

# Chapter 14- Adjustments in Preparation of Financial Statements

**Q.1 State whether the following expenses are capital or revenue in nature:**

- (i) Expenses on whitewashing and painting of a building purchased to make it ready for use.
- (ii) ₹ 10,000 spent on constructing platform for a new machine.
- (iii) Repair expenses of ₹ 25,000 incurred for whitewashing of factory building.
- (iv) Insurance premium paid as renewal premium.
- (v) Purchased a new car.

The solution can be presented as follows

- i Capital expenditure
- ii Capital expenditure
- iii Revenue expenditure
- iv Revenue expenditure
- v Capital expenditure

**Q.2 State with reasons whether the following are Capital or Revenue Expenses:**

- (i) Excise duty paid on purchase of new machine.
- (ii) Wages paid to install a machine.
- (iii) Repairs carried out on existing car.
- (iv) Office block of building repainted for ₹ 50,000.
- (v) Paid telephone bill ₹ 2,500.

The solution can be presented as follows

Expenditure	Reason
i Capital expenditure	Paid for the acquisition of new asset
ii Capital expenditure	Paid to make the asset ready to use
iii Revenue expenditure	Paid for the running and maintenance of car
iv Revenue expenditure	Paid for the maintenance of building
v Revenue expenditure	Part of normal operating cost

**Q.3 From the following information, determine Gross Profit for the year ended 31st March, 2019:**

	₹		₹
Opening Stock (1st April, 2018)	25,000	Goods purchased during the year	1,40,000
Freight and Packing	10,000	Closing Stock (31st March, 2019)	30,000
Sales	1,90,000	Packing Expenses on Sales	6,000

The solution can be presented as follows

Gross Profit = Sales - Closing Stock - Opening Stock - Goods Purchased - Freight and Packing

$$= 1,90,000 - 30,000 - 25,000 - 1,40,000 - 10,000$$

$$= 1,90,000 - 1,75,000$$

$$= 15,000$$

**N.B:** The entrance packing expense on sales is an indirect expense and therefore is not considered to be a part of the Gross Profit

**Q.4 Calculate Closing Stock from the following details:**

	₹		₹
Opening Stock	20,000	Purchases	70,000
Cash Sales	60,000	Credit Sales	40,000
		Rate of Gross Profit on Cost 33 1/3%	

The solution can be presented as follows

Gross Profit on cost = 100%

Cost = 100%

Gross Profit on sales = 33 1/3%

Also

Sales = Cash Sales + Credit Sales = 60,000 + 40,000

$$= 1,00,000$$

So Gross Profit = 1,00,000 × 33 1/3%

$$= 33,333$$

Cost of Goods Sold = Sales - Gross Profit  
 = 1,00,000 - 70,000  
 = 30,000

Cost of Goods Sold = Opening Stock + Purchases - Closing Stock

So putting the values in this formula we get

30,000 = 23,000 + Purchases - 2,400

Closing Stock = 2,400 - 1,000  
 = 1,400

**Q.5 Prepare Trading Account from the transactions given below:**

	₹		₹
Opening Stock	23,000	Purchases Return	2,400
Purchases	29,000	Closing Stock	47,700
Sales Return	500	Carriage Inwards	100
Sales	25,400	Depreciation	2,000

Also pass the Journal entries.

The solution can be presented as follows

**Trading Account**

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Opening Stock	23,000	Sales	25,400
Purchases	29,000	Less: Sales Return	(500)
Less: Purchases Return	(2,400)	Closing Stock	47,700
Carriage Inwards	100		
Gross Profit (Balancing Figure)	22,900		
	72,600		72,600

**N.B:** As Depreciation is regarded an Indirect expense it is not shown in trading account

**Journal**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Trading A/c <span style="float: right;">Dr.</span> To Opening Stock A/c To Purchases A/c To Carriage Inwards A/c To Sales Return A/c (Transfer of balances to the debit side of Trading A/c)		52,600	23,000 29,000 100 500
	Sales A/c <span style="float: right;">Dr.</span> Purchase Return A/c <span style="float: right;">Dr.</span> To Trading A/c (Transfer of balances to the credit side of Trading A/c)		25,400 2,400	27,800
	Closing Stock A/c <span style="float: right;">Dr.</span> To Trading A/c (Recording of Closing Stock)		47,700	47,700
	Trading A/c <span style="float: right;">Dr.</span> To Profit & Loss A/c (Transfer of gross profit to the Profit & Loss A/c)		22,900	22,900

**Q.6 Ascertain Gross Profit from the following:**

	₹		₹
Opening Stock	2,00,000	Carriage on Sales	30,000
Closing Stock	1,80,000	Office Rent	58,000
Purchases	8,50,000	Sales	14,07,000
Carriage on Purchases	23,000		

The solution can be presented as follows

**Trading Account**

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Opening Stock	2,00,000	Sales	14,07,000
Purchases	8,50,000	Closing Stock	1,80,000
Carriage on Purchases	23,000		
Gross Profit ( <i>Balancing Figure</i> )	5,14,000		
	15,87,000		15,87,000

Here Gross profit is calculated to be ₹14,07,000

**N.B:** The entries such as the Carriage on sales and Office Rent are the Indirect expenses therefore these entries are not considered for calculating Gross profit

**Q.7 From the following information, prepare Trading Account for the year ended 31st March, 2019:**

	₹		₹
Stock on 1st April, 2018	40,000	Returns Outward	80,000
Purchases	4,00,000	Wages and Salaries	50,000
Sales	3,80,000	Returns Inward	20,000
Carriage Inwards	20,000	Stock on 31st March, 2019	1,30,000

**Net Realisable Value (Market Value) of stock as on 31st March, 2019 was ₹ 1,20,000.**

The solution can be presented as follows

**Trading Account**  
for the year ended March 31, 2019

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Opening Stock	40,000	Sales	3,80,000
Purchases	4,00,000	Less: Return Inwards	(20,000)
Less: Return Outwards	(80,000)	Closing Stock	1,20,000
Carriage Inwards	20,000		
Wages and Salaries	50,000		
Gross Profit ( <i>Balancing Figure</i> )	50,000		
	<u>4,80,000</u>		<u>4,80,000</u>

**Note:** According to Principle of Conservatism closing stock is taken at Cost or Market Price whichever is less. Therefore, Closing Stock is taken at its Market Price (i.e. ₹ 1,20,000) instead of its Cost (i.e. ₹ 1,30,000).

