

Accounting and Financial Management

UNIT-1

Accounting :-

Process of measuring, processing and sharing financial and other information about businesses and corporations.

"Father of Accounts" — Luca Pacioli

→ Accountants summarize the transactions in the form of Journal entries.

→ These entries are used in book keeping.

Definition :-

"Accounting is the art of recording, classifying and summarizing in a significant manner and terms of money, transactions and events, which are, in part at least, of a financial character and interpreting the result thereof"

— American Institute of Certified Public Accountants (AICPA)

Need for Accounting:-

The main objective of any business firm is to earn profit. But some of the business concerns are rendering services to the public. Business transactions like purchases, sales, expenses, income, cash transactions etc. All these transactions are remembering in the future is very difficult. So that we have to record the transactions in the set of books is known as accounting.

Origin & Development:-

In olden days, some of the calculations of accounting taken from Arthasastra written by Chanakya.

Accounting system in modern methods are introduced by Luca Pacioli in 1494 from Arthasastra. Its origin to an Italian language at Venice Nagar (Italy). It was convert into English language "Huge old castle" in 1543. Double Entry system was introduced and given debit & credit principles by "Luca Pacioli".

Objectives of Accounting:-

- * Recording business transactions systematically:-
Necessary to maintain systematic records of every business transaction, as it is beyond human capacities to remember such large number of transactions.

⇒ skipping the record of anyone of the transactions may lead to erroneous and faulty results

- * Determining profit earned or loss incurred:-
To determine the net result at the end of an accounting period, we need to calculate profit or loss for this we need to prepare the trading & P/L account. It gives information about how much of goods have been purchased and sold expenses incurred and amount earned during a year.

- * Ascertaining financial position of the firm:-
Ascertaining profit earned or loss incurred is not enough, proprietor also interested in knowing financial position of the firm i.e., value of the assets amount of liabilities owed, net increase/decrease in the capital. By preparing the Balance sheet we can ascertain the financial position of the firm

* Assisting management :-

systematic accounting helps the management in

→ Effective decision

→ Decision making

→ Effective control on cash management

→ policies

→ preparing budgets

→ forecasting etc

* Assessing the progress of the business :-

Accounting helps in assessing the progress of business from year to year.

Accounting facilitates the comparison both inter firm as well as intra firm.

* Detecting and preventing frauds and errors :-

It is necessary to detect and prevent fraud and errors, mis management and wastage of the finance.

systematic recording helps in the easy detection and rectification of frauds, errors and inefficiencies if any.

* communicating accounting information to various users

Important step in the accounting process is to communicate financial and accounting information to various users including both internal & external users like owners, mgmt, govt, labor, etc. This assists the users to understand and interpret the accounting data in a meaningful and appropriate manner without any ambiguity.

Characteristics of Accounting

(1) Identifying financial transactions and events:-

- Accounting records only those transactions and events which are of financial nature; so that such transactions and events are identified.

(2) Measuring the transactions:-
Transactions are measured in terms of money which are considered as a common unit.

(3) Recording of transactions:-

Recording the financial transactions in appropriate book of accounts such as journal or subsidiary books.

(4) classifying the transactions:-

Transactions recorded in the books of original entry — Journal or subsidiary books are classified and grouped according to nature and posted in separate accounts known as "Ledger accounts".

(5) Summarising the transactions:-

It involves presenting the classified data in a manner and in the form of statements, which are understandable by the users. It includes Trial Balance, Trading A/c, P&L A/c and Balance sheet.

(6) Analysing and interpreting financial data:-

Results of the business are analysed and interpreted. Users of financial statements can make a meaningful and sound judgement.

(7) Communicating the financial data or reports to the users:-

It is the final step of accounting

so that they can make appropriate decisions

Functions of Accounting:-

- It keeps a systematic and permanent record of all financial transactions of the business.
- It keeps a record of incomes and expenses in such a manner that net result of the business can be quickly known for any period.
- Keeps a record of assets and liabilities and the financial position of the business can be readily had at any point of time.
- Helps in making decisions.
- Helps in devising remedial measures.
- Keeps control on expenses in order to minimise the same.
- provides information about various legal requirement like returns, sales tax returns etc.
- protects the property of business by designing such a system of accounting which will be helpful to achieve this purpose.

Advantages and Disadvantages of Accounting:-

Advantages:-

* Accounting represents financial position:-
It represents financial position of a particular or group of businesses. The financial performance of the company in the last year is often useful to compare the performance of the other firms.

* Assistance to manager:-
An account gives essential data to the managers in the form of Balance sheet and P&L A/c that leads to decision making.

* Replaces Memory:-
Accounting records all transactions in systematic and timely manner. If one requires the information in future, they can easily obtain the information in books of accounting.

* Benefits in calculation of Tax liabilities:-

The P&L A/c gives the current year profit so that individual firm can effortlessly calculate the tax liability.

* Benefits in Decision-making :-

It assists in taking major decisions for the growth of the organization. These decisions include

- deciding the price of the product
- checking over the expenses of employees

* Disadvantages :-

* Express information of Accounting in terms of money :-

Non-financial transactions cannot be furnished effect to in the books of accounts. Only transaction of the financial contribution are calculated by the accountant. Financial transactions are manifested in terms of money.

* Accounting information is based on estimates :-

few accounting data based on estimates. Imprecision in estimates is conceivable.

* Accounts manipulation :-

The management/Accountant can manipulate the profits of an entity.

* Can be costly for small firm :-

The small firm does not possess lots of finance. so proper account & auditing it from CA is very expensive.

* Recording of Fixed Assets at Original cost :-

There can be difference between the current replacement cost and the original cost of a fixed assets due to change in technology, time etc. Thus, the balance sheet may not present the real financial status of an entity.

Principles of Accounting :-

(a) Accounting concepts :-

(a) Business entity concept :-

Business is treated as a separate from the proprietor. All the transactions are recorded in the books of business but not in the books of proprietor. Proprietor is also one of the creditor of the business.

(b) Going concern concept :-

Business will continue for a long time and it is not to be liquidated in the near future. Hence, the accounts are maintained properly.

Because business will continue for a long period.

(c) Money measurement concept :-

In Accounting, transactions are expressed in terms of money. Only money transactions in the business are taken into the account and recorded in the proper books of accounts.

(d) Dual aspect concept:-

Every transactions have two fold aspects i.e., receiving and giving aspects. Receiving aspect is known as "Debit" and giving aspect is known as "Credit". Every debit must have an equal corresponding credit and vice versa.

Accounting equation expressed is dual aspect concept

$$\text{Accounting Equation} \rightarrow \text{Capital} + \text{Liabilities} = \text{Assets}$$

(e) Accounting period concept:-

Every trader is eager to make maximum profit at a minimum cost. During the accounting period, the accountant should record the incomes and expenditure and match the both values. The Accounting year is April to March.

(f) Cost concept:-

Business transactions are recorded of cost price in the books of accounts. Market price should not be taken into account.

(g) Realisation concept:-

An amount realised by the sale of goods or sale of assets and income received etc are recorded during particular period then only possible to compare the cost and realisation.

(b) Accounting convention

(a) consistency :-

Accounting practices should be remains constant then only possible to compare the firm's capacity in different periods and also different firms for making decisions

(b) Disclosure :-

Accounting Reports given full disclosure of information to the dependents of the firm. These reports are prepared clearly and given with conclusions. The financial statements such as P/L A/c Balance sheet is a prescribed form and disclosure can be made.

