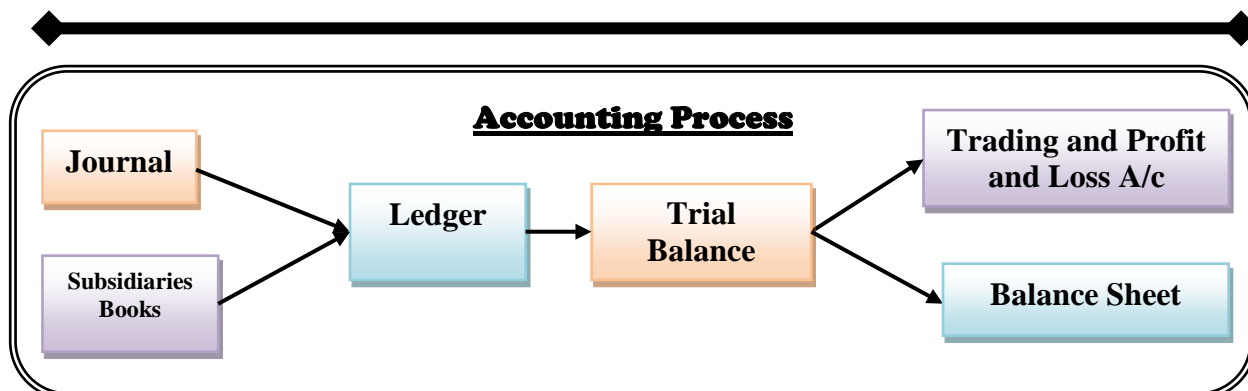


Final Accounts



Final Accounts is prepared either from Trial Balance or Balances of Ledgers A/c. When the balances of Ledger A/c is given it would be better, that first of all a Trial Balance is prepared and then Final Account should be prepared.

Final Accounts Consists of

1. Trading Account,
2. Profit and Loss Account and
3. Balance Sheet

Trial Balance:–

Trial Balance is not an Account. It is the summary of all the ledger balances and it is prepared on a particular date. It only shows the arithmetical accuracy of the books of accounts. If Trial balance is tallied it does not mean that Books of Accounts are “True and fair”.

Rules of Preparing / Checking / Correcting Trial Balance

Trial Balance
As on.....

S. No	Name of Account	Debit (Rs.)	Credit (Rs.)
1	All Assets or “Deferred Revenue Expenditure”	xxxx	
2	All Liabilities		xxxx
3	All Incomes / Gains / Profits / Revenue		xxxx
4	All Expenses / Losses	xxxx	
5	Purchases	xxxx	
6	Purchase Returns / Returns Outward		xxxx
7	Sales		xxxx
8	Sales Returns / Returns Inward	xxxx	
9	Capital		xxxx
10	Drawings	xxxx	

11	Loan “From”		XXXX
12	Loan “To”	XXXX	
13	Outstanding Expenses		XXXX
14	Accrued Income	XXXX	
15	Provision for Depreciation , Doubtful Debts etc.		XXXX
16	Pre-paid Expenses	XXXX	
17	Income Received in Advance		XXXX
18	Closing Stock	XXXX	
		Total	Total

Normally Closing Stock is not taken in Trial Balance but when Purchase (Adjusted) is taken then closing stock will also take in Trial Balance. **Closing stock in the trial balance implies that it is adjusted in the Purchase A/c.**

Note: –

1. Loan “From” any Person, it means firm has taken loan from any person so it is liability for the firm
2. Loan “To” any person, it means firm has given loan to any person so it is the assets of the firm

Format of Trading and Profit and Loss Account

For the year ending.....

Dr.

Cr.

Particulars	Rs.	Particulars	Rs.
To Opening Stock	***	By Sales Less: Returns or Returns Inward *** Less: Sales Tax / VAT (If it is included in Sales figure) ***	***
To Purchases Cash Purchase *** Credit Purchase *** **** Less :Returns or Returns Outward *** Duty Draw back *** Goods taken by proprietor *** Goods given as Charity *** Goods distributed as sample *** Assets wrongly included ***	***	By Closing Stock	***
To Wages / Wages and Salary / Productive Wages / Direct Wages / Manufacturing Wages	***	By Goods destroyed by Fire	***
To Freight / Freight Inward / Railway Freight / Lorry Freight	***		
To Carriage / Carriage Inward / Carriage on Purchase	***		
To Cartage / Cartage Inward	***		
To Factory Expenses (such as Factory Rent, Rates, Lighting, Heating, Power, Insurance, etc.)	***		
To Custom Duty / Custom Duty on Purchases	***		
To Dock Dues	***		
To Fuel (Coke, Coal, Wood, Gas, Power, etc.)	***		

To Transit Insurance	***		
To Octroi	***		
To Cleaning Charges	***		
To Factory Manager Salary / Commission	***		
To Salary of Foremen / Supervisor	***		
To Direct Expenses	***		
To Manufacturing Expenses / Factory Expenses	***		
To Packing and Forwarding Expenses Boxes, Level etc. (Essential Packing)	***		
To Excise Duty or Excise Duty on Production	***		
To Export Duty	***		
To Royalty / Royalty on Purchase	***		
To Motive Power	***		
To Job Work Charges	***		
To Consumption of Stores (oil, Grease, Cotton etc.)	***		
To Gross Profit c/d	***	By Gross Loss c/d	***
	Total		Total
To Gross Loss b/d	***	By Gross Profit b/d	***
To Salary / Salary and Wages	***	By Rebates	***
To Lighting / Lighting and Heating	***	By Cash Discount Received (Cr.)	***
To Rent, Rates and Taxes	***	By Commission Received	***
To Legal Charges	***	By Bank Interest Received	***
To Audit Fees	***	By Interest or Income on Investment	***
To Bank Charges and Commission	***	By Rent Received	***
To Establishment Expenses	***	By Gain on sale of Fixed Assets Investments Etc.	***
To General Expenses	***	By Provision or Reserve for Discount on Creditors	***
To Warehouse Expenses (Rent, Insurance etc.)	***	By Special Bonus received from Suppliers	***
To Repair Expenses / Repair and Renewals	***	By Rental Value of Building occupied by Employees	***
To Packing Charges (Fashionable Packing)	***	By Apprentice Premium Received	***
To Preliminary Expenses w/o	***	By Interest on Drawings	***
To Delivery Charges	***	By Insurance Claim Received	***
To Provision for Doubtful Debts Bad Debts **** Add: Further Bad Debts *** Add: New Provision **** Less: Existing Provision ****	***	By Provision for Doubtful Debts Existing Provision **** Less: Bad Debts **** Less: Further Bad Debts *** Less: New Provision ****	***
To Provision for Discount on Debtors New Provision *** Less: Existing Provision ***	***	By Provision for Discount on Debtors Existing Provision *** Less: New Provision ***	***
To Depreciation on Plant and Machinery *** Building *** Motor Van *** Loose Tools ***	***	By Appreciation on Land *** Building ***	***

To Sundry Expenses	***	By Interest on Loan Received	***
To Bonus to Staff	***	By Mics. Income	***
To Directors Fees	***	By Discount from Creditors	***
To Carriage outward or Carriage on Sales	***	By Dividend Received	***
To Advertisement	***	By Commission on Consignment	***
To Postage	***	By Discount on Purchase	***
To Discount Allowed	***	By Bad Debts Recovered	***
To Delivery Van Expenses	***		
To Managerial Remuneration	***		
To Brokerage	***		
To Free samples	***		
To Traveling Expenses	***		
To Insurance	***		
To Telephone Expenses	***		
To Interest on Bank Loan	***		
To Commission (Dr.) / Commission Paid	***		
To Trade Expenses	***		
To Printing and stationery	***		
To Commission on sales or Sales man Commission	***		
To Misc. Expenses	***		
To Loss on sale of Fixed Assets	***		
To Goodwill w/o	***		
To Interest on Capital	***		
To Interest	***		
To Fire Insurance Premium	***		
To Administrative Expenses	***		
To Office Expenses	***		
To Net Profit – Transferred to Capital A/c	****	By Net Loss – Transferred to Capital A/c	***
	Total		Total

