CH- 5

V.V.V. Imp.

ACCOUNTING EQUATION

→ Accounting equation is a mathematical expression based on Dual Aspect principle

→ Assets = Equities (Total claims)

Assets = Capital (+) Liability

↑ = ↑

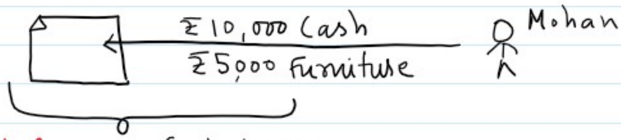
$$\frac{10+2}{2} = \frac{15+3}{3}$$

$$\frac{12}{2} = \frac{18}{3}$$

$$6 = 6$$

→ Basic Transactions and their effects

1. Mohan commenced business with ₹ 10,000 cash and ₹ 5000 furniture



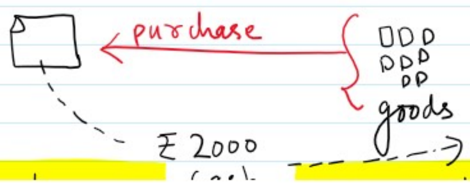
Capital ₹ 15,000 (1)

Cash 10,000
Furniture 5,000
"ASSETS" (2)

Sol:- Assets = Liability + Capital

Cash 10,000 + Furniture 5,000 = 15,000

2. Goods purchased for ₹ 2,000 in cash.



goods
₹ 2000 cash

Sol:-

Assets		=	Liability + Capital
Goods (Stock)	Cash		
(+) 2000	(-) 2000	=	
0		=	0

3. Goods purchased from Mohan ₹ 3,000

LIABILITY
CREDITOR

DD purchase ₹ 3000 ← DD DD Mohan

cash paid ?? Q is silent

Sol:-

Assets	=	Liability + Capital
Stock		Creditor
(+) 3,000	=	(+) 3000

नहीं दिए = CREDIT

4. Goods costing ₹ 1000 is sold for ₹ 1,200 in cash.

PROFIT 200

लागत ₹1000 DDD DD — आ रहे हैं DDDD → Sold ₹ 1200

Cash — आ रहा है

Sol:-

Assets		=	liability	+ Capital
Stock	Cash			
(-) 1,000	(+) 1200	=	0	(+) 200* (profit)
200		=	200	

5. Goods costing ₹ 1,200 is sold for ₹ 900 in cash.

LOSS = 300

1200 DDD →

← 900 cash

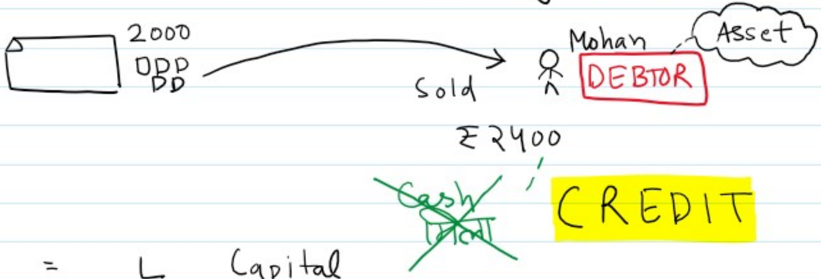
Assets		=	liability	+ capital
Stock	Cash			
(-) 1200	(+) 900	=	0	(-) 300 (loss)
(-) 300		=	(-) 300	

6.* Goods costing ₹ 2,000 is sold to Mohan for ₹ 2,400

(−) 500 = (−) 500

6.* Goods costing ₹ 2,000 is sold to Mohan for ₹ 2,400

Sol:- Assets = Liability + Capital



Stock	Debtor	=	L	Capital
(−) 2000	(+) 2400			(+) 400

$\underbrace{(-)\,2000 \quad (+)\,2400}_{400} = \underbrace{L \quad (+)\,400}_{400}$

× — × — × — × — × — × — × — × — × — ×

eg ① Prepare Accounting equation :-

(i) Raju commenced business with cash ₹ 5,000

(ii) He purchased goods for cash ₹ 3,000

(iii) He sold goods costing ₹ 1000 to Mohan for ₹ 800.

DEBTOR

LOSS 200

Sol:-

S.No.	Transactions	ASSETS: CASH	STOCK	DEBTORS	=	LIABILITY	+	CAPITAL
1.	Raju commenced Business	5,000			=			5,000
2.	-------------	(−) 3,000	(+) 3000		=			
	New equation	2,000 +	3,000		=	0	+	5,000
3.	-------------		(−) 1000	+ 800	=			(−) 200
	FINAL EQUATION	2,000 +	2000 +	800	=	0	+	4,800
			4,800				4800	

* SPECIAL TRANSACTIONS & THEIR EFFECTS *

(i) $\boxed{\text{Prepaid expense}}$ - Expense paid in advance.

