

Module B:

Financial Statements and Core Banking Systems

TOPIC

Balance Sheet Equation

L	A
C	FA
RIS	CA
Profit	
LTL	
CL	

* Double Entry System

Assets

Capital + Liabilities

Cash ✓	}	=	Capital + reserves and surplus + Profit
Bank ✓			Creditors ✓
Bills Receivable ✓			Bills payable
Debtors ✓			Outstanding expenses
Stock in trade			Bank Overdraft
Furniture			
Machinery			
Building			

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

$$\Rightarrow \text{① FA} + \text{② CA} = \text{③ LTL} + \text{④ CL} + \text{⑤ C} + \text{⑥ RIS} + \text{⑦ Profit}$$

TOPIC

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

① Asset = 8,00,000, Liability = 3,00,000, Find Capital $\Rightarrow 8L = C + 3L \Rightarrow \boxed{C = 5L}$

② FA = 6,00,000, Liability = 3,00,000, Capital = 5,00,000, Find Current Asset?

$$\Rightarrow \underline{FA} + \underline{CA} = \text{Liability} + \text{Capital}$$

$$\Rightarrow \underline{6L} + \underline{CA} = \underline{3L} + \underline{5L} \Rightarrow \underline{CA = 2,00,000}$$

③ FA = 6,00,000, CA = 2,00,000, Long term Liability = 4,00,000, Capital = 3,00,000
Find Current Liability: $\Rightarrow \underline{FA} + \underline{CA} = \underline{LTL} + \underline{CL} + \underline{\text{Capital}} + \underline{RIS} + \underline{\text{Profit}}$
 $\Rightarrow \underline{6L} + \underline{2L} = \underline{4L} + \underline{CL} + \underline{3L}$
 $\Rightarrow \underline{CL} = \underline{1,00,000}$

④ Asset = 8,00,000, Liability = 3,00,000, Capital = 4,50,000, Find Profit?
 $\Rightarrow 8,00,000 = 3,00,000 + 4,50,000 + \text{Profit}$
 $\Rightarrow \boxed{\text{Profit} = 2,50,000}$

TOPIC

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

↓
Asset
↓

↓
Cash ⇒ Asset ↑

→ No change in BIS, only Composition of Asset Changed

20L ↑	Stock 50000
	Cash 70000
20L ↑	<u>120000</u> ↓
	⇒ Stock ↓ 50 ↓
	⇒ Cash ↑ 50 ↑

⇒ Machinery Purchased ₹ 20L from Sanjeev, Impact?

↓
Asset ↑ 20L

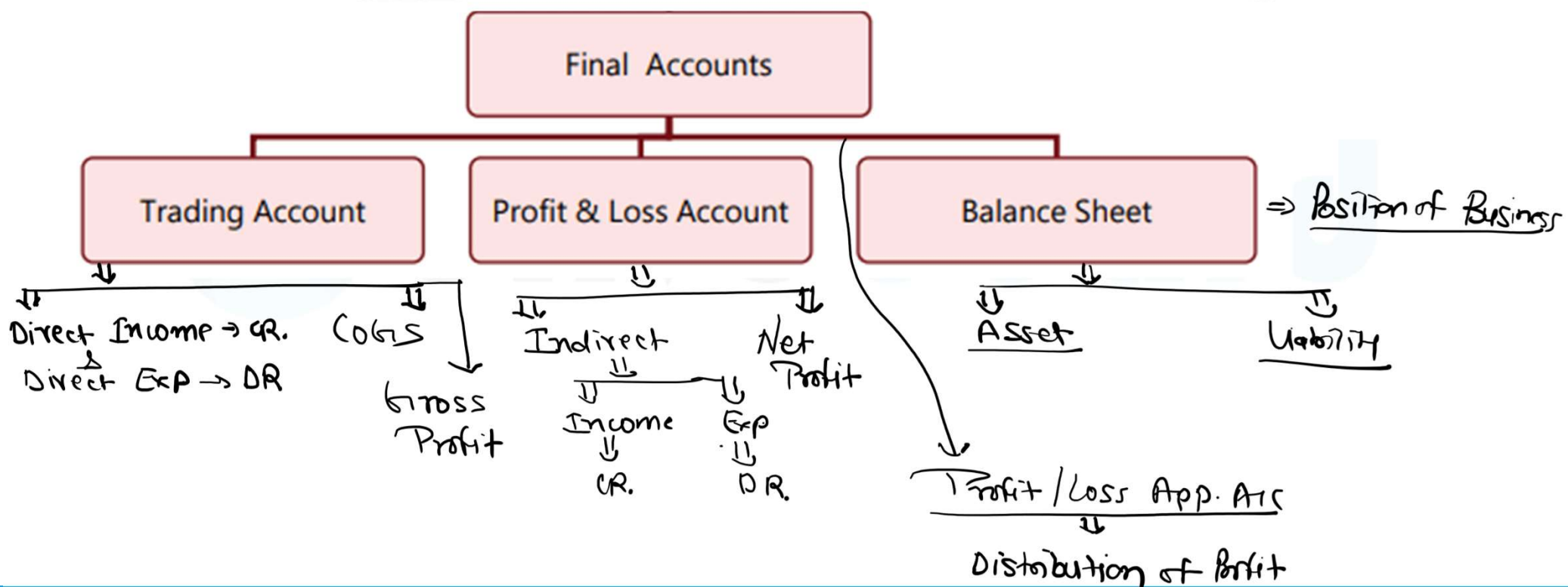
→ Credit Purchase
↓
Creditor
↓
Liability ↑ 20L

