

Financial Statements Analysis and Reporting
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Lecture - 16
Financial Statements with Adjustments Part-V

Welcome students. So, today in this lecture, we will be learning about the preparation of financial statements with adjustments, preparation of financial statements with adjustments. So, in my previous lecture, I was talking to you about the different adjustments. So, we have discussed about say 14, 15 adjustments means that is additional information which is outside the trial balance for which the double entry system has not been completed. So, we will have to complete that double entry process for those additional information, say additional part which is outside the trial balance. And as I told in my last lecture also that this is the problem here. So, this is the trial balance having debit and credit balances, and this is the additional information.

So, this additional information is called as adjustments. And we will have to adjust this additional information in these items. This information belongs to these items means some part of this already done here, and some additional part is given here which has to be adjusted here in the upper part. So, while we taking one particular item, for example, when we talk about the say one item here that is say fire insurance, now fire insurance is given here also somewhere fire insurance is this is the fire insurance. So, fire insurance is already given here 490 rupees balance is already given here and which we have already spent we have paid the premium of the fire insurance, but something is written here that we will have to adjust this and we have to treat with this.

So, say this amount is not the final amount. This amount will be final after adjusting the amount given here, fire insurance amount given here, after adjusting this amount and this amount will be calculating the final amount. So, for this, we will this information will have only one effect, and this information will have to have the double effect, because we have not completed the double entry accounting system for this information. So, we will have to complete it.

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Trading & Profit & Loss Account for the year ended on 30th Sept, 2011

Particulars	Am't (Dr)	Particulars	Am't (Cr)
To Opening Stock	26,420	By Sales	91,230
To Purchases	42,160	Less S/R	1760
Less P/R	8460	By C.S.	29,390
To Carriage Inwards	4370		
To Wages	21,470		
To Coal, gas, electricity	720		
To S/LP	3280		
	1,18,860		1,18,860
To Salary	4670	By S/LP	32,180
To Bank Charges	140		
To Rent & Taxes	840		

So, now let us learn how to prepare the financial statements say means taking into account the adjustments and again I am taking you back. But we have discussed already we have talked about already and we are going to talk about that part that preparation of the financial statements again now. And here as I told you that these financial statements are trading and profit and loss account, we will have to little come down. So, trading and profit and loss account is the one financial statement, second is the balance sheet, and third will be the cash flow statement which will be learning later on.

So, now we will learn how to prepare the first financial statement that is trading in profit and loss account. So, again we have to be very careful about the title. So, it is trading and profit and loss account of Waterfall private limited for the year ending on or ended on 30th September, 30th September 2011. Trading and profit and loss account of Waterfall private limited for the year ended on 30th September, 2011. Here you have to again write as the particulars, and amount - this is the debit side; again particulars and amount and this is the credit side. So, two sides two balances will have to take here.

We have already prepared this kind of the accounts in the beginning when we started talking about the financial statements before adjustments means simple financial statements without adjustments when we discussed or talked about. We have already learned that how to prepare the simple financial statement that is trading and profit and loss account and balance sheet. So, again we will recall that and will try to prepare it, but

now the difference is earlier this additional information was not there, and now this additional information is there.

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From the following Trial Balance extracted from the books of Waterfalls Pvt. Ltd., prepare a Trading and Profit and Loss Account for the year ended on 30th September, 2011 and a Balance Sheet as on that date:

Debit Balances	Rs.	Debit Balances	Rs.
Drawings	6,480	Sundry Debtors	37,800
Land and Buildings	25,000	Stock(1 st October, 2010)	26,420
Plant and Machinery	14,270	Fire Insurance	490
Furniture and Fixtures	1,250	Cash at bank	13,000
Carriage Inwards	4,370	Cash in Hand	850
Wages	21,470	Credit Balances	Rs.
Salaries	4,670	Capital Account	90,000
Sales Returns	1,760	Bad Debts Provisions(as on 1-10-2010)	2,470
Bank Charges	140	Sales	91,230
Coal, Gas and Water	720	Discount Account	120
Rate and Taxes	840	Purchases Returns	8,460
Purchases	42,160	Sundry Creditors	12,170
Bills Receivable	1,270	Apprentice Premium	500
Trade Expenses	1,990		

Charge depreciation on Land and Building account at 2.5%, on Plant and Machinery Account at 10%, and on Furniture and Fixtures Account at 10%. Make a Provision of 5% on Sundry debtors for Doubtful Debts. Carry forward the unexpired amounts for Fire Insurance Rs. 125, Rates and Taxes Rs. 240 and Apprentice Premium Rs. 400. Charges 5% interest on Capital and interest on Drawings is Rs. 300. The value of stock as on 30th September, 2011, was Rs. 29,390. (204950).