**Q.8 From the following information, prepare Trading Account for the year ended 31st March, 2019:**  
**Adjusted Purchases ₹ 6,60,000; Sales ₹ 7,44,000; Closing Stock ₹ 50,400; Freight and Carriage Inwards ₹ 3,600; Wages ₹ 6,000; Freight and Cartage Outwards ₹ 2,000.**

The solution can be presented as follows

**Trading Account**  
for the year ended March 31, 2019

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Purchase ( <i>Adjusted</i> )	6,60,000	Sales	7,44,000
Freight and Carriage Inwards	3,600		
Wages	6,000		
Gross Profit ( <i>Balancing Figure</i> )	74,400		
	7,44,000		7,44,000

**Notes:**

1. Freight and Carriage Outwards being indirect expenses are not recorded in the Trading Account.  
2. Closing Stock amounting to ₹ 50,400 is not recorded in the Trading Account as it has been adjusted with the Adjusted purchases.

**Q.9 Following balances appear in the Trial Balance of a firm as on 31st March, 2019:**

		₹
<b>Opening Stock:</b>	Raw Material	80,000
	Finished Goods	1,40,000
<b>Purchases</b>		3,60,000
<b>Sales</b>		7,00,000
<b>Returns:</b>	Purchases	10,000
	Sales	6,000
<b>Wages</b>		1,30,000
<b>Factory Expenses</b>		90,000
<b>Freight:</b>	Inwards	20,000
	Outwards	30,000
<b>At the end of the accounting period, stock was:</b>		
	Raw Materials	70,000
	Work-in-Process	20,000
	Finished Goods	1,10,000

Prepare Trading Account of the firm.

The solution can be presented as follows

**Financial Statement of....  
Trading Account**  
for the year ended March 31,2019

Dr.			Cr.	
Particulars	Amount (₹)		Particulars	Amount (₹)
<b>Opening Stock</b>			Sales	7,00,000
Raw Materials	80,000		Less: Return Inwards	6,000
Finished Goods	1,40,000	2,20,000	<b>Closing Stock</b>	6,94,000
Purchases	3,60,000		Raw Materials	70,000
Less: Return Outwards	10,000	3,50,000	Work-in-Progress	20,000
Freight Inwards	20,000		Finished Goods	1,10,000
Wages	1,30,000			2,00,000
Factory Expenses	90,000			
Gross Profit ( <i>Balancing Figure</i> )	84,000			
	8,94,000			8,94,000

**Note** Freight outwards is an indirect expense will be recorded in Profit & Loss A/c

**Q.10** From the following information, prepare Trading account for the year ended 31st March, 2019:  
Adjusted Purchases ₹ 5,50,000; Sales ₹ 6,25,000; Freight and Carriage Inwards ₹ 3,000; Wages ₹ 7,000;  
Freight and Cartage Outwards ₹ 2,500; Closing Stock ₹ 50,000.

The solution can be presented as follows

**Trading Account**  
for the year ended March 31, 2019

Dr.			Cr.	
Particulars	Amount (₹)		Particulars	Amount (₹)
Purchase ( <i>Adjusted</i> )	5,50,000		Sales	6,25,000
Freight and Carriage Inwards	3,000			
Wages	7,000			
Gross Profit ( <i>Balancing Figure</i> )	65,000			
	6,25,000			6,25,000



**Notes**

1. Freight and Carriage Outwards are indirect expenses therefore it is not recorded in the Trading Account.  
 2. Closing Stock is not recorded in the Trading Account as it is already adjusted in the amount of Adjusted Purchases.

**Q.11 From the following figures, calculate Operating Profit:**

	₹		₹
Net Profit	1,00,000	Rent Received	10,000
Gain on Sale of Machine	15,000	Interest on Loans	20,000
Donation	2,000		

The solution can be presented as follows

**Calculating Operating Profit**

Operating Profit = Net Profit - Rent Received - Gain of sales of Machine - Interest on Loan - Donation  
 = 1,00,000 - 10,000 - 15,000 - 20,000 - 2,000  
 = Rs 53,000

**Q.12 From the following, prepare Profit and Loss Account of Sohan Lal as it would appear in the 1st year that ended 31st March, 2019:**

	₹		₹
Salaries and Wages	30,000	Advertising	10,000
Commission Paid	2,000	Discount Allowed	18,000
Postage and Courier	1,500	Rent Received	17,000
Insurance	3,000	Interest on Investment	15,000
Interest Paid	4,000	Bad Debts	9,000
Carriage Outwards	5,000	Brokerage Paid	950

The Gross Profit was 45% of sales, which amounted to ₹ 6,50,000.  
 Also, pass the Journal entries.

The solution can be presented as follows

**Profit and Loss Account**  
for the year ended March 31, 2019

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Salaries and Wages	30,000	Gross Profit (6,50,000 × 45%)	2,92,500
Commission Paid	2,000	Rent Received	17,000
Postage and Telegram	1,500	Interest on Investments	15,000
Insurance	3,000		
Interest Paid	4,000		
Carriage Outwards	5,000		
Advertising	10,000		
Discount Allowed	18,000		
Bad Debts	9,000		
Brokerage Paid	950		
Net Profit ( <i>Balancing Figure</i> )	2,41,050		
	<b>3,24,500</b>		<b>3,24,500</b>

**Q.13 From the following information, prepare Profit and Loss Account for the year ended 31st March, 2019:**

	₹		₹
Gross Profit	1,20,000	Discount Received	6,000
Rent	5,000	Printing and Stationery	4,000
Salary	35,000	Legal Charges	10,000
Commission Paid	19,000	Bad Debts	2,000
Interest on Loan	5,000	Loss by Fire	6,000
Advertisement	8,000	Depreciation	4,000
Interest Received	8,000	Input IGST A/c	2,000
Output IGST A/c	1,000		

