

GOVERNMENT ARTS COLLEGE(AUTONOMOUS)

COIMBATORE-641018

STUDY MATERIAL

CLASS : II MCA

SEMESTER : III

SUBJECT : FINANCIAL AND MANAGEMENT ACCOUNTING

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FACULTY : Dr. P.KANCHANA DEVI

UNIT : I

Unit – I

Financial Accounting

Meaning of Financial Accounting:

Financial accounting is a special branch of accounting that keeps track of the financial transactions of a company. Using the standardized guidelines, transactions have been recording in financial statements such as financial reports or income details or balance sheets, briefly presenting. Financial accounting, however, is a subdivision of the general area of accounting that focuses on gathering and compiling data to present external users in a usable form. So what does that mean? In fact, the main purpose of financial accounting is to provide useful, financial information outside those people or organizations that are often calls external users.

Definition of Financial Accounting:

Financial Accounting is concerned with providing information to external users. It refers to the preparation of general purpose reports for use by persons outside a business enterprise, such as shareholders (existing and potential), creditors, financial analysts, labor unions, government authorities, and the like. Financial accounting is oriented towards the preparation of financial statements which summarise the results of operations for selecting periods of time and show the financial position of the business at particular dates.

Objectives of Financial Accounting

1 – Compliance with Statutory Requirements

One of the objectives is to ensure compliance with local laws related to taxation, companies Act and other statutory requirements relevant to the country where the business undertakes. It ensures that the business affairs adhere to such laws and relevant provisions comply while business is conducted.

2 – Safeguarding of Interest of Various Stakeholders

It provides suitable and relevant information related to business operations to various stakeholders such as Shareholders, Prospective Investors, Financers, customers, creditors. They are not just appropriate for those who are having existing business relationships but also for those who are interested in having future collaboration with the business by providing them with meaningful information about the business. Further financial accounting standards ensure control over accounting policies of business to protect the interest of investors.

3 – Helps in the Measurement of Profit and Loss of Business

It measures the profitability of the business for a particular period and discloses the net profit or loss of the business as a whole. It also exhibits the Assets and Liabilities of the business.

4 – Presentation of Historical Records

It focuses on the presentation of historical records and not on forecasting future, unlike other accounting. The primary rationale in preparation of Financial Accounts is the ascertainment of profit earned or loss incurred by the business in the period concerned.

5 – Focus on External Transaction of Business

It focuses on a transaction which the business enters into with external parties, which can be customers, suppliers, etc. and based on these transactions, the accounts are prepared to quantify the business, costs incurred as expenses, and resultant profit or loss earned.

6 – Periodic Reporting and Wide Availability

Financial Accounting is undertaken with a pre-specified periodic reporting period, which is usually quarterly, half-yearly, and annually. It enables easy comparison and also keeps the information relevant and informative for various stakeholders. Further Financial Accounts are available publicly and are accessible to everyone who wants to know about the business and its performance.

7 – Basis for Other Accounting

The other types of accounting, namely cost accounting or management accounting, provides its base data from financial accounting. As such, it acts as a source for different types of accounting undertaken by the business. It deals with business transactions broadly, which acts as a base for Cost Accounting to break further to identify costs with products and services.

8 – Meeting the Objective of Various Stakeholders

- Another essential objective is meeting the needs of various stakeholders, which are associated with the business. Different stakeholders have different purposes, such as lenders to the business intends to assess the capability of the business to pay interest and principal, which is lent to the business or prospective lenders, so they are more interested in the solvency of the business and focus on that aspect.
- Similarly, customers are interested in knowing the growth and stability of the business and focus more on cash flow statements and financial statements to determine the ability of the business to provide better business terms and a consistent supply of goods and services.

9 – Only Financial Transactions

Financial Accounting records only those transactions which can be denominated in monetary terms or those which include financial aspects as such non-financial transactions are outside its purview, and it serves the objective of only Financial Transactions

10 – Reliability and Relevance

An important objective is to prepare such financial statements that are reliable, and decisions can be based on it. For this purpose, such Accounting should represent a faithful representation of transactions and events undertaken by the business, should be represented in their actual substance and economic reality perspective.

11 – Easy to Understand

Among all the objectives discussed above, it is the primary objective that Financial Accounts are prepared in such a way that they are easily understandable by intended users.

However, while meeting this objective in mind, it must be equally essential to ensure that no material information is omitted because it will be complex and cumbersome to understand for various users. In short, efforts must be made to prepare Financial Accounts in an easy way to know wherever possible.

Advantages of Financial Accounting

- **Maintain Business Record** – Financial accounting records each and every transaction of business organization. It systematically maintains a proper book of accounts of all monetary transactions. Unlike human memory which has a limited capacity to remember things, financial accounting can record large amounts of transactions.
- **Prevention and Detection of Fraud** – Avoidance, and detection of frauds or errors is an important role played by financial accounting. It records all financial data fairly which is used by management for analysis purposes. This data acts as proof and reduces the chances of any fraud or errors.
- **Present True Financial Position** – Financial accounting reveals and interprets the true financial position of organizations. It records each financial aspect and supplies it from time to time to the internal management team. Managers get the real ideas of all financial resources of the organization regularly through data supplied by financial accounting. It helps them in making proper decisions for managing the overall financial position.
- **Helps in Preparing Financial Statements** – Preparation of financial statements is a must for knowing the true profit or loss and real worth of the organization. Financial

accounting supplies all relevant accounting data for the preparation of financial statements like profit and loss account and balance sheet.

- **Comparison of Result** – Financial accounting helps in comparing the performance of business organizations. It systematically records and stores financial data for many accounting years. This way comparison of present data with previous year's data can be easily done.
- **Acts as Legal Evidence** – Financial accounting serves as legal evidence of all data and helps in settling of all business disputes. It prepares and maintains systematic books of accounts of all financial transactions which can be used for avoiding any confusion or misunderstanding.
- **Assists The Management** – Managers depend on financial accounting for various data for taking managerial decisions. It provides the full information's regarding all cash flows in an organization. They can easily anticipate any surplus or deficit of funds in an organization and take decisions accordingly.

Accounting Concepts and Conventions

ACCOUNTING CONCEPT

Accounting Concept defines the assumptions on the basis of which Financial Statements of a business entity are prepared. Certain concepts are received assumed and accepted in accounting to provide a unifying structure and internal logic to accounting process. The word concept means idea or notion, which has universal application. Financial transactions are interpreted in the light of the concepts, which govern accounting methods. Concepts are those basis assumption and conditions, which form the basis upon which the accountancy has been laid. Unlike physical science, Accounting concepts are only results of broad consensus. These accounting concepts lay the foundation on the basis of which the accounting principles are formulated.

Now we shall study in detail the various concept on which accounting is based. The following are the widely accepted accounting concepts.

1.) Entity Concept: - Entity Concept says that business enterprises are a separate identity apart from its owner. Business transactions are recorded in the business books of accounts and owner's transactions in this personal back of accounts. The concept of accounting entity for every business or what is to be excluded from the business books. Therefore, whenever business received cash from the proprietor, cash a/c is debited as business received cash and capital/c is credited. So the concept of separate entity is applicable to all forms of business organization.

2.) Money Measurement Concept: - As per this concept, only those transactions, which can be measured in terms of money are recorded. Since money in the medium of exchange and the standard of economic value, this concept requires that these transactions alone that are capable of being measured in terms of money be only to be recorded in the books of accounts. For example, health condition of the chairman of the company, working conditions of the workers, sale policy etc. do not find place in accounting because it is not measured in terms of money.

3.) Cost Concept: - By this concept, the value of assets is to be determined on the basis of historical cost. Transaction are entered in the books of accounts at the amount actually involved. For example, a machine purchased for Rs. 80000 and may consider it worth Rs. 100000, But the entry in the books of account will be made with Rs. 80000 or the amount actually paid. The cost

concept does not mean that the assets will always be shown at cost. The assets may be recorded at the time of purchase but it may be reduced its value by charging depreciation.

Many assets do not have acquisition cost. Human assets of an enterprise are an example. The cost concept fails to recognize such assets although it is a very important asset of any organization.

4.) Going Concern Concept: - According to this concept the financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future. Transactions are therefore recorded in such a manner that the benefits likely to accrue in future from money spent. It is because of this concept that fixed assets are recorded at their original cost and depreciation in a systematic manner without reference to their current realizable value.

5.) Dual aspect Concept: - This concept is the core of double entry book-keeping. Every transaction or event has two aspects. If any event occurs, it is bound to have two effects. For Rs. 50,000, on the other hand stock will increase by Rs. 50,000 and other liability will increase by Rs. 50,000. Similarly, if X starts a business with a capital of Rs. 50,000, while on the other hand the business has to pay Rs. 50,000 to the proprietor which is taken as proprietor's Capital.

6.) Realization Concept: - It closely follows the cost concept any change in value of assets is to be recorded only when the business realizes it. i.e. either cash has been received or a legal obligation to pay has been assumed by the customer. No sale can be said to have taken place and no profit can be said to have arisen. It prevents business firm from inflating their profit by recording sale and income that are likely to accrue, i.e. expected income or gain are not recorded.

7.) Accrual Concept: - Under accrual concept the effect of transactions and other events are recognized on mercantile basis. When they accrue and not as cash or a cash equivalent is received or paid and they are recorded in the accounting record and reported in the financial statements of the periods to which they relate financial statements prepared on the accrual basis inform users not only of past events involving the payment and receipt of cash but also of obligation to pay cash in the future and of resources that represent cash to be received in the future. For Example: - Mr. Raj buys clothing of Rs. 50,000, paying cash Rs. 20,000 and sells at Rs. 60,000 of which customer paid only Rs. 40,000. So his revenue is Rs. 60,000, not Rs. 40,000 cash received. Exp. Or Cash is Rs. 50,000, not Rs. 20,000 cash paid. So the accrual concept based profit is Rs. 10,000 (Revenue - Exp.)

