NCERT SOLUTIONS CLASS - 11 ACCOUNTANCY PART - 2 CHAPTER 10

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Q1 :Why is it necessary to record the adjusting entries in the preparation of final accounts?

Answer : It is extremely important to record the adjusting entries in the preparation of final accounts.

1. This is done in order to assess the true net profit or net loss of the business organisation.
2. It helps us record those adjustments which were left or omitted and were not recorded in the accounts.
3. It assists us to separate all the financial transactions into a year-wise category. The financial statements include only those entries which belong to the current year. It rules out the previous and forthcoming years' entries which are the basis for accrual basis of accounting.
4. Further, it provides us the room for making various provisions which are made at the end of the year, after assessing the entire year's performance

Q2 :What is meant by closing stock? Show its treatment in final accounts.

Answer :

Closing stock implies the value of unsold goods at the end of an accounting period. The valuation of closing stock is done on the basis of its cost price or the realisable value, whichever of the two is lesser.

Example: If a good with the cost price of Rs 20,000 is purchased at the end of an accounting period and its realisable value is Rs 30,000, then the closing stock will be valued at Rs 20,000 not at Rs 30,000.

Treatment of closing stock

If closing stock is given in the adjustment, then there will be two postings.

Trading Account				**Balance Sheet**			
Dr.			**Cr.**				
Particulars	**Amount**	**Particulars**	**Amount**	**Liabilities**	**Amount**	**Assets**	**Amount**
						Closing Stock	

If closing stock is given in the trial balance, then it needs to be shown only in the assets side of the Balance Sheet.

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Q3 :Write short notes on

(a) Outstanding expenses

(b) Prepaid expenses

(c) Income received in advance

(d) Accrued income

Answer :

(a) Outstanding Expenses: These refer to those expenses which belong to and are incurred in the current accounting period but are left unpaid. In other words, we can say that the services in exchange of these payments have been realised but the payments are not made. For example, if Rs 1000 wages are outstanding, then this means that labour worth Rs 1,000 has been used but has not been paid for till the end of the year.

(b) Prepaid Expenses: These refer to those expenses for which the benefits have not been realised but the payments have already been made in advance. These are basically the advance payments for the next year, which are made in the current accounting period.

Example: Prepaid insurance premium of Rs 1,000 means that the payment of Rs 1,000 is made in advance for the next accounting period.

(c) Income Received in Advance: This refers to the income received whose actual realisation of benefits will occur in the next accounting period. These are also called unearned incomes.

Example: Commission of Rs 1,200 for the year 2011-12 is received in 2010-11. This commission does not belong to the current year as it is related with the work to be done in the next accounting year i.e., 2011-

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Q4 :Give the performa of income statement and balance in vertical form.

Answer :

Income statement for the period ended----		
Particulars	**Amount Rs**	**Amount Rs**
Sales (Gross)		
Less: Returns		
Net Sales		
Cost of goods sold		
Opening Stock		
Purchases		
Less: Returns		
Carriage Inwards		
Wages		
Cost of Goods Available for Sale		
Less: Closing Stock		
Gross Profit		
Operating Expenses		
(a) ***Selling Expenses***		
Advertising		
Discount		
Allowances		
Bad-Debts and Provisions		
Carriage Outwards		
Total Selling Expenses		
(b) ***General and Administration Expenses***		
Salaries		
Rent and Rates		
Insurance		
Depreciation		
Postage		
Repairs		
General Expenses		
Total Operating Expenses		
Net Income from Operations (Operating profit)		
Other Income (Non-operating gains)		
Interest Earned		
Commission Earned		
Profit on Sale of Fixed Assets		
Less: Deductions (Non-operating expenses)		
Interest Paid		
Loss by Fire		
Net Non-operating Gains		

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Income statement for the period ended ----

Particulars	**Amount Rs**	**Amount Rs**
Current Assets		
Cash in Hand		
Cash at Bank		
Bills Receivable		
Accrued Income		
Debtors		
Stock		
Prepaid Expenses		
Total Current Assets		
Â ***Less***: Current Liabilities		
Bank Overdraft		
Outstanding Expenses		
Bills Payable		
Trade Creditors		
Income Received in Advance		
Total Current Liabilities		
Net Working Capital		
(Current assets and Current liabilities)		
Â ***Fixed Assets***		
Furniture and Fixtures		
Patents		
Plants and Machinery		
Building		
Land		
Goodwill		
Total Fixed Assets		
Total Assets (After paying current liabilities)		
Â ***Capital Employed***		
Long-term Liabilities		
Loan		
Mortgage		
Total Long-term Liabilities		
Net Assets (being the difference between total assets and long-term liabilities)		
Â ***Capital (Proprietor)***		
Â Capital in the Beginning		
Â ***Add***: Capital Introduced During the Current Year		
Â Interest on Capital, Salary, etc.		
Â Profit for the Current Year		
Â ***Less***: Drawings During the Current Year		
Â Interest on Drawings		
Â Loss for the Current Year		
Â Total Capital of the Proprietor at the End of the Year		

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Q5 :Why is it necessary to create a provision for doubtful-debts at the time of preparation of final accounts?