ASSET

ASSETS: Cash	Prepaid expense	=	LIABILITY	+	CAPITAL
(−)	(+)	=	0	+	0

Cash Prepaid expense

$$\underbrace{(-) \quad (+)}_{0} = \underbrace{0 + 0}_{0}$$

(ii) Outstanding expense (Expenses Due or Expenses Unpaid) - Expense incurred but not paid

Liability

Benefit (✓)

पैसे नहीं दिए

Assets = Liabilities + Capital

O/s expense

expense

$$\underbrace{0}_{0} = \underbrace{(+) \quad (-)}_{0}$$

(iii) Accrued Income (Income earned but not received)

ASSET

ASSETS = Liability + Capital

Accrued Income

income

$$\underbrace{(+)}_{0} = \underbrace{0 \quad (+)}_{0}$$

(iv) Income received in advance. (Unearned Income)

LIABILITY

पैसे जल्दी मिल गए

ASSETS = LIABILITY + CAPITAL

Cash

Income rec'd in advance

$$\underbrace{(+)}_{0} = \underbrace{(+) \quad 0}_{0}$$

(v) $\boxed{\text{Depreciation on any particular asset}}$

expense

गिरावट (value कम) → asset

ASSETS = LIABILITY + CAPITAL

particular asset

expense

particular asset

$$\underbrace{(-)}_{} = \underbrace{0 \quad \overset{\text{expense}}{(-)}}_{}$$

3. Prepare an Accounting Equation and Balance Sheet on the following basis:

(i) Ajeet started business with cash ₹ 20,000. LATER

(ii) He purchased furniture for ₹ 2,000.

(iii) He paid rent of ₹ 200.

(iv) He purchased goods on credit ₹ 3,000.

(v) He sold goods (cost price ₹ 2,000) for ₹ 5,000 on cash

लागत (worth)

DD D 2000 → ₹ 5000 cash

[*Assets*: *Cash* ₹ *22,800* + *Furniture* ₹ *2,000* + *Stock* ₹ *1,000* = *Liabilities*: *Creditors* ₹ *3,000* + *Capital*: ₹ *22,800*.]

Sol 3 :-

S No.	ASSETS: CASH	Furniture	Stock	=	LIABILITIES: Creditors	+ CAPITAL
1.	20,000			=		20,000
2.	(-) 2,000	+ 2,000		=	0	
New eqn	18,000	+ 2,000		=	0	+ 20000
3.	(-) 200					(-) 200
New eqn	17,800	+ 2000		=	0	+ 19,800
4.			+ 3000	=	3000	
N.E	17,800	+ 2000	+ 3000	=	3000	+ 19,800
5.	(+) 5,000		(-) 2000	=		+ 3,000
Final equation	22,800	+ 2000	+ 1000	=	3000	+ 22,800

$$\underbrace{22,800 + 2000 + 1000}_{25,800} = \underbrace{3000 + 22,800}_{25,800}$$

$$\underbrace{\qquad\qquad\qquad}_{25,800} \qquad\qquad \underbrace{\qquad\qquad\qquad}_{25,800}$$

4. Prepare Accounting Equation from the following:
(i) Started business with cash ₹ 1,00,000 and Goods ₹ 20,000
(ii) Sold goods worth ₹ 10,000 for cash ₹ 12,000.
(iii) Purchased furniture on credit for ₹ 30,000. *(Delhi)*

[Assets: Cash ₹ 1,12,000 + Stock ₹ 10,000 + Furniture ₹ 30,000 = Liabilities: Creditors for Furniture ₹ 30,000 + Capital: ₹ 1,22,000.]

S.No.	ASSETS			=	LIABILITIES	+ CAPITAL
	CASH	Stock	Furniture		Creditors	
1.	1,00,000	+ 20,000		=		120,000
2.	(+)12,000	(-) 10,000		=		(+)2,000
N.E	1,12,000	+ 10,000		=	0	+ 122,000
3.			+ 30000	=	30,000	
F.E	112,000	+ 10,000	+ 30,000	=	30,000	+ 122 000

$$\underbrace{112,000 + 10,000 + 30,000}_{152,000} = \underbrace{30,000 + 122000}_{152,000}$$

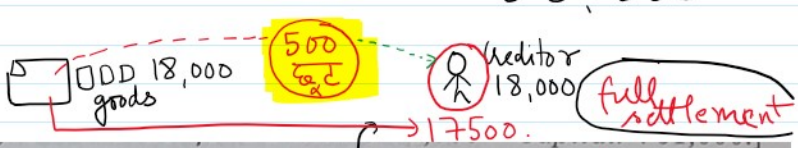
5. Develop an Accounting Equation from the following transactions: ₹
(i) Mohan commenced business with cash 50,000
(ii) Purchased goods for cash 30,000
(iii) Purchased goods on credit 20,000
(iv) Sold goods (costing ₹ 10,000) for 12,000

(ii) Purchased goods for cash 30,000
(iii) Purchased goods on credit 20,000
(iv) Sold goods (costing ₹ 10,000) for 12,000
(v) Bought furniture on credit 2,000
(vi) Paid cash to a creditor 15,000
(vii) Salary paid 1,000

[*Assets: Cash ₹ 16,000 + Stock ₹ 40,000 + Furniture ₹ 2,000 =*
Liabilities: Creditors ₹ 5,000 + Vendor (creditor) *for Furniture ₹ 2,000 + Capital: ₹ 51,000.*]