So, earlier we have not adjusted this information with this information; now we will have to adjust this information with this information, and we will have to take the final figure here to the trading and profit and loss account and then to the balance sheet. So, we have starting as this is the debit side means all expenses have to be put here, and all the incomes will be coming here in this side. So, expenses and incomes and the difference will be the first gross profit and then in the lower part, the net profit first before tax and after is the after tax.

So, it is we are starting with to opening raw material means first is the raw material. So, when we talk about the raw material, raw material is calculated from the two balances. First is the opening stock of raw material, so it is to opening stock of raw material. Opening stock of raw material is given here to you that is stock of stock means stock of raw material on 1st October that is the opening stock that is the 1st October the raw material was this much which we will first we will use the opening stock of raw material. And then we will go out to the market for purchases, and we will purchase additional material and then we will use that also.

So, it is opening stock is given to us is 26,420 this is the first part of the material we are using. And then the second is to purchases. Now, we are purchasing where this material

will be over finished then we have purchase additional material from the market to purchases. And purchases if you talk about in that case the purchases item you have to look for here and purchases are given here this is 42,160, but you have to put it in the inner column because some adjustment we have to do here 42,160 and here you have given the purchase returns, so it is less. Purchase return P oblige R and that amount of the purchase return is 8460. So, we are left with the balance of this amount certain amounts balance we are left with and the balance of this we are left is that is how much it is 0, this is called as inner column this is outer column. So, finally, we have to take out the items in the outer column 0, 0 and then it is 7 and then it is 3 and it is 3. So, it is 33,750 rupees purchases we have done.

So, first use the opening stock the raw material which was the closing stock leftover from the previous year. First we use that that was for 26,420 rupees then we purchase the material for 42,160 but part of that purchases we return it back may be because of not according to the quality or it was excess than the order or something like that. So, we returned this amount 8460 and we are left with the amount which we have purchased and used for the current year production is 33,700.

Then we have the carriage we have paid for purchases which are brought in the factory we had paid the carriage for that. And if you look at the carriage inwards or the carriage on purchases will be given some item here which is called as carriage inwards or carriage on purchases. It will be written like either carriage inwards means carriage on the material coming in or the carriage on purchases. So, carriage inwards is to carriage inwards 4370, 4370 is the carriage inwards. Then we have to look for the other expenditures like wages; apart from the material, now we are paying the wages to the workers working on the plant. So, wages amount is that is 21,470.

Then what else we require in the plant for manufacturing the finished goods, we require coal, gas and water. So, it is to coal, gas and water, this is another item which is for 720 rupees, this is for 720 rupees this is the another item. So, if you look at the total item opening stock, we have taken purchases, we have taken, subtracted the purchase returns, then we have carriage inwards we have already taken into account that is 4370. Then is the any other amount is carriage inwards is 4370. Then we have wages, wages amount is 21,470; and then we have coal gas and water 720. So, these are the items only which will be taking the trading account. Trading account we take only those expenses which are

must for the production. If you do not incur these expenses, you would not be able to produce anything in the plant.

So, only those expenses they are called as direct expenses. They are on the three categories, first one is material, second is labor and third one is the other direct expenses. So, this plus this is the material cost, this is also including the carriage. So, these three heads are for the material cost, this is the labor cost wages paid to the labor, and this is the coal gas and water is the third head of expense which is called as the other direct expenses. So, only three heads of expenses are there material, labor and other direct expenses. In this case, up to this is the material cost, adding this is the labor cost and adding here is the coal gas and the water cost.

