

Class : 05

Step 4: Adjustments

Supplies → written in balance sheet/statement

Expense → " in income statement

Types of adjustments:

- 1) Prepaid 2) Unearned Revenues
- 3) Depreciation 4) Accrued Revenues
- 5) Accrued Expense ^(due)

Cash ka ana and jana is an event and Step 1
It can never come in Step 4 i.e cash ^{can} never
be adjusted.

Q1: Step 1 ⇒ Office rent \$ 6000 for 6 months.

Step 1:

Date	A/C's	Debit \$	Credit \$
Sep 1	Rental Expense Cash	6000	6000

income statement

I/S (2019)	I/S (2020)	2019		2020			
R	R	Sep	Oct	Nov	Dec	Jan	Feb
E (\$6000)	E (\$2000)						
Understatement	Overstated						
↓	↑	4					

Jab kisi entry ki waja sy 2 financial years mein uski reflection arahi ho toh we do not mark / enter its entry in Journal b/c Income statement ki reflection nahi hoga. Ati phr.

Prepaid: Advanced payment of expenses.

Is entry ko ab hum prepaid banaiengy.

Prepaid is an asset until consumed.

Now step 1 entry becomes:

Sep 1	Prepaid Rent	6000	
	Cash		6000

31st dec ko ab hum adjustment kardengy.

31 st dec	Rent Expense	4000	
Adj	Prepaid rent decreased		4000

Prepaid

6000	Adj 4000
2000	

Adjustment is done here now this entry will be written in the income Statement of 2020 (now).

I/S 2019	I/S 2020
R	R
E (4000)	E (2000)

(Now this is not under or over statement.)

* We do all this in General Journal das adj ka flag laga dete hien.

Q2: We are giving our land on rent:

Sep 1	Cash ↑ <small>Unearned</small>	6000	6000
	Rental Revenue		

	2019	2020
R (6000)	R 0	E overstatement
E understatement		

Hum ney prepaid le liya now the service provider will provide us services. So this is unearned revenue for them which is a liability and part of balance sheet.

for eg: Balance load karna is prepaid and services to be provided are k hum call karenge toe call connect kardien service provider

31 st Dec	Unearned rental revenue ↓	
Adj	↑ Rental Revenue	4000

Income statement ki reflection true hogai ab. We do adjustments for true I/S b/c accounting works on realization.

	2019	2020
R (4000)	R (2000)	E
E		

commutative sum of all depreciation \rightarrow accumulated

long term asset ki useful life hum declare karty hain and then overtime it depreciates. Har organization ki useful life apni hoti hai i.e different but at the time of purchasing we have to enter it in journal.

IT Equipment $\Rightarrow \$ 10,000$

Useful life $\Rightarrow 10 \text{ years}$

Equipment	10,000	
Cash		10,000

* Depreciation Expense is a non cash expense.
We are only adjusting it.

Depreciation methods:

1) Straight line :

$$\text{Dep Expense} = \frac{\text{Cost} - \text{Salvage}^{(\text{scrap value})}}{\text{Life}}$$

31 st Dec	Dep Exp Equipment	1000		Dep. Exp Equipment
Adj	Accumulated Dep Eq		1000	

This is book value of equipment. Accumulated Dep Eq

(original account - depreciated by)	M/L	10,000	Balance sheet account	10,000 10,000 10,000
				Balance Sheet account

Debit ka difference means less hua hai
 Credit , " " " profit " "

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Historical value:

M/C	Acc. Dep - M/C	Dep. Exp
10,000	10,000 10,000 10,000	10,000

Book value after 3 years : \$ 7000

Condition 1: Sale = \$ 10,000 (asset ki worth barh gae)

Condition 2: Sale = \$ 5,000 (price gir gae)

Condition 3: Sale = 7,000 (same price mien sale hua)

①:

Cash

Acc- Dep - M/C

M/C

Gain on sale of assets

Debit

10,000

3,000

₹

Credit

10,000

3,000

②: Gain will be written on income statement.

loss on sale of asset

Acc- Dep - M/C

M/C

5,000 ₹

3,000

10,000

③ Break even (no profit no loss):

Cash	7,000	
Acc- Dep - M/c	3,000	10,000

In case value of asset is destroyed for eg fire hogai wogera tee it is complete loss no other entry. In case insurance hui wi ho toe jitna loss wo record kardengy or jitna insurance ne compensate kia wo likhdengy.

* Depreciation expense is a non cash expense.

Accrued Revenue: Revenue generated but not yet received.

Eg: KESC we consume electricity and receive bill at the end of the month.

Problems (Handout)

Jiske par + baga hai it means unka head banega
 b/c unka account pehly se maaoed nahi. Jo bane
 my hi wo adjust hongy only.

Q1: (a)

<u>Adj</u>	<u>Supplies Expense</u>	4,000	
	<u>Supplies</u>		4,000
	<u>Account create</u>		
	<u>Supplies</u>		
6000	4000		
2000			

Supplies

	<u>Supplies Exp</u>
4,000	4,000

(b)

<u>Adj ✓ Dep - Exp - F E f F</u>	20,000	
<u>Acc - Dep - F E f F</u>		20,000
<u>✓ Acc - Dep - F E f F</u>		
20,000		20,000

Dep - Exp - F E f F

20,000	20,000	
		20,000

(c)

<u>Adj ✓ Dep - Exp - B</u>	10,000	
Acc Dep - B		10,000

(d)

<u>Adj Salary Expense</u>	5,000	
<u>Salary Account Payable</u>		5,000

(e)

Adj. A/R	12,000	
Service Revenue		12,000

(f)

Adj. Unearned Service Revenue	32,000	
Service Revenue		32,000

unearned service rev.

U.E.S.R	
Adj 32,000	45,000
	13,000

Adjusted Trial Balance:

Adj. Acc Total A/C's	Debit	Credit
Cash	198,000	
A/G	382,000	
Supplies	2,000	
Acc of Acc - Dep - F Eff	100,000	60,000
		60,000
Building	280,000	

Acc - Dep - building
 Account Payable
 Salary Payable
 UESR

Capital		293,000
Owner Withdrawal	65,000	
Service Revenue		330,000
Salary Expense	177,000	
Miscellaneous Expense	13,000	
Supplies Expense	4,000	
Dep - Exp - f	20,000	
Dep - Exp - B	10,000	
		1,221,000
		1,221,000

Income Statement:

Revenues:

Service revenue 330,000

Expenses:

Salary expense 177,000

Mis emp 13,000

Supplies emp 4,000

Dep - Exp - f 20,000

Dep - Exp - B 10,000

229,000

$$\begin{aligned}\text{Income} &= \text{Revenue} - \text{Expense} \\ &= 330,000 - 224,000 \\ &= 106,000.\end{aligned}$$

Owner Equity:

$$\begin{array}{r} \text{Beginning bal of Owner's equity: } 293,000 \\ \text{Add: } 106,000 \\ \text{Less: } (65,000) \\ \hline 334,000 \end{array}$$

Balance Sheet:

Assets

Cash		198,000
A/R		382,000
Supplies f & f		2000
Acc-Dep-f & f	66,000	40,000
Building	250,000	
Acc-Dep B	140,000	110,000
	732,000	

Liability & OE

U. F. SR	13,000
A/P	385,000
	334,000

29 March: Mid

(Adjustment is)
included
(Step 1 - 6)