SNo.	ASSETS			=	LIABILITIES		+ CAPITAL
	Cash	Stock	Furniture		Creditors	Creditor for Furniture	
1.	50,000						50000
2.	(-)30,000	(+) 30000					
N.E	20,000 +	30000		=	0		+ 50000
3.		+ 20,000		=	20,000		
NE	20,000 +	50,000		=	20,000		+ 50000
4.	(+)12,000	(-)10,000		=	0		+ 2,000
N.E	32000 +	40000		=	20,000		+ 52000
5.			+2000	=	0	+2000	
NE	32000 +	40,000 +	2000	=	20,000 +	2000 +	52000
6.	(-)15000			=	(-)15,000		
NE	17000 +	40000 +	2000	=	5,000 +	2000 +	52000
7.	(-)1,000						(-) 1,000
Final eq'n	16,000 +	40,000 +	2000	=	5000 +	2000 +	51,000

$$\underbrace{16,000 + 40,000 + 2000}_{58,000} = \underbrace{5000 + 2000 + 51,000}_{58,000}$$



6. Prepare an Accounting Equation on the basis of the following transactions: (5 Marks)
(i) Started business with cash ₹ 70,000.
(ii) Credit purchase of goods ₹ 18,000.
(iii) Payment made to creditors in full settlement ₹ 17,500.
(iv) Purchase of machinery for cash ₹ 20,000.
(v) Depreciation on machinery ₹ 2,000.
(Delhi)

[*Assets: Cash ₹ 32,500 + Stock ₹ 18,000 + Machinery ₹ 18,000 =*
Liabilities: Nil + Capital: ₹ 68,500.]

Sol:-

S. No.	ASSETS			=	LIABILITIES	+ CAPITAL
	CASH	STOCK	Machine		Creditor	
1.	70,000					70,000
2.		18,000		=	18,000	

1.	70,000					70,000
2.		18,000		=	18,000	
N.E	70,000 +	18,000		=	18,000	+ 70000
3.	(-)17,500			=	(-)18,000	(+) 500
N.E	52,500 +	18,000		=	0	+ 70,500
4.	(-)20,000		20,000			
N.E	32,500 +	18,000 +	20,000	=	0	+ 70,500
5.			(-) 2,000			(-) 2,000
Final equation	32,500 +	18,000 +	18,000	=	0	+ 68,500

$\underbrace{32{,}500 + 18{,}000 + 18{,}000}_{68{,}500} = \underbrace{0 + 68{,}500}_{68{,}500}$

7. Show the effect of the following transactions on the Accounting Equation:
(i) Started business with cash ₹ 50,000.
(ii) Salaries $\boxed{\text{paid}}$ ₹ 2,000.
(iii) Wages outstanding ₹ 200. L $\boxed{\text{Cap (-)}}$
(iv) Interest due but not paid ₹ 100. outstanding Interest
(v) Rent paid in advance ₹ 150. A $\boxed{\text{Cash (-)}}$
PREPAID
[Assets: Cash ₹ 47,850 + Prepaid Rent ₹ 150 = Liabilities: Outstanding Expenses ₹ 300 + Capital: ₹ 47,700.]

Sol:-

	ASSETS		=	LIABILITIES		+ Capital
S. No	CASH	Prepaid Rent		O/S Wages	O/S Interest	
1.	50,000					50,000
2	(-) 2,000					(-) 2,000
N.E	48,000		=		0	+ 48,000
3.			=	200		(-) 200
N.E	48,000		=	200		+ 47,800
4.					100	(-) 100
N.E	48,000		=	200 +	100	+ 47,700

4.			100	(-)100
N.E	48,000	=	200 + 100	+ 47,700
5.	(-)150 + 150			
final eq^n	$\underbrace{47,850 + 150}_{48,000}$	=	$\underbrace{200 + 100 + 47,700}_{48,000}$	

9. Use accounting equation to show the effect of the following transactions of M/s Royal Traders:
(a) Started business with cash ₹ 1,20,000.
(b) Purchased goods for cash ₹ 10,000.
(c) Rent received ₹ 5,000. Cash(+) Capital(+)
(d) Salary outstanding ₹ 2,000. ODOD
(e) Sold goods for cash (costing ₹ 5,000) ₹ 7,000. Stock(-)5K, Cash(+)7K, Cap(+)2K
(f) Goods destroyed by fire ₹ 500. (KVS)

[Assets: Cash ₹ 1,22,000 + Stock ₹ 4,500 = Liabilities: Outstanding Expenses ₹ 2,000 + Capital: ₹ 1,24,500.]

