 13.10 :

From the under-mentioned Trial Balance of Murthy & Sons prepare Trading and Profit and Loss Account for the year ending 31st March, 2015, and Balance Sheet as on that date :

Dr. Balances	Rs.	Cr. Balance.	Rs.
Furniture and Fittings	3,400	Capital Account	1,00,000
Land and Buildings	21,700	Discount Received	2,000
Drawings	4,200	Loan from Bank	10,000
Cash at Bank	2,470	Purchases Return	970
Wages	31,250	Sales	1,91,940
Discount allowed	2,650	Sundry Creditors	12,450
Bank Charges	90	Provision for bad debts	800
Offices Salaries	4,260		
Purchases	1,32,700		
Opening Stock	40,200		
Cash in hand	140		
Sales Returns	1,250		
Carriage Inwards	3,400		
Plant & Machinery	14,600		
Sundry Debtors	43,800		
Bad Debts	1,000		
Insurance	1,250		
Rent and Taxes	2,450		
Bills Receivable	2,500		
General Expenses	1,350		
Advertisement	3,500		
Total	3,18,160	Total	3,18,160

You are required to make the following adjustments :

- A new machine has been purchased for Rs. 3,000 on 1st October, 2014 but was not paid for nor any entry has been passed in the books.
- Provision for bad debts has to be raised to Rs. 1,400 and write off a further bad debts of Rs. 300.
- In the month of March, 2015 a fire broke out and destroyed stock of the value of Rs. 8,000. The insurance company admitted a claim for the loss of stock to the value of Rs. 5,000 only and the amount was paid in April 2015.
- Outstanding wages Rs. 700, and Salaries Rs. 500.
- Prepaid insurance Rs. 250 and Advertisement Rs. 500.
- Depreciate Machinery by 10% and Furniture by 15%.

Solution :

M/s Murthy & Sons.
Trading and Profit & Loss Account
for the year ended 31st March, 2015

(RU BCA 2013)

Rs.		Rs.		Rs.		Rs.	
To Stock Opening		40,200	By Sales	1,91,940			
To Purchases	1,32,700		Less : Sales Return	1,250		1,90,690	
Less : Pur. Return	(970)		By Closing Stock			30,000	
Less : Loss of Stock	(8,000)	1,23,730					
To Wages	31,250						
Add : Outstanding	700	31,950					
To Carriage inward		3,400					
To Gross Profit c/d		21,410					
		2,20,690				2,20,690	
To Discount allowed		2,650	By Gross Profit b/d			21,410	
To Bank Charges		90	By Discount Received			2,000	
To Salaries	4,260						
Add : O/S	500	4,760					
To Bad debts	1,000						
Add : New bad debts	300						
Add : New Provision	1,400						
	2,700						
Less : Old Provision	800	1,900					
To Insurance	1,250						
Less : Prepaid	250	1,000					
To Rent & Taxes		2,450					
To General Expenses		1,350					
To Advertisement	3,500						
Less : Pepaid	500	3,000					
To Depreciation On Machinery							
10% on 14600 + 10% on							
Rs. 3,000 for 6 months	1,610						
Furniture 15% on							
Rs. 3,400	510	2,120					
To Loss on stock by fire		3,000					
To Net Profit carried							
to Capital A/c		1,090					
		23,410				23,410	

M/s Murthy & Sons
Balance Sheet as on 31st March, 2015

Liabilities	Amount Rs.	Assets	Amount Rs.
Capital	Rs. 1,00,000	Cash in hand	Rs. 140
Add : Net Profit	1,090	Cash at Bank	2,470
Less : Drawings	(4,200)	Bills Receivable	2,500
Loan from Bank	96,890	Debtors	43,800
Sundry Creditors	10,000	Less : New Bad debts	(300)
Outstanding Expenses :	12,450	Less : New Provision	(1,400)
Wages	700	Stock Closing	42,100
Salaries	500	Prepaid Expenses :	30,000
Vendor's Account for Machinery Purchase	1,200	Insurance	250
	3,000	Advertisement	500
		Furniture	3,400
		Less : Dep.	510
		Plant & Machinery.	14,600
		Add : New	3,000
			17,600
		Less : Depreciation	1,610
		Land & Buildings	21,700
		Insurance Company (Amount Due)	5,000
	1,23,540		1,23,540

Illustration 13.11 :

The following is the Trial Balance of Shri Rajendra, as on 31st March, 2015. You are required to prepare the Trading and Profit and Loss Account for the year ended 31st March, 2015 and Balance sheet as on that date after making the necessary adjustments :

Name of Account	(Dr. Rs.)	(Cr. Rs.)
Sundry Debtors	5,00,000	
Sudery Creditors		2,00,000
Outstanding Liability for expenses	55,000	
Wages	1,00,000	
Carriage outwards	1,10,000	
Carriage inwards	50,000	
General expenses	70,000	
Discount	20,000	
Bad debts	10,000	
Motor car	2,40,000	
Printing and stationery	15,000	
Furniture and fittings	1,10,000	

Advertisement	85,000	
Insurance	45,000	
Salesmen's commission	87,500	
Postage and telephone	57,500	
Salaries	1,60,000	
Rates and Taxes	25,000	
Drawings	20,000	
Capital account		14,43,000
Purchases and sales	15,50,000	19,87,500
Stock on April 1, 2014	2,50,000	
Cash in Bank	60,000	
Cash in hand	10,500	
	<u>36,30,500</u>	<u>36,30,500</u>

The following adjustments are to be made :

- Stock on 31st March, 2015 was valued as Rs. 7,25,000.
- A provision for bad and doubtful debts is to be created to the extent of 5% on sundry debtors.
- Depreciate furniture and fittings by 10% and Motor car by 20%.
- Shri Rajendra has withdrawn goods worth Rs. 25,000 during the year.
- Sales include goods worth Rs. 75,000 sent out to Sunil Bros. on approval and remain unsold till 31st March, 2015. The cost of that goods was Rs. 50,000.
- The salesman is entitled to a commission of 5% on total sales.
- Debtors include Rs. 25,000 of bad debts.
- Printing & stationery expenses Rs. 55,000 relating to the year 2013-14 had not been provided in that year, but was paid in current year by debiting outstanding liabilities.
- Purchases include, purchase of furniture worth Rs. 50,000.

(RU BCA, 2005)

Solution :

Shri Rajendra

Trading and Profit & Loss Account
for the ended 31st March, 2015

To Opening Stock	Rs.	Rs.	By Sales	Rs.	Rs.
To Purchases		2,50,000	Less : Sales on approval	19,87,500	
Less : Drawings	15,50,000				
Less : Furniture	(25,000)		By Closing Stock	7,25,000	19,12,500
	<u>(50,000)</u>	14,75,000	Add : Cost of goods on approval	50,000	7,75,000
To Wages		1,00,000			
To Carriage inwards		50,000			
To Gross Profit c/d		8,12,500			
		<u>26,87,500</u>			<u>26,87,500</u>

To Carriage Outward	Rs.	1,00,000	By Gross Profit b/d	Rs.	8,12,500
To General Expenses	70,000				
To Discount allowed	20,000				
To Printing & Stationery	15,000				
To Advertisement	85,000				
To Insurance	45,000				
To Postage & telephone	57,500				
To Salaries	1,60,000				
To Rates & Taxes	25,000				
To Bad debts	10,000				
Add : New Bad-debts	25,000				
Add : Provision for Baddebts 5% on 4 lakhs	20,000				
(5,00,000 - 25,000 - 75,000)		55,000			
To Depreciation on :					
Furniture 10% on Rs. 1,60,000		16,000			
Motor Car 20% on Rs. 2,40,000		48,000			
To Salesmen Commission	87,500				
Add : Accrued	8,125				
Total being 5% of 19,12,500	95,625	95,626			
To Net Profit Carried forward		10,375			
		<u>8,12,500</u>			<u>8,12,500</u>

Balance Sheet of Shri Rajendra
as on 31st March, 2015

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Sundry Creditors	2,00,000	Cash in hand	10,500
Accrued Commission of Salesmen	8,125	Cash at Bank	60,000
Share Capital	14,43,000	Stock Closing including goods on approval	7,75,000
Add : Net Profit	10,375	Sundry Debtors	5,00,000
	<u>14,53,375</u>	Less : Goods on approval	(75,000)
Less : Drawings		Less : Bad debts (New)	<u>(25,000)</u>
(20,000 + 25,000)	(45,000)		4,00,000
	<u>14,08,375</u>	Less : Provision 5% Furniture	<u>(20,000)</u>
Less : Short Provision of Printing etc. last year	(55,000)	(1,10,000 + 50,000) =	1,60,000
	<u>13,53,375</u>	Less Dep. 10%	<u>(16,000)</u>
		Motor Car	2,40,000
		Less : Dep. 20%	<u>(48,000)</u>
			1,92,000
			<u>15,61,500</u>
	<u>15,61,500</u>		

Illustration 13.12

The following balances have been drawn from account books of Ram on 31st March, 2015 :

	Rs.		Rs.
Opening Stock	34,000	Stable Expenses	5,000
Purchases	3,70,000	Bills Payable	12,000
Sales	5,50,000	Bank Loan	20,000
Selling Expenses	30,000	Bills Receivable	18,000
Capital	2,50,000	Carriage and Horse	7,000
Creditors	60,000	Fire Insurance Premium	2,000
Return Inwards	4,000	Return outwards	2,000
Fuel and Power Factory	16,000	Debtors	87,000
Salaries and Wages	47,000	Machinery	1,00,000
Interest on Bank Loan	2,000	Building	1,40,000
Commission Received	3,000	Drawings	30,000
Bad debts	2,000	Cash in Hand	6,000
Bad debt Provision	3,000		

Other information :

- On 31st March, 2015 the stock was Rs. 49,400.
- Credit purchases of Rs. 1,000 and credit sales of Rs. 3,000 were not recorded in account books.
- Prepaid fire insurance premium Rs. 500, outstanding interest on bank loan Rs. 400 and accrued commission Rs. 1,000.
- The Provision for bad debts on Debtors is to be kept at 5%.
- Charge depreciation on Building at 5% per annum and on Machinery at 10% per annum.
- Make Provision for Manager's commission at 10% on Net Profit after charging such commission.

Prepare Trading Account, Profit & Loss Accounts for the year ended 31st March, 2015 and a Balance Sheet as on that date. (RU BCA, 2007)

Solution :

Balance Sheet of Shri Rajendra
as on 31st March, 2015

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
To Opening Stock	34,000	By Sales	5,50,000
To Purchases	3,70,000	Add : Unrecorded	3,000
Add : Unrecorded	1,000		5,53,000
	3,71,000	Less : Return Inward	(4,000)
Less : Return Outwards	(2,000)	By Closing Stock	49,000
To Fuel & Power	16,000		
To Gross Profit c/d	1,79,000		
	5,98,400		5,98,400

To Salaries & Wages	47,000	By Gross Profit b/d	Rs. 1,79,000
To Fire Ins. Prem.	2,000	By Commission	3,000
Less : Prepaid	500	Add : Accrued	1,000
To Stable Expenses	1,500		4,000
To Bad debts	2,000		
Add : New Provision	4,500		
(5% of 87,000 + 3,000)	6,500		
Less : Old provision	(3,000)		
To Interest on Bank Loan	2,000		
Add : Accrued	400		
To Selling Expenses	30,000		
To Depreciation on :			
Buildings	7,000		
Machinery	10,000		
To Manager's Com.	17,000		
$\frac{10}{110} \times 70,000 = 7,000$	7,000		
To Net Profit carried to Capital A/c	70,000		
	1,83,400		1,83,400

Balance Sheet

as on 31st March, 2015

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Capital	2,50,000	Cash in hand	6,000
Add : Net Profit	70,000	Debtors	87,000 + 3,000 = 90,000
	3,20,000	Less : Provision (New)	4,500
Less : Drawings	(30,000)	Bill Receivable	18,000
Creditors	60,000 + 1,000	Closing Stock	49,400
Bills Payable	12,000	Prepaid Ins. Prem.	500
Bank Loan	20,000	Accrued Commission	1,000
Interest Accrued on Bank Loan	400	Machinery	1,00,000
Manager's Comm. Outstanding	7,000	Less : Depreciation	10,000
		Buildings	1,40,000
		Less : Depreciation	7,000
		Horses & Carriage	7,000
			1,33,000
			7,000
Total	3,90,400	Total	3,90,400

Illustration 13.13

The following balances and information has been obtained from the books of M/s Bahi for the year ended 31st March, 2015, for which you are required to prepare Final Accounts—

Name of Accounts	Dr. Balances Rs.	Cr. Balances Rs.
Capital		50,000
Plant and Machinery	18,000	
Depreciation on plant and machinery	2,000	
Repairs to plant	1,600	
Wages	28,000	
Salaries	1,000	
Income tax	500	
Cash in hand	2,000	
Land and building	74,500	
Depreciation on Building	2,500	
Purchases less returns and Sales	1,23,500	2,49,000
Bank overdraft		3,800
Accrued Income	1,500	
Salaries outstanding		2,000
Bills receivable and Bills payable	10,000	3,000
Provision for bad debts		6,000
Bad debts	1,000	
Discount on purchases		4,000
Debtors and Creditors	35,000	23,300
Stock on 1-4-2014	37,000	
	3,41,100	3,41,100

Other information :

- Stock on 31st March, 2015 was Rs. 30,000
- Write off Rs. 3,000 bad debts and maintain a provision of 5% on debtors.
- Goods costing Rs. 5,000 was sent to a customer on sale or return basis on 1st March, 2015. This was recorded as actual sales. The rate of gross profit was 1/6th of sales.
- Rs. 1,200 paid as rent of the office were debited to landlord account and were included in the list of debtors. (RU BCA 2008)

Solution :

Trading and Profit & Loss Accounts
for the ended 31st March, 2015

	Rs.		Rs.
To Opening stock	37,000	By Sales	2,49,000
To Purchases	1,23,500	Less : Sales on	
To Wages	28,000	Return basis	6,000
To Gross Profit c/d	89,500	By Closing Stock	
		(Rs. 30,000 + 5,000)	35,000
	2,78,000		2,78,000

	Rs.	Rs.		Rs.
To Depreciation :				
On Plant	2,000		By Gross Profit b/d	89,500
On Building	2,500	4,500	By Provision for Bad debts	
To Rent of Office		1,200	being excess	760
To Repairs		1,600	By Discount on Purchases	4,000
To Salaries		4,000		
To Bad debts	1,000			
Add : New Bad debt	3,000			
Add : New Provision	1,240			
Less Old Provision	(6,000)			
Excess Provision to Contra	(760)			
To Net Profit to Capital A/c		82,960		
		94,260		94,260

Note : Provision for Bad debts is as follows :

	Rs.		Rs.
To BADEBTS (old)	1,000	By Balance b/d	6,000
To Debtors (New)	3,000		
To Balance c/d			
(5% On 35,000 - 6,000 -	1,240		
1200 - 3,000 = 24,800)			
To Profit & Loss A/c	760		
(Balancing figure)			
	6,000		6,000

2. Sale Price of goods sent on approval = Cost Rs. 5,000 + 1/5th Profit (1/6th on sales means 1/5th of cost) = Rs. 6,000.

3. Office rent Rs. 1,200 was wrongly debited to debtors (landlord), is corrected by passing the following entry :

	Rs.	Rs.
Rent A/c	Dr.	1,200
To Sundry Debtors A/c		1,200

Balance Sheet of Mr. Bahl as on 31st March, 2015

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital	50,000		Cash in hand		2,000
Add : Net Profit	82,960		Closing Stock (30,000 + 5,000)		35,000
	1,32,960		Sundry Debtors	35,000	
Less : Income Tax	(500)	1,32,460	Less : Sales on approval	(6,000)	
Bank Overdraft		3,800	Less : Rent wrongly debited to		
Salaries Outstanding		2,000	Land-lord	(1,200)	
Bills Payable		3,000	Less : New Baddebts	(3,000)	
Sundry Creditors		23,300		24,800	
			Less New Provision	1,240	23,560
			Bills Receivable		10,000
			Accrued Income		1,500
			Plant & Machinery		18,000
			Land & Buildings.		74,500
					1,64,560
		1,64,560			

Illustration 13.14 :

Mr. X had prepared the following trial balance from his ledger as on 31st March, 2015 :

Name of Accounts	Dr. Balances Rs.	Cr. Balances Rs.
Purchases	6,20,000	
Sales		8,30,000
Cash in hand	4,200	
Cash at bank	24,000	
Stock of Goods on 1.4.2014	1,00,000	
Mr. X's Capital		5,77,200
Drawings		
Salaries	8,000	
Postage and Telephones	64,000	
Salesmen Commission	23,000	
Insurance	70,000	
Advertising	18,000	
Furniture	34,000	
Printing and Stationery	44,000	
Motor Car	6,000	
Bad debts	96,000	
Cash Discount	4,000	
General Expenses	8,000	
Carriage Inwards	60,000	
Carriage Outwards	20,000	
Productive Wages	44,000	
Sundry Creditors	40,000	
Sundry Debtors		80,000
	2,00,000	
	14,87,200	14,87,200

You are requested to prepare trading and Profit and Loss Account for the year ended 31st March, 2015 and Balance Sheet as on that date. You are also given the following further information :

- Cost of goods in stock on 31st March, 2015 Rs. 1,45,000.
- Mr. X had withdrawn goods worth Rs. 5,000 during the year.
- Purchases include purchase of furniture worth Rs. 10,000.
- Debtors include Rs. 5,000 bad debts.
- Creditors include a balance of 4,000 to the credit of Mr. B in respect of which it has been decided and settled with the party to pay only Rs. 1,000.
- Sales include goods worth Rs. 15,000 sent to Ram & Co. on approval and remained unsold as on 31st March, 2015 the cost of the goods was Rs. 10,000.
- Provision for bad debts is to be created at 5% on Sundry Debtors.
- Depreciate Furniture by 15% and Motor Car by 20%.
- The Salesmen are entitled to commission of 10% to total sales. (RUBCA, 2004, 2006)

Solution :

Trading and Profit & Loss Accounts
for the year ended 31 March, 2015

		Rs.			Rs.	Rs.
To Stock Opening		1,00,000	By Sales		8,30,000	
To Purchases	6,20,000		Less : on approval		(15,000)	8,15,000
Less : Drawings	(5,000)		By Closing Stock			
Less : Furniture	(10,000)		Add : Cost of goods sent on			
To Wages		6,05,000	approval (1,45,000 + 10,000)			1,55,000
To Carriage inward		40,000				
To Gross Profit c/d		20,000				
		2,05,000				
		9,70,000				
To Salaries		64,000	By Gross Profit b/d			9,70,000
To Postage & Telephones		23,000	By Rebate from			2,05,000
To Sales men Commission	70,000		Sundry Creditors			3,000
Add : Accrued	11,500		By Net Loss to Capital A/c			1,75,800
To Insurance		81,500				
To Advertising		18,000				
To Printing & Stationary		34,000				
To Discount allowed		6,000				
To Baddebts	4,000					
Add : Further Baddebts	5,000					
Add : Doubtful debts Prov	9,000					
[5% on (2,00,000 - 15,000 - 5,000)]		18,000				
To Carriage Outward		44,000				
To Depreciation on :						
15% Furniture Rs. 54,000	8,100					
20% Car Rs. 96,000	19,200					
To Gen. Expenses		27,300				
		60,000				
		3,83,800				
						3,83,800

Balance Sheet of Mr. X as on 31st March, 2015

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital	5,77,200		Cash in hand		4,200
Less : Net Loss	(1,75,800)		Cash at Bank		24,000
	4,01,400		Stock 1,45,000 + 10,000		1,55,000
Less : Drawings	(8,000)	3,88,400	Debtors	2,00,000	
Drawings in goods	(5,000)		Less : Sale on approval	(15,000)	
Creditors	80,000			1,85,000	
Less : Rebate	3,000	77,000	Less : Bad debts	(5,000)	
Commission Salesmen Outstanding		11,500		1,80,000	
			Less : Provision 5%	(9,000)	1,71,000
			Furniture	44,000	
			Add : New	10,000	
				54,000	
			Less : Depreciation	(8,100)	45,900
			Motor Car	96,000	
			Less : Depreciation	(19,200)	76,800
					4,76,900
		4,76,900			

Illustration 13.15 :

Mr. Parth puts before you the following Trial Balance for the year ended 31st March, 2015 :

Debtors Balances	Rs.	Credit Balance	Rs.
Drawings	10,260	Capital	60,000
Stock (opening)	38,400	Sundry Creditors	7,800
Debtors	57,000	Sales	1,85,000
Purchases	62,400	Bank overdraft	4,000
Wages	7,200		
Trade Expenses	7,200		
Travelling Expenses	5,170		
Furniture	58,000		
Goodwill	6,000		
Cash in hand	2,170		
Prizes distributed	3,000		
	2,56,800		2,56,800

The Closing Stock was Rs. 15,000. Depreciate furniture by 10%. General manager is to be given the commission @ 10% on net profit after charging the commission of works manager. Works manager is to be given the commission @ 5% on net profit after charging the commission of General Manager.

You are required to prepare the final accounts from the above Trial Balance and other information given.

Solution :

Trading and Profit & Loss Account
for the year ended 31st March, 2015

Particulars	Rs.	Particulars	Rs.
To Stock (Opening)	38,000	By Sales	1,85,000
To Purchases	62,000	By Stock (Closing)	15,000
To Wages	7,200		
To Gross Profit c/d	92,000		
	2,00,000		2,00,000
To Trade Expenses	7,200	By Gross Profit b/d	92,000
To Travellings Expenses	5,170		
To Prizes given	3,000		
To Depreciation on furniture	5,800		
To Remuneration to General Manager	7,083		
Works Manager	3,187		
To Net Profit c/d	60,560		
	92,000		92,000

Working Note : Balance of Net Profit before charging any commission = Rs. 92,000 - 21,170 or Rs. 70,830. Now, let us assume commission payable to General Manager be Rs. x. As such commission of Works Manager would be 5% of Rs. 70,830 - x).

Hence, Profit after providing commission to Works Manager = Rs. 70,830 - [5% of (Rs. 70,830 - x)].

Commission of General Manager will be :

10% of Rs. 70,830 - [5% of (Rs. 70,830 - x)]. So equation would be
 $x = 10\% \text{ of Rs. } 70,830 - [5\% \text{ of (Rs. } 70,830 - x)]$

or 10% of Rs. 70,830 - (3,541.50 - 0.05x)

or 10% of Rs. 70,830 - 3,542 + .05x or $x - .05x = 10\% \text{ of } 67,288$

or $0.95x = 6729$ or $x = 6729 \div 0.95$ or Rs. 7,083

So, Commission of General Manager = Rs. 7,083

and Commission of Works Manager = $(70,830 - 7083) \times 5\% = \text{Rs. } 3,187$.

Balance Sheet of Mr. Perth
as on 31st March, 2015

Liabilities	Rs.	Assets	Rs.
Capital	Rs. 60,000	Cash in hand	2,170
Add : N.P.	60,560	Debtors	57,000
	1,20,560	Closing Stock	15,000
Less : Drawings	(10,260)	Furniture	58,000
Sundry Creditors	7,800	Less : Depreciation	5,800
Bank Overdraft	4,000	Goodwill	6,000
Commission Due to General Manager	7,083		
Works Manager	3,187		
	1,32,370		1,32,370

Illustration 11.16 :

From the following balances extracted from the books of Mr. Ravi Prakash, prepare Trading and Profit and Loss Account for the year ended 31st March, 2015 and a Balance sheet as on that date :

	Rs.	Rs.
Stock (1.4.2014)	7,000	
Purchases	1,64,280	2,60,000
Proprietor's Capital	18,380	
Computer at Cost	4,000	
Cash at Bank	2,836	
Cash in hand		13,000
Sundry creditors		10,220
Bills Payable	2,00,000	
Land & Building	1,540	
Furniture and Fittings at cost	12,540	
Rent and Rates		22,000
Discount Received		

Bills Receivable	6,720	
Trade charges	920	
Sundry Debtors	34,156	
Sales		1,60,720
Returns outwards		11,432
Drawings	5,200	
Rent due (outstanding)		320
Discount Allowed	540	
Wages	1,800	
Salaries	16,780	
Returns Inwards	1,000	
Total	4,77,692	4,77,692

Adjustment :

- Closing Stock on 31.3.2015 was valued at cost Rs. 25,600 (Market value Rs. 26,200).
- Rs. 6,000 paid to Mr. Y against Bill payable were debited by mistake to Mr. Z's Account and included in the list of Sundry Debtors.
- Travelling expenses paid to sales representatives Rs. 5,000 for the month of March, 2015 were debited to his personal account and included in the list of Sundry Debtors.
- Depreciation on Furniture and Fittings to be provided at 10% per annum.
- Provide for doubtful debts at 5% on Sundry debtors.
- Goods costing Rs. 1,500 used by the proprietor.
- Salaries included Rs. 12,000 paid to sales representative who is further entitled to a commission of 5% on net sales.
- Stationery charges Rs. 1,200 due on 31st March, 2015.
- Sales representative is further entitled to an extra commission of 5% on net profit after charging his extra commission.
- No depreciation need be provided for computer as it had been purchased on 31.3.2015 and not put into use.

Solution :

Mr. Ravi Prakash
Trading and Profit & Loss Account
for the year ended 31st March, 2015

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock		7,000	By Sales	1,60,720	
To Purchases	1,64,280		Less : Returns	(1,000)	1,59,720
Less : Returns	(11,432)		Closing Stock at Cost		25,600
	<u>1,52,848</u>				
Less : Drawings	(1,500)	1,51,348			
To Wages		1,800			
To Gross Profit c/d		25,172			
		<u>1,85,320</u>			<u>1,85,320</u>

To Salaries	16,780	By Gross Profit b/d	25,172
To Travelling Expenses	5,000	By Discount Received	22,000
To Salesman Commission @ 5% on Rs. 1,59,720	7,986		
To Stationery charges	1,200		
To Rent and Rates	12,540		
To Discount allowed	540		
To Trade charges	920		
To Depreciation on Furniture & fittings 10%	154		
To Provision for doubtful debts @ 5% on Rs. 23,156	1,158		
To Extra Commission to Salesmen $5/105 \times 894$	46,278		
To Net Profit c/d	851		
	<u>47,172</u>		<u>47,172</u>

Note : (i) Sundry Debtors for Provision = $34,156 - 5,000 - 6,000 = \text{Rs. } 23,156$

(ii) Net Profit Before Commission = $\text{Rs. } 47,172 - 46,278 = \text{Rs. } 894$

Balance Sheet of Mr. Ravi Prakash
as at 31st March, 2015

Liabilities	Rs.	Rs.	Assets	Rs.
Capital A/c	2,60,000		Land & Building	2,00,000
Less : Drawings			Computer (at cost)	18,380
(5,200 + 1,500)	6,700		Furniture & Fittings (1,540 - 154)	1,386
	<u>2,53,300</u>		Stock in trade at cost	25,600
Add : Net Profit	851	2,54,151	Sundry debtors	
Sundry Creditors	13,000		(34,156 - 11,000) = 23,156	
Bills Payable (10,220 - 6,000)	4,220		Less : Provision	(1,158)
Expenses due : Commission to Salesman (7,986 + 43)	8,029		Bills Receivable	6,720
Rent	320		Cash in hand	2,836
Stationery	1,200		Cash at Bank	4,000
		<u>2,80,920</u>		<u>2,80,920</u>

Goods in Transit : Sometimes the ordered goods are not received till the date of closing the books, through the intimation regarding the despatch of the goods by the supplier is duly received. Such goods are known as 'Goods in Transit'. The following entry may be passed for recording the same :

Dr.

Goods in Transit A/c

To Suppliers (Creditors) A/c

(For goods sent by Supplier but not received)

Accounting Treatment : On the one hand, it is recorded on the Assets side as 'Goods in Transit' and on the other, will be added to Creditors on the Liabilities side because the supplier of the goods becomes our Creditor.

Note : In case, a provision for discount on Creditors is to be made in such a question, the provision will be calculated on the increased amount of Creditors obtained by adding the amount payable on account of goods in transit.

Illustration 13.17 :

Prepare Trading and Profit & Loss Account for the year ended 31st March, 2015 and a Balance Sheet as on that date from the following trail balance :

	Rs.		Rs.
Stock on 1st April, 2013	32,000	Sales Less Returns	2,20,000
Purchases less Returns	76,000	Sundry Creditors	30,000
S. Kumar (Salary paid)	3,000	Capital	67,800
Wages	15,400	Mortgagee and interest to date	15,600
Carriage Outwards	2,600	Rent Outstanding	1,000
Carriage inwards	1,500		
Salaries	40,000		
Adversements	9,000		
Trade Expenses	4,800		
Rent	12,000		
Establishment	5,400		
Stable Expenses	2,100		
Mortgage Interest	600		
Sundry Debtors	40,000		
Cash in hand	2,500		
Machinery	87,500		
	3,34,400		3,34,400

Adjustments :

- (1) Closing Stock was Rs. 46,000.
- (2) Goods in Transit was Rs. 5,000;
- (3) Provision for Doubtful debts be created on sundry debtors @ 5% and a provision for discount on sundry debtors and creditors at 2%
- (4) Salary of Rs. 3,000 paid to Mr. Kumar an employee of the firm, stand debited to his personal account and it is to be corrected;
- (5) A stationery bill for Rs. 200 remains unpaid and unrecorded;
- (6) Write off one-third of advertisement expenses;
- (7) A bill receivable for Rs. 4,500 was discounted on 10th March, 2015 but is due in June;
- (8) Sundry Creditors include Rs. 10,000 of Loan taken from Mr. Modi on 1st September, 2015 bearing interest @ 12% per annum.

Solution :

Trading and Profit & Loss Account
for the year ended 31st March, 2015

	Rs.		Rs.
To Stock (Opening)	32,000	By Sales less returns	2,20,000
To Purchases Less returns	76,000	By Closing Stock	46,000
To Wages	15,400		
To Carriage Inwards	2,600		
To Gross Profit c/d	1,40,000		
	2,66,000		2,66,000
To Carriage Outwards	1,500	By Gross Profit b/d	1,40,000
To Salaries	40,000	By Provision for discount on Creditors (2% on Rs. 25,000)	500
Add : Salary to Mr. Kumar	3,000	30,000 - 10,000 Loan + 5,000	
To Advertisements (1/3 of (9,000))	43,000		
To Trade Expenses	3,000		
To Rent	4,800		
To Establishment	12,000		
To Stable Expenses	5,400		
To Mortgage Interest	2,100		
To Provision for Doubtful Debts	600		
To Provision of Discount on Debtors	2,000		
To Stationery	760		
To Outstanding Interest on Modi's Loan	200		
To Net Profit Carried to Capital A/c	700		
	64,440		
	1,40,500		1,40,500

Balance Sheet

as on 31st March, 2015

	Rs.		Rs.
Sundry Creditors	30,000	Cash in Hand	2,500
Less : Loan from Modi	10,000	Sundry Debtors	40,000
	20,000	Less : Provision for doubtful Debts	(2,000)
Add : Goods in Transit	5,000		38,000
Less : Provision for Discount	(500)	Debtors	37,240
	24,500	Less : Provision for Discount	(760)
Outstanding Rent	1,000	Closing Stock	46,000
Outstanding Stationery	200	Goods in Transit	5,000
Mortgage and Interest	15,600	Machinery	87,500
Loan from Modi	10,000	Advertisement Expenses	9,000
Add : Outstanding Interest	700	Less : Written off	(3,000)
Capital	67,800		6,000
Add : Net Profit	64,440		
	1,32,240		1,84,240
	1,84,240		

- Note :** (1) Contingent Liability for Bills Discounted Rs. 4,500.
 (2) Goods in Transit will be shown on Assets side and will also be added in Creditors on Liabilities side. Provision for discount on creditors will be calculated on Total Creditors.
 (3) Interest on Modi's Loan is outstanding for seven months from September to March.

Test Questions

Very Short Questions & Answers : (Not exceeding 40 words)

Q.1. What is meant by Accrued Income?

Ans. : When an income such as interest on investments, commission, rent, dividends etc. are earned during the current year but the same has not been received by the end of current financial year, such income is called Accrued Income or Income Receivable.

Q.2. State the meaning of Adjustments.

Ans. : In order to give a true picture about the financial position of the business while closing the books of accounts and preparing the final accounts, the accountant may come to know about certain incomes and expenses which are due but not received or paid, some expenses may be paid in advance etc. These are adjustments to be made in books of accounts.

Q.3. State two objectives of making Adjustments.

[BBA 2006]

Ans. : Need or Objectives of Adjustments

- (i) To ascertain true net profit or net loss of the Business.
- (ii) To ascertain the correct financial position of the Business.
- (iii) To rectify the errors committed in the books of accounts.
- (iv) To record the transactions omitted from the books.

Q.4. Define Unexpired Expenses.

Ans. : Unexpired expenses are those expenses which have been paid in advance for the next accounting year, during current year. In other words, the benefit of such payment will be available during next accounting year. It is also known as prepaid expenses.

Q.5. State the meaning of Unearned Income.

Ans. : Sometimes it may happen that a certain income is received in the current year in advance for the work to be performed during next accounting year or whole amount of income may not belong to current year. Such portion of income which belongs to next year is known as unearned income.

Q.6. What is contingent liability? Give two examples.

[BBA 2007]

Ans. : Contingent liability is a obligation which may arise on the happening of an event in future. It is not an obligation at present but may arise in future. For example, (i) Bills Received discounted, liability may arise if dishonoured on due date, (ii) liability for a case lying pending in the court etc.

Q.7. What is meant by Provision for doubtful debts?

Ans. : Even after writing off the amount of actual bad debts, the list of debtors at the end of current year may include such debts which are either bad or doubtful. Since the amount of actual loss for current year's bad debts would be known only during next year when amount is realised from debtors, a provision is created.

Q.8. How will you treat in final accounts when old provision of bad debts exceeds the total amount of bad debts and the new provision?

Ans. : If the amount of provision made for bad and doubtful debts is more than the total of bad debts and new provision, the balance is called excess provision made. This balance or excess amount of provision shall be shown on the credit side of Profit & Loss Account. New provision will be deducted from sundry debtors as usual in Balance Sheet.

Q.9. In trial balance of a trader, the debtors are Rs. 80,000. Provision for bad and doubtful debts on debtors is @ 5% and provision for discount on debtors @3%. Calculate the amount of provision for discount on debtors.

Ans. : Total amount of Sundry Debtors is [Ans. Rs. 2,28](BBA 2005)

Less : Provision for doubtful debts 5% on Rs. 80,000 =	80,000
Good Debts	(4,000)
	76,000
Less : Provision for discount @3% on Rs. 76,000	2,280
	73,720

Thus provision for discount on Debtors = Rs. 2,280

Q.10. Manager is to be given 10% commission on net profits after charging such commission. Net Profit before charging commission is Rs. 55,000. Give adjustment entry for such commission.

[Ans. : Rs. 5,000] (BA 2005)

$$\begin{aligned} \text{Ans. : Manager's commission} &= \frac{\text{Net Profit} \times \text{Rate of Commission}}{100 + \text{Rate}} \\ &= \frac{\text{Rs. } 55,000 \times 10}{100 + 10} \text{ or Rs. } 5,000 \end{aligned}$$

Adjusting Entry will be

Manager's commission A/c	Dr.	5,000	
To Accrued Commission A/c			5,000
(For amount of commission due to Manager)			

Q.11. Show the reserve for discount on creditors with imaginary figures in the Balance Sheet.

[BBA 2003]

Ans. : It is against the convention of conservatism that provision for future gain is made. However, this provision for discount on creditors will be shown in the Balance Sheet under Liabilities side :

	Rs.	Rs.
Sundry Creditors	2,40,000	
Less : Provision for discount @ 2% on creditors	4,800	2,35,200

Q.12. Insurance premium was paid Rs. 18,000 for the year on July 1, 2014. The accounting year ends on 31st March, 2015. Give Adjustment entry. (Ans. Prepaid insurance is Rs. 4,500)

Ans. : Insurance premium is paid on July 1, 2014 which will expire on 30th June, 2015, which means premium for 3 months Rs. $\frac{18,000}{12} \times 3 = \text{Rs. } 4,500$ is prepaid for the year ended 31st March, 2015.

Journal entry will be :

Prepaid Insurance Premium A/c	Dr.	4,500	
To Insurance Premium A/c			4,500

Short Questions and Answers : (Not exceeding 80 words)

Q.1. What is meant by Accrued Expenses? Give the adjusting entry?

Ans. : The expenses outstanding means the expenses which have been incurred during the year but have been left unpaid on the date of preparation of final accounts. In other words, the benefit of such expenses has been derived during current year but the payment of which has not been made till the end of current accounting year. For example, rent of Rs. 2,400 per month is required to be paid by the firm but for 2014-15 accounting year, two months rent is due which has not been paid till 31st March, 2015. The Journal entry would be ?

Rent A/c	Dr.	4,800	
			To Accrued Rent A/c
			4,800

(For 2 months rent due, but not paid)

Q.2 . Enumerate five main adjustments which are usually given while preparing final accounts.

Ans. Main adjustments are :

1. Closing Stock : Debit closing stock A/c and credit Trading A/c.
2. Outstanding Expenses : Debit all those expenses by name which remain unpaid at the end of accounting year and credit 'Outstanding or Unpaid Expenses A/c' to be shown as a liability.
3. Prepaid Expenses : Debit Prepaid or Unexpired Expenses A/c and credit by name those expenses which have been paid in advance.
4. Accrued Income : Income earned but yet to be received, Journal entry will be -

Accrued Income A/c	Dr.		
			To Respective Income A/c

(For income due but not received)

5. Unearned Income : Incomes not yet earned but received in advance, for example Commission received Rs. 24,000, half of which belongs to next year. Journal entry will be ?

Commission A/c	Dr.	12,000	
			To Unearned Commission A/c
			12,000

(For commission received in Advance)

Q.3. Goods worth Rs. 5,000 was used by the proprietor for domestic use, worth Rs. 4,000 distributed as free samples and worth Rs. 1,100 given as charity. Where and how will these items appear in final accounts?

Ans. The Journal entry for adjustment regarding goods will be as under :

Drawings A/c (Domestic use)	Dr.	5,000	
Advertisement A/c (Free samples)	Dr.	4,000	
Charity A/c	Dr.	1,100	
			To Purchases A/c
			10,100

Treatment in Final Accounts :

- (i) Amount of drawings : Deduct from capital.
- (ii) Advertisement and charity will be shown on debit side of Profit & Loss A/c
- (iii) Purchases will be reduced by total amounting of Rs. 10,100.

Q.4. What is the difference between accrued income and unearned income?

Ans. Difference Between Accrued Income and unearned Income (BBA 2005)

Accrued Income or Income Receivable (Asset) :

Such income which has been earned by the business during an accounting year but has not been received till the end of current year, are called Accrued Incomes or Earned or Outstanding Incomes. Adjustment entry, for it is :

Accrued Income A/c	Dr.		
			To (Particular) Income A/c

Treatment in Final Account :

Such incomes on one hand will be shown on credit side of Profit & Loss Account (being an Income), and on the other hand Accrued Income being the representative personal account of such persons from whom income is due, will be shown on Assets side of Balance Sheet.

Unearned Income or Income Received in Advance (Liability) :

The Income which has been received by the business before it being earned is called as unearned income or income received in advance. Examples are apprenticeship premium, insurance premium, advertisement fee etc. In order to ascertain the true profit or loss, it is necessary that such income is not taken into account at the time of preparing the Profit & Loss Account for the year. The following adjustment entry is passed :

Particular Income A/c	Dr.		
			To Income Received in Advance A/c

If adjustment is not made, profits would be overstated and the liability would be understated.

Q.5. The following information is obtained from the trail balance of a trader for the year ending 31st March, 2015 :

Bad debts (Dr.) Rs. 1,400, Provision for bad debts (Cr.) Rs. 4,000, Debtors Rs. 24,400.

Adjustments given : write off further bad debts Rs. 400 and make a provision for doubtful debts @ 5% on debtors. Pass Journal entries and prepare necessary ledger accounts. (BBA, 2003)

Ans. : Ledger Accounts :

Dr.		Bad Debts Account		Cr.
	Rs.			Rs.
To Balance b.d	1,400	By Provision for Bad debts A/c		1,800
To Debtors A/c (New Bad debts)	400			
	1,800			1,800

Dr.		Provision for Bad Debts Account		Cr.	
	Rs.			Rs.	
To Bad debts A/c	1,800	By Balance b/d		4,000	
To Balance b/d c/d (5% on Rs. 24,000)	1,200	By P & L A/c (Balancing figure)		2,600	
	3,000			3,000	

Journal

Bad debts A/c	Dr.	400	
To Sundry Debtors A/c			400
<i>(For new bad debts w/o)</i>			
P & L A/c	Dr.	2,600	
To Provision for Bad debts			2,600
<i>(For provision made)</i>			
Provision for Bad debts A/c	Dr.	1,800	
To Baddebts A/c	Dr.		1,800

(For total amount of bad debts transferred)

Q.6. How are provision for bad and doubtful debts and 'Provision for discount on debtors' shown in final accounts? Explain with imaginary figures. (BBA, 2004)

Ans. See answer to Q. No. 5 above.

Q.7. Cash amounting to Rs. 20,000 was stolen by an employee during the Accounting year 2014-15. Pass necessary Journal Entry for the same. How is this loss shown in final accounts.

Ans. **Journal Entry**

Cash Lost by Theft A/c	Dr.	20,000	
To Cash Account			20,000

(For cash stolen by an employee)

The loss of Cash lost during the course of business is a revenue loss which is to be written off in Profit & Loss Account of the year. In final accounts this loss will be shown in P&L A/c debit side and 'Cash lost by theft' will be deducted from the balance of Cash in Balance Sheet.

Q.8. Write 10 items of assets to be shown in order of Liquidity in Balance Sheet of a Trader.

Ans. : Assets side of Balance Sheet (Order of Liquidity)

(i) Cash in hand, (ii) Cash at Bank, (iii) Short term Marketable Securities, (iv) Bills Receivable, (v) Sundry Debtors, (vi) Closing Stock, (vii) Prepaid Expenses, (viii) Furniture & Fittings, (ix) Plant and Machinery, (x) Land & Building, (xi) Goodwill.

Q.9. Write a note on outstanding Expenses.

(BCA 2011)

Ans. : **Outstanding Expenses or Accrued Expenses (Liability) :**

Those Expenses which accrue from day to day but usually recorded only when they are actually paid are known as Outstanding Expenses. Examples of such expense are, Salaries, interest, rent etc. Some of these expenses may have remained unpaid at the end of the accounting period and, therefore, no entry might have been passed in the books of accounts. Amount of such

items are both expenses and liabilities on the date of final accounts. The following Adjusting entry will be passed in case of such outstanding expenses :

Expenses A/c	Dr.
To Outstanding Expenses A/c	

Expense account is a nominal account and, therefore, it will be transferred to Profit & Loss Account. While the outstanding expenses account is a personal account which represents the persons to whom the expense has to be paid. It is, therefore, shown in the balance sheet on the liability side. At the commencement of the next year the reverse entry (Outstanding expense account debit, To Expense account) will be passed.

