

# Financial Accounting

## Types of Accounts:

A business may have dealings with,

- i. Persons, firms, institutions, Companies etc.,
- ii. with assets and liabilities, and
- iii. Expenses and income.

Based on these dealings, the accounts are classified into three category,  
Namely,

- a) Personal Accounts:
- b) Real Accounts,
- c) Nominal Accounts.

a). Personal Accounts:

It deals with accounts relating to Persons, firms, Companies and man-made institutions.

It is classified into three

Natural Person's: e.g - Customers, Bala, Mohan etc.,

Artificial Person's: e.g. - Banks, firms, Companies etc.,

Representative Person's: e.g - Capital, Drawings, ~~Companies~~  
outstanding, liabilities etc.,

b). Real Accounts: [ Tangible , Intangible ]

It deals with accounts relating to the Properties and assets of business (e.g. Cash acc, furniture acc, Land & building acc, Machinery & shares acc, goods (Purchases & Sales) acc.

c. Nominal Accounts:

It deals with those items which exist in names only. It deals with items of Incomes & Expenditures. (e.g. Rent, Salary, Commission, Discount, Dividend, Depreciation etc.)

Rules of Book-keeping (or) Accounting Rules:

Personal Accounts : Debit The Receiver...  
Credit The Giver...

Real Accounts : Debit What Comes In  
Credit What Goes out

Nominal Accounts : Debit All Expenses & losses  
Credit All Incomes & Gains



Ex:

①. Raju started business with a cash of Rs. 50,000

Rule No. 1 : Personal a/c [ Involved Raju & Cash ]

Raju is the Giver  $\therefore$  Raju a/c Credit.

Cash amount Received  $\therefore$  Cash a/c Debit.

So the transaction is,

Specimen format:

Date	Particulars	L.f	Debit	Credit
Year Month Date	Name of the a/c to be debited <del>and</del> and Name of the a/c to be Credited		Rs. P. Amount	Rs. P. Amount.

By Cash a/c Dr  
To Raju's Capital a/c

Accounting Rules



Journals



Ledgers etc



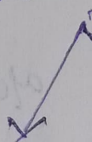
Trading etc



Profit & Loss etc



Final Account



With Adjust-  
ment

Without  
Adjustment



## Journal Entry

①. Raju started the business with a cash of Rs. 50,000

Rule No. 1 : Personal A/c Dr The Receiver  
Cr the Giver.

Cash was Received So Post Dr; a/c.

Raju's Capital was the Giver to Post cr a/c.

The transaction is.

By Cash a/c Dr Rs. 50,000

To Raju's Capital a/c cr Rs. 50,000

[ Being Raju started the business ]

②. Purchased goods for a cash of Rs. 3,000.

Rule No. 2 : Real a/c Dr what Comes in  
Cr what Goes out.

here Goods Comes in, then Cash goes out.

Hence the entry is.

By Purchase a/c Dr Rs. 3000

To Cash a/c cr Rs. 3000

[ Being Cash Purchase ]

③. Purchased goods from Mohan for Rs. 15000.  
[ known as Credit ~~Sales~~ <sup>Pur.</sup> ]

Rule No. 2: Dr what Comes in  
Cr what Goes out.

Goods Comes in, Mohan is Giver so (Person)  
Goes out,

The entry is

By Purchase a/c Dr Rs. 15000  
To Mohan a/c Cr Rs. 15000  
[ Being Credit Purchase ]

④. ~~Cash~~ Sold goods for a cash of Rs. 10,000.

Two a/c's involved, Rule No: 2 as above

Cash Comes in, goods goes out,  
So the entry is,

By Cash a/c Dr Rs. 10,000  
To sales a/c Cr Rs. 10,000.  
[ Being Cash Sales ]

⑤. Sold goods to Suresh for Rs. 60000.  
[ known as credit sales ]

Rule No: 2 Dr. what Comes in  
Cr what Goes out.

Hence the entry is, Suresh is Receiver (Person).  
goods goes out..

By Suresh a/c Dr Rs. 60,000  
To Sales a/c Cr Rs. 60,000  
[ Being Credit Sales ]



⑥. Paid Rent Rs. 500. [Nominal a/c].

Rule No. 2 : Dr all Expenses and losses.

Cr all Incomes & Gains.

Rent Expenses so Post Dr. side, Cash goes out, to Post Cr side.

By Rent a/c Dr Rs. 500.

To Cash a/c Cr Rs. 500.

[Being Rent Paid].

⑦. Received Interest Rs. 600.

Rule No. 3 : as above, Interest (Income),

Cash Comes in,

Hence the entry is,

By Cash a/c Dr Rs. 600

To Interest a/c Cr Rs. 600.

[Being Received Interest].

⑧. Purchased goods worth Rs. 200 returned to Mohan.

Rule No. 2 Mohan (receiver) Purchase Return -

Goods (goes out)

Hence the entry is,

By Mohan a/c Dr Rs. 200

To Purchase Return a/c Cr Rs. 200

[Being goods returned to Mohan]

## Journal Format :

Date	Particulars	L.F	Debit	Credit
(1) Year Month Date	(2) Name of the a/c to be debited. Name of the a/c Credited (Narration)	(3)	(4) Rs. P. Amount	(5) Rs. P Amount.

Problem: 1 Enter the following transactions in the books of Thiru. Ganesan.

