

ACCOUNTANCY

Chapter 10: Financial Statements - II



Important Questions

Multiple Choice Questions-

Question 1. Outstanding Expenses are related to-

- (a) Current year
- (b) Next year
- (c) Last year
- (d) None of these.

Question 2. Prepaid expenses are shown in-

- (a) Liability side
- (b) Asset side
- (c) Assets or Liability side
- (d) None of these.

Question 3. Charity of goods is-

- (a) Expenses
- (b) Loss
- (c) Profit
- (d) None of these.

Question 4. If a person fails to pay his debt, such amount is considered as-

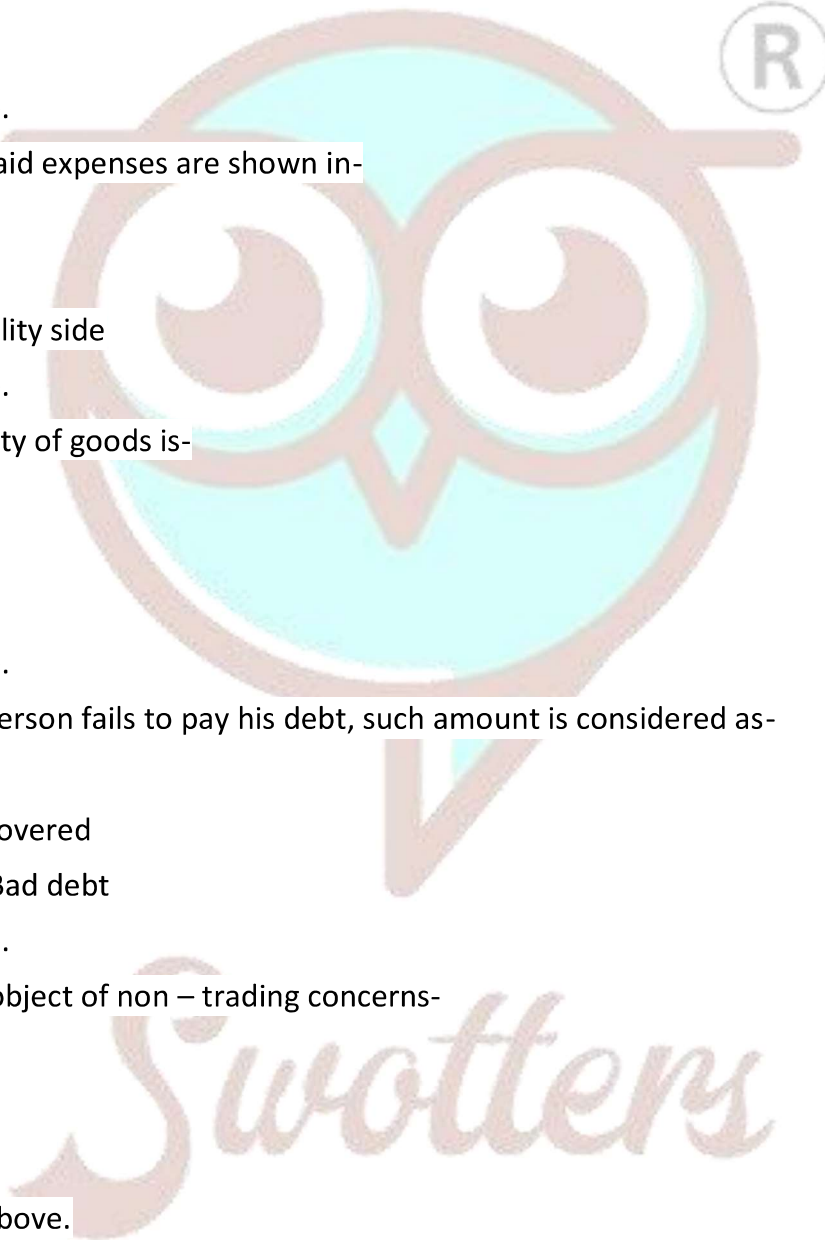
- (a) Bad debts
- (b) Bad debts recovered
- (c) Provision for Bad debt
- (d) None of these.

Question 5. The object of non – trading concerns-

- (a) Social service
- (b) Profit earning
- (c) Both of these
- (d) None of the above.

Question 6. Such persons who earn remuneration against their services are called –

- (a) Seller
- (b) Purchaser
- (c) Professional
- (d) None of these.



Question 7. Which of the following is not an item of income of Non – trading concern –

- (a) Entrance fees
- (b) Interest
- (c) Govt. Aid
- (d) Salary.

Question 8. Receipt and payment account is a summary of-

- (a) Income & Expenditure account
- (b) Profit & Loss A/c
- (c) Cash – book
- (d) None of these.

Question 9. Which of the following is recorded in income & expenditure account –

- (a) Revenue items
- (b) Capital items
- (c) Revenue and capital items
- (d) None of these.

