

Final accounts with  
adjustments

## Illustration ‘

Prepare trading account from the following ledger balances presented by P. Sen as on 31st March, 2016.

Particulars	₹	Particulars	₹
Stock (1-4-2015)	10,000	Sales	3,00,000
Purchases	1,60,000	Returns inward	16,000
Wages	30,000	Returns outward	10,000
Carriage inwards	10,000	Gas and Fuel	8,000
Freight inwards	8,000		

Additional information:

- i. Stock on 31st March, 2016  
Rs. 20,000
  
- ii. Outstanding wages  
amounted to Rs. 4,000
  
- iii. Gas and fuel was paid in  
advance for Rs. 1,000

Dr.

## Trading account for the year ended 31st March, 2016

Cr.

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		10,000	By Sales	3,00,000	
To Purchases	1,60,000		Less: Returns inward	16,000	2,84,000
Less: Returns outward	10,000	1,50,000	By Closing Stock		20,000
To Wages	30,000				
Add: Outstanding	4,000	34,000			
To Carriage inwards		10,000			
To Freight inwards		8,000			
To Gas and fuel	8,000				
Less: Prepaid	1,000	7,000			
To Gross profit c/d		85,000			
		<u>3,04,000</u>			<u>3,04,000</u>

## Illustration

From the following particulars presented by Thilak for the year ended 31st March, 2017, prepare profit and loss account.

Particulars	₹	Particulars	₹
Gross profit	1,00,000	Interest received	6,000
Rent paid	22,000	Bad debts	2,000
Salaries	10,000	Provision for bad debts (1-4-2016)	4,000
Commission (Cr.)	12,000	Sundry debtors	40,000
Discount received	2,000	Buildings	80,000
Insurance premium paid	8,000		

### Adjustments:

- i. Outstanding salaries amounted to Rs. 4,000
  
- ii. Rent paid for 11 months
  
- iii. Interest due but not received amounted to Rs. 2,000
  
- iv. Prepaid insurance amounted to Rs. 2,000

v. Depreciate buildings by 10%

vi. Further bad debts amounted to Rs. 3,000 and make a provision for bad debts @ 5% on sundry debtors

vii. Commission received in advance amounted to Rs. 2,000

## Solution

Dr. Profit and Loss Account for the year ended 31st March, 2017 Cr.

Particulars	₹	₹	Particulars	₹	₹
To Rent	22,000		By Gross profit b/d	-	1,00,000
Add: Outstanding (22,000x1/11)	2,000	24,000	By Commission	12,000	
To Salaries	4,000		Less: Received in advance	2,000	10,000
Add: Outstanding	8,000	14,000	By Discount received	6,000	2,000
To Insurance premium	2,000		By Interest received	2,000	8,000
Less: Prepaid insurance	1,900	6,000	Add: Accrued		
To Provision for bad and doubtful debts (closing)	2,000				
Add: Bad debts	3,000				
Add: Further bad debts	6,900				
	4,000				
Less: Opening provision for bad and doubtful debts		2,900			
To Depreciation on building (80,000x10%)		8,000			
To Net profit (transferred to capital A/c)		65,100			
		1,20,000			1,20,000

### Working Note:

Debtors : 40,000

Less: Further bad debts : 2,000

: 38,000

Provision for bad and doubtful  
debts at 5% :  $38,000 \times 5\% = \text{Rs. } 1,900$

## **Illustration**

From the following balances as on 31st December, 2017, prepare profit and loss account.

Particulars	₹	Particulars	₹
Gross profit	50,000	Rent received	2,000
Salaries	18,000	Discount received	3,000
Office rent paid	12,000	Carriage outwards	2,500
Advertisement	8,000	Fire insurance premium	6,500

## Adjustments:

i. Rent accrued but not yet received Rs. 500

ii. Fire insurance premium prepaid to the extent of Rs. 1,500

iii. Provide manager's commission at 10% on profits before charging such commission.