Date	Particulars	L.F	Debit Rs.	Credit Rs.
2007 Jan 1	Started business with Rs. 25,000. By Cash a/c Dr To Capital a/c Cr [Being started business].	25,000	Rs. 25,000	25,000
2	Deposited into Bank Rs. 23,500. By Bank a/c Dr To Cash a/c Cr [Being the Cash deposited into Bank]		23,500	23,500
3	Purchased Furniture by issuing cheque By Furniture a/c Dr To Bank a/c Cr [Being the furniture Purchase]		2,000	2,000
4	Cash Purchases Rs. 5,000. By Purchase a/c Dr To Cash a/c Cr [Being Cash Purchase]		5,000	5,000
5	Sold Goods to Ramu Rs. 15,000. By Ramu a/c Dr To Sales a/c Cr [Being Credit Sales]		15,000	15,000



Problem No. 2 :

- Give the Journal entries for the following transactions :
- ①. started business with cash Rs. 60,000. R-1
  - ②. opened a business bank a/c with a deposit of Rs. 20,000. R-1
  - ③. Purchased Machinery for Rs. 22,000 Pay Cash of Rs. 15,000 and the balance on account. R-2
  - ④. Earned Commission in Cash Rs. 900. R-3
  - ⑤. withdraw Cash of Rs. 2,700 from bank. - R-1
  - f. Paid office Rent Rs. 1,100. - R-3

Soln:

Journal Entries

Date	Particulars	l.f	Debit Rs.	Credit Rs.
1.	By Cash a/c Dr. To Capital a/c Cr [Being started business]		60,000	60,000
2.	By Bank a/c Dr To Cash a/c Cr [Being bank a/c opened]		20,000	20,000
3	By [Purchased] Machinery a/c Dr To Cash a/c Cr To Suppliers a/c Cr [Being the Machinery Purchased by Paying a Cash of Rs. 15000 + the balance on Credit].		22,000	15,000 7,000
4	By Cash a/c Dr To Commission a/c Cr [Being the Commn. earned]		900	900
5	By Cash a/c Dr To Bank a/c Cr [Being Cash withdraw from bank]		2700	2700
6	By Rent a/c Dr To Cash a/c Cr [Being the office Rent Paid]		1,100	1,100

Problem No. 3

Journalise the following transactions:  
2008 Jan.

- 11 Purchased Goods for Rs. 1500
- 12 Purchased Goods from Gik Stores Rs. 900.
- 13 Sold goods to Raju Rs. 250.
- 14 Sold goods for Rs. 1100
- 15 Bought furniture for Cash Rs. 2000.
- 16 Bought furniture from JFA furniture Mart Rs. 800.
- 17 Goods returned to Gik Stores Rs. 200.
- 18 Raju returned goods worth Rs. 100.
- 19 Drew for Private use Rs. 500.
- 20 Electric charges amounted to Rs. 120.

Soln: Journal Entry

Date	Particulars	L.F	Debit Rs.	Credit Rs.
2008 Jan. 11	By Purchase a/c Dr To Cash a/c cr [Being Cash Purchase made]		1500	1500
12	By Purchase a/c Dr To Gik stores a/c cr [Being Credit Purchase]		900	900
13	By Raju a/c Dr To Sales a/c cr [Being Credit Sales]		250	250
14	By Cash a/c Dr To Sales a/c cr [Being Cash Sales]		1100	1100
15	By Furniture a/c Dr To Cash a/c cr [Being Furniture Purchased]		2000	2000
16	By Furniture a/c Dr To JFA furniture Mart a/c cr [Being Credit Purchase]		800	800



17	By Gik stores a/c Dr To Purchase Return a/c cr [Being the goods returned to Gik stores].	200	200
18	By Sales Return a/c Dr To Raju a/c cr [Being the goods returned from Raju].	100	100
19	By Drawings a/c Dr To cash a/c cr [Being the cash draw Private use].	500	500
20	By Electric charges a/c Dr To cash a/c cr [Being the electric charges paid].	120	120
Total		7,470	7,470

①. Purchase a/c Dr Purchase Return a/c Cr

②. Sales Return a/c Dr Sale a/c Cr

Problem NO. 4: Reverse Page: 7  
←

## LEDGER

### Proforma of a Ledger Account:

Dr

Name of the a/c

Cr

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
			Rs. P				Rs. P
Year Month Date	To [ Name of Credit Element]			Year Month Date	By [ Name of Debit Element]		

### Illustration :

Journalize the following transactions, Post them in the Ledger and balance the a/c's as on 31st Dec. 2008.

Dec. 1 Ranjith started business with a Capital of Rs. 50,000.

2 He Purchased furniture for Rs. 5,000.

3 He bought goods on Credit from Vinod for Rs. 8,000.

14 He sold goods to Suresh for Rs. 15,000.

15 He Received Cash from Suresh Rs. 3,000

18 He Purchased good for Cash Rs. 12,000.

27 He sold goods for Cash Rs. 8,000

28 He Paid Rent Rs. 1,200

31 He Paid Vinod - Rs. 3,000 on a/c

Dr

Sales Ledger a/c

Cr

Date	Particulars	J.F	Amt	Date	Particulars	J.F	Amt
Dec 31	To balance c/d		25,000	2008 Dec. 31	By Cash a/c		25,000
			25,000				25,000
				2009 Jan. 1	By balance b/d		25,000



Ex: Prepare ledger a/c's for the following transactions

- ①. Mr. kannan started business with cash Rs. 1,00,000. R-1
- ②. Goods Purchased for Rs. 10,000. R-2
- ③. Goods Sold for Rs. 25,000. - R-2

1st step: Journal Entry:

- ①. By Cash a/c Dr. 1,00,000  
 To kannan Capital a/c Cr. 1,00,000  
 [Being kannan started business.]
- ②. By Purchase a/c Dr. 10,000  
 To Cash a/c Cr. 10,000  
 [Being Cash Purchase.]
- ③. By Cash a/c Dr. 25,000  
 To Sales a/c Cr. 25,000  
 [Being Cash sales.]

2nd step: List of Ledgers Name:

- ①. Cash ledger a/c, ②. kannan capital ledger a/c
- ③. Purchase ledger a/c, ④. Sales ledger a/c.

