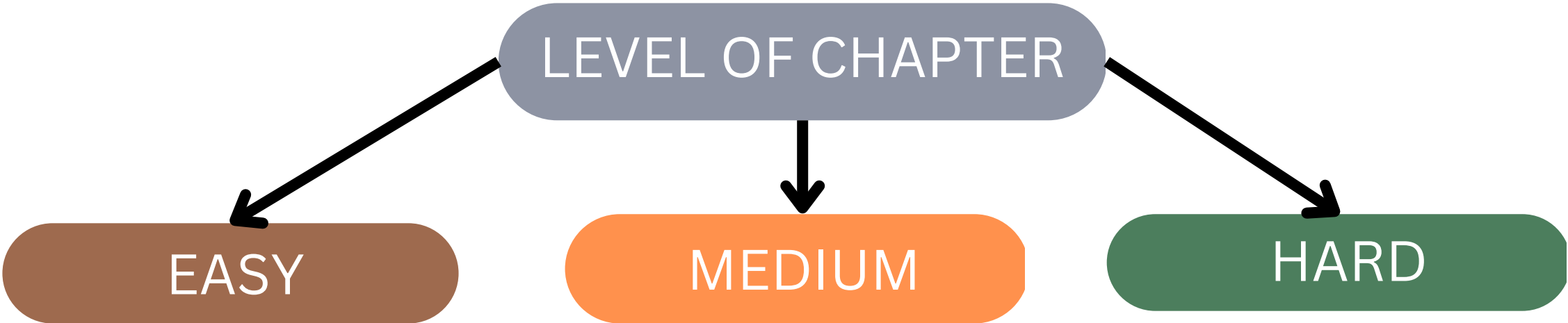
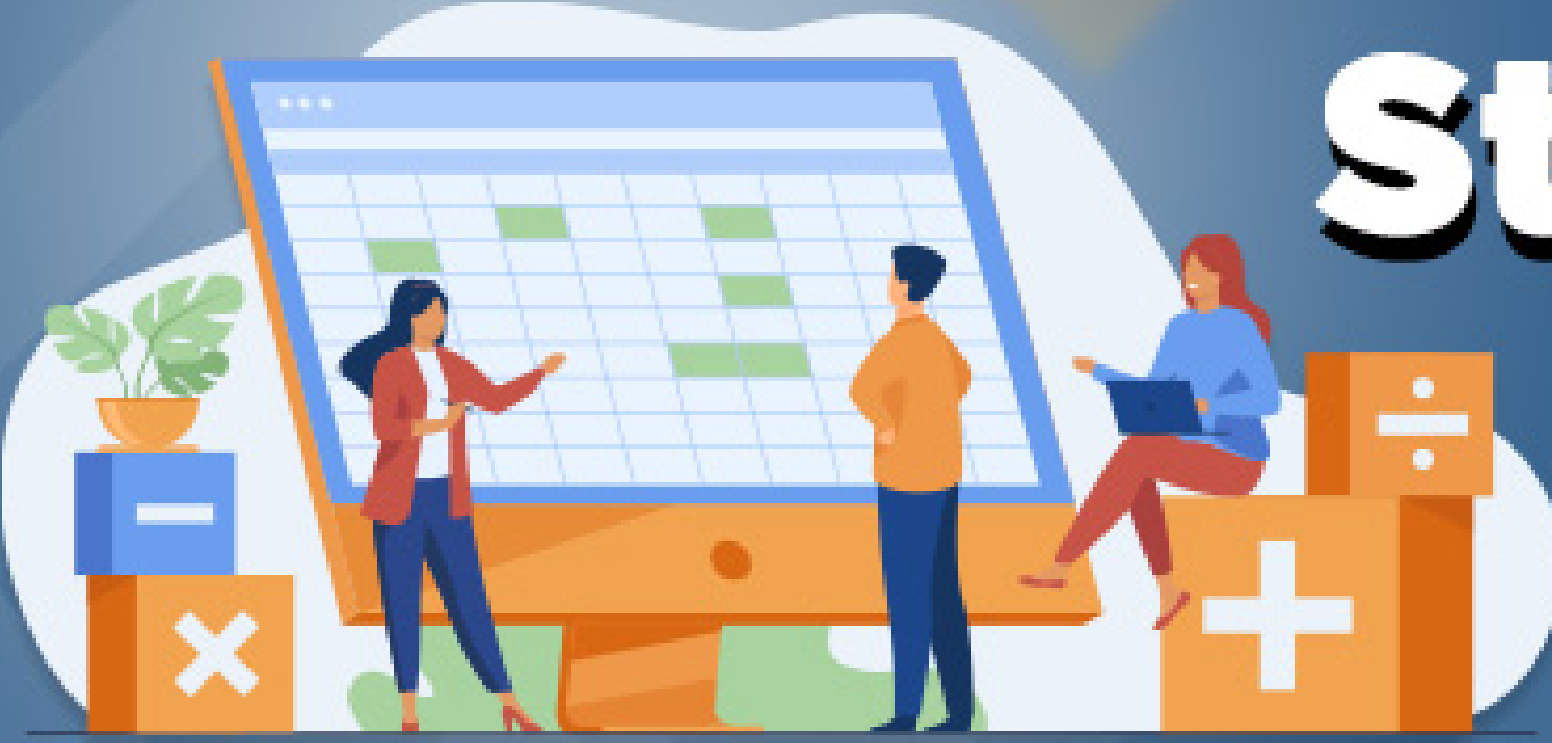


