

CUET · ACCOUNTANCY · CLASS XI · CODE 301

Financial Statements - II

CUET unit: Financial Statements of Sole Proprietorship — with
Adjustments

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Snapshot

- Accrual-based accounting forces year-end **adjustments** before the Trading and P&L Account and Balance Sheet can show a "true and fair view" of profit and financial position (NCERT §9.1, p. 318).
- Covers all eleven standard adjustments: closing stock, outstanding expenses, prepaid expenses, accrued income, income received in advance, depreciation, bad debts, provision for doubtful debts, provision for discount on debtors, manager's commission, and interest on capital (NCERT §9.1-§9.12, p. 319-339).
- The **dual effect** rule — every adjustment (when given as additional information) hits exactly two places: one in the Trading or P&L Account and one in the Balance Sheet (NCERT Fig. 9.2, p. 340).
- Numerical illustrations 1–10 work through combined adjustments including erection wages capitalisation (Illus. 7), apprenticeship premium received in advance (Illus. 8), sale on approval, goods withdrawn for personal use and manager's commission (Illus. 10) (NCERT p. 341-362).
- High-scoring CUET zone: formula-driven questions (commission, interest on capital, provision %) and treatment-driven questions (which side of which statement).
- Class XII specialises into partnership accounts (leac101-leac104) and company accounts (leac201-leac206).



Detailed Notes

2.1 Core concepts

Adjustments are needed because the **accrual concept** (keac102, NCERT §2.4) requires revenues to be considered on an **earned** basis (not on receipt) and expenses on an **incurred** basis (not on payment). At year-end, the trial balance may reflect cash flows but not the full accrual position — some expenses are paid in advance, some are outstanding, some incomes are earned but unreceived, others are received in advance, and the value of fixed assets has declined through depreciation. **Eleven** categories of items must be adjusted before the final accounts can be drawn up (NCERT §9.1, p. 319): closing stock, outstanding expenses, prepaid/unexpired expenses, accrued

income, income received in advance, depreciation, bad debts, provision for doubtful debts, provision for discount on debtors, manager's commission, and interest on capital.

The single most important rule is the **dual effect of each adjustment** — when an item appears only as additional information (outside the trial balance), it must be recorded in **two** places: once in the Trading or P&L Account and once in the Balance Sheet. When the item already appears in the trial balance, it has already been recorded once and is shown in **one** place only. NCERT's Fig. 9.2 (p. 340) is the master summary table of all eleven adjustments showing journal entry, P&L treatment and balance sheet treatment.

Closing Stock (§ 9.2, p. 320-321). Cost of unsold goods at year-end. The standard adjustment entry is Dr Closing Stock A/c, Cr Trading A/c — placing closing stock on the credit side of the Trading Account and on the asset side of the Balance Sheet. If closing stock is adjusted through purchases (Dr Closing Stock A/c, Cr Purchases A/c), it already appears in the trial balance and is shown only on the asset side of the balance sheet.

Outstanding Expenses (§ 9.3, p. 322-323). Expenses incurred but unpaid at year-end. Added to that expense on the debit side of P&L; shown on the liabilities side of the balance sheet as a current liability. Entry: Dr Concerned Expense A/c, Cr Outstanding Expense A/c.

Prepaid (Unexpired) Expenses (§ 9.4, p. 323-324). Paid in advance, benefit relating to next year. Deducted from the expense on the debit side of P&L; shown on the asset side of the balance sheet as a current asset. Entry: Dr Prepaid Expense A/c, Cr Concerned Expense A/c.

Accrued Income (§ 9.5, p. 325-326). Income earned in the current year but not yet received (commission receivable, interest receivable, rent receivable). Added to the income on the credit side of P&L; shown on the asset side of the balance sheet as a current asset. Entry: Dr Accrued Income A/c, Cr Concerned Income A/c.

Income Received in Advance / Unearned Income (§ 9.6, p. 327). Whole sum received but part relates to next year. Deducted from the income on the credit side of P&L; shown on the liabilities side as a current liability. Entry: Dr Concerned Income A/c, Cr Income Received in Advance A/c.

Depreciation (§ 9.7, p. 328-329). Decline in asset value due to wear, tear and passage of time; treated as an expense. Debited to P&L; deducted from the asset on the asset side of the balance sheet. Entry: Dr Depreciation A/c, Cr Concerned Asset A/c. (Class XI keac107 covers the SLM/WDV methods.)

