Accountancy

Financial Accounting

Part II

Textbook for Class XI

11112

राष्ट्रीय शैक्षिक अनुसंधान और प्रशिक्षण परिषद्
NATIONAL COUNCIL OF EDUCATIONAL RESEARCH AND TRAINING

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Textbook for Class XI

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Foreword

The National Curriculum Framework (NCF), 2005, recommends that children's life at school must be linked to their life outside the school. This principle marks a departure from the legacy of bookish learning which continues to shape our system and causes a gap between the school, home and community. The syllabi and textbooks developed on the basis of NCF signify an attempt to implement this basic idea. They also attempt to discourage rote learning and the maintenance of sharp boundaries between different subject areas. We hope these measures will take us significantly further in the direction of a child-centred system of education outlined in the *National Policy on Education 1986.*

The success of this effort depends on the steps that school principals and teachers will take to encourage children to reflect on their own learning and to pursue imaginative activities and questions. We must recognise that, given space, time and freedom, children generate new knowledge by engaging with the information passed on to them by adults. Treating the prescribed textbook as the sole basis of examination is one of the key reasons why other resources and sites of learning are ignored. Inculcating creativity and initiative is possible if we perceive and treat children as participants in learning, not as receivers of a fixed body of knowledge.

These aims imply considerable change in school routines and mode of functioning. Flexibility in the daily time-table is as necessary as rigour in implementing the annual calendar so that the required number of teaching days are actually devoted to teaching. The methods used for teaching and evaluation will also determine how effective this textbook proves for making children's life at school a happy experience, rather than a source of stress or boredom. Syllabus designers have tried to address the problem of curricular burden by restructuring and reorienting knowledge at different stages with greater consideration for child psychology and the time available for teaching. The textbook attempts to enhance this endeavour by giving higher priority and space to opportunities for contemplation and wondering, discussion in small groups, and activities requiring hands-on experience.

The National Council of Educational Research and Training (NCERT) appreciates the hard work done by the textbook development committee responsible for this book. We wish to thank the Chairperson of the advisory group in Social Sciences Professor Hari Vasudevan and the Chief Advisor for this book, Professor R.K. Grover, (Retd.) Director, School of Management Studies (IGNOU), New Delhi for guiding the work of this committee. Several teachers contributed to the development of this textbook; we are grateful to their principals for making this possible. We are indebted to the institutions and organisations which have generously permitted us to draw upon their resources, material and personnel. We are especially grateful to the members of the National Monitoring Committee, appointed by the Department of Secondary and Higher Education, Ministry of Human Resource Development under the Chairpersonship of Professor Mrinal Miri and Professor G.P. Deshpande, for their valuable time and contribution. As an organisation committed to the systemic reform and continuous improvement in the quality of its products, NCERT welcomes comments and suggestions which will enable us to undertake further revision and refinement.

Director
National Council of Educational
Research and Training

New Delhi
20 December 2005

Rationalisation of Content in the Textbooks

In view of the COVID-19 pandemic, it is imperative to reduce content load on students. The National Education Policy 2020, also emphasises reducing the content load and providing opportunities for experiential learning with creative mindset. In this background, the NCERT has undertaken the exercise to rationalise the textbooks across all classes. Learning Outcomes already developed by the NCERT across classes have been taken into consideration in this exercise.

Contents of the textbooks have been rationalised in view of the following:

- Overlapping with similar content included in other subject areas in the same class
- Similar content included in the lower or higher class in the same subject
- Difficulty level
- Content, which is easily accessible to students without much interventions from teachers and can be learned by children through self-learning or peer-learning
- Content, which is irrelevant in the present context

This present edition, is a reformatted version after carrying out the changes given above.

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The Council acknowledges the contribustion of Anil Deswal, *Post Graduate Teacher* of Commerce at Rajkiya Pratibha Vikas Vidyalaya, Rohini, New Delhi for the review and updation of this textbook. The efforts of DESS, Administration is acknowleged for the preparation of manuscript, and Publication Division of NCERT is acknowledged for printing this textbook.

Contents of Accountancy – Financial Accounting Part I

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THE CONSTITUTION OF INDIA

PREAMBLE

WE, THE PEOPLE OF INDIA, having solemnly resolved to constitute India into a [1]**[SOVEREIGN SOCIALIST SECULAR DEMOCRATIC REPUBLIC]** and to secure to all its citizens :

JUSTICE, social, economic and political;

LIBERTY of thought, expression, belief, faith and worship;

EQUALITY of status and of opportunity and to promote among them all;

FRATERNITY assuring the dignity of the individual and the [2][unity and integrity of the Nation];

IN OUR CONSTITUENT ASSEMBLY this twenty-sixth day of November, 1949 do **HEREBY ADOPT, ENACT AND GIVE TO OURSELVES THIS CONSTITUTION.**

1. Subs. by the Constitution (Forty-second Amendment) Act, 1976, Sec.2, for "Sovereign Democratic Republic" (w.e.f. 3.1.1977)
2. Subs. by the Constitution (Forty-second Amendment) Act, 1976, Sec.2, for "Unity of the Nation" (w.e.f. 3.1.1977)

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Financial Statements - I

8

Learning Objectives

After studying this chapter, you will be able to :

- *state the nature of the financial statements;*
- *identify the various stakeholders and their information requirements;*
- *distinguish between the capital and revenue expenditure and receipts;*
- *explain the concept of trading and profit and loss account and its preparation;*
- *State the nature of gross profit, net profit and operating profit;*
- *describe the concept of balance sheet and its preparation;*
- *explain grouping and marshalling of assets and liabilities;*
- *prepare profit and loss account and balance sheet of a sole proprietory firm; and*
- *make an opening entry.*

You have learnt that financial accounting is a well-defined sequential activity which begins with Journal (Journalising), Ledger (Posting), and preparation of Trial Balance (Balancing and Summarisation at the first stage). In the present chapter, we will take up the next step, namely, preparation of financial statements, and discuss the types of information requirements of various stakeholders, the distinction between capital and revenue items and its importance and the nature of financial statements and the preparation thereof.

8.1 Stakeholders and their Information Requirements

Recall from chapter I (Financial Accounting Part I) that the objective of business is to communicate the meaningful information to various stakeholders in the business so that they can make informed decisions. A stakeholder is any person associated with the business. The stakes of various stakeholders can be monetary or non-monetary. The stakes can be active or passive; or can be direct or indirect. The owner and persons advancing loan to the business would have monetary stake. The government, consumer or a researcher will have non-monetary stake in the business. The stakeholders are also called users who are normally classified as *internal* and *external* depending upon whether they are inside the business or outside the business. All users have different objectives for joining business and consequently different types of information requirements from it. In nutshell, the various users have diverse financial information requirements from the business.

For example we have classified the following into the category of internal and external users specifying their objectives and consequent information requirements.

Name	*Internal/ External users*	*Objective for participating in business*	*Accounting Information requirements*
Current owners	Internal	To make investment in the business and wealth grow.	Likes to know extent of profit in the last accounting period, current position of the assets/liabilities of the business.
Manager	Internal	For a career. They essentially act as the agent of owners (their employers).	Accounting information in the form of financial statements is like their report card and they are interested in information about both profits and financial position.
Government	External	Its role is regulatory and tries to lay down the rules in the best public interest.	Its concerns are that the rights of all stakeholders are protected. Since the government levies taxes on the business, they are interested in information about profitability in particular besides lot of other information.
Prospective owner	External	He is expecting to make investments in the business with a view to make his investment and wealth grow.	He is interested in information about past profits and financial position as indicative of likely future performance.
Bank	External	Bank is interested in safety of the principal as well as the periodic return (interest).	Bank is interested in adequacy of profits only as an assurance of the return of principal and interest back in time. Bank is equally concerned about the form in which the assets are held by the business. When more assets are held in cash or near cash form, the aspect is knnown as liquidity.

Fig. 8.1 : *Analysis of various users of accounting information*

Box 1

Accounting Process (up to Trial balance) :

1. Identify the transactions, which that are recorded.
2. Record transactions in journal. Only those transactions are recorded which are measured in money terms. The system followed for recording is called double entry system whereby two aspects (debit and credit) of every transaction are recorded. Repeated transactions of same nature are recorded in subsidiary books, also called special journals. Instead of recording all transactions in journal, they are recorded in subsidiary books and the journal proper. For example, the business would record all credit sales in sales book and all credit purchases in purchases book. The other examples of subsidiary books are return inwards book, return outwards book. An other important special book is cash book, in which all cash and bank transactions are recorded. The entries, which are not recorded in any of these books, are recorded in a residual journal called *journal proper*.
3. The entries appearing in the above books are posted in the respective accounts in the ledger.
4. The accounts are balanced and listed in a statement called *trial balance*. If the total amounts of debit and credit balances agree, accounts are taken as free from arithmetical errors.
5. The trial balance forms the basis for making the financial statements, i.e. trading and profit and loss account and balance sheet.

8.2 Distinction between Capital and Revenue

A very important distinction in accounting is between capital and revenue items. The distinction has important implications for making of the trading and profit and loss account and balance sheet. The revenue items form part of the trading and profit and loss account, the capital items help in the preparation of a balance sheet.

8.2.1 Expenditure

Whenever payment and/or incurrence of an outlay are made for a purpose other than the settlement of an existing liability, it is called expenditure. The expenditures are incurred with a viewpoint they would give benefits to the business. The benefit of an expenditure may extend up to one accounting year or more than one year. If the benefit of expenditure extends up to one accounting period, it is termed as *revenue expenditure*. Normally, they are incurred for the day-to-day conduct of the business. An example can be payment of salaries, rent, etc. The salaries paid in the current period will not benefit the business in the next accounting period, as the workers have put in their efforts in the current accounting period. They will have to be paid the salaries in the next accounting period as well if they are made to work. If the benefit of expenditure extends more than one accounting period, it is termed as *capital expenditure*. An example can be payment to acquire furniture for use in the business. Furniture acquired in the current accounting period will give benefits for many accounting periods to come. The usual examples of capital expenditure can be payment to acquire fixed assets and/or to make additions/extensions in the fixed assets.

Following points of distinction between capital expenditure and revenue expenditure are worth noting :

(a) Capital expenditure increases earning capacity of business whereas revenue expenditure is incurred to maintain the earning capacity.
(b) Capital expenditure is incurred to acquire fixed assets for operation of business whereas revenue expenditure is incurred on day-to-day conduct of business.
(c) Revenue expenditure is generally recurring expenditure and capital expenditure is non-recurring by nature.
(d) Capital expenditure benefits more than one accounting year whereas revenue expenditure normally benefits one accounting year.
(e) Capital expenditure (subject to depreciation) is recorded in balance sheet whereas revenue expenditure (subject to adjustment for outstanding and prepaid amount) is transferred to trading and profit and loss account.

Sometimes, it becomes difficult to classify the expenditure into revenue or capital category. In normal usage, the advertising expenditure is termed as revenue expenditure. The heavy expenditure incurred on advertising is likely to benefit the business firm for more than one accounting period. Such revenue expenditures, which are likely to give benefit for more than one accounting period, are termed as *deferred revenue expenditure*.

It must be understood that expenditure is a wider term and includes expenses. Expenditure is any outlay made/incurred by the business firm. The part of the expenditure, which is perceived to have been used or consumed in the current year, is termed as expense of the current year.

Revenue expenditure is treated as an expense for the current year and is shown in trading and profit and loss account. For example, salary paid by the business firm is treated as an expense of the current year. Capital expenditures are charged to income statement and are spread over to more than one accounting period. Hence, furniture of ₹ 50,000 if expected to be used for 5 years will be treated as expense @ ₹ 10,000 per year. The name given for the expense is depreciation. The treatment of deferred revenue expenditure is same as of capital expenditure. They are also written-off over their expected period of benefit.

8.2.2 Receipts

The similar treatment is given to the receipts of the business. If the receipts imply an obligation to return the money, these are capital receipts. The example can be an additional capital brought in by the owner or a loan taken from the bank. Both receipts are leading to obligations, the first to the owner (called equity) and the other to the outsiders (called liabilities). Another example on a capital receipt can be the sale of a fixed asset like old machinery or furniture. However, if a receipt does not incur an obligation to return the money or is not in the form of a sale of fixed asset, it is termed as revenue receipt. The examples of revenue receipts sales made by the firm and interest on investment received by the firm.

8.2.3 Importance of Distinction between Capital and Revenue

As stated earlier, the distinction between capital and revenue items has important implications for the preparation of trading and profit and loss account and the balance sheet as all items of revenue value are to the shown in the trading and profit and loss account and the items of capital nature in the balance sheet. If any item is wrongly classified, i.e. if any item of revenue nature is treated as capital item or vice-versa, the ascertainment of profit or loss will be incorrect. For example, the revenues earned during an accounting period are ₹ 10,00,000 and the expenses shown are ₹ 8,00,000, the profit shall work out as ₹ 2,00,000. On scrutiny of the details, you find that a revenue item of ₹ 20,000 (an expenditure on repairs of machinery) has been treated as capital expenditure (added to the cost of machinery and debited to machinery account, not to repairs account), and hence, does not form part of the expenses for the period. It means the actual expenses for the period are ₹ 8,20,000 and not ₹ 8,00,000. So, the correct profit is ₹ 1,80,000, not ₹ 2,00,000. In other words, the profit has been over stated. Similarly, if any capital expenditure is wrongly shown as revenue expenditure (for example, purchase of furniture shown as purchases), it will result in under statement of profits, and also an under statement of assets. Thus, the financial statements will not reflect the true and fair view of the affairs of the business. Hence, it is necessary to identify the correct nature of each item and treat it accordingly in the book of accounts. It is also important from taxation point of view because capital profits are taxed differently from revenue profits.

8.3 Financial Statements

It has been emphasised that various users have diverse informational requirements. Instead of generating particular information useful for specific users, the business prepares a set of financial statements, which in general satisfies the informational needs of the users.

The basic objectives of preparing financial statements are :

(a) To present a true and fair view of the financial performance of the business;

(b) To present a true and fair view of the financial position of the business; and

For this purpose, the firm usually prepares the following financial statements:

1. Trading and Profit and Loss Account
2. Balance Sheet[1]

Trading and Profit and Loss account, also known as Income statement, shows the financial performance in the form of profit earned or loss sustained by the business. Balance Sheet shows financial position in the form of assets, liabilities and capital. These are prepared on the basis of trial balance and additional information, if any.

Example 1

Observe the following trial balance of Ankit and signify correctly the various elements of accounts and you will notice that the debit balances represent either assets or expenses/ losses and the credit balance represent either equity/liabilities or revenue/gains.
[This trial balance of Ankit will be used throughout the chapter to understand the process of preparation of financial statements]

Trial Balance of Ankit as on March 31, 2017

Account Title	*L.F.*	*Debit Amount* ₹	*Credit Amount* ₹
Cash		1,000	
Capital			12,000
Bank		5,000	
Sales			1,25,000
Wages		8,000	
Creditors			15,000
Salaries		25,000	
10% Long term loan (raised on April 01, 2016)			5,000
Furniture		15,000	
Commission received			5,000
Rent of building		13,000	
Debtors		15,500	
Bad debts		4,500	
Purchases		75,000	
		1,62,000	1,62,000

[1] The balance sheet and profit and loss account are now called position statement and statement of profit and loss in the company's financial statements. Since Chapters 8 and 9 deal with the preparation of financial statements of sole proprietorship firm, the terms balance sheet and profit and loss account are retained.

Analysis of Trial Balance of Ankit as on March 31, 2017

Account Title	Elements	L.F.	Debit Amount ₹	Credit Amount ₹
Cash	Asset		1,000	
Capital	Equity			12,000
Bank	Asset		5,000	
Sales	Revenue			1,25,000
Wages	Expense		8,000	
Creditors	Liability			15,000
Salaries	Expense		25,000	
10% Long-term loan (raised on April 01, 2016)	Liability			5,000
Furniture	Asset		15,000	
Commission received	Revenue			5,000
Rent of building	Expense		13,000	
Debtors	Asset		15,500	
Bad debts	Expense		4,500	
Purchases	Expense		75,000	
			1,62,000	1,62,000

8.4 Trading and Profit and Loss Account

Trading and Profit and Loss account is prepared to determine the profit earned or loss sustained by the business enterprise during the accounting period. It is basically a summary of revenues and expenses of the business and calculates the net figure termed as profit or loss. Profit is revenue *less* expenses. If expenses are more than revenues, the figure is termed as *loss*. Trading and Profit and Loss account summarises the performance for an accounting period. It is achieved by transferring the balances of revenues and expenses to the trading and profit and loss account from the trial balance. Trading and Profit and Loss account is also an account with *Debit and Credit* sides. It can be observed that debit balances (representing expenses) and losses are transferred to the debit side of the Trading and a Profit and Loss account and credit balance (representing revenues/gains) are transfered to its credit side.

8.4.1 Relevant Items in Trading and Profit and Loss Account

The different items appearing in the trading and profit and loss account are explained hereunder:

Items on the debit side

(i) *Opening stock* : It is the stock of goods in hand at the beginning of the accounting year. This is the stock of goods which has been carried forward from the previous year and remains unchanged during the year and appears in the trial balance. In the trading account it appears on the debit side because it forms the part of cost of goods sold for the current accounting year.

(ii) *Purchases less returns* : Goods, which have been bought for resale appears as purchases on the debit side of the trading account. They include both cash as well as credit purchases. Goods which are returned to suppliers are termed as purchases return. It is shown by way of deduction from purchases and the computed amount is known as *Net purchases*.

(iii) *Wages* : Wages refer to renumeration paid to workers who are directly engaged in factory for loading, unloading and production of goods and are debited to trading account.

(iv) *Carriage inwards/Freight inwards:* These expenses are the items of transport expenses, which are incurred on bringing materials/goods purchased to the place of business. These items are paid in respect of purchases made during the year and are debited to the trading account.

(v) *Fuel/Water/Power/Gas* : These items are used in the production process and hence are part of expenses.

(vi) *Packaging material and Packing charges* : Cost of packaging material used in the product are direct expenses as it refers to small containers which form part of goods sold. However, the packing refers to the big containers that are used for transporting the goods and is regarded as an indirect expense debited to profit and loss account.

(vii) *Salaries* : These include salaries paid to the administration, godown and warehouse staff for the services rendered by them for running the business. If salaries are paid in kind by providing certain facilities (called perks) to the employees such as rent free accommodation, meals, uniform, medical facilities should also be regarded as salaries and debited to the profit and loss account.

(viii) *Rent paid* : These include office and godown rent, municipal rates and taxes, factory rent, rates and taxes. The amount of rent paid is shown on the debit side of the profit and loss account.

(ix) *Interest paid* : Interest paid on loans, bank overdraft, renewal of bills of exchange, etc. is an expense and is debited to profit and loss account.

(x) *Commission paid:* Commission paid or payable on business transactions undertaken through the agents is an item of expense and is debited to profit and loss account.

(xi) *Repairs* : Repairs and small renewals/ replacements relating to plant and machinery, furniture, fixtures, fittings, etc. for keeping them in working condition are included under this head. Such expenditure is debited to profit and loss account.

(xii) *Miscellaneous expenses* : Though expenses are classified and booked under different heads, but certain expenses being of small amount clubbed together and are called miscellaneous expenses. In normal usage these expenses are called *Sundry expenses* or *Trade expenses*.

Items on the credit side

(i) *Sales less returns* : Sales account in trial balance shows gross total sales(cash as well as credit) made during the year. It is shown on the credit side of the trading account. Goods returned by customers are called return inwards and are shown as deduction from total sales and the computed amount is known as net sales.

(ii) *Other incomes* : Besides salaries and other gains and incomes are also recorded in the profit and loss account. Examples of such incomes are rent received, dividend received, interest received, discount received, commission received, etc.

8.4.2 Closing Entries

The preparation of trading and profit and loss account requires that the balances of accounts of all concerned items are transferred to it for its compilation.

- Opening stock account, Purchases account, Wages account, Carriage inwards account and direct expenses account are closed by transferring to the debit side of the trading and profit and loss account.

This is done by recording the following entry :

Trading A/c Dr.
To Opening stock A/c
To Purchases A/c
To Wages A/c
To Carriage inwards A/c
To All other direct expenses A/c

- The purchases returns or return outwards are closed by transferring its balance to the purchases account. The following entry is recorded for this purpose :

Purchases return A/c Dr.
To Purchases A/c

- Similarly, the sales returns or returns inwards account is closed by transferring its balance to the sales account as :

  Sales A/c Dr.
  To Sales return A/c

- The sales account is closed by transferring its balance to the credit side of the trading and profit and loss account by recording the following entry:

  Sales A/c Dr.
  To Trading A/c

Items of expenses, losses, etc. are closed by recording the following entries:

Profit and Loss A/c Dr.
To Expenses (individually) A/c
To Losses (individually) A/c

Items of incomes, gains, etc. are closed by recording the following entry:

Incomes (individually) A/c Dr.
Gains (individually) A/c Dr.
To Profit and Loss A/c

The posting for closing the seven accounts of expenses and revenues as they appear in the trial balance (in our example 1) are given below:

(i) *For closing the accounts of expenses*

Trading A/c	Dr.	83,000	
To Purchases A/c			75,000
To Wages A/c			8,000
(ii) Profit and Loss A/c	Dr.	43,500	
To Salaries			25,000
To Rent of building			13,000
To Bad debts			4,500

(i) *For closing the accounts of revenues*

Sales A/c	Dr.	1,25,000	
To Trading A/c			1,25,000
(ii) Commission received A/c	Dr.	5,000	
To Profit and Loss A/c			5,000

The posting done in ledger will appear as follows :

Purchases Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount* ₹	*Date*	*Particulars*	*J.F.*	*Amount* ₹
	Balance b/d		75,000		Trading		75,000
			75,000				75,000

Wages Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
	Balance b/d		8,000		Trading		8,000
			8,000				8,000

Salaries Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
	Balance b/d		25,000		Profit and Loss		25,000
			25,000				25,000

Rent of Building Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
	Balance b/d		13,000		Profit and Loss		13,000
			13,000				13,000

Bad Debts Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
	Balance b/d		4,500		Profit and Loss		4,500
			4,500				4,500

Sales Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
	Trading		1,25,000		Balance b/d		1,25,000
			1,25,000				1,25,000

Commission Received Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
	Profit and Loss		5,000		Balance b/d		5,000
			5,000				5,000

As result of the foregoing discussion, we will now learn how the trading and profit and loss account can be prepared from the trial balance, the format of which is shown in figure 8.2. However, this list is not exhaustive. In real sense, there can be many more of other items, which we will be dealing at the later stage and there you will notice how this format undergoes a change with respect to each one of them.

