

CHAPTER-6 - Accounting Equations

Short Answer Question

Question 1

Basic need of the accounting equation is as follows:

- (i) Accuracy in recording of financial transaction.
- (ii) Aids in the preparation of financial statements.
- (iii) Indicates the assets owned and debts due of the firm.
- (iv) Ensures company is always balanced, making it a vital equation for double entry system of accounting.

Question 2

Of the equations given, the following are correct

1, 4 and 8.

Question 3

Accounting Equation: $\text{Assets} = \text{Liabilities} + \text{Capital}$

i.e.,

$$(\text{Rs.}5,000 + \text{Rs.}20,000 + \text{Rs.}60,000 + \text{Rs.}25,000) = \text{Liabilities} + \text{Rs.}75,000$$

$$\text{Liabilities} = 1,10,000 - 75,000$$

Therefore, Rs.35,000/- is the total liabilities

Question 4

- (a) Increase in revenue: Revenue A/c - Credited
- (b) Decrease in expense: Expense A/c - Credited
- (c) Record drawing: Capital A/c - Debited
- (d) Record the fresh capital introduced by the owner: Capital A/c - Credited

Question 5

- (i) A decrease in an asset is recorded in credit column.
- (ii) A decrease in a liability is recorded in debit column.

Question 6

- (i) Decrease the assets and decrease the capital – Drawings made by proprietor
- (ii) Increase the assets and increase the liabilities – Purchase of goods on credit
- (iii) Increase the assets and decrease another asset – Purchase of asset using cash
- (iv) Decrease the assets and decrease the liabilities – Payment made towards creditor

Question 7

- (i) Stock (Asset) increases by Rs. 20,000
Creditors (Liability) increases by Rs. 20,000
- (ii) Stock (Asset) reduces by Rs. 8,000
Cash (Asset) increases by Rs. 10,000
Capital increases by RS. 2,000

- (iii) Cash (Asset) decreases by Rs.500
Capital decreases by Rs. 500
- (iv) Cash (Asset) decreases by Rs. 2,000
Capital decreases by Rs. 2,000
- (v) Cash (Asset) decreases by Rs.2,000
Creditor (Liability) decreases by Rs. 2,000

Question 8

Accounting Equation: Assets = Liabilities + Capital

i.e,

$$2,00,000 = \text{Liabilities} + 1,50,00$$

$$\text{Liabilities} = 2,00,000 - 1,50,000$$

Therefore, Liabilities = ₹50,000 (Creditors)

Question 9

Accounting Equation: Assets = Liabilities + Capital

Opening Capital Balance (01/04/2011) = ₹ 5,00,000

Closing Asset Balance (31/03/2012) = Rs. 7,80,000

Closing Liability Balance (31/03/2012) = Rs. 70,000

i.e,

$$7,80,000 = 70,000 + \text{Capital}$$

$$\text{Capital} = 7,80,000 - 70,000$$

Therefore, Closing capital = ₹7,10,000

Closing capital = Opening capital + Additional Capital + Profit – Drawing

₹7,10,000 = 5,00,000 + Profit

Profit = 7,10,000 – 5,00,000

Profit = ₹2,10,000/-

Question 10

The following effects occur:

Account	Side	Nature
Cash	Debit	Asset
Machinery	Debit	Asset
Debtor	Debit	Asset
Creditor	Credit	Liability
Proprietor's Account	Credit	Capital (Liability)
Rent Received	Credit	Income
Salary Paid	Debit	Expenses
Interest Received	Credit	Income

Question 11

The following effects occur:

Account	Side	Nature
Furniture	Debit	Asset
Bank	Debit	Asset

Proprietor's Account	Credit	Capital A/c (Liability)
Salary Paid	Debit	Expenses
Salary Outstanding	Credit	Liability
Subash (Customer)	Debit	Asset

Very Short Questions

Question 1

An accounting formula that always equates total assets of the firm with the sum of liabilities and capital at all times, is known as an accounting equation.

