

16

FINANCIAL STATEMENTS

Problem No. 1

Solution:

ADJUSTING JOURNAL ENTRIES

Date	Particular	L.F	Debit Rs.	Credit Rs.
(i)	Investment		150	
	Interest on Investment			150
	Interest accrued on investment			
(ii)	Salary Expenses		500	
	Salary Payable			500
	Salary Payable			
(iii)	Commission Income		1000	
	Un-earned commission			1000
	Commission received but not earned.			

Gold auto commission

INCOME STATEMENT

As on 31st December 2006

	Rs.	Rs.
Commission Income		
Less un-earned commission	30000	
	1000	
Net Commission Income		29000
Less Operative Expenses		
Advertising	1370	
Salaries expenses	1930	
+ Salary Payable	500	
Electric Expenses	425	
Telephone charges	729	
Miscellaneous Expenses	215	
Insurance Expenses	2500	
Total Operative Expenses		7669
Operative Profit		21331
Add other Incomes		
Interest on Drawing	500	
Accrued Interest on investment	150	
Total Other Incomes		650
Net Income		21981

GOLD Auto Commission
BALANCE SHEET
As on 31st December 2006

Assets	Rs.	Equities	Rs.
Current Assets		Liabilities	
Cash	20000	Salary payable	500
A/R	2630	Unearned Comm.	1000
Prepaid Insurance	3000	A/P	1230
Non-current Assets		Bank Loan	5000
Investment	15000	Owner's equity	
+ Int. on Investment	150	Capital	63859
Fixed Assets		Less Drawing	5000
Office Equipment	3000		58859
Building	40000	+ Net Income	21981
Furniture	4790		80840
Total Assets	88570	Total Liabilities	88570

Problem No. 2**Solution:****ADJUSTING JOURNAL ENTRIES**

Date	Particular	Debit Rs.	Credit Rs.
(1)	Prepaid Insurance Insurance Expenses Insurance not yet expired	300	300
(2)	Salary Expenses Salary Payable Salary not yet paid	900	900
(3)	Commission Unearned Commission Commission not yet earned	300	300
(4)	Accrued Interest Interest Interest accrued	200	200
(5)	Depreciation Expenses (Building) Accumulated depreciation (building) Depreciation 10% (building)	5000	5000
(6)	Income and Expenses Summary Allowance for Bad Debts Provide allowance for bad debts at 2% on A/R	300	300
(7)	Merchandise inventory Income & Expenses Summary Closing Inventory	1500	1500

Usman Manufactures
INCOME STATEMENT
As on 31st December 2005

		Rs.	Rs.
Sales		55000	
Less sales return		990	
Net Sales			54010
Less cost of merchandise sold			
i) Opening inventory		3000	
ii) Purchases	45000		
Less Purchases return	880		
Net Purchases		44120	
iii) Direct Expenses			
Freight		1700	
Cost of merchandise available for sales		48820	
Less closing inventory		1500	
Cost of merchandise sold			47320
Gross Profit on Sales			6690
Less Operative Expenses			
i) Selling Expenses			
Advertisement		1800	
Salaries	2100		
+ Salaries Payable	900	3000	
Manufacturing expenses		9900	
Depreciation Exp. (Building)		5000	
Provision for Bad Debts		300	
ii) Administration & general Exp.			
Insurance	1900		
Less prepaid	300	1600	
Total Operative Expenses			21600
Operative Loss			14910
Add Other Incomes			
Interest	1900		
+ Interest Accrued	200	2100	
Commission	2300		
Less un-earned commission	300	2000	
Net Loss			4100
			10810

