

BE EXTRA ORDINARY

**CLASSES**

**BY**

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# QUESTION -1

From the following trial balance of M/s Atul & Sons as on Dec31st, 2019, Prepare the **TRADING & PROFIT & LOSS ACCOUNT** and **BALANCE SHEET** as at Dec31st, 2019:

<b>Particulars</b>	<b>Dr. Bal</b>	<b>Cr. Bal</b>	<b>Particulars</b>	<b>Dr. Bal</b>	<b>Cr. Bal</b>
Drawings & Capital	18,000	83,000	Furniture	14,000	
Purchases and sales	82,600	155,000	Rent	22,000	
Stock(1.1.2019)	42,000		Salary	15,000	
Return	3,000	1,600	Insurance	3,600	
Carriage inwards	1,200		8% Bank loan		25,000
Wages	4,000		Debtors	20,600	
Power	6,000		Creditors		18,900
Machinery	50,000		Cash in hand	1,500	
				<b>283,500</b>	<b>283,500</b>

Let me first give you an idea about what is **TRIAL BALANCE** is always the given information in the Question.

1. Trial balance is one of the topic of class 11<sup>th</sup> and so I will not go into detail but will give you a short summary of it.
2. Trial balance has the closing balances of the ledgers. It has the closing balance of Assets, Liabilities, Expenses and Income.
3. The Assets and Liabilities will go to the Balance sheet and the Expenses and the Income will go to the Trading or Profit & Loss A/c

**Following are the adjustments:**

1. Closing Stock: 64,000
2. Wages outstanding-Rs.2, 400
3. Rent is paid for 11 months
4. Loan from bank was taken on July 1st, 2019
5. Debtors are bad to the extent of Rs.600 and create a provision for bad & doubtful debts @5% and provision for discount on debtors @2.5%
6. Provide depreciation on machinery 10% and furniture @5%.
7. Insurance premium is paid for the year ended 28th Feb, 2020
8. Purchases include purchases of furniture worth Rs. 5,000
9. The proprietor had withdrawn goods worth Rs. 5000 during the year.<sub>5</sub>

## **What are these adjustments for?**

These adjustments are pending items that we haven't consider and we need to consider them while preparing our Final accounts otherwise, we don't have correct picture of our profit, assets and liabilities. These are items for which journal entries are not passed and are left to be considered in the end of the financials year period.

For E.g. Depreciation on furniture @ 10% is yet to be provided. So this adjustment will reduce the value of our assets and reduce our profit as it's an expense.

## How to treat these adjustments:-

First and most important thing is that there will always be two effects of one adjustment. Not one, not three only 2. If we pass one effect and forgot to pass the another one, **Balance sheet will not match.**

For E.g. We have shown the depreciation in P&L a/c but we haven't shown it in the balance sheet. The balance sheet will not match. Why? Because our profit is decreased which will have an impact on the capital but Assets are not adjusted. So one side is higher while the another side is lower.

**Following are the adjustments:**

**1. Closing Stock: 64,000**

It will always be shown in the Credit side of the Trading A/c and in the Asset side of the balance sheet. Always

**2. Wages outstanding-Rs.2, 400**

Its an unpaid expenses, so it's a liability and also our wages will get increase by this amount as we haven't considered this 2,400 in the wages shown in the trial balance.

**3. Rent is paid for 11 months**

That means rent shown in the trial balance is of 11 months i.e.  $22000/11 = 2,000$ , one month worth of rent is still to be paid.

Its an unpaid expenses, so it's a liability and also our rent will get increase by this amount as we haven't considered this 2,000 in the rent shown in the trial balance.

**4. Loan from bank was taken on July 1st, 2019**

That means the interest to be paid is from 1<sup>st</sup> July till 31<sup>st</sup> Dec, i.e. 6 months which is  $25000 * 8\% * 6/12 = 1,000$

Now there is no interest expense in the trial balance, that means this complete amount is outstanding i.e. yet to be paid.



