

LESSON-18 FINANCIAL STATEMENTS: II

SUMMARY

Income statement shows the Net Profit or Net loss as the case may be for that period and Position Statement presents the financial position of the business on the specific date. These statements are prepared on the basis of Trial Balance and other information. It is possible that there are certain items of income or expenses which do not pertain to the accounting period for which Trial Balance is prepared or other such items which have accrued but have not been accounted for and hence are not reflected in Trial Balance. Both these types of incomes and expenses are to be fully accounted for, only then the above stated two statements will show the true and fair position of the business. These are called 'adjustments'. It is very important to know about accounting treatment of some of the adjustments and incorporation of these adjustments in financial statements.

NEED FOR ACCOUNTING ADJUSTMENTS

The process of exclusion or inclusion of items into books of accounts at the time of preparing financial statements is called adjustments. These are to be incorporated to arrive at the true and fair position of the business.

ADJUSTMENTS AND THEIR INCORPORATION

Some of the items of adjustment and their accounting treatment in financial statements.

1. Closing Stock
2. Outstanding Expenses.
3. Prepaid Expenses
4. Accrued Income.
5. Income received in advance
6. Interest on Capital
7. Interests on Drawings
8. Depreciation.
9. Further Bad Debts.
10. Provision for Bad and Doubtful Debts.
11. Provision for discount on debtors.
12. Managers Commission
13. Abnormal losses.
14. Drawing of Goods by the Proprietor.
15. Goods Distributed as free Sample.

ADJUSTMENTS IN PREPARATIONS OF FINANCIAL STATEMENTS

Provision for Discount on Debtors

The likely amount of the discount to be allowed is debited to the Profit and Loss Account and credited to the Provision for Discount Account. This amount is deducted from book debts (debtors) in the balance sheet and is carried forward to the next year. Discount allowed to the existing debtors in the next year are debited to the Provision for Discount Account and not to the Profit and Loss Account. The debit reduces the balance in the provision account, it is made up to the required figure by a debit to the Profit and Loss Account and credit to the provisions account just like the Provision for Doubtful Debts Account.

Goods Distributed as Free Samples

For sales promotion, some of the goods may be distributed as free samples.

Activity

Analyse the financial statements of at least four business concerns and record the rate at which depreciation is charged on various fixed assets and provision is made for doubtful debts and find out the reasons of variation.

<i>S.No.</i>	<i>Name of Business concern</i>	<i>Rate of Depreciation</i>	<i>Reasons of variation</i>