

Adjustments in Financial Statements

Adjustment of Accrued Income



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**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.



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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 <span style="float:right">Dr.</span>		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

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 <span style="float:right">Dr.</span>		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 <span style="float:right">XXXX</span>	
		Less; Unearned Income <span style="float:right">(XXX)</span>	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 Example**

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

Particulars	Debit (₹)	Credit (₹)
Opening Stock	10,000	
Purchases	50,000	
Wages	5,000	
Salaries	10,000	
Rent Received		12,000
Commission Received		2,000
Sales		80,000
Furniture	15,000	
Debtors	20,000	
Creditors		8,000
Cash	10,000	
Capital		20,000
Drawings	2,000	
<b>Total</b>	<b>122,000</b>	<b>122,000</b>

**Adjustments**

1. Rent received in advance amounts to ₹3,000.
2. Closing stock as of 31st March 2022 is ₹15,000.
3. Outstanding wages amount to ₹500.
4. Salary paid in advance amounts to ₹5,000.
5. Commission of ₹1,500 is still to be received.

Prepare Trading and Profit and Loss A/c and balance sheet after taking the following adjustments into consideration.

Solution:

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Trading and Profit & Loss A/c for the year ending March 31st, 2012			
Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	10,000	Sales	80,000
To Purchases	50,000	Closing Stock	15,000
To Wages 5000			
Add: Outstanding Wages 500	5,500		
Gross Profit c/d	29,500		
	95,000		95,000
To Salaries 10,000		By Gross Profit b/d	29,500
Less: Prepaid Salary (5,000)	5,000		
To Net Profit c/d	37,000	By Commission Received 2000	
		Add: Accrued Commission 1500	3,500
		By Rent Received 12,000	
		Less: Unearned Rent (3,000)	9,000
	42,000		42,000

Balance Sheet as at March 31st, 2022			
Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	8,000	Furniture	15,000
Unearned Rent	3,000	Debtors	20,000
Outstanding Wages	500	Cash	10,000
		Closing Stock	15,000
Capital 20,000		Prepaid Salary	5,000
Add: Net Profit 37,000		Accrued Commission	1,500
Less: Drawings (2000)	55,000		
	66,500		66,500

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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 [**Hint: Balance Sheet Total = Rs 6,32,000**]

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: [**Hint: Balance Sheet Total = Rs 1,58,000**]

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Particulars	Debit (₹)	Credit (₹)
Opening Stock	15,000	
Purchases	80,000	
Wages	10,000	
Salaries	15,000	
Furniture	20,000	
Rent Received		10,000
Commission Received		5,000
Sales		150,000
Debtors	90,000	
Creditors		25,000
Cash	25,000	
Capital		70,000
Drawings	5,000	
<b>Totals</b>	<b>260,000</b>	<b>260,000</b>

**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.

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Ques 3: M/s Creative Solutions is preparing its financial statements for the year ending December 31, 2023. The following trial balance was extracted: **[Hint: Balance Sheet Total = Rs 2,55,000]**

Particulars	Debit (₹)	Credit (₹)
Opening Stock	40,000	
Purchases	120,000	
Wages	20,000	
Salaries	30,000	
Furniture	40,000	
Plant and Machinery	100,000	
Rent Received		10,000
Sales		238,000
Interest Income		2,000
Debtors	50,000	
Creditors		30,000
Cash	30,000	
Capital		158,000
Drawings	8,000	
<b>Totals</b>	<b>438,000</b>	<b>438,000</b>

**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.

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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.

Ques 4: 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: **[Hint: Balance Sheet Total = Rs 2,15,800]**

Particulars	Debit (₹)	Credit (₹)
Opening Stock	20,000	
Purchases	90,000	
Wages	15,000	
Salaries	25,000	
Office Equipment	50,000	
Rent Received		10,000
Sales		150,000
Interest Income		5,000
Debtors	60,000	
Creditors		40,000
Cash	85,000	
Capital		150,000
Drawings	10,000	
<b>Totals</b>	<b>355,000</b>	<b>355,000</b>

**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. Rent Received in advance ₹2,000.

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**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 5: M/s Elegant Furnishings has the following trial balance for the year ending September 30, 2023: **[Hint: Balance Sheet Total = Rs 2,76,000]**

Particulars	Debit (₹)	Credit (₹)
Opening Stock	25,000	
Purchases	120,000	
Wages	18,000	
Salaries	22,000	
Vehicles	80,000	
Rent Received		12,000
Sales		220,000
Debtors	70,000	
Creditors		40,000
Cash	92,000	
Capital		170,000
Drawings	15,000	
<b>Totals</b>	<b>442,000</b>	<b>442,000</b>

**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.

**Required:**

1. Pass the necessary journal entries for the adjustments.

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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.

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