# FINANCIAL STATEMENTS & ADJUSTMENTS



# Financial Statement



## Financial Statements

Financial statement first begins with understanding what is a financial statement. As John N. Myer had quoted that the financial statements provide a summary of the accounts of a business or an organisation, the balance sheet reflecting the assets, liabilities and capital as on a certain date and the income statement showing the result of operation during a certain period.

The financial statement is a broad term that includes 3 major components. These are:

- Income statements
- Statement of Financial Position
- Schedules and notes forming part of Balance sheet and income statement

## Objectives Of Preparing Financial Statements

As per Financial Statement, the main objectives to prepare a financial statement at the end of an accounting period are as follows:

- To present a fair and true view of the financial performance of the business i.e., the profits and the losses at the end of the financial period.
- To present a true and a fair view of the financial position of the business i.e., the assets and the liabilities at the end of the financial period.

## Capital Expenditure vs Revenue Expenditure vs Deferred Revenue Expenditure

Moving further in Financial Statement, there is a comparison between capital expenditure vs revenue expenditure vs deferred revenue expenditure.

Capital expenditures are those expenditures whose benefit is derived by the business for more than one year. These expenditures are recorded on the assets side of the Balance sheet. Example: purchase of fixed assets, payment of goodwill, decrease in long term debts etc.

On the contrary, the recurring expenditures as the name suggests are those expenditures that are incurred for operating the business smoothly and which help to maintain the business's earning capacity. These expenditures are shown on the debit side of the income statement i.e. the trading and profit and loss account. Example: purchase of goods during the year, expenses such as salaries, wages, postage, carriage etc.

Deferred revenue expenditures are those expenditures which are although revenue in nature, but the heavy amount spent and the derived benefit can be used over a number of years. An example can be heavy expenses on advertising, promotions, launching a new product or service etc.

### Capital Receipts vs Revenue Receipts

Capital receipts are those receipts that are irregular receipts and don't affect the profit and loss account or the income statement of the business. It either increases the liabilities or reduces the fixed assets and hence shown in the balance sheet of the business.

On the contrary, the revenue receipts under financial statement class 11, are those receipts that are received in the normal course of business. Examples can be receipts earned from sales, a commission earned, rent received and more. These receipts hence increase the profit in the profit and loss account.