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

TOPIC



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

TOPIC

Adjustment Entries

S.No	Transaction	Exp PIL + DR. - CR.	Income CR. BIS - DR.
①	Outstanding Exp. (Salary = 20000) } Payer	Add: (DR.) Exp.	Current Liability
②	Prepaid Exp (Rent 10000) } =	Less: (CR.) Exp	Current Asset
③	Accrued Income (Interest 20000) → Income earned but not received	Add: (CR.) Income	Current Asset
④	Unearned Income (Div. 10000) → Income Rec. but not earned.	Less: (DR.) Income	Current Liability
⑤	Depreciation	DR. Exp.	Asset SOL - Dep. (SL) 45% Net
⑥	Closing Stock (Goods remaining unsold)	Trading A/c - CR.	Current Asset
⑦	Preliminary Exp. (Incorporation Exp) / MISC Exp.	DR. (Exp)	Asset: ✓ Prel. Exp / MISC Exp.
⑧	Contingent Liability (Court Case) ⇒ Below BIS = Foot Note AS-29	NO	NO
⑨	Prov. for NPA <u>Imp</u>	DR. Exp.	Asset: Debtors 1000. Less: NPA 1000. Prov. 90.

TOPIC

* Drawing means use of business money for personal use

* DRR = Deb. Recd. Res.

DR.	Trading A/c	CR.
To Op Stock	By Sales	
To Purchase	By Cl. Stock	
To Labour		
To Direct Exp.		
To Gross Profit		

* DR. < CR. = Gross Profit
 * DR. > CR. = Gross loss
 * DR. < CR. = Net Profit
 * DR. > CR. = Net Loss

Distribution of Profit
 P/L App. A/c

DR.	Profit & Loss A/c	CR.
To Salary	By Gross Profit	
+ OTS Salary	By Interest	
To Rent	By Add: Accrued Int.	
- Prepaid Rent	By Dividend	
To Dep.	Less: unearned div.	
To Prod. Exp.		
To Prov. NPA		
To Net Profit		

To Res. 2L
 To DRR 1L
 To Prov. Tax 1L
 To Interm. Div. 1L
 To Final Div. 1L
 To Surplus (B/S) 1L

By Net Profit 5L
 By Reserves 2L

Liability	Asset
Capital:	F.A - Dep.
+ Surplus	Current Asset
- Drawings	Prepaid Exp.
Long term Liab.	Accrued income
Current Liab.	Cl. Stock
OTS Exp.	Cash
Unearned income	(Debtors)
Creditors	- NPA Prov.
Bank O/D	MISC Exp.

Foot Note: Contingent transaction

7L

TOPIC

COST OF GOODS SOLD

① if Sales ₹ 50,00,000 and G.P Ratio is $\frac{1}{4}$ th of Cost
 Find \rightarrow Cost = CGS
Gross Profit

$$\text{G.P. Profit} = 50,00,000 \times \frac{1}{5} = 10,00,000$$

$$\text{CGS} = \text{Sales} - \text{G.P.} \Rightarrow 50L - 10L = 40,00,000$$

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

On Sales

Ratio	Value
<u>Sale</u>	<u>Cost</u>
<u>Cost</u>	<u>Sales</u>

② if CGS ₹ 60,00,000 and G.P Ratio $\frac{1}{5}$ of Sales
 Find \rightarrow Gross Profit $\Rightarrow 60L \times \frac{1}{5} = 12L$
 \rightarrow Sales \Rightarrow CGS + G.P $= 60L + 12L = 72L$

$$\frac{1}{5}$$

TOPIC

⇒ Costs ⇒ Op. Stock + Purchase + Direct labour + Direct Exp. - Cl. Stock

⇒ Cons ⇒ Sales - GP