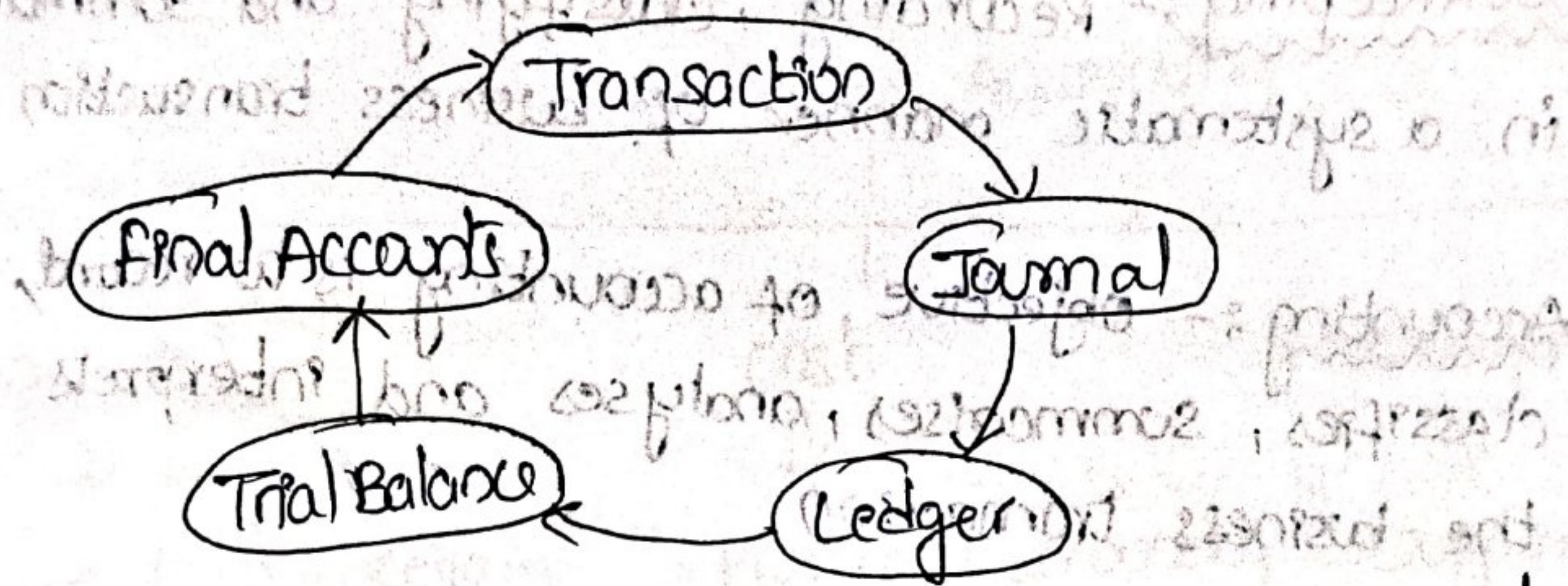
(c) Conservatism :-

Anticipated profits should not be taken into account. But anticipated losses and actual profits/losses can be taken into account. Stock is valued at cost price / market price whichever is lower.

(d) materiality :-

Transactions which have a relative value taken into account, which means in material value are not taken into account.

Accounting cycle / Accounting process:



Journal :- All transactions should be recorded firstly in the journal. It is a original book. The transactions should be divided into "debit & credit". According to the principles and also given with narration is known as "Journalising".

Ledger :- It is a book where separate accounts are maintained for each debit and credit aspects of this journal.

Trial Balance :- It is a statement of debit and credit balances of ledger accounts. It is prepared to find accounting accuracy. It is the base to prepare final accounts.

Final Accounts :- It is the last stage of accounting process. It is prepared to ascertain profit/loss made during trading period and also find financial position of business on a particular period.

Differences between Bookkeeping and Accounting

Bookkeeping :- Recording, classifying and summarizing in a systematic manner of business transaction

Accounting :- objective of accounting is to record, classifies, summarises, analyses and interprets the business transaction

Book keeping

- * Art of recording business transactions in chronological order

- * Primary Book

- * Maintained by Bookkeeper

- * Part of accounting

- * Should not give any results at the end of the year

- * Restricted to clerical work and it is done

- by lower level management

Accounting

- * Art of recording money transactions in a systematic manner

- * Secondary Book

- * Maintained by Accountant

- * Its scope is at a large

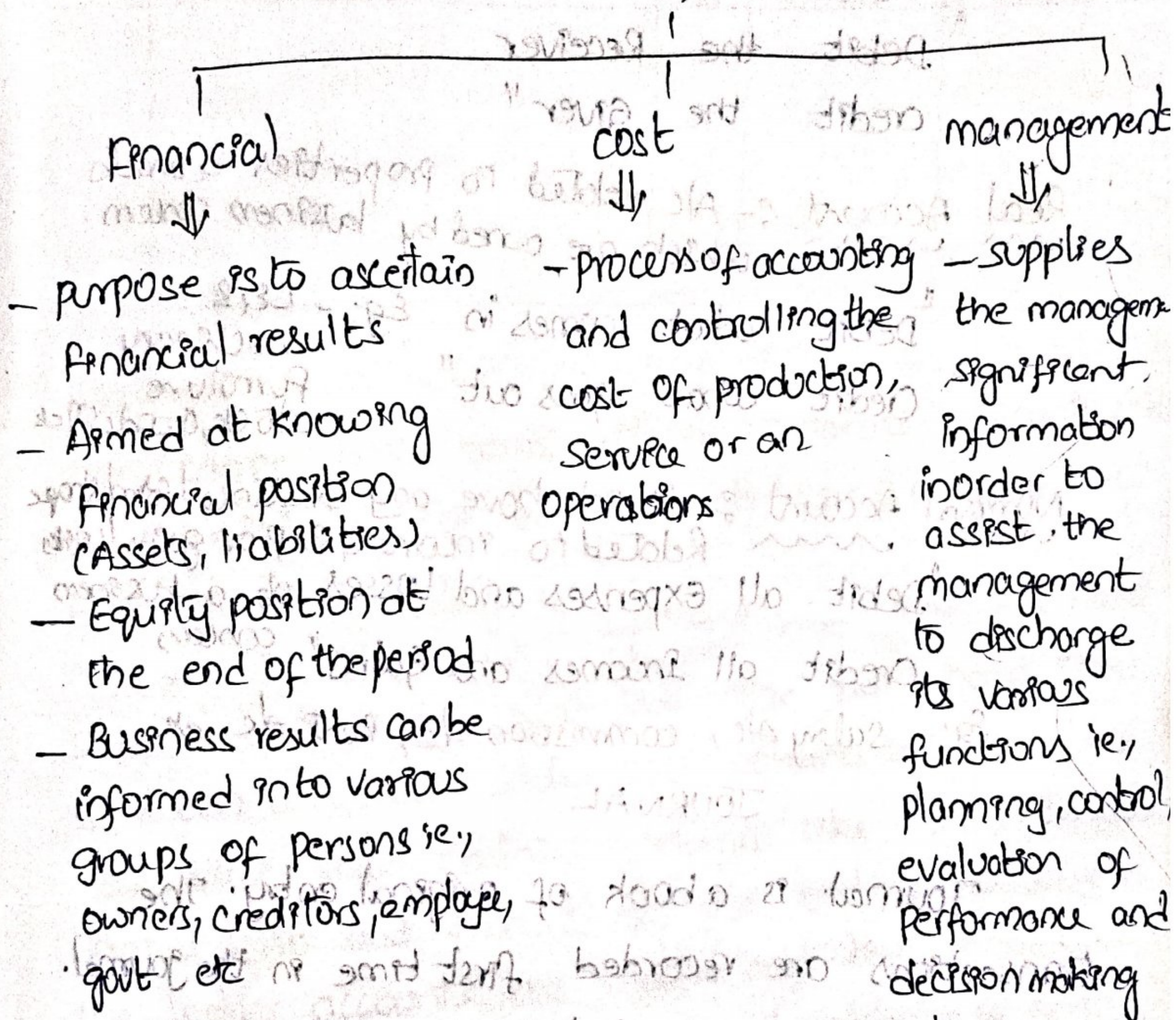
- * should give results at the end of the year

- * concerned with all levels of management i.e. lower, middle and top level

- management

Branches of Accounting

Branches of Accounting



Business Transaction

Cash

Credit

Golden Rules of Accounting

Personal Account :- A/c related to individuals |

"Debit the Receiver
Credit the Giver"

Real Account :- A/c related to properties & assets which are owned by business concern.

"Debit what comes in
Credit what goes out"

Eg: ^{LE & B} Machinery
Furniture
Stock, Goods, etc.

Nominal Account :- Do not have any existence / form / shape
Related to income & exp or gains / losses

"Debit all Expenses and Losses of a business concern
Credit all Incomes and Gains"

Eg: Salary A/c, commission, etc. Rent A/c, etc.

JOURNAL

Journal is a book of original entry. The transactions are recorded first time in the journal.

Transactions are recorded in chronological order.

Transactions are divided into debit and credit according to double entry system of book keeping.