The solution can be presented as follows

**Profit and Loss Account**  
for the year ended March 31, 2019

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Rent	5,000	Gross Profit	1,20,000
Salary	35,000	Interest Received	8,000
Commission Paid	19,000	Discount Received	6,000
Interest on Loan	5,000		
Advertisement	8,000		
Printing and Stationery	4,000		
Legal Charges	10,000		
Bad Debts	2,000		
Loss by Fire	6,000		
Depreciation	4,000		
Net Profit ( <i>Balancing Figure</i> )	36,000		
	<b>1,34,000</b>		<b>1,34,000</b>

**Q.14 From the following particulars, prepare Balance Sheet as at 31st March, 2019:**

	Dr. (₹)	Cr. (₹)
Capital	...	4,00,000
Drawings	44,000	...
Debtors and Creditors	64,000	42,000
Cash in Hand	3,600	...
Cash at Bank	72,000	...
Plant	1,00,000	...
Furniture	37,000	...
Net Profit	...	16,600
General Reserve	...	10,000
Closing Stock	1,48,000	...
<b>Total</b>	<b>4,68,600</b>	<b>4,68,600</b>

The solution can be presented as follows

**Balance Sheet**  
as on March 31, 2019

Liabilities		Rs.	Assets		Rs.
Capital	4,00,000		Plant	1,00,000	
Less: Drawings	(44,000)		Furniture	37,000	
Add: Net Profit	16,600	3,72,600	Closing Stock	1,48,000	
General Reserve		10,000	Debtors	64,000	
Creditors		42,000	Cash at Bank	72,000	
			Cash in Hand	3,600	
		<b>4,24,600</b>			<b>4,24,600</b>

**Q.15 From the following information, prepare Balance Sheet of a trader as at 31st March, 2019 arranging the assets and liabilities—(i) in order of permanence and (ii) in order of liquidity:**

	₹		₹
<b>Goodwill</b>	<b>20,000</b>	<b>Bank</b>	<b>20,000</b>
<b>Capital</b>	<b>1,80,000</b>	<b>Sundry Creditors</b>	<b>63,000</b>
<b>Liabilities for Expenses</b>	<b>1,200</b>	<b>Bills Receivable</b>	<b>13,000</b>
<b>Cash in Hand</b>	<b>1,000</b>	<b>Plant and Machinery</b>	<b>40,000</b>
<b>Investment</b>	<b>20,000</b>	<b>Provision for Doubtful Debts</b>	<b>2,500</b>
<b>Bills Payable</b>	<b>10,700</b>	<b>Closing Stock</b>	<b>80,000</b>
<b>Net Profit</b>	<b>92,600</b>	<b>Furniture</b>	<b>16,000</b>
<b>Sundry Debtors</b>	<b>50,000</b>	<b>Drawing</b>	<b>30,000</b>
<b>Land and Building</b>	<b>60,000</b>		

The solution can be presented as follows

**Balance Sheet in Order of Permanence**

**Balance Sheet**  
as on March 31, 2019

<b>Liabilities</b>	<b>Amount (₹)</b>	<b>Assets</b>	<b>Amount (₹)</b>
Capital	1,80,000	Goodwill	20,000
Less: Drawings	(30,000)	Land and Building	60,000
Add: Net Profit	92,600	Plant and Machinery	40,000
Sundry Creditors	63,000	Furniture	16,000
Bills Payable	10,700	Investment	20,000
Liabilities for Expenses	1,200	Closing Stock	80,000
		Sundry Debtors	50,000
		Less: Provision for Doubtful Debts	(2,500)
		Bill Receivable	13,000
		Bank	20,000
		Cash in Hand	1,000
	<b>3,17,500</b>		<b>3,17,500</b>

**(II) Balance Sheet in Order of Liquidity**

**Balance Sheet**  
as on March 31, 2019

<b>Liabilities</b>	<b>Amount (₹)</b>	<b>Assets</b>	<b>Amount (₹)</b>
Capital	1,80,000	Goodwill	20,000
Less: Drawings	(30,000)	Land and Building	60,000
Add: Net Profit	92,600	Plant and Machinery	40,000
Sundry Creditors	63,000	Furniture	16,000
Bills Payable	10,700	Investment	20,000
Liabilities for Expenses	1,200	Closing Stock	80,000
		Sundry Debtors	50,000
		Less: Provision for Doubtful Debts	(2,500)
		Bill Receivable	13,000
		Bank	20,000
		Cash in Hand	1,000
	<b>3,17,500</b>		<b>3,17,500</b>

**Q.16 From the Balance Sheet given below, calculate:**

**(i) Fixed Assets (ii) Current Assets**

**(iii) Current Liabilities (iv) Working Capital**

**BALANCE SHEET as at 31<sup>st</sup> March, 2019**

Liabilities	₹	Assets	₹
Trade Creditors	42,000	Stock in Hand	48,000
Expenses Accrued	3,200	Debtors	36,000
Bank Overdraft	4,800	Prepaid Expenses	400
Long-Term Loan	20,000	Goodwill	20,000
Interest on Loan	1,000	Land	20,000
Capital	93,400	Plant	32,000
		Furniture	8,000
	<b>1,64,400</b>		<b>1,64,400</b>

The solution can be presented as follows

**i. Calculation of Fixed Asset**

$$\begin{aligned} \text{Fixed Assets} &= \text{Land} + \text{Plant} + \text{Furniture} + \text{Goodwill} \\ &= 20,000 + 32,000 + 8,000 + 20,000 \\ &= \text{Rs. } 80,000 \end{aligned}$$

**ii. Calculation of Current Assets**

$$\begin{aligned} \text{Current Assets} &= \text{Stock} + \text{Debtors} + \text{Prepaid Expenses} \\ &= 48,000 + 36,000 + 400 \\ &= \text{Rs. } 84,400 \end{aligned}$$