Trading and Profit and Loss Account of ABC
for the year ended March 31, 2017

Dr. **Cr.**

Expenses/Losses	*Amount* ₹	*Revenues/Gains*	*Amount* ₹
Opening stock	.....	Sales	.....
Purchases	.....		
Wages	.....		
Carriage inwards/	.....		
Freight inwards/cartage			
Gross profit c/d[1]			
Gross loss b/d[2]			
	xxx		xxx
		Gross loss c/d[1]	.....
		Gross profit b/d	.....
Rent/rates and taxes	.....	Inerest received	.....
Salaries	.....		.....
Repairs and renewals	.....	Net loss[2]	
Bad debts	.....		
Net profit[2] (transferred to capital account)	.....		
	xxx		xxx

[1,2]*either of the items computed*

Fig. 8.2 : *A format trading and profit and loss account*

8.4.3 Concept of Gross Profit and Net Profit

The trading and profit and loss can be seen as combination of two accounts, viz. Trading account and Profit and Loss account. The trading account or the first part ascertains the *gross profit* and profit and loss account or the second part ascertains *net profit*.

Trading Account

The trading account ascertains the result from basic operational activities of the business. The basic operational activity involves the manufacturing, purchasing and selling of goods. It is prepared to ascertain whether the selling of goods and/or rendering of services to customers have proved profitable for the business or not. Purchases is one of the main constituents of expenses in business organisation. Besides purchases, the remaining expenses are divided into two categories, viz. *direct expenses and indirect* expenses.

Direct expenses means all expenses directly connected with the manufacture, purchase of goods and bringing them to the point of sale. Direct expenses include carriage inwards, freight inwards, wages, factory lighting, coal, water and feul, royalty on production, etc. In our example-1, besides purchases, four more items of expenses are listed. These are wages, salaries, rent of building and bad debts. Out of these items, wages is treated as *direct expense* while the other three are treated as *indirect expenses*.

Similarly, *sales* constitute the main item of revenue for the business. The excess of sales over purchases and direct expenses is called *gross profit*. If the amount of purchases including direct expenses is more than the sales revenue, the resultant figure is *gross loss*. The computation of gross profit can be shown in the form of equation as :

Gross Profit = Sales – (Purchases + Direct Expenses)

The gross profit or the gross loss is transferred to profit and loss account.

The *indirect expenses* are transferred to the debit side of the second part, viz. profit and loss account. All revenue/gains other than *sales* are transferred to the credit side of the profit and loss account. If the total of the credit side of the profit and loss account is more than the total of the debit side, the difference is the *net profit* for the period of which it is being prepared. On the other hand, if the total of the debit side is more than the total of the credit side, the difference is the *net loss* incurred by the business firm. In an equation form, it is shown as follows :

Net Profit = Gross Profit + Other Incomes – Indirect Expenses

Net profit or net loss so computed is transferred to the capital account in the balance sheet by way of the following entry :

(i) *For transfer of net profit*

Profit and Loss A/c Dr.

To Capital A/c

(ii) For transfer of net loss

Capital A/c Dr.

To Profit and Loss A/c

We are now redrafting the trading and profit and loss account to show gross profit and net profit of Ankit for the year ended March 31, 2017. The redrafted trading and profit and loss account will look like as shown is shown in figure 8.3.

Trading and Profit and Loss Account of Ankit
for the year ended March 31, 2017

Dr. **Cr.**

Expenses/Losses	*Amount* ₹	*Revenues/Gains*	*Amount* ₹
Purchases	75,000	Sales	1,25,000
Wages	8,000		
Gross profit c/d	**42,000**		
	1,25,000		1,25,000
Salaries	25,000	Gross profit b/d	**42,000**
Rent of building	13,000	Commission received	5,000
Bad debts	4,500		
Net Profit (transfered to capital account)	**4,500**		
	47,000		47,000

Fig. 8.3 : *Showing the computation of gross profit and net profit of Ankit*

Gross profit, which represents the basic operational activity of the business is computed as ₹ 42,000. The gross profit is transferred from trading account to profit and loss account. Besides gross profit, business has earned an income of ₹ 5,000 as commission received and has spent ₹ 42,500 (₹ 25,000 + ₹13,000 + ₹4,500) on expenses/losses including salaries, rent and bad debts. Therefore, the net profit is calculated as ₹ 4,500.

Illustration 1

Prepare a trading account from the following particulars for the year ended March 31, 2017:

	₹
Opening stock	37,500
Purchases	1, 05,000
Sales	2,70,000
Wages	30,000

Solution

Trading Account
for the year ended March 31, 2017

Dr. **Cr.**

Expenses/Losses	*Amount* ₹	*Revenues/Gains*	*Amount* ₹
Opening stock	37,500	Sales	2,70,000
Purchases	1,05,000		
Wages	30,000		
Gross profit	97,500		
	2,70,000		2,70,000

Illustration 2

Prepare a trading account of M/s Prime Products from the following particulars pertaining to the year 2016-17.

	₹
Opening stock	50,000
Purchases	1,10,000
Return inwards	5,000
Sales	3,00,000
Return outwards	7,000
Factory rent	30,000
Wages	40,000

Solution

Books of Prime Products
Trading Account
for the year ended March 31, 2017

Dr. **Cr.**

Expenses/Losses		*Amount* ₹	*Revenues/Gains*		*Amount* ₹
Opening stock		50,000	Sales	3,00,000	
Purchases	1,10,000		*Less* : Return inwards	(5,000)	2,95,000
Less : Return outwards	(7,000)	1,03,000			
Factory rent		30,000			
Wages		40,000			
Gross profit		72,000			
		2,95,000			2,95,000

Illustration 3.

Prepare a trading account of M/s Anjali from the following information related to March 31, 2017.

	₹
Opening stock	60,000
Purchases	3, 00,000
Sales	7, 50,000
Purchases return	18,000
Sales return	30,000
Carriage on purchases	12,000
Carriage on sales	15,000
Factory rent	18,000
Office rent	18,000
Dock and Clearing charges	48,000
Freight and Octroi	6,500
Coal, Gas and Water	10,000

Solution

Books of Anjali
Trading Account
for the year ended March 2017

Dr. **Cr.**

Expenses/Losses		*Amount* ₹	*Revenues/Gains*		*Amount* ₹
Opening stock		60,000	Sales	7,50,000	
Purchases	3,00,000		*Less* : Sales return	(30,000)	7,20,000
Less : Purchases return	(18,000)	2,82,000			
Carriage on purchases		12,000			
Factory rent		18,000			
Dock and Clearing charges		48,000			
Freight and Octroi		6,500			
Coal, Gas and Water		10,000			
Gross profit		2,83,500			
		7,20,000			7,20,000

Illustration 4

From the following information, prepare a profit and loss account for the year ending March 31, 2017.

	₹
Gross profit	60,000
Rent	5,000
Salary	15,000
Commission paid	7,000
Interest paid on loan	5,000
Advertising	4,000
Discount received	3,000
Printing and stationery	2,000
Legal charges	5,000
Bad debts	1,000
Depreciation	2,000
Interest received	4,000
Loss by fire	3,000

Profit and Loss Account
for the year ended March 31, 2017

Dr. **Cr.**

Expenses/Losses	*Amount* ₹	*Revenues/Gains*	*Amount* ₹
Rent	5,000	Gross profit	60,000
Salary	15,000	Discount received	3,000
Commission	7,000	Interest received	4,000
Interest paid on loan	5,000		
Advertising	4,000		
Printing and Stationery	2,000		
Legal charges	5,000		

Bad debts	1,000		
Depreciation	2,000		
Loss by fire	3,000		
Net profit (transferred to the capital account)	18,000		
	67,000		67,000

Test Your Understanding - I

I State True or False :

(i) Gross profit is total revenue.

(ii) In trading and profit and loss account, opening stock appears on the debit side because it forms the part of the cost of sales for the current accounting year.

(iii) Rent, rates and taxes is an example of direct expenses.

(iv) If the total of the credit side of the profit and loss account is more than the total of the debit side, the difference is the net profit.

II Match the items given under 'A' with the correct items under 'B'

A	B
(i) Closing stock is credited to	(a) Trial balance
(ii) Accuracy of book of account is tested by	(b) Trading account
(iii) On returning the goods to seller, the buyer sends	(c) Credit note
(iv) The financial position is determined by	(d) Balance sheet
(v) On receiving the returned goods from the buyer, the seller sends	(e) Debit note

8.4.4 Cost of Goods Sold and Closing Stock–Trading Account Revisited

The trading and profit and loss account prepared in figure 8.3 presents useful information as to the profitability from the basic operations of the business enterprise. It is reproduced for further perusal.

Trading Account of Ankit
for the year ended March 31, 2017

Dr. **Cr.**

Expenses/Losses	*Amount* ₹	*Revenues/Gains*	*Amount* ₹
Purchases	75,000	Sales	1,25,000
Wages	8,000		
Gross profit	42,000		
	1,25,000		1,25,000

Fig. 8.4 : *An illutrative trading account of Ankit*

If there is no opening or closing stock, the total of purchases and direct expenses is taken as *Cost of goods sold*. In our example, notice that purchases amount to ₹ 75,000 and wages amounts to ₹ 8,000. Hence, the cost of goods sold will be computed using the following formula :

Cost of Goods Sold = Purchases + Direct Expenses
= ₹75,000 + ₹ 8,000
= ₹ 83,000

As there is no unsold stock, the presumption here is that all the goods purchased have been sold. But in practice, there is some unsold goods at the end of the accounting period.

In our example, let us assume that out of the goods purchased amounting to ₹ 75,000 in the current year, Ankit is able to sell goods costing ₹ 60,000 only. In such a situation, the business will have an unsold stock of goods costing ₹ 15,000 in hand, also called closing stock. The amount of cost of goods sold will be computed as per the following equation :

Cost of Goods Sold = Purchases + Direct Expenses – Closing Stock
= ₹ 75,000 + ₹ 8,000 – ₹ 15,000

As a result, the amount of gross profit will also change with the existence of closing stock in business from ₹ 42,000 (as computed in figure 8.4) to ₹ 57,000 (refer figure 8.5).

Trading Account of Ankit
for the year ended March 31, 2017

Expenses/Losses	*Amount* ₹	*Revenues/Gains*	*Amount* ₹
Purchases	75,000	Sales	1,25,000
Wages	8,000	Closing stock	15,000
Gross profit c/d	57,000		
	1,40,000		1,40,000
Salaries	25,000	Gross profit b/d	57,000
Rent of building	13,000	Commission received	5,000
Bad debts	4,500		
Net Profit (transfered to capital account)	19,500		
	62,000		62,000

Fig. 8.5 : *The trading account of Ankit*

It may be noted that closing stock does not normally form part of trial balance, and is brought into books with the help of the following journal entry :

Closing stock A/c Dr.
To Trading A/c

This entry opens a new account of asset, i.e. closing stock ₹ 15,000 which is transferred to the balance sheet. The closing stock shall be an opening stock for the next year and shall be sold during the year. In most cases, therefore, the business shall have opening stock as well as closing stock every year, and the cost of goods sold should be worked as per the following equation:

Cost of Goods Sold = Opening Stock+Purchases Direct Expenses–Closing Stock

Look at Illustration 5 and see how it has been computed.

Illustration 5

Compute cost of goods sold for the year 2017 with the help of the following information and prepare trading account

	₹
Sales	20, 00,000
Purchases	15, 00,000
Wages	1, 00,000
Stock (Apr. 01, 2016)	3, 00,000
Stock (March 31, 2017)	4,00,000
Freight inwards	1,00,000

Solution

Computation of Cost of Goods Sold

Particulars	*Amount* ₹
Opening stock	3,00,000
Add Purchases	15,00,000
Direct expenses :	
Freight inwards	1,00,000
Wages	1,00,000
	20,00,000
Less Closing stock	(4,00,000)
Cost of goods sold	16,00,000

Trading Account
for the year ended March 31, 2017

Dr. **Cr.**

Expenses/Losses	*Amount* ₹	*Revenues/Gains*	*Amount* ₹
Opening stock	3,00,000	Sales	20,00,000
Purchases	15,00,000	Closing stock	4,00,000
Freight inwards	1,00,000		
Wages	1,00,000		
Gross profit	4,00,000		
	24,00,000		24,00,000

Illustration 6

From the following balances obtained from the few accounts of Mr. H. Balaram. Prepare the Trading and Profit and Loss Account.

	₹		₹
Stock on Apr. 01, 2016	8,000	Bad debts	1,200
Purchases for the year	22,000	Rent	1,200
Sales for the year	42,000	Discount allowed	600
Purchase expenses	2,500	Commission paid	1,100
Salaries and wages	3,500	Sales expenses	600
Advertisement	1,000	Repairs	600

Closing stock on March 31, 2017 is ₹ 4,500

Books of H. Balaram
Trading Account
for the year ended March 31, 2017

Dr. **Cr.**

Expenses/Losses	*Amount* ₹	*Revenues/Gains*	*Amount* ₹
Opening stock	8,000	Sales	42,000
Purchases	22,000	Closing stock	4,500
Purchase expenses	2,500		
Gross profit c/d	14,000		
	46,500		46,500
Salaries and Wages	3,500	Gross profit b/d	14,000
Rent	1,200		
Advertisement	1,000		
Commission	1,100		
Discount allowed	600		
Bad debts	1,200		
Sales expenses	600		
Repairs	600		
Net profit (transferred to capital account)	4,200		
	14,000		14,000

8.5 Operating Profit (EBIT)

It is the profit earned through the normal operations and activities of the business. Operating profit is the excess of operating revenue over operating expenses. While calculating operating profit, the incomes and expenses of a purely financial nature are not taken into account. Thus, operating profit is profit before interest and tax (EBIT). Similarly, abnormal items such as loss by fire, etc. are also not taken into account. It is calculated as follows:

Operating profit = Net Profit + Non Operating Expenses – Non Operating Incomes

Refer to the trial balance of Ankit in example 1 (Page no. 294), you will notice that it depicts an item relating to 10% interest on long-term loan raised on April 01, 2017. The amount of interest works out to ₹ 500 (₹ 5,000 × 10/100), which has been shown on the debit side of the trading and profit and loss account (figure 8.6).

Trading and Profit and Loss Account of Ankit
for the year ended March 31, 2017

Dr. **Cr.**

Expenses/Losses	*Amount* ₹	*Revenues/Gains*	*Amount* ₹
Purchases	75,000	Sales	1,25,000
Wages	8,000	Closing stock	15,000
Gross profit c/d	57,000		
	1,40,000		1,40,000
Salaries	25,000	Gross profit b/d	57,000
Rent of building	13,000	Commission received	5,000
Bad debts	4,500		
Interest	500		
Net Profit (transferred to capital account)	19,000		
	62,000		62,000

Fig. 8.6 : *Showing the treatment of interest on profit*

The operating profit will be :

Operating profit = Net profit + Non-operating expenses – Non-operating incomes
Operating profit = ₹ 19,000+ 500 – nil
= ₹ 19,500

Test Your Understanding - II

Choose the correct option in the following questions :

1. The financial statements consist of:
   (i) Trial balance
   (ii) Profit and loss account
   (iii) Balance sheet
   (iv) (i) & (iii)
   (v) (ii) & (iii)
2. Choose the correct chronological order of ascertainment of the following profits from the profit and loss account :
   (i) Operating Profit, Net Profit, Gross Profit
   (ii) Operating Profit, Gross Profit, Net Profit
   (iii) Gross Profit, Operating Profit, Net Profit
   (iv) Gross Profit, Net Profit, Operating Profit
3. While calculating operating profit, the following are not taken into account.
   (i) Normal transactions
   (ii) Abnormal items
   (iii) Expenses of a purely financial nature
   (iv) (ii) & (iii)
   (v) (i) & (iii)
4. Which of the following is correct :
   (i) Operating Profit = Operating profit – Non-operating expenses – Non-operating incomes
   (ii) Operating profit = Net profit + Non-operating Expenses + Non-operating incomes
   (iii) Operating profit = Net profit + Non-operating Expenses – Non-operating incomes
   (iv) Operating profit = Net profit – Non-operating Expenses + Non-operating incomes

Illustration 7

Following balance is extracted from the books of a trader ascertain gross profit, operating profit and net profit for the year ended March 31, 2017.

Particulars	*Amount* ₹
Sales	75,250
Purchases	32,250
Opening stock	7,600
Sales return	1,250
Purchases return	250
Rent	300
Stationery and printing	250
Salaries	3,000
Misc. expenses	200
Travelling expenses	500
Advertisement	1,800

Commission paid	150
Office expenses	1,600
Wages	2,600
Profit on sale of investment	500
Depreciation	800
Dividend on investment	2,500
Loss on sale of old furniture	300

Closing stock (March 31, 2017) valued at ₹ 8,000

Trading and Profit and Loss Account
for the year ended March 31, 2017

Dr. **Cr.**

Expenses/Losses		*Amount* ₹	*Revenues/Gains*		*Amount* ₹
Opening stock		7,600	Sales	75,250	
Purchases	32,250		*Less* : Sales return	(1,250)	74,000
Less: Purchases return	(250)	32,000	Closing stock		8,000
Wages		2,600			
Gross profit c/d		**39,800**			
		82,000			82,000
Rent		300	Gross profit b/d		39,800
Stationery and printing		250			
Salaries		3,000			
Misc. expenses		200			
Travelling expenses		500			
Advertisement expenses		1,800			
Commission paid		150			
Office expenses		1,600			
Depreciation		800			
Operating profit c/d		**31,200**			
		39,800			39,800
Loss on sale of old furniture		300	Operating profit b/d		**31,200**
Net Profit (transferred to capital account)		33,900	Profit on sale of investment	500	
			Dividend on investment		2,500
		34,200			34,200

8.6 Balance Sheet

The balance sheet is a statement prepared for showing the financial position of the business summarising its assets and liabilities at a given date. The assets reflect debit balances and liabilities (including capital) reflect credit balances.

It is prepared at the end of the accounting period after the trading and profit and loss account have been prepared. It is called balance sheet because it is a statement of balances of ledger accounts that have not been transferred to trading and profit and loss account and are to be carried forward to the next year with the help of an opening entry made in the journal at the beginning of the next year.

8.6.1 Preparing Balance Sheet

All the account of assets, liabilities and capital are shown in the balance sheet. Accounts of capital and liabilities are shown on the left hand side, known as *Liabilities.* Assets and other debit balances are shown on the right hand side, known as *Assets.* There is no prescribed form of Balance sheet, for a proprietary and partnership firms. (However, *Schedule III Part I of the Companies Act 2013* prescribes the format and the order in which the assets and liabilities of a company should be shown). The horizontal format in which the balance sheet is prepared is shown in the figure 8.7.

Balance Sheet of ....as at March 31, 2017

Liabilities		*Amount* ₹	*Assets*	*Amount* ₹
Capital	.....		Furniture	.....
Add Profit	.....	.....	Cash	.....
Long-term loan		.....	Bank	.....
Short-term loan			Goodwill	.....
Sundry creditors		.....	Sundry debtors	.....
Bills payable			Land and Buildings	
Bank overdraft			Closing stock	
		xxxx		xxxx

Fig. 8.7 : *Format of a balance sheet*

Refer to our example -1 you will observe that the trial balance of Ankit depicts 14 accounts, out of which 7 accounts have been transferred to the trading and profit and loss account (refer figure 8.3). These are the accounts of revenues and expenses. The analysis of figure 8.3 shows that the business has incurred total expenses of ₹ 1,25,500 and revenues generated are ₹ 1,30,000 making a profit of ₹ 4,500. The remaining *seven items* in the trial balance reflects the capital, assets and liabilities. We are reproducing the trial balance (example -1) to show how the accounts of assets and liabilities of Ankit would be presented in the balance sheet.

Trial Balance of Ankit as on March 31, 2017

Account Title	*L.F.*	*Debit Amount* ₹	*Credit Amount* ₹
Cash		**1,000**	
Capital			**12,000**
Bank		**5,000**	
Sales			1,25,000
Wages		8,000	
Creditors			15,000
Salaries		25,000	
10% Long-term loan (raised on April 01, 2016)			**5,000**
Furniture		**15,000**	
Commission received			5,000
Rent of building		13,000	
Debtors		**15,500**	
Bad debts		4,500	
Purchases		75,000	
		1,62,000	1,62,000

Fig. 8.8 : *Showing the accounts of assets and liabilities in the trial balance of Ankit*

Balance Sheet of Ankit as at March 31, 2017

Liabilities		*Amount* ₹	*Assets*	*Amount* ₹
Capital	12,000		Furniture	15,000
Add Profit	4,500	16,500	Cash	1,000
10 % Long-term loan		5,000	Bank	5,000
Creditors		15,000	Debtors	15,500
		36,500		36,500

Fig. 8.9 : *Showing the balance sheet of Ankit*

8.6.2 Relevant Items in the Balance Sheet

Items which are generally included in a balance sheet are explained below :

(1) *Current Assets:* Current assets are those which are either in the form of cash or a can be converted into cash within a year. The examples of such assets are cash in hand/bank, bills receivable, stock of raw materials, semi-finished goods and finished goods, sundry debtors, short term investments, prepaid expenses, etc.