8.) Accounting Period Concept: - This is also called the concept of definite periodicity concept as per going concern on indefinite life of the entity is assumed for a business entity it causes inconvenience to measure performance achieved by the entity in the ordinary course of business. Therefore, a small but workable fraction of time is chosen out of infinite life cycle of the business entity for measuring the performance and loading at the financial position 12 months' period is normally adopted for this purpose accounting to this concept accounts should be prepared after every period & not at the end of the life of the entity. Usually this period is one calendar year. In India we follow from 1st April of a year to 31st March of the immediately following year. Now a day because of the need of management, final accounts are prepared at shorter intervals of quarter year or in some cases a month such accounts are known as interim accounts.

9.) Matching Concept: - In this concept, all exp. Matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization. If any revenue is recognized that exp. Related to earn that revenue should also be recognized. This concept as it considers the occurrence of exp. And income and do not concentrate on actual inflow or outflow of cash. This leads to adjustment of certain items like prepaid and outstanding expenses, unearned or accrued income.

It is not necessary that every exp. Identity every income. Some exp. Are directly related to the revenue and some are directly related to sale but rent, salaries etc. are recorded on accrual basis for a particular accounting period. In other words, periodicity concept has also been followed while applying matching concept.

10.) Objective Concept: - As per this concept, all accounting must be based on objective evidence. In other words, the transactions recorded should be supported by verifiable documents. Only than auditors can verify information record as true or otherwise. The evidence should not be biased. It is for this reasons that assets are recorded at historical cost and shown thereafter at historical lass depreciation. If the assets are shown on replacement cost basis, the objectivity is lost and it became difficult for auditors to verify such value, however, in resent year replacement cost are used for specific purpose as only they represent relevant costs. For example, to find out intrinsic value of share, we need replacement cost of assets and not the historical cost of the assets.

ACCOUNTING CONVENTIONS

The term “Accounting Conventions” refers to the customs or traditions which are used as a guide in the preparation of accounting reports and statements. The conventions are derived by usage and practice. The accountancy bodies of the world may charge any of the convention to improve the quality of accounting information accounting conventions need not have universal application. Following are important accounting conventions in use:

1.) Convention of consistency: - According to this convention the accounting practices should remain unchanged from one period to another. It requires that working rules once chosen should not be changed arbitrarily and without notice of the effect of change to those who use the accounts. For example, stock should be valued in the same manner every year. Similarly, depreciation is charged on fixed assets on the same method year after year. If this assumption is not followed, the fact should be disclosed together with reasons.

The principle of consistency plays its role particularly when alternative accounting methods is equally acceptable. Any change from one method to another method would result in inconsistency; they may seem to be inconsistent apparently. In case of valuation of stocks if the company applies the principle “at cost or market price whichever is less” and if this principle accordingly result in the valuation of stock in one year at cost and the market price in the other year, there is no inconsistency here. It is only an application of the principle.

An Enterprise should change its accounting policy in any of the following circumstances only.

- (i) To bring the books of accounts in accordance with the issued accounting standard.
- (ii) To compliance with the provision of law.
- (iii) When under changed circumstances it is felt that new method will reflect more true and fair picture in the financial statement.

2.) Convention of Conservatism: - This is the policy of playing safe game. It takes into consideration all prospective losses but leaves all prospective profits financial statements are usually drawn up on a conservative basis anticipated profit are ignored but anticipated losses are

taken into account while drawing the statements following are the examples of the application of the convention of conservatism.

- (i) Making the provision for doubtful debts and discount on debtors.
- (ii) Valuation of the stock at cost price or market price whichever is less.
- (iii) Charging of small capital items, like crockery to revenue.
- (iv) Showing joint life policy at surrender value as against the actual amount paid.
- (v) Not providing for discount on creditors.

3.) Convention of Disclosure: - Apart from statutory requirement, good accounting practice also demands that significant information should be disclosed in financial statements. Such disclosures can also be made through footnotes. The purpose of this convention is to communicate all material and relevant facts concerning financial position and results of operations to the users. The contents of balance sheet and profit and loss account are prescribed by law. These are designed to make disclosures of all material facts compulsory. The practice of appending notes relative to various facts and items which do not find place in accounting statements is in pursuance to the convention of full disclosure of material facts. For example;

- (a) Contingent liability appearing as a note.
- (b) Market value of investments appearing as a note.

The convention of disclosure also applies to events occurring after the balance sheet date and the date on which the financial statement is authorized for issue. Such events include bad debts, destruction of plant and equipment due to natural calamities, major acquisition of another enterprise, etc. such events are likely to have a substantial influence on the earnings and financial position of the enterprises. Their non-disclosure would affect the ability of the users for evaluations and decisions.

4.) Convention of Materiality: - According to this convention, the accountant should attach importance to material detail and ignore insignificant details in the financial statement. In materiality principle, all the items having significant economic effect on the business of the enterprises should be disclosed in the financial statement.

The term materiality is the subjective term. It is on the judgment, common sense and discretion of the accountant that which item is material and which is not. For example, stationery purchased by the organization though not used fully in the year. Similarly, depreciation on small items like books, calculator is taken as 100% in the year if purchased through used by company for more than one year. This is because the amount of books or calculator is very small to be shown in the balance sheet. It is the assets of the company.

Single-Entry and Double-Entry System

What is single-entry System?

Single-entry bookkeeping is a simple and straightforward method of bookkeeping in which each transaction is recorded as a single-entry in a journal. This is a cash-based bookkeeping method that tracks incoming and outgoing cash in a journal.

How does the single-entry system work?

In single-entry bookkeeping, you maintain a cash book in which you record your income and expenses. Start with your existing cash balance for a given period, then add the income you receive and subtract your expenses. After you factor in all these transactions, at the end of the given period, you calculate the cash balance you are left with.

A typical cash book will have the following information:

- **Date:** The date on which the transaction takes place
- **Description:** A brief note on the transaction

- **Transaction value:** The value can be either incoming (debit) or outgoing (credit)
 - **Balance:** Running total of how much cash you have in hand
- In the following example, suppose you're a business owner recording the debit and credit entries for all of the transactions that take place in a week.
1. Let's assume you have a \$5000 cash balance at the beginning of the first week in June. So this will be your first entry.
 2. On the second day of the week you pay your rent, which is \$1000. Since this is an expense, you subtract this amount from your cash balance. This leaves you with \$4000.
 3. Your customer pays an invoice for \$500, which is income. So this amount is debited to your account and raises the account balance to \$4500.
 4. You buy office furniture for \$1500. So you subtract this amount from the existing balance.
 5. At the end of the week, you are left with \$3000 in cash.

DATE	DESCRIPTION	NOTES	TRANSACTION VALUE		ACCOUNT BALANCE
			EXPENSE (DEBIT)	INCOME (CREDIT)	
06/01	Starting balance for the week				\$ 5000.00
06/02	Rent		\$ 1000.00		\$ 4000.00
06/03	Invoice paid: Excel Technologies Ltd			\$ 500.00	\$ 4500.00
06/04	Supplies	Furniture	\$ 1500.00		\$ 3000.00
06/07	Ending balance				\$ 3000.00

What is double-entry bookkeeping?

Double-entry bookkeeping is a method of recording transactions where for every business transaction, an entry is recorded in at least two accounts as a debit or credit. In a double-entry system, the amounts recorded as debits must be equal to the amounts recorded as credits.

How does the double-entry system work?

The key feature of this system is that the debits and credits should always match for error-free transactions.

The double-entry bookkeeping system works on the basic accounting equation, which is as follows:

$$\text{Assets} = \text{Liabilities} + \text{Owner's equity}$$

Assets: The money that the company owns

Liabilities: Anything that the business owes

Owner's equity: Owner's investment in the company

Income: Money the business earns by selling its products

Expense: Money the company spends to run the business

You should always remember that each side of the equation must balance out. This is how we arrive at the term “balancing the books.” A small example will help you understand this equation.

Let us take the same example that we used above, but this time use double-entry bookkeeping. Assume you are recording debit and credit entries for the transactions that take place in a week, using double-entry bookkeeping.

The starting balance for the week is \$5000. In one week, you pay your rent (\$1000).

ACCOUNT	DEBIT	CREDIT
Rent	\$1000	
Cash		\$1000

You purchase some office furniture (\$1500).

ACCOUNT	DEBIT	CREDIT
Furniture	\$1500	
Cash		\$1500

Meanwhile, Excel Technologies pays an invoice with a value of \$500.

ACCOUNT	DEBIT	CREDIT
Cash	\$500	
Excel Tech. (Invoice)		\$500

If you look at all three transactions, you can observe that total credit and total debit are the same: they both add up to \$3000.

Meaning and Silent Features of SES

For every accounting transaction, everyone does not follow the principle of double entry system of accounts. Some of the small business units do not keep their books of accounts as per double entry system. In simple words, single entry system of accounts mean — the business unit, which does not follow the principle of double entry system.

There are following two types of SES of accounts –

- **Pure Single Entry System** – Personal accounts like sundry debtors and sundry creditor’s accounts are maintained, but real and nominal accounts are not opened under this system.
- **Popular Sense** – Under this system, three types of treatment are done.
 - Double entry system followed for cash received from the debtors and the cash paid to the creditors.
 - Single entry system followed for expenses paid, purchases of goods, purchases of fixed assets etc.
 - Provisional entries like bad debts, depreciation, etc. are not done.

Difference between SES and DES

- Single entry is an in-complete system of accounting, whereas double entry system (**DES**) is a complete system of accounting transactions.
- There is no reliability on books in a single entry system, whereas double entry system is a reliable accounting system.
- Checking of the arithmetical accuracy is possible in a double entry system through preparation of trial balance, whereas it is not possible under a single entry system.
- Since, single entry system does not maintain Trading, and Profit & Loss Account, and Balance Sheet; hence, ascertainment of the actual profit and exact financial position of the firms is not possible, on the other hand, all above is quite possible under the double entry system of accounting.

Limitations of SES

- Single entry system of accounts do not record two-fold aspects of each and every transactions, hence, it is not a scientific system of keeping accounting records.
- Checking of the arithmetical accuracy is not possible due to non-preparation of a trial balance. Preparation of a trial balance is not possible, because the method of double entry system is not followed for each business transaction.
- Ascertainment of the actual profit of a concern is not possible, as nominal accounts are kept under single entry system. In the absence of nominal accounts, Trading and Profit & Loss account cannot be prepared.
- It is not possible to find the exact financial position of a firm in the absence of real accounts, because without real accounts, it is not possible to prepare the Balance sheet of a firm on a particular day.
- Outsiders never rely on the books of accounts of a firm.
- In case where owner of the business wants to sell his business, ascertainment of exact value of the business is not possible, especially goodwill value of the firm.
- Single entry system is practiced only by the small business units.