Usman Manufactures
BALANCE SHEET
As on 31st December 2005

Assets		Rs.	Rs.
<u>Current Assets</u>			
Cash at Bank		19000	
A/R	15000		
Less Pro. For bad bets	300		
		14700	
Prepaid Insurance		300	
Accrued Interest		200	
Closing inventory		1500	
Total Current Assets			35700
<u>Non Current Assets</u>			
Investment			35000
<u>Fixed Assets</u>			
Furniture		5000	
Machinery		40000	
Building	50000		
Less Fixed Assets	5000	450000	
Less Depreciation			90000
Total Assets			160700
<u>EQUITIES</u>			
<u>Liabilities</u>			
A/P	1395		
Mortgage Loan	43000		
Salary Payable	900		
Un-earned Commission	300		
Total Liabilities:		45595	
<u>Owner's Equity</u>			
Capital	126700		
Less Drawing	785		
	125915		
Less net Loss	10810		
		115105	
TOTAL EQUITIES			160700

Problem No. 3

Ahsan Traders
Post Closing Trial Balance
As on 1st January 2006

Accounts Title	Debit Rs.	Credit Rs.
Cash at Bank	13950	
Accounts Receivable	15000	
Closing Inventory	9000	
Prepaid Insurance	175	
Building	37000	
Furniture	1700	
Machinery	20805	
Investment	5150	
Patents	1900	
Accounts Payable		1950
Bank O/D		13000
Capital		89430
Provision for B/d		3000
Total:	104680	104680

Solution:**ADJUSTING JOURNAL ENTRIES**

Date	Particular	Debit Rs.	Credit Rs.
(1)	Merchandise Inventory (closing)	9000	
	Income & Expenses Summary		9000
(2)	Closing Inventory		
	Dep. Exp. (Machinery)	1095	
	Acc. Dep. (Machinery)		1095
	Depreciation on Machinery By 5%		
(3)	Income & Expenses Summary	300	
	Provision for bad debts		300
	Provision at 2% on A/R		
(4)	Prepaid Insurance	175	
	Insurance Expenses		175
	Insurance not yet expired		
(5)	Investment	150	
	Accrued interest on Investment		150

Ahsan Traders
INCOME STATEMENT
As on 31st December 2006

	Rs.	Rs.
Sales	51000	
Less Discount on sale	750	
Net Sales		50250
Less cost of merchandise sold:		
Purchases	21950	

Key to Fundamental Principles of Accounting

Less discount on purchases			
+ Direct Expenses	150	21800	
Carriage			
Direct factory	750		
Cost of merchandise available for sales	1700	2450	
Less closing inventory		24250	
Cost of merchandise sold		9000	
Gross profit on sales			15200
Less Operative Expenses			35000
Taxes			
Insurance		1300	
Less prepaid	3500		
Carriage on sales	175	3325	
Repair		1100	
Bad debts		2100	
+ News Provision	175		
	300		
Depreciation on machinery		475	
Total Operative Expenses		1095	
Operative Profit			9395
Add other Income			25605
Interest			
Interest on investment		150	
		150	
Net Income			300
			25905

Ahsan Traders
BALANCE SHEET
 As on 31st December

Assets		Rs.	Equities		Rs.
Current assets			Liabilities		
Cash at Bank		13950	A/P		1950
A/R	15000		Bank O/D		13000
Less prov. For B/d	300	14700			
Closing inventory		9000			
Prepaid insurance		175			
Fixed Assets			Owner's Equity		
Building		37000	Capital	67425	
Furniture		1700	Less Drawing	1400	
Machinery	21900			66025	
Less Dep.	1095	20805	Less income tax	2500	
Investment	5000			63525	
+ Interest on investment	150	5150	Add Net Income	25905	
Intangible assets					89430
Patents		1900			
Total		104380			104380

CLOSING ENTRIES

Date	Particular	Debit Rs.	Credit Rs.
2006 31 st Dec.	Income & Expenses Summary	24250	
	Purchases		21800
	Carriage in		750
	Direct Factory Expenses		1700
	Purchases & direct expenses closed		
	Closing Inventory	9000	
	Income & Expenses Summary		9000
	Closing inventory credited to Income & Expenses Summary		
	Income & Expenses Summary	9395	
	Taxes		1300
	Insurance		3325
	Carriage on sales		1100
	Repair		2100
	Bad debts (75+300)		475
	Dep. on Machinery		1095
	All indirect expenses closed		
	Sales Revenue	50250	
	Income & Expenses Summary		50250
	Sales revenue closed		
	Interest Income	150	
	Interest on deposit	150	
	Income & Expenses Summary		300
	Other Income closed		
	Income & Expenses Summary	25905	
	Capital		25905
	Net Income Transfer to Capital		