Narrations may be given to understand the entry.

Proforma of Journal :-

Journal Entries in the books of _____

Date	Particulars	LF NO	Debit Rs.	Credit Rs.

LEDGER
 Ledger is a book, where separate accounts will be maintained for each aspect (Dr & Cr) of the business transaction.

It is in the form of "T" shape. The left hand side is known as Debit side. The right hand side is known as Credit side. Each column side column

Each side contains Journal folio and Amount. At the end of period all the ledger accounts are closed and their balance prepared in trial balance and then final accounts.

Dr

Date	Particulars	LF NO	Amount	Date	Particulars	LF NO	Amount

The process of entering in the ledger accounts the entry is made in the journal called as posting.

Difference between Journal and Ledger

Journal	Ledger
(1) Book of primary entry	(1) Book of final entry
(2) As soon as transaction originates it is recorded into the Journal	(2) Transactions come from Journal and it is posted in ledger
(3) All transactions are recorded in chronological order	(3) Transactions are categorised into the accounts
(4) In Journal, Narration is required and written in each entry	(4) No narration
(5) Ledger folio number is written	(5) Journal folio number is written
(6) Ledger is prepared from Journal & final accounts cannot be prepared directly from a Journal	(6) Through Ledger, trial Balance is prepared which is the basis of preparing final accounts
(7) In Journal, no balancing is done	(7) In ledger, balancing is done periodically

System of Book keeping / Accounting:

1) Single Entry System

2) Double Entry System

1) Single Entry System is a simple & straight forward method of bookkeeping. Each transaction recorded as single entry in a journal.

— Crude & unscientific method of maintaining accounts

— only personal & cash a/c maintained

— Real & Nominal accounts not kept

— Information available in this is incomplete & unsystematic

— Not possible to prepare final a/c at the end of the year

— simple & less costly

— adopted by small concerns when business transactions are few

Limitations:

→ unscientific method

→ Incomplete & unsystematic balances maintained

→ converted into double entry system

then only possible to prepare final a/c

2) Double entry system :-

→ Method of recording transactions where for every business transaction.

→ An entry recorded in at least two accounts i.e., Debit or Credit.

→ In this, amounts recorded as debits must be equal to the amounts recorded as credits.

Advantages :-

* Each transaction recorded with the two fold aspects, so that total of one side must be equal to the total of the other side. It improves the accuracy of records.

* Maximum information can be obtained by the owner of the business and other interested parties.

* Each transaction of revenue and expenses is recorded ensuring that the correct information regarding income and losses is provided.

* Indicates the financial position of business on any day

* Minimizes the chance of errors and if they are committed they can be easily located

* The profit earned or loss sustained for any particular period can be calculated

* Easy to deal with transactions of an external or internal nature

* Possible for any organization to use the double entry system

* Shows all the amounts receivable or payable

* Previous years financial statements are available

for their comparative analysis with the current

year's financial statements becomes easy

* Shows value of cash in hand at any time.

* Assists for managerial decision making

Disadvantages:-

* Inflation cannot be handled as money is

an inflexible unit of measurement

* Any events that cannot be expressed in terms

of money are not recorded

* Sometimes it is difficult to find errors if the wrong amount is entered in the record

* The system depends on an accountant's personal judgment, which may be inconsistent or biased

* Time-consuming and complex to maintain meaning that it is unsuitable for small businesses

TRIAL BALANCE

A Trial Balance is a financial report showing the closing balances of all accounts in the general ledger at a point in time.

Definition:-

Trial Balance is the list of debit and credit balances taken out from ledger. It also includes the balances of cash and bank taken from "cash book"

— Carter

Features/characteristics:-

* List of balances of all ledger accounts and the cash book

* It's just a statement and not an account

* It's just a working paper

* It is prepared at the end of accounting year before preparing the final accounts

* It is always prepared on a particular date and not for a particular period

* It is not an account, it is only a statement which is prepared to verify the arithmetical accuracy of ledger accounts

Merits:-

* It helps in ascertaining the arithmetical accuracy of ledger accounts

* Helps in locating errors

* Enables to get a summary of the ledger accounts

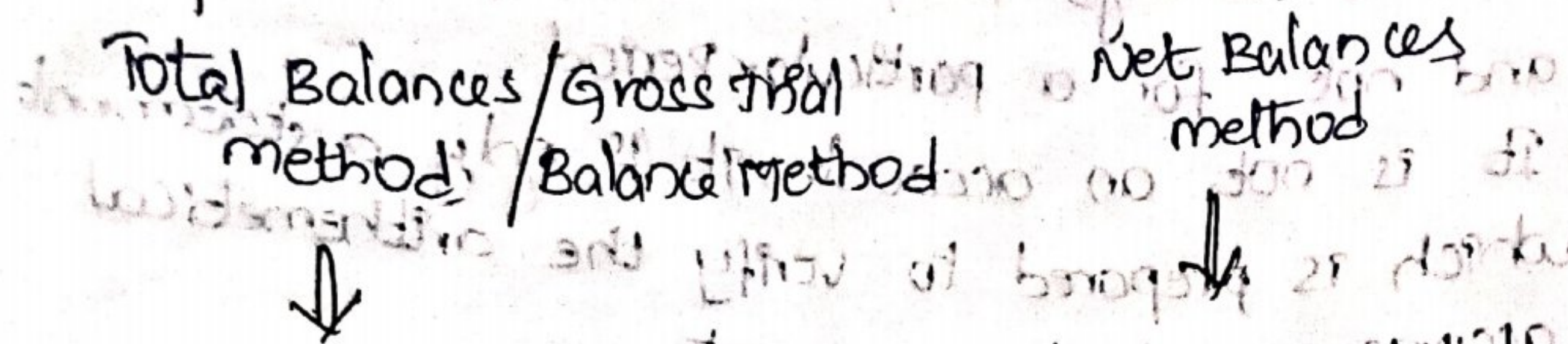
* Helps in preparation of final accounts

Demerits:-

* Certain type of errors remains even when the trial balance tallies

* possible to prepare trial balance of those business units in which double entry bookkeeping system is followed. But installation of double entry Book keeping system is very expensive

Types of preparation:-



Taking Balance in each ledger a/c, total of debit side and total of credit side of each individual a/c taken into trial balance.

* Balance in each ledger a/c is taken into trial balance.

* All the ledger accounts showing debit balances put on debit side and credit balances put on credit side.

* After this, debit & credit columns of trial balance are totaled and if the totals are equal.

Proforma :-

[illegible]

Errors in Trial Balance:

Accounting errors are the errors which have occurred unintentionally in the form of mistake & omission at the time of recording financial transactions. Normally when both the sides of the Trial Balance (Debit & Credit) are not equal in amount it is indicative of some errors having been found during the process of recording the transactions. In case the debit & credit columns of the Trial Balance match it is assumed that things are fine and the books of accounts are properly maintained in an error-free manner. However, merely matching of Trial Balance does not reflect flawless maintenance of books of accounts. In the process of Trial Balance preparation while certain type of errors may be detected certain type of errors may still go undetected. The type of errors which are disclosed by a Trial Balance and those which are not disclosed by a trial Balance.

Errors which are disclosed by a Trial Balance

(a) wrong posting:-

Entry of a transaction on the wrong side of an account and/or posting of a wrong amount in an account (wrong ledger posting) would result in disagreement of Trial Balance

(b) omission of posting:-

If an entry is omitted to be posted from the subsidiary book, the Trial Balance will not tally

(c) Errors in Totalling:-

Errors occurred due to mistakes in totalling of subsidiary books/accounts would be the cause of mismatch of the Trial Balance

(d) Errors in Balancing:-

If an account is not balanced properly i.e., an error has found in during the balancing of an account, tallying of Trial Balance would not be possible

(e) Double posting:-

while transferring an entry from Journal to a ledger if an item is by mistake posted

twice, the result would be disagreement of
Trial Balance

(f) Incomplete Double Entry

Compliance with the double entry principle during recording of a transaction or ledger posting is required to be strictly followed. In case of failure to do so, the trial balance would not tally.

(g) Balance carried forward wrongly

If the Debit balance lying on an account is posted as a credit balance in the Trial Balance or a credit balance lying on an account is posted as a Debit balance in the Trial Balance it will not tally.

