

Dr.		Manufacturing Expenses Account		Cr.	
1.4.2011	To Prepaid Expenses Account— transfer	₹ 6,925	1.4.2011	By Expenses Outstanding Account—transfer	₹ 7,400
	To Purchases Ledger Control Account	1,31,243		By Balance to appear in Trial Balance	1,31,726
	To Cash Account	958			
		1,39,126			1,39,126
Dr.		Distribution Expenses Account		Cr.	
	To Cash Account	₹ 2,707			
Dr.		Sales Account		Cr.	
	To Sales Ledger Control Account (Returns)	₹ 6,901		By Sales Ledger Control Account	₹ 7,65,020
	To Balance to appear in Trial Balance	7,58,119			
		7,65,020			7,65,020
Dr.		Profit on Sale of Machinery Account		Cr.	
				By Fixed Assets Account	₹ 5,709
Dr.		Loss of Stock Account		Cr.	
	To Opening Stock	₹ 4,870			
Dr.		Wages Account		Cr.	
	To Bank	₹ 2,65,002*	1.4.2009	By Wages Outstanding Account	₹ 2,497
	To P.F. & E.S.I. Dues: Employees	29,205*		By Balance to appear in Trial Balance	3,20,915
	Company	29,205			
		3,23,412			3,23,412
Dr.		Bad Debts Account		Cr.	
	To Sales Ledger Control Account	₹ 7,205			

* Gross wages are ₹ 2,94,207. Employees' contribution towards P.F. & E.S.I. is ₹ 29,205. Hence, amount paid is ₹ 2,94,207 - ₹ 29,205 = ₹ 2,65,002

EXERCISE II

FINAL ACCOUNTS

Preparation of Final Accounts

Problem No. 1

Prepare Trading and Profit and Loss Account for the year ended 31st March, 2012 and Balance Sheet as at that date from the following Trial Balance of K. Rama Rao.

Dr. Balances		₹	Cr. Balances		₹
Drawings		45,000	Capital		1,60,000
Goodwill		80,000	Bills Payable		33,800
Land & Buildings		60,000	Creditors		70,000
Plant & Machinery		40,000	Purchase Returns		2,650
Loose Tools		3,000	Sales		4,18,000
Bills Receivable		3,000			
Stock, 1st April, 2011		40,000			
Purchases		2,51,000			
Wages		20,000			
Carriage Outwards		500			
Carriage Inwards		1,000			
Coal		5,800			
Salaries		35,000			
Rent, Rates & Taxes		2,800			
Discount		1,500			
Cash at Bank		25,000			
Cash in hand		400			
Sundry Debtors		45,000			
Repairs		1,800			
Printing & Stationery		500			
Bad Debts		1,200			
Advertisements		3,500			
Sales Returns		2,000			
Furniture		11,200			
General Expenses		5,250			

Adjustments :

- (1) Closing Stock on 31st March, 2012 was ₹ 35,000.
- (2) Depreciate Plant & Machinery, Tools and Furniture by 10% and Land & Buildings by 5%.
- (3) Provide ₹ 1,500 for wages.
- (4) Advertisements prepaid are ₹ 500.
- (5) Provide 5% on Debtors against bad debts and 2% against discount.

Solution:

Dr. Trading and Profit and Loss Account of K. Rama Rao for the year ending 31st March, 2012				Cr.	
	₹	₹		₹	₹
To Stock, opening		40,000	By Sales	4,18,000	
To Purchases	2,51,000		Less : Sales Returns	2,000	4,16,000
Less : Purchases Returns	2,650	2,48,350	By Stock, closing		35,000
To Wages	20,000				
Add : Wages Outstanding	1,500	21,500			
To Carriage Inwards		1,000			
To Coal		5,800			
To Gross Profit <i>c/d</i>		1,34,350			
		<u>4,51,000</u>			<u>4,51,000</u>

(Contd.)