(2) *Current Liabilities*: Current liabilities are those liabilities which are expected to be paid within a year and which are usually to be paid out of current assets. The examples of such liabilities are bank overdraft, bills payable, sundry creditors, short-term loans, outstanding expenses, etc.

(3) *Fixed Assets:* Fixed assets are those assets, which are held on a long-term basis in the business. Such assets are not acquired for the purpose of resale, e.g. land, building, plant and machinery, furniture and fixtures, etc. Some times the term 'Fixed Block' or 'Block Capital' is also used for them.

(4) *Intangible Assets :* These are such assets which cannot be seen or touched. Goodwill, Patents, Trademarks are some of the examples of intangible assets.

(5) *Investments:* Investments represent the funds invested in government securities, shares of a company, etc. They are shown at cost price. If, on the date of preparation the balance sheet, the market price of investments is lower than the cost price, a footnote to that effect may be appended to the balance sheet.

(6) *Long-term Liabilities* : All liabilities other than the current liabilities are known as long-term liabilities. Such liabilities are usually payable after one year of the date of the balance sheet. The important items of long term liabilities are long-term loans from bank and other financial institutions.

(7) *Capital:* It is the excess of assets over liabilities due to outsiders. It represents the amount originally contributed by the proprietor/ partners as increased by profits and interest on capital and decreased by losses drawings and intrest on drawings.

(8) *Drawings* : Amount withdrawn by the proprietor is termed as drawings and has the effect of reducing the balance on his capital account. Therefore, the drawings account is closed by transferring its balance to his capital account. However it is shown by way of deduction from capital in the balance sheet.

8.6.3 Marshalling and Grouping of Assets and Liabilities

A major concern of accounting is about preparing and presenting the financial statement. The information so provided should be decision useful for the users. Therefore, it becomes necessary that the items appearing in the balance sheet should be properly *grouped* and presented in a particular order.

Marshalling of Assets and Liabilities

In a balance sheet, the assets and liabilities are arranged either in the order of *liquidity* or *permanence*. Arrangement of assets and liabilities in a particular order is known as Marshalling.

In case of *permanence*, the most permanent asset or liability is put on the top in the balance sheet and thereafter the assets are arranged in their reducing level of permanence.

In the balance sheet of Ankit you will find that furniture is the most permanent of all the assets. Out of debtors, bank and cash, debtors will take maximum time to convert back into cash. Bank is less liquid than cash. Cash is the most liquid of all the assets. Similarly, on the liabilities side, the capital, being the most important source of finance will tend to remain in the business for a longer period than the long-term loan. Creditors being a liquid liability will be discharged in the near future. The balance sheet of Ankit in the order of permanence is shown in figure 8.10(a).

Balance Sheet of Ankit as on March 31, 2017 (in order of permanence)

Liabilities		*Amount* ₹	*Assets*	*Amount* ₹
Capital	12,000		Furniture	15,000
Add Profit	4,500	16,500	Debtors	15,500
10 % Long-term loan		5,000	Bank	5,000
Creditors		15,000	Cash	1,000
		36,500		36,500

Fig. 8.10 (a) : *Items of balance sheet shown in the order of permanance*

In case of *liquidity*, the order is reversed. The information presented in this manner would enable the user to have a good idea about the life of the various accounts. The assets account of the relatively permanent nature would continue in the business for a longer time whereas the less permanent or more liquid accounts will change their forms in the near future and are likely to become cash or cash equivalent.

The balance sheet of Ankit in the order of liquidity is shown in figure 8.10(b)

Balance Sheet of Ankit as at March 31, 2017
(in order of liquidity)

Liabilities		*Amount* ₹	*Assets*	*Amount* ₹
Creditors		15,000	Cash	1,000
10 % Long-term loan		5,000	Bank	5,000
Capital	12,000		Debtors	15,500
Add Profit	4,500	16,500	Furniture	15,000
		36,500		36,500

Fig. 8.10 (b) : *Items of balance sheet shown in the order of liquidity*

Grouping of Assets and Liabilities

The items appearing in the balance sheet can also be properly grouped. The term grouping means putting together items of similar nature under a common heading. For example, the balance of accounts of cash, bank, debtors, etc. can be grouped and shown under the heading of 'current assets' and the balances of all fixed assets and long-term investment under the heading of 'non-current assets'.

Balance Sheet of Ankit as at March 31, 2017
(in order of permanence)

Liabilities		*Amount* ₹	*Assets*	*Amount* ₹
Owners Funds			*Non Current Assets*	
Capital	12,000		Furniture	15,000
Add Profit	4,500	16,500	*Current Assets*	
Non-Current Liabilities			Debtors	15,500
Long-term loan		5,000	Bank	5,000
Current Liabilities			Cash	1,000
Creditors		15,000		
		36,500		36,500

Fig. 8.10 (c): *Showing assets and liabilities arranged in logical groups*

Do it Yourself

Arrange the following items in the order of both permanence and liquidity. Also group them under logical heads :

Liabilities	*Assets*
Long-term loans	Building
Bank overdraft	Cash in hand
Bills payable	Cash at bank
Owner's equity	Bills receivable
Short-term loans	Sundry debtors
Sundry creditors	Land
	Finished goods
	Work in progress
	Raw material

Illustration 8

From the following balances prepare a trading and profit and loss account and balance sheet for the year ended March 31, 2017

Account Title	*Amount* ₹	*Account Title*	*Amount* ₹
Carriage on goods purchased	8,000	Cash in hand	2,500
		Bank overdraft	30,000
Carriage on goods sold	3,500	Motor car	60,000
Manufacturing expenses	42,000	Drawings	8,000
Advertisement	7,000	Audit fees	2,700
Excise duty	6,000	Plant	1,53,900
Factory lighting	4,400	Repairs to plant	2,200
Debtors	80,000	Stock at the end	76,000
Creditors	61,000	Purchases *less* return	1,60,000
Dock and Clearing charges	5,200	Commission on purchases	2,000
Postage and Telegram	800	Incidental trade expenses	3,200
Fire Insurance Premium	3,600	Investment	30,000
Patents	12,000	Interest on investment	4,500
Income tax	24,000	Capital	1,00,000
Office expenses	7,200	Sales *less* return	5,20,000
		Salest tax paid	12,000
		Discount allowed	2,700
		Discount on purchases	3,400

Trading and Profit and Loss Account
for the year ended March 31, 2017

Dr. **Cr.**

Expenses/Losses	*Amount* ₹	*Revenues/Gains*	*Amount* ₹
Purchases *less* return	1,60,000	Sales *less* return	5,20,000
Commission on purchases	2,000		
Carriage on goods purchasesd	8,000		
Manufacturing expenses	42,000		
Factory lighting	4,400		
Dock and Clearing charges	5,200		
Gross profit c/d	2,98,400		
	5,20,000		5,20,000
Carriage on sales	3,500	Gross profit b/d	2,98,400
Advertisement	7,000	Interest on investment	4,500
Excise duty	6,000	Discount on purchases	3,400
Postage and telegram	800		
Fire Insurance premium	3,600		
Office expenses	7,200		
Audit fees	2,700		
Repairs to plant	2,200		
Incidental trading expenses	3,200		
Sales tax paid	12,000		
Discount allowed	2,700		
Net profit (transferred to capital account)	2,55,400		
	3,06,300		3,06,300

Balance Sheet as at March 31, 2017

Liabilities		*Amount* ₹	*Assets*	*Amount* ₹
Bank overdraft		30,000	Cash in hand	2,500
Creditors		61,000	Debtors	80,000
Capital	1,00,000		Closing stock	76,000
Add Net profit	2,55,400		Investment	30,000
	3,55,400		Motor car	60,000
Less Drawings	(8,000)		Plant	1,53,900
	3,47400		Patents	12,000
Less Income tax	(24,000)	3,23,400		
		4,14,400		4,14,400

Illustration 9

From the following balances prepare trading and profit and loss account and balance sheet for the year ended March 31, 2017

Account Title	*Amount* ₹	*Account Title*	*Amount* ₹
Opening stock	15,310	Capital	2,50,000
Purchases	82,400	Drawings	48,000
Sales	256,000	Sundry debtors	57,000
Returns (Dr.)	4,000	Sundry creditors	12,000
Returns (Cr.)	2,400	Depreciation	4,200
Factory rent	18,000	Charity	500
Custom duty	11,500	Cash balance	4,460
Coal, gas & power	6,000	Bank balance	4,000
Wages and salary	36,600	Bank charges	180
Discount (Dr.)	7,500	Establishment expenses	3,600
Commission (Cr.)	1,200	Plant	42,000
Bad debts	5,850	Leasehold building	1,50,000
Bad debts recovered	2,000	Sales tax collected	2,000
Apprenticeship premium	4,800	Goodwill	20,000
Production expenses	2,600	Patents	10,000
Adminstrative expenses	5,000	Trademark	5,000
Carriage	8,700	Loan (Cr.)	25,000
		Interest on loan	3,000

The value of closing stock on March 31, 2017 was ₹ 25,400

Solution

Trading and Profit and Loss Account
for the year ended March 31, 2017

Dr. **Cr.**

Expenses/Losses		*Amount* ₹	*Revenues/Gains*		*Amount* ₹
Opening stock		15,310	Sales:	2,56,000	
Purchases:	82,400		*Less* Returns	(4,000)	2,52,000
Less Returns :	(2,400)	80,000			
Factory rent		18,000	Closing stock		25,400
Custom duty		11,500			
Coal, gas, power		6,000			
Wages and salary		36,600			
Production expenses		2,600			
Carriage		8,700			
Gross profit c/d		98,690			
		2,77,400			2,77,400

Discount (Dr.)	7,500	Gross profit b/d	98,690
Bad debts	5,850	Commission	1,200
Administrative expenses	5,000	Bad debts recovered	2,000
Depreciation	4,200	Apprenticeship premium	4,800
Charity	500		
Bank charges	180		
Establishment expenses	3,600		
Interest on loan	3,000		
Net profit (transferred to capital account)	76,860		
	1,06,690		1,06,690

Balance Sheet as at March 31, 2017

Liabilities		*Amount* ₹	*Assets*	*Amount* ₹
Sales tax collected		2,000	Cash balance	4,460
Sundry creditors		12,000	Bank balance	4,000
Loan		25,000	Sundry debtors	57,000
Capital	2,50,000		Closing stock	25,400
Add Net profit	76,860		Leasehold building	1,50,000
	3,26,860		Plant	42,000
			Patents	10,000
Less Drawings	(48,000)	2,78,860	Goodwill	5,000
			Trade mark	20,000
		3,17,860		3,17,860

8.7 Opening Entry

The balances of various accounts in balance sheet are carried forward from one accounting period to another accounting period. In fact, the balance sheet of an accounting period becomes the opening trial balance of the next accounting period. Next year an opening entry is made which opens these accounts contained in the balance sheet.

Refer the balance sheet shown in figure 8.10(c). The opening entry with regard to it will be recorded as follows :

Furniture A/c	Dr.	15,000	
Debtors A/c	Dr.	15,500	
Bank's A/c	Dr.	5,000	
Cash A/c	Dr.	1,000	
To Capital A/c			16,500
To 10 % Long-term loan A/c			5,000
To Creditors A/c			15,000

Key Terms Introduced in the Chapter

- Balance Sheet
- Bills Payable
- Capital
- Capital Receipts
- Carriage Outwards
- Closing Entries
- Current Assets
- Purchases Return
- Return Inwards
- Revenue Expenditure
- Discount Allowed
- Cash
- Factory Expenses
- Fixed Assets
- Gross Profit
- Income Tax
- Interest on Drawings
- Net Profit
- Order of Performance and Liquidity
- Revenue Receipts
- Sales
- Grouping and Marshalling
- Bank Overdraft
- Bills Receivable
- Capital Expenditure
- Carriage Inwards
- Cash at Bank
- Closing Stock
- Currents Liabilities
- Rent
- Return Outwards
- Depreciation
- Discount Received
- Trade Expenses
- Financial Statements
- Freight
- Gross Loss
- Interest on Capital
- Net Loss
- Revenue Expenditure
- Salaries
- Sales Return
- Opening Entries

Summary with Reference to Learning Objectives

1 *Meaning, usefulness and types of financial statements :* After the agreement of the trial balance, a business enterprise proceeds to prepare financial statements. Financial statements are the statements, which present periodic reports on the process of business enterprises and the results achieved during a given period.

Financial statements includs trading and profit and loss account, balance sheet and other statements and explanatory notes, which form part thereof. Information provided by financial statements is useful to management to plan and control the business operations. Financial statement are also useful to creditors, shareholders and employees of the enterprise.

2 *Meaning need and preparation of trading and profit and loss account* : The profit and loss account highlights the profit earned or loss sustained by the business entity in the course of business operation during a given period.

The need for preparing the trading and profit and loss account is to ascertain the net result of business operations during a given period. The profit and loss account shows the items of revenue expenses and losses on the debit side, while items of gain and gross profit are shown on the credit side. For the preparation of the trading and profit and loss account, closing entries are recorded to transfer balances of account of items of expenses and revenues. Net profit or net loss shown by the profit and loss account is transferred to the capital account.

3 *Meaning, characteristic, need and structure of the balance sheet* : The balance sheet is a statement of assets and liabilities of a business enterprise and shows the financial position at a given date Informations contained in a balance sheet is true only on that date. The balance sheet is a part of the final account. But it is not an account, it is only a statement. In a balance sheet the totals of assets and liabilities are always equal. It portrays the accounting equation.

A balance sheet has to be prepared to know the financial position of the business, and the nature and values of its assets and liabilities. All the accounts which have not been closed till the preparation of the profit and loss account are shown in the balance sheet. Assets and liabilities shown in the balance sheet are marshalled in order of liquidity or in order of permanence.

Questions for Practice

Short Answers

1. What are the objectives of preparing financial statements ?
2. What is the purpose of preparing trading and profit and loss account?
3. Explain the concept of cost of goods sold?
4. What is a balance sheet. What are its characteristics?
5. Distinguish between capital and revenue expenditure and state whether the following statements are items of capital or revenue expenditure :
   (a) Expenditure incurred on repairs and whitewashing at the time of purchase of an old building in order to make it usable.
   (b) Expenditure incurred to provide one more exit in a cinema hall in compliance with a government order.
   (a) Registration fees paid at the time of purchase of a building
   (b) Expenditure incurred in the maintenance of a tea garden which will produce tea after four years.
   (c) Depreciation charged on a plant.
   (d) The expenditure incurred in erecting a platform on which a machine will be fixed.
   (e) Advertising expenditure, the benefits of which will last for four years.
6. What is an operating profit?

Long Answers

1. What are financial statements? What information do they provide.
2. What are closing entries? Give four examples of closing entries.
3. Discuss the need of preparing a balance sheet.
4. What is meant by Grouping and Marshalling of assets and liabilities. Explain the ways in which a balance sheet may be marshalled.

Numerical Questions

1. From the following balances taken from the books of Simmi and Vimmi Ltd. for the year ending March 31, 2017, calculate the gross profit.

	(₹)
Closing stock	2,50,000
Net sales during the year	40,00,000
Net purchases during the year	15,00,000

Opening stock	15,00,000
Direct expenses	80,000

(*Ans.* Gross profit ₹11,70,000)

2. From the following balances extracted from the books of M/s Ahuja and Nanda. Calculate the amount of :
   (a) Cost of goods available for sale
   (b) Cost of goods sold during the year
   (c) Gross Profit

	₹
Opening stock	25,000
Credit purchases	7,50,000
Cash purchases	3,00,000
Credit sales	12,00,000
Cash sales	4,00,000
Wages	1,00,000
Salaries	1,40,000
Closing stock	30,000
Sales return	50,000
Purchases return	10,000

(*Ans.* (a) ₹ 11,65,000 ; (b) ₹11,35,000 ; (c) ₹4,15,000

3. Calculate the amount of gross profit and operating profit on the basis of the following balances extracted from the books of M/s Rajiv & Sons for the year ended March 31, 2017.

	₹
Opening stock	50,000
Net sales	11,00,000
Net purchases	6,00,000
Direct expenses	60,000
Administration expenses	45,000
Selling and distribution expenses	65,000
Loss due to fire	20,000
Closing stock	70,000

(*Ans.* Gross profit ₹4,60,000, Operating profit ₹3,50,000)

4. Operating profit earned by M/s Arora & Sachdeva in 2016-17 was ₹17,00,000. Its non-operating incomes were ₹1,50,000 and non-operating expenses were ₹3,75,000. Calculate the amount of net profit earned by the firm.
   (*Ans.* Net profit ₹14,75,000)

5. The following are the extracts from the trial balance of M/s Bhola & Sons as on March 31, 2017

Account title	*Debit* ₹	*Credit* ₹
Opening stock	2,00,000	
Purchases	8,10,000	
Sales		10,10,000
	10,10,000	10,10,000

(only relevant items)

Closing Stock as on date was valued at ₹3,00,000.

You are required to record the necessary journal entries and show how the above items will appear in the trading and profit and loss account and balance sheet of M/s Bhola & Sons.

6. Prepare trading and profit and loss account and balance sheet as on March 31, 2017 :

Account Title	*Amount* ₹	*Account Title*	*Amount* ₹
Machinery	27,000	Capital	60,000
Sundry debtors	21,600	Bills payable	2,800
Drawings	2,700	Sundry creditors	1,400
Purchases	58,500	Sales	73,500
Wages	15,000		
Sundry expenses	600		
Rent & taxes	1,350		
Carriage inwards	450		
Bank	4,500		
Openings stock	6,000		

Closing stock as on March 31, 2017 ₹22,400

[*Ans*. Gross profit ₹15,950, Net profit ₹14,000, Total balance sheet ₹75,500]

7. The following trial balance is extracted from the books of M/s Ram on March 31, 2017. You are required to prepare trading and profit and loss account and the balance sheet as on date :

Account title	*Amount* ₹	*Account title*	*Amount* ₹
Debtors	12,000	Apprenticeship premium	5,000
Purchases	50,000	Loan	10,000
Coal, gas and water	6,000	Bank overdraft	1,000
Factory wages	11,000	Sales	80,000
Salaries	9,000	Creditors	13,000
Rent	4,000	Capital	20,000
Discount	3,000		
Advertisement	500		
Drawings	1,000		
Loan	6,000		
Petty cash	500		
Sales return	1,000		
Machinery	5,000		
Land and building	10,000		
Income tax	100		
Furniture	9,900		

(*Ans*. Gross profit: ₹ 12,000, Net profit: ₹ 500, Total balance sheet: ₹ 43,400)

8. The following is the trial balance of Manju Chawla on March 31, 2017. You are required to prepare trading and profit and loss account and a balance sheet as on date :

Account title	*Debit Amount* ₹	*Credit Amount* ₹
Opening stock	10,000	
Purchases and sales	40,000	80,000
Returns	200	600
Productive wages	6,000	
Dock and Clearing charges	4,000	
Donation and charity	600	
Delivery van expenses	6,000	
Lighting	500	
Sales tax collected		1,000
Bad debts	600	
Misc. incomes		6,000
Rent from tenants		2,000
Royalty	4,000	
Capital		40,000
Drawings	2,000	
Debtors and Creditors	6,0000	7,000
Cash	3,000	
Investment	6,000	
Patents	4,000	
Land and Machinery	43,000	

Closing stock ₹ 2,000.

(*Ans.* Gross Profit: ₹ 18,400, Net profit: ₹ 18,700, Total balance sheet: ₹ 64,700)

9. The following is the trial balance of Mr. Deepak as on March 31, 2017. You are required to prepare trading account, profit and loss account and a balance sheet as on date :

Account title	*Debit Amount* ₹	*Account title*	*Credit Amount* ₹
Drawings	36,000	Capital	2,50000
Insurance	3,000	Bills payable	3,600
General expenses	29,000	Creditors	50,000
Rent and taxes	14,400	Discount recived	10,400
Lighting (factory)	2,800	Purchases return	8,000
Travelling expenses	7,400	Sales	4,40,000
Cash in hand	12,600		
Bills receivable	5,000		

Sundry debtors	1,04,000		
Furniture	16,000		
Plant and Machinery	1,80,000		
Opening stock	40,000		
Purchases	1,60,000		
Sales return	6,000		
Carriage inwards	7,200		
Carriage outwards	1,600		
Wages	84,000		
Salaries	53,000		

Closing stock ₹ 35,000.

(*Ans.* Gross profit: ₹1,83,000, Net profit : ₹ 85,000, Total balance sheet: ₹ 3,52,600)

10. Prepare trading and profit and loss account and balance sheet from the following particulars as on March 31, 2017.

Account Title	*Debit Amount* ₹	*Credit Amount* ₹
Purchases and Sales	3,52,000	5,60,000
Return inwards and Return outwards	9,600	12,000
Carriage inwards	7,000	
Carriage outwards	3,360	
Fuel and power	24,800	
Opening stock	57,600	
Bad debts	9,950	
Debtors and Creditors	1,31,200	48,000
Capital		3,48,000
Investment	32,000	
Interest on investment		3,200
Loan		16,000
Repairs	2,400	
General expenses	17,000	
Wages and salaries	28,800	
Land and buildings	2,88,000	
Cash in hand	32,000	
Miscellaneous receipts		160
Sales tax collected		8,350

Closing stock ₹ 30,000.

(*Ans.* Gross profit: ₹ 1,22,200, Net profit : ₹92,850, Total balance sheet: ₹5,13,200)

11. From the following trial balance of Mr. A. Lal, prepare trading, profit and loss account and balance sheet as on March 31, 2017.

Account Title	*Debit Amount* ₹	*Credit Amount* ₹
Stock as on April 01, 2016	16,000	
Purchases and Sales	67,600	1,12,000
Returns inwards and outwards	4,600	3,200
Carriage inwards	1,400	
General expenses	2,400	
Bad debts	600	
Discount received		1,400
Bank over draft		10,000
Interest on bank overdraft	600	
Commission received		1,800
Insurance and taxes	4,000	
Scooter expenses	200	
Salaries	8,800	
Cash in hand	4,000	
Scooter	8,000	
Furniture	5,200	
Building	65,000	
Debtors and Creditors	6,000	16,000
Capital		50,000

Closing stock ₹ 15,000.

