Problem 1 – Solution

***Adju**stments are made to give effect to the management policies in the annual accounts, eg. Depreciation and allowances for bad and doubtful debts. Also, to reflect correctly and fairly the amount of expenses and revenues by including unpaid expenses and earned but un-received revenues and segregating prepaid expenses and pre-received revenues in the income statement and appropriately showing the same in the balance sheet. These also help in clearly ascertaining the amount of cost of goods sold (COGS) so that the correct amount of profit (or loss) may be arrived at.*

End Inventory A/c	*Dr*	*8.000*	
Cost f Goods Sold A/c	*Dr*	*75.000*	
Purchase of Merchandise			*83.000*
Insurance Expenses A/c	*Dr*	*16.000*	
Prepaid Insurance A/c			*16.000*
Depreciation (Plant & Mach) Exp A/c	*Dr*	*7.200*	
Accumu. Deprec (P & M)			*7.200*
Prepaid Rent A/c	*Dr*	*700*	
Rent Exp. A/c			*700*
Int. Reve Rece. A/c	*Dr*	*525*	
Interest Revenue A/c			*525*

15.000 x 9/12 x 10% = 1.125 – 600=525

<u>Income Statement</u> of PbT & Co.

Sales Reve		*180.000*
Less COGS		*- <u>75.000</u>*
Hence Gr. Profit		*105.000*
Less:		
Salary	*10.700*	
Rent (12.900-700)	*12.200*	
Insurance Exp. (18-2)	*16.000*	
Depre. Exp	*7.200*	*<u>46.100</u>*
Operating Profit		*58.900*
Dividend Reve		*400*
Add Interest Reve,		*1.<u>125</u>*
Net Profit		*6<u>0.425</u>*

<u>B/Sheet of Pbt & Co. as on 31/3/05.</u>

Cash	*4.400*	*A/Payable*		*23.000*
Deposit with Bank	*15.000*	*Accumu Depre.*		*7.200*
A/Rece.	*30.000*	*O/equity Balance*	*80.000*	
Prepaid Rent	*700*	*+ Net Income*	*<u>60.425</u>*	*<u>140.425</u>*
Prepaid Insurance	*2.000*	*<u>Total</u>*		***<u>170.625</u>***
Int Reve on Bk deposit Rece.	*525*			
End. Inventory	*8.000*			
Investment	*20.000*			
Plant & Machine	*<u>90.000</u>*			
<u>Total</u>	***<u>170.625</u>***			