Problem 1

<u>Why must businesses</u> make adjustments in the yearly accounts? Write briefly but sensibly. Following Trial Balance is of PbT & Co. as on 31-03-2005:

	Dr Balances	Cr Balances
Plant & Machines	90.000	
A/Receivables	30.000	
Salary Expense	10.700	
Purchases of Merchandise	83.000	
Investment	20.000	
Rent Expense	12.900	
Prepaid Insurance	18.000	
10% Deposit with Bank (1-07-04)	15.000	
Cash in hand	4.400	
A/Payables		23.000
PbT's capital		80.000
Interest revenue on Bank Deposit		600
Sales Revenue		180.000
Dividends Revenue Received	<u></u>	<u>400</u>
Total →	284.000	$284.\overline{000}$

It was reported that following have not been considered:

- Ending merchandise inventory as on 31-03-2005 was €8.000.
- Insurance expense for this year was € 16.000, hence the excess was for next year.
- Plant & Machines have <u>not</u> been depreciated for the current year. The relevant depreciation rate was 8 % per year.
- Rent of € 700 was not for this year.
- There is some interest revenue on Bank deposit that has been <u>earned but not</u> received. Please calculate the amount and then do the solution.

You are requested to incorporate the above additional information before finalising the Income Statement for the year ending 31 st December, 2004 and the Balance Sheet for the PbT & Co. as on 31 st December, 2004.			
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