(h) Difference in Amount

If the same amount is not entered in the 2 corresponding different accounts (Debit & Credit) it would result in mismatch

of Trial Balance

(1) Wrong Total in Trial Balance:-

If there is a mistake in the totalling of both the columns of the Trial Balance the outcome would be disagreement

Errors which are not disclosed by a Trial Balance:-

(1) Errors of omission:-

If a business transaction is entirely left out from being recorded in the primary books of accounts (Journal or Subsidiary book) such an error is termed as "Errors of omission". Overall errors of omission will have no impact on the side of balance i.e., debit as well as credit side of trial balance. Such type of errors are not revealed and hence do not affect the Trial Balance.

(2) Errors of commission:-

An Error of commission is when the entries are made correctly with regard to the amount; and the column (debit or credit) but one or more entries are made in wrong account of the correct type.

Ex:-

If fuel costs are incorrectly debited to the postage a/c (both expense accounts) this would not affect the totals and the agreement of the Trial Balance. These errors takes place due to casual approach, ignorance or absence of knowledge.

(3) Errors of wrong posting:-

When the correct posting with regard to the amount is made in a wrong account, it is termed as "Errors of wrong posting".

Ex:-

The Goods are sold to Mr. X but the account of Mr. Y is debited. Such mistakes do not affect the totalling of trial balance and as such they remain undetected.

(4) Compensating Errors:-

They are multiple unrelated errors that would, individually lead to an imbalance but when taken together cancel the effect of each other. In this type of error, one error nullifies the wrong effect of an already taken place error. The amount involved in such errors incidentally

happens to be the same

(5) Errors of principle -

when the business transaction is recorded in the books of accounts in total disregard of the fundamental accounting principle such mistake is termed as "Errors of principle". Such mistakes generally occur when there is confusion with regard to nature of the amount received or spent as "Capital" or "Revenue". The agreement of the trial balance remains unaffected in such cases and therefore, the mistakes go undetected.

Subsidiary Books:

Seperate Books / special books which are maintained to record a particular category of transactions are known as "Subsidiary Books". All the day to day business transactions are first recorded in the Journal. In a small business unit it is possible to record all the business transactions in one book, but in a big organization where the transactions are large in number, it is difficult to record all transactions in one book.

Hence in big organizations, there is a need to sub-divide Journal into special journals. Each journal is meant for recording the transactions of separate category and of repetitive nature. These special journals are called "Subsidiary Books" or "Day Books".

Need / Advantages :-

(1) Saving of time :-

No need of writing the Journal entries. Transactions are directly entered into their respective Journals.

(2) Division of work:-

By entrusting different subsidiary books to different subsidiary books to different persons, divisions of work principle can be implemented.

(3) Easy Recording:-

Transactions can be recorded very fast and easy.

(4) Improves Efficiency:-

Accounting work will be done efficiently by allotting work to different experts who prepare the special books.

(5) Detection of Errors:-

Since separate books are maintained to record a particular set of transactions, errors can be easily noticed.

Types of Subsidiary Books:-

- * purchases Book — purchase of goods on credit
- * purchase Returns Book — Goods returned to suppliers
- * Sales Book — sale of goods on credit
- * Sale Returns Book — Goods returned by customers
- * cash Book — cash receipts and cash payments
- * Bills Receivable Book — Bills Receivable from Debtors
- * Bills Payable Book — Bills Payable to Creditors
- * Journal proper — other transactions which cannot be recorded in the above books.

(1) purchases Book :-

Purchase Book is a subsidiary book that is used to record all the transactions related to credit purchases. The purchases of the assets are never recorded in the purchase book.

Format :-

Purchase Book

Date	Particulars	Inward Invoice No	L.F	Amount (Rs)

(2) purchase Returns Book :-

It is also known as the "Return outward Book". It is used to record transactions of all the returns made to the supplier.

A Debit note is issued against every return and is recorded in the purchase Returns Book

Format :-

Purchase Return Book

Date	Particulars	Debit note No	L.F	Details	Amount (Rs)

(3) Sales Book :-

Records all the transactions related to credit sales. The sales book cannot record the sale of assets. The

Format :-

Sales Book

Date	Particulars	Outward Invoice no	LF	Amount (Rs)

(4) Sale Returns Book :-

The sales return book records all the transactions related to inward returns. It is also known as a "Return Inward Book" when the customer returns goods a credit note is issued to the customer for every return, and it is recorded in this book

Format :-

Sales Returns Book

Date	Particulars	Credit note no	LF	Details	Amount (Rs)

(5) Cash Book :-

The first and most important subsidiary book is the cash book. It records all the transactions related to cash and bank receipts and payments.

There are 3 types of cash books that are maintained by the organization

* Single column cash Book

* Double column cash Book

* Triple column cash Book

* Single column cash Book:-

A single column cash book is like a ledger account. It contains debit side and a credit side. All cash receipts are recorded on the debit side and all cash payments are recorded on the credit side of

Dr. the cash book format: -

[illegible]

* Double column cash Book:-

* Double column cash book is the same as that of single column cash book; only an extra column of discount is added on both the debit and credit sides of the cash book. It records discounts allowed on the debit side and discounts received on the credit side of the cash book.

Dr. Format:-

Date	Particulars	L F	Discount Allowed	Cash	Date	Particulars	L F	Discount Received	Cr Cash

* Triple column cash Book:-

Triple column cash Book contains all the columns of a double column cash book and also has an extra column for the bank.

Dr. Format:-

Date	Particulars	L F	Discount Allowed	Cash	Bank	Date	Particulars	L F	Discount Received	Cash	Cr Bank

(6) Bills Receivable Book:-

Records all the transactions of bills drawn in favour of the business. The total of the bills receivable book is posted on the debit side of the Bills receivable account.

Format:-

Date of Bill	Bill No	Acceptor	From	Terms	Due Date	Amount

(7) Bills payable Book:-

Records all the transactions related to bills that are drawn on the business and are payable by the business

Format:-

Date of Bill	Bill No	Drawee	Payee	Terms	Date of maturity	Amount

(8) Journal proper:-

There are certain transactions that cannot be recorded in any of the above mentioned books, these transactions are termed as miscellaneous transactions. So, the Journal proper is used to record all the miscellaneous transactions. It includes transactions such as credit purchases and sale of assets, depreciation etc.,

FINAL ACCOUNTS

(OR)

FINAL STATEMENTS

It is prepared at the end of an accounting period. It consists of

(a) Trading A/c and P & L A/c
(Ascertain profit or loss of the business)

(b) Balance sheet
(Reveals financial position of the business)

Advantages and Limitations:-

→ To know the profit or loss at the end of a particular period

→ Balance sheet reflects financial position of the organization

→ Final accounts are important source of finance information. It will help the management to plan financial activities

→ current year financial statements can be compared with results of the previous year statement which helps in making decisions

→ The P & L A/c discloses either profit or loss which helps trader to pay the taxes correctly

→ Financial statements reveals the solvency position of the organization which helps to take borrow loans from banks and from other available sources in times of need.

Limitations:-

→ Do not reflect current prices, based on historical costs.

→ Do not reveal the accurate picture of the business as certain values of assets and some expenses & income items

based on judgement of the management who may have prejudice.

→ Do not consider qualitative data like

quality, efficiency, motivation level of

employees, value of H.R etc.

→ Financial statements do not provide information about management to know the financial position of the organization.

→ Current financial statements can be compared with other financial statements which helps in understanding the financial position of the organization.

→ The financial statements are prepared in accordance with the accounting principles and standards.

Trading Account

- first stage of final accounts
- Generally business organization purchases goods from others and sells the same to earn profit

— This Account is to be prepared to know the results of trading activities carried during accounting period.

- It is a nominal account in nature.
- All trading expenses should be debited to and trading incomes should be credited to trading account

— Balance in trading a/c is either gross profit or gross loss.