Problem No. 4

Farhan Departmental Store
INCOME STATEMENT
As on 31st December 2006

Particulars	Debit Rs.	Credit Rs.
Net sales		
Sales Revenue	25000	
Less Discount as sales	500	
Net Sales		24500

Less cost of merchandise sold			
Opening inventory		9600	
+ Purchases	12000		
Less discount on purchases	400	11600	
+ Direct Expenses			
Wages	1100		
Railway charges	600	1700	
Cost of merchandise available for sales		22900	
Less closing inventory		3500	
Cost of merchandise sold			19400
Gross profit on sales			5100
Less Operative Expenses			
Sales Salary		200	
Advertising		160	
Traveling Expenses		500	
Rent		200	
Interest Expenses		120	
Office Expenses		500	
News Bad debts	400		
+ News Provision for B/d	310		
	710		
Less old provision for Bad debts	600	110	
Depreciation Exp. (on plant)		2100	
Interest on Capital (800 + 50)		850	
Total Operative Expenses			4740
Net Income			360

Farhan Departmental Store

BALANCE SHEET

As on 31st December 2006

Assets		Rs.	Equities		Rs.
Current assets			Liabilities		
Cash in hand		250	A/c Payable		330
A/R	3500		Bills Payable		600
Less new B/d	400		Bank Loan		400
Less New	3100		Owner's Equity		
Provision for B/d	310		Capital	45000	
		2790	+ Int. on Capital	850	
Bills receivable		600		45850	
Closing		3500	Less Drawing	500	
Inventory				45350	
Fixed Assets			Net Income	360	
Plant & Mach.	42000			45710	
Less Dep.	2100	39900			
Total		47040	Total		47040

Problem No. 5

Solution:

ADJUSTING JOURNAL ENTRIES

Date	Particular	Debit Rs.	Credit Rs.
(1)	Merchandise Inventory	8000	
	Income and Expenses Summary		8000
(2)	Bad Debts Expenses	300	
	Allowance for Bad debts		300
(3)	Selling Supplies Expenses	200	
	Selling Supplies		200
(4)	Insurance Expenses	40	
	Unexpired Insurance		40
(5)	Depreciation Expenses	50	
	Accumulated Depreciation		50

Income Statement

In the year ending 1st Dec. 2005

Date	Particular	Debit Rs.	Credit Rs.
	Sales	55000	
	Less Sales Returns	1000	
	Net Sales		54000
	Less cost of Ends Sold		
	Opening Inventory	7000	
	Purchases Inventory 40000		
	Less Purchase Returns 1200	38800	
	Freight	1700	
	Less Closing Stock	47500	
		8000	
	Gross Profit		39500
	Less Operating Exports		14500
	Sales Salaries	4500	
	Advertising Expenses	1800	
	Office Salaries Expenses	3500	
	Rent Expenses	600	
	General Expenses	350	
	Bad debts	300	
	Suffier Expenses	200	
	Depreciation Expenses	50	
	Income Expenses	40	11340
			3160

Balance Sheet
As on 31st December 2005

Assets				
Current Assets				
Cash			1000	
Accounts Receivables	1500			
Less Bad debts	300		14700	
Closing Stock			8000	
Supplies			700	
Prepaid Income			80	2448
Fixed Assets				
Furniture	2000			
Less allowance for Depreciation	250			175
Liabilities & Owner's Reputy				
Current Liabilities				
Accounts Payables				1200
Owner's reputy				
Capital Karim & Co			11470	
Net Profit	3160			
Less Drawngs	400		2760	1423
Net Increase in Capital				2623