	₹	₹		₹
To Salaries		35,000	By Gross Profit b/d	1,34,350
To Rent, Rates & Taxes		2,800		
To Discount	1,500			
Add: Provision for Discount on Debtors	855	2,355		
To Carriage Outwards		500		
To Repairs		1,800		
To Printing and Stationery		500		
To Advertisement	3,500			
Less : Advertisement prepaid	500	3,000		
To General Expenses		5,250		
To Bad Debts	1,200			
Add: Provision for Bad & Doubtful Debts	2,250	3,450		
To Depreciation on :-				
Plant & Machinery	4,000			
Tools	300			
Furniture	1,120			
Land & Buildings	3,000	8,420		
To Net Profit transferred to Capital Account		71,275		
		1,34,350		1,34,350

Balance Sheet of Mr. K. Rama Rao as on 31st March, 2012

Liabilities	₹	₹	Assets	₹	₹
Bills Payable		33,800	Fixed Assets:		
Sundry Creditors		70,000	Goodwill		80,000
Wages Outstanding		1,500	Land & Buildings	60,000	
Capital	1,60,000		Less : Depreciation	3,000	57,000
Add: Net Profit for the year	71,275		Plant & Machinery	40,000	
	2,31,275		Less : Depreciation	4,000	36,000
Less : Drawings	45,000	1,86,275	Furniture	11,200	
			Less : Depreciation	1,120	10,080
			Loose Tools	3,000	
			Less : Depreciation	300	2,700
			Current Assets		
			Cash at Bank		25,000
			Cash in Hand		400
			Bills Receivable		3,000
			Sundry Debtors	45,000	
			Less : Provision for Bad & Doubtful Debts	2,250	
				42,750	
			Less : Provision for Discount on Debtors	855	41,895
			Stock		35,000
			Advertisement Prepaid		500
					2,91,575
					2,91,575

Problem No. 2

Prepare Trading and Profit and Loss Account and Balance Sheet as on 31st March, 2012 from the following balances:

	₹
M. Mirza's Capital Account	1,19,400
M. Mirza's Drawings Account	10,550
Sundry Creditors	59,630
15% Loan Account (Credit)	20,000
Cash in hand	3,030
Cash at Bank	18,970
Sundry Debtors (including Badri Das for dishonoured bill of ₹ 1,000)	62,000
Bill Receivable	9,500
Provision for Doubtful Debts	2,500
Fixtures and Fittings	8,970
Plant and Machinery	28,800
Stock, 1st April, 2011	89,680
Purchases	2,56,590
Manufacturing Wages	40,970
Sales	3,56,430
Returns Inwards	2,780
Salaries	11,000
Rent and Taxes	5,620
Interest and Discount (Debit)	5,870
Travelling Expenses	1,880
Repairs and Renewals	3,370
Insurance (including Premium of ₹ 300 per annum paid up to 30th September, 2012)	400
Bad Debts	3,620
Commission Received	5,640

Stock in hand on 31st March, 2012 was ₹ 1,28,960. Write off half of Badri Das's dishonoured bill. Create a provision of 5% on Sundry Debtors. Charge 10% interest on Capital. Manufacturing Wages include ₹ 1,200 for erection of new machinery purchased last year. Depreciate Plant and Machinery by 15% and Fixtures and Fittings by 10% per annum. Commission earned but not received amounts to ₹ 600. Interest on loan for the last two months has not been paid.

Solution :

Dr. Trading and Profit and Loss Account of Mr. M. Mirza for the year ended 31st March, 2012 Cr.

₹		₹	
To Stock, Opening	89,680	By Sales	3,56,430
To Purchases	2,56,590	Less: Sales Returns	2,780
To Manufacturing wages	40,970	By Stock, closing	1,28,960
Less: Charged to Plant & Machinery	1,200		
	39,770		
To Gross Profit <i>c/d</i>	96,570		
	4,82,610		4,82,610
To Salaries	11,000	By Gross Profit <i>b/d</i>	96,570
To Rent & Taxes	5,620	By Commission	5,640
To Interest & Discount	5,870	Add: Commission Accrued	600
Add: Interest Outstanding	500		6,240
	6,370		
To Travelling Expenses	1,880		
To Repairs & Renewals	3,370		
To Insurance	400		
Less: Insurance Prepaid	150		
	250		
To Bad Debts	3,620		
Add: Half of Badri Dass's dishonoured bill	500		
	4,120		

(Contd.)