(*Ans*. Gross profit : ₹ 40,600, Net profit: ₹ 27,200, Total balance sheet: ₹ 1,03,200)

12. Prepare trading and profit and loss account and balance sheet of M/s Royal Traders from the following balances as on March 31, 2017.

Debit balances	*Amount* ₹	*Credit balances*	*Amount* ₹
Stock	20,000	Sales	2,45,000
Cash	5,000	Creditors	10,000
Bank	10,000	Bills payable	4,000
Carriage on purchases	1,500		Capital
2,00,000			
Purchases	1,90,000		
Drawings	9,000		
Wages	55,000		
Machinery	1,00,000		
Debtors	27,000		
Postage	300		
Sundry expenses	1,700		
Rent	4,500		
Furniture	35,000		

Closing stock ₹8,000

(*Ans.* Gross loss ₹ 13,500, Net loss ₹ 20,000, Total balance sheet ₹ 1,85,000)

13. Prepare trading and profit and loss account from the following particulars of M/s Neema Traders as on March 31, 2017.

Account Title	*Debit Amount* ₹	*Account Title*	*Credit Amount* ₹
Buildings	23,000	Sales	1,80,000
Plant	16,930	Loan	8,000
Carriage inwards	1,000	Bills payable	2,520
Wages	3,300	Bank overdraft	4,720
Purchases	1,64,000	Creditors	8,000
Sales return	1,820	Capital	2,36,000
Opening stock	9,000	Purchases return	1,910
Machinery	2,10,940		
Insurance	1,610		
Interest	1,100		
Bad debts	250		
Postage	300		
Discount	1,000		
Salaries	3,000		
Debtors	3,900		

Stock on March 31, 2017 ₹16,000.

(*Ans*. Gross profit ₹17,850, Net profit ₹ 10,590, Total of balance sheet ₹2,69,830)

14. From the following balances of M/s Nilu Sarees as on March 31, 2017. Prepare trading and profit and loss account and balance sheet as on date.

Account Title	*Debit Amount* ₹	*Account Title*	*Credit Amount* ₹
Opening stock	10,000	Sales	2,28,000
Purchases	78,000	Capital	70,000
Carriage inwards	2,500	Interest	7,000
Salaries	30,000	Commission	8,000
Commission	10,000	Creditors	28,000
Wages	11,000	Bills payable	2,370
Rent & taxes	2,800		
Repairs	5,000		
Telephone expenses	1,400		
Legal charges	1,500		
Sundry expenses	2,500		
cash in hand	12,000		
Debtors	30,000		
Machinery	60,000		
Investments	90,000		
Drawings	18,000		

Closing stock as on March 31, 2017 ₹22,000.

(*Ans*. Gross profit ₹ 1,56,500, Net profit ₹ 1,10,300, Total balance sheet ₹2,14,000)

15. Prepare trading and profit and loss account of M/s Sports Equipments for the year ended March 31, 2017 and balance sheet as on that date :

Account Title	*Debit Amount* ₹	*Credit Amount* ₹
Opening stock	50,000	
Purchases and sales	3,50,000	4,21,000
Sales returns	5,000	
Capital		3,00,000
Commission		4,000
Creditors		1,00,000
Bank overdraft		28,000
Cash in hand	32,000	
Furniture	1,28,000	
Debtors	1,40,000	
Plants	60,000	
Carriage on purchases	12,000	
Wages	8,000	
Rent	15,000	
Bad debts	7,000	
Drawings	24,000	
Stationery	6,000	
Travelling expenses	2,000	
Insurance	7,000	
Discount	5,000	
Office expenses	2,000	

Closing stock as on March 31, 2017 ₹2,500

(*Ans*. Gross loss ₹ 1,500, Net loss ₹ 41,500 , Total balance sheet ₹3,62,500)

Checklist to Test Your Understanding

1. *Test Your Understanding - I*

I (i) T (ii) T (iii) F (iv) T

II (i) b (ii) a (iii) e (iv) c (v) d

2. *Test Your Understanding - II*

1. (v) 2. (iii) 3. (iv) 4. (iii)

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Financial Statements - II

9

> **Learning Objectives**
>
> *After studying this chapter, you will be able to :*
> - *describe the need for adjustments while preparing the financial statements;*
> - *explain the accounting treatment of adjustments for outstanding and prepaid expenses, accrued and advance receipts of incomes;*
> - *discuss the adjustments to be made regarding deprecia-tion, bad debts, provision for doubtful debts, provision for discount on debtors;*
> - *explain the concepts and adjustment of manager's commission and interest on capital;*
> - *prepare profit and loss account and balance sheet with adjustments.*

In chapter 8, you learnt about the preparation of simple final accounts in the format of trading and profit and loss account and balance sheet. The preparation of simple final accounts pre-supposes the absence of any accounting complexities which are normal to business operations. These complexities arise due to the fact that the process of determining income and financial position is based on the accrual basis of accounting. This emphasises that while ascertaining the profitability, the revenues be considered on earned basis and not on receipt basis, and the expenses be considered on incurred basis and not on paid basis. Hence, many items need some adjustment while preparing the financial statements. In this chapter we shall discuss all items which require adjustments and the way these are brought into the books of account and incorporated in the final accounts.

9.1 Need for Adjustments

According to accrual concept of accounting, the profit or loss for an accounting year is not based on the revenues realised in cash and the expenses paid in cash during that year. There may exist some receipts and expenses in the current year which partially relate to the previous year or to the next year. Also, there may exist incomes and expenses relating to the current year that still need to be brought into books of account. Such items duly adjusted, the final accounts will not reflect the true and fair view of the state of affairs of the business.

For example, an amount of ₹ 1,200 paid on July 01, 2016 towards insurance premium. Any general insurance premium paid usually covers a period of 12 months. Suppose the accounting year ends on March 31, 2017, it would mean that one fourth of the insurance premium is paid on July 01, 2016 relate to the next accounting year 2017-18. Therefore, while preparing the financial statements for 2016-17, the expense on insurance premium that should be debited to the profit and loss account is ₹ 900 (₹ 1,200 – ₹ 300).

Let us take another example. The salaries for the month of March, 2017 were paid on April 07, 2017. This means that the salaries account of 2016-17 does not include the salaries for the month of March 2017. Such unpaid salaries is termed as *salaries outstanding* which have to be brought into books of account and is debited to profit and loss account along with the salaries already paid for the month of April, 2016 up to Feburary, 2017.

Similarly, adjustments may also become necessary in respect of certain incomes received in advance or those which have accrued but are still to be received. Apart from these, there are certain items which are not recorded on day-to-day basis such as depreciation on fixed assets, interest on capital, etc. These are adjusted at the time of preparing financial statements. The purpose of making various adjustments is to ensure that the final accounts reveal the true profit or loss and the true financial position of the business. The items which usually need adjustments are:

1. Closing stock
2. Outstanding/expenses
3. Prepaid/Unexpired expenses
4. Accrued income
5. Income received in advance
6. Depreciation
7. Bad debts
8. Provision for doubtful debts
9. Provision for discount on debtors
10. Manager's commission
11. Interest on capital

It may be noted that when we prepare the financial statements, we are provided with the trial balance and some other additional information in respect of the adjustments to be made. All adjustments are reflected in the final accounts at two places to complete the double entry. Our earlier example in chapter 8 (Page no. 294) which represents the trial balance of Ankit is reproduced in figure 9.1:

Trial Balance of Ankit as on March 31, 2017

Account Title	*Elements*	*L.F.*	*Debit Amount* ₹	*Credit Amount* ₹
Cash	Assets		1,000	
Bank	Assets		5,000	
Wages	Expense		8,000	
Salaries	Expense		25,000	
Furniture	Assets		15,000	
Rent of building	Expense		13,000	
Debtors	Assets		15,500	
Bad debts	Expense		4,500	
Purchases	Expense		75,000	
Capital				12,000
Equity				
Sales	Revenue			1,25,000
Creditors	Liabilities			15,000
Long-term loan (raised on 1.4.2013)	Liabilities			5,000
Commission received	Revenue			5,000
Total			1,62,000	1,62,000

Additional Information : The stock on March 31, 2017 was ₹ 15,000.

Figure 9.1 : *Showing the trial balance of Ankit*

We will now study about the items of adjustments and you will observe how these adjustments are helpful in the preparation of financial statements in order to reflect the true profit and loss and financial position of the firm.

9.2 Closing Stock

As per the example in chapter 9 (Page no. 336), the closing stock represents the cost of unsold goods lying in the stores at the end of the accounting period. The adjustment with regard to the closing stock is done by (i) by crediting it to the trading and profit and loss account, and (ii) by showing it on the asset side of the balance sheet. The adjustment entry to be recorded in this regard is :

Closing stock A/c Dr.
To Trading A/c

The closing stock of the year becomes the opening stock of the next year and is reflected in the trial balance of the next year. The trading and profit and loss account of Ankit for the year ended March 31, 2017 and his balance sheet as on that date shall appear as follows :

Trading and Profit and Loss Account of Ankit
for the year ended March 31, 2017

Dr. **Cr.**

Expenses/Losses	*Amount* ₹	*Revenues/Gains*	*Amount* ₹
Purchases	75,000	Sales	1,25,000
Wages	8,000	Closing stock	15,000
Gross profit c/d	57,000		
	1,40,000		1,40,000
Salaries	25,000	Gross profit b/d	57,000
Rent of building	13,000	Commission received	5,000
Bad debts	4,500		
Net profit (transferred to Ankit's capital account)	**19,500**		
	62,000		62,000

Sometimes the opening and closing stock are adjusted through purchases account. In that case, the entry recorded is as follows :

Closing stock A/c Dr.
  To Purchases A/c

This entry reduces the amount in the purchases account and is also known as *adjusted purchases* which is shown on the debit side of the trading and profit and loss account. In this context, it may be noted, that the closing stock will not be shown on the credit side of the trading and profit and loss as it has been already been adjusted through the purchases account. Not only, in such a situation, even the opening stock will not be separately reflected in the trading and profit and loss account, as it is also adjusted in purchases by recording the following entry:

Purchases A/c Dr.
  To Opening stock A/c

Another important point to be noted in this context is that when the opening and closing stocks are adjusted through purchases, the trial balance does not show any opening stock. Instead, the closing stock shall appear in the trial balance (not as additional information or as an adjustment item) and so also the adjusted purchases. In such a situation, the adjusted purchases shall be debited to the trading and profit and loss account.

The closing stock shall be shown on the assets side of the balance sheet as shown below:

Balance Sheet of Ankit as at March 31, 2017

Liabilities		*Amount* ₹	*Assets*	*Amount* ₹
Owners funds			*Non-Current Assets*	
Capital	12,000		Furniture	15,000
Add Net profit	19,500	31,500	*Current Assets*	
Non-Current Liabilities			Debtors	15,500
Long-term loan		5,000	Bank	5,000
Current Liabilities			Cash	1,000
Creditors		15,000	**Closing stock**	**15,000**
		51,500		51,500

9.3 Outstanding Expenses

It is quite common for a business enterprise to have some unpaid expenses in the normal course of business operations at the end of an accounting year. Such items usually are wages, salaries, interest on loan, etc.

When expenses of an accounting period remain unpaid at the end of an accounting period, they are termed as *outstanding expenses*. As they relate to the earning of revenue during the current accounting year, it is logical that they should be duly charged against revenue for computation of the correct amount of profit or loss. The entry to bring such expenses into account is :

Concerned expense A/c Dr.
To Outstanding expense A/c

The above entry opens a new account called *Outstanding Expenses* which is shown on the liabilities side of the balance sheet. The amount of outstanding expenses is added to the total of expenses under a particular head for the purpose of preparing trading and profit and loss account.

For example, refer to Ankit's trial balance (refer figure 10.1). You will notice that wages are shown at ₹ 8,000. Let us assume that Ankit owes ₹500 as wages relating to the year 2016-17 to one of his employees. In that case, the correct expense on wages amounts to ₹ 8,500 instead of ₹ 8,000. Ankit must show ₹ 8,500 as expense on account of wages in the trading and profit and loss account and recognise a current liability of ₹ 500 towards the sum owed to his staff. It will be referred to as *wages outstanding* and it will be adjusted to wages account by recording the following journal entry:

Wages A/c	Dr.	500	
To Wages outstanding A/c			500

The amount of outstanding wages will be added to wages account for the preparation of the trading and profit and loss account as follows :

Trading and Profit and Loss Account of Ankit
for the year ended March 31, 2017

Dr. **Cr.**

Expenses/Losses		*Amount* ₹	*Revenues/Gains*	*Amount* ₹
Purchases		75,000	Sales	1,25,000
Wages	**8,000**			
***Add* Outstanding wages**	**500**	**8,500**	Closing stock	15,000
Gross profit c/d		56,500		
		1,40,000		1,40,000
Salaries		25,000	Gross profit b/d	56,500
Rent of building		13,000	Commission received	5,000
Bad debts		4,500		
Net profit (transferred to Ankit's capital account)		**19,000**		
		61,500		61,500

Observe carefully the trading and profit and loss account of Ankit. Did you notice the amount of net profit is reduced to ₹ 19,000 on account of outstanding wages. The item relating to outstanding wages will be shown in balance sheet as follows :

Balance Sheet of Ankit as at March 31, 2017

Liabilities		*Amount* ₹	*Assets*	*Amount* ₹
Owners Funds			*Non-Current Assets*	
Capital	12,000		Furniture	15,000
Add Profit	19,000	31,000	*Current Assets*	
Non-Current Liabilities			Debtors	15,500
Long-term loan		5,000	Bank	5,000
Current Liabilities			Cash	1,000
Creditors		15,000	Closing stock	15,000
Outstanding wages		**500**		
		51,500		51,500

9.4 Prepaid Expenses

There are several items of expense which are paid in advance in the normal course of business operations. At the end of the accounting year, it is found that the benefits of such expenses have not yet been fully received; a portion of its benefit would be received in the next accounting year. This portion of expense, is carried forward to the next year and is termed as *prepaid expenses.* The necessary adjustment in respect of prepaid expenses is made by recording the following entry:

Prepaid expense A/c	Dr.		
To concerned expense A/c			

The effect of the above adjustment entry is that the amount of prepaid part is deducted from the total of the particular expense, and the new account of prepaid expense is shown on the assets side of the balance sheet. For example, in Ankit's trial balance, let us assume that the amount of salary paid by him to the employees includes an amount of ₹ 5,000 which was paid in advance to one of his employees upon his joining the office. This implies that Ankit has overpaid his staff by ₹ 5,000 on account of his salary. Hence, correct expense on account of salary during the current period will be ₹ 20,000 instead of ₹ 25,000. Ankit must show ₹ 20,000 expense on account of salary in the profit and loss account and recognise a current asset of ₹ 5,000 as an advance salary to the employee. It will be termed as prepaid salary account and will be recorded by the following journal entry :

Prepaid salary A/c	Dr.	5,000	
To salary A/c			5,000

The account of prepaid salary will be shown in the trading and profit and loss account as follows:

Trading and Profit and Loss Account of Ankit
for the year ended March 31, 2017

Dr. **Cr.**

Expenses/Losses		*Amount* ₹	*Revenues/Gains*	*Amount* ₹
Purchases		75,000	Sales	1,25,000
Wages	8,000		Closing stock	15,000
Add Outstanding wages	500	8,500		
Gross profit c/d		56,500		
		1,40,000		1,40,000
Salaries	**25,000**		Gross profit b/d	56,500
***Less* Prepaid salary**	**(5,000)**	**20,000**		
Rent of building		13,000	Commission received	5,000
Bad debts		4,500		
Net profit (transferred to Ankit capital account)		**24,000**		
		61,500		61,500

Observe how the prepaid salary has resulted in an increase of net profit by ₹ 5,000 making it as ₹ 24,000 Further, the item relating to prepaid salary will be shown in the balance sheet on the assets side as follows :

Balance Sheet of Ankit as at March 31, 2017

Liabilities		*Amount* ₹	*Assets*	*Amount* ₹
Owners Funds			*Non-Current Assets*	
Capital	12,000		Furniture	15,000
Add Profit	24,000	36,000	*Current Assets*	
Non-Current Liabilities			Debtors	15,500
Long-term loan		5,000	**Prepaid salary**	**5,000**
Current Liabilities			Bank	5,000
			Cash	1,000
Creditors		15,000	Closing stock	15,000
Outstanding wages		500		
		56,500		56,500

9.5 Accrued Income

It may also happen that certain items of income such as interest on loan, commission, rent, etc. are earned during the current accounting year but have not been actually received by the end of the same year. Such incomes are known as *accrued income*. The adjusting entry for accrued income is :

Accrued income A/c Dr.
To Concerned income A/c

The amount of accrued income will be added to the related income in the profit and loss account and the new account of accrued income will appear on the asset side of the balance sheet.

Let us, for example, assume that Ankit was giving a little help to a fellow businessman by introducing few parties to him on commission for this service. In the trial balance of Ankit you will notice an item of commission received amounting to ₹ 5,000. Assume that the commission amounting to ₹1,500 was still receivable from the fellow businessman. This implies that income from commission earned during 2016-17 is ₹ 6, 500 (₹5, 000 + ₹ 1,500) Ankit needs to record an adjustment entry to give effect to the accrued commission as follows :

Accrued Commission A/c	Dr.	1,500	
To Commission A/c			1,500

The account of accrued income will be recorded in trading and profit and loss account as follows :

Trading and Profit and Loss Account of Ankit
for the year ended March 31, 2017

Dr. **Cr.**

Expenses/Losses		*Amount* ₹	*Revenues/Gains*		*Amount* ₹
Purchases		75,000	Sales		1,25,000
Wages	8,000		Closing stock		15,000
Add Outstanding	500	8,500			
Gross profit c/d		56,500			
		1,40,000			1,40,000
Salaries	25,000		Gross profit b/d		56,500
Less Prepaid salary	(5,000)	20,000			
Rent of building		13,000	**Commission received**	**5,000**	
			***Add* Accrued commission**	**1,500**	**6,500**
Bad debts		4,500			
Net profit (transferred to Ankit's capital account)		25,500			
		63,000			63,000

Observe that the accrued income has resulted in an increase in the net profit by ₹ 1,500 making it as ₹ 25,500. Further, it will be shown in the balance sheet of Ankit on the assets side under the head current asset.

Balance Sheet of Ankit as at March 31, 2017

Liabilities		*Amount* ₹	*Assets*	*Amount* ₹
Owners Funds			*Non-Current Assets*	
Capital	12,000		Furniture	15,000
Add Profit	25,500	37,500	*Current Assets*	
Non-Current Liabilities			Debtors	15,500
Long-term loan		5,000	Prepaid salary	5,000
Current Liabilities			**Accrued commission**	**1,500**
Creditors		15,000	Bank	5,000
Outstanding wages		500	Cash	1,000
			Closing stock	15,000
		58,000		58,000

9.6 Income Received in Advance

Sometimes, a certain income is received but the whole amount of it does not belong to the current period. The portion of the income which belongs to the next accounting period is termed as income received in advance or an *Unearned Income*. Income received in advance is adjusted by recording the following entry:

Concerned income A/c	Dr.	
To Income received in advance A/c		

The effect of this entry will be that the balance in the income account will be equal to the amount of income earned for the current accounting period, and the new account of income received in advance will be shown as a liability in the balance sheet.

For example, let us assume Ankit has agreed in March 31, 2017 to sublet a part of the building to a fellow shopkeeper @ ₹ 1,000 per month. The person gives him rent in advance for the next three months of April, May and June. The amount received had been credited to the profit and loss account. However, this income does not pertain to current year and hence will not be credited to profit and loss account. It is *income received in advance* and will be recognised as a liability amounting to ₹ 3,000. Ankit needs to record an adjustment entry to give effect to income received in advance by way of following journal entry:

Rent received A/c	Dr.	3,000	
To Rent received in advance A/c			3,000

This will lead a new account of rent received in advance of ₹ 3,000 which will appear as follows :

Balance Sheet of Ankit as at March 31, 2017

Liabilities		*Amount* ₹	*Assets*	*Amount* ₹
Owners Funds			*Non Current Assets*	
Capital	12,000		Furniture	15,000
Add Net profit	25,500	37,500	*Current Assets*	
Non Current Liabilities			Debtors	15,500
Long-term loan		5,000	Prepaid salary	5,000
Current Liabilities			Accrued commission	1,500
Creditors		15,000	Bank	5,000
Outstanding wages		500	Cash	4,000
Rent received in advance		**3,000**	Closing stock	15,000
		61,000		61,000

9.7 Depreciation

Recall from chapter 7 (Part-I), that depreciation is the decline in the value of assets on account of wear and tear and passage of time. It is treated as a business expense and is debited to profit and loss account. This, in effect, amounts to writing-off a portion of the cost of an asset which has been used in the business for the purpose of earning profits. The entry for providing depreciation is :

Depreciation A/c	Dr.		
To Concerned asset A/c			

In the balance sheet, the asset will be shown at cost *minus* the amount of depreciation. For example, the trial balance in our example shows that Ankit has a furniture account with a balance of ₹ 15,000. Let us assume that furniture is subject to a depreciation of 10% per annum. This implies that Ankit must recognise that at the end of the year the value attached to furniture is to be reduced by ₹ 1,500 (₹ 15,000 × 10%). Ankit needs to record an adjustment entry to give effect to depreciation on furniture as follows :

Depreciation A/c	Dr.	1,500	
To Furniture A/c			1,500

Depreciation will be shown in the profit and loss account and balance sheet as follows :

Trading and Profit and Loss Account of Ankit
for the year ended March 31, 2017

Dr. **Cr.**

Expenses/Losses		*Amount* ₹	*Revenues/Gains*		*Amount* ₹
Purchases		75,000	Sales		1,25,000
Wages	8,000		Closing stock		15,000
Add Outstanding wages	(500)	8,500			
Gross Profit c/d		56,500			
		1,40,000			1,40,000
Salaries	25,000		Gross profit b/d		56,500
Less Prepaid salary	(5,000)	20,000			
Rent of building		13,000	Commission received	5,000	6,500
			Add Accrued Commission	1,500	
Depreciation-Furniture		**1,500**			
Bad debts		4,500			
Net profit (transferred to Ankit's capital account)		**24,000**			
		63,000			63,000

Notice that the amount of net profit declines with the adjustment of depreciation. Let us now see how depreciation as an expense will be shown in balance sheet.