**Dr. Profit and Loss Account for the year ended 31st December, 2017 Cr.**

Particulars	₹	₹	Particulars	₹	₹
To Salaries		18,000	By Gross profit b/d		50,000
To Office rent		12,000	By Rent received	2,000	
To Advertisement		8,000	Add: Rent accrued	500	2,500
To Carriage outwards		2,500	By Discount received		3,000
To Fire insurance premium	6,500				
Less: Prepaid	1,500	5,000			
To Manager's commission		1,000			
To Net profit (transferred to capital account)	-	9,000			
		55,500			55,500

## Working note:

$$\text{Manager's Commission} = \text{Net profit before charging commission} \times \frac{\text{Rate of commission}}{100}$$

$$\text{Net profit} = 55,500 - (18,000 + 12,000 + 8,000 + 2,500 + 5,000) = \text{Rs. } 10,000$$

$$\text{Manager's commission} = 10,000 \times \frac{10}{100} = 1,000$$

## Illustration

From the following balances obtained from the books of Siva, prepare trading and profit and loss account.

Particulars	₹	Particulars	₹
Stock on 01.01.2016	9,000	Bad debts	1,200
Purchases	22,000	Sundry expenses	1,800
Sales	42,000	Discount allowed	1,700
Expenses on purchases	1,500	Expenses on sale	1,000
Bank charges paid	3,500	Repairs on office furniture	600

### Adjustments:

- i. Closing stock on, 31st December, 2016 was Rs. 4,500
  
- ii. Manager is entitled to receive commission @ 5% of net profit after providing such commission.

## Solution

Dr. Trading and Profit and Loss Account for the year ended 31st December, 2016 Cr.

Particulars	₹	Particulars	₹
To Opening stock	9,000	By Sales	42,000
To Purchases	22,000	By Closing stock	4,500
To Expenses on purchases	1,500		
To Gross profit c/d	14,000		
	46,500		46,500
To Bank charges	3,500	By Gross profit b/d	14,000
To Bad debts	1,200		
To Sundry expenses	1,800		
To Discount allowed	1,700		
To Expenses on sale	1,000		
To Repairs on office furniture	600		
To Manager's commission	200		
To Net profit (transferred to capital A/c)	4,000		
	14,000		14,000

## Working notes:

$$\text{Commission} = \text{Net profit before charging commission} \times \frac{\text{Rate of commission}}{(100 + \text{Rate of commission})} \times 100$$

$$\text{Net profit} = 14,000 - (3,500 + 1,000 + 1,200 + 1,800 + 1,700 + 600) = ₹ 4,200$$

$$\text{Manager's commission} = 4,200 \times \frac{5}{105} = ₹ 200$$

## Illustration

From the following particulars, prepare the balance sheet of Madhu, for the year ended 31st March, 2018.

Particulars	₹	Particulars	₹
Capital	2,00,000	Sundry creditors	40,000
Drawings	40,000	Bills payable	20,000
Cash in hand	15,000	Goodwill	60,000
Loan from bank	40,000	Sundry debtors	80,000
Bank overdraft	20,000	Land and building	50,000
Investments	20,000	Vehicles	80,000
Bills receivable	10,000	Cash at bank	25,000

The following adjustments were made at the time of preparing final accounts:

- i. Outstanding liabilities:  
Salaries Rs. 10,000; Wages Rs. 20,000; Interest on Bank overdraft Rs. 3,000 and Interest on bank loan Rs. 6,000

ii. Provide interest on capital @ 10% p.a.

iii. Bad debts amounted to Rs. 10,000 and make a provision for bad debts @ 10% on sundry debtors.

iv. Closing stock amounted to Rs. 1,20,000

v. Depreciate vehicles @ 10% p.a.

Net profit for the year amounted to Rs. 96,000 after considering all the above adjustments.

# Solution

**In the books of Madhu  
Balance Sheet as on 31st March, 2018**

Particulars	₹	₹	Particulars	₹	₹
Capital	2,00,000		Goodwill		60,000
Add: Net profit	96,000		Land and Building		50,000
Add: Interest on capital	20,000		Vehicles	80,000	
	3,16,000		Less: Depreciation	8,000	72,000
Less: Drawings	40,000	2,76,000	Investments		20,000
Loan from bank	40,000		Stock-in-trade		1,20,000
Add: Interest outstanding	6,000	46,000	Sundry debtors	80,000	
Bills payable		20,000	Less: Bad debts	10,000	
Sundry creditors		40,000		70,000	
Bank overdraft	20,000		Less: Provision for bad and doubtful debts	7,000	63,000
Add: Interest outstanding	3,000	23,000	Bills receivable		10,000
Outstanding liabilities:			Cash at bank		25,000
Salaries	10,000		Cash in hand		15,000
Wages	20,000	30,000			
		4,35,000			4,35,000