	₹	₹	₹	₹
<i>Add</i> : Provision for Bad & Doubtful Debts required (5% on ₹ 61,000)	3,050			
	<u>7,170</u>			
<i>Less</i> : Existing Provision for Bad & Doubtful Debts	2,500	4,670		
To Depreciation on :				
Plant & Machinery @ 15%	4,500			
Furniture & Fixtures @ 10%	897	5,397		
To Interest on Capital		11,940		
To Capital Account— transfer of net profit		52,313		
		<u>1,02,810</u>		<u>1,02,810</u>

Balance Sheet of Mr. M. Mirza as on 31st March, 2012

<i>Liabilities</i>	₹	₹	<i>Assets</i>	₹	₹
Sundry Creditors		59,630	<i>Fixed Assets:</i>		
15% Loan Account	20,000		Plant & Machinery	28,800	
<i>Add</i> : Interest outstanding	500	20,500	<i>Add</i> : Wages for erection of the new machine	1,200	
Capital Account	1,19,400			<u>30,000</u>	
<i>Less</i> : Drawings during the year	10,550		<i>Less</i> : Depreciation	4,500	25,500
	<u>1,08,850</u>		Fixtures & Fittings	8,970	
<i>Add</i> : Interest on Capital for the year	11,940		<i>Less</i> : Depreciation	897	8,073
<i>Add</i> : Net Profit for the year	52,313	1,73,103	<i>Current Assets:</i>		
			Cash at Bank		18,970
			Cash at Hand		3,030
			Bills Receivable		9,500
			Sundry Debtors	62,000	
			<i>Less</i> : Bad Debts	500	
				<u>61,500</u>	
			<i>Less</i> : Provision for Bad & Doubtful Debts	3,050	58,450
			Stock		1,28,960
			Insurance Prepaid		150
			Commission Accrued		600
		<u>2,53,233</u>			<u>2,53,233</u>

Provisions for Bad Debts and Discount on Debtors and Reserve for Discount on Creditors.

Problem No. 3

A firm had the following balances on 1st April, 2010 :—

Provision for Bad and Doubtful Debts	₹ 6,500
Provision for Discount on Debtors	₹ 3,200
Reserve for Discount on Creditors	₹ 4,800

During the year ended 31st March, 2011, bad debts amounted to ₹ 4,500; discounts allowed were ₹ 15,800 and discounts received were ₹ 9,700. During 2011–2012 bad debts amounting to ₹ 2,300 were written off while discounts allowed and received were ₹ 12,500 and ₹ 8,900 respectively. Sundry Debtors were ₹ 1,50,000 on March 31, 2011 and ₹ 90,000 on March 31, 2012. Sundry creditors on these two dates were ₹ 1,05,000 and ₹ 1,26,000. It is firm's policy to maintain a provision of 5 per cent against bad and doubtful debts and 3 per cent for discounts on debtors and a reserve of 2 per cent on creditors. Show the accounts relating to provisions on debtors and reserve on creditors for the years 2010-2011 and 2011-2012.

Solution :

Dr.		Bad Debts Account		Cr.	
2011 Mar. 31	To Sundry Debtors	₹ 4,500	2011 Mar. 31	By Provision for Bad and Doubtful Debts—transfer	₹ 4,500
2012 Mar. 31	To Sundry Debtors	2,300	2012 Mar. 31	By Provision for Bad & Doubtful Debts Account—transfer	2,300

Dr.		Provision for Bad and Doubtful Debts Account		Cr.	
2011 Mar. 31	To Bad Debts Account—transfer	₹ 4,500	2010 Apr. 1	By Balance <i>b/fd</i>	₹ 6,500
" "	To Balance <i>c/d</i>	7,500	2011 Mar. 31	By Profit & Loss Account	5,500
		12,000			12,000
2012 Mar. 31	To Bad Debts Account—transfer	2,300	2011 Apr. 1	By Balance <i>b/d</i>	7,500
	To Profit and Loss Account	700			
	To Balance <i>c/d</i>	4,500			
		7,500	2012 Apr. 1	By Balance <i>b/d</i>	4,500