Sol:-

S.No.	ASSETS: CASH	Stock	=	LIABILITIES: Salary o/s	+ CAPITAL
1.	120,000				120,000
2.	(-)10,000	+ 10,000			
NE	110,000	+ 10,000	=	0	+ 120,000
3.	(+) 5,000				+ 5,000
NE	115,000	+ 10,000	=	0	+ 125,000
4.			=	2000	(-) 2,000
NE	115,000	+ 10,000	=	2000	+ 123,000
5.	(+) 7,000	(-) 5,000	=		(+) 2,000
NE	122,000	+ 5,000	=	2000	+ 125,000
6.		(-) 500	=		(-) 500
G.E	122,000	+ 4,500		[illegible]	[illegible]

6.	(−) 500	=	(−) 500
F.E	$\underbrace{122,000 + 4,500}_{126,500}$	=	$\underbrace{2000 \quad + 124,500}_{126,500}$

~~10.~~ Prove that the Accounting Equation is satisfied in all the following transactions of Suresh. Also prepare a Balance Sheet.

~~(i)~~ Commenced business with cash ₹ 60,000.

~~(ii)~~ Paid rent in advance ₹ 500.

~~(iii)~~ Purchased goods for cash ₹ 30,000 and credit ₹ 20,000. 3EM2 □□□□ 50K

~~(iv)~~ Sold goods for cash ₹ 30,000 costing ₹ 20,000. □□□□ profit 10K

~~(v)~~ Paid salary ₹ 500 and salary outstanding being ₹ 100.

(*) ~~(vi)~~ Bought motorcycle for personal use ₹ 5,000.

[Assets: Cash ₹ 54,000 + Prepaid Rent ₹ 500 + Stock ₹ 30,000 = Liabilities: Creditors ₹ 20,000 + Outstanding Salary ₹ 100 + Capital: ₹ 64,400.]

Sol:-

	ASSETS			=	LIABILITIES		+ Capital
	Cash	Prepaid Rent	Stock		Creditor	O/S Salary	
1.	60,000			=			60,000
2.	(−) 500	(+) 500					
NE	59,500	(+) 500		=	0		+ 60,000
3.	(−) 30,000		(+) 50,000	=	20,000		
NE	29,500	(+) 500	(+) 50,000	=	20,000		+ 60,000
4.	(+) 30,000		(−) 20,000	=			(+) 10,000
NE	59,500	(+) 500	(+) 30,000	=	20,000		(+) 70,000
5.	(−) 500						(−) 500

NE	59,500 (+) 500 (+) 30,000	= 20,000 (+) 70,000
5.	(−)500	(+)100 (−) 500 (−) 100
NE	59,000 (+) 500 (+) 30,000	= 20000 (+) 100 (+) 69,400
6.	(−)5000	(−) 5,000
F.E	$\underbrace{54{,}000 + 500 + 30{,}000}_{84{,}500}$	$= \underbrace{20{,}000 + 100 + 64{,}400}_{84{,}500}$

Balance Sheet

LIABILITIES	₹	ASSETS	₹
Creditor	20,000	CASH	54000
Outstanding Salary	100	Prepaid Rent	500
Capital	64,400	Stock	30,000
	84,500		84,500

12. Raghunath had the following transactions in an accounting year: Bank ← Asset

(i) Commenced business with cash ₹ 50,000. Cash(−)

(ii) Paid into bank ₹ 10,000. ₹10000 deposit

(iii) Purchased goods for cash ₹ 20,000 and credit ₹ 30,000. DDDDD 50000

(iv) Sold goods for cash ₹ 40,000 costing ₹ 30,000.

(v) Rent paid ₹ 500. — Cash(−) Cap(−)

(vi) Rent outstanding ₹ 100. — Liab(+) Cap(−)

(vii) Bought furniture ₹ 5,000 on credit. — Liab(+) Asset(+)

(viii) Bought refrigerator for personal use ₹ 5,000. — Cash(−) Capital(−)

(ix) Purchased motorcycle for cash ₹ 20,000. — Asset(+) Cash(−)

Create an Accounting Equation to show the effect of the above and also show his Balance Sheet.

[Assets: Cash ₹ 34,500 + Bank ₹ 10,000 + Stock ₹ 20,000 + Furniture ₹ 5,000 + Motorcycle ₹ 20,000 = Liabilities: Creditors ₹ 30,000 + Outstanding Rent ₹ 100 + Vendor for Furniture ₹ 5,000 + Capital: ₹ 54,400.]

Sol:-

	ASSETS					=	LIABILITIES			+ CAPITAL
SNo.	CASH	Bank	Stock	Furniture	Motor cycle		Creditor (goods)	Rent o/s	Creditor for furniture (asset)	
1.	50,000					=				50,000
2.	(−)10,000	+ 10,000								
N.E	40,000	+ 10,000				=	0			+ 50,000

2. (-)10,000 + 10,000

N.E 40,000 + 10,000 = 0 + 50,000

3. (-)20,000 +50,000 = 30,000

N.E 20,000 + 10,000 + 50,000 = 30,000 + 50,000

4. (+)40,000 (-)30,000 = + 10,000

N.E 60,000 + 10000 + 20000 = 30,000 + 60,000

5. (-)500 (-) 500

NE 59500 + 10000 + 20000 = 30000 + 59,500

6. +100 (-) 100

NE 59500 + 10000 + 20000 = 30000 + 100 + 59400

7. +5000 +5000

NE 59500 + 10000 + 20000 + 5000 = 30000 + 100 + 5000 + 59400

8. (-)5000 (-)5000

NE 54500 + 10000 + 20000 + 5000 = 30000 + 100 + 5000 + 54,400

9. (-)20000 +20000

F.E 34500 + 10000 + 20000 + 5000 + 20000 = 30000 + 100 + 5000 + 54,400

Balance Sheet

LIABITIES	₹	ASSETS	₹
Creditors	30,000	Cash	34,500
O/S Rent	100	Bank	10,000
Creditors for furniture	5,000	Stock	20,000
Capital	54,400	Furniture	5,000
		Motor cycle	20,000
	89,500		89,500