**iii. Calculation of Current Liabilities**

$$\begin{aligned} \text{Current Liabilities} &= \text{Creditors} + \text{Expenses Accrued} + \text{Bank Overdraft} + \text{Interest on Loan} \\ &= 42,000 + 3,200 + 4,800 + 1,000 \\ &= \text{Rs. } 51,000 \end{aligned}$$

**iv. Calculation of Working Capital**

$$\begin{aligned} \text{Working Capital} &= \text{Current Assets} - \text{Current Liabilities} \\ &= 84,400 - 51,000 \\ &= \text{Rs. } 33,400 \end{aligned}$$

**Q.17 Prepare Trading and Profit and Loss Account and Balance Sheet of Jagat Shah as at 31st March, 2019 from the following balances:**

	₹		₹
Capital (Cr.)	3,60,000	Salaries	60,000
Machinery	70,000	General Expenses	20,000
Sales	8,20,000	Rent	50,000
Purchases	4,00,000	Purchases Return	5,000
Sales Return	10,000	Debtors	3,00,000
Stock on 1st April, 2018	1,00,000	Cash	40,000
Drawings	40,000	Carriage Outwards	20,000
Wages	1,00,000	Advertising	20,000
Carriage Inwards	5,000	Creditors	50,000

The Closing Stock was valued at ₹ 2,00,000.

The solution can be presented as follows

**Financial Statements of Jagat Shah**

**Trading Account**

for the year ended March 31, 2019

Dr.			Cr.	
Particulars		Amount (₹)	Particulars	Amount (₹)
Opening Stock		1,00,000	Sales	8,20,000
Purchases	4,00,000		Less: Sales Return	(10,000)
Less: Purchases Return	(5,000)	3,95,000	Closing Stock	2,00,000
Wages		1,00,000		
Carriage Inwards		5,000		
Gross Profit ( <i>Balancing Figure</i> )		4,10,000		
		<b>10,10,000</b>		<b>10,10,000</b>

**Profit and Loss Account**

for the year ended March 31, 2019

Dr.			Cr.	
Particulars		Amount (₹)	Particulars	Amount (₹)
Salaries		60,000	Gross Profit	4,10,000
General Expenses		20,000		
Rent		50,000		
Carriage Outwards		20,000		
Advertising		20,000		
Net Profit ( <i>Balancing Figure</i> )		2,40,000		
		<b>4,10,000</b>		<b>4,10,000</b>

**Balance Sheet**

as on March 31, 2019

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital	3,60,000		<b>Fixed Assets</b>		
Less: Drawings	(40,000)		Machinery	70,000	
Add: Net Profit	2,40,000	5,60,000	<b>Current Assets</b>		
<b>Current Liabilities</b>			Closing Stock	2,00,000	
Creditors		50,000	Debtors	3,00,000	
		<b>6,10,000</b>	Cash	40,000	
				<b>6,10,000</b>	



**Q.18 From the following balances, prepare Trading and Profit and Loss Account and Balance Sheet:**

Debit Balances:	₹	Debit Balances (Contd.):	₹
Machinery	3,50,000	Rent	45,000
Debtors	2,70,000	Sundry Expenses	20,000
Drawings	90,000	Carriage	15,000
Purchases	9,50,000	Credit Balances:	
Wages	5,00,000	Capital	10,00,000
Bank	1,50,000	Creditors	1,40,000
Opening Stock	2,00,000	Sales	14,50,000

Closing Stock was valued at ₹ 30,000.

The solution can be presented as follows

**Trading Account**

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Opening Stock	2,00,000	Sales	14,50,000
Purchases	9,50,000	Closing Stock	30,000
Wages	5,00,000	Gross Loss ( <i>Balancing Figure</i> )	1,85,000
Carriage	15,000		
	<b>16,65,000</b>		<b>16,65,000</b>

**Profit and Loss Account**

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Gross Loss	1,85,000	Net Loss ( <i>Balancing Figure</i> )	2,50,000
Rent	45,000		
Sundry Expenses	20,000		
	<b>2,50,000</b>		<b>2,50,000</b>

**Balance Sheet**

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital	10,00,000	6,60,000	<b>Fixed Assets</b>		
Less: Drawings	(90,000)		Machinery		3,50,000
Less: Net Loss	<u>(2,50,000)</u>		<b>Current Assets</b>		
<b>Current Liabilities</b>			Closing Stock		30,000
Creditors		1,40,000	Debtors		2,70,000
		<b>8,00,000</b>	Bank		1,50,000
					<b>8,00,000</b>

**Q.19** The following are the balances as on 31st March, 2019 extracted from the books of Dass:

	₹		₹
Sales	9,20,000	Postage and Courier	6,200
Purchases	6,83,000	Miscellaneous Expenses	9,000
Returns Inward	13,000	Bad Debts	4,000
Returns Outward	22,000	Debtors	2,20,000
Stock on 1st April, 2018	1,76,000	Creditors	1,28,000
Carriage Inwards	24,000	Loan from Sahil	50,000
Rent	22,000	Capital	5,25,000
Discount	37,500	Drawings	19,100
Printing	7,200	Business Premises	3,90,000
Insurance	5,000	Office Furniture	15,000
Travelling Expenses	14,000		

The stock on 31st March, 2019 was valued at ₹ 2,40,000.

You are required to prepare Trading Account, Profit and Loss Account and Balance Sheet as at 31st March, 2019.

