

ADJUSTMENTS IN FINANCIAL STATEMENTS OR FINAL ACCOUNTS

Information given outside the trial balance are known as adjustments. It means journal entry of this adjustment has not been passed yet. treatment of adjustments will be done keeping in mind the double entry system of book keeping. it means treatment of adjustments is done at least two places in final accounts to complete the double entry system of book keeping.

1 CLOSING STOCK :

Closing stock a/c dr
 To trading a/c

TREATMENT :

- 1 It is shown on the credit side of trading a/c
- 2 It is shown on the asset side of balance sheet as a current asset.

If closing stock is shown in the trial balance it means adjustment for closing stock has already been done and it will be shown as a current asset on the asset side of balance sheet only.

2 OUTSTANDING EXPENSES :

Expenses a/c dr
 To outstanding expense a/c

TREATMENT:

- 1 outstanding expense should be added to the concerned expense on the DR side of trading a/c or P & L a/c.
- 2 It should be shown on the liability side of balance sheet as a current liability.

3 PREPAID EXPENSE :

Prepaid expense a/c dr

 To expense a/c

TREATMENT :

- 1 prepaid expense is deducted from the concerned expense on the DR side of trading a/c or P&L a/c as the case may be.
- 2 It is an asset for the business concern that is why it is shown on the asset side of balance sheet as current asset.

4 ACCRUED INCOME OR OUTSTANDING INCOME:

Accrued income a/c dr

 To income a/c

TREATMENT :

- 1 accrued income is added to the concern item of income on the credit side of the P & L a/c
- 2 it is shown on the asset side of Balance sheet as a debt.

5 UNEARNED INCOME OR UNEXPIRED INCOME OR INCOME RECIVED IN ADVANCE

Income a/c dr

 To unearned income

TREATMENT :

- 1 unexpired income is deducted from the concerned item of income on the CR side of P & L a/c.
- 2 Income received in advance is a liability to the business concern therefore it is shown on the liability side of balance sheet as a current liability.

6 DEPRECIATION

Depreciation a/c dr

 To sundry asset

TREATMENT :

1 Amount of depreciation is shown on the DR side of P & L a/c .

2 It is deducted from the value of asset on the asset side of balance sheet.

In case fixed asset is purchased during the year depreciation is calculated from the date of purchase to the end of accounting year.

7 INTEREST ON CAPITAL :

Interest on capital a/c dr

 To capital a/c

TREATMENT :

1 Interest on capital is shown on the DR side of P & L a/c as an expense.

2 It is added to the capital on the liability side of balance sheet.

Interest on capital is always calculated on opening balance of capital for the full year . if additional capital is introduced during the year ,interest on additional capital shall be calculated from the date of introduction of capital till the end of financial year.

8 INTEREST ON DRAWING :

Drawing a/c dr

 To interest on drawing a/c

TREATMENT :

1 Interest on drawing is income for the business that is why it is shown on the CR side of P & L a/c

2 It is deducted from the capital on the liability side of balance sheet.

if nothing has been mentioned regarding the date of drawing then we will assume that drawing has been made by the proprietor in equal monthly instalment and that too on the 15th of every month .in this case interest will calculated for 6 months.

9 BAD DEBTS :

Bad debts a/c dr

 To customer a/c

TREATMENT :

- 1 Amount of bad debts is shown on the DR side of P & L a/c as a loss.
- 2 Amount of bad debts will be deducted from the total debtors on the asset side of balance sheet.

Bad debts given in the trial balance will not be deducted from debtors in the balance sheet.

10 PROVISION FOR DOUBTFUL DEBTS OR RESERVE FOR DOUBTFUL DEBTS

P & L A/C dr

 To provision for doubtful debts

TREATMENT :

- 1 It is shown on the DR side of P & L a/c as a loss.
- 2 It is a liability for the business concern but it is not shown on the liability side of balance sheet . rather it is shown on the asset side of balance sheet by way of deduction from the sundry debtors.

Calculation of amount of provision for doubtful debts

1 amount of new provision required

Total debtors – bad debts given in adjustments

= net debtors * %age given in the adjustments = ****

Add: bad debts given in the adjustments = ****

Add: bad debts given in trial balance = ****

Less existing provision given in the CR side of trial balance ****

+

DR side of P & La/c

if the resulting figure is in –ve it should be shown on the CR side of

P & L a/c

11 PROVISION FOR DISCOUNT ON DEBTORS :

P & L a/c dr

To prov. for discount on debtors

TREATMENT :

- 1 It is shown on the DR side of P & L a/c as a loss.
- 2 It is shown on the asset side of balance sheet by way of deduction from the sundry debtors.

debtors given in trial balance - bad debts given in adjustments – new provision for doubtful debts

= resulting figure * % age given for dis. On debtors.

12 PROVISION FOR DISCOUNT ON CREDITORS :

TREATMENT :

- 1 Reserve for discount on creditors is a income for the business therefore it should be shown on the CR side of P & L a/c .
- 2 It is deducted from the amount of sundry creditors on the liability side of balance sheet.

