

TOPIC

Module B:

Financial Statements and Core Banking

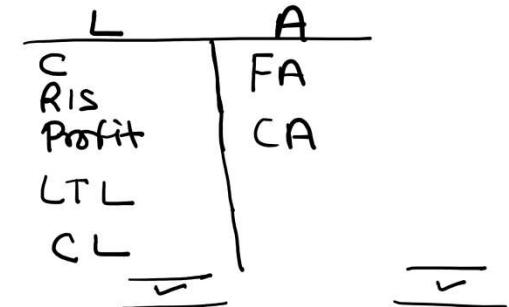
Systems

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Balance Sheet Equation

<i>Assets</i>	<i>Capital + Liabilities</i>
Cash ✓	Capital + reserves and surplus
Bank ✓	Creditors ✓
Bills Receivable ✓	Bills payable
Debtors ✓	Outstanding expenses
Stock in trade	Bank Overdraft
Furniture	
Machinery	
Building	

+ Profit * Double Entry System



$$\rightarrow \text{① Assets} = \text{② Liabilities} + \text{③ Capital (Owner's Equity)}$$

$$\Rightarrow \text{④ FA} + \text{⑤ CA} = \text{⑥ LTL} + \text{⑦ CL} + \text{⑧ C} + \text{⑨ R/S} + \text{⑩ Profit}$$

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$$\underline{A} = \underline{C} + \underline{L}$$

- ① Asset = 8,00,000, Liability = 3,00,000, find Capital $\Rightarrow 8\underline{L} = C + 3\underline{L} \Rightarrow C = 5\underline{L}$
- ② FA = 6,00,000 Liability = 3,00,000 Capital = 5,00,000, find Current Assets?
- $$\begin{aligned} \Rightarrow FA + CA &= \text{Liability} + \text{Capital} \\ \Rightarrow 6\underline{L} + \underline{CA} &= 3\underline{L} + 5\underline{L} \Rightarrow CA = 2,00,000 \end{aligned}$$
- ③ FA = 6,00,000, CA = 2,00,000, Long term liability = 4,00,000 Capital = 3,00,000
Find Current Liability: $\Rightarrow FA + CA = LTL + CL + Capital + RIS + Profit$
 $\Rightarrow 6\underline{L} + 2\underline{L} = 4\underline{L} + \underline{CL} + 3\underline{L}$
 $\Rightarrow CL = 1,00,000$
- ④ Asset = 8,00,000, Liability = 3,00,000, Capital = 4,50,000, find Profit?
 $\Rightarrow 8,00,000 = 3,00,000 + 4,50,000 + \text{Profit}$
 $\Rightarrow \boxed{\text{Profit} = 250,000}$

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⇒ Stock Sold for £50,000, Impact on BIS

Asset
↓
Asset ↑
Cash ⇒ Asset ↑

No change in BIS, only Composition of Asset changed

20L↑	Stock 50000
	Cash 70000
	20L↑ $\frac{120000}{120000}$ ↵
	⇒ Stock ↓ 50 ↓
	⇒ Cash ↑ 50 ↑

⇒ Machinery Purchased £20L from Sanjeev, Impact ?

Asset ↑ 20L

→ Credit Purchase

Sanjeev
↓
Creditor
↓
Liability ↑ 20L

Total of BIS changed by £20L, Both A and L ↑ by 20L
[Increased]

