

Final Accounts



Schedule vi , part1

Form Of Balance sheet

Date	Particular	Amount	Date	Particular	Amount
	<ul style="list-style-type: none"> • Share capital ✓ Authorized capital ✓ Issued capital Subscribed capital • Reserve and surplus • Secured loans • Unsecured loans • Current liabilities n provisions ✓ current liabilities ✓ provisions 	xxx xxx xxx xxx xxx xxx xxx xxx xxx xxx		<ul style="list-style-type: none"> • Fixed assets • Investment • Current assets n loans and advance ✓ current assets ✓ loans and advances • Miscellaneous expenditure • Profit and loss account 	xxx xxx xxx xxx xxx xxx xxx

Some Important and Common Adjustments are listed below:

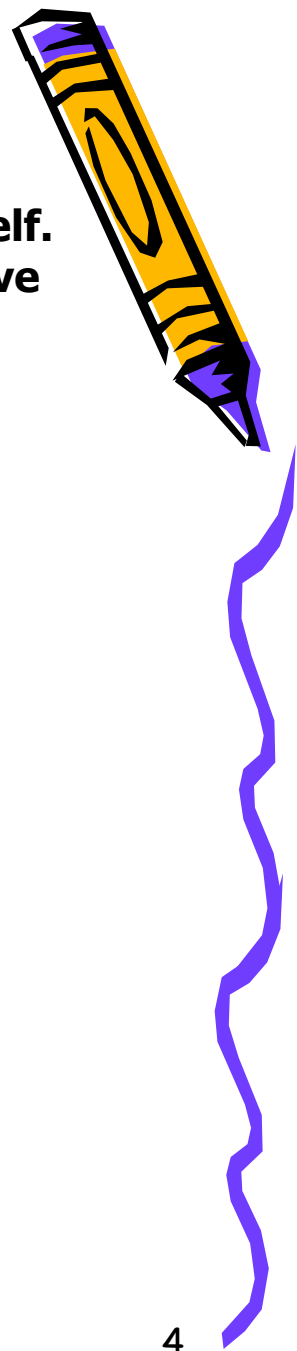
- Closing Stock:-
Adjustment Entry:
Closing Stock A/c-----Dr
 To Trading A/c
- The Closing Stock is treated in the Final Accounts as follows:-
 - On the Credit Side of "Trading A/c", shown as separate item.
 - On the Assets Side of the Balance Sheet, shown as a separate item under "Current Assets".

Dr.			Cr.
Particulars	Amount in Rs.	Particulars	Amount in Rs.
		By Closing Stock	xxxxxxxxxx

Liabilities	Amount in Rs.	Assets	Amount in Rs.
		<u>Current Assets:</u> Closing Stock	xxxxxxxxxx

Adjusted Purchases and Closing Stock

- Sometimes the Closing Stock may be given in the Trial Balance itself. This would mean that both the Opening and the Closing Stocks have been adjusted in the Purchases.
- In such a situation, the Opening Stock will not appear in Trial Balance.
- The Trial Balance will show only the figures of Adjusted Purchases and Closing Stock.
- The Adjusted Purchases are in fact the Cost of Goods Sold.
- They have been worked out by adding the Opening Stock + Net Purchases + Direct Expenses – Closing Stock.
- The Adjusted Purchases are shown on the debit side of “Trading Account”.
- In such a situation there is no need to show “Closing Stock in the Trading Account” as it already stands adjusted in Purchases.
- It will be shown only on the “Assets side of Balance Sheet”.





- **Outstanding Salaries:-**

- **Adjustment Entry:**

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

- **The Outstanding Expenses is treated in Final Accounts as follows:-**

- **Added to the concerned expenses in the “Trading and Profit and Loss A/c”.**
- **Shown on the Liabilities side of the Balance Sheet as a separate item under “Current Liabilities”.**

Dr.			Cr.
Particulars	Amount in Rs.	Particulars	Amount in Rs.
To Expenses	Xxxxxx		
Add: Outstanding Expenses	Xxxxxx		

Liabilities	Amount in Rs.	Assets	Amount in Rs.
<u>Current Liabilities:</u> Outstanding Exp.	Xxxxxx		