— It is prepared to find out the difference between the actual cost of goods sold and sale proceeds

$$\text{Cost of Goods Sold} = \text{Purchase price of the goods} + \text{expenses incurred on purchases}$$

— If $SP > CP \rightarrow$ Gross profit

$SP < CP \rightarrow$ Gross loss

Gross profit/loss = Net sales - cost of goods sold

Advantages :-

— Reveals either Gross profit/loss

— Gross profit/loss ratio calculated

— Trading expenses & incomes of the current year can be compared with that of the

previous year

— By comparing current year with previous

the trader can estimate his trade

revenue for future years

Proforma:-

Trading Alc for the year ending _____

Dr				Cr
Particulars	Amount Rs	Particulars	Amount Rs	
To opening stock	xxx	By sales	xxx	
" purchases	xxx	(-) sales Returns	xx	
(-) Purchase Returns	xx			xxx
	xxx	" closing stock		xxx
Purchase expenses:-		" Gross profit loss		
" carriage	xx	(Transferred into		
" cartage	xx	P&L A/c)		
" Freight, custom duties	xx			
Import duties, octroi,	xx			
excise duties, clearing	xx			
charges				
Direct Expenses:-				
" wages	xx			
" Factory Rent	xx			
" Factory Insurance	xx			
" Gas & coal	xx			
" water charges	xx			
" Factory manager's salary	xx			
" works manager's salary	xx			
" oil & fuel	xx			
" manufacturing expense	xx			
" Heating & lighting	xx			
" To Gross profit	xx			
(Transferred to				
P&L A/c)				
	xxx			xxx

PROFIT & LOSS ACCOUNT

— Prepared to find out the net profit or net loss of the business

— This is Nominal A/c

— All expenses & losses → Debited

All Income & Gains → Credited

— Balance of P&L A/c either net profit or net loss and same added / deducted from Capital A/c in Balance sheet

Advantages:-

→ Reveals net profit / net loss

→ Find out net profit ratio

→ Facilitates for the preparation of Balance sheet

→ Current year's administrative, selling & other expenses can be compared with previous year

Profit & Loss A/c of xxx for the year ending xx-xx-xxxx			
Cr			Cr
Particulars	Amount Rs	Particulars	Amount Rs
To Gross Loss b/d	xxx	By Gross profit b/d	xxx
To <u>Administrative Expenses</u>		By Discount received	xxx
To Rent	xxx	By Interest received	xxx
To Salaries	xxx	By Commission received	xxx
To Rent & Taxes	xxx	By Rent received	xxx
To Insurance	xxx	By Interest on Drawings	xxx
To Printing & Stationery	xxx	By Apprentice premium	xxx
To Audit expenses	xxx	By profit on sale of Assets	xxx
To Legal expenses	xxx	By Bad debts recovered	xxx
To General expenses	xxx		
To Repairs	xxx		
To <u>Selling & Distribution Expenses</u>		By Net Loss (Transferred to Capital a/c)	xxx
To Carriage Outwards	xxx		
To Advertisements	xxx		
To Bank charges	xxx		
To Commission	xxx		
To Bad Debts	xxx		
To Travelling expenses	xxx		
To Packing expenses	xxx		
To <u>Financial Expenses</u>			
To Discount allowed	xxx		
To Interest on Capital	xxx		
To Interest on Loans	xxx		
To <u>Losses:-</u>			
To Loss on sale of assets	xxx		
To Depreciation	xxx		
To Loss due to fire accident	xxx		
To Net profit (Transferred)	xxx		
			xxx

BALANCE SHEET

After Trading and P&L A/c, Balance sheet is the last financial statement to be prepared by the business organization.

It may be defined as "an orderly statement representing assets, properties, capital and liabilities of the business on a particular date".

It is the statement prepared to find out financial position i.e., assets and liabilities of business on a given date. The balance sheet explains that what a business owns (assets) and what the business owes to others (liabilities) on a given date.

The Balance sheet is prepared on the basis of trial balance. Only real and personal accounts are taken into consideration in the preparation of balance sheet.

Advantages :-

- Reveals true and fair financial position of the business
- Traders can know about the business assets and liabilities i.e., what it owns and what it owes
- Balance sheet is useful to the creditors and financial institutions to take decision to extend the credit
- To know the financial solvency of the business

Balance sheet of xxx as on xx-xx-xxx

Liabilities	Amount Rs	Assets	Amount Rs
Capital xxx		<u>Fixed Assets</u>	xxx
(+) Net profit xxx		Good will	xxx
(-) Net Loss xxx		Buildings	
xxx		Machinery	xxx
(-) Drawings xxx	xxx	furniture & fixture	xxx
		Plant & machinery	xxx
Long term liabilities	xxx	Investment	xxx
Loans	xxx	<u>current assets:</u>	
creditors	xxx	closing stock	xxx
Bills payable	xxx	Debtors	xxx
over draft	xxx	Accrued Income	xxx
Income received in advance	xxx	Prepaid expenses	xxx
Outstanding expenses	xxx	Bills Receivable	xxx
		Cash in hand	xxx
		Cash at Bank	xxx
	xxx		xxx

Journal Entries.

From the following Transactions of Mr. Nag,
Identify the nature of accounts, debit & credit
Items

Jan 24	Mr. Nag started business with <u>cash</u>	Rs. 45,000
1	<u>Mr. Nag</u> started business with <u>cash</u>	Rs. 10,000
2	<u>purchased</u> <u>furniture</u> worth	Rs. 5,000
3	<u>"</u> <u>goods</u> worth	Rs. 10,000
4	<u>sold</u> <u>goods</u> for <u>cash</u>	
5	<u>purchased</u> goods Rs. 3,000 from <u>Mr. Baradway</u> on credit	
8	<u>sold</u> <u>goods</u> for credit to <u>Mr. Sekhar</u>	Rs. 4,000
10	<u>cash</u> deposited into <u>bank</u>	Rs. 2,000
13	Received <u>cash</u> from <u>Mr. Sekhar</u>	Rs. 2,000
17	<u>cash</u> withdrawn for <u>personal use</u>	Rs. 3,000
20	paid <u>Rent</u>	Rs. 5,000
21	<u>salaries</u> outstanding	Rs. 300
24	<u>Interest</u> paid on Borrowings	Rs. 400
25	paid <u>cash</u> to <u>Mr. Baradway</u>	Rs. 1,000
27	Goods <u>drawn</u> for <u>personal use</u>	Rs. 500
27	Received <u>cheque</u> from <u>Mr. Raju</u>	Rs. 2,000
28	Issued <u>cheque</u> to <u>Mr. Lal</u>	Rs. 2,000
29	<u>Interest</u> allowed by <u>bank</u>	Rs. 200
31	withdrew from <u>bank</u> for <u>Office use</u>	Rs. 300
31	Received <u>commission</u>	Rs. 100

Analysis of Transaction

Date	Accounts	Nature of Account	Dr/cr
Jan 1	Cash A/c	Real	Dr
	Mr. Nag A/c	Personal	Cr
02	Furniture A/c	Real	Dr
	Cash A/c	Real	Cr
03	Purchase A/c	Nominal	Dr
	Cash A/c	Real	Cr
04	Cash A/c	Real	Dr
	Sales A/c	Nominal	Cr
05	Purchases A/c	Nominal	Dr
	Mr. Baradwaj A/c	Personal	Cr
08	Mr. Shekar A/c	Personal	Dr
	Sales A/c	Nominal	Cr
10	Bank A/c	Personal	Dr
	Cash A/c	Real	Cr
13	Cash A/c	Real	Dr
	Mr. Sekhar A/c	Personal	Cr
17	Drawings A/c	Personal	Dr
	Cash A/c	Real	Cr
20	Rent A/c	Nominal	Dr
	Cash A/c	Real	Cr

21.	Salaries Alc	Nominal	Dv
	Outstanding Salaries Alc	Personal	Cr
24.	Interest Alc	Nominal	Dv
	Cash Alc	Real	Cr
25.	Baradwaj Alc	Personal	Dv
	Cash Alc	Real	Cr
27	Drawings Alc	Personal	Dv
	Goods Alc/purchases Alc	Real	Cr
	Bank Alc	Personal	Dv
	Mr. Raju Alc	Personal	Cr
28.	Mr. Lal Alc	Personal	Dv
	Bank Alc	Personal	Cr
29.	Bank Alc	Personal	Dv
	Interest Alc	Nominal	Cr
31	Cash Alc	Real	Dv
	Bank Alc	Personal	Cr
	Cash Alc	Real	Dv
	Commission Received Alc	Nominal	Cr