The solution can be presented as follows

**Financial Statement of Bhagwan Das**  
**Trading Account**  
for the year ended March 31, 2019

Dr.			Cr.		
Particulars	Amount (₹)	Particulars	Amount (₹)		
Stock	1,76,000	Sales	9,20,000		
Purchases	6,83,000	Less: Return Inwards	(13,000)	9,07,000	
Less: Return Outwards	(22,000)	Closing Stock		2,40,000	
Carriage Inwards	24,000				
Gross Profit ( <i>Balancing Figure</i> )	2,86,000				
	<b>11,47,000</b>			<b>11,47,000</b>	

**Profit and Loss Account**  
for the year ended March 31, 2019

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Rent, Rates and Taxes	22,000	Gross Profit	2,86,000
Discount	37,500		
Printing	7,200		
Insurance	5,000		
Travelling Expenses	14,000		
Postage and Courier	6,200		
Miscellaneous Expenses	9,000		
Bad Debts	4,000		
Net Profit ( <i>Balancing Figure</i> )	1,81,100		
	<b>2,86,000</b>		<b>2,86,000</b>

**Balance Sheet**  
as on March 31, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital	5,25,000	<b>Fixed Assets</b>	
Less: Drawings	(19,100)	Business Premises	3,90,000
Add: Net Profit	1,81,100	Office Furniture	15,000
Loan from Sahil	50,000	<b>Current Assets</b>	
<b>Current Liabilities</b>		Closing Stock	2,40,000
Creditors	1,28,000	Debtors	2,20,000
	<b>8,65,000</b>		<b>8,65,000</b>

**Q.20 From the following balances of Anand, prepare Trading Account, Profit and Loss Account, and Balance Sheet as at 31st March, 2019:**

<b>Credit Balances:</b>	<b>₹</b>	<b>Debit Balances (Contd.):</b>	<b>₹</b>
Capital	3,60,000	Postage	2,730
Creditors	87,200	Bad Debts	2,870
Bills Payable	25,270	Interest	12,950
Sales	7,81,820	Insurance	4,170
Bad Debts Recovered	1,750	Machinery	1,00,000
Loan	1,20,000	Stock (Opening)	99,450
<b>Debit Balances:</b>		Purchases	6,20,920
Debtors	38,850	Wages	43,000
Salaries	40,000	Building	2,37,800
Discount	10,000	Selling Expenses	1,750
		Fixtures and Fittings	1,61,550

Value of goods on hand (31st March, 2019) was ₹ 1,43,000.

The solution can be presented as follows

**Financial Statement of Anand  
Trading Account  
for the year ended March 31, 2019**

<b>Dr.</b>		<b>Cr.</b>	
<b>Particulars</b>	<b>Amount (₹)</b>	<b>Particulars</b>	<b>Amount (₹)</b>
Opening Stock	99,450	Sales	7,81,820
Purchases	6,20,920	Closing Stock	1,43,000
Wages	43,000		
Gross Profit ( <i>Balancing Figure</i> )	1,61,450		
	<b>9,24,820</b>		<b>9,24,820</b>

**Profit and Loss Account**  
for the year ended March 31, 2019

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Salaries	40,000	Gross Profit	1,61,450
Discount	10,000	Bad debts Recovered	1,750
Selling Expense	1,750		
Postage	2,730		
Bad Debts	2,870		
Interest	12,950		
Insurance	4,170		
Net Profit ( <i>Balancing Figure</i> )	88,730		
	<b>1,63,200</b>		<b>1,63,200</b>

**Balance Sheet**  
as on March 31, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Capita	3,60,000	<b>Fixed Assets</b>	
<i>Add: Net Profit</i>	<u>88,730</u>	Building	2,37,800
Loan	1,20,000	Machinery	1,00,000
<b>Current Liabilities</b>		Fixtures and fittings	1,61,550
Creditors	87,200	<b>Current Assets</b>	
Bills Payable	25,270	Closing Stock	1,43,000
	<b>6,81,200</b>	Debtors	38,850
			<b>6,81,200</b>

**Q.21 From the following balances, prepare Final Accounts of M/s Raja & Sons for the year ended 31st March, 2019:**

**Salary ₹ 5,400; Insurance ₹ 2,500; Cash ₹ 400; Purchases ₹ 84,170; Rent Received ₹ 3,150; Drawings ₹ 2,100; Bills Payable ₹ 3,900; Debtors ₹ 38,080; Stock (1st April, 2018) ₹ 29,500; Bank Overdraft ₹ 9,700; Carriage ₹ 2,200; Creditors ₹ 4,200; Trade Expenses ₹ 4,900; Sales Return ₹ 4,700; Machinery ₹ 12,000; Wages ₹ 45,000; Sales ₹ 1,47,200; Purchases Return ₹ 3,900; Capital ₹ 58,900; Closing Stock (31st March, 2019) ₹ 36,200.**

The solution can be presented as follows

**Financial Statement of M/s. Raja & Sons  
Trading Account  
for the year ended March 31, 2019**

Dr.		Amount (₹)	Cr.		Amount (₹)
Particulars			Particulars		
Opening Stock		29,500	Sales	1,47,200	
Purchases	84,170		Less: Sales Return	(4,700)	1,42,500
Less: Purchases Return	(3,900)	80,270	Closing Stock		36,200
Carriage		2,200			
Wages		45,000			
Gross Profit (Balancing Figure)		21,730			
		<b>1,78,700</b>			<b>1,78,700</b>

**Profit and Loss Account  
for the year ended March 31, 2019**

Dr.		Amount (₹)	Cr.		Amount (₹)
Particulars			Particulars		
Salary		5,400	Gross Profit		21,730
Insurance		2,500	Rent Received		3,150
Trade Expenses		4,900			
Net profit (Balancing Figure)		12,080			
		<b>24,880</b>			<b>24,880</b>

**Balance Sheet**  
as on March 31, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital	58,900	<b>Fixed Assets</b> Machinery	12,000
Add: Net Profit	12,080		
Less: Drawings	(2,100)		
<b>Current Liabilities</b>	<b>68,880</b>	<b>Current Assets</b> Closing Stock Debtors Cash	<b>36,200</b> <b>38,080</b> <b>400</b>
Creditors	4,200		
Bank Overdraft	9,700		
Bills Payable	3,900		
	<b>86,680</b>		<b>86,680</b>

**Q.22** From the following balances, prepare Final Accounts of M/s Mangal & Sons for the year ended 31st March, 2019:

Opening Stock ₹ 12,500; Bills Receivable ₹ 2,000; Sales ₹ 70,000; Purchases ₹ 37,500; Creditors ₹ 20,000; Salaries ₹ 3,850; Insurance ₹ 200; Debtors ₹ 32,500; Carriage ₹ 1,450; Commission ₹ 750; Interest ₹ 900; Printing ₹ 250; Bills Payable ₹ 3,150; Returns In ₹ 1,300; Returns Out ₹ 500; Bank ₹ 5,250; Rent and Taxes ₹ 1,300; Furniture ₹ 1,000; Capital ₹ 7,100; Stock on 31st March, 2019 ₹ 15,000.

