CHAPTER 18

FINAL ACCOUNTS (WITH ADJUSTMENTS)

✤ Meaning of Financial Statements

Financial statements refer to the statements that depict the financial performance (i.e. profit/loss, surplus/deficit) as well as position (assets and liabilities) of an enterprise.

✤ Need for Adjustments

- To record the hitherto unrecorded transactions
- To make provisions for anticipated losses
- To adjust accrued income, advance income, accrued expenses and advance expenses
- To present fair and unbiased presentation of assets and liabilities
- To locate and rectify errors

♦ TREATMENT OF ITEMS

If given <i>inside</i>	If given <u>outside</u> the Trial Balance (ADJUSTMENTS)						
the Trial							
Balance							
TREATMENT	ITEMS	JOURNAL ENT	RY	TREAT	MENT		
Shown in the	1) Closing Stock	Closing Stock A/c	Dr.	Shown in the credit	Shown in the		
Assets side of the				side of Trading A/c	Assets side of the		
Balance					Balance		
Sheet	(shown with cost	To Trading A/c			Sheet		
	price or						
	realisable value						
	whichever is						
	lesser)						

Shown in the	2) Outstanding	Concerned Exp. A/c	Dr.	Added to the concerned	
Liabilities side of	Expenses			-	Liabilities side of
the				C 1	the
Balance Sheet		To O/s Exp. A/c		and Loss A/c debit side	Balance Sheet
Shown in the	3) Prepaid	Prepaid Exp.	Dr.	Deducted from the	Shown in the
Assets side of the	Expenses	A/c		concerned expense	Assets side of the
Balance		To Concerned		either in Trading A/c	Balance
		Expenses A/c		or	
Sheet				Profit and Loss A/c	Sheet
				debit side	
Shown in the	4) Accrued	Accrued Income A/c	Dr.	Added to the concerned	Shown in the
Assets side of the	Income			income in Profit and	Assets side of the
Balance				Loss A/c Credit side	Balance
Sheet		To Concerned			Sheet
		income A/c			
Shown in the	5) Unearned	Concerned Income	Dr.	Deducted from the	Shown in the
Liabilities side of	Income	A/c		Concerned income in	Liabilities side of
the				Profit and Loss A/c	the
Balance Sheet		To Unearned		Credit side	Balance Sheet
		income A/c			
Shown in the	6) Depreciation	Depreciation A/c	Dr.	Shown in the Debit	Deducted from the
debit side of		To Concerned Fixed		side of Profit and Loss	concerned fixed
Profit and Loss		Assets A/c		A/c	assets in the
A/c					Assets side of the

					Balance Sheet
Shown in the debit side of Profit and Loss A/c	7) Interest on capital	Interest on Capital A/c To capital A/c	Dr.	Shown in the debit side of Profit and Loss A/c	Added to the Capital in the Liabilities side of Balance Sheet
Shown in the credit side of Profit and Loss A/c	8) Interest on drawings	Drawings A/c To Interest on Drawing A/c	Dr.	Shown the credit side of Profit and Loss A/c	Deducted from the Capital in the Liabilities side of Balance Sheet
Shown the credit side of Profit and Loss A/c	,	O/s Interest A/c To Interest on Loan A/c	Dr.	Shown in the credit side of Profit and Loss A/c	Added to the Loan in the Assets side of the Balance Sheet
Shown in the debit side of Profit and Loss A/c	<u>Case – II</u> If loan is a liability (Loan taken)	Interest on loan A/c To O/s Interest A/c	Dr.	Shown in the debit side of Profit and Loss A/c	
Shown in the debit side of Profit and Loss A/c	10) Bad-debts	Bad-debts A/c To Sundry Debtors A/c	Dr.	Shown in the debit side of Profit and Loss A/c	Deducted from the Debtors in the Assets side of the Balance Sheet

	11) Further Bad-	Further bad-debts Dr.	Added to the old Bad-	Deducted from the
	debts	A/c	debts in the debit side	Net debtors
		To Sundry Debtors	of Profit and Loss A/c	(Sundry debtors
		A/c		<i>less</i> Bad-debts (in
				adjustment) in the
				Assets side of the
				Balance Sheet
If Old Provision	12) Provision for	Profit and Loss A/c	New Provision is added	New Provision is
is $lesser$ than	Bad and	To Provision for	to the sum total of	deducted from the
the total of all	Doubtful debts $*$	Bad and Doubtful	Bad-debts and further	Sundry Debtors
bad-debts, then		debts A/c	Bad-debts	i.e. {Sundry
Old Provision is				Debtors
deducted from				<i>less</i> Bad-debts (in
the sum of Bad-				adjustments)
debts, further				<i>less</i> Further Bad-
Bad-debts and				debts
New provision.				<i>less</i> New provision
				for bad and
But if Old				doubtful debts}
Provision is				
greater than the				
sum totals of all				
the bad-debts,				
then it is shown				
in the credit side				
of the Profit and				
Loss A/c				
	13) Provision for	Profit and Loss A/c Dr.	Shown in the debit side	Deducted from the
	discount on	To Provision for	of the Profit and Loss	Good Debtors i.e.