So, these are the total expense no other expense will be take here only those expenses without which the production is not possible. If the anything is like that without which the production is not possible, we will take that here. But other expenses other items heads of expenses without which production is possible, but completion taking the production to the market will not be possible, they are all called as indirect expenses they will be the part of the lower part that is the profit and loss account. So, we will be taking first the direct expenses in the trading account.

And this side is the direct incomes and first income is from the sales. So, by sales if you take the sales figure here which will be the credit balance given, so it is 91,230. So, it means we will have to put it here 91,230 is the purchase as sales items. And as we have returned part of the purchases back to the suppliers, similarly the buyers of this firm Waterfalls private limited they had also returned some goods back to this firm. So, we will have to see is there any amount or not, yes, it will be something like this sales return here and is the yeah sales return figure is here that is sales return 1760. So, we will have to subtract because this was sold, but it has to be returned back. So, it is less. Sales returns as oblige R and this is 1760. So, this is sales returns and this amount if you calculate this works out as a total is 89470 which will be put in the outer column. So, this is the inner column and this is the outer column 89470 is the outer column. So, final sales amount is 89470.

Next is the by closing stock. Closing stock is here and this is 29390 nothing else. So, total it out it means it shows this statement whatever this expenses be incurred direct

expenses on three accounts be incurred this was the output of those expenses. This is input, this is output. Output is they are sold in the market for 89470, and the balance is 28390 is with us in the warehouse is a stock. We are keeping with us as a stock. So, it means that first if you have to total up this side because this seems to bigger. If you total this is this works out as how much 0, 6, 8 then it is again 8 and then it is 1. So, it is 1,18860 is the total of this side. And now you put bring this to the to balance this account 1,18860. And now to gross profit the difference of this two is the gross profit if you total up this side. So, it means total of this minus all this expense items. So, your difference will come out as 32180, this is a gross profit.

So, this is the first part of the profit means broader head of the profit, not the final profit broader head of the profit is that is 32,180 rupees profit we have earned so far means there is a gross profit. Now, we will continue preparing the next part of this statement that is the profit and loss account. It means now the gross profit will come this side by gross profit it is 32,180 will come down because this is a income. So, this is income gross income. And from this, we will subtract some items and then we will add some other incomes and now we will calculate the final net profit.

So, now let us talk about the other expenses which are called as now indirect expenses indirect expenses are for example, to look at drawings no you have to forget for sometime land, plant and land, building, plant and machinery, furniture and fixture, carriage inwards - no; carriage inwards we have taken, wages we have taken. Now, this is the first head of indirect expenses to salaries, to salaries and salaries is 4670 item now no adjustment. So, we will have to take this final balance here, 4670 then we have already taken the sales returns. Now, next thing is the financial expense to bank charges to bank charges. And bank charges are to bank charges 140, this is the financial expense bank charges coal gas and water, we have already taken that is done.

Next thing is to rates and taxes to rate and taxes. So, pertaining to this item, rates and taxes, you have some adjustment given here rates and taxes 240. So, rate and taxes are 840 put it in the inner column. And now you have to adjust for this information. This information is 240, here it is written that is. Carry forward the unexpired amount for fire insurance this much, rates and taxes this much, and apprentice premium this much. So, it means unexpired amount means this much amount of the rates and taxes was not due, it has been paid in advance. It is unexpired amount, it means we have discussed one

adjustment, if you recall that was prepaid expenses in short prepaid expenses are those expenses which are due, but not yet which are paid, but not yet are due.

So, you will have to subtract it due for this year. So, rates and taxes less unexpired or paid in advance or you can write prepaid this is 240. So, you will be taking this. If you subtract this, so finally, rate and taxes due for the current year are 600 rupees. Then we have got the we have taken the rate and taxes done; purchases we have already taken care of receivables are assets will go to balance sheet, trade expenses. Yes, now we will be taking into account the trade expenses, to trade expenses to trade expenses. Trade expenses are given to us 1990, these are the trade expenses no adjustment is given here. So, we will not be taking making any adjustment here. So, trade expenses we are taking directly.