13 GENERAL RESERVE OR RESERVE FUND

Reserve fund a/c	dr
To P & L a/c	

TREATMENT :

- 1 It is shown on the DR side of P & L a/c.
- 2 It is shown on the liability side of balance sheet.

14 PROVISION FOR REPAIRS :

TREATMENT :

- 1 provision on repairs should be shown on the DR side of P & L a/c
- 2 It is shown on the asset side of balance sheet.

15 COMMISSION PAYABLE ON THE BASIS OF PROFITS :

TREATMENT :

- 1 It is shown on the DR side of P & L a/c .
- 2 It should be shown on the liability side of balance sheet as a current liability

Fixed %age on net profit before charging Of such commission.

$$\text{Commission} = \text{net profit} * \text{rate} / 100$$

Fixed %age on net profit after charging such commission or profits finally remaining

$$\text{Commission} = \text{net profit} * \text{rate} / 100 + \text{rate}$$

16 DEFERRED REVENUE EXPENDITURE :

TREATMENT :

- 1 Amount of expenditure written off during the year will be debited to the P & L A/C.
- 2 It will be deducted from the total amount of deferred revenue expenditure on the asset side of balance sheet .

17 GOODS LOST BY FIRE ,ACCIDENT,THEFT ETC. NOT RECORDED IN THE BOOKS :

CASE A when goods are not insured or goods insured but no claim is admitted.

Loss of goods a/c dr
 To purchases a/c or trading a/c.

TREATMENT :

- 1 Loss by theft etc. Will be deducted from the purchases on the DR side of trading a/c.
- 3 It will be debited to the profit and loss a/c as a loss.

CASE B When goods are insured and full claim is admitted

Loss of goods a/c dr
 To purchases or trading a/c
 Insurance company a/c dr
 To loss by theft a/c.

TREATMENT :

- 1 Loss of goods will be deducted from the purchases on the DR side of trading a/c .
- 2 It will be shown on the asset side of balance sheet as a current asset.

CASE C GOODS ARE INSURED BUT INSURANCE COMPANY ADMITTS ONLY A PART OF THE CLAIM.

Loss of goods : loss by theft a/c dr
 To purchases a/c

Claim admitted : insurance co. Dr
 P & I a/c Dr
 To loss by theft

TREATMENT :

- 1 It will be deducted from the purchase on the DR side of trading a/c.
- 2 Claim admitted by the insurance company will be shown on the asset side of balance sheet as a current asset .
- 3 Remaining loss will be shown on the DR side of P & L a/c .

18 GOODS WITHDRAWN BY THE PROPRIETOR FOR THE PERSONNEL USE :

Drawing a/c dr
 To purchase

TREATMENT :

- 1 cost of goods withdrawn will be deducted from the purchases on debit side of trading a/c .
- 2 It will be deducted from the capital as a drawing on the liability side of balance sheet.

19 GOODS DISTRIBUTED AS A FREE SAMPLES :

Advertisement a/c dr
 To purchases a/c

TREATMENT :

- 1 It will be deducted from the purchases on the debit side of trading a/c
- 2 It is shown as an expense on the DR side of P & L a/c.

20 MATERIAL USED OR WAGES PAID TO OWN WORKERS FOR MAKING AN ASSET FOR OWN USE :

Asset a/c	dr
To purchases	
To wages	

TREATMENT :

- 1 Cost of materials used is deducted from purchases ,similarly wages paid will be deducted from the wages on the dr side of trading a/c.
- 2 Cost of material used and wages paid will be added together and shown as an asset on the asset side of balance sheet.

21 PURCHASE INVOICE NOT RECORDED IN THE BOOKS:

Purchase a/c	dr
To supplier a/c	

TREATMENT :

- 1 Amount of purchase invoice should be added to the purchase on the dr side of trading a/c.
- 2 Amount of purchase invoice should be added to the sundry creditors on liability side of balance sheet.

22 PURCHASE INVOICE RECORDED IN THE BOOKS BUT ACTUAL DELIVERY NOT RECORDED IN BOOKS:

Suppliers a/c	dr
To purchase a/c	

TREATMENT :

- 1 It should be deducted from the purchase on the debit side of trading a/c.
- 2 It should be deducted from the sundry creditors on the liability side of balance sheet.

23 GOODS SOLD BUT NOT DELIVERD TO THE CUSTOMERS :

TREATMENT :

- 1 It should be deducted from the closing stock on the credit side of trading a/c.
- 2 It should be deducted from the closing stock on the asset side of balance sheet.

24 GOODS SENT ON APPROVAL BASIS OR GOODS SOLD ON SALE OR RETURN BASIS :

TREATMENT :

- 1 Such sale should be deducted from sale on credit side of trading a/c .
- 2 It should be deducted from the sundry debtors on the asset side of balance sheet.
- 3 Cost of goods sold should be added to the closing stock on the credit side of trading a/c
- 4 Cost of goods sold should also be added to the closing stock on the asset side of balance sheet.