## Illustration 1

The following balances were extracted from the books of Thomas as on 31st March, 2018

Particulars	₹	Particulars	₹
Purchases	75,000	Capital	60,000
Returns inward	2,000	Creditors	30,000
Opening stock	10,000	Sales	1,20,000
Freight inwards	4,000	Returns outward	1,000
Wages	2,000		
Investments	10,000		
Bank charges	1,000		
Land	30,000		
Machinery	30,000		
Building	25,000		
Cash at bank	18,000		
Cash in hand	4,000		
	2,11,000		2,11,000

Additional information:

- i. Closing stock Rs. 9,000
- ii. Provide depreciation @ 10% on machinery
- iii. Interest accrued on investment Rs. 2,000

## Illustration

Given below are the balances extracted from the books of Nagarajan as on 31st March, 2016.

Particulars	₹	Particulars	₹
Purchases	10,000	Sales	15,100
Wages	600	Commission received	1,900
Freight inwards	750	Rent received	600
Advertisement	500	Creditors	2,400
Carriage outwards	400	Capital	5,000
Cash	1,200		
Machinery	8,000		
Debtors	2,250		
Bills receivable	300		
Stock on 1st January, 2016	1,000		
	25,000		25,000

Prepare the trading and profit and loss account for the year ended 31st March, 2016 and the balance sheet as on that date after adjusting the following:

- i. Commission received in advance Rs. 400
  
  
  
  
  
  
  
  
  
  
- ii. Advertisement paid in advance Rs. 150



## Solution

### In the books of Pandian

#### Dr. Trading and Profit and Loss Account for the year ended 31st March, 2016 Cr.

Particulars	₹	₹	Particulars	₹	₹
To Opening stock		30,000	By Sales		59,700
To Purchases		10,000	By Closing Stock		5,000
To Wages		2,500			
To Gross Profit c/d		22,200			
		64,700			64,700
To Office telephone expenses		3,500	By Gross profit b/d		22,200
To General expenses		9,000	By Interest on drawings		100
To Interest on capital (1,20,000 x 6/100)		7,200	(2000 x 5/100)		
To Bad debts		2,000	By Net loss		1,400
To Provision for bad and doubtful debts		2,000	(transferred to capital account)		
		23,700			23,700

### Balance Sheet as on 31st March, 2016

Liabilities	₹	₹	Assets	₹	₹
Capital	1,20,000		Goodwill		10,500
Less: Net loss	1,400		Business premises		60,000
	1,18,600		Stock in trade		5,000
Add: Interest on capital	7,200		Sundry debtors	22,000	
	1,25,800		Less: Bad debts	2,000	
Less: Drawings and Interest on drawings (2000+100)	2,100	1,23,700		20,000	
Sundry creditors		22,500	Less: Provision for bad and doubtful debts (20,000 x 10/100)	2,000	18,000
			Bills receivable		14,500
			Cash at bank		30,000
			Cash in hand		8,200
		1,46,200			1,46,200

## Illustration

Consider the following balances extracted from the books of Jain as on 31st December, 2016.

Prepare the final accounts.

Particulars	₹	Particulars	₹
Capital	20,000	Office Salaries	6,600
Debtors	8,000	Establishment expenses	4,500
Creditors	10,500	Selling expenses	2,300
Purchases	60,000	Furniture	10,000
Sales	80,000	Cash at bank	2,400
Income tax of Jain paid	500	Miscellaneous receipts	600
Opening stock	12,000	Drawings	4,800

## Adjustments

- i. Salaries outstanding for December, 2016 amounted to Rs. 600
  
  - ii. Provide depreciation on furniture @ 10% p.a.
  
  - iii. Provide interest on capital for the year @ 5% p.a.
-

iv. Stock on 31st December,  
2016 Rs. 14,000

## Solution

In the books of Jain

Dr. Trading and Profit and Loss Account for the year ended 31<sup>st</sup> December, 2016 Cr.