Then you come to this side sundry debtors are assets, we will not take this into account here not at all, we are not going to take it deal with this. Stock, we have already taken fire insurance, yes, we will be taking now the fire insurance. So, I am continuing this statement now we are total from here to the on the upper part. So, this statement we are continuing, we are not preparing another table we are continuing here on the upper part, but we have already prepared the columns for. So, from this part, we will be continuing and taking up the remaining items of expense and incomes, and then we will see that how much is the difference, and that difference will be known as the net profit that will be the net profit. So, here we are continuing with the statement, but we have not done it is I would write here continued on the upper part.

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Trade & Profit & Loss A/c for the year ended on 30th Sept, 2011

Particulars	Am't (Dr)	Particulars	Am't (Cr)
Carried over		By Balance b/d	3000
To fire Ins. 490			
Unexpired Ins. 125	365		
To Prov. for J/D	1890		
To Dep.			
d. Secs - 625			
F.M. - 1427			
F.F. - 125	2177		
To Int. on cap.			
To N.P.	18838		
	55170		
To Salari	4670		
To Bank Chgs.	140	By B/P	32180
To Rats & Tax	840	By Bad Debt	2170
To Unexpired	240	By Discount	120
To Trade Exp.	1990	By A.P. from S/B	180

911 - 32180
N/P - 18838

So, it is continued on the upper part here. So, we have taken the trade expenses up to this part 1990. Then the next is to fire insurance to fire insurance and the amount of the fire insurance is how much is the amount of the fire insurance, if you take here this is 490 put it in the inner column because some adjustment is here. So, adjustment here is fire insurance carry forward the unexpired amount for fire insurance of 125, it means up to 125 rupees amount of the fire insurance has not become due it is prepaid paid in advance. So, we will have to make the double effect.

First effect will be it will be subtracted from the existing head in the debit side of profit and loss account and then the second will be treated as the asset in the balance sheet. So, first effect, we are doing less unexpired insurance and this amount of the unexpired insurance is how much 125. So, finally, we are left with the amount of the unexpired insurance is that is 300, and if you calculate this is this works out as 365 is the unexpired insurance. Then cash in hand and cash at bank are the items say these are the assets. So, we will not be taking.

You can again check it out. You have taken the drawing means drawings are not to be taken here we have taken land and we have not to take the land and building because this is again asset. Plant and machinery is asset not the part of profit and loss account; furniture and fixtures asset will not come in the profit and loss account. Carriage inwards we have taken, wages we have taken salaries we have taken, sales returns we have taken

bank charges we have taken. Coal, gas and water we have taken, rate and taxes we have taken, purchases we have taken, bills receivables is not taken, because it is asset. We will go to balance sheet trade expenses we have taken sundry expenses sundry debtors will not be taken because it will go to balance sheet. Stock we have taken, fire insurance we have taken, cash both at bank and at hand will not be taken, because it is an asset and will go to the balance sheet.

So, now almost debit side we have taken now the credit side if anything is left where we are given here that is bad debts provisions. So, I told you if you recall when we discussed the provision for bad debts, we had adjustment here. And when it is given here we must have one adjustments here also. Make a provision of 5 percent on the sundry debtors for the doubtful debts. So, we will have to make a provision for the doubtful debt. So, I discussed with you that what are the doubtful debts it means that part of the sales credit sales which may not be recovered that may not be recovered under the convention of conservatism will have to make a provision in the profit and loss account

So, to provision for doubtful debts and this provision is to be made 5 percent on sundry debtors. So, what is the sundry debtors figure here is 37800. If you make a five percent provision for this, it works out as 8950. Then for next first complete the debit side items and will go to the credit side, so we have done. Next thing is the depreciation to depreciation, depreciation is building, land and building is two and half percent, two and half percent of this amount, this works out as 625 put it in the inner column. This is called as you can write here to depreciation and land and building l and b, this is 625.

Next item is the plant and machinery plant and machinery is 14270, and we have to make the provision at the rate of 10 percent. So, it is 1427, here 1427. And third is the furniture and fixtures, so that furniture and fixtures are the figure is 1250 and will have to make a provision of how much 10 percent, so it means 125. So, we have made the provision for depreciation also and if you take out this total figure of depreciation here, so this works out as five (Refer Time: 23:33), so it is seventeen total depreciation mode we have to take to the outer columns. So, it is three, five and it is again seven, and then it is one seven, 2177 is the depreciation total depreciation amount.