Problem No. 6

INCOME STATEMENT
For the ended on December 31, 2005

	Rs.	Rs.
Sales		160000
Less Cost of Merchandise Sold		
Merchandise Inventory (1.1.2005)	40000	
Purchases	92000	
Total Merchandise available for sales	132000	
Less Ending Inventory	30000	
Cost of merchandise sold		102000
Gross Profit		58000
Less Operative Expenses		
Selling Expenses		
Sales Salaries Expenses	9600	
Sales Supplies Expenses	1000	
Depreciation or Equipment	5000	
Advertisement	4000	
General Expenses		
Insurance Expenses	400	
Office Salaries	4000	
Allowance for Bad Debts	3000	
Total Operative Expenses		27000
Net Income		31000

BALANCE SHEET

As on 31st December 2005

Assets		Rs.	Equities		Rs.
Current Assets			Current liabilities		
Cash at Bank		6400	A/C Payable		18000
A/c Receivable	40000				
Less All. For B/d	3000	37000			
Prepaid Insurance		400	Capital		
Merch. Inventory		30000	Capital	50000	
Sales Supplies		200	Add net income	31000	81000
Fixed Assets					
Sales Equipment	30000				
Less Dep.	5000	25000			
Total		99000	Total		99000

Problem No. 7**Solution:****ADJUSTING JOURNAL ENTRIES**

Date	Particular	Debit Rs.	Credit Rs.
2004 Dec. 31	Merchandise Inventory Income and Expenses Summary Being the value of unsold merchandise at the end of year.	45000	45000
	Taxes Expenses	250	
	Wages Expenses	200	
	Accrued Liabilities Being the amount of expenses payable at the end of year		450
	Prepaid Insurance Insurance Expenses Being the amount of Unexpired insurance.	150	150
	Bad Debt Expenses Accounts Receivable Being the amount of actual bad debts written off.	400	400
	Bad debts Expenses Allowance for bad debts Being the amount of estimated allowance for Bad Debts.	2535	2535
	Depreciation Expenses Acc. Dep. (Building) Acc. Dep. (Machinery) Acc. Dep. (Furniture) Being the amount of depreciation written off at various assets.	1,145	150 750 245

INCOME STATEMENT

For the year ended on 30.12.2004

		Rs.	Rs.
Sales	125000		
Returns	2700		122300
<u>Cost of merchandise sold</u>		30000	
Mer. inventory (opening)			
Purchases	75000		
- Returns	1300		
Net Purchases		73700	
Wages		3700	
Cost of Mer. available for sale		107400	
- Merchandise inventory (closing)		45000	
Cost of merchandise sold			62400
GROSS PROFIT ON SALES			59900
<u>Operative Expenses</u>			
<u>Selling Expenses</u>			
General Trade Expenses	3675		
Advertisement Expenses	420	4035	
<u>General Expenses</u>			
Salaries	5600		
Trade and Insurance	660		
Taxes and Insurance	2900		
Bad Debts Expenses	2535		
Depreciation expenses	1145	12840	
Total Operative Expenses			16935
Net Operative Income			42965
<u>Other Expenses</u>			
Discount (Dr.)		300	
Bank Interest		215	515
NET INCOME			42450

BALANCE SHEET**As on 31.12.2004**

Assets		Rs.	Equities		Rs.
<u>Current Assets</u>			<u>Current liabilities</u>		
Cash		1030	Bank Overdraft		10000
A/c Receivable	45700		A/c Payable		30000
- Allows B/d	2285	44415	Accrued Liabilities		450
Merchandise Inv.		45000	<u>Owner's Equity</u>		
Prepaid Insurance		150	Capital	35000	
<u>Fixed Assets</u>			+ Net Income	42450	
Furniture	2450			77450	
- Acc. Dep.	245	2205	- Drawings	11000	
Mach. & Plant	10000				
- Acc. Dep.	750	9250			
Buildings	6000				
- Acc. Dep.	250	5850			
TOTAL		106900	TOTAL		106900