Bad Debts (§ 9.8, p. 329-330). Amount irrecoverable from debtors; recorded as loss. Bad debts already in the trial balance plus **further bad debts** given as additional information are both debited to P&L; further bad debts also reduce debtors on the balance sheet. Entry: Dr Bad Debts A/c, Cr Debtors A/c.

Provision for Doubtful Debts (§ 9.9, p. 330-333). An estimated reserve against possible future bad debts. Created by debiting P&L. When an opening (old) provision

exists, only the differential — new provision + bad debts + further bad debts – old provision — is charged to P&L. New provision is computed on debtors after deducting further bad debts. On the balance sheet the provision is shown as a deduction from debtors.

Provision for Discount on Debtors (§ 9.10, p. 333-335). Estimate of cash discount likely to be allowed for prompt payment; calculated on **good debtors** — debtors after deducting further bad debts and the new provision for doubtful debts. Debited to P&L; deducted from debtors on the balance sheet. Many students wrongly apply the rate on gross debtors — NTA's favourite trap.

Manager's Commission (§ 9.11, p. 335-337). Paid as a percentage of net profit. Two formulae:

- **% on profit before charging commission** = $\text{Profit} \times \text{Rate} \div 100$.
- **% on profit after charging such commission** = $\text{Profit} \times \text{Rate} \div (100 + \text{Rate})$.
Debited to P&L and shown as outstanding commission liability if unpaid.

Interest on Capital (§ 9.12, p. 338-339). Charged at a given rate on the opening capital (and proportionately on additional capital introduced during the year). Treated as a business expense — debited to P&L and added to Capital on the balance sheet. Entry: Dr Interest on Capital A/c, Cr Capital A/c. The net effect on the balance sheet is zero — capital rises by exactly the amount profit falls.

Special adjustment treatments appearing in the worked illustrations include: (i) wages spent on the erection of machinery are capitalised to the Machinery A/c, deducted from Wages on the Trading A/c, and added to Machinery on the balance sheet (Illustration 7, p. 355); (ii) goods costing ₹X taken by the proprietor for personal use are deducted from Purchases (in Trading A/c) and added to Drawings (deducted from Capital) (Illustration 10, p. 361); (iii) sale on approval / return basis wrongly recorded as sale is reversed — deducted from sales and from debtors; the goods are added to closing stock at cost (Illustration 10, p. 361); (iv) apprenticeship premium received in advance is split between current-year income and a liability (Illustration 8, p. 357).

2.2 Definitions to memorise

Term	Definition	Page
Outstanding Expense	Expense of the period unpaid at year-end; current liability (NCERT §9.3).	322
Prepaid / Unexpired Expense	Portion of expense paid in advance whose benefit relates to next year; current asset (NCERT §9.4).	323-324
Accrued Income	Income earned during the year but not yet received; current asset (NCERT §9.5).	325
		327

Term	Definition	Page
Income Received in Advance / Unearned Income	Income received but partly belonging to the next period; current liability (NCERT §9.6).	
Depreciation	Decline in asset value due to wear and tear; debited to P&L, deducted from asset (NCERT §9.7).	328
Bad Debts	Amounts irrecoverable from debtors; debited to P&L; further bad debts also reduce debtors (NCERT §9.8).	329
Provision for Doubtful Debts	Estimated reserve against future bad debts; debited to P&L (only differential when old provision exists); deducted from debtors (NCERT §9.9).	330-331
Provision for Discount on Debtors	Estimated discount likely to be allowed to debtors for prompt payment; calculated on good debtors (NCERT §9.10).	333-334
Good Debtors	Debtors after deducting further bad debts and new provision for doubtful debts (NCERT §9.10).	334
Manager's Commission (before)	Commission = Profit × Rate / 100 (NCERT §9.11).	335
Manager's Commission (after)	Commission = Profit × Rate / (100 + Rate) (NCERT §9.11).	336
Interest on Capital	Interest computed on opening capital + proportional on additional capital; debited to P&L, credited to Capital (NCERT §9.12).	338
Closing Stock	Cost of unsold goods at year-end; current asset (NCERT §9.2).	320
Drawings	Goods or cash withdrawn by proprietor for personal use; deducted from capital (NCERT Illus. 10).	361
Erection Wages	Wages spent on erecting / installing a fixed asset; capitalised to the asset (NCERT Illus. 7).	355
Apprenticeship Premium	Lump-sum amount received by employer when an apprentice is taken on; if received in advance, split between current income and liability (NCERT Illus. 8).	357
Sale on Return / Approval	Goods sent to customers on approval; if not yet approved, reverse from sales and from debtors; add to closing stock at cost (NCERT Illus. 10).	361
Further Bad Debts	Additional bad debts disclosed outside the trial balance; debited to P&L and deducted from debtors (NCERT §9.8).	330
Old Provision	Opening balance of provision for doubtful debts brought forward from previous year (NCERT §9.9).	331

