

Final Accounts and Concept of Trading Account, Profit and Loss Account and Balance Sheet (Without Adjustments), Marshalling of Balance Sheet

MEANING OF KEY TERMS USED IN THE CHAPTER

- 1. Financial Statements** Financial Statements are the statements which show the financial performance and financial position of the firm. They include Trading Account, Profit and Loss Account and Balance Sheet.
- 2. Trading Account** Trading Account is part of financial statements which shows gross profit earned or gross loss incurred. It is credited with net sales, other direct incomes and closing stock. It is debited by opening stock, net purchases and other direct expenses, *i.e.*, carriage inwards, freight inwards, wages, etc.
- 3. Gross Profit** It is excess of net sales over cost of goods sold.
- 4. Opening Stock** Balance of goods in the beginning of the accounting year.
- 5. Closing Stock** Goods remaining unsold at the end of the accounting year.
- 6. Cost of Goods Sold** It is the total of opening stock, net purchases and direct expenses less closing stock.
- 7. Profit and Loss Account** Profit and Loss Account is an account in which all gains and losses are recorded in order to ascertain net profit or net loss. It is credited with the amount of gross profit and other incomes and debited with indirect expenses. The difference between the totals of two sides is either net profit (if total of credit side is bigger) or net loss (if total of debit side is bigger).
- 8. Balance Sheet** Balance Sheet is also a part of financial statements. It shows the financial position of the firm. It is a statement to which balances of assets, liabilities and capital accounts are transferred.
- 9. Grouping** Grouping means placing items of same nature under a common head.
- 10. Marshalling** Marshalling is arranging the assets and liabilities in a particular order, *i.e.*, in order of liquidity or in order of permanence.

CHAPTER SUMMARY

- **Final Accounts** include (i) Trading Account, (ii) Profit and Loss Account, and (iii) Balance Sheet. Final Accounts are prepared on the basis of Trial Balance.
- **Trading Account** is the account, which shows the gross profit or gross loss. Its contents are revenue receipts (such as sales, fee for services rendered, etc.) on the credit side and revenue expenditure (such as cost of sales or services rendered on the debit side).
- **Profit and Loss Account** is the account which shows the net profit or net loss of the business for an accounting period. It is credited with the gross profit and non-business revenue incomes and 'debited with gross loss and the indirect revenue expenses'.
- **Balance Sheet** is a statement which sets out the assets and liabilities of a firm or an institution as at a certain date. It is true on that particular date as every transaction has an impact on the Balance Sheet.
- **Marshalling** means arrangement of assets and liabilities in a particular order in the Balance Sheet. Assets may be arranged in the form of liquidity or permanence.

Format of Trading Account

Dr.		TRADING ACCOUNT for the year ended ...		Cr.	
Particulars	₹	Particulars	₹		
To Opening Stock	...	By Sales	...		
To Purchases	...	Less: Returns Inward	
Less: Returns Outward	...	By Closing Stock			
To Wages and Salaries	...	By Abnormal Loss of Stock			
To Freight Inwards	...	By Gross Loss c/d*			
To Carriage Inwards	...	(Transferred to Profit and Loss A/c)			
To Factory Power and Fuel	...				
To Factory Expenses (e.g., Rent and Insurance)	...				
To Gross Profit c/d*	...				
(Transferred to Profit and Loss A/c)					
	...				
	...				

*Either Gross Profit or Gross Loss will appear.

Format of Profit and Loss Account

PROFIT AND LOSS ACCOUNT			
Dr.	for the year ended ...		Cr.
Particulars	₹	Particulars	₹
To Gross Loss transferred from Trading A/c	...	By Gross Profit transferred from Trading A/c	...
To Advertisement	...	By Bad Debts Recovered	...
To Audit Fees	...	By Commission Earned	...
To Bad Debts	...	By Discount Received	...
To Bank Charges	...	By Dividends on Shares	...
To Brokerage	...	By Income from Investment	...
To Business Promotion Expenses	...	By Interest Received	...
To Car Running and Maintenance Expenses	...	By Miscellaneous Incomes	...
To Charity	...	By Rent Received	...
To Commission	...	By Net Loss* (Transferred to Capital A/c)	...
To Conveyance	...		
To Depreciation	...		
To Discount Allowed	...		
To Electricity Expenses	...		
To Freight and Carriage Outwards	...		
To General Expenses	...		
To Insurance Premium	...		
To Interest	...		
To Licence Fee	...		
To Loss by Fire and Theft	...		
To Office Expenses	...		
To Postage	...		
To Rent Paid	...		
To Repairs	...		
To Salaries	...		
To Stationery and Printing	...		
To Telephone Expenses	...		
To Travelling Expenses	...		
To Net Profit* (Transferred to Capital A/c)	...		

* Either of the two shall appear.

Format of Balance Sheet. The items found in the Balance Sheet of a firm are given as following:

BALANCE SHEET OF ... as at ...			
Liabilities	₹	Assets	₹
Sundry Creditors	...	Cash in Hand	...
Bills Payable	...	Cash at Bank	...
Bank Overdraft	...	Bills Receivable	...
Employees' Provident Fund	...	Sundry Debtors/Book Debts	...
Loans and Advances Taken (Cr.)	...	Loans and Advances Given (Dr.)	...
Reserves or Reserve Fund	...	Closing Stock	...
Capital	...	Loose Tools	...
Add: Interest on Capital	...	Investments	...
Net Profit	...	Furniture and Fittings	...
	...	Plant and Machinery	...
Less: Drawings	...	Land and Building	...
Income Tax	...	Business Premises	...
Interest on Drawings	...	Patents and Trademarks, etc.	...
Net Loss	...	Goodwill	...

(i) In the Order of Liquidity

BALANCE SHEET OF ... as at ...			
Liabilities	₹	Assets	₹
Bills Payable	...	Cash in Hand	...
Sundry Creditors	...	Cash at Bank	...
Bank Overdraft	...	Bills Receivable	...
Loans	...	Debtors	...
Capital:	...	Closing Stock	...
Opening Balance	...	Investment	...
Add: Net Profit	...	Furniture	...
	...	Plant and Machinery	...
Less: Drawings	...	Land and Building	...
	...	Goodwill	...

(ii) In the Order of Permanence

BALANCE SHEET OF ... as at ...			
Liabilities	₹	Assets	₹
Capital:	...	Goodwill	...
Opening Balance	...	Land and Building	...
Add: Net Profit	...	Plant and Machinery	...
	...	Furniture	...
Less: Drawings	...	Investment	...
Loans	...	Closing Stock	...
Bank Overdraft	...	Debtors	...
Sundry Creditors	...	Bills Receivable	...
Bills Payable	...	Cash at Bank	...
	...	Cash in Hand	...

Solved Question

Illustration 1.

From the following information, prepare Trading Account for the year ended 31st March, 2020:

	₹
Cost of Goods Sold	15,00,000
Sales	24,00,000
Closing Stock	80,000

Solution:

TRADING ACCOUNT			
for the year ended 31st March, 2020			
Dr.		Cr.	
Particulars	₹	Particulars	₹
To Cost of Goods Sold	15,00,000	By Sales	24,00,000
To Gross Profit <i>c/d</i> (Transferred to Profit and Loss A/c)	9,00,000		
	24,00,000		24,00,000

Notes:

1. Cost of Goods Sold = Opening Stock + Net Purchases + Direct Expenses – Closing Stock.
2. Closing Stock has not been shown in the credit side of the Trading Account because it has already been adjusted while calculating the Cost of Goods Sold.