Question 2

The fundamental accounting equation is:

$$\text{Total Assets} = \text{Liabilities} + \text{Capital}$$

Question 3

Accounting Equation: Assets = Liabilities + Capital

i.e,

$$\text{Assets} = 2,00,000 + 5,00,00$$

Therefore, Total Assets = ₹7,00,000

Question 4

Accounting Equation: Assets = Liabilities + Capital

i.e,

$$10,00,000 = \text{Liabilities} + 4,00,00$$

$$\text{Liabilities} = 10,00,000 - 4,00,000$$

Therefore, Liabilities = ₹6,00,000 (Creditors)

Question 5

Accounting Equation: Assets = Liabilities + Capital

Opening Capital Balance (01/04/2013) = ₹ 6,00,000

Closing Asset Balance (31/03/2014) = Rs. 8,00,000

Closing Liability Balance (31/03/2014) = Rs. 5,00,000

i.e,

$8,00,000 = 50,000 + \text{Capital}$

$\text{Capital} = 8,00,000 - 50,000$

Therefore, Closing capital = ₹7,50,000

Closing capital = Opening capital + Additional Capital + Profit – Drawing

$₹7,50,000 = 6,00,000 + \text{Profit}$

$\text{Profit} = 7,50,000 - 6,00,000$

Profit = ₹1,50,000

Question 6

Debit refers to the left side of a T shaped ledger A/c. When an amount is recorded on the left hand side of an account, the account is said to be debited.

Question 7

Credit refers to the right side of a T shaped ledger A/c. When an amount is recorded on the right hand side of an account, the account is said to be credited.

Question 8

Due to the existence of the separate legal entity concept, which separates the company from its owners, thereby making the funds invested by the owners as a liability. Hence, the rules for debit and credit of capital a/c and any liability remains the same.

Question 9

An increase in capital is recorded on the credit side of the capital A/c as it is a liability, and the golden rule of accounts for real A/c's states, Debit all Assets, Credit all Liabilities (for increase).

Practical Questions

Question 1

Please find below the table containing the effect of transactions on the accounting equation:

Accounting Equation						
S.No	Transaction	Cash	Assets Furniture	= Stock	Liabilities + Creditors	Capital
1.	Sandeep began his company with cash	1,00,000				1,00,000
		1,00,000				1,00,000
2.	Bought furniture with cash	(5,000)	5,000			
		95,000	5,000			1,00,000
3.	Bought goods with cash	(20,000)		20,000		
		75,000	5,000	20,000		1,00,000
4.	Bought goods on credit			36,000	(36,000)	
		75,000	5,000	56,000	36,000	1,00,000
5.	Paid for rent	(700)				(700)
		74,300	5,000	56,000	36,000	99,300
6.	Goods costing ₹40,000 sold at a 20% profit for cash	48,000		(40,000)		8,000
		1,22,300	5,000	16,000	36,000	1,07,300

Working Note:

Cost of Goods Sold = 40,000

Add: Profit 20% = 8,000

Sale Value = 48,000

Question 2 (A)

Please find below the table containing the effect of transactions on the accounting equation:

Accounting Equation						
Sl.No	Transaction	Cash	Furniture	=	Liabilities +	Capital
					Creditors	
1.	Manu began his company with cash	50,000				50,000
		50,000				50,000
2.	Bought furniture	(500)	500			
		49,500	500			50,000
3.	Bought goods on credit			4,000	4,000	
		49,500	500	4,000	4,000	50,000
4.	Sold goods on cash (cost ₹500) for	700		(500)		200 (profit)
		50,200	500	3,500	4,000	50,200
5.	Received rent	200				200 (Income)
		50,400	500	3,500	4,000	50,400
6.	Bought goods for cash	(1,000)		1,000		
		49,400	500	4,500	4,000	50,400
7.	Withdrew for personal use	(700)				(700) (drawings)
		48,700	500	4,500	4,000	49,700
8.	Paid to creditors	(400)			(400)	
		48,300	500	4,500	3,600	49,700
9.	Salaries paid	(200)				(200)
		48,100	500	4,500	3,600	49,500