III step: Ledger Posting:

Cash ledger a/c							
Dr							Cr
Date	Particulars	J.F	Amt	Date	Particulars	J.F	Amt.
2008 Dec 1	To kannan ap.		1,00,000	2	By Purchase a/c		10,000
3	To Sales a/c		25,000	Dec 31	By balance c/d		1,15,000
			1,25,000				1,25,000
2009 Jan 1	To balance b/d		1,15,000				

Purchase Ledger a/c							
Dr							Cr
Date	Particulars	J.F	Amt	Date	Particulars	J.F	Amt
Dec. 2 2008	To Cash a/c		10,000	Dec 31 2008	By balance c/d		10,000
2009 Jan 1	To balance b/d		10,000				
			10,000				10,000

H. J. Jha

Soln 2:

Ledger

Note: Capital Rs. 1,00,000  
include Capital Rs. 80,000  
open Bank a/c 20,000

Mr. Robert Commenced business on 1st Jan, 2011 with a Capital of Rs. 1,00,000. in Cash. on the same date He opened the bank a/c in ABCD & deposited Rs. 20,000. During the month of January 2011 the following transactions took place.

- Jan 1 Bought goods for cash Rs. 70,000
- 2 Sold goods to Steve Co. (cr) Rs. 38,000.
- 15 Sold goods for cash Rs. 9,000.
- 21 Steve Co. Paid by cheque 35,000.
- 22 Stationery bill Paid by Cheque 2,000
- 22 Telephone bill by cash 500
- 31 Paid Rent by cash 2,000.
- Paid Salaries by cash 3000.
- withdrew Cash Personal use 5,000.

Soln Record Journal entries for the transactions & Post them to ledgers.

Date	Particulars	Rs.		Particulars	Rs.	
		Dr	Cr		Dr	Cr
1st Jan 2011	By Cash a/c Dr By Bank a/c Dr To Capital a/c Cr [Being started business, & he opened Bank a/c]	80,000 20,000	1,00,000	22 By Stationery a/c Dr To Bank a/c Cr (Being cheque Paid into Bank)	2000	2000
1	By Telephone a/c Dr To Cash a/c Cr (Being Telephone rent Paid)			22 By Telephone a/c Dr To Cash a/c Cr (Being Telephone rent Paid)	500	500
1	By Purchase a/c Dr To Cash a/c Cr [Being Cash Purchase]	70,000	70,000	31 By Rent a/c Dr To Cash a/c Cr (Being Rent Paid)	2000	2000
2	By Steve a/c Dr To Sales a/c Cr [Credit Sales]	38,000	38,000	31 By Salary a/c Dr To Cash a/c Cr	3000	3000
15	By Cash a/c Dr To Sales a/c Cr [Being Cash Sales]	9,000	9,000	31 By Drawing a/c Dr To Cash a/c Cr	5000	5000
21	By Bank a/c Dr To Steve a/c Cr [Being Paid into the Bank]	35,000	35,000			





There are two methods:  
 ①. Balance Method.  
 ②. Total Method.

For the	Debit Balance	Credit
Assets		Liabilities
Expenses		Incomes
Losses		Gains
Drawings		Capital
opening stock		Reserves, Provisions

Probleme

No. 1 From the under mentioned balances, Prepare a Trial Balance as on 31.3.2007.

	Rs.		Rs.
Cash in hand	4,800	Furniture	60,000
Purchases	4,80,000	Bills Receivable	80,000
opening stock	1,40,000	Salaries	80,000
Sundry creditors	96,000	Capital	4,00,000
Machinery	2,40,000	Bills Payable	88,000
Wages	64,000	Sundry debtors	2,00,000
Sales	8,04,800	Rent	40,000

Soln:1

Trial balance as on 31.3.2007

Sl. No.	Name of Accounts	Debit Rs.	Credit Rs.
1.	Cash in hand	4,800	
2.	Purchases	4,80,000	
3.	opening stock	1,40,000	
4.	Sundry Creditors		96,000
5.	Machinery	2,40,000	
6.	Wages	64,000	
7.	Sales		8,04,800
8.	Furniture	60,000	
9.	Bills Receivable	80,000	
10.	Salaries	80,000	
11.	Capital		4,00,000
12.	Bills Payable		88,000
13.	Sundry Debtors	2,00,000	
14.	Rent	40,000	
Total =		13,88,800	13,88,800



# RECTIFICATION OF ERRORS

## Error:

An error is a mistake committed in the books of account by the employee of an organisation without any purpose.

## Types of errors:

### i) Error of Principle

→ when the transactions are entered in the books of a/c's without knowing the accounting Principles Properly.

Ex: Purchase of Machinery is wrongly debited to Purchase a/c. instead of Machinery.

### ii) Error of omission: When the transaction is omitted to be recorded in the books of a/c.

Ex: If the Purchase of goods from Mohan is left unrecorded it is error of omission.

### iii) Error of Commission: → when the amount of a transaction is wrongly entered it is called an error of Commission.

Ex: If rent Paid Rs. 325 is entered as Rs. 235.

### iv) Error of Duplication: → when the transaction is entered twice in the books of a/c.

⊙.

### v) Error of Compensation: The error that compensates another error is an error of Compensation.

Ex: The excess debit of Rs. 100 is compensated by the excess credit of Rs. 100.

### Problem No. 1

Rectify the following errors:

- Purchase book is overcast by Rs. 500.
- Sales book has been undercast by Rs. 300.
- Purchase returns book has been overcast by Rs. 50.
- Sales returns book has been undercast by Rs. 75.

Soln:

### Rectifying Journal Entries

Sl. No	Particulars	Debit Rs.	Credit Rs.
a)	By Suspense a/c Dr To Purchase a/c [Being the error of overcasting of Purchase book rectified].	500	500
b)	Suspense a/c Dr To Sales a/c Cr [Being undercasting of Sales rectified]	300	300
c)	Purchase return a/c Dr To Suspense a/c Cr [Being overcasting of Purchases return book rectified]	50	50
d)	Sales return a/c Dr To Suspense a/c Cr [Being undercasting of sales return book rectified.]	75	75





d). Goods sold for Rs. 500 to Robert were returned to us and recorded in Sales book.

wrong entry:

	Dr	Cr
By Robert a/c	Dr	500
To Sales a/c	cr	500

Correct entry:

By Sales Return a/c	Dr	500
To Robert a/c	cr	500

Rectified entry:

By Sales Return a/c	Dr	500
By Sales a/c	Dr	500
To Robert a/c	cr	1000

[Being the sales return entered in sales book rectified].

