Final Accounts (Without Adjustments)

Financial Statements of a Sole Proprietor- Meaning, Requirement, Purpose & Importance

Objectives

After going through this lesson, you shall be able to understand the following concepts.

- Meaning of Sole Proprietorship
- Meaning of Financial Statements
- Nature of Financial Statements
- Purpose or Importance of Financial Statements
- Limitations of Financial Statements
- Users of Financial Statements

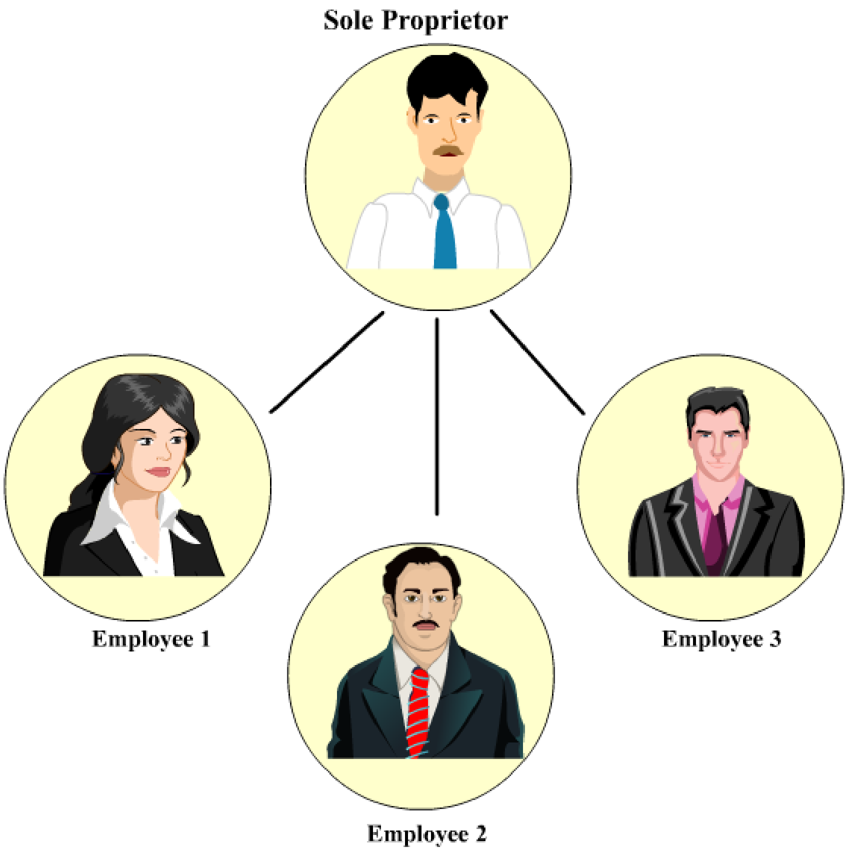
Introduction

Till now, we have learnt that how in financial accounting the events of financial nature are identified, recorded in journal, classified in their respective ledgers and Trial Balance is prepared. After this, the next stage is summarising these financial events/transactions in the financial statements. So let's begin with understanding the meaning of Sole Proprietorship.

Sole Proprietorship

Sole Proprietorship is a situation where only a single person manages the affairs of the whole business. The single person alone manages, owns, finance, controls and look after the entire business activities. The owner of such business is known as Proprietor. The owner alone is responsible for all the profits earned and losses incurred by the business. The owner invests the capital in the business from his/her own funds or he/she may resort to borrowings as well.

The sole proprietor has an advantage in a sense that he/she is not required to face much legal formalities to initiate, control and dissolve the business. The proprietor can easily and quickly establish his/her own business. The main aim of any sole proprietorship business is to earn the profits. In order to ascertain the profits earned during the year, the proprietor prepares the financial statements. The meaning, nature, importance, limitations and users of financial statements are discussed below in detail.



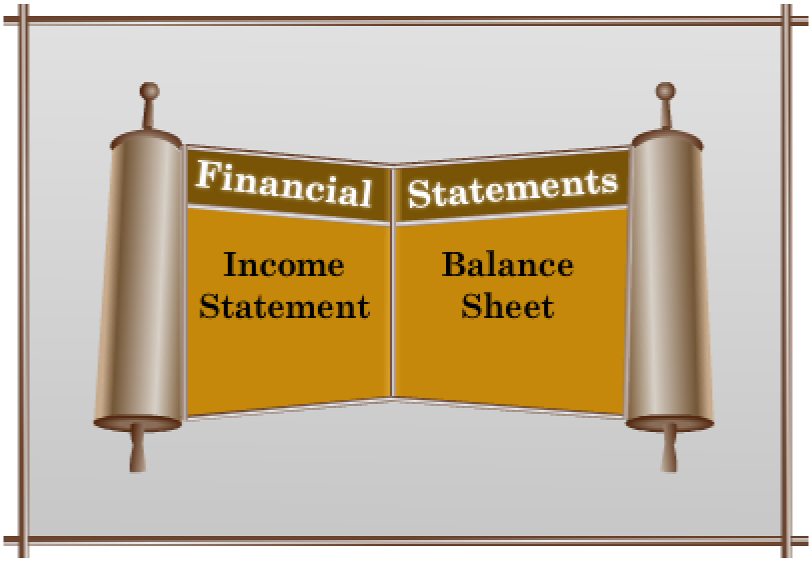
Meaning of Financial Statements

Every business organisation maintains the proper record of all its transactions during the year in order to keep a proper track of its expenses and incomes. At the end of an accounting year these organisations measures its business performance in terms of profits or losses. Apart from profits or losses, it is also interested in knowing the actual position of its assets and liabilities at the end of an accounting period. Thus, the records maintained by the organisations to ascertain the profits and losses and to assess the financial position of a firm on a particular date are referred as Financial Statements. Accounting Process ends with the preparation of Financial Statements.

In other words, financial statements reveal the profitability and financial position of a business at the end of the accounting year. It provides the financial information to various accounting users that helps them in decision making and policy designing process. It should be noted that financial statements of an organisation are prepared on the basis of Trial Balance. The financial statements comprise mainly the following two statements-

1. Income Statements or Trading and Profit and Loss Account
2. Balance Sheet

1. ***Income Statements-***These statements are popularly known as Trading and Profit and Loss Account. These statements disclose the financial performance of an enterprise. Trading Account records all the direct incomes and expenses and reveals the gross profit earned or gross loss incurred during a particular period. On the other hand, Profit and Loss Account records all the indirect incomes and expenses and shows the net profit or loss during the year.
2. ***Balance Sheet-***This statement discloses the true financial position of an enterprise on a particular date. It reveals the actual position of the assets and liabilities of an organisation.



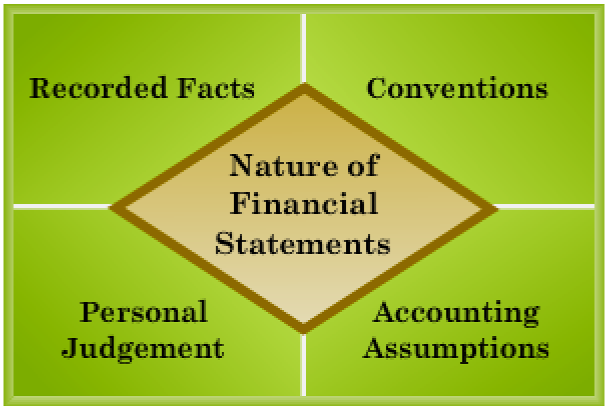
Nature of Financial Statements
The nature of the financial statements depend upon the following aspects.

1. ***Recorded Facts-***Financial statements contains only those facts and data that are recorded in the accounting books and the data that is not recorded in the accounting books is excluded (irrespective of whether such facts are significant or not).

2. ***Conventions-***The preparation of financial statements is based on some accounting conventions such as, Prudence Convention, Materiality Convention, Matching Concept, etc. The adherence to such accounting conventions makes financial statements easy to understand, comparable and to reflect the true and fair financial position of an organisation.

3. ***Accounting Assumptions-***The basic accounting assumptions such as Going Concern Assumption, Consistency Assumption and Accrual Assumption etc., are known as postulates. While preparing the financial statements such postulates are adhered to. Therefore, the nature of these postulates is reflected in the nature of the financial statements.

4. ***Personal Judgement-***Personal value judgement plays an important role in deciding the nature of the financial statements. Different judgements are attached to different practices of recording transactions in the financial statements. For example, method of charging depreciation requires personal value judgement (i.e. it entirely depends on the concerned accountant). Some accountants may use written-down value method of depreciation, while, some may use original cost method. Similarly, provision on various assets, period chosen to write-off intangible assets, etc. depend on personal judgement. Thus, personal judgement determines the nature of the financial statements to a great extent.



Purpose or Importance of preparing Financial Statements

The following are purposes and importance of preparing financial statements.

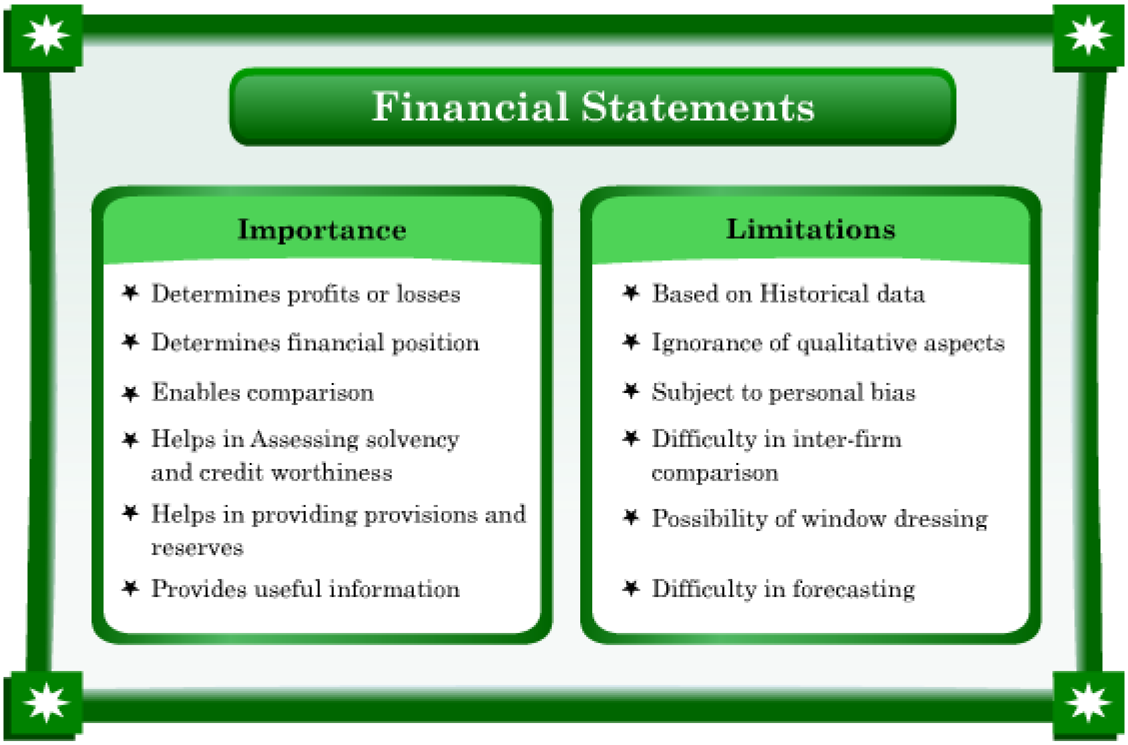
1. ***Determining Profits or Losses-***Financial statements helps in finding out the profit earned or loss incurred by a business during an accounting period. This is estimated by preparing the Trading and Profit and Loss Account. With the help of Trading Account gross profit or loss is determined. By using this gross profit or loss in the Profit and Loss Account the net profit earned or net loss incurred during the year is determined.
2. ***Determining the Financial Position-***These statements exhibits the true financial position of an enterprise for a specific period. This is reflected by the Balance Sheet which records the various assets and liabilities of a firm at its book value.
3. ***Enable Comparison-***These statements help in comparing the current year's profits and financial performance with that of the previous years, i.e., intra-firm comparisons. Besides this, it also enables to compare the firm's own performance with that of the other firms in the same industry, i.e., inter-firm comparisons.
4. ***Assessing Solvency and Credit Worthiness-***With the help of these statements the solvency, soundness and credit worthiness of the organisations can be easily determined.
5. ***Helps in providing Provisions and Reserves-***These statements helps to provide various provisions and reserves out of its profits to meet the unforeseen future conditions and to strengthen the financial position of the business.
6. ***Provides Information-***These statements also provide the vital information to facilitate its various users of accounting information in decision making process.

