Dr.		T			Cr.
2012 Mar. 31	To Balance *b/d*	₹ 6,100	2012 Mar. 31	By Balance *c/d*	₹ 6,100
2012 Apr. 1	To Balance *b/d*	6,100			

Dr.		V			Cr.
2012 Mar. 31	To Balance *b/d*	₹ 5,200	2012 Mar. 31	By Balance *c/d*	₹ 5,200
2012 Apr. 1	To Balance *b/d*	5,200			

Calculation of Value of Closing Stock.

Problem No. 5

A firm closes its books on 31st March each year. In the beginning of March 2012 because of a proposal for sale of business (which later fell through), the firm carried out stock taking on 10th March. The figure of stock was established as ₹ 3,12,500 (cost) as on that date. The firm decided not to carry out any stock taking on 31st March, 2012. From the information given below, arrive at the stock as on that date :—

(*i*) Sales from 11-3-2012 to 31-3-2012 totalled ₹ 2,16,000 including ₹ 15,000 sale of goods which had cost ₹ 18,000. The firm's mark up on cost is 25%.

(*ii*) Purchases during the same period totalled ₹ 1,46,000.

(*iii*) Sales returns and purchase returns were respectively ₹ 11,000 and ₹ 6,000 in this period.

(*iv*) Goods with customers on sale or return basis were ₹ 50,000 (proforma invoice value). The goods had been sent on 9th March, 2012; the customers had the right of returning the goods within four weeks but it was known that one customer who had goods worth ₹ 20,000 had pledged them with a bank.

Solution :

		₹
Stock as on 10th March, 2012		3,12,500
Add :		
(*i*) Purchases from 11-3-2012 to 31-3-2012		1,46,000
(*ii*) Sales Returns, at cost = ₹ 11,000 × $\frac{4}{5}$ 8,800		
(*iii*) Goods on Approval, at cost = ₹ 30,000 × $\frac{4}{5}$		24,000
		4,91,300
Less :	₹	
(*i*) Cost of Stock sold for ₹ 15,000 = ₹ 15,000 × $\frac{4}{5}$	18,000	
Cost of Stock sold for ₹ 2,01,000 = ₹ 2,01,000 × $\frac{4}{5}$	1,60,800	
(*ii*) Purchase Returns	6,000	1,84,800
Value of Stock as on 31st March, 2012		3,06,500

Problem No. 6

M/s. P & Q purchase shirts @ ₹ 200 per piece; the average freight is ₹ 10 and insurance in transit is 1%. Octroi duty is 5%. On the average, the firm earns a rebate of 4%, receivable at the end of the year. Godown and storekeeping charges amount to 10% of the purchase price per annum.

In 2011-2012, the firm purchased 10,000 shirts of which 1,500 remained in stock at the end of the year. Of the latter, 100 were such as were out of fashion and were expected to be sold @ ₹ 150 per shirt.

Ascertain the value of the closing stock.

Solution :

	₹
Purchase price of 1,400 shirts @ ₹ 200 per piece	2,80,000
Add : Freight @ ₹ 10 per piece	14,000
Insurance in transit @ 1% on ₹ 2,80,000	2,800
Octroi duty @ 5% on ₹ 2,80,000	14,000
	3,10,800

Less: Rebate @ 4% on ₹ 2,80,000		11,200
Cost of 1,400 shirts		2,99,600
Add : Market price of 100 shirts, being less than cost = Rs 150 x 100		15,000
Value of closing stock		3,14,600

Problem No. 7

The cost of the stock on hand of a firm on 31st March, 2012 was ₹ 5,00,000. On a doubt having arisen regarding its realisable value, a sample of 20% of the stock was subjected to a thorough check. It was found that of the sample :

(*i*) 80% was good and was expected to realise the sale price of cost plus 20%.

(*ii*) 15% was slightly damaged and required an expenditure of 10% of the sale value for making it readily saleable at the normal sale price.

(*iii*) 5% was so damaged as to make it unfit for normal sale; it would fetch only 50% of the normal selling price.

What, in your opinion, is the value that can be legitimately put on the closing stock?