15. Show an Accounting Equation for the following transactions:

(i) D. Mahapatra commenced business with cash ₹ 50,000 and ₹ 1,00,000 by cheque; goods ₹ 60,000; machinery ₹ 1,00,000 and furniture ₹ 50,000. capital = 360,000

(ii) 1/3rd of the above goods sold at a profit of 10% on cost and half of the payment is received in cash.

(iii) Depreciation provided on machinery @ 10%. गिरावट गिरावट = 10,000

(iv) Cash withdrawn for personal use ₹ 10,000. → Cash (−) Cap (−) Drawings 10000

New (v) Interest on drawings charged @ 5%. ⇒ 500 Capital (+) Capital (−)

(vi) Goods sold to Gupta for ₹ 10,000 and received a Bill Receivable for the same amount for 3 months.

(vii) Received ₹ 10,000 from Gupta against the Bills Receivable on its maturity.

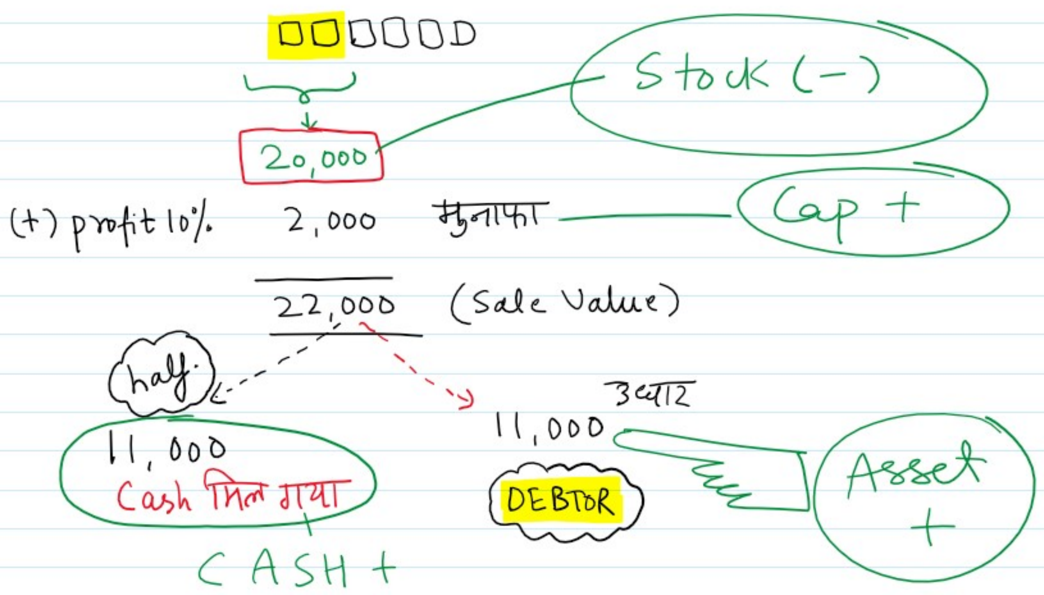
[*Assets: Cash ₹ 61,000 + Bank ₹ 1,00,000 + Stock (goods) ₹ 30,000 + Machinery ₹ 90,000 + Furniture ₹ 50,000 + Debtors ₹ 11,000 = Liabilities: Nil + Capital: ₹ 3,42,000.*]