Limitations of Financial Statements

1. ***Historical Data-***The items recorded in the financial statements reflect their original cost i.e. the cost at which they were acquired. Consequently, financial statements do not reveal the current market price of the items. Further, financial statements fail to capture the inflation effects. Thus, it can be concluded that financial statements reflect the data and information of historical nature.
2. ***Ignorance of Qualitative Aspects-***Financial statements do not reveal the qualitative aspects of a transaction. The qualitative aspects such as colour, size and brand position in the market, employees' qualities and capabilities are not disclosed by the financial statements. These statements record only those transactions that are quantitative in nature and can be expressed in the monetary terms.
3. ***Biased-***Financial statements are based on the personal judgement regarding the use of methods of recording. For example, the choice of practice in the valuation of inventory, method of depreciation, amount of provisions, etc. are based on the personal value judgments, which may differ from person to person. Thus, the financial statements reflect the personal value judgments of the concerned accountants and experts.
4. ***Inter-firm Comparison-***Usually, it is difficult to compare the financial statements of two companies (either in the same business or in different businesses). This is basically because of

the difference in the methods and practices followed by them in preparing their respective financial statements.

5. ***Window Dressing-***The possibility of window dressing is highly probable. This might be because of the motive of the company to overstate or understate its assets and liabilities to attract more investors or to reduce taxable profits. For example, Satyam showed high fixed deposits in the Assets side of its Balance Sheet for better liquidity that gave false and misleading signals to the investors.
6. ***Difficulty in Forecasting-***Since, the financial statements are based on the historical data, so they fail to reflect the effect of inflation. This drawback makes the forecasting difficult.

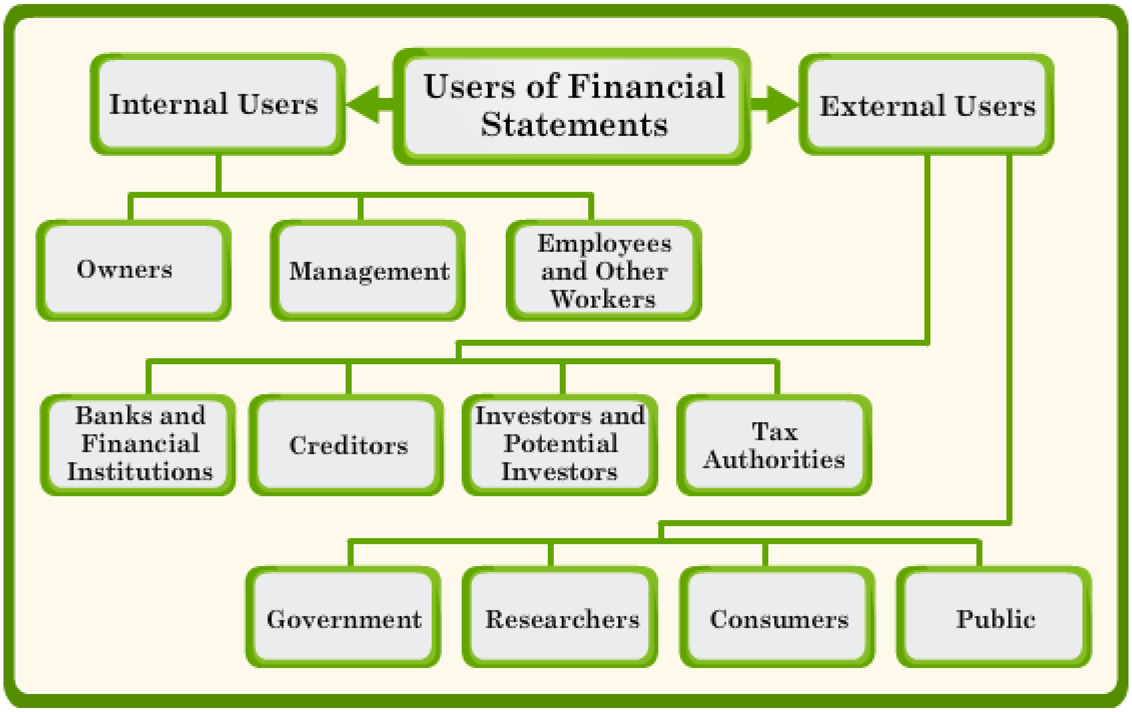


Users of Financial Statements

The financial statements provide the useful information to its various users such as management, owners, investors, creditors, etc. The users of financial statements can be broadly classified as-

1. ***Internal Users-***These are the users who have the direct access to the financial statements of an organisation and who are directly related to the business. For example, owners, management, employees, workers, etc. They require financial information in their decision making process.
2. ***External Users-***These are the users who do not have any direct access to the financial statements of an organisation but they are interested in knowing the financial position of an organisation. They need this information in order to judge the profitability and soundness of the business which helps them in making their investment decision.

The various users of financial statements are explained diagrammatically below-



Internal Users
The owners, management, employees and other workers are the internal accounting users who are directly related to a company. The following points describe different motives of each of the internal users and how financial statements are helpful for each of them.

1. ***Owners-***The owners are interested in the profit earned or loss incurred during an accounting period. They are interested in assessing the profitability and viability of the capital invested by them in the business. The financial statements prepared by the business concerns enable them to have sufficient information to assess the financial performance and financial health of the business.
2. ***Management-***The management is an integral part of an organisation. They are interested in planning, decision-making process, evaluating the past performances, etc. The financial statements enable the management not only in drafting policies, measures and planning but also in efficient implementation of the plans. With the help of the financial statements, management can not only enhance the efficiency of the business but also exercises various cost controlling measures to remove inefficiencies.
3. ***Employees and Other Workers-***They are interested in the timely payment of wages and salaries, bonus and appropriate increment in their wages and salaries. With the help of the financial statements they can know the amount of profit earned by the company and can demand reasonable hike in their wages and salaries. The financial statements also help them to assess their individual career scope and their growth prospects.

External Users
These are outside users who are interested in the financial affairs of a business. The following points describe different motives of each of the external users and how financial statements are helpful for each of them.

1. ***Banks and other Financial Institutions-***Banks provide finance in the form of loans and advances to various businesses. Thus, they need information regarding liquidity, credit worthiness, solvency and profitability to advance loans. The financial statements enable the banks and other financial institutions to access such information

2. ***Creditors-***These are those individuals and organisations to whom a business owes money on account of credit purchases of goods and services. Hence, the creditors require information about the credit worthiness and liquidity position of the business.

3. ***Investors and Potential Investors-***These are the parties who have invested or who are planning to invest in the business of an enterprise. Hence, in order to assess the viability and prospects of their investments, they need information about the profitability and solvency position of the business.

4. ***Tax Authorities-***They are interested in knowing whether the amount of sales, production, profits, revenues, etc. are correctly calculated and shown unambiguously in the books. This is very important so that appropriate and correct tax rates (of taxes such as sales tax, excise duty, etc.) are levied on the business. These authorities also evaluate whether the financial statements have been prepared in accordance with the legal provisions or not.

5. ***Government-***It needs information to determine various macro-economic variables such as national income, GDP, industrial growth, etc. The accounting information assists the government in the formulation of various policies measures and to address various economic problems such as unemployment, poverty, etc.

6. ***Researchers-***Various government, non-government research institutes and other independent research institutions such as CRISIL, Stock Exchanges, etc. undertake various types of research projects. Correct information provided by the financial statements acts as an input for these research works and makes the research authenticate.

7. ***Consumers-***Every business tries to build up reputation in the eyes of consumers, which can be created only by supplying better quality products and post sale services at reasonable and affordable prices. Business that has transparent financial records, assists the customers to know the correct cost of production and accordingly assess the degree of reasonability of the price charged by the business for its products. Thus, the unambiguous and transparent financial statements help in repo-building of the business.

8. ***Public-***Public is keenly interested to know the portion of profit that a business spends on various public welfare schemes; for example, charitable hospitals, funding schools, etc. Such type of information revealed by the financial statements helps in promoting the reputation and goodwill of an organisation.

Trading Account- Specimen and Meaning of its Items

Objectives
After going through this lesson, you shall be able to understand the following concepts.

- Meaning of Trading Account
- Characteristics of Trading Account
- Purposes of Trading Account
- Preparation of Trading Account

Recall

We know that financial statements of an organisation comprises of the following two statements, namely-

1. Income Statements - Trading Account and Profit and Loss Account
2. Balance Sheet

All these statements are prepared with the help of Trial Balance. In this lesson we will study about the Trading Account in detail.

Meaning of Trading Account

The very first financial statement prepared by an enterprise is a Trading Account. It is an account which is prepared to ascertain the trading results of a firm in form of gross profit earned or gross loss incurred during an accounting period. It is a nominal account in which all expenses or losses are debited and all incomes or gains are credited. On the debit side of this account purchases, opening stock and all the direct expenses are shown. While, on the credit side Sales and closing stock is shown. An important point to be noted here is that Trading Account records only direct expenses. These are those expenses that are directly related to manufacturing and production of goods and services. ***The excess of credit side over its debit side*** is regarded as ***Gross Profit***. On the other hand, ***excess of debit side over its credit side*** is regarded as ***Gross Loss***. The net result of this account i.e. gross profit or loss is transferred to the Profit and Loss Account. In case of gross profit, it is transferred to the credit side of the Profit and Loss Account. On the contrast, gross loss is transferred to the debit side of the Profit and Loss Account.

Characteristics of Trading Account

The given below are some of the characteristics of Trading Account.

1. It is a first part of financial statement.
2. It is a nominal account.

iii. It is prepared on accrual basis.

1. It reveals the gross profit or gross loss.
2. The net result of this account is transferred to Profit and Loss Account.

Purposes of Trading Account

The given below are the purposes which are served by Trading Account.

1. To calculate gross profit earned or gross loss incurred during an accounting period.
2. To estimate the cost of goods sold.

iii. To record direct expenses (i.e., expenses incurred on the purchases and manufacturing of goods).