The solution can be presented as follows

**Financial Statement of M/s. Mangal & Sons**  
**Trading Account**  
for the year ended March 31, 2019

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Opening Stock	12,500	Sales	70,000
Purchases	37,500	Less: Return Inwards	(1,300)
Less: Return Outwards	(500)	Closing Stock	15,000
Carriage	1,450		
Gross Profit ( <i>Balancing Figure</i> )	32,750		
	<b>83,700</b>		<b>83,700</b>

**Profit and Loss Account**  
for the year ended March 31, 2019

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Salary	3,850	Gross Profit	32,750
Insurance	200		
Commission	750		
Interest	900		
Printing	250		
Rent and Taxes	1,300		
Net Profit ( <i>Balancing Figure</i> )	25,500		
	<b>32,750</b>		<b>32,750</b>

**Balance Sheet**  
as on March 31, 2019

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital	7,100		<b>Fixed Assets</b>		
<i>Add: Net Profit</i>	<u>25,500</u>	32,600	Furniture		1,000
<b>Current Liabilities</b>			<b>Current Assets</b>		
Creditors		20,000	Closing Stock		15,000
Bills Payable		3,150	Debtors		32,500
			Bills Receivable		2,000
			Bank		5,250
		<b>55,750</b>			<b>55,750</b>



Q.23 From the following balances, prepare Trading and Profit and Loss Account and the Balance Sheet:

Debit Balances:	₹	Debit Balances (Contd.):	₹
Machinery	2,00,000	Opening Stock	2,00,000
Building	1,50,000	Rent	45,000
Debtors	2,70,000	Sundry Expenses	20,000
Drawings	90,000	Carriage	15,000
Purchases	9,50,000	Credit Balances:	
Wages	5,00,000	Capital	10,00,000
Bad Debts	10,000	Creditors	1,40,000
Bank	1,50,000	Sales	14,50,000
		Commission	10,000

Closing Stock was of ₹ 70,000 but its net realisable value was estimated at ₹ 60,000.

The solution can be presented as follows

**Financial Statement of....**

**Trading Account**  
for the year ended ...

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Opening Stock	2,00,000	Sales	14,50,000
Purchases	9,50,000	Closing Stock (Note)	60,000
Carriage	15,000	Gross Loss ( <i>Balancing Figure</i> )	1,55,000
Wages	5,00,000		
	<u>16,65,000</u>		<u>16,65,000</u>

**Profit and Loss Account**  
for the year ended March 31, ....

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Gross Loss	1,55,000	Commission	10,000
Bad Debts	10,000	Net Loss ( <i>Balancing Figure</i> )	2,20,000
Rent	45,000		
Sundry Expenses	20,000		
	2,30,000		2,30,000

**Balance Sheet**  
as on March 31, ....

Liabilities		Assets	
	Amount (₹)		Amount (₹)
Capital	10,00,000	<b>Fixed Assets</b>	
Less: Net Loss	2,20,000	Building	1,50,000
Less: Drawings	90,000	Machinery	2,00,000
<b>Current Liabilities</b>		<b>Current Assets</b>	
Creditors	1,40,000	Closing Stock	60,000
		Debtors	2,70,000
		Bank	1,50,000
	8,30,000		8,30,000

**Note** Closing Stock is recorded at cost price or market price whichever is lower

**Q.24 From the following balances taken from the books of Hari & Co., prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as at that date:**

	₹		₹
Capital	3,50,000	Salaries	11,100
Building	1,87,500	Discount Allowed	3,000
Machinery	92,500	Interest on Investments	1,000
Debtors	35,000	Stock (1st April, 2018)	1,65,000
Investments	35,000	Bills Payable	50,000
General Expenses	8,000	Sales	6,35,000
Rent Paid	37,100	Purchases	4,68,500
Proprietor's Drawings	6,500	Wages	25,000
Electricity Charges	1,900	Cash in Hand	18,000
Carriage Inwards	8,500	Sundry Creditors	1,00,000
Cash at Bank	30,000	Returns Inward	4,500
Returns Outward	1,100		

Closing Stock was valued at ₹ 1,82,100.

The solution can be presented as follows

**Financial Statement of....**

**Trading Account**  
for the year ended ...

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Opening Stock	2,00,000	Sales	14,50,000
Purchases	9,50,000	Closing Stock (Note)	60,000
Carriage	15,000	Gross Loss ( <i>Balancing Figure</i> )	1,55,000
Wages	5,00,000		
	<u>16,65,000</u>		<u>16,65,000</u>

**Profit and Loss Account**  
for the year ended March 31, 2019

<b>Dr.</b>			<b>Cr.</b>
<b>Particulars</b>	<b>Amount (₹)</b>	<b>Particulars</b>	<b>Amount (₹)</b>
General Expenses	8,000	Gross Profit	1,46,700
Rent Paid	37,100	Interest on Investments	1,000
Electricity Charges	1,900		
Salaries	11,100		
Discount Allowed	3,000		
Net Profit ( <i>Balancing Figure</i> )	86,600		
	<b>1,47,700</b>		<b>1,47,700</b>

**Balance Sheet**  
as on March 31, 2019

<b>Liabilities</b>		<b>Assets</b>	<b>Amount (₹)</b>
Capital	3,50,000	<b>Fixed Assets</b>	
<i>Add: Net Profit</i>	86,600	Building	1,87,500
<i>Less: Drawings</i>	(6,500)	Machinery	92,500
<b>Current Liabilities</b>	4,30,100	Investments	35,000
Sundry Creditors	1,00,000	<b>Current Assets</b>	
Bills Payable	50,000	Closing Stock	1,82,100
		Debtors	35,000
		Cash at bank	30,000
		Cash in Hand	18,000
	<b>5,80,100</b>		<b>5,80,100</b>

**Q.25 From the following balances, as on 31st March, 2019, prepare Trading and Profit and Loss Account and Balance Sheet:**

	₹		₹
Capital Account	1,00,000	Returns Outward	5,000
Plant and Machinery	40,000	Rent	4,000
Sundry Debtors	24,000	Sales	1,64,000
Sundry Creditors	12,000	Manufacturing Expenses	8,000
Life Insurance Premium	12,000	Trade Expenses	7,000
Purchases	1,05,000	Bad Debts	2,000
Wages	50,000	Carriage	1,500
Bank	10,000	Bills Payable	7,000
Repairs	500	Returns Inward	4,000
Stock (1st April, 2018)	20,000		

Closing Stock on 31st March, 2019 was valued at ₹ 14,500.