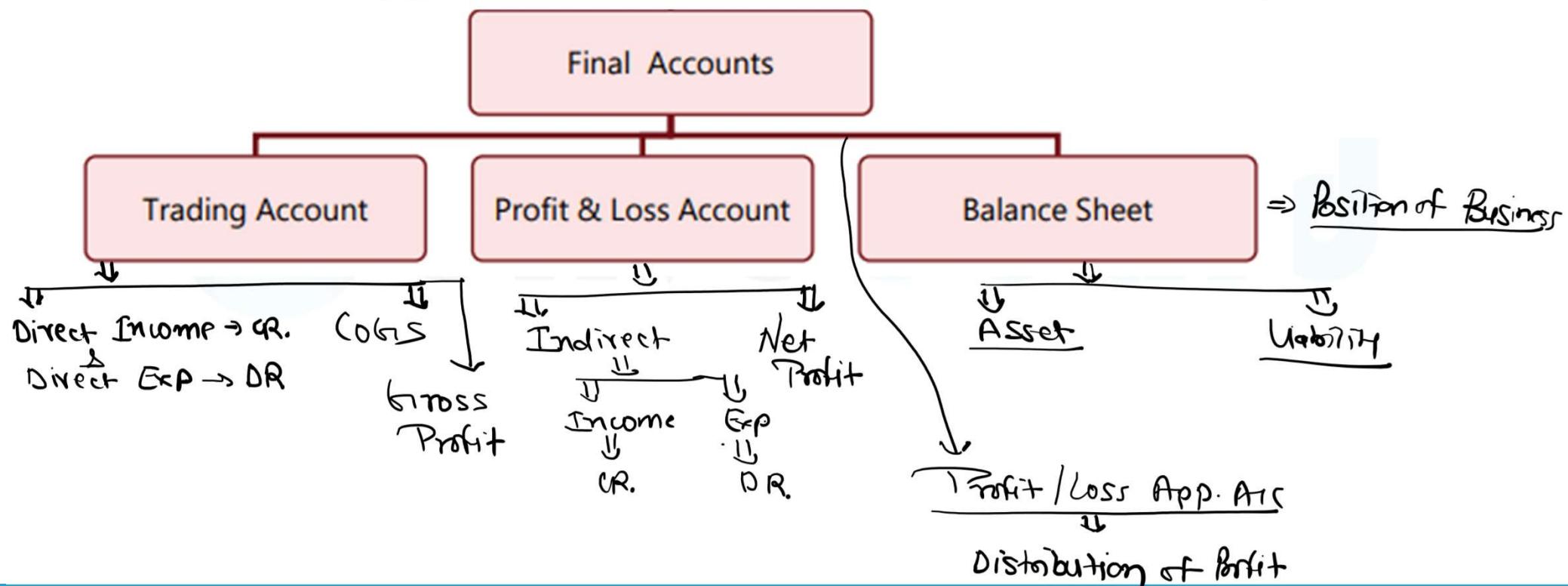
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Live Sessions | Recorded Sessions | Mock Tests | Study Notes | E-Books & More

Oliveboard

Unit 2- Preparation of Final Accounts



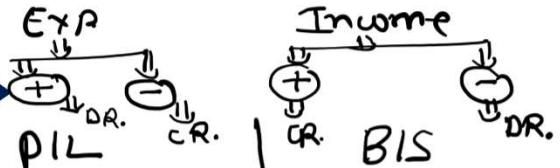
An accountant or a bookkeeper makes adjustment entries either before preparation of trial balance or after preparation of trial balance.

Types of Adjusting Entries

- Outstanding Expenses
- Prepaid Expenses
- Accrued Income
- Unearned Income
- Inventory

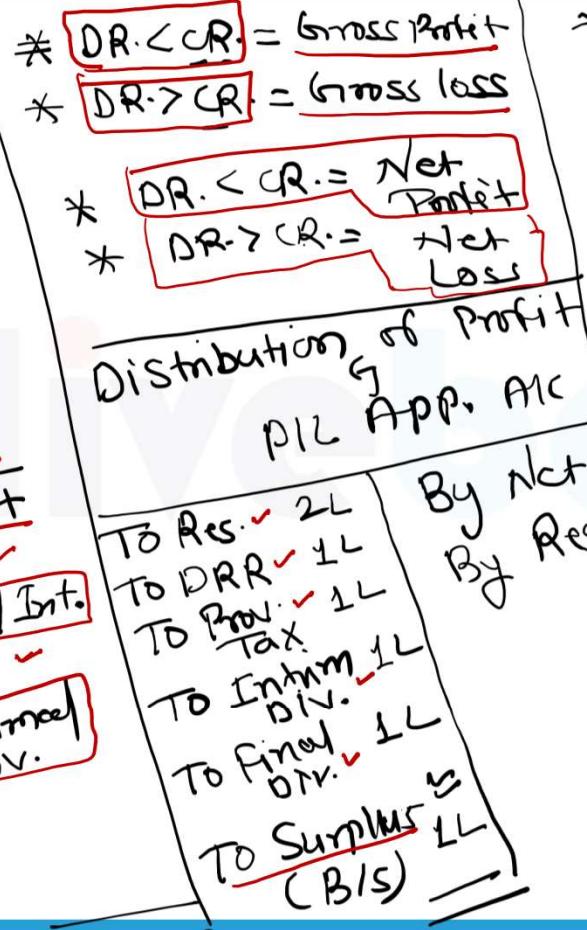
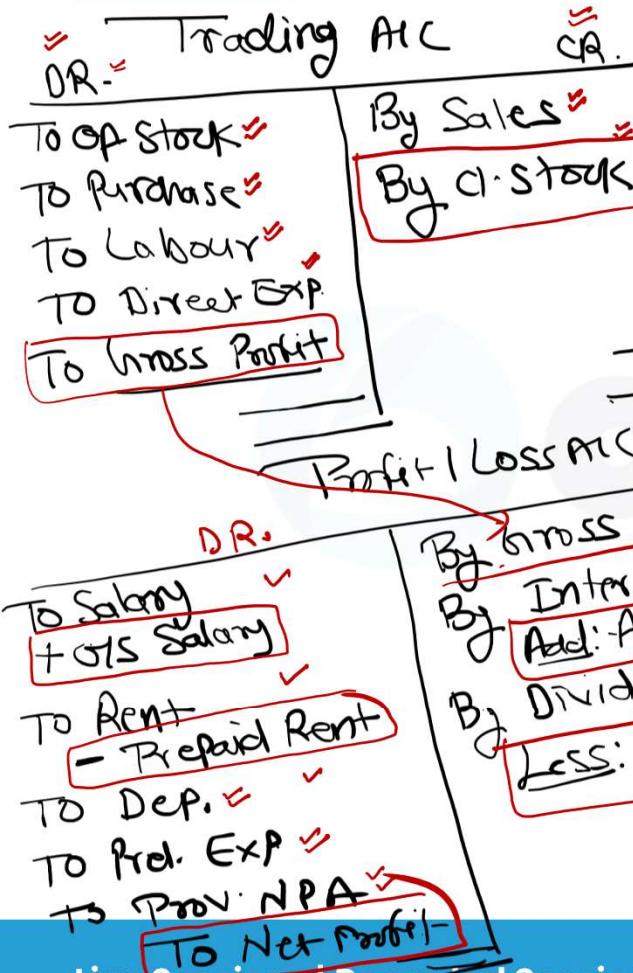
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Adjustment Entries