1. To measure the adequacy and reasonability of direct expenses incurred by comparing purchases with direct expenses incurred.
2. To compare the realised efficiency and performance with the desired or proposed targets

Format of Trading Account

Trading Account *for the year ended…*					
Dr.				**Cr.**	
Particulars		**Amount** **Rs**	**Particulars**	**Amount** **Rs**	

Opening Stock		Sales	
Purchases		*Less*: Sales Returns	
Less: Purchases Returns		or	
or		Returns Inward	
Returns Outward		Closing Stock	
Direct Expenses		**Gross Loss transferred to Profit and Loss A/c	
Wages and Salaries, or		(*Balancing Figure*)	
Wages			
Gas, Fuel and Power			
Carriage on Purchases			
Carriage Inwards, or			
Carriage			
Manufacturing Expenses, or			
Productive Expenses Freight, Octroi and Cartage			
Royalty on Purchases			
Consumable Stores			
Import Duty or Custom Duty (on purchases)			

Excise Duty					
Dock Charges and Clearing Charges					
Factory Expenses, such as:					
	Factory Lighting				
	Factory Rent etc.				
**Gross Profit transferred to Profit and Loss A/c					
(*Balancing Figure*)					

*****Either Gross Profit or Gross Loss will appear at one time.***

Explanation of Items recorded in Trading Account
Items recorded on the Debit Side of Trading Account

1. **Opening Stock**- It is the stock of goods in hand in the beginning of the year. For a manufacturing concern opening stock comprised of opening raw materials, finished goods and semi-finished goods (i.e. work-in-progress). Whereas for a trader opening stock includes various kind of finished goods. It is generally appeared in the Trial Balance. For a newly set-up firm there will be no opening stock. It is recorded on the debit side of the Trading Account.

2. **Purchases**- Purchases represents the various goods and services purchased during an accounting year. These goods are purchased either for further production or for the purpose of direct sale. Purchases include both cash purchases as well as credit purchases. It also includes the import of goods from foreign countries. It should be noted that purchase of fixed assets are not included in this purchases. On the debit side of the Trading Account the net purchases are shown. In order to get net purchases we need to deduct the purchase return or return outwards from the gross purchases. Apart from deducting the purchase returns from the purchases the given below items are also required to be deducted from the purchases:

- Goods withdrawn for personal use i.e. drawings
- Goods distributed as free sample
- Goods given as charity

The given below are some items that should not be considered as while recording the purchases in the Trading Account.

- Goods-in-transit
- Goods received on consignment
- Goods received on sale or return basis

3. **Direct Expenses**- These are the expenses that are incurred in connection with production or manufacturing of goods and services. It also includes the expenses incurred to bring the purchased goods at its place of business for the purpose of sale. Some of the examples are, carriage inwards, wages, custom duty, power and fuel, etc. Let us discuss some of the direct expenses one by one.

- **Wages**- The amount paid in form of wages to the workers engaged in the production or manufacturing units are regarded as direct expenses and are shown on the debit of the Trading Account. There may be a situation when a single amount is given in the Trial Balance for 'Wages and Salaries'. In such case, it should be treated as direct expense and recorded in the Trading Account as salary may be paid to a worker engaged in the manufacturing process. On the other hand, if the word 'Salaries and Wages' is used for the amount in the Trial Balance, then it is regarded as an indirect expense and is not recorded in the Trading Account. An important point to be noted here is that if wages are paid for installation of new asset, then it is considered as capital expenditure and added to the cost of that asset. In simple words, it is not recorded in the Trading Account.

- **Carriage Inwards or Freight on Purchase**- These are the expenses that are incurred to transport the goods from the supplier's place to the firm's place. These are the direct expenses and are recorded on the debit side of the Trading Account. It should be noted that any carriage or freight paid on acquisition of fixed assets are not considered as direct expenses and are not recorded in the Trading Account.

- **Power and Fuel**- These are the cost of fuel, power or gas that are incurred for running the plant and machineries used for production of goods. These are shown on the debit side of the Trading Account.

- **Octroi**- It is a kind of duty which is paid at the time of purchase of goods within the municipal limits. It is also debited to the Trading Account.

- **Custom or Import Duty**- These duties are paid at the time of purchase of goods from the foreign countries. It is a direct expense and shown on the debit side of the Trading Account.

- **Factory Lighting**- The expenditure incurred to provide electricity/lights for factory premises to run the business activities is recognised as direct expense and is shown on the debit side of the Trading Account.

- **Factory Rent and Rates**- These are the expenses incurred in form of rent paid for the factory premises and municipal taxes. These are also shown on the debit side of the Trading Account.

- **Royalties**- It is an expense incurred for acquisition of patent rights. It is recognised as direct expense and recorded on the debit side of the Trading Account.

- **Consumable Stores**- These are the expenses incurred to keep the machine in right condition. These include engine oil, oil grease and waste, soft soap etc. which are consumed in a factory.

Items recorded on the Credit Side of Trading Account

1. **Sales**- Sales represents the sales of goods and services made during the year. Sales include both cash sales as well as credit sales. It also includes export of goods to the foreign countries. It should be noted that sale of fixed assets are not included in this sales. In the Trading Account we show net sales on the credit side. In order to get net sales we need to deduct the sales return or return inwards from the amount of gross sales. But it should be noted that Sales does not include sales tax or value added tax (VAT). Sales tax collected is a liability and is shown in the Balance Sheet. VAT collected is adjusted against VAT Paid and the balance is shown in the Balance sheet as liability (if VAT collected is more) or Asset (if VAT paid is more).

2. **Closing Stock-**Closing stock represents the stock of goods i.e. raw materials, finished goods and semi-finished goods (i.e. work-in-progress) that remained unsold at the end of the year. In other words, it is the stock of goods in hand at the end of an accounting year. For a manufacturing concern closing stock comprised of closing raw materials, finished goods and semi-finished goods (i.e. work-in-progress). Whereas, for a trader it includes various kind of finished goods. Closing Stock is recorded on the credit side of the Trading Account. Closing stock includes only stock of goods, whereas, the stock of stationery, postage, etc are excluded from it.

   As per the accounting convention of conservatism the closing stock is recorded in the books at its 'cost' or 'market value' whichever is less. Generally, the closing stock is given outside the Trial Balance. In this case, closing stock is recorded on the credit side of Trading Account and is also shown on the Assets side of the Balance Sheet. But there may be a situation when closing stock is given inside the Trial Balance. In this case, it implies that the closing stock has already been adjusted in (or deducted from) the Purchases. That is, the Purchases given in the Trial Balance are adjusted purchases. Hence, there is no need to record Closing Stock separately in the Trading Account. It is shown only in the Balance Sheet.

Procedure to Prepare Trading Account
The given below are the various steps involved in preparation of the Trading Account.

1. First of all, opening stock appearing in the Trial Balance is recorded on the debit side of the Trading Account.
2. Secondly, purchases are recorded on the debit side of the account after deducting the purchase returns.

iii. After this, all the direct expenses are recorded on the debit side of the account.

1. Then, the net sales are recorded on the credit side of the account. Sales are recorded after deducting the sales returns.

2. Similarly, closing stock appearing outside the Trial Balance is recorded on the credit side of the Trading Account.
3. Lastly, if credit side exceeds the debit side then the balancing figure is shown as gross profit and is transferred to the credit side of the Profit and Loss Account. On the other hand, if credit side falls short of the debit side then the balancing figure reveals the gross loss and is transferred to the debit side of the Profit and Loss Account.

Journal Entries for recording items in the Trading Account

At the time of recording Opening Stock, Purchases and Direct Expenses

Trading A/c	Dr.		
To Opening Stock A/c			
To Net Purchases A/c			
To Direct Expenses A/c			
(Balances transferred to trading account)			

At the time of recording Sales and Closing Stock

Net Sales A/c	Dr.		
Closing Stock A/c	Dr.		
To Trading A/c			
(Balances transferred to trading account)			

In case of Gross Profit

Trading A/c	Dr.		
To Profit and Loss A/c			

(Gross profit transferred to profit and loss account)			

In case of Gross Loss

Profit and Loss A/c	Dr.		
To Trading A/c			
(Gross loss transferred to profit and loss account)			

Treatment of GST with various items of the Trading Account

Transaction	**Journal Entry**		**Explanation**
1) When GST is paid at the time of Purchase of Goods.	**(i) In case of intra-state Purchases** Purchases A/c Input CGST A/c Input SGST A/c To Cash/Creditor (Depending on cash purchases or credit.) **(ii) In case of inter-state Purchases** Purchases A/c Input IGST A/c To Cash/Creditor (Depending on cash purchases or credit.)	Dr Dr Dr Dr Dr	Separate accounts for GST since it is set off against the GST collected on sales hence not added to Purchases account.
2) When GST is charged at the time	**(i) In case of intra-state Sales**		Separate accounts for GST since GST on purchases will be set off

of Sale of Goods.	Debtor/Cash A/c(Depending on cash purchases or credit.) To Sales A/c To Output CGST A/c To Output SGST A/c **(ii) In case of inter-state Sales** Debtor/Cash A/c (Depending on cash purchases or credit.) To Sales A/c To Output IGST A/c	Dr Dr	against GST on sales.
3) When goods are taken by the proprietor for personal use.	Drawings A/c To Purchases A/c (Cost of goods) To Input CGST A/c (Amount of CGST on goods taken) To Input SGST A/c (Amount of SGST on goods taken) Or To Input IGST A/c (Amount of IGST on goods taken)	Dr	Since, the total cost to the firm was cost plus GST paid at the time of purchase and so the same shall be charged to drawings.
4) Goods given away as Charity.	Donation / Charity A/c To Purchases A/c (Cost of goods) To Input CGST A/c (Amount of CGST on goods taken) To Input SGST A/c (Amount of SGST on goods taken) Or To Input IGST A/c (Amount of IGST on goods taken)	Dr	Since, the total cost to the firm was cost plus GST paid at the time of purchase and so the same shall be charged to donations account.

5) Goods given as sample	Sample Expense or Advertisement A/c To Purchases A/c (Cost of goods) To Input CGST A/c (Amount of CGST on goods taken) To Input SGST A/c (Amount of SGST on goods taken) Or To Input IGST A/c (Amount of IGST on goods taken)	Dr	Since, the total cost to the firm was cost plus GST paid at the time of purchase and so the same shall be charged to advertisement account. Also, sales account is not debited because the goods are given for marketing purpose.
6) Goods purchased on the last day of the year and also received	**(i) In case of intra-state Purchases** Purchases A/c Input CGST A/c Input SGST A/c To Cash/Creditor (Depending on cash purchases or credit.) **(ii) In case of inter-state Purchases** Purchases A/c Input IGST A/c To Cash/Creditor (Depending on cash purchases or credit.)	Dr Dr Dr Dr Dr	Considered as purchases as they may not have been accounted for at the time of purchase.
7) Goods purchased but are in transit.	**(i) In case of intra-state Purchases** Goods in Transit A/c Input CGST A/c	Dr Dr Dr	This is because the seller of the goods would have recorded an entry on the date of dispatch of goods. Hence, an accounting entry has to be made in our books as well to avoid any discrepancy.

	Input SGST A/c To Creditor (Depending on cash purchases or credit.) **(ii) In case of inter-state Purchases** Goods in Transit A/c Input IGST A/c To Creditor (Depending on cash purchases or credit.)	Dr Dr	
8) When sales are returned.	Entry in case 2 will be reversed.		
9) When purchases are returned.	Entry in case 1 will be reversed.		

<u>Example 1</u>:
From the given below particulars, prepare Trading Account for the year ended March 31, 2013.