Balance Sheet of Ankit
as at March 31, 2017

Liabilities		Amount ₹	*Assets*		Amount ₹
Owners Funds			*Non-Current Assets*		
Capital	12,000		**Furniture**	**15,000**	
Add Profit	24,000	36,000	***Less* Depreciation**	**(1,500)**	**13,500**
Non-Current Liabilities			*Current Assets*		
Long-term loan		5,000	Debtors		15,500
Current Liabilities			Prepaid salary		5,000
Creditors		15,000	Accrued commission		1,500
Outstanding wages		500	Bank		5,000
Rent received in advance		3,000	Cash		4,000
			Closing stock		15,000
		59,500			59,500

9.8 Bad Debts

Bad debts refer to the amount that the firm has not been able to realise from its debtors. It is regarded as a loss and is termed as *bad debt*. The entry for recording bad debt is:

Bad debts A/c Dr.
To Debtors A/c

You will notice in Ankit's trial balance, that it contains bad debts amounting to ₹ 4,500. Whereas, the sundry debtors of Ankit are reported as ₹ 15,500. The existence of bad debts in the trial balance signifies that Ankit has incurred a loss arising out of bad debts during the year and which has been already recorded in the books of account.

However, assuming one of his debtors who owed him ₹ 2,500 had become insolvent, and nothing is receivable from him. But the amount of bad debts related to the current year is still to be account for. This fact appears as additional information and is termed as *further bad debts*. The adjustment entry to be recorded for the amount will be as follows. For this purpose, Ankit needs to record an adjustment entry as under :

Bad debts A/c	Dr.	2,500	
To Debtors A/c			2,500

This entry will reduce the value of debtors to ₹ 13,000(₹ 15,500 – ₹ 2,500) and increases the amount of bad debts to ₹ 7,000 (₹ 4,500 + ₹ 2,500).

The treatment of further bad debts in profit and loss account and balance sheet is shown below :

Trading and Profit and Loss Account of Ankit
for the year ended March 31, 2017

Dr. **Cr.**

Expenses/Losses		*Amount* ₹	*Revenues/Gains*		*Amount* ₹
Purchases		75,000	Sales		1,25,000
Wages	8,000		Closing stock		15,000
Add Outstanding wages	500	8,500			
Gross profit c/d		56,500			
		1,40,000			1,40,000
Salaries	25,000		Gross profit b/d		56,500
Less Prepaid salary	(5,000)	20,000			
Rent of building		13,000	Commission received	5,000	
			Add Accrued	1,500	6,500
		1,500	commission		
Depreciation – Furniture					
Bad Debts	**4,500**				
***Add* Further bad debts**	**2,500**	**7,000**			
Net profit (transferred to Ankit's capital account)		**21,500**			
		63,000			63,000

Balance Sheet of Ankit as at March 31, 2017

Liabilities		*Amount* ₹	*Assets*		*Amount* ₹
Owners Funds			*Non-Current Assets*		
Capital	12,000		Furniture	15,000	
Add Profit	21,500	33,500	*Less* Depreciation	(1,500)	13,500
Non-Current Liabilities			*Current Assets*		
Long-term loan		5,000	**Debtors**	**15,500**	
			***Less* Further bad debts**	**(2,500)**	**13,000**
Current Liabilities and Provisions			Prepaid salary		5,000
Creditors		15,000	Accrued commission		1,500
			Bank		5,000
Outstanding Wages		500	Cash		4,000
			Closing stock		15,000
Rent received in advance		3,000			
		57,000			57,000

9.9 Provision for Bad and Doubtful Debts

In the above balance sheet, debtors now appears at ₹ 13,000, which is their estimated realisable value during next year. It is quite possible that the whole of this amount may not be realised in future. However, it is not possible to accurately know the amount of such bad debts. Hence, we make a reasonable estimate of such loss and provide the same. Such provision is called *provision for bad debts* and is created by debiting profit and loss account. The following journal entry is recorded in this context :

Profit and Loss A/c Dr.
To Provision for doubtful debts A/c

Provision for doubtful debts is also shown as a deduction from the debtors on the asset side of the balance sheet.

Let us assume, Ankit feels that 5% of his debtors on March 31, 2017 are likely to default on their payments next year. This implies he expects bad debts of ₹ 650 (₹ 13,000 × 5%). Ankit needs to record the adjustment entry as :

Profit and loss A/c	Dr.	650	
To Provision for doubtful debts A/c			650

This implies that ₹ 650 will reduce the current year's profit on account of doubtful debts. In the balance sheet, it will be shown as a deduction from sundry debtors.

Trading and Profit and Loss Account of Ankit
for the year ended March 31, 2017

Dr. **Cr.**

Expenses/Losses		*Amount* ₹	*Revenues/Gains*		*Amount* ₹
Purchases		75,000	Sales		1,25,000
Wages	8,000		Closing stock		15,000
Add Outstanding	500	8,500			
Gross profit c/d		56,500			
		1,40,000			1,40,000
Salaries	25,000		Gross profit b/d		56,500
Less Prepaid salary	(5,000)	20,000			
Rent of building		13,000	Commission received	5,000	
Depreciation – Furniture		1,500	*Add* Accrued commission	1,500	6,500
Bad debts	4,500				
Add Further bad debts	2,500	7,000			
Provision for doubtful debts		**650**			
Net profit (transferred to Ankit's capital account)		20,850			
		63,000			63,000

Balance Sheet of Ankit as at March 31, 2017

Liabilities		*Amount* ₹	*Assets*		*Amount* ₹
Owners Funds			*Non-Current Assets*		
Capital	12,000		Furniture	15,000	
Add Net profit	20,850	32,850	*Less* Depreciation	(1,500)	13,500
Non-Current Liabilities			*Current Assets*		
Long-term loan		5,000	**Debtors**	**15,500**	
			***Less* Furtherbad debts**	**2,500**	
				13,000	
			***Less* Provision for**	**650**	
12,350			**doubtful debts**		
Current Liabilities & Provisions			Prepaid salary		5,000
Creditors		15,000	Accrued commission		1,500
Outstanding wages		500	Bank		5,000
Rent received in advance		3,000	Cash		4,000
			Closing stock		15,000
		56,350			56,350

It may be noted that the provision created for doubtful debts at the end of a particular year will be carried forward to the next year and it will be used for meeting the loss due to bad debts incurred during the next year. The provision for doubtful debts brought forward from the previous year is called the *opening provision or old provision.*When such a provision already exists, the loss due to bad debts during the current year are adjusted against the same and while making provision for doubtful debts required at the end of the current year is called *new provision.* The balance of old provision as given in trial balance should also be taken into account.

Let us take an example to understand how bad debts and provision for doubtful debts are recorded. An extract from a trial balance on March 31, 2017 is given below :

	₹
Sundry debtors	32,000
Bad debts	2,000
Provision for doubtful debts	3,500

Additional Information :

Write-off further bad debts ₹ 1,000 and create a provision for doubtful debts @ 5% on debtors.

In this case, the following journal entries will be recorded :

Date	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹
March 31, 2017	(a) Bad debts A/c Dr. To Sundry debtors (Futher bad debts)		1,000	 1,000
	(b) Provision for doubtful debts A/c Dr. To Bad debts A/c (Bad debts adjusted against the provision)		3,000	 3,000
	Profit and Loss A/c Dr. To Provision for doubtful debts A/c (Amount charges from profit and loss account)		1,050	 1,050

Profit and Loss Account
for the year ended March 31, 2017

	₹		₹
Provision for doubtful debts: Bad debts 2,000 Further bad debts 1,000 New provision 1,550 4,550 *Less* Old provision 3,500	1,050		

**Only relevant items.*

Balance Sheet as at March 31, 2017

			₹
		Sundry debtors 32,000 *Less* Further (1,000) bad debts 31,000 *Less* Provision (1,550) for doubtful debts	29,450

**Only relevant items.*

Note : *The amount of new provision for doubtful debts has been calculated as follows:*
₹ 31,000 [1] × 5/ 100 = ₹ 1,550.

9.10 Provision for Discount on Debtors

A business enterprise allows discount to its debtors to encourage prompt payments. Discount likely to be allowed to customers in an accounting year can be estimated and provided for by creating a provision for discount on debtors. Provision for discount is made on good debtors which are arrived at by deducting further bad debts and the provision for doubtful debts. The following journal entry is recorded to create provision for discount on debtors:

Profit and loss A/c	Dr.		
To Provision for discount on debtors A/c			

As stated above, the provision for discount on debtors will be created only on good debtors. It will be calculated on the amount of debtors arrived at after deducting the doubtful debts, i.e. ₹ 12,350 (₹ 13,000 – ₹ 650).
Ankit needs to record the adjustment entry as :

Profit and loss A/c	Dr.	227	
To Provision for discount on debtors A/c			227

This will reduce the current year profit by ₹ 227 on account of probable discount on prompt payment. In the balance sheet, it will be shown as a deduction from the debtors account to portray correctly the expected realiable value of debtors as ₹ 12,123.

Trading and Profit and Loss Account of Ankit
for the year ended March 31, 2017

Dr. **Cr.**

Expenses/Losses		*Amount* ₹	*Revenues/Gains*		*Amount* ₹
Purchases		75,000	Sales		1,25,000
Wages	8,000		Closing stock		15,000
Add Outstanding wages	(500)	8,500			
Gross profit c/d		56,500			
		1,40,000			1,40,000
Salaries	25,000		Gross profit b/d		56,500
Less Prepaid salary	(5,000)	20,000			
Rent of building		13,000	Commission received	5,000	
			Add Accrued commission	1,500	6,500
Depreciation–Furniture		1,500			
Bad debts	4,500				
Add Further bad debts	2,500	7,000			
Provision for doubtful debts		650			
Provision for discount on debtors		**227**			
Net profit (transferred to Ankit's capital account)		**20,623**			
		63,000			63,000

Balance Sheet of Ankit as on March 31, 2017

Liabilities		*Amount* ₹	*Assets*		*Amount* ₹
Owners Funds			*Non-Current Assets*		
Capital	12,000		Furniture	15,000	
Add Net profit	20,623	32,623	*Less* Depreciation	(1,500)	13,500
Non-Current Liabilities			*Current Assets*		
Long-term loan		5,000	**Debtors**	**15,500**	
			***Less* Further bad debts**	**2,500**	
				13,000	
			***Less* Provision for doubtful debts**	**650**	
				12,350	
			***Less* Provision for discount on debtors**	**(227)**	**12,123**
Current Liabilities & Provisions			Prepaid salary		5,000
Creditors		15,000	Accrued commission		1,500
			Bank		5,000
Outstanding wages		500	Cash		4,000
			Closing stock		15,000
Rent received in advance		3,000			
		56,123			56,123

In the subsequent year, the discount will be transferred to the provision for discount on debtors account. The account will be treated in the same manner as the provision for doubtful debts.

9.11 Manager's Commission

The manager of the business is sometimes given the commission on the net profit of the company. The percentage of the commission is applied on the profit either *before charging such commission* or *after charging such commission.*
In the absence of any such information, it is assumed that commission is allowed as a percentage of the net profit before charging such commission.

Suppose the net profit of a business is ₹ 110 before charging commission. If the manager is entitled to 10% of the profit before charging such commission, the commission will be calculated as :

$$= ₹\ 110 \times \frac{10}{100} = ₹\ 11$$

In case the commission is 10% of the profit after charging such commission, it will be calculated as :

= Profit before commission × Rate of commission/ (100 + commission)

$$= ₹\ 110 \times \frac{10}{110} = ₹\ 10$$

The managers commission will be adjusted in the books of account by recording the following entry :

Profit and loss A/c Dr.
 To Manager's commission A/c

Let us recall our example and assume that Ankit's manager is entitled to a commission @ 10%. Observe the following profit and loss account if it is based on :

(i) amount of net profit before charging such commission
(ii) amount of profit after charging such commission.

(i) Trading and Profit and Loss Account of Ankit for the year ended March 31, 2017

Dr. **Cr.**

Expenses/Losses	*Amount* ₹	*Revenues/Gains*	*Amount* ₹
Purchases	75,000	Sales	1,25,000
Wages 8,000		Closing stock	15,000
Add Outstanding wages 500	8,500		
Gross profit c/d	56,500		
	1,40,000		1,40,000
Salaries 25,000		Gross profit	56,500
Less Prepaid salary (5,000)	20,000		
Rent of building	13,000	Commission received 5,000	
		Add Accrued 1,500	6,500
	1,500	commission	
Depreciation – Furniture			
Bad debts 4,500			
Add Further bad debts 2,500	7,000		
Provision for doubtful debts	650		
Provision for discount on debtors	227		
Manager's commission	**2,062**		
Net profit (transferred to Ankit's capital account)	**18,561**		
	63,000		63,000

Balance Sheet of Ankit as at March 31, 2017

Liabilities		*Amount* ₹	*Assets*		*Amount* ₹
Owners Funds			*Non-Current Assets*		
Capital	12,000		Furniture	15,000	
Add Net profit	18,561	30,561	*Less* Depreciation	(1,500)	13,500
Non-Current Liabilities			*Current Assets*		
Long-term loan		5,000	Debtors	15,500	
			Less Further bad debts	(2,500)	
				13,000	
			Less Provision for		
Current Liabilities and Provisions			doubtful	(650)	
Creditors		15,000	debts	12,350	
			Less Provision for		
			discount on debtors	(227)	12,123
Outstanding wages		500	Prepaid salary		5,000
Rent received in advance		3,000	Accrued commission		1,500
			Bank		5,000
			Cash		4,000
Manager's commission outstanding		**2,062**	Closing stock		15,000
		56,123			56,123

(ii) Trading and Profit and Loss Account of Ankit for the year ended March 31, 2017

Dr. **Cr.**

Expenses/Losses		*Amount* ₹	*Revenues/Gains*		*Amount* ₹
Purchases		75,000	Sales		1,25,000
Wages	8,000		Closing stock		15,000
Add Outstanding wages	500	8,500			
Gross profit c/d		56,500			
		1,40,000			1,40,000
Salaries	25,000		Gross profit b/d		56,500
Less Prepaid salary	(5,000)	20,000			
Rent of building		13,000	Commission received	5,000	
			Add Accrued	1,500	6,500
		1,500	commission		
Depreciation–Furniture					
Bad debts	4,500				
Add Further bad debts	2,500	7,000			
Provision for doubtful debts		650			
Provision for discount on debtors		227			
Manager's commission		**1,875**			
Net profit (transferred to Ankit's capital account)		**18,748**			
		63,000			63,000

Balance Sheet of Ankit as at March 31, 2017

Liabilities		Amount ₹	*Assets*		Amount ₹
Owners Funds			*Non-Current Assets*		
Capital	12,000		Furniture	15,000	
Add Net profit	18,748	30,748	*Less* Depreciation	(1,500)	13,500
Non-Current Liabilities					
Long-term loan		5,000	*Current Assets*		
			Debtors	15,500	
			Less Further bad debts	(2,500)	
				13,000	
			Less Provision for doubtful debts	(650)	
				12,350	
			Less Provision for		
Current Liabilities and Provisions			discount on debtors	(227)	12,123
Creditors		15,000	Prepaid salary		5,000
Outstanding wages		500	Accrued commission		1,500
			Bank		5,000
Rent received in advance		3,000	Cash		4,000
Manager commission outstanding		**1,875**	Closing stock		15,000
		56,123			56,123

9.12 Interest on Capital

Sometimes, the proprietor may like to know the profit made by the business after providing for interest on capital. In such a situation, interest is calculated at a given rate of interest on capital as at the beginning of the accounting year. If however, any additional capital is brought during the year, the interest may also be computed on such amount from the date on which it was brought into the business. Such interest is treated as expense for the business and the following journal entry is recorded in the books of account:

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

In the final accounts, it is shown as an expense on the debit side of the profit and loss account and added to capital in the balance sheet.

Let us assume, Ankit decides to provide 5% interest on his capital. This shall amount to ₹ 600 for which the following journal entry will be recorded:

Interest on capital A/c	Dr.	600
To Capital A/c		600

This implies that net profit shall be reduced by ₹ 600. As a result, the reduced amount of profit shall be added to the capital in the balance sheet.

But, when interest on capital shall be added to the capital, this effect shall be neutralised. As shown below :

	₹
Capital	12,000
Add Profit	17,961
	29,961
Add Interest on capital	600
	30,561

Test Your Understanding

Tick the correct answer :

1. Rahul's trial balance provide you the following information :

Debtors	₹ 80,000
Bad debts	₹ 2,000
Provision for doubtful debts	₹ 4,000

It is desired to maintain a provision for bad debts of ₹ 1,000
State the amount to be debited/credited in profit and loss account :
(a) ₹ 5,000 (Debit) (b) ₹ 3,000 (Debit)
(c) ₹ 1,000 (Credit)(d) none of these.

2. If the rent of one month is still to be paid the adjustment entry will be :
(a) Debit outstanding rent account and Credit rent account
(b) Debit profit and loss account and Credit rent account
(c) Debit rent account and Credit profit and loss account
(d) Debit rent account and Credit outstanding rent account.

3. If the rent received in advance ₹ 2,000. The adjustment entry will be :
(a) Debit profit and loss account and Credit rent account
(b) Debit rent account Credit rent received in advance account
(c) Debit rent received in advance account and Credit rent account
(d) None of these.

4. If the opening capital is ₹ 50,000 as on April 01, 2016 and additional capital introduced ₹ 10,000 on January 01, 2017. Interest charge on capital 10% p.a. The amount of interest on capital shown in profit and loss account as on March 31, 2017 will be :
(a) ₹ 5,250 (b) ₹ 6,000
(c) ₹ 4,000 (d) Rs, 3,000.

5. If the insurance premium paid ₹ 1,000 and pre-paid insurance ₹ 300. The amount of insurance premium shown in profit and loss account will be :
(a) ₹ 1,300 (b) ₹ 1,000
(c) ₹ 300 (d) ₹ 700.

Adjustment	Adjustment Entry		Treatment in Trading and Profit and Loss Account	Treatment in Balance Sheet
1. Closing stock	Closing stock A/c To Trading A/c	Dr.	Shown on the credit assets side and profit and loss account	Shown on the assets side
2. Outstanding expenses	Expense A/c To outstanding expense A/c	Dr.	Added to the respective expense on the debit side	Shown on the liabilities side
3. Prepaid/ Unexpired expenses	Prepaid expense A/c To Expenses A/c	Dr.	Deducted from the respective expense on the debit side	Shown on the assets side
4. Income earned but not received	Accured income A/c To Income A/c	Dr.	Added to the respective income on the credit side	Shown on the assets side
5. Income received in advance	Income A/c To Income received in advence A/c	Dr.	Deducted from the respective income on the credit side	Shown on the liabilities sides
6. Depreciation	Depreciaton A/c To Assets A/c	Dr.	Shown on the debit side	Deducted from the value of asset
7. Provision for bad and doubtful debts	Profit and Loss A/c To Provision for doubtful debts	Dr.	Shown on the debit side	Shown as deduction from debtors
8. Provision for discount on debtors	Profit and Loss A/c To Provision for discount debtors	Dr.	Shown on the debit side	Shown as deductoin form debtors
9. Manager's commission	Manager's commission A/c To outstanding commission A/c	Dr.	Shown on the debit side	Shown on the liabilities side
10. Interest on capital	Interest on capital A/c To capital A/c	Dr.	Shown on the debit side	Shown as addition to capital
11. Further bad debts	Bad debts A/c To Sundry Debtors A/c	Dr.	Shown on the debit side	Deducted from debtors

Fig. 9.2 : *Showing treatment of various types of adjustments*

Illustration 1

From the following balances, prepare the trading and profit and loss account and balance sheet as on March 31, 2017.

Debit Balances	*Amount* ₹	*Credit Balances*	*Amount* ₹
Drawings	6,300	Capital	1,50,000
Cash at bank	13,870	Discount received	2,980
Bills receivable	1,860	Loans	15,000
Loan and Building	42,580	Purchases return	1,450
Furniture	5,130	Sales	2,81,500
Discount allowed	3,960	Reserve for bad debts	4,650
Bank charges	100	Creditors	18,670
Salaries	6,420		
Purchases	1,99,080		
Stock (opening)	60,220		
Sales return	1,870		
Carriage	5,170		
Rent and Taxes	7,680		
General expenses	3,630		
Plant and Machinery	31,640		
Book debts	82,740		
Bad debts	1,250		
Insurance	750		
	4,74,250		4,74,250

Adjustments

1. Closing stock ₹ 70,000
2. Create a reserve for bad and doubtful debts @ 10% on book debts
3. Insurance prepaid ₹ 50
4. Rent outstanding ₹ 150
5. Interest on loan is due @ 6% p.a.