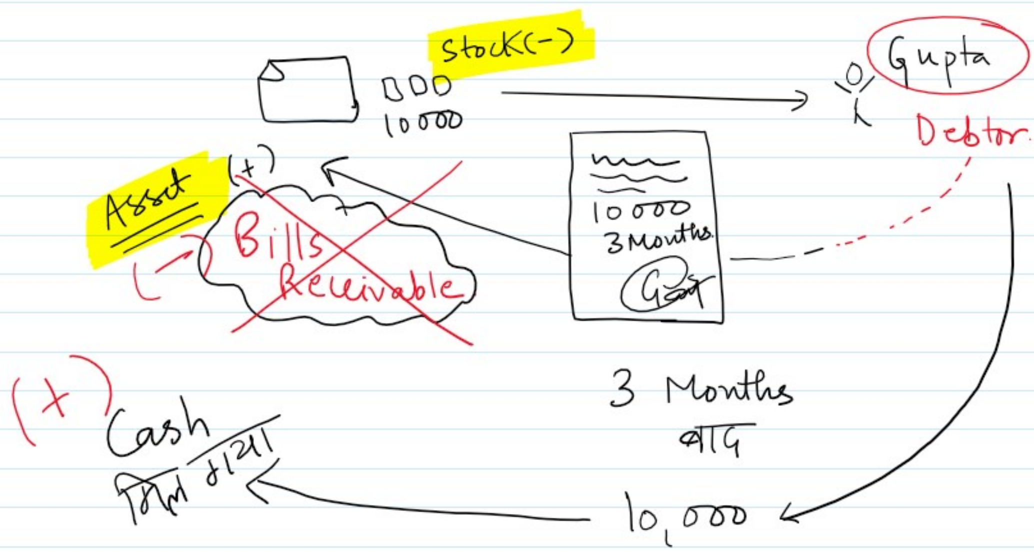
Sol:-

SNo.	ASSETS (Cash, Bank, Stock, Machine, Furn, Debtor, B/R)	=	Liabilities	+ Capital
1.	50000 + 100,000 + 60,000 + 100000 + 50000	=		360,000
2.	+11000 (−)20,000 (+)11000	=		(+) 2,000
N.E	61000 + 100000 + 40000 + 100000 + 50000 + 11000	=	0	+ 362000
3.	(−)10000			(−) 10000
NE	61000 + 100000 + 40000 + 90000 + 50000 + 11000	=	0	+ 352000
4.	(−)10000	=		(−) 10000
NE	51000 + 100000 + 40000 + 90000 + 50000 + 11000	=	0	+ 342000
5.				(+) 500 (−) 500
6.	(−)10000 (+)10000			
NE	51000 + 100000 + 30000 + 90000 + 50000 + 11000 + 10000	=	0	+ 342000
7	+10000 (−)10000			
F.E	61,000 + 100000 + 30000 + 90000 + 50000 + 11000 + 0	=	0	+ 342,000

342000 Q11, 13, 14 342000

Stock (−)





16. Show an Accounting Equation on the basis of the following transactions: ₹

(i) Sunil started business with cash 1,50,000

(ii) Opened a Bank Account by depositing ₹ 25,000 out of cash

(iii) He sold his personal car for ₹ 50,000 and deposited the amount ⇒ Bank (+) Capital (+) in the firm's Bank Account

(iv) He purchased a building and furniture for 1,00,000

(v) He purchased goods from Ram on credit — Stock (+) — Creditor(+) — 50,000

(vi) He paid cartage सामान ① → ② 500

(vii) He sold to Shyam on credit goods costing ₹ 6,000 for — Stock(−) — Cap (−) — Debtor(+) — 9,000

(viii) Received rent from tenants — Cash(+) — Cap(+) — 1,000

(ix) Received security deposit from tenants → Liability + [वापस देना पड़ेगा] → 1,500

(x) Purchased stationery for cash — Cash(−) — Capital(−) — 100

(xi) Invested in shares (personal) → Drawings — Cash (−) Cap (−) → 50,000

(xii) Received interest in cash — Cash (+) — Cap (+) → 200

(xiii) Introduced fresh capital — " — " — 25,000

(xiv) Goods destroyed by fire — Stock(−) Cap (−) → 500

[*Assets:* ₹ *2,29,600* = *Liabilities:* ₹ *51,500* + *Capital:* ₹ *1,78,100*.]

[Assets: ₹ 2,29,600 = Liabilities: ₹ 51,500 + Capital: ₹ 1,78,100.]

Sol:-

	ASSETS					=	LIABILITIES	+	CAPITAL
SNo.	Cash	Bank	Bld'g & Furniture	Stock	Debtors		Creditors	Security deposit	
(i)	150,000					=			150,000
(ii)	(-)25,000	(+)25000							
N.E	125,000	+ 25000				=	0		+ 150,000
(iii)		+ 50000				=			+ 50,000
NE	125,000	+ 75,000				=	0		+ 200,000
(iv)	(-)100,000		+100,000						
NE	25,000	+ 75000	+ 100,000			=	0		+200,000
(v)				+50000		=	50,000		
NE	25000	+ 75000	+ 100000	+ 50000		=	50,000		+200,000
(vi)	(-)500					=			(-) 500
NE	24500	+ 75000	+ 100,000	+ 50000		=	50,000		+ 199,500
(vii)				(-) 6000	+9000	=			+ 3,000
NE	24500	+ 75000	+ 100,000	+ 44000	+ 9000	=	50,000		+202,500
(viii)	+1000								+ 1,000
NE	25,500	+ 75000	+ 100,000	+ 44000	+ 9000	=	50,000		+ 203,500
(ix)	(+)1500					=		1,500	
NE	27000	+ 75000	+ 100000	+ 44000	+ 9000	=	50000	+ 1500	+ 203500
(x)	(-)100					=			(-) 100
NE	26900	+ 75000	+ 100000	+ 44000	+ 9000	=	50000	+ 1500	+ 203,400
(xi)		(-)50000							(-) 50000
NE	26,900	+ 25000	+ 100000	+ 44000	+ 9000	=	50000	+ 1500	+153,400
(xii)	(+) 200								+ 200
NE	27,100	+ 25000	+ 100,000	+ 44000	+ 9000	=	50,000	+ 1500	+153,600
(xiii)	(+)25000					=			+ 25000
NE	52,100	+ 25000	+ 100000	+ 44000	+ 9000	=	50000	+ 1500	+ 178,600
(ix)				(-) 500					(-) 500
F.E	52,100	+ 25,000	+ 100000	+ 43,500	+ 9000	=	50000	+ 1500	+ 178,100

