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Review on Expenses Related to Financial Statement

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ABSTRACT

Expense is an accounting and planning term typically alluding to something an organization or association burns through cash on. More correctly and more comprehensively, however, accountants characterize cost as a lessening in proprietor's value brought on by spending resources. Costs happen when resources are devoured or liabilities are expanded to deliver income. More particularly, costs speak to a gross abatement in resources or gross increment in liabilities that outcome from benefit coordinated exercises that change proprietor's value. This paper shows the detail data about costs, monetary records, expenses and financial statements.

Keywords: *expenses, Financial Statement, Investors, Suppliers, Traders*

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INTRODUCTION

Cost of earning revenue is called the expense. Expenses occur when assets are consumed or liabilities are increased to produce revenue. More specifically, expenses represent a gross decrease in assets or gross increase in liabilities that result from profit-directed activities that change owner's equity [1].

For example, if a firm pays wages to its workers; then it incurs an expense. The firm used the services of its workers in manufacturing the products which have been sold and resulted in revenue. If the wages are paid in cash, assets of the firm have decreased [2, 3]. As liabilities are not at all affected by this, the decrease will be in owner's equity. Even if the wages are not paid in cash but are payable, still an expense is incurred. If the services have been rendered by the workers, the firm has an obligation to pay to them. So, there is an increase in liabilities of the firm. As net assets of the firm decrease due to increase in liabilities, owner's equity will decrease [4, 5].

Cost is not the same thing as an expense. Cost is an outlay incurred to acquire some

a) Expired costs: Expired costs are the ones which have helped to produce revenues. Expired costs are recognized as expenses in the income statement. Expired costs are also known as revenue expenditures.
b) Unexpired costs: Unexpired costs are those costs which will help in producing revenue in future. Such costs are recognized as assets in balance sheet.

Thus, assets (unexpired costs) become expenses (expired costs) as they are used up and lose their ability to generate revenue in future periods. Unexpired costs are also known as capital expenditures.

EXPENSE RECOGNITION

Three expense recognition principles may be followed in matching expenses with revenues [6]. These are as follows:

a) Principle of associating cause and effect: According to this principle certain costs expire in an accounting period because they can be associated directly with specific revenue recognized during that period. Examples of such costs are the costs specifically related to producing certain goods that are sold.
b) Principle of systematic and rational allocation: It deals with those costs which

expire to generate revenue during a period but cannot be associated directly with the specific revenue. The principle states that such cost should be allocated in a systematic and rational manner among the accounting periods in which they benefit revenue. Depreciation expense is an example of such costs.

c) The third principle is the immediate recognition principle: This principle states that all those costs which will not provide any future benefits should be recognized immediately. The examples of such costs are selling and administrative expenses and all losses. Where an asset expires without benefiting in terms of revenue, it is called a loss. Examples of losses are goods or building lost by fire, marketable securities sold for less than their purchase price and so on.

TYPE OF EXPENSES

a) Operating expenses: Expenses relating to the main operations or business of the firm are called operating expenses. Examples include manufacturing expenses, general and administrative expenses and selling and distribution expenses.

b) Nonoperating expenses: Expenses which are incidental or indirect to the main operations of the firm are called non-operating expenses. Expenses incurred in generating non-operating revenues are classified in this category.

MANUFACTURING ACCOUNT

Exchanging and profit and loss account is set up from the perspective of exchange i.e., a man who buys and offers merchandise. In any case, a man may make merchandise without anyone else for offering them at a benefit. If there should be an occurrence of such a man, i.e. a producer, it will be important to find out the cost of assembling the merchandise [7]. For his situation, the benefit/misfortune made by him will be determined by planning taking after three accounts:

a) Manufacturing: This account gives the cost of the products fabricated by a producer during a period.

b) Trading Account: This record gives data about the gross benefit or misfortune made by a producer in offering the fabricated products. In the event that a maker likewise works as a merchant i.e., other than assembling and offering products of his own, he additionally buys and offers merchandise of others, he will be producer cum-broker. In such a case, his exchanging record will reveal not just the benefit made by him on offering his produced products, additionally the benefit made by him in offering the merchandise bought by him from others.

c) Profit and loss account: This record gives the general benefit or misfortune made or endured by the producer or maker cum-merchant during a specific period.