Outstanding Expenses:-

- **Outstanding Expenses are those expenses which have been incurred during Current accounting year but have not been paid till the end of the year. They are also called “Accrued Expenses”.**
- **The Common examples of such expenses are the Salaries, Wages and Rent for the last month of the Accounting year paid in the first month of the Next year.**
- **Since they remained unpaid as at the end of Accounting year, no entry might have been passed in the books of account.**
- **So, they must be taken into account while preparing the Trading and Profit and Loss A/c, otherwise it will not reveal the correct amount of Profit or Loss.**





- **Prepaid Expenses:-**

- **Adjustment Entry:**

Prepaid Expenses A/c-----Dr
To Concerned Expense A/c

- The Prepaid Expenses will be treated in Final Accounts as follows:-
 - Subtracted from the Concerned Expense in the "Trading and Profit and Loss A/c".
 - Shown on the Assets side of the Balance Sheet as a separate item under "Current Assets".

Dr.			Cr.
Particulars	Amount in Rs.	Particulars	Amount in Rs.
To Expense A/c Less: Prepaid Exp.	Xxxxxx Xxxxxx		

Liabilities	Amount in Rs.	Assets	Amount in Rs.
		Current Assets: Prepaid Expenses	Xxxxxx



Prepaid Expenses:-

- **Sometimes, the benefit of some Expenses will be available not only in the Current Accounting year but also in the Next year.**
- **That Portion of expense the benefit of which yet to be received is called "Prepaid Expense" (or) "Unexpired Expense".**
- **Examples of such expenses are Unexpired Insurance, Interest paid in Advance, etc.**
- **In such situations it is necessary to find out the Unexpired Portion and adjust it in the concerned expense.**



- Accrued Income:-

- Adjustment Entry:

Accrued Income A/c-----Dr
To Concerned Income A/c

- The Accrued Income is treated in final accounts as follows:-

- Added to the concerned income in the Profit and Loss Account and
- Shown on the Asset Side of the Balance Sheet as a separate item under "Current Assets".

Dr.			Cr.
Particulars	Amount in Rs.	Particulars	Amount in Rs.
		By Income	Xxxxxx
		Add: Accrued Income	Xxxxxx

Liabilities	Amount in Rs.	Assets	Amount in Rs.
		Current Assets: Accrued Income	Xxxxxx

Accrued Income:-

- **Accrued Incomes** are those incomes which have been earned during the Current Accounting year but have not been received till the end of the year.
- **Accrued Income** is also called as “Outstanding Incomes” (or) “Incomes earned but not yet received”.
- **Examples of such incomes** are Commission Receivable, Income on Investments due but not yet received, etc.



- **Income Received in Advance:-**

- **Adjustment Entry:**

Concerned Income A/c-----Dr
To Income received in advance A/c

- **The Unearned Income is treated in the Final Accounts as follows:-**

- **Deducted from the Concerned Income in the Profit and Loss Account, and**
- **Shown on the Liabilities side of the Balance Sheet as a separate item under Current Liabilities.**

Dr.			Cr.
Particulars	Amount in Rs.	Particulars	Amount in Rs.
		By Income A/c	Xxxxxx
		<u>Less:</u> Income received in Advance	Xxxxxx

Liabilities	Amount in Rs.	Assets	Amount in Rs.
<u>Current Liabilities:</u> Income received in advance	Xxxxxx		

Income Received in Advance:-

- **Any Income which belongs to the next accounting year but has been received during the current accounting year is called “Income Received in Advance” (or) “Unearned Income”.**
- **It is the income in respect of which the service is yet to be provided.**
- **Examples of such incomes are Rent received in advance, Interest received in advance, etc.**
- **In such a situation, the unearned portion of the income will have to be adjusted while preparing the Final Accounts.**



Show how you will record the following items in the Profit and Loss Account and the Balance Sheet.