L.H.S R.H.S

F.E | 52,100 + 25,000 + 100000 + 43,500 + 4000 = 50000 + 1500 + 178,100

$\underbrace{52,100 + 25,000 + 100000 + 43,500 + 4000}_{LHS}$ = $\underbrace{50000 + 1500 + 178,100}_{RHS}$

229,600 = 229,600

LIABILITIES ASSETS

✓ ✓

✓ ✓

✓ ✓

✓

229600 229600

illus 8.

IMP. Give an example for each of the following types of transactions:

1. Increase in one asset, decrease in another asset. → Purchased goods for cash
2. Increase in asset, increase in liability. → Purchased goods on credit
3. Increase in asset, increase in owner's capital. → Started Business with Cash
4. Decrease in asset, decrease in liability. → Payment to creditor
5. Decrease in asset, decrease in owner's capital. → Depreciation on asset (R)
6. Decrease in liabilities, increase in owner's capital. → Conversion of loan into capital. (R)
7. Increase in one liability, decrease in another liability → Accepted Bills payable from creditor.
8. Increase in liabilities, decrease in owner's capital. → Outstanding expense.

OR

1. Purchase of furniture for cash—Increase in furniture and decrease in cash.
2. Purchase of furniture on credit—Increase in furniture and increase in liability.
3. Capital introduced by proprietor—Increase in cash and increase in capital.
4. Payment to creditors—Decrease in cash and decrease in creditors.
5. Cash withdrawn by proprietor—Decrease in cash and decrease in capital.
6. Conversion of partner's loan into capital—Increase in capital and decrease in loan.
7. Bills Payable accepted—Increase in bills payable and decrease in creditors.
8. Outstanding expenses provided—Increase in creditors for outstanding expenses and decrease in capital.

3 Marks * Calculation of Asset, liability & Capital *

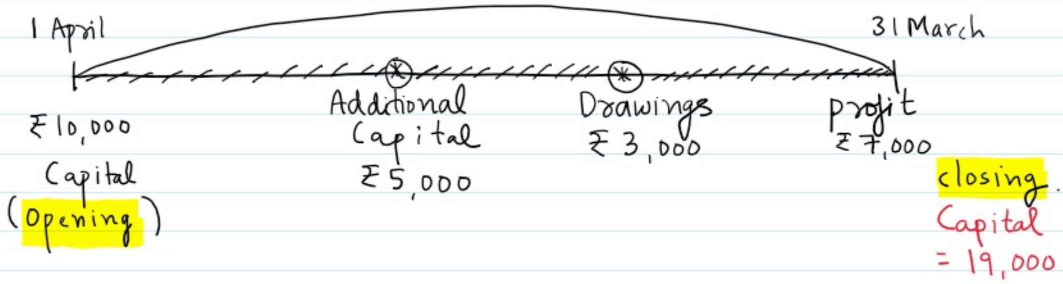
3 Marks

* Calculation of Asset, liability & Capital *

① Assets = Liabilities + Capital — Networth

② Profit = Revenue (−) Expense

Profit is added to the $\boxed{\text{CAPITAL}}$

③ 

Closing Capital = opening Capital (+) Additional Capital (−) Drawings (+) profit

∴ PROFIT = Closing Capital (+) Drawings (−) Additional Capital (−) Opening Capital

17. If the capital of a business is ₹ 3,00,000 and liabilities are ₹ 50,000, loss ₹ 70,000, calculate the total assets of the business. [₹ 2,80,000.]

Sol:- Assets = liabilities + Capital

= 50,000 + ~~3,00,000~~ 2,30,000

= 2,80,000

19. A commenced his cloth business on 1st April, 2020 with a capital of ₹ 30,000. On 31st March 2021, his assets were worth ₹ 50,000 and liabilities of ₹ 10,000. Find out his closing capital and profits earned during the year. *[Capital ₹ 40,000; Profit ₹ 10,000.]*

1. April 2020 — 31 March 2021

Capital = 30,000

closing Assets = 50,000
closing liabilities = 10,000
closing Capital = ??

Sol:- closing Assets = closing liabilities + Closing Capital
50,000 = 10,000 + Closing Capital

∴ closing Capital = 40,000

Profit = closing Capital + drawings − Additional Capital − Opening Capital

profit = 40,000 + 0 − 0 − 30,000 = 10,000

21. Calculate the total assets if:

(i) Capital is ₹ 40,000.
(ii) Creditors are ₹ 25,000.
(iii) Revenue during the period is ₹ 50,000.
(iv) Expenses during the period are ₹ 40,000. *(Delhi)*

Sol:- Assets = liabilities + Capital
= 25,000 + ~~40,000~~ 50,000 ✓
= 75,000

Profit = 50000 − 40000
= 10,000

22. (a) *A* had a capital of ₹ 75,000 on 1st April, 2020. He had also goods amounting to ₹ 15,000 which he had purchased on credit and the payment had not been made. Find out the value of the total assets of the business. [₹ *90,000.*]

(b) After a period of one month, he came to know that he had suffered a loss of ₹ 1,700. He withdrew ₹ 800 for his personal use. Find out his capital and assets of the business. [*Capital* ₹ *72,500; Assets* ₹ *87,500.*]

drawing.