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e). Rs. 2,500 received in respect of a book debt was posted to sales a/c.

wrong entry:

By Cash a/c	Dr	2,500
To Sales a/c	cr	2,500

Correct entry:

By Cash a/c	Dr	2,500
To debtors a/c	cr	2,500

Rectified entry:

By Sales a/c	Dr	2,500
To debtors a/c	cr	2,500

[Being the Cash received from book debt rectified].



# TRADING ACCOUNT

Trading Means:

Buying & Selling of Goods.

It is the first Part in the final a/c and it gives the trading result.

Specimen form:

Trading a/c for the year ended.....

Particulars	Debit Rs.	Particulars	Credit Rs.
To opening stock	xxxx	By sales           xxx	
To Purchase   xxx		less: sales Return <del>xxx</del>	xxxx
less Pur. Returns <del>xxx</del>	xxxx		
To Factory exp.	xxxx	By closing stock	xxxx
To Direct exp.	xxxx		
To Gross Profit*	xxxx	By Gross loss*	xxxx
	xxxx		xxxx

Direct Exp:

Ex: Freights, Carriage Inwards, wages, Duty, Foreman <sup>Salary</sup>, Fuel, Power, oil, Coal, water, Factory lighting etc.,

### Problem No.1

Prepare Trading a/c of Mr. Rajesh for the year ending 31st March 2008.

Stock of goods on 1.4.2007	Rs. 25,000
Stock of goods on 31.3.2008	Rs. 47,500
Purchase - Cash	Rs. 37,000
- Credit	Rs. 82,500
Sales - Cash	Rs. 51,000
- Credit	Rs. 1,15,000
Returns to suppliers	Rs. 2,500
Returns by Customers	Rs. 2,000

Soln:

Dr	Debit Rs.	Particulars	Cr Credit Rs.
To opening stock	25,000	By Sales	
To Purchase:		- Cash 51,000	
Cash 37,000		Credit 1,15,000	
Credit 82,500		1,66,000	
1,19,500		Less Returns 2000	1,64,000
Less: Pur. Ret. 2,500	1,17,000	(Ret. by Customer)	
(Ret. to supplier)		By closing stock	47,500
To Gross Profit c/d (Bal. fig)	69,500		2,11,500
	2,11,500		



Problem No.2

From the following figures, Prepare the Trading Account of AH Ltd, for the year ending 31st Dec. 2008.

Opening stock (Jan 1, 2008)	3,000	Factory Rent	750
Goods Purchased (Dec. 31. 2008)	15,000	Goods Sold	30,000
wages Paid.	1,500	Purchase Returns	1,500
Coal, water	1,500	Sales Returns	3,000
Power	750	Foreman's salary	2,250
Carriage Inwards	2,250	Closing Stock	7,500

Soln:

Trading Account of AH Ltd.,  
for the year ended 31.12.2008

Particulars	Debit Rs.	Particulars	Credit Rs.
To Opening stock	3,000	By Sales 30,000	
To Purchases 15,000		Less: sales Ret. 3,000	27,000
Less Pur. Ret. 1,500	13,500	By closing stock	7,500
To wages Paid	1,500		
To coal, water	1,500		
To Power	750		
To Carriage inwards	2,250		
To Factory Rent	750		
To Foreman's Salary	2,250		
To Gross Profit c/d (Bal. fig)	9,000		
	<u>34,500</u>		<u>34,500</u>

### Problem No. 3

From the following figures Prepare the trading a/c of SS Ltd, as on 31.12.2008. Rs.

Stock (2008 Jan 1)	37,500	Factory Exp.	3,000
Purchases Cash	90,000	Marine Insurance on Purchase	1,500
Credit	<u>75,000</u>	Sales Cash	30,000
	1,65,000	Credit	<u>1,50,000</u>
Returns outwards (P.R.)	15,000	Returns inwards (S.R.)	22,500
Carriage Inwards	7,500	Closing stock	7,500
Wages	3,000		

Soln

Trading Account of SS Ltd.  
for the year ended 31.12.2008

Dr	Particulars	Debit Rs.	Particulars	Credit Rs.
	To opening stock	37,500	By Sales Cash } Credit } 1,80,000	
	To Purchase Cash } Credit } 1,65,000		Less: Returns 22,500	1,57,500
less;	Returns 15,000	1,50,000	By Closing stock	7,500
	To Carriage inwards	7,500		
	To wages	3,000		
	To Factory exp.	3,000	By Gross loss c/d } (Bal. Fig) }	37,500
	To Marine Insurance on Purchase	1,500		
		<u>2,02,500</u>		<u>2,02,500</u>



Problem No. 4  
 Kumar's books show the following balances on 31st dec. 2008.

opening stock 28,000  
 Purchases 73,000  
 wages 25,000  
 Freight Inwards 3,000  
 Sales Returns 4,500  
 Fuel & Power 11,000  
 Direct Expenses 2,000  
 sales 1,38,000  
 Purchase Returns 2,000

Stock on 31st dec. 2008 was valued at Rs. 25,800.  
 wages for month of dec, 2008 totalling Rs. 2,300  
 have still to be paid. A customer returned  
 goods worth Rs. 600 on dec. 31st. These have  
 not been included in stock and no entry has  
 yet been passed. Prepare the Trading Account.

500 → Trading Account of Mr. Kumar for the year <sup>Dec-31, 2008</sup>

Particulars	Debit Rs.	Particulars	Credit Rs.
To opening stock	28,000	By sales 1,38,000	
To Purchases 73,000		less Returns 5,100	1,33,500
Less Returns 2,000	71,000	(4500 + 600)	
To wages 25,000		By Closing stock 25,800	
Add: Unpaid 2,300	27,300	Add return not recorded 600	26,400
To Freight inwards 3,000			
To Fuel & Power 11,000			
To Direct Expenses 2,000			
To Gross Profit c/d (bal. fig)	17,600		
	1,59,900		1,59,900

# Profit & Loss A/c.

Specimen Form: Profit & Loss A/c of . . . . . for the year . . . . .