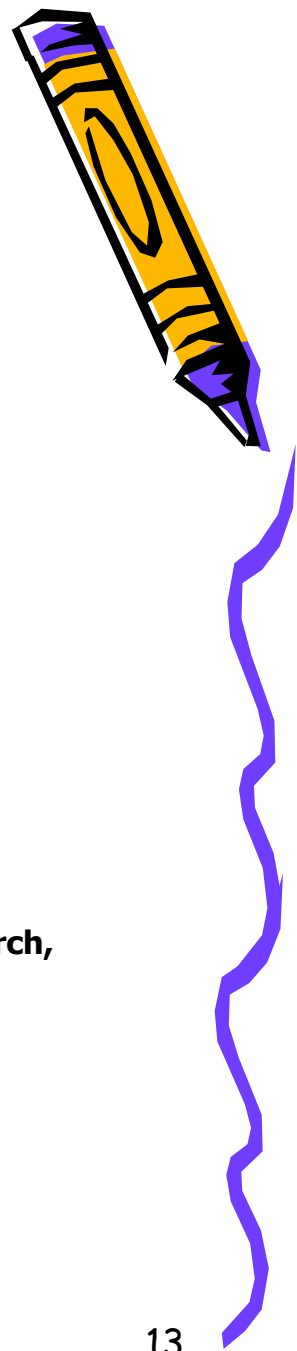
The Trial Balance showed the following balances as on December 31, 1987:

Particulars	Amount in Rs.
Salaries	10000=00
Wages	20000=00
Rent Received	6600=00
Commission Received	2000=00
Interest on Investments	6000=00

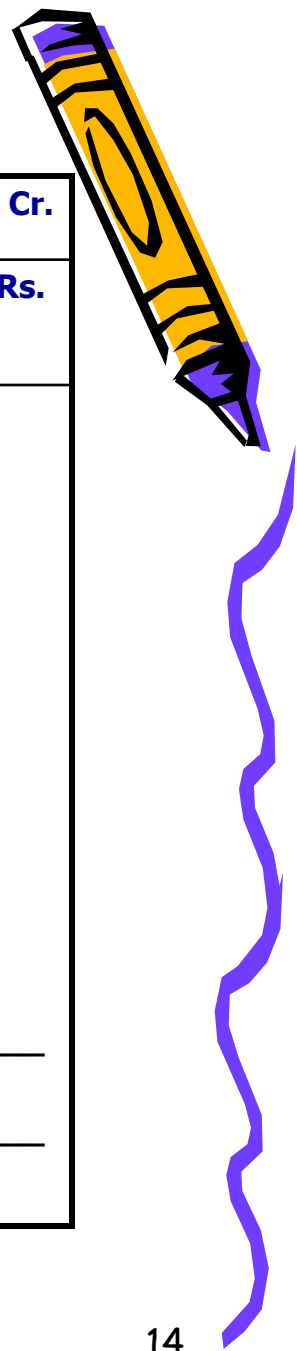
Additional Information:

- 1. Salaries amounting to Rs.2,000 are Outstanding.**
- 2. Wages include Rs.1,500 paid in Advance.**
- 3. Interest on Investment include Rs.1,200 for the months of January, February and March, 1988**
- 4. Rent for the month of December amounting to Rs.600 is not yet received.**

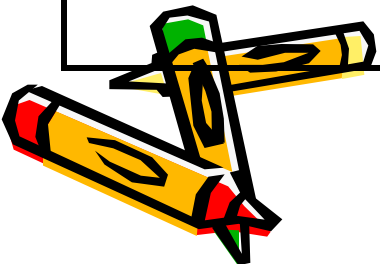
Gross Profit for the year is Rs.40,000 and other expenses amounted to Rs.10,000.



Profit and Loss Account for the year ended December 31, 1987



Dr.			Cr.		
Particulars	Amount in Rs.	Amount in Rs.	Particulars	Amount in Rs.	Amount in Rs.
To Salaries	10,000		By Gross Profit b/d		40,000
Add: Outstanding	2,000				
-----		12,000			
To Wages	20,000		By Rent Received	6,600	
Less: Prepaid	1,500		Add: Outstanding	600	
-----		18,500	-----		7,200
To Other Expenses		10,000	By Commission Received		2,000
To Net Profit (Transferred to Capital A/c)		13,500	By Interest on Investments	6,000	
			Less: Received in Advance	1,200	
			-----		4,800
		<hr/> 54,000 <hr/>			<hr/> 54,000 <hr/>



Balance Sheet as on December 31, 1987

Liabilities	Amount in Rs.	Assets	Amount in Rs.
<u>Current Liabilities:</u>		<u>Current Assets:</u>	
Salaries Outstanding	2,000	Wages Prepaid	1,500
Interest Received in Advance	1,200	Rent Outstanding	600