Solution

Trading and Profit and Loss Account
for the year ended March 31, 2017

Dr. **Cr.**

Expenses/Losses		*Amount* ₹	*Revenues/Gains*		*Amount* ₹
Opening stock		60,220	Sales	2,81,500	
Purchase	1,99,080		*Less* : Sales return	(1,870)	2,79,630
Less Purchases return	(1,450)	1,97,630	Closing stock		70,000
Carriage		5,170			
Gross profit c/d		86,610			
		3,49,630			3,49,630

Discount allowed		3,960	Gross profit b/d	86,610
Bank charges		100	Discount received	2,980
Salaries		6,420		
Rent and Taxes	7,680			
Add Rent outstanding	150	7,830		
General expenses		3,630		
Insurance	750			
Less Insurance prepaid	(50)	700		
Bad debts	1,250			
Add New provision	8,274			
for bad debts	9,524			
Less Old provision	(4,650)			
for bad debts		4,874		
Interest on loan outstanding		900		
Net profit (transferred to capital account)		61,176		
		89,590		89,590

Balance Sheet as at March 31, 2017

Liabilities		*Amount* ₹	*Assets*		*Amount* ₹
Creditors		18,670	Cash at bank		13,870
Loan	15,000				
Add Interest on loan outstanding	900	15,900	Book debts	82,740	
Rent outstanding		150	*Less* Reserve for bad debts	(8,274)	74,466
Capital	1,50,000		Bills receivable		1,860
Add Net profit	61,176		Land and Building		42,580
	2,11,176		Furniture		5,130
Less Drawings	(6,300)	2,04,876	Plant and Machinery		31,640
			Insurance (prepaid)		50
			Closing stock		70,000
		2,39,596			2,39,596

Illustration 2

The following were the balances extracted from the books of Yogita as on March 31, 2017:

Debit Balances	*Amount* ₹	*Credit Balances*	*Amount* ₹
Cash in hand	540	Sales	98,780
Cash at bank	2,630	Return outwards	500
Purchases	40,675	Capital	62,000
Return inwards	680	Sundry creditors	6,300
Wages	8,480	Rent	9,000
Fuel and Power	4,730		
Carriage on sales	3200		
Carriage on purchases	2040		
Opening stock	5,760		
Building	32,000		
Freehold land	10,000		
Machinery	20,000		
Salaries	15,000		
Patents	7,500		
General expenses	3,000		
Insurance	600		
Drawings	5,245		
Sundry debtors	14,500		

Taking into account the following adjustments prepare trading and profit and loss account and balance sheet as on March 31, 2017 :

(a) Stock in hand on March 31, 2017, was ₹ 6,800.
(b) Machinery is to be depreciated at the rate of 10% and patents @ 20%.
(c) Salaries for the month of March, 2017 amounting to ₹ 1,500 were outstanding.
(d) Insurance includes a premium of ₹ 170 on a policy expiring on September 30, 2017.
(e) Further bad debts are ₹ 725. Create a provision @ 5% on debtors.
(f) Rent receivable ₹ 1,000.

Solution

Books of Yogita
Trading and Profit and Loss Account
for the year ended March 31, 2017

Dr. **Cr.**

Expenses/Losses		*Amount* ₹	*Revenues/Gains*		*Amount* ₹
Opening stock		5,760			
Purchases	40,675		Sales	98,780	
Less Return outwards	(500)	40,175	*Less* Return inwards	(680)	98,100
Wages		8,480	Closing stock		6,800
Fuel and Power		4,730			
Carriage on purchases		2,040			
Gross profit c/d		43,715			
		1,04,900			1,04,900
Salaries	15,000		Gross profit b/d		43,715
Add Outstanding salaries	1,500	16,500	Rent	9,000	
Carriage		3,200	*Add* Accrued rent	1,000	10,000
General expenses		3,000			
Insurance	600				
Less Prepaid insurance	(85)	515			
Further bad debts	725				
Add Provision for doubtful debts	689	1,414			
Depreciation : machinery	2,000				
Patent	1,500	3,500			
Net profit (transferred to capital account)		25,586			
		53,715			53,715

Balance Sheet as at March 31, 2017

Dr. **Cr.**

Liabilities		*Amount* ₹	*Assets*		*Amount* ₹
Sundry creditors		6,300	Cash in hand		540
			Cash in bank		2,630
Salaries outstanding		1,500	Sundry debtors	14,500	
Capital	62,000		*Less* Further	(725)	
			bad debts	13,775	
			Less Provision	(689)	13,086
			for bad debts		
Add Net profit 25,586			Insurance prepaid		85
	87,586		Stock		6,800
			Rent accrued		1,000
Less Drawings	(5,245)	82,341	Freehold land		10,000
			Building		32,000
			Machinery	20,000	
			Less Depreciation	(2,000)	18,000
			Patents	7,500	
			Less Depreciation	(1,500)	6,000
		90,141			90,141

Illustration 3

The following balances were extracted from the books of Shri R. Lal on March 31, 2017:

Account Title	*Amount* ₹	*Account Title*	*Amount* ₹
Capital	1,00,000	Rent (Cr.)	2,100
Drawings	17,600	Railway freight on sales	16,940
Purchases	80,000	Carriage inwards	2,310
Sales	1,40,370	Office expenses	1,340
Purchases return	2,820	Printing and Stationery	660
Stock on April 01, 2016	11,460	Postage and Telegram	820
Bad debts	1,400	Sundry debtors	62,070
doubtful debts reserve April 01, 2016	3,240	Sundry creditors	18,920
		Cash in bank	12,400
Rates and Insurance	1,300	Cash in hand	2,210
Discount (Cr.)	190	Office furniture	3,500
Bills receivable	1,240	Salaries and Commission	9,870
Sales returns	4,240	Addition to buildings	7,000
Wages	6,280		
Buildings	25,000		

Prepare the trading and profit and loss account and a balance sheet as on March 31, 2017 after keeping in view the following adjustments :

(i) Depreciate old building by ₹ 625 and addition to building at 2% and office furniture at 5%.
(ii) Write-off further bad debts ₹ 570.
(iii) Increase the bad debts reserve to 6% of debtors.
(iv) On March 31, 2017 ₹ 570 are outstanding for salary.
(v) Rent receivable ₹ 200 on March 31, 2017.
(vi) Interest on capital at 5% to be charged.
(vii) Unexpired insurance ₹ 240.
(viii) Stock was valued at ₹ 14,290 on March 31, 2017.

Solution

Books of Shri R. Lal
Trading and Profit and Loss Account
for the year ended March 31, 2017

Dr. **Cr.**

Expenses/Losses		*Amount* ₹	*Revenues/Gains*		*Amount* ₹
Opening stock		11,460	Sales	1,40,370	
Purchases	80,000		*Less* Sales Return	(4,240)	1,36,130
Less Purchase return	(2,820)	77,180			
Carriage inwards		2,310			
Wages		6,280	Closing stock		14,290
Gross profit c/d		53,190			
		1,50,420			1,50,420
Railway freight on sales		16,940	Gross profit c/d		53,190
			Rent	2,100	
Office expenses		1,340	*Add* Accrued rent	200	2,300
Postage and Telegram		820	Discount		190
Printing and Stationery		660			
Salary and Commission	9,870				
Add Outstanding salary	570	10,440			
Rates and Insurance	1,300				
Less unexpired insurance	(240)	1,060			
Bad debts	1,400				
Add Further bad debts	570				
Add New doubtful debts	3,690				
provision	5660				
Less Old provision for bad debts	(3,240)	2,420			
Interest on capital		5,000			
Depreciation on building		625			
Depreciation on addition to building		140			
Depreciation on furniture		175			
Net profit (transferred to capital account)		16,060			
		55,680			55,680

Balance Sheet as at March 31, 2017

Liabilities		Amount ₹	*Assets*		Amount ₹
Sundry creditors		18,920	Cash at bank		12,400
Outstanding salaries		570	Cash in hand		2,210
Capital	1,00,000		Bills receivable		1,240
Add Net profit	16,060				
Add Interest on capital	5,000				
	1,21,060		Debtors	62,070	
			Less Further bad debts	(570)	
Less Drawings	(17,600)	1,03,460		61,500	
			Less New provision for doubtful debts	(3,690)	57,810
			Accrued rent		200
			Unexpired insurance		240
			Building	25,000	
			Less Depreciation	(625)	24,375
			Addition to building	7,000	
			Less Depreciation	(140)	6,860
			Office furniture	3,500	
			Less Depreciation	(175)	3,325
			Closing stock		14,290
		1,22,950			1,22,950

Illustration 4

Prepare the trading profit and loss account of M/s Mohit Traders as on 31 March 2017 and draw necessary Journal entries and balance sheet as on that date :

Debit Balances	Amount ₹	*Credit Balances*	Amount ₹
Opening stock	24,000	Sales	4,00,000
Purchases	1,60,000	Return outwards	2,000
Cash in hand	16,000	Capital	1,50,000
Cash at bank	32,000	Creditors	64,000
Return inwards	4,000	Bills payable	20,000
Wages	22,000	Commission received	4,000
Fuel and Power	18,000		
Carriage inwards	6,000		
Insurance	8,000		
Buildings	1,00,000		
Plant	80,000		
Patents	30,000		
Salaries	28,000		
Furniture	12,000		
Drawings	18,000		
Rent	2,000		
Debtors	80,000		
	6,40,000		6,40,000

Adjustments

		₹
(a)	Salaries outstanding	12,000
(b)	Wages outstanding	6,000
(c)	Commission is accrued	2,400
(d)	Depreciation on building 5% and plant 3%	
(e)	Insurance paid in advance	700
(f)	Closing stock	12,000

Solution

Books of Mohit Traders
Journal

Date	*Particulars*	*L.F.*	*Debit Amount* ₹	*Credit Amount* ₹
2017 March 31	Salary A/c Dr. Wages A/c Dr. To Salary outstanding A/c To Wages outstanding A/c (Amount of salary and wages outstanding as on March 31, 2017)		12,000 6,000	 12,000 6,000
March 31	Prepaid Insurance A/c Dr. To Insurance A/c (Insurance paid in advance]		1,400	 1,400
March 31	Commission accrued A/c Dr. To Commission A/c (Commission accrued but not received)		2,400	 2,400
March 31	Depreciation A/c Dr. To Building A/c To Plant A/c (Depreciation charged on plant and building)		7,400	 5,000 2,400
March 31	Profit and Loss A/c Dr. To Capital A/c (Profit transferred to capital account)		1,23,700	 1,23,700

Books of Mohit Traders
Trading and Profit and Loss Account
for the year ended March 31, 2017

Dr. **Cr.**

Expenses / Losses		*Amount* ₹	*Revenue/ Gains*		*Amount* ₹
Opening stock		24,000	Sales	4,00,000	
Purchases	1,60,000		*Less* Returns	(4,000)	3,96,000
Less returns	(2,000)	1,58,000	Closing stock		12,000
Wages	22,000				
Add Outstanding wages	6,000	28,000			
Fuel and Power		18,000			
Carriage inwards		6,000			
Gross profit c/d		1,74,000			
		4,08,000			4,08,000
Salary	28,000		Gross Profit b/d		1,74,000
Add Outstanding salary	12,000	40,000	Commission received	(4,000)	
Insurances	8,000		*Add* Accrued commission	2,400	6,400
Less Prepaid	(700)	7,300			
Rent		2,000			
Depreciation on building		5,000			
Plants		2,400			
Net Profit (transferred to capital account)		1,23,700			
		1,80,400			1,80,400

Balance Sheet as at March 31, 2017

Liabilities		*Amount* ₹	*Assets*	*Amount* ₹
Creditors		64,000	Cash in hand	16,000
Bills payable		20,000	Cash at bank	32,000
Capital	1,50.000		Building	95,000
Add Net profit	1,23,700		Plant	77,600
	2,73,700		Patents	30,000
Less Drawings	(18,000)	2,55,700	Debtors	80,000
Outstanding salaries		12,000	Insurance prepaid	700
Outstanding wages		6,000	Commission accrued	2,400
			Furniture	12,000
			Closing stock	12,000
		3,57,700		3,57,700

Illustration 5

The following information has been extracted from the trial balance of M/s Randhir Transport Corporation.

Debit balances	*Amount* ₹	*Credit balances*	*Amount* ₹
Opening stock	40,000	Capital	2,70,000
Rent	2,000	Creditors	50,000
Plant and Machinery	1,20,000	Bills payable	50,000
Land and Buildings	2,55,000	Loan	1,10,000
Power	3,500	Discount	1,500
Purchases	75,000	Sales	1,50,000
Sales return	2,500	Provision for bad debts	1,000
Telegram and Postage	400	General reserves	50,000
Wages	4,500		
Salary	2,500		
Insurance	3,200		
Discount	1,000		
Repair and Renewals	2,000		
Legal charges	700		
Trade taxes	1,200		
Debtors	75,000		
Investment	65,000		
Bad debts	2,000		
Trade expenses	4,500		
Commission	1,250		
Travelling expenses	1,230		
Drawings	20,020		
	6,82,500		6,82,500

Adjustments

1. Closing stock for the year was ₹ 35,500.
2. Depreciation charged on plant and machinery 5% and land and building 6%.
3. Interest on drawing @ 6% and Interest on loan @ 5%.
4. Interest on investments @ 4%.
5. Further bad debts 2,500 and make provision for doubtful debts on debtors 5%.
6. Discount on debtors @ 2%.
7. Salary outstanding ₹ 200.
8. Wages outstanding ₹ 100.
9. Insurance prepaid ₹ 500.

You are required to make trading and profit and loss account and a balance sheet on March 31, 2017.

Solution

Books of Randhir Transport Corporation
Trading and Profit and Loss Account
for the year ended March 31, 2017

Expenses/Losses		*Amount* ₹	*Revenue/Gains*		*Amount* ₹
Opening stock		40,000	Sales	1,50,000	
Purchases		75,000	*Less* Sales return	(2,500)	1,47,500
Wages	4,500		Closing stock		35,500
Add Outstanding wages	100	4,600			
Power		3,500			
Gross profit c/d		59,900			
		1,83,000			1,83,000
Rent		2,000	Gross profit b/d		59,900
Telegram and Postage		400	Outstanding interest		2,600
			on investment		
Salary	2,500		Discount		1,500
Add Outstanding salary	200	2,700	Interest on drawings		1,200
Insurance	3,200				
Less Prepaid	(500)	2,700			
Discount		1,000			
Repair and Renewals		2,000			
Legal charges		700			
Trade taxes		1,200			
Trade expenses		4,500			
Outstanding interest on loan		5,500			
Commission		1,250			
Travelling expenses		1,230			
Discount on debtors		1,450			
Depreciation on Plant and Machinery		6,000			
Depreciation on Land and Building		15,300			
Bad debts	2,000				
Add Further bad debts	2,500				
Add New provision	3,553				
	8,053				
Less Old provision	(1,000)	7,053			
Net Profit (transferred to capital account)		10,217			
		65,200			65,200

Balance Sheet as at March 31, 2017

Liabilities		Amount ₹	*Assets*		Amount ₹
Creditors		50,000	Debtors	75,000	
Bills payable		50,000	*Less* Further	(2,500)	
Loan	1,10,000		bad debts	72,500	
Add Outstanding interest	5,500	1,15,500	*Less* Discount	(1,450)	
General reserve		50,000		71,050	
Capital	2,70,000		*Less* New Provision	(3,553)	67,497
Add Net Profit	10,217		Investment		65,000
	2,80,217		Outstanding interest on investment		2,600
Less Drawings	(20,020)		Insurance pre-paid		500
	2,60,197				
Less Interest on drawings	1,200	2,58,997	Plant and Machinery		1,14,000
Outstanding salary		200	Land and Building		2,39,700
Outstanding wages		100	Closing stock		35,500
		5,24,797			5,24,797

Illustration 6

From the following balances of M/s Keshav Bros. You are required to prepare trading and profit and loss account and a balance sheet of March 31, 2017.

Debit balances	Amount ₹	*Credit balances*	Amount ₹
Plant and Machinery	1,30,000	Sales	3,00,000
Debtors	50,000	Return outwards	2,500
Interest	2,000	Creditors	2,50,000
Wages	1,200	Bills payable	70,000
Salary	2,500	Provision for bad debts	1,550
Carriage inwards	500	Capital	2,20,000
Carriage outwards	700	Rent received	10,380
Return inwards	2,000	Commission received	16,000
Factory rent	1,450		
Office rent	2,300		
Insurance	780		
Furniture	22,500		
Buildings	2,80,000		
Bills receivable	3,000		
Cash in hand	22,500		
Cash at bank	35,000		
Commission	500		
Opening stock	60,000		
Purchases	2,50,000		
Bad debts	3,500		
	8,70,430		8,70,430

Adjustment

(i) Provision for bad debts @ 5% and further bad debts ₹ 2,000.
(ii) Rent received in advance ₹ 6,000.
(iii) Prepaid insurance ₹ 200.
(iv) Depreciation on furniture @ 5%, plant and machinery @ 6%, building @ 7%.

Solution

Books of Keshav Bros.
Trading and Profit and Loss Account
for the year ended March 31, 2017

Dr. **Cr.**

Expenses/Losses		*Amount* ₹	*Revenue/Gains*		*Amount* ₹
Opening stock		60,000	Sales	3,00,000	
Purchases	2,50,000		*Less* Return	(2,000)	2,98,000
Less Returns	(2,500)	2,47,500	Closing stock		70,000
Wages		1,200			
Carriage inwards		500			
Factory rent		1,450			
Gross profit c/d		57,350			
		3,68,000			3,68,000
Interest		2,000	Gross profit b/d		57,350
Salary		2,500	Rent received	10,380	
Carriage outwards		700	*Less* Advance rent	(6,000)	4,380
Office Rent		2,300	Commission received		16,000
Insurance	780				
Less Prepaid insurance	(200)	580			
Depreciation on furniture		1,125			
Depreciation on Plant and Machinery		7,800			
Depreciation on building		19,600			
Commission		500			
Bad debts	3,500				
Add Further bad debts	2,000				
Add New provision	2,400				
	7,900				
Less Old provision	(1,550)	6,350			
Net Profit (transferred to capital account)		34,275			
		77,730			77,730

Balance Sheet as at March 31, 2017

Liabilities		Amount ₹	*Liabilities*		Amount ₹
Creditors		2,50,000	Cash In hand		22,500
Bills payable		70,000	Cash at bank		35,000
Advance rent		6,000	Bills receivable		3,000
Capital	2,20,000				
Add Net profit	34,275	2,54,275	Prepaid insurance		200
			Debtors	50,000	
			Less Further	(2,000)	
			bad debts	48,000	
			Less New provision	(2,400)	45,600
			Plant and Machinery		1,22,200
			Furniture		21,375
			Buildings		2,60,400
			Closing stock		70,000
		5,80,275			5,80,275

Illustration 7

The following information have been taken from the trial balance of M/s Fair Brothers Ltd. You are required to prepare the trading and profit and loss account and a balance sheet as at March 31, 2017.

Debit Balances	Amount ₹	*Credit balances*	Amount ₹
Cash	20,000	Sales	3,61,000
Wages	45,050	Loan 12% (1.7.2016)	40,000
Return outwards	4,800	Discount received	1,060
Bad debts	4,620	Return (Purchase)	390
Salaries	16,000	Creditors	60,610
Octroi	1,000	Capital	75,000
Charity	250		
Machinery	32,000		
Debtors (Including a dishonoured bill of ₹1,600)	60,000		
Stock	81,600		
Purchases	2,60,590		
Repairs	3,350		
Interest on loan	1,200		
Sales tax	1,600		
Insurance	2,000		
Rent	4,000		
	5,38,060		5,38,060

Adjustments

1. Wages include ₹ 4,000 for erection of new machinery on April 01, 2016.
2. Provide 5% depreciation on furniture.
3. Salaries unpaid ₹1,600.
4. Closing stock ₹ 81,850.
5. Create a provision at 5% on debtors.
6. Half the amount of bill is recoverable.
7. Rent is paid up to July 30, 2017.
8. Insurance unexpired ₹ 600.

Books of Fair Brothers Ltd.
Trading and Profit and Loss Account
for the year ended March 31, 2017

Dr. **Cr.**

Expenses/Losses		Amount ₹	*Revenue/Gains*		Amount ₹
Opening stock		81,600	Sales	3,61,000	
Purchases	2,60,590		*Less* Sales return	(4,800)	3,56,200
Less Purchases return	(390)	2,60,200	Closing stock		81,850
Wages	45,050				
Less Prepaid wages including erection of machines	(4,000)	41,050			
Octroi		1,000			
Gross profit c/d		54,200			
		4,38,050			4,38,050
Salaries	16,000		Gross profit b/d		54,200
Add Outstanding salary	1,600	17,600	Discount received		1,060
Repairs		3,350			
Bad debts	4,620				
Add Further bad debts	800				
Add New provision	2,960	8,380			
Interest on loan	1,200				
Add Outstanding interest	2,400	3,600			
Sales tax		1,600			
Insurance	2,000				
Less Prepaid insurance	(600)	1,400			
Charity		250			
Rent	4,000				
Less Prepaid rent	1,000	3,000			
Depreciation on machinery		1,800			
Net profit (transferred to capital account)		14,280			
		55,260			55,260

Balance Sheet as at March 31, 2017

Liabilities		*Amount* ₹	*Assets*		*Amount* ₹
Creditors		60,610	Cash		20,000
Outstanding salaries		1,600	Debtors	60,000	
Loan		40,000	*Less* Bad debts	<u>(800)</u>	
Outstanding interest		2,400	*Less* Provision	<u>2,960</u>	56,240
Capital	75,000		Prepaid rent		1,000
Add Net profit	<u>14,280</u>	89,280	Unexpired insurance		600
			Machinery	32,000	
			Add Erection	<u>4,000</u>	
			Wages	36,000	
			Less Depreciation	<u>(1,800)</u>	34,200
			Closing stock		81,850
		1,93,890			1,93,890

Illustration 8

From the following balance extracted from the books of of M/s Hariharan Brother, you are require to prepare the trading and profit and loss account and a balance sheet as on December 31, 2017.