Solution :

		₹
Cost of 80% stock = ₹ 5,00,000 × $\frac{80}{100}$		4,00,000
Cost of 15% stock = ₹ 5,00,000 × $\frac{15}{100}$	75,000	₹
Less : Expenses to be incurred @ 10% of selling price = $\frac{10}{100}$ (₹ 75,000 × $\frac{120}{100}$)	9,000	66,000
Cost of 5% stock = ₹ 5,00,000 × $\frac{5}{100}$	25,000	
Add : Profit @ 20% of cost	5,000	
Normal selling price	30,000	
Market price, being less than the cost = 50% of ₹ 30,000		15,000
Value of stock as on March 31, 2012		4,81,000

More Problems on Final Accounts

Problem No. 8

On 31st March, 2012, the following Trial Balance was extracted from the books of Chatterji :

	Dr. ₹	*Cr.* ₹
Capital Account		90,000
Plant and Machinery	80,000	
Sales		4,07,000
Purchases	2,60,000	
Returns	6,000	5,750
Opening Stock	30,000	
Discount	350	800
Bank Charges	75	
Sundry Debtors	45,000	
Sundry Creditors		25,000
Salaries	26,800	
Manufacturing Wages	40,000	
Carriage Inwards	750	
Carriage Outwards	1,200	
Bad Debts Provision		525
Rent, Rates and Taxes	10,000	
Advertisements	2,000	
Cash in hand	900	
Cash in Bank	6,000	
Furniture & Fittings	20,000	
	5,29,075	5,29,075

You are asked to prepare the final accounts for the year ended 31st March, 2010 and the Balance Sheet as on that date. The following adjustments are required :

(1) Closing Stock ₹ 35,000.

(2) Depreciation on Plant and Machinery @ 15%. p.a. and on Furniture & Fittings @ 10% p.a. to be provided.

(3) Bad Debts Provision to be adjusted to ₹ 500.

(4) Interest on capital to be allowed at 10% per annum.

(5) 15% of the profits remaining after providing interest on capital is to be carried to General Reserve.

Solution :

Dr. **Trading and Profit and Loss Account of Mr. Chatterjee for the year ending 31st March, 2012** *Cr.*

	₹	₹		₹	₹
To Opening Stock		30,000	By Sales	4,07,000	
To Purchases	2,60,000		*Less* : Sales Returns	6,000	4,01,000
Less : Purchases Returns	5,750	2,54,250			
			By Closing Stock		35,000
To Manufacturing Wages		40,000			
To Carriage Inwards		750			
To Gross Profit *c/d*		1,11,000			
		4,36,000			4,36,000
To Salaries		26,800	By Gross Profit *b/d*		1,11,000
To Carriage Outwards		1,200	By Discount		800
To Rent, Rates & Taxes		10,000	By Existing Provision for		
To Advertisement		2,000	Bad & Doubtful Debts	525	
To Discount		350			
To Bank Charges		75	*Less* : Required	500	25
To Depreciation on :					
Plant and Machinery	12,000				
Furniture & Fittings	2,000	14,000			
To Interest on Capital		9,000			
To General Reserve					
(15% of ₹ 48,400)		7,260			
To Capital Account					
—transfer of net profit		41,140			
		1,11,825			1,11,825

Balance Sheet of Mr. Chatterjee as on March 31, 2012

Liabilities	₹	₹	*Assets*	₹	₹
Sundry Creditors		25,000	*Fixed Assets* :		
General Reserve		7,260	Plant & Machinery	80,000	
Capital	90,000		*Less* : Depreciation @ 15%	12,000	68,000
Add : Interest on Capital	9,000		Furniture & Fittings	20,000	
Net Profit for the year	41,140	1,40,140	*Less* : Depreciation @ 10%	2,000	18,000
			Current Assets :		
			Stock		35,000
			Sundry Debtors	45,000	
			Less : Provision for Bad & Doubtful Debts	500	44,500
			Cash at Bank		6,000
			Cash in hand		900
		1,72,400			1,72,400

Problem No. 9

On 31st March, 2012 the following Trial Balance was prepared from the books of Brown :

	Dr. ₹	Cr. ₹
Sundry Debtors	30,600	
Sundry Creditors		10,000
Bills Receivable	5,000	
Plant and Machinery	75,000	
Purchases	1,90,000	
Capital Account		70,000
Freehold Premises	50,000	
Salaries	21,000	
Wages	24,400	
Postage and Stationery	1,750	
Carriage In	1,750	
Carriage Out	1,000	
Bad Debts	950	
Bad Debts Provision		350
Office General Charges	1,500	
Cash at Bank	5,300	
Cash in hand	800	
Bills Payable		7,000
Reserve		20,000
Sales		3,31,700
Closing Stock	30,000	
	4,39,050	4,39,050

The following adjustments are required :

(*a*) Brown gets a salary of ₹ 12,000 per annum.
(*b*) Allow 10% interest on Capital.
(*c*) Bad Debts Provision to be adjusted to 2½% on Sundry Debtors.
(*d*) 10% of the net profit is to be credited to the Reserve.
(*e*) It was discovered in April, 2011 that stock sheets as on 31st March, 2011 were overcast by ₹ 1,000. However, no entry was passed in April, 2011.
(*f*) Depreciate Plant and Machinery @ 10% p.a. and Freehold Premises @ 2% p.a.