The solution can be presented as follows

**Trading Account**  
for the year ended March 31, 2019

Dr.			Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)	
Opening Stock	20,000	Sales	1,64,000	
Purchases	1,05,000	Less: Return Inwards	(4,000)	1,60,000
Less: Return Outwards	(5,000)	Closing Stock		14,500
Wages	50,000	Gross Loss (Balancing Figure)		5,000
Manufacturing Expenses	8,000			
Carriage	1,500			
	<b>1,79,500</b>			<b>1,79,500</b>

**Profit and Loss Account**  
for the year ended March 31, 2019

Dr.			Cr.
Particulars	Amount (₹)	Particulars	Amount (₹)
Gross Loss	5,000		
Repairs	500		
Rent	4,000		
Trade Expenses	7,000		
Bad Debts	2,000	Net Loss ( <i>Balancing Figure</i> )	18,500
	<b>18,500</b>		<b>18,500</b>

**Balance Sheet**  
as on March 31, 2019

Liabilities		Amount (₹)	Assets	Amount (₹)
Capital	1,00,000		<b>Fixed Assets</b>	
Less: Life Insurance Premium	(12,000)		Plant and Machinery	40,000
Less: Net Loss	(18,500)	69,500	<b>Current Assets</b>	
<b>Current Liabilities</b>			Closing Stock	14,500
Sundry Creditors		12,000	Sundry Debtors	24,000
Bills Payable		7,000	Bank	10,000
		<b>88,500</b>		<b>88,500</b>

Q.26 Trial Balance of Chatter Sen on 31st March, 2019 revealed the following balances:

Debit Balances:	₹	Debit Balances (Contd.):	₹
Plant and Machinery	90,000	Rent	2,000
Purchases	58,000	Advertisement	2,000
Sales Return	1,000	Cash at Bank	6,900
Opening Stock	40,000	<b>Credit Balances:</b>	
Discount Allowed	350	Capital A/c	1,10,000
Bank Charges	75	Sales	1,27,000
Sundry Debtors	45,000	Purchases Return	1,275
Salaries	6,800	Discount Received	800
Wages	10,000	Loan	5,000
Freight In	750	Sundry Creditors	20,000
Freight Out	1,200		

Stock on 31st March, 2019 was valued at ₹ 35,000.

Prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as at the date.

The solution can be presented as follows

**Financial Statement of Chatter Sen**

**Trading Account**  
for the year ended March 31, 2019

<b>Dr.</b>		<b>Amount</b>	<b>Cr.</b>	
<b>Particulars</b>		<b>(₹)</b>	<b>Particulars</b>	<b>Amount</b>
				<b>(₹)</b>
Opening Stock		40,000	Sales	1,27,000
Purchases	58,000		Less: Sales Return	(1,000)
Less: Purchases Return	(1,275)	56,725	Closing Stock	35,000
Wages		10,000		
Freight Inwards		750		
Gross Profit (Balancing Figure)		53,525		
		<b>1,61,000</b>		<b>1,61,000</b>

**Profit and Loss Account**  
for the year ended March 31, 2019

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Discount Allowed	350	Gross Profit	53,525
Bank Charges	75	Discount Received	800
Salaries	6,800		
Freight Outwards	1,200		
Rent, Rates and Taxes	2,000		
Advertisement	2,000		
Net Profit (Balancing Figure)	41,900		
	<b>54,325</b>		<b>54,325</b>

**Balance Sheet**  
as on March 31, 2019

Liabilities		Amount (₹)	Assets	Amount (₹)
Capital	1,10,000		<b>Fixed Assets</b>	
Add: Net Profit	41,900	1,51,900	Plant and Machinery	90,000
<b>Liabilities</b>			<b>Current Assets</b>	
Sundry Creditors		20,000	Closing Stock	35,000
Loan		5,000	Sundry Debtors	45,000
		<b>1,76,900</b>	Cash at Bank	6,900
				<b>1,76,900</b>



Q.27 Following Trial Balance is extracted from the books of a merchant on 31st March, 2019:

Debit Balances:	₹	Debit Balances (Contd.):	₹
Furniture and Fittings	6,400	Insurance	12,500
Motor Vehicles	62,500	General Charges	7,820
Building	75,900	Salaries	33,000
Bad Debts	1,250	<b>Credit Balances:</b>	
Sundry Debtors	38,000	Capital	1,28,900
Stock on 1st April, 2018	34,600	Bills Payable	2,000
Purchases	55,750	Sundry Creditors	25,000
Sales Return	2,000	Sales	1,54,500
Advertising	4,500	Bank Overdraft	28,500
Interest	1,180	Purchases Return	1,250
Cash in Hand	6,500	Commission	1,750

Stock in Hand on 31st March, 2019 was valued at ₹ 32,500.

From the above, prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as at that date.