### Types Of Expenses

As per financial statement, expenses can be categorised into 2 categories that are:

- **Direct expenses:** direct expenses are those expenses of the business which are incurred on purchasing of goods and for converting raw material into the finished goods. For example, manufacturing wages or production expenses etc. These expenses are shown on the debit side of the trading account.
- **Indirect expenses:** indirect expenses are those expenses which are not directly related to production or purchase of the goods or any services of the business. On the contrary, it includes those expenses which are related to office and administration, selling and distribution of goods and financial expenses etc. These expenses are shown on the debit side of the profit and loss account.

### Some Important Formulas

Mentioned below are some important formulas which are related to financial statement. You can have a look here:

- **Gross Profit= Net Sales- Cost of Goods Sold (COGS)**
- **Net Sales= Total Sales- Sales Return**
- **Cost of Goods Sold (COGS)= Opening Stock + Net Purchases + Direct Expenses – Closing Stock**
- **Net Purchases= Total Purchases- Purchases Return**
- **Operating Profit=Net sales- Operating Cost**
- **Operating Profit= Gross Profit- (office and administration expenses + selling and distribution expenses)**
- **Net Profit= Operating Profit + Non operating income – Non operating expenses**

Income Statements

According to the financial statement, the income statements are prepared by the organisation or a business to ascertain correct and accurate gross profits or losses and net profits or losses during an accounting period. The income statements are further divided into two accounts or parts:

- **Trading Account:** The trading account shows the gross profits earned or gross losses incurred by the business during a financial year.
- **Profit and Loss Account:** the P/L Account shows the net profits earned or net losses incurred by the business during a financial period.

Format Of Trading Account

Trading Account of XYZ Pvt. Ltd. For the year ending 31st March 2020			
Dr.			Cr.
Particulars	Amount (INR)	Particulars	Amount (INR)
To opening stock		By sales	
To purchases		By closing stock	
To wages		By scrap sales	
To carriage inward			
To Freight inwards			
To cartage			
To fuel and power			
To octroi charges			
To other direct expenses			
To Gross Profit t/f to P/L A/c		By loss t/f to P/L A/c	
	xxx		xxx



Format Of Trading Account

Profit and Loss Account of XYZ Pvt. Ltd.  
For the year ending 31st March 2020

Dr.			Cr.
Particulars	Amount	Particulars	Amount
To gross loss t/f from Trading A/c		By gross profit t/f from Trading A/c	
To salaries		By rent received	
To rent		By discount received	
To printing and stationery		By commission received	
To postages and telephones		By interest received	
To electricity bill		By dividend received	
To insurance premium		By bad debts recovered	
To legal expenses		By gain on sale of fixed assets	
To establishment expenses		By miscellaneous receipts	
To trade expenses		By Net Loss t/f to Capital A/c	
To audit fee		(if Dr. > Cr. side)	
To travelling expenses			
To general expenses			
To carriage and freight outwards			
To commission			
To brokerage			
To advertisement			
To bad debts			
To export duty			
To export duty			
To packing expenses			
To interest paid			
To discounts given			
To bank charges			
To repairs			
To depreciation on fixed assets			
To conveyance expenses			
To donations and charity			
To loss on sale of fixed assets			
To entertainment expenses			
To loss by fire			
To loss by theft			
To other miscellaneous expenses			
To Net Profit t/f to Capital A/c (if Cr. > Dr. side)			

## Balance Sheet

According to the financial statement class 11 chapters, a balance sheet is a summarised statement of assets and liabilities that is prepared at the end of the financial year. It is made to show the financial position of the business or the organisation. All the assets are placed on the right side of the balance sheet and all the liabilities at the left side. Please remember these points:

- The assets are arranged in the order of the liquidity in the balance sheet. This means that the most liquid asset example the cash in hand is shown first and the least liquid assets such as the goodwill is shown last.
- The liabilities are arranged in the order of timing. This means that the liabilities which are to be paid immediately or at first are shown first such as the creditors and the liabilities which are to be paid later are shown at the last such as long term loans.