Journal Entries in the books of Mr. Nag

Date	Particulars	LF	Debit Amount &	Credit Amount
2014 Jan 1	cash Alc Dr To capital Alc (Being business commenced with cash)		45,000	45,000
2	furniture Alc Dr To cash Alc (Being furniture purchased)		10,000	10,000
3	purchases Alc Dr To cash Alc (Being goods purchased for cash)		5,000	5,000
4	cash Alc Dr To sales Alc (Being cash sales)		10,000	10,000
5	purchases Alc Dr To Mr. Buradway Alc (Being goods purchased on credit)		3,000	3,000
8	Mr. Sekor Alc Dr To sales Alc (Being credit sales)		4,000	4,000

10.	Bank Alc to cash Alc (Being cash deposited into bank)	Dr	2,000	2,000
13.	cash Alc to Mr. Sekar Alc (Being cash received from Mr. Sekar)	Dr	2,000	2,000
17.	Drawings Alc to cash Alc (Being cash withdrawn for personal use)	Dr	3,000	3,000
20.	Rent Alc to cash Alc (Being Rent paid)	Dr	500	500
21.	Salaries Alc to d/s salaries Alc (Being salaries outstanding)	Dr	300	300
24.	Interest Alc to cash Alc (Being Interest paid)	Dr	400	400
25.	Mr. Baradwaj Alc to cash Alc (Being cash paid to Baradwaj)	Dr	1,000	1,000

27. Drawings A/c Dr
To purchases A/c
(Being goods withdrawn
for personal use)

500

500

27. Bank A/c Dr
To Mr. Raju A/c
(Being cheque received from
Mr. Raju)

2,000

2,000

28. Mr. Lal A/c Dr
To Bank A/c
(Being paid to Mr. Lal by
cheque)

2,000

2,000

29. Bank A/c Dr
To Interest A/c
(Being Interest Received
from Bank)

300

300

31. Cash A/c Dr
To Bank A/c
(Being cash withdrawn for
office use)

200

200

Cash A/c Dr
To Commission Received A/c
(Being commission received)

100

100

H.W. Problem.

Journalise the following transactions

Jan 2008

1 Sahar commenced business with cash

Rs. 50,000

2 Purchased goods for cash Rs. 10,000

5 Purchased goods from Mohan on credit

Rs. 6,000

7 Paid to bank Rs. 5,000

10 Purchased furniture Rs. 2,000

20 Sold goods to Ram on credit Rs. 5,000

15 Sold goods for cash Rs. 7,000

25 Cash sales Rs. 3,500

26 Paid to Mohan on a/c Rs. 3,000

28 Paid wages Rs. 100

30 Paid Rent Rs. 200

31. Paid salaries Rs. 80

Journal Entries in the books of sohan

Date	Particulars	Lf	Debit Amount	Credit Amount
2008 Jan 1	Cash A/c Dr To sohan A/c (Being business commenced with cash)		50,000	50,000
2.	Purchases A/c Dr To cash A/c (Being cash purchases)		10,000	10,000
5.	Purchases A/c Dr To mohan A/c (Being goods purchased from mohan on credit)		6,000	6,000
7.	Bank A/c Dr To cash A/c (Being cash deposited into bank)		5,000	5,000
10.	Furniture A/c Dr To cash A/c (Being furniture purchased)		2,000	2,000
15	Cash A/c Dr To sales A/c (Being cash sales)		7,000	7,000

20.	Ram A/c TO sales A/c (Being goods sold to Ram on credit)	Dr	5,000	5,000
25.	cash A/c TO sales A/c (Being cash sales)	Dr	3,500	3,500
26.	mohan A/c TO cash A/c (Being cash paid to mohan)	Dr	3,000	3,000
28.	wages A/c TO cash (Being wages paid)	Dr	100	100
30.	Rent A/c TO cash (Being rent paid)	Dr	200	200
31.	salaries A/c TO cash (Being salaries paid)	Dr	80	80

Journalize the following in the books of Mr. Jayanth

(April)

01. started business with cash Rs. 50,000
02. purchased goods for cash Rs. 25,000
04. sold goods on credit to Mr. Raghu Rs. 35,000
06. purchased goods for credit from Mr. Kamal
a supplier Rs. 8,000
08. Mr. Raghu returned goods worth Rs. 5,000
10. sold goods for cash Rs. 20,000
15. Goods returned to Mr. Kamal Rs. 2,000
21. Srivatsa paid cash Rs. 5,000
23. Gowinda paid by cheque Rs. 1,500
26. Deposited into bank Rs. 10,000
28. Received commission Rs. 500
29. Rent paid Rs. 2,000
31. Furniture purchased for cash Rs. 10,000
31. Salaries paid Rs. 30,000
1. cash received from Lakshmi Rs. 5,800
in full settlement of the a/c
- . cash paid to Jagan Rs. 6,950 in
full settlement of the account

Journal Entries in the books of Mr. Jayanth

Date	Particulars	Dr	Cr	Debit Amount Rs	Credit Amount Rs
Apr 1	cash A/c TO capital A/c (Being business commenced with cash)	Dr		50,000	50,000
2.	purchases A/c TO cash A/c (Being cash purchases)	Dr		25,000	25,000
4.	Mr. Raghu A/c TO sales A/c (Being goods sold on credit to Mr. Raghu)	Dr		35,000	35,000
6.	purchases A/c TO Mr. Kamal A/c (Being goods purchased from Mr. Kamal on credit)	Dr		8,000	8,000
8.	S/R A/c TO Raghu A/c (Being S/R from Raghu)	Dr		5,000	5,000
10.	cash A/c TO sales A/c (Being cash sales)	Dr		20,000	20,000

15	Mr. Kamal A/c	Dr	2,000	2,000
	TO purchase Returns A/c			
	(Being P/R to Kamal)			
21	Cash A/c	Dr	5,000	5,000
	TO Srivatsa			
	(Being cash received from Srivatsa)			
23	Bank A/c	Dr	1,500	1,500
	TO Gounda A/c			
	(Being cheque received from Gounda)			
26	Bank A/c	Dr	10,000	10,000
	TO Cash A/c			
	(Being cash deposited)			
28	Cash A/c	Dr	500	500
	TO commission received A/c			
	(Being commission received)			
29	Rent A/c	Dr	2,000	2,000
	TO Cash A/c			
	(Being Rent paid)			
31	Furniture A/c	Dr	10,000	10,000
	TO Cash A/c			
	(Being furniture purchased)			

31. Salaries A/c	Dr	30,000	
To Cash A/c			30,000
(Being salaries paid)			

Cash A/c	Dr	5,800	
Discount Allowed A/c	Dr	200	
To Lalitha A/c			6,000
(Being cash received from Lalitha after allowing discount)			

Jagan A/c		7,000	
To Cash A/c			6,950
To Discount received			50
(Being cash paid to Jagan after receiving discount)			

LEDGER

Cash A/c

Dr				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2014 Jan 1	To Capital A/c		45,000	2014 Jun 2	By Furniture A/c		10,000
4	" Sales A/c		10,000	3	" Purchases A/c		5,000
13	" Sekar A/c		8,000	10	" Bank A/c		12,000
31	" Bank A/c		200	17	" Drawings A/c		3,000
31	" Commission Received A/c		100	20	" Rent A/c		500
				24	" Interest A/c		400
				25	" Baradwaj A/c		1,000
				31	" Balance c/d		35,400
			57,300				57,300
Feb 1	To Balance b/d		35,400				

Dr				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2014 Jan 31	To Balance c/d		45,000	2014 Jun 1	By cash		45,000
			45,000				45,000
				Feb 1	By Balance b/d		45,000

Dr Mr. Boradwaj A/c				Cr			
Date	Particulars	Dr	Amount Rs	Date	Particulars	Cr	Amount Rs
2014 Jun 25	TO cash A/c		1,000	2014 Jun 25	By Purchases A/c		3,000
31	" Balance c/d		2,000				
			<u>3,000</u>				<u>3,000</u>
				Feb 1	By Balance b/d		2,000

Dr Mr. Sekar A/c				Cr			
Date	Particulars	Dr	Amount Rs	Date	Particulars	Cr	Amount Rs
2014 Jun 8	TO Sales A/c		4,000	2014 Jun 8	By cash A/c		2,000
				31	By Balance c/d		2,000
			<u>4,000</u>				<u>4,000</u>
Feb 1	TO Balance b/d		2,000				