Raw Material Consumed= Opening stock of raw materials + purchase of raw material – closing stock of raw materials.

MANUFACTURING A/C

Particulars	**Amount (in Rs.)**	**Particulars**	**Amount (in Rs.)**
To work-in-process (opening)	–	By work-in-process (closing)	–
To raw material consumed:		By sale of scrap	–
Opening stock		By cost of production of finished goods during the period	
+ purchase of raw material			–
-closing stock of raw material	–	Transferred to the trading account	–
To productive wages			
To factory overheads:			
Power and fuel			
Repairs of plant			
Depreciation on plant			
Factory rent			

DIFFERENCE BETWEEN PROFIT AND LOSS ACCOUNT AND BALANCE SHEET

a) A profit and loss account shows the profit or loss made by the business during a particular period. While a balance sheet shows the financial position of the business on a particular date.

b) A profit and loss account incorporated those items which are of a revenue nature while a balance sheet incorporates those items which are of a capital nature.

c) The accounts transferred to the profit and loss account are finally closed while the accounts transferred to the balance sheet represent those accounts whose balances are to be carried forward to the next year.

ADJUSTMENT ENTRIES

Sr. no.	Adjustment	Effect	Effect
1	Closing Stock	Cr. Side of trading account	Assets (balance sheet)
2	Outstanding Expenses	P & L A/C (Dr) (Added to the particular item)	Liabilities (balance sheet)
3	Prepaid Expense	P & L A/C (Dr) (Subtracted to the particular item)	Assets (balance sheet)
4	Outstanding or accrued income	P & L A/C (Cr) (Added to the particular item)	Assets (balance sheet)
5	Income received in advance	P & L A/C (Cr) (Subtracted to the particular item)	Liabilities (balance sheet)
6	Depreciation	P & L A/C (Dr)	Assets (subtracted from particular assets) (balance sheet)
7	Bad debts	P&L A/C(Dr) (added to already given bad debts)	Assets (subtracted from debtors) (balance sheet)
8	Provision for bad debts	P&L A/C(Dr) (new provision should be added and old provision should be subtracted)	Assets (subtracted from debtors) (balance sheet)
9	Provision for discount on debtors	P&L A/C(Dr) (new provision should be added and old provision should be subtracted)	Assets (subtracted from debtors) (balance sheet)
10	Reserve for discount on creditors	P&L A/C(Cr) (new provision should be added and old provision should be subtracted)	Liabilities (subtracted from creditors) (balance sheet)
11	Interest on capital	P&L A/C(Dr)	Liabilities (added to the capital)
12	Interest on drawings	P&L A/C(Cr)	Liabilities (added to the drawings)

** Any loan given by a company to outsider will be considered as investment, loan and advances, that's why they will come under assets (balance sheet)*

CONCLUSION

Cost is an accounting and arranging term commonly implying something an association or affiliation consumes through money. All the more precisely and all the more extensively, in any case, accountants portray cost as a decrease in proprietor's esteem brought on by spending assets. Costs happen when assets are eaten up or liabilities are extended to make salary. More especially, costs address a gross lessening in assets or gross augmentation in liabilities that result from advantage composed activities that change proprietor's esteem. This paper concludes the expenses related to financial statements, effect on profit and loss of Statement. You have as of now learnt about the planning of financial statements i.e. Asset report and Trading and Profit and Loss Account in the module titled 'Financial Statements of Profit and Not revenue driven Organizations'. After arrangement of the money related articulations, one might be occupied with breaking down the financial explanations with the assistance of various apparatuses, for example, similar proclamation, normal size explanation, proportion investigation, drift examination, subsidize stream investigation, income investigation, and so forth. In this procedure, a significant relationship is set up between at least two book-keeping figures for correlation. Financial statements examination regularly indicates ranges in which extra information must be assembled, including points of interest of critical exchanges, piece of the overall industry data, contenders' arrangements, and client request conjectures. Budgetary explanation investigation is utilized to anticipate an organization's future gainfulness and money streams from its past execution and to assess the execution of an organization with an eye toward distinguishing issue zones. The instruction of budgetary proportions is significantly upgraded when they are contrasted and past qualities and balance sheet through the financial with qualities for different firms in a similar industry.

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