Sol.:- 1 April

Capital 75,000

Creditor (liability) 15000

Assets = Liabilities + Capital

= 15,000 + 75000

= 90,000

(b) 75,000 (−) 1700 (−) 800 = 72,500 (After 1 month)

(Capital

Assets = Liabilities + Capital

= 15,000 + 72,500 = 87,500

23. (*a*) Mohan started a business on 1st April, 2020 with a capital of ₹ 10,000 and borrowed ₹ 3,000 from a friend. He earned a profit of ₹ 5,000 during the year ended 31st March, 2021 and withdrew cash ₹ 4,000 for personal use. What is his capital on 31st March, 2021? [₹ *11,000.*]

(*b*) Mahesh started a business with a capital of ₹ 15,000 on 1st April, 2020. During the year, he made a profit of ₹ 3,000. He owes ₹ 2,500 to suppliers of goods. What is the total of assets in his business on 31st March, 2021? [₹ *20,500.*]

liability

a) 1 April — 31 March

Capital 10,000 | drawings 4,000 | profit 5000

liability 3,000

closing Capital

closing Capital = 10000 − 4000 + 5000 = 11,000

b) Capital = 18000   liability = 2500

Total Assets = 2500 + 18 000 = 20500

24. On 31st March, 2021, the total assets and external liabilities were ₹ 2,00,000 and ₹ 6,000 respectively. During the year, the proprietor had introduced capital of ₹ 20,000 and withdrawn ₹ 12,000 for personal use. He made a profit of ₹ 20,000 during the year. Calculate the capital as on 1st April, 2020. *[Opening Capital ₹ 1,66,000.]*

1 April — 31. March 2021

Opening Capital ??? | Drawings 12,000 | Additional Capital 20,000 | profit 20,000 | Total asset 200,000, liability = 6 000

Sol:- 31 March.

Assets = Liabilities + Capital

200,000 = 6,000 + Capital

∴ Closing Capital = 1,94,000

profit = Closing Capital + Drawings − Additional Capital − Opening Capital

20000 = 194,000 + 12000 − 20000 − Opening Capital

Opening Capital = 206,000 − 20000 − 20000

= 166,000

25. Mohan started a business on 1st April, 2020 with a capital of ₹ 25,000 and a loan of ₹ 12,500 borrowed from Shyam. During 2020–21, he had introduced additional capital of ₹ 12,500 and had withdrawn ₹ 7,500 for personal use. On 31st March, 2021, his assets were ₹ 75,000. Find out his capital as on 31st March, 2021 and profit made or loss incurred during the year 2020–21. *[Closing Capital ₹ 62,500; Profit ₹ 32,500.]*

Sol:- 1 April — 31 March

Capital 25,000 | Additional capital | drawings 7500 | Assets 75000

Capital 25,000 | Additional capital 12,500 | drawings 7500 | Assets 75000

liability 12,500 ~~Repay~~ closing liability 12500

31 March

Assets = liability + Capital

75,000 = 12,500 + Capital

$\therefore$ closing Capital = 62,500

Profit = closing Capital + drawings − Additional cap − Opening Cap

= 62,500 + 7500 − 12,500 − 25,000

= 32,500 (−)ve => Loss

LIABILITY

26. Calculate the amount of External Equities as on 31st March, 2021 in the following cases:

(i) On 31st March, 2021, total assets and capital were ₹ 15,00,000 and ₹ 10,50,000 respectively. liability = 1500000 − 1050000 = 450000

(ii) On 1st April, 2020, Mukesh started business with a capital of ₹ 3,00,000 and a loan of ₹ 3,00,000 borrowed from a friend. During the year, he earned a profit of ₹ 1,50,000. On 31st March, 2021, the total assets were ₹ 15,00,000.

(iii) On 1st April, 2020, Ramesh started business with a capital of ₹ 3,00,000 and a loan of ₹ 3,00,000 borrowed from a friend ~~friend~~. During the year, he earned a profit of ₹ 1,50,000, introduced an additional capital of ₹ 1,80,000 and had withdrawn ₹ 90,000 for his personal use. On 31st March, 2021 total assets were ₹ 15,00,000.

closing Capital = 5,40,000

[(i) ₹ 4,50,000; (ii) ₹ 10,50,000; (iii) ₹ 9,60,000.]

Sol (ii) 31 March → closing Capital = 3,00,000 + 150,000
= 4,50,000

31 March → Total assets = 15,00,000 (Given)

31 March → Liability = 1500000 − 450000 = 10,50,000

(iii) 31 March → liability = 15,00,000 − 5,40,000 = 960,000