**5. Debtors are bad to the extent of Rs.600 and create a provision for bad & doubtful debts @5% and provision for discount on debtors @2.5%**

Bad debts is the amount not collected from debtors. It's a loss so will be shown in the P&L a/c and will be deducted from the debtors. Now from the remaining amount of debtors- we will create a provision for the doubtful debts which can arise in the future and from the rest of the amount we will further create a provision for the discount that we might be given to debtors to get the payment and the treatment of these provision is same as we have done with the bad debts.

Note:- When we are given these three bad debts, provision for d/d and the provision for the discount- we will always subtract bad debts first from the debtors, then from the remaining amount- provision for d/d and from the remaining amount- the provision for discount on debtors.

**6. Provide depreciation on machinery 10% and furniture @5%.**

It's an expense and will be shown in the Profit and loss a/c and will be subtracted from the Assets in the balance sheet.

**7. Insurance premium is paid for the year ended 28th Feb, 2020**

This means we have paid for two months extra so that's not an expenses for us and so will be deducted from the Insurance amount and it will be shown in the balance sheet as an asset.

**8. Purchases include purchases of furniture worth Rs. 5,000**

This is a purchase of an asset and so will be subtracted from the purchase of the stock in the trading a/c and it will be added to the furniture in the asset in the balance sheet.

**9. The proprietor had withdrawn goods worth Rs. 5000 during the year.**

This is a drawing and will be added to the drawing in the balance sheet and will be deducted from the purchases of the stock as its not a business expense.

**If anyone of you still having trouble in understanding above and the solution:-**

I am giving different colour to the adjustments and the same colour to their treatment in the solution to understand the effect of these adjustments. Also I am showing the number to the treatment as the number is in the adjustment in Q.

For E.g. The closing stock- check the colour in the treatment, it's the same colour as in the adjustment. Also the number is the same is the adjustment no.

These kind of notes, or making a short note- make the solution easier to understand –next time you are attempting the question and once the question is easier- it becomes interesting.

**Following are the adjustments:**

1. Closing Stock: 64,000
2. Wages outstanding-Rs.2, 400
3. Rent is paid for 11 months
4. Loan from bank was taken on July 1st, 2019
5. Debtors are bad to the extent of Rs.600 and create a provision for bad & doubtful debts @5% and provision for discount on debtors @2.5%
6. Provide depreciation on machinery 10% and furniture @5%.
7. Insurance premium is paid for the year ended 28th Feb, 2020
8. **Purchases include purchases of furniture worth Rs. 5,000**
9. **The proprietor had withdrawn goods worth Rs. 5000 during the year.**

### Trading A/c

Op. Stock		42,000	Sales	1,55,000	
Purchases	82,600		Less: Sales return	3,000	1,52,000
Less: Purchases return	1,600		<b>Closing stock (1)</b>		<b>64,000</b>
<b>Less: Drawings (9)</b>	<b>5,000</b>				
<b>Less: Furniture (8)</b>	<b>5,000</b>	71,000			
Carriage inwards		1,200			
Wages	4,000				
Add: O/s wages (2)	2,400	6,400			
Power		6,000			
Gross profit c/d		89,400			
		<b>2,16,000</b>			<b>2,16,000</b>

<b>P &amp; L A/c</b>				
Rent	22,000		Gross profit b/d	89,400
Add: O/S Rent (3)	2,000	24,000		
Salary		15,000		
Insurance	3,600			
Less: Prepaid (7)	600	3,000		
Depreciation:				
On Furniture (6)	825			
On Machinery (6)	5,000	5,825		
Bad debts (5)		600		
Prov. For d/d (5)		1,000		
Prov. For discount (5)		475		
Interest on bank loan (4)		1,000		
<b>Net profit</b>		<b>38,500</b>		
		<b>89,400</b>		<b>89,400</b>