<u>Indirect exp.</u> Particulars	Debit Rs.	<u>Indirect incomes.</u> Particulars	Credit Rs.
To Gross Loss b/d *	xxx	By Gross Profit b/d *	xxx
<b>1. OFFICE &amp; ADMINISTRATION Expenses:</b>		By Discount Received	xxx
To salaries	xxx	By Commission Earned	xxx
To office lighting	xxx	By Interest Received	xxx
To Rent, Rates & Taxes	xxx	By Interest from Investment	xxx
To Printing & stationery	xxx	By Apprentice Premium	xxx
To Postage, Fax & telegram	xxx	By Rent from Tenants	xxx
To Insurance Premium	xxx	By Interest on Drawings	xxx
To General Expenses	xxx	By Profit on Sale of Assets	xxx
To Loss by fire or theft	xxx		
To legal expenses	xxx		
To trade expenses	xxx		
<b>2. SELLING &amp; DISTRIBUTION Expenses:</b>			
To sales men Salary	xxx		
To Commission Paid	xxx		
To Advertising Expenses	xxx		
To Carriage outwards	xxx		
To Traveling Expenses	xxx		
To Bad debts	xxx		
To Packing Expenses	xxx		
<b>3. FINANCIAL EXPENSES:</b>			
To Interest on Capital	xxx		
To Interest on loan	xxx		
To Discount Allowed	xxx		
<b>4. MAINTENANCE EXPENSES:</b>			
To Repairs & Maintenance of van, car & other assets	xxx		
To Depreciation on assets	xxx		
To Loss on sale of assets	xxx		
<b>5. OTHER EXPENSES:</b>			
To Provision for bad debts	xxx		
To Net Profit (b/f) *	xxx	By Net Loss c/d *	xxx
	xxx		xxx



# Trading & Profit and loss Account

## Problem: 1

From the following information ascertain Gross Profit and net Profit:

<table border="0" style="width: 100%;"> <tr> <td style="width: 50%;">Stock at Starting</td> <td style="width: 50%; text-align: right;">2,400</td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">15,205</td> </tr> <tr> <td>Sales</td> <td style="text-align: right;">20,860</td> </tr> <tr> <td>Closing stock</td> <td style="text-align: right;">3,840</td> </tr> <tr> <td>Returns outwards (PR)</td> <td style="text-align: right;">185</td> </tr> <tr> <td>Returns Inwards (SR)</td> <td style="text-align: right;">860</td> </tr> </table>	Stock at Starting	2,400	Purchases	15,205	Sales	20,860	Closing stock	3,840	Returns outwards (PR)	185	Returns Inwards (SR)	860	<table border="0" style="width: 100%;"> <tr> <td style="width: 50%;">Carriage inwards</td> <td style="width: 50%; text-align: right;">524</td> </tr> <tr> <td>Manufacturing wages Paid</td> <td style="text-align: right;">2,800</td> </tr> <tr> <td>Manufacturing wages owing</td> <td style="text-align: right;">96</td> </tr> <tr> <td>Loss due to fire</td> <td style="text-align: right;">1,000</td> </tr> <tr> <td>Indirect Expenses</td> <td style="text-align: right;">200</td> </tr> </table>	Carriage inwards	524	Manufacturing wages Paid	2,800	Manufacturing wages owing	96	Loss due to fire	1,000	Indirect Expenses	200
Stock at Starting	2,400																						
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Manufacturing wages owing	96																						
Loss due to fire	1,000																						
Indirect Expenses	200																						

## Soln

Trading A/c.			
Particulars	Debit Rs.	Particulars	Credit Rs.
To opening stock	2,400	By Sales	20,860
To Purchase	15,205	less Returns (Inwards)	860
less Returns (outwards)	185		20,000
	15,020		
To Manufacturing wages	2,800	By loss of stock	1,000
Add: outstanding (owing)	96	By Closing stock	3,840
	2,896		
To Carriage Inwards	524		
To Gross Profit ( <del>blank</del> Bal. fig)	4,000		
	24,840		24,840

## Profit & loss a/c

Particulars	Debit Rs.	Particulars	Credit Rs.
To loss due to fire	1,000	By Gross Profit	4,000
To Indirect Exp.	200		
To Net Profit (Bal. fig)	2,800		
	4,000		4,000

Problem No. 2.

From the following balances extracted from the Trial Balance of Mr. Raja. you are required to Prepare a Trading & Profit and loss a/c for the year ending 31.3.2009.

Stock on 1.4.2008	5000	Sales	72,000
Purchases	25,000	Purchases returns	4,000
wages	4,000	Interest received	6,000
Sales Returns	2,000	Discount received	4,500
carriage	1,500	Commission received	5,000
Cartage	2,500		
Rent	6,000		
Salaries	10,000		
General expenses	10,000		
Advertisements	6,000		
Electric charges	4,000		

The closing stock on 31st March 2009 Rs. 2,500.

Trading a/c for the year ended 31.3.2009.

Particulars	Debit Rs.	Particulars	Credit Rs.
To opening stock	5000	By sales	72,000
To Purchases	25,000	less Returns	2,000
less Returns	4,000		70,000
To wages	21,000	By closing stock	2,500
To Carriage	4,000		
To cartage	1,500		
To Gross Profit (* bal. fig)	2,500		
	40,500		
	72,500		72,500

Profit and Loss A/c for the year ended 31.3.09

Particulars	Debit Rs.	Particulars	Credit Rs.
To Rent	6000	By Gross Profit (bal. fig)	40,500
To Salaries	10,000	By Interest received	6,000
To General Exp.	10,000	By Discount received	4,500
To Advertisements	6,000	By Commn. received	5,000
To Electric Charges	4,000		
To Net Profit	20,000		
	56,000		56,000



Problem No. 3:

From the following balances extracted from the books of Mr. Kannan on 31st Dec. 2008. Prepare Trading & Profit and Loss ac.