You are asked to prepare the Trading and Profit and Loss Account of the firm for the year ended 31st March, 2012 and a Balance Sheet as at that date.

Solution :

Dr. **Trading and Profit and Loss Account of Mr. Brown for the year ending March 31, 2012** *Cr.*

	₹	₹		₹	₹
To Purchases (adjusted)		1,89,000	By Sales		3,31,700
To Wages		24,400			
To Carriage Inwards		1,750			
To Gross Profit *c/d*		1,16,550			
		3,31,700			3,31,700
To Salaries		21,000	By Gross Profit *b/d*		1,16,550
To Postage & Stationery		1,750			
To Carriage Outwards		1,000			
To Office General Charges		1,500			
To Bad Debts	950				
Add : Provision for Bad & Doubtful Debts	765				
	1,715				
Less : Existing Provision	350	1,365			

(*Contd.*)

	₹	₹		₹	₹
To Depreciation on :					
Plant and Machinery	7,500				
Freehold Premises	1,000	8,500			
To Overcasting of Opening Stock		1,000			
To Interest on Capital		7,000			
To Salary to Brown		12,000			
To Reserve—10% of ₹ 61,435		6,144			
To Capital Account— transfer of net profit		55,291			
		1,16,550			1,16,550

Balance Sheet of Mr. Brown as on March 31, 2012

Liabilities	₹	₹	*Assets*	₹	₹
Bills Payable		7,000	*Fixed Assets:*		
Sundry Creditors		10,000	Freehold Premises	50,000	
Reserve : Balance *b/fd*	20,000		*Less* : Depreciation	1,000	49,000
Add : Current year's contribution	6,144	26,144	Plant and Machinery	75,000	
			Less : Depreciation	7,500	67,500
			Current Assets:		
Capital	70,000		Stock	30,000	
Add : Interest on Capital	7,000		Sundry Debtors	30,600	
Brown's Salary	12,000		*Less* : Provision for Bad &		
Net Profit	55,291	1,44,291	Doubtful Debts	765	29,835
			Bills Receivable		5,000
			Cash at Bank		5,300
			Cash in hand		800
		1,87,435			1,87,435

Problem No. 10

From the undermentioned Trial Balance of Bannerji, prepare the final accounts for the year ended 31st March, 2012 and the Balance Sheet as at that date:

	Dr. ₹	Cr. ₹
Land and Buildings	50,000	
Purchases	2,10,000	
Stock on March 31, 2012	45,000	
Returns	1,500	2,500
Wages	45,300	
Salaries	39,000	
Office Expenses	15,400	
Carriage In	1,200	
Carriage Out	2,000	
Discounts	750	1,200
Bad Debts	1,200	
Sales (adjusted)		3,85,000
Capital Account		1,15,000
Chatterjee Loan Account (taken on 1/10/2011 @ 18% p.a.)		25,000
Insurance	1,500	
Commission		1,500
Plant and Machinery	50,000	
Furniture and Fixtures	20,000	
Bills Receivable	20,000	

Sundry Debtors	..	40,000	
Sundry Creditors	..		25,000
Cash in hand	..	1,500	
Cash at Bank	..	14,500	
Office Equipment	..	12,000	
Bills Payable	..		12,350
Expenses Payable	..		3,300
		5,70,850	5,70,850

It was the practice of Bannerji to value stock at 10% below cost. The opening stock (on 1-4-2011) was ₹ 49,500. Bannerji desires that the final statement be drawn up according to the cost of the stock. The following adjustments are also required:

(1) Depreciate Land and Buildings @ 6%, Plant and Machinery @ 10%, Office Equipment @ 20% and Furniture and Fixtures @ 15%.
(2) Raise a Bad and Doubtful Debts Provision of 1¼% on Sundry Debtors.
(3) Insurance Premium includes ₹ 250 paid in advance.
(4) Provide Interest on Capital @ 10% p.a. and Salary to Bannerji @ ₹ 15,000 p.a.
(5) 10% of the final profit is to be kept as General Reserve.