Note : If outstanding expenses have been given inside Trial Balance, these will be shown at one place only i.e., on the liability side on the Balance Sheet.

Q.10. Write a note on Prepaid or Unexpired Expenses.

Ans. : **Prepaid Expenses or Unexpired Expenses :**

Those expenses which have been paid in advance are called Prepaid Expenses or Expenses paid in advance. In this regard it is customary that payments for some services as rent of the building, salaries to staff, insurance premium etc. are made in advance i.e., for the period relevant to the next accounting year. In order to ascertain true profit and loss, only those expenses which are related to the current accounting period should only be charged to the Profit & Loss Account. That part of expenses which relate to next year should be carried forward. The following journal entry will be passed for the expenses paid in advance :

Prepaid Expenses A/c	Dr.
To Expense A/c	

Prepaid expense account is a representative personal account which represents the account of the person to whom payment has been made in advance, hence it is shown in the balance sheet on the asset side. Expenses account is a nominal account and be credited to the Profit & Loss Account, preferably by deducting from the relevant expense account. At the commencement of next year prepaid expense will be written off by reversing the entry.

Essay Type or Long Answers Questions :

1. What do you mean by closing Inventory? Illustrate the principle involved in its valuation. (See page nps. 13.1)
2. Explain the following adjustments giving an example for each :
 - (a) Accrued Expenses (page 13.2)
 - (b) Accrued Income (page 13.4)
 - (c) Unearned Income (page 13.5)
 - (d) Unexpired Expenses. (page 13.3)
3. State the meaning of Adjustments Enumerate various by per of Adjustment. (See page nps. 13.11)

Numericals :

Q.1. Ascertain gross profit from the following date :

	Rs.		Rs.
Opening Stock	55,700	Return inwards	5,240
Purchases	1,38,160	Warehouse Wages	14,000
Sales	1,52,840	Wages due	400
Return outward	3,900	Closing Stock	88,800
Carriage inward	2,520	Carriage on Sales	1,600

[Ans : Rs. 43,520]

Hint : (i) Prepare Trading A/c and find out G.P.

(ii) Return outward means purchase return, return inward means sales return.

(iii) Warehouse wages and Carriage of sales are items of selling & distribution expenses not to be shown in trading account.

Q.2. From the following information find out gross profit and net profit of a merchant :

	Rs.		Rs.
Stock at start	24,000	Carriage inward	5,240
Purchases	1,52,050	Wages paid	28,000
Sales	2,08,600	Wages due	960
Closing Stock	38,400	Loss of stock due to fire	10,000
Return outward	1,850	Indirect expenses	2,000
Return inward	8,600		

[Ans : G.P. Rs. 40,000, N.P. Rs. 28,000]

Ans. : Trading & Profit and Loss A/c for the years ended...

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock		24,000	By Sales	2,08,600	
To Purchases	1,52,050		Less : Ret. Inward	(8,600)	2,00,000
Less : Ret. Out.	(1,850)		By Closing Stock		38,400
Less : Loss of Stock	(10,000)	1,40,200			
To Carriage inward		5,240			
To Wages paid & due		28,960			
To Gross Profit c/d		40,000			
		2,38,400			2,38,400
To Indirect expenses		2,000	By G.P. b/d		40,000
To Loss of Stock (being uninsured)		10,000			
To Net Profit c/d		28,000			
		40,000			40,000

Thus, G.P. = Rs. 40,000, and N.P. = Rs. 28,000

Q.3. Pass necessary adjustment entries for the following as at 31st March, 2015 :

- Depreciate 5% on Building valued Rs. 2,00,000, 10% on Plant and Machinery Rs. 80,000 and 5% on office furniture worth Rs. 8,000.
- The insurance premium was Rs. 7,200 for the year ending 30th June, 2015.
- The telephone rent was due for the year Rs. 6,000.
- Provide for interest on capital @ 6% per annum. The capital at the beginning was Rs. 2,00,000 and additional capital introduced was Rs. 1,00,000 on 1st January, 2009.
- An old machinery appearing in books at Rs. 50,000 is exchanged for a new machinery for Rs. 80,000. The old machinery was valued at Rs. 8,000 for this purpose.

Journal Entries

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
(i)	Depreciation A/c To Buildings A/c (5% on Rs. 2 lacs) To Plant and Machinery A/c (10% on Rs. 80,000) To Furniture A/c (15% on Rs. 8,000) (For dep. written off)	Dr.	19,200	10,000 8,000 1,200
(ii)	Prepaid Insurance Premium A/c To Insurance Premium A/c (Insurance premium unexpired for 3 months)	Dr.	1,800	1,800
(iii)	Telephone Charges A/c To Outstanding Telephone Charges A/c (For telephone charges due for the year)	Dr.	6,000	6,000
(iv)	Interest on capital A/c To Capital A/c (For interest on capital provided, 200000 × 6% = 12000 + (1,00,000 × 6% × 3/12) or 12,000 + 1,500 = Rs. 13,500)	Dr.	13,500	13,500
(v)	New Machine A/c P & L A/c (Loss on old Machine) To Old Machine A/c To Vendor's A/c (For old machinery exchanged with new, loss on old machinery (Rs. 50,000 - 8,000) = Rs. 42,000 w/o to P & L A/c)	Dr. Dr.	80,000 42,000	50,000 72,000

4. The books of a merchant shows the following balances on April 1, 2014.

	Rs.
Sundry debtors	85,000
Sundry creditors	60,000
Provision for bad & doubtful debts	1,700
Provision for discount on creditors	600
Provision for discount on debtors	1,666

Sundry debtors and creditors on 31st March, 2015 were Rs. 1,25,000 and Rs. 83,000 respectively. Bad debts written off during the year amounted to Rs. 1,500 and discount allowed Rs. 166 and discount received Rs. 500. You are required to make a provision for doubtful debts at 3% and provision for discount on debtors and creditors at 2% each.

Show provision for Bad and doubtful debts account, Provision for discount on debtors account and Provision for discount on creditors account.

[Ans : Reserve for doubtful debts charged to P & L A/c Rs. 3,505, for discount on debtors Rs. 896, credited to P & L A/c for discount on creditors Rs. 1,560.]

Ans. : Ledger Accounts :

Dr. Provision For Bad debts Account Cr.			
Particulars	Rs.	Particulars	Rs.
To Debtors (Bad debts)	1,500	By Balance b/d	1,700
To Balance c/d (1,25,000 - 1,500 = 1,23,500 × 3%)	3,705	By P & L A/c (Balance figure)	3,505
	5,205		5,205
		By Balance b/d	3,705

Dr. Provision for Discount of Debtors Account Cr.			
Particulars	Rs.	Particulars	Rs.
To Discount allowed	166	By Balance b/d	1,666
To Balance c/d (2% 1,25,500 - 1,500 - 3,705) = 1,19,795	2,396	By P & L A/c	896
	2,562		2,562

Dr. Provision for Discount on Creditors Cr.			
Particulars	Rs.	Particulars	Rs.
To Balance b/d	600	By Discount received	500
To P. & L. A/c	1,560	By Balance c/d (2% Rs. 83,000)	1,660
	2,160		2,160

5. What adjustment entries are required to be made in the books for the following :

- Interest has accrued on Investment Rs. 4,000.
- A provision for doubtful debts of Rs. 400 is to provided against debtors.
- Goods in stock worth Rs. 4,800 are destroyed by fire, Insurance company accepts the claim of Rs. 2,600.
- A debt of Rs. 1,400 previously written off as bad, now recovered to the extent of Rs. 780.
- The proprietor has withdrawn goods worth Rs. 6,000 out of stock.

Ans.

Journal Entries				
Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
(a)	Accrued Interest A/c To Interest A/c (For interest due, yet to be received)	Dr.	4,000	4,000
(b)	P & L A/c To Provision for Doubtful debts A/c (For provision made for DD)	Dr.	400	400
(c)	Insurance Co. P. & L. (Amount of Loss) To Purchases A/c (For insured stock destroyed by fire excess over claim passed transferred to P.&L. A/c)	Dr. Dr.	2,600 2,200	4,800
(d)	Cash / Bank A/c To Bad debt Recovered A/c (For bad debts recovered)	Dr.	780	780
(e)	Drawings A/c To Purchases A/c (For goods withdrawn for personal use)	Dr.	6,000	6,000

6. From the following Trial Balance of Mr. Shyamal Banerjee, prepare Trading and Profit & Loss Account for the year ended 31st March, 2015 and Balance Sheet as on that date :

Particulars	Dr. (Rs.)	Cr. (Rs.)
Purchases and Sales	2,75,000	5,20,000
Returns Inwards and Outwards	15,000	9,000
Carriage inwards	12,400	
Wages and Salaries	58,600	
Trade Expenses	2,200	13,000
Rent Received	2,000	
Insurance	1,200	
Audit Fees	1,10,000	62,100
Debtors and Creditors	3,300	2,200
Bills Receivable and Bills Payable	5,500	1,000
Printing and Advertising	36,000	
Commission	12,800	
Opening Stock	26,800	20,000
Cash in Hand	1,500	
Cash at Bank		3,50,000
Bank Loan	15,000	
Interest on Loan	4,00,000	
Capital		
Drawings		
Fixed Assets	9,77,300	9,77,300

Adjustments :

- (a) Stock at the end Rs. 60,000;
 (b) Depreciate Fixed Assets by 10%;
 (c) Commission earned but not received amounts to Rs. 400;
 (d) Rent received in advance Rs. 1,000;
 (e) Interest on Bank Loan @ 15% per annum is unpaid for the last six months;
 (f) Allow 8% interest on Capital and charge Rs. 900 as interest on Drawings.

[Ans. : G.P. Rs. 1,92,000, N.P. Rs. 1,24,400, B/s Total Rs. 5,73,300]

Ans. Trading and Profit & Loss Account for the year ended 31st March, 2015

Particulars	Rs.	Particulars	Rs.
To Opening Stock	36,000	By Sales	5,20,000
To Purchases	2,75,000	Less : Returns	15,000
Less : Returns	9,000	By Stock (Closing)	60,000
To Carriage inward	12,400		
To Wages & Salaries	58,600		
To Gross Profit c/d	1,92,000		
	5,65,000		5,65,000
To Trade Expenses	2,200	By Gross Profit b/d	1,92,000
To Insurance	2,000	By Rent Received	13,000
To Audit fees	1,200	Less : Unearned	1,000
To Printing & Advertisement	5,500	By Commission	1,000
To Int. on Bank Loan	1,500	Add : Accrued	400
Add : Outstanding 15% × 20,000 × 6/12	1,500	By Interest on Drawings.	900
To Dep. on Fixed Assets (10%)	40,000		
To Int. on Capital			
Rs. 3,50,000 × 8%	28,000		
To Net profit c/d to Capital A/c	1,24,400		
	2,06,300		2,06,300

Balance Sheet
as on 31st March, 2015

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	62,100	Cash in hand	12,800
Bills Payable	2,200	Cash at Bank	26,800
Bank Loan	20,000	Sundry Debtors	1,10,000
Interest Accrued on Loan	1,500	Bills Receivable	3,300
Rent received in Advance	1,000	Stock at Cost	60,000
Capital	3,50,000	Accrued Commission	400
Add : Net Profit	1,24,400	Fixed Assets	4,00,000
	4,74,400	Less : Depreciation	40,000
Less : Drawing & Int.	(15,000)		3,60,000
	4,58,500		
Add : Int. on Capital	28,000		
	4,86,500		
	5,73,300		5,73,300

7. From the following Trial balance of Mr. X, prepare final accounts for the year ended 31st March, 2015 :

	Dr. (Rs.)	Cr. (Rs.)
Cash in Hand	2,000	
Cash at Bank	18,000	
Purchases and Sales	2,20,000	3,50,000
Return Inwards and Outwards	6,000	7,500
Carriage on Purchases	4,400	
Carriage on Sales	2,100	
Fuel and Power	15,500	
Stock on (1.4.2014)	36,000	
Bad Debts	6,200	
Bad Debts Provision		2,500
Trade Debtors and Creditors	82,000	30,000
Capital of Mr. X		2,17,000
Investments	20,000	
Interest on Investments		2,000
Loan from Atal @ 18% per annum		10,000
Repairs and Renewals	1,520	
General Trade Expenses	10,600	
Land and Buildings	1,80,000	
Wages and Salaries	18,000	
Miscellaneous Receipts		120
Sales Tax Collected		5,200
Stationery and Printing	2,000	
	6,24,320	6,24,320

Adjustments :

- (1) Write off Rs. 9,000 as bad debts and provision for doubtful debts is to be maintained at 5% on Debtors;
 (2) Loan from Atal was taken on 1st August, 2014. No interest has been paid so far;
 (3) Included in General Trade Expenses is Insurance Premium Rs. 1,200 paid for one year ending 30th June, 2015;
 (4) One-third of Wages and Salaries is to be charged to Trading Account and the balance to Profit & Loss Account;
 (5) Entire Stationery and Printing was for the Proprietor's own purpose;
 (6) Closing Stock was valued at Rs. 60,000 (Market price being Rs. 68,000).

Ans. : G.P. Rs. 1,29,600, N.P. Rs. 94,900, B/s Total Rs. 3,56,300.

Ans. Trading and Profit & Loss Account for the year ended 31st March, 2015

Particulars	Rs.	Particulars	Rs.
To Opening Stock	36,000	By Sales	3,50,000
To Purchases	2,20,000	Less : Ret. In.	(6,000)
Less : Returns out.	(7,500)	By Closing Stock at Cost	60,000
To Carriage on Purchases	4,400		
To Fuel & Power	15,500		
To Wages & Salaries			
Rs. 18,000 × 1/3	6,000		
To Gross Profit c/d	1,29,600		
	4,04,000		4,04,000
To Carriage on sales	2,100	By Gross Profit b/d	1,29,600
To Trade Expenses	10,600	By Interest on Invest.	2,000
Less : Ins. Prem.	(1,200)	By Misc. Receipts	120
To Ins. Prem.	1,200		
Less : Prepaid for 3 months	300		
To Wages and Salaries			
18,000 × 2/3	12,000		
To Interest on Atal's Loan			
10,000 × 18% × 8/12	1,200		
To Repairs etc.	1,520		
To Bad debts	6,200		
Add : New bad debts	2,000		
Add : New Provision			
82,000 - 2,000 = 80,000 × 5%	4,000		
	12,200		
Less : Old Provision	2,500		
To Net Profit c/d to Capital	94,900		
	1,31,720		1,31,720

Balance Sheet
as on 31st March, 2015

Liabilities	Rs.	Assets	Rs.
Capital	2,17,000	Cash in hand	2,000
Add N.P.	94,900	Cash at Bank	18,000
	3,11,900	Debtors	82,000
Less : Drawings		Less : New Bad debts	(2,000)
for Stationery etc.	(2,000)		80,000
Loan from Atal	10,000	Less : New Reserve	(4,000)
Interest Due	1,200	Investments	20,000
Sales Tax Collected	5,200	Closing Stock	60,000
Creditors	30,000	Land & Buildings	1,80,000
		Prepaid Ins. Premium.	300
	3,56,300		3,56,300

8. The following trial balance is extracted from the books of a merchant on 31 March, 2015 :

	Dr. Rs.	Cr. Rs.
Furniture and Fittings	640	—
Motor Vehicles	6,250	—
Buildings	7,500	—
Capital Account	—	12,500
Bad Debts	125	—
Provision for Bad Debts	—	200
Sundry Debtors and Creditors	3,800	2,500
Stock on April 1, 2014	3,460	—
Purchases and Sales	5,475	15,450
Bank Overdraft	—	2,850
Sale and Purchases, Returns	200	125
Advertising	450	—
Interest (on Bank Overdraft)	118	—
Commission	—	375
Cash	650	—
Taxes and Insurance	1,250	—
General Expenses	782	—
Salaries	3,300	—
Total	34,000	34,000

The following adjustments are to be made :

- (i) Stock in hand on 31st March, 2015 was Rs. 3,250.
 (ii) Depreciated Buildings at the rate of 5% Furniture and fittings @ 10% and Motor Vehicles @ 20%.
 (iii) Rs. 85 is due for interest on bank overdraft.

- (iv) Salaries Rs. 300 and Taxes Rs. 120 are outstanding.
 (v) Insurance amounting to Rs. 100 is prepaid.
 (vi) One third of the commission received in respect of work to be done next year.
 (vii) Write off a further sum of Rs. 100 as bad debt and provision for bad debts to be made equal to 10 percent on sundry debtors.

Prepare a Trading and Profit & Loss Account for the year ending 31st March, 2008 and Balance Sheet as on the date.
 (RU BBA, 2006)

Ans. : Net Profit, 541, G.P. Rs. 9,600 B/S Total 20,021

Hint : (i) Provision for bad debts will be written as under

Bad debts + new Bad debts + New Reserve – Old Reserve

Rs. 125 + 100 + (3,800 – 100 = 3,700 × 10%) – 200 or 595 – 200 = 395 to P & L A/c and deduct Rs. 100 and 370 from Debtors in Balance Sheet.

(ii) Commission received Rs. 375 of this 125 is received in advance.

Deduct Rs. 125 from commission in P & L A/c and show Rs. 125 on Liabilities side of B/S.

(iii) Interest on Bank overdraft Rs. 85 due, to be written in P & L A/c Dr. side and B/S Liabilities side.

(iv) Rs. 300 Salaries and Rs. 120 taxes, add in respective Expenses in P & L A/c and show them (300 + 120) = 420 Accrued Expenses on Liabilities side.

Q.9. The following balances are ascertained from the account books of Gopal on 31st March, 2015 :

	Dr. (Rs.)	Cr. (Rs.)
Capital Account	—	50,000
Opening Stock	10,000	—
Discount Allowed	500	—
Goodwill	10,000	—
Provision for doubtful debts	—	3,000
Bills Receivable and Bills Payable	3,000	2,000
Returns	2,000	3,000
Purchases and Sales	80,000	1,20,000
Cash in hand	1,000	—
Wages	9,000	—
Carriage inward	2,000	—
Factory Rent	1,500	—
Commission	—	2,000
Machinery	20,000	—
Furniture	6,000	—
Debtors and Creditors	30,000	20,000
Insurance Premium (Fire)	1,800	—
Salary paid for 11 months	4,400	—
Loan to Ram (1.4.14) at 12% p.a.	10,000	—
Trade Mark	8,800	—
Total	2,00,000	2,00,000

Prepare final accounts as on 31st March, 2015, taking into consideration the following adjustments :

- (1) Closing Stock Rs. 30,000,
- (2) Goods Costing Rs. 1,800 were sent to a customer on 31st March, 2015 on sale on approval basis, were recorded as sales for Rs. 2,000 by mistake.
- (3) Charge depreciation @ 10% per annum on Machinery and Furniture.
- (4) Interest on capital @ 10% per annum is to be provided.
- (5) Write off further bad debts by Rs. 500 and increase the provision for doubtful debts by Rs. 1,500.
- (6) A bill for Rs. 2,000 was discounted on 20th March, 2015, the due date of which is 23rd April, 2015.
- (7) One-fourth part of commission relates to next year.

(RU BBA, 2003)
 [Ans. G.p. Rs. 48,300, Net Profit Rs. 34,800, B/s Total Rs. 1,12,700.]

- Hint : (i) Provision for bad debts has to be increased by Rs. 1,500. As such this amount will be debited to Profit & Loss A/c. The closing balance of B.D. Provision A/c Rs. 4,000 will be deducted from Sundry Debtors. (Rs. 3,000 + 1,500 – 500) = Rs. 4,000.
 (ii) Closing Stock Rs. 30,000 + 1,800 = Rs. 31,800 be shown at two places and deduct Rs. 2,000 from sales and also from Sundry Debtors.
 (iii) A bill discounted for Rs. 2,000, due date being of 23rd April, 2015 is a contingent liability to be shown as foot note under liabilities side of Balance Sheet.

Q.10. Prepare final Accounts of Mr. X for the following information given to you for the year ended 31st March, 2015.

	Rs.		Rs.
Capital	82,000	Trade Expenses	15,400
Life Insurance Prem.	2,800	Sundry Creditors	9,000
Plant & Machinery	5,000	Sales	1,24,000
Opening Stock	15,000	Return Outward	1,000
Purchases	87,200	Rebate & Allowance (Dr.)	800
Return Inwards	6,000	Rebate & Allowance (Cr.)	1,200
Sundry Debtors	21,000	Rent Received (10 months)	1,000
Furniture	9,100	Lighting & Heading	400
Motor Car	40,000	Car Expenses	6,300
Freight	2,000	Bank Balance	15,200
Carriage in	800	Loan from Laxman	10,000
Carriage Out	300	@ 15% p.a.	
		Interest on Loan	900

Adjustments :

- (1) Stock closing Rs. 25,000 (Market Value Rs. 32,000)
- (2) Stock of Rs. 6,000 destroyed by fire on 28th March, 2015. It was fully insured, full claim admitted by Insurance Company.
- (3) Goods Costing Rs. 1,800 were distributed as free sample, worth Rs. 1,500 were used for domestic purpose and for Rs. 500 given as charity.
- (4) Depreciate car by 15%.
- (5) Motor Car was used for personal use also. As such 1/3 rd of Car expenses and depreciation assigned for it.

- (6) Rent for 2 months is still to be received.
 (7) Balance at Bank on 31-3-2015 as per Pass Book was Rs. 15,080 the difference should be treated as Bank Charges.
 (8) Trade expenses include Rs. 2,400 of Insurance premium paid for the year ending 30th June, 2015.

Solution : Trading and Profit & Loss Account for the year ended 31st March, 2015

	Rs.		Rs.
To Opening Stock	15,000	By Sales	1,24,000
To Purchases	87,200	Less : Return in	6,000
Less : Return Outward	1,000	By Closing Stock at Cost.	25,000
Loss by fire	(6,000)		
Free Sample	(1,800)		
Drawings	(1,500)		
Charity	(500)		
To Freight	2,000		
To Carriage Inward	800		
To Gross Profit c/d	48,800		
	1,43,000		1,43,000

	Rs.		Rs.
To Carriage outward	300	By Gross Profit b/d	48,800
To Trade Expenses		By Rebate & Allowance (Cr.)	1,200
Less : Prepaid	15,400	By Rent Received	1,000
Ins.	600	Add : Receivable	200
To Rebate & Allowance	800		1,200
To Lighting & heating	400		
To Int. on Laxman's Loan	900		
Add : Outstanding Int.	300		
To Free Samples	1,800		
To Charity	500		
To Car expenses	6,300		
Less : Drawings 1/3	2,100		
To Dep. on Car	6,000		
Less : Drawing 1/3	2,000		
To Bank Charges			
(Rs. 15,200 - 15,080)	120		
To Net Profit Carried to Capital A/c	23,080		
	51,200		51,200

Balance Sheet
as on 31st March 2015

Liabilities	Amount Rs.	Assets	Amount Rs.
Capital	82,000	Cash at Bank	15,080
Add : Net Profit	23,080	Sundry Debtors	21,000
	1,05,080	Closing Stock at Cost	25,000
Less : Drawings		Prepaid Ins. Premium	600
(i) Lift Ins. Prem	(2,800)	Rent Accrued	200
(ii) Goods	(1,500)	Amount due from Insurance Company	6,000
(iii) Cars Exps & Depreciation	(4,100)	Furniture	9,100
Laxman's Loan	10,000	Motor Car	40,000
Add : Interest due	300	Less : Dep.	6,000
Sundry Creditors	9,000	Plant & Machinery.	5,000
	96,680		
	10,300		
	9,000		
	1,15,980		1,15,980

11. The following balances have been drawn from account books of Ram for the year ended 31st March, 2015 :

	Rs.		Rs.
Opening Stock	34,000	Stable Expenses	5,000
Purchases	3,70,000	Bills Payable	12,000
Sales	5,50,000	Bank Loan	20,000
Selling Expenses	30,000	Bills Receivable	18,000
Capital	2,50,000	Carriage and Horse	7,000
Creditors	60,000	Fire Insurance Premium	2,000
Return Inwards	4,000	Return outwards	2,000
Fuel and Power	16,000	Debtors	87,000
Salaries and wages	47,000	Machinery	1,00,000
Interest on Bank Loan	2,000	Buildings	1,40,000
Commission Received	3,000	Drawings	30,000
Bad debts	2,000	Cash in Hand	6,000
Bad debt Provision	3,000		

Other Information :

- (1) On 31st March, 2015 the stock was Rs. 49,400;
 (2) Credit purchases of Rs. 1,000 and credit sales of Rs. 3,000 were not recorded in account books;
 (3) Prepaid fire insurance premium Rs. 500, outstanding interest on bank loan Rs. 400 and accrued commission Rs. 1,000;
 (4) The Provision for bad debts on Debtors is to be kept at 5%;

- (5) Charge depreciation on Building at 5% per annum and on Machinery at 10% per annum;
 (6) Make Provision for Manager's commission at 10% on Net Profit after charging such commission.
 Prepare Final Accounts for the year ended 31st March, 2015. (RU BCA, 2007 Modified)
 [Ans. : G.P. Rs. 1,79,400, N.P. Rs. 70,000, Manager's Com. Rs. 7,000, B/S Total Rs. 3,90,400.]

Hint for Solution :

- (i) Closing Stock : (a) Trading A/c Cr. side and Assets side in B/S
 (ii) Increase purchases by Rs. 1,000 and creditors by Rs. 1,000, similarly increase sales and debtors each by Rs. 3,000
 (iii) Deduct Rs. 500 from Fire Ins. prem Rs. 2,000 and show Rs. 500 on assets side, outstanding Interest is a liability & add in Interest on Bank Loan Rs. 2,000 in P & L A/c. Commission accrued Rs. 1,000 add in commission Received Rs 3,000 and also in B/S on assets side
 (iv) Provision for bad debts 5% on (Rs. 87,000 + 3,000). Manager's commission = Rs. $\frac{10}{100} \times 77,000$ is the profit before charging Manager's Commission. It will also to be shown on liabilities side as commission due. Answer's are correct. Please tally.

12. From the following trial balance extracted from the books of Mr. Kumar, prepare a Trading Account, Profit & Loss Account for the year ended 31st March, 2009 and a Balance Sheet as on that date:

	Rs.		Rs.
Drawings	1,20,000	Capital	16,00,000
Plant and Machinery	12,00,000	Creditors	2,60,000
Horses and Carts	2,60,000	Sales	8,20,000
Debtors	3,40,000	Bills Payable	2,21,200
Purchases	2,00,000	Interest on Shreekant's Loan	1,800
Wages	80,000	Apprentice Premium	12,000
Cash at Bank	2,60,000		
Salaries	80,000		
Repairs	5,000		
Stock (1.4.2014)	70,000		
Stock (31.3.2015)	92,000		
Rent paid	45,000		
Manufacturing expenses	15,000		
Bad debts	50,000		
Carriage	15,000		
Income Tax	20,000		
Life Insurance Premium	30,000		
Loan to Shreekant at 12% p.a.	20,000		
Insurance	12,000		
Insurance Prepaid	1,000		
	29,15,000		29,15,000

Adjustments :

- (1) Plant and Machinery includes a new Machinery purchased on 1st October 2014 for Rs. 2,00,000;
 (2) Depreciate Plant and Machinery by 10% per annum and Horses and Carts by 20% per annum;
 (3) Apprentice Premium has been received for two years;
 (4) Salaries for the month of February and March, 2015 are outstanding;
 (5) Goods worth Rs. 15,000 were sold and despatched on 27th March but no entry was passed to this effect;
 (6) Make a provision for Doubtful debts at 5% on Debtors;
 (7) Allow 5% per annum interest on Capital. An additional capital of Rs. 1,00,000 was introduced by Mr. Kumar on 1st October, 2014.

[Ans. Gross Profit Rs. 4,55,000; Net Loss Rs. 1,850; Balance Sheet total Rs. 20,88,850.]

Ans.

Trading and Profit & Loss Account for the year ended 31st march, 2015

	Rs.		Rs.
To Opening Stock	70,000	By Sales	8,20,000
To Purchases	2,00,000	Add not passed in books	15,000
To Wages	80,000		
To Mfg. Expenses	15,000		
To Carriage	15,000		
To Gross Profit c/d	4,55,000		
	8,35,000		8,35,000
To Salaries	80,000	By Gross Profit b/d	4,55,000
Add Outstanding $\left(\frac{80,000}{10} \times 2\right)$	16,000	By Interest on Loan + Accrued	1,800
	96,000		+ 600
To Repairs	5,000	By Apprentice Prem.	12,000
To Rent Paid	45,000	Less : unearned	6,000
To Bad debts w/o	50,000	By Net Loss	1,850
To Insurance	12,000		
To Depreciation on :			
Plant & Machinery @ 10% on			
Rs. 10,00,000 + 10% on			
2,00,000 or 6 months :			
1,00,000 + 10,000	1,10,000		
Horses and Carts 20% × 2,60,000	52,000		
To Provision for Bad debts 5% on			
(Rs. 3,40,000 + 15,000)	17,750		
To Interest on Capital 5% ×			
15,00,000 + 5% × 1,00,000 for	77,500		
6 months = 75,000 + 2,500.			
	4,65,250		4,65,250

Balance Sheet on Mr. Kumar
As on 31st March, 2015

Liabilities		Amount Rs.	Assets		Amount Rs.
Capital	16,00,000		Cash at Bank	Rs.	2,60,000
Add : Interest	77,500		Debtors	3,40,000	
	<u>16,77,500</u>		Additional Sales	15,000	
Less : Loss	(1,850)			<u>3,55,000</u>	
Less : Drawings	16,75,650		Less : Provision	17,750	3,37,250
1,20,000 + 30,000			Stock Closing		92,000
(LIP) + 20,000 (I Tax.) (1,70,000)	15,05,650		Loan to Shrikant		20,000
Creditors	2,60,000		Interest Accrued on Loan		600
Bills Payable	2,21,200		(Rs. 2,400 - 1,800)		
Unearned Apprew Prem.	6,000		Insurance Prepaid		1,000
Salaries Outstanding 8,000 × 2	16,000		Horses & Carts	2,60,000	
			Less : Dep.	52,000	2,08,000
			Plant & Machinery	12,00,000	
			Less : Dep :	1,10,000	10,90,000
		20,08,850			20,08,850

Note : Life Insurance Premium Rs. 30,000 and Income tax Rs. 20,000 are treated as Drawings.

14. The following is the trial balance of M/s. Charulata & Company on 31st March, 2015 :

	Rs.		Rs.
Capital of Proprietor	80,000	Insurance (Fire) Premium	1,500
Opening Stock	10,000	Provision for doubtful debts	1,800
Purchases	60,000	Bad debts	300
Sales	95,000	Bills Payable	5,000
Sales Returns	2,000	Interest received	1,000
Productive Wages	5,000	Buildings	40,000
Interest on Loan	1,000	Machinery	50,000
Manufacturing Expenses	6,000	Furniture	2,000
Salaries	3,400	Motor Car	30,000
Trade Debtors	25,400	Trade Creditors	40,000
Drawings	2,500	Car Expenses	600
Cash in Hand	800	Accrued Interest on Bank Deposit	300
Depreciation on Machinery	2,000	Loan from Laxman	
Bank Overdraft	10,000	on 1.4.2015 @ 14% per annum	10,000

Adjustments :

- (1) Closing Stock Rs. 25,000;
- (2) The insurance premium instalment was paid on July, 1, 2014 for 12 months;

- (3) The installing charges of Machine Rs. 1,000 were posted to Wages account;
- (4) Goods costing Rs. 800 were sent to a customer on sale or approval on 31st March, 2015, but were wrongly entered as sales for Rs. 1,000;
- (5) Write off further bad debts for Rs. 400 and increase provision for doubtful debts by Rs. 2,000;
- (6) Charge depreciation on Motor car at 10% per annum, 1/3 part of Motor car is used for private purpose;
- (7) A bill of Rs. 5,000 was discounted on 25th March, 2015; the due date of which is 16th April, 2015.

[Ans : G.P. 37,800, N.P. 26,475, B/S Total Rs. 1,78,175]

- Ans : (i) Insurance Premium Prepaid = = Rs. (1500 ÷ 12) × 3 = Rs. 375
(ii) Bad debt Reserve A/c

	Rs.		Rs.
To Bad debts (old)	300	By Balance b/d	1,800
To Bad debts (New)	400	By P & L A/c (New Provision)	2,000
To Balance c/d	3,100		
	<u>3,800</u>		<u>3,800</u>

Thus, write Rs. 2,000 in P & L A/c Dr. side and deduct Rs. 3,100 from Sundry Debtors.

- (iii) Goods sold on approval Rs. 1,000, reduce sales by Rs. 1,000 and Debtors also by the same amount. Increase closing stock Rs. 25,000 by Rs. 800 i.e. Rs. 25,800.

Trading and Profit & Loss Account

Dr.		Cr.	
		For the year ended 31st March, 2015	
	Rs.		Rs.
To Opening Stock	10,000	By Sales	95,000
To Purchases	60,000	Less : Returns	(2,000)
To Wages	5,000	Less : Approval Sale	(1,000)
Less : Transfer to Machinery (1,000)	4,000	By Closing Stock (Rs. 25,000 + 800)	25,800
To Mfg. Expenses	6,000		
To Gross Profit c/d	37,800		
	<u>1,17,800</u>		<u>1,17,800</u>
To Salaries	3,400	By Gross Profit b/d	37,800
To Ins. Premium	1,500	By Int. Received	1,000
Less : Prepaid	375		
To Prov. for Bad debts	2,000		
To Interest on Loan	1,000		
Add : Outstanding	400		
To Dep. on Machinery	2,000		
To Car depreciation 10% on	3,000		
Add : Car exps.	600		
Less : Drawings	3,600		
To Net Profit c/d	(1,200)		
to Capital A/c	26,475		
	<u>38,800</u>		<u>38,800</u>

Balance Sheet as on 31st March, 2015

Liabilities		Amount	Assets		Amount
Capital	80,000		Cash in hand		800
Add : Net Profit	26,475		Debtors	25,400	
	<u>1,06,475</u>		Less : Sale on Approval	(1,000)	
Less : Drawings				<u>24,400</u>	
(2,500 + 1,200)	(3,700)	1,02,775	Less : New BD	400	
Trade Creditors	40,000			<u>24,000</u>	
Loan from Laxman	10,000		Less : Provision	3,100	20,900
Interest Due or O/S on Loan	400		Stock Closing		25,800
Bills Payable	5,000		Interest Due on Bank deposit		300
Bank overdraft	10,000		Prepaid Ins. Prem.		375
			Furniture		2,000
			Machinery (including installation)		51,000
			Car	30,000	
			Less : Dep.	<u>3,000</u>	27,000
			Buildings		40,000
		1,68,175			1,68,175

15. From the following balances extracted from the Books of Mr. Raniwala at the close of the accounting year ended on 31st March, 2015 prepare a Trading Account, Profit and Loss Account and Balance Sheet on that date after giving effect to the under mentioned adjustments :

Capital at commencement	70,000	Business Premises	55,000
Stock on Opening	28,000	Furniture & Fixtures	2,500
Purchases	20,000	Bills Receivable	3,500
Sales	1,00,000	Bills Payable	2,500
Returns Inwards	1,500	Sundry Debtors	20,000
Returns Outwards	400	Sundry Creditors	15,800
Wages	6,900	Packing Machinery	4,500
Advertisement	5,500	X's Loan (Dr.)	
Apprenticeship Premium	1,200	@ 10% on 1.4.2014	5,000
Interest on X's Loan	300	Investments	23,000
Proprietor's Withdrawals	3,000	Cash in Hand	250
Office Expenses	8,050	Cash at Bank	3,500

Adjustments :

- (1) Stock in hand on 31st March, 2015 Rs. 7,000;
- (2) Apprenticeship Premium are for three years, received in advance on 1st April, 2014;
- (3) Interest on Capital to be allowed at 5% for the year;
- (4) Interest on drawings to be charged for the year Rs. 80;
- (5) Rs. 5,000 out of the advertisement expenses are to be carried forward;
- (6) Stock valued at Rs. 3,000 destroyed by fire on 25.3.2015 but the Insurance Co. admitted a claim of Rs. 2,000 only and paid it in April, 2015 ;
- (7) The Manager is entitled to a Commission of 10% of the Net Profit after charging such Commission;
- (8) Included in sales is an amount of Rs. 10,000 representing goods on 'sales or return' the customer still having the right to return the goods. The goods were invoiced including a profit of 20% on sales;

(9) The stock include materials worth Rs. 1,000 for which bill had not been received and therefore, not yet accounted for.

[Ans. : G.P. Rs. 51,000, N.P. Rs. 36,300,

Commission Rs. 3,630, B/S Total Rs. 1,29,450.]

Ans. : Trading and Profit & Loss Account for the year Ended 31st March 2015

Rs.		Rs.		Rs.		Rs.	
To Stock Opening		28,000		By Sales	1,00,000		
To Purchases	20,000			Less : Goods on Approval	(10,000)		
Less : Returns	(400)			Less : Return Inward	(1,500)		88,500
Less : Stock destroyed	(3,000)		16,600	By Closing Stock	<u>7,000</u>		
To Wages		6,900		Less Material not treated as		(1,000)	
To Gross Profit c/d		51,000		Add : Cost of Stock on			
				approval	10,000		
				(-) 20%	<u>2,000</u>	8,000	14,000
			1,02,500				1,02,500
To Advertisement	5,500			By Gross Profit b/d			51,000
Less Amount w/o	<u>5,000</u>	500		By Apprenticeship Prem.	1,200		
To Office Expenses		8,050		Less : Unearned 2/3	800		400
To Interest on Capital				By Interest on X's Loan	<u>300</u>		
(5% on Rs. 70,000)		3,500		Add : Accrued	<u>200</u>		500
To Managers commission				By Interest on Drawings			80
$\frac{10}{110} \times 39,930$		3,630					
To Net Profit Carried to							
Capital A/c		36,300					
			51,980				51,980

Balance Sheet as on 31st March, 2015

Liabilities		Rs.	Amount	Assets		Amount
Sundry Creditors			15,800	Cash in hand		250
Bills Payable			2,500	Cash at Bank		3,500
Unearned Apprentice Prem.			800	Investments		23,000
Capital A/c	70,000			Bills Receivable		3,500
Add : Interest	3,500			X's Loan (Dr.)		5,000
Add : Net Profit	<u>36,300</u>			Accrued Interest		200
		1,09,800		Stock Closing		14,000
Less : Drawings	(3,000)		1,06,720	Packing Machine		4,500
Interest on Draw.	(80)			Furniture		2,500
Amount due to Manager			3,630	Business Premises		55,000
for commission				Amount due from Ins. Co.		3,000
				Advertisement Sundry Debtors		5,000
				(20,000 - 10,000)		10,000
			1,29,450			1,29,450

Insurance Claims

Every business enterprise is always exposed to a number of risks, such as fire, flood, storm, burglary, accidents etc. So, at present, insurance has become an important necessity in business world as it safeguards from such losses. A wise businessman secures himself against such losses by taking a proper insurance policy as 'Fire Insurance Policy', 'Marine Insurance Policy', 'Accident Insurance Policy', 'Consequential Loss Policy', and 'Comprehensive Policy', etc. Of course, the question of claim or amount of compensation arises on happening of certain event. Out of the above mentioned risks, the fire risk is the most dangerous. In case it goes out of control, it may involve loss both in terms of assets as well as human lives. The present chapter mainly deals with estimating the amount of loss of stock and profit as a result of fire.

Fire Insurance

In fire insurance, it is an essential feature that insurable interest must be at both the times i.e., at the time of taking the policy and at the time of making claim. The premium of fire insurance is treated as revenue expense relevant to business and transferred to Profit and Loss Account on debit side. If assets are destroyed by fire then actual loss is claimed from the insurance company. The main forms of fire insurance are as under :

- (1) Stock Insurance; and
- (2) Consequential Loss Insurance.

1. Stock Insurance : The fire insurance is a contract of compensation. So, a fire insurance policy can be taken for compensation against loss of stock on account of fire. The contract is for a specified period, usually for a year and the consideration for the promise of compensation by the insurance company is the premium paid by the insured. While computing the amount of claim relevant to stock insurance, the following two facts are important :

(1) **Determination of the Value of Stock Burnt :** The value of stock burnt due to fire is to be determined which might be either actual or estimated.

(a) **Determination of actual value :** If proper records for stock are maintained and such records are safe (i.e. not destroyed by fire), then the actual value of stock burnt may be determined on the basis of such records by deducting the amount of stock salvaged from the value of stock remained on the date of fire.

(b) **Determination of estimated value :** Where either proper records are not maintained or such records are also destroyed by the fire, then it will be very difficult to find out the actual value of the stock burnt on the date of fire. However, on the basis of certain information collected, an

estimated value of stock on the date of fire may be found out with the help of by preparing a 'Memorandum Trading Account'. The following information is to be collected with the help of available from books of accounts and/or from other sources such as invoices of suppliers, bank statements, Income-tax and Sales tax returns, etc. :

- (i) Opening Stock of accounting year (i.e. Closing Stock of previous year);
- (ii) Amount of Purchases and Purchases Returns from the beginning of accounting year till the date of fire;
- (iii) Amount of Sales and Sales returns from the beginning of accounting year till the date of fire;
- (iv) Other manufacturing expenses and direct expenses from the beginning of the accounting year till the date of fire;
- (v) Goods withdrawn for personal use (if any) from beginning of the accounting year till the date of fire; and
- (vi) Average rate of gross profit on sales (either on the basis of preceding year or the average of past few years, depending on the information given). This rate should be either given in the question or may be found out by preparing trading account of the preceding year/years. A memorandum trading account may be prepared as under :

Memorandum Trading Account

	Rs.		Rs.
To Opening Stock	By Sales (<i>Less Returns</i>)
To Purchases (<i>Less Returns</i>)	By Closing Stock at the date of fire
To Wages	(<i>Balancing figure</i>)	
To Manufacturing Expenses		
To Other Direct Expenses		
To Gross Profit		

(2) **Value of Salvaged Stock :** Sometimes even after fire, some of the goods may be saved completely and some be destroyed partly which may be used after some rectification therein. Such stocks are known as 'Salvaged Stock'. The value of 'Salvaged Stock' is deducted from the value of stock on the date of fire for calculation of the amount of claim.

Illustration 14.1 :

A fire occurred on 30th September, 2015 in the godowns of BPT Trading Co. The rate of gross profit is 30% on Cost. The stock salvaged was valued at Rs. 7,600. Ascertain the claim to be lodged from the following figures :

Stock on 1st April, 2014 Rs. 74,000, Wages and other direct expenses Rs. 80,500; Purchases and Sales from 1st April 2015 to date of fire Rs. 95,500 and Rs. 2,40,000 respectively, Goods used by the proprietor at cost Rs. 4,000.

