

Adjustments in Financial Statements

Adjustment of Accrued Income



CBSE

Accrued Income refers to income that has been earned during an accounting period but has not yet been received by the end of that period. Since accrued income represents revenue that has been earned but not yet collected, it is recorded as an asset on the balance sheet.



ICSE

Accrued income refers to those incomes which have been earned by the firm in the current accounting period but have not been received yet. Such types of income can be Interest on loan, rent received, commission, etc. So, following the accrual concept of accounting, these incomes are recorded in the year in which they are rendered by the firm and treated as an income for the firm.



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Adjustment:



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A. If Accrued Income is given outside the trial balance: In such case, two entries will be passed:

- Will be added to the related Income A/c in the Cr. side of Profit & Loss A/c.
- Will be shown in the Assets side of the Balance Sheet or added to the concerned source in the Assets side of the Balance Sheet.



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Journal Entry

Date	Particulars	L.F.	Amount(Dr.)	Amount(Cr.)
	Accrued Income A/c Dr.		XXXX	
	To Income A/c			XXXX
	(Being Accrued income recorded)			

Dr. Trading & P & L A/c Cr.

Particulars	Amount(₹)	Particulars	Amount(₹)
		To Income A/c	XXXX
		Add; Accrued Income	XXX XXXX

Balance Sheet

Liabilities	Amount(₹)	Assets	Amount(₹)
		Accrued Income	XXXX

B. If Accrued Income is given inside the trial balance: It will only be shown on the Assets side of the Balance Sheet.

Balance Sheet

Liabilities	Amount(₹)	Assets	Amount(₹)
		Accrued Income	XXXX



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Solved Example

The Trial Balance of Ms. Samriti for the year ended March 31 2023, appears as follows:

**Trial Balance of Ms. Samriti
for the year ended March 31, 2023**

Particulars	Debit(₹)	Credit(₹)
Cash	1,000	
Bank	5,000	
Wages	8,000	
Salaries	25,000	
Furniture	15,000	
Rent of building	13,000	
Debtors	15,500	
Bad debts	4,500	
Purchases	75,000	
Capital		12,000
Sales		1,25,000
Creditors		20,000
Commission received		5,000
Total	1,62,000	1,62,000

The following adjustments were noted on that date:

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1. Commission amounting to ₹1,500 is still to be received.
 2. Amount of Closing stock on 31st March 2022 was ₹15,000.
 3. Outstanding wages amounting to ₹500.
 4. Salary paid in advance amounting to ₹5,000.
 5. Rent received in advance amounts to ₹3,000.
- Prepare Trading and Profit and Loss A/c and balance sheet after taking the following adjustments into consideration.

Solution:

Trading and Profit and Loss A/c for the year ended 31st March 2023			
Dr.		Cr.	
Expenditure	Amount(₹)	Income	Amount(₹)
To Purchases	75,000	By Sales	1,25,000
To Wages	8,000	By Closing stock	15,000
Add: O/S wages	500		
	8,500		
To Gross profit	56,500		
	1,40,000		1,40,000
To Salaries	25,000	By Gross Profit	56,500
Less: Prepaid salary	(5,000)	By Commission	5000
	20,000	Add: Accrued Commission	1500
To Rent of building	13,000		6,500
To Bad debts	4,500		
To Net Profit	25,500		
	62,000		62,000

Balance Sheet of Ms. Samriti as on 31st March 2023			
Liabilities	Amount(₹)	Assets	Amount(₹)
Capital	12,000	Furniture	15,000
Add: Net Profit	25,500	Debtors	15,500
	37,500	Bank	5,000
Creditors	20,000	Cash	4,000
Outstanding wages	500	Closing Stock	15,000
Rent received in advance	3,000	Accrued Commission	1,500
		Prepaid salary	5,000
	61,000		61,000

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Assignment

Ques 1: From the following particulars for the year ending 31.3.2012 of M/s Pant. Bros. prepare Trading Account, Profit & Loss Account and a Balance Sheet as on 31.3.2012

Particulars	Dr. (₹)	Particulars	Cr. (₹)
Capital	4,00,000	Salaries	1,20,000
Opening Stock	85,000	Rent & Taxes	40,000
Purchases	4,20,000	Postage & Telegrams	25,000
Creditors	75,000	Interest Paid	20,000
Debtors	1,20,000	Furniture	2,00,000
Sales	8,10,000	Insurance	1,00,000
Discount received	18,000	Freight	20,000
Discount allowed	16,000	Cash in hand	50,000
Purchases Returns	20,000	Cash at bank	47,000
Sales Returns	10,000	Motor car	50,000

Adjustments

- Closing stock valued as on 31.3.2012 ₹ 1,70,000
- Salaries outstanding ₹ 12,000
- Charge depreciation on Motor Car @ 10% P.A.