Preparation of Statement of Affairs

To know the financial position of a business, the list of assets & liabilities and statement of affairs are prepared on the last date of accounting period. As stated earlier, in the absence of real accounts, it is not possible to prepare a Balance sheet.

Following points are required to prepare the statement of affairs –

- With the help of personal accounts, a list of debtors and creditors should be prepared.
- Stock valuation method will be either on cost or market price, whichever is lower.
- Cash book balance should be physically verified with the cash book.
- Bank balance should also be reconciled with the Bank statements.
- Statement of affairs should contain the income received in advance and the expenses paid in advance.
- Excess of assets over liabilities will be capital of the proprietor or firm.
- Basis for the valuation of fixed assets will be the purchased voucher and any other available evidence.

How does the Statement of affairs Differ from Balance-Sheet?

Main difference between the statement of affairs and the Balance sheet is —reliability on first is prepared through incomplete information and on later is based on the scientific method of the double entry system of accounts.

Ascertainment of Profit under SES

We have the following two methods to ascertain the profit under single entry system –

- Statement of Affairs or Net worth Method and
- Conversion Method

Net worth Method

Under the single entry system, the ascertainment of the profit can be done without preparing a Trading and Profit & Loss account. For example,

1	To know the capital at the beginning of the year or at the last date of the preceding accounting year, first step is to prepare the statement of affairs at the beginning of the year.
2	One statement of affairs should be prepared on the last date of accounting year to ascertain.
3	Drawing should be added to the amount of capital as ascertained at the end of the year and the capital introduced if, any, during the year will be subtracted.
4	Capital introduced if, any, during the year will be subtracted.
5	Difference of (3) – (1) will be the profit or loss for the year. If, (3) is more than (1), then it is a profit or vice versa.
6	The amount of profit or loss as calculated by the step No. (4) above, will be adjusted by the interest on capital and the interest on drawing (to ascertain Net Profit of the firm).

Conversion Method

Under the conversion method system of accounting, change from the single entry system to the double entry system on a particular date can be done by the following procedure –

- Statement of affairs should prepare on the date on which the change need to be made. After the proper checking and verification of such balances from available records, all the balances like cash balance, bank balance, assets, liabilities, debtors, and creditors should appear in the statement of affairs.
- An opening journal entry should be made to bring into the books as –

Journal Entry

Asset A A/c Dr
Asset B A/c Dr
Asset C A/c Dr
Liabilities A A/c
Liabilities B A/c
Liabilities C A/c
Being all assets and all liabilities brought forward from the statement of affairs a/c.

Above entry will be a base entry to open all new books under the double entry system of accounts and all the future transactions will be booked according to the double entry system as explained earlier.

Conversion of Books of Last Year from SES into DES

To convert books of the last year from single entry to double entry system, it will be assumed that all the subsidiary books are maintained properly under the single entry system. However, following procedures need to be followed –

Where Cash Book, Personal Books, and Subsidiary Books are Maintained –

- Opening statement of the affairs should be prepared at the beginning of the period.
- All the impersonal accounts as appeared in the cash book should be posted in the respective impersonal accounts, if it has not been done earlier.

- New impersonal accounts need to be opened through total of the subsidiary books. For example, with the total of sales book and purchase book, sale account will be credited and purchase account will be debited, vice versa in case of returns.
- All the new account should be opened for the entries relating to discount, rebates, bad debts, etc. which are not passed through the subsidiary books. This procedure will give two-folds effect of such transaction as appeared in the personal accounts.
- Month-wise positing should be done to the ledger accounts through petty cash book, if, maintained by the firm.
- After completion of the above procedure, a trial balance should be prepared to confirm the arithmetical accuracy of the books of accounts.
- After completion of the above procedure of trial balance, Trading and Profit & Loss account and Balance sheet should be prepared (after considering all the adjustments like prepaid expenses, outstanding expenses, income received in advance, or receivables as well as the provisions for depreciations, doubtful debts etc.

Where only Cash Book and Personal Books are Maintained

In this case, a different procedure of conversion will be followed –

- As described earlier, an opening statement of the affairs should be prepared at the beginning of the period.
- All the real and nominal accounts as appeared in the cash book and not posted earlier in any account, should be posted in respective accounts.
- An analysis of debit and credit side of personal accounts like debtors accounts and creditors accounts will be done as per the method given below –

Summary of Analysis to be Done

Sr.No.	Debit side of Creditors' Accounts	Debit side of Debtors' Accounts
1	Bills payables	Opening balance as appeared in opening Statement of Affairs
2	Discounts and rebates received	Sale (Credit)
3	Return inward (Purchase returns)	Transfers
4	Transfers	Bills receivables (Dishonored)
5	Cash paid to Creditors	
6	Endorsement of Bills Receivables in favor of Creditors	
Sr.No.	Credit side of Debtors' Accounts	Credit side of Creditors' accounts
1	Cash received	Opening balance as appeared in opening Statement of Affairs
2	Discount Allowed	Purchases (Credit)

3	Bills receivables received	Transfers
4	Discount and allowances	Bills payables (dishonored)
5	Transfers	
6	Goods returned (Sales returns)	
7	Bad Debts	

Single entry system

Problem 1

Manu started business with a capital of ₹ 4,00,000 on 1st October, 2005. He borrowed from his friend a sum of ₹ 1,00,000. He brought further ₹ 75,000 as capital on 31st March, 2006, his position was:

Cash: ₹ 30,000; Stock: ₹ 4,70,000; Debtors: ₹ 3,50,000 and Creditors: ₹ 3,00,000.

He withdrew ₹ 8,000 per month during this period. Calculate profit on loss for the period.

ANSWER:

Statement of Affairs for the year ending March 31, 2006

Liabilities	Amount Rs	Assets	Amount Rs
Creditors	3,00,000	Cash	30,000
Loan from Friend	1,00,000	Stock	4,70,000
Capital	4,50,000	Debtors	3,50,000
(Balancing Figure)			
	<u>8,50,000</u>		<u>8,50,000</u>

Statement of Profit and Loss for the year ending March 31, 2006

Particulars	Amount Rs
Capital as on March 31, 2006	4,50,000
Add: Drawings (8,000 × 6)	48,000
	<u>4,98,000</u>
Less: Additional Capital Introduced	(75,000)
Adjusted Capital as on March 31, 2006	4,23,000
Less: Capital as on Oct.01, 2005	(4,00,000)

Profit made during the year 2005-06	23,000

Problem 2

Following information of an accounting year is given:

Opening Capital ₹ 60,000; Drawings ₹ 5,000; Capital added during the year ₹ 10,000 and Closing Capital ₹ 90,000. Calculate the Profit or Loss for the year.

ANSWER:

Statement of Profit or Loss

Particulars	Amount (Rs)
Capital at the end	90,000
<i>Add:</i> Drawings	5,000
	95,000
<i>Less:</i> Additional Capital Introduced	(10,000)
Adjusted Capital at the end	85,000
<i>Less:</i> Capital in the beginning	60,000
Net Profit for the year	25,000

Problem 3

Mahesh who keeps his books on Single Entry System sells goods at Cost plus 50%. On 1st April, 2017 his Capital was ₹4,00,000 and on 31st March, 2018 it was ₹3,50,000. He had withdrawn ₹20,000 per month besides goods of the sale value of ₹60,000. How much did he earn in 2017-18?

ANSWER:

Statement of Profit/Loss

Particulars	Amount (₹)
Closing Capital	1,32,000
Less: Opening Capital	(1,00,000)
Add: Drawings	24,000
Profit for the Year	56,000

Working Notes:

Closing Statement of Affairs

Dr.

Cr.

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	12,000	Cash	3,200
Loan from Brother	10,000	Stock	34,800
Capital (<i>Bal. Fig.</i>)	1,32,000	Debtors	31,000
		Plant	85,000
	1,54,000		1,54,000

Problem 4

Ram Prashad keeps his books on Single Entry System and from them and the particulars supplied, the following figures were gathered together on 31st March, 2018:

Book Debts ₹ 10,000; Cash in Hand ₹ 510; Stock-in-Trade (estimated) ₹ 6,000; Furniture and

Fittings ₹ 1,200; Trade Creditors ₹ 4,000; Bank Overdraft ₹ 1,000; Ram Prashad stated that he started business on 1st April with cash ₹ 6000 paid into bank but stocks valued at ₹ 4,000. During the year he estimated his drawings to be ₹ 2,400. You are required to prepare the statement, showing the profit for the year, after writing off 10% for Depreciation on Furniture and Fittings.

ANSWER:

Books of Ram Prashad
Statement of Affairs
as on March 31, 2018

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Trade Creditors	4,000	Book Debts	10,000
Bank Overdraft	1,000	Cash in Hand	510
Capital (<i>Balancing Figure</i>)	12,590	Stock	6,000
		Furniture and Fittings	1,200
		<i>Less: 10% Depreciation</i>	120
	17,590		17,590

Statement of Affairs
as on April 01, 2017

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital (<i>Balancing Figure</i>)	10,000	Bank	6,000
		Stock	4,000
	10,000		10,000

Statement of Profit or Loss
for the year and March 31, 2018

Particulars	Amount (Rs)
Capital as on March 31, 2018	12,590
<i>Add: Drawings</i>	2,400
	14,990
<i>Less: Capital as on April 01, 2017</i>	(10,000)
Profit made during the year 2017-18	4,990

Problem 5

A commenced business on 1st April, 2017 with a capital of ₹ 10,000. He immediately bought Furniture and Fixtures for ₹ 2,000. On 1st October, 2017, he borrowed ₹ 5,000 from his wife @ 9% p.a. (interest not yet paid) and introduced a further capital of his own amounting to ₹ 1,500. A drew @ ₹ 300 per month at the end of each month for household expenses. On 31st March, 2018 his position was as follows: Cash in Hand ₹ 2,800; Sundry Debtors ₹ 4,800; Stock ₹ 6,800; Bills Receivable ₹ 1,600; Sundry Creditors ₹ 500 and owing for Rent ₹ 150. Furniture and Fixtures to be depreciated by 10%. Ascertain the profit or loss made by A during 2017–18.