Solution : Memorandum Trading Account
upto September 30, 2015

	Rs.	Rs.		Rs.	Rs.
To Opening Stock		74,000	By Sales	2,40,000	
To Purchases	95,500		By Closing stock		
Less : Drawings	4,000	91,500	(Balancing figure)		61,385
To Wages & Other Direct Expenses		80,500			
To Gross Profit, 30% on cost i.e. (30/130) × of Sales = 30/130 × 2,40,000		55,385			
		3,01,385			3,01,385
Values of Stock on hand on September 30, 2015					Rs. 61,385
Less : Stock Salvaged					(7,600)
Claim to be lodged					53,785

Illustration 14.2 :

The following data are obtained from the books and other records when the fire broken out in the premises of X Ltd. on March 4, 2015. All the stocks were destroyed by fire except of Rs. 6,500. Ascertain the amount of claim for the company :

	Rs.		Rs.
Stock (1-1-2014)	18,000	Purchase during, 2014	3,65,000
Stock (31-12-2014)	33,000	Sales during, 2014	4,25,000

Sales and Purchase upto the date of fire were Rs. 2,50,000 and 2,15,000. Genuine loss on 31st December, was Rs. 15,000. There was a practice in the firm to value stock at cost less 10%. But all of sudden they changed this practice and valued stock on 31st December, 2015 at cost plus 10%. The amount of policy was Rs. 20,000 and claim was subject to an average clause. (RU. B.C.A. 2002, modified)

Solution : Trading Account
for the year ended 31st December, 2014

	Rs.		Rs.
To Opening Stock (18000 × 100/90)	20,000	By Sales	4,25,000
To Purchases	3,65,000	By Closing Stock (33,000 × 100) + 110	
To Gross Profit	85,000	= 30,000 + 15,000	
		Stock lost	45,000
	4,70,000		4,70,000

$$\text{Rate of Gross Profit} = \frac{\text{G.P.}}{\text{Sales}} \times 100 \text{ or } \frac{85,000}{4,25,000} \times 100 = 20\%$$

Memorandum Trading Account
for the period 1st January to 4th March, 2015

	Rs.		Rs.
To Opening Stock	45,000	By Sales	2,50,000
To Purchases	2,15,000	By Closing Stock (Bal. figure)	60,000
To Gross Profit being 20% of Sales	50,000		
	3,10,000		3,10,000

Amount of Claim = Closing Stock – Salvaged Stock = Rs. 60,000 – 6,500 = Rs. 53,500

Applying Average Clause = $\frac{53,500}{60,000} \times 20,000 = \text{Rs. } 17,833$. So, amount of claim Rs. 17,833

Illustration 14.3 :

Fire occurred on 15th September, 2015 in the premises of ABC & Co. From the following information, calculate the amount of claim to be lodged with the Insurance Company for loss of Stock :

	Rs.
Stock at cost as on January 1, 2014	20,000
Stock at cost as on January 1, 2015	30,000
Purchases during the year 2014	1,30,000
Purchases from January 1, to 15th September, 2015	88,000
Sales during the year 2014	1,60,000
Sales from January 1, to September 15, 2005	1,05,000

During the current year cost of purchases has increased by 10% above last year's level while selling prices have gone up by 5%. The value of stock salvaged was Rs. 2,000 and the stock was insured for Rs. 20,000. [RU BCA, 2010]

Solution : Memorandum Trading Account for the Period
from January 01 to September 15, 2015

	Rs.	Rs.		Rs.
To Opening Stock		30,000	By Sales Rs.	1,05,000
To Purchases	88,000		Add Increment 5%	5,250
Add Increment 10%	8,800	96,800	By Closing Stock	
To Gross Profit (25% on Sales)		27,563	(Balancing figure)	44,113
		1,54,363		1,54,363

Rate of Gross Profit has been ascertained as below :

Trading Account for the year ended 31st December, 2014

	Rs.		Rs.
To Opening Stock	20,000	By Sales	1,60,000
To Purchases	1,30,000	By Stock	30,000
To Gross Profit (Balancing figure)	40,000		
	1,90,000		1,90,000

$$\text{Rate of G.P. on Sales} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100 \text{ or } \frac{40,000}{1,60,000} \times 100 = 25\%$$

Amount of Claim for loss of stock :

Value of Stock on the date of fire	Rs. 44,113
Less : Salvaged Stock Valued	(2,000)
Loss of Stock	42,113

Averaging of percentage of Gross Profit : The percentage of gross profit is always calculated on the basis of sales. This percentage should be normal. The average percentage may be calculated on the basis of percentages of preceding three to five years. However, such average rate must be most suitable in general conditions.

Illustration 14.4 :

On 25th July, 2015 a fire occurred in the premises of a firm. The books of the firm and the value of stock of Rs. 1,598 was saved. Stock on 31st March, 2015 was valued at Rs. 8,500. Sales, Purchases and Wages from 1st April, 2015 to the date of fire amounted to Rs. 76,252, Rs. 48,700 and Rs. 4,975 respectively. Prepare a statement in support of a claim for the loss of stock. From other sources, the following information could be gathered:

	Rs.		Rs.
Year ending March 31, 2012 Sales Rs.	50,000	Gross Profit Rs.	10,000
Year ending March 31, 2013 Sales Rs.	60,000	Gross Profit Rs.	15,000
Year ending March 31, 2014 Sales Rs.	80,000	Gross Profit Rs.	20,000
Year ending March 31, 2015 Sales Rs.	1,00,000	Gross Profit Rs.	30,000

Solution.:

First of all, we shall find out the average rate of gross profit on sales. As per data given in the question such rate comes to 20% for 2012, 25% for 2013, 25% for 2014 and 30% for 2015. So, average rate would be $(20\% + 25\% + 25\% + 30\%) \div 4 = 25\%$. Now we will prepare Memorandum Trading Account.

Memorandum Trading Account from April 1 to July 25, 2015

	Rs.		Rs.
To Opening Stock	8,500	By Sales	76,252
To Purchases	48,700	By Stock (Balancing figure)	4,986
To Wages	4,975		
To Gross Profit (25% on Sales)	19,063		
	81,238		81,238

$$\begin{aligned} \text{Estimated Amount of Claim} &= \text{Stock on the date of fire} - \text{Value of stock salvaged} \\ &= \text{Rs. } 4,986 - \text{Rs. } 1,598 \text{ or Rs. } 3,388. \end{aligned}$$

To take adjusted percentage of Gross Profit : In case rate of gross profit on sales is decreasing continuously year by year, then rate of gross profit must be adjusted by taking consideration of the rate of decrease in such percentage. For example, if rate of gross profit on sales in 2013, 2014 and

2015 was 25%, 20% and 15% respectively then for 2015, it should be more appropriate to take this percentage at 10 (i.e. reduced by 5% as compared to % of 2015): However, if such percentage had been increasing year by year such as 10%, 15%, 20%, 25%, etc. then average of such rates i.e. 17.5% should have been taken in place of adjusted increased percentage i.e. 30% because, the insurance company will not accept it.

Average clause : In order to discourage the under-insurance, usually the 'average clause' is inserted in all contracts of fire insurance. The effect of this clause is that if the amount of the policy is less than the value of the stock insured, the insurer will be liable only for that proportion of the loss which the amount of policy bears to the total value of the stock on date of fire. So, amount of claim in case of under insurance is computed as under :

Illustration 14.5 :

Out of goods costing Rs. 1,00,000, 3/4 are destroyed by fire. Find out the amount of claim under following conditions.

- (1) Sum Insured Rs. 1,00,000
- (2) (i) Sum Insured without average clause Rs. 80,000
(ii) Sum Insured without average clause Rs. 50,000
- (3) (i) Sum Insured with average clause Rs. 80,000
(ii) Sum Insured with average clause Rs. 50,000

Solution :

$$\text{Loss of Stock} = 1,00,000 \times 3/4 = \text{Rs. } 75,000$$

- (1) As the goods are fully Insured, the amount of claim is equal to actual loss Rs. 75,000.
- (2) In case of under insurance without average clause, claim is restricted to actual loss or sum insured, whichever is less. Therefore
 - (i) The amount of loss is Rs. 75,000; or (ii) The amount insured is Rs. 50,000, So claim for loss of stock will be Rs. 50,000
- (3) Introduction of average clause in the policy results in proportionate reduction in the loss of stock to determine the amount of claim :

$$\begin{aligned} \text{(i) Amount of Claim} &= 75,000 \times \frac{80,000}{1,00,000} = \text{Rs. } 60,000 \\ \text{(ii) Amount of Claim} &= 75,000 \times \frac{50,000}{1,00,000} = \text{Rs. } 37,500 \end{aligned}$$

Illustration 14.6 :

On 15th October, 2015 fire occurred in the godown of Mr. X. All stock, except worth of Rs. 3,000 were destroyed. Mr. X values the stock at cost less 20%. From the following figures, ascertain the loss suffered by Mr. X :

Stock on 1.4.2014 Rs. 80,000; Purchases (net) during 2014-15 Rs. 2,29,000; Stock on 31.3.2015 Rs. 84,000; Sales (net) during 2014-15 Rs. 3,10,000; Purchases (net) from 1.4.2015 to the date of fire Rs. 3,85,000; Sales (Net) from 1.4.2015 to the date of fire Rs. 3,40,000; Commission paid to the Purchase Manager on purchases during 2014-15 was @ 2%; Carriage inward Rs. 700; Policy for stock (subject to average clause) Rs. 1,50,000.

Solution :

First of all we have to prepare trading account for the year 2014-15 to find out the rate of gross profit as under :

Trading Account
for the year ended 31st March, 2015

	Rs.		Rs.
To Opening Stock (Rs. 80,000 × 100/80)	1,00,000	By Sales less Returns	3,10,000
To Purchases less Returns	2,29,000	By Closing Stock (84,000 × 100/80)	1,05,000
To Gross Profit	86,000		
	4,15,000		4,15,000

$$\text{Rate of Gross Profit on Sales} = \frac{86,000}{3,10,000} \times 100 = 27.74\%$$

Memorandum Trading Account
for the period from 1st April to 15th October, 2015

	Rs.		Rs.
To Opening Stock	1,05,000	By Sales	3,40,000
To Purchases less Returns	3,85,000	By Closing Stock (Balancing figure)	2,52,716
Add : Commission	7,700		
Add : Carriage	700		
To Gross Profit 27.74% on Sales	94,316		
	5,92,716		5,92,716

Loss of Stock : Stock on date of fire – Stock Salvaged
= Rs. 2,52,716 – Rs. 3,000 or Rs. 2,49,716.

Amount of Claim : On the basis of Average Clause :

$$\text{Loss of Stock} \times \frac{\text{Amount of Policy}}{\text{Stock on date of fire}} = \text{Rs. } 2,49,716 \times \frac{\text{Rs. } 1,50,000}{\text{Rs. } 2,52,716} \text{ or Rs. } 1,48,219$$

Segregation of Effect of Abnormal Items : Some-times, while manufacturing or selling of an article in any business, some items of abnormal nature may be seen. For computing the rate of Gross Profit, while preparing trading account or memorandum trading account, such items should be segregated or certain necessary adjustment should be made.

Illustration 14.7 :

A fire broke out on 10th November, 2015 in the premises of MQR Ltd. All the stock was burnt out except of Rs. 7,000. Find out the loss incurred from the following figures :

	Rs.		Rs.
Stock (1.4.2014)	45,000	Purchases less Returns during 2014-15	1,60,000
Stock (31.3.2015)	22,500	Sales less Returns during 2014-15	3,00,000
Sales upto the date of fire	2,20,000	Purchases upto the date of fire	1,90,000

When the stock was valued on 31st March, 2015 the value of the defective goods worth Rs. 7,500, was written off by Rs. 2,500. 1/3rd portion of this defective goods was sold out at a loss of Rs. 500 in August, 2015. At present, the remaining balance of defective goods is valued at 90% to its original value. Except these damaged goods, the rate of gross profit was maintained.

Solution :

First of all, to find out the rate of gross profit, trading account for the year 2014-15 has to be prepared as under :

Trading Account
for the year ended 31st March, 2015

	Rs.		Rs.
To Opening Stock	45,000	By Sales less Returns	3,00,000
To Purchases (Less Returns)	1,60,000	By Stock	22,500
To Gross Profit c/d	1,20,000	Add : Value written off	2,500
	3,25,000		3,25,000

$$\text{Rate of Gross Profit} = \frac{1,20,000}{3,00,000} \times 100 = 40\% \text{ on Sales}$$

Memorandum Trading Account
for the period from 1st April to 10th November, 2015

Particulars	Normal items	Ab-normal items	Total	Particulars	Normal items	Ab-normal items	Total
To Opening Stock	17,500	7,500	25,000	By Sales	2,18,000	2,000	2,20,000
To Purchases	1,90,000		1,90,000	By Loss	-	500	500
To Gross Profit (40% of Rs. 2,18,000)	87,200		87,200	By Stock (Bal. figure)	76,700	5,000	81,700
	2,94,700	7,500	3,02,200		2,94,700	7,500	3,02,200

Statement of Estimated Claim :

	Rs.
Closing Stock of Normal items at cost	76,700
Closing Stock of other items at given valuation (5,000 × 90%)	4,500
Value of total stock	81,200
	7,000
Amount of Claim	74,200
Less : Value of Stock salvaged	

Illustration 14.8 :

The premises of food products company were destroyed by fire on September 30, 2015. The following facts were obtained from its records. You are required to prepare a statement of claim for loss of stock to be submitted to the insurance company :

Particulars	2012-13	2013-14	2014-15	April 1, 2015 to September
	Rs.	Rs.	Rs.	Rs.
Opening Stock	10,000	11,000	5,900	17,010
Purchases	80,000	72,500	85,000	17,500
Sales	1,00,000	99,250	93,750	13,000
Carriage inward	2,500	1,500	2,000	500
Freight outwards	3,000	3,500	1,500	125

During 2012-13, while valuing Closing Stock, some defective goods costing Rs. 2,500 were revalued at Rs. 2,000. These were sold for Rs. 2,250 next year.

During 2013-14 : an item costing Rs. 3,000 was wrongly valued at Rs. 3,500. This was sold for Rs. 2,750 next year.

During 2014-15 : Items costing Rs. 6,000 were valued at Rs. 5,000, 50% of these were sold in September, 2015 for Rs. 3,000.

The gross profit rate is more or less uniform except above. The salvage value is Rs. 4,500.

Solution :

**M/s Food Products Company
Columnar Trading Accounts**

Particulars	2012-13	2013-14	2014-15	Particulars	2012-13	2013-14	2014-15
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Opening Stock	10,000	11,000	5,900	By Sales	1,00,000	99,250	93,750
Less : Abnormal items	—	(2,000)	(3,500)	Less : Abnormal items	—	(2,250)	(2,750)
To Purchases	10,000	9,000	2,400	Normal Sales	1,00,000	97,000	91,000
To Carriage Inwards	80,000	72,500	85,000	By Closing Stock	11,500	5,400	18,010
To Gross Profit	2,500	1,500	2,500				
	19,000	19,400	19,110				
	1,11,500	1,02,400	1,09,010		1,11,500	1,02,400	1,09,010

Closing Stocks are found out as under : Opening Stock of succeeding year will be the closing stock for current year. As such :

Particulars	2012-13	2013-14	2014-15
	Rs.	Rs.	Rs.
Opening Stock of Succeeding years	11,000	5,900	17,010
Add : Under Valuation of defective goods	500	—	1,000
Less : Over valuation of defective goods	—	(500)	—
Closing Stocks	11,500	5,400	18,010

Rate of G.P. on Sales = $\frac{\text{G.P.}}{\text{Sales}} \times 100$ or as under :

$$= \frac{19,000}{1,00,000} \times 100 = 19\% ; \quad \frac{19,400}{97,000} \times 100 = 20\% ; \quad \frac{19,110}{91,000} \times 100 = 21\%$$

$$\text{Average Percentage} = \frac{19 + 20 + 21}{3} = 20\%$$

**Memorandum Trading Account
for the period from April 1st to September 30th, 2015**

Particulars	Normal items	Ab-normal items	Particulars	Normal items	Ab-normal items
	Rs.	Rs.		Rs.	Rs.
To Opening Stock	12,010	6,000	By Sales	10,000	3,000
To Purchases	17,500	—	By Closing Stock	22,010	3,000
To Carriage inwards	500	—	(Balancing figure)		
To Gross Profit (20% on Sales Average of 3 years)	2,000	—			
	32,010	6,000		32,010	6,000

	Rs.
Stock on date of fire (Normal)	22,010
Add : Stock of Abnormal items	3,000
	25,010
Less : Salvaged value of Stock	4,500
Amount of Claim	20,510

2. Consequential Loss Insurance

In case of a fire, it destroys not only the tangible assets of the firm such as stock, building, furniture, machine and plant etc., but it also affects the capacity of the firm for some time, which results in loss of profits otherwise that could have been earned.

Following losses are incurred due to fire :

- (i) *Loss of Profit* that would have been earned;
- (ii) *Loss of fixed expenses* which are incurred even during closure period of business; and
- (iii) *Additional working cost* incurred in bringing the business house in order, such as renting premises temporarily for a short time.

All the above losses are not covered in an ordinary fire insurance policy. So to cover all these losses, a separate policy may be taken which is called as "a loss of profit policy" or "consequential loss policy". But claim under this policy is admitted only when there is also an admission of liability for loss of property or stock. However, the amount of claim under this policy may not depend on the value of the property or stock destroyed as a small damage may give rise to a rather huge consequential loss if dislocation of the business is very much essential.

Difference between Consequential Loss Insurance and Fire Insurance

The points of difference between 'consequential loss insurance' and 'fire insurance' are as under :

- (1) The fire insurance covers capital losses whereas consequential loss insurance covers revenue losses.
- (2) The subject matter of fire insurance is tangible which covers stock, building, furniture, machine and plant, etc. whereas under consequential loss insurance it is intangible and covers the earning capacity of the business.
- (3) The fire insurance protects the insured only against the losses of stock etc. whereas the consequential loss insurance provides protection against trading losses arising due to closure of business activities.

Some Important terms :

With reference to 'Loss of Profits Policy' or 'Consequential Loss Policy' one should know the meaning of certain terms explained as under :

(i) **Indemnity Period** : It is the period of claim which is generally specified in the policy or actual dislocation period, whichever is the lower.

(ii) **Fixed Charges or Standing Charges** : In every business, certain expenses are of fixed nature which are not affected by increase or decrease in production or sales i.e. these are to be incurred necessarily even than business is closed for some time. Such expenses are known as fixed expenses or period cost. For example, salary of employees, interest on loans and capital, rent of building, audit fees, advertisement, insurance premium, municipal tax, wealth tax, etc.

(iii) **Insured Standing Expenses** : The insurance company also pays the amount of fixed expenses in addition to loss of profit so the businessmen should have insured fixed expenses also. If only a part of the fixed expenses are insured, such part is known as insured standing expenses. If all the fixed expenses are being insured that all such expenses will be known as insured standing expenses.

(iv) **Net Profit** : It is the trading profit resulting from the business of the insured person at the premises after due provision made for all standing and other charges including the depreciation.

Computation of Claim :

Step I : Calculation of Short Sales : The term 'Short Sale' refers to the loss of sales on account of fire resulting in dislocation of business. It is the difference between the 'standard sales' and the 'actual sales' during the indemnity period. Here, the term 'standard sales' refers to the amount of sales for the period corresponding with the indemnity period during the preceding accounting year duly adjusted in view of the trend (increase or decrease) noticed during the accounting year in which the fire occurred.

Example : Date of fire in an undertaking was 1st March, 2015; period of indemnity was 3 months. Sales at normal level started from 1st June, 2015. Sales during 1st March, 2015 to 31st May, 2015 was Rs. 3,40,000, whereas standard turnover during the same period in the preceding year was Rs. 8,17,000. In comparison to the previous year, there is an increase of 15% in sales of this year. Find out the amount of short sale.

Calculation of Short Sales :

Sales from 1st March, 2014 to 31st May, 2014		Rs.
Add : Expected increase in Sales @ 15%		8,17,000
		1,22,550
Less : Actual Sales during 1st March, 2015 to 31st May, 2015	Standard Sales	9,39,550
	Short Sales	3,40,000
		5,99,550

Step II : Calculation of Rate of Gross Profit : The term 'Gross Profit' has got a different meaning than that which is generally understood and shown by trading account. Here, 'gross profit' means : Net Profit + Insured Standing Charges. So, the rate of gross profit is ascertained as under :

$$\text{Rate of Gross Profit on Sales} = \frac{\text{Net Profit} + \text{Insured Standing Charges}}{\text{Accounting Year's Sales (Adjusted)}} \times 100$$

All the figures relating to net profit, insured standing charges and turnover relate to the last accounting period. If in above example, the amount of total sales of preceding accounting year was Rs. 7,00,000; fixed expenses were Rs. 2,60,000; the net profit Rs. 3,40,000 and the insured standing charges Rs. 70,000; the rate of gross profit will be :

$$= \frac{\text{Rs. } 3,40,000 + 70,000}{\text{Rs. } (7,00,000 + 1,05,000)} \times 100 = 50.93\%$$

In Case of Net Loss : The rate of gross profit shall be determined as under :

$$\frac{\text{Insured Standing Charges} - \text{Net Loss}}{\text{Accounting Year Sales (Adjusted)}} \times 100$$

If all the standing charges are not insured, the amount of net loss will have to be reduced as under :

$$\frac{\text{Net Loss} \times \text{Insured Standing Charges}}{\text{All Standing Charges}}$$

Step III : Calculation of Loss of Profit : The loss due to short sale is calculated by applying the rate of gross profit on short sales. Thus,

$$\text{Loss of Profit} = \text{Rate of Gross Profit} \times \text{Short Sale}$$

In the above example, amount of short sales was Rs. 5,99,550 and rate of gross profit was 50.93%. So, loss of profit would have been Rs. 3,05,351.

Step IV : Average Clause : The amount of loss of profit will be proportionately reduced if the sum insured under the policy is less than the amount for which the policy should have been taken. As such, the amount of claim on application of average clause would be calculated as under :

$$\text{Amount of Claim} = \text{Loss of Profit} \times \frac{\text{Amount of Policy}}{\text{Gross Profit on Annual Sales (Adjusted)}}$$

Adjusted Annual Sales or Insurable Amount : The amount for which the policy should have been taken is determined by applying the rate of gross profit to the turnover for just preceding 12 months from the date of fire. Such turnover must be adjusted in terms of trend of sales (increase or decrease) in the accounting year in which the fire takes place.

Example :

	1st November, 2015
Date of fire	1st November, 2015
Sales for 12 months (i.e. from 1st November, 2014 to 31st October, 2015) :	Rs. 8,20,000
Rate of Gross Profit :	20%
Short Sale :	3,40,000
Policy :	70,000

So, amount of claims would be as under :

- (i) Loss of Profit = Short Sales × Rate of G.P. or Rs. 3,40,000 × 20% = Rs. 68,000.
(ii) Average Clause : Sales (from 1.11.2014 to 31.10.2015) Rs. 8,20,000. Increase or Decrease being nil. Adjusted Sales on Annual Turnover = Rs. 8,20,000.
(iii) Gross Profit on annual sales or Expected Amount of Policy = 20% of Rs. 8,20,000 = Rs. 1,64,000; but amount of Policy (given) Rs. 70,000.

$$\text{Amount of Claim} = \text{Rs. } 68,000 \times \frac{70,000}{1,64,000} = \text{Rs. } 29,024$$

Illustration 14.9 :

A fire damaged the godown of Raja Bros. on 1st August, 2015. From the following Trading and Profit & Loss account you are required to calculate Gross Profit and rate of Gross Profit on sales for the purpose of insurance claim in Loss of Profit Policy :

Trading and Profit and Loss Account
for the year ending 31st March 2015

	Rs.		Rs.
To Stock Opening	1,25,000	By Sales (Net)	7,50,000
To Purchases (Net)	4,00,000	By Stock at end	70,000
To Direct Expenses	1,70,000		
To Gross Profit c/d	1,25,000		
	8,20,000		8,20,000
To Variable Expenses	12,500	By Gross Profit b/d	1,25,000
To Standing Charges	75,000		
To Net Profit	37,500		
	1,25,000		1,25,000

Standing charges were insured only to the extent of Rs. 42,500.

Solution :

$$\begin{aligned} \text{Gross Profit for claim purpose} &= \text{Net Profit} + \text{Insured Standing Charges} \\ &= \text{Rs. } 37,500 + 42,500 = \text{Rs. } 80,000 \end{aligned}$$

$$\begin{aligned} \text{Rate of Gross Profit} &= \frac{\text{Net Profit} + \text{Insured Standing Charges}}{\text{Total Sales of Preceding year}} \times 100 \\ &= \frac{80,000}{7,50,000} \times 100 = 10.67\% \end{aligned}$$

Illustration 14.10 :

From the following details compute the consequential loss claim if the policy (a) excludes 'average clause'; (b) includes 'average clause'.

(i) Indemnity period : 6 months; Insurance Policy Rs. 30,000. (ii) Date of fire 1st May, 2015; Interruption up to 30th September, 2015. (iii) Turnover, Net Profit and Insured Standing Charges amounted to Rs. 3,00,000, Rs. 42,000 and Rs. 10,000 respectively in last accounting year (ending 31st March) immediately preceding the date of fire, (iv) Sales from 1st May, 2014 to 30th Sept., 2014 Rs. 80,000. (v) Sales from 1st May, 2015 to 30th Sept. 2015 Rs. 17,000. (vi) Turnover during 12 months preceding the date of fire Rs. 5,40,000.

Solution : (a) When the policy excludes average clause :

(i) Short Sale : Standard Sales from 1st May to 30th September, 2014	Rs. 80,000
Less : Actual sales from 1st May to 30th September, 2015	17,000
Short Sale	63,000

(ii) Rate of Gross Profit

$$= \frac{\text{Net Profit} + \text{Insured Standing Charges}}{\text{Sales}} \times 100 = \frac{42,000 + 10,000}{3,00,000} \times 100 = 17.33\%$$

(iii) Loss of Profit = Rate of G.P. × Short Sale = 17.33% of Rs. 63,000 = Rs. 10,918

So, amount of claim would be Rs. 10,918 if 'average clause' does not apply.

(b) When the policy includes the average clause :

(i) Expected Amount of Policy or Insurable Amount :

$$\text{Annual Sales} \times \text{Rate of Gross Profit or Rs. } 5,40,000 \times 17.33\% = \text{Rs. } 93,582.$$

(ii) Calculation or amount of claim (According to Average Clause) :

$$\text{Loss of Profit} \times \frac{\text{Amount of Policy}}{\text{Gross Profit on Annual Sales}} = \frac{10,918 \times 30,000}{93,582} = \text{Rs. } 3,500$$

Illustration 14.11

From the following information, calculate the amount of claim under a loss of profit policy :

- (i) Indemnity Period : 5 months from 1-5-2015 to 30-9-2015.
- (ii) Policy Amount : Rs. 72,000
- (iii) Turnover, Net Profit and Standing Charges in the last financial year (ended 31st March, 2014) amounted to Rs. 4,00,000, Rs. 24,000, and Rs. 50,000 respectively.
- (iv) Insured standing charges Rs. 40,000
- (v) Sales from May 1st 2014 to 30th September, 2014 Rs. 1,40,000
- (vi) Sales from May 1st 2015 to 30th September, 2015 Rs. 54,000
- (vii) Sales from May 1st 2014 to April 30th 2015 Rs. 4,80,000
- (viii) There was an upward trend of sales in business by 10% every year.

[R.U.B.C.A 2003, 2011]

Solution : Computation of Claim for Loss of Profit**(1) Short Sales**

Sales for corresponding period of Indemnity period last year i.e.
May 1st 2014 to 30th September, 2014
Add : Increasing trend 10% every year

Rs.

1,40,000
14,000
1,54,000
54,000
1,00,000

Adjusted Standard Sale

Less : Actual Sales during the period of dislocation

Short Sale

$$(2) \text{ Rate of Profit} = \frac{\text{Net Profit} + \text{Insured Standing Charges}}{\text{Sales}} \times 100$$

$$= \frac{24,000 + 40,000}{4,00,000} \times 100 \text{ or } \frac{64,000}{4,00,000} = 16\%$$

$$(3) \text{ Loss of Profit} = \text{Short Sale} \times \text{Rate of Profit} = 1,00,000 \times 16\%$$

16,000

(4) Application of Average Clause

Sales for 12 months just before the date of fire
Add : upward trend (10%)

4,80,000
48,000

Adjusted Sales

5,28,000

Gross Profit on Adjustment Sales Rs. 5,28,000 \times 16% =

84,480

Since Policy has been taken for less than Rs. 84,480, average clause is applicable.

$$(5) \text{ Amount of Claim} = \frac{16,000 \times 72,000}{84,480} = 13,636.36 \text{ or say } 13,636$$

13,636

Increased Working Expenses : The insured may have to incur certain additional expenses to keep the business in form during the indemnity period. Such type of increased working expenses will be allowed subject to the least of the following :

- Actual additional working expenses;
- Rate of gross profit \times Short sales avoided through increased cost of working; and
- Amount calculated by the formula :

$$\frac{\text{Net Profit} + \text{Insured Standing Charges}}{\text{Net Profit} + \text{All Standing Charges}} \times \text{Additional Working Expenses}$$

Savings in Insured Standing Charges : Any savings in insured standing charges will have to be deducted from the amount calculated as above in respect of increased working expenses.

Average Clause : In respect of increased working expenses, average clause will apply in the same manner as it applies in case of loss of profit. The only difference in this regard will be that the average clause will apply on the basis of total Loss of Profit and Increased of Working Cost.

Example :

Additional Working Expenses during indemnity period :
Additional Sales during indemnity period :
Net Profit + All standing charges :

Rs.
4,000
55,000
35,000

Net Profit + Insured standing charges :

Savings in insured standing charges :

30,000

Rate of gross profit :

700

Calculate the gross amount of claim in respect of additional working expenses. 10% on Sales

Solution :

Least of the following (Less saving in insured standing charges) shall be the gross amount of claims :

- Rs. 4,000;
- Rs. 55,000 \times 10% = Rs. 5,500; and
- Rs. 4,000 \times $\frac{\text{Rs. } 30,000}{\text{Rs. } 35,000}$ = Rs. 3,429

So, Rs. 3,429 - Rs. 700 = Rs. 2,729 would be the gross amount of claim for additional working cost.

Illustration 14.12 :

From the following information, compute the amount of claim :

- Date of fire 1.5.2015 and period of disruption up to 30.9.2015.
- Sales during indemnity period Rs. 3,50,000 and Sales from 1.5.2014 to 30.9.2014 Rs. 8,20,000.
- Sales from 1.5.2014 to 30.4.2015 Rs. 16,00,000 and for last financial year Rs. 8,40,000.
- Net Profit for last financial year Rs. 3,40,000 and insured standing charges Rs. 30,000.
- Total standing charges Rs. 2,28,000 and savings in insured standing charges during the indemnity period Rs. 4,900.
- Additional expenses incurred Rs. 13,400 to reduce the loss in turnover.
- Loss of Profit Policy taken for Rs. 4,50,000.
- Upward trend in business 10%.

Solution : (i) Short Sale

Sales from 1.5.2014 to 30.9.2014	Rs. 8,20,000
Add : 10% Upward Trend	82,000
	9,02,000
Less : Actual Sales during the indemnity period	3,50,000
	Short Sale 5,52,000

(ii) Rate of Gross Profit :

$$= \frac{\text{Net Profit} + \text{Insured Standing Charges}}{\text{Last Financial Year's Sales}} \times 100 = \frac{3,40,000 + 30,000}{8,40,000} \times 100 = 44.05\%$$

(iii) Loss of Profit in Short Sale :

$$= \text{Short Sales} \times \text{Gross Profit Rate} = \text{Rs. } 5,52,000 \times 44.05\% = \text{Rs. } 2,43,156.$$

(iv) Increased Working Cost :

Least of the following shall be allowed for the claim :

- Actual Additional Cost = Rs. 13,400
- Amount of Gross Profit on Additional Sales = 44.05% on Rs. 3,50,000 = Rs. 1,54,175.

$$(c) \frac{\text{Net Profit} + \text{Insured Standing Charges}}{\text{Net Profit} + \text{All Standing Charges}} \times \text{Additional Cost}$$

$$= \frac{3,40,000 + 30,000}{3,40,000 + 2,28,000} \times 13,400 = \text{Rs. } 8,729$$

Least of the above is Rs. 8,729, out of which Rs. 4,900 shall be subtracted for saving in standing charges and balance Rs. 3,829 shall be gross amount to be claimed for increased working cost.

(v) Amount of claim on Average Clause Basis :

Expected Insurable Amount : Amount of Gross Profit on Annual Sales :

Sales from (1.5.2014 to 30.9.2015) 12 months just before fire	Rs. 16,00,000
Add : Increase in Sales @ 10%	1,60,000
Annual Adjusted Sales	17,60,000

G.P. Ratio 44.05% on Rs. 17,60,000 = Rs. 7,75,280 i.e. Insurable Amount or Gross Profit on Adjusted Annual Sales.

Amount of Claim :

$$= \frac{\text{Amount of Policy}}{\text{G.P. on Adjusted Annual Sales}} \times [\text{Loss of Profit} + \text{Claim for additional cost}]$$

$$= \frac{4,50,000}{7,75,280} \times (2,43,156 + 3,829) \text{ or } \frac{4,50,000}{7,75,280} \times 2,46,985 = \text{Rs. } 1,43,359$$

Special Circumstances Clause : Generally, in consequential loss policy bonds, a special circumstances clause is being inserted covering the provision for adjustment in amount of sales, rate of gross profit etc. in view of change in trend (increase or decrease) in the current accounting year.

Illustration 14.13 :

From the following information, ascertain the claim of loss of profit insurance policy :

- (i) Date of fire 29th March, accounting year ends on 31st March, Indemnity period 6 months;
(ii) Covered Gross Profit Rs. Two lakhs; (iii) Net Profit plus all standing charges in the prior accounting year Rs. 3.5 lakhs; (iv) Standing charges uninsured Rs. 65,000; (v) Sales during last accounting year Rs. 8.8 lakhs; (vi) Annual Sales just preceding the fire Rs. 9.20 lakhs; (vii) As a consequence of fire, there was reduction in certain insured standing charges @ Rs. 35,000 per annum; (viii) Standard Sales Rs. 3.70 lakhs; (ix) Increased costs of working during the indemnity period were Rs. 30,000; (x) Sales in interruption period Rs. 2 lakhs, of this Rs. 70,000 was due to increased cost of working; (xi) Special circumstances stipulated, Increase in Standard Sales 10% and in rate of gross profit 8%.

Solution :

(i) Calculation of Short Sale :

[Standard Sales + 10% Increase - Sales during indemnity period]

$$\text{Rs. } 3,70,000 + 37,000 - \text{Rs. } 2,00,000 = \text{Rs. } 2,07,000$$

$$(ii) \text{ Rate of G.P. : } = \frac{\text{Net Profit} + \text{All Standing Charges} - \text{Uninsured Charges}}{\text{Sales of last Accounting Year}} \times 100$$

$$= \frac{3,50,000 - 65,000}{8,80,000} \times 100 = 32.39\% + 8\% = 40.39\%$$

$$(iii) \text{ Loss of Profit} = \text{Short Sale} \times \text{Rate of Gross Profit}$$

$$= \text{Rs. } 2,07,000 \times 40.39\% \text{ or Rs. } 83,607$$

(iv) Increased Working Cost : Least of the following :

(a) Actual cost Rs. 30,000

(b) Gross Profit on Additional Sales or 40.39% of Rs. 70,000 = Rs. 28,273

$$(c) \frac{\text{Net Profit} + \text{Insured Standing Charges}}{\text{Net Profit} + \text{All Standing Charges}} \times \text{Additional Cost}$$

$$= \frac{\text{Rs. } 3,50,000 - 65,000}{\text{Rs. } 3,50,000} \times 30,000 = \text{Rs. } 24,429$$

Thus (c) being the least Rs. 24,429 will be allowed as claim for increased working cost. Out of which Rs. 17,500, being saving in insured charges for 6 months will be subtracted. The balance Rs. 6,929 will be the amount of claim for increased working expenses.

$$\text{Total claim} = \text{Claim for Profit} + \text{Claim for Increase Working Cost}$$

$$= \text{Rs. } 83,607 + 6,929 = \text{Rs. } 90,536$$

Average Clause :

(a) Adjusted Annual Sales = Rs. 9,20,000 + 10% of 9,20,000 = Rs. 10,12,000

(b) Insurable Amount of Policy = 40.39% of Rs. 10,12,000 = Rs. 4,08,747; while actual policy taken for Rs. 2,00,000 only.

$$(c) \text{ Amount of Claim} = \frac{\text{Amount of Policy}}{\text{G.P. on Adjusted Annual Sales}} \times (\text{Loss of Profit} + \text{Increased Cost})$$

$$= \frac{2,00,000}{4,08,747} \times 90,536 = \text{Rs. } 44,299$$

Illustration 14.14 :

From the following information calculate amount of claim for consequential loss :

- (1) Financial year ends on 31st March .
- (2) Fire occurs on December 1, following.
- (3) Period of disruption : December 1 to March 31 .
- (4) Period of indemnity : 6 months.
- (5) Net Profit for previous financial year Rs. 40,000.
- (6) Insured standing charges : Rs. 10,000.
- (7) Uninsured standing charges : Rs. 6,000.
- (8) Increase in the cost of working : Rs. 3,200.
- (9) Saving in insured standing charges : Rs. 700.
- (10) Reduced turnover avoided through increased cost of working : Rs. 8,000.
- (11) 'Special circumstances' stipulated.
 - (a) Increase in turnover (Standard and annual) : 10%
 - (b) Increase in rate of Gross Profit : 8%.
- (12) Turnover for the four months ending :

Period	31st July (Rs.)	30th November (Rs.)	31st March (Rs.)
I yr. (Rs.)	70,000	90,000	80,000
II yr. (Rs.)	60,000	1,10,000	30,000

(13) Amount of Policy Rs. 50,000.

[R.U.B.C.A. 2006, B.B.A. 2002]

Solution : Computation of Claim for Loss of Profit

(i) Amount of Short Sales :

Sales during 1st December to March 31 (1 yr.)	Rs. 80,000
Add : 10% Increase	8,000
	88,000
Less : Sales during disruption period	30,000
Short Sale	58,000

(ii) Gross Profit Ratio :

$$= \frac{\text{Net Profit} + \text{Insured Standing Expenses}}{\text{Sales}} \times 100$$

$$= \frac{40,000 + 10,000}{70,000 + 90,000 + 80,000 = 2,40,000} \times 100 \text{ or } 20.83\%$$

Agreed rate of G.P. 20.83% + 8% or 28.83%

(iii) Loss of Profit :

Loss of Profit 28.83% on Rs. 58,000 (short sale)	Rs. 16,721
Add : Additional Expenses (least of the following a, b or c) :	1,606
Total Amount of Claim	18,327

(a) Actual additional expenses being Rs. 3,200 (Given)

or (b) $\frac{\text{Actual Additional Expenses} \times (\text{Net Profit} + \text{Insured Standing Charges})}{\text{Net Profit} + \text{All Standing Charges}}$

$$= \frac{3,200 \times (40,000 + 10,000)}{(40,000 + 16,000)} = \text{Rs. } 2,857$$

or (c) G.P. on reduced sales i.e. 28.83% on Rs. 8,000 = 2,306

Least of the above	Rs. 2,306
Less : Saving in expenses	1,700
Additional Expenses	1,606

(iv) Application of Average Clause

(a) Sales for 12 months ending (date of fire) (Rs. 80,000 + 60,000 + 1,10,000)	Rs. 2,50,000
Add : 10% Increase (Standard & Annual)	25,000
Adjusted Annual Sales	2,75,000
(b) G.P. on adjusted annual sales @ 28.83%	79,283

(c) Amount of Claim for loss of profit

$$\frac{\text{Loss of Profit} \times \text{Amount of Policy}}{\text{G.P. on Adjusted Annual Sales}} = \frac{18,327 \times 50,000}{79,283} \text{ or Rs. } 11,558$$

Illustration 14.15 :

From the following information, ascertain consequential loss claim :

- Financial year ends on 31st March with sales of Rs. 4,00,000;
- Date of fire 1st September following;
- Period of interruption : 1st September to 1st February;
- Indemnity Period : 6 months;
- Net Profit Rs. 24,000 plus insured standing charges Rs. 48,000 = 18% Rate of Gross Profit;
- Uninsured standing charges Rs. 4,000;
- Sum insured Rs. 72,600;
- Standard Turnover, i.e. for corresponding months (1st September to 1st February) in the year preceding the fire Rs. 1,50,000;
- Turnover in the period of interruption Rs. 45,000;
- Annual turnover (i.e. twelve months preceding the fire) Rs. 4,40,000;
- Increase in the cost of working Rs. 8,000 with a saving of insured standing charges Rs. 3,000;
- Reduced turnover avoided through increase in the cost of working Rs. 20,000;
- Special circumstances clause stipulated :
 - Increase in Turnover (Standing and annual) 10%
 - Increase in rate of Gross Profit 2%.

(BBA, 2004)

Solution :

(i) Calculation of Short Sales :

	Rs.
Statement of Short Sale	
Turnover in standard period	1,50,000
Add : Increase of 10% as stipulated	15,000
Adjusted Standard Turnover	1,65,000
Less : Actual turnover during indemnity period	45,000
Amount of Short Sales	1,20,000

- (ii) Agreed Rate of Gross Profit = (18% + 2%) = 20%
- (iii) Loss of Profit on Short Sales = 20% of Rs. 1,20,000 = Rs. 24,000.
- (iv) Calculation of Claim for Increased Working Cost :
Increase in Cost of Working = Rs. 8,000
Out of this amount of Rs. 8,000, only that part will be acceptable as claim which is lower of (a) or (b) below :

(a) Additional Sales or Reduced Turnover avoided Rs. 20,000.

Gross Profit earned on additional sales = 20% of Rs. 20,000 = Rs. 4,000

(b) Formula : $\frac{\text{Net Profit} + \text{Insured Standing Charges}}{\text{Net Profit} + \text{All Standing Charges}} \times \text{Additional Working Cost}$
 $= \frac{\text{Rs. 24,000} + 48,000}{\text{Rs. 24,000} + 52,000} \times 8,000 = \frac{72,000}{76,000} \times 8,000 = \text{Rs. 7,579}$

Out of (a) and (b), the amount of (a) is Rs. 4,000 is lower and will be acceptable.

Gross claim for Increased Working Cost = Rs. 4,000 - 3,000 = Rs. 1,000.

