Financial Statements – II

Standard difficulty · 20 questions · 40 marks · Time: 44 minutes

Name: _____ Date: _____ Score: ____ / 40

Show your working for Sections B and C. Answers are on the last page — try every question first!

Section A — Choose the correct answer — 8 × 1 = 8 marks

1. Outstanding expenses are shown in the balance sheet as a:
   (a) fixed asset **(b)** part of capital
   (c) current asset **(d)** current liability

2. How is “income received in advance” treated in the final accounts?
   (a) deducted from the income in profit and loss; shown as a current liability
   (b) credited to profit and loss; deducted from capital
   (c) debited to profit and loss; deducted from debtors
   (d) debited to profit and loss; deducted from furniture

3. Salaries paid during the year were ₹60,500; salary for 1 month at ₹5,500 a month is outstanding. What salary is debited to the profit and loss account?
   (a) ₹55,000 **(b)** ₹60,500 **(c)** ₹5,500 **(d)** ₹66,000

4. Insurance of ₹7,200 for one year was paid on 1 October. The year ends on 31 March. What amount is prepaid?
   (a) ₹4,100 **(b)** ₹7,200 **(c)** ₹4,200 **(d)** ₹3,600

5. Investments of ₹1,20,000 earn 8% interest a year. Interest received during the year is ₹4,800. What is the accrued interest?
   (a) ₹4,800 **(b)** ₹5,300 **(c)** ₹9,600 **(d)** ₹14,400

6. Debtors are ₹1,64,500. Further bad debts are ₹4,500, and a provision for doubtful debts of 5% is to be made. What is the provision?
   (a) ₹8,000 **(b)** ₹16,000 **(c)** ₹8,225 **(d)** ₹12,500

7. Net profit before charging the manager’s commission is ₹5,39,000. The manager gets 10% of the net profit after charging such commission. What is the commission?
   (a) ₹98,000 **(b)** ₹53,900 **(c)** ₹49,000 **(d)** ₹4,900

8. Capital on 1 April is ₹2,80,000; interest on capital is allowed at 10% a year. What is the interest for the year ending 31 March?
   (a) ₹14,000 **(b)** ₹56,000 **(c)** ₹28,000 **(d)** ₹29,000

Section B — Short answer — 8 × 2 = 16 marks

9. Why are adjustments needed in preparing financial statements?

10. Give the two effects of each adjustment: (a) further bad debts (b) interest on drawings

11. Rent paid during the year: ₹72,000. Rent for 3 months is outstanding at ₹8,000 a month. Find (a) the rent in the profit and loss account (b) the liability in the balance sheet.

12. An annual insurance premium of ₹13,200 was paid on 1 October; the year ends on 31 March. Find (a) the insurance expense for the year (b) the prepaid insurance.

13. Rent received during the year was ₹48,000, of which ₹4,000 is for the next year. Find (a) the rent shown as income (b) the liability shown in the balance sheet.

14. Debtors ₹2,04,500; bad debts (in the trial balance) ₹500; old provision for doubtful debts ₹2,500. Write off further bad debts of ₹4,500 and make a provision of 5%. Find (a) the new provision (b) the debtors shown in the balance sheet.

15. Net profit before the manager's commission is ₹5,56,500; the commission is 5%. Find the commission when it is calculated (a) on the profit before charging it (b) on the profit after charging it.

16. Capital on 1 April was ₹4,40,000, and additional capital of ₹40,000 was brought in on 1 October. Interest on capital is 10% a year; the year ends on 31 March. Find the interest on capital.