ANSWER:

Statement of Affairs
as on March 31, 2018

Liabilities	Amount ₹	Assets	Amount ₹
Wife's Loan	5,000	Furniture and Fixture	2,000
<i>Add: Outstanding Interest</i> (5,000 × 9% × 6/12)	225	<i>Less: 10% Depreciation</i>	(200)
	5,225	Cash in Hand	2,800
Sundry Creditors	500	Sundry Debtors	4,800
Rent Outstanding	150	Stock	6,800
Capital (<i>Balancing Figure</i>)	11,925	Bills Receivable	1,600
	17,800		17,800

Statement of Profit or Loss
for the year ended March 31, 2018

Particulars	Amount ₹
Capital as on March 31, 2017	11,925
<i>Add: Drawings</i> (Rs 1,200 × 3)	3,600
	15,525
<i>Less: Additional Capital Introduced</i>	(1,500)
Adjusted Capital as on March 31, 2017	14,025
<i>Less: Capital as on April 01, 2016</i>	(10,000)
Profit made during the year 2016-17	4,025

Problem 6

Following information is supplied to you by a shopkeeper:

Particulars	1st April,	31st March
-------------	---------------	---------------

	2017 (₹)	, 2018 (₹)
Cash	6,000	7,000
Sundry Debtors	68,000	64,000
Stock	59,000	87,000
Furniture	15,000	13,500
Sundry Creditors	20,000	18,000
Bills Payable	15,000	11,000

During the year, he withdrew ₹ 2,500 per month for domestic purposes. He also borrowed from a friend at 9% a sum of ₹ 20,000 on 1st October, 2017. He has not yet paid the interest. A provision of 5% on debtors for doubtful debts is to be made.

Ascertain the profit or loss made by him during the period.

ANSWER:

Statement of Affairs
as on April 01, 2017

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	20,000	Cash	6,000
Bills Payable	15,000	Sundry Debtors	68,000
		Stock	59,000
Capital (<i>Balancing Figure</i>)	1,13,000	Furniture	15,000
	1,48,000		1,48,000

Statement of Affairs
as on March 31, 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	18,000	Cash	7,000
Bills Payable	11,000	Stock	87,000
9% Loan from Friend	20,000	Furniture	13,500
<i>Add: Interest Outstanding</i> <i>(2,000 × 9% × 6/12)</i>	900		
Capital (<i>Balancing Figure</i>)	1,18,400	Sundry Debtors	64,000
		<i>Less: 5% Provision for</i> <i>Doubtful Debts</i>	(3,200)
	1,68,300		60,800
			1,68,300

Statement of Profit or Loss
for the year ended March 31, 2018

Particulars	Amount (₹)
Capital as on March 31, 2017	1,18,400
Add: Drawings (Rs 250 × 12)	30,000
	1,48,400
Less: Capital as on April 01, 2016	(1,13,000)
Profit made during the year 2016-17	35,400

Problem 7

C maintains his books according to Single Entry System. Following figures were available from the books for the six months ended 31st December 2017:

Particulars	1st July, 2017 (₹)	31st Dec. 2017 (₹)
Plant and Machinery	1,50,000	1,40,000
Debtors	65,000	60,000
Cash and Bank Balances	25,000	31,000
Stock	40,000	45,000
Creditors	9,000	10,000

Adjustments:

- (a) He had withdrawn ₹ 200 in the beginning of every month for household purposes.
- (b) Depreciation on Plant and Machinery @ 10% p.a.
- (c) Further Bad Debts ₹ 5,000 and Provision for Doubtful Debts to be created @ 2%.
- (d) During the period, salaries have been prepaid by ₹ 500 while wages outstanding were ₹ 1,000.
- (e) Interest on drawings to be reckoned @ 6% p.a.

You are required to prepare the Statement of Profit or Loss for the half year ended 31st December, 2017, followed by Revised Statement of Affairs as on that date.

ANSWER:

Statement of Affairs
as on July 01, 2017

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	9,000	Cash and Bank balances	25,000
Capital (<i>Balancing Figure</i>)	2,71,000	Debtors	65,000
		Stock	40,000
		Plant and Machinery	1,50,000

	2,80,000		2,80,000

**Statement of Affairs
as on December 31,2017**

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	10,000	Cash and Bank balances	31,000
Outstanding Wages	1,000	Debtors	60,000
Capital (<i>Balancing Figure</i>)	2,65,500	Stock	45,000
		Prepaid Salary	500
		Plant and Machinery	1,40,000
	2,76,500		2,76,500

**Statement of Profit or Loss
for the half year ended December 31,2017**

Particulars	Amount (₹)
Capital at the end of the year	2,65,500
<i>Add:</i> Drawings made during the year	1,200
Adjusted capital at the end of the year	2,66,700
<i>Less:</i> Capital in the beginning of the year	2,71,000
Gross Loss (Profit before Adjustment)	4,300
<i>Less:</i> Interest on Drawings	21
<i>Add:</i> Depreciation on Plant and Machinery	7,000
Bad Debts	5,000
Provision for Doubtful Debts	1,100
Net Loss (Profit After Adjustment)	17,379

**Statement of Affairs (After adjustments)
as on December 31, 2017**

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	10,000	Cash and Bank balances	31,000
Outstanding Wages	1,000	Debtors	60,000
Capital	2,71,000	<i>Less:</i> Bad Debts	5,000
<i>Less:</i> Net Loss	17,379		55,000
<i>Less:</i> Drawings	1,200	<i>Less:</i> Provision for D.D.	1,100
			53,900

Date	Amount	Months	Product
Jul. 01	200	6	1,200
Aug. 01	200	5	1,000
Sep. 01	200	4	800
Oct. 01	200	3	600
Nov. 01	200	2	400
Dec. 01	200	1	200
Total			4,200

Interest on Drawings = $4,200 \times 6 \times 1100 \times 12 = \text{Rs } 21$ = $4,200 \times 6 \times 1100 \times 12 = \text{Rs } 21$

Basic Books of Accounts

Accounting Definition

Accounting is the process of identifying, measuring and communicating financial information about an entity to permit informed judgments and decisions by users of the information.

Accounting can thus be said to be a method of providing information to management (and other users) relating to the activities of an organization. In order to do this it relies on the accurate collection of data from sources both internal and external to the organization. The recording of this data is often referred to as **bookkeeping**.

The business organizations must keep systematic record of what happens from day to day, so that it can know where it stands and so that it can satisfy the ever increasing curiosity of the income tax officer, if nothing else. Most of the businesses these days are run by joint stock companies and these are required by law to prepare **financial statements**.

These statements are proper form showing the state of financial affairs of **business organizations**. A systematic record of the daily events of a business leading to presentation of complete financial picture is known as accounting in elementary stages, as bookkeeping.

Books of Accounts for Service Business

For business or taxpayer engaged in sale of services, it is required to maintain at least four which are the following:

- General journal
- General ledger
- Cash receipt journal
- Cash disbursement journal

Books of Accounts for Businesses Engaged in Sales of Goods or Properties

For business or taxpayer engaged in sale of goods or properties, it is required to maintain at least six, which are the following:

- General journal
- General ledger

- Cash receipt journal
- Cash disbursement journal
- Sales journal
- Purchase journal

Journal

The word Journal has been derived from French word “Jour”. Jour means day. So Journal Entry means daily up to date record of economic transaction, all transactions are recorded in order of their occurrences date wise (**Chronological order**). Every **Accounting Transaction** affects two or more accounts. Under **Double Entry Accounting** equal debit and credit entries are made for every economic activity. Journal entry is made in the **book of original entry**. It is first recording step. It records transactions in chronological order. Every transaction is to be recorded in journal. Every organization has to maintain one journal book at least, and general journal is general purpose **book of prime entry**. Entering transaction data in the journal is known as journalizing. The journal makes three significant contributions to the recording process:

- The journal discloses in one place the complete effect of a transaction
- The journal entry provides a chronological record of transactions
- The journal helps prevent or locate errors because the debit and credit amounts for each entry can be readily compared

Parts of Journal Entry

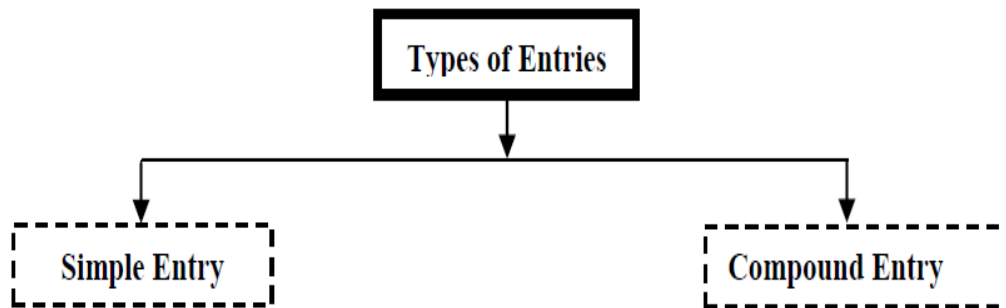
Single record of the business transaction is called **entry**. We use this term to describe record transaction in **Book of Accounts**. There are three parts of journal entry. First write in first line just after date line is **debit**, second must write in below line after indented ten spaces from date line is **credit** and last part is **narration** which is brief description of transaction write within parenthesis.