Dr.		Discount on Debtors Account		Cr.	
2011 Mar. 31	To Sundry Debtors	₹ 15,800	2011 Mar. 31	By Provision for Discount on Debtors—transfer	₹ 15,800
2012 Mar. 31	To Sundry Debtors	12,500	2012 Mar. 31	By Provision for Discount on Debtors A/c—transfer	12,500

Dr.		Provision for Discount on Debtors		Cr.	
2011 Mar. 31	To Discount Account—transfer	₹ 15,800	2010 Apr. 1	By Balance <i>b/fd</i>	₹ 3,200
" "	To Balance <i>c/d</i>	4,275	2011 Mar. 31	By Profit & Loss Account	16,875
		20,075			20,075
2012 Mar. 31	To Discount on Debtors Account—transfer	12,500	2011 Apr. 1	By Balance <i>b/d</i>	4,275
" "	To Balance <i>c/d</i>	2,565	2012 Mar. 31	By Profit & Loss Account	10,790
		15,065			15,065
			2012 Apr. 1	By Balance <i>b/d</i>	2,565

Dr.		Discount on Sundry Creditors Account		Cr.	
2011 Mar. 31	To Reserve for Discount on Sundry Creditors Account—transfer	₹ 9,700	2011 Mar. 31	By Sundry Creditors	₹ 9,700
2012 Mar. 31	To Reserve for Discount on Sundry Creditors Account—transfer	8,900	2012 Mar. 31	By Sundry Creditors	8,900

Dr.		Reserve for Discount on Sundry Creditors Account			Cr.
2010		₹	2011		₹
Apr. 1	To Balance <i>b/d</i>	4,800	Mar. 31	By Discount on Sundry Creditors Account—transfer	9,700
2011			" "	By Balance <i>c/d</i>	2,100
Mar. 31	To Profit & Loss Account	7,000			11,800
		11,800			
2011			2012		
Apr. 1	To Balance <i>b/d</i>	2,100	Mar. 31	By Discount on Sundry Creditors Account—transfer	8,900
2012			" "	By Balance <i>c/d</i>	2,520
Mar. 31	To Profit & Loss Account	9,320			11,420
		11,420			
2012					
Apr. 1	To Balance <i>b/d</i>	2,520			

Problem No. 4

On 31st March, 2011 a firm considered the undermentioned book debts as doubtful and decided to maintain, as policy, a full provision to meet the possible loss.

P ₹ 4,500; *Q* ₹ 720 and *R* ₹ 3,400.

During 2011-2012, *Q* paid the whole of the amount due from him and *R* was declared insolvent, his estate paying 40P in the rupee. On 31st March, 2012, the firm found that amounts due from *T* and *V* ₹ 6,100 and ₹ 5,200 respectively, were also doubtful of recovery.

You are required to give the personal accounts and also the account for 2011-2012 relating to the provision.

Solution :

Dr.		Provision for Doubtful Debts Account			Cr.
2012		₹	2011		₹
Mar. 31	To Bad Debts Account	2,040	Apr. 1	By Balance <i>b/fd</i>	15,100
	To Balance <i>c/d</i> *	15,800	2012		
		17,840	Mar. 31	By Profit & Loss Account	2,740
					17,840
			2012		
			Apr. 1	By Balance <i>b/d</i>	15,800

Dr.		P			Cr.
2011		₹	2012		₹
Apr. 1	To Balance <i>b/fd</i>	4,500	Mar. 31	By Balance <i>c/d</i>	4,500
2012					
Apr. 1	To Balance <i>b/d</i>	4,500			

Dr.		Q			Cr.
2011		₹	2011-2012		₹
Apr. 1	To Balance <i>b/fd</i>	7,200	?	By Cash	7,200

Dr.		R			Cr.
2011		₹	2011-2012		₹
Apr. 1	To Balance <i>b/fd</i>	3,400	?	By Cash	1,360
			?	By Bad Debts Account	2,040
		3,400			3,400

* Total of amounts due from *P*, *T* and *V*.