Balance Sheet

As on

Liabilities	Rs.	Assets	Rs.
Capital	xxxx	Goodwill	xxxx
Add : Net Profit	xxxx	Patents and Trade Marks	xxxx
Less: Net Loss	(xxxx)	Land and Building	xxxx
Less: Drawings	<u>(xxxx)</u>	Plant and Machinery	xxxx
	xxxx	Furniture and Fitting	xxxx
Bank Loan	xxxx	Investment	xxxx
Bank Overdraft	xxxx	Closing Stock	xxxx
Loan on Mortgages	xxxx	Sundry Debtors	xxxx
Bills Payable	xxxx	Bill Receivable	xxxx
Sunday Creditors	xxxx	Pre-paid Expenses	xxxx
Outstanding Expenses	xxxx	Accrued Income	xxxx
Income Received in Advance	xxxx	Cash in Hand	xxxx
		Cash at Bank	xxxx
	Total		Total

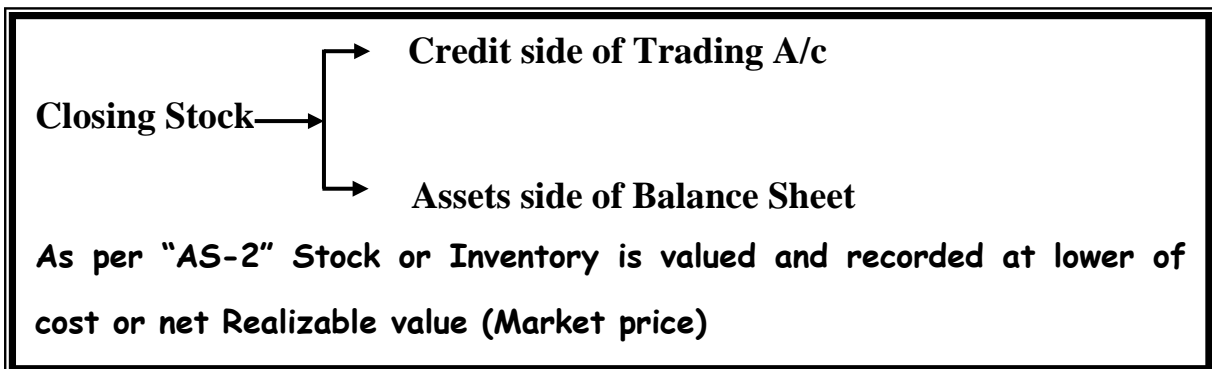
IMPORTANT ADJUSTMENTS:-

1. Closing Stock
2. Purchases Adjusted
3. Outstanding Expenses
4. Pre-Paid Expenses or Unexpired Expenses
5. Accrued Income or Income earned but not received
6. Income received in advance or unearned income
7. Hidden information
8. Depreciation
9. Further bad debts or additional bad debts or bad debts write off
10. Provision for bad and doubtful debts
11. Provision / Reserve for discount on debtors
12. Provision for discount on creditors
13. Goods distributed as Free Sample
14. Goods, taken by proprietors for his personal or domestic use
15. Goods given as Donation / Charity
16. Purchase of assets wrongly recorded in purchases A/c or purchase of assets passed through purchase book
17. Purchase omitted to be recorded
18. Goods sold and delivered but not recorded in the books as sale
19. Goods sold on approval basis or "sale on return basis" but taken as actual sale
20. Fixed assets purchase not recorded in the books or fixed assets purchaser omitted to be recorded in the books
21. Erection charges or installation charges paid to workers of fixed assets wrongly included in wages A/c
22. A sum included in both sundry debtors and sundry creditors or a person is both debtors as well as creditors
23. "Creditors no longer required" or some part of creditors is set off at discount
24. Cheque dishonoured but not recorded in the books
25. Bills Receivable dishonoured but not recorded in the books
26. Interest on Drawings
27. Interest on Capital
28. Certain items in Trial Balance ' Life Insurance Premium and Income Tax paid'
29. Repairs expenses on fixed assets are to be capitalized
30. Goods destroyed by fire or accidents or earthquakes or pilferage etc.
31. Some parts of Intangible assets or Miscellaneous Expenditure are written off
32. Sales tax collected or Sales Tax payable or VAT payable is given in credit side of Trial Balance
33. Sales Tax or VAT is given in Debit side of Trial Balance
34. Sales Tax or VAT included in sales
35. Closing stock includes goods which were sold and recorded as sales but not delivered to customer
36. Goods in Transit / Goods are purchased during current period but have not been received
37. Events occurring after the balance sheet date
38. Advance to suppliers wrongly included in sundry debtors
39. Remuneration paid to a Temporary employee but debited to his personal A/c
40. Sale of fixed assets and investment included in Normal sale
41. Notional value of Rent
42. Travelling expenses paid to sales man wrongly included in list of sundry debtors.

- 43. Employee contribution to certain fund not shown as part of wages or salary or wages or salary in shown as “Net”.**
- 44. Treatment of provident fund.**
- 45. Opening stock of Stationery, purchase of Stationery and closing stock of Stationery is given.**
- 46. Rent paid to Land-lord is wrongly debited to Land-lord’s Account and included in Sundry Debtors.**
- 47. Transfer to Certain percentage of Net Profit to Reserve**
- 48. Rules regarding suspense A/c**
- 49. Other implied adjustment.**
- 50. Manager commission payable**
- 51. Prior Period Expenses**
- 52. Cheque Dishonoured but not recorded and only some amount will recovered from the Debtors**

Important Adjustments:-

1. Closing Stock:-



NOTE: - If Closing Stock is given in trial balance it means closing stock is adjusted in purchase A/c and so only single effect has taken for closing stock, it will only record in assets side of balance sheet

2. Purchases Adjusted: -

Certain time in Trial Balance Adjusted Purchase is given it means opening Stock and Closing Stock is adjusted in Purchase Account. It can be deal in two ways:-

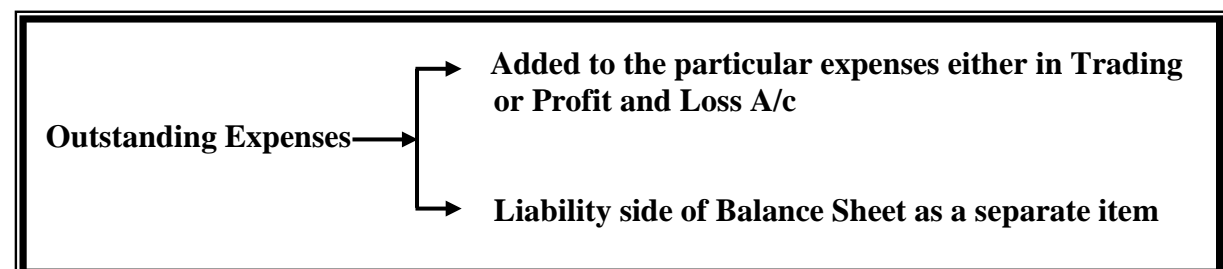
1st Way: - Adjusted Purchase is recorded in Trading Account as it is and neither opening Stock nor Closing Stock is recorded in Trading Account