Debit balance	*Amount* ₹	*Credit balance*	*Amount* ₹
Opening stock	16,000	Capital	1,00,000
Purchases	40,000	Sales	1,60,000
Return inwards	3,000	Return outwards	800
Carriage inwards	2,400	Apprenticeship premium	3,000
Carriage outwards	5,000	Bills payable	5,000
Wages	6,600	Creditors	31,600
Salaries	11,000		
Rent	2,200		
Freight and Dock	4,800		
Fire Insurance premium	1,800		
Bad debts	4,200		
Discount	1,000		
Printing and Stationery	500		
Rates and Taxes	700		
Travelling expenses	300		
Trade expenses	400		
Business premises	1,10,000		
Furniture	5,000		
Bills receivable	7,000		
Debtors	40,000		
Machine	9,000		
Loan	10,000		
Investment	6,000		
Cash in hand	500		
Cash at bank	7,000		
Proprietor's withdrawal	6,000		
	3,00,400		3,00,400

Adjustments

1. Closing stock ₹ 14,000.
2. Wages outstanding ₹ 600, Salaries Outstanding ₹ 1,000, Rent outstanding ₹ 200.
3. Fire Insurance premium includes ₹ 1,200 paid in July 01, 2016 to run for one year from July 01, 2016 to June 30, 2017.
4. Apprenticeship Premium is for three years paid in advance on January 01, 2016.
5. Stationery bill for ₹ 60 remain unpaid.
6. Depreciation on Premises @ 5%, furniture @ 10%, Machinery @ 10%.
7. Interest on loan given accrued for one year @ 7%.
8. Interest on investment @ 5% for half year to December 31, 2016 has accrued.
9. Interest on capital to be allowed at 5% for one year.
10. Interest on drawings to be charged to him ascertained for the year ₹ 160.

Solution

Books of Hariharan Bros.

Trading and Profit and Loss Account for the year ended December 31, 2017

Dr. **Cr.**

Expenses/Losses		Amount ₹	*Revenue/Gains*		Amount ₹
Opening stock		16,000	Sales	1,60,000	
Purchases	40,000		*Less* Sales return	(3,000)	1,57,000
Less purchases return	(800)	39,200	Closing stock		14,000
Wages	6,600				
Add Outstanding Wages	600	7,200			
Carriage inwards		2,400			
Freight and Dock		4,800			
Gross profit c/d		1,01,400			
		1,71,000			1,71,000
Salaries	11,000		Gross profit b/d		1,01,400
Add Outstanding salary	1,000	12,000	Apprenticeship premium	3,000	
Carriage outwords		5,000			
Rates and Taxes		700	*Less* Advance premium	(2,000)	1,000
Printing and Stationery	500		Accrued interest on loan		700
Add Outstanding bill	60	560	Interest on drawings		160
Trade expenses		400	Accrued interest on investment		150
Travelling expenses		300			
Fire insurance	1,800				
Less Prepaid insurance	(600)	1,200			
Bad debts		4,200			
Rent	2,200				
Add Outstanding rent	200	2,400			
Interest on capital		5,000			
Depreciation on premises		5,500			
Depreciation on furniture		500			
Depreciation on machinery		900			
Discount		1,000			
Net profit (transferred to capital account)		63,750			
		1,03,410			1,03,410

Balance Sheet as at December 31, 2017

Liabilities		*Amount* ₹	*Assets*		*Amount* ₹
Capital	1,00,000		Premises	1,10,000	
Add Interest on capital	5,000		*Less* Depreciation	(5,500)	1,04,500
Add Net profit	63,750				
	1,68,750		Furniture		4,500
Less drawings	(6,000)				
	1,62,750		Machinery		8,100
Less Interest on drawings	(160)	1,62,590			
Creditors		31,600	Debtors		40,000
Bills payable		5,000	Bills receivable		7,000
Outstanding wages		600	Cash in hand		500
Outstanding salaries		1,000	Cash at bank		7,000
Outstanding rent		200	Loan	10,000	
Outstanding stationery		60	*Add* accrued interest	700	10,700
Apprenticeship premium (advance)		2,000	Investments	6,000	
			Add accrued interest	150	6,150
			Pre-paid insurance		600
			Closing stock		14,000
		2,03,050			2,03,050

Illustration 9

The following balances have been extracted from the trial balance of M/s Kolkata Ltd. You are required to prepare the trading and profit and loss account on dated March 31, 2017. Also prepare balance sheet on that date.

Debit balances	*Amount* ₹	*Credit balances*	*Amount* ₹
Opening stock	6,000	Capital	20,000
Furniture	1,200	Sales	41,300
Drawings	2,800	Purchases return	4,000
Cash in hand	3,000	Bank overdraft	4,000
Purchases	24,000	Bad debts provision	400
Sales return	2,000	Creditors	5,000
Establishment expenses	4,400	Commission	100
Bad debts	1,000	Bills payable	5,000
Debtors	10,000	Apprenticeship premium	500
Carriage	1,000		
Bills receivable	6,000		
Bank deposits	8,000		
Wages	1,000		
Trade expenses	500		
Bank charges	400		
General expenses	1,000		
Salaries	2,000		
Insurance	1,500		
Postage and Telegram	500		
Rent, Rates and Taxes	2,000		
Coal, Gas, Water	2,000		
	80,300		80,300

Adjustments

1. Outstanding salaries ₹ 100. Rent and taxes ₹ 200, Wages ₹ 100.
2. Unexpired insurance ₹ 500.
3. Commission is received in advances ₹ 50.
4. Interest ₹ 500 is to be received on bank deposits.
5. Interest on bank overdraft ₹ 750.
6. Depreciation on furniture @ 10%.
7. Closing stock ₹ 9,000.
8. Further bad debts ₹ 200 New provision @ 5% on debtors.
9. Apprenticeship premium received in advance ₹ 100.
10. Interest on drawings @ 6%.

Solution

Books of Kolkata Ltd.

Trading and Profit and Loss Account for the year ended as at March 31, 2017

Dr. **Cr.**

Expenses / Losses		*Amount* ₹	*Revenue/ Gains*		*Amount* ₹
Opening stock		6,000	Sales	41300	
Purchases	24,000		*Less* sales return	(2,000)	39,300
Less purchases return	(4,000)	20,000	Closing stock		9,000
Wages	1,000				
Add Outstanding wages	100	1,100			
Coal, Gas, Water		2,000			
Gross profit c/d		19,200			
		48,300			48,300
Establishment expenses		4,400	Gross profit b/d		19,200
Carriage		1,000	Commission	100	
Trade expenses		500	*Less* Advance commission	(50)	50
Bank charges		400	Accrued interest on deposits		500
General expenses		1,000	Apprenticeship premium	500	
Salaries	2,000		*Less* Advance received	100	400
Add Outstanding salary	100	2,100	Interest on drawings		168
Insurance	1,500				
Less Prepaid insurance	(500)	1,000			
Postage and Telegram		500			
Rent, rates and Taxes		2,200			
Interest on bank overdraft		750			
Bad debts	1,000				
Add Further bad debts	200				
Add New provision	490				
	1,690				
Less Old provision	(400)	1,290			
Depreciation on furniture		120			
Net profit (transferred to capital account)		5,058			
		20,318			20,318

Balance Sheet as at March 31, 2017

Liabilities		*Amount* ₹	*Assets*		*Amount* ₹
Capital	2,00,00		Insurance prepaid		500
Net profit	5,058		Bank deposits	8,000	
	25,058				
Less Drawings	(2,800)		*Add* outstanding interest	500	8,500
	22,258				
Less Interest on drawings	(168)	22,090	Furniture		1,080
Creditors		5,000	Cash in hand		3,000
Commission received in advance		50	Debtors	10,000	
Apprenticeship premium		100	*Less* Further	(200)	
			bad debts	9,800	
Outstanding wages		100	*Less* Provision for	(490)	9,310
			doubtful debts		
Outstanding salaries		100	Bills receivable		6,000
Outstanding rent,		200			
rates, taxes			Closing stock		9,000
Bank overdraft	4,000				
Add Outstanding interest	750	4,750			
Bills payable		5,000			
		37,390			37,390

Illustration 10

Prepare the trading and profit and loss account of M/s Roni Plastic Ltd. from the following trial balance and a balance sheet as at March 31, 2017.

Debit balances	*Amount* ₹	*Credit balances*	*Amount* ₹
Drawings	6,000	Creditors	16,802
Sundry debtors	38,200	Capital	60,000
Carriage outwards	2,808	Loan on mortgage	17,000
Establishment expenses	16,194	Bad debts provision	1,420
Interest on loan	400	Sales	2,22,486
Cash in hand	6,100	Purchases return	2,692
Stock	11,678	Discount	880
Motor car	18,000	Bills payable	5,428
Cash at bank	9,110	Rent received	500
Land and Buildings	24,000		
Bad debts	1,250		
Purchases	1,34,916		
Sales return	15,642		
Advertisement	4,528		
Carriage inward	7,858		
Rates, taxes, insurance	7,782		
General expenses	8,978		
Bills receivable	13,764		
	3,27,208		3,27,208

Adjustments

1. Depreciation on land and building at @ 5% and Motor vehicle at @ 15%.
2. Interest on loan is @ 5% taken on April 01, 2016.
3. Goods costing Rs1,200 were sent to a customer on sale on return basis for ₹ 1,400 on March 30, 2017 and has been recorded in the books as actual sales.
4. Salaries amounting to ₹ 1,400 and Rates amounting to ₹ 800 are due.
5. The bad debts provision is to be brought up to @ 5% on sundry debtors.
6. Closing stock was ₹ 13,700.
7. Goods costing ₹ 1,000 were taken away by the proprietor for his personal use but not entry has been made in the books of account.
8. Insurance pre-paid ₹ 350.
9. Provide the manager's commission at @ 5% on Net profit after charging such commission.

Solution

Books of Roni's Plastic Ltd.

Trading and Profit and Loss Account for the year ended March 31, 2017

Dr. **Cr.**

Expenses/Losses		Amount ₹	*Revenue/Gains*		Amount ₹
Opening stock		11,678	Sales	2,22,486	
Purchases	1,34,916		*Less* Sales	15,642	
			return	2,06,844	
Less Purchases return	2,692		*Less* Return basis	(1,400)	2,05,444
	1,32,224				
Less Goods withdrawn	(1,000)	1,31,224	Closing stock		13,700
Carriage inwards		7,858			
Gross profit c/d		68,384			
		2,19,144			2,19,144
Outstanding salaries		1,400	Gross profit b/d		68,384
Carriage outwards		2,808	Discount		880
Establishment expenses		16,194	Rent		500
Bad debts	1,250				
Add New provision	1,840				
	3,090				
Less Old provision	(1,420)	1,670			
Rates and Taxes	7,782				
Less Prepaid	(350)				
	7,432				
Add Outstanding	800	8,232			
Advertisement		4,528			
Interest on loan	400				
Add Outstanding Interest	450	850			
General expenses		8,978			
Depreciation on :					
Land and Building	1,200				
Motor car	2,700	3,900			
Manager commission		1,010			
Net profit (transferred to capital account)		20,194			
		69,764			69,764

Balance Sheet as at March 31, 2017

Liabilities		*Amount* ₹	*Assets*		*Amount* ₹
Capital	60,000		Cash in hand		6,100
Add Net profit	20,194				
	80,194		Cash at bank		9,110
Less Drawings	(6,000)				
	(74,194)		Bills receivable		13,764
Less Goods withdrawn	1,000	73,194	Debtors	38,200	
loan	17,000		*Less* sales	(1,400)	
			return basis	36,800	
Add interest	450	17,450	*Less* New provisions	(1,840)	34,960
Bills payable		5,428	Land and Building	24,000	
			Less Depreciation	(1,200)	22,800
Creditors		16,802	Motor car	18,000	
			Less Depreciation	(2,700)	15,300
Outstanding Salaries		1,400	Prepaid insurance		350
Outstanding Rates Taxes		800	Closing stock		13,700
Manager commission		1,010			
		1,16,084			1,16,084

Do it yourself

1. From the following Trial Balance of M/s Karan on March 31, 2017, prepare a Trading and Profit and Loss Account and a Balance Sheet:

Particulars	*Dr. (₹)*	*Cr. (₹)*
Creditors/Debtors	2,05,000	96,000
Bills Payable/Bills Receivables	10,000	9,600
15% Loan	—	50,000
Sales/Purchases	2,80,000	12,00,000
Discount	4,000	3,000
Bad Debt Recovered/Bad Debt	5,000	14,000
Interest on Investments	—	6,000
Interest on Loan	8,000	4,000
Vehicles	6,50,000	—
Stock	3,00,000	—
10% Investments (Purchased on 30th September, 2016)	1,80,000	—
Cash in hand	20,000	—
Cash at bank	37,000	—

Capital /Drawings	9,000	4,50,000
Carriage on Purchases	1,600	—
Carriage on sales	4,400	—
Primary Packing Expenses	2,000	—
Rent	3,000	7,000
Insurance	3,600	—
Office & Administrative Expenses	4,000	—
Discount	2,000	3,000
10% Loan	60,000	—
Delivery Expenses	4,000	—
Selling and Distribution Expenses	10,000	—
Income Tax	2,000	—
Outstanding Salary	—	1,000
Sales Tax Collected	—	3,000
Apprenticeship Premium	—	6,000
Returns	1,000	4,000
Live Stock	53,000	—
Commission	10,000	12,000
	18,68,600	**18,68,600**

(I) Additional Information

(a) The cost of closing stock was ₹ 50,000 but the market value was ₹ 40,000.

(b) Rent is due but not yet paid for March 2017 ₹ 500.

(c) Insurance carried forward ₹ 900.

(d) 1/3 of the commission received is in respect of work to be done in next year and commission paid represents only 1/4 of the actual commission to be paid during the year.

(e) Vehicles were valued at 90% of the book value.

(f) The Horse worth ₹ 30,000 was donated to a charitable organization.

(II) Name the accounting concept followed while treating the adjustment (a), (b) and (d) above?

2. The following balances were extracted from the books of Avika Enterprises on 31st March 2017.

Particulars	*Dr. (₹)*	*Cr. (₹)*
Capital	—	24,500
Drawings	2,000	—
General Expenses	2,500	—
Buildings	21,000	—
Machinery	9,340	—
Stock (1.4.2016)	16,200	—
Power	2,240	—
Taxes and Insurance	1,315	—
Wages	7,200	—
Debtors and Creditors	6,280	2,500
Charity	105	—
Bad debts	550	—
Bank Overdraft	—	11,180
Sales and Purchases	13,500	65,360
Stock (31.03.2017)	23,500	—
Motor Vehicles	2,000	—
Motor Vehicle expenses	500	—
Provision for doubtful debts	—	900
Commission	—	1,320
Trade expenses	1,280	—
Bills payable	—	3,850
Cash	100	—
Total	**1,09,610**	**1,09,610**

You are required to :

(i) Prepare final accounts for the year ended March 31, 2017 after giving effect to the following adjustments:

(a) $1/5^{th}$ of General expenses and Taxes & Insurance to be charged to factory and the balance to the office.

(b) Write off a further Bad debts of ₹ 160 and maintain the provision for doubtful debts at 5% and create a provision for discount on Debtors at 10%.

(c) Depreciate Machinery at 10% and Motor Vehicles by ₹ 240

(d) Provide ₹ 700 for interest on Bank Overdraft to be paid.

(e) ₹ 50 is to be carried forward to next year out of Insurance.

(f) Provide for Manager's Commission at 10% on the Net Profit after charging such commission.

(ii) Name the accounting concepts which are followed while treating the adjustment (a), (b) and (d) above?

3. The following balances were extracted from the books of Anushka Enterprises on March 31, 2017.

Particulars	*Amount (₹)*
Creditors	2,00,000
Loan from SBI	2,00,000
Sales	12,30,000
Debtors	2,00,000
Dividend Received on Shares	20,000
Bad Debt	2,000
Bad Debt Recovered	12,000
Bills Receivables	1,50,000
Interest on Loan	50,000
Goodwill	4,00,000
Purchases	2,10,000
Stock (1.4.2016)	1,00,000
Cash at Bank	3,00,000
Factory Repairs	40,000
Capital	7,24,000
Audit Fees	6,000
Petty Expenses	4,000
Salary	70,000
Life Insurance Premium	15,000
Premises	4,00,000
Insurance	25,000
Sales Returns	12,000
Employees Provident Fund	60,000
Provision for Doubtful Debts	75,000
Delivery Expenses	8,000
Dock Charges (Outward)	6,000
Packing Charges	17,000
Advance Salary	30,000
Warehouse Insurance	13,000
Loss in Exchange	9,000
Bank Charges	5,000
Bonus from Suppliers	3,45,000
Purchases Returns	10,000
Machinery	8,00,000
Discounting of Bills of Exchange	1,000

You are required to :

(i) Prepare final accounts for the year ended March 31, 2017 after giving effect to the following adjustments:
  (a) Insurance is due but not yet paid for 31 March 2017 ₹ 500.
  (b) Salary Unexpired ₹ 900.
  (c) Write off a further Bad debts ₹ 2,000 and maintain the provision for bad debts at 5% on Debtors.
  (d) Machinery is to be valued at 90% less than the book value.
  (e) Goods kept in warehouse worth ₹ 10,0000 were used for staff welfare.
  (f) Half of the Bills Receivable were irrecoverable.
  (h) Closing Stock is ₹ 40,000

(ii) Name the accounting concepts which will be followed while treating the adjustment (a), (b), (c) and (d) above?

4. The following balances were extracted from the books of Ankita Enterprises on March 31, 2017.

Particulars	*Dr. (₹)*	*Cr. (₹)*
Capital	—	1,92,680
Cash	—	60
Purchases	17,980	—
Sales	—	22,120
Bank	1,770	—
Plant	450	—
Freehold Land	3,000	—
Heating and Lighting	130	—
Bills Receivables	—	1,650
Return Inwards	—	60
Salaries	2,150	—
Creditors	—	63,780
Debtors	11,400	—
Stock (as on 01.04.2016)	6,000	—
Printing	450	—
Bills Payable	3,750	—
Taxes	380	—
Discount Received	890	—
Commission (Dr.)	—	800
Trucks	25,000	—
Furniture	—	12,000
Wages	2,00,000	—
Drawings	—	340
Returns Outward	400	—
	2,73,750	**2,93,490**

You are required to :

(i) Redraft the Trial Balance.

(ii) Prepare final accounts for the year ended March 31, 2017 after giving effect to the following adjustments:

   (a) Taxes are paid for 10 months only.
   (b) Creditors worth ₹ 780 have accepted bills payables.
   (c) Depreciate furniture by 10%.
   (d) Trucks were depreciated to the extent of ₹ 21,000.
   (e) Wages includes ₹ 2,000 for the making of Furniture.
   (f) Closing Stock is of ₹ 20,000.
   (g) Provide for Manager's Commission at 10% on the Net Profit before charging such commission.
   (h) Land was acquired on 1st April, 2016 by paying a claim at 50% less than market value to the owner.

(iii) Name the accounting principles which will be followed while treating the adjustment (a), (c) and (e) above?
(Correct total of Trial Balance ₹ 2,83,620)

Key Terms Introduced in the Chapter

- Outstanding /Accrued expenses
- Accrued Incomes
- Depreciation
- Provision for doubtful debts
- Managers Commission
- Prepaid/Unexpired expenses
- Income received in advance
- Bad Debts
- Provision for discount on debtors
- Interest on Capital

Summary with Reference to Learning Objectives

1. *Need for adjustments* : For the preparation of financial statements, it is necessary that all the adjustments arising out of the accrual basis of accounting are made at the end of the accounting period. Another important consideration in the preparation of final accounts with adjustments, is the distinction between capital and revenue items. Entries which are recorded to give effect to these adjustments are known as adjusting entries.
2. *Outstanding expenses* : At the end of the accounting period sometimes a business enterprises is left with some unpaid expenses due to one reason or another. Such expenses are termed as outstanding expenses.

3. *Prepaid expenses* : At the end of the accounting year, it is found that the benefits of some expenses have not been fully received; a portion of total benefits would be received in the next accounting year. That portion of the expense, the benefit of which will be received during the next accounting period is known as 'prepaid expenses'.
4. *Accrued Income* : These are certain items is received by a business enterprise but the whole amount of it does not belong to the next period. Such portion of income which belongs to the next accounting period is income received in advance and is known as "unearned income".
5. *Depreciation* : Depreciation is the decline in the value of an asset an account of wear and tear or passage of time or with. It actually amounts to writing off a portion of the cost of an asset which has been used in the business for the purpose of earning profits. In the balance sheet, the asset is shown at loss minus the amount of depreciation.
6. *Provisions for bad and doubtful debts* : It is a normal feature of business operations that some debts prove irrecoverable which means that the amount to the realised from them becomes had to view of this. An attempt is made to bring in a certain element of certainty in the amount in respect of bad debts charged every year against incomes.

Questions for Practice

Short Answers

1. Why is it necessary to record the adjusting entries in the preparation of final accounts?
2. What is meant by closing stock? Show its treatment in final accounts?
3. State the meaning of:
   (a) Outstanding expenses
   (b) Prepaid expenses
   (c) Income received in advance
   (d) Accrued income
4. Give the Performa of income statement and balance in vertical form.
5. Why is it necessary to create a provision for doubtful debts at the time of preparation of final accounts?
6. What adjusting entries would you record for the following :
   (a) Depreciation
   (b) Discount on debtors
   (c) Interest on capital
   (d) Manager's commission
7. What is meant by provision for discount on debtors?
8. Give the journal entries for the following adjustments :
   (a) Outstanding salary ₹ 3,500.
   (b) Rent unpaid for one month at ₹ 6,000 per annum.
   (c) Insurance prepaid for a quarter at ₹ 16,000 per annum.
   (d) Purchase of furniture costing ₹ 7,000 entered in the purchases book.

Long Answers

1. What are adjusting entries? Why are they necessary for preparing final accounts?
2. What is meant by provision for doubtful debts? How are the relevant accounts prepared and what journal entries are recorded in final accounts? How is the amount for provision for doubtful debts calculated?
3. Show the treatment of prepaid expenses depreciation, closing stock at the time of preparation of final accounts when:
   (a) When given inside the trial balance?
   (b) When given outside the trial balance?