- (v) Application of Average Clause :

Total Sales for 12 months immediately before the date of fire

Add : 10% Increase

Total Adjusted Sales

Gross Profit @ 20% (New rate) on Adjusted Sales

$$= \left(\frac{20}{100} \times 4,84,000 \right) = \text{Rs. 96,800}$$

	Rs.
	4,40,000
	44,000
	4,84,000

The estimated profit for the current year is Rs. 96,800 for which the insurance policy should have been taken. But insured amount is only Rs. 72,600.

Thus, Final Claim = $\frac{\text{Insured Amount}}{\text{Insurable Amount}} \times \text{Total Loss or (Loss on account of Profit on Short Sales + Claim for increased Working Cost)}$

$$= \frac{\text{Rs. 72,600}}{86,800} \times 25,000 (\text{Rs. 24,000} + 1,000) = \text{Rs. 18,750}$$

Test Questions

Very Short Questions & Answers : (Not exceeding 40 words)

Q.1. Explain the meaning of Fire Insurance.

Ans. : Fire insurance is a contract of compensation. The contract is for a specified period of time, usually for one year. It is the consideration for the promise of compensation by the Insurance Company against the premium paid by the Insured.

Q.2. What is meant by salvaged stock?

Ans. : Sometimes, even after fire, some of the goods may be saved completely and some be destroyed partly which may be used after some rectification therein. Such stocks are known as 'Salvaged Stock'.

Q.3. What do you mean by Average Clause?

Ans. : In order to discourage under insurance, this clause is inserted in the policy, which means if the amount of the Policy is Less than the value of the stock insured, the Insurer (Insurance Company) will be liable only for that proportion of the loss which the Amount of Policy bears to the Total Value of the stock on the date of fire.

Q.4. Enumerate the losses which are insured under consequential Loss Policy.

Ans. : The following losses may be covered under consequential Loss Policy ?

- Loss of profit that would have been earned.
- Loss of fixed expenses which are incurred even during closure period of Business.
- Additional working cost incurred in bringing the Business in order.

Q.5. State two points of difference between Consequential Loss Insurance and Fire Insurance.

Ans. : (i) Fire insurance covers capital losses, whereas consequential loss insurance covers revenue losses only.
(ii) Subject matter of fire insurance is Tangible Assets, whereas under consequential loss insurance, subject matter is Intangible Assets and covers earning capacity of a Business.

Q.6. What is meant by 'Short Sale' under Loss of Profit Policy?

Ans. : The term short sale refers to the loss of sales on account of fire resulting in dislocation of Business. It is the difference between the Standard Sales and the Actual Sales during Indemnity Period.

Q.7. What is meant by standing charges with reference to insurance claims.

Ans. : In every business certain expenses are of fixed nature which are not affected by increase or decrease of production or sale. These expenses are required to be incurred necessarily even when the business is closed for sometimes. Such expenses are known as fixed or period expenses, for example, rent, rates, taxes, salaries, interest on loan etc. These are called standing charges.

Q.8. What do you understand by Insured Charges?

Ans. : Insurance company also pays the amount of claim for fixed expenses apart from the loss of profit. As such, the businessmen should also get fixed expenses insured. If only a part of such expenses is insured, such portion of standing charges is called insured standing expenses.

Q.9. Explain the term indemnity period with reference to consequential loss Insurance.

Ans. : Indemnity period is the period of claim which is generally specified in the policy. In other words, it is the period of claim specified in policy or actual period of dislocation, whichever is less. For example, if such period is 4 months specified in policy, but actual period of dislocation is less than 4 months, actual period of dislocation will be the period of Indemnity and vice-versa.

Q.10. How is Rate of Gross Profit calculated, while computing claim for Loss of Profit?

Ans. : The term Gross Profit has got a different meaning which is generally understood and shown by Trading Account, Here Gross Profit means 'Net Profit + Insured Standing Charges' and the rate is calculated as under ?

$$\text{Rate of Gross Profit} = \frac{\text{Net Profit} + \text{Insured Standing Charges}}{\text{Adjusted Sales of Previous Accounting Year}} \times 100$$

Q.11. What is meant by Adjusted Annual Sales.

Ans. : Adjusted Annual Sales is the amount for which Insurance Policy should have taken. It is determined by applying the rate of gross profit to the turnover for just preceding 12 months from the date of fire. Such amount of Sales be adjusted in terms of trend of Sales (increasing or decreasing) is called Adjusted Annual Sales.

Q.12. Stock of the value of Rs. 2,00,000 has been insured for Rs. 1,50,000. The loss of stock by fire is estimated to the extent of Rs. 1,25,000. Find out the amount of claim if average clause is applicable.

Ans. 93,750

Ans. : When Average clause is applicable :

$$\begin{aligned} \text{Amount of Claim} &= \text{Loss of Stock} \times \frac{\text{Sum Insured}}{\text{Value of Stock on the date of fire}} \\ &= 1,25,000 \times \frac{1,50,000}{2,00,000} = \text{Rs. } 93,750 \end{aligned}$$

Q.13. Fire occurred in the Shop of Shri Kanak. From the data given below, compute the amount of claim when average clause is applicable :

Stock on the date of fire Rs. 4,00,000 which was insured for Rs. 3,00,000. Stock of the value of Rs. 30,000 was saved and that of Rs. 50,000 salvaged. [Ans. : Rs. 2,40,000]

Ans. Loss of stock on the date of fire = Stock on the date of fire - (stock saved + stocks salvaged) = Rs. 4,00,000 - (30,000 + 50,000) = Rs. 3,20,000

$$\begin{aligned} \text{Amount of Claim} &= \frac{\text{Loss of Stock} \times \text{Amount of Policy}}{\text{Value of Stock on the date of fire}} \\ &= 3,20,000 \times \frac{3,00,000}{4,00,000} = \text{Rs. } 2,40,000 \end{aligned}$$

Short Questions and Answers : (Not exceeding 80 words)

Q.1. What is meant by consequential Loss Policy?

Ans. : Consequential Loss Insurance Policy

In case of a fire, it destroys not only the tangible assets of the firm such as stock, building, furniture, machine and plant etc., but it also affects the working capacity of the firm for some time, which results in loss of profits otherwise that could have been earned. Following losses are incurred due to fire :

- (i) Loss of Profit that would have been earned;
- (ii) Loss of fixed expenses which are incurred even during closure period of business; and
- (iii) Additional working cost incurred in bringing the business house in order, such as renting premises temporarily for a short time.

All the above losses are not covered in an ordinary fire insurance policy. So to cover all these losses, a separate policy may be taken which is called as "a loss of profit policy" or "consequential loss policy".

Q.2. Explain the steps for computing the amount of claim under Consequential Loss Policy.

Ans. : Computation on of claim under Consequential Loss Policy.

Step - 1 : Calculation of Short Sale - It is the loss of sales on account of fire resulting on account of fire during the period of dislocation.

Step - 2 : Calculation of Rate of Gross Profit

$$\text{Rate of Gross Profit on Sales} = \frac{\text{Net Profit} + \text{Insured Standing Charges}}{\text{Adjusted Sales of Previous Accounting Year}} \times 100$$

Step - 3 : Calculation of Loss of Profit

$$\text{Loss of Profit} = \text{Short Sale} \times \text{Rate of Gross Profit}$$

Step - 4 : If Average Clause is application

$$\text{Amount of Claim} = \frac{\text{Loss of Stock} \times \text{Amount of Policy}}{\text{Gross Profit on Adjusted Annual Sales}}$$

Adjusted Annual Sales or Insurable Amount

$$= \text{Turnover for just preceding 12 months from the date of fire.}$$

Q.3. Explain the method of ascertaining a claim for loss of stock destroyed in case of fire Insurance.

Ans. : Computation of the Amount of Claim :

1. Determination of the value of stock burnt which might be either actual (if proper records for stock are maintained) or estimated value (if records for stock are destroyed by fire).
2. Estimated value may be ascertained by preparing Memorandum Trading Account with the help of available information from the books of accounts.
3. Value of Salvaged Stock : When some of the goods is saved and other part of goods partly destroyed in rectified, the sum of the values of above two is deducted from the value of stock destroyed on the date of fire.
4. If Average Clause Applicable

$$\text{Amount of Claim} = \frac{\text{Loss of Stock} \times \text{Amount of Policy}}{\text{Value of Stock on the date of fire}}$$

Q.4. How will you calculate the Rate of gross profit for the purpose of insurance claim on loss of Net Profit :

Ans. : Here, by 'gross profit' means : Net Profit + Insured Standing Charges. So, the rate of gross profit is ascertained as under :

$$\text{Rate of Gross Profit on Sales} = \frac{\text{Net Profit} + \text{Insured Standing Charges}}{\text{Accounting Year's Sales (Adjusted)}} \times 100$$

All the figures relating to net profit, insured standing charges and turnover relate to the last accounting period. If in above example, the amount of total sales of preceding accounting year was Rs. 7,00,000; fixed expenses Rs. 2,60,000; the net profit Rs. 3,40,000 and the insured standing charges Rs. 70,000; the rate of gross profit would be :

$$\frac{\text{Rs. } 3,40,000 + 70,000}{\text{Rs. } 7,00,000 + 1,05,000} \times 100 = 50.93\%$$

In Case of Net Loss : The rate of gross profit shall be determined as under :

$$= \frac{\text{Insured Standing Charges} - \text{Net Loss}}{\text{Accounting Year Sales (Adjusted)}} \times 100$$

If all the standing charges are not insured, the amount of net loss will have to be reduced as under :

$$\frac{\text{Net Loss} \times \text{Insured Standing Charges}}{\text{All Standing Charges}}$$

Q.5. Distinguish Between Consequential Loss Insurance and Fire Insurance.

Ans. : Difference between Consequential Loss Insurance and Fire Insurance

The points of difference between 'consequential loss insurance' and 'fire insurance' are as under :

- (1) The fire insurance covers capital losses whereas consequential loss insurance covers revenue losses.
- (2) The subject matter of fire insurance is tangible assets which covers stock, building, furniture, machine and plant etc. whereas under consequential loss insurance it is intangible and covers the earning capacity of the business.
- (3) The fire insurance protects the insured against the losses of stocks etc., whereas the consequential loss insurance provides protection against Trading Losses arising due to closure of business activities also.

Q.6. Find out the amount of insurance claim from the data given below :

Stock of Goods Rs. 2,00,000 3/4 th of which destroyed by fire.

- (a) Sum insured Rs. 2,00,000
- (b) Sum insured Rs. 1,60,000 without average clause.
- (c) Sum insured Rs. 1,00,000 without average clause. [Ans. : (a) Actual Loss Rs. 1,50,000, (b) Actual Loss Rs. 1,50,000, (c) Sum insured R. 1,20,000]

Ans. : Computation of Claim

Loss of Stock = 3/4 of Rs. 2,00,000 or Rs. 1,50,000

- (a) Since the stock is fully insured, the amount of the claim would be actual loss i.e. Rs. 1,50,000.
- (b) In case of under insurance without average clause, the amount of claim is restricted to actual loss or sum assured, which ever is less, Thus here actual loss is Rs. 1,50,000 and sum insured Rs. 1,60,000, the amount of claim will be Rs. 1,50,000.
- (c) When Average clause is applicable.

$$\text{Amount of Claim} = \frac{\text{Actual Loss} \times \text{Sum Insured}}{\text{Value of Stock on the date of fire}}$$

$$\text{or } \frac{1,50,000 \times 1,60,000}{2,00,000} = \text{Rs. } 1,20,000$$

Essay Type or Long Answers Questions :

1. What points are taken into consideration while calculating claim for loss of stock in case of fire insurance. Explain with the help of an example. (See page nps. 14.1 and 14.2)
2. What is 'Consequential loss policy'? How is the claim calculated under this policy?

[R.U. B.C.A., 2008, 2006]

3. What is meant by 'Consequential Loss Policy'? Which factors influence the ascertainment of claim under this policy? Explain the procedure for calculation claim for loss of profit. (See page nps. 14.10, 14.11, 14.12)
4. Write explanatory notes on the following : [R.U.B.C.A. 2004]
 - (i) Average clause (See page 14.6)
 - (ii) Claim for Increased Cost (See page 14.15)
 - (iii) Standard Sales (See page 14.11)
 - (iv) Indemnity Period (See page 14.11)
 - (v) Salvaged Stock (See page 14.12)
 - (vi) Gross Profit Ratio (See page 14.12)

Numerical Questions

Q.1. A fire occurred in the premises of Mr. Ram on 15th June, 2015, and a considerable part of the stock was destroyed. The value of the stock saved was Rs. 9,000. The books disclosed that on 1st April, 2014, the stock was valued at Rs. 73,500, purchases to the date of the fire amounted to Rs. 2,09,880 and sales to Rs. 3,13,000. On investigation, it was found that during the past five years the average gross profit on the sales was 25%.

You are required to prepare a statement showing the amount which Mr. Ram should claim from the insurance company in respect of stock destroyed or damaged by the fire. [Ans. : Rs. 39,630]

Ans. : Memorandum Trading Account of Mr. Ram
as on the Date of Fire

	Rs.		Rs.
To Opening Stock	73,500	By Sales	3,13,000
To Purchases	2,09,880	By Stock (estimated)	48,630
To Gross Profit (25% on Rs. 3,13,000)	78,250	(Balancing figure)	
	3,61,630		3,61,630

$$\text{Amount of Claim} = \text{Estimated Value of Stock} - \text{Stock Salvaged}$$

$$= \text{Rs. } 48,630 - 9,000 \text{ or Rs. } 39,630$$

Q.2. X Ltd. closed their books every year on 31st March. On 30th April, 2015 their premises and stock were totally destroyed by fire. From the books of account and other records that were saved, the following information is available. The stock at hand has always been valued at 10% less than cost.

Particulars	2012-13 Rs.	2013-14 Rs.	2014-15 Rs.	1.4.2015 to 30.4.2015 Rs.
Opening Stock as valued	2,70,900	3,24,000	3,60,000	3,69,000
Purchases less Returns	7,49,000	8,00,000	8,10,000	60,000
Sales less Returns	12,00,000	13,20,000	14,00,000	1,20,000
Wages	1,74,000	1,90,000	2,09,000	20,000
Closing Stock as valued	3,24,000	3,60,000	3,69,000	—

Prepare a statement for submission to the Insurance Company in support of the claim for loss of stock. [Ans. : Average Profit 28%, Claim Rs. 4,03,600]

Ans. : Trading Account for three years ending 31st March, 2015

Particulars	2012-13 Rs.	2013-14 Rs.	2014-15 Rs.	Particulars	2012-13 Rs.	2013-14 Rs.	2014-15 Rs.
To Opening Stock (Value × 100) ÷ 90	3,01,000	3,60,000	4,00,000	By Sales (Net)	12,00,000	13,20,000	14,00,000
To Purchases (Net)	7,49,000	8,00,000	8,10,000	By Stock (Closing)	3,60,000	4,00,000	4,10,000
To Wages	1,74,000	1,90,000	2,09,000	Value × 100 90			
To Gross Profit h/d	3,36,000	3,70,000	3,91,000				
	15,60,000	17,20,000	18,10,000		15,60,000	17,20,000	18,10,000

Percentage of Gross Profit : For 2012-13 : $\frac{\text{Rs. } 3,36,000}{12,00,000} \times 100 = 28\%$

For 2013-14 : $\frac{\text{Rs. } 3,70,000}{13,20,000} \times 100 = 28.03\%$

For 2014-15 : $\frac{\text{Rs. } 3,91,000}{14,00,000} \times 100 = 27.93\%$

Average Comes to = 28%

Memorandum Trading Account

Particulars	Rs.	Particulars	Rs.
To Opening Stock Rs. (3,69,000 × 100) ÷ 90	4,10,000	By Sales (Net)	1,20,000
To Purchases	60,000	By Stock (Estimated Value of Closing Stock) burnt by Fire	4,03,600
To Wages	20,000		
To Gross Profit (Estimated) (28% of Rs. 1,20,000)	33,600		
	5,23,600		5,23,600

Amount of Claim = Rs. 4,03,600

Q.3. On 3rd July, 2015 a fire occurred in the premises of M/s Joy & Company resulting in part destruction of Stock of goods and furniture. Stock having cost of Rs. 20,000 and furniture Rs. 5,000 were salvaged. The stock and furniture were insured against fire to the extent of the following :

Stock Rs. 1,40,000 and Furniture Rs. 25,000.

The following details are obtained from their books and records :

- Balances as per last Balance Sheet (31.3.2015) (i) Stock and Furniture Rs. 1,20,000 and Rs. 30,000, Creditors for goods Rs. 10,000.
- Transactions from April 1, 2015 to July 3, 2015 :
(i) Payment to Creditors Rs. 62,000, (ii) Return outwards Rs. 2,000, (iii) Return inwards Rs. 6,500. (iv) Sales Rs. 1,10,000.
- Unpaid Creditors for goods on 3rd July, 2015 Rs. 8,000.

All Sales were made at a Profit of $33\frac{1}{3}\%$ on selling price. There were no other purchases and Sales. Draw up a statement of claim for loss of stock and furniture on the basis of above facts.

Ans. : In this problem all relevant data are given except the amount of purchases. So, total creditors Account will be prepared as under :

Total Creditors Account

Particulars	Rs.	Particulars	Rs.
To Cash Payment	62,000	By Balance b/d	10,000
To Returns out	2,000	By Purchases A/c	62,000
To Balance c/d (unpaid creditors)	8,000	(Balancing Figure)	
	72,000		72,000

Memorandum Trading Account upto the date of Fire

Particulars	Rs.	Particulars	Rs.
To Opening Stock	1,20,000	By Sales	1,10,000
To Purchases	62,000	Less : Return in.	6,500
To Gross Profit $\frac{1}{3} \times \text{Sales}$	34,500	By Estimated Value of Stock Burnt	1,13,000
	2,16,500		2,16,500

Claim for Stock : Rs. 1,13,000 – Salvaged Stock Rs. 20,000 = Rs. 93,000

Average Clause not applicable since the amount of Policy Rs. 1,40,000 is greater than its value.

Amount of Claim for Furniture = Rs. 25,000 – Furniture Salvaged Rs. 5,000 = Rs. 20,000

Thus total claim = Rs. 93,000 (Stock) + Rs. 20,000 (Furniture).

Q.4. Fire occurred in the premises of Shri Ram on August 1st, 2015 and the stock was destroyed.

The following information was available :

Particulars	Rs.
Purchases for the ended 31st March, 2015	8,88,000
Sales for the year ended 31st March, 2015	11,60,000
Purchases from April 1 to date of fire	1,82,000
Sales from April 1 to date of fire	2,40,000
Stock Opening as on 1st April, 2014	1,44,000
Stock Closing as on 31st March, 2015	2,42,000
Wages paid during 2014-15	1,00,000
Wages paid from April 1 to date of fire	18,000
Stock Salvaged Rs. 25,000 and a policy was taken for Rs. 2 lakh to cover loss by fire. There was a practice in the firm to value stock at cost less 10%, but this was discontinued and stock on 31st March, 2015 was valued at cost plus 10%.	
Calculate the amount of claim to be submitted to Insurance Company.	
Ans. : Gross Profit in 2014-15 Rs. 2,32,000 and rate 20%. Value of Closing Stock destroyed Rs. 2,28,000. Amount of Claim Rs. 1,78,070.	

**Profit and Loss Account
for last Financial year**

	Rs.		Rs.
Variable Expenses	12,00,000	Sales	20,00,000
Fixed Expenses :		Interest on Investments	40,000
Wage of skilled employees and salaries of administrative staff	3,00,000		
Depreciation of Fixed Assets	90,000		
Insurance Premiums	10,000		
Audit Fees	4,000		
Directors' Fees	4,000		
Travelling Expenses	40,000		
Postage and Telephones	3,000		
Trade Subscriptions	1,000		
Rent, Rates and Taxes	30,000		
Net Profit	3,58,000		
	20,40,000		20,40,000

[Ans : Net Profit Rs. 3,98,000 + Fixed Expenses Rs. 4,82,000 = Rs. 8,80,000]

Ans.

Year's Sales
Add: Increasing Trend 10%
Less : Last year's Variable Expenses
10% Increase

	Rs.
Year's Sales	20,00,000
Add: Increasing Trend 10%	2,00,000
Less : Last year's Variable Expenses	22,00,000
10% Increase	(12,00,000)
	(1,20,000)
Gross Profit for Current Year	8,80,000
Less : Fixed Expenses remaining the same as during last years. 3,00,000 + 90,000 + 10,000 + 4,000 + 4,000 + 40,000 + 3,000 + 1,000 + 30,000)	4,82,000
Net Operating Profit for current year	3,98,000
	Rs.
Net operating Profit	3,98,000
Add : Fixed or Standing Charges	4,82,000
Amount to be Insured or Insurable Amount	8,80,000

Amount of consequential Loss Policy

Net operating Profit
Add : Fixed or Standing Charges
Amount to be Insured or Insurable Amount

- Q.7.** From the following particulars ascertain the claim under a policy covering consequential loss :
- Accounts are prepared on 31st March. The net profit for the year ended 31st March 2015 amounted to Rs. 65,000 after debiting fixed (insured) expenses totalling Rs. 75,000. Sales for the year ended 31st March, 2015 were Rs. 11,20,000.
 - Fire occurred on September 1, 2015 and affected sales for four months.
 - Sales for four months ending December 31, 2015 and 2014 were respectively Rs. 3,00,000 and Rs. 40,000.
 - The policy was for Rs. 3,00,000; the sales for the year ending August 31, 2015 were Rs. 20,00,000.
- [Ans. : Rate of G.P. 12.5% Short Sale Rs. 2,60,000, Loss of Profit Rs. 32,500]

Ans. : (i) Calculation of Short Sale

	Rs.
Sale during 4 months ending December 31, 2014	3,00,000
Less : Actual Sales during period of dislocation	40,000
Amount of Short Sale	2,60,000

(ii) Calculation of Rate of Gross Profit on Sales

Gross Profit = Net Profit + Insured Standing Charges
= Rs. 65,000 + Rs. 75,000 = Rs. 1,40,000

Rate of Gross Profit on Sales = $\frac{\text{Gross Profit}}{\text{Sales}} \times 100$
= $\frac{\text{Rs. 1,40,000}}{11,20,000} \times 100$ or 12.5%

(iii) Calculation of Loss or Profit on Short Sale

Loss of Profit = Rate of G.P. × Short Sale
= 12.5% of Rs. 2,60,000 or Rs. 32,500

(iv) Application of Average Clause

Sale for 12 months immediately preceding the date of fire = Rs. 30,00,000 (Given)

Insurable Amount = 12.5% on Rs. 30,00,000 or Rs. 3,75,000

Allowable Claim = Loss of Profit on Short Sale × $\frac{\text{Insured Amount (Policy)}}{\text{Insurable Amount}}$
= $\frac{32,500 \times 3,00,000}{3,75,000}$ or Rs. 26,000

Q.8. Find out the Amount of claim for Loss of Profit for the following information assuming an upward trend of 10% in the Business of Modi Sons :

- Indemnity Period : 6 months and Policy Value Rs. 6,00,000
- Date of fire 1 - 4 - 2015, dislocation period upto 1-8-2015
- Sales for the year 2014-15 was Rs. 24,00,000 and Net Profit for the year was Rs. 2,60,000.
- Standing Charges for the year 2014-15 Rs. 3,40,000 fully Insured.
- Sales from 1-4-2014 to 31-3-2015 amounted to Rs. 32,00,000 and from 1-4-2015 to 31-7-2015 Rs. 3,00,000 and from 1-4-2014 to 31-7-2014 Rs. 10,00,000.

Ans. : Short Sale Rs. 8,00,000, GP Rate 25%
Loss of Profit Rs. 2,00,000, Claim Rs. 1,36,364.

Q.9. From the following particulars relating to a Merchant, prepare a claim for loss of profit under the Consequential Loss Policy :

	Rs.
Date of fire 30th June, 2015	
Period of indemnity six months	
Sum insured	40,000
Turnover for the year ended 30th June, 2015	2,00,000
Net profit for the accounting year ending 31st March, 2015	12,500
Standing charges for the accounting year ending 31st March, 2015	28,500

Turnover for the year ending 31st March, 2015 1,98,000
 Turnover for the indemnity period from 1.7.2015 to the date of fire 56,000
 Turnover for the period from 1.7.2014 to 31.12.2014 1,10,000
 The turnover of the year 2014-2015 had shown tendency of increase by 10% over sales of the preceding year.
 Ans. : Short Sale Rs. 65,000, Rate of G.P. 20.71% Loss of Profit Rs. 41,414, Claim Rs. 13,000
 Hint : Q.No. 8 and 9 may be solved in the light of Solution to Q. No. 7th Above.

- Q.10. (i) Additional Working Expenses During Period of Indemnity Rs. 4,000.
 (ii) Additional Sales during the period of Indemnity Rs. 55,000.
 (iii) Net Profit + All Standing charges Rs. 35,000.
 (iv) Net Profit + Insured Standing Charges Rs. 30,000
 (v) Saving in Insured Standing Charges Rs. 700
 (vi) Rate of Gross Profit being 10% on Sales

Calculate the gross amount of claim in respect of Additional Working Expenses for the above disformation.

Ans. Least of the following Less Saving in Insured Standing Charges shall be the amount of Claim.

- (a) Rs. 4,000 (Actual additional working expenses)
 (b) Rs. 55,000 × 10% = Rs. 5,500 (Rate of GP × Short Sale avoided through increased cost of working).
 (c) Rs. 4,000 × $\frac{30,000}{35,000}$ = Rs. 3,429. Amount calculated by the formula

$$\frac{\text{Net Profit Insured Standing Charges}}{\text{Net Profit} \times \text{All Standing Charges}} \times \text{Additional Working Expense.}$$

So least of the above three amounts = Rs. 3,429.

As such gross amount of the claim for Additional Working expenses or working cost = Rs. 3,429 - 700 or Rs. 2,729.

- Q.11. On 31st May, 2015 a fire damaged the premises of Shyam Bros, and the business of the company was disorganised until 31st August, 2015. The firm is insured under a loss of profit policy for Rs. 2,20,000 with six month's period of indemnity.

The firm's accounts for the financial year ended 31st March, 2015 showed a turnover of Rs. 14,00,000 with net profit of Rs. 1,60,000; the standing charges covered under insurance and debited in the accounts amounted to Rs. 4,00,000. The turnover for the twelve months ended 31st May, 2015 was Rs. 15,60,000; during the period of dislocation it was Rs. 1,60,000, whereas during the corresponding period in the preceding year it was Rs. 3,40,000. A sum of Rs. 44,800 was spent to reduce the effect of the loss, but there was no saving of standing charges as the result of fire. Prepare the claim to be submitted to the insurance company.

[Ans. : Short Sale Rs. 1,80,000, Rate of G.P. 40%, Loss of Profit Rs. 72,000, Increased Cost Rs. 44,800, Amount of Claim Rs. 97,333.]

- Q.12. From the following particulars of Rohan & Company determine the amount of claim under a loss of profit policy :
 Idemnity period 4 months

Date of fire 1-4-2015
 Dislocation continued up to 1-8-2015
 Sum insured 12,00,000
 Sales for the last accounting year 48,00,000
 Net profit for the last accounting year 6,80,000
 Standing charges for the last accounting year all insured 5,20,000
 Sales for the period of dislocation 1-4-2015 to 1-8-2015 6,00,000
 Sales for the year 1-4-2014 to 31-3-2015 64,00,000
 Sales for the corresponding period in the preceding year or 1-4-2014 to 1-8-2015 20,00,000
 The policy contains 'special circumstances clause' which stipulates for increase of turnover (standard and annual) by 10% as there is an upward trend in the business.
 [Ans. : Short Sale Rs. 16,00,000, G.P. Ratio 25% Loss of Profit Rs. 4,00,000, Claim Rs. 2,72,727.]
 Hint for solution : Q. No. 11 and 12 may be solved after learning Illustration 14.12 and 14.13.

- Q.13. From the following information, calculate a consequential loss claim :

- Financial year ends on 31st March
- Fire occurs on December 1 following.
- Period of disruption : December 1 to March 31.
- Period of Indemnity : 6 months
- Net Profit for previous financial year : Rs. 20,000
- Insured Standing charges : Rs. 30,000.
- Uninsured Standing Charges Rs. 6,000
- Increase in the cost of working : Rs. 4,200
- Saving in Insured Standing Charges Rs. 1,200.
- Reduced turnover avoided through increased cost of working Rs. 10,000.
- "Special circumstances clause" stipulated :
 (a) Increase in turnover (Standard and Annual) : 20%
 (b) Increase in rate of Gross Profit : 5%
- Turnover for the four months ending :

	31st July	30th November	31st March
First Year	Rs. 40,000	90,000	70,000
Second Year	Rs. 60,000	1,10,000	20,000

13. Sum Insured : Rs. 64,800.

- Ans. (i) Calculation of Short Sales :

Statement of Short Turnover		Rs.
Sales during the same period last year		70,000
Add : 20% Increase		14,000
	Adjusted Sales	84,000
Less : Sales during disruption period		20,000
	Amount of Short Sales.	64,000

(ii) **Gross Profit Ratio :**

$$\text{Formula : } \frac{\text{Net Profit plus Insured Standing Charges}}{\text{Sales for the last financial year}} \times 100\%$$

$$= \frac{20,000 + 30,000}{2,00,000} \times 100 = \frac{50,000}{2,00,000} \times 100 = 25\% \text{ for last year}$$

Agreed rate of Gross Profit for this year = 25% + 5% = 30%.

(iii) **Claim for loss of profit on short sales** = 30% of Rs. 64,000 = **Rs. 19,200**

(iv) **Claim for additional Cost of Working :**

Additional Cost of Working = Rs. 4,200.

Out of this amount of Rs. 4,200, that part will be acceptable as claim which is lower out of (a) or (b) below :

(a) Reduced turnover avoided Rs. 10,000

Gross Profit earned on these sales = 30% of Rs. 10,000 = Rs. 3,000

(b) **Formula :** $\frac{\text{Net Profit + Insured Standing Charges}}{\text{Net Profit + All Standing Charges}} \times \text{Additional Working Cost}$

$$= \frac{20,000 + 30,000}{20,000 + 36,000} \times 4,200 = \frac{50,000}{56,000} \times 4,200 = \text{Rs. 3,750}$$

Out of above (a) and (b), the amount in (a) i.e. Rs. 3,000 is lower. Hence, this amount will be acceptable as claim.

Gross Claim for increased working cost

$$= \text{Rs. 3,000} - \text{Rs. 1,200} = \text{Rs. 1,800.}$$

(v) **Application of Average Clause :**

Total Sales for 12 months immediately before the date of fire i.e.

Rs. (1,10,000 + 60,000 + 70,000)

Rs.

2,40,000

Add : 20% increase

48,000

Total Adjusted Sales

2,88,000

Gross Profit on Adjusted Sales = $\frac{30}{100} \times \frac{2,88,000}{1} = \text{Rs. 86,400.}$

The Trader should have insured for Rs. 86,400 while the insured amount is only Rs. 64,800

So, Final claim = $\frac{\text{Insured Amount}}{\text{Insurable Amount}} \times \text{Total Loss}$

$$\text{or Final claim} = \frac{64,800}{86,400} \times (19,200 + \text{Rs. 1,800})$$

$$\text{or Final claim} = \frac{64,800}{86,400} \times \frac{21,000}{1} = \text{or Rs. 15,750}$$

Note : In the question the first year means the preceding year of the fire while the second year means the current year of fire.





BCA-II

ONE WEEK SERIES

BUSINESS ACCOUNTING



- According to the Latest Syllabus
- Solution According to the Marks
- Lucid Explanations

Parth Publishers

Knowledge with Ethics



SYLLABUS

Note- Students are advised to match this syllabus and pattern with the syllabus available at university website.

Question Paper pattern for Main University Examination

Max. Marks : 100

Time: Three Hours

Part - I (Very Short Answer) consists 10 questions of two mark each with two questions from each unit. Maximum limit for each question is upto 20 words.

Part - II (Short Answer) consists 5 questions of four marks each with one question from each unit. Maximum limit for each question is upto 80 marks.

Part - II (Long Answer) consists 5 questions of twelve marks each with one question from each unit with internal choice.

BCA201 : Business Accounting

UNIT-I

Basics of Book-keeping and Accounting : Financial Accounting: Definition, Scope and Objective of Financial Accounting. Users of accounting information, Limitations of Financial Accounting. Financial Accounting Principles, Concepts and Conventions.

UNIT-II

System of Book-keeping : Accounting Process, Double Entry System, Books of Prime Entry, Subsidiary Books, Recording of Cash and Bank Transactions.

UNIT-III

Ledger Accounts : Preparation of Ledger Accounts, Bank Reconciliation Statements, Preparation of Trial Balance.

Depreciation Accounting : Meaning, Need and Importance of depreciation, Straight Line and Diminishing Balance method, computation and Accounting Statement of Depreciation, change in Depreciation method. Provisions & Reserves, Rectification of Errors.

UNIT-IV

Final Accounts : Opening and Closing Entries, Trading, Profit and Loss Accounts and Balance Sheet.

UNIT-V

Final Accounts with Adjustments : Adjustments of Dividends, Drawings, Outstanding Incomes and Expenses, Depreciation. Tax Liabilities, Insurance Claims for loss of Stock and Loss of Profit.

BCA EXAMINATION-2019

Business Accounting

PART-I

- Q.1. (a) Define Book-keeping.
(b) Name any two limitations of Accounting.
(c) Mention any two features of Double Entry System.
(d) Give names of any two Subsidiary Books.
(e) In which method of Depreciation, the balance of Asset account will never be Zero?
(f) State any two objectives of preparing Trial Balance.
(g) What is shown by the Trading Account?
(h) What do you mean by Marshalling of Balance Sheet?
(i) ₹ 18,000 received as commission during the Financial year 2017-18 of which one-third relates to next year. Pass necessary adjustment entry.
(j) What do you mean by Indemnity Period under loss of Profit Policy?

PART-II

- Q.2. (a) Mention the names of any four External users along with Areas of interest of Accounting Information.
(b) Explain the process of Accounting.
(c) Distinguish between Provisions and Reserves.
(d) What do you understand by closing entries and where they are recorded?
(e) Stock on the date of fire ₹ 3,20,000; stock saved ₹ 44,800 stock salvaged ₹ 41,600 and stock insured for ₹ 2,40,000. Ascertain the amount of claim.

A-5

PART-III

- Q.3. Define 'Accounting'. How does it differ from Book-Keeping? Describe the objectives of Accounting

OR

Write Explanatory notes on:

- The Going Concern Concept
- Business Entity Concept
- Convention of Disclosure
- Convention of Conservatism

Q.4. Write short notes on the following:

- Journal Proper
- Contra Entries in three Column Cash Book
- Imprest system of Petty Cash Book

OR

Journalise the following transaction in the books of Sharma Bros :

- 2019 Jan 1 Started business with cash ₹ 3,00,000;
goods worth ₹ 80,000 and Furniture worth ₹ 80,000
Jan 2 Deposited in bank ₹ 40,000
Jan 3 Bought goods from P Bros. on credit ₹ 60,000
Jan 5 Sold goods to Goyal Bros. on credit ₹ 70,000
Jan 10 Received ₹ 4000 from travelling salesman for goods sold by him after deducting travelling exp. ₹ 200
Jan 15 Drew a cheque of ₹ 800 for Personal use
Jan 18 Paid to P Bros. by cheque at 5% discount
Jan 20 Goyal Bros. gave cheque; deposited in Bank ₹ 70,000
Jan 25 Paid salary ₹ 4000 and rent ₹ 2500 to Mohan
Jan 28 Bank intimates that cheque of Goyal Bros. has been returned unpaid
Jan 31 Depreciation charged on furniture @ 10% P.a.

Q.5. X Co. Ltd purchased a plant for ₹ 2,00,000 on 1-4-14. It was charging depreciation at 10% p.a. according to the Fixed Instalment Method.

On 1st April, 2018 it was decided to change the method of depreciation from Fixed Instalment Method Diminishing Balance Method w.e.f. 1-4-14, the rate of depreciation was to be 12% p.a. You are required to prepare the plant Account for four years upto the end of 31st

March, 2018

OR

What is Trial Balance? "Is the agreement of Trial balance a conclusive proof of the accuracy of accounting books?" What are the errors which do not affect the agreement of Trial balance?

Q.6 Distinguish.

- (i) Opening Entries and Closing Entries
(ii) Profit and Loss account and Balance Sheet

OR

What do you mean by Final Accounts? why they are prepared? Prepare a Trading Account by taking imaginary figures.

Q.7 A Fire broke out on 9th February 2019, in the premises of Suvidha Readymade garments business. All the stock was burnt except of ₹ 22,000. From the following figures calculate the claim amount under loss of stock policy.

	₹
Goods in the shop on 1st April, 2017	3,80,000
Purchases during 2017-18	16,60,000
Purchases returns during 2017-18	10,000
Sales less returns during 2017-18	20,00,000
Value of goods on 31st March, 2018	2,37,500
Purchases less returns since 1st April, 2018 to the date of Fire	9,50,000
Sales less returns since 1st April, 2018 to the date of Fire	12,10,000

It was the practice in the business to value stock at cost less 5%. Early in April, 2018 selling prices were raised by 10%. Stock was insured for ₹ 1,80,000.

OR

How will you deal with the following items in final accounts?

- (a) Depreciation
(b) Dividends
(c) Outstanding expenses
(d) Tax Liabilities

□□□

Business Accounting

Very Short Type Questions & Answers

Q.1. Define Book-Keeping.

Ans. Book keeping is the science and art of recording correctly in the books of accounts all those business transactions that result in the transfer of money or money's worth.

Q.2. Name any two limitations of accounting.

Ans. (i) Accounting ignores the effect of price level changes.
(ii) Accounting ignores the qualitative elements.

Q.3. Mention any two features of Double Entry System.

Ans. (i) It recognizes two fold aspect of every transaction.
(ii) In this system, one aspect is debited and the other aspect is credited following the rules of debit and credit.

Q.4. Give name of any two subsidiary books.

Ans. (i) Purchase book (ii) Cash book

Q.5. In which method of depreciation, the balance of asset account will never zero.

Ans. Vendor written down value method of depreciation, the balance of asset account will never zero.

Q.6. State any two objectives of preparing trial balance.

Ans. (i) To ascertain the arithmetical accuracy of the ledger accounts.
(ii) To help in the detection or location of errors.
(iii) For the preparation of final accounts.

Q.7. What is shown by the Trading Account?

Ans. Gross profit or Gross Loss is shown by the Trading Account.

Q.8. What do you mean by marshalling of Balance-Sheet? Marshalling is the arrangement of various assets and liabilities in a proper order. Marshalling can be done by the following two ways:

- (i) In the order of liquidity (ii) In the order of permanence

Q.9. Rs. 18,000 received as commission during the financial year 2017-18 of which one third relates to the next year. Pass adjustment entry.

Ans. Commission received A/C Dr 6,000
To Unearned Commission A/C 6,000
(Being 1/3 commission received in advance)

Q.10. What do you mean by Indemnity Period under loss of profit policy?

Ans. The period of indemnity is the length of time for which benefits are payable under an insurance policy. It is also used to denote the time period for which indemnity or compensation is payable under a business interruption policy.

Q.11. What is Accounting ?

Ans. Accounting :-

Accounting is a systematic Process of identifying, measuring, recording, classifying, summarising, interpreting and communicating financial information. Since accounting is a medium of Communication, it is called the language of business.

Q.12. State any two objectives of financial accounting.

Ans. Two objectives of financial accounting are as follows:-

- (i) Record financial transactions and events of the organisation in the books of accounts in a systematic manner following the Principles of accountancy.
- (ii) Determine the financial Performance i.e. Profit earned or loss incurred for the accounting period and financial position of the business.

Q.13. What are different types of Cash Book?

Ans. Cash Book may be of four types as follows :-

- (i) Simple Cash Book or Single Column Cash Book
- (ii) Double Column Cash Book (having Cash and Bank Columns)
- (iii) Triple/Three Column Cash Book (having discount, Cash & Bank Columns)
- (iv) Petty Cash Book.

Q.14. What is Cash Discount?

Ans. Cash discount is the rebate allowed by the seller of goods or by the provider of service in order to motivate the customer to pay off due amount within a specified time. It is an

expresses for the seller of service provider allowing the discount and income for the customer receiving cash discount. It is recorded in the books of both the parties.

Q.15. What is meant by Bank Overdraft?

Ans. Bank overdraft is a flexible borrowing facility on a bank current account which is repayable on demand. It means the firm can overdraw from its bank upto the limit allowed by the bank. Amount withdrawn in excess of its own money in the bank is known as a Bank overdraft.

Q.16. State any two characteristics of Trial Balance.

Ans. Two characteristics of Trial Balance are as follows:

- (i) It is a list of balances of ledger accounts and cash book.
- (ii) It is not a part of the double entry system of book keeping. It is a result of double entry system of book keeping. It is only a working paper.

Q.17. Give two examples of Fictitious Assets.

Ans. Two examples of fictitious assets are as follows:-

- (i) Profit & Loss Account Debit Balance
- (ii) Advertisement Suspense A/c i.e. Deferred Revenue Expenditure

Q.18. What do you mean by Intangible Assets?

Ans. Intangible assets are those assets which do not have Physical existence, i.e. they cannot be seen and touched. Examples of intangible assets are Patents, trademarks, Goodwill, Computer Software, Copyright etc.

Q.19. What is Contingent Liability?

Ans. Contingent liability is a liability that becomes payable on the happening of an event. In case, the event does not happen, no amount is payable. Such liabilities are not accounted and are not shown in the Balance Sheet; they are disclosed by way of a note. Examples of contingent liabilities are as follows:

- (i) Liabilities in respect of Bills discounted from bank; which maturity date comes after date of preparation of final accounts.
- (ii) Bank Guarantee for loan.
- (iii) Pending court cases or disputed claims.

Q.20. Give adjustment entry of outstanding expenses.

Ans. Adjustment Entry for Outstanding Expenses is as follows :
Expenses (say, Rent) A/c. Dr.

To Outstanding Expenses (say, Rent) A/c.
(Being the unpaid expenses (rent) Provide)

Q.21. What is trade discount?

Ans. When discount is allowed by the seller on the basis of sales, either quantity or value to its customers at a fixed percentage on the list or catalogue price of the goods it is called trade discount.

Q.22. What do you mean by convention of disclosure?

Ans. Convention of disclosure means all significant information relating to the economic affairs of the enterprise should be completely disclosed in its financial statements. Various items or facts which do not find place in accounting statements are shown in the Balance Sheet by way of footnotes.

Q.23. Write any two advantages of double entry system.

Ans. Advantages of double entry system are as follows :-

- (i) Complete record of every transaction is maintained in this system.
- (ii) Knowledge of Net Profit earned or Loss suffered during a particular period and financial position of the business at the end of accounting period.

Q.24. Write any two examples of real accounts.