2nd Way: - Normal Purchase is calculated by using this formula

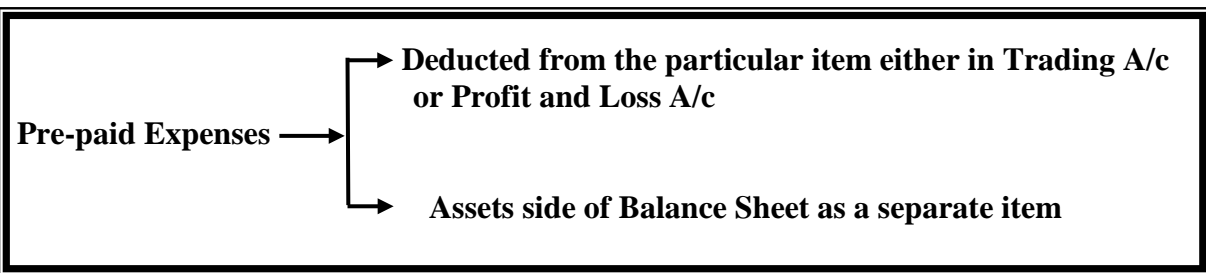
Normal Purchase = Adjusted Purchase + Closing Stock – Opening Stock

And also recording opening Stock as well as closing Stock in Trading Account.

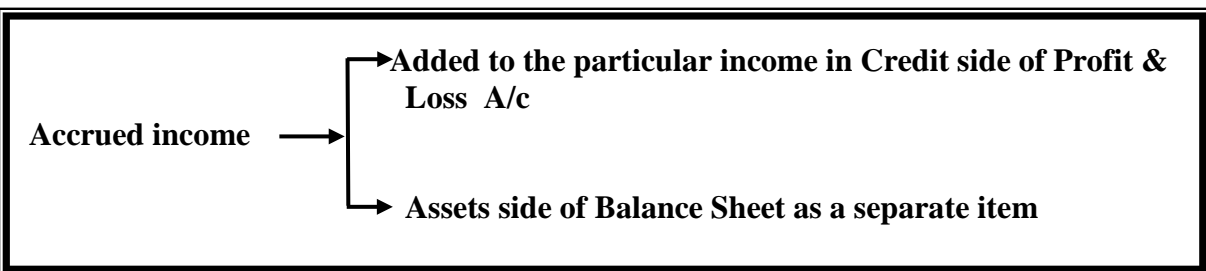
3. Outstanding Expenses / Expenses Payable (Expense due but not paid) or unpaid Expenses / Expenses Due :-



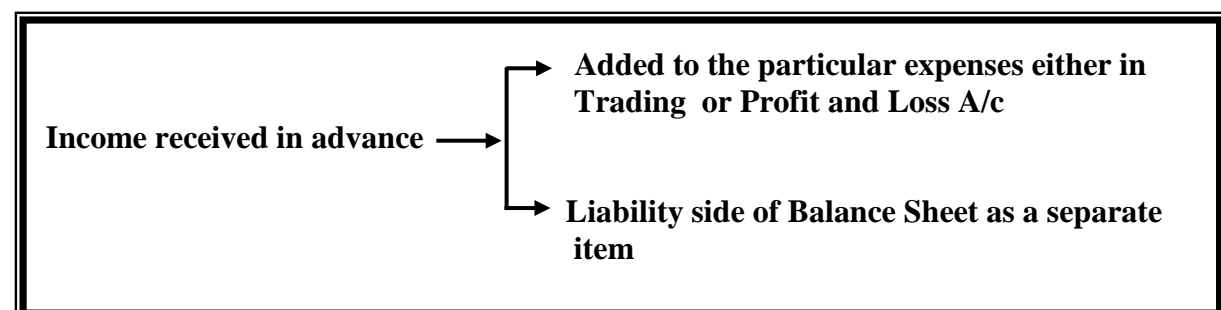
NOTE: - If outstanding expenses are given in Trial Balance then it is only shown in liability side of Balance Sheet

4. Pre-paid Expenses (Expenses paid in advance) or Unexpired Expenses to carried forward to Next Year:-

NOTE: - If Pre-paid Expenses is given in trial balance it will only recorded in Assets side of the Balance Sheet

5. Accrued Income / Income Receivable (income due but not received or income Earned but not yet Received):-

NOTE: - If accrued income is given in Trial Balance then it is only recorded in assets side of Balance Sheet

6. Income received in advance or Unearned Income:-

Note:-If unearned income or Income Received in Advance is given in Trial Balance then it is only shown in Liability side of Balance sheet

7. Hidden Information:-**Case 1****Trial Balance (as on 31st December 2013)**

Particulars	Debit (Rs.)	Credit (Rs.)
8 % Loan "To"	50,000	

No information about Date of taking Loan is given and as well as Interest on Loan is Received or Receivable

In this circumstance Interest on Loan must be charged at given rate for Full Year. It is Accrued Interest on Loan

Effect →	Credit Side of Profit and Loss A/c By Interest on Loan Accrued		
	Assets side of Balance Sheet 8 % Loan "To"	XXXX	
	Add: Accrued Interest on Loan	XXXX	XXXX
	or		
	8 % Loan "To"		XXXX
	Accrued Interest on Loan		XXXX

Case 2**Trial Balance (as on 31st December 2013)**

Particulars	Debit (Rs.)	Credit (Rs.)
8 % Loan "To"	50,000	
1 st July 2013		

No information about Interest on Loan is Received or Receivable

In this circumstance Interest on Loan must be charged at given rate for 1st July to 31st December or for 6 month. It is Accrued Interest on Loan

Effect →	Credit Side of Profit and Loss A/c By Interest on Loan Accrued		
	Assets side of Balance Sheet 8 % Loan "To"	XXXX	
	Add: Accrued Interest on Loan	XXXX	XXXX
	or		
	8 % Loan "To"		XXXX
	Accrued Interest on Loan		XXXX

Case 3**Trial Balance (as on 31st December 2013)**

Particulars	Debit Rs.	Credit Rs.
8 % Loan "From"		50,000

No information about Date of taking Loan is given and as well as Interest on Loan is Paid or Payable

In this circumstance Interest on Loan must be Paid at given rate for Full Year It is outstanding Interest on Loan

Effect →	Debit Side of Profit and Loss A/c To Interest on Loan outstanding		
	Liabilities side of Balance Sheet 8 % Loan "From"	xxxx	
	Add: Outstanding Interest on Loan	xxxx	xxxx
	or 8 % Loan "From"		xxxx
	Outstanding Interest on Loan		xxxx

Case 4**Trial Balance (as on 31st December 2013)**

Particulars	Debit Rs.	Credit Rs.
8 % Loan "From" 1 st July 2013		50,000

No information about Interest on Loan is Received or Receivable

In this circumstance Interest on Loan must be paid at given rate for 1st July to 31st December or for 6 month. It is Outstanding Interest on Loan

Effect →	Debit Side of Profit and Loss A/c To Interest on Loan Outstanding		
	Liabilities side of Balance Sheet 8 % Loan "From"	xxxx	
	Add: Outstanding Interest on Loan	xxxx	xxxx
	or 8 % Loan "From"		xxxx
	Outstanding Interest on Loan		xxxx

8. Depreciation:-

Shown in following manner in Debit side of Profit & Loss A/c			
To Depreciation on			
Depreciation	Machinery		XXXX
	Building		XXXX
	Furniture		XXXX
Adjusted in Assets side of Balance Sheet in following manner			
	Machinery	XXXX	
	Less: Depreciation	XXXX	XXXX
	Building	XXXX	
	Less: Depreciation	XXXX	
	Furniture	XXXX	
	Less: Depreciation	XXXX	

Note: - If Depreciation is given in Trial Balance then it is only recorded in Debit side of Profit and Loss A/c

NOTE: - Depreciation is calculated on day wise basis so if any machinery or Fixed Asset is purchased during the year and Date of Purchase is given then depreciation is also charge on New Fixed Assets on Day wise basis.