debtors	Discount on		A/c	{Sundry Debtors
	Debtors A/c			<i>less</i> Bad debtors
				<i>less</i> Further Bad
				debt
				less New Provision
				for Bad and
				doubtful debts
				<i>less</i> Discount on
				$debtors\}$
				in the Assets side
				of the Balance
				Sheet
14) Provision for	Creditors A/c	Dr.	Shown in the Credit	Deducted from the
discount on	To Provision for		side of Profit and Loss	Creditors in the
creditors	discount on		A/c	Liabilities side of
	Creditors			the Balance Sheet
15) Abnormal loss **	Loss by Accident A/c	Dr.		
Case-I	To Purchases A/c		Deducted from Net	Shown in the
If goods are <u>not</u>	Profit and Loss A/c	Dr.	purchases (Purchases	Debit side of
Insured		D1.	<i>less</i> Purchases return)	Profit and Loss
msured			in the Debit Side of	A/c
	To Loss by		Trading A/c	
	Accident A/c			
Case-II	Loss by Accident A/c	Dr.	Deducted from Net	Shown in the
If goods are	To Purchases A/c		purchases (Purchases	debit side of Profit
Insured	/		<i>less</i> Purchases return)	and Loss A/c with
			in the Debit Side of	actual loss and

	(With the total amoun goods lost)	it of	Trading A/c	shown in the Assets side of Balance Sheet with the amount received from Insurance company
	Insurance Company A/c (Amount paid by Insurance Company)	Dr.		
	Profit and Loss A/c (Actual loss) To Loss by Accident (Total amount of goods lost)	Dr.		
16) Loss of fixed Assets by fire or other natural calamities	Profit and Loss A/c To Loss of fixed Assets by Accident A/c	Dr.	Shown in the debit side of Profit and Loss A/c	Deducted from the concerned assets in the Assets side of the Balance Sheet
	Loss of Fixed Assets A/c To Concerned Fixed Assets A/c	Dr.		
17) Charity in form of goods	Charity A/c To Purchases A/c	Dr.	Deducted from the Net Purchases (Purchases	Shown in the debit side of Profit

			<i>less</i> Purchases Returns) in the debit side of Trading A/c	and Loss A/c
18) Goods distributed as free samples	Advertisement A/c To Purchases A/c	Dr.	Deducted from the Net Purchases in the debit side of Trading A/c	Shown in the debit side of Profit and Loss A/c
19) Withdrawal of goods for personal use (Drawings in form of goods)	Drawings A/c To Purchases A/c	Dr.	Deducted from the Net Purchases in the debit side of Trading A/c	Shown in the debit side of Profit and Loss A/c
20) Deferred revenue Expenditure	Profit and Loss A/c To Deferred Revenue Expenditure A/c (With current year's amount only)	Dr.	Shown in the debit side of Profit and Loss A/c (With current year's amount only)	Shown in the Assets side of the Balance Sheet (With current year's amount only)

NOTE:

* If Provision for Bad and Doubtful debt is given inside the Trial Balance then it is known as old provision. But if it is given in the adjustments then it is known as New Provision.

** Gross Loss of goods implies Total Loss of goods, where Actual Loss implies Net Loss (i.e. Total loss – Insurance claim received). For e.g. if goods worth Rs 10,000

were destroyed by fire then Rs 10,000 is total or gross loss. If Insurance company accepts 80% of the loss claimed, then Rs 2,000 (i.e. 10,000 - 8,000) is net (actual) loss and will be shown in the debit side of Profit and Loss A/c.

21) Manager's Commission on Net Profit

Generally, there are two practices followed for providing manager's commission:

- Manager's Commission on net profit *before* charging his commission
- Manager's commission on net profit *after* charging his commission

Steps to compute Manager's Commission on Net Profit <u>before</u> charging his commission

- Step 1: Calculate the total of debit side and the total of credit side
- **Step 2:** Calculate Net profit by deducting total of debit side from the total of credit side.
- Step 3: Calculate Manager's Commission by the formula: Net Profit before charging commission = Net Profit × $\frac{\text{Rate}}{100}$
- Step 4: Show manager's commission in the debit side of Profit and Loss A/c and in Liabilities side of Balance Sheet as Manager's Commission Payable.
- Step 5: Deduct manager's commission from the Net Profit computed in the Step (2) and show the balance as Net Profit in the debit side of Profit and Loss A/c

Steps to compute Manager's Commission on Net Profit <u>after</u> charging his commission

- Step 1: Calculate the total of debit side and the total of credit side
- Step 2: Calculate Net profit by deducting total of debit side from the total of credit side.
- Step 3: Calculate Manager's Commission by the formula:

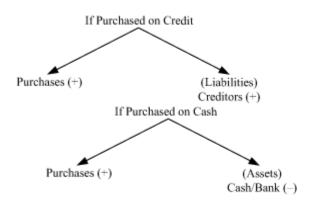
Net Profit before charging commission $\times \frac{\text{Rate}}{100 + \text{Rate}}$

- Step 4: Show manager's commission in the debit side of Profit and Loss A/c and in Liabilities side of Balance Sheet as Manager's Commission Payable.
- Step 5: Deduct manager's commission from the net profit computed in the Step (2) and show the balance as Net Profit in the debit side of Profit and Loss A/c

NOTE:

- If manager's commission is given inside the Trial Balance, then it will be shown only in the debit side of the Profit and Loss A/c.
- If manager's commission is given inside the Trial Balance as 'Manager's Commission Payable', then it will be shown only in the Liabilities side of the Balance Sheet.

22) Goods purchased but not recorded



23) Goods sold but not recorded