Particulars	**Amount** **(Rs)**
Opening Stock	30,900
Heating and Lighting	15,200
Factory Gas	8,300
Carriage Inwards	4,000
Carriage Outwards	5,250
Freight	6,250
Purchases	1,70,150

Return Outwards	20,150
Custom Duty	3,350
Office Rent	2,170
Salaries	16,000
Sales	4,30,750
Return Inwards	25,750
Closing Stock	45,000

Solution

Trading Account					
for the year ended 31st March 2013					
Dr.			**Cr.**		
Particulars		**Amount**	**Particulars**		**Amount**
Opening Stock		30,900	Sales	4,30,750	
Purchases	1,70,150		*Less*: Return Inwards	(25,750)	4,05,000
Less: Return Outwards	(20,150)	1,50,000	Closing Stock		45,000
Heating and Lighting		15,200			

Factory Gas	8,300		
Carriage Inwards	4,000		
Freight	6,250		
Custom Duty	3,350		
Gross Profit transferred to Profit and Loss A/c	2,32,000		
	4,50,000		**4,50,000**

Note: All the indirect expenses such as office rent, salaries, etc. are not shown in the Trading Account. They are charged from the Profit and Loss Account and thus, shown on the debit side of the Profit and Loss A/c.

***Example 2*:**
From the given below particulars, prepare Trading Account for the year ended March 31, 2013.

Particulars	**Amount (Rs)**
Purchases	1,32,700
Purchases Return	2,700
Octroi	3,000
Excise Duty	4,200
Royalty on Purchases	4,800
Royalty on Sales	5,200
Power and Fuel	5,000

Goods given as Free Samples	3,000
Wages and Salaries	2,850
Carriage on Purchases	7,500
Manufacturing Expenses	2,500
Audit Fees	5,250
Carriage on Sales	1,250
Goods withdrawn for Personal Use	2,000
Brokerage Paid	1,350
Licence Fees	2,700
Cash Sales	70,000
Credit Sales	55,000
Sales Return	7,000
Opening Stock	9,000
Closing Stock (Market Price Rs 22,000)	25,300

Solution

Trading Account	
for the year ended 31st March 2013	

Dr.			Cr.		
Particulars		**Amount**	**Particulars**		**Amount**
Opening Stock		9,000	Sales		
Purchases	1,32,700		Cash Sales	70,000	
Less: Purchases Return	(2,700)		Credit Sales	55,000	
Less: Free Samples	(3,000)		*Less*: Sales Return	(7,000)	1,18,000
Less: Drawings	(2,000)	1,25,000	Closing Stock		22,000
Octroi		3,000	Gross Loss transferred to Profit and Loss A/c		23,850
Excise Duty		4,200			
Royalty on Purchases		4,800			
Power and Fuel		5,000			
Wages and Salaries		2,850			
Carriage on Purchases		7,500			
Manufacturing Expenses		2,500			
		1,63,850			**1,63,850**

Note 1: All the indirect expenses such as brokerage, licence fees, Audit fee, etc. are not shown in the Trading Account. They are charged from the Profit and Loss Account.

Note 2: According to Conservatism Accounting Practice, closing stock is valued at 'Cost' or 'Market Value', whichever is less. Therefore, in the Trading Account, closing stock is shown at its cost i.e. Rs 22,000 which is less than its market price of Rs 25,300.

Note 3: Royalty on purchases is a direct expenses and royalty on sales is an indirect expense. Thus, royalty on sales is not shown in the Trading Account.

***Example 3*:**
From the given below particulars, prepare Trading Account for the year ended March 31, 2013.

Particulars	**Amount (Rs)**
Cash Purchases	40,000
Opening Stock:	
Raw Materials	5,300
Work-in-Progress	9,200
Finished Goods	3,900
Import Duty	1,500
Export Duty	2,000
Coal, Gas and Water	3,300
Goods given as Charity	5,700
Wages	2,700
Carriage Inwards	1,200
Freight Outwards	1,700
Factory Rent and Rates	2,600

Sales (Including Sales tax)	73,000
Sales Tax	3,200
Closing Stock:	
Raw Materials	6,200
Work-in-Progress	10,000
Finished Goods	5,000

Solution

Trading Account for the year ended March 31,2013					
Dr.			**Cr.**		
Particulars		**Amount**	**Particulars**		**Amount**
Opening Stock:			Sales	73,000	
Raw Materials	5,300		Less: Sales Tax	(3,200)	69,800
Work-in-Progress	9,200		Closing Stock:		
Finished Goods	3,900	18,400	Raw Materials	6,200	
Cash Purchases	40,000		Work-in-Progress	10,000	
Less: Goods given as Charity	(5,700)	34,300	Finished Goods	5,000	21,200
Import Duty		1,500			

Coal, Gas and Water	3,300		
Wages	2,700		
Carriage Inwards	1,200		
Factory Rent and Rates	2,600		
Gross Profit transferred to Profit and Loss A/c	27,000		
	91,000		**91,000**

***Example 4*:**
From the given below particulars, prepare Trading Account for the year ended March 31, 2013.

Particulars	**Amount** **(Rs)**
Cash Sales	9,000
Credit Sales	11,000
Adjusted Purchases	13,000
Royalty on Purchases	1,500
Closing Stock	5,000
Import Duty	2,500

Solution

Trading Account for the year ended March 31, 2013				
Dr.		**Cr.**		
Particulars	**Amount**	**Particulars**		**Amount**
Adjusted Purchases	13,000	Cash Sales	9,000	
Royalty on Purchases	1,500	Credit Sales	11,000	20,000
Import Duty	2,500			
Gross Profit transferred to Profit and Loss A/c	3,000			
	20,000			**20,000**

Note: We know that whenever adjusted purchases are given, opening and closing stock are already adjusted in the purchases. In this case closing stock is not shown in the Trading Account as it is already adjusted while computing the adjusted purchases. In such cases closing stock is shown only on the Assets Side of the Balance Sheet.

Adjusted Purchases = Purchases + Opening Stock − Closing Stock

Profit and Loss Account- Specimen and Meaning of its Items

Objectives
After going through this lesson, you shall be able to understand the following concepts.

- Meaning of Profit and Loss Account
- Characteristics of Profit and Loss Account
- Purposes of Profit and Loss Account
- Preparation of Profit and Loss Account

Meaning of Profit and Loss Account

Profit and Loss Account is the second financial statement prepared by an organisation. This account is prepared to ascertain the net results of a firm in form of net profit earned or net loss incurred during an accounting period. Similar to the Trading Account, Profit and Loss Account is also a nominal account in which all the expenses or losses are debited and all the incomes or gains are credited. This account begins with recording of gross profit (or gross loss) depicted by the Trading Account. After this all the indirect expenses are debited and all indirect incomes are credited to this account. Indirect expenses are those expenses that are not directly related to manufacturing and production of goods and services. These are incurred for making the finished goods ready for sale. While on the other hand, indirect incomes are those incomes that are not directly earned from the operating activities of business operations. ***The excess of credit side over its debit side*** of Profit and Loss account is regarded as ***Net Profit***. On the contrast, ***excess of debit side over its credit side*** is regarded as ***Net Loss***.

Characteristics of Profit and Loss Account

The given below are some of the characteristics of Profit and Loss Account.

1. It is the second financial statement prepared by an organisation.
2. It is a nominal account.

iii. It is prepared on accrual basis.

1. It depicts the net profit or net loss during the year.
2. The net result of this account is added to (in case of net profit) or subtracted (in case of net loss) from the Capital on the Liabilities Side of the Balance Sheet.

Purposes of Profit and Loss Account

The following are the various purposes served by a Profit and Loss Account.

1. To calculate net profit or net loss.
2. To ascertain net profit ratio and to compare this year's net profit ratio with that of the desired and proposed target in order to assess the efficiency and effectiveness.

iii. To measure the adequacy and reasonability of indirect expenses incurred by ascertaining ratio between indirect expenses and net profit.

1. To compare current year's actual performance with desired and planned performance.
2. To provide various provisions and reserves to meet unforeseen future conditions and to toughen the financial position of the business.

Format of Profit and Loss Account

Profit and Loss Account *for the year ended….*			
Dr.			**Cr.**
Particulars	**Amount** **Rs**	**Particulars**	**Amount** **Rs**
Gross Loss		Gross Profit	

(transferred from Trading A/c)		(transferred from Trading A/c)	
Office Expenses-		Rent (Cr.)	
General Expenses		Rent from Tenant	
Lighting		Discount Received	
Salaries		or Discount (Cr.)	
Printing and Stationary		Dividend on Shares	
Salaries and Wages		Interest on Investments	
Rent, Rates and Taxes		Commission Received	
Insurance		Income from other Sources	
Establishment Expenses		Bad-Debts Recovered	
Legal Charges		Miscellaneous Receipts	
Audit Fees		Apprentice Premium	
Telephone/Internet Charges		Profit on Sale of Assets	
Postage and Telegram		**Net Loss transferred to Capital A/c	
Trade Expenses			
Travelling Expenses			
Selling and Distribution Expenses-			

Carriage Outwards, or			
Carriage on Sales			
Export duty			
Stable expenses			
Brokerage			
Advertisement			
Bad Debts			
Packing Charges			
Delivery Van Expenses			
Commission			
Miscellaneous Expenses			
Depreciation			
Bank Charges			
Discount			
Donation and Charity			
Repairs			
Interest (Dr.)			
Conveyance Expenses			

Entertainment Expenses			
Loss on Sale of Assets			
**Net Profit transferred to Capital A/c			

*****Either Net Profit or Net Loss will appear at one point of time.***

Explanation of Items recorded in Profit and Loss Account
Items recorded on the Debit Side of Profit and Loss Account
We know that all the indirect expenses are recorded on the debit of the Profit and Loss Account. The following are the some categories under which indirect expenses are grouped:

1. **Administration and Office Expenses-**These are the expenses that are incurred for making and implementing the plans for efficient running of the business and maintenance of the office. These expenses are considered as indirect expenses and recorded on the debit side of the Profit and Loss Account. The following are some examples of administration and office expenses.

- Office Salaries
- Office Rent
- Postage, Printing and Stationery
- General/Trade Expenses
- Telephone or Internet Charges
- Insurance
- Maintenance of Office Equipments
- Lighting
- Audit Fees
- Consultation Fees
- Legal Charges

2. **Selling Expenses-**These are the expenses that are incurred in connection with promoting the sales and to maintain the existing customers. These are also indirect expenses and recorded on the debit side of the Profit and Loss Account. The following are some examples of selling expenses.

- Advertisement Expenses
- Salaries to Salesman
- Commission to Salesman/Agents
- Bad Debts
- Free Samples
- Postage, Printing and Stationery related to Sales
- Free Samples
- Royalty on Sales
- Other sales department expenses

3. **Distribution Expenses-**These are the expenses that are incurred in relation to distributing and transporting the goods. In simple words, these expenses are incurred for executing the orders of the business. It also includes the expenses incurred for maintaining warehouse of the finished goods. As these are indirect expenses and therefore, shown on the debit side of the Profit and Loss Account. The following are some examples of distribution expenses.

- Warehousing or Storage Charges
- Packing Costs
- Carriage or Freight Outward
- Carriage on Sales
- Transportation Costs
- Vehicle Maintenance Costs (used for delivering the goods)

4. **Financial Expenses-**These expenses are incurred for raising the funds required by business which means that these expenses are incurred in connection with arranging the finance for the business. Being indirect expenses, these are shown on the debit side of the Profit and Loss Account. The following are some examples of financial expenses.

- Interest on Loans
- Interest on Capital
- Interest on Overdraft
- Cash Discount Allowed

5. **Abnormal Losses-**It includes all the losses that are accidental to a business enterprise. In simple words, these losses are not frequently incurred by the business. These losses are debited to the Profit and Loss Account. The given below are some factors that result in the abnormal losses to a business.