Trial Balance

Particulars	Debit Rs.	Particulars	Credit Rs.
Opening stock	10,600	Returns outwards	150
Salaries and wages	2,200	Sales	25,200
Carriage	200	Discount received	400
Commn. on Purchase	300	Capital	7,000
Returns Inwards	440	Creditors	830
Purchases	12,000	Loan	1,400
Trade Expenses	580		
Rent	2,200		
Plant	2,400		
Repairs to Plant	460		
Cash in hand	200		
Cash at Bank	1,000		
Debtors	3,000		
Income Tax	500		
Drawings	700		
	<u>34,980</u>		<u>34,980</u>
Stock remaining unsold on 31.12.2008			Rs. 3,000.

Soln:

Trading a/c For the year ended 31st Dec.

Particulars	Debit Rs.	Particulars	Credit Rs.
To opening stock	10,600	By Sales	25,200
To Purchases 12,000		less Ret. Inwards	440
less Ret. outward 150	11,850		24,760
To Carriage	200	By closing stock	3,000
To Commn. on Purchase	300		
To Gross Profit (*)	4,810		
	<u>27,760</u>		<u>27,760</u>

Profit & Loss A/c

Particulars	Debit Rs.	Particulars	Credit Rs.
To Salaries & wages	2,200	By Gross Profit	4,810
To Rent	200	By Dis. Received	400
To Trade Exp.	580		
To Repairs to Plant	460		
To net Profit (*)	1,770		
	<u>5,210</u>		<u>5,210</u>

# BALANCE SHEET

As on - - - - -

specimen format

Liabilities	Rs.	Assets	Rs.
Outstanding Expenses	xxx	Cash in hand	xxx
Income received in advance	xxx	Cash at Bank	xxx
Bank overdraft	xxx	Prepaid Expenses	xxx
Bills Payable	xxx	Bills Receivable	xxx
Sundry Creditors	xxx	Sundry Debtors	xxx
Loans	xxx	Closing stock	xxx
Mortgage	xxx	Investment	xxx
Reserve fund	xxx	Furniture & Fitting	xxx
Capital	xxx	Less: Depreciation	xxx
Add: Net Profit	xxx	Loose Tools	xxx
Interest on Capital	xxx	less Depreciation	xxx
Less: Drawings	xxx	Plant & Machinery	xxx
Interest on Drawings	xxx	less Depreciation	xxx
Income Tax	xxx	Land & Buildings	xxx
	xxxx	less Depreciation	xxx
	xxxx	Business Premises	xxx
	xxxx	less Depreciation	xxx
	xxxx	Patents & Trade marks	xxx
	xxxx	Good will	xxx
	xxxx		xxx



Problem: 1

Balance sheet

The following are the account balance of vimal Agency after Preparing Trading & Profit and loss a/c for the year ending 31st Dec. 2004.

Land & Building A	20,000	Furniture A	6,000
Closing stock A	13,000	Bills Payable L	14,000
Cash in hand A	7,500	Bank loan L	15,000
Cash at bank A	2,200	Sundry Creditors L	16,000
Sundry debtors A	12,000	Salaries outstanding L	1,200
Bills receivable A	5,300	Drawings L	3,000
Insurance Prepaid A	200	Capital L	30,000
Machinery A	14,000	Net Profit of the year L	7,000

Cap. 30,000  
 Add N/P 7,000  
 37,000  
 less Drawing 3,000  
 34,000

Prepare Balance sheet of vimal Agency.

Soln:

Balance Sheet of Vimal Agency as at 31.12.2004.

Liabilities	Rs.	Assets	Rs.
Salaries outstanding	1,200	Land & Building	20,000
Bills Payable	14,000	Closing Stock	13,000
Sundry Creditors	16,000	Cash in hand	7,500
Bank loan	15,000	Cash at Bank	2,200
Capital = 30,000		Sundry Debtors	12,000
Add N/P: 7,000		Bills Receivable	5,300
<u>37,000</u>		Insurance Prepaid	200
less:		Machinery	14,000
Drawings 3,000		Furniture	6,000
	<u>34,000</u>		
			<u>34,000</u>

# Balance Sheet [Final Account]

Problem: 2 The following balances are extracted from the books of M/s. Satyam & Co, on 31st Dec. 2003.  
 Prepare Profit and Loss a/c for year ended B/S as that date.

Trading  
A/c  
B/S

Particulars	Debit Rs.	Particulars	Credit Rs.
Carriage outwards (P) Dr	580	Capital B/S L	7,160
Commission (P) Dr	320	Creditors B/S L	7,860
Carriage inwards (T) Dr	320	Commn. received P (Cr)	16,000
wages (L) Dr	1,120	Bills Payable B/S L	1,200
Purchases (P) Dr	15,600	Sales (Cr)	20,000
Insurance P (Dr)	440	Returns outwards (Cr)	200
Rent & Taxes PAL Dr	440		
Cash at bank B/S (A)	1,900		
Return Inwards (Cr)	520		
Stationary P (Dr)	180		
Interest on Capital P (Dr)	280		
Stock on 1st Jan. 2003 (P) Dr	400		
Bills Receivable L B/S	1,800		
sundry Debtors B/S A	12,000		
Trade Exp. P Dr	80		
Office Furniture P (Dr)	400		
Cash in hand B/S A	200		
	36,580		36,580

G/P: 12,240  
 N/P: 9,680  
 B/S: 25,900

The closing stock was valued at Rs. 10,000.

Soln: Trading Account of M/s Satyam & Co, for the year ended 31.12.2003

Particulars	Dr	Particulars.	Cr
To opening stock	400	By Sales 20,000	
To Pur. 15,600	<del>2000</del>	less R. Inwards 520	19,480
less P. Ret. 200	<u>15,400</u>		
To Carriage Inwards, 320	15,400	By closing stock 10,000	10,000
To wages 1,120	320		
To G/P (A) 12,240	1,120		
	29,480	Cr- 29,480	
		Dr- 17,240	
		17,240	29,480



Profit & Loss A/c

Particulars	Dr	Particulars	Cr
To Rent & Taxes	440	By GI/P (*)	12,240
To Carriage Outwards	550	By Commn. received	160
To Commn. Paid	320		
To Insurance	440		
To Stationery	180		
To Int. on cap.	280		
To Trade Exp.	80		
To office Furniture	400		
To N/P (*)	9,680		
	<u>12,400</u>		
		Cr-12,400	
		2,920	
		<u>9,680</u>	
			<u>12,400</u>

Balance Sheet as on 31.12.2003.