Dr Bank A/c				Cr			
Date	Particulars	Dr	Amount Rs	Date	Particulars	Cr	Amount Rs
10	TO cash A/c		2,000	28	By Mr. Lal A/c		2,000
27	" Mr. Raju A/c		2,000	31	" cash		200
29	" Interest		300	31	" Balance c/d		2,100
			<u>4,300</u>				<u>4,300</u>
Feb 1	" Balance b/d		2,100				

Dr Drawings A/c				Cr			
Date	Particulars	Dr	Amount Rs	Date	Particulars	Cr	Amount Rs
2014 Jun 17	TO cash A/c		2,000	2014 Jun 31	By Balance c/d		2,500
27	" Purchases A/c		500				
			<u>2,500</u>				<u>2,500</u>
Feb 1	TO Balance b/d		2,500				

Dr				Mr. Peradwaj A/c			
Date	Particulars	Dr	Amount	Date	Particulars	Cr	Amount
24 Jun 8	TO cash A/c		1,000	24 Jun 8	By purchases A/c		3,000
31	" Balance c/d		2,000				
			<u>3,000</u>				<u>3,000</u>
				Feb 1	By Balance b/d		2,000

Dr				Mr. Sekar A/c			
Date	Particulars	Dr	Amount	Date	Particulars	Cr	Amount
24 Jun 8	TO Sales A/c		4,000	24 Jun 8	By cash A/c		2,000
				31	By Balance c/d		2,000
			<u>4,000</u>				<u>4,000</u>
Feb 1	TO Balance b/d		2,000				

Dr				Bank A/c			
Date	Particulars	Dr	Amount	Date	Particulars	Cr	Amount
10	TO cash A/c		2,000	28	By Mr. Lal A/c		2,000
27	" Mr. Raju A/c		2,000	31	" cash		200
29	" Interest		300	31	" Balance c/d		2,100
			<u>4,300</u>				<u>4,300</u>
Feb 1	" Balance b/d		2,100				

Dr				Drawings A/c			
Date	Particulars	Dr	Amount	Date	Particulars	Cr	Amount
17	TO cash A/c		2,000	24 Jun 31	By Balance c/d		2,500
27	" purchases A/c		500				
			<u>2,500</u>				<u>2,500</u>
			2,500				

Rent A/c							
Dr				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2014 Jun 20	To cash A/c		500	2014 Jun 31	By Balance c/d		500
			<u>500</u>				<u>500</u>
Feb 1	To Balance b/d		500				

Salaries A/c							
Dr				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2014 Jun 21	To old salaries A/c		300	2014 Jun 31	By Balance c/d		300
			<u>300</u>				<u>300</u>
Feb 1	To Balance b/d		300				

Old salaries A/c							
Dr				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2014 Jun 31	To Balance c/d		300	2014 Jun 21	By salaries		300
			<u>300</u>				<u>300</u>
				Feb 1	By Balance b/d		300

Interest A/c							
Dr				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2014 Jun 24	To cash A/c		400	2014 Jun 29	By Bank A/c		300
			<u>400</u>	31	" Balance c/d		100
Feb 1	" Balance b/d		100				<u>400</u>

Mr. Raju A/c							
Dr				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2014 Jun 31	To Balance c/d		2,000	2014 Jun 27	By Bank A/c		2,000
			<u>2,000</u>				<u>2,000</u>
					By Balance b/d		2,000

Mr. Lal A/c

Dr		Particulars		Off Amount	Cr		Particulars	Off Amount
Date				Rs	Date			Rs
2014 Jun 28		TO Bank A/c		2000	2014 Jun 31		By Balance c/d	2000
				<u>2000</u>				<u>2000</u>
Feb 1		TO Balance b/d		2000				

Commission Received A/c

Dr		Particulars		Off Amount	Cr		Particulars	Off Amount
Date				Rs	Date			Rs
2014 Jun 31		TO Balance c/d		100	2014 Jun 31		By cash	100
				<u>100</u>				<u>100</u>
					Feb 1		By Balance b/d	100

FINAL ACCOUNTS

Prepare Final accounts of Hyderabad Traders
for the year ending 31-12-2013

Trial Balance

Particulars	Rs	Particulars	Rs
Opening stock	6,500	Capital	1,00,000
Purchases	9,000	sales	15,000
Rent	1,000	Return outwards	500
Salaries	1,200	Interest	1,000
wages	800	commission	500
carriage Inwards	750	creditors	5,000
carriage outwards	450		
Land & buildings	50,000		
Investments	20,000		
Loose tools	11,000		
Discount	1,300		
Interest	300		
Telephone charges	700		
Printing & stationery	800		
furniture	18,000		
Return Inwards	200		
	1,22,000		1,22,000

Adjustments: - closing stock - 10,000

outstanding wages - 200 , commission receivable - 300

Interest Received in advance - 400

Trading and Profit and Loss Account for the Year ended 31-12-2013.

Dr

Particulars	Amount Rs	Particulars	Amount Rs
TO opening stock	6,500	By sales 15,000	
" purchases 9,000		(-) Returns <u>200</u>	14,800
(-) Returns <u>500</u>	8,500	" closing stock	10,000
" wages 800			
(+) O/s wages <u>200</u>	1,000		
" carriage inwards 750			
" Gross profit c/d 8,050			
	<u>24,800</u>		<u>24,800</u>
TO Discount	1,300	By Gross profit b/d 8,050	
" Interest 300		" Interest 1,000	
" Telephone charges 700		(-) Received in advance <u>400</u>	600
" Printing & stationery 800		" commission 500	
" Carriage outwards 450		(+) Receivables <u>300</u>	800
" salaries 1,200			
" Rent 1,000			
" Net Profit 3,700			
(Transferred to Capital a/c)			
	<u>9,450</u>		<u>9,450</u>

Balance sheet as on 31-12-2013.

Liabilities	Amount Rs	Assets	Amount Rs
Capital 1,00,000		Land & Buildings 50,000	
(+) Net profit <u>3,700</u>	1,03,700	Investment 20,000	
		Loose tools 11,000	
creditors 5,000		Furniture 18,000	
Interest received		closing stock 10,000	
in advance 400		commission receivable 300	
outstanding wages 200			
	<u>1,09,300</u>		<u>1,09,300</u>

② Prepare Trading, profit & loss account and balance sheet from the following trial balance of M/s Himalaya publishers

Trial Balance of M/s Himalaya publishers as on 31st December, 1999

Particulars	Dr	Cr
Capital	-	1,00,000
Machinery	20,000	
Stock (1-1-1999)	16,000	
wages	50,000	
Carriage inwards	500	
Salaries	5,000	
factory Rent	2,400	
Repairs	400	
Fuel & power	2,500	
Furniture	3,500	
Building	40,000	
Sundry Debtors	20,000	
Sales		2,03,600
Purchases	1,22,000	
Sundry creditors		12,500
Return outwards		2,000
Return inwards	3,600	
Drawings	2,000	
Discount allowed	750	
Discount received		250
Office Expenses	1,000	
manufacturing Expenses	600	

Bills payable

Bills Receivable

Cash in hand

Cash at bank

Office Rent

5,000

2,400

15,400

1,800

3,26,850

3,26,850

Adjustment:-

closing stock was valued @ Rs. 20,000

000000

000000

000

old stock 22000
closing stock 20000

0000

000

000

0000

0000

0000

net profit
(transferred to)
(to ledger)

000000

000000

Trading and Profit & Loss Account of Himalayan

Dr Publisher for The Year ended 31-12-1999

Particulars	Amount Rs	Particulars	Amount Rs
To opening stock	16,000	By sales 2,03,600	
" purchases 1,22,000		(-) Return in 3600	
(-) Return out 2,000			2,00,000
	1,20,000	" closing stock	20,000
" wages	50,000		
" carriage inwards	500		
" factory rent	2,400		
" manufacturing exp	600		
" fuel & power	2,500		
" Gross profit c/d	88,000		
	2,20,000		2,20,000
To salaries	5,000	By Gross profit b/d	88,000
" repairs	400	" Discount received	250
" Discount allowed	750		
" office expenses	1,000		
" office rent	1,800		
" Net profit (transferred to capital a/c)	19,300		
	28,250		28,250