- Loss of Goods/Stock or Assets by Fire or Theft
- Loss on Sale of Fixed Assets
- Cash Embezzlement
- Loss of Goods due to Accidents

6. **Other Expenses-**These expenses includes the following and are shown in the debit side of the Profit and Loss Account.

- Depreciation
- Charity
- Donations
- Repairs and Maintenance of Assets or Equipments

Note**:** In case the Trading Account reveals the Gross Loss incurred during the year, then it is recorded on the *debit side* of the Profit and Loss Account.

Items recorded on the Credit Side of Profit and Loss Account

1. **Gross Profit-**The first item recorded on the credit side of the Profit and Loss Account is Gross Profit transferred from Trading Account.
2. **Financial and Other Incomes/Gains-**All the incomes or gains to a business enterprise are shown on the credit side of the Profit and Loss Account. It includes the following-

- Rent Received
- Commission Received
- Interest Received
- Dividend Received
- Discount Received

- Income from Investments
- Profit on Sale of Assets
- Bad Debts Recovered
- Insurance Claim Received
- Interest on Drawings
- Tax Refunded
- Other Miscellaneous Incomes

Procedure to Prepare Profit and Loss Account
The given below are the various steps involved in preparation of the Profit and Loss Account.

1. First of all, this account begins with transferring the gross profit or gross loss from the Trading Account. Gross profit is transferred to the credit side of the Profit and Loss Account. On the other hand, Gross Loss is transferred to the debit side of this account.
2. Secondly, all indirect expenses and losses are recorded on its debit side.

iii. After this, all the indirect incomes and gains are recorded on the credit side of the account.

1. Lastly, if the credit side exceeds the debit side then the balancing figure is shown as*net profit*and added to the capital account of proprietor in the Balance Sheet. On the other hand, if credit side falls short of the debit side then the balancing figure regarded as *net loss* and deducted from the capital in the Balance Sheet.

Journal Entries for recording items in the Profit and Loss Account

At the time of recording Administration and Office, Selling and Distribution and Financial Expenses and Losses

Profit and Loss A/c	Dr.		
To Rent A/c			
To Salaries A/c			
To General Expenses A/c			
To Advertisement A/c			
To Postage and Stationery A/c			
To Packing Cost A/c			
To Interest on Loans A/c			
To Cash Discount Allowed A/c			

To Interest on Capital A/c			
To Loss on Sale of Fixed Assets A/c			
To Repairs and Maintenance A/c			
To Depreciation A/c			
To Miscellaneous Indirect Expenses A/c			
(Indirect expenses transferred to profit and loss account)			

At the time of Sundry Incomes

Discount Received A/c	Dr.		
Interest Received A/c	Dr.		
Commission Received A/c	Dr.		
Profit on Sale of Fixed Assets A/c	Dr.		
Other Miscellaneous Income A/c	Dr.		
To Profit and Loss A/c			
(Sundry incomes transferred to profit and loss account)			

In case of Net Profit

Profit and Loss A/c	Dr.		
To Capital A/c			

(Net profit transferred to capital account)			

In case of Net Loss

Capital A/c	Dr.		
To Profit and Loss A/c			
(Net loss transferred to capital account)			

Treatment of GST with various items of the Profit And Loss Account

Transaction	Treatment		Explanation
1) When goods purchased have been destroyed by fire.	**i) Goods not insured.** Loss by Fire A/c(Cost of goods + GST paid) To Purchases A/c(Cost of goods) To Input CGST A/c (Amount of CGST on goods taken) To Input SGST A/c (Amount of CGST on goods taken) Or To Input IGST A/c (Amount of CGST on goods taken) **ii) Goods insured** Insurance Co. A/c(Cost of goods + GST paid) To Purchases A/c(Cost of goods)	Dr. Dr.	The entry at the time of purchases is reversed because the goods no longer exist so the accounts have to be closed.

	To Input CGST A/c (Amount of CGST on goods taken) To Input SGST A/c (Amount of CGST on goods taken) Or To Input IGST A/c (Amount of CGST on goods taken)		
2) Insurance paid to cover the risk of loss to an asset	The premium expense so paid is debited to profit & loss account and GST paid debited to Input GST (CGST and SGST or IGST) account.		Premium paid is an expense and any amount of GST paid can be set off against GST collected.

***Example* 1:** From the given below particulars, prepare Profit and Loss Account for the year ended March 31, 2013.

Particulars	**Amount** **(Rs)**
Gross Profit	50,200
General Expenses	1,700
Rent Paid	2,800
Carriage Inwards	2,520
Carriage Outwards	2,350
Telephone Expenses	1,890
Wages and Salaries	4,530
Administrative Expenses	5,240
Rent Received	3,200

Interest Received	1,500
Office Rent	5,800
Salaries	10,000
Advertisement Expenses	5,770
Bad Debts	970
Interest Paid	1,300
Loss due to Earthquake	7,900
Audit fees	3,400
Export duty	1,100
Custom Duty	1,250
Profit on Sale of Machine	700
Loss on Sale of Building	600
Dividend received	4,200
Legal Charges	4,500

Solution

Profit and Loss Account
for the year ended 31st March 2013

Dr.		Cr.	
Particulars	**Amount**	**Particulars**	**Amount**
General Expenses	1,700	Gross Profit transferred from Trading A/c	50,200
Rent Paid	2,800	Rent Received	3,200
Carriage Outwards	2,350	Interest Received	1,500
Telephone Expenses	1,890	Profit on Sale of Machine	700
Administrative Expenses	5,240	Dividend received	4,200
Office Rent	5,800		
Salaries	10,000		
Advertisement Expenses	5,770		
Bad Debts	970		
Interest Paid	1,300		
Loss due to Earthquake	7,900		
Audit fees	3,400		
Export duty	1,100		
Loss on Sale of Building	600		
Legal Charges	4,500		

Net Profit	4,480		
	59,800		**59,800**

Note: Export Duty is an indirect expense whereas custom duty is a direct expense.

***Example* 2:** From the given below particulars, prepare Profit and Loss Account for the year ended March 31, 2013.

Particulars	**Amount (Rs)**
Gross Loss	1,150
Excise Duty	990
Royalty on Purchases	1,560
Royalty on Sales	880
Insurance Premium Paid	550
Discount (Dr.)	200
Discount (Cr.)	900
Carriage on Purchases	620
Carriage on Sales	230
Interest on Loan	890
Bad Debts	150

Commission Paid	300
Printing and Stationery	330
Rent and Taxes	270
Petty Expenses	130
Bad Debts Recovered	2,000
Electricity Charges	190
Interest on Capital	80
Income from Investments	4,520
Depreciation on Building	440
Transportation Charges	180
Salaries and Wages	700
Repairs	250

Solution

Profit and Loss Account			
for the year ended 31st March 2013			
Dr.		**Cr.**	
Particulars	**Amount**	**Particulars**	**Amount**

Gross Loss	1,150	Discount	900
Royalty on Sales	880	Bad Debts Recovered	2,000
Insurance Premium Paid	550	Income from Investments	4,520
Discount	200		
Carriage on Sales	230		
Interest on Loan	890		
Bad Debts	150		
Commission Paid	300		
Printing and Stationery	330		
Rent and Taxes	270		
Petty Expenses	130		
Electricity Charges	190		
Interest on Capital	80		
Depreciation on Building	440		
Transportation Charges	180		
Salaries and Wages	700		
Repairs	250		
Net Profit	500		

	7,420		**7,420**

***Example* 3:** From the given below particulars, prepare Trading and Profit and Loss Account for the year ended March 31, 2013.

Particulars	**Amount (Rs)**
Purchases	70,320
Purchases Return	2,320
Excise Duty	1,750
Export Duty	1,650
Freight Inward	1,800
Freight Outward	2,750
Power and Fuel	500
Goods given as Free Samples	1,200
Wages	1,500
Carriage on Purchases	700
Bad Debts	2,810
Goods Lost by Fire	1,900
Audit Fees	4,600

Sales	1,43,000
Sales Return	3,000
Brokerage Paid	3,200
Internet Charges	1,800
Loss on Sale of Old Machine	1,960
Opening Stock	4,300
Closing Stock (Market Price Rs 15,150)	12,250
Trade Expenses	850
Commission Received	5,600
Gain on Sale of Furniture	1,400
Royalty on Sales	2,250

Solution

Trading Account				
for the year ended 31st March 2013				
Dr.		**Cr.**		
Particulars	**Amount**	**Particulars**		**Amount**

Opening Stock		4,300	Sales	1,43,000	
Purchases	70,320		*Less*: Sales Return	(3,000)	1,40,000
Less: Purchases Return	(2,320)		Closing Stock		12,250
Less: Free Samples	(1,200)	66,800			
Excise Duty		1,750			
Freight Inward		1,800			
Power and Fuel		500			
Wages		1,500			
Carriage on Purchases		700			
Gross Profit		74,900			
		1,52,250			**1,52,250**

Profit and Loss Account			
for the year ended 31st March 2013			
Dr.		**Cr.**	
Particulars	**Amount**	**Particulars**	**Amount**

Bad Debts	2,810	Gross Profit	74,900
Export Duty	1,650	Commission Received	5,600
Freight Outward	2,750	Gain on Sale of Furniture	1,400
Goods Lost by Fire	1,900		
Audit Fees	4,600		
Brokerage Paid	3,200		
Internet Charges	1,800		
Trade Expenses	850		
Loss on Sale of Old Machine	1,960		
Royalty on Sales	2,250		
Net Profit	58,130		
	81,900		**81,900**

Example 4: Following is the trial balance of Diamond Ltd. on 31st March, 2019. Prepare Trading and Profit and Loss Account for the year ended 31st March, 2019.

Trial Balance as at 31st March, 2019

Particulars	**Dr.(Rs.)**	**Cr.(Rs.)**
Capital A/c		8,00,000

Cash at Bank A/c	1,00,000	
Machinery A/c	2,00,000	
Sundry Creditors A/c		2,00,000
Furniture A/c	60,000	
Purchases A/c	10,00,000	
Discount received A/c		50,000
Furniture and Fittings A/c	5,00,000	
Wages A/c	3,00,000	
Discount Allowed A/c	40,000	
Sales A/c		18,00,000
Sundry Debtors A/c	10,00,000	
Stationery Purchased A/c	20,000	
Factory Lighting A/c	1,00,000	
Advertising Expenses A/c	50,000	
Stock A/c (1st April, 2018)	1,00,000	
Power and Fuel A/c	30,000	
Input IGST A/c	3,00,000	
Input CGST A/c	1,00,000	

Input SGST A/c	1,00,000	
Output IGST A/c		5,50,000
Output CGST A/c		3,00,000
Output SGST A/c		3,00,000
Total	**40,00,000**	**40,00,000**

Closing Stock as on 31st March, 2019 is Rs. 1, 50, 000.

Answer:

Dr.	**Trading A/c for the year ended 31st March, 2019**		**Cr.**
Particulars	**Rs.**	**Particulars**	**Rs.**
To Opening Stock	1,00,000	By Sales	18,00,000
To Purchases	10,00,000	By Closing Stock	1,50,000
To Wages	3,00,000		
To Factory Lighting	1,00,000		
To Power and Fuel	30,000		
To Gross Profit c/d (Transferred to Profit & Loss A/c)	**4,20,000**		
	19,50,000		**19,50,000**

Dr.	**Profit & Loss A/c for the year ended 31st March, 2019**	**Cr.**

Particulars	Rs.	Particulars	Rs.
To Discount Allowed	40,000	**By Gross Profit b/d**	**4,20,000**
To Stationery Purchased	20,000	By Discount Received	50,000
To Advertising Expenses	50,000		
To Net Profit (Transferred to Capital A/c)	**3,60,000**		
	4,70,000		**4,70,000**

Balance Sheet- Specimen and Meaning of its Items

Objectives
After going through this lesson, you shall be able to understand the following concepts.