Special points in Depreciation

Certain time Loose Tools are given in Trail Balance and in Adjustment no rate of Depreciation is given on Loose Tools but it is given such as Loose Tools were Valued at In this case there is Hidden Depreciation and it will consider in Profit and Loss A/c

- **To Depreciation on Loose Tools**
(Value given in Trail Balance Minus value given in Adjustment)
- **Assets side of Balance Sheet**
Loose Tools (For Value given in Adjustment)

Certain times Rate of Depreciation is given in following way

With the word P.a.	Without the word P.a.
In this case depreciation is calculated with considering time factor	In this case depreciation is calculated without considering time factor
Fixed Assets are purchased for Rs. 50,000 on 1st July 2013 rate of depreciation is 10% p.a. Depreciation is calculated on 31 st December 2013	Fixed Assets are purchased Rs. 50,000 on 1st July 2013 the rate of depreciation is 10% Depreciation is calculated on 31 st December 2013
Depreciation = $50,000 \times 10\% \times 6/12 = \text{Rs. } 2,500$	Depreciation = $50,000 \times 10\% = \text{Rs. } 5,000$

9. Further Bad Debt or Additional Bad Debt or Bad Debt written off or Sundry Debtors include an amount due from a Customer who become insolvent:-

Bad Debts:- It is that part of Debtors which becomes bad and already deducted from Debtor, hence given in Trial Balance

Additional / Further Bad Debts:- It is that part of Debtors which becomes bad but not recorded in books and given in adjustments

When there is no Provision for Bad and Doubtful Debts

Further Bad Debts →	Added to the “Old or Existing Bad Debts”	
	To Bad Debts (given in Trail Balance) XXXX	
	Add: Further Bad Debts (Point of adjustment)	XXXX XXXX
Adjusted in Debtors in Assets Side of the Balance Sheet		
	Debtors	XXXX
	Less: Further Bad Debts	XXXX XXXX

10. Provision for Bad and Doubtful Debts:-

Existing Provision or Old provision:- It is the amount of provision for last year and given in Trial Balance

New provision or Required Provision:- It is current year provision which will be calculated as per instruction of adjustment on the value of Adjusted Debtor

Note :-Provision for Doubtful Debt is calculated on adjusted figure of Debtors it mean after making all adjustment of debtor such as for further bad debt, dishonored of bills of exchange and good sold on approved basis etc.

First Add Bad Debts, Further Bad Debts and New Provision for Bad and Doubtful Debts.

Case 1:- If sum of these are more than the existing Provision for Bad and Doubtful Debts then it is shown under Debit side of Profit and Loss A/c.

Case 2:- If sum of these are less than the existing Provision for Bad and Doubtful Debts then it is shown under Credit side of Profit and Loss A/c.

Effect →	Profit and Loss either in Debit Side or Credit Side			
	Debit side of Profit and Loss A/c		Credit side of Profit and Loss A/c	
	To Bad Debts	XXXX	By Provision for Doubtful Debts (Existing)	XXXX
	Add : Further Bad Debts	XXXX	Less: Bad Debts	XXXX
	Add: Provision for Doubtful Debts (New)	XXXX	Less: Further Bad Debts	XXXX
		XXXX	Less: New Provision	XXXX
	Less: Existing Provision	XXXX		XXXX
		XXXX		
Assets side of Balance Sheet				
	Debtors	XXXX		
	Less: Further Bad Debts	XXXX		
	Less: Provision for Bad Debts (New Provision)	XXXX		XXXXX

11. Provision or Reserve for discount on Debtors:-

Existing provision or Old Provision:- It is the amount of provision for Discount on Debtors of last year and given in Trial Balance

New provision or Required Provision: - It is current year provision for Discount on Debtors which will be calculated as per instruction of adjustment on the value of Adjusted Debtor in following way:-

NOTE:-Provision or Reserve for Discount on Debtors is calculated on “adjusted debtors “ it mean after taking effect of Further Bad Debts and Provision for Doubtful Debt (if any)

When New Provision is more than Old Provision		When Old Provision is more than New Provision	
Debit side of Profit and Loss A/c		Credit side of Profit and Loss A/c	
To Provision for Discount on Debtors		By Provision for Discount on Debtors	
New Provision	xxxx	Existing Provision	xxxx
Less: Existing Provision	<u>xxxx</u>	Less: New Provision	<u>xxxx</u>
	xxxx		xxxx

Assets side of Balance Sheet	
Debtors	<u>xxxx</u>
Less: Further Bad Debts	<u>xxxx</u>
	<u>xxxx</u>
Less: Provision for Bad Debts (New Provision)	<u>xxxx</u>
	<u>xxxx</u>
Less: Provision or Reserve for Discount on Debtors	<u>xxxx</u>
	xxxx

12. Provision for Discount on Creditors:-

```

graph LR
    Effect[Effect] --> Effect1["Credit Side of Profit and Loss A/c  
By Provision for Discount on Creditors"]
    Effect --> Effect2["Liability side of Balance Sheet  
Creditor's  
Less: Provision Discount on Creditors"]
  
```

NOTE:-Provision or for Discount on Creditors is calculated on "adjusted creditors" it mean after taking effect omitted purchase or purchase of machinery wrongly included in Purchase account (if any)

13. Goods distributed on as “Fee Sample”:-

Effect →	Debit Side of Trading A/c			
	To Purchase	XXXX		
	Less: Purchase Returns	<u>XXXX</u>		
		XXXX		
	Less: Goods Distributed as Free Sample	<u>XXXX</u>	XXXX	
	Debit side of Profit and Loss A/c			
	To Advertisement (The value of goods taken as Free Sample)			

NOTE: - Goods distributed as free sample is always recorded at “cost price”

14. “Goods” taken by proprietor for his Personal or Domestic use:-

Effect →	Debit Side of Trading A/c			
	To Purchases	XXXX		
	Less: Purchase Returns	<u>XXXX</u>		
		XXXX		
	Less: Goods taken by Proprietor for personal use	<u>XXXX</u>	XXXX	
	Liability side of Balance Sheet			
	Capital	XXXX		
	Add: Net Profit	<u>XXXX</u>		
		XXXX		
	Less: Goods taken by Proprietor for personal use	<u>XXXX</u>	XXXX	

NOTE: - Goods taken by proprietor is always recorded at “cost price”

15. Goods given as “Donation”:-

Effect →	Debit Side of Trading A/c			
	To Purchase	XXXX		
	Less: Purchase Returns	<u>XXXX</u>		
		XXXX		
	Less: Goods given as Charity	<u>XXXX</u>	XXXX	
	Debit side of Profit and Loss A/c			
	To Charity or Donation (The Value of Goods given as Donation)			

NOTE: - Goods donated is always recorded at “cost price”

16. Purchase of Machine wrongly recorded in purchase A/c or Purchase of Machine passed through purchase book:-

Effect →	Debit Side of Trading A/c		
	To Purchase	XXXX	
	Less: Purchase of Machine wrongly included	XXXX	
	Assets side of Balance Sheet		
	Machinery	XXXX	
	Add: Additions	XXXX	
		<hr/>	
		XXXX	
	Less: Depreciation	XXXX	XXXX
		<hr/>	

Note: - If date of Purchase of Fixed Assets is given then Depreciation is also calculated on these Additional Fixed Assets from the date of its purchase to close of books of accounts.