Then we have, so it means we have taken the depreciation also we have taken the provisions also first effect we have done in the profit and loss account, second will do in

the balance sheet. Carry forward the unexpired insurance we have already done that up to this part. And charge is interest on capital. So, interest on capital we have done one adjustment and the effect of first effect of that will come in the debit side of the profit and loss account, so that will be to interest on capital interest on capital is how much 5 percent on the capital. Capital is given here 90,000. So, it is 5 percent of this will be somewhere 4,500 rupees interest on capital we have taken. I think nothing else is left we have one done one adjustment for this also. We have taken all these debit side balances on the debit side.

And now let us come to the credit side we have taken the one item here by GP and other items are say we are given here as a bad debts provisions of or this is the opening balance of the provision it means this provisions we made previous year. But this was not used because no sales became the bad debts, so it means this are this amount has left been left as unused 2470 has been left as unused. And we will have to correct it back because if it is unused, we will have to return it back to the firm. So, it is it is a kind of income. So, it is by bad debt provisions credit balance, so it is 2470. Then is the discount, discount received it is in the credit side discount received is a gain. So, this is the discount received, it is 120. We have already taken the purchase returns we will not take the sundry creditors these are the liabilities.

And we have to take the apprentice premium as income. So, by apprentice premium by apprentice premium this is given as 500 rupees, but something is given here with regard to the apprentice premium here that is apprentice premium is received in advance unexpired that is 400 rupees. So, it is less unexpired. So, this is 400 rupees. It means finally, it will be 100 rupees will be coming because this year only 100 rupees is due. So, we have taken here the one item that is 18 is the gross profit then 2470 is the bad debts provision beside which have to be added back. Discount is 120 which is a income, but and then we have to take the one more item is given to us that is called as interest on drawings 300 rupees.

Interest on drawings has been discussed that is an income of the firm and we will have to write here by interest on drawings interest on drawings that is to be added in the profit and loss account on the credit side. So, interest on drawings is 300 rupees. So, we have taken all heads of income in the profit and loss account are one, two, three, four and five this are the five heads of income. And the expense heads are the salaries amount was

something like 4670. So, these are the expense heads one, two, three, four, five, six, seven and eight, these are the expense heads.

Difference will be here now we are we are balancing this account this is total of this side if you total this all items the total of this side will be 35170. This side seems to be bigger than this side. So, it means you put this balance here 35170 and the difference will be now to net profit. Normally it is before tax if the tax information is given. So, you like calculated before tax then we will subtract that tax that will be giving us the figure of the net profit after tax, but since we are not given any tax here. So, we assume that without tax the profit is without tax. So, it is a net profit finally, we write here net profit and if you calculate the net profit here by subtracting all these items from this total income of 35,170 you will find here that this net profit is 18,838. So, this is the figure of net profit this is the figure of net profit 18,838 this is the figure of net profit.

So, it means how we have calculated net profit we have adjusted two kind of information. First we have adjusted these balances and in these balances we have adjusted this information, and then after adjusting everything on the basis of the adjustments which I discussed with you in my previous lectures all the items about fifteen adjustment we have discussed. So, we will be taking here means after taking these into account, we have calculated the all incomes, all expenses and incomes minus expenses is giving us the two figures.

One figure is the gross profit that is two means the figure of gross profit we have calculated GP; this was 32,180. Then from this we subtracted some other expenses and we added some more incomes and finally, we are left with the net profit of 18,838. So, we have calculated now the profit net profit which is final profit divisible profit that is the 18,838. This profit is not divisible profit this is not the final profit. In this profit some other incomes have to be added some other expenses have to be subtracted and finally, whatever we are left with the figure here is that figure that is the 18,838 is the net profit.

And after this now we will be preparing the third statement that is the balance sheet. And again in the balance sheet first effect of this all information we have done in the trading and profit and loss account, and the second effect of this information to complete the double entry accounting system will be making in the balance sheet. And then we will be completing it and if the balance sheet is balanced both sides are equal and they are

balanced, it means we can say that we have correctly founded the profit and the financial position of the business. So, preparation of the balance sheet with adjustments, we will learn in the next lecture.

Thank you very much.