General Journal

Date		Account Titles and Explanation	Ref	Amount (Rs)	
				Debit	Credit
Year					
Month	Date	Debit elements of entry Credit elements of entry (Narration is brief description)		*****	*****
		Total		*****	*****

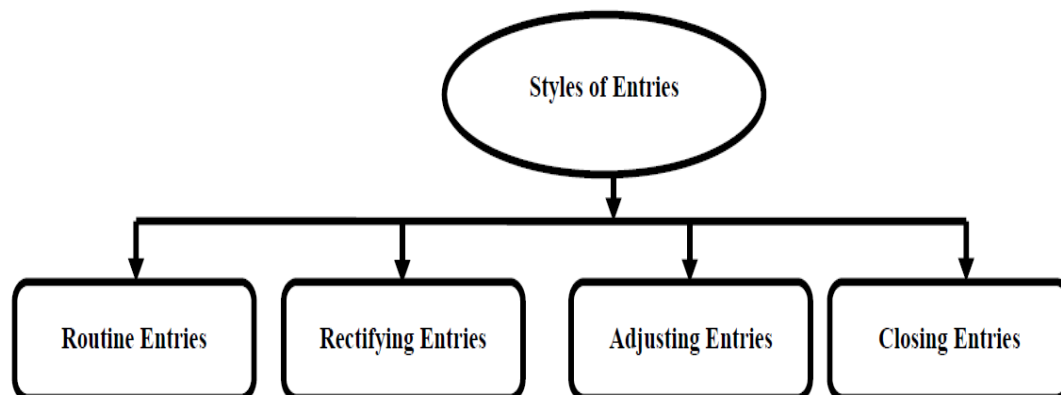
Types of Journal Entry

There are two **types of journal** entry. First is simple entry and second is **compound entry**. Simple Entry has one Debit and one Credit while, Compound Entry has more than one Debit or more than one Credit or more than one Debit and Credit.



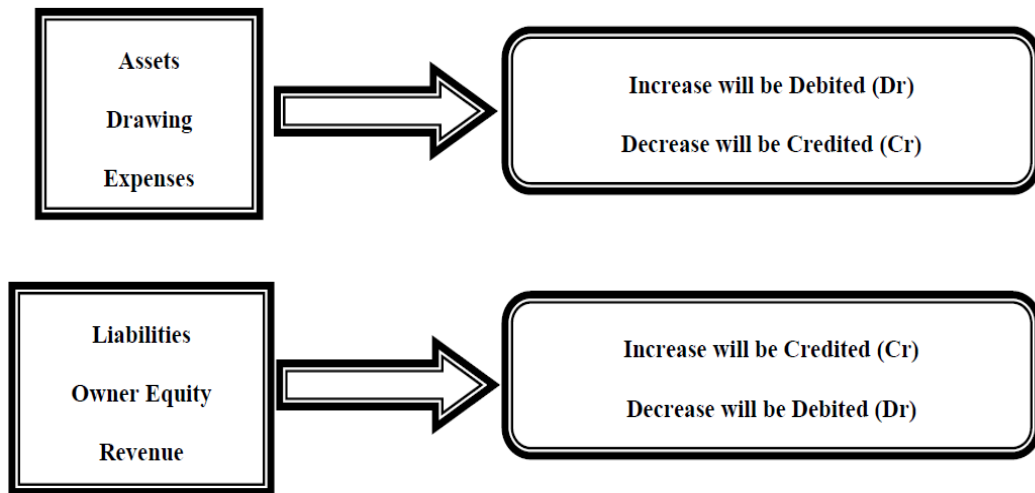
Styles of Journal Entry

There are four styles of journal entry. Following figure describes:



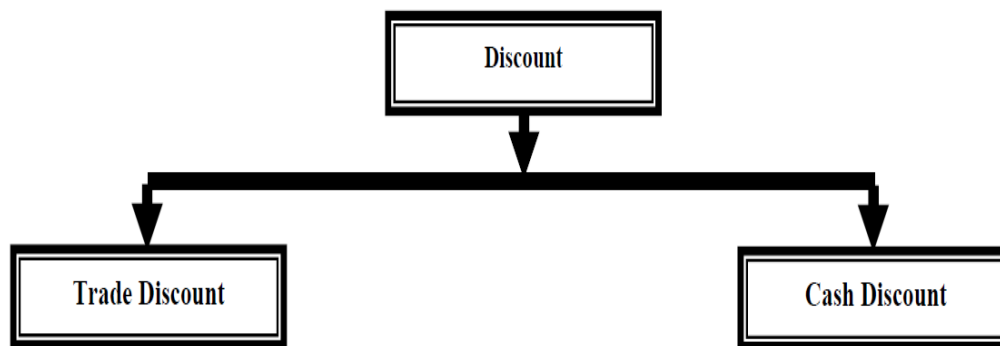
Golden Rules of Accounting

Below **Golden Rules of Accounting** is based on Six Pillars of Accounts. If we divide six Types of Accounts into two groups. First group contains Assets, Drawing and Expenses have ruled that increase will be Debited and decrease will be Credited. The second group contains Liabilities, Owner Equity and Revenue has ruled that decrease will be Debited and increase will be Credited. Now we would like to apply these rules one by one:



Discount

Discount is reduction in listed price. There are two types i.e. **Trade Discount** and **Cash Discount** (if not mention than also cash discount). Trade Discount is not considering for entry while entries are passed for cash discount.



General Ledger

General ledger accounts are used to post the economic activities. Posting is the name of transferring accounts from the book of prime entry to related ledger accounts. When all the transactions for a given period have been **Journalized**, the next step is to classify them according to the account affected. Ledger is a **Book of Account** that keeps separate record for each account. Ledger is the **book of secondary entry**. An account in its simplest form is a **T-shape**. It should be noted that journal contains a chronological record while Ledger contains a classified record of all economic activities.

Debit Side	Credit side

Types of General Ledger

There are two types of ledger accounts

1. Standard General Ledger

Since the ledger keeps record of transactions that affect one head of account, therefore, it should provide all the information that a user may need. Usually the ledger is required to provide following information.

- | | | |
|-----------------|----------------------|------------|
| (a) Account # | (b) Title of Account | (c) Page |
| # | (d) Date | |
| (e) Description | (f) Reference | (g) Amount |

Account #				Title of Account			Page #
<i>Date</i>	<i>Description</i>	<i>Ref</i>	<i>Amount</i>	<i>Date</i>	<i>Description</i>	<i>Ref</i>	<i>Amount</i>
	Total				Total		

2. Running Balance General Ledger

An alternative ruling of a ledger, which is generally adopted by commercial banks and some other business houses, is the entire ledger us divided into six columns.

Account #		Title of Account			Page #
Date	Description	Ref	Dr. Amount	Cr. Amount	Balance

General Ledger Posting Process

The process of posting is simple and involves following Four Steps:

1. The debit part of journal entry is recorded on the debit side of the relevant account by credit account name (Source).
2. The credit part of **Journal Entry** is recorded on the credit side of the relevant account by debit account name (Source).
3. In the reference column of the general journal the code or page number of ledger account are noted.
4. In the reference column of the ledger account the page number of the journal is noted.

Balancing General Ledger Account

This is Four Step process for **Standard General Ledger Format**.

1. Find the total of debit side and find the total of credit side. Put bigger value both sides in Total.
2. Calculate the difference between the two sides. This is the Balance (The balancing figure between the two sides).
3. Write the balance on the smaller side with key words "Balance c/d". However, the balance will be known by the larger side i.e. if the debit side is greater than the credit side, the balance will be known as debit balance and vice versa.
4. Bring down the debit balance on the debit side writing the words in Description column "Balance b/d". Similarly, bring down the credit balance on the credit side by writing the words in the Description column "Balance b/d".

Trial Balance

At the end of accounting period, a list of **General Ledger** balances or totals is prepared, this list is called **Trial Balance**. It shows the mathematical accuracy of the **Books of Accounts**. For every transaction in the **Double Entry Accounting**, equal amount of debit and credits are recorded in the accounting books. Both sides of trial balance i.e. Debit side and credit side must be equal. If both sides are not equal, there are errors in the general ledger accounts or in **Journal Entry**.

Preparation of Trial Balance

For preparation of Trial Balance, following 4 steps are followed:

1. Write down the company / business name at the top middle of paper.
2. Write words 'Trial Balance' below company / business name at top middle of paper.
3. Write words ' as on ' with date of preparation in the next line just below.
4. Write down balances/totals of all ledger accounts.

Farhan Saleem and company

Trial Balance

As on ...

<i>S. No.</i>	<i>Heads of Account</i>	<i>Ref</i>	<i>Balance</i>	
			<i>Debit</i>	<i>Credit</i>
	Total			

Trial Balance can be prepared on a loose sheet that may have five columns:

- (a) Serial No.;
- (b) Heads of Account;
- (c) Reference;
- (d) Debit Balance and
- (e) Credit Balance

Types of Trial Balance

There are three types of Trial Balance, which are describe below:

1. Trial Balance with Balances

This is commonly used Trial Balance, under this method, the balances are presented:

<i>S. No.</i>	<i>Heads of Account</i>	<i>Ref</i>	<i>Balances</i>	
			<i>Debit</i>	<i>Credit</i>
	Total			

2. Trial Balance with Totals

Under this method, the trial balance is prepared by taking the total of each side of the accounts without balancing the accounts. This method of preparing a trial balance is not commonly used because it cannot help in preparation of **Financial Statement**.

<i>S. No.</i>	<i>Heads of Account</i>	<i>Ref</i>	<i>Total</i>	
			<i>Debit</i>	<i>Credit</i>
	Total			

3. Trial Balance with Balances & Totals

Under this method, combining the first and second method.