- Meaning and Fomat of Balance Sheet
- Characteristics of Balance Sheet
- Need for preparing Balance Sheet

Meaning of Balance Sheet

Balance Sheet is the last financial statement that is prepared by any organisation. This statement helps to ascertain the true financial position of an enterprise at the end of an accounting period. It is a statement that is prepared to ascertain the values of assets and liabilities of a business on a particular date. In other words, Balance Sheet can be defined as a financial status report of an organisation that imparts information related to various assets and liabilities of an organisation at the closing of an accounting period. The preparation of Balance Sheet is compulsory as it is an integral part of financial statements. It is prepared with the help of real and personal accounts balances. It reveals the solvency and liquidity position of a firm on a particular date. An important point to be noted here is that ***Balance Sheet is a statement and not an account***.

Though, similar to an account it also has two sides named as Assets and Liabilities, but it is not prepared by following the accounting rule of debit and credit. The assets of a firm are shown on the right-hand side under the head “Assets” and liabilities are shown on the left-hand side under the head “Liabilities” of Balance Sheet. Liabilities consists of owner’s/proprietor’s funds and creditors. It should be noted that the sum total of assets side is always equal to the sum total of its liabilities side. Thus, a Balance Sheet can be defined as a statement depicting true and fair view of firm's financial position at the end of an accounting period.

In the words of Freeman, "*A Balance Sheet is an item wise list of assets, liabilities and proprietorship of a business at a certain date*".
According to Francis R. Stead, "A *Balance Sheet is screen picture of the financial position of a going business at a certain moment*".

Format of Balance Sheet

Balance Sheet *as on year ended…*			
Liabilities	**Amount (Rs)**	**Assets**	**Amount (Rs)**
Capital		**Fixed Assets**	
**Add*: Net Profit		Goodwill	
Add: Additional Capital introduced		Patents and Trademarks	
Add: Interest on Capital		Live Stock	
**Less*: Net Loss		Land and Building	
Less: Drawings made		Plant and Machinery	
Less: Interest on Drawings		Equipment	
Less: Income Tax		Furniture and Fixtures	
Less: Life Insurance Premium		Motor Vehicles	
		Loose Tools	
Fixed Liabilities		Freehold/Leasehold Premises	

Long-term Loans		Business Premises	
Mortgage			
Loan from Bank		Neon Sign	
		Investments (Long-term)	
Reserves and Provisions			
Reserve Funds		**Current Assets**	
General Reserve		Cash in Hand	
Drought Fund		Cash at Bank	
Provision for Tax		Stock or Inventory (Closing)	
Contingency Reserve		Sundry Debtors or Book Debts	
		Bills Receivables	
Current Liabilities		Investments (Short-term)	
Sundry or Trade Creditors		Prepaid Expenses	
Bills Payable		Accrued Income	
Bank Overdraft		Loans Granted	
Outstanding Expenses			
Income Received in Advance		**Fictitious Assets**	
Short-term Loans		Deferred Revenue Expenditure	

		Advertisement Suspense	
		Profit and Loss (Dr.)	

***Either Net Profit or Net Loss is taken into consideration**.*

Explanation of Items appearing in the Balance Sheet
Items appearing on the Assets Side of the Balance Sheet
All the assets of a firm and miscellaneous expenditure are recorded on the Assets Side of Balance Sheet. The assets of a firm can be bifurcated as follows:

1. **Fixed Assets-**These are the assets that are acquired for a longer period of time, generally for more than one year. These assets are not meant for resale, rather, they are used for the production or rendering of goods and services. Some of the examples of these assets are Machinery, Building, Goodwill, Plant, Furniture, etc. These assets are recorded in the Balance Sheet at cost after deducting depreciation. These assets include both tangible as well as intangible assets.

- **Tangible Assets**are those assets that have physical existence. This implies that these assets can be seen or touched such as Plant, Furniture, Loose Tools, etc.
- **Intangible Assets**are those assets that do not have any physical existence. This implies that these assets cannot be seen or touched such as goodwill, patents, trademarks, etc.

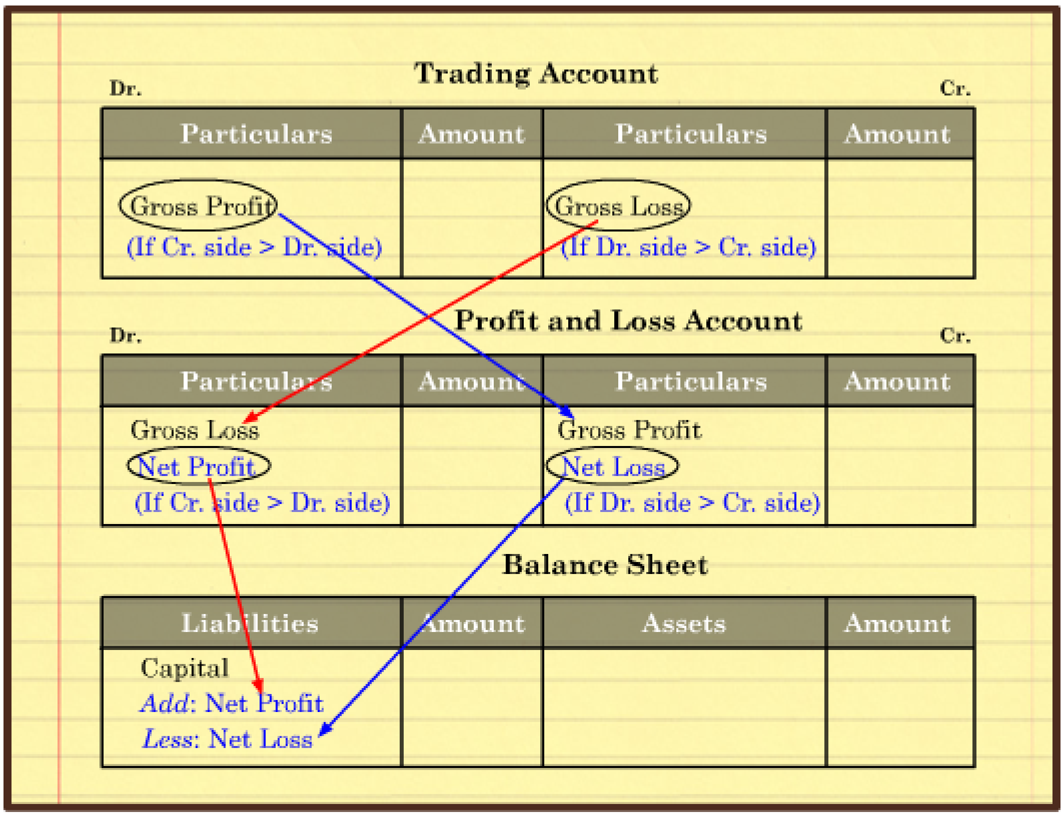
2. **Current Assets-**These are the assets that are acquired by a firm with purpose of resale in the business in order to generate revenues. These assets are held for a short period of time. In simple words, current assets can be defined as the assets which are in the form of cash or which can be easily converted into cash within a period of one year during the normal business activities. Examples of these assets are debtors, bills receivables, stock, cash in hand, prepaid expenses, etc.
3. **Fictitious Assets-**These are the assets that are not convertible into cash. There may be some expenditures or losses that are required to be written-off over some years and full amount of expenses or losses is not charged from the profits of the accounting year in which they are incurred. The portion of expenditure which is not written-off is shown on the Assets Side of the Balance Sheet under the head Miscellaneous Expenditure. For example, Advertisement suspense, debit balance of Profit and Loss Account, etc. These are not actually the assets but still recorded in the Balance Sheet for writing-off them over some years.

Items appearing on the Liabilities Side of the Balance Sheet
The following are the items that appeared on the Liabilities side of the Balance Sheet.

1. **Capital-**This is the amount invested by the proprietor in the business to carry out the business activities. Those items which increase the balance of capital such as net profit, fresh capital introduced and interest on capital are added to the capital. On the other hand, the items that reduce the balance of capital such as net loss, drawings made, interest on drawings, income tax paid, life insurance premium, etc. are deducted from this capital.
2. **Fixed or Non-current Liabilities-**These are the long-term liabilities of a business that are to be repaid by the business after a period of one year. For example, long-term loans, loan from

bank, mortgage, etc.

3. **Reserves and Provisions-**Reserves and provisions are the amount that is kept aside to meet the future uncertainties and losses. For example, general reserve, reserve fund, provision for tax, etc.
4. **Current Liabilities-**These are the short-term liabilities of a business that are to be repaid by the business within a period of one year. For example, creditors, bills payable, outstanding expenses, etc.
5. **Contingent Liabilities-**These are the liabilities that depends on the happening of some certain event. These are not the actual liabilities, but may become the liability in the future on the happening of some specific event. For example, liability in respect of bill discounted is a contingent liability. This is because, if a sole proprietor discounts a bill with bank and on the actual date of payment, the acceptor fails to pay the amount, then, the sole proprietor will become liable to the bank. These liabilities are neither accounted nor shown in the Balance Sheet but are shown as a footnote below the Balance Sheet.



Characteristics of a Balance Sheet

The following are the various characteristics of a Balance Sheet.

1) It is a statement and not an account hence prepared at a particular date and not for a particular period.
2) It follows an equation whereby, Liabilities plus Capital is always equal to the Assets. In case, it doesn't hold true then it means that errors exist.
3) It shows the financial health of the firm by recording the position of its various assets and liabilities. Hence, constitutes an important statement communicating the results of the business to various stakeholders.
4) It is prepared only after Trading, Profit & Loss Account have been prepared. They together constitute the Final Accounts of the business.
5) It is the last financial statement prepared by an enterprise.
6) It is prepared after preparing the Trading and Profit and Loss Account.

Need for preparing Balance Sheet
Balance Sheet is a statement that depicts the financial position of a firm on a certain date. The various needs for preparing the Balance Sheet are as follows:

1. The first and foremost need of preparing the Balance Sheet is to disclose the true financial position of a business at a particular point of time
2. It helps in determining the nature and book value of various assets, such as fixed assets, investments, current assets, etc. at the end of an accounting period.

iii. It helps in ascertaining the nature and amount of various liabilities such as creditors, long-term liabilities, current liabilities, provisions, etc., which a business owes.

1. It discloses important information about capital invested in a business by the proprietor after considering the additional capital invested, drawings made and profit (or loss) during the accounting period.
2. It helps in assessing the solvency and liquidity position of a business.
3. It lays down the basis for maintaining books for the next accounting period.

How GST is set off?

Input Tax Credit	**IGST**	**CGST**	**SGST**
IGST	First	Second	Last
CGST	Last	First	Nil
SGST	Last	Nil	First

Example 1: From the following particulars, prepare Balance Sheet as on March 31, 2013.