Ans. Examples of Real Accounts are as follows :-

- (i) Machinery Account and (ii) Goodwill Account

Q.25. What is ledger?

Ans. The book which contains a classified and permanent record of all the transactions of a business is called the ledger.

Q.26. What are the causes of charging depreciation?

Ans. The main causes of charging depreciation are as follows:-

- (i) By constant use of fixed assets in business operations.
- (ii) By expiry of time.
- (iii) By expiry of legal rights such as lease.
- (iv) By obsolescence due to new inventions and improved techniques.
- (v) By accident such as asset destroyed due to fire, earthquake, floods etc.
- (vi) By Depletion of wasting assets such as mines, oil-wells etc.

Q.27. What do you mean by Balance Sheet?

Ans. A Balance Sheet is a statement prepared with a view to measure the exact financial position of a business on a certain fixed date.

Q.28. What are fictitious assets?

Ans. Fictitious assets are the assets which cannot be realised in cash or no further benefit can be derived from these assets. Such assets include Debit Balance of Profit & Loss A/c and the expenditure not yet written off such as advertisement expenses.

Q.29. What is accrued income?

Ans. It is quite common that certain items of income such as interest on securities, commission, rent etc., are earned during the current year but have not been actually received by the end of the current year. Such incomes are known as 'Accrued Incomes.'

Q.30. What are outstanding expenses?

Ans. Outstanding expenses are the expenses which have been incurred during the year but have been left unpaid on the date of preparation of final accounts. In other words, the benefit of such expenses has been derived during the year but the payment of which has not yet been made.

Q.31. Write any two assumptions of accounting.

Ans. (i) Two assumptions or concepts of accounting are as follows :

- (1) **Going Concern Assumption** : According to this assumption, it is assumed that business shall continue for a foreseeable period and there is no intention to close the business or scale down its operations significantly.
- (2) **Consistency Assumption** : According to the consistency assumption, accounting practices once selected and adopted, should be applied consistently year after year.

Q.32. "Debit what comes in, credit what goes out." This rule is related to which type of account?

Ans. "Debit what comes in, credit what goes out." This rule is related to 'Real Account'.

Q.33. Differentiate between trade discount and Cash discount.

Ans. When discount is allowed by the seller on the basis of sales, either quantity or value to its customers at a fixed percentage on the list or catalogue price of the goods it is called trade discount. It is not recorded in the books of accounts. Whereas when discount is allowed to the customers for making prompt

payment it is called cash discount. It is recorded in the books of accounts.

Q.34. What are the types of cash books? Give their names.

Ans. Types of Cash Book : Cash Book may be of four types as follows :

- (1) Simple cash book or single column cash book.
- (2) Double column cash book (having cash and bank columns).
- (3) Triple/Three Column Cash Book (Having Discount, Cash and Bank Columns.)
- (4) Petty cash book.

Q.35. What is the main objectives of preparing Bank Recociliation statement?

Ans. The main objective of preparing bank reconciliation statement is to reconcile bank balance in cash book with the balance as per Bank Pass Book or Bank Statement to ensure that there are no errors or omissions in recording the bank ransactions in the cash book and to prevent embezzlements of cash.

Q.36. In which method will charge of depreciation be more in initial years?

Ans. In written down value methor or diminishing balance method charge of depreciation be more in initial years.

Q.37. Examples of fictitious assets are as follows

- Ans.**
- (1) Preliminary expenses.
 - (2) Discount on issue of Debentures or shares.
 - (3) Profit & Loss account debit balance.

Q.38. What is the objectie of Preparing Balace sheet?

Ans. The objective of preparing balance sheet is to find out financial position/status, short-term liquidity or long-term solvency position of busines Son a fixed date.

Q.39. What is meat y outstanding expenses?

Ans. Outstanding expenses are those expenses which have been incurred during the year but have been left unpaid on the date of preparation of final accounts.

Q.40. How is accrued income shown in final accounts?

Ans. Accrued income on the one hand, will be shown on the credit side of the profit & loss account and on the other hand will be shown on the assets side of the balance sheet as follows

Dr.	Profit & Loss A/c		Cr
Particulars	₹	Particulars	₹
		By Income	xx
		Add : Account income	xx

Balance Sheet

Liabilities	₹	Assets	₹
		Accrued Income	xx

Short Type Questions & Answers

Q.1. Mention the names of any four external users along with their areas of interest of accounting information.

- Ans.**
- (i) **Banks and Financial institutions :** They watch the performance of the business to know whether it is making progress as projected to ensure the safety and recovery of the loan advanced.
 - (ii) **Investors and potential Investors :** They want to know whether to buy, hold and sell their investments. They also want to know whether the business will survive, prosper an play good dividend.
 - (iii) **Creditors :** Before granting credit, creditors satisfy themselves about the creditworthiness of the business. The financial statements help them immensely in making such an assessment.
 - (iv) **Tax Authorities :** Tax authorities assess correct tax dues such as income tax, GST etc. after analysis of the financial statements.

Q.2. Explain the process of accounting.

Ans. The accounting process is a series of activities that begins with a transaction and ends with the closing of the books. Because this process is repeated each reporting period it is referred to as the accounting cycle or process and includes these major steps:

- (i) **Identifying Financial transactions and Events :** Identification is the process of determining which transactions and events are to be recorded.

Accounting records only those transactions and events which are of financial nature as they bring change in the resources of a firm. The process involves identifying transactions that are of financial nature

(ii) **Measuring the identified Transactions :** Accounting measures the transactions and events in terms of a common measurement unit, i.e. the currency (money) of the country.

(iii) **Recording :** Accounting is an art of recording financial transactions in the books of account. Recording is the process of recording business transactions of financial character in the books of original entry i.e. Journal of subsidiary books. The financial transaction are recorded in an orderly manner, under appropriate accounts.

(iv) **Classifying :** Accounting is an art of classifying financial transactions. Classification is the process of collecting similar transaction at one place by opening accounts in the ledger books.

(v) **Summarising :** Accounting is an art of summarising financial transactions. This involves presenting the classified data in a manner which is understandable and useful to internal as well as external users of accounting statements. This process leads to the preparation of following statements:

- (a) Trial Balance (b) Trading and Profit and Loss Account (c) Balance sheet.

Trading and profit and loss account and Balance sheet are collectively known as Final accounts and Financial statements.

(vi) **Analysis and Interpretation :** Financial data is analysed and interpreted so that the users of financial data can make a meaningful assessment of the financial performance and financial position of the business. Analysis helps in planning the future in a better way.

(vii) **Communicating :** Finally, accounting involves communicating the financial data, i.e. financial

statements to its users. The accounting information should be provided in time to the users so that decisions are taken at the appropriate time.

Q.3. Distinguish between Provision and Reserve.

Ans. Difference between provision and Reserve are as follows:

	Basis	Provision	Reserve
1	Purpose	It is made to meet known liability or contingency, if the amount is not determined	It is created to strengthen the financial position and to meet unforeseen liabilities or losses
2	Nature	It is a charge against profit	It is an appropriation of profit
3	Distribution as Dividend	It cannot be used for distribution as profit/ dividend. It reduce net profits	Unutilised part can be distributed as dividend. It reduces divisible profits.
4	Effect on net profit	It is debited to profit and Loss Account. Hence, Net profit is reduced	It is debited to the profit and loss Appropriation account. Hence, Net profit is not affected
5	Investment	It is not invested.	It may be invested outside the business.
6	Presentation	It is shown either as a liability under the head "current Liabilities" or as deduction from the asset	A Reserve is shown on the liabilities side of balance sheet under the head "Reserve and surplus"
7	Compulsion/ Prudence	It is made out of legal necessity	It is created out of Profits as a matter of prudence

Q.4. What do you understand by closing entries and where they are recorded?

Ans. At the end of the accounting year the accounts relating to expenses and revenues are to be closed by transferring them to the trading account and the profit and loss account and entries to this effect are passed in journal. These entries are known as closing entries. All nominal accounts (income and expense accounts) relating to expense or losses and gains or incomes are not balanced at the end of the year. These accounts are closed by transferring them either to trading account or profit and loss account. Closing entries are recorded in journal or journal proper (when subsidiary books are maintained).

Q.5. State the names of users of Accounting Information.

Ans. Users of Accounting information may be categorised into Internal Users and External Users.

1. **Internal Users :** -

- (i) **Owners** : - Owner Contribute Capital in the business and thus are exposed to maximum risk. Naturally, they are interested in knowing the profitability and financial position of the business through financial statements.
- (ii) **Management** : - The management makes extensive use of accounting information to arrive at informed decisions such as determination of selling Price, cost controls and reduction, investment into new projects etc.
- (i) **Employees and Workers** : - Employees and workers are entitled to bonus at the year-end, which is linked to the profit earned by an enterprise. Therefore, they are interested in financial statements.
2. **External Users** : -
- (i) **Banks and Financial Institutions** : - They watch the performance of the business to know whether it is making progress as projected to ensure the safety and recovery of the loan advanced.
- (ii) **Investors and Potential Investors** : - They want to know whether to buy, hold or sell their investments. They also want to know whether the business will survive, prosper and play good dividend.
- (iii) **Creditors** : - Before granting credit, creditors satisfy themselves about the credit-worthiness of the business. The financial statements help them immensely in making such an assessment.
- (ii) **Government** : - The government makes use of financial statements to compile national income accounts and other information.
- (iii) **Tax Authorities** : - Tax authorities assess correct tax dues such as income tax, GST etc. after analysis of the financial statements.
- (iv) **Researchers** : - They use accounting information in their research work.
- (v) **Consumers** : - For establishing good accounting control so that cost of production may be reduced.
- (vi) **Public** : - They want to see the business running since it makes substantial contribution to the economy in many ways e.g. employment of people, Patronage to suppliers, etc.
- (vii) **Labour Union** : - For better facilities for their labour and themselves.

(viii) **Financial Analyst, Sociologists & Economists** : - For research work, for analysis of stock exchange market transactions, social welfare and amount invested for protection from pollution.

Q.6. What is meant by double entry system of accounting?

Ans. Double Entry System of accounting is a system of accounting under which both, debit and credit, aspects of accounting are recorded. A transaction has two aspects-Debit and Credit and at the time of recording a transaction, it is recorded once on the debit side and again on the credit side. Under this system at least two accounts are affected by a transaction – One account receiving a benefit and the other account yielding a benefit. The Person or the account receiving a benefit is debited and the person or the account who gives something to the business is credited. The amount of every transaction is written twice, once as a debit and again as a credit.

Thus, we can define Double Entry System as : "The system which recognises and records both aspects of a transaction. The Double entry system has proved to be a scientific and complete system of accounting."

Q.7. What is meant by error of commission ? Give two examples of such error.

Ans. The errors which arise due to wrong recording, wrong posting, wrong carrying forward, wrong casting (totalling) of subsidiary books, wrong balancing etc are called 'Errors of Commission'.

Errors of Commission may be classified as follows :-

(i) **Errors of Recording** : - Error of recording arises when a transaction is incorrectly recorded in the books of original entry.

Example : Goods of ₹ 15,000 purchased on credit from Mohan are recorded in the Purchases Book as ₹ 5,000.

(ii) **Error of Casting (Totalling)** : - The process of totalling the transactions at the end of the period is called casting. If there is an error in totalling, it is called an error of casting. Some of these errors affect the trial balance which some do not.

Example : Purchases Book is totalled as ₹ 10,000 instead of ₹ 1,00,000.

- (iii) **Error in Carrying Forward** : - It arises if a mistake is committed in carrying forward a total of one page to next page.

Example : Total of Sales Book is carried forward as ₹ 1,00,000 instead of ₹ 1,000.

- (iv) **Error is Posting** : - It arises when transaction recorded in the books of original entry is incorrectly transferred, i.e. Posted in the ledger.

Example : (1) Posting of total of Sales Return Book in the Purchases account instead of Sales Return account. (2) Posting the total of Purchases book ₹ 10,050 as ₹ 10,500 in the Purchases account.

Q.8. State any four objectives of preparing balance sheet.

Ans. Objectives of Balance Sheet : - The Purposes for which Balance Sheet is prepared are as follows :-

- (i) To ascertain the financial position of the business at a particular point of time.
- (ii) To know the amount of assets it owns under various heads say, current assets, fixed assets etc.
- (iii) To know the amount of liabilities it owes to outsiders and the proprietor.
- (iv) It helps in determining whether the firm is solvent or not.
- (v) It is a base for the opening entry for the next accounting year.

Q.9. Explain various types of cash books.

Ans. Cash Book may be of four types as follows :-

- (1) **Simple Cash Book or Single Column Cash Book**: A simple cash book is like an account with one amount column on each side. The left hand side is called debit side and it records receipts of cash while right hand side is called credit side and it records payments of cash.
- (2) **Double Column Cash Book or Two Column Cash Book** :- When a column is added on each side of simple cash book to record bank transactions, it is called Double Column Cash Book. All payments into bank are recorded on the debit side and all withdrawals/Payments through the bank are recorded on the credit side of the Cash Book.
- (3) **Triple / Three Column Cash Book** : - When a column is added on each side of two column cash book to record discount allowed or received, it is called three column cash book. All cash and bank receipts and discount allowed are recorded on the debit side and all cash and bank payments/

withdrawals and discount received are recorded on the credit side of the cash book.

- (4) **Petty Cash Book** : - The book in which numerous small Payments in respect of Postage, Telegram, Conveyance, Carriage, Cartage, printing, Stationery, Coolie Charges etc. are recorded is called Petty Cash Book.

Q.10. What are the objectives of preparing a trial balance?

Ans. The objectives of preparing a trial balance are as follows :-

- (1) To ascertain the arithmetical accuracy of the ledger accounts.
- (2) To help in the detections and location of errors.
- (3) To obtain a summary of the ledger accounts.
- (4) Helps in preparation of final accounts namely Trading and Profit & Loss Account and a Balance-Sheet.

Q.11. Explain the methods of valuation of closing stock.

Ans. Methods of valuation of closing stock : The valuation of closing stock is made by the following two methods :

- (1) **Actual Stock Taking** : - In this method a list of different kinds of unused goods is prepared. The quantity and the amount of unused goods are also recorded in the list. After including every item in the stock list, their value is to be written compulsorily. This process is called valuation of stock. In this connection, the following two types of prices are worth attention :

(a) **Cost Price** : - The purchase price of a commodity is called cost price.

(b) **Market Price** : - The price of goods in the market on the balance-sheet date is known as market price.

General Practice of valuation of closing stock is that it should be valued at cost price or market price, whichever is less. This practice is based on the concept of conservatism.

- (2) **Stock taking by Approximation** : - When the goods are destroyed due to earthquake, floods, fire etc., the quantity and the value of such goods cannot be determined as usual. In this causalty an estimated value of closing stock is determined by preparing Memorandum Trading Account.

Q.12. Write three features of accounting principles.

Ans. (i) Features of accounting principles are as follows :

- (1) Accounting principles are uniform set of rules or guidelines developed to ensure uniformity and easy understanding of the accounting information.

(2) Accounting principles are man made and are derived from experience and reason. They are not laboratory tested and hence the lack universal applicability like the principles of physics, chemistry and other natural science.

(3) Accounting principles are not static and are bound to change with the passage of time in response to the changes in business practices, government policies and needs of the users of accounting information.

Q.13. Write four reasons of difference between balance of cash book and Pass book.

Ans. Reasons of difference between balance of cash book and pass book are as follows :

- (1) Cheques issued to creditors but not yet presented in the bank.
- (2) Cheques paid or deposited into the bank for collection but not yet credited or collected by the bank.
- (3) Cheques paid or deposited into the bank for collection but dishonoured by the bank.
- (4) Direct payment made by the bank on behalf of customers but not yet recorded in the cash book.

Q.14. Why are adjustment entries passed and adjusted while preparing final accounts of a firm?

Ans. In order to ascertain the true net profit or loss and true financial position of the business for a particular year, it is necessary that all expenses and incomes relating to that year are taken into consideration. For examples, if we want to ascertain the net profit for the year ended on 31st March and rent for the month of March has not yet been paid, it would be proper to include such rent alongwith the other expenses of the year. Similarly, it often happens that certain incomes, like interest, dividend, commission etc. are earned but not received during the year. Adjustment for such incomes must be made in the current year itself. So that the profit & loss account may disclose the current amount of net profit or loss and the balance sheet may present the true financial position of the business.

Long Type Questions & Answers

Q.1. Define " Accounting". How does it differ from Book-keeping? Describe the objectives of accounting.

Ans. Meaning and Definition of Accounting : -

Accounting is a systematic process of identifying, measuring, recording, classifying; summarising, interpreting and communicating financial information. Accounting gives information on :

- (i) The resources available;
- (ii) How the available resources have been employed; and
- (iii) The results achieved by their use.

It shows the profit earned or loss incurred during the accounting period, value and nature of assets, liabilities and owners' equity, i.e., capital.

Since accounting is a medium of communication, it is called the language of business.

According to **American Institute of Certified Public Accountants** :

"Accounting is the art of recording, classifying and summarising 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."

According to **Smith and Ashburne** "Accounting is the science of recording and classifying business transactions and events, primarily of a financial character, and the art of making significant summaries, analysis and interpretations of those transactions and events and communicating the results to persons who must make decisions or form judgment."

According to **American Accounting Association** : "Accounting is the process of identifying, measuring and communicating economic information of permit informed judgments and decisions by users of the information"

Difference between Book-keeping and Accounting :

Basis	Book - Keeping	Accounting
Scope	Book-keeping includes the process of : (i) Identification of financial transactions. (ii) Measuring the transactions in terms of money. (iii) Recording of transactions in the books of accounts. (iv) Classifying the transactions i.e. Posting them in ledger.	Accounting includes following processes in addition to what is include in book - keeping : (i) Summarising the classified transactions, i.e. preparation of financial statements. (ii) Analysis and interpretation of financial statements. (iii) Communication of financial information to various users.
Stage	It is a Primary stage. It is the basis for accounting.	It is a secondary stage Accounting begins where book - keeping ends.
Objective	The main objective is to keep and maintain systematic records of financial transactions.	The objective is to ascertain the profitability and financial position of the business and the communicate it to end users of accounting service.
Performance	It Being a routine work is performed by Junior staff.	It is being a specialised function is performed by Senior Staff
Nature of Job	The Job is routine in nature	This job is analytical and dynamic in nature.
Special Skills	Book Keeping is mechanical in nature and, thus does not require special skills.	Accounting requires special skills and ability to analysis and interpret.

Objectives of Accounting :-

(1) To keep systematic record of business transactions :

The main objective of accounting is to keep complete record of business transactions according to specified rules. Complete record of business transactions helps to avoid the possibility of omission and fraud. For this purpose, all the business transactions are first of all recorded in Journal or Subsidiary Books and then posted into Ledger.

(2) To calculate profit or loss :- The second main objective of accounting is to ascertain the net profit earned or loss suffered on account of business transactions during a particular period. For this purpose Trading and Profit & Loss Account of the business is prepared at the end of each accounting period. All the items relating to purchases, sales, expenses and revenues (incomes) of the business are recorded in Trading and Profit & Loss Account. If the amount of revenue exceeds the expenditure incurred in earning that revenue, there is said to be a profit. In case the expenditure exceeds the revenue, there is said to be a loss. In addition, a businessman is able to get the following informations by preparing a Trading and Profit & Loss Account :

- I. How much goods have been purchased during a particular period?
- II. How much goods have been sold during a particular period?

- III. How much goods have remained unsold and what is its value?
- IV. How much amount has been spent on various heads of expenditure and how much amount has been earned by various heads of revenues?

By attaining these informations a businessman can keep effective control on expenditure.

(3) To know the exact reasons leading to net profit or net loss.

(4) To ascertain the financial position of the business :- For a businessman, merely ascertaining profit or loss of the business is not sufficient. The businessman must also know the financial health of the business. For this purpose, after preparing the Profit & Loss Account a statement called 'Balance Sheet' is prepared which shows the assets and their values on the one hand and the liabilities and capital on the other hand. A Balance Sheet is actually a screen picture of the financial position of the business. At one glance, one would know 'the following by looking at the Balance Sheet :-

- I. How much the business has to recover from Debtors?
- II. How much the business has to pay to Creditors?
- III. How much the business has in the form of (a) Cash in hand, (b) Cash at Bank, (c) Closing Stock, and (d) Fixed Assets?

(5) To ascertain the progress of the business from year to year.

(6) To prevent and detect errors and frauds.

(7) To provide informations to various parties :- Another main objective of accounting is to communicate the accounting information to various interested parties like owners, investors, creditors, banks, employees and government authorities etc. The information helps them in taking sound and judicious decisions about the business entity.

Q.2. Write short note on the following:

Ans: (i) **Journal Proper:** Transactions which cannot be entered in any other subsidiary books are entered in Journal Proper. Following transactions are recorded in Journal proper:

- (1) **Opening Entry :** Opening entry is recorded in the beginning of financial year to open the books by

- debiting assets and crediting liabilities and the capital appearing in the balance sheet of the previous year.
- (2) **Closing Entry** : Closing entries are passed at the end of the year to close the accounts relating to expenses and revenues by transferring them to the Trading Account and profit and Loss Account.
 - (3) **Rectification Entries** : Entries to rectify the errors in the books of original entries or of a ledger are recorded in the Journal Proper.
 - (4) **Transfer Entries** : In an account is to be transferred from one account to another, such a transfer is also made through a Journal Entry only.
 - (5) **Adjustment Entries** : At the end of the year, the amount of expenses or incomes may have to be adjusted for amounts paid or received in advance or for amount not yet settled in cash. Such an adjustment is also made through Journal Entries only e.g. outstanding expenses, prepaid expenses, Accrued income, Unearned income, Depreciation, interest on capital, interest on drawings etc.
 - (6) Entries for Dishonour of Bills or cancellation of B/P.
 - (7) **Miscellaneous Entries** : Beside the above, the following entries also require journalizing:
 - (a) Credit Purchase or Sales of Goods
 - (b) Bad-debt Written off
 - (a) Personal use of goods, theft of goods, loss of goods by fire.

(ii) **Contra Entries in these column cash book:**

Contra Entry : Some transactions are recorded in a three Column Cash Book which relate to both cash and bank, i.e., balance of one will decrease and the other will increase due to such transactions. Such transactions are entered on both sides of the Cash Book. Such entries are known as Contra Entries. Let us take an example to understand it better.

(a) **Cash deposited into the Bank ₹ 25,000** : In this transaction, Bank Account is to be debited and Cash Ac-

count is to be credited. Debit aspect is recorded on the debit side of the Bank Column and credit aspect is recorded on the credit side of Cash Column.

(b) **Cash withdrawn from Bank for Office Use ₹ 20,000** : In this transaction, Cash Account is to be debited and Bank Account is credited. Debit aspect is recorded on the debit side of the Double Column Cash Book in the Cash Column and credit aspect is recorded on the credit side of the Double Column Cash Book in the Bank Column.

Against such entries, the letter 'C' is written in the L.F. column to indicate that these are contra transactions and are not posted into the Ledger Account.

(iii) **Imprest system of Petty Cash Book :**

Under this system, an estimate is made of amount required for petty expenses for a period (say for a week, a fortnight or a month). The amount so ascertained is given to the Petty Cashier in the beginning of a period. The amount paid by him during the period. Thus, he will again have the fixed amount in the beginning of the new period reimbursed. This amount is called imprest money. This system of paying advance in the beginning and reimbursing the amount spent from time to time is called imprest system.

Petty Cashier is advanced a fixed amount for making petty expenses and keep its proper account. As and when this amount is spent, further advances are made. All the expenses must have proper vouchers. Where such vouchers are not available, e.g. cartage, a certificate for payment countersigned by a responsible officer will serve the purpose. Petty Cashier maintains accounts on the basis of these vouchers. Whatever amount has been spent at the end of the month is reimbursed, e.g., under imprest system Petty Cashier is advanced ₹5,000 on 1.4.2019. He spends ₹ 4,600 and has a balance of ₹ 400 on 30.4.2019. Petty Cashier will be paid ₹ 4,600, the amount spent in the month. Advance of ₹ 5,000 will again remain with Petty Cashier. Petty Cash account is periodically checked so that errors or frauds, if any, could be located.

Q.3.

What is Trial balance? Is the agreement of the Trial balance a conclusive proof of the accuracy of accounting books? What are the errors which do not affect the agreement of Trial Balance?

Ans.

Meaning and definition of Trial Balance :-

Accounting equation proves that debit and credit sides are always equal. Journal entries and ledger posting also confirm that debit and credit amounts are equal. Double entry system of book keeping is based on the assumption that every debit has an equal credit and every credit has an equal debit. Every businessman prepares a table at periodical intervals to confirm that debit balances equal credit balances. This is known as trial balance. It is prepared to confirm that no arithmetical inaccuracy exists in ledger posting.

According to J.R. Batliboi "A Trial Balance is a statement, prepared with the debit and credit balances of the Ledger Accounts to test the arithmetical accuracy of the books."

According to Carter "A Trial Balance is the list of debit and credit balances, taken out from the Ledger. It also includes the balances of cash and bank taken from the Cash Book."

A Trial Balance is prepared after having posted the Journal entries into the Ledger and balancing the accounts. The balance of an account is the difference between the total of the debit entries and the total of the credit entries in an account. If the total of debit entries is greater, it is called a Debit Balance. Likewise, if the total of credit entries is greater, it is called a Credit Balance. All Ledger Accounts showing debit balances are posted in one column and those showing credit balances are posted in the other. We have already discussed that under the Double Entry System, for every debit there is an equal and corresponding credit. Therefore, the total of debit balances in different accounts in the Ledger must be equal to the total of credit balances in dif-

ferent accounts, i.e., the total of the two columns should agree. If they agree, it means that both the aspects of each transaction have been recorded in the correct side of the Ledger. Matching of two sides of a Trial Balance does not mean that recording of transactions in the books of account is free of error, it only ensures arithmetical correctness of posting.

Trial Balance not a Conclusive Proof of Accuracy :

Though the trial balance helps to ensure the arithmetical accuracy of the books of account, it is possible only when the account has not committed any error. Out of the errors made certain errors can only be disclosed by the disagreement of trial balance, and even then the trial balance may agree without disclosing certain errors made. Hence the trial balance, is not regarded as a conclusive proof of correctness of the books of account maintained.

Errors not affecting Trial Balance or errors not disclosed by Trial Balance :- Main object of preparing a Trial Balance is to check the accuracy of the accounts. However, the equality of debits and credits of the Trial Balance does not mean that there are absolutely no errors in the books of accounts. There may be a number of errors which may remain undetected in spite of the agreement of a Trial Balance. As such, it is true to say that '**Trial Balance is not a conclusive proof of the accuracy of the books of accounts.**' There are certain errors which do not affect the agreement of the Trial Balance. Such errors are also called limitations of Trial Balance. These may be discussed as below --

(i) Errors of Omission : If a transaction remains altogether unrecorded either in the Journal or in Subsidiary Books, it will be termed as an error of omission. Such an error will not affect the agreement of a Trial Balance, as neither the transaction has been entered on the debit side of an account nor on the credit side of any other account. For example, suppose goods for ₹ 5,000 have been purchase

from Hari on credit and the transaction was omitted to be recorded in the books. The omission will not affect the Trial Balance in any way, because neither has it been recorded on the debit side of Hari's account nor on the debit side of purchase account.

(ii) **Errors of Commission** : If a wrong amount is entered either in the Journal or in the Subsidiary Books, the Trial Balance will tally because the same amount (though wrong) will be posted in both the accounts affected by the transaction. For example, purchase of goods to Hari on credit for ₹ 8400 has been entered in the Journal as ₹ 4800. When the entry is posted to Ledger, Double Entry will be completed with ₹ 4800, Hari being debited with ₹ 4800, and purchase account being debited With ₹ 4800 In spite of the inaccuracy in both the accounts, the Trial Balance will tally.

(iii) **Compensating Errors** : If the effect of one error neutralised by the effect of some other error, such errors are called compensating errors. For example, while posting on the debit side of Hari's account ₹ 100, are posted instead of ₹ 1000 and while posting on the debit side Hari's account ₹ 1000 are posted instead of ₹ 100. These two mistakes will nullify the effect of each other and in spite of the errors in both the accounts, the Trial Balance will still agree.

(iv) **Errors of Principle** : When some fundamental principle of Accountancy is violated while recording a transaction, the error is termed as error of principle. These errors are committed in those cases where a proper distinction between capital and revenue items is not made, i.e., a capital expenditure is treated as a revenue expenditure or vice-versa. These errors may be of two types -

- (a) **When a capital expenditure is treated as revenue expenditure** :- For example, if the purchase of furniture is treated as an ordinary purchase and is thus debited to purchase account instead of furniture account, it will be an error of principle. Similarly, if amount spent on the extension of building is debited to repairs account instead of building account, it is also an error of principle.
- (b) **When a revenue expenditure is treated as capital ex-**

penditure : For example, if the amount spent on the repair of an old machinery is debited to machinery account instead of repairs account.

Q.4. Distinguish :-

(i) Opening Entry and closing Entries :

Ans. Opening entry is recorded in the beginning of the financial year to open the books by debiting assets and crediting liabilities and the capital appearing in the balance sheet of the previous year. It considers personal and real account.

Whereas, closing entries are passed at the end of the financial year to close the account relating to expenses and revenues by transferring them to Trading and Profit and Loss Account. It considers only nominal accounts.

(ii) Profit and Loss account and Balance Sheet :

Ans. Difference between Profit & Loss Account and Balance sheet.

	Basis	Profit & Loss Account	Balance Sheet
1.	Form	It is an account.	It is a statement.
2.	sides	Debit and Credit.	Assets and Liabilities
3.	Accounts shown	Accounts relating to goods and nominal accounts are shown.	Personal and Real accounts are shown.
4.	Order	No Specific order.	Marshalling (specific order)
5.	Period	One Year.	Particular Date
6.	Object	Determination of Profit/ Loss	Presentation of Financial Position.
7.	Transfer of balance	Balance of Profit and Loss account is transferred to Capital Account.	There is no balance in Balance sheet
8.	Presentation	'To' and 'By' are used in Profit & Loss Account.	'To' and 'By' are not used in Balance sheet
9.	Summary	It is summary of Nominal accounts only.	It is complete summary of all the accounts

Q.5. What do you mean by accounting concepts? Explain any eight important accounting concepts.

Ans. Accounting Concepts or Assumptions : accounting Concepts are the basic assumptions or fundamental propositions within which accounting operates. They are generally accepted accounting rules based on which

transactions are recorded and financial statements are prepared. It is important to follow the accounting concepts because it enables the users of financial statements to understand them better and in the same manner.

In order to make the accounting language convey the same meaning to all people and to make it more meaningful, most of the accountants have agreed on a number of concepts which are usually followed for preparing the financial statements. These concepts provide a foundation for accounting process. No enterprise can prepare its financial statements without considering these basic concepts or assumptions. These concepts guide how transactions should be recorded and reported. Following may be treated as basic concepts or assumptions :-

As per Accounting Standard (AS-1), issued by the Institute of Chartered Accountants of India, there are three fundamental accounting concepts or assumptions:

- (1) Going Concern Concept
- (2) Consistency Concept
- (3) Accrual Concept

Other Accounting Concepts :

- (4) Business Entity Concept
- (5) Money Measurement Concept
- (6) Accounting Period Concept
- (7) Cost Concept or Historical Cost Concept
- (8) Matching Concept
- (9) Dual Aspect Concept
- (10) Revenue Recognition Concept

Fundamental Accounting Assumptions or Concepts

Fundamental Accounting Assumptions or Concepts are the assumptions which are presumed to have been followed in preparing the annual accounts. The entities which do not follow any of the fundamental accounting assumptions are required to disclose which of these assumptions have not been followed and the reasons for not following them. The Fundamental Accounting Assumptions are:

1. Going Concern Concept.
2. Consistency Concept ; and

3. **Accrual Concept**

Let us discuss them in detail:

1. Going Concern Concept : According to this concept, it is assumed that business shall continue for a foreseeable period and there is no intention to close the business or scale down its operations significantly. This implies that it will not be dissolved in the immediate future unless there is a clear evidence of closure. It is because of this concept that a distinction is made between a capital expenditure, i.e., expenditure that will give benefit for a long period and revenue expenditure, i.e., one whose benefit will be consumed or exhausted within the accounting period. On the basis of this concept, fixed assets are recorded at their original cost and depreciated in a systematic manner without reference to their market value. For example, a machine purchased is expected to last 10 years. The cost of the machinery is spread on a suitable basis over the next 10 years for ascertaining the profit or loss for each year. The total cost of the machine is not treated as an expense in the year of purchase itself.

2. Consistency Concept : According to the Consistency concept accounting practices once selected and adopted, should be applied consistently year after year. The concept helps in better understanding of accounting information and makes it comparable (a qualitative characteristic of accounting information) with that of previous years. Consistency eliminates personal bias and helps in achieving results that are comparable. The concept is particularly important when alternative accounting practices are equally acceptable. For example, two methods of charging depreciation, Written Down Value Method and Straight Line Method, are equally acceptable. Under the assumption, method once chosen and applied should be applied consistently year after year. But, it does not mean that practice once adopted cannot be changed. The accounting practice may be changed if the law or Accounting Standard requires it or the change will result in more meaningful presentation. If an enterprise desires to adopt an alternative practice, it must disclose the change and its impact on the profit or loss.

3. Accrual Concept : According to the Accrual Concept, a

transaction is recorded in the books of account at the time when it is entered into and not when the settlement takes place. Thus, revenue is recognized when it is realized, i.e., when sale is complete or services are rendered; it is immaterial whether cash is received or not. Similarly, expenses are recognized as expenses in the accounting period in which the revenue related to it is recognized, whether paid in cash or not.

The concept is particularly important because it recognizes the assets, liabilities, incomes and expenses as and when transactions relating to it are entered into. Under this concept, profit is regarded as earned at the time the goods or services are sold or rendered to a customer, i.e., the legal title is passed to the customer, who, in turn, has an obligation to pay for them. Similarly, expense is regarded as incurred when the goods or services are purchased or availed and an obligation to pay for them is assumed.

Other Accounting Concepts :

4. Accounting Entity or Business Entity Concept :

According to the Business Entity concept, business is considered to be separate and distinct from its owners. Business transactions, therefore, are recorded in the books of account from the business point of view and not from that of the owners. Owners being regarded as separate and distinct from business they are considered creditors of the business to the extent of their capital. Their account with the business is credited with the capital introduced and profit earned during the year, etc., and debited by the drawings made. For example, when the proprietor introduces capital, Cash Account or Bank Account is debited and Capital Account is credited. Amount in the credit of the capital is a liability of the enterprise towards the proprietor. This principle applies to every form of enterprise including proprietorship firms.

The Accounting Entity concept is a useful principle as from it, responsibility accounting has developed. It has made possible ascertaining the results of each department or division of the enterprise.

5. Money Measurement Concept : According to the money measurement concepts transactions and events that can be

measured in money terms are recorded in the books of account of the enterprise. In other words, money is the common denominator in recording and reporting all transactions. Consider that an enterprise has ₹ 10,000 cash 2 tonnes of raw material, 5 machines and 1 plot of land. These assets cannot be added and shown in the Financial Statements unless their monetary value is ascertained. However, the concept suffers from two major limitations:

- (a) Transactions and events that cannot be measured in money terms are not recorded in the books of account, howsoever important they may be to the enterprise. For example, human resources with the enterprise are important to the enterprise but are not reflected in the financial statements because they can not be measured and expressed in money terms.
- (b) The value of money is considered to have static value as the transactions are recorded at the value on the transaction date.

6. Accounting Period Concept : According to the Accounting Period concept the life of an enterprise is broken into smaller periods so that its performance is measured at regular intervals. The accounts of an enterprise are maintained following the Going Concern Concept, meaning the enterprise shall continue its activities for a foreseeable future. One may argue that the financial statements of the enterprise should be prepared at the end of its life. It is possible to do so, but a number of users of Financial Statements and many of them, especially the management and bankers, require the information from the accounts at regular intervals so that decisions can be taken at the appropriate time. Management requires information at regular intervals to assess the performance, funds requirement (short-term as well as long-term), banks require accounting information periodically because they have invested money and have to ensure its safety and returns. Similarly, the Government has to assess the tax dues from the enterprise.

In view of the above, the life of the enterprise is broken into smaller periods (usually one year) which is termed as the 'Accounting Period'.

An accounting period is the interval of time at the end of which Income Statement (Profit and Loss Account or Statement of

Profit and Loss, in the case of companies) and Balance Sheet are prepared to know the results and resources of the business.

7. Cost Concept or Historical Cost Concept : According to the Cost Concept, an asset is recorded in the books of account at the price paid to acquire it and the cost is the basis for all subsequent accounting of the asset. Asset is recorded at cost at the time of its purchase but is systematically reduced in value by charging depreciation. The market value of an asset may change with the passage of time but for accounting purposes it continues to be shown in the books of account at its book value (i.e., cost at which it was purchased minus depreciation provided up-to-date). For example, an asset is purchased for ₹ 5,00,000 and if at the time of preparing the final accounts, even if its market value is say, ₹ 4,00,000 or ₹ 7,00,000, yet the asset shall be recorded at its purchase price of ₹ 5,00,000.

Cost concept brings objectivity in the preparation and presentation of financial statements. They are not influenced by the personal bias or judgments.

8. Matching Concept : This concept is based on the Accounting Period Concept. An important objective of business is to determine profit periodically. It is necessary to match 'revenues' of the period with the 'expenses' of that period to determine correct profit (or loss) for the accounting period. Profit earned by the business during a period can be correctly measured only when the revenue earned during the period is matched with the expenditure incurred to earn that revenue. It is not relevant when the payment was made or received. Therefore; as per this concept, adjustments are made for all outstanding expenses, prepaid expenses, accrued income, unearned income, etc.

In brief, according to this concept, the expenses for an accounting period are matched against related revenues, rather than cash received and cash paid. This concept should be followed while preparing financial statements to have a true and fair view of the profitability and financial position of a business firm.

9. Dual Aspect Concept : According to the Dual Aspect

Concept, every transaction entered into by an enterprise has two aspects, a debit and a credit of equal amount. Simply stated, for every debit there is a credit of equal amount in one or more accounts. It is also true vice versa. For example, Rahul starts a business with a capital of ₹ 1,00,000. There are two aspects to the transaction. On one hand, the business has an asset of ₹ 1,00,000 (cash) while on the other hand, it has a liability towards Rahul of ₹ 1,00,000 (capital of Rahul). Thus, we can say

Capital (Equities) = Cash (Asset)

₹ 1,00,000 = ₹ 1,00,000

Suppose further, the enterprise borrows amount from a bank; its assets will increase but this will mean that out of the total assets, amount equal to borrowing is payable to the outsiders. Thus, we can say

Owner's Equity or Capital + Claims of Outsiders = Assets

Assets = Owner's Equity + Claims of Outsiders

This fundamental equation will always remain good. In other words, accounting equation demonstrates the fact that for every debit there is an equivalent credit. As a matter of fact the entire system of Double Entry Book Keeping is based on this concept.

10. Revenue Recognition Concept : According to the Revenue Recognition Concept, revenue is considered to have been realized when a transaction has been entered into and the obligation to receive the amount has been established. It is to be noted that recognizing revenue and receipt of an amount are two separate aspects. Let us take an example to understand it. An enterprise sells goods in February 2018 and receives the amount in April 2018. Revenue of this sales should be recognized in February 2018, i.e., when the goods are sold. It is so because the legal obligation has been established (upon sales) in February 2018. Let us take another example. Suppose, an enterprise has received an advance in February 2018 for the sales to be made in May 2018, revenue shall be recognized in May 2018, upon sales having been made because the legal obligation to receive the amount has been established in May 2018.

Q.6. Explain any four important accounting conventions.

Ans. Accounting Conventions : -

Accounting Conventions are the outcome of accounting practices or principles being followed by the enterprises over a period of

time. Conventions may undergo a change with time to bring about improvement in the quality of accounting information. The Oxford Advanced Learner's Dictionary has defined the word 'Convention' as practice or custom based on general consent. Kohler has observed that convention is 'a statement or rule of practice which, by common consent, is implied in the solution of a given class of problems or guides behaviour in a certain kind of situation'. An axiom and convention may be indistinguishable, thus, the use of straight line depreciation long regarded as a convention, has tended to take on the character of an axiom. A convention dictates many of the activities of the public accountant, such as measures of materiality, style and content of financial statements, the features of audit reports etc.

In International Accounting Standards, the conventions have been termed as accounting policies. In practice the generally accepted accounting policies are known as accounting conventions, which have been adopted by accountants for a long time.

Types of Accounting Conventions : The Accounting conventions are mainly of four types :

- (1) Convention of full Disclosure;
- (2) Convention of Materiality;
- (3) Convention of Consistency
- (4) Convention of Conservatism or prudence.

(1) Convention of full disclosure :- This Convention requires that all significant information relating to the economic affairs of the enterprise should be completely disclosed. In other words, there should be a sufficient disclosure of information which is of material interest to the users of the financial statements such as proprietors, present and potential creditors, investors and others. The principle is so important that the Companies Act makes ample provisions for the disclosure of essential information in the financial statements of a Company. The performance and contents of Balance Sheet and Profit and Loss Account are prescribed by Companies Act. Various items or facts which do not find place in accounting statements are shown in the Balance Sheet by way of footnotes. Such as :-

- (i) **Contingent Liabilities :-** For instance, a claim of a very big sum pending in a court of law against the enterprise should be brought to the notice of the users of the financial statements, otherwise

the statements would be misleading.

- (ii) If there is a change in the method of valuation of stock, or for providing depreciation or in making provision for doubtful debts, it should be disclosed in the Balance Sheet by way of a footnote.
- (iii) Market value of investments should be given by way of a footnote. Disclosing of material facts does not mean leaking out the secrets of the business but disclosing sufficient information which is of material interest to the users of the financial statements.

(2) Convention of Materiality :- This Convention is an exception to the convention of full disclosure. According to this convention, items having an insignificant effect or being irrelevant to the user need not be disclosed. These unimportant items are either left out or merged with other items, otherwise accounting statements will be unnecessarily overburdened. American Accounting Association (AAA) defines the term materiality as under:-

"An item should be regarded as material if there is reason to believe that knowledge of it would influence decision of informed investor."

It should be noted that what is material for one concern may be immaterial for another. For instance, the cost of small tools may be material for a small repair workshop, but the same figure may be immaterial for Escorts Limited. Similarly, the nature of the transaction should also be taken into consideration. A difference of ₹ 500 in the valuation of stock may be regarded as immaterial, but the difference of ₹ 500 in cash could be termed material. Thus, the accountant should judge the importance of each transaction to determine its materiality.

(3) Convention of Consistency :- The Consistency convention implies that same accounting policies will be used for similar items over the year. In this way more meaningful inter-period comparisons can be made. If the income statement for the current period shows higher earnings than the preceding period, the user is entitled to assume that business operations have been more profitable provided there is no change in the accounting policies adopted by the enterprise. The business entity should be consistent in the accounting practices or principles in respect of the assets,

equities, revenues and expenses.