S. No.	Heads of Account	Ref	Balances		Totals	
			Debit	Credit	Debit	Credit
	Total					

Trial Balance Example

From the following Ledger Account of MsAnumSaleem, you are required to prepare Trial Balance with Balances, Trial Balance With Totals and Trial balance with Balances & Totals as on Jan 31st, 2015:

Cash Account

Jan. 2	10,000	Jan. 4	1,500
Jan. 2	10,000	Jan. 10	6,000
Jan. 5	8,500	Jan. 15	7,000
Jan. 20	2,200	Jan. 31	1,200
		Bal	15,000
Total	30,700	Total	30,700

Supplies Account

Jan. 4	3,500		
		Bal	3,500
Total	3,500	Total	3,500

Accounts Receivables

Jan. 5	6,000		
		Bal	6,000
Total	6,000	Total	6,000

Fee Revenue

		Jan. 5	14,500
Bal	14,500		
Total	14,500	Total	14,500

Accounts Payable

Jan. 31	1,200	Jan. 4	2,000
Bal	800		
Total	2,000	Total	2,000

Note payable

		Jan. 2	10,000
Bal	10,000		
Total	10,000	Total	10,000

Unearned Revenues

		Jan. 20	2,200
<i>Bal</i>	2,200		
Total	2,200	Total	2,200

Common Stock

		Jan. 2	10,000
<i>Bal</i>	10,000		
Total	10,000	Total	10,000

Furniture and Fitting

Jan. 10	6,000		
		<i>Bal</i>	6,000
Total	6,000	Total	6,000

Machinery

Jan. 15	7,000		
		<i>Bal</i>	7,000
Total	7,000	Total	7,000

Solution: Trial Balance with Balances

Anum Saleem

Trial Balance

As on June 30th, 2015

S. No.	Heads of Account	Ref	Balance (Rs.)	
			Debit	Credit
1	Cash		15,000	
2	Supplies		3,500	
3	Account Receivable		6,000	
4	Fee Revenue			14,500
5	Account Payable			800
6	Note Payable			10,000
7	Unearned Revenue			2,200
8	Common Stock			10,000
9	Furniture and Fitting		6,000	
10	Machinery		7,000	
	Total		Rs. 37,500	Rs. 37,500

Solution: Trial Balance with Totals

Anum Saleem

Trial Balance

As on June 30th, 2015

S. No.	Heads of Account	Ref	Total (Rs.)	
			Debit	Credit
1	Cash		30,700	15,700
2	Supplies		3,500	
3	Account Receivable		6,000	
4	Fee Revenue			14,500
5	Account Payable		1,200	2,000
6	Note Payable			10,000
7	Unearned Revenue			2,200
8	Common Stock			10,000
9	Furniture and Fitting		6,000	
10	Machinery		7,000	
	Total		Rs. 54,400	Rs. 54,400

Solution: Trial Balance with Balances & Totals

Anum Saleem
Trial Balance
As on June 30th, 2015

S. No.	Heads of Account	Ref	Balances (Rs.)		Totals (Rs.)	
			Debit	Credit	Debit	Credit
1	Cash		15,000		30,700	15,700
2	Supplies		3,500		3,500	
3	Account Receivable		6,000		6,000	
4	Fee Revenue			14,500		14,500
5	Account Payable			800	1,200	2,000
6	Note Payable			10,000		10,000
7	Unearned Revenue			2,200		2,200
8	Common Stock			10,000		10,000
9	Furniture and Fitting		6,000		6,000	
10	Machinery		7,000		7,000	
	Total		Rs. 37,500	Rs. 37,500	Rs. 54,400	Rs. 54,400

Final Accounts

Final accounts are containing financial information about an organization. The required financial statements are income statement, statement of owner Equity, balance sheet and cash flow statement. Companies that are publicly traded must provide shareholders with an annual report which always includes financial statements. In addition, the annual report includes the following information:

- Management Discussion and Analysis
- Notes to the Financial Statements
- Auditor's Report

Final Accounts

Popularly, the Trading and Profit & Loss Account and the Balance Sheet are together called the final accounts. The trading and profit & loss account is prepared to show

the financial results of a business, may be in the form of profit or loss during an accounting period or year. Balance sheet is prepared to show the financial position or conditions of business in terms of position of assets and liabilities of a business as on a particular date.

Trading Account

Trading means buying and selling. The trading account shows the result of buying and selling of goods. End result of trading account is gross profit or gross loss. Following are format for Trading Account.

Trading Account
for the year ending 31st March 2003

Dr.					Cr.
Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock		xxx	By Sales	xxx	
To Purchases	xxx		Less : Returns		
Less: Returns			Inward	xxx	xxx
outward	xxx	xxx	By Closing stock		xxx
To Wages		xxx	By Gross Loss c/d		xxx
To Freight		xxx	(transferred to		
To Carriage			P&L A/c)		
Inwards		xxx			
To Clearing					
charges		xxx			
To Packing charges		xxx			
To Dock dues		xxx			
To Power (factory)		xxx			
To Octroi Duty		xxx			
To Gross Profit c/d		xxx			
(transferred to					
P&L A/c)					
		xxx			xxx

Radhakrishnan, G. Thiru, et. al (2004); Accountancy; Tamilnadu Textbook Corporation.

Profit and Loss Account

After calculating the gross profit or gross loss the next step is to prepare the profit and loss account. To earn net profit a trader has to incur many expenses apart from those spent for purchases and manufacturing of goods. If such expenses are less than gross

profit, the result will be net profit. When total of all these expenses are more than gross profit the result will be net loss.

Profit and Loss Account
for the year ended

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Trading A/c (Gross Loss)	x x x	By Trading A/c (Gross profit)	x x x
To Salaries	x x x	By Commission earned	x x x
To Rent & rates	x x x	By Rent received	x x x
To Stationeries	x x x	By Interest received	x x x
To Postage expenses	x x x	By Discount received	x x x
To Insurance	x x x	By Net Loss (Transferred to Capital A/c)	x x x
To Repairs	x x x		
To Trading expenses	x x x		
To Office expenses	x x x		
To Interest paid	x x x		
To Bank charges	x x x		
To Sundry expenses	x x x		
To Commission paid	x x x		
To Discount allowed	x x x		
To Advertisement	x x x		
To Carriage outwards	x x x		
To Travelling expenses	x x x		
To Distribution expenses	x x x		
To Repacking charges	x x x		
To Bad debts	x x x		
To Depreciation	x x x		
To Net Profit (transferred to Capital A/c)	x x x		
	x x x		x x x

Radhakrishnan, G. Thiru, et. al (2004); Accountancy; Tamilnadu Textbook Corporation.

Balance Sheet

Balance sheet is prepared by taking up all personal accounts and real accounts (assets and properties) together with the net result obtained from profit and loss account. On the left hand side of the statement, the liabilities and capital are shown. On the right hand side, all the assets are shown. Balance sheet is not an account but it is a statement prepared from the ledger balances. Balance sheet is defined as ‘a statement which sets out the assets and liabilities of a business firm and which serves to ascertain the financial position of the same on any particular date’.

Balance Sheet of
as on

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Sundry creditors		xxx	Cash in hand		xxx
Bills payable		xxx	Cash at bank		xxx
Bank overdraft		xxx	Bills receivable		xxx
Outstanding expenses		xxx	Sundry debtors		xxx
Mortgage loans		xxx	Investments		xxx
Reserve fund		xxx	Closing stock		xxx
Capital	xxx		Prepaid expenses		xxx
Add: Net profit (or)			Furniture & fittings		xxx
Less: Net loss	xxx		Plant & machinery		xxx
	xxx		Land & buildings		xxx
Less: Drawings	xxx		Business premises		xxx
	xxx		Patents & trade marks		xxx
Less: Income tax	xxx		Good will		xxx
		xxx			
		xxx			xxx

Radhakrishnan, G. Thiru, et. al (2004); Accountancy; Tamilnadu Textbook Corporation.

Problems and Solutions – Journal, Ledger, Trial Balance and Final Accounts

Problem 1:

On *April 01, 2016* Anees started business with Rs. 100,000 and other transactions for the month are:

2. Purchase Furniture for Cash Rs. 7,000.

8. Purchase Goods for Cash Rs. 2,000 and for Credit Rs. 1,000 from Khalid Retail Store.

14. Sold Goods to Khan Brothers Rs. 12,000 and Cash Sales Rs. 5,000.

18. Owner withdrew of worth Rs. 2,000 for personal use.

22. Paid Khalid Retail Store Rs. 500.

26. Received Rs. 10,000 from Khan Brothers.

30. Paid Salaries Expense Rs. 2,000

Solution:

General Journal

Date		Account Title and Explanations	Ref	Amount (Rs)	
				Debit	Credit
<i>2016</i>					
<i>April</i>	<i>1</i>	Cash Owner's Equity_ Anees (Started business with cash)		100,000	100,000
	<i>2</i>	Furniture Cash (Purchase furniture for cash)		7,000	7,000
	<i>8</i>	Purchases Cash Account Payable_ Khalid Retail Store (Purchase good on cash and credit)		3,000	2,000 1,000
	<i>14</i>	Cash Account Receivables_ Khan Brothers Sales (Cash and Credit Sales recorded)		5,000 12,000	17,000
	<i>18</i>	Drawing Cash (Owner withdrew for personal use)		2,000	2,000
	<i>22</i>	Account Payable_ Khalid Retail Store Cash (Paid credit to Khalid Retail Store)		500	500
	<i>26</i>	Cash Account Receivable_ Khan Brothers (Receive cash from credit customer)		10,000	10,000
	<i>30</i>	Salaries Expense Cash (Paid expenses)		2,000	2,000
Total				Rs. 141,500	Rs. 141,500

Problem 2

On *March 2017*, Farhan Rahim, starts wholesaling business. Following transactions as follows:

1. He started business with capital of Rs. 15,000 and Land worth Rs. 10,000.

- 8.** Bought goods from Bilal and Friends Rs. 1,000 and by cash from XYZ Co. Rs 2,000.
- 13.** Sold goods to Rehman& sons Rs. 1,500 and sale by cash Rs. 5,000.
- 17.** Gave away charity of cash Rs. 50 and merchandising worth Rs. 30.
- 21.** Paid Bilal and Friends cash Rs. 975; discount received Rs. 25.
- 28.** Received cash from Rehman& Sons Rs. 1,450; allowed him discount of Rs. 50.