Balance Sheet

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	3,600	Cash	48,100
Capital	49,500	Furniture	500
		Stock	4,500
	53,100		53,100

Question 2 (B)

Please find below the table containing the effect of transactions on the accounting equation:

Accounting Equation							
Sl.No	Transaction	Cash	Assets Typewriter	= Stock	Debtors	Liabilities + Creditors	Capital
1.	Started business with cash	1,20,000					1,20,000
		1,20,000					1,20,000
2.	Purchased a typewriter	(8,000)	8,000				
		1,12,000	8,000				1,20,000
3.	Purchased goods on credit	(50,000)		50,000			
		62,000	8,000	50,000			1,20,000
4.	Purchased goods on cash			40,000		40,000	
		62,000	8,000	90,000		40,000	1,20,000
5.	Goods costing ₹60,000 sold for ₹80,000 on credit			(60,000)	80,000		20,000 (profit)
		62,000	8,000	30,000	80,000	40,000	1,40,000
6.	Paid for rent	(3,500)					(3,500)
		58,500	8,000	30,000	80,000	40,000	1,36,500
7.	Commission Received	800					800
		59,300	8,000	30,000	80,000	40,000	1,37,300
8.	Cash withdrawal for private use	(5,000)					(5,000) (Drawings)
		54,300	8,000	30,000	80,000	40,000	1,32,300

Ranjan's Balance Sheet

Liabilities	Amount	Assets	Amount
Creditor	40,000	Cash	54,300
Capital	1,32,300	Typewriter	8,000
		Stock	30,000
		Debtor	80,000
	1,72,300		1,72,300

Question 3

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Please find below the table containing the effect of transactions on the accounting equation:

S.No	Transaction	Accounting Equation				Capital
		Cash	Assets Stock	= Debtors	Liabilities + Creditors	
1.	Started business with cash	2,00,000				2,00,000
		2,00,000				2,00,000
2.	Bought product for ₹60,000 Cash and on ₹1,50,000 credit	(60,000)	2,10,000		1,50,000	
		1,40,000	2,10,000		1,50,000	2,00,000
3.	Sold goods for ₹40,000 cash at 20% profit on ₹72,000 credit at 25% profit	48,000	(1,12,000)	90,000		26,000 (Profit)
		1,88,000	98,000	90,000	1,50,000	2,26,000
4.	Rent paid	(5,000)				(5,000)
		1,83,000	98,000	90,000	1,50,000	2,21,000

Working Note:

Selling price of product sold:

Cost of goods sold = 40,000

Add: 20% profit = 8,000

Sale Value = **48,000**

Cost of goods sold = 72,000

Add: 25% profit = 18,000

Sale Value = **90,000**

Profit = 8,000 + 18,000

= Rs 26,000

Total Cost of sales = 40,000 + 72,000

= Rs 1,12,000

Question 4

Please find below the table containing the effect of transactions on the accounting equation:

Accounting Equation						
Sl.No	Transaction	Cash	Assets Furniture	= Stock	Liabilities + Creditors	Capital
1.	Kunal started his company with cash	2,50,000				2,50,000
		2,50,000				2,50,000
2.	Purchased furniture for cash	(35,000)	35,000		1,50,000	
		2,15,000	35,000			2,50,000
3.	Paid commission	(2,000)				(2,000)
		2,13,000	35,000			2,48,000
4.	Purchased goods on credit			40,000	40,000	
		2,13,000	35,000	40,000	40,000	2,48,000
5.	He sold goods(Costing ₹20,000) for cash	26,000		(20,000)		6,000 (Profit)
		2,39,000	35,000	20,000	40,000	2,54,000

