



Revision Notes

Class 11 Accountancy

Chapter 10 - Financial Statements Part- 2

Need for Adjustments:

Adjustments are required because sometimes payments and receipts made in the current year may relate to previous or future years. So, these items must be adjusted so that the objectives of financial statements can be achieved i.e., they depict true and fair financial performance of the business.

Adjustments are required in the following items:

- 1. Closing stock:** It is the stock of goods at the end of the accounting year. The adjustment for the closing stock is done by
 - a. By posting it to the credit side of the Trading and Profit and Loss account
 - b. By posting it to the asset side of the Balance Sheet.

The journal entry that is passed is:

Closing Stock A/c..... Dr.
To Trading A/c

- 2. Outstanding expenses:** These are those unpaid expenses that the businesses haven't paid in the present accounting period and are due. The adjustment entry passed is:

Concerned Expense A/c..... Dr.
To Outstanding Expenses A/c

The outstanding expenses are added to a particular expense head in the Trading and Profit and Loss account and are shown in the liabilities side of the Balance Sheet.

- 3. Prepaid expenses:** These are those expenses that are paid in advance by the businesses that have not been due. The benefits of these expenses are not

received in the present accounting year but in the next years. The adjustment entry that is passed is:

Prepaid Expenses A/c.....Dr.
To Concerned expense A/c

The prepaid expenses are subtracted from the particular expense head in the Trading and Profit and Loss A/c and are shown on the asset side of the balance sheet.

4. **Accrued income:** These are those incomes that are accrued but not yet received. The adjustment entry passed is:

Accrued income A/c.....Dr.
To Concerned income A/c

The accrued income is added to the concerned income head in the Trading and Profit and Loss account and is shown in the asset side of the Balance Sheet.

5. **Income received in advance:** This is that income which is received in advance but not yet accrued. The adjustment entry passed is:

Concerned income A/c.....Dr
To Income received in advance A/c

The income received in advance is deducted from the respective income head in the Trading and Profit and Loss Account and is shown in the liabilities side of the balance sheet.

6. **Depreciation:** Depreciation is the decline in the book value of the fixed asset because of regular wear and tear and passage of time. The adjustment entry that is passed is:

Depreciation A/c Dr.
To Concerned asset A/c

It is debited to the Profit and Loss Account and in the balance sheet the asset is shown at cost minus depreciation.

7. **Bad debts:** This is that amount that can not be recovered from debtors. This is regarded as loss and the adjustment entry passed is:

Bad debts A/cDr.
To Debtors A/c

It is shown as an expense on the debit side of the Trading and Profit and Loss Account and in the balance sheet debtors are shown at book value less bad debts.

8. **Provision for doubtful debts:** Sometimes we make a provision for some amount of Debtors that may not realise in future such provisions are called provisions for doubtful debts. That Adjustment entry that is passed is:

Profit and Loss A/cDr.
To Provision for doubtful debts A/c

The provision for doubtful debts are shown as an expense In the debit side of the trading and profit and loss account and in the balance sheet the amount of debtors are shown at book value less provision for doubtful debts.

9. **Provision for discount on debtors:** Sometimes the businesses allow some discount on the amount to be received from debtors. For this there is a provision made for discount on debtors which is an expense for the business. The provision for discount is always made on good debtors which are book value less bad debts. The adjustment entry that is passed is:

Profit and loss A/c..... Dr.

To Provision for discount on debtors A/c

This provision is an expense and is shown on the debit side of the trading and profit and loss account and in the balance sheet the debtors amount is reduced by the amount of provision for discount on debtors.

10. Manager's commission: This is that commission which the manager gets on the net profit of the company. This percentage of commission can be in the form of either percentage before charging such commission or after charging such commission. And in case nothing is mentioned in the question it is assumed that commission is paid before charging such commission.

In case of commission charged on profit before charging such commission.

Commission= Profit before charging such commission X Rate of commission/100

In case of commission charged on profit after charging such commission

Commission= Profit before charging such commission X Rate of commission/(100+ Rate of commission)

The adjustment entry that is passed is:

Profit and loss A/cDr.
To Manager's commission A/c

11. Interest on capital: It is the interest that is paid on the capital of the proprietor. This interest is payable on the capital that was at the beginning of the accounting year. And in case of any additional capital brought in by the proprietor the interest is charged from the date it is brought. The adjustment entry that is passed is:

Profit and loss A/c..... Dr.
To Manager's commission A/c

It is an expense and hence it is shown on the debit side of the profit and loss account and in the balance sheet it is added to the capital.

Illustration:1

From the following information prepare Trading and Profit and Loss Account and Balance Sheet for the year ended 31st March, 2021.

Account	Amount	Account	Amount
Capital	7,20,000	Salaries	1,20,000
Machinery	1,40,000	General Expenses	40,000
Sales	16,40,000	Rent	1,00,000
Purchases	8,00,000	Purchases Return	10,000
Sales Return	20,000	Debtors	6,00,000
Opening Stock	2,00,000	Cash	80,000
Drawings	80,000	Carriage Outwards	40,000
Wages	2,00,000	Advertising	40,000
Carriage Inwards	10,000	Creditors	1,00,000

Adjustments:

1. Closing Stock was valued at Rs. 4,00,000.
2. Outstanding salaries amounting to be Rs. 20,000
3. Rent includes prepaid rent of Rs. 30,000.
4. Bad debts amount to Rs. 50,000.

Ans: Trading and Profit and Loss Account
for the year ended 31st March, 2021

Particulars	Amount	Particulars	Amount
Opening Stock	2,00,000	Closing Stock	4,00,000
Add: Purchases 8,00,000		Sales 16,40,000	
Less: Purchase (10,000)	7,90,000	Less: Sales	16,20,000
Returns		(20,000)	
Wages	2,00,000	Return	

Carriage Inwards	10,000		
Gross Profit c/d	8,20,000		
	20,20,000		20,20,000
Salaries 1,20,000		Gross Profit b/d	8,20,000
Add: Outstanding (20,000)	1,40,000		
Salary			
General Expenses	40,000		
Rent 1,00,000			
Less: Prepaid Rent	70,000		
(30,000)	40,000		
Carriage outwards	40,000		
Advertising	50,000		
Bad Debts	4,40,000		
Net Profit (transferred to Capital account)	8,20,000		8,20,000

Balance Sheet
as on 31st March, 2021

Liabilities	Amount	Assets	Amount
Capital 7,20,000		Fixed Assets:	
Less: Drawings (80,000)	10,80,000	Machinery	1,40,000
Add: Net Profit 4,40,000		Current Assets:	
	1,00,000	Debtors (600000-50000)	5,50,000
Current Liabilities	20,000	Cash	4,00,000
Creditor		Closing Stock	30,000
Outstanding Salary		Prepaid rent	

	12,00,000		12,00,000