Problem No. 8**ADJUSTING JOURNAL ENTRIES**

Date	Particular	Debit Rs.	Credit Rs.
(a)	Merchandise Inventory Income & Expenses Summary	23600	23600
(b)	Store Supplies Used Stores Supplies	280	280
(c)	Depreciation of Stores Furniture Allowance for depreciation	355	355
(d)	Advertising Accrued Advertising	65	65
(e)	Prepaid Tax Tax	100	100
(f)	Taxes Accrued Tax	215	215
(g)	Interest Expenses Accrued interest on notes payable	75	75
(h)	Accrued interest on notes receivable Interest Income	105	105
(i)	Bad Debts Allowance for Bad Debts	125	125

M/S Khan & Chaudhry
INCOME STATEMENT

For the year ended December 31, 2005

		Rs.	Rs.
Sales			60000
<u>Cost of Merchandise Sold</u>			
Purchases	67000		
Less Purchases Return	1650		
Less Purchases Discount	<u>2300</u>	3950	
Less Merchandise inventory		60050	
December 31, 2005		23600	39450
Gross Profit on Sales			25550
<u>Less Operating Expenses</u>			
<u>Selling Expenses</u>			
Sales Salaries	8000		
Stores Supplies used	320		
Dep. of stores Furniture	355		
Advertising	<u>65</u>	8740	
<u>General and Admn. Expenses</u>			
Taxes	715		
Bad Debts	125		
General Expenses	<u>12600</u>	13440	
Total Operating Expenses			22180
Net Operating Income			3370
Add Interest Income			255
			<u>3625</u>
Less Interest Expenses			575
NET INCOME			42454

M/S Khan & Chaudhry
BALANCE SHEET

For the year ended December 31, 2005

ASSETS	Rs.	Rs.
<u>Current Assets</u>		
Cash	4650	
Notes Receivable	1600	

A/c Receivable	2500		
Less Allowance for B/d	125		
		2375	
Accrued Interest on notes Receivable		105	
Merchandise Inventory		23600	
Prepaid Expenses			
Store supplies	280		
Taxes	100	380	
Total Current Assets			32170
Fixed Assets			
Stores Furniture		3700	
Less allowance for depreciation		355	3345
Total Assets			36055
LIABILITIES AND CAPITAL			
Current Liabilities			
Notes Payable		6000	
Accounts Payable		12600	
Accrued Expenses			
Advertising	65		
Taxes	215		
Interest on Notes Payable	75	355	
Total Liabilities			18955
Capital			
Khan's Capital	10000		
Add net Profit	1525		
	11525		
Less Drawings	2400	9125	
Chaudhry's Capital	7350		
Add Net Profit	1525		
	8875		
Less Drawings	900		
		7975	17100
Total			36055

Problem No. 9

INCOME STATEMENT

For the year ended on 31st December 2006.

Description		Amount			
	Revenue form sale			57000	
Less	Sales return			500	56000
	Cost of Merchandise sold				
	Merchandise inventory (1.1.06)			150000	
Add	Purchases		32000		
Less	Purchases Returns		200		
	Net Purchases			31800	
	Direct expenses:				
	Carriage				
	Railway freight		700		
			1000	1700	
Less	Merchandise available for sale			48500	
	Merchandise inventory			7000	
	Cost of merchandise sold				41500
Less	Gross profit sales				15000
	Operative expenses:				
	Interest				
	Discount		1200		
	Salary		350		
	Outstanding salary		1500		
	Rates and taxes		300		
Less	Prepaid rates and taxes	800			
	Insurance	200	600		
	Stationary		500		
	Bad debts		1000		
Add	New allowance for bad debts	150			
		105			
Less	Old allowance for B/d	255			
	Depreciation building	200	55		
	Depreciation fixture	1125			
	Total operative expenses	75	1200		
Add	Net income				6705
	Other income				8295
	Commission				
	Discount	300			
	Net income	800			1100
					9395

BALANCE SHEET

For on 31st December 2006.