Particulars	**Amount (Rs)**
Goodwill	29,900
Machinery	70,200
Leasehold Land	1,56,000
Furniture and Fixtures	32,500
Patents	41,600

Investments	52,000
Capital	3,90,000
Cash at Bank	36,400
Cash in Hand	22,100
Trade Receivables	27,300
Closing Stock	20,800
Prepaid Expenses	3,250
Net Profit during the year	49,400
Drawings	6,890
Trade Creditors	11,700
Loan from Bank	15,730
Bank Overdraft	28,210
Short-term Loan to Mr. Zen	19,500
Loan from Mr. Ben	23,400

Solution

Balance Sheet *as on March 31, 2013*			
Liabilities	**Amount**	**Assets**	**Amount**

		(Rs)		(Rs)
Capital	3,90,000		**Fixed Assets**	
Add: Net Profit	49,400		Goodwill	29,900
Less: Drawings	(6,890)	4,32,510	Machinery	70,200
			Leasehold Land	1,56,000
Fixed Liabilities			Furniture and Fixtures	32,500
Loan from Bank		15,730	Patents	41,600
			Investments	52,000
Current Liabilities				
Trade Creditors		11,700	**Current Assets**	
Bank Overdraft		28,210	Cash at Bank	36,400
Loan from Mr. Ben		23,400	Cash in Hand	22,100
			Trade Receivables	27,300
			Closing Stock	20,800
			Prepaid Expenses	3,250
			Loan to Mr. Zen	19,500
		5,11,550		**5,11,550**

__Example 2:__ From the given below information, prepare the Balance Sheet for the year ended March 31, 2013.

Particulars	**Amount (Rs)**
Live Stock	1,14,800
Loose Tools	24,000
Trade Marks	90,000
Goodwill	16,000
Goods withdrawn for Personal Use	14,000
Additional Capital Introduced	1,96,000
Net Loss during the year	18,000
Capital at the Beginning	2,52,000
Bills Payable	60,000
Cash in Hand	24,000
Bills Receivable	92,000
Prepaid Insurance	8,000
Salaries Paid in Advance	4,000
Accrued Income	3,000

Outstanding Rent	1,800
Bank Loan	36,000
Closing Stock:	
Raw Materials	42,000
Work-in-Progress	32,000
Finished Goods	64,000

Solution

Balance Sheet *as on March 31, 2013*				
Liabilities		**Amount (Rs)**	**Assets**	**Amount (Rs)**
Capital	2,52,000		**Fixed Assets**	
Add: Additional Capital	1,96,000		Live Stock	1,14,800
Less: Net Loss	(18,000)		Loose Tools	24,000
Less: Drawings	(14,000)	4,16,000	Trade Marks	90,000
			Goodwill	16,000
Fixed Liabilities				
Bank Loan		36,000		

		Current Assets	
Current Liabilities		Cash in Hand	24,000
Outstanding Rent	1,800	Bills Receivable	92,000
Bills Payable	60,000	Prepaid Insurance	8,000
		Salaries Paid in Advance	4,000
		Accrued Income	3,000
		Closing Stock:	
		Raw Materials	42,000
		Work-in-Progress	32,000
		Finished Goods	64,000
	5,13,800		**5,13,800**

Example 3: From the given below information, prepare the Balance Sheet for the year ended March 31, 2013.

Trial Balance *as on March 31, 2013*			
Particulars	**Amount (Rs)**	**Particulars**	**Amount (Rs)**
Purchases	26,600	Discount (Cr.)	1,410

Sales Return	2,660	Commission (Cr.)	1,250
Opening Stock	11,290	Capital	86,450
Carriage Inwards	3,900	Sundry Creditors	5,320
Wages and Salaries	2,100	Bank Overdraft	15,960
Salaries	7,980	Bills Payable	6,600
Telegrams	4,070	Reserve Fund	15,960
Discount (Dr.)	1,250	Provision for Tax	1,380
Commission (Dr.)	1,330	Sales	53,200
Lighting	3,420	Purchases Return	1,330
General Expenses	1,900	Mortgage Loan	13,000
Drawings	6,650		
Freehold Land	40,000		
Goodwill	6,550		
Furniture and Fixtures	6,650		
Live Stock	19,950		
Sundry Debtors	7,980		
Cash in Hand	9,310		
Deferred Revenue Expenditure	25,270		

Advertisement Suspense	13,000		
	2,01,860		**2,01,860**

Additional Information- Closing Stock valued at Rs 11,970.

Solution

Trading Account *for the year ended March 31, 2013*						
Dr.						**Cr.**
Particulars		**Amount (Rs)**	**Particulars**		**Amount (Rs)**	
Opening Stock		11,290	Sales	53,200		
Purchases	26,600		*Less*: Sales Return	(2,660)	50,540	
Less: Purchases Return	(1,330)	25,270	Closing Stock		11,970	
Carriage Inwards		3,900				
Wages and Salaries		2,100				
Gross Profit		19,950				
		62,510			**62,510**	

Profit and Loss Account

for the year ended March 31, 2013

Dr.			**Cr.**
Particulars	**Amount (Rs)**	**Particulars**	**Amount (Rs)**
Salaries	7,980	Gross Profit	19,950
Telegrams	4,070	Discount (Cr.)	1,410
Discount (Dr.)	1,250	Commission (Cr.)	1,250
Commission (Dr.)	1,330		
Lighting	3,420		
General Expenses	1,900		
Net Profit	2,660		
	22,610		**22,610**

Balance Sheet

as on March 31, 2013

Liabilities	**Amount**	**Assets**	**Amount**

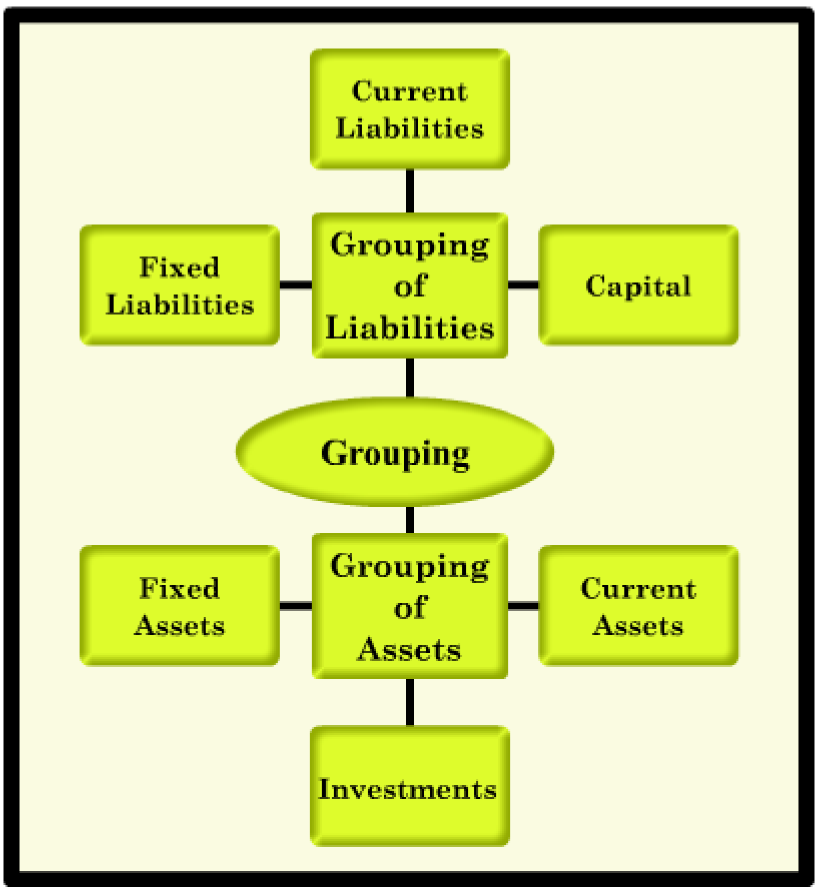
		(Rs)		(Rs)
Capital	86,450		**Fixed Assets**	
Add: Net Profit	2,660		Freehold Land	40,000
Less: Drawings	(6,650)	82,460	Goodwill	6,550
			Furniture and Fixtures	6,650
Fixed Liabilities			Live Stock	19,950
Mortgage Loan		13,000		
			Current Assets	
Reserves and Provisions			Sundry Debtors	7,980
Reserve Fund		15,960	Cash in Hand	9,310
Provision for Tax		1,380	Closing Stock	11,970
Current Liabilities			**Fictitious Assets**	
Sundry Creditors		5,320	Deferred Revenue Expenditure	25,270
Bank Overdraft		15,960	Advertisement Suspense	13,000
Bills Payable		6,600		
		1,40,680		**1,40,680**

Grouping and Marshalling

Objective
After going through this lesson, you shall be able to understand the concept of Grouping and Marshalling of Assets and Liabilities

Grouping and Marshalling of Assets and Liabilities
We know that Balance Sheet is one of the important financial statements that represent the financial position of a business concern at a particular date. Therefore, it becomes necessary to show and group the various assets and liabilities in a Balance Sheet under particular heads. The arrangement of assets and liabilities under particular heads and their presentation in Balance Sheet in a particular order is referred as Grouping and Marshalling of Assets and Liabilities.

Grouping of Assets and Liabilities- Grouping implies showing various assets and liabilities of similar nature under one single head. For example, all assets that can be used for more than a year are clubbed together under the head 'Fixed Assets'. For example,Building, Furniture, Machinery, etc. Similarly, all the liabilities that are to be repaid within a period of one year are clubbed together under the heading of 'Current Liabilities'. For example, Creditors, Bills Payable, Bank Overdraft, etc.
The given below diagram shows the grouping of assets and liabilities of similar nature under a common head.



Marshalling of Assets and Liabilities- Marshalling implies showing various assets and liabilities in a particular order. In short, when assets and liabilities are shown in a particular order of liquidity or permanence, they are said to be marshalled. Generally, assets and liabilities are shown either in order of liquidity or in order of permanence.

- ***In Order of Liquidity***- Liquidity means convertibility into cash. Assets that can be converted into cash in least possible time, i.e., more liquid assets are recorded first, followed by the lesser liquid assets. In a balance sheet, cash in hand is recorded at first and goodwill at last. In the same way, liabilities that are to be paid first, i.e., high priority liabilities are recorded first, followed by the lower priority ones. In a balance sheet, current liabilities are recorded first and then the long term liabilities and capital at the last. The format of Balance Sheet in order of liquidity is given below.