## Balance Sheet

Capital	83,000		Machinery	50,000	
<b>Less: Drawings (9)</b>	<b>23,000</b>		<b>Less: Depreciation (6)</b>	5,000	45,000
Add: Profit	38,375	98,375	Furniture	14,000	
			<b>Add: Addition (8)</b>	<b>5,000</b>	
8% Bank loan		25,000		19,000	
O/s Int. on bank loan (4)		1,000	<b>Less: Depreciation (6)</b>	825	18,175
			Debtors	20,600	
Creditors		18,900	<b>Less: Bad debts (5)</b>	600	
				20,000	
O/s Rent (3)		2,000	<b>Less: Prov. For d/d (5)</b>	1,000	
O/s Wages (2)		2,400		19,000	
			<b>Less: Prov. For discount (5)</b>	475	18,525
			<b>Closing stock (1)</b>		<b>64,000</b>
			<b>Prepaid insurance (7)</b>		<b>600</b>
			Cash in hand		1,500
		<b>1,47,800</b>			<b>1,47,800</b>

**Presenting the Solution once again**



<b>Trading A/c</b>					
Op. Stock		42,000	Sales	1,55,000	
Purchases	82,600		Less: Sales return	3,000	1,52,000
Less: Purchases return	1,600		Closing stock		64,000
Less: Drawings	5,000				
Less: Furniture	5,000	71,000			
Carriage inwards		1,200			
Wages	4,000				
Add: O/s wages	2,400	6,400			
Power		6,000			
Gross profit c/d		89,400			
		<b>2,16,000</b>			<b>2,16,000</b>

<b>P &amp; L A/c</b>				
Rent	22,000		Gross profit b/d	89,400
Add: O/S Rent	2,000	24,000		
Salary		15,000		
Insurance	3,600			
Less: Prepaid	600	3,000		
Depreciation:				
On Furniture	825			
On Machinery	5,000	5,825		
Bad debts		600		
Prov. For d/d		1,000		
Prov. For discount		475		
Interest on bank loan		1,000		
<b>Net profit</b>		<b>38,500</b>		
		<b>89,400</b>		<b>89,400</b>

## Balance Sheet

Capital	83,000		Machinery	50,000	
Less: Drawings	23,000		Less: Depreciation	5,000	45,000
Add: Profit	38,375	98,375	Furniture	14,000	
			Add: Addition	5,000	
8% Bank loan		25,000		19,000	
O/s Int. on bank loan		1,000	Less: Depreciation	825	18,175
			Debtors	20,600	
Creditors		18,900	Less: Bad debts	600	
				20,000	
O/s Rent		2,000	Less: Prov. For d/d	1,000	
O/s Wages		2,400		19,000	
			Less: Prov. For discount	475	18,525
			Closing stock		64,000
			Prepaid insurance		600
			Cash in hand		1,500
		<b>1,47,800</b>			<b>1,47,800</b>

# QUESTION -2

From the following Info. Prepare the Final accounts of the company as on 31<sup>st</sup> march, 2018

<b>Particulars</b>	<b>Amount(Dr)</b>	<b>Particulars</b>	<b>Amount(Cr)</b>
Opening stock	33,000	Sales	300,000
Purchases	175,000	Capital	40,000
Debtors	100,000	Return outward	6,000
Return Inward	2,000	Commission received	5,000
Carriage outward	3,000	Discount received	7,500
Bad debts	1,500	Provision for doubtful debts	5,000
Bills receivable	32,500	Creditors	10,000
Power	3,500	Bills payable	5,000
Wages	15,000		
Insurance	8,500		
Preliminary expenses	4,500		
<b>TOTAL</b>	<b>378,500</b>	<b>TOTAL</b>	<b>378,500</b>

**Following are the adjustments:**

1. Closing stock 25,000
2. 1/3 of the preliminary expenses are to be written off.
3. Prepaid Insurance: Rs 1, 500
4. Provide bad debts: 4,000, Provision for bad debts @ 10% and Provision for discount on debtors@5%.
5. Provide provision for discount on creditors@ 2.5%.
6. A credit Sale of 2000 was not recorded in the sales book
7. Bad debts recovered 4,500 omitted to be recorded.
8. Goods costing Rs.6, 000 was destroyed by fire and a claim of Rs.4, 500 was accepted by the insurance company.
9. 1/4 of the commission received in advance is in respect of work to be done next year.
10. Provide Manager's commission @10% of net profit after charging his commission.

Let's discuss the adjustments.

Now for Q2, I will be discussing the treatment for those adjustments only which are new.