Question 10. The debentures to be redeemed within 12 months from the date of balance sheet is shown under

- (a) Short term borrowings
- (b) Long term borrowings
- (c) Other current liabilities
- (d) Long term liabilities

Very Short-

1. Give any three points of superiority of Accrual Basis of Accounting over Cash Basis of Accounting.
2. Give a transaction that can break the Accounting Equation
3. Provide for all the possible losses but don't anticipate profits.' Identify the Accounting concept referred in this sentence.
4. What is window dressing?
5. How does Cash book serve the dual purpose?
6. What is contra entry?
7. What do you mean by imprest?
8. Is Trial Balance the conclusive evidence of accuracy of accounting records?
9. What option is available to the accountant if Trial Balance doesn't match, and Final Accounts are to be prepared?

10. What is the nature of Suspense Account?

Short Questions-

1. Why do we need adjustments in financial statements?
2. What are outstanding expenses?
3. Pass the following journal entries.
 - a. Closing stock
 - b. Outstanding expenses
4. What do you mean by accrued income?
5. Give details of few items which need adjustments.

Long Questions-

1. Explain the following items with adjustments entry:
 - a. Closing Stock
 - b. Outstanding expenses
 - c. Income earned but not received
 - d. Income received in advance
 - e. Depreciation
 - f. Manager's commission

Adjustment Entry Treatment in

2. From the following balances prepare a Profit and loss account.

Debit Balance	Amount	Credit balance	Amount
Purchase	2,584	Sales	65,000
Wages	2,354	Rent	70,000
Fuel and power	21,488		
Opening stock	24,200		
	12,412		
Salaries	4,124		
General expenses	12,900		
Insurance			

3. From the following balances, prepare the Profit and loss account and balance sheet.

Debit Balance	Amount	Credit Balance	Amount
Purchase	90,000	Sales	165,000
Wages	7,880	Closing stock	70,000
Opening stock	21,600	Office expenses	1,247
Salaries	12,412	Sundry debtors	14,500
Postage	6,354	Sundry creditors	21,020
Printing and stationery	12,900	Cash at Bank	13,487
Bills receivables	5,640		

4. Define following terms with adjustment entries:

Answer key

MCQ Answers-

1. Answer: (a) Current year
2. Answer: (b) Asset side
3. Answer: (b) Loss
4. Answer: (a) Bad debt
5. Answer: (a) Social service
6. Answer: (c) Professional
7. Answer: (d) Salary.
8. Answer: (c) Cash – book
9. Answer: (a) Revenue items
10. Answer: (c) other current liabilities

Very Short Answers-

1. Accrual basis of accounting considers all transactions cash transactions as well as credit transactions whereas in case of cash basis of accounting only cash transactions are considered.
2. No transaction can break the accounting equation.
3. Prudence concept or conservatism concept.
4. Manipulation of accounting records to show a different picture is called window dressing.
5. All the transactions relating to cash and Bank are recorded in cash book in chronological order, so it becomes a journal. All the transactions relating to cash and Bank can be checked at a single place with its balance, so it becomes ledger also.
6. Contra entry is the entry recorded on both sides of cash book one in cash column the other in Bank column.

7. Imprest is the monthly advance given to the petty cashier for petty expense.
8. No, Trial Balance is not conclusive evidence of accuracy of accounting records. There can still be some errors left after matching of the Trial Balance.
9. The difference in trial balance can be put to suspense account.
10. The nature of suspense account is not fixed as it is an artificial and Temporary account.

Short Answers-

1. Adjusting entries are used to bring accounts into compliance with the accrual principle. Some revenue and costs may not have been recorded or updated at the end of the accounting period, necessitating the adjustment of account balances.

Some revenue, cost, asset, and liability accounts may not represent their real values as presented in the financial statements if correcting entries are not created. As a result, altering entries is required.

2. Outstanding expenses are those that have not been paid at the conclusion of the fiscal year. They're essentially in relation to income earned during the current financial year. This expenditure becomes due to the firm when the benefit has been received but the associated payment has not been made at the same time.

3. a. Closing stock

Particular	Amount	Amount
Closing stock A/c Dr. To Trading A/c	-	-

b. Outstanding expenses

Particular	Amount	Amount
Expenses A/c (Required) Dr. To Outstanding expenses A/c	-	-

4. Money that has been earned but not yet received is referred to as accrued income. By definition, mutual funds or other pooled assets that accrue revenue over time but only payout to owners once a year are accumulating income.

Earned income is divided into two categories:

- (1) items of income earned during the year, and
- (2) items of However, it is not received at the end of the accounting year.
the same year's end.