Section C — Word problems — 4 × 4 = 16 marks

17. Explain the treatment of outstanding and prepaid expenses in the final accounts.

18. Gross profit is ₹2,97,000. The trial balance shows: salaries ₹31,500, insurance ₹30,000, interest received ₹12,750, furniture ₹80,000, debtors ₹2,04,500, bad debts ₹6,000, provision for doubtful debts ₹13,000. Adjustments: (1) salary of 3 months at ₹3,500 is outstanding; (2) the insurance was paid on 1 October for one year; (3) interest on investments of ₹1,70,000 at 10% is due for the full year; (4) depreciate furniture at 10%; (5) write off further bad debts of ₹4,500 and keep a provision of 10% and a provision for discount on debtors of 2%. Find each figure in the profit and loss account and the net profit.

19. The trial balance shows debtors ₹1,02,500, bad debts ₹2,500 and a provision for doubtful debts of ₹500. Adjustments: further bad debts ₹2,500; provision for doubtful debts at 5%; provision for discount on debtors at 2%. Find (a) the new provision for doubtful debts (b) the provision for discount (c) the net charge to the profit and loss account (d) the debtors shown in the balance sheet.

20. A trader’s net profit before the manager’s commission and interest on capital is ₹7,37,500. The manager gets 25% commission on the net profit after charging the commission. Capital on 1 April was ₹3,80,000; interest on capital is 10% a year. Find (a) the commission (b) the interest on capital (c) the net profit after both, and (d) say where each is shown in the balance sheet.

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Answer key

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Q	Answer	Working
1	**(d) current liability**	—
2	**(a) deducted from the income in profit and loss; shown as a current liability**	—
3	**(d) ₹66,000**	₹60,500 + ₹5,500
4	**(d) ₹3,600**	6 of 12 months fall in the next year: ₹7,200 × 6/12
5	**(a) ₹4,800**	8% of ₹1,20,000 = ₹9,600; − ₹4,800
6	**(a) ₹8,000**	5% of (₹1,64,500 − ₹4,500)
7	**(c) ₹49,000**	₹5,39,000 × 10/110
8	**(c) ₹28,000**	10% of ₹2,80,000
9	**To include incomes and expenses of the year not yet recorded, so true profit and a true financial position are shown (accrual and matching).**	—
10	**(a) debited to profit and loss; deducted from debtors (b) credited to profit and loss; deducted from capital**	—
11	**(a) ₹96,000; (b) ₹24,000**	₹72,000 + ₹24,000
12	**(a) ₹6,600; (b) ₹6,600**	6 months this year, 6 next year
13	**(a) ₹44,000; (b) ₹4,000**	₹48,000 − ₹4,000
14	**(a) ₹10,000; (b) ₹1,90,000**	5% of ₹2,00,000; ₹2,04,500 − ₹4,500 − ₹10,000
15	**(a) ₹27,825; (b) ₹26,500**	(a) ₹5,56,500 × 5/100 (b) ₹5,56,500 × 5/105
16	**₹46,000**	10% of ₹4,40,000 + 10% of ₹40,000 × 6/12
17	**Outstanding expenses are added to the expense in the profit and loss account and shown as a current liability; prepaid expenses are subtracted from the expense and shown as a current asset.**	—
18	**Salaries ₹42,000; insurance ₹15,000; depreciation ₹8,000; bad debts and provision ₹21,100; interest received ₹17,000** **Net profit = ₹2,97,000 + ₹17,000 − ₹42,000 − ₹15,000 − ₹8,000 − ₹21,100 = ₹2,27,900**	Bad debts and provision = ₹6,000 + ₹4,500 + new ₹20,000 − old ₹13,000 + discount ₹3,600
19	**(a) ₹5,000; (b) ₹1,900; (c) ₹11,400; (d) ₹93,100**	(a) 5% of ₹1,00,000 (b) 2% of ₹95,000 (c) ₹2,500 + ₹2,500 + ₹5,000 − ₹500 + ₹1,900

Q	Answer	Working
20	**(a) ₹1,47,500; (b) ₹38,000; (c) ₹5,52,000; (d) outstanding commission is a current liability; interest on capital is added to capital.**	(a) ₹7,37,500 × 25/125

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