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B. If Prepaid Expenses are given inside the trial balance: It will only be shown on the Assets side of the Balance Sheet. (Because it is a Representative Personal A/c and has a Dr. balance)

Balance Sheet			
Liabilities	Amount(₹)	Assets	Amount(₹)
		Prepaid Expenses	XXXX

Adjustment of Depreciation

Depreciation is the allocation of the cost of a tangible fixed asset over its useful life. At the end of each accounting period, depreciation needs to be recorded to reflect the reduction in value of the asset due to wear and tear, usage, or obsolescence.

Depreciation means a reduction in the value of assets which is a loss for the business. There are various causes of depreciation, like obsolescence, wear and tear, destruction, efflux of time, etc. All these factors influence the working life of assets and hence lead to a reduction in the value of assets over a period of time.

Adjustment:

The following treatment takes place in respect of Depreciation:

A. If Depreciation is given outside the trial balance:

In such a situation, two effects will take place:

- First, it will be shown in the Dr. side of the Profit & Loss A/c.
- Second, the amount of fixed assets appearing in the Balance Sheet would reduce by the amount of depreciation.

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Journal Entry

Date	Particulars	L.F.	Amount(Dr.)	Amount(Cr.)
	Depreciation A/c Dr.		XXXX	
	To Fixed Assets A/c			XXXX
	(Being reduction in the value of assets)			

Dr. Trading & P&L A/c Cr.

Particulars	Amount(₹)	Particulars	Amount(₹)
To Depreciation	XXXX		

Balance sheet

Liabilities	Amount(₹)	Assets	Amount(₹)
		Fixed Assets	XXXX
		Less: Depreciation	(XXXX) XXXX

Solved Example

From the following trial balance of M/s Kaushal Traders, prepare Trading and Profit and Loss Account for the year ended 31st March 2012 and a Balance Sheet as on that date:

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Dr. Balances	₹	Cr. Balances	₹
Opening stock on 1st April, 2011	16,000	Capital	80,000
Purchases	75,000	Sales	2,00,000
Sales returns	5,000	Purchases returns	2,000
Carriage inwards	1,500	Discount	500
Plant and Machinery	40,000	Sundry creditors	10,000
Furniture and fixtures	5,000	Bills payable	1,500
Freehold property	45,650		
Cash in hand	5,000		
Carriage outwards	400		
Wages	30,000		
Salaries	18,000		
Lighting (factory)	800		
Sundry debtors	28,000		
Travelling expenses	1,200		
Rent and taxes	4,800		
Drawings	5,000		
Insurance	450		
General expenses	12,200		
	2,94,000		2,94,000

Adjustments :

- Stock on 31st March 2012 was valued at ₹ 38,000 (market value ₹ 20,000).
- Wages amounting to ₹ 2,000 and salaries amounting to ₹ 1,500 are outstanding.
- Prepaid insurance amounted to ₹ 150.
- Provide depreciation on plant and machinery at 5% and on furniture and fixtures at 10%.



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Solution:

**Trading and Profit and Loss Account
for the year ending 31st March, 2012**

Dr.		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹
To Opening stock	16,000	By Sales	2,00,000
To Purchases	75,000	Less : Sales returns	5,000
Less : Purchases returns	2,000	By Closing stock	20,000 ¹
To Carriage inwards	1,500		
To Wages	30,000		
Add : Outstanding wages	2,000		
To Factory lighting	800		
To Gross profit c/d	91,700		
	2,15,000		2,15,000
To Carriage outwards	400	By Gross profit b/d	91,700
To Salaries	18,000	By Discount	500
Add : Outstanding salaries	1,500		
To Travelling expenses	1,200		
To Rent and taxes	4,800		
To Insurances	450		
Less : Prepaid insurance	150		
To General expenses	12,200		
To Depreciation on :			
Plant and machinery	2,000		
Furniture and fixtures	500		
To Net profit transferred to Capital A/c	51,300		
	92,200		92,200

**Balance Sheet
as on 31st March 2012**

Liabilities	Amount ₹	Assets	Amount ₹
Bills payable	1,500	Cash in hand	5,000
Sundry creditors	10,000	Sundry debtors	28,000
Outstanding wages	2,000	Closing stock	20,000 ¹
Outstanding salaries	1,500	Prepaid insurance	150
Capital	80,000	Furnitures and fixtures	5,000
Add : Net profit	51,300	Less : Depreciation	500
	1,31,000	Plant and machinery	40,000
Less : Drawings	5,000	Less : Depreciation	2,000
	1,26,300	Freehold property	45,650
	1,41,300		1,41,300

Note : (1) Closing stock is valued at cost price or market price whichever is less.

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Assignment

Ques 1: From the following trial Balance of M/s. Gupta Furnitures as on 31st December, 2012 you are required to prepare a Trading and Profit & Loss A/c for the year ended 31st Dec. 2012 and a Balance Sheet as at that date after making the necessary adjustments.

Particulars	Dr (₹)	Cr. (₹)
Capital A/c of Mr. Gupta		80,000
Cash in hand	540	
Cash in bank	2,630	
Purchase A/c	43,120	
Sales A/c		78,100
Wages A/c	10,480	
Fuel and Power A/c	4,730	
Carriage on Sales A/c	3,200	
Carriage on Purchase A/c	2,040	
Stock (on 1-1-2012)	5,760	
Land & Building A/c	40,000	
Machinery A/c	20,000	
Salaries A/c	15,000	
Insurance A/c	600	
Sundry Debtors A/c	20,000	
Sundry Creditors A/c		10,000
	1,68,100	1,68,100

Taking into consideration the following adjustments, make necessary journal entries and prepare final accounts.

- i. Stock on hand 31.12.2012 is ₹ 5,000
- ii. Machinery is to be depreciated @ 10% p.a.
- iii. Salaries for the month of December outstanding amounted to ₹ 3,500
- iv. Insurance prepaid for 3 months.

Ques 2: From the following trial balance of M/s Gupta Enterprises, prepare the Trading and Profit & Loss Account for the year ended 31st March 2023, and a Balance Sheet as on that date:

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Trial Balance as on 31st March 2023:

Dr. Balances	₹	Cr. Balances	₹
Opening Stock (1st April 2022)	20,000	Capital	1,35,000
Purchases	85,000	Sales	2,50,000
Sales Returns	6,000	Purchases Returns	3,000
Carriage Inwards	2,000	Discount Received	800
Plant and Machinery	60,000	Sundry Creditors	21,000
Furniture and Fixtures	7,000	Bills Payable	2,000
Freehold Property	50,000		
Cash in Hand	8,000		
Carriage Outwards	600		
Wages	35,000		
Salaries	22,000		
Lighting (Factory)	1,000		
Sundry Debtors	30,000		
Travelling Expenses	1,500		
Rent and Taxes	5,500		
Drawings	6,000		
Insurance	500		
General Expenses	13,000		
	3,52,100	3,52,100	

Adjustments:

1. Stock on 31st March 2023 was valued at ₹45,000 (market value ₹25,000).
2. Wages amounting to ₹2,500 and salaries amounting to ₹2,000 are outstanding.
3. Prepaid insurance amounted to ₹200.
4. Provide depreciation on Plant and Machinery at 10% and on Furniture and Fixtures at 5%.

Instructions:

1. Prepare the Trading Account to calculate the Gross Profit or Loss for the year ended 31st March 2023.
2. Prepare the Profit & Loss Account to determine the Net Profit or Loss for the same period.
3. Prepare the Balance Sheet as on 31st March 2023 after incorporating the necessary adjustments.