Answer : The provision for doubtful-debts is created with the motive of minimising the effect of actual loss caused by the bad-debts. The actual figure of the current year's bad-debts will be known in the next year with the realisation of debtors. At that point of time, it will be known as to how many of the debtors have become bad. Thus, instead of waiting for the realisation of debtors, we create a provision for doubtful-debts in order to cover the expected future loss associated with the debtors becoming bad.

Q6 :What adjusting entries would you record for the following?

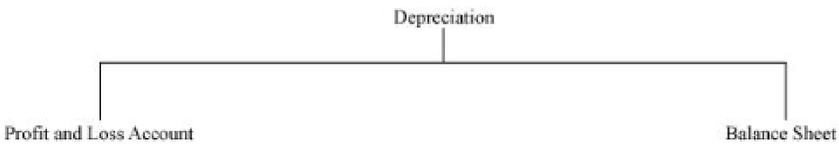
(a) Depreciation

(b) Discount on debtors

(c) Interest on capital

(d) Manager's commission

Answer :



Dr.			**Cr.**				
Particulars	**Amount**	**Particulars**	**Amount**	**Liabilities**	**Amount**	**Assets**	**Amount**
Depreciation						Assets	
						Less: Depreciation	

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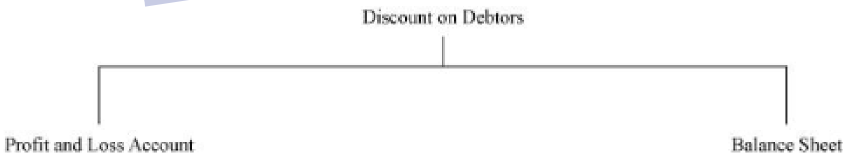

Dr.			**Cr.**				
Particulars	**Amount**	**Particulars**	**Amount**	**Liabilities**	**Amount**	**Assets**	**Amount**
Discount on Debtors						Debtors	
						Less: New Provision	
						Less: Further Bad Debts	
						Less: Discount on Debtors	

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Interest on Capital

Profit and Loss Account | Balance Sheet

Dr.			Cr.				
Particulars	**Amount**	**Particulars**	**Amount**	**Liabilities**	**Amount**	**Assets**	**Amount**
Interest on Capital				Capital			
				Add: Interest on Capital			

(d) Manager's commission

There are two cases in manager's commission.

Case 1: Manager's commission based on profits before charging the manager's commission.

$$\text{Manager's Commission} = \frac{\text{Net Profit} \times \text{Rate of Commission}}{100}$$

Profit and Loss Account | Balance Sheet

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Dr.			Cr.				
Particulars	**Amount**	**Particulars**	**Amount**	**Liabilities**	**Amount**	**Assets**	**Amount**
Manager's Commission				Outstanding Manager's			
				Commission			

Case 2: Manager's commission based on profits after charging the manager's commission.

$$\text{Manager's Commission} = \text{Net Profit} \times \frac{\text{Rate of Commission}}{100 + \text{Rate of Commission}}$$

Profit and Loss Account

Balance Sheet

Dr.			Cr.				
Particulars	**Amount**	**Particulars**	**Amount**	**Liabilities**	**Amount**	**Assets**	**Amount**
Net Profit *before*				Outstanding Manager's			
Manager's Commission				Commission			
O/S Manager's Commission							
Net Profit *after*							
Manager's Commission							

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Q7 :What do you mean by provision for discount on debtors?

Answer : The discount is allowed to those debtors who are ready to pay a huge amount in one shot. It is given in order to encourage them to repay the debt. The provision for discount on debtors is created on good debtors. The amount of good debtors is calculated by deducting the amount of Bad Debts, further Bad Debts and new provision for Doubtful Debts. The required percentage of the good debtors is calculated and the provision for discount on debtors is deducted from the Debtors' amount in the Assets side of a Balance Sheet. As it is a loss for the business, it is shown in the Debit side of the Profit and Loss Account.

Q8 : Give the journal entries for the following adjustments:

(a) Outstanding salary at Rs 3,500.

(b) Rent unpaid for one month at Rs 6,000 per annum.

(c) Insurance prepaid for a quarter at Rs 16,000 per annum.

(d) Purchase of furniture costing Rs 7,000 entered in the purchases book.

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Answer :

S. No.	Particulars		L.F.	Debit Rs	Credit Rs
a)	Salaries A/c Dr.			3,500	
	To Outstanding Salaries A/c				3,500
	(Salaries of Rs 3,500 is remaining outstanding)				
b)	Rent A/c Dr.			500	
	To Outstanding Rent A/c				500
	(Rent unpaid for one month at Rs 500 =	$\frac{6000}{12}$)			
c)	Prepaid Insurance A/c Dr.			4,000	
	To Insurance A/c				4,000
	(Insurance paid in advance for 3 months i.e. Rs 400)				
d)	Furniture A/c Dr.			7,000	
	To Purchases A/c				7,000
	(Furniture was wrongly debited to Purchases Account, now rectified)				

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