The treatment of adjustment no. 1, 3, 4 will be the same we have discussed in Q1

**Following are the adjustments:**

**1. Closing stock 25,000**

**2. 1/3 of the preliminary expenses are to be written off.**

1/3 will be treated as an expenses and shown in the P&L and the balance will shown in the Asset side. These expenses are those which have already done but yet to be written off.

**3. Prepaid Insurance: Rs 1, 500**

**4. Provide bad debts: 4,000, Provision for bad debts @ 10% and Provision for discount on debtors@5%.**

**5. Provide provision for discount on creditors@ 2.5%.**

This is an income for us as it's the amount that we may receive from our creditors as discount. It will be shown as an income in the P&L a/c and will be subtracted from the creditors.

**6. A credit Sale of 2000 was not recorded in the sales book**

It will be recorded now. So debtor and Sales will increase by this amount. It is to be noted that this is to be added first in the debtors before giving effect to the adjustment no. 4



**7. Bad debts recovered 4,500 omitted to be recorded.**

It's a gain and so will be credited to the P&L a/c and also our cash will increase by this amount.

**8. Goods costing Rs.6, 000 was destroyed by fire and a claim of Rs.4, 500 was accepted by the insurance company.**

6,000 Rs. worth of loss first will be credited to the Trading a/c so that there will be no effect on the Gross profit, then the net loss after adjusting the insurance claim receivable will be shown in the P&L and this insurance claim receivable is an asset for us as it is yet to be received.

**9.  $\frac{1}{4}$  of the commission received is in advance is in respect of work to be done next year.**

It's not an income and is a liability. So it will be subtracted from the income and will be shown in the liability.

**10. Provide Manager's commission @10% of net profit after charging his commission.**

We haven't provided for this commission so it's a liability for us.

Now how to calculate:-

Calculate the net profit

and then Multiply that profit by  $10/110$  to get the manager commission.

Why?  $10/110$  , Why not  $10/100$

Because it is mentioned that we need to calculate the commission on the net profit which is after charging his commission that means the net profit calculated included his commission so the net profit is  $100+10$  (commission) and therefore we do  $\text{Net profit} * 10/110$

<b>Trading A/c</b>					
Op. Stock		33,000	Sales	3,00,000	
Purchases	1,75,000		Add: Sales unrecorded	2,000	
Less: Purchases return	6,000	1,69,000	Less: Return	2,000	3,00,000
Wages		15,000	Closing stock		25,000
Power		3,500	Goods destroyed by fire		6,000
Gross profit c/d		1,10,500			
		<b>3,31,000</b>			<b>3,31,000</b>

### P & L A/c

Loss by fire	6,000		Gross profit b/d		1,10,500
Less: Insurance claim	4,500	1,500	Discount received		7,500
Preliminary exp. w/off		1,500	Prov. for dis. on creditors		250
Carriage outward		3,000	Commission received	5,000	
Insurance	8,500		Less: Received in advance	1,250	3,750
Less: Prepaid	1,500	7,000	Provision for d/d		5,000
Bad debts	1,500		Bad debts recovered		4,500
Add: Further bad debts	4,000	5,500			
Prov. for d/d		9,800			
Prov. for dis. on debtors		4,410			
Manager Commission		8,981			
Net Profit		89,809			
		<b>1,31,500</b>			<b>1,31,500</b>

## Balance Sheet

Capital	40,000		Preliminary expenses		3,000
Add: Profit	89,809	1,29,809	Prepaid Insurance		1,500
			Debtors	1,00,000	
Creditors	10,000		Add: Sales unrecorded	2,000	
Less: Prov. for discount	250	9,750		1,02,000	
			Less: Bad debts	4,000	
Bills payable		5,000		98,000	
			Less: Prov. For d/d	9,800	
Manager commission		8,981		88,200	
			Less: Prov. For discount	4,410	83,790
Commission received in advance		1,250	Bills receivable		32,500
			Closing stock		25,000
			Cash (bad debts recovered)		4,500
			Insurance claim receivable	29	4,500
		<b>1,54,790</b>			<b>1,54,790</b>