Solution :

	₹
Adjusted purchases as given	2,10,000
Add : for opening stock increase, ₹ 49,500 × $\frac{10}{90}$	5,500
	2,15,500
Less : for closing stock increase, ₹ 45,000 × $\frac{10}{90}$	5,000
Amount to be shown in Trading Account	2,10,500

In Balance Sheet, Closing Stock will appear at

₹ 45,000 × $\frac{100}{90}$ = ₹ 50,000

Dr. **Trading and Profit and Loss Account of Mr. Bannerji for the year ending March 31, 2012** *Cr.*

	₹	₹		₹	₹
To Purchases (adjusted)*	2,10,500		By Sales	3,85,000	
Less : Returns Inwards	2,500	2,08,000	*Less* : Sales Returns	1,500	3,83,500
To Wages		45,300			
To Carriage Inwards		1,200			
To Gross Profit *c/d.*		1,29,000			
		3,83,500			3,83,500
To Salaries		39,000	By Gross Profit *b/d.*		1,29,000
To Office Expenses		15,400	By Discounts		1,200
To Carriage Outwards		2,000	By Commission		1,500
To Discounts		750	By Adjustment of opening stock		5,500
To Insurance	1,500				
Less : Insurance prepaid	250	1,250			
To Bad Debts	1,200				
Add : Provision Required	500	1,700			
To Interest on Chatterjee's Loan, Outstanding		2,250			
To Depreciation on :					
Land & Building	3,000				
Plant & Machinery	5,000				
Office Equipment	2,400				
Furniture & Fixture	3,000	13,400			
To Interest on Capital		11,500			
To Salary to Bannerjee		15,000			
To Transfer to General Reserve		2,945*			
To Capital A/c—Net Profit		32,005			
		1,37,200			1,37,200

*10% of profit before adjustment in respect of opening stock *i.e.* ₹ 34,950 – ₹ 5,500 = ₹ 29,450.

Balance Sheet of Mr. Bannerji as on March 31, 2012

Liabilities	₹	₹	*Assets*	₹	₹
Bills Payable		12,350	*Fixed Assets :*		
Sundry Creditors		25,000	Land & Building	50,000	
Expenses Payable		3,300	*Less* : Depreciation	3,000	47,000
Chatterjee's Loan	25,000		Plant & Machinery	50,000	
Add : Interest Outstanding	2,250	27,250	*Less* : Depreciation	5,000	45,000
General Reserve		2,945	Furniture & Fixture	20,000	
Capital Account	1,15,000		*Less* : Depreciation	3,000	17,000
Add : Interest on Capital	11,500		Office Equipment	12,000	
Salary	15,000		*Less:* Depreciation	2,400	9,600
Net Profit	32,005	1,73,505	*Current Assets :*		
			Stock		50,000
			Sundry Debtors	40,000	
			Less : Provision	500	39,500
			Bills Receivable		20,000
			Prepaid Insurance		250
			Cash at Bank		14,500
			Cash in hand		1,500
		2,44,350			2,44,350

Problem No. 11

From the following, prepare the Trading and Profit and Loss Accounts for the year ended 31st March, 2012 and Balance Sheet of "Z" as at 31st March, 2012 :—

		₹
Capital	..	1,50,000
Trade Creditors	..	30,000
Bills Payable	..	10,000
General Reserve		25,000
Provision for Bad and Doubtful Debts		1,000
Profit and Loss Account, 1st April, 2011		5,450
Sales	..	5,75,000
Discount allowed	..	4,750
Stocks at 1st April, 2011	..	55,000
Purchases	..	4,48,000
Discount Received	..	4,400
Buildings	..	50,000
Machinery, Plant and Furniture (Cost ₹ 1,25,000)	..	75,000
Book Debts	..	36,400
Bank Balance (Dr.)	..	24,400
Investment, 9% Government Loan at par	..	10,000
Bills Receivable	..	22,500
Salaries and Wages	..	33,000
Audit Fees	..	5,000
Office Expenses	..	22,000
Repairs and Renewals	..	11,800
Interest Paid	..	700
Bad Debts Recovered	..	250

The value of stocks on hand as at 31st March, 2012, was ₹ 68,000 including goods costing ₹ 900 received on 30th March, 2012 in respect of which supplier's bill had not yet been received. Goods of the cost of ₹ 1,500 were sent to a customer on sale or approval basis. The invoice for ₹ 2,000 was entered in the Sales Book. Provision is to be made for bad debts to the extent of ₹ 400, and for depreciation of buildings at 2% per annum : Machinery, Plant and Furniture have been depreciated at 20% of the diminishing value; : "Z" however considers that the proper method is 8% of the original cost and wishes to adopt it with effect from 1st April, 2010.