Term	Definition	Page
New Provision	Provision required at the end of the current year; computed on debtors after further bad debts (NCERT §9.9).	332
Apparent Profit	Profit shown by the trial balance before adjustments (NCERT §9.1).	318
Adjusted Profit	Profit after all eleven adjustments are passed (NCERT §9.1).	319

2.3 Diagrams / processes to remember

Fig. 9.1 — Trial Balance of Ankit (NCERT p. 320). The running example used through every adjustment; the student should be able to redraw the trial balance from memory.

Fig. 9.2 — Master Adjustments Table (NCERT p. 340). The single most exam-relevant page — eleven adjustments with their journal entry, Trading/P&L treatment and Balance Sheet treatment in one table. Memorise this table.

Successive P&L and Balance Sheets of Ankit (NCERT p. 321-339). Each adjustment is added one at a time so the student can see how net profit changes step by step.

Illustrations 1-10 (NCERT p. 341-362). Graded worked problems combining four to ten adjustments per question, culminating in Illustration 10 with manager's commission and proprietor's drawings of goods.

Process — Recording an adjustment. (i) Read the item — is it inside the trial balance or outside (additional information)? (ii) If outside, apply the dual-effect rule. (iii) Identify the Trading/P&L side (add to expense or subtract from expense; add to income or subtract from income). (iv) Identify the Balance Sheet side (current asset or current liability or deduction from asset). (v) Pass the adjusting journal entry.

Process — Provision for doubtful debts calculation (NCERT §9.9, p. 332). (i) Deduct further bad debts from gross debtors. (ii) Compute new provision = % × (gross debtors – further bad debts). (iii) Sum charged to P&L = Bad Debts (in TB) + Further Bad Debts + New Provision – Old Provision. (iv) On balance sheet, show gross debtors – further bad debts – new provision.

Process — Provision for discount on debtors (NCERT §9.10, p. 334). (i) Compute good debtors = gross debtors – further bad debts – new provision. (ii) Apply the discount % on good debtors. (iii) Charge to P&L; deduct from debtors on balance sheet.

Process — Manager's commission (NCERT §9.11, p. 336). (i) Compute profit before commission. (ii) If "before charging", multiply by rate/100. (iii) If "after charging", multiply by rate/(100 + rate). (iv) Debit P&L; show as outstanding liability if unpaid.

Process — Interest on capital with addition (NCERT §9.12, p. 339). (i) Interest on opening capital for full year. (ii) Interest on each additional/withdrawn capital for the period it stayed in the firm. (iii) Total interest charged to P&L; credit to Capital A/c.

2.4 Common confusions / NTA trap points

1. **Adjustment given inside vs outside trial balance.** Inside → recorded once; outside → recorded twice (dual effect). The classic NTA distractor (NCERT Fig. 9.2, p. 340).
2. **Provision for discount on debtors is computed on good debtors.** Not gross debtors. Apply the rate after deducting further bad debts and new provision for doubtful debts (NCERT §9.10, p. 334).
3. **Manager's commission before vs after charging.** Before = Profit × Rate/100; After = Profit × Rate/(100 + Rate). The "after" formula is the standard CUET trap (NCERT §9.11, p. 336).
4. **Interest on capital does not change Balance Sheet total.** Net profit falls by the interest amount and Capital rises by exactly the same amount, so total of balance sheet is unaffected (NCERT §9.12, p. 339).
5. **Erection wages are capitalised.** Wages spent on installation of machinery are removed from Wages (Trading) and added to Machinery (Balance Sheet) (NCERT Illustration 7, p. 355).
6. **Goods withdrawn for personal use.** Deducted from Purchases on Trading and added to Drawings, which is then deducted from Capital (NCERT Illustration 10, p. 361).
7. **Sale on Approval / Return.** If not yet approved, reverse from Sales and from Debtors; add the cost of those goods to Closing Stock (NCERT Illustration 10, p. 361).
8. **Apprenticeship Premium received in advance.** Split between current-year income (P&L Cr) and a liability (Balance Sheet) (NCERT Illustration 8, p. 357).
9. **Outstanding expenses, accrued income, prepaid expenses, income received in advance.** Mnemonic — outstanding & received-in-advance are liabilities; prepaid & accrued are assets (NCERT §9.3-§9.6).
10. **Provision differential.** When old provision exists, charge only the differential — students often charge the full new provision (NCERT §9.9, p. 332-333).
11. **Bad debts already in TB.** Recorded once; further bad debts (additional info) recorded twice (NCERT §9.8, p. 330).
12. **Depreciation reduces asset, not capital.** Many students wrongly subtract depreciation from capital — it reduces the asset on the balance sheet (NCERT §9.7, p. 328).