It is only when the accounting principles are uniformly followed from year to year that the results obtained will be comparable. The rationale for this concept is that frequent changes in accounting treatment would make the Balance Sheet and the Income Statement unreliable for end users.

While giving audit reports in America the certified Public Accountants have to certify that the accounting principles in preparing financial statements for a particular year are consistent with those of the previous year. But it should not be construed by this statement that the business enterprise cannot make changes in its accounting policies. If it wants to introduce any change in its accounting policies, it may do so. However, such a change should be reported in its financial statements and its effect on income statement and balance sheet should be shown separately.

(4) Convention of Conservatism or Prudence :- According to this convention, all anticipated losses should be recorded in the books of accounts, but all anticipated or unrealized gains should be ignored. In other words, conservatism is the policy of playing safe. Provision is made for all known liabilities and losses even though the amount cannot be determined with certainty. Likewise, when there are different alternatives for recording a transaction, the one having least favourable immediate effect on profits or capital should be adopted. Following are the examples of the application of the principle of conservatism :-

- (i) Closing stock is valued at cost price or realizable value whichever is less.
- (ii) Provision for doubtful debts is created in anticipation of actual bad-debts.
- (iii) Joint life insurance policy is shown only at surrender value as against the amount paid.
- (iv) Provision for a pending law suit against the firm, which may either be decided in its favour.

Q.7. Explain the limitations of Financial Accounting.

Ans. Limitations of Financial Accounting :-

Accounting provides information about the profitability and financial soundness of a concern to the owners and other interested parties. In addition, it provides various other valuable informations also. However, accounting has certain limitations

which must be kept in mind while using such informations. These limitations are as follows :

- (1) **Influenced by Personal Judgements :-** Accounting is as yet an exact science and accountant has to exercise his personal judgement in respect of various items. For example, it is extremely difficult to predict with any degree of accuracy the actual useful life of an asset which is needed for calculating depreciation. The same is true about method of valuation of stock and making provision for doubtful debts. Different persons are bound to have different opinions in respect of such things and hence it will result in ascertainment of different figure of profit or loss of a business by different persons. Hence the figure of profit cannot be taken as an exact figure.
- (2) **Based on Accounting Concepts and Conventions :** Accounts are prepared on the basis of a number of accounting concepts and conventions. Hence, the profitability and the financial position disclosed by it may not be realistic. For example, fixed assets are shown in the balance sheet according to the 'going concern concept'. This means that the fixed assets are shown at their cost and not at their market value. The values realised on their sale may be more or less than the values stated in the balance sheet. Similarly, on account of convention of conservatism, the profit & loss account does not disclose the true profit of the business because future losses are provided whereas future incomes are ignored.
- (3) **Incomplete Information :-** Accounting statements provide only the incomplete information because the actual profit or loss of a business can be known only when the business is closed down.
- (4) **Omission of Qualitative Information :-** Accounts contain only those information which can be expressed in terms of money. Qualitative aspects of business units are completely omitted from the books as these cannot be expressed in monetary terms. Thus, changes in management, reputation of the business, cordial management-labour relations, firm's ability to develop new products, efficiency of management, satisfaction of firm's

customers etc. which have a vital bearing on the profitability of the firm are all ignored and omitted from being recorded because all of these are qualitative in nature.

- (5) **Based on Historical Costs** : - Accounts are prepared on the basis of historical costs (i.e., the original costs) and as such the figures given in financial statements do not show the effect of changes in price level. The assets remain undervalued in many cases particularly land and building. The outcome of this practice is that balance sheet values of assets are not helpful in estimating the true financial position of the business.
- (6) **Affected by Window Dressing** : - Window dressing refers to the practice of manipulating accounts, so that the financial statements may disclose a more favourable position than the actual position. For example, the purchases made at the end of the year may not be recorded or the closing stock may be over-valued. Hence, correct decisions cannot be taken on the basis of such financial statements.
- (7) **Unsuitable for Forecasting** : - Financial Accounts are only a record of past events. Continuous changes take place in the demand of the product, policies adopted by the firm, the position or competition etc. As such, the financial analysis based on past events may not be of much use for forecasting.
- (8) **Ignorance of Social cost** : - Accounting information is not neutral or unbiased. Accountants measure income as conventionally defined: revenues less expenses. But they consider only selected revenues and expenses. They do not, for example, include cost of such items as water or air pollution, employee injuries etc. Similarly "they fail to give recognition to the benefits received by their efforts to clean up the environment, improve community welfare and introduce safety measures for the me worker."

Q.8. Write Short notes on the followings :-

(a) **Subsidiary Books**

Ans. (a) Subsidiary Books : -

Transaction in one book only. But when the size of business grows and the number of transactions become very large,

is no longer possible to record all transactions in one Journal only. The Journal is, therefore, sub-divided into Subsidiary Books or the Books of Original Entry. Each subsidiary book is meant for recording all the transactions of a similar nature. For example, all cash transactions may be recorded in one book, all credit purchase transactions in another book and all credit purchase transactions in yet another book, and so on. Thus, the subsidiary books may be defined as books where the transactions are entered first and then ledger accounts are prepared on their basis.

Subsidiary books also facilitates division of work and increases efficiency. Information can easily be obtained and responsibility can be fixed. Checking also becomes easier. Thus Sub-Division of Journal is called Subsidiary Books. Following subsidiary books are most commonly used in a business : -

Type of Subsidiary Books : -

In a large scale business 'Journal' is sub-divided into following books :

- (i) **Cash Book** : All cash receipts and cash payments are recorded in Cash Book.
Cash Book may be of four types as follows:
- (a) **Simple Cash Book or Single Column Cash Book**
- (b) **Double Column Cash Book or Two Column Cash Book** : All Cash receipts, bank deposits, cash payments, cash withdrawals from bank, payment made through cheque, discount allowed and discount received are recorded in Two Column Cash Book depending upon the columns of Cash Book either Cash & Discount Column, either Bank & Discount Column or Cash & Bank Column.
- (c) **Three/Triple Column Cash Book (having Discount, Cash and Bank Columns)** : All cash receipts, bank deposits, cash payments, cash withdrawals from bank, payment made through cheques, discount allowed and discount received are recorded in three column cash book.
- (d) **Petty Cash Book** : - It is used to record small payments made by the business.

- (ii) **Purchases Book** : Only credit purchases of goods are recorded in Purchases Book.
- (iii) **Sales Book** : Only credit sales of goods are recorded in Sales Book.
- (iv) **Purchases Returns Book or Returns Outwards Book** : When the goods previously purchased are returned on Credit to the suppliers, such returns are recorded in this book.
- (v) **Sales Returns Book or Returns Inward Book** : When the goods previously sold on Credit are returned by the customers, such returns are recorded in this book.
- (vi) **Bills Payable Book** : This book is used for recording the issue of bills receivables, promissory notes or hundies from various parties. The trader is to receive payment for these bills.
- (vii) **Bills Payable Book** : This book is used for recording the issue of bills payables, promissory notes or hundies to various parties. The trader is to make payment for these bills.
- (viii) **Journal Proper** : This book is used for recording the transactions which cannot be recorded in any of the above mentioned books.
- Following transactions are recorded in Journal Proper : -
- Opening Entry
 - Closing Entries
 - Rectification Entries
 - Transfer Entries
 - Adjustment Entries
 - Three column Cash Book**

Ans. Meaning of Three/Triple Column Cash Book : When discount column is also added on both the sides of Cash Book with Cash and Bank column it is called, "Three/Triple Column Cash Book."

A modern business has a huge number of bank transactions which are ordinarily operated through Current Account. The entering bank transactions also we have three amount columns on each side of Cash Book (i) Discount, (ii) Cash, and (iii) Bank. Banking transactions are entered in Bank column. The other two columns are used for discount and cash transactions as in two column Cash book. Three column Cash Book records

all cash and bank receipts and payments as well as discount received and allowed. Format of three column cash book is given below :

Proforma of Triple/Three Column Cash Book

Debit Side							Credit Side						
Date	Particulars	V No	L.F.	Amount			Date	Particulars	V No	L.F.	Amount		
				Dis	Cash	Bank					Dis	Cash	Bank
				₹	₹	₹					₹	₹	₹

The main features of Three/Triple Column Cash Book : The three/triple column cash book has seven columns on both debit and credit side. The purpose of each column is briefly explained below :

- Date** : The date column is used to enter the transaction date.
- Particulars** : The particulars or description column is used to write the name of the account to be debited or credited in the ledger as a result of cash or bank transaction.
- Voucher Number** : A voucher is a document in support of a transaction. The serial number of the voucher is entered in this column.
- Ledger Folio** : Each account in the ledger is assigned a unique numbered. The number of each ledger account that is written in particulars column is entered in L.F. column.
- Discount** : The amount of discount allowed is recorded on debit side and the amount of discount received is recorded on credit side in discount column.
- Cash** : The amount of cash received (Net of any discount allowed) is entered on the debit side and the amount of cash paid (net of any discount received) is entered on the credit side of cash column. This column is totaled and balanced like a ledger account.
- Bank** : The amount of all receipts and payments made by the bank account are entered in bank column of the cash book. This column is also totaled and balanced like a ledger account.

Procedure of Preparing Three/Triple Column Cash Book

- While commencing a new business, the amount is written in

the cash column if cash is introduced and in the bank column if it is directly put into the bank with the description: "To Capital Account". If a new cash book is being started for an existing business, the opening balances are written as: "To Balance b/d".

2. All receipts are written on the receipts side, cash in the cash column and cheques in the bank column. If any discount is allowed to the party paying the amount, the discount is entered in the discount column. In the particulars column the name of the account in respect of which payment has been received is written.
3. All payments are written on the payments side, cash payment in the cash column and payments by cheques in the bank column. If some discount has been received from the party receiving the payment, it is entered in the discount column.
4. **Contra Entries** : Often cash is withdrawn from bank for use in the office. In such a case the amount is entered in the bank column on the payments side and also in the cash column on the receipts side. In the reverse case of cash being sent to the bank, the amount is recorded in the bank column on the receipts side and in cash column on payment side. Against such entries, the letter "C" should be written in the LF. column, to indicate that these are contra transaction and no further posting is required for them.

Note : It initially cheques received are entered in the cash column and then sent to the bank, the entry is as if cash has been sent to the bank.

While recording contra entries, the basic but important rules should be followed-

- | | | | |
|-----|-------------------|-----|-----|
| (a) | The Receiver | Dr. | |
| | The Giver | | Cr. |
| (b) | All what comes in | Dr. | |
| | All what goes out | | Cr. |

e.g. where a Cash Book with separate columns for Bank Account is maintained.

- (a) If cash is deposited in Bank Account, the Bank will be the Receiver, hence it will be Debited and as the cash is going out,

cash will be credited.

- (b) If cash is withdrawn from the Bank Account, the Bank will be the Giver, hence it will be Credited and, as the cash is coming in, cash will be Debited.

5. If some cheque sent to the bank is dishonoured, i.e., the bank is not able to collect the amount, it is entered in the bank column on the credit side with the name of the related party in the particulars column.

6. If some cheque issued by the firm is not paid on presentation, it is entered in the Bank column on the debit side with the name of the party to whom the cheque was given.

7. In a rare case, a cheque received may be given to some other party, i.e., endorsed. On receipt, it must have been entered in the bank column on the debit side; on endorsement the amount will be written in the bank column on the credit side.

8. In case of maintaining more than one Bank Account, separate column can be add for each Bank Account. Transactions between these two or more Bank Accounts can be recorded and tallied with a much less effort.

Suppose, there are two Bank Accounts namely PNB Current Account and SBI-Cash Credit Account. Now, if a cheque is deposited from PNB cheque Book to SBI Account, the receiver - i.e., PNB Account will be debited and the giver i.e. the SBI Account shall be credited.

9. **Balancing** : The discount columns are totalled but not balanced. The cash columns are balanced exactly in the same manner as the simple cash book. The process is similar for balancing the bank columns also. It is possible, however, that the bank may allow the firm to withdraw more than the amount deposited i.e., to have an overdraft. In such a case, the total of the bank column on the credit side is bigger than the one on the debit side. The difference is written on the debit side as "To Balance c/d." Then the totals are written on the two sides opposite one another, the balance is then entered on the credit side as "By Balance b/d."

However, the usual case is that payments into the bank will exceed the withdrawals or payments out of the bank. Then the

bank columns are balanced just like the cash columns.

Q.9. (a) What did you mean by Bank Reconciliation Statement? Why is it prepared?

Ans. (a) Meaning and Definition of Bank Reconciliation Statement :-

All the firm open a current account with a bank and in order to record the transactions entered into with the bank, maintain a bank column in the Cash Book. Bank also opens a separate account for each firm in its ledger and enters all the transactions in it. Periodically, bank supplies a copy of the firm's account in its ledger to the firm for information. This copy of the firm's account supplied by the bank is called Bank Pass Book or bank statement. Now-a-days all the banks are almost computerised and they send a computerised statement to the customer periodically. Since all the transactions entered with the bank are recorded in both the books, there should be no difference between the balance shown by the Cash Book and the Pass Book. The balance of the two books must tally with each other, because when the money is deposited into the bank, the firm enters it on the debit side of the bank column of the Cash Book and at the same time bank also enters it on credit side of the firm's account maintained by the bank. On the other hand, when money is withdrawn from the bank, firm enters it on the credit side of bank column of Cash Book and at the same time bank also enters it on the debit side of the firm's account in its books.

Hence, all the entries recorded on the debit side of the Cash Book must tally with the entries recorded on the credit side of the Pass Book and conversely, all the entries recorded on the credit side of the Cash Book must tally with the entries recorded on the debit side of the Pass Book. Therefore, at any time, the bank balance shown by the Cash Book must tally with the balance shown by the Pass Book. However, sometimes it so happens, that these two balances do not tally. This is, because on a certain date it is possible that there may be some entries which may have been recorded in the Cash Book but not in the Pass Book and vice versa.

A statement is, therefore, prepared to identify the reasons for the difference and to reconcile the balances of the two books. Such a statement is called 'Bank Reconciliation Statement'.

According to R.G. Williams, "A statement is prepared to tally balance shown by bank for customer and balance of bank shown by Cash Book of the customer is called bank reconciliation statement."

Thus Bank Reconciliation statement is a statement prepared to reconcile the balances of Cash Book maintained by the concern and Pass Book maintained by the bank at periodical intervals. Transaction of Cash Book and Pass Book are compared and causes of differences in balances of both the books are scrutinized and then reconciliation statement is prepared. It is prepared with a view to indicate items which cause difference between the balances as per the bank column of the Cash Book and the Bank Pass Book at a particular date.

Need and Importance of Bank Reconciliation Statement:

It is necessary to prepare a bank reconciliation statement due to the following reasons :

1. This statement locates the errors or omissions that may have been committed either on the part of the customer or the bank. The errors so detected can be rectified accordingly.
2. By preparing bank reconciliation statement the customer becomes sure of the correctness of the bank balance shown by the Cash Book. It helps him in making the further transactions with the bank. For example, suppose the Cash Book shows a bank balance of ₹ 1,00,000; whereas the balance shown by the Pass Book is ₹ 75,000. By reconciling the two it is disclosed that cheques for ₹ 25,000 were deposited into the bank but have not been collected so far (or some of these have been dishonoured). In such a case, further cheques will be issued by assuming the bank balance of ₹ 75,000 only.
3. A bank reconciliation statement facilitates the preparation of a revised Cash Book. For example, the entries relating to bank charges, interest allowed or charged by the bank, direct

- payment by the bank on our behalf etc. will be recorded in the Pass Book but for which there is no entry in the Cash Book. Such entries will now be recorded in the Cash Book as well.
4. Periodic preparation of this statement reduces the chances of embezzlement by the staff of the firm or even that of the bank. For example, if a cashier merely makes an entry in the Cash Book but does not deposit the cash and cheques into the bank, it will be disclosed by preparing a bank reconciliation statement.
 5. A reconciliation statement helps in revealing the unnecessary delay in the collection of cheques by the bank.
 6. It also helps in keeping a track of cheques which have been sent to the bank for collection.
- (b) **Define depreciation and state any four needs of accounting for depreciation.**

Ans. Meaning and Definition of Depreciation :-

Meaning : The word 'Depreciation' is derived from a Latin word Depretium, if we analyse this word 'de' means decline and 'pretium' means price, decline in price or decrease in the value of assets whether these may be fixed assets or capital assets.

In every business there are certain assets of a fixed nature that are needed for the conduct of business operations. Some examples of such assets are Building, Plant, Motor vehicles, Furniture, Office Equipments etc. These assets have a definite span of life after the expiry of which the assets will lose their usefulness for the business operations. Fall in the value and utility of such assets due to their constant use and expiry of time is termed as depreciation. In other words, the process of allocation of the cost of a fixed asset over its useful life is known as depreciation.

Definitions : Some of the well-known definitions of depreciation are given below :

1. "It is a matter of common knowledge that all fixed assets such as plant, machinery, tools, buildings, leaseholds, furniture etc. gradually 'diminish in value' as they get older and become work out by constant use in the business." - J.R. Batliboi

2. "Depreciation may be defined as the permanent and continuous diminution in the quality, quantity or the value of an asset." - William Pickles
3. "Depreciation may be defined as a gradual deterioration in value due to use" - R.G. Williams
4. "Depreciation may be defined as the measure of the exhaustion of the effective life of an asset from any cause during a period.

Thus on the basis of the above definitions it can be concluded that depreciation is permanent, continuing and gradual decrease in the book value of a fixed asset due to wear and tear, use, affluxion of time, exhaustion, obsolescence through technology and market changes; but depreciation is not a process of valuation of fixed asset. It can rightly be said that depreciation is a process of allocation of the depreciable amount of an asset over its estimated useful life which is charged from profit and loss account every year.

Need, Importance or Objects of Providing Depreciation
Depreciation is provided in order to achieve the following objectives :-

- (1) **For ascertaining the true profit or loss :-** The true profit of a business can be ascertained only when all costs incurred for the purpose of earning revenues have been debited to the Profit and Loss Account. As the Assets are used in earning revenues, the depreciation in the value of an asset is as much an expense as any other, such as wages salary, rent etc.
- (2) **For showing the 'true and fair view' of the financial position :-** If the depreciation is not charged, the assets will be shown in the Balance Sheet at an amount which is in excess of their true values. As such, the Balance Sheet will not present the 'true and fair view' of the financial position of a business.
- (3) **To ascertain the accurate cost of production :-** As depreciation is also an item of expense, the correct cost of production cannot be calculated unless it is also taken into account. Sale price chargeable from customers is determined on the basis of cost of production and hence if the depreciation

is not included in cost of production, the sale price will be fixed at lower rates and this in turn will lead to reduced profits.

- (4) **To provide funds for replacement of assets :** - Depreciation though debited to Profit & Loss Account, is not paid in cash like other expenses. Hence, the amount of depreciation is retained in the business and is used for the replacement of fixed assets after the expiry of their estimated span of life.
- (5) **To prevent the distribution of profits out of capital :** - If the depreciation is not charged, the profit shown by the Profit and Loss Account will be in excess of the actual profits. Such an excess profit may be wholly withdrawn by the proprietor or may be distributed among the shareholders as dividend. Hence, the amount of dividend distributed will also include the amount of depreciation which is actually a part of capital.
- (6) **For avoiding over payment of Income Tax :** - Depreciation is a deductible expense for tax purposes. If depreciation is not debited to Profit and Loss Account, the net profit shown by it will be in excess of actual profits. Hence, we will also have to pay more income tax.
- (7) **To get tax-rebate :** Depreciation is an allowable expenditure under Income Tax Act. It reduces the tax liability of the trader. So to get tax rebate it is essential to charge depreciation.
- (8) **Other Objectives :** - If the depreciation is not charged, the net profit shown by Profit & Loss Account will exceed the actual profits and as a result:
- Employees may demand an increase in wages and bonus,
 - It may also result in extravagance,
 - It may lead to increase in competition in that type of business.

Q.10. Define balance sheet and give its characteristics. Differentiate between Trial Balance and Balance Sheet.

Ans. Meaning and Definition of Balance Sheet : - After ascertaining the net profit or loss of the business enterprise, the businessmen would also like to know the exact

financial position of his business. For this purpose a statement is prepared which contains all the Assets and Liabilities of the business enterprise. The statement so prepared is called a Balance Sheet because it is a sheet of balances of ledger accounts which are still open after the transfer of all nominal accounts to the Trading and Profit & Loss Account. Balances of all the personal and real accounts are grouped as assets and liabilities. Liabilities are shown on the left hand side of the Balance Sheet and Assets on the right hand side.

Definitions : A Balance Sheet has been defined as follows: According to **Karlson** "A business form showing what is owed and what the proprietor is worth, is called a Balance Sheet."

According to **A. Palmer** : - "The Balance Sheet is a statement at a particular date showing on one side the trader's property and possessions and on the other hand the liabilities."

According to **J.R. Batliboi** : "A Balance Sheet is a statement prepared with a view to measure the exact financial position of a business on a certain fixed date."

Characteristics of Balance Sheet : -

- (1) A Balance Sheet is a part of the Final Accounts. This is the reason that the Trading and Profit and Loss Account and the Balance Sheet are together called 'Final Accounts'. However, the Balance Sheet is a statement and not an account. It has no debit or credit side and as such the words 'To' and 'By' are not used before the names of the accounts written therein.
- (2) A Balance Sheet is a summary of the Personal and Real Accounts, which are still open and have not been closed by transfer to the Trading and Profit & Loss Account. Debit balances of all Personal and Real Accounts are put on the right hand side known as Assets side, whereas the credit balances are put on the left hand side known as Liabilities side.
- (3) The totals of the two sides of the Balance Sheet must be equal. If the totals are not equal, there will be an error somewhere.
- (4) Balance Sheet is prepared on a particular date and not for a fixed period. As such, it discloses the financial position of a business on a particular date and not for a period. It is True only for the date on which it is prepared because even a single transaction would cause a change in the assets and liabilities.
- (5) It shows the financial position of the business according to the going concerns concept.

Difference between Trial Balance and Balance Sheet

Basis	Trial Balance	Balance Sheet
1. Object	It is prepared to check the arithmetical accuracy of ledger accounts.	It is prepared to know the financial position of a business.
2. Period	It can be prepared at any time.	It is prepared only once in a year.
3. Sides	It has Debit and Credit sides.	It has Assets and Liabilities sides.
4. Nature of accounts	Personal, real and nominal account balances are recorded in it.	In Balance Sheet only personal and real account balances are shown.
5. Close of accounts	Accounts need not be closed for preparing Trial Balance.	Accounts need to be closed before preparing balance Sheet.
6. Closing stock	Closing stock is usually not shown in Trial Balance.	In Balance Sheet closing stock is recorded.
7. Compulsion	It is not compulsorily prepared.	It is compulsorily prepared.
8. Authenticity	Trial Balance is not accepted as proof in court of law as documentary evidence.	Balance Sheet is accepted as proof in court of law as documentary evidence. It is also helpful while making payment of income tax and Goods & service Tax (GST).
9. Part of final account	It is not a part of final account but it is prepared before final accounts.	It is a part of final accounts.
10. Order of accounts	There is no order to record accounts in Trial Balance.	In Balance Sheet balances are recorded in liquidity or permanency order.
11. Basis	It is prepared on the basis of balances of ledger accounts.	Balance Sheet is prepared on the basis of Trial Balance.
12. Adjustments	It can be prepared without making adjustments for outstanding expenses, prepaid expenses, accrued income, unearned income etc.	It cannot be prepared without making adjustments except adjusted Trial Balance.

Q.11. Define accounting and explain various accounting concepts.

Ans. Meaning and Definition of Accounting :-

Accounting is a systematic process of identifying, measuring, recording, classifying, summarising, interpreting and communicating financial information. Accounting gives information on:

- (i) the resources available;
 - (ii) how the available resources have been employed; and
 - (iii) the results achieved by their use.
- It shows the profit earned or loss incurred during the accounting period, value and nature of assets, liabilities and owners' equity, i.e., capital.

Since accounting is a medium of communication, it is called the language of business.

According to American Institute of Certified Public Accountants :

"Accounting is the art of recording, classifying and summarising 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."

According to Smith and Ashburne "Accounting is the science of recording and classifying business transactions and events, primarily of a financial character, and the art of making significant summaries, analysis and interpretations of those transactions and events and communicating the results to persons who must make decisions or form judgment."

According to American Accounting Association :

"Accounting is the process of identifying, measuring and communicating economic information of permit informed judgements and decisions by users of the information."

Q.12. Explain following accounting terminology :

- (a) Balance Sheet
- (b) Current Assets
- (c) Drawings
- (d) Journal Entry

Ans. (a) Balance Sheet – It is not an account. It is position statement which presents the financial position of business on a fixed date. Balance sheet helps us to understand the status of investment in the business at the end of the year. As an accounting equation, the capital is equal to assets minus liabilities. So, at a particular point of time, the proprietor should check up the quantum of capital and how it is distributed in the form of assets and liabilities. He should

know what the business owns, viz., assets, and what the business owes viz, liabilities. The difference between the assets and liabilities is what belongs to him (or them) called capital or owner's equity. For this purpose a financial statement known as balance sheet is prepared. This is a position statement as it shows the financial position of the business at a particular instant of time. A single transaction will change the composition of the balance sheet. It is also called 'a status statement' as it shows the financial status of business on a particular date.

Ans.(b) Current Assets : - Current Assets are those assets which are held by the business with the purpose of converting them into cash within a short period, i.e. on year of the date of Balance-Sheet.

According to Hovard & Upton : "The current assets are usually defined as those assets which are convertible into cash through the normal course of business within a short time ordinarily in a year."

Current Assets includes Cash in Hand, Cash at Bank, Bills Receivables, Sundry Debtors, Short-term Investments, Prepaid expenses, Accrued income, Closing stock, loose-tools etc.

Ans.(c) Drawings : It is the amount withdrawn or goods taken by the proprietor or partner for personal use. Goods so taken by the proprietor or partner are valued at purchase cost. Drawings reduces the investment (or capital) of the owners. Drawings by the proprietor or partner is debited to Drawings Account. At the time of preparing Balance Sheet, it is deducted from the capital of the proprietor or partner, as the case is.

In order to free the Capital Account from a large number of small entries a Drawings Account is generally opened.

(a) **Cash Withdrawals.** The entries will be : *debit* Drawings Account (Personal Accounts debit receiver); *credit* Cash (Real Accounts : credit what goes out); or **Bank** (Personal Accounts : credit supplier).

(b) **Goods Withdrawals.** The entries will be : *debit* Drawings Account; *credit* Purchases Account (Real Accounts : credit what goes out).

The balance of Drawings Account will be transferred periodically by means of a Journal entry, thus : *debit* Capital Account; *credit* Drawings Account.

Ans. (d) Journal Entry - An item in or prepared for a book of original entry, interpreting a business transaction in book-keeping terms and showing the accounts to be debited and credited, together with an explanatory description of the transaction. Frequently transactions are analyzed in journal-entry form in order to demonstrate their effect on the accounts.

Q.13. What is petty cash book? What are its advantages?

Ans. Meaning of Petty Cash Book : -

Petty Cash Book is the book which is used for the purpose of recording expenses involving small amounts. Besides petty expenses, receipts from main cash are recorded. Petty Cash Book is maintained by Petty Cashier and acts as the Petty Cash Account.

In a business besides large payments, a number of small payments, such as for conveyance, stationery, cartage, etc., have to be made. If all these payments are recorded in the Cash Book, it will become voluminous. Therefore, it is usual for firms to appoint a person as 'Petty Cashier' and to entrust the task of making small payments, say, below ₹ 250, to him. Of course, he is reimbursed for the payments made.

Recording of Petty Cash

Petty cash given to the Petty Cashier for small payments is recorded on the credit side of the Cash Book as 'By Petty Cash Account' and is posted to the debit side of the Petty Cash Account in the Ledger.

System of Petty Cash

Petty Cash Book may be maintained by ordinary system or by imprest system.

In case of Ordinary System of Petty Cash. Petty Cashier is given appropriate amount of cash and after spending the whole of that amount, he submits the account to the Head Cashier.

Imprest System of Petty Cash

Under this system, an estimate is made of amount required for petty expenses for a period (say for a week, a fortnight or a month). The amount so ascertained is given to the Petty Cashier in the beginning of a period. The amount paid by him

during the period. Thus, he will again have the fixed amount in the beginning of the new period reimbursed. This amount is called imprest money. This system of paying advance in the beginning and reimbursing the amount spent from time to time is called imprest system.

Advantages of Imprest System of Petty Cash

- (i) **Control Over Mistakes :** The Petty Cash Book is checked by the cashier at regular intervals so that a mistake, if committed, is soon rectified.
- (ii) **Control Over Petty Expenses :** Petty expenses are kept within the limits of imprest since the petty cashier can never spend more than the available petty cash.
- (iii) **Control Over Frauds :** Under this system defalcation of cash can be minimised since the Petty Cashier is not allowed to draw cash as and when he desires.

Q.14. What is profit & Loss account ? Explain various items which are shown in P&L account by using a suitable format.

Ans. Meaning of Profit & Loss Account : -

Trading account only discloses the gross profit earned as a result of buying and selling of goods. However, a businessman has to incur a number of expenses which are not taken to trading account. Hence, a businessman is more interested in knowing the net profit earned or net loss incurred during the year. As such, a Profit & Loss Account is prepared which contains all the items of losses and gains pertaining to the accounting period.

Profit and Loss Account is prepared after Trading Account. Profit and Loss Account is prepared to determine net profit earned or net loss incurred by the business during an accounting period.

According to **Prof. Carter** : "A Profit and Loss Account is an account into which all gains and losses are collected in order to ascertain the excess of gains over the losses or vice versa."

Balance of the Trading Account (Gross Profit or Gross Loss as the case may be) is transferred to Profit and Loss Account.

Thus, Profit and Loss Account starts with Gross Profit on the credit side. In case of Gross Loss, it starts with Gross Loss on the debit side. Thereafter, indirect expenses and losses are transferred to the debit side of the Profit and Loss Account.

Indirect incomes are transferred to the credit side of the Profit and Loss Account. It means those expenses or incomes which have not been debited or credited to Trading Account are debited or credited in the Profit and Loss Account.

The difference of the two sides of this account is net profit, if the total of credit side is more than the total of debit side. In the reverse situation, difference means net loss. The difference (*i.e.*, net profit or net loss) is transferred to the Capital Account of the proprietor. Net profit increases the capital and net loss decreases it.

Indirect Expenses are those expenses which are not directly associated with manufacturing or sale of goods. They include administrative, selling and distribution expenses such as salaries, rent and taxes, postage and stationery, insurance, depreciation, interest paid, office lighting, advertising, packing, carriage outwards, etc. Losses include items like loss by fire, loss by theft, etc.

Indirect Incomes are those incomes which are not directly associated with sale of goods, such as interest, dividends, profit on sale of fixed assets or investments.

Contents or Items of Profit and Loss Account :

Profit and Loss Account is prepared starting with either Gross Profit on the credit side or Gross Loss on the debit side, which is transferred from the Trading Account. Indirect expenses, *i.e.*, expenses that have not been debited to Trading Account are debited in the Profit and Loss Account. Similarly, Indirect incomes *i.e.*, incomes that have not been credited to Trading Account are credited to the account.

Expenses and losses shown in the debit side of the Profit and Loss Account are discussed below :

- (i) **Salary :** Salary is an indirect expense and is transferred from the trial balance in the debit of the Profit and Loss Account. Sometimes, a combined account titled 'Salaries and

Wages Account' is maintained in the books. Salaries and Wages Account is debited to Profit and Loss Account considering it to be indirect expense being salaries paid to office staff. On the other hand, if the account maintained is 'Wages and Salaries Account', it is transferred to Trading Account considering it to be direct expense being paid to manufacturing and/or trading staff.

- (ii) **Office Rent** : Office Rent is an indirect expense being not related to manufacturing or trading but incurred for the purposes of administration and sale.
- (iii) **Office Electricity** : Office Electricity expenses like office rent are not related to manufacturing or trading but are incurred for the purposes of administration and sale.
- (iv) **Printing and Stationery** : Expenses on Printing and Stationery are related more with administration and sale rather than manufacturing or trading.
- (v) **Postage, Courier and Telephone Expenses** : Expenses on postage, courier and telephone, etc., are related more with administration and sale rather than manufacturing or trading. Similarly, expenses such as legal expenses, audit fee and general expenses are also indirect expenses and debited to Profit and Loss Account. We may categorise them as Administrative and Office Expenses.
- (vi) **Salesmen Commission** : Salesmen commission is like salary being paid to salesmen. This expense is an indirect expense being directly related to sales.
- (vii) **Freight and Carriage on Sales** : Freight and carriage paid on sales in an indirect expense.
- (viii) **Delivery Vehicle Expenses** : Expenses incurred on delivery vehicle are expenses for delivering the goods sold. It is an indirect expense.
- (ix) **Insurance Expenses** : Insurance premium paid for insuring the assets, finished goods, stock, etc., are indirect expenses. It is an indirect expense.
- (x) **Advertising Expenses** : Expenses incurred towards advertisement is an indirect expense being expense to advertise the products or possibly to recruit staff.

Similarly, expenses such as godown charges, packing charges, etc., are also indirect expenses and debited to Profit and Loss Account. We may categorise the above expenses as Selling and Distribution Expenses.

- (xi) **Interest on Loan** : Loan is taken by the firm to make up the deficiency of capital. Interest paid on loan is an expense to service the loan taken by the firm. It is an indirect expense being not related to manufacturing or trading.
 - (xii) **Discount Allowed** : Discount Allowed means cash discount allowed to the debtors. It is an indirect expense being discount allowed on timely payments by the debtors.
 - (xiii) **Bad Debt** : Bad Debt is the amount that has become irrecoverable from a debtor. It is an indirect expense. We may categorise the above expenses as Finance Expenses.
 - (xiv) **Depreciation** : Depreciation is the cost of assets written off over their useful life. It is a fall in the value of the asset due to its wear and tear, use or lapse of time. Depreciation is a cost and it being indirect expense.
 - (xv) **Miscellaneous or General Expenses** : Miscellaneous or General Expenses are expenses involving small amounts and being not material are clubbed together into one account.
 - (xvi) **Abnormal Losses** : Abnormal losses such as Loss by Fire, Loss by Theft and Loss on Sale of Fixed Assets etc. are indirect expenses or losses. Besides being indirect expenses, they are also extraordinary expenses because they occur occasionally and not on regular basis. Besides the above there are other outgoings say because of drawings of cash or goods by the proprietor. Personal income tax or life insurance premium of the proprietor paid from the firm's cash or bank are not accounted as expense of the firm. They being drawings is deducted from capital.
- Incomes and profits shown in the credit side of the Profit and Loss Account are discussed below :**
- (i) Profit and Loss Account starts with the Gross Profit, carried down from the Trading Account, on the credit side.

- (ii) It is further credited with Other Incomes, i.e., income earned from the use of firm's resources other than the main business of the firm. It includes :
- Interest on fixed deposits;
 - Dividend on Investments;
 - Rent;
 - Cash discount received;
 - Gain (Profit) on sale of fixed assets;
 - Interest on Drawings; and
 - Bad Debts Recovered. The amount of bad debts earlier written off, if recovered is an income for the firm. It is credited to Profit and Loss Account.

Format of Profit and Loss Account

Dr		Cr	
PROFIT AND LOSS ACCOUNT for the year ended...			
Particulars	₹	Particulars	₹
To Gross Loss transferred from Trading A/c	-	By Gross Profit transferred from Trading A/c*	-
To Salaries	-	By Rent	-
To Rent, Rates and Taxes	-	By Discount Received	-
To Stationery and Printing	-	By Commission Earned	-
To Postage and Telegrams	-	By Interest Received	-
To Audit Fees	-	By Bad Debts Recovered	-
To Legal Charges	-	By Income from Investment	-
To Telephone Expenses	-	By Dividends on Shares	-
To Insurance Premium	-	By Miscellaneous Income	-
To Business Promotion Expenses	-	By Interest on Drawings	-
To Repairs and Renewals	-	By Profit on Sale of Fixed Assets	-
To Depreciation on Assets	-	By Profit on Sale of Investments	-
To Interest	-	By Net Loss transferred to Capital A/c	-
To Sundry Expenses	-		
To Conveyance	-		
To Bank Charges	-		
To General Expenses	-		
To Car Running and Maintenance	-		
To Electricity Expenses	-		
To Loss by Fire or Theft	-		
To Commission	-		
To Advertisement	-		
To Freight and Carriage Outwards	-		
To Discount Allowed	-		
To Travelling Expenses	-		
To Bad Debts	-		
To Interest on Capital	-		
To Net Profit transferred to Capital A/c	-		

Q.15. What do you mean by accounting Concepts and conventions? Explain briefly five important accounting concepts and three accounting conventions.

Ans. Accounting Conventions : Accounting Conventions are the

outcome of accounting practices or principles being followed by the enterprises over a period of time. Conventions may undergo a change with time to bring about improvement in the quality of accounting information.

The Oxford Advanced Learner's Dictionary has defined the word 'Convention' as practice or custom based on general consent. Kohler has observed that convention is 'a statement or rule of practice which, by common consent, is implied in the solution of a given class of problems or guides behaviour in a certain kind of situation'. An axiom and convention may be indistinguishable, thus, the use of straight line depreciation long regarded as a convention, has tended to take on the character of an axiom. A convention dictates many of the activities of the public accountant, such as measures of materiality, style and content of financial statements, the features of audit reports etc.

In International Accounting Standards, the conventions have been termed as accounting policies. In practice the generally accepted accounting policies are known as accounting conventions, which have been adopted by accountants for a long time.

Types of Accounting Conventions : The Accounting conventions are mainly of four types :

- (1) Convention of full Disclosure;
- (2) Convention of Materiality;
- (3) Convention of Consistency
- (4) Convention of Conservatism or prudence.

(1) Convention of full disclosure :- This Convention requires that all significant information relating to the economic affairs of the enterprise should be completely disclosed. In other words, there should be a sufficient disclosure of information which is of material interest to the users of the financial statements such as proprietors, present and potential creditors, investors and others. The principle is so important that the Companies Act makes ample provisions for the disclosure of essential information in the financial statements of a Company. The performance and contents of Balance Sheet and Profit and Loss Account are prescribed by Companies Act. Various items or facts which do not find place in accounting statements are shown in the Balance Sheet by way of footnotes. Such as :-

- (i) **Contingent Liabilities :-** For instance, a claim of a very big sum pending in a court of law against the enterprise should be brought to the notice of the users of the financial statements, otherwise the statements would be misleading.
- (ii) If there is a change in the method of valuation of stock, or for providing depreciation or in making provision for doubtful debts, it should be disclosed in the Balance Sheet by way of a footnote.
- (iii) Market value of investments should be given by way of a footnote.

Disclosing of material facts does not mean leaking out the secrets of the business but disclosing sufficient information which is of material interest to the users of the financial statements.

(2) Convention of Materiality :- This Convention is an exception to the convention of full disclosure. According to this convention, items having an insignificant effect or being irrelevant to the user need not be disclosed. These unimportant items are either left out or merged with other items, otherwise accounting statements will be unnecessarily overburdened. American Accounting Association (AAA) defines the term materiality as under:-

"An item should be regarded as material if there is reason to believe that knowledge of it would influence decision of informed investor."

It should be noted that what is material for one concern may be immaterial for another. For instance, the cost of small tools may be material for a small repair workshop, but the same figure may be immaterial for Escorts Limited. Similarly, the nature of the transaction should also be taken into consideration. A difference of ₹ 500 in the valuation of stock may be regarded as immaterial, but the difference of ₹ 500 in cash could be termed material. Thus, the accountant should judge the importance of each transaction to determine its materiality.

(3) Convention of Consistency :- The Consistency convention implies that same accounting policies will be used for similar items over the year. In this way more meaningful inter-period comparisons can be made. If the income statement for the current period shows higher earnings than the preceding period, the user is entitled to assume that business operations have been more profitable provided there is no change in the

accounting policies adopted by the enterprise. The business entity should be consistent in the accounting practices or principles in respect of the assets, equities, revenues and expenses.

It is only when the accounting principles are uniformly followed from year to year that the results obtained will be comparable. The rationale for this concept is that frequent changes in accounting treatment would make the Balance Sheet and the Income Statement unreliable for end users.

While giving audit reports in America the certified Public Accountants have to certify that the accounting principles in preparing financial statements for a particular year are consistent with those of the previous year. But it should not be construed by this statement that the business enterprise cannot make changes in its accounting policies. If it wants to introduce any change in its accounting policies, it may do so. However, such a change should be reported in its financial statements and its effect on income statement and balance sheet should be shown separately.

(4) Convention of Conservatism or Prudence :- According to this convention, all anticipated losses should be recorded in the books of accounts, but all anticipated or unrealized gains should be ignored. In other words, conservatism is the policy of playing safe. Provision is made for all known liabilities and losses even though the amount cannot be determined with certainty. Likewise, when there are different alternatives for recording a transaction, the one having least favourable immediate effect on profits or capital should be adopted. Following are the examples of the application of the principle of conservatism :-

- (i) Closing stock is valued at cost price or realizable value whichever is less.
- (ii) Provision for doubtful debts is created in anticipation of actual bad-debts.
- (iii) Joint life insurance policy is shown only at surrender value as against the amount paid.
- (iv) Provision for a pending law suit against the firm, which may either be decided in its favour.

Q.16. (a) Describe objectives of financial Accounting.
(b) Explain accounting Principles.

Ans. (a) **Objectives of Financial Accounting** : The following are the main objectives or utility of financial accounting. :-
(1) **To keep systematic record of business transactions** :- The main objective of accounting is to keep complete record of business transactions according to specified rules. Complete record of business transactions helps to avoid the possibility of omission and fraud. For this purpose, all the business transactions are first of all recorded in Journal or Subsidiary Books and then posted into Ledger.

(2) **To calculate profit or loss** :- The second main objective of accounting is to ascertain the net profit earned or loss suffered on account of business transactions during a particular period. For this purpose Trading and Profit & Loss Account of the business is prepared at the end of each accounting period. All the items relating to purchases, sales, expenses and revenues (incomes) of the business are recorded in Trading and Profit & Loss Account. If the amount of revenue exceeds the expenditure incurred in earning that revenue, there is said to be a profit. In case the expenditure exceeds the revenue, there is said to be a loss. In addition, a businessman is able to get the following informations by preparing a Trading and Profit & Loss Account :

- I. How much goods have been purchased during a particular period?
- II. How much goods have been sold during a particular period?
- III. How much goods have remained unsold and what is its value?
- IV. How much amount has been spent on various heads of expenditure and how much amount has been earned by various heads of revenues?

By attaining these informations a businessman can keep effective control on expenditure.