The solution can be presented as follows

**Trading Account**  
for the year ended March 31, 2019

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Opening Stock	34,600	Sales	1,54,500
Purchases	55,750	Less: Sales Return	(2,000)
Less: Purchases Return	(1,250)	Closing Stock	32,500
Gross Profit (Balancing Figure)	95,900		
	<b>1,85,000</b>		<b>1,85,000</b>

**Profit And Loss Account**  
for the year ended March 31, 2019

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Taxes and Insurance	12,500	Gross Profit	95,900
General Charges	7,820	Commission	1,750
Salaries	33,000		
Bad Debts	1,250		
Advertising	4,500		
Interest	1,180		
Net Profit (Balancing Figure)	37,400		
	<b>97,650</b>		<b>97,650</b>

**Balance Sheet**  
as on March 31, 2019

Liabilities		Amount (₹)	Assets	Amount (₹)
Capital	1,28,900		<b>Fixed Assets</b>	
Add: Net Profit	37,400	1,66,300	Building	75,900
<b>Current Liabilities</b>			Furniture and Fittings	6,400
Sundry Creditors		25,000	Motor Vehicles	62,500
Bank Overdraft		28,500	<b>Current Assets</b>	
Bills Payable		2,000	Closing Stock	32,500
		<b>2,21,800</b>	Sundry Debtors	38,000
			Cash in Hand	6,500
				<b>2,21,800</b>

Q.28 The following balances were extracted from the books of Harish Chandra on 31st March, 2019:

	₹		₹
Drawings	15,000	Capital	2,45,000
Life Insurance Premium	5,000	Loan	78,800
General Expenses	25,000	Sales	6,53,600
Building	1,10,000	Purchases	4,70,000
Machinery	93,400	Motor Car	20,000
Stock on 1st April, 2018	1,62,000	Reserve Fund (Cr.)	9,000
Power	22,400	Commission (Cr.)	13,200
Insurance	13,150	Car Expenses	18,000
Wages	72,000	Bills Payable	38,500
Debtors	62,800	Cash	800
Creditors	25,000	Bank Overdraft	33,000
Input CGST A/c	15,000	Charity	1,050
Input SGST A/c	15,000	Bad Debts	5,500
Output IGST A/c	30,000		

Stock on 31st March, 2019 was valued at ₹ 2,35,000.  
Prepare final accounts for the year ended 31st March, 2019.

The solution can be presented as follows

**Financial Statement of Harish Chandra**  
**Trading Account**  
for the year ended March 31, 2019

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Opening Stock	1,62,000	Sales	6,53,600
Purchases	4,70,000	Closing Stock	2,35,000
Power	22,400		
Wages	72,000		
Gross Profit (Balancing Figure)	1,62,200		
	<b>8,88,600</b>		<b>8,88,600</b>

**Profit and Loss Account**  
for the year ended March 31, 2019

Dr.	Amount (₹)	Cr.	Amount (₹)
General Expenses	25,000	Gross Profit	1,62,200
Taxes and Insurance	13,150	Commission	13,200
Bad Debts	5,500		
Car Expenses	18,000		
Charity	1,050		
Net Profit (Balancing Figure)	1,12,700		
	<b>1,75,400</b>		<b>1,75,400</b>

**Balance Sheet**  
as on March 31, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital	2,45,000	<b>Fixed Assets</b>	
Add: Net Profit	1,12,700	Building	1,10,000
Less: Life Insurance Premium	(5,000)	Machinery	93,400
Less: Drawings	(15,000)	Motor Car	20,000
Reserve Fund	9,000	<b>Current Assets</b>	
Loan	78,800	Closing Stock	2,35,000
<b>Current Liabilities</b>		Debtors	62,800
Bank Overdraft	33,000	Cash	800
Bills Payable	38,500		
Creditors	25,000		
	<b>5,22,000</b>		<b>5,22,000</b>

**Working Note:**

(1) GST Set off Calculation

GST Payable = Output IGST-Input CGST-Input SGST

= 30,000-15,000-15,000

=Nil

GST Payable/Receivable = Nil

Hence, GST calculation will not have an impact on balance sheet.

**Q.29 From the following Trial Balance and additional information of Mr. Gaurav, a proprietor, prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as at that date:**

Particulars	Dr. Balance (₹)	Cr. Balance (₹)
Building	1,60,000	...
Wages	26,000	...
Machinery	16,000	...
Salaries and Wages	41,600	...
Debtors	38,700	...
Capital	...	2,23,100
Purchases	56,500	...
Sales	...	1,00,700
Creditors	...	12,500
Income Tax	2,000	...
Drawings	500	...
Input CGST A/c	10,000	...
Input SGST A/c	10,000	...
Output CGST A/c	...	12,500
Output SGST A/c	...	12,500
<b>Total</b>	<b>3,61,300</b>	<b>3,61,300</b>

**Closing Stock at cost ₹ 1,00,000 but its market value is ₹ 88,500.**

The solution can be presented as follows

**Financial Statement of Mr. Gaurav  
Trading Account  
for the year ended March 31, 2019**

<b>Dr.</b>		<b>Cr.</b>	
Particulars	Amount (₹)	Particulars	Amount (₹)
Purchases	56,500	Sales	1,00,700
Wages	26,000	Closing Stock	88,500
Gross Profit (Balancing Figure)	1,06,700		
	<b>1,89,200</b>		<b>1,89,200</b>

**Profit and Loss Account**  
for the year ended March 31, 2019

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Salaries and Wages	41,600	Gross Profit	1,06,700
Net Profit (Balancing Figure)	65,100		
	<b>1,06,700</b>		<b>1,06,700</b>

**Balance Sheet**  
as on March 31, 2019

Liabilities		Assets	
	Amount (₹)		Amount (₹)
Capital	2,23,100	<b>Fixed Assets</b>	
Add: Net Profit	65,100	Building	1,60,000
Less: Drawings	(500)	Machinery	16,000
Less: Income Tax	(2,000)	<b>Current Assets</b>	
	2,85,700	Closing Stock	88,500
<b>Current Liabilities</b>		Debtors	38,700
Creditors	12,500		
GST Payable	5,000		
	<b>3,03,200</b>		<b>3,03,200</b>

**Working Notes:**

(1) GST Calculation

Output CGST-Input CGST= 12,500-10,000

=2,500

Output SGST-Input SGST= 12,500-10,000

=2,500

GST Payable=Output CGST+ Output SGST

=2,500+2,500

=5,000

(2) As per the Principle of Conservatism, closing Stock is taken at cost or market price whichever is less. Therefore, closing Stock has been taken at its market Price and not on its cost.