Solution:

General Journal

Date		Account Title and Explanations	Ref	Amount (Rs.)	
				Debit	Credit
2017					
<i>March</i>	1	Cash Land Owner's Equity_ Farhan Rahim (Owner started business by assets)		15,000 10,000	25,000
	8	Purchases Account Payable_ Bilal and Friends Cash (Purchases by cash and by credit)		3,000	1,000 2,000
	13	Account Receivable_ Rehman & sons Cash Sales (Purchases by cash and Credit from Ahmed)		1,500 5,000	6,500
	17	Charity Cash Purchases (Charity by cash and by goods)		80	50 30
	21	Account Payable_ Bilal and Friends Cash Discount (Discount received and liability payoff)		1,000	975 25
	28	Cash Discount Account Receivable_ Rehman & sons (Account receivable realized and discount allowed)		1,450 50	1,500
Total				Rs. 37,080	Rs. 37,080

Problems 3:

1st January, 2017, Saeed Ahmad started business other transactions for the month of June as follows:

02. Purchased from Kareem goods of list price of Rs. 6,000 subject to 10% trade discount by cash.

04. Sold goods to Din Muhammad Rs. 800 and cash sales of Rs. 200.

10. Distributed goods worth Rs. 200 as free samples and goods taken away by the proprietor for personal use Rs. 100.

12. Received discount Rs 20 and Commission Rs 500.

17. Goods returned by Din Muhammad Rs. 200 and payment other outstanding amount.

24. Furniture lost by fire of worth Rs. 500.

30. Bad Debts during the period was Rs.100.

Solution:

General Journal

Date		Account Title and Explanations	Ref	Amount (Rs.)	
				Debit	Credit
2017					
<i>Jun</i>	2	Purchases Cash (Cash purchases and trade discount)		5,400	5,400
	4	Account Receivable_ Din Muhammad Cash Sales (Cash and credit sales)		800 200	1,000
	10	Free Sample Drawing Purchases (Free sample and drawing through purchases)		200 100	300
	12	Cash Discount Commission (Other income in terms of discount and commission)		520	20 500
	17	Return Inward Cash Account Receivable_ Din Muhammad (Sales return and received other amount by customer)		200 600	800
	24	Lost by Fire Furniture (Furniture lost by fire)		500	500
	30	Bad Debts Account Receivable (Bad Debts are recorded)		100	100
	Total				Rs. 8,620

Problems 4:

Creative Advertising, owned by Miss Abida Masood, provides advertising consulting services. During January 2011, the following events occurred:

Jan. 2 Owner contributed Rs. 50,000 and a new computer costing Rs. 20,500 to start her business.

- Jan. 4** Office supplies were purchased on account for Rs. 4,000.
- Jan. 10** Creative Advertising obtained 12% 5-year loan of Rs. 20,000 from the bank.
- Jan. 12** Creative Advertising paid the utility bills for Rs. 2,750.
- Jan. 15** Paid the Rs. 3,000 in Accounts Payable from the purchase of office supplies on Jan. 4.
- Jan. 24** Advertising services completed in January were billed to clients Annie's Flowers at Rs. 18,300.
- Jan. 27** Creative Advertising received Rs. 5,500 from Annie's Flowers, a client, as payment on account.
- Jan. 30** Miss Abida Masood withdrew Rs. 6,000 of cash for personal use.

Requirement: You are required to pass Journal Entry, post to appropriate general ledger account and make a trial balance?

Solution: Journal Entry

General Journal

Date	Account Title and Explanations	Ref	Amount (Rs.)	
			Debit	Credit
2011				
<i>Jan</i>				
2	Cash Computer Owner's Equity_ Miss Abida Masood (Started business with cash and computer)		50,000 20,500	70,500
4	Office Supplies Account Payable (Office Supplies purchase on credit)		4,000	4,000
10	Cash Bank Loan (Bank loan obtained)		20,000	20,000
12	Utility Bills Cash (Utility bill paid)		2,750	2,750
15	Account Payable Cash (Paid partial account payable)		3,000	3,000
24	Account Receivable_ Annies' Flowers Advertising services (Bill to customer for services earned)		18,300	18,300
27	Cash Account Receivable_ Annies' Flowers (Received cash from customer billed previously)		5,500	5,500
30	Drawing Cash (Withdrew of cash by owner)		6,000	6,000
Total			Rs. 130,050	Rs. 130,050

Solution: General Ledger and Trial Balance

Account # 6 **Advertising Services** **Page #**

Date	Description	Ref	Amount (Rs.)	Date	Description	Ref	Amount (Rs.)
					Account Receivable		18,300
	Balance c/d		18,300				
Total			18,300	Total			18,300

Account # 7 **Bank Loan Account** **Page #**

Date	Description	Ref	Amount (Rs.)	Date	Description	Ref	Amount (Rs.)
				Jan 10	Cash		20,000
	Balance c/d		20,000				
Total			20,000	Total			20,000
				Feb 1	Balance b/d		20,000

Account # 8 **Utility Bills Account** **Page #**

Date	Description	Ref	Amount (Rs.)	Date	Description	Ref	Amount (Rs.)
Jan 12	Cash		2,750				
					Balance c/d		2,750
Total			2,750	Total			2,750
Feb 1	Balance b/d		2,750				

Account # 9 **Account Receivable** **Page #**

Date	Description	Ref	Amount (Rs.)	Date	Description	Ref	Amount (Rs.)
Jan 24	Advertising services		18,300	Jan 27	Cash		5,500
					Balance c/d		12,800
Total			18,300	Total			18,300
Feb 1	Balance b/d		12,800				

Account # 10 **Drawing Account** **Page #**

Date	Description	Ref	Amount (Rs.)	Date	Description	Ref	Amount (Rs.)
Jan 30	Cash		6,000				
					Balance c/d		6,000
Total			6,000	Total			6,000
Feb 1	Balance b/d		6,000				

Trial Balance

S. No.	Heads of Account	Ref	Amount (Rs.)	
			Debit	Credit
1	Cash		63,750	
2	Computer		20,500	
3	Owner's Equity			70,500
4	Office Supplies		4,000	
5	Account Payable			1,000
6	Advertising Services			18,300
7	Bank Loan			20,000
8	Utility Bills		2,750	
9	Account Receivable		12,800	
10	Drawing		6,000	
Total			109,800	109,800

Problem 5:

Shah Garden Center is retail garden supplier. Record the transactions needed to journalize, post to respective ledger account and prepare **Trial Balance** of the following for October, 2011 of the current year:

Oct. 2 Purchased inventory on credit terms of 1/10 net 30. FOB shipping point, for Rs. 3,000. Freight charges on the purchase were Rs. 150.

Oct. 9 Sold garden supplies on credit terms 3/20 net 30, FOB shipping point, for Rs. 4,000. The cost of the supplies sold was Rs. 2,500.

Oct. 10 Paid the amount owed on account for the Oct. 2 inventory purchase.

Oct. 15 Received merchandise that was returned as defective, originally sold for Rs. 500 on Oct. 9. The original cost of the supplies returned was Rs. 275.

Oct. 25 Received payment on account for the Oct. 9 sale less the appropriate sales discount.

Oct. 28 Inventory lost by fire of cost Rs. 350.

Solution: Journal Entry

General Journal

Date		Account Title and Explanations	Ref	Amount (Rs.)	
				Debit	Credit
2011					
<i>Oct</i>	2	Inventory Account Payable (Inventory purchase on credit)		3,150	3,150
	9	Account Receivable Sales (Credit sales)		4,000	4,000
	9	Cost of Sales Inventory (Cost of inventory recorded)		2,500	2,500
	10	Account Payable Discount Cash (Account payable paid and received discount)		3,150	30 3,120
	15	Sales Return Account Receivable (Goods returned recorded)		500	500
	15	Inventory Cost of Sales (Reversing the cost of sales account)		275	275
	25	Cash Discount Account Receivable (Received cash and discount allowed recorded)		3,395 105	3,500
	28	Lost by fire Inventory (Inventory lost by fire recorded)		350	350
	Total				Rs. 27,425

Solution: General Ledger and Trial Balance

Account # 1				Inventory Account				Page #
Date	Description	Ref	Amount (Rs.)	Date	Description	Ref	Amount (Rs.)	
Oct 2	Account Payable		3,150	Oct 9	Cost of Sales		2,500	
15	Cost of Sales		275	28	Lost by fire		350	
					<i>Balance c/d</i>		575	
Total			3,425	Total			3,425	
Nov 1	<i>Balance b/d</i>		575					

Account # 2				Account Payable				Page #
Date	Description	Ref	Amount (Rs.)	Date	Description	Ref	Amount (Rs.)	
Oct 10	Discount		30	Oct 2	Inventory		3,150	
Oct 10	Cash		3,120					
	<i>Balance c/d</i>		-0-					
Total			3,150	Total			3,150	
				Nov 1	<i>Balance b/d</i>		-0-	

Account # 3				Account Receivable				Page #
Date	Description	Ref	Amount (Rs.)	Date	Description	Ref	Amount (Rs.)	
Oct 9	Sales		4,000	Oct 25	Cash		3,395	
				Oct 25	Discount		105	
				Oct 15	Sales Return		500	
					<i>Balance c/d</i>		-0-	
Total			4,000	Total			4,000	
Nov 1	<i>Balance b/d</i>		-0-					

Account # 4				Sales Account				Page #
Date	Description	Ref	Amount (Rs.)	Date	Description	Ref	Amount (Rs.)	
				Oct 9	Account Receivable		4,000	
	<i>Balance c/d</i>		4,000					
Total				Total			4,000	
				Nov 1	<i>Balance b/d</i>		4,000	

Account # 5				Cost of Sales Account				Page #
Date	Description	Ref	Amount (Rs.)	Date	Description	Ref	Amount (Rs.)	
Oct 9	Inventory		2,500	Oct 15	Inventory		275	
					<i>Balance c/d</i>		2,225	
Total			2,500	Total			2,500	
Nov 1	<i>Balance b/d</i>		2,225					

Account # 6				Discount Account				Page #
Date	Description	Ref	Amount (Rs.)	Date	Description	Ref	Amount (Rs.)	
Oct 25	Account Receivable		105	Oct 10	Account Payable		30	
					Balance c/d		75	
Total			105	Total			105	
Nov 1	Balance b/d		75					

Account # 7				Cash Account				Page #
Date	Description	Ref	Amount (Rs.)	Date	Description	Ref	Amount (Rs.)	
Oct 25	Account Receivable		3,395	Oct 10	Account Payable		3,120	
					Balance c/d		275	
Total			3,395	Total			3,395	
Nov 1	Balance b/d		275					

Account # 8				Sales Return Account				Page #
Date	Description	Ref	Amount (Rs.)	Date	Description	Ref	Amount (Rs.)	
Oct 15	Account Receivable		500					
					Balance c/d		500	
Total			500	Total			500	
Nov 1	Balance b/d		500					

Account # 9				Lost by fire Account				Page #
Date	Description	Ref	Amount (Rs.)	Date	Description	Ref	Amount (Rs.)	
Oct 28	Inventory		350					
					Balance c/d		350	
Total			350	Total			350	
Nov 1	Balance b/d		350					

Shah Garden
Trial Balance
As on October, 2011

S. No.	Heads of Account	Ref	Amount (Rs.)	
			Debit	Credit
1	Inventory		575	
2	Account Payable			-0-
3	Account Receivable		-0-	
4	Sales			4,000
5	Cost of Sales		2,225	
6	Discount		75	
7	Cash		275	
8	Sales Return		500	
9	Lost by fire		350	
Total			Rs. 4,000	Rs. 4,000

Problems 6:

Prepare a Trial Balance for Shining Brothers Pvt. Ltd. at March 31st, 2017?