17. Purchase omitted to be recorded:-

Effect →	Debit Side of Trading A/c		
	To Purchase	XXXX	
	Add: Purchase omitted	XXXX	
	Liability side of Balance Sheet		
	Creditors	XXXX	
	Add: Purchase omitted to be Recorded	XXXX	XXXX
		<hr/>	

18. Goods sold and delivered but not recorded in the books as sales or sales omitted to record :-

Effect →	Credit Side of Trading A/c, It is added to sales		XXXX
	Assets side of Balance Sheet		
	Sundry Debtors	XXXX	
	Add: Sales unrecorded	XXXX	XXXX
		<hr/>	

Note: - Provision for Doubtful Debts on the Debtors are calculated after taking effect of Unrecorded sales

19. Goods sold on approval basis or “sale on return basis” and taken as Actual sales:-

Effect →	Credit Side of Trading A/c		
	By Sales	xxxx	
	Less: Goods sold on Approval Basis [At Selling price]	<u>xxxx</u>	xxxx
	By Closing Stock	xxxx	
	Add Goods sold at Approval Basis [At Cost price]	<u>xxxx</u>	xxxx
	Assets side of Balance Sheet		
	Sundry Debtors	xxxx	
	Less: Goods sold on Approval Basis [At Selling price]	<u>xxxx</u>	xxxx (1)
	Closing Stock	xxxx	
	Add: Goods sold on Approval Basis [At Cost price]	<u>xxxx</u>	xxxx

Note: - Provision for Doubtful Debts on the Debtors are calculated after taking effect of Goods sold on Approval Basis

20. Fixed Assets purchased not recorded in the books or Fixed Assets purchase omitted to be recorded in the books:-

Effect →	Liabilities Side of Balance sheet		
	Creditors for Fixed Assets		
	Assets side of Balance Sheet		
	Fixed Assets	xxxx	
	Add: Additions	<u>xxxx</u>	
		xxxx	
	Less: Depreciation	<u>xxxx</u>	xxxx

Note: - If date of Purchase of Fixed Assets is given then Depreciation is also calculated on these Additional Fixed Assets.

21. Erection charges or Installation charges paid to worker on fixed assets wrongly included in wages A/c:-

Effect →	Debit side of Trading A/c		
	To Wages	XXXX	
	Less: Erection Charges wrongly Charge in Wages A/c	<u>XXXX</u>	XXXX
Effect →	Assets side of Balance Sheet		
	Fixed Assets	XXXX	
	Add: Additions (Value of Erection Charges Paid)	<u>XXXX</u>	
		XXXX	
	Less: Depreciation	<u>XXXX</u>	XXXX

Note: - If date of Erection Charges of Fixed Assets is given then Depreciation is also calculated these Additional Fixed Assets for the value of Erection Charges.

22. A sum included in both sundry Debtors and sundry Creditors or a person is both debtors as well as creditors:-

Minimum of two given figure of sundry debtors or sundry creditors will be Deducted in following way

Liability Side of Balance Sheet		Assets Side of Balance Sheet	
Sundry Creditors	XXXX	Sundry Debtors	XXXX
Less: Mutual Set off	<u>XXXX</u> XXX	Less: Mutual Set off	<u>XXXX</u> XXX

23. "Creditors no longer required" or some part of creditors is set off at Discount:-

Effect →	Credit Side of Profit and Loss A/c		
	By Discount on Creditors		
Effect →	Liability side of Balance Sheet		
	Creditor's	XXXX	
	Less: Creditors no longer Required	<u>XXXX</u>	XXXX

24. Cheque dishonoured but not recorded in books:-

Effect →	Assets Side of Balance Sheet Debtor's Add: Cheque Dishonoured	XXXX XXXX <u>XXXX</u>		XXXX
	Assets side of Balance Sheet Bank Balance Less: Cheque Dishonoured	XXXX XXXX <u>XXXX</u>		XXXX

Note: - Provision for Doubtful Debts on the Debtors are Calculated after taking effect of Cheque Dishonoured

25. Bill receivable dishonoured but not recorded in books:-

Effect →	Assets Side Balance Sheet Debtor's Add: Bills Receivable Dishonoured	XXXX XXXX <u>XXXX</u>		XXXX
	Assets side of Balance Sheet Bills Receivable Less: Bills Receivable Dishonoured	XXXX XXXX <u>XXXX</u>		XXXX

Note: - Provision for Doubtful Debts on the Debtors are calculated after taking effect of Bills Receivable Dishonoured

26. Interest on Drawings:-

Effect →	Credit Side of Profit and Loss A/c By Interest on Drawings			
	Liability side of Balance Sheet Capital Add: Net Profit Less: Drawings Interest on Drawings	XXXX XXXX <u>XXXX</u> XXXX <u>XXXX</u>		XXXX

Note: - If Interest on Drawings is given in Trial Balance then it is only shown in the Credit side of Profit and Loss A/c

27. Interest on Capital:-

Note: - If any Additional Capital is introduced then Interest is also charge on these Additional Capital for the period which it is used in the business

Effect →	→ Debit Side of Profit and Loss A/c To Interest on Capital		
	→ Liability side of Balance Sheet Capital	XXXX	
	Add: Net Profit	XXXX	
		XXXX	
	Add: Interest on Capital	XXXX	XXXX

Note: - If Interest on Capital is given in Trial Balance then it is only shown in the Debit side of Profit and Loss A/c