Ques 2: The Trial Balance of Mr. Arjun for the year ended March 31, 2024, appears as follows:

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Trial Balance (as of March 31, 2024)

Particulars	Dr. (₹)	Cr. (₹)
Opening Stock	25,000	
Purchases	80,000	
Sales		1,40,000
Wages	15,000	
Salary	12,000	
Rent	6,000	
Commission Received		5,000
Furniture	20,000	
Debtors	30,000	
Creditors		20,000
Cash in Hand	18,000	
Capital		1,10,000
General Expenses	7,000	
Rent Received		8,000
Travelling Expenses	4,000	
Bank Loan		10,000
Insurance Premium	3,000	
	2,20,000	2,20,000

Adjustments:

1. Commission amounting to ₹2,000 is still to be received.
2. Closing stock on March 31, 2024, was valued at ₹20,000.
3. Outstanding wages amounting to ₹1,000.
4. Salary paid in advance amounting to ₹3,000.
5. Rent received in advance amounts to ₹2,500.
6. Provide depreciation on furniture at 10%.

Required:

1. Pass the necessary journal entries for the adjustments.
2. Prepare the adjusted Trading & Profit and Loss Account for the year ending March 31, 2024.
3. Prepare the Balance Sheet as of March 31, 2024.

Adjustment of Unearned Income

Unearned Income, also known as **Deferred Revenue** or **Advance Income**, refers to money received by a business for goods or services that have not yet been delivered or performed. Since the service or goods have not been provided, the company cannot recognize this income as earned revenue in the current period.

Such an income that has not been earned as yet but has been received in advance is called Unearned Income. It doesn't belong to the current financial year but has been received in advance. Any unearned income received depicts a false image of the profitability of the business and hence requires an adjustment to nullify the effect.

Adjustment:

A. If Unearned Income is given outside the trial balance: In such cases, two entries will be passed:

Will be deducted from the related Income A/c in the Cr. side of the Profit & Loss A/c

Will be shown in the Liabilities side of the Balance Sheet.



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Journal Entry

Date	Particulars	L.F.	Amount(Dr.)	Amount(Cr.)
	Income A/c Dr.		XXXX	
	To Unearned Income A/c			XXXX
	(Being unearned income recorded)			

Dr.	Trading & P & L A/c		Cr.
Particulars	Amount(₹)	Particulars	Amount(₹)
		To Income A/c XXXX	
		Less; Unearned Income (XXX)	XXXX

Balance Sheet

Liabilities	Amount(₹)	Assets	Amount(₹)
Unearned Income	XXXX		

B. If Unearned Income is given inside the trial balance: It will only be shown on the Liabilities side of the Balance Sheet.

Balance Sheet

Liabilities	Amount(₹)	Assets	Amount(₹)
Unearned Income	XXXX		

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Solved Question

Question:

M/s Niharika Traders is preparing its financial statements for the year ended December 31, 2023. The following Trial Balance was extracted from the books:

Trial Balance as on December 31, 2023		
Particulars	Debit (₹)	Credit (₹)
Capital		₹1,00,000
Sales		₹2,00,000
Purchases	₹1,20,000	
Wages	₹20,000	
Rent Received		₹15,000
Furniture & Fixtures	₹40,000	
Cash	₹15,000	
Debtors	₹25,000	
Creditors		₹30,000
Drawings	₹10,000	
Rent Expense	₹5,000	
Opening Stock	₹30,000	
Sundry Expenses	₹15,000	
Total	₹2,80,000	₹2,80,000

Adjustments:

- Closing Stock:** The value of the closing stock as on December 31, 2023, is ₹35,000.
- Unearned Rent:** ₹5,000 out of the rent received is for the next year and should be treated as unearned.
- Outstanding Wages:** Wages amounting to ₹3,000 are still outstanding.
- Depreciation:** Provide depreciation on Furniture & Fixtures at 10%.

Required:

- Pass the necessary journal entries for the adjustments.
- Prepare the adjusted **Trading & Profit and Loss Account** for the year ended December 31, 2023.
- Prepare the adjusted **Balance Sheet** as on December 31, 2023.

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Step 1: Pass the Journal Entries for Adjustments

1. Closing Stock:

- No journal entry is required, but it will be shown on the credit side of the Trading Account and as an asset on the Balance Sheet.