<i>Description</i>	<i>Amount</i>	<i>Description</i>	<i>Amount</i>	<i>Description</i>	<i>Amount</i>
Bank Loan	Rs. 14,000	Insurance Expense	Rs. 7,300	Equipments	Rs. 40,000
Marketable Security	6,500	Owner's Investments	95,000	Maintenance Exp.	5,000
Bill Payable	1,000	Rent & Rates Expense	400	Miscellaneous Expenses	4,800
Unearned Revenue	3,500	Acc. Dep. _ Equipments	14,000	Accrued Expenses	1,500
Sundry Debtors	12,000	Accrued Revenue	15,000	Dep. Exp. _ Equipments	2,000
Outstanding Salaries	2,500	Machinery	25,000	Unexpired Insurance	8,500
Prepaid Rent	2,000	Drawings	3,500	Vendor's Payables	500

Solution:

Shining Brothers Pvt. Ltd.

Trial Balance

As on March 31st, 2017

S. No	Description	Ref	Amount (Rs.)	
			Dr.	Cr.
1	Bank Loan			14,000
2	Marketable Security		6,500	
3	Bill Payable			1,000
4	Unearned Revenue			3,500
5	Sundry Debtors		12,000	
6	Outstanding Salaries			2,500
7	Prepaid Rent		2,000	
8	Insurance Expense		7,300	
9	Owner's Investments			95,000
10	Rent & Rates Expense		400	
11	Accumulated Dep. _ Equipments			14,000
12	Accrued Revenue		15,000	
13	Machinery		25,000	
14	Drawings		3,500	
15	Equipments		40,000	
16	Maintenance Exp.		5,000	
17	Miscellaneous Expenses		4,800	
18	Accrued Expenses			1,500
19	Depreciation Exp. _ Equipments		2,000	
20	Unexpired Insurance		8,500	
21	Vendor's Payables			500
Total			Rs. 132,000	Rs. 132,000

Problem 7:

There are several Mistakes in the Umer& Brothers (Pvt.) Ltd. Trial Balance. You are requested to identify Errors and make corrected Trial Balance?

<i>S. No</i>	<i>Heads of Accounts</i>	<i>Ref</i>	<i>Debit</i>	<i>Credit</i>
1	Umer Owner Equity			1,551
2	Umer Drawings		560	
3	Equipments		2,850	
4	Sales			2,850
5	Due from Customers			530
6	Purchases		1,260	
7	Purchase Return		364	
8	Bank Loan			996
9	Creditors		528	
10	Taxes		720	
11	Cash in Hand		226	
12	Note Payable		680	
13	Inventory			264
14	Repair		461	
15	Return Inward			98
Total			Rs. 7,649	Rs. 6,289

Solution:

<i>S. No</i>	<i>Heads of Accounts</i>	<i>Ref</i>	<i>Debit</i>	<i>Credit</i>
1	Umer Owner Equity			1,551
2	Umer Drawings		560	
3	Equipments		2,850	
4	Sales			2,850
5	Due from Customers		530	
6	Purchases		1,260	
7	Purchase Return			364
8	Bank Loan			996
9	Creditors			528
10	Taxes		720	
11	Cash in Hand		226	
12	Note Payable			680
13	Inventory		264	
14	Repair		461	
15	Return Inward		98	
Total			Rs. 6,969	Rs. 6,969

Problems 8:

From the following particulars taken out from the books of Abdul Hanan & Co. You are required to prepare Trading and Profit & Loss Account and Balance Sheet as at December 31st, 2019.

Sundry debtors	Rs. 52,000	Insurance premium (paid on 1.10.19).....	Rs. 2,400
Account payable	22,000	Cash at bank	6,200
Cash in hand	2,392	Machinery	24,000
Furniture	3,500	Wages	23,600
Motor car	22,000	General expenses	2,680
Purchases	145,000	Carriage inward	2,040
Sales	292,000	Carriage outward	1,630
Sales return	2,600	Transportation in	6,430
Salaries	8,420	Owner equity	20,000
Opening stock	11,400	Drawing	8,000
Motor car expenses	3,600	Rent and taxes	3,600
Equipment	2,508		

Adjustments:

(a) Closing stock Rs, 35,000.

(b) Provision for doubtful debts at 5% of sundry debtors.

(c) Depreciation furniture and machinery by 10%.

(d) Commission of Rs. 3,600 has been earned but not received till the closing of accounts.

Solution:

Abdul Hanan & Co.

Trading and Profit & Loss Account

For the Year ended 31st, December 2019

<i>Particulars</i>	<i>Amount</i>	<i>Particulars</i>	<i>Amount</i>
Opening Stock	11,400	Sales 292,000	
Purchases	145,000	Sales return (2,600)	289,400
Wages	23,600	Closing stock	35,000
Carriage inward	2,040		
Transportation in	6,430		
<i>Gross Profit c/d</i>	<i>135,930</i>		
Total	Rs. 324,400	Total	Rs. 324,400
Salaries	8,420	<i>Gross Profit b/d</i>	<i>135,930</i>
Motor car expenses	3,600	Commission	3,600
Insurance premium 2,400			
Prepaid insurance (1,800)	600		
General expenses	2,680		
Carriage outward	1,630		
Rent and taxes	3,600		
Provision for doubtful debts	2,600		
Dep. expense_ furniture	350		
Dep. expense_ machinery	2,400		
<i>Net Profit c/f to B/S</i>	<i>113,650</i>		
Total	Rs. 139,530	Total	Rs. 139,530

Abdul Hanan & Co.**Balance Sheet***As on 31st, December 2019*

<i>Equities</i>		<i>Amount</i>	<i>Assets</i>		<i>Amount</i>
Owner's Equity:			Fixed and Long Term:		
Owner equity	20,000		Furniture	3,500	
Drawing	(8,000)		Dep. expense	(350)	3,150
Profit b/f	113,650	125,650	Motor car		22,000
			Machinery	24,000	
			Depreciation	(2,400)	21,600
			Equipment		2,508
Current Liabilities:			Current Assets:		
Account payable		22,000	Cash in hand		2,392
			Cash at bank		6,200
Long Term Liability:			Sundry debtors	52,000	
			Provision for bad debts	(2,600)	49,400
			Stock		35,000
			Commission receivable		3,600
			Prepaid insurance		1800
Total		Rs. 147,650	Total		Rs. 147,650

Problems 9:

From the following trial balance of Faris Ali Qureshi & Bros. and additional information, prepare Trading and Profit & Loss account and Balance sheet for the year ended June 30th, 2019.

Particular	Dr	Cr	Particular	Dr	Cr
Capital		100,000	Transportation out	7,000	
Furniture	20,000		Creditors		120,000
Purchases	150,000		Provision for bad debts		6,000
Debtors	200,000		Printing and stationery	8,000	
Interest earned		4,000	Insurance expense	12,000	
Salaries	30,000		Opening stock	50,000	
Sales		321,000	Office expenses	12,000	
Purchases returns		5,000	Bank overdraft		2,000
Wages	20,000		Drawing	24,000	
Rent	15,000				
Sales return	10,000		Total	Rs. 558,000	Rs. 558,000

Additional Information

1. Depreciation furniture by 10% by written down method (WDM).
2. A provision for doubtful debts is to be created to the extent of 5% on sundry debtors.
3. Salaries for the month of June, 2019 amounting to Rs. 3,000 were unpaid which must be provided for. However, salaries included Rs. 2,000 paid in advance. Office expenses outstanding Rs. 8,000.
4. Insurance amounting to Rs. 2,000 is prepaid.
5. Stock use for private purpose Rs. 6,000 and closing stock Rs. 60,000.

Solution:

Faris Ali Qureshi & Bros.

Trading and Profit & Loss Account

For the Year ended 30th, June 2019

<i>Particulars</i>	<i>Amount</i>	<i>Particulars</i>	<i>Amount</i>
Opening stock	50,000	Sales	321,000
Purchases	150,000	Sales return	(10,000)
Purchases returns	(5,000)	Closing stock	60,000
Drawing	(6,000)		
Wages	20,000		
<i>Gross Profit c/d</i>	<i>162,000</i>		
Total	Rs. 371,000	Total	Rs. 371,000
Salaries	30,000	<i>Gross Profit b/d</i>	<i>162,000</i>
Outstanding	3,000	Interest earned	4,000
Prepaid	(2,000)		
Rent	15,000		
Transportation out	7,000		
Printing and stationery	8,000		
Insurance expense	12,000		
Prepaid	(2,000)		
Office expenses	12,000		
Outstanding	8,000		
Depreciation exp. _furniture	2,000		
Provision for bad debts:			
New	10,000		
Old	(6,000)		
<i>Net Profit c/f to B/S</i>	<i>69,000</i>		
Total	Rs. 166,000	Total	Rs. 166,000

Faris Ali Qureshi & Bros.**Balance Sheet***As on 30th, June 2019*

<i>Equities</i>		<i>Amount</i>	<i>Assets</i>		<i>Amount</i>
Owner's Equity:			Fixed and Long Term:		
Capital	100,000		Furniture	20,000	
Drawing	(24,000)		Dep. expense	(2,000)	18,000
Stock withdrawal	(6,000)				
Profit b/f	69,000	139,000			
			Current Assets:		
			Debtors	200,000	
			Provision for b/d	(10,000)	190,000
Current Liabilities:			Stock		60,000
Bank overdraft		2,000	Prepaid Expenses:		
Creditors		120,000	Salaries		2,000
Outstanding liabilities:			Insurance		2,000
Salaries		3,000			
Office expenses		8,000			
Total		Rs. 272,000	Total		Rs. 272,000