

*Financial
Statements with
Adjustments*

Meaning of Adjustments

In an enterprises there are number of transactions which need to be adjusted so that final accounts give true and fair view of the results. These transactions are termed or called adjustments and the Journal entries passed giving effect to these adjustments are known as Adjustments entries.

All revenues earned during the year (whether received or not) and Expenses incurred during the year (whether paid or not) are accounted following the Accrual Assumption or Concept

Therefore ,

- 1. Expenses incurred for the year whether paid or not are included.*
- 2. Income earned during the year whether received or not are included.*

3.

1. Expenses incurred for the year whether paid or not are included.

***Example:** A firm close its books on 31st March and Rent for the month of March is not paid. This amount has to be paid because the expenses has been incurred. Therefore it should be recorded as an expenses and shown as a liability.*

2. Income Earned during the year whether received or not are included.

***Example:** Suppose , goods sold but the amount is not received . Sale has been made and income is earned. It should be shown as revenue of the year*



Treatment of Adjustments in Final Accounts

<i>S. NO.</i>	<i>Adjustments</i>	<i>Treatment in Trading and Profit and loss account</i>	<i>Treatment In Balance sheet</i>
<i>1.</i>	<i>Closing Stock</i>	<i>Credit side of trading account</i>	<i>Asset side</i>
<i>2.</i>	<i>Outstanding Expenses.</i>	<i>Added to Respective Expense</i>	<i>Liability side</i>
<i>3.</i>	<i>Prepaid Expenses</i>	<i>Minus from Respective Expenses</i>	<i>Assets side</i>
<i>4.</i>	<i>Accrued Income</i>	<i>Added to Respective Income</i>	<i>Assets side</i>
<i>5.</i>	<i>Unearned Income Or Income received in advance</i>	<i>Minus from Respective income</i>	<i>Liability side</i>

6.	<i>Depreciation</i>	<i>Debited to profit and Loss account</i>	<i>Minus from Respective Asset.</i>
7.	<i>Interest on capital</i>	<i>Debited to profit and Loss account</i>	<i>Added to Capital</i>
8	<i>Interest on Drawings</i>	<i>Credited to Profit and Loss account</i>	<i>Minus from Capital</i>
9.	<i>Interest on Investment</i>	<i>Credited to Profit and Loss account</i>	<i>Added to Investment</i>
10.	<i>New Bad debts</i>	<i>Debited to Profit and Loss account</i>	<i>Minus from Debtors</i>
11.	<i>Provision for Bad debts</i>	<i>Added to New bad debts to Profit and Loss account.</i>	<i>Minus from Debtors</i>

12.	<i>Provision for discount on Debtors</i>	<i>Added to Discount allowed to Profit and Loss Account.</i>	<i>Minus from Debtors</i>
13.	<i>Loss by fire</i>	<i>Cr side of Trading A/C And debit side of profit and loss account if Goods Not insured</i>	<i>If insured, then amount of claim accepted as an Asset.</i>