Numerical Questions

1. Prepare a trading and profit and loss account for the year ending March 31, 2017. from the balances extracted of M/s Rahul Sons. Also prepare a balance sheet at the end of the year.

Account Title	*Amount* ₹	*Account Title*	*Amount* ₹
Stock	50,000	Sales	1,80,000
Wages	3,000	Purchases return	2,000
Salary	8,000	Discount received	500
Purchases	1,75,000	Provision for doubtful debts	2,500
Sales return	3,000	Capital	3,00,000
Sundry Debtors	82,000	Bills payable	22,000
Discount allowed	1,000	Commission received	4,000
Insurance	3,200	Rent	6,000
Rent Rates and Taxes	4,300	Loan	34,800
Fixtures and fittings	20,000		
Trade expenses	1,500		
Bad debts	2,000		
Drawings	32,000		
Repair and renewals	1,600		
Travelling expenses	4,200		
Postage	300		
Telegram expenses	200		
Legal fees	500		
Bills receivable	50,000		
Building	1,10,000		
	5,51,800		5,51,800

Adjustments

1. Commission received in advance ₹1,000.
2. Rent receivable ₹ 2,000.
3. Salary outstanding ₹ 1,000 and insurance prepaid ₹ 800.

4. Further bad debts ₹ 1,000 and provision for doubtful debts @ 5% on debtors and discount on debtors @ 2%.
5. Closing stock ₹ 32,000.
6. Depreciation on building @ 6% p.a.

(*Ans* : Gross loss ₹17,000 ; Net loss ₹43,189 ; Total balance sheet ₹2,83,611)

2. Prepare a trading and profit and loss account of M/s Green Club Ltd. for the year ending March 31, 2017. from the following figures taken from his trial balance :

Account Title	*Amount* ₹	*Account Title*	*Amount* ₹
Opening stock	35,000	Sales	2,50,000
Purchases	1,25,000	Purchase return	6,000
Return inwards	25,000	Creditors	10,000
Postage and Telegram	600	Bills payable	20,000
Salary	12,300	Discount	1,000
Wages	3,000	Provision for bad debts	4,500
Rent and Rates	1,000	Interest received	5,400
Packing and Transport	500	Capital	75,000
General expense	400		
Insurance	4,000		
Debtors	50,000		
Cash in hand	20,000		
Cash at bank	40,000		
Machinery	20,000		
Lighting and Heating	5,000		
Discount	3,500		
Bad debts	3,500		
Investment	23,100		
	3,71,900		3,71,900

Adjustments

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

(*Ans.* : Gross Profit ₹79.000 ; Net Profit ₹52,565 ; Total Balance Sheet ₹1,57,565).

3. The following balances has been extracted from the trial of M/s Runway Shine Ltd. Prepare a trading and profit and loss account and a balance sheet as on March 31, 2017.

Account Title	*Amount* ₹	*Account Title*	*Amount* ₹
Purchases	1,50,000	Sales	2,50,000
Opening stock	50,000	Return outwards	4,500
Return inwards	2,000	Interest received	3,500
Carriage inwards	4,500	Discount received	400
Cash in hand	77,800	Creditors	1,25,000
Cash at bank	60,800	Bill payable	6,040
Wages	2,400	Capital	1,00,000
Printing and Stationery	4,500		
Discount	400		
Bad debts	1,500		
Insurance	2,500		
Investment	32,000		
Debtors	53,000		
Bills receivable	20,000		
Postage and Telegraph	400		
Commission	200		
Interest	1,000		
Repair	440		
Lighting Charges	500		
Telephone charges	100		
Carriage outward	400		
Motor car	25,000		
	4,89,440		4,89,440

Adjustments

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

(*Ans.* : Gross profit ₹ 78,000 ; Net profit ₹ 66,010, Total balance sheet ₹ 2,97,350).

4. From the following Trial Balance you are required to prepare trading and profit and loss account for the year ending March 31, 2017 and Balance Sheet on that date.

Particulars	*Amount* ₹	*Particulars*	*Amount* ₹
Opening stock	25,000	Sales	7,00,000
Furniture	16,000	Creditors	72,500
Purchases	5,55,300	Bank Overdraft	50,000
Carriage Inwards	4,700	Provision for bad and doubtful debts	2,100
Bad debts	1,800		
Wages	52,000	Discount	500
Debtors	80,000	Capital	2,00,000
Sales Return	15,000	Purchases Return	20,000
Rent	24,000		
Miscellaneous Expenses	3,400		
Salaries	68,000		
Cash	8,900		
Drawings	14,000		
Buildings	1,60,000		
Advertising	10,000		
Interest on Bank Overdraft	7,000		
	10,45,100		10,45,100

Adjustments

1. Closing stock valued at ₹ 36,000.
2. Private purchases amounting to ₹ 5000 debited to purchases account.
3. Provision for doubtful debts @ 5% on debtors.
4. Sign board costing ₹ 4,000 includes in advertising.
5. Depreciate furniture by 10%.

(*Ans* : Gross Profit ₹1,09,000; Net loss ₹ 4,600; Total balance sheet ₹2,98,900).

5. From the following information prepare trading and profit and loss account of M/s Indian sports house for the year ending March 31, 2017.

Account Title	*Amount* ₹	*Account Title*	*Amount* ₹
Drawings	20,000	Capital	2,00,000
Sundry debtors	80,000	Return outwards	2,000
Bad debts	1,000	Bank overdraft	12,000
Trade Expenses	2,400	Provision for bad debts	4,000
Printing and Stationery	2,000	Sundry creditors	60,000
Rent Rates and Taxes	5,000	Bills payable	15,400
Feright	4,000	Sales	2,76,000
Return inwards	7,000		
Opening stock	25,000		
Purchases	1,80,000		
Furniture and Fixture	20,000		
Plant and Machinery	1,00,000		
Bills receivable	14,000		
Wages	10,000		
Cash in hand	6,000		
Discount allowed	2,000		
Investments	40,000		
Motor car	51,000		
	5,69,400		5,69,400

Adjustments

1. Closing stock was ₹45,000.
2. Provision for doubtful debts is to be maintained @ 2% on debtors.
3. Depreciation charged on : furniture and fixture @ 5%, plant and Machinery @ 6% and motor car @ 10%.
4. A Machine of ₹30,000 was purchased on October 01, 2016.
5. The manager is entitle to a commission of @ 10% of the net profit after charging such commission.

(*Ans.* : Gross profit ₹1,01,000 ; Net profit ₹68,909 ; Total balance sheet ₹ 3,43,200 ; Manager's commission ₹6,891).

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

Account Title	*Amount* ₹	*Account Title*	*Amount* ₹
Sundry debtors	1,00,000	Bills payable	85,550
Bad debts	3,000	Sundry creditors	25,000
Trade expenses	2,500	Provision for bad debts	1,500
Printing and Stationary	5,000	Return outwards	4,500
Rent, Rates and Taxes	3,450	Capital	2,50,000
Freight	2,250	Discount received	3,500
Sales return	6,000	Interest received	11,260
Motor car	25,000	Sales	1,00,000
Opening stock	75,550		
Furniture and Fixture	15,500		
Purchases	75,000		
Drawings	13,560		
Investments	65,500		
Cash in hand	36,000		
Cash in bank	53,000		
	4,81,310		4,81,310

Adjustments

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

(*Ans.* : Gross loss Rs,17,050 ; Net loss ₹27,482 ; Total balance sheet ₹ 3,18,894).

7. Following balances have been extracted from the trial balance of M/s Keshav Electronics Ltd. You are required to prepare the trading and profit and loss account and a balance sheet as on March 31, 2017.

Account Title	*Amount* ₹	*Account Title*	*Amount* ₹
Opening stock	2,26,000	Sales	6,80,000
Purchases	4,40,000	Return outwards	15,000
Drawings	75,000	Creditors	50,000
Buildings	1,00,000	Bills payable	63,700
Motor van	30,000	Interest receivced	20,000
Freight inwards	3,400	Capital	3,50,000
Sales return	10,000		
Trade expense	3,300		
Heat and Power	8,000		
Salary and Wages	5,000		
Legal expense	3,000		
Postage and Telegram	1,000		
Bad debts	6,500		
Cash in hand	79,000		
Cash at bank	98,000		
Sundry debtors	25,000		
Investments	40,000		
Insurance	3,500		
Machinery	22,000		
	11,78,700		11,78,700

The following additional information is available :

1. Stock on March 31, 2017 was ₹ 30,000.
2. Depreciation is to be charged on building at 5% and motor van at 10%.
3. Provision for doubtful debts is to be maintained at 5% on Sundry Debtors.
4. Unexpired insurance was ₹ 600.
5. The Manager is entitled to a commissiion @ 5% on net profit after charging such commission.

(*Ans.* : Gross profit ₹,37,600 ; Net profit ₹ 25,381 ; Total balance sheet ₹4,15,350 ; Manager's commission ₹1,269).

8. From the following balances extracted from the books of Raga Ltd. prepare a trading and profit and loss account for the year ended March 31, 2017 and a balance sheet as on that date.

Account Title	*Amount* ₹	*Account Title*	*Amount* ₹
Drawings	20,000	Sales	2,20,000
Land and Buildings	12,000	Capital	1,01,110
Plant and Machinery	40,000	Discount	1,260
Carriage inwards	100	Apprentice premium	5,230
Wages	500	Bills payable	1,28,870
Salary	2,000	Purchases return	10,000
Sales return	200		
Bank charges	200		
Coal, Gas and Water	1,200		
purchases	1,50,000		
Trade Expenses	3,800		
Stock (Opening)	76,800		
Cash at bank	50,000		
Rates and Taxes	870		
Bills receivable	24,500		
Sundry debtors	54,300		
Cash in hand	30,000		
	4,66,470		4,66,470

The additional information is as under :

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

(*Ans.* : Gross profit ₹,21,240 ; Net profit ₹12,664 ; Total balance sheet ₹ 2,23,377 ; Manager's commission ₹633).

9. From the following balances of M/s Jyoti Exports, prepare trading and profit and loss account for the year ended March 31, 2017 and balance sheet as on this date.

Account Title	*Debit Amount* ₹	*Account Title*	*Credit Amount* ₹
Sundry debtors	9,600	Sundry creditors	2,500
Opening stock	22,800	Sales	72,670
Purchases	34,800	Purchases returns	2,430
Carriage inwards	450	Bills payable	15,600
Wages	1,770	Capital	42,000
Office rent	820		
Insurance	1,440		
Factory rent	390		
Cleaning charges	940		
Salary	1,590		
Building	24,000		
Plant and Machinery	3,600		
Cash in hand	2,160		
Gas and Water	240		
Octroi	60		
Furniture	20,540		
Patents	10,000		
	1,35,200		1,35,200

Closing stock ₹10,000.

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

(*Ans* : Gross profit ₹23,250 ; Net profit ₹15,895 ; Total balance Sheet ₹ 76,945).

10. The following balances have been extracted from the books of M/s Green House for the year ended March 31, 2017, prepare trading and profit and loss account and balance sheet as on this date.

Account Title	*Amount* ₹	*Account Title*	*Amount* ₹
Purchases	80,000	Capital	2,10,000
Bank balance	11,000	Bills payable	6,500
Wages	34,000	Sales	2,00,000
Debtors	70,300	Creditors	50,000
Cash in hand	1,200	Return outwards	4,000
Legal expenses	4,000		
Building	60,000		
Machinery	120,000		
Bills receivable	7,000		
Office expenses	3,000		
Opening stock	45,000		
Gas and fuel	2,700		
Freight and Carriage	3,500		
Factory lighting	5,000		
Office furniture	5,000		
Patent right	18,800		
	4,70,500		4,70,500

Adjustments :

(a) Machinery is depreciated at 10% and buildings depreciated at 6%.
(b) Interest on capital @ 4%.
(c) Outstanding wages ₹ 50.
(d) Closing stock ₹ 50,000.

(*Ans* : Gross profit ₹ 83,750 ; Net Profit ₹ 52,750 ; Total balance sheet ₹ 3,27,700).

11. From the following balances extracted from the book of M/s Manju Chawla on March 31, 2017. You are requested to prepare the trading and profit and loss account and a balance sheet as on this date.

Account Title	*Amount* ₹	*Amount* ₹
Opening stock	10,000	
Purchases and Sales	40,000	80,000
Returns	200	600
Wages	6,000	
Dock and cleaning charges	4,000	
Lighting	500	
Misc. Income		6,000
Rent		2,000
Capital		40,000
Drawings	2,000	
Debtors and Creditors	6,000	7,000
Cash	3,000	
Investment	6,000	
Patent	4,000	
Land and Machinery	43,000	
Donations and Charity	600	
Sales tax collected		1,000
Furniture	11,300	
	1,36,600	1,36,600

Closing stock was ₹ 2,000.

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

(*Ans.* : Gross profit ₹ 21,900 ; Net profit ₹ 25,185 ; Total balance sheet ₹ 71,185).

12. The following balances were extracted from the books of M/s Panchsheel Garments on March 31, 2017.

Account Title	*Debit Amount* ₹	*Account Title*	*Credit Amount* ₹
Opening stock	16,000	Sales	1,12,000
Purchases	67,600	Return outwards	3,200
Return Inwards	4,600	Discount	1,400
Carriage inwards	1,400	Bank overdraft	10,000
General expenses	2,400	Commission	1,800
Insurance	4,000	Creditors	16,000
Scooter expenses	200	Capital	50,000
Salary	8,800		
Cash in hand	4,000		
Scooter	8,000		
Furniture	5,200		
Buildings	65,000		
Debtors	6,000		
Wages	1,200		
	1,94,400		1,94,400

Prepare the trading and profit and loss account for the year ended March 31, 2017 and a balance sheet as on that date.

(a) Unexpired insurance ₹ 1,000.
(b) Salary due but not paid ₹ 1800.
(c) Wages outstanding ₹ 200.
(d) Interest on capital 5%.
(e) Scooter is depreciated @ 5%.
(f) Furniture is depreciated `@ 10%.
(g) Closing stock was ₹ 15,000.

{*Ans*.: Gross profit ₹ 39,200 ; Net profit ₹ 22,780 ; Total balance sheet ₹ 1,03,280}.

13. Prepare the trading and profit and loss account and balance sheet of M/s Control Device India on March 31, 2017 from the following balance as on that date.

Account Title	*Debit Amount* ₹	*Credit Amount* ₹
Drawings and Capital	19,530	67,500
Purchase and Sales	45,000	1,12,500
Salary and Commission	25,470	1,575
Carriage	2,700	
Plant and Machinery	27,000	
Furniture	6,750	
Opening stock	42,300	
Insurnace premium	2,700	
Interest		7,425
Bank overdraft		24,660
Rent and Taxes	2,160	
Wages	11,215	
Returns	2,385	1,440
Carriage outwards	1,485	
Debtors and Creditors	36,000	58,500
General expenses	6,975	
Octroi	530	
Investment	41,400	
	2,73,600	2,73,600

Closing stock was valued ₹ 20,000.

(a) Interest on capital @ 10%.
(b) Interest on drawings @ 5%.
(c) Wages outstanding ₹ 50.
(d) Outstanding salary ₹ 20.
(e) Provide a depreciation @ 5% on plant and machinery.
(f) Make a 5% provision on debtors.

(*Ans.*: Gross profit ₹ 29,760 ; Net loss ₹ 8,973 ; Total balance sheet ₹1,28,000)

14. The following balances appeared in the trial balance of M/s Kapil Traders as on March 31, 2017

	₹
Sundry debtors	30,500
Bad debts	500
Provision for doubtful debts	2,000

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

(*Ans* : Dr. Profit and Loss account ₹1,820)

15. Prepare the bad debts account, provision for account, profit and loss account and balance sheet from the following information as on March 31, 2017

	₹
Debtors	80,000
Bad debts	2,000
Provision for doubtful debts	5,000

Adjustments :

Bad debts `500 Provision on debtors @ 3%.
(*Ans* : Credit Profit and Loss account ₹115)

Checklist to Test Your Understanding

1. (c), 2. (d), 3. (b), 4. (a), 5. (d)

APPENDIX

Description of Commonly Used Functions in Access

There are three types of functions that are used to set the Control Source property of calculated controls and/or to form part of calculated field expression in SQL statement. A brief description of the commonly used functions is below :

A-1. Domain Aggregate Functions

These functions are used to perform calculations based on values in a field of a table or query. Criteria to select the set of records in the table or query that is desired to be used for calculations may also be specified. The criteria, if not specified, imply that all the records of the table or query specific to the field are used for computation. All the domain aggregate functions use the same syntax as is given hereunder :

DFunction ("FldName", "TblName" or "QryName", "SrchCond")

Wherein DFunction refers to a named domain aggregate function. A brief description of its input arguments is given below:

FldName : It refers to the name of field that is to be searched in a table or query, which is specified as an argument.

TblName (or QueryName) : It refers to the name of a table or query that contains the field specified as second input argument.

SrchCond : It refers to the search condition on the basis of which the relevant record is searched.

Some of the important domain aggregate functions have been described as below :

(a) DLookup : This function is meant to look up information that is stored in a table or query, which is not the underlying source of Access Form or Report. It is used to set the Control Source property of a calculated control to display data from other table or query. Consider the following example:

DLookup ("Name", "Accounts", "Code = '110001'")

In the above example, this function has been applied to search the name of account (in Accounts table) whose code is '110001'.

(b) DMax and DMin : These functions are used to retrieve respectively the maximum and minimum values in the specified field. Consider the following example :

DMin ("Amount", "Vouchers", "Debit = '711001'")

Dmax ("Amount", "Vouchers", "Debit = '711001'")

In the above examples, the amount of minimum purchase transaction and maximum purchase transaction is retrieved and reported. It may also be noted that '711001' is the code of Purchase account in Accounts table

(c) DSum : This function computes and returns the sum of the values in the specified field or expression. For Example, in a table : ***Sales*** that contains

ItemCode, Price and Quantity as fields, the total amount of *sales* may be computed by using the DSum () function as follows :
DSum (“Price*Quantity”, “Sales”)
However, if the total sales is to computed for a particular item coded as 1678, the DSum () function shall be applied as follows :
DSum (“Price*Quantity”, “Sales”, “ItemCode = 1678”)

(d) DFirst and DLast : These functions are used to retrieve respectively the values in the specified field from first and last physical records.
Consider the following application examples :
DFirst (“Name”, “Accounts”)
DLast (“Name”, “Accounts”)
In the above examples, the name first and last account that physically exists in Accounts table is retrieved and reported.

(e) DCount : This function is meant to compute the number of records with non-null values in the specified field. Consider the following application example :
DCount (“*”, “Accounts”)
In the above example, The number of records in accounts table are counted and reported by DCount () function.

A-2. SQL Aggregate Functions

The SQL aggregate functions have the functionality similar to that of domain aggregate function. However, unlike domain aggregate functions, these functions cannot be called directly into controls used in Forms and Reports of Access. These functions are used in SQL statements that provide the underlying record source of Forms and Reports. All these functions, when used require the GROUP BY clause in SQL statement :

(a) Sum : This function is used to compute and return the sum of a set of values. For Example, consider the following SQL statement that has been used in Chapter-V to prepare the underlying information source of Trial Balance (Model-I.).

```
SELECT Debit As Code, SUM (Amount) AS Total
FROM VOUCHERS
GROUP BY Debit ;
```

In the above SQL statement, Sum () has been used to compute the total amount by which the transacted accounts have beeen debited.

(b) Min and Max : These functions are used to retrieve respectively the minimum and maximum of value set with respect to field or query expression. For Example, the following SQL statement is capable of returning the amount of minimum and maximum sales transaction in Model-I :

```
SELECT Min (Amount) As MinSales, Max (Amount) As MaxSales
FROM Vouchers
WHERE Credit = ‘811001’ ;
```

It may be noted that the sales account that is coded as '811001' is credited as and when a sales transaction is recorded.

(c) Count : This function counts the number of records returned by a query. The number of times a sales transaction has occurred and recorded in books of accounts can be known by executing the following SQL statement.

SQL statement.
SELECT count (*)
FROM Vouchers
WHERE Credit = '811001'

In the above SQL statement, the Credit field stores the account code of sales when a sales transaction occurs. The WHERE clause restricts the number of records returned by the above SQL to those in which credit field has the account code of sales. Accordingly, the count () function returns the count value of records returned by the above SQL statement.

(d) First and Last : These functions are meant to retrieve the first and last record of a value set pertaining to a field or query expression.

A-3. Other Functions

(a) IIF : The purpose of this function is to provide a value to the field from a mutually exclusive set of values. Its syntax is as given below :
IIIF (<Condition>, Value-1, Value-2)
Wherein <Condition> refers to any logical expression in which a comparison is made by using following comparison operators :
= equal to
<less than
>greater than
<= less than or equal to
>= greater than or equal to
The condition formed by the above comparison operators is evaluated to result into TRUE or FALSE.
<Value-1> This value is returned by IIF() function to the field, if the condition turns out to be TRUE
<Value-2> This value is returned by IIF() function to the field, if the condition turns out to be FALSE
Example : Suppose a field Type is to return the string of characters "Debit" when its value is 0 and "Credit" when its value is 1, IIF() function is used as shown below :
IIF (Type = 0, "Debit", "Credit")

(b) Abs : The purpose of this function is to return absolute value, This function receives a numeric value as its input argument and returns an absolute value. Consider the following examples on use of Abs ( ) function :
When – 84 is given as input argument to Abs(– 84), it returns 84
When 84 is given as input argument to Abs(84), it returns 84

(c) Val : The purpose of this function is to return the numbers contained in a string as a numeric value of appropriate type. Its Syntax is **Val**(string)
The string argument of the above Val( ) function is any valid string expression. The Val( ) function stops reading the string at the first character that cannot be recognised as number. For example, Val("12431") returns the value 12431 by converting the enclosed string of numerals into value. However, Val ("12,431") returns the numeric value 12 because comma after 12 in the enclosed string of characters in Val ( ) function is not recognised as number.

NOTE

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