### Format of the Balance Sheet

Balance Sheet of XYZ Pvt. Ltd.  
As at 31st March 2020

Liabilities	Amount	Assets	Amount
Bank overdraft		Cash in hand	
Bills payable		Cash at bank	
Sundry creditors		Bills receivable	
Outstanding expenses		Short term investment	
Income received in advance		Sundry debtors	
Long term loans		Prepaid expenses	
Capital		Accrued income	
Add: Interest on capital		Closing stock	
Add: net profit		Furniture and Fixtures	
Less: drawings		Plant and Machinery	
Less: net loss		Building	
Less: income tax		Land	
		Goodwill	

# Financial Statement

## With Adjustment

Adjustment	Adjustment entry	Treatment in the Trading A/c	Treatment in the Profit and Loss A/c	Treatment in Balance Sheet
Closing stock	Closing stock A/c..... Dr.To Trading A/c	Shown on the credit side		Shown on the assets side
Outstanding expenses	Expenses A/c.....Dr.To O/s Expenses A/c	Shown on the debit side	Shown on the debit side	Shown on the liabilities side
Prepaid or unexpired expenses	Prepaid expenses A/cTo Expenses A/c	Deducted from respective expenses on the debit side	Deducted from respective expenses on the debit side	Shown on the assets side
Depreciation	Depreciation A/c.....Dr.To assets A/c		Shown on the debit side	Deducted from the asset on the asset side
Accrued Income	Accrued income A/c... Dr.To income A/c		Added to the respective income on the credit side	Shown on the assets side
Unearned income	Income A/c..... Dr.To unearned income A/c		Deducted from the respective income on the	Shown on the liabilities side

Financial Statements				
Interest on capital	Interest on Capital A/c To capital A/c		Shown on the debit side	Added to the capital on the liabilities side
Interest on drawings	Interest on Drawings A/c To drawings A/c		Shown on the debit side	Added to drawings and then deducted from the Capital on the liabilities side
Interest on loan	Interest on loan A/c... Dr.To loan A/c		Shown on the debit side	Added to the loan on the liabilities side
Further bad debts	Bad debts A/c..... Dr.To sundry debtors A/c		Added to bad debts on the debit side	Deducted from debtors on the assets side
Provision for doubtful debts	Profit & Loss A/c..... Dr.To provision for doubtful debts A/c		Added to bed debts on the debit side	Deducted from debtors on the asset side
Provision for discount on debtors	Profit & Loss A/c..... Dr.To provision for discount on debtors A/c		Shown on the debit side	Deducted from debtors on the asset side
Abnormal loss of stock	Insurance Co. A/c..... Dr.Profit & Loss A/c..... Dr. To purchases A/c	Total amount of loss will be deducted from the purchases on the debit side	Amount recovered from the insurance company is shown on the debit side	Amount recovered from the insurance company is shown on the asset side
Charity in the form of goods	Charity A/c..... Dr.To purchases A/c	Deducted from purchases on the debit side	Shown on the debit side	
Goods distributed as free samples	Free samples A/c..... Dr.To purchases A/c	Deducted from purchases on the debit side	Shown on the debit side	
Drawings in goods	Drawings A/c..... Dr.To purchases A/c	Deducted from purchases on the debit side		Deducted from the capital on the liabilities side



Financial Statements			
<b>Manager's commission</b>	Manager's commission A/c To o/s commission A/c	Shown on the debit side	Shown on the liabilities side
<b>Goods sold but omitted to be recorded</b>	Debtors A/c..... Dr.To sales A/c	Added to the sales on the credit side	Added to the debtors on the assets side
<b>Goods purchased but omitted to be recorded</b>	Purchases A/c..... Dr.To creditors A/c	Added to purchases on the debit side	Added to creditors on the liabilities side