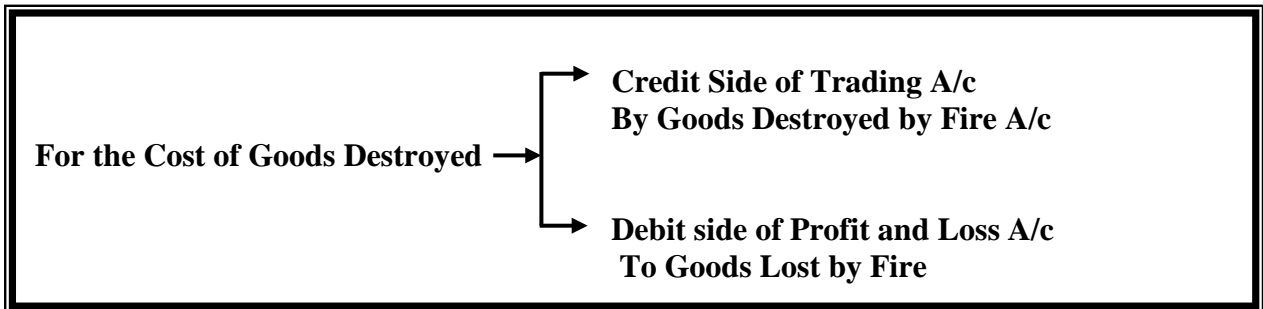
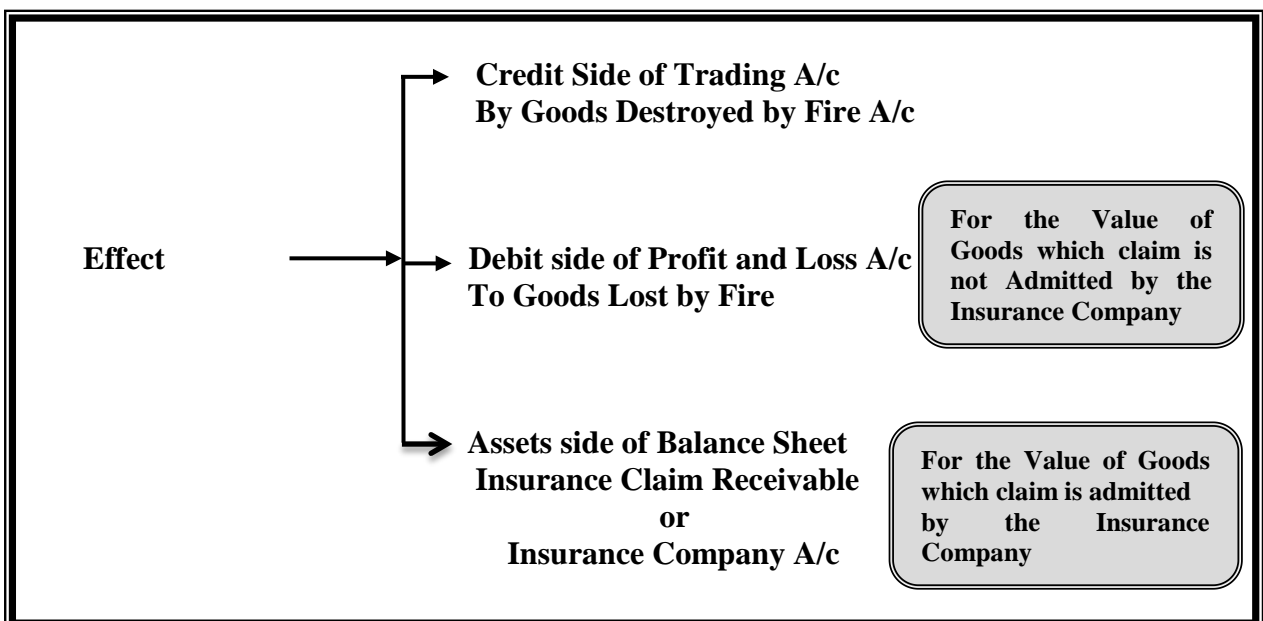
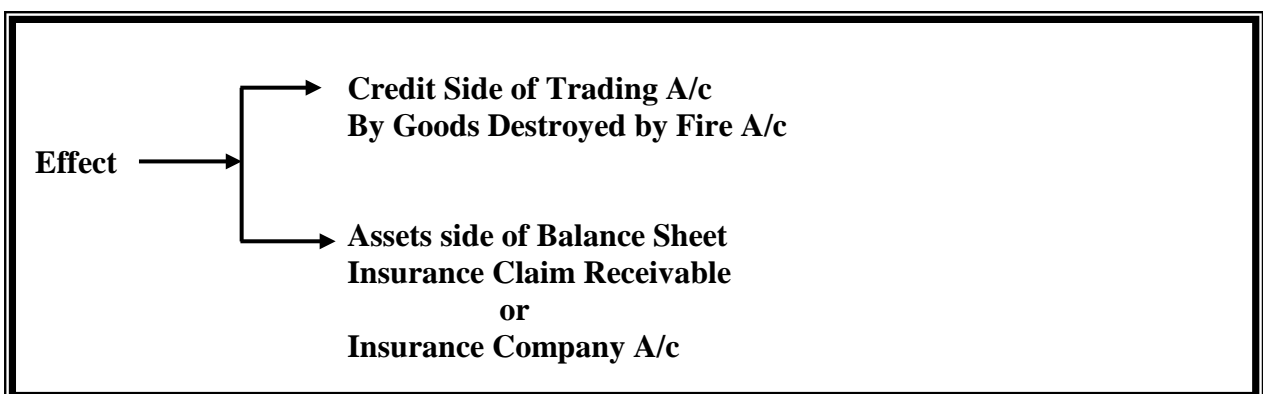
28. Certain times in Trial Balance "Life Insurance premium" and "Income Tax paid" in case of Non Corporate Entity are given, then it is treated as Drawings and hence it will be deducted from capital in Balance Sheet:-

Liability Side of Balance Sheet			
Capital	XXXX		
Add: Net Profit	XXXX		
	XXXX		
Less: Life Insurance Premium (given in Trail balance)	XXXX		
Income Tax paid (given in Trail Balance)	XXXX		XXXX

29. Repair Expenses on Fixed Assets are to be Capitalised:-

Effect →	→ Debit side of Profit and Loss A/c To Repair	XXXX	
	Less: Cost Capitalization of Assets	XXXX	XXXX
	→ Assets side of Balance Sheet Fixed Assets	XXXX	
	Add: Capitalization of Fixed Assets	XXXX	
		XXXX	
	Less: Depreciation	XXXX	XXXX

Note: - If date of Capitalization of Fixed Assets is given then Depreciation is also calculated these Additional Fixed Assets which are Capitalised

30. Goods destroyed by Fire or Accidents or earthquakes or Pilferage etc.:-**Case 1:- If Goods are not insured****Case 2:- If Goods are insured but Full Claim is not admitted by Insurance Company****Case 3:- If Goods are insured and Full Claim is admitted by Insurance Company**

31. Some part of Intangible Assets or Miscellaneous Expenditure are Written off:-

- 1/5th of Patent is written off
- 1/3rd of Advertisement Expenditure are written off
- 1/10th of Goodwill is written off

The total value of these Assets is given in Trial Balance and its some part as per instruction of adjustments it is written off or recoded in Profit and Loss A/c

Effect →	Debit Side of Profit and Loss A/c To Expense w/off (Name of item will be written)		XXXX
	Assets side of Balance Sheet Assets (Name of Assets) Less: Written off	XXXX XXXX	XXXX

32. Sales Tax Collected or Sales Tax Payable or VAT Payable is given in Credit Side of Trial Balance :-

It is responsibly of every Business man to collect Sales Tax from the Customer and deposited to the Government Account

When it is given in Credit Side of Trial Balance it means it is not deposited till close of Books of Accounts. It is Liability of the business so it is shown in Liability Side of Balance Sheet.

33. Sales Tax / VAT is given in Debit Side of Trial Balance :-

When it is given in Debit side in Trial Balance:- It is treated as Expenses of the business and so it is recorded in Debit Side of Profit and Loss Account.

34. Sales Tax or VAT included in sales:-

Effect →	Credit Side of Trading A/c By Sales Less : Sales Returns Less: Sales Tax or VAT	XXXX XXXX XXXX	XXXX
	Liability side of Balance Sheet Sales Tax or VAT payable		XXXX

35. Closing Stock included goods which were sold and recorded as sales but not delivered to Customer:-

Effect →	Credit Side of Trading A/c		
	By Closing Stock	XXXX	
	Less: Goods sold but not delivered	<u>XXXX</u>	XXXX
	Assets side of Balance Sheet		
	Closing Stock	XXXX	
	Less: Goods sold but not delivered	<u>XXXX</u>	XXXX

36. Goods in Transit or Goods are purchased during Current period but not have been received:-

These goods should be considered as a part of Closing Stock

Effect →	Credit Side of Trading A/c		
	By Closing Stock	XXXX	
	Add: Goods in Transit	<u>XXXX</u>	XXXX
	Assets side of Balance Sheet		
	Closing Stock	XXXX	
	Add: Goods in Transit	<u>XXXX</u>	XXXX

37. Events occurring after the balance Sheet Date:- It means any event occurs after closing books of Accounts. For example Books of Accounts are closed on 31st December 2013 and Fire occurred in shop on 5th January 2014

- No any Treatment is done in Year 2013 for this event

38. Advance to Supplier wrongly included in Sundry Debtors:-

Basically it is an Error and not Adjustment it is rectified in the following Way

Effect →	Assets Side of Balance Sheet		
	Sundry Debtors	XXXX	
	Less: Advance to supplier wrongly included	<u>XXXX</u>	XXXX
	Assets side of Balance Sheet		
	Advance to Supplier		XXXX