Question 5:

Please find below the table containing the effect of transactions on the accounting equation:

Accounting Equation							
S.No	Transaction	Cash	Assets Stock	= Debtors	Furniture	Liabilities + Creditors	Capital
1.	Business Started with cash	1,75,000					1,75,000
		1,75,000					1,75,000
2.	Goods purchased from Rohit		50,000			50,000	
		1,75,000	50,000			50,000	1,75,000
3.	Goods sold to Manish on credit		(17,500)	20,000			2,500 (Profit)
		1,75,000	32,500	20,000		50,000	1,77,500
4.	Furniture purchased for office	(10,000)			10,000		
		1,65,000	32,500	20,000	10,000	50,000	1,77,500
5.	Paid full cash to Rohit	48,500				50,000	1,500 (Gain)
		1,16,500	32,500	20,000	10,000	NIL	1,79,000
6.	Received cash from Manish	20,000		(20,000)			

		1,36,500	32,500	NIL	10,000		1,79,000
7.	Rent Paid	(1,000)					(1,000)
		1,35,500	32,500		10,000		1,78,000
8.	Cash withdrew for private use	(3,000)					(3,000) (Drawings)
		1,32,500	32,500		10,000		1,75,000

Question 6

Please find below the table containing the effect of transactions on the accounting equation:

Accounting Equation								
Sl.No	Transaction	Cash	Assets		=	Liabilities	+	Capital
			Stock	Debtors	Prepaid Salary	Creditors	Outstanding Rent	
1.	Harish started business with cash	1,80,000						1,80,000
		1,80,000						1,80,000
2.	Purchased goods for ₹60,000 cash and on ₹ 30,000 credit	(60,000)	90,000			30,000		
		1,20,000	90,000			30,000		1,80,000
3.	Sold goods for ₹40,000 cash costing ₹ 24,000	40,000	(24,000)					16,000 (Profit)
		1,60,000	66,000			30,000		1,96,000
4.	Rent paid ₹5,000. Rent outstanding ₹2,000	(5,000)					2,000	(7,000)
		1,55,000	66,000			30,000	2,000	1,89,000
5.	Sold goods on ₹50,000 credit (costing ₹ 38,000)		(38,000)	50,000				12,000 (Profit)
		1,55,000	28,000	50,000		30,000	2,000	2,01,000
6.	Salary paid in advance ₹ 3,000	(3,000)			3,000			
		1,52,000	28,000	50,000	3,000	30,000	2,000	2,01,000

Question 7

Please find below the table containing the effect of transactions on the accounting equation:

Sl.,No	Transaction	Accounting Equation				Capital
		Cash	Assets Stock	= Prepaid Insurance	Liabilities + Outstanding Salary	
1.	Business Started with cash	1,20,000				1,20,000
		1,20,000				1,20,000
2.	Goods purchased for cash from Rohit	(10,000)	10,000			
		1,10,000	10,000			1,20,000
3.	Received rent	5,000				5,000 (Income)
		1,15,000	10,000			1,25,000
4.	Salary outstanding				2,000	(2,000)
		1,15,000	10,000		2,000	1,23,000
5.	Prepaid insurance	(1,000)		1,000		
		1,14,000	10,000	1,000	2,000	1,23,000
6.	Received interest	700				700 (Income)
		1,14,700	10,000	1,000	2,000	1,23,700
7.	Sold goods for cash(costing ₹5,000)	7,000	(5,000)			2,000 (Profit)
		1,21,700	5,000	1,000	2,000	1,25,700
8.	Goods destroyed by fire		-500			-500 (Loss)
		1,21,700	4,500	1,000	2,000	1,25,200

Question 8 (A)

Please find below the table containing the effect of transactions on the accounting equation:

Sl. No	Accounting Equation					
	Transaction		Assets	=	Liabilities	Capital
		Cash	Stock	Debtor	+ Creditors	
1.	Started business with ₹75,000 cash and ₹25,000 goods	75,000	25,000			1,00,000
		75,000	25,000			1,00,000
2.	Rent paid	(2,000)				(2,000)
		73,000	25,000			98,000
3.	Bought goods for ₹30,000 cash and on ₹44,000 credit	(30,000)	74,000		44,000	
		43,000	99,000		44,000	98,000
4.	Goods costing ₹ 50,000 sold at a 25% profit , out of which ₹ 27,500 received in Cash	27,500	(50,000)	35,000		12,500 (Profit)
		70,500	49,000	35,000	44,000	1,10,500
5.	Purchased a Motor-cycle for personal use	(20,000)				(20,000) (Drawings)
		50,500	49,000	35,000	44,000	90,500

Working Note:

Selling price of product sold:

Cost of goods sold = 50,000

Add: 25% profit = 12,500

Sale Value = **62,500**

Less: Cash = (27,500)

Value of credit sales = **35,000**

Question 8 (B)

Please find below the table containing the effect of transactions on the accounting equation:

Sl. No	Transaction	Accounting Equation				Capital
		Cash	Assets	=	Liabilities +	
			Stock	Debtors	Creditors	
1.	Raghu Started business with cash	1,50,000				1,50,000
		1,50,000				1,50,000
2.	Bought goods for ₹80,000 cash and ₹40,000 credit	(80,000)	1,20,000		40,000	
		70,000	1,20,000		40,000	1,50,000
3.	Goods costing ₹75,000 sold at 33 1/3 % profit. Half the payment received in cash	50,000	75,000	50,000		25,000 (Profit)
		1,20,000	45,000	50,000	40,000	1,75,000
4.	Goods costing ₹10,000 sold for ₹12,000 on credit		(10,000)	12,000		2,000 (Profit)
		1,20,000	35,000	62,000	40,000	1,77,000
5.	Paid for Rent ₹2,000 and for salaries ₹4,000	(6,000)				(6,000)
		1,14,000	35,000	62,000	40,000	1,71,000
6.	Goods costing ₹20,000 sold for ₹18,500 for Cash	18,500	(20,000)			(1,500) (loss)
		1,32,500	15,000	62,000	40,000	1,69,500

Working Note:

Selling price of product sold:

Cost of goods sold = 75,000

Add: 33.33% profit = 25,000

Sale Value = **1,00,000**

Less: Cash = (50,000)

Value of credit sales = **50,000**

Raghu's Balance Sheet

Liabilities	Amount	Assets	Amount
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Creditors	40,000	Cash	1,32,500
Capital	1,69,500	Stock	15,000
		Debtor	62,000
	2,09,500		2,09,500

Question 9

Accounting Equation: Assets = Liabilities + Capital

$$= 20,000 + 1,20,000$$

Therefore, Assets = Rs. 1,40,000

Question 10

Accounting Equation: Assets = Liabilities + Capital

Liabilities = Assets - Capital

$$\text{Liabilities} = + 80,000 - 1,30,000$$

Therefore, Liabilities = Rs 50,000

Question 11

Accounting Equation: Assets = Liabilities + Capital

Opening Capital Balance (01/04/2011) = ₹ 3,00,000

Closing Asset Balance (31/03/2012) = Rs. 5,00,000

Closing Liability Balance (31/03/2012) = Rs. 1,00,000

i.e,

$$5,00,000 = 1,00,000 + \text{Capital}$$

$$\text{Capital} = 5,00,000 - 1,00,000$$

Therefore, Closing capital = ₹4,00,000

Closing capital = Opening capital + Additional Capital + Profit – Drawing

$$₹4,00,000 = ₹3,00,000 + \text{Profit}$$

$$\text{Profit} = 4,00,000 - 3,00,000$$

$$\text{Profit} = ₹1,00,000$$

Question 12 (A)