2.5 Journal entry templates

(a) Outstanding wages (NCERT § 9.3, p. 322)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31	Wages A/cDr.		500	
	To Outstanding Wages A/c			500
	(Being wages of ₹500 outstanding at year-end)			

(b) Prepaid insurance (NCERT § 9.4, p. 324)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31	Prepaid Insurance A/cDr.		300	
	To Insurance A/c			300
	(Being insurance prepaid; expense reduced by ₹300)			

(c) Accrued commission (NCERT § 9.5, p. 326)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31	Accrued Commission A/cDr.		1,500	
	To Commission A/c			1,500
	(Being commission earned but not received recorded)			

(d) Income received in advance (NCERT § 9.6, p. 327)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31	Rent A/cDr.		4,000	
	To Rent Received in Advance A/c			4,000
	(Being rent of next year received in advance — liability created)			

(e) Provision for doubtful debts with differential (NCERT § 9.9, p. 332)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31	Profit and Loss A/cDr.		1,050	
	To Provision for Doubtful Debts A/c			1,050

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	(Being differential: bad debts 2,000 + further bad debts 1,000 + new provision 1,550 – old provision 3,500 = ₹1,050)			

(f) Manager's commission — after charging (NCERT §9.11, p. 336)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31	Profit and Loss A/cDr.		2,000	
	To Outstanding Commission A/c			2,000
	(Being 10% commission on profit after charging — $22,000 \times 10/110$)			

(g) Interest on capital with mid-year addition (NCERT §9.12, p. 339)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31	Interest on Capital A/cDr.		5,250	
	To Capital A/c			5,250
	(Being interest on opening capital ₹50,000 for full year + interest on additional ₹10,000 for 3 months @ 10% p.a.)			

(h) Wages capitalised for erection of machinery (NCERT Illustration 7, p. 355)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31	Machinery A/cDr.		5,000	
	To Wages A/c			5,000
	(Being wages of ₹5,000 spent on erection of machinery wrongly debited to Wages — now capitalised)			

Practice MCQs

Q1. Which of the following is the correct adjusting journal entry for outstanding wages of ₹500 at the end of the accounting year?

- A. Outstanding Wages A/c Dr. 500 ; To Wages A/c 500
- B. Wages A/c Dr. 500 ; To Outstanding Wages A/c 500
- C. Profit and Loss A/c Dr. 500 ; To Wages A/c 500
- D. Wages A/c Dr. 500 ; To Profit and Loss A/c 500

Q2. A provision for discount on debtors is created on:

- A. the gross book value of debtors as per the trial balance
- B. debtors after deducting further bad debts only
- C. debtors after deducting further bad debts and the new provision for doubtful debts
- D. debtors after deducting opening provision for doubtful debts

Q3. If the net profit before charging manager's commission is ₹22,000 and the manager is entitled to 10% commission on profit *after* charging such commission, the commission is:

- A. ₹2,200
- B. ₹2,000
- C. ₹1,800
- D. ₹2,442

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PYQ Alignment

This is a high-frequency chapter for CUET (UG) Accountancy — adjustment-based MCQs appear consistently in every paper since 2022, typically as a mix of single-step calculation items (insurance prepaid, manager's commission, interest on capital) and treatment-

based items (which side of which statement an adjustment goes to). The provision-for-doubtful-debts calculation with old + new provision and further bad debts is the most repeated numerical pattern, and the "manager's commission before vs after charging" distractor pair is recycled almost every year. See [/pyq/accountancy](#) .