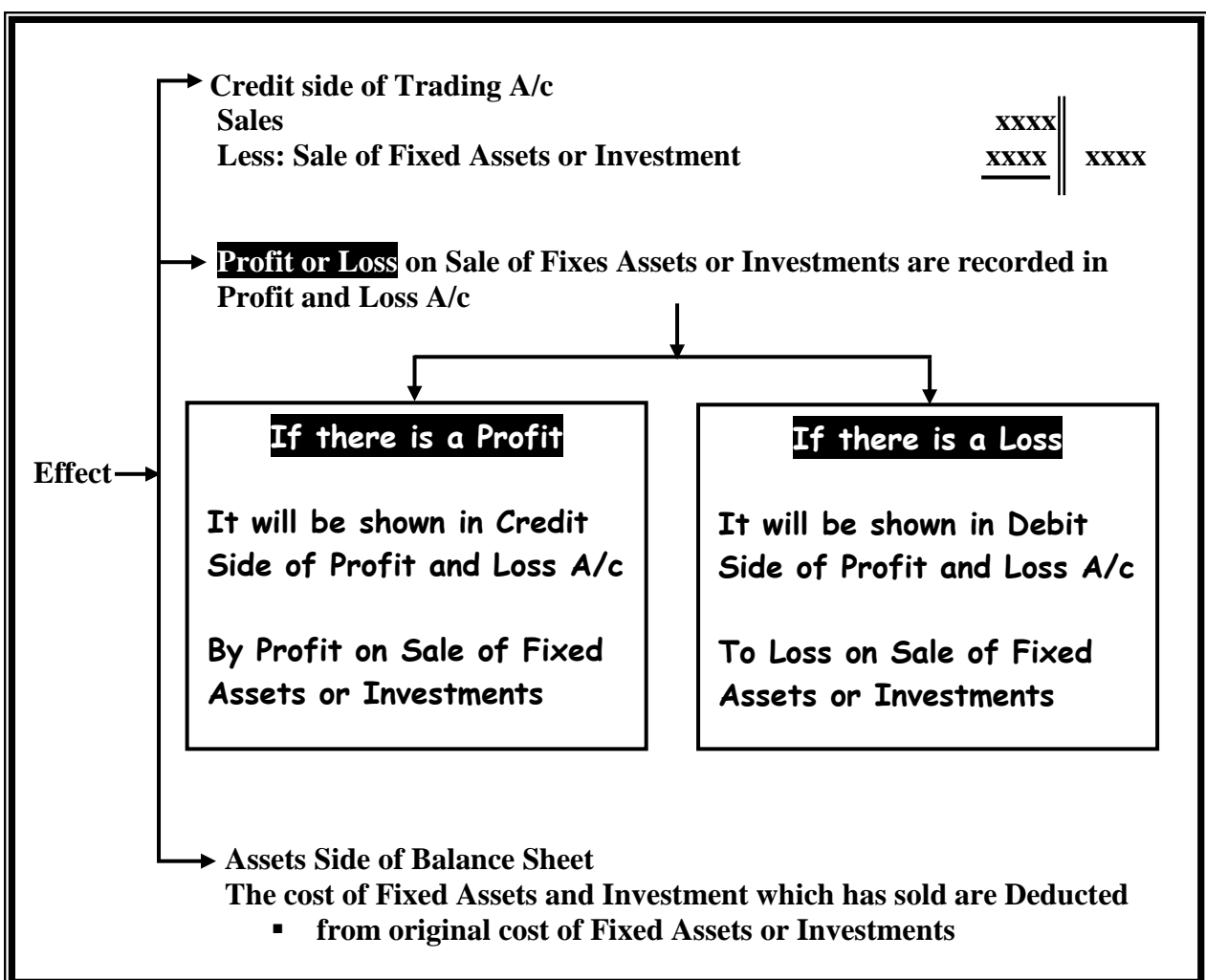
39. Remuneration Paid to a Temporary Employee but debited to his personal A/c:-

Basically it is an Error and its effect lies in Trial Balance. In Trial Balance a separate Account will stand in the Name of Temporary Employee.

- To Salary XXXX
Add: Salary of Temporary Employee XXXX
- There is no Second effect because Temporary Employee A/c is adjusted in the Salary A/c

40. Sale of Fixed Assets and Investments included in Normal Sale:-

Sale means sale of those items which purpose is to resale but when in Normal sale, Sale of Fixed Assets or Investment is included it must be excluded from such Normal Sale.



41. Notional Value of Rent:- Certain times due to nature of employment some employees are living in Company House or in House provided by Employee

Value of Benefit of House which is provided to employee is treated as part of wages or salary and it is also deemed income to the company.

Effect →	Debit Side of Trading or Profit and Loss A/c It is added to either wages or salary		XXXX
	Credit side of Profit and Loss A/c Rental Value of Building		XXXX

42. Traveling Expenses paid to sales man but wrongly included in List of Sundry Debtors:-

Basically it is an Error and it can be rectified in the following manner

Effect →	Debit Side of Profit and Loss A/c To Traveling Expenses		XXXX
	Assets side of Balance Sheet Sundry Debtors Less: Traveling Expenses	XXXX XXXX	XXXX

43. Employee contribution to certain fund Insurance not shown as part of Wages or salary or Wages or salary in shown as “Net”:-

Certain time Insurance Premium is paid by company it includes both Employer Contribution as well as Employee Contribution

Employees Contribution which is paid by company is part of wages or Salary and so it is included in either wages or salary

Employer Contribution is separately shown under head National Insurance Expenses.

44. Treatment of Provident Fund:- It is a Fund in which both employer and employee contributed a certain specified sum. In lack of Information it is assumed that both Employer and Employee Contributed an Equal Amount. This Fund is maintained by the company. It is liability for the company. After the retirement or termination it is given to the Employee.

Case 1st:- If Provident Fund Deducted from Salary is given in Trial Balance and also in adjustment it is given to provide for Employer's Share of Provident Fund

Effect →	Debit Side of Profit and Loss A/c To Employer Contribution to Provident Fund		xxxx
	Liability side of Balance Sheet PF contribution to Employer PF Contribution to Employee	xxxx xxxx 	xxxx

Case 2nd:- It Provident Fund value is given in Trial Balance

Provident Fund is only shown in Liability Side of Balance Sheet but it must show separately to Provident Fund Contribution to Employee and Provident Fund Contribution to Employer

Liability Side of Balance Sheet	
PF Contribution to Employer	xxxx
PF Contribution to Employee	xxxx xxxx

For Better Presentation the part of Provident Fund which is already included in salary will be shown in following way

Salary (Gross Salary minus amount of Provident Fund)	xxxx
Add: PF contribution to Employer	xxxx
PF Contribution to Employee	xxxx xxxx

45. Opening stock of Stationery, Purchase of Stationery and Closing Stock of Stationery is given:-

- If opening stock of Stationery is included in General opening Stock it must be excluded from General Opening Stock
- If Closing stock of Stationery is included in General Closing Stock it must be excluded from General closing Stock.