(3) **To know the exact reasons leading to net profit or net loss.**

(4) **To ascertain the financial position of the business** :- For a businessman, merely ascertaining profit or loss of the business is not sufficient. The businessman must also know the financial health of the business. For this purpose, after preparing the Profit & Loss Account a statement called 'Balance Sheet' is prepared which shows the assets and their

values on the one hand and the liabilities and capital on the other hand. A Balance Sheet is actually a screen picture of the financial position of the business. At one glance, one would know 'the following by looking at the Balance Sheet :-

- I. How much the business has to recover from Debtors?
 - II. How much the business has to pay to Creditors?
 - III. How much the business has in the form of (a) Cash in hand, (b) Cash at Bank, (c) Closing Stock, and (d) Fixed Assets?
- (5) **To ascertain the progress of the business from year to year.**

(6) **To prevent and detect errors and frauds.**

(7) **To provide informations to various parties** :- Another main objective of accounting is to communicate the accounting information to various interested parties like owners, investors, creditors, banks, employees and government authorities etc. The information helps them in taking sound and judicious decisions about the business entity.

(b) **Meaning of Accounting Principles** : According to the **American Institute of Certified Public Accountants**, "Principles of Accounting are the general law or rule adopted or proposed as a guide to action, a settled ground or basis of conduct or practice."

Accounting Principles are the rules of action or conduct adopted by accountants universally while recording accounting transactions. They are the norms or rules which are followed in giving accounting treatment to various items of assets, liabilities, expenses, incomes, etc. For example, Inventory (stock) should be valued at lower of its cost or net realisable value. Fixed assets should be depreciated over their useful life. Accounting Principles are the basic or fundamental propositions generally accepted by accountants as a set of Accounting Principles based on which transactions are recorded and Financial Statements are prepared.

Accounting statements disclose the profitability and solvency of the business to various parties. It is, therefore, necessary that such statements should be prepared according to some standard language and set rules. These rules are usually called 'Generally accepted accounting principles' (GAAP). These principles have been generally accepted by accountants all over the world as general guidelines for preparing the accounting statements. These principles have developed over a course of

period from usage, reason, common experiences, historical precedents, statements of individuals, professional bodies and regulation of Government agencies. These principles are classified into two categories.

Q.17. Explain the methods of calculating depreciation and mention the circumstances under which each method can be employed advantageously.

Ans. Methods of Providing Depreciation and their Advantage :

Generally, methods for providing depreciation are based on formula, developed on a study of the behaviour of the assets over a period of years for readily computing the amount of depreciation suffered by different forms of assets. Each of the methods, however, should be applied only after carefully considering nature of the asset and the conditions under which it is being used.

The two most common methods for providing depreciation are the Straight Line Method and the Reducing Balance Method. The Straight Line Method is the most suitable and accurate method to adopt in most cases. The Income Tax Rules, however, prescribe the Reducing Balance Method except in the case of assets of an undertaking engaged in generation and distribution of power. Methods of calculatory depreciation are as follows.

(1) Straight Line Method or Original Cost Method :

According to this method, an equal amount is written off every year during the working life of an asset so as to reduce the cost of the asset to nil or its residual value at the end of its useful life. **The advantage of this method is that it is simple to apply and gives accurate results especially in case of leases, patents and copy rights, and also in case of plant and machinery.** Calculation of depreciation for additions to plant and machinery may be a complicated affair unless different classes of machines are classified separately in a plant register based on year of additions. This method is also known as Fixed Installment Method.

$$\text{Straight Line Depreciation} = \frac{\text{Cost of Assets} - \text{Scrap Value}}{\text{Useful life of Asset}}$$

$$\text{Straight Line Depreciation Rate} = \frac{\text{Straight Line Depreciation}}{\text{Cost of Asset}} \times 100$$

The underlying assumption of this method is that the particular

asset generates equal utility during its lifetime. But this cannot be true under all circumstances. The expenditure incurred on repairs and maintenance will be low in earlier years, whereas the same will be high as the asset becomes old. Apart from this the asset may also have varying capacities over the years, indicating logic for unequal depreciation provision. However, many assets have insignificant repairs and maintenance expenditures for which straight line method can be applied.

(2) Reducing Balance Method or Written Down Value Method :

Under this system, a fixed percentage of the diminishing value of the asset is written off each year so as to reduce the asset to its break-up value at the end of its life, repairs and small renewals being charged to revenue. **This method is commonly used for plant, fixtures, etc.** Under this method, the annual charge for depreciation decreases from year to year, so that the earlier years suffer to the benefit of the later years. Also, under this method, the value of asset can never be completely extinguished, which happens in the earlier explained Straight Line Method. However, it is very simple to operate. **The other advantage of this method is that the total charge to revenue is uniform when the depreciation is high, repairs are negligible; and as the repairs increase, the burden of depreciation gets lesser and lesser.** On the other hand, under the Straight Line Method, the charge for depreciation is constant, while repairs tend to increase with the life of the asset. Among the disadvantages of this method is the danger that too low a percentage may be adopted as depreciation with the result that over the life of the asset full depreciation may not be provided; also if assets are grouped in such a way that individual assets are difficult to identify, the residue of an asset may lie in the asset account even after the asset has been scrapped. The last mentioned difficulty could be, however, overcome if a Plant register is maintained. The rate of depreciation under this method may be determined by the following formula :

$$\text{Rate of Depreciation} = 1 - n \sqrt[n]{\frac{\text{Residual Value}}{\text{Cost of Asset}}} \times 100$$

where, n = useful life of Asset

(3) Sum of Years of Digits Method :

It is variation of the "Reducing Balance Method". In this case,

the annual depreciation is calculated by multiplying the original cost of the asset less its estimated scrap value by the fraction represented by :

$$\frac{\text{The number of years (including the present year) of remaining life of the asset}}{\text{Total of all digits of the life of the asset (in years)}}$$

Suppose the estimated life of an asset is 10 years; the total of all the digits from 1 to 10 is 55 i.e., $10 + 9 + 8 + 7 + 6 + 5 + 4 + 3 + 2 + 1$, or by the formula:

$$\frac{n(n+1)}{2} = \frac{10 \times 11}{2} = 55$$

The depreciation to be written off in the first year will be $10/55$ of the cost of the asset less estimated scrap value; and the depreciation for the second year will be $9/55$ of the cost of asset less estimated scrap value and so on.

The method is not yet in vogue in India; and its advantages are the same as those of the Reducing Balance Method.

(4) Annuity Method :

This is a method of depreciation which also takes into account the element of interest on capital outlay and seeks to write off the value of the asset as well as the interest lost over the life of the asset. It assumes that the amount laid out in acquiring asset, if invested elsewhere, would have earned interest which must be reckoned as part of the cost of asset. On that basis, the amount of depreciation to be annually provided in the accounts is ascertained from the Annuity Tables, to write off each year interest on the capital outlay as well as part of the capital sum at a rate that the whole of the capital sum and interest accruing thereon would be written off over the life of the asset. Though the amount written off annually is constant, the interest in the earlier years being greater, only small amount of capital outlay is written off. This proportion is reversed with passage of time.

This method is eminently suitable for writing off the amount paid for long-term lease which involve a considerable capital outlay. It is not practicable to adopt this method for writing off depreciation of plant and machinery on account of frequent changes in the value of such asset which would necessitate the recalculation of the amount of depreciation to be written off annually.

Annual Depreciation = Amount of Lease \times Annuity Table value of ₹ 1 at% p.a.

(5) Sinking Fund Method :

If a large sum of money is required for replacement of an asset at the end of its effective life, it may not be advisable to leave in the amount of depreciation set apart annually, for it may or may not be available in the form of the readily realizable assets to the concern at the time it is required. To safeguard this position, the amount annually provided for depreciation may be placed to the credit of the Sinking Fund Account, and at the same time an equivalent amount may be invested in Government securities. The interest on these securities, when received, would be re-invested and the amount thereof would be credited to the Sinking Fund Account. The amount of annual provision for depreciation in such a case is calculated after taking into account interest, that the amounts annually invested shall be earning over the period these will remain invested. When the asset is due for replacement, the securities are sold and the new asset is purchased with the proceeds of their sale. The book value of the old asset, at the time, is transferred to the Sinking Fund Account. Any amount realized on sale of the old asset, as well as the profit or loss on sale of securities, is transferred to the Sinking Fund Account and it is closed off by transfer of the balance of the Profit and Loss Account or General Reserve.

The amount to be set apart annually by way of depreciation is ascertained from Sinking Fund tables. They readily show the amount which must be invested each year to accumulate to ₹ 1 at a given rate of interest within the stated period.

The aforementioned method may also be operated a little differently. The amount set apart on account of depreciation, instead of being invested annually in the purchase of government securities may be paid out as premium on a policy maturing at the end of the life of the asset, for an amount equal to the sum that will be required for its replacement. In that case the amount of the premium when paid will be debited to the Policy Account instead of the Investment Account.

Annual Depreciation = Cost of Leased Asset \times Sinking Fund Table value of ₹ 1 at % p.a.

(6) Machine Hour Method :

Where it is practicable to keep a record of the actual running hours of each machine, depreciation may be calculated on the basis of hours that the concerned machine worked. The machine hour rate of the depreciation, is calculated after estimating the total number of hours that machine would work during its whole life; however, it may

have to be varied from time to time, on a consideration of the changes in the economic and technological conditions which might take place, to ensure that the amount provided for depreciation corresponds to that considered appropriate in the changed circumstances. **It would be observed that the method is only a slight variation of the Straight Line Method under which depreciation is calculated per year.** Under this method it is calculated for each hour the machine works.

Annual Depreciation

$$= \frac{\text{Hours Worked in a Particular Year}}{\text{Total Estimated Working hours of Machine}} \times$$

(Cost of Assets Scrap Value)

(7) Production Units Method :

Under this method depreciation of the asset is determined by comparing the annual production with the estimated total production. The amount of depreciation is computed by the use of following method :

Depreciation for the period =

$$\text{Depreciable Amount} \times \frac{\text{Production during the period}}{\text{Estimated total production}}$$

The method is applicable to machines producing product of uniform specifications.

(8) Depletion Method :

This method is used in case of mines, quarries etc. containing only a certain quantity of product. The depreciation rate is calculated by dividing the cost of the asset by the estimated quantity of product likely to be available. Annual depreciation will be the quantity extracted multiplied by the rate per unit.

Annual Depreciation =

$$\text{Quantity of Mineral Extracted} \times \text{Rate Per Unit}$$

Where Rate Per Unit

$$= \frac{\text{Cost of Lease Mine or Quarry}}{\text{Total Estimated Quantity of Mineral Deposited}}$$

(9) Revaluation Method :

Some assets like livestock, patents, trademark, etc. are valued at the end of the year by expert values and the difference of opening balance and valuation is provided as depreciation. Rise in the value, however, is not accounted for.

Under this method, Fixed Assets are written down to their market value. In other words the book value of asset is

compared to the market value. If the market value is less than book value, the difference is written off as Depreciation. However, if market value is more than book value, the difference should be ignored as it will amount to taking of credit for unearned income which is violative of conservatism concept. **The method is normally used for assets used for assets like loose-tools, live-stock etc.**

$$\text{Annual depreciation} = \text{Book Value of Asset} - \text{Market value of Asset}$$

Where book value of asset = Opening balance of asset + Assets acquired during the year - Assets sold during the year.

Q.18. What is Balance sheet? Why is it Prepared? Give the Classification of various assets and liabilities.

Ans. Meaning and Definition of Balance Sheet :

After ascertaining the net profit or loss of the business enterprise, the businessman would also like to know the exact financial position of his business. For this purpose a statement is prepared which contains all the Assets and Liabilities of the business enterprise. The statement so prepared is called a Balance Sheet because it is a sheet of balances of ledger accounts which are still open after the transfer of all nominal accounts to the Trading and Profit & Loss Account. Balances of all the personal and real accounts are grouped as assets and liabilities. Liabilities are shown on the left hand side of the Balance Sheet and Assets on the right hand side.

Definitions : A Balance Sheet has been defined as follows :

According to Karlson : "A business form showing what is owed and what the proprietor is worth, is called a Balance Sheet."

According to A Palmer : "The balance sheet is a statement at a particular date showing on one side the trader's property and possessions and on the other hand the liabilities."

According to J.R. Batliboi : "A Balance Sheet is a statement prepared with a view to measure the exact financial position of a business on a certain fixed date."

Need and Importance of Preparing a Balance Sheet :
The purposes of preparing a Balance Sheet are as follows:

- (1) The main purpose of preparing a Balance Sheet is to ascertain the true financial position of the business at a particular point of time.
- (2) It helps in ascertaining the nature and cost of various assets of the business such as the amount of Closing Stock, amount owing from Debtors, amount of fictitious assets etc.
- (3) It helps in determining the nature and amount of various

liabilities of the business.

(4) It gives information about the exact amount of capital at the end of the year and the addition or deduction made into it in the current year.

(5) It helps in finding out whether the firm is solvent or not. The firm is solvent if the assets exceed the external liabilities. It would be insolvent if opposite is the case.

(6) It helps in preparing the opening entries at the beginning of the next year.

Classification of Assets : According to the nature of assets, these may be classified into the following :-

(1) **Non-Current Assets :** Non-Current Assets are those which are acquired for continuous use and last for many years such as Land and Building, Plant and Machinery, Motor Vehicles, Furniture etc. According to **Finney and Miller** :- "Non-Current Assets are assets of a relatively permanent nature used in the operations of business and not intended for sale".

As the purpose of keeping such assets is not to sell but use them, changes in their market values are ignored and these are always shown in the Balance Sheet at cost less depreciation.

(2) **Current Assets :** Current Assets are those which are either in the form of cash or can be easily converted into cash within one year of the date of Balance Sheet. In the words of **Hovard & Upton** :- "The Current Assets are usually defined as those assets which are convertible into cash through the normal course of business within a short time ordinarily in a year."

Current Assets include Cash, Bills Receivable, Short Term Investments, Debtors, Prepaid Expenses, Accrued Income, Closing Stock etc. While valuing these assets, Closing Stock is valued at cost or realizable value whichever is less and a reasonable provision for doubtful debts is deducted out of Sundry Debtors.

(3) **Liquid Assets :** Liquid Assets are those which are either in the form of Cash or can be quickly converted into cash, such as Cash, Bills Receivable, Short Term Investments, Debtors, Accrued Income etc. In other words, if Prepaid Expenses and Closing Stock are excluded from Current Assets, the balance will be Liquid Assets.

(4) **Fictitious or Nominal Assets :** These are the Assets which cannot be realised in cash or no further benefit can be derived from these assets. Such assets include Debit balance of P & L A/c and the expenditure not yet written off such as advertisement expenses etc. These assets are not really assets but are shown on the assets side only for the purpose of transferring them to the Profit & Loss Account gradually over

a period of time.

(5) **Wasting Assets :** These are the Assets which are exhausted or consumed over a period of time such as mines and oil-wells. Their value reduces through being worked. These also include Patents and the properties taken on lease for a definite period of time.

(6) **Tangible and Intangible Assets :** Tangible Assets are those which have a physical existence or which can be seen and felt like Plant and Machinery, Building, Furniture, Stock, Cash etc. Intangible Assets are those which do not have any physical existence or which cannot be seen or felt such as the Goodwill, Trade Marks, Patents etc. Intangible Assets are as much valuable as Tangible Assets because they also help the firm in earning profits. For example, Goodwill helps in attracting customers and patents are actually the know-how which help in producing the goods.

Classification of Liabilities : According to their nature, the liabilities may be classified as follows :

(1) **Non-Current or Long-term Liabilities :** Those liabilities which are to be repaid after one year or more are termed as non-current liabilities. These include Public Deposits, Long-term Loans, Debentures etc.

(2) **Current or Short-term Liabilities :** Those liabilities which are expected to be paid within one year of the date of the Balance Sheet are termed as current or short-term liabilities. These include Bank Overdraft, Creditors, Bills Payable, Outstanding expenses etc.

(3) **Contingent Liabilities :** These are the liabilities which will become payable only on the happening of some specific event, otherwise not. Such as :

(i) **Liabilities for bill discounted :** In case a bill discounted from the bank is dishonoured by the acceptor on the due date, the firm will become liable to the bank.

(ii) **Liability in respect of a suit pending in a court of law :** This would become an actual liability if the suit is decided against the firm.

(iii) **Liability in respect of a guarantee given for another person :** The firm would become liable to pay the amount if the person for whom guarantee is given fails to meet his obligation. Contingent liabilities are not shown in the Balance Sheet. They are, however, shown as a footnote just below the Balance Sheet so that their existence may be revealed.

Practical Questions & Answer

Q.1. Goods worth ₹ 5,000 was used by the Proprietor for domestic use, worth ₹ 4,000 distributed as free samples and worth ₹ 1,000 given as charity. Where and how will these items appear in final accounts?

Ans. Adjustment Entry in Journal Proper

Date	Particulars	L.F.	Amount Dr. (₹)	Amount Cr. (₹)
	Drawings A/c Dr		5,000	
Mar, 31	Advertisement A/c Dr		4,000	
	Chanty A/c Dr		1,000	
	To Purchases A/c (Being goods withdrawn for Personal use, distributed as free samples and given as chanty)			10,000

Presentation in Final Accounts :-

Trading Account

Dr.	(For the year encoding)	Cr
Particular	₹	Particular ₹
To Purchases xx		
Less : (i) Goods withdrawn for personal use (5,000)		
(ii) Goods distributed as free samples (4,000)		
(iii) Goods given as capital (1,000)	xx	

Profit & Loss Account (for the year ending)			
Dr	Particulars	₹	Cr
	To Charity	1000	
	To Advertisement	4000	

Balance Sheet (As at)			
Dr	Liabilities	₹	Cr
	Capital	XX	
	Less Drawings (5,000)	XX	
	Assets		

Q.2. What is compound entry? Give an example.

Ans. Sometimes, two or more transactions relating to one particular account take place on the same date. In such cases, instead of passing separate entries for all such transactions, only one en-

try is passed. Such a Journal entry is termed as 'Compound Journal Entry'. For example on 31st March, 2018 ₹ 5,000 are paid for salaries ₹ 3,000 for stationery and ₹ 2,000 for rent, the entry will be :

Journal

Date	Particulars	L F	Amount	
			Debit	Credit
2018 March 31	Salary A/c Dr. Stationery A/c Dr. Rent A/c Dr. To Cash A/c (Being various expenses paid)		₹ 5,000 3,000 2,000	₹ 10,000

Q.3. Stock on the date of fire Rs 3,20,000; Stock saved Rs 44,800 ; Stock salvaged Rs 41,600 and stock insured for Rs 2,40,000. Ascertain the amount of claim.

Ans. Statement showing amount of claim

Stock on the date of fire		3,20,000
Less :	1) Stock Saved	44,800
	2) Stock salvaged	41,600
		86,400
Stock burnt by fire (Loss of stock by fire)		2,33,600

Application of Average clause :

$$\text{Amount of claim} = \text{Loss of stock} \times \frac{\text{Insured Amount}}{\text{Insurable Amount}}$$

$$= 2,33,600 \times \frac{2,40,000}{3,20,000} = \text{Rs. } 1,75,200$$

Q.4. How will you deal with the following items in final accounts

(a) Sending goods on sale or return basis.

(b) Depreciation on assets.

Ans. (a) Sending Goods on Sale or Return Basis :

If the goods are sent to the customer on approval basis and the approval of goods from the customer has not been received till

the end of the accounting period then it is not treated as sales. If these goods are wrongly entered as sales in the books of accounts then this sales entry is cancelled as follows :

- (i) Stock on Approval a/c Dr. (at cost price)
To Trading a/c
(Stock on approval recorded.)
(ii) Sales a/c Dr. (Amount of Sales)
To Debtors a/c

(Goods sent on approval wrongly entered as sales, now rectified.)

Presentation in Final Accounts :

As a result of the above entry, the amount of sales will get reduced in the trading account. On the other side this amount will be deducted from the debtors on the assets side of the balance sheet.

When sales on approval basis are cancelled then such goods will be included in the closing stock at cost price. Thus it should be shown by adding in the closing stock on the credit side of the trading account and it will also be shown on the assets side of the balance sheet.

Trading Account (For the year ending.....)

Dr.		Cr.	
Particulars	₹	Particulars	
		By sales	XX
		Less : sales on approval	(XX)
		With Selling Price	XX
		By closing stock	XX
		Add : stock on approval	XX
		CAT cost Price	XX

Balance sheet (As at

Liabilities	₹	Assets	₹
		Sundry Debtors	XX
		Less : Sales on Approval	(XX)
		(with selling price)	XX
		Closing stock	XX
		Add : stock on Approval	XX
		(At cost Price)	XX

Ans. (b) Depreciation on Assets :

The continuous use of fixed assets in a business causes wear and tear and reduction in their value. This is known as 'Depreciation'. Generally, the calculation of depreciation is made on the balance of fixed asset account or on the historical cost at a fixed per cent rate.

The value of depreciation is a loss like other trading losses, hence the depreciation account is debited and fixed asset account is credited with the amount of depreciation. The effect of this adjustment reduces the book value of the fixed asset.

Example : A trader purchased a machine for ₹ 1,00,000 on 1st April, 2018. At the end of the year it has been decided to depreciate the Machine @ 5% per annum. For this the following entry is passed:

Journal

Date	Particulars	LoF	Amount Dr. (₹)	Amount Cr. (₹)
Mar. 2018 31	Depreciation a/c To Machinery a/c (Depreciation on Machinery written off.)		5,000	5,000

Presentation in Final Accounts : Depreciation is a loss. Hence, the balance of depreciation account is shown on the debit side of the profit and loss account like other losses accounts. The amount of depreciation is deducted from the value of the asset concerned on the asset side of the balance sheet.

Profit & Loss Account (for the year ending 31st March, 2018)

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Depreciation on Machinery	5,000		

Balance Sheet as on 31st March, 2018

Liabilities	₹	Assets	₹
		Machinery	1,00,000
		Less : Depreciation	5,000
			95,000

Q.5. The following is the Trial Balance of Gaurav as at 31st March, 2015 :

Particulars	Debit ₹	Credit ₹
Gaurav's Capital a/c		86,690
Stock on 1st April, 2014	46,800	
Sales	8,600	3,89,600
Returns Inwards		
Purchases	3,21,700	5,800
Returns Outwards	18,600	
Freight and Carriage	5,700	
Rent and Taxes	9,300	
Salaries and Wages	24,000	
Sundry Debtors		14,800
Sundry Creditors		20,000
Bank Loan @ 6% p.a.	900	
Bank Interest	14,600	
Printing and Advertising		250
Miscellaneous Income	8,000	
Cash at Bank		4,190
Discount earned		
Furniture and Fittings	5,000	
Discount Allowed	1,800	
General Expenses	11,450	
Insurance	1,300	
Postage and Telegrams	2,330	
Cash in hand	380	
Travelling Expenses	870	
Drawings	40,000	
Total	5,21,330	5,21,330

- The following adjustments should be made :
- Included amongst the debtors is ₹ 3,000 due from Krishna and included among the creditors ₹ 1,000 due to him.
 - Provision for bad and doubtful debts be created at 5% and Reserve for Discount @ 2% on sundry debtors.
 - Depreciation on Furniture and Fittings @ 10% shall be written off.
 - Personal purchases amounting to ₹ 600 has been included in the purchases book.
 - Interest on bank loan shall be provided for the whole year.
 - A quarter of the amount of printing and advertising is to be carried forward to the next year.
 - Closing Stock ₹ 78,600.
 - Omitted to be recorded invoices of ₹ 400.

Prepare Trading and Profit & Loss Account and Balance Sheet.

Ans. Trading and Profit & Loss Account of Gaurav for the year ended 31st March, 2015

Particulars	Amount ₹	Particulars	Amount ₹
To Opening Stock	46,800	By Sales	3,89,600
To Purchases	3,21,700	Less: Returns	8,600
Add: Omitted invoices	400	By Closing Stock	78,600
	3,22,100		
Less: Returns	5,800		
	3,16,300		
Less: Drawings	600		
To Freight & Carriage	18,600		
To Gross Profit c/d	78,500		
	4,59,600		4,59,600
To Rent and Taxes	5,700	By Gross Profit b/d	78,500
To Salaries and Wages	9,300	By Miscellaneous Income	250
To Bank interest	900	By Discount	4,190
Add: Outstanding Interest	300		
To Printing and Advertisement	14,600		
Less: Prepaid	3,650		
To Discount allowed	1,800		
To General expenses	11,450		
To Insurance	1,300		
To Postage and Telegrams	2,330		
To Travelling expenses	870		
To Provision for bad debts	1,150		
To Reserve for discount on debtors	437		
To Depreciation on furniture	500		
To Net Profit (Transferred to Capital a/c)	35,953		
	82,940		82,940

Balance Sheet of Gaurav
(As at 31st March, 2015)

Q.6. Enter the following transactions in Two-column Cash Book of Shri Hari Prakash and post them into ledger:

- 2015
 April, 1 Cash in hand ₹ 5,000.
 April, 4 Paid to Radha Prakash ₹ 800 and he allowed discount ₹ 50.
 April, 8 Purchased goods ₹ 3,600.
 April, 12 Received cash ₹ 1,960 from Atul and him discount ₹ 40.
 April, 15 Sold goods to Ram for cash ₹ 1,600.
 April, 17 Rs. 800 had to be paid to Sohan but his account was settled by paying ₹ 760.
 April, 20 Mohan's account had a debit balance of ₹ 1,200. He paid ₹ 1,100 and got ₹ 100 as discount.
 April, 22 Sold goods ₹ 600.
 April, 27 Sold goods to Megha for cash ₹ 1,800.
 April, 30 Paid for salaries ₹ 1,000.
 April, 30 Paid for rent ₹ 480.

Ans. Books of Hari Prakash

Two-Column Cash Book

Date	Particulars (Receipts)	V. No.	L. F.	Discount	Cash	Date	Particulars (Payments)	V. No.	L. F.	Discount	Cash
2015	To Balance b/d			₹	₹	2015	By Radha Prakash			₹	₹
Apr 1	To Anil			40	5000	Apr 4	By Purchases A/c			50	800
Apr 12	To Sales A/c				1960	Apr 8	By Sohan			40	760
Apr 15	To Mohan			100	1600	Apr 17	By Salaries A/c				1000
Apr 20	To Sales A/c				1100	Apr 30	By Rent A/c				480
Apr 22	To Sales A/c				600	Apr 30	By Balance c/d				5420
Apr 27	To Sales A/c				1800					90	12000
				140	12060						
May 1	To Balance b/d				5420						

Ledger of Hari Prakash Anil's Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
			₹	2015			₹
				Apr. 12	By Cash A/c		1,960
				Apr. 12	By Discount allowed A/c		40

Sales Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
			₹	2015			₹
				Apr. 15	By Cash A/c		1600
				Apr. 22	By Cash A/c		600
				Apr. 27	By Cash A/c		1800

Business Accounting

Mohan's Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
			₹	2015			₹
				Apr. 20	By Cash A/c		1,100
				Apr. 20	By Discount Allowed A/c		100

Radha Prakash							
Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2015			₹				₹
Apr. 4	To Cash A/c		800				
Apr. 4	Ro Discount Received		50				

Purchases Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2015			₹				₹
Apr. 8	To Cash A/c		3,600				

Sohan							
Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2015			₹				₹
Apr. 17	To Cash A/c		760				
Apr. 17	To Discount Received A/c		40				

Salaries Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2015			₹				₹
Apr. 30	To Cash A/c		1,000				

Rent Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2015			₹				₹
Apr. 30	To Cash A/c		480				

Liabilities		Amount	Assets		Amount
Capital	₹	86,690	Furniture & Fittings	₹	5,000
Add : Net Profit	₹	35,953	Less : Depreciation	₹	500
		1,22,643	Current Assets		4,500
Less : Drawings :			Sundry Debtors		23,000
Cash	40,000		Less Reserve for Bad debts		1,150
Goods	600	40,600	Bank Loan		21,850
		82,043	Less : Reserve for discount		437
Bank Loan (Current Liabilities)		20,000	Sundry Creditors (See Note 2)		14,200
Outstanding Interest on Bank Loan		300	Cash in Band		380
			Cash at Bank		8,000
					1,16,543
		1,16,543			

Notes :

1. Sundry Debtors 24,000
 Less : Due to Krishna 1,000
 23,000
 Provision for bad and doubtful debts @ 5% on ₹ 23,000 = ₹ 1,150
 Reserve for Discount on debtors @ 2% on ₹ 21,850 (i.e. 23,000 - 1,150) = ₹ 437
2. Sundry Creditors 14,800
 Less : Set off 1,000

Add : Purchase invoice omitted 400
 13,800
 14,200

Q.7. Prepare a Trial Balance from the following Balances extracted from the books of Raju Brothers on 31st March, 2015 :

	₹
1. Capital a/c	80,000
2. Sales a/c	1,22,260
3. Purchases a/c	82,260
4. Drawings a/c	19,200
5. Machinery a/c	40,000
6. Building a/c	80,000
7. Due from customers	50,400
8. Discount Received	6,360
9. Purchases Return	932
10. Cartage	1,752
11. Salaries and Wages	5,340
12. Insurance and Tax	1,680
13. Rent from Tenants	7,200
14. Interest on Loan given	2,800
15. Dock charges	1,340
16. Motor Expenses	3,160
17. Cash in Hand	3,280
18. Creditors	12,900
19. Loan from Thakur	8,800
20. Commission Received	11,980

- | | |
|-----------------------------------|--------|
| 21. Bills Received | 5,020 |
| 22. Opening Stock | 14,400 |
| 23. Fixtures & Fittings | 18,000 |
| 24. Travelling Expenses | 2,200 |
| 25. Bank Balance as per Pass Book | 40,000 |
| 26. Bank Balance as per Cash Book | 32,000 |
| 27. Royalty Received | 2,000 |
| 28. Professional Fees | 4,000 |

Ans. Trial Balance

(As at 31st March, 2015 of Raju Brothers)

S. No.	Name of Ledger Accounts	L.F.	Debit Balance ₹	Credit Balance ₹
1.	Capital		-	1,80,000
2.	Sales		-	1,22,260
3.	Purchases		82,260	-
4.	Drawings		19,200	-
5.	Machinery		40,000	-
6.	Building		80,000	-
7.	Due from Customers		50,400	-
8.	Discount Received		-	6,360
9.	Purchases Returns		-	932
10.	Cartage		1,752	-
11.	Salaries & Wages		5,340	-
12.	Insurance and Tax		1,680	-
13.	Rent from Tenants		-	7,200
14.	Interest on Loan given		-	2,800
15.	Dock Charges		1,340	-
16.	Motor Expenses		3,160	-
17.	Cash in Hand		3,280	-
18.	Creditors		-	12,900
19.	Loan from Thakur		-	8,800
20.	Commission Received		-	11,980
21.	Bills Receivable		5,020	-
22.	Opening Stock		14,400	-
23.	Fixtures & Fittings		18,000	-
24.	Travelling Expenses		2,200	-
25.	Bank Balance (Cash Book)		32,000	-
26.	Royalty Received		-	2,000
27.	Professional Fees		-	4,000
28.	Suspense Account		-	800
Total			3,60,032	3,60,032

Q.8. From the following trial balance of a trader, prepare Trading and Profit and Loss Account for the year ending 31st march, 2017 and a Balance Sheet as on that date.

	Dr. (₹)	Cr. (₹)
Capital	-	1,20,000
Loan-15% p.a. - Jan. 1, 2017	-	10,000
Commission	-	600
Provision for bad debts	-	1,000
Purchases & Sales	80,000	90,000
Returns	10,000	2,000
Debtors & Creditors	50,500	30,000
Drawings	5,000	-
Furniture	5,000	-
Machinery	30,000	-
Opening Stock	20,000	-
Octroi	5,000	-
Import Duty	2,000	-
Salaries & Wages	20,000	-
Bad debts	500	-
Rent, Rates & Taxes	4,000	-
Life Insurance Premium	2,000	-
Interest on Loan	200	-
Cash	19,400	-
Total	2,53,600	2,53,600

Adjustments :

1. Stock on 31st march, 2017 was ₹ 20,000.
2. Write off further bad debts ₹ 500 and make provision for bad debts at 5% and provision for discount at 2% on debtors.
3. The proprietor withdrew goods costing ₹ 600 for personal use and gave goods costing ₹ 400 in charity.
4. Create reserve for discount on creditors at 3%.
5. 60% of the work relating to commission received has been completed in this year.
6. ₹ 4,000 of salaries and wages is outstanding.

Ans.

Trading and Profit & Loss Account for the year ending 31st March, 2017

Particulars		₹	Particulars		₹
To Opening Stock		20,000	By Sales		
To Purchases	80,000		Less : Sales Returns	90,000	
Less : Purchases	2,000		By Closing Stock	10,000	80,000
	78,000		By Gross Loss c/d		20,000
Less : Drawings	600				4,000
	77,400				
Less : Charity	400	77,000			
To Octroi		5,000			
To Import duty		2,000			
		104,000			
To Gross Loss b/d		4,000	By Commission Commission	600	1,04,000
To Rent, Rates & Taxes		4,000	Less : Unearned	240	360
To Salaries & Wages	20,000		By Reserve for discount on creditors		900
Add : Outstanding Interest	4,000	24,000	By Net Loss transferred to Capital a/c		34,965
To Interest on Loan	200				
Add : Outstanding	175	375			
To Charity		400			
To Bad debts	500				
Add : Further Bad-debts	500				
	1,000				
Add : New Provision	2,500				
	3,500				
Less : Old Provision	1,000	2,500			
To Provision for discount on debtors					
$\left(\frac{2 \times 47,500}{100}\right)$		950			
		36,225			36,225

Balance Sheet as at 31st March, 2017

Liabilities		₹	Assets		₹
Creditor	30,000		Cash-in-hand		19,400
Less : Reserve for discount	900	29,100	Debtors	50,560	
Unearned Commission		240	Less : Further Bad debts	500	
Outstanding Salaries & Wages		4,000		50,000	
Loan	10,000		Less : Provision for Bad debts	2,500	
Add : Outstanding Interest	175	10,175		47,500	
Capital	1,20,000		Less : Provision for discount	950	46,500
Less : Net Loss	34,965		Stock in trade		20,000
	85,035		Machinery		5,000
Less : Drawings	7,600	77,435	Furniture		1,20,950
		1,20,950			

Working Note :

The amount of Drawings is calculated as follows :

	₹
Amount of Drawings given in the trial balance	5,000
Life Insurance Premium (treated as drawings in sole proprietorship)	2,000
Drawings of goods for personal use	600
Total Drawings	7,600

Q.9. From the following Trial Balance, prepared from the books of A on 31st December, 2016 prepare an adjusted Trial Balance for the year ending 31st December, 2016.

Particulars	₹	₹
A's Capital		11,940
A's Drawings	1,055	
Bills Receivables	950	
Plant & Machinery	2,880	
Sundry Debtors	6,200	
(Including Madan for dishonoured cheque ₹ 100)		
Wages (Manufacturing)	4,097	
Returns inward	278	
Purchases	25,659	
Rent & Taxes	562	
Stock on 1.1.16	8,968	
Salaries	1,100	
Travelling Expenses	188	
Insurance	40	
Cash	53	
Bank	1,897	
Repairs & Renewals	337	
Interest on Loan	100	
Interest & Discount	487	
Bad Debts	362	
Fixtures & Fittings	879	
	56,110	56,110

The Following adjustments are to be made :

- Stock in hand on 31.12.16 ₹ 12,896.
- Write off half of Madan's cheque.
- Create a provision of 5% on Sundry debtors.

- Manufacturing wages include ₹ 120 for installation of new machinery purchased.
- Depreciate plant & Machinery by 5% and fixtures and fittings by 10% per annum.
- Commission not earned but received amounts to ₹ 60.

Ans.

Adjusted Trial Balance (As at 31st Dec., 2016)

	Original Trial Balance		Adjustments		Adjusted Trial Balance	
	Dr. ₹	Cr. ₹	Dr. ₹	Cr. ₹	Dr. ₹	Cr. ₹
A/s Capital A/c		11,40				11,940
6% Loan A/c		2,00				2,000
Sales A/c		35,43				35,643
Commission A/c		564	60			504
Creditors A/c		5,63				5,963
Drawings A/c	1,055				1,055	
Bills Receivable A/c	950				950	
Plant & Machinery A/c	2,880		120	150	2,850	
Sundry Debtors A/c	6,200			50	6,150	
Wages A/c	4,097			120	3,977	
Returns Inwards A/c	278				278	
Purchases A/c	25,659			12,896	12,763	
Rent and Rates A/c	562				562	
Stock on Jan. 2016	8,968				8,968	
Salaries A/c	1,100				1,100	
Travelling Expenses A/c	188				188	
Insurance A/c	40				40	
Cash A/c	53				53	
Bank A/c	1,897				1,897	
Repairs & Renewals A/c	337				337	
Interest on Loan A/c	100		20		120	
Interest and Discounts A/c	487				487	
Bad Debts & Provision A/c	362		50+305		717	
Fixtures and Fittings A/c				897-90	807	
(a) Closing Stock A/c			12,896		12,896	
(b) Provision for Bad Debts A/c						305
(c) Depreciation: Plant & machinery			150		150	
Fixture & Fittings			90		90	
(d) Commission Unearned A/c				60		60
(e) Outstanding interest on Loan A/c				20		20
	56,110	56,110			56,435	56,435

Working Notes :

(1) ₹ 50 is irrecoverable out of Madan's dishonoured cheque of ₹ 100. Thus ₹ 50 is Bad-debts and ₹ 50 is Good-debts. So Provision for Bad and doubtful Debts is made on ₹ 6,100 @ 5% because provision is not made on good and bad debts. Adjustment entry for provision for Bad & Doubtful Debts is as follows :

- Bad Debts A/c Dr. 305
 To Provision for Bad & Doubtful Debts A/c 305
 (2) Adjustment entry for closing stock is as follows :
 Closing Stock A/c Dr. 12,896
 To Purchases A/c 12,896
- (3) Depreciation on Plant is calculated after adding wages paid for installation of Machinery in Plant. So Depreciation on Plant will be ₹ 150 [i.e. 5% of ₹ (2880 + 120)].
- (4) Calculation of Outstanding Interest on Loan : ₹
 Total Interest on Loan (6% of ₹ 2,000) = 120
 Less : Interest on Loan Paid = 100
 Outstanding Interest on Loan = 20

Q.10. From the following balances taken from the books of M/ S Mehta & sons on 31st March, 2016, prepare a Trial Balance :

Name of Account	₹
Cash Balance	28,800
Opening Stock	1,28,000
Purchases	5,12,000
Purchase Return	12,800
Sales	8,83,200
Sales Return	32,000
Machinery	1,53,600
Land & Buildings	3,20,000
Discount allowed	15,360
Discount Received	9,600
Debtors	1,17,760
Creditors	54,400
Bills Receivables	18,240
Bills Payables	10,560
Capital	3,84,000
Drawings	38,400
Rent	23,680
Salaries	23,040
Loan	64,000
Interest Payable on Loan	7,680

Ans. Trial Balance of M/s Mehta & Sons
 (As at 31st March, 2016)

S. No.	Name of the Ledger Accounts	L.F.	Debit Balance	Credit Balance
			₹	₹
1.	Cash A/c		28,800	-
2.	Opening Stock A/c		1,28,000	-
3.	Purchases A/c		5,12,000	-
4.	Purchases Return		-	12,800
5.	A/c		-	8,83,200
6.	Sales A/c		32,000	-
7.	Sales Return A/c		1,53,600	-
8.	Machinery A/c		3,20,000	-
9.	Land & Building		15,360	-
10.	A/c		-	9,600
11.	Discount Allowed		1,17,760	-
12.	A/c		-	54,400
13.	Discount Received		18,240	-
14.	A/c		-	10,560
15.	Debtors A/c		-	3,84,000
16.	Creditors A/c		38,400	-
17.	Bills Receivables		23,680	-
18.	A/c		23,040	-
19.	Bills payable A/c		-	64,000
20.	Capital A/c		7,680	-
	Drawings A/c		-	-
	Rent A/c		-	-
	Salaries A/c		-	-
	Loan A/c		-	-
	Interest Payable on Loan A/c		-	-
	Total		14,18,560	14,18,560

- Q.11. On 1st April, 2015 Amar Chand purchased five machines for Rs. 60,000 each. Depreciation at the rate of 10% p.a. on initial cost has been charged from P. & L. a/c and credited to Provision for Depreciation Account. On 1st April, 2016 one machine was sold for Rs. 50,000 and on 1st April, 2017 a second machine was sold for Rs. 50,000. An improved model which costs Rs. 1,00,000 was purchased on 1st October, 2016 Amar Chand closes his books on 31st March each year. You are required to show:
- (i) Machinery Account; (ii) Machinery Disposal Account;

(iii) Provision for Depreciation Account.

Provision for Depreciation Account					
Dr.			Cr.		
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2016 Mar. 31	To Balance c/d	30,000	2016 Mar. 31	By P. & L. a/c (Depreciation)	30,000
2016 April 1	To Machinery Disposal a/c (transfer)	6,000	2016 April 1	By Balance b/d	30,000
2017 Mar. 31	To Balance c/d	53,000	2017 Mar. 31	By P. & L. a/c (₹ 24,000+₹5,000)	29,000
		59,000			59,000
2017 April 1	To machinery Disposal a/c (transfer)	12,000	2017 April, 1	By Balance b/d	53,000
2018 Mar., 31	To Balance c/d	69,000	2018 Mar., 31	By P. & L. a/c (₹ 18,000+₹10,000)	28,000
		81,000	2018 April, 1	By Balance b/d	69,000

Machinery Disposal Account					
Dr.			Cr.		
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2016 April 1	To Machinery a/c	60,000	2016 April 1	By Provision for Depreciation a/c	6,000
		60,000	2016 April 1	By Bank a/c	50,000
2017 April 1	To Machinery a/c	60,000	2017 Mar.31	By P. & L. a/c	4,000
2018 Mar., 31	To P & L a/c	2,000	2017 April 1	By Provision for Depreciation a/c	12,000
		62,000	2018 April, 1	By Bank a/c	50,000
					62,000

Q.12. From the following Trial Balance of Anil Kumar, Prepare Trading and Profit & Loss account for the year ending 31st March, 2016 and Balance Sheet as on that date.