Accounting Equation: Assets = Liabilities + Capital

$$\text{Opening Capital Balance (01/04/2011)} = ₹ 5,00,000$$

$$\text{Opening Liabilities Balance (01/04/2011)} = ₹ 1,00,000$$

$$\text{Closing Asset Balance (31/03/2012)} = \text{Rs. } 8,00,000$$

$$\text{Closing Liability Balance (31/03/2012)} = \text{Rs. } 1,00,000$$

i.e.,

$$8,00,000 = 1,00,000 + \text{Capital}$$

$$\text{Capital} = 8,00,000 - 1,00,000$$

$$\text{Therefore, Closing capital} = ₹7,00,000$$

$$\text{Closing capital} = \text{Opening capital} + \text{Additional Capital} + \text{Profit} - \text{Drawing}$$

$$₹7,00,000 = ₹5,00,000 + \text{Profit}$$

$$\text{Profit} = 7,00,000 - 5,00,000$$

$$\text{Profit} = ₹2,00,000$$

Question 12 (B)

Accounting Equation: Assets = Liabilities + Capital

$$\text{Opening Capital Balance (01/04/2011)} = ₹ 5,00,000$$

$$\text{Opening Liabilities Balance (01/04/2011)} = ₹ 1,00,000$$

$$\text{Closing Asset Balance (31/03/2012)} = \text{Rs. } 8,00,000$$

Closing Liability Balance (31/03/2012) = Rs. 1,00,000

i.e.,

$$8,00,000 = 1,00,000 + \text{Capital}$$

$$\text{Capital} = 8,00,000 - 1,00,000$$

Therefore, Closing capital = ₹7,00,000

Closing capital = Opening capital + Additional Capital + Profit – Drawing

$$₹7,00,000 = ₹5,00,000 + 40,000 + \text{Profit} - 10,000$$

$$\text{Profit} = 7,00,000 - 5,00,000 - 40,000 + 10,000$$

Profit = ₹1,70,000

Question 13

Effect	Example
1. Increase in an asset and a liability	Goods purchased on credit
2. Decrease in an asset and a liability	Cash paid to creditors
3. Increase in assets and capital	Capital introduced by proprietor
4. Decrease in assets and capital	Advertisement Expenses paid

Question 14

The effects are as follows:

Account	Side (Increase)	Nature
1. Furniture	Debit	Asset (Real A/c)
2. Rent Paid	Debit	Expense (Nominal A/c)
3. Commission Received	Credit	Income (Nominal A/c)
4. Salary Paid	Debit	Expense (Nominal A/c)

5. Proprietor's Paid	Credit	Capital (Personal A/c)
6. Debtor	Debit	Asset (Real A/c)
7. Creditor	Credit	Liability (Real A/c)

Question 15

The effects are as follows:

Account	Side (Decrease)	Nature
1. Cash Bank	Credit	Asset (Real A/c)
2. Bank Overdraft	Debit	Liability (Real A/c)
3. Rent Paid	Credit	Expense (Nominal A/c)
4. Outstanding Rent	Debit	Liability (Real A/c)
5. Prepaid Insurance	Credit	Asset (Real A/c)
6. Manoj, Proprietor of the business	Debit	Capital (Personal A/c)

Question 16

The effects are as follows:

Transaction	Debit (Dr.)	Credit (Cr.)
Ganesh started business with Cash ₹ 2,00,000	Cash A/c (Asset)	Capital A/c (Liability)
Purchased goods for Cash ₹ 60,000	Purchase A/c (Expense)	Cash A/c (Asset)
Sold goods for cash ₹ 75,000	Cash A/c (Asset)	Sales A/c (Revenue)
Purchased goods from Nakul on Credit for ₹ 80,000	Purchases A/c (Expense)	Nakul A/c (Liability)
Sold goods to Bhushan on Credit for ₹ 50,000	Bhushan A/c (Asset)	Sales A/c (Revenue)
Paid Cash to Nakul ₹ 20,000	Nakul A/c (Liability)	Cash A/c (Asset)
Received Cash from Bhushan ₹ 10,000	Cash A/c (Asset)	Bhushan A/c (Asset)
Paid salary ₹ 20,000	Salary A/c (Expense)	Cash A/c (Asset)

Question 17

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Please find below the ledger accounts based on the transactions:

Dr. **Machinery A/c**
Cr.