Liabilities	Amts	Assets	Amts
Bills Payable	1,200	Cash in hand	200
S. Creditors	7,860	Cash at bank	1,900
Cap.	7,160	Bills receivable	1,800
Add N/P	<u>9,680</u>	S. Debtors	12,000
	16,840	Closing Stock	10,000
	<u>25,900</u>		<u>25,900</u>

Problem 3: Prepare Trading and P&L a/c, B/S as on that date

Particulars	Debit Rs.	Particulars	Credit Rs.
Drawings B/L		Capital B/L	50,000
Stock (1st April 08) A	4,800	Sundry Creditors B/L	15,000
Furniture & Fittings B/L	30,000	Bank loan at 6% B/L	20,000
Printing & Stationery P(D)	13,000	Discount Received	1,000
Coal, Gas & water T(D)	200	Sales T (LT)	2,35,350
Freight & Clearing charges P	600	Bills Payable B/L	1,700
Purchases T(D)	3,500		
Income Tax B/L	35,000		
Discount Allowed P(D)	9,500		
Repairs to Plant P(D)	950		
Factory Rent T(D)	1,000		
Salaries P(D)	2,500		
Manufacturing wages T(D)	2,800		
Advertising P(D)	24,000		
Plant & Machinery B/A	19,000		
Miscellaneous exp. P(D)	70,000		
Office Rent P(D)	1,000		
Bills Receivable P(D)	3,600		
Carriage outwards P(D)	12,000		
Insurance P(D)	1,500		
Interest (Dr) P	600		
Cash at Bank A	1,200		
Cash at hand A	7,500		
Sundry Debtors B/L	3,500		
Stock (31.3.2009) A	33,800		
	40,000		
	3,23,050		

Balance sheet  
Liabilities side

Capital = 50,000  
Add NP = xxx  
Deduction xxx  
Drawing xxx  
Income xxx  
Tax xxx

Dr = Op. Stock + P.R + Div. Cont.  
= Sales - S. Ret. + Cls. Stk.

3,23,050



Soln:

Trading A/c for the year ended 31.12.09

Particulars	Debit Rs.	Particulars	Credit Rs.
To stock (1.1.09)	30,000	By Sales	2,35,350
To coal, Gas & water	600	By closing stock	40,000
To Freight & clearing charges	3,500		
To Purchase	35,000		
To Factory Rent	2,500		
To Manufacturing wages	24,000		
To Gross Profit (B/F)	1,79,750		
	<u>2,75,350</u>		<u>2,75,350</u>

Profit & loss A/c of Mr. Mohamed for the year 31/12/20

Particulars	Debit Amt	Particulars	Amt Credit
To Printing & stationery	1,200	By Gross Profit b/d	1,79,750
To Discount Allowed	950	By Discount Received	1,000
To Repairs to Plants	1,000		
To salaries	2,800		
To Advertising	19,000		
To office Rent	3,600		
To Miscellaneous Exp.	1,000		
To Carriage outwards	1,500		
To Insurance	600		
To Interest	1,200		
To Net Profit (*)	1,47,900		
	<u>1,80,750</u>		<u>1,80,750</u>





# Final Accounts With Adjustments

①. Final Account:

in which statements are finally from the Preparation of A/c's. It shows the Profit earned (or) loss suffered by the firm. And also shows the financial state of affairs of the firm at the end of the Period concerned.

②. objectives of Preparing final A/c's:

To know the business results.

To know the soundness of the business.

To know the financial Position of the business.

To know the true & fair view of assets & liabilities.

③. Prepaid Expenses? Give 2 examples?

These are expenses already Paid but with a Part of the amount Paid extending to the next year.

Ex: Prepaid Rent,

" Insurance Premium.

④. Outstanding (or) Accrued Income?

These are incomes already earned but without the money being actually received.

5) Income Received in Advance :  
These are incomes received during the current year, but a part of the amount received relates to the next year.  
Ex: Rent received in advance.

Explain the various Adjustments:

Adjustment :  
According to the accrual convention.

1) Outstanding Expenses :  
Some expenses might remain unpaid at the end of the accounting period.

2) Prepaid Expenses :  
Sometimes the expenditure incurred during the accounting period might not yield full benefit commensurate with the cash outlay involved.

3) Income Received in Advance :  
If an income is received in the form of cash during the accounting period, but not yet earned during the same period.

4) Depreciation :  
Depreciation is a loss suffered by a business due to the diminution in the value of a fixed asset as a result of continuous use.

5) Bad Debts :  
~~Bad~~ debts which are uncollectible are known as bad debts. As and when bad debts occur the same should be adjusted by passing the following entries.



Illustration: 2

From the following balances Prepare Trading and Profit and Loss a/c for the year ending 31.12.06 and Balance sheet as on that date:

Debit Balance	Rs.	Credit Balance	Rs.
Salaries P&L	5,500	Creditors L (B/S)	9,500
Rent P&L	1,300	Sales T	32,000
Cash (A) BS	1,000	Capital L B/S	30,000
Debtors (A) B/S	40,000	Loans L B/S	10,000
Sundry expenses P&L	600		
Purchases T	25,000		
Buildings (A) B/S	2,500		
Bank Balance (A) (B/S)	5,600		
	<u>81,500</u>		<u>81,500</u>

①. Trading a/c → G/P  
 ②. P&L → N/P  
 ③. B/S → Ans equal.  
 10 pts.

