**Financial Accounting**
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**Lecture – 60**
**5.10 Adjustments in Final Accounts**

Hi. By now you must be aware of the process that is followed to prepare the Final Accounts. You have gone through the accounting cycle. You know the steps involved in journal, ledger, trial balance, and preparing the income statement and the balance sheet. In this video, we are going to have a discussion on some advanced topics in preparation of final accounts.

It is possible that at the end of the financial year, you have already closed the ledger accounts and transferred the account balances to the trial balance. However, there may be certain transactions which take place a little later in the same financial year i.e., after the preparation of the trial balance. Such transactions can have any of the following nature.

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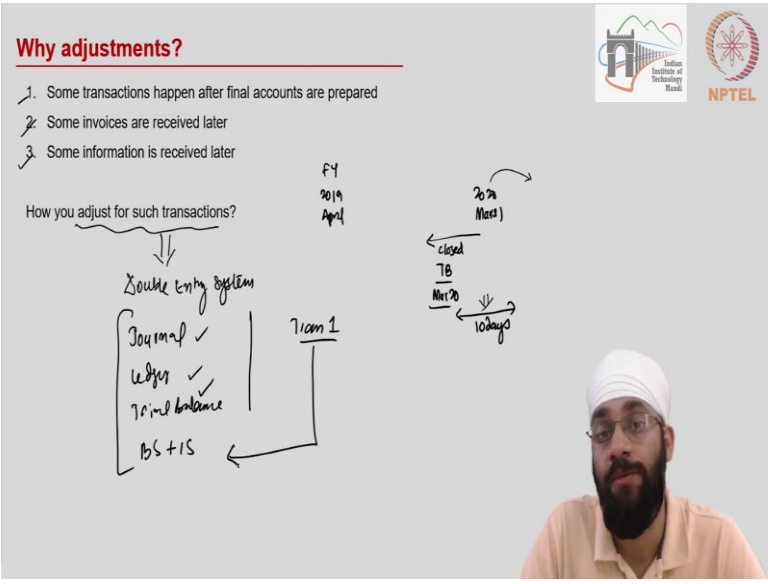


For example, you have a financial year which begins in 2019 April, and ends in 2020 March 31st. In order for you to be able to disclose your final accounts; you have to prepare the final accounts for which you have to start a week back or two weeks back. So, the final accounts, the ledger accounts are closed say sometimes before March 31st. However, there are going to be more transactions, which will take place after the trial balance has been prepared. Let us say trial balance has been prepared on March 20th and now there are 10 days during which more transactions will take place. For these transactions you have to create an impact in the balance sheet and income statement. For such transactions maybe you receive the invoices later. Or, the transaction happened earlier, but you could not write it in the books of accounts because some information is received later on. For example, stock check happens towards the end of the year and you did not know how many units of stock are unsold, because the counting process was going on. Also, some transactions actually take place during this period. It is also possible that you receive some information after March 31st; you have done the transaction, but invoices are received much later, then retrospectively you have to do some edits as well. All of such transactions have to be adjusted in the final accounts. And the way to adjust remains the same; we follow the same principles of the double entry system. Instead of going through the accounting cycle which involves journal, ledger, trial balance, and then preparing balance sheet and income statement, we skip this process because this has been done already. We will say transaction 1; what would have been its impact? If the journal entry was written, if it was posted in the ledger; how would this affect the account balance which we would have shown in the trial balance? Accordingly, we make direct adjustments into the income statement and balance sheet, rather than writing the journal entry and doing the ledger posting.

So, this is what we are going to do in the next few videos. We will look at a set of transactions and we will make the adjustments.  I will see you in the next video, where we pick up a trial balance and look at some additional pieces of information and prepare the balance sheet and income statement from this information.