Particular	Amount	Particular	Amount
To Cash A/c	5,00,000	By Cash A/c	1,20,000
To Cash A/c	2,00,000	By Scrap A/c	50,000
		By Loss due to destruction A/c	40,000
		By Bal. C/d	4,90,000
	₹ 7,00,000		₹ 7,00,000

Question 18

Please find below the ledger account based on the transactions:

Dr. **Raghubir A/c**
Cr.

Particular	Amount	Particular	Amount
To Purchase Return A/c	5,000	By Purchase A/c	50,000
To Cash A/c	30,000	By Purchase A/c	16,000
To Cash A/c	20,000	By Bal. C/d	11,000
	₹ 66,000		₹ 66,000

Question 19

Please find below the ledger accounts based on the transactions:

Dr.	Cash Account		Cr.
Particular	Amount	Particular	Amount
By Purchase A/c	10,000	To Sales A/c	60,000
By Krishna A/c	28,000	To Hari A/c	15,000
By Bal. c/d	37,000		
	₹ 75,000		₹ 75,000
Dr.	Debtors Account		Cr.
Particular	Amount	Particular	Amount
By Cash A/c	15,000	To Sales A/c	20,000
By Bal. c/d	5,000		
	₹ 20,000		₹ 20,000
Dr.	Creditors Account		Cr.
Particular	Amount	Particular	Amount
To Cash A/c	28,000	By Purchase A/c	36,000
To Bal. c/d	8,000		
	₹ 36,000		₹ 36,000

Question 20

Please find below the ledger accounts based on the transactions:

Dr.	Capital Account				Cr.
Date	Particular	Amount	Date	Particular	Amount
31/12/13	To Drawing's A/c	40,000	01/03/13	By Cash A/c	5,00,000
28/04/14	To Drawing's A/c	20,000	01/08/13	By Cash A/C	1,00,000
31/04/14	To Bal. c/d	6,65,000	31/04/14	By P&L A/c	1,25,000
		7,25,000			7,25,000

Question 21

Please find below the table containing the effect of transactions on the accounting equation:

Accounting Equation						
Sl. No	Transaction		Assets	=	Liabilities +	Capital
		Cash	Stock	Bank	Creditors	
1.	Started business with ₹ 1,40,000 cash and ₹ 2,50,000 Stock	1,40,000	2,50,000			3,90,000
		1,40,000	2,50,000			3,90,000
2.	Goods (costing Rs 50,000) sold at a profit of 25% on cost	62,500	(50,000)			12,500 (Profit)
		2,02,500	2,00,000			4,02,500
3.	Deposited into bank	(1,80,000)		1,80,000		
		22,500	2,00,000	1,80,000		4,02,500
4.	Purchased goods from Mohan		80,000		80,000	
		22,500	2,80,000	1,80,000	80,000	4,02,500

Working Note:

Selling price of product sold:

Cost of goods sold = 50,000

Add: 25% profit = 12,5000

Sale Value = **62,500**

Question 22

Please find below the table containing the effect of transactions on the accounting equation:

Sl. No	Accounting Equation					
	Transaction	Assets			Liabilities +	Capital
		Cash	Stock	= Machinery	Creditors	
1.	Started business with cash	70,000				70,000
		70,000				70,000
2.	Credit purchase of goods		18,000		18,000	
		70,000	18,000		18,000	70,000
3.	Payment made to creditors in full settlement	(17,500)			(18,000)	500 (Gain)
		52,500	18,000		NIL	70,500
4.	Purchase of machinery for cash	(20,000)		20,000		
		32,500	18,000	20,000		70,500