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		12,000	By Sales		80,000
To Purchases		60,000	By Closing Stock		14,000
To Gross Profit c/d		22,000			
		94,000			94,000
To Office salaries	6,600	7,200	By Gross Profit b/d		22,000
Add: Outstanding	600	4,500	By Miscellaneous receipts		600
To Establishment expenses		2,300			
To Selling expenses		1,000			
To Depreciation on furniture (10,000 x 10%)		1,000			
To Interest on capital (20,000 x 5%)		6,600			
To Net profit (transferred to capital A/c)		22,600			22,600

Balance Sheet as on 31st December, 2016

Liabilities	₹	₹	Assets	₹	₹
Capital	20,000		Furniture	10,000	
Add: Net profit	6,600		Less: Depreciation	1,000	9,000
Add: Interest on capital	1,000		Stock in trade		14,000
	27,600		Debtors		8,000
Less: Drawings 4,800			Cash at bank		2,400
Income tax 500	5,300	22,300			
Creditors		10,500			
Office salaries outstanding		600			
		33,400			33,400

## Illustration 1

Edward's books show the following balances. Prepare his trading and profit and loss A/c for the year ended 31st December, 2016 and a balance sheet on at that date.

Debit balances	₹	Credit balances	₹
Drawings	5,000	Capital	1,31,500
Sundry debtors	60,000	Loan at 6% p.a.	20,000
Coal, gas and water	10,500	Sales	3,56,500
Returns inward	2,500	Interest on investments	2,550
Purchases	2,56,500	Sundry creditors	40,000
Stock on 1-1-2016	89,700		
Travelling expenses	51,250		
Interest on loan paid	300		
Petty cash	710		
Repairs	4,090		
Investments	70,000		
	5,50,550		5,50,550

### Adjustments:

- i. Closing stock was Rs. 1,30,000 on 31st December, 2016.
  
- ii. Create 5% provision for bad and doubtful debts on sundry debtors

iii. Create provision at 2% for discount on debtors

iv. Interest on loan due for 9 months.

## Solution

In the books of Edward

Dr. Trading and Profit and Loss Account for the year ended 31st December, 2016 Cr.

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		89,700	By Sales	3,56,500	
To Purchases		2,56,500	Less: Returns inward	2,500	3,54,000
To Coal, gas and water		10,500	By Closing stock		1,30,000
To Gross profit c/d		1,27,300			
		4,84,000			4,84,000
To Travelling expenses		51,250	By Gross Profit b/d		1,27,300
To Interest on loan paid	300		By Interest on investments		2,550
Add: Interest outstanding (20,000 x 6/100 x 9/12)	900	1,200			
To Repairs		4,090			
To Provision for bad and doubtful debts		3,000			
To Provision for discount on debtors		1,140			
To Net profit (transferred to capital A/c)		69,170			
		1,29,850			1,29,850

Balance Sheet as on 31st December, 2016

Liabilities	₹	₹	Assets	₹	₹
Capital	1,31,500		Investments		70,000
Add: Net profit	69,170		Stock in trade		1,30,000
	2,00,670		Sundry debtors	60,000	
Less: Drawings	5,000	1,95,670	Less: Provision for bad and doubtful debts (60,000 x 5/100)	3,000	
6% Loan	20,000		Less: Provision for discount on debtors (57,000 x 2/100)	1,140	55,860
Add: Interest outstanding	900	20,900	Petty cash		710
Sundry creditors		40,000			
		2,56,570			2,56,570

## Illustration 1

Following is the trial balance of Brijesh. Prepare final accounts for the year ended on 31st March, 2016.

Particulars	Debit ₹	Credit ₹
Stock as on 01-04-2015	2,00,000	
Purchases and Sales	22,00,000	33,00,000
Returns	1,00,000	80,000
Carriage inwards	50,000	
Salaries	2,60,000	
Insurance	1,20,000	
Wages	80,000	
Bad debts	10,000	
Furniture	7,00,000	
Capital		7,50,000
Printing and stationery	80,000	
Cash at bank	3,15,000	
Petty cash	5,000	
Commission	10,000	
	41,30,000	41,30,000

### Adjustments:

- i. Stock on 31<sup>st</sup> March, 2016 was valued at Rs. 4,00,000.
- ii. Depreciate furniture @ 10% p.a.
- iii. Insurance of Rs. 60,000 was paid in advance

iv. Commission receivable  
Rs. 50,000.