Stationery Consumed during the Year will be find out and shown in Debit side of Profit and Loss A/c

Opening Stock of Stationery	XXXX
Add: Purchase of Stationery for cash and on Credit	XXXX
Less: Stationery Used by Proprietor for personal use	XXXX
Less: Closing stock of Stationery	XXXX
Stationery Consumed shown in Debit side of Profit and Loss A/c	xxxx

46. Rent paid to Land Lord is wrongly debited to Land Lord's Account and included in Debtors:-

Basically it is an Error and it must be rectified in following manner:-

Effect →	Debit Side of Profit and Loss A/c To Rent paid		XXXX
	Assets side of Balance Sheet Sundry Debtors Less: Rent paid wrongly included in Debtors	XXXX <u>XXXX</u>	XXXX

47. Transfer to Certain percentage of Net Profit to Reserve:-

Effect →	Debit Side of Profit and Loss A/c To Transfer to General Reserve		XXXX
	Liability side of Balance Sheet Shown as a separate item General Reserve		XXXX

48. Rules Regarding Suspense A/c:-

When Trial Balance is not tallied then it is tallied by showing a temporary account that is called Suspense A/c

Accounting Treatment of Suspense A/c

Situation 1st:- If suspense Account is appear in Debit side of Trial Balance
It is Recorded in Assets Side of Balance Sheet

Situation 2nd:- If suspense Account is appear in Credit side of Trial Balance

It is Recorded in Liabilities Side of Balance Sheet

49. Other Implied Adjustments:-

1	Salary (11 Month) is 33,000	Here there is an implied adjustment that one month salary is outstanding or Rs. 3,000 is outstanding Salary
2	Rent @ 2,500 figure given in Trail Balance is 27,500 no other information is given	Here there is an implied adjustment that one month Rent is outstanding or Rs. 2,500 is outstanding rent
3	Patents rights (5 Years) 50,000	Here there is an implied adjustment that in five year patent must be written off and so every year Patent for the value of Rs. 10,000 will be written off.
4	5 % Investment (Face Value Rs. 5,00,000) purchased on 1 st July 2009 In Trial Balance as on 31 st December it is appear at Rs 4,40,000	Here there is an implied adjustment that Interest on Investment is calculated on the Face Value of Investment for 6 month @ 5%
5	Insurance Premium (including an annual Premium of Rs. 6,000 paid up to 30 th June 2010) Date of Trial Balance is 31 st December 2009	Here there is an implied adjustment that Insurance premium is Pre-paid for 6 month for Period of 1 st January 2010 to 30 th June 2010

50. Manager Commission payable:-

Case 1:- If the manager is allowed commission on the Net Profit **before Charging** such Commission

$$\text{Commission} = \text{Net profit before charging such commission} \times \frac{\% \text{ of Commission}}{100}$$

Case 2:- If the manager is allowed commission on the Net Profit **after Charging** such Commission

$$\text{Commission} = \text{Net profit before charging such commission} \times \frac{\% \text{ of Commission}}{100 + \text{Rate of Commission}}$$

Calculation of Net Profit before charging such commission = Sum of credit side minus all items of Debit side

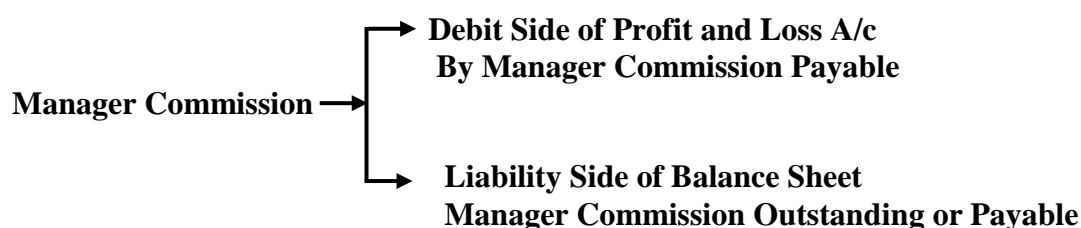
Special Case

If there are two Managers one is Factory Manager and other is General Manager

- General Manager is entitle 10 % Commission **after charging the commission of Factory Manager and his own commission**
- Factory Manager is entitle 15 % Commission **after charging the commission of General Manager and his own commission**

$$\text{G.M Commission} = \frac{\text{Net Profit before any Commission} \times \text{Rate of G.M. Commission}}{100 + \text{Rate of G.M. Commission} + \text{Rate of F.M .Commission}}$$

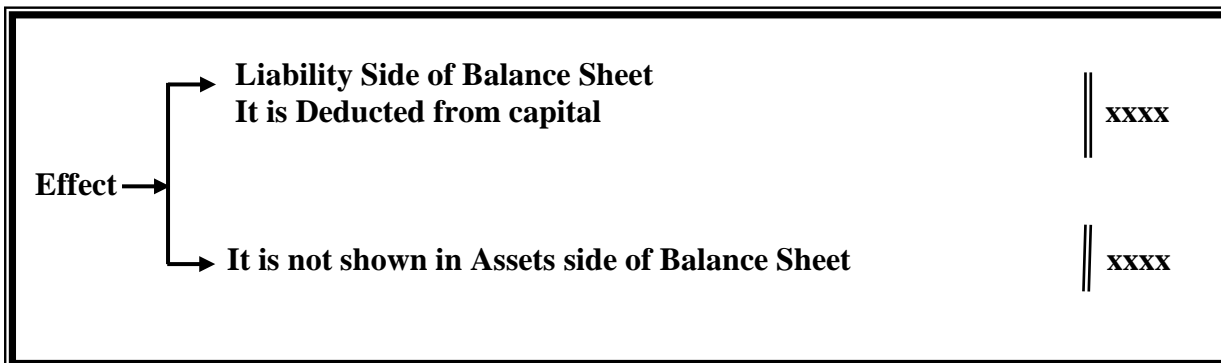
$$\text{F.M Commission} = \frac{\text{Net Profit before any Commission} \times \text{Rate of F.M Commission}}{100 + \text{Rate of G.M. Commission} + \text{Rate of F.M. Commission}}$$



Note: - If firm is not earning profit in this case Manager is not entitle any commission.

51. Prior Period Expenses: -

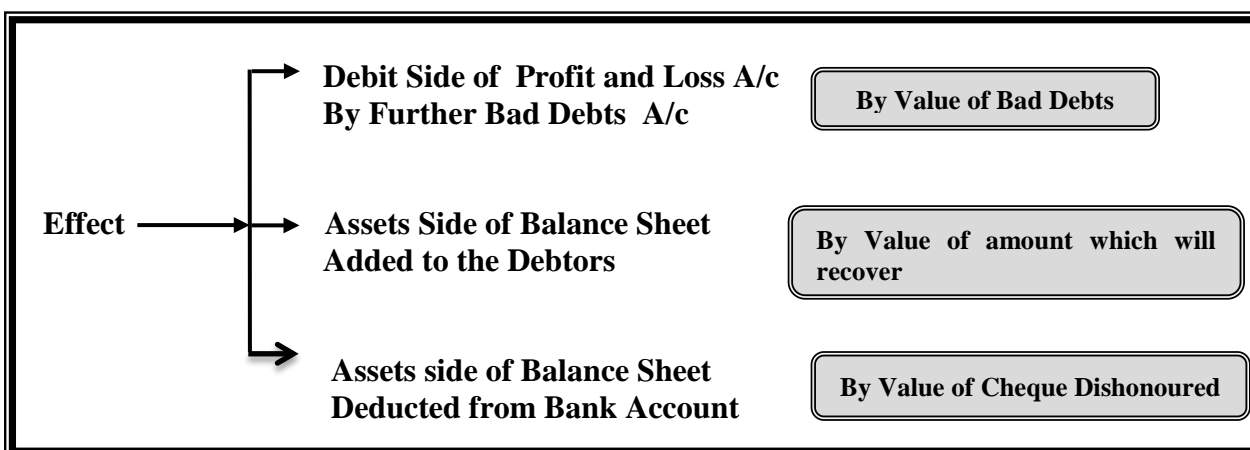
If Prior period Expenses is given in Trial Balance



Prior Period Item: - As per “Accounting Standard -5” Prior period items are income or Expenses, which arise, in current period as a result of error or omission in the preparation of Financial statements of one or more prior periods.

52. Cheque Dishonoured but not recorded and only some amount will recovered from the Debtors:-

Bad Debts A/cDr.
Debtors Account Dr.
To Bank A/c



There is no need to make provision on this part of Debtor because provision is made only for Doubtful Debtors and not on “100% Good Debtors”