Adjustments:

- a) closing stock Rs. 9000. T & B/S (A)
- b) Salary outstanding amounted to Rs. 1,100. Add P&L (B/S) L
- c) Rent Paid in advance Rs. 100 (less P&L) & (B/S A)
- d) Provide 5% for doubtful debts against debtors.  
 $40,000 \times \frac{5}{100} = 2,000$  B/S

Solution:

Trading a/c for the year ended 31.12.2006

Particulars	Debit Rs.	Particulars	Credit Rs.
To Purchases	25,000	By Sales	32,000
To Gross Profit (*)	16,000	By closing stock	9,000
	<u>41,000</u>		<u>41,000</u>

Profit and Loss a/c for the year ended 31.12.06

Particulars	Debit Rs.	Particulars	Credit Rs.
To salaries 5,500		By Gross Profit (*)	16,000
Add outstanding 1,100	6,600		
To Rent 1,300			
less Prepaid Rent 100	1,100		
To sundry Exp. 600	600		
To Provision for Bad debts (40,000 x 5/100) =	2,000		
To Net Profit	<u>5,600</u>		<u>16,000</u>

## Balance sheet 31.12.06.

Liabilities	Rs.	Assets	Rs.
Salary outstanding	1,100	Rent Paid in advance	100
Creditors	9,500	Cash	1000
Loans	10,000	Bank balance	5600
Capital 30,000		Debtors 40,000	
Add Net Profit 5600	35,600	less: Dep 5% 2000	38000
		Closing stock	9000
		Buildings	2500
	56,200		56,200.

### ② Adjustment : (Gokulnath).

- a) closing stock is valued at Rs. 20,000. (B/S A)
- b) outstanding salaries Rs. 1000. (Add P&L) (B/S L)
- c) Prepaid insurance Rs. 500. (less P&L) (B/S A)
- d). Bad debts Rs. 1000. (B/S A), P&L
- e). Provide 10% depreciation on Machinery.  $40,000 \times 10\%$

To Prepare the P&L a/c, Trading a/c and B/S 31st Dec. 06.

Debit Balance	Rs.	Credit Balance	Rs.
opening stock T,	20,000	Capital L (B/S)	1,00,000
Machinery (A) B/S	40,000	Purchases returns T	1,000
Purchases T	70,000	Sales T	90,000
Sales returns T (Cr)	1,000	Creditors L (B/S)	29,000
Wages T	2,000		
salaries P&L	5,000		
office rent P&L	2,000		
Insurance P&L	1,000		
Debtors (A) B/S	50,000		
Cash (A) B/S	4,000		
Bank (A) B/S	25,000		
	2,20,000		2,20,000



solution

Trading a/c of Thiru. Gokulnath 31/12/2006

Particulars	Debit Rs.	Particulars	Credit Rs.
To opening stock	20,000	By sales 90,000	
To Purchase 70,000		less Returns 1,000	89,000
less Returns 1,000	69,000	By closing stock	20,000
To wages	2,000		
To Gross Profit (A)	18,000 ✓		
	<u>1,09,000</u>		<u>1,09,000</u>

Profit & loss a/c for the year ended 31.12.2006

Particulars	Debit Rs.	Particulars	Credit Rs.
To Salaries 5000		By Gross Profit (A)	18,000
Add outstanding 1000	6,000		
To office Insurance			
To office Rent 1000			
less Prepaid 500	500		
To Bad debts	1,000		
To Depreciation Machinery 4000	4,000		
To office Rent	2,000		
To Net Profit	4,500		
	<u>18,000</u>		<u>18,000</u>

Balance sheet 31.12.2006.

Liabilities	Rs.	Assets	Rs.
outstanding Salaries } Creditors	1,000 29,000	Cash	4,000
Capital 1,00,000		Bank	2,500
Add N/P 4,500	1,04,500	Prepaid Insurance	500
		Debtors 50,000	
		less BD 1,000	49,000
		Closing stock	20,000
		Machinery 4,000	4,000
	<u>1,34,500</u>	less Dep. 100	
			<u>1,34,500</u>

### Adjustments:

- a). Stock on hand at 31.12.2006 Rs. 4,900 (T, B/S)
- b). Outstanding Salaries Rs. 300 (Add P&L), B/S(L)
- c). Prepaid rent Rs. 200 (B/S(A) and Less (P&L)) Insurance Rs. 90 (Less (P&L) B/S(A))
- d). Depreciate Machinery at 10%.  $28000 \times \frac{10}{100} = 2800$  (P&L) less B/S(A)

Trial Balance as on 31.12.06

Debit	Rs.	Credit	Rs.
Purchases T	15,000	Capital (L) B/S	40,000
Salaries P&L	2,000	Sales T	25,000
Rent P&L	1,500	Creditors B/S(L)	1,000
Insurance P&L	300	Creditors	1,000
Drawing B/S(L)	5,000		
Machinery B/S(A)	28,000		
Bank B/S(A)	4,500		
Cash B/S(A)	2,000		
Opening Stock <del>B/S(A)</del> T	5,200		
Debtors B/S(A)	2,500		
	<u>66,000</u>		<u>66,000</u>

1. Trading A/c → G/P (or) G/L  
 2. P&L A/c → N/P (or) N/L  
 3. B/S →

Trading A/c as on 31.12.06

Particulars	Dr	Particulars	Cr
To opening stock	5,200	By sales	25,000
To Purchases	15,000	By closing stock	4,900
To Gross Profit (*)	9,700		
	<u>29,900</u>		<u>29,900</u>

$$\frac{29900 \text{ Cr} - 20200 \text{ Dr}}{9700}$$

Profit & Loss a/c as on 31.12.2006

Particulars	Dr	Particulars	Cr.
To salaries 2,000		By Gross Profit (*)	9,700
add: outstanding salary 300	2,300		
To Rent 1,500			
less: Prepaid Rent 200	1,300		
To Insurance 300			
less: Prepaid Ins. (-) 90	210		
To Dep. 28000 x 10%	2800		
	<u>6610</u>		<u>3090</u>



# Balance sheet as on 31.12.2006

Liabilities	Amt	Assets	Amt.
outstanding salaries } Creditors	300 1000	Prepaid Rent 200 " Insurance 90	290
Capital 40,000		Cash	4,500
Add: N/P 3090		Bank	2,000
43090		Debtors	2,500
less: Drawings 5000	38090	stock in hand (closing)	4900
		Machinery 28000	
		less: Depn 2800	25200
		$2800 \times \frac{10}{100}$	
	39390		39390