Debit Balance		(₹)
Opening Stock		31,350
Purchases		2,80,000
Sales Returns		2,000
Carriage inward		8,710
Wages		58,840
Coal, Gas & Water		42,860
Manufacturing expenses		7,840
Debtors		67,900
General Expenses		4,890
Salaries		4,300

Business Accounting

Rent, Rates & Taxes	1,910	8
Cash in Hand	70	
Cash at Bank	4,730	
Drawings	3,000	
	<u>5,15,400</u>	

Closing stock as on 31st March, 2016 ₹ 53,800

Credit Balance	₹
Sales	4,02,160
Purchase Returns	1,150
Creditors	62,000
Discount	90
Capital	<u>50,000</u>
	<u>5,15,400</u>

Trading and Profit & Loss Account
(for the year ended 31st March, 2016)

Particulars		₹	Particulars		₹
To Opening Stock		31,350	By Sales		4,02,160
To Purchases	2,80,000		Less : Sales Return	2,000	4,00,160
Less : Purchases Returns	1,150	2,78,850	By Closing Stock		53,800
To Carriage Inwards		8,710			
To Wages		58,840			
To Coal, Gas & Water		42,860			
To Manufacturing Expenses		4,840			
To Gross Profit c/d		<u>28,510</u>			
		453,960			
To General Expenses		4,890			4,53,960
To Salaries		4,300	By Gross Profit b/d		28,510
To Rent, Rates & Taxes		1,910	By Discount Received		90
To Net Profit (transferred to Capital A/c)		17,500			
		28,600			28,600

Balance Sheet
(As at 31st March, 2016)

Liabilities		₹	Assets		₹
Creditor		62,000	Cash-in-Hand		70
Capital	50,000		Cash-at-Bank		4,730
Add : Net Profit	17,500		Debtors		67,900
	67,500		Closing Stock		53,800
Less : Drawings	3,000	64,500			
		1,26,500			1,26,500

Q.13. Journalize the following transaction in the books of Ram:

2016		Rs.
Oct. 1	Commenced business with cash	20,000
Oct. 2	Paid into Bank	16,000
Oct. 3	Bought goods for cash	1,000
Oct. 4	Bought furniture for office use by cheque	6,000
Oct. 10	Withdrawn from Bank for office use	1,800
Oct. 13	Goods sold to Gopal	1,000
Oct. 15	Bought goods from Ramshankar	1,020
Oct. 18	Paid trade expenses	400

Oct. 19	Received cash from Gopal & allowed discount (₹ 20)	980
Oct. 25	Paid wages	140
Oct. 28	Paid to Ramshankar in full settlement	1,000
Oct. 30	Interest on capital charged	1,000
Oct. 30	Paid Rent	300

Journal of Ram				
Date	Particulars	L.F.	Amount Dr. (₹)	Amount Cr. (₹)
2018			20,000	
Oct. 1	Cash A/c Dr To Capital A/c (Being started business with cash.)			20,000
Oct. 2	Bank A/c Dr To Cash A/c (Being Cash deposited into the Bank.)		16,000	16,000
Oct. 3	Purchase A/c Dr To Cash A/c (Being goods Purchased for Cash.)		1,000	1,000
Oct. 4	Furniture A/c Dr To Bank A/c (Being Furniture Purchased for office use by cheque.)		6,000	6,000
Oct. 11	Cash A/c Dr To Bank A/c (Being Cash withdrawn from Bank for office use.)		1,800	1,800
Oct. 15	Goods A/c Dr To Sales A/c (Being goods sold to Gopal.)		1,000	1,000
Oct. 17	Purchase A/c Dr To Ram Shankar (Being goods Purchased from Ram Shankar.)		1,020	1,020
Oct. 18	Trade Expenses A/c Dr To Cash A/c (Being trade expenses paid off.)		400	400
Oct. 19	Cash A/c Dr Discount Allowed A/c Dr To Gopal (Being cash received from Gopal & allowed him discount of ₹ 20.)		980 20	1,000
Oct. 27	Wages A/c Dr To Cash A/c (Being Wages Paid.)		140	140
Oct. 28	Bank A/c Dr To Cash A/c To Discount Allowed A/c (Being cash paid to Bank A/c and discount received from him.)		1,020	1,000 20
Oct. 30	Interest on Capital A/c Dr To Capital A/c (Being interest provided on Capital.)		1,000	1,000
Oct. 30	Rent A/c Dr To Cash A/c (Being rent Paid.)		300	300
	Total		50,640	50,640

Q.14. How will you deal with the following items in final accounts :

- (a) **Accrued Income or Income Receivable.**
 Ans. **Accrued Income or Income Receivable** : - It is quite common that certain items of income such as interest on securities, commission, rent etc., are earned during the current year but have not been actually received by the end of the current year. Such incomes are known as 'Accrued Incomes' or 'Earned Incomes' or "Incomes Receivables"

Treatment in Final Accounts : - Such Incomes on the one hand, will be shown on the credit side of the Profit & Loss Account and on the other hand, will be shown on the Assets side on the Balance Sheet because the amount is yet to be received.

Example : -

Extracts of Trial Balance
 As at 31st March, 2018

	Dr. (₹)	Cr. (₹)
Commission Received		20,000

Adjustment : Commission earned but not received ₹ 5,000

Solution : - Adjustment Entry : -

Accrued Commission A/c Dr. 5,000

To Commission Received A/c 5,000
 (Commission receivable)

Effects on Final Accounts : -

Dr. Profit & Loss A/c (For the year ending 31st March, 2018) Cr.

Particulars	₹	Particulars	₹
		By Commission	20,000
		Add: Accrued Commission	5,000
			15,000

Balance Sheet (As at 31st at March, 2018)

Liabilities	₹	Assets	₹
		Accrued Commission	5,000

Note : - If Accrued Incomes have been mentioned inside the Trial Balance, they will be shown on the Assets side only because it means that it has already been included in the concerned account of income. Accrued Income Account is a

Representative Personal Account and always shows a Debit Balance.

(b) **Commission payable to manager on profit.**

Ans. **Commission payable to Manager on Profit:**

Sometimes the Manager is given a fixed percentage of commission on profits in addition to salary. Commission is calculated as follows :

(i) If the commission payable is based on the profit before charging such commission at a fixed percentage then the commission is calculated by the following formula :

$$\text{Commission} = \frac{\text{Rate} \times \text{Profit Before Commission}}{100}$$

(ii) If the commission is based on the profit after charging such commission at a fixed percentage, then the commission is calculated by the following formula :

$$\text{Commission} = \frac{\text{Rate}}{100 + \text{Rate}} \times \text{Profit Before Commission}$$

Example :

The profit before charging the commission in a business is ₹ 2,20,000. The manager is paid commission @ 10% on the said profit, then the commission will be :

$$= \frac{10 \times 2,20,000}{100} = ₹ 22,000$$

If the manager is paid commission @ 10% on the said profit after charging such commission then the commission will be :

$$= \left(\frac{10}{100 + 10} \times 2,20,000 \right) = ₹ 20,000$$

Entry in the Books of Accounts :

The commission is payable to the manager. For this transaction the entries will be as follows :

Journal

Business Accounting

Date	Particulars		L.F.	Amount
End of the year	Manager's Commission A/c To Outstanding Commission A/c (Manager's Commission Outstanding.)	Dr.	20,000	20,000
Closing Entry	Profit & Loss A/c To Manager's Commission A/c (Balance Transferred.)	Dr.	20,000	20,000

Presentation in Final Accounts

The commission payable to the manager is shown on the debit side of the profit and loss account before calculating the net profit and the outstanding commission account is shown on the liability side of the balance sheet.

The amount of commission of ₹ 20,000 payable to the manager as calculated in the above example will be shown as under :
Profit and Loss Account for the year ending

Dr.	Particulars	₹	Cr.	Particulars	₹
	To Manager's Commission	20,000		By Net Profit before Commission	2,20,000
	To Net Profit transferred to Capital A/c	2,00,000			
Balance Sheet as at					
Liabilities		₹	Assets		₹
	Outstanding Manager's Commission	20,000			

Q.15. From the following balances, Prepare Trading Account, Profit & Loss Account and Balance Sheet as on 31st March, 2017.

Particulars	Amount (Rs.)	
	Dr. (₹)	Cr. (₹)
Stock	8,00,000	-
Cash	1,60,000	-
Furniture	3,00,000	-
Capital	-	12,45,000
Debtors	2,40,000	-
Purchases	16,00,000	-
Sales Return	40,000	-
Commission Received	-	1,30,000
Octroi	76,000	-
Creditors	-	7,00,000
Rent	44,000	-
Discount Received	-	11,000
General Expenses	41,000	-
Wages & Salaries	17,000	-
Carriage	3,000	-
Productive Wages	20,000	-
Machinery	2,00,000	-
Bank	4,00,000	-
Salaries	1,40,000	-
Stationery	14,000	-
Drawings	80,000	-
Loss by Fire	30,000	-
Investment	3,60,000	-
Interest on Investment	-	9,000
Sales	-	24,00,000
Purchases Return	-	70,000
Total	45,65,000	45,65,000

Ans. Dr. **Trading Account for the year ending 31st March, 2017**

Particulars	₹	Particulars	₹
To Opening Stock	8,00,000	By Sales	24,00,000
To Purchases	16,00,000	Less: Sales Return	24,00,000
Less: Purchases Return	70,000	By Closing Stock	10,00,000
To Octroi	76,000		
To Carriage	3,000		
To Wages & Salaries	17,000		
To Productive Wages	20,000		
To Profit & Loss a/c (Gross Profit)	9,14,000		
	33,60,000		33,60,000

Dr. **Profit and Loss Account for the year ending 31st March, 2017**

Particulars	Rs.	Particulars	Rs.
To Rent	44,000	By Trading a/c (Gross Profit)	9,14,000
To General Expenses	41,000	By Commission	1,30,000
To Salaries	1,40,000	By Discount Received	11,000
To Stationery	14,000	By Interest on Investment	9,000
To Loss by fire	30,000		
To Capital a/c (Net Profit)	7,95,000		
	10,64,000		10,64,000

Balance Sheet as on 31st March, 2017

Liabilities	₹	Assets	₹
Creditor	7,00,000	Cash	1,60,000
Capital	12,45,000	Bank	4,00,000
Add: Net Profit	7,95,000	Debtors	2,40,000
	20,40,000	Stock	10,00,000
Less: Drawings	80,000	Investment	3,60,000
	19,60,000	Furniture	3,00,000
		Machinery	2,00,000
	26,60,000		26,60,000

Q.16. The following trial balance was extracted from the books of Raj Kumar & Sons on 31st march, 2017 :

Particulars	Dr. (₹)	Cr. (₹)
Drawings and Capital	5,000	1,00,000
Purchases and Sales	68,000	1,20,000
Debtors and Creditors	40,000	30,000
Opening Stock	30,000	-
Returns Inward	3,000	-
Bank Overdraft	-	12,000
Salaries	17,000	-
Hearing & Lighting-Office	2,000	-
Leasehold Property	80,000	-
Commission Received	-	2,000
Travelling Expenses	10,000	-
Printing & Stationery Expenses	1,000	-
Furniture	9,000	-
Provision for Doubtful debts	-	4,000
Wages & Freight	10,000	12,000
Apprentice Premium	-	-
Cash in Hand	5,000	2,80,000
Total	2,80,000	2,80,000

Prepare Trading Account and Profit & Loss Account for the year ending 31st March, 2017 and a Balance Sheet as on that date, from the above trial balance and the following adjustments :

- Closing Stock ₹ 15,000.
- ₹ 1,000 for wages is still Payable.
- 75% of work for commission received has been completed.
- Charge depreciation at 5% on leasehold property and at 10% on furniture.
- The provision for doubtful debts is to be maintained at 6% on debtors.
- A new machine was purchased for ₹ 10,000 and the payment was made by cheque, the entry for this purchase has not been made in the books.
- ₹ 2,000 for Salaries relates to next year.

Ans. Trading and Profit and Loss Account of Rajkumar & Sons
(for the year ending 31st March, 2017)

Particulars	₹	Particulars	₹
To Opening Stock	30,000	By Sales	1,20,000
To Purchases	68,000	Less : Sales Return	3,000
To Wages & Freight	10,000	By Closing Stock	15,000
Add : Outstanding	1,000		
To Gross Profit c/d	23,000		
	1,32,000		1,32,000
To Salaries	17,000	By Gross Profit b/d	23,000
Less : Prepaid	2,000	By Commission Received	2,000
To Heating & Lighting-Office	2,000	Less : Unearned Commission	500
To Travelling Expenses	10,000	By Apprentice Premium	
To Printing & Stationery	1,000	By Old Provision for	
To Depreciation :		Bad debts	4,000
On Furniture	900	Less : New Provision	2,400
On Leasehold property	4,000		
To Net Profit transferred to Capital a/c	5,200		
	38,100		38,100

Balance Sheet of Rajkumar & Sons as on 31st March, 2017

Liabilities	₹	Assets	₹
Creditor	30,000	Cash in hand	5,000
Bank Overdraft	12,000	Debtors	40,000
Add : for Machinery	10,000	Less : Provision for Bad Debts	2,400
Outstanding Wages	1,000	Stock in trade	15,000
Unearned Commission	500	Prepaid Salary	2,000
Capital	1,00,000	Machinery	10,000
Add : Net Profit	5,200	Furniture	9,000
Less : Drawings	1,05,200	Less : Depreciation	900
	5,000	Leasehold Property	80,000
	1,00,200	Less : Depreciation	4,000
	1,53,700		1,53,700

Q.17. Prepare a trial balance from the following balances extracted from the books of Ram Brothers.

	₹
Opening Stock	10,000
Purchases	2,00,000
Debtors	60,000
Cash in Hand	1,000
Cash at Bank	3,000
Creditors	50,000
Sales	2,40,000
Salaries	14,000
Rent	3,000
Wages	1,500
Insurance & Taxes	500
Buildings	40,000
Capital Account	44,000
Purchase Returns	12,000
Sales Returns	13,000

Ans. Trial Balance of Ram Brothers (As at)

S. No.	Name of the Ledger Accounts	L.F.	Debit Balance	Credit Balance
1.	Opening Stock A/C		10,000	-
2.	Purchases A/C		2,00,000	-
3.	Debtors A/C		60,000	-
4.	Cash in Hand A/C		1,000	-
5.	Cash at Bank A/C		3,000	-
6.	Creditors A/C		-	50,000
7.	Sales A/C		-	2,40,000
8.	Salaries A/C		14,000	-
9.	Rent A/C		3,000	-
10.	Wages A/C		1,500	-
11.	Insurance & Taxes A/C		500	-
12.	Buildings A/C		40,000	-
13.	Capital Account		-	44,000
14.	Purchase Returns A/C		-	12,000
15.	Sales Returns A/C		13,000	-
	Total		3,46,000	3,46,000

Q.18. Give Journal entries in the books of Ramit for the following transactions.
2017 Rs.

May 1	Goods purchased from Sumit	40,000
May 4	Goods sold to Kumbhat	20,000
May 7	Loan received from Bank	2,22,000
May 8	Rent paid to Suresh	7,500
May 10	Goods returned to Sumit	5,000
May 14	Goods returned by Kumbhat	3,000
May 17	Goods given in charity ₹ 400 and cash in charity ₹ 600	1,000
May 25	Paid to Sumit in full settlement	34,500
May 29	Received from Kumbhat in full Settlement	16,000
May 30	Paid for Stationery	5,000
May 31	Paid for Salary	15,000

Ans. Journal of Ramit

Date	Particulars	L.F.	Amount Dr. (₹)	Amount Cr. (₹)
2017	Purchases A/c Dr.		40,000	
May, 1	To Sumit (Being goods Purchased from Sumit.)			40,000
May, 4	Kumbhat Dr.		20,000	
	To Sales A/c (Being goods sold to Kumbhat.)			20,000
May, 7	Bank A/c Dr.		2,22,000	
	To Bank Loan (Being loan taken from Bank.)			2,22,000
May, 8	Rent A/c Dr.		7,500	
	To Cash A/c (Being rent Paid to Suresh.)			7,500
May, 10	Sumit A/c Dr.		5,000	
	To Purchases Return A/c (Being goods returned to Sumit.)			5,000
May, 14	Sales Return A/c Dr.		3,000	
	To Kumbhat (Being goods returned to Kumbhat.)			3,000
May, 17	Charity A/c Dr.		1,000	
	To Purchases A/c			400
	To Cash A/c			600
	(Being goods and cash given as charity.)			
May, 25	Sumit A/c Dr.		35,000	
	To Cash A/c			34,500
	To Discount Received A/c (Being Cash Paid to Sumit in full settlement and received discount of ₹ 500.)			500
May, 29	Cash A/c Dr.		16,000	
	Discount Allowed A/c Dr.		1,000	
	To Kumbhat (Being cash received from Kumbhat in full settlement and allowed him discount of ₹ 1000.)			17,000
May, 30	Stationery A/c Dr.		5,000	
	To Cash A/c (Being stationery Purchased)			5,000
May, 31	Salary A/c Dr.		15,000	
	To Cash A/c (Being salary Paid)			15,000

Q.19. A Fire broke out on 9th February 2019, in the premises of Suvidha Readymade garments business. All the stock was burnt except of ₹ 22,000. From the following figures calculate the claim amount under loss of stock policy.

Goods in the shop on 1st April, 2017	₹
Purchases during 2017-18	3,80,000
Purchases returns during 2017-18	16,60,000
Sales less returns during 2017-18	10,000
Value of goods on 31st March, 2018	20,00,000
Purchases less returns since 1st April, 2018 to the date of Fire	9,50,000
Sales less returns since 1st April, 2018 to the date of Fire	12,10,000

It was the practice in the business to value stock at cost less 5% Early in April, 2018 selling prices were raised by 10% Stock was insured for ₹ 1,80,000.

Ans.

Trading Account

(for the year ended 31st March, 2018)

Particulars	Amount	Particulars	Amount
To Opening Stock	₹ 400,000	By Sales (less return)	₹ 2,00,000
$(380000 \times \frac{100}{95})$		By Closing Stock	2,50,000
To Purchases	16,60,000	(237500 × 100 / 95)	
Less Purchase Return 10,000	16,50,000		
To Gross profit	2,00,000		
	22,50,000		22,50,000

$$\text{Rate of Gross profit} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

$$= \frac{200000}{2000000} \times 100 = 10\% \text{ on sales}$$

Therefore, cost of goods sold is ₹ 90 (i.e. 100 - 10) Profit percentage on sales during 2018-19. When 10% increase in sales price are as under :

Sales price (100+10)
= 110

Less: Cost of goods sold (on the basis of 2017-18)
= 90

Gross profit = 20

Thus, rate of gross profit during 2018-19

$= \frac{20}{110} \times 100 = 18.18\%$ or $18\frac{2}{11}$ or $\frac{2}{11}$ on sales

Memorandum Trading Account

(From 1st Apr, 2018 to 9th February, 2019)

Particulars	Amount	Particulars	Amount
	₹		₹
To Opening Stock A/c	2,50,000	By Sales (less return)	12,10,000
To Purchases (less Returns)	9,50,000	By Closing Stock	2,10,000
To Gross Profit	2,20,000	(Balance figure)	
$12,10,000 \times \frac{2}{11}$	14,20,000		14,20,000

Calculation of loss of stock:-

Stock on the date of fire	2,10,000
Less Stock salvaged	22,000
Loss of stock	1,88,000

Application of Average Clause:-

Amount of claim = Loss of stock $\times \frac{\text{Insured Amount}}{\text{Insurable Amount}}$

$$= 1,88,000 \times \frac{1,80,000}{2,10,000} = ₹ 1,61,143 \text{ (approx.)}$$

Q.20. (a) How will you deal with the following items in final account?

(i) Dividends:

Ans. A dividend is a distribution made to shareholders that is proportional to the number of shares owned. A dividend is not an expense to the paying company but rather a distribution of its retained earnings.

There are four components of the financial statements. The following table shows how dividends appear in or impact each one of these statements (if at all):

Type of Financial statements	Impact of Dividends
Balance Sheet	Will reduce the balance in the cash and retained earnings account once the dividends have been paid
Income statements	Dividends have no impact here, since they are not an expense
Statement of cash flow	Reported as a use of cash in the cash flow from financing activities section
Statement of retained earnings or statement of changes in stockholders equity	Reported as a reduction in retained earnings

Note: Proposed Dividend is shown in 'Notes to accounts' as Contingent Liabilities below the Balance Sheet.

(ii) Outstanding Expenses:

Ans. These are the expenses which have been incurred during the year but have been left unpaid on the date of preparation of the final accounts.

Treatment in final account:- Outstanding expenses on the one hand, will be added to the concerned expenses on the debit side of Trading and profit and Loss A/C and on the other hand will also be shown on the Liabilities side of the Balance Sheet.

Example: Extract of Trial Balance as at 31st March, 2019

Name of Accounts	L.F.	Dr. Balance	Cr. Balance
Salary Paid		2,00,000	

Adjustment: Salary ₹ 20,000 is outstanding.

Solution: Adjustment Entry:

2019	Salary A/C	Dr	20,000
March 31		To Outstanding Salary A/C	
	20,000		

(Being Salary due)

Effect on Final Accounts:

Profit and Loss A/C
(for the year ending 31st March, 2019)

Dr.		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹
To Salary	2,00,000		
Add Outstanding Salary	20,000		
	2,20,000		

Balance Sheet

(As at 31st March, 2019)

Liabilities	Amount ₹	Assets	Amount ₹
Outstanding Salary	20,000		

(iii) Tax Liabilities:

Ans. Taxes appear in some form in all three of the major financial statements: The Balance Sheet, the Income Statement and the Cash Flow Statement. Deferred income tax liabilities can be included in the long-term liabilities section of the Balance sheet. A deferred tax liability is a liability that is due in the future. Specifically, the company has already earned the income, but it will not pay taxes on that income until the end of the tax year. Long-term liabilities are payable in more than 12 months.

Goods and service tax are usually listed on the balance sheet as current liabilities. It is paid directly to the

government and depend on the amount of product or services sold because the tax is a percentage of total sales. GST is generally accrued on a monthly basis.

Income and Cash flow statements:-

The income statement also lists expenses related to taxes. The statement will determine pre-tax income and subtract any tax payments to determine the net income after taxes. Using this method also allows companies to estimate their income tax liabilities.

The Cash Flow Statement also includes information on tax expenses. It is listed as 'taxes payable' and includes both long-term and short-term tax liabilities. When taxes are paid during the cash flow period reflected in the statement, then this change is shown as a decrease in tax payable.

Q.21. What do you mean by 'Final Accounts'? Why are they prepared? Prepare a trading account by taking imaginary figures.

Ans. Meaning of Financial Account or Financial Statements

Financial Statements refer to such statements which report the profitability and the financial position of the business at the end of accounting period. The term financial statements includes at least two basic statements which are as under :

- Income Statement (or Trading and Profit and Loss Account) which shows results of business operations during an accounting period, and
- Statement of Financial Position (or Balance Sheet) which shows financial position of an enterprise at a specified point of time.

In the words of John N. Myer, "The financial statements provide a summary of the accounts of a business enterprise, the balance sheet reflecting the assets, liabilities and capital as on a certain date and the income statement showing the results of operations during a certain period."

These two financial statements are termed as 'Final Accounts.'

In modern times, in addition to the aforesaid two basic financial statements, two other statements namely a Statement of Retained Earnings and a Cash Flow Statement are also generally included in financial statements.

1. Need and Importance of Final Accounts

It is only through Final Accounts that a businessman comes to know whether business is progressing well or not. Final Accounts of big business houses are important for government as well as public. If a company fails, it is a national loss. Final Accounts provide information about the financial position of companies and not only the government or public but also the bankers and creditors are interested in it. It is only on the basis of these statements, that a decision to provide loans etc., to business is made.

In a nutshell, Final Accounts are the eyes of the Proprietors and Managers by which they see all the business transactions of a period in a concise form, while for the outsiders they are like the windows of the business house through which they can peep in and assess the capabilities of management.

Financial Statements are the end-product of the accounting process prepared from the Trial Balance. They are prepared to know:

- (i) The profit earned or loss incurred from the business operations during an accounting period. It is known from the Profit and Loss Account. Few enterprises also prepare Trading Account in addition to the Profit and Loss Account, and
- (ii) The assets owned and liabilities owed as on the date, i.e., financial position, by preparing the Balance Sheet.

Trading Account

Trading account is prepared for calculating the gross profit

or gross loss arising or incurred as a result of the trading activities of a business. In other words, it is prepared to show the result of buying and selling goods. If the amount of sales exceeds the amount of purchases and the expenses directly connected with such purchases, the difference is termed as gross profit. On the contrary, if the purchases and direct expenses exceed the sales, the difference is called gross loss. A Trading Account records the amount of purchase of goods and also the expenses which are incurred in bringing the commodity to a saleable state. In other words, all expenses which relate to either purchase of raw material or manufacturing of goods are recorded in the Trading Account. All such expenses are called direct expenses.

Definition - According to J.R. Batlibol "The Trading Account shows the results of buying and selling of goods. In preparing this account, the general establishment charges are ignored and only the transactions in goods are included".

Trading Account

(for the year ended 31st March, 2019)

Dr		Cr	
Particulars	₹	Particulars	₹
To Opening Stock	10,000	By Sales	2,00,000
To Purchases	50,000	Less : Sales Return	20,000
Less : Purchase Return	5,000	By closing stock	20,000
To wages	25,000		
To Direct Expenses	1,500		
To Carriage In wards	1,400		
To Gas, Fuel & Power	12,100		
To Freight and Cartage	4,500		
To Manufacturing Expenses	4,800		
To Factory Lighting	15,900		
To Factory Rent	21,200		
To Dock Charges	11,000		
To Royalty	2,000		
To Gross Profit transferred to Profit & Loss A/C	45,600		
	2,00,000		2,00,000

Q.22. Journalise the following transaction in the books of Sharma Bros.

- 2019 Jan 1 Started business with cash ₹ 3,00,000;
goods worth ₹ 80,000 and Furniture worth ₹ 80,000
Jan 2 Deposited in bank ₹ 40,000
Jan 3 Bought goods from P Bros. on credit ₹ 60,000
Jan 5 Sold goods to Goyal Bros. on credit ₹ 70,000
Jan 10 Received ₹ 4000 from travelling salesman for goods sold by him after deducting travelling exp. ₹ 200
Jan 15 Drew a cheque of ₹ 800 for Personal use
Jan 18 Paid to P Bros. by cheque at 5% discount
Jan 20 Goyal Bros. gave cheque; deposited in Bank ₹ 70,000
Jan 25 Paid salary ₹ 4000 and rent ₹ 2500 to Mohan
Jan 28 Bank intimates that cheque of Goyal Bros. has been returned unpaid
Jan 31 Depreciation charged on furniture @ 10% P.a.

Ans.

Journal of Sharma Bros.

Date	Particulars	L.F.	Amount (Dr) ₹	Amount (Cr) ₹
2019 Jan 1	Cash A/C Dr Stock A/C Dr Furniture A/C Dr To Capital A/C (Being started business with cash, goods & Furniture)		3,00,000 80,000 80,000	4,60,000
Jan 2	Bank A/C Dr To Cash A/C (Being Cash Deposited into Bank)		40,000	40,000
Jan 3	Purchase A/C Dr To P. Bros. (Being goods purchased from P. Bros. on Credit)		60,000	60,000

Jan 5	Goyal Bros. To Sales A/C Dr (Being goods sold to Goyal Bros)		70,000	
Jan 10	Cash A/C Dr Travelling Expense account A/C Dr To Sales A/C (Being received cash from travelling salesman for Goods sold by him after deducting travelling expenses)		4,000 200	70,000 4,200
Jan 15	Drawings A/C Dr To bank A/C (Being cash withdrawn from bank for personal Use)		800	800
Jan 18	P. Bros. A/C Dr To Bank A/C To Discount received A/C (Being amount paid to P. Bros. by cheque)		60,000	57,000 3,000

Jan 20	Bank A/C Dr To Goyal Bros. (Being cheque received from Goyal Bros. and deposited into the bank same days)		70,000	70,000
Jan 25	Salary A/C Dr Rent A/C Dr To Cash A/C (Being salary and rent Paid to Mohan)		4,000 2,500	6,500
Jan 28	Goyal Bros. A/C Dr To Bank A/C (Being cheque of Goyal Bros. Dishonoured)		70,000	70,000
Jan 31	Depreciation A/C Dr To Furniture A/C (Being depreciation charged on furniture)		8,000	8,000

- Q.23. X Co. Ltd. purchased a plant for ₹ 2,00,00 on 1.4.2015. It was charging depreciation at 10% p.a. according to the fixed installments method. On 1st Apr, 2018 it was decided to change the method of depreciation from Fixed installment method to Diminishing Balance method w.e.f 1-4-2018, the rate of depreciation was to be 12% p.a. You are requested to prepare the Plant Account for Four years upto the end of 31st march, 2019.

Ans.

Plant Account

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2015 Apr 1	To Bank A/C	2,00,000	2016 Mar 31	By Depreciation A/C	20,000
			Mar 31	By Balance c/d	1,80,000
		2,00,000			2,00,000
2016 Apr 1	To Balance b/d	1,80,000	2017 Mar 31	By Depreciation A/C	20,000
			Mar 31	By balance c/d	1,60,000
		1,80,000			1,80,000
2017 Apr 1	To Balance b/d	1,60,000	2018 Mar 31	By Depreciation A/C	20,000
			Mar 31	By balance c/d	1,40,000
		1,60,000			1,60,000

2018 Apr 1	To Balance b/d	1,40,000	2018 Apr 1	By Depreciation A/C (Additional Depreciation)	3,706
			2019 Mar 31	By Depreciation A/C	16,355
			Mar 31	By Balance c/d	1,19,939
		1,40,000			1,40,000

Working Note: 1. Calculation of Additional Depreciation:

Year	Fixed Installment Method		Diminishing balance method	
	Book Value	Depreciation @10% p.a	Book value	Depreciation @12% p.a.
2015-16	2,00,000	20,000	2,00,000	24,000
2016-17	1,80,000	20,000	1,76,000	21,120
2017-18	1,60,000	20,000	1,54,880	18,586
Total		60,000	Total	63,706

Additional Depreciation = 63,706 - 60,000 = ₹ 3706

2. Depreciation for the Year 2018-19 (Written Down Value method) :

W.D.V as 1-4-2018 = 1,54,880 - 18,586 = ₹ 1,36,294

Depreciation @12% on ₹ 1,36,294 = ₹ 16,355

- Q.24. Distinguish between trial Balance and Balance sheet.

Ans. Difference between Trial Balance and Balance Sheet are as follows :

Basis	Trial Balance	Balance Sheet
1. Purpose	The purpose is to establish arithmetical accuracy of the books of accounts.	The purpose is to portray financial position.
2. Necessity	Thought desirable, if may be possible to dispense with its preparation.	It is essential to prepare balance sheet to complete the accounting process.
3. Headings	The two columns are headed as debit and credit.	The two sides are headed as assets and liabilities.
4. Accounts	All accounts i.e. assets, liabilities, capital, income and expenses accounts are shown.	Only assets, liabilities and capital accounts are shown.
5. Period	A Trial balance can be prepared at any time, even monthly or whenever required.	Normally, it is prepared only at the end of the trading period.

Q.25. Differentiate between trading and profit & loss account.

Ans. Difference between Trading Account and Profit & Loss Account are as follows :-

Basis	Trading Account	Profit & Loss Account
1. Purpose	Ascertain the gross Profit earned or gross loss incurred by the business.	Ascertain the Net Profit earned or Net Loss incurred by the business.
2. Relation	Part of Profit & Loss Account.	Present main account of income statement
3. Nature of items	Presents a statement of items that are directly incidental to the main activities of the business.	Presents a statement of items that are not directly incidental to the main activities of the business.
4. Account Balance	Account balance consisting of gross profit or gross loss is transferred to Profit & Loss Account.	Account balance consisting of Net Profit or Net Loss is transferred to Capital Account.
5. Examples of items	Stock, Purchases, Sales, Purchases Return, Sales Return and Direct expenss etc.	Operating and Non-Operating expenses, Operating and Non-Operating incomes etc.

Q.26. Differentiate between Book-keeping and Accounting.

Ans. Distinction between Book keeping and Accounting are as follows :

Basis	Book-Keeping	Accounting
1. Scope	Book-Keeping includes the Process of : (i) Identification of financial transactions, (ii) Measuring the transactions in terms of money, (iii) Recording of transactions in the books of accounts, (iv) Classifying the transactions i.e. Posting them in ledger.	Accounting includes following processes in addition to what is include in book-keeping : (i) Summarising the classified transactions, i.e. preparation of financial statements. (ii) Analysis and interpretation of financial statements. (iii) Communication of financial information to various users.
2. Stage	It is a Primary stage.	It is a secondary stage. Accounting begins where book-keeping ends.
3. Objective	The main objective is to keep and maintain systematic records of financial statements.	The objective is to ascertain the profitability and financial position of the business and the communicate it to end users of accounting service. Senior Staff performs this function.
4. Performance	Junior staff performs this function.	

Q.27. How will you deal with the following items in final accounts :

(a) Trade Discount and Cash Discount

Ans. **Meaning of Trade Discount and Cash Discount :**

(1) Trade Discount: - This discount is allowed by wholesaler or manufacturer to the retailer at a fixed percentage on the listed price of goods. It is allowed when goods are purchased in bulk, i.e., large quantity. This discount is allowed both on credit as well as cash transactions since it is related to the purchases and not to the payment. No separate entry is passed for the trade discount, as it is deducted from the cash memo or invoice of the goods. For example, if a trader sells goods of the list price of ₹ 2,00,000 at 10 % trade discount for cash, the entry will be : -

Cash A/c	Dr. 1,80,000
To Sales A/c	1,80,000

If the goods sold at trade discount are returned by the customer, the amount of trade discount is again deducted from the list price of the returned goods.

(2) Cash Discount : - This discount is allowed to the customers for making prompt or early payment. In other words, cash discount is allowed only if the customer makes the payment within a fixed period. Such discount motivates the customer to make the payment at the earliest. As the discount is allowed at the time of making payment, so the entry for cash discount is recorded alongwith the entry for payment. Discount is a nominal account and as such, it is debited when it is allowed to a customer and credited when it is received.

Distinction between Trade Discount and Cash Discount

Business Accounting

Basis of Distinction	Trade Discount	Cash Discount
1. Meaning	Trade discount is allowed by wholesaler or manufacturer to the retailers at a fixed percentage on the printed price list.	Cash discount is allowed if the customer makes the payment immediately or within a fixed period.
2. When allowed	It is allowed when goods are purchased in a specified quantity.	It is allowed when payment is made on or before a specified date.
3. Object	Generally, it is allowed to the retailers to enable them to make some profit even if they sell the goods at their catalogue price.	It is allowed to encourage quick or prompt payment.
4. Recording in the books of accounts	It is not recorded separately in the books of accounts.	It is recorded separately in the books of accounts.
5. Deduction from Invoice	It is deducted from the invoice.	It is not deducted from the invoice.

Sometimes, a customer is allowed both the discounts, i.e., trade discount as well as cash discount. In such a case, first trade discount is to be deducted from the price of the goods and then, cash discount is to be calculated on the balance of the amount. For example, if a trader sells goods of the list price of ₹ 1,00,000 at 10% trade discount and 5% cash discount, the net amount will be calculated as under :

List Price	₹ 1,00,000
Less : Trade Discount @ 10% of ₹ 1,00,000	<u>10,000</u>
	90,000
Less : Cash Discount @ 5% of ₹ 90,000	<u>4,500</u>
	<u>85,500</u>

It means that ₹ 85,500 will be paid if the payment is made in cash.

Advantages of Trade Discount :

To the Retailer :

1. It reduces the cost of purchase and thus, increases the margin of profit.
2. It enables the retailer to make some profit even if he sells the goods at their catalogue price.

To the Wholesaler or Manufacturer :

1. It increases sales by encouraging the retailers to make bulk purchases by offering higher rate of discount for orders of large quantities.
2. A change in the rate of trade discount may prove to be an effective weapon to face competition.
3. Different prices can be charged from regular customers and occasional customers simply by altering the rate of trade discount.

4. Change in rate of trade discount is an easy method to make changes in prices without reprinting of catalogues.

Advantages of Cash Discount :

To the Seller :

1. Seller receives the amount within a stipulated time because cash discount is allowed only if the customer makes the payment within the specified period.
2. Cash received in time improves the cash inflow of the business and the cash may be put to better use.
3. The possibility of bad debts is minimised.
4. Prompt payment reduces the clerical work of maintaining of debtors accounts and of sending frequent reminders to debtors

To the Buyer :

1. The earlier the buyer pays the higher he earns in cash discount.
2. A buyer who earns higher cash discount can sell the goods to his customers at lower rates
3. Early payment enhances the reputation or goodwill of the buyer.

(b) Provision for bad and doubtful debts.

Ans. Meaning of provision for Bad and Doubtful Debts :

When it is feared that some of the amount due from customers will not be collected it is prudent to recognise the expected loss by reducing the current year's profit and placing the amount to the credit of a special account called "Provision for Bad & Doubtful Debts Account".

Reason for Creating Provision for Bad and Doubtful Debts : Provision for bad and doubtful debts creating according to

convention of conservatism or prudence. The convention requires that provisions for expected losses should be made while expected profits and gains should not be accounted. A firm, therefore, makes provision at the end of the accounting year for bad-debts that may occur in the next year. This is for the reason that a part of debts may become irrecoverable from debtors in the next year, i.e. they become doubtful of recovery. It is proper to provide for such possible bad debts every year.

Recording of Transaction Relating to Provision for Bad and Doubtful Debts :

Transactions in a business may be on cash or credit basis. If transactions are in cash then the businessman has not to face the problem of recovery from debtors. But when the transactions are on credit basis then the debtors may be classified into the following three categories on the basis of the nature of the book-debts :

1. Good debts
2. Bad debts
3. Doubtful debts.

(i) Good Debts : Good debtors are those, who pay to the trader quickly in the stipulated time. These debts are expected to realise in full. Therefore, no provision in respect of possible defaults is necessary for such type of debtors.

(ii) Bad Debts : This class consists of such debtors who fail to pay their dues due to poor financial condition or insolvency or death or any other reason.

When a debt becomes bad, it is a loss to the business, hence 'Bad debts Account' is debited and the personal account of the debtor concerned is credited. While making final accounts the balance of bad debts account in the trial balance is transferred to the debit side of the profit and loss account because it is a nominal account.

If bad debts are not included in the trial balance but are given in the form of adjustment then the adjustment entry is passed as follows :

Bad debts a/c Dr.

To Debtors a/c

(Bad debts written off.)

(iii) Doubtful Debts : These are the debtors from whom the recovery of due amount is doubtful. The dues may be recovered or may not be recovered. These debtors fall in the category of doubtful debts.

The doubtful debts are not the real losses on the day of the final accounts but are expected losses. Therefore, provision has to be made in the profit and loss account for such type of doubtful debts. This amount is estimated on the basis of past years' experience. Alternatively provision is made for doubtful debts at a fixed rate on debtors at the end of every year. It is

shown on the debit side of the profit and loss account like other losses and deducted from the amount of book debts on the asset side of the balance sheet.

2. Accounting for Provision for Bad and Doubtful Debts

: A provision is made for Bad and Doubtful Debts for which entry is passed as follows :

Profit & Loss a/c Dr.

 To Provision for Bad and Doubtful Debts a/c
(Provision made for Bad and Doubtful debts.)

The balance of provision for Bad and Doubtful Debts is carried forward to the next year. If due amount is not received from debtors in the coming year and the debt becomes bad then the entries passed will be as follows :

(i) Bad debts a/c Dr.

 To Debtors a/c
(Bad debts written off.)

(ii) Provision for Bad and Doubtful Debts a/c Dr.

 To Bad debts a/c
(Balance transferred.)

It is to be noted that the balance of bad debts account is not transferred to the profit and loss account but it is transferred to the Provision for Bad and Doubtful Debts Account.

If provision for doubtful debts is made again in the coming year then profit and loss account is debited and Provision for Bad and Doubtful Debts Account is credited with the amount of the provision.

To study the provision for doubtful debts the following points are to be kept in mind :

- If the amount of the provision for bad and doubtful debts is given on credit side of the trial balance then from accounting point of view it is known as 'old provision'.
- If provision for bad and doubtful debts is made for current year then from accounting point of view it is known as 'new provision'.
- The bad debts given below the trial balance in the form of adjustment are known as 'further bad debts'.

Provision for Bad and Doubtful Debts Account

Dr.		Cr.			
Date	Particulars	₹	Date	Particulars	₹
	To Bad debts A/c (including further bad debts)	XX		By Balance old (Opening balance)	XX
	To Profit & Loss A/c (Excess provision transferred to P&L A/c)	XX		By profit & loss A/c (Shortfall of provision charged from P&L A/c)	XX
	To Balance b/d (New provision)				
		XX			XX

Presentation in Financial Statements : Profit and Loss Account (For the year ending.....)

Particulars	₹	Particulars	₹
To Bad debts A/c	XX	If old provision is in excess	
Add : Further bad-debts	XX	By (old) provision for doubtful debts	XX
Ad : New provision	XX	Less 1. Bad Debts	(XX)
Less : Old provision	XX	2. Further bad-debts	(XX)
	XX	3. New provision	(XX)
			XX

Balance Sheet

(As at)

Liabilities	₹	Assets	₹
		Sundry debtors	XX
		Less : Further bad-debts	XX
			XX
		Less : New provision for doubtful debts	XX
			XX

(c) Accidental losses of goods.

Ans. Accidental Losses of Goods :

Sometimes in a business contingent losses occur due to fire, theft, flood and other natural calamities. This type of loss may be of goods or, assets or both. The adjustment for such losses is necessary in the books of accounts for calculating true and fair profit. Accounting treatment of such contingent losses is as follows :

(i) Goods' or Stock destroyed by fire :

Loss by Fire a/c Dr.

 To Purchases a/c

(Goods burnt by fire.)

(ii) If goods are insured and the Insurance company has accepted the full claim :

Insurance Company a/c Dr.

 To Loss by Fire a/c

(Claim admitted by insurance company in full.)

(iii) If Insurance company accepts the claim in part :

Insurance Company a/c Dr. (Amount of accepted claim)

Profit & Loss a/c Dr. (Amount borne by the firm)

To Loss by Fire a/c

(Claim partly admitted by insurance company)

(iv) When payment is received from Insurance Company

:

Bank a/c

To Insurance Company a/c

(Payment of claim received.)

Presentation in Final Accounts :

If assets or goods are destroyed due to fire and the Insurance Company does not accept any claim then the amount of loss is shown on the debit side of the profit and loss account as 'To Loss by fire'. The total amount of loss is deducted from the purchases on the debit side of the trading account. This loss is not shown in the balance sheet. If claim accepted by insurance company but amount of claim is not received upto the date of preparation of final accounts then amount of claim accepted is shown on the assets side of Balance Sheet as "Insurance Company".

Trading Account
(For the year ending

Particulars	₹	Particulars	₹
To purchases XX			
Less : Goods lost by Fire/theft/floods etc. (XX) (with cost price)	XX		

Profit and Loss Account
(For the year ending

Particulars	₹	Particulars	₹
To Loss by fire/theft/floods etc. (with amount of claim not accepted by Insurance Co. or if goods are not insured.)	XX		

Balance Sheet
(As at

Liabilities	₹.	Assets	₹
		Insurance Company (With amount of claim accepted by Insurance co. but not received.)	XX

