

MEANING OF KEY TERMS USED IN THE CHAPTER

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| 1. Adjustment Entry | It is an entry passed in the books of account to give effect to transactions that should have been recorded in the books of account but are not recorded. |
| 2. Closing Stock | It is the value of stock in hand at the end of the accounting year. It is valued at cost or net realisable value (market value), whichever is less. |
| 3. Outstanding Expenses | They are expenses incurred during the year and also benefit of which is consumed or exhausted in the same year but have not been paid. For example, salary payable for the month of March is provided not being paid. |
| 4. Prepaid (Unexpired) Expenses | They are the expenses that have been paid but the benefit of which is not consumed or exhausted during the year. |
| 5. Accrued Income | It is the income which has been earned but not received. |
| 6. Income Received in Advance (Unearned Income) | It is the income which has not been earned but has been received during the accounting year. |
| 7. Depreciation | It is the fall in value of fixed asset due to usage, efflux of time, obsolescence or accident. |
| 8. Bad Debts | It is the debt that has become irrecoverable. |
| 9. Bad Debts Recovered | It is the debt which had been earlier written off as bad debt and has been recovered. |
| 10. Doubtful Debts | Debts which are doubtful of recovery, <i>i.e.</i> , recovery is not certain. |
| 11. Provision for Doubtful Debts | It is the amount set aside out of profits to meet expected bad debts in future. |
| 12. Provision for Discount on Debtors | It is the amount set aside out of profits to allow discount to debtors in future for present good debts. |

CHAPTER SUMMARY

- **Accrual basis of accounting** requires that revenue be recognised as it is earned and expenses be recognised as they are incurred. Therefore, expenses whether paid or not, incomes whether received or not, prepaid expenses and unearned incomes are adjusted.
- **Adjustments** are made for (i) matching of cost with revenue for ascertaining true and fair view of the profit earned or loss incurred by the business entity for the accounting period and (ii) for showing the true and fair value of assets and liabilities of the business as on the last date of the accounting period.
- **Adjustment** is recorded on the basis of the Dual Aspect Concept. It means every adjustment is shown at two places once in the *debit* and once in the *credit*.

Treatment of Items of Adjustment Appearing in the Trial Balance

<i>Item given in Trial Balance</i>	<i>Treatment in Trading/Profit & Loss A/c</i>	<i>Treatment in Balance Sheet</i>
1. Closing Stock	...	Shown on the Assets side as a Current Asset.
2. Outstanding Expenses	...	Shown on the Liabilities side as a Current Liability.
3. Prepaid Expenses	...	Shown on the Assets side as a Current Asset.
4. Accrued Income	...	Shown on the Assets side as a Current Asset.
5. Unearned Income/ Income Received in Advance	...	Shown on the Liabilities side as a Current Liability.
6. Depreciation	Shown on the Debit side of the Profit & Loss A/c.	...
7. Bad Debts , if no Provision for Doubtful Debts A/c appears	Shown on the Debit side of the Profit & Loss A/c.	...
8. Bad Debts , if Provision for Doubtful Debts A/c appears	Shown on the Debit side of the Provision for Doubtful Debts A/c.	...

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Table of Adjustments (Appearing Outside the Trial Balance)				
Adjustments (1)	Adjusting Entry (2)	Adjustment in Trading A/c (3)	Adjustment in P & L A/c (4)	Adjustment in Balance Sheet (5)
1. Closing Stock	Closing Stock A/c To Trading A/c	...Dr. Show on the credit side.	×	Show on the assets side as a Current Asset.
2. Outstanding Expenses	Respective Expense A/c To Outstanding Expense A/c	...Dr. Add to the respective expense on the debit side.	Add to respective expense on the debit side.	Show on the liabilities side as a Current Liability.
3. Prepaid or Unexpired Expenses	Prepaid or Unexpired Expense A/c To Respective Expense A/c	Deduct from the concerned expense on the debit side.	Deduct from respective expense on the debit side.	Show on the assets side as a Current Asset.
4. Accrued or Outstanding Income	Accrued Income A/c To Respective Income A/c	×	Add to respective income on the credit side.	Show on the assets side as a Current Asset.
5. Income Received in Advance Or Unearned Income	Respective Income A/c To Unearned Income A/c	×	Deduct from respective income on the credit side.	Show on the liabilities side as a Current Liability.
6. Depreciation	Depreciation A/c To Assets A/c	×	Show on the debit side.	Deduct from the concerned asset on the assets side.
7. Bad Debts	Bad Debts A/c To Debtors A/c	×	Write on the debit side of the Profit & Loss Account or Provision for Doubtful Debts Account.	Deduct from debtors on the assets side.
8. Provision for Doubtful Debts	Profit & Loss A/c To Provision for Doubtful Debts A/c	×	Show on the debit side.	Deduct from debtors on the assets side.

9. Provision for Discount on Debtors	Profit & Loss A/c To Provision for Discount on Debtors A/c	..Dr. ..Dr.	×	×	Show on the debit side.	Deduct from debtors on the assets side.
Excess Provision for Doubtful Debts written back	Provision for Doubtful Debts A/c To Profit & Loss A/c	..Dr. ..Dr.	×	×	Show on the credit side.	×
10. Manager's Commission	Profit & Loss A/c To Commission Outstanding A/c	..Dr. ..Dr.	×	×	Show on the debit side.	Show on the liabilities side as a Current Liability.
11. Interest on Capital	Interest on Capital A/c To Capital A/c	..Dr. ..Dr.	×	×	Show on the debit side	Add to Capital on the liabilities side.
12. Goods Distributed among staff members for Staff Welfare	Staff Welfare Expenses A/c To Purchases A/c	..Dr. ..Dr.			Show on the debit side as Other Expenses.	×
13. Drawings of Goods by the Proprietor for Personal Use	Drawings A/c To Purchases A/c	..Dr. ..Dr.			×	Value of such goods will be deducted from capital on the liabilities side.
14. Abnormal or Accidental Losses (i) Loss of Asset	Loss by Accident A/c To Particular Asset A/c	..Dr. ..Dr.	×	×	Show on the debit side.	Deduct from the concerned asset.
(ii) Loss of Stock	Loss by Accident A/c To Purchases A/c	..Dr. ..Dr.			Show on the debit side. (Value of irrecovered loss)	The amount due from the insurance company is shown on the assets side as a Current Asset.