Balance sheet of Himalayan Publishers as on

31-12-1999

Liabilities	Amount Rs.	Assets	Amount Rs.
Capital	1,00,000	Machinery	30,000
+ Net profit	19,300	Furniture	5,500
= Drawings	<u>2,000</u>	Building	40,000
	1,17,300	Sundry debtors	20,000
Creditors	12,500	Bills Receivable	5,000
Bills payable	8,500	Cash in hand	2,400
		Cash at bank	15,400
		Closing stock	20,000
	<u>1,38,300</u>		<u>1,38,300</u>

③ From the following details: prepare final accounts of Viswanath for the year 31-3-2002

Capital	1,00,000	Debtors	59,000
Cash in hand	1,200	Creditors	24,000
B/P	22,000	Purchases	1,20,000
Stock (1-4-2001)	35,000	Plant & machinery	60,000
Rent, taxes	10,000	Furniture	15,000
Wages	16,000	Sales	2,00,200
Reserve for bad debts	1,000	B/R	20,000
Salaries	20,000		

Additional Information

- ① stock on 31-3-2001 - Rs 30,000
- ② of Rent 2,000, wages 3,000, salaries 4,000
- ③ ~~provide~~ provide depreciation on plant & machinery @ 5% on furniture @ 10%
- ④ Increase reserve for bad debts on debtors to 2 1/2%

Trading & Profit & Loss Account of Viswanath
for the year ended 31-3-2002

Dr		Cr	
Particulars	Amount Rs	Particulars	Amount Rs
To opening stock	35,000	By sales	2,00,200
" purchases	1,20,000	" closing stock	30,000
" wages 16,000			
(+) O/S <u>3,000</u>	19,000		
" Gross profit c/d	56,200		
	<u>2,30,200</u>		<u>2,30,200</u>
To Rent & Taxes 10,000		By Gross profit b/d	56,200
(+) O/S <u>2,000</u>	12,000		
" RBD = (1250 - 1000)	250		
(1000 + 50000 x 2 1/2 %)			
old = 1,250)			
" salaries 20,000			
(+) O/S <u>4,000</u>	24,000		
" Depn on P&M	3,000		
(60,000 x 5/100)			
" Depn on furniture	1,500		
(15,000 x 10/100)			
" net profit	15,450		
	<u>56,200</u>		<u>56,200</u>

Balance sheet as on 31-3-2002

Liabilities	Amount Rs	Assets	Amount Rs
Capital	1,00,000	Cash & bank	1,200
(+) Net profit	<u>15,450</u>	Debtors	50,000
	1,15,450	(-) RBD	<u>1,250</u>
" Bills payable	22,000	P&M	60,000
ds Rent	2,000	(-) Dep.	<u>3,000</u>
ds wages	3,000		57,000
ds salaries	4,000	Furniture	15,000
Creditors	<u>24,000</u>	(-) Dep.	<u>1,500</u>
		B/R	18,500
		closing stock	20,000
			30,000
	<u>1,70,450</u>		<u>1,70,450</u>

④ From the following Trial balance of Vinod Traders, prepare final accounts

Trial Balance

Debit Balances	Amount Rs	Credit Balances	Amount Rs
cash	1,000	Capital	45,000
machinery	5,000	Bills payable	2,500
opening stock	6,600	creditors	5,900
purchases	10,400	Interest Received	1,500
sales Returns	1,300	Sales	23,500
wages & salaries	4,700	Purchase Returns	1,000
Rent & Rates	3,600		
Sundry Debtors	12,000		
furniture	5,400		
Investments	8,000		
Discount	1,200		
commission	1,500		
carriage	600		
Trade Expenses	900		
Stationery	1,000		
coal & gas	2,200		
	3,000		
Int. on capital	1,000		
Bad debts	10,000		
Goodwill			
	<u>79,400</u>		<u>79,400</u>
① closing stock - 9,500		⑤ provide Reserve for Bad debts 5%	
② Bad debts - 1,500		⑥ Interest received in advance 500	
③ Outstanding wages - 300			
④ Depreciation on machinery - 10%			

Trading and Profit & Loss account of the Vinod Traders for the year ended

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Particulars	Amount Rs	Particulars	Amount Rs.
By opening stock	6,600	By Sales 23,500	
" Purchases 10,400		(-) Sale Returns 1,300	
(-) Returns 1,000	9,400		22,200
Wages & Salaries 4,700		" closing stock 9,500	
(+) O/S 300	5,000		
" Carriage 2,200			
" Gross profit c/d 7,900			
	31,700		31,700
" Bad debts 2,500		" Gross profit b/d 7,900	
(Trial + Adjustments)		" Interest 1,500	
" Depn on machinery 500		(-) Int., in advance 500	1,000
(5000 x 10/100)			5,825
" Rent & Rates 3,600		" Net Loss	
" Discount 1,200		(Transferred to	
" Commission 1,500		Capital account)	
" Trade Expenses 900			
" Stationery 1,000			
" Int. on capital 3,000			
" Reserve for Bad debts (12,000 - 1000)			
(11,000 x 5/100) = 525	525		
	14,725		14,725

Balance sheet as on 31st march

Liabilities	Amount Rs	Assets	Amount Rs
Capital	45000	Cash	1,000
(-) Net Loss	<u>5825</u>	machinery	5000
	39,175	(-) Depreciation	<u>500</u>
Bills payable	2,500		4,500
creditors	5,900	furniture	5,400
Interest received in advance	500	Investment	8,000
outstanding wages	300	Goodwill	10,000
		closing stock	9,500
		sundry Debtors	12,000
		(-) Bad debts	<u>1,500</u>
			10,500
		(-) Reserve for Bad debts	<u>525</u>
			9,975
	<u>48,375</u>		<u>48,375</u>

13.3 SUMMARY OF ADJUSTMENTS

S.No.	Nature of Adjustment	Name of the account to be recorded	Balance Sheet
1	Closing Stock	In Trading a/c on credit side	Assets side
2	Outstanding Expenses	Add to concerned expenses either in Trading or in Profit & Loss A/c.	Liabilities side.
3	Pre-paid Expenses	Deduct from concerned expenses either in Trading or in P & L account	Assets side
4	Accrued Income or Income receivable	Add to concerned income in P&L on credit side.	Assets side
5	Income received in Advance	Deduct from concerned income on credit side of P&L account	Liabilities side
6	Depreciation provided	Profit & Loss a/c Debit side	Deduct depreciation from concerned asset value on assets side
7	(a) Bad debts given only in adjustments	Debit side of P&L a/c	Deduct from Debtors on assets side
	(b) Bad debts given in trial balance and in adjustments	Total bad debts (trial balance + adjustment amount) on debit side in Profit & Loss a/c	Deduct the bad debts given in adjustments from debtors on assets side
8	(a) Reserve for Bad Debts	P & L a/c on debit side	Deduct the provision for bad and doubtful debts from sundry debtors on assets side
	(b) Reserve for Bad Debts given in trial balance and also in adjustments	If the adjustment amount is more than the Trial balance, the difference amount to be recorded in P&L Account on debit side. If the Trial balance amount is more than the adjustment amount, the difference amount appears on credit side of Profit & Loss a/c.	Adjustment amount should be deducted from debtors on assets side.

	(c) If the bad debts and reserve for bad debts are given in the adjustments	Calculate the reserve for bad and doubtful debts on sundry debtors after deducting the bad debts given in adjustments and record it in Profit & Loss a/c on debit side.	Deduct the bad debts and reserve for bad debts from debtors on assets side.
9	Interest on Capital	Profit & Loss a/c on debit side	Add to capital on the liabilities side
10	Interest on drawings	Profit & Loss a/c on credit side	Deduct from capital on liabilities side

13.4 ACCOUNTING TREATMENT TO THE ADJUSTMENTS GIVEN IN TRAIL BALANCE

1. Closing stock: to be recorded on assets side of balance sheet only.
2. Outstanding expenses (Liability): Liabilities side of balance sheet.
3. Prepaid expenses (Assets): Assets side of balance sheet.
4. Accrued Income (Asset): Assets side of balance sheet.
5. Income received in advance (Liability): Liabilities side of balance sheet.
6. Depreciation (Loss): Profit & Loss a/c on debit side.
7. Interest on capital (Expense): Profit & Loss a/c on debit side
8. Interest on drawings (Income): Profit & Loss a/c on credit side.

The following illustrations explain the accounting treatment to the above stated adjustments.