Question 23

Please find below the table containing the effect of transactions on the accounting equation:

Sl. No	Transaction	Accounting Equation				
		Assets =			Liabilities + Capital	
		Cash	Stock	Machinery	Creditors	
1.	Initiated business with cash and goods	50,000	30,000			80,000
		50,000	30,000			80,000
2.	Bought goods for cash and on credit from Karan	(30,000)	50,000		20,000	
		20,000	80,000		20,000	80,000
3.	Goods costing ₹ 40,000 were sold for ₹ 55,000 for cash	55,000	(40,000)			15,000 (Profit)
		75,000	40,000		20,000	95,000
4.	Withdrew cash for personal use ₹ 10,000	(10,000)				(10,000) (Drawings)
		65,000	40,000		20,000	85,000
5.	Rent outstanding ₹ 2,000				+2,000	(2,000)
		65,000	40,000		22,000	83,000

Question 24

Please find below the table containing the effect of transactions on the accounting equation:

Accounting Equation							
Sl. No	Transaction		Assets	=	Liabilities +	Capital	
		Cash	Stock	Debtors	Furniture	Creditors	
1.	Mohan commenced business with	70,000					70,000
		70,000					70,000
2.	Purchased goods on Credit		14,000			14,000	
		70,000	14,000			14,000	70,000
3.	Withdrew for private use	(1,700)					(1,700) (Drawings)
		68,300	14,000			14,000	68,300
4.	Purchased goods for Cash	(10,000)	10,000				
		58,300	24,000			14,000	68,300
5.	Paid wages	(300)					(300)
		58,000	24,000			14,000	68,000
6.	Paid to Creditors	(10,000)				(10,000)	
		48,000	24,000			4,000	68,000
7.	Sold goods on Credit at par		(15,000)	15,000			
		48,000	9,000	15,000		4,000	68,000
8.	Sold goods for Cash (cost price was ₹ 3,000)	4,000	(3,000)				1,000 (Profit)
		52,000	6,000	15,000		4,000	69,000
9.	Purchased furniture for cash	(500)			500		
		51,500	6,000	15,000	500	4,000	69,000
Balance Sheet							
Liabilities		Amount		Assets		Amount	
Creditors		4,000		Cash		51,500	
Capital		69,000		Stock		6,000	
				Debtor		15,000	
				Furniture		500	
		73,000				73,000	

Question 25

Please find below the table containing the effect of transactions on the accounting equation:

Sl.No	Transaction	Accounting Equation					
			Assets	=	Liabilities +	Capital	
		Cash	Stock	Typewriter	Debtors	Creditors	
1.	Brij Mohan commenced business with Cash	1,00,000					1,00,000
		1,00,000					1,00,000
2.	Bought goods for Cash	(60,000)	60,000				
		40,000	60,000				1,00,000
3.	1/3rd of the above goods sold at a profit of 20% on cost. Half the payment received in Cash	12,000	(20,000)		12,000		4,000 (Profits)
		52,000	40,000		12,000		1,04,000
4.	Purchased typewriter for office use	(15,000)		15,000			
		37,000	40,000	15,000	12,000		1,04,000
5.	Purchased goods on Credit from X		25,000			25,000	
		37,000	65,000	15,000	12,000	25,000	1,04,000
6.	Paid to X	(15,000)				(15,000)	
		22,000	65,000	15,000	12,000	10,000	1,04,000
7.	Paid Salary	(3,000)					(3,000)
		19,000	65,000	15,000	12,000	10,000	1,01,000
8.	Received commission	500					500
		19,500	65,000	15,000	12,000	10,000	1,01,500
9.	Sold goods for Cash (Cost ₹ 50,000)	60,000	(50,000)				10,000 (Profit)
		79,500	15,000	15,000	12,000	10,000	1,11,500