

14 Adjustment Enteries

Chart showing the treatment of adjustments in the preparation of Final Accounts

Sl. No.	Type of Adjustment	Adjustment Entry	How dealt with in →	
			Trading or Profit and Loss Account	Balance Sheet
1.	Closing stock	Closing Stock A/c Dr To Trading A/c	Credit side of the Trading A/c	Asset side.
2.	Outstanding Expenses: (Wages, Rent, Salaries etc.)	Respective Expenses A/c Dr To Respective outstanding expenses A/c <u>Example:</u> Wages A/c To Wages outstanding A/c Salaries A/c Dr To Salaries outstanding A/c	i If the outstanding is an item chargeable to Trading A/c, add the outstanding expenses with relevant expenses in the debit side of the Trading A/c. ii If it is an item chargeable to Profit and Loss A/c, add the outstanding expenses to the relevant expenses in the debit side of the Profit and Loss A/c.	Liabilities side.
3.	Prepaid Expenses: (Insurance Premium)	Respective prepaid Expenses A/c Dr To Respective Expenses A/c	Debit side of Trading & Profit and Loss A/c by way of deduction from respective expenses A/c.	Assets side.

24

		<u>Example:</u> Prepaid Insurance Premium A/c Dr To Insurance Premium A/c		
4.	Accrued Income (Commission)	Accrued Income A/c Dr To Respective Income A/c <u>Example:</u> Accrued Commission A/c To Commission A/c	Credit side of Profit and Loss A/c by way of addition to respective Income A/c.	Assets side.
5.	Income received in advance (Rent)	Respective Income A/c Dr To Respective Income received in advance A/c <u>Example:</u> Rent received A/c Dr To Rent received in advance A/c	Credit side of Profit and Loss A/c by way of deduction from the respective income A/c.	Liabilities side.
6.	Interest on Capital	Interest on Capital A/c Dr To Capital A/c	Debit side of Profit and Loss A/c	Liabilities side by way of addition to the Capital

25

14 Adjustment Entries

26

7.	Interest on Drawings	Capital A/c To Interest on drawings A/c	Dr	Credit side of the Profit and Loss A/c	Liabilities side by way of addition to the drawings which are ultimately deducted from the Capital.
8.	Interest on Loan (Interest on Bank Loan)	Interest A/c To Interest Outstanding A/c <u>Example:</u> Interest on Bank Loan A/c To Interest Outstanding A/c	Dr	Debit side of Profit and Loss A/c by way of addition to the appropriate interest A/c	Liabilities side by way of addition to the particular loan A/c
9.	Interest on Investments	Accrued Interest on investments A/c To Interest received A/c	Dr	Credit side of Profit and Loss A/c by way of addition to the appropriate interest A/c.	Assets side by way of addition to the particular investment A/c
10.	Depreciation on Fixed Asset	Depreciation A/c To Fixed Asset A/c <u>Example:</u> Depreciation A/c To Machinery A/c	Dr	Debit side of Profit and Loss A/c.	Assets side by way of deduction from the concerned asset account.

27

11.	Bad debts	Bad debts A/c To Sundry debtors A/c	Dr	Debit side of Profit and Loss A/c	Assets side by way of deduction from Sundry debtors
12.	Provision for Bad and doubtful debts.	Profit and Loss A/c To Provision for Bad and doubtful debts A/c	Dr	<p>i. If the provision for bad and doubtful debts is given outside the Trial balance, then it is shown on the debit side of Profit and Loss account.</p> <p>ii. If provision for bad and doubtful debts is given in the Trial Balance (Old) and also in the adjustment (New):</p> <p>Add new provision for bad and doubtful debts with bad debts written off.</p> <p>a) If the old provision for bad and doubtful debts is less than the above total, then the difference will be shown on the debit side of the Profit and Loss account.</p>	Assets side by way of deducting New Provision alone from Sundry debtors

14 Adjustment Enteries

28

			b) If the old provision for bad and doubtful debts is more than the above total, then the difference should be shown on the credit side of the Profit and Loss account.	
13.	Provision for Discount on Debtors	Profit and Loss A/c Dr To Provision for discount on debtors A/c	Debit side of Profit and Loss A/c (Amount of provision for discount is ascertained on good debtors)	Assets side by way of deduction from Sundry debtors (after deduction of bad debts and new provision for bad and doubtful debts)
14.	Provision for Discount on Creditors	Provision for Discount on Creditors A/c Dr To Profit and Loss A/c	Credit side of Profit and Loss A/c	Liabilities side by way of deduction from Sundry Creditors.