S.No	Transaction	PIL	BIS
①	Outstanding Exp. (Salary = 20000) \Rightarrow Payer	Add: (DR.) Exp. Less: (CR.) Exp.	current liability
②	Prepaid Exp (Rent 10000)		Current Asset
③	Accrued Income (Interest 20000) \rightarrow Income earned but not received	Add: (CR.) Income	Current Asset
④	Unearned Income (Div. 10000) \rightarrow Income Rec. but not earned.	Less: (DR.) Income	Current Liability
⑤	Depreciation	DR. Exp.	ASSET SOL - Dep. $\frac{(SL)}{use}$ Net
⑥	Closing Stock (goods remaining unsold)	Trading A/c - cr.	Current Asset
⑦	Preliminary Exp. (Incorporation Exp) / MISC Exp.	DR. (Exp)	ASSET: Pre. EXP / MISC EXP
⑧	Contingent Liability (Court Case) \Rightarrow Below BIS = Foot Note AS-29	NO	NO
⑨	Prov. for NPA <u>Imp.</u>	DR. Exp.	Asset: Debtors $\frac{100cr}{16cr}$ Less: NPA $\frac{16cr}{90cr}$ Prov.

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* Drawing means use of business money for personal use"

* DRR = Deb. Red. Res-

B/S	
Liability	Asset
Capital:	F.A - Def.
+ Surplus ✓	Current Asset
- Drawings	Prepaid Exp.
Long term Lab.	Accrued Incm.
Current Lab:	Cr. Stock
O/S Exp. ✓	Cash
Unearned Inco	(Debtors)
Creditors	= NPA Prov.
Bank O/D	Misc Exp.

Foot Note: Contingent transaction

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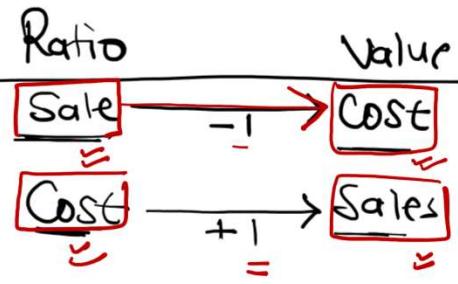
① if Sales ≠ 50,00,000 and G.P Ratio is 1/4 th of Cost
find $\rightarrow \frac{\text{Cost}}{\text{Sales}} = \frac{\text{Gross Profit}}{1}$

$$\frac{1}{4+1} = \frac{1}{5}$$

On Sales

$$\text{G.P} = \frac{50,00,000}{5} = 10,00,000$$

$$\text{Cost} = \text{Sales} - \text{G.P} \Rightarrow \text{SOL} - 10L = 40,00,000$$



② if Costs ≠ 60,00,000 and G.P Ratio is 1/5 th of Sales
find $\rightarrow \frac{\text{Gross Profit}}{\text{Sales}} = \frac{60L}{1}$

$$\frac{1}{5} = \frac{\text{Cost}}{60L}$$

$\frac{1}{4}$

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- ⇒ COGS \Rightarrow Op. Stock + Purchase + Direct labour + Direct Exp. - Cl. Stock
- ⇒ COGS \Rightarrow Sales - G&P