2. Unearned Rent:

- Journal Entry:

CSS		Copy code
Rent Received A/c	Dr. ₹5,000	
To Unearned Rent A/c	₹5,000	

3. Outstanding Wages:

- Journal Entry:

CSS		Copy code
Wages A/c	Dr. ₹3,000	
To Outstanding Wages A/c	₹3,000	

4. Depreciation on Furniture & Fixtures:

- Journal Entry:

CSS		Copy code
Depreciation A/c	Dr. ₹4,000	
To Furniture & Fixtures A/c	₹4,000	

(Depreciation = 10% of ₹40,000 = ₹4,000)

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Step 2: Prepare the Adjusted Trading & Profit and Loss Account

Trading & Profit and Loss Account for the Year Ended December 31, 2023

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	30,000	By Sales	2,00,000
To Purchases	1,20,000	By Closing Stock	35,000
To Wages	20,000		
Add: Outstanding Wages	3,000		
	23,000		
To Gross Profit c/d	62,000		2,35,000
Total	2,35,000	Total	2,35,000
To Rent Expense	5,000	By Gross Profit b/d	62,000
To Sundry Expenses	15,000		
To Depreciation on Furniture & Fixtures	4,000		
To Net Profit transferred to Capital A/c	38,000		62,000
Total	62,000	Total	62,000

Step 3: Prepare the Adjusted Balance Sheet

Balance Sheet as on December 31, 2023

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital	1,00,000	Furniture & Fixtures	40,000
Add: Net Profit	38,000	Less: Depreciation	4,000
	1,38,000	Net Furniture & Fixtures	36,000
Less: Drawings	10,000	Closing Stock	35,000
	1,28,000	Debtors	25,000
Outstanding Wages	3,000	Cash	15,000
Unearned Rent	5,000	Prepaid Rent	5,000
Creditors	30,000		
Total	1,66,000	Total	1,66,000



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Assignment

Ques 1: M/s Creative Solutions is preparing its financial statements for the year ending December 31, 2023. The following trial balance was extracted:

Account Name	Dr. (₹)	Cr. (₹)
Opening Stock	40,000	
Purchases	1,00,000	
Sales		2,50,000
Carriage Inwards	5,000	
Plant and Machinery	60,000	
Furniture	20,000	
Salaries	25,000	
Rent Received in Advance		4,000
Interest Accrued		2,000
Cash	10,000	
Capital		1,50,000
Creditors		15,000
Total	2,40,000	2,50,000

Adjustments:

1. Closing stock as on December 31, 2023, is ₹50,000.
2. Depreciation on Plant and Machinery is to be provided at 10% and on Furniture at 15%.
3. Accrued interest income amounts to ₹1,000.
4. Rent received in advance amounts to ₹1,000.

Required:

1. Pass the necessary journal entries for the adjustments.
2. Prepare the Trading & Profit and Loss Account for the year ended December 31, 2023.
3. Prepare the Balance Sheet as on December 31, 2023.

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Ques 2: M/s Modern Traders is closing its books for the year ending March 31, 2024. The trial balance as of March 31, 2024, is as follows:

Account Name	Dr. (₹)	Cr. (₹)
Opening Stock	25,000	
Purchases	1,50,000	
Sales		3,00,000
Carriage Inwards	6,000	
Office Equipment	50,000	
Depreciation		
Wages	30,000	
Rent Paid	12,000	
Unearned Income		3,500
Interest Income		1,200
Cash	8,000	
Accounts Payable		20,000
Total	2,81,000	3,24,700

Adjustments:

1. Closing stock on March 31, 2024, is valued at ₹30,000.
2. Depreciation on Office Equipment is to be provided at 20%.
3. Accrued interest income amounts to ₹800.
4. Unearned income to be adjusted to ₹2,000.

Required:

1. Pass the necessary journal entries for the adjustments.
2. Prepare the Trading & Profit and Loss Account for the year ended March 31, 2024.
3. Prepare the Balance Sheet as on March 31, 2024.

Ques 3: M/s Elegant Furnishings has the following trial balance for the year ending September 30, 2023:

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Account Name	Dr. (₹)	Cr. (₹)
Opening Stock	35,000	
Purchases	85,000	
Sales		1,80,000
Freight Inwards	4,000	
Vehicles	80,000	
Office Rent	15,000	
Accrued Rent		2,000
Depreciation on Vehicles		
Cash	7,000	
Accounts Receivable	22,000	
Capital		1,00,000
Accounts Payable		10,000
Total	2,28,000	2,92,000

Adjustments:

1. Closing stock on September 30, 2023, is ₹45,000.
2. Depreciation on Vehicles is to be provided at 15%.
3. Accrued rent for the office amounts to ₹1,000.
4. Unearned income for advance payments is ₹3,000.

Required:

1. Pass the necessary journal entries for the adjustments.
2. Prepare the Trading & Profit and Loss Account for the year ended September 30, 2023.
3. Prepare the Balance Sheet as on September 30, 2023.