Assets:		Rs.	Rs.	Rs.	Rs.
Current assets:					
	Cash at bank				
	Cash		5000		
	Account receivable		2500		
Less	Reserve	2100			
		105	1995		

	Closing stock		7000		
	Prepaid rent		200	16695	
	Fixed assets:				
	Building	45000			
Less	Depreciation	1125	43875		
	Fixtures	3000			
Less	Depreciation	75	2925		
	Furniture		1200	48000	64695
	Liabilities				
	Current liabilities				
	Account payable		4000		
	Bank overdraft		6000		
	Outstanding salary		300	10300	
	Capital	48000			
Add	Net income	9395			
		57395			
Less	Drawing	3000		54395	64695

Problem No. 10**INCOME SUMMARY**For the year ended on 31st March, 2007.

Description		Amount		
	Sales revenue		2100	
Less	Sales return		100	2000
	Cost of Merchandise sold			
	Purchase	2500		
Less	Purchase return	500		
	Merchandise available for sale		2000	
Less	Closing inventory		200	
	Cost of merchandise sold		1800	
	Grossing income			200
	Operating expenses			
	Selling expenses:			
	Salaries		900	
	Advertisement		1200	
	Allowance for uncollectible (100 + 50 - 100)		50	
	Total selling expenses		2150	
	Administrative expenses:			
	Depreciation (100 + 50)		150	2300
	Total operating expenses:			2100
	Other revenue:			
	Revenue from fees	1200		
Add	Accrued fee	100	1300	
	Commission	800		
Less	Unearned commission	500	300	1600
	Net loss			500

BALANCE SHEET
For on 31st December 2007.

Description		Amount		
<u>Current Assets:</u>				
	Cash in hand		4500	
	Cash at bank		3700	
	Account receivable	2500		
Less	Uncollectible	50		
		2450		
Less	Allowance for uncollectible	100	2350	
	Prepaid rent			1500
	Closing inventory			200
	Fees receivable			100
	Total current assets			123500
	Furniture	2700		
Less	Accumulated depreciation	50	2650	
	Machinery	4000		
Less	Accumulated depreciation	600	3400	
	Land		5000	
	<u>Total Assets:</u>		11050	23400
<u>Liabilities and capital:</u>				
	Accounts payable		1000	
	Notes payable		2000	
	Unearned commission		500	
	Unpaid salary		400	
	Loan		2000	
	Total liabilities			5900
	Capital		18000	
	Loss net loss		500	17500
	Total capital & liabilities			23400

BY THE SAME AUTHOR

- ✓ FUNDAMENTAL PRINCIPLES OF ACCOUNTING I.COM-I
- ✓ KEY TO FUNDAMENTAL PRINCIPLES OF ACCOUNTING I.COM-I
- ✓ FUNDAMENTAL PRINCIPLES OF ACCOUNTING I.COM-II
- ✓ KEY TO FUNDAMENTAL PRINCIPLES OF ACCOUNTING I.COM-II
- ✓ FUNDAMENTAL OF ACCOUNTING FOR B.COM -I
- ✓ KEY TO FUNDAMENTAL OF ACCOUNTING FOR B.COM -I
- ✓ OBJECTIVE ACCOUNTING I.COM.- I
- ✓ OBJECTIVE ACCOUNTING I.COM.-II
- ✓ SHORT ANSWER AND QUESTIONS ACCOUNTING B.COM.-I

چودھری محمد حنیف	جدید اصول بنکاری	✓
چودھری محمد حنیف	جدید اصول تجارت	✓
چودھری محمد حنیف	معروضی اصول تجارت	✓
چودھری محمد حنیف	معروضی اصول بنکاری	✓
چودھری محمد حنیف - بخشی، بخشیار علی	جدید اکاؤنٹس تھیوری	✓

Can be had from:

IMTIAZ BOOK DEPOT
LAHORE