CHAPTER 9 FINAL ACCOUNTS (WITH SIMPLE ADJUSTMENTS)

NOTES

★ STRUCTURE ★

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- ☆ Interest on Drawings
- ☆ Interest and Dividend on Investment
- ☆ Interest on Loan
- ☆ Bad Debts (Not in Adjustment)
- ☆ Provision for Bad and Doubtful Debts (Adjustment)
- ☆ Further Bad Debts (Adjustment)
- ☆ Provision for Bad and Doubtful Debts (Given in the Trial Balance)
- ☆ Provision for Discount on Debtors
- ☆ Closing Stock
- ☆ Summarised Presentation of Adjustments

ADJUSTMENTS/ADDITIONAL INFORMATION IN PREPARATION ON FINAL ACCOUNTS

Business is going concern. It has to be carried on indefinitely. We cannot wait indefinitely for the assessment of the performance of the business, so we distribute the life of the business in equal and uniform periods, generally a year. At the end of every accounting year, we prepare Trading and profit and loss account and measure the performance of business in terms of Gross profit and Net profit. We also prepare a Balance sheet at the end of the year to assess the value of assets and liabilities.

While preparing Final accounts at the end of every accounting period, we come across certain problems. The expenses of the current year are still payable or the expenses of the next year have been paid during the current year. Sometimes, income of the current year remains still receivable and the income of the next year has been received during the current year. Depreciation on assets, interest on capital and provision for bad and doubtful debts of the current year has not been recorded in the books as yet. We are required to adjust these amounts in the final accounts of the current year so that the correct profit or loss of the business may be ascertained. We will have to pass adjusting journal entries for all these items, errors and omissions, not yet recorded in the books. These items do not appear in the Trial balance. They are adjusted at two places in the final accounts.

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DEPRECIATION IN THE VALUE OF ASSETS

The assets acquired in the business are continuously used. They will naturally be losing their utility, value and usefulness. In other words, there will be wear and tear. *Loss in the value of assets due to its constant use is termed as depreciation.* It is necessary that loss due to depreciation must be accounted for. Certain provisions should be made, so that the assets may be replaced without much financial problems.

Treatment in Final Accounts

(*i*) **If depreciation account appears in Trial balance.** It will be posted to the debit side of profit and loss account only, as it is an item from Trial balance. (Items from Trial balance are posted only at one place).

(*ii*) **If depreciation is an item of adjustments.** We shall first of all calculate the amount of depreciation on the specific assets at the given rate. An adjusting entry (mentioned as above) will be passed. Depreciation account will be transferred to the debit side of Profit and Loss account. It will also reduce the value of the concerned asset, so the value of asset will be shown at reduced price in the Balance sheet. Depreciation on furniture (mentioned in the above example) will be shown as under in the profit and loss account and Balance sheet.

Profit and Loss Account **Balance Sheet**

Dr.		*Cr.*	*Liabilities*	*Assets*		
To Depreciation				Furniture	10,000	
on Furniture	1,000			*Less* : Depreciation	1,000	9,000

APPRECIATION IN THE VALUE OF ASSETS

It is just possible that value of certain assets such as land and building may increase. This increase in the value is gain, so it will be credited. It will also increase the value of assets, so assets account will be debited as the rule for assets goes 'debit the increase'.

Treatment in Final Accounts

(*i*) **If appreciation appears in Trial balance.** It will be shown at the credit side of profit and loss account only, because it is gain.

(*ii*) **If appreciation appears in adjustment.** All the items appearing in adjustments are shown at two places in the final accounts. Appreciation is a gain so it will be shown at the credit side of profit and loss account on the one hand, and on the other hand, it will be added to the value of concerned assets in the Balance sheet. If land and building worth Rs. 1,00,000 appreciated @ 15% the following entry will be passed.

It will be shown in the Profit and loss account and Balance sheet as under :

Profit and Loss Account **Balance Sheet**

Dr.	*Cr.*		*Liabilities*	*Assets*		
	By Increase in the			Land and building	1,00,000	
	value of land			*Add* : Appreciation	15,000	
	and building	15,000				1,15,000

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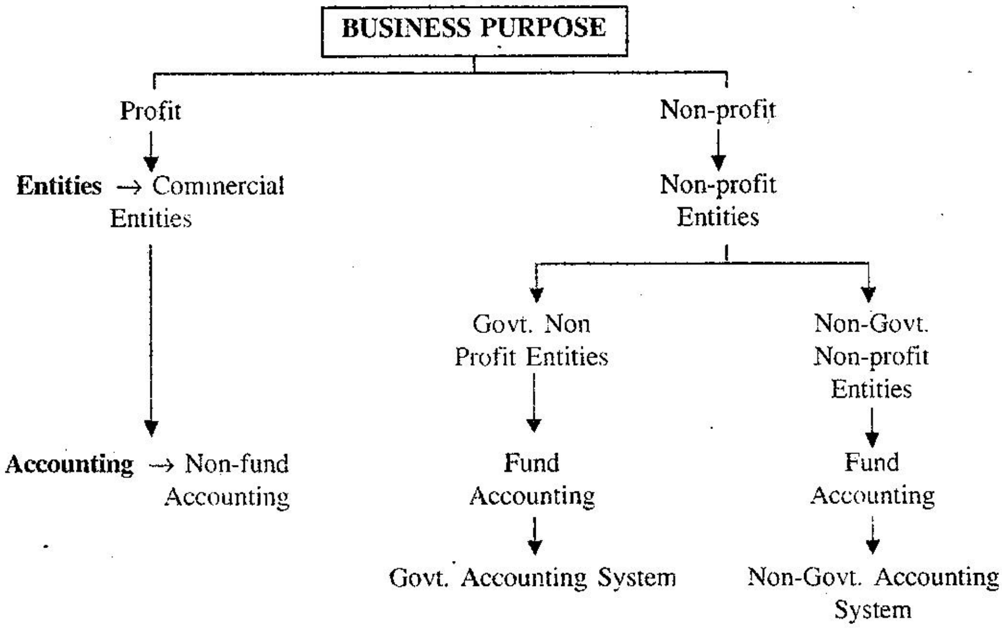

Entities.

Commercial Entities

These are the business organisations whose main objective is to earn profit by selling goods or providing services. For example, Manufacturing, Mining, Farming/Fishing, Trading, Agency Services, Financing, Banking, Insurance, Professional Services etc.

Non-Profit Entities

Organisations formed to promote certain cultural, recreational, religious, political, educational, medical and professional activities are known as non-profit organisations. These are of two kinds :

1. **Govt. Non-Profit Entities.** It includes central, state, local, universities, institutions, colleges, schools etc.
2. **Non Govt. Non-Profit Organisations.** It includes Trusts, hospitals, clubs, religious institutions, private educational institutions etc.

Distinction between Commercial Entity and Non-Profit Entity

Basis of Difference	*Commercial Entity*	*Non-Profit Entity*
1. *Motive*	Primary motive is to earn profit.	Primary motive is to promote social causes like education, sports, etc.
2. *Proprietorship*	Individuals or group of individuals who have taken risk of carrying business are the owners.	Subscribers to the institutions are members and owners of the organisation.
3. *Profit sharing*	Profit belongs to owners.	Profit if any, belongs to members of the institution.
4. *Financial statements*	Trading, Profit & Loss Account and Balance Sheet is prepared.	Receipt & Payment, Income & Expenditure Account and Balance is prepared.