## Solution

In the books of Brijesh

Dr. Trading and Profit and Loss Account for the year ended 31st March, 2016 Cr.

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		2,00,000	By Sales	33,00,000	
To Purchases	22,00,000		Less: Returns	1,00,000	32,00,000
Less: Returns	80,000	21,20,000	By Closing stock		4,00,000
To Carriage inwards		50,000			
To Wages		80,000			
To Gross profit c/d		11,50,000			
		36,00,000			36,00,000
To Salaries		2,60,000	By Gross profit b/d		11,50,000
To Insurance	1,20,000		By Commission receivable		50,000
Less: Prepaid	60,000	60,000			
To Bad debts		10,000			
To Printing and stationery		80,000			
To Depreciation on furniture (7,00,000 x 10/100)		70,000			
To Commission		10,000			
To Net profit (transferred to capital A/c)		7,10,000			
		12,00,000			12,00,000

Balance Sheet as on 31st March, 2016

Liabilities	₹	₹	Assets	₹	₹
Capital	7,50,000		Furniture	7,00,000	
Add: Net profit	7,10,000	14,60,000	Less: Depreciation	70,000	6,30,000
			Stock in trade		4,00,000
			Commission receivable		50,000
			Insurance prepaid		60,000
			Cash at bank		3,15,000
			Petty cash		5,000
		14,60,000			14,60,000

## Illustration 1

Given below are the balances of Pandian as on 31st March, 2016.

Particulars	Debit ₹	Credit ₹
Capital		1,20,000
Sundry debtors and creditors	22,000	22,500
Sales		59,700
Drawings	2,000	
Cash in hand	8,200	
Cash at bank	30,000	
Wages	2,500	
Purchases	10,000	
Opening stock	30,000	
Business premises	60,000	
Bills receivable	14,500	
Office telephone expenses	3,500	
General expenses	9,000	
Goodwill	10,500	
	2,02,200	2,02,200

### Adjustments:

- i. The stock value at the end of the accounting period was Rs. 5,000
- ii. Interest on capital at 6% is to be provided
- iii. Interest on drawing at 5% is to be provided



iv. Write off bad debts amounting to Rs. 2,000

v. Create provision for bad and doubtful debts on sundry debtors @ 10%

vi. Prepare final accounts for the year ended 31st March, 2016.

## Illustration

The following trial balance has been extracted from the books of Rajesh on 31st December, 2016.

Debit balance	₹	Credit balance	₹
Drawings	44,000	Capital	1,76,000
Plant and machinery	1,00,000	Cash sales	1,72,000
Opening stock	20,000	Provision for bad and doubtful debts	2,000
Purchases	2,70,000	Bank overdraft	20,000
Wages	62,000	Discount received	6,000
Salaries	70,000	Credit sales	3,00,000
Insurance	45,000	Sundry creditors	24,000
Rent and taxes	17,000		
Sundry debtors	50,000		
Suspense A/c	22,000		
	7,00,000		7,00,000

The following adjustments are to be made:

- i. Stock on 31st December, 2016 was Rs. 28,000
- ii. Unexpired insurance was Rs. 15,000
- iii. Provision for doubtful debts is to be maintained at 5% on sundry debtors.

## Illustration :

From the trial balance of Ajith and the adjustments given below, prepare trading and profit and loss A/c for the year ended 31st March, 2016 and the balance sheet as on that date.

Particulars	Debit ₹	Particulars	Credit ₹
Opening stock	15,000	Capital	25,000
Furniture and fixtures	30,000	Returns outward	1,000
Purchases	40,000	Bills payable	10,000
Sales returns	2,000	Sales	1,24,000
Carriage inwards	10,000	Provision for doubtful debts	500
Office rent	23,000	Provision for discount on debtors	100
Sundry debtors	20,100		
Bank balance	19,600		
Bad debts	900		
	1,60,600		1,60,600

### Adjustments:

i. Stock at the end of the year was Rs. 8,000

ii. Further bad debts amounted to Rs. 100