5. The following are the things in the books of accounts that need to be adjusted:

- Defaulted debts

- Depreciation is the second type of depreciation.
- Earnings that have been accumulated
- Capital interest
- Earnings of the manager
- Closing the stock market

Long Answers-

1. Answer:

Adjustment	Adjustment Entry	Treatment in the balance sheet
Closing stock	Closing stock A/c Dr. To trading A/c	Shown on the asset side
Outstanding expenses	Expenses A/c Dr. To outstanding A/c Expenses	Shown on the liabilities side
Income earned but not received	Accrued Income A/c Dr. To Income A/c	Shown on the asset side
Income received in advance	Income A/c Dr. To Income received in Advance A/c	Shown on the liabilities side
Depreciation	Depreciation A/c Dr. To Assets A/c	Deduction from the value of assets
Managers commission	Manager commission A/c To o/s commission A/c	Shown on the liabilities side

2. Answer:

Expenses/ losses	Amount	Profit/gain	Amount
Opening stock	24,200	Sales	a
Purchase	2,584	Gross profit b/d	
Wages	2,354	Rent	
Fuel and power	21,488		
Gross profit c/d	65,000		
Salaries	12,412		
General expenses	4,124		
Insurance	12,900		
Net profit	54,938		
	84,374		

3. Answer:

Trading Profit and loss A/c

Expenses/profit	Amount	Profit /gain	Amount
Opening stock	21,600	Sales	165,000
Purchase	90,000	Closing stock	70,000
Wages	7,880	Gross profit b/d	2,35,000
Gross profit c/d	1,15,520		1,15,520
Salaries	2,35,000		
Office expenses	12,412		
Postage	1,247		
Printing and stationery	6,354		
Net profit	12,900		
	82,607		
	1,15,520		1,15,520

Balance sheet as of March 31

liabilities	Amount	Asset	Amount
Sundry creditors	21,020	Cash at bank	13,487
Add: Net profit	82,607	Bills receivables	5,640
		Sundry debtors	14,500
		Closing stock	70,000
	1,03,627		1,03,627

4. Answer:

A. Provisions for bad and doubtful debts.

Provision for bad and doubtful debts occurs when there is a possible reason for debtors who are doubtful that they will not pay the debts on time.

Particular	Amount
Profit and loss A/c Dr	-
To provision for doubtful debts A/c	-

B. Depreciation:

Depreciation means the value of an asset is declined due to its usage in the passage of time or wear and tear. It is usually treated as business expenses and is debited in profit and loss account.

Particular	Amount
Depreciation A/c Dr.	-
To Concerned Asset A/c	-

C. Accrued income: The items of income that are earned during the accounting year but actually it is not received at the end of the same year.

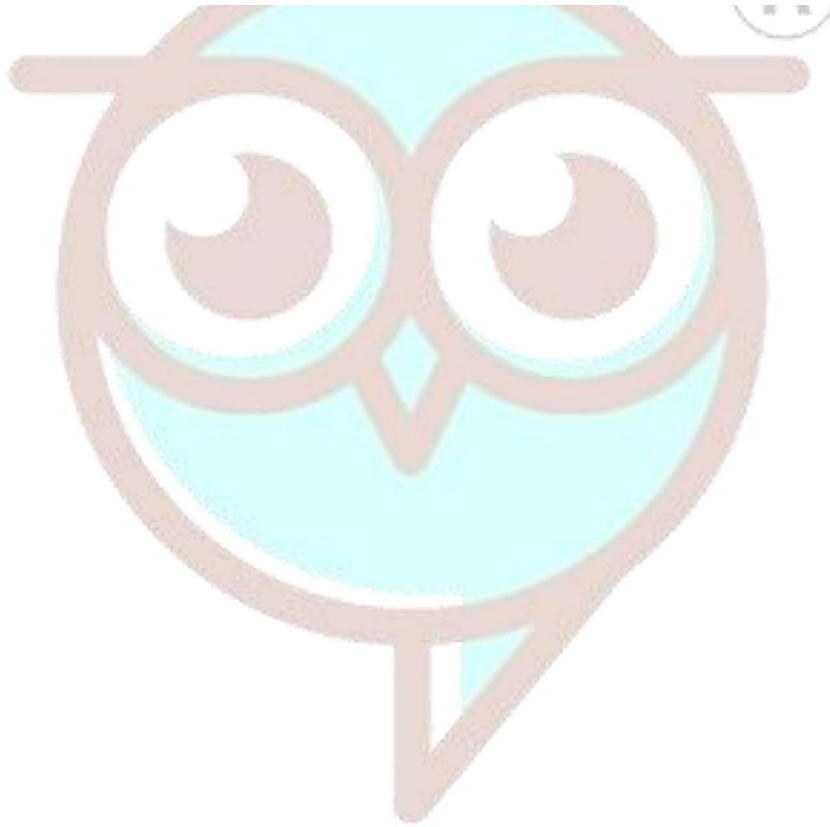
Particular	Amount
Accrued income A/c Dr.	-
To Concerned Income A/c	-

D. Prepaid expenses: Prepaid expenses are the expense need to be paid in future, but they are paid in advance.

Particular	Amount
Prepaid expenses A/c Dr.	-
To Concerned Expenses A/c	-

E. Outstanding expenses: Prepaid expenses are the expense need to be paid in future, but they are paid in advance.

Particular	Amount
Expenses A/c (Required)	-
Dr.	-
To Outstanding expenses A/c	



Swotters