Balance Sheet *as on year ended…*			
Liabilities	**Amount Rs**	**Assets**	**Amount Rs**
Bills Payable- ***High Priority Liability***		Cash in Hand- ***Most Liquid Asset***	
Sundry Creditors		Cash at Bank	
Bank Overdraft		Bills Receivable	
Outstanding Expenses		Short-Term Investments	
Income Received in Advance		Sundry Debtors	
Loans		Closing Stock	
Reserves and Provisions		Prepaid Expenses	
Capital- ***Least Priority Liability***		Accrued Income	
**Add*: Net Profit		Long-Term Investment	
Add: Additional Capital		Loose Tools	
**Less*: Net Loss		Furniture	
Less: Drawings		Motor Vehicles	

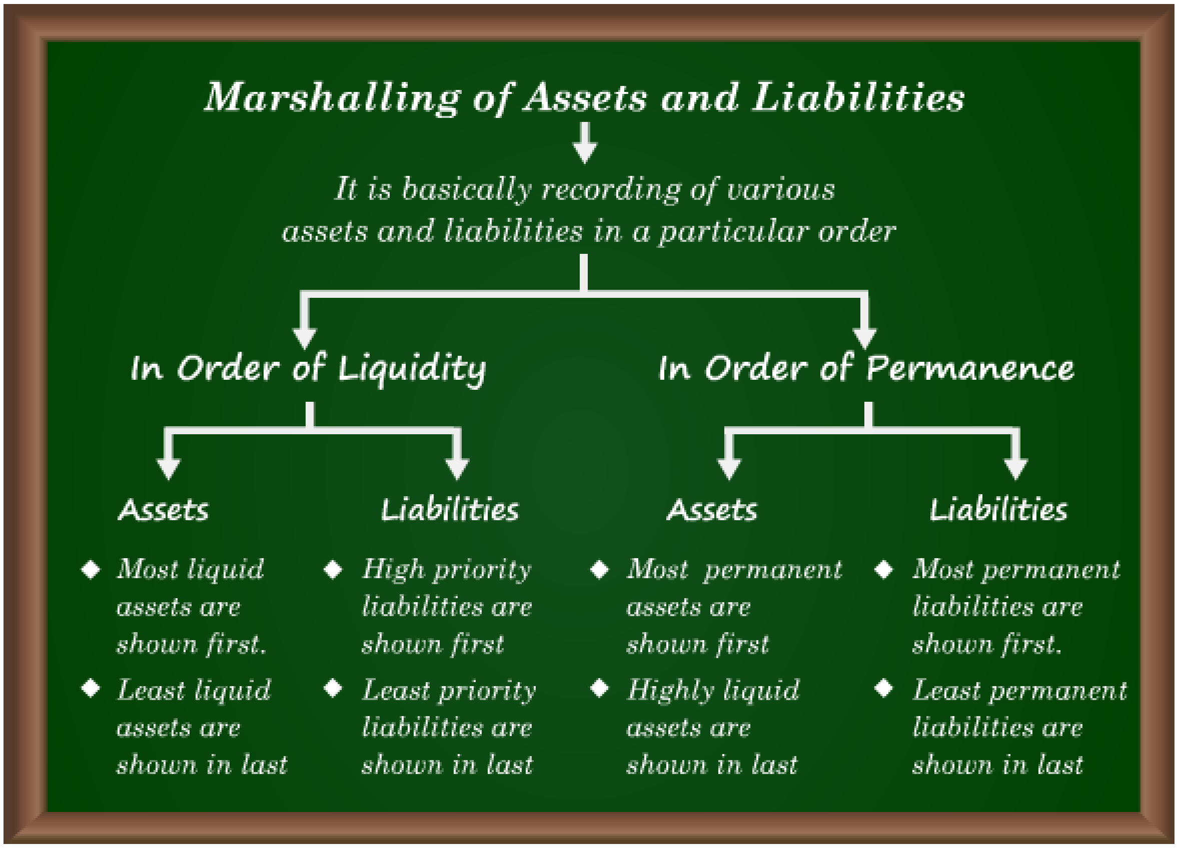
		Plant and Machinery	
		Land and Building	
		Patents and Trade Marks	
		Goodwill- ***Least Liquid Asset***	

****Either Net Profit or Net Loss is taken into consideration***.

• ***In Order of Permanence***- It is just the reverse of the above method. As per this, assets and liabilities are arranged in their reducing level of permanence. The assets with higher degree of permanence are recorded first, followed by the assets with lower degree of permanence. For example, goodwill, land and building have the highest degree of permanence and hence they are recorded first on the Assets side of the Balance Sheet. On the other hand, assets that have low degree of permanence such as cash at bank and cash in hand are recorded in the last. In the same way, liabilities are also shown according to their repayment period in the business. Liabilities that are to be repaid after a long period or that are to be paid at last are recorded first on the Liabilities side of the Balance Sheet. For example, Capital is recorded first in the Balance Sheet followed by other liabilities on the basis of their repayment period. For example, Sundry Creditors and Bills Payable are recorded in the last. The format of Balance Sheet in order of permanence is given below.

Balance Sheet *as on year ended…*			
Liabilities	**Amount** **Rs**	**Assets**	**Amount** **Rs**
Capital- ***Most Permanent Liability***		Goodwill- ***Most Permanent Asset***	
Add:Net Profit		Patents and Trade Marks	
Add: Additional Capital		Land and Building	

Less: Net Loss		Plant and Machinery	
Less: Drawings		Motor Vehicles	
Reserves and Provisions		Furniture	
Loans		Loose Tools	
Income Received in Advance		Long-Term Investment	
Outstanding Expenses		Accrued Income	
Bank Overdraft		Prepaid Expenses	
Sundry Creditors		Closing Stock	
Bills Payable- ***Least Permanent Liability***		Sundry Debtors	
		Short-Term Investment	
		Bills Receivable	
		Cash at Bank	
		Cash in Hand- ***Least Permanent Asset***	



Order of Liquidity Vs. Order of Permanence

Basis of Difference	**Order of Liquidity**	**Order of Permanence**
1) Use	Followed by sole proprietorship, partnership firms, banking and financial companies to prepare their Balance Sheet.	Companies Act, 2013 requires the companies as defined by it to follow this for preparing their Balance Sheet.
2) Placement of Assets	Assets are arranged in order of how quickly they can be converted into cash i.e. most liquid asset is placed first and least at the last.	It is exact opposite of the arrangement under the order of liquidity i.e. least liquid asset is placed first and most at the last.
3) Placement of Liabilities	Liabilities are arranged depending upon their settlement period i.e. most early payment should be placed first and the least urgent payment placed at the last.	It is exact opposite of the arrangement under the order of liquidity i.e. least urgent payment to be placed first and most early payment to be placed last.

Example: From the given below information, prepare the Balance Sheet at the end of March 31, 2013-
i. In order of Liquidity

1. In order of Permanence

Particulars	**Amount (Rs)**
Capital	1,32,000
Cash at Bank	16,800
Building	1,14,750
Sundry Debtors	27,000
Sundry Creditors	43,200
Furniture and Fixtures	28,350
Bills Payable	3,670
Bills Receivable	7,950
Stock at the end	23,100
Net Profit	46,500
Drawings	12,000
Prepaid Insurance	3,670
Salaries Outstanding	5,250
Goodwill	12,000

Bank Overdraft	15,000

Solution
i. ***In Order of Liquidity***

Balance Sheet *as on March 31, 2013*				
Liabilities		**Amount Rs**	**Assets**	**Amount Rs**
Bills Payable		3,670	Cash at Bank	16,800
Sundry Creditors		43,200	Sundry Debtors	27,000
Bank Overdraft		15,000	Bills Receivable	7,950
Outstanding Salaries		5,250	Closing Stock	23,100
Capital	1,32,000		Prepaid Insurance	3,670
Add:Net Profit	46,500		Furniture and Fixtures	28,350
Less: Drawings	(12,000)	1,66,500	Building	1,14,750
			Goodwill	12,000
		2,33,620		**2,33,620**

1. ***In Order of Permanence***

Balance Sheet *as on March 31, 2013*				
Liabilities		**Amount Rs**	**Assets**	**Amount Rs**
Capital	1,32,000		Goodwill	12,000
Add:Net Profit	46,500		Building	1,14,750
Less: Drawings	(12,000)	1,66,500	Furniture and Fixtures	28,350
			Prepaid Insurance	3,670
Outstanding Salaries		5,250	Closing Stock	23,100
Bank Overdraft		15,000	Bills Receivables	7,950
Sundry Creditors		43,200	Sundry Debtors	27,000
Bills Payable		3,670	Cash at Bank	16,800
		2,33,620		**2,33,620**

Classification of Assets and Liabilities
Assets represent the property of the business, whereas liabilities represent the claims of the business. The assets and liabilities shown in the Balance Sheet can be classified on the basis of their nature as follows.

Classification of Assets- The assets can be classified as follows:

1. ***Fixed Assets***-These are the assets that are acquired for its use in the business for a long period of time, generally more than one year. These assets are not meant for resale, rather, these are used for the production or rendering of goods and services. These assets help the business to earn the incomes. For example, Machinery, Building, Goodwill, Plant, Furniture, etc. These assets are recorded in the Balance Sheet at cost after deducting depreciation. These assets include both tangible as well as intangible assets.

- *Tangible Assets*are those assets that have physical existence. This implies that these assets can be seen or touched. For example, Plant, Furniture, Loose Tools, etc.
- *Intangible Assets*are those assets that do not have any physical existence. It implies that these assets cannot be seen or touched. For example, Goodwill, Patents, Trademarks, etc.

2. ***Current Assets-***These are the assets that are acquired by a firm with purpose of resale in the business in order to generate revenues. These assets are held for a short period of time. In simple words, current assets can be defined as the assets which are in the form of cash or which can be easily converted into cash within a period of one year during the normal business activities. The examples of these assets are debtors, bills receivables, stock, cash in hand, prepaid expenses, etc.

3. ***Fictitious Assets-***There may be some expenditures or losses that are written-off over some years and full amount is not charged from the profits of the accounting year in which they are incurred. Only a portion of such expenses or losses is written off from the current accounting year. The portion of expenditure not written-off is shown on the Assets Side of the Balance Sheet under the head Miscellaneous Expenditure. For example, Advertisement suspense, debit balance of Profit and Loss Account, etc. These are not actually the assets but still recorded in the Balance Sheet for writing them off over some years.

Classification of Liabilities- The liabilities can be classified as follows.

1. **Capital-**This is the amount that is invested by the proprietor in the business to carry out the various business activities. Items that increases the balance of capital such as net profit, fresh capital introduced and interest on capital are added to this capital. On the other hand, the items that reduce the balance of capital such as net loss, drawings made, interest on drawings, income tax paid, life insurance premium, etc. are deducted from this capital.

2. **Fixed Liabilities-**These are the long-term liabilities of a business that are to be repaid by the business after a period of one year. For example, long-term loans, loan from bank, mortgage loan, etc.

3. **Current Liabilities-**These are the short-term liabilities of a business that are to be repaid by the business within a period of one year. For example, creditors, bills payable, outstanding expenses, etc.

4. **Contingent Liabilities-**These are the liabilities that depends on the happening of some certain event. These are not the actual liabilities, but may become liability in the future on the happening of some specific event. For example, liability in respect of bill discounted is a contingent liability. This is because, if a sole proprietor discounts a bill with bank and on the actual date of payment, the acceptor fails to pay the amount, then, the sole proprietor will become liable to the bank. These liabilities are not shown in the Balance Sheet but are shown as a footnote below the Balance Sheet.

Trading Account v/s Profit & Loss Account; Balance Sheet v/s Trial Balance

Objectives

After going through this lesson, you shall be able to understand the following concepts.

- Distinction between Trading and Profit and Loss Account
- Distinction between Gross Profit and Net Profit
- Distinction between Balance Sheet and Trial Balance
- Distinction between Profit and Loss Account and Balance Sheet
- Distinction between Tangible and Intangible Assets
- Distinction between Fixed Assets and Current Assets

Distinction between Trading and Profit and Loss Account

The given below are points of distinction between Trading and Profit and Loss Account.

Basis of Difference	Trading Account	Profit and Loss Account
Stage	It is the first financial statement prepared by an organisation.	It is the second financial statement prepared by an organiation.
Expenses	It records all direct expenses on its debit side.	It records all indirect expenses on its debit side.
Result	It reveals the gross profit or gross loss during the year.	It reveals the net profit or net loss during the year.
Begins	It does not begin with the balance of any account.	It always begins with the balance of a Trading Account.
Transfer	The balance of this account is transferred to the Profit and Loss Account.	The balance of this account is added or deducted from the capital of proprietor in the Balance Sheet.

Distinction between Gross Profit and Net Profit
The given below are points of distinction between Gross Profit and Net Profit

Basis of Difference	Gross Profit	Net Profit
Revealed	It is revealed through Trading Account.	It is revealed through Profit and Loss Account.
Transfer	It is transferred to the credit side of Profit and Loss Account.	It is added to the capital account of proprietor on the Liabilities side of the Balance Sheet.
Inclusion	Income from other sources is not included in this profit.	Income from other sources is included in this profit.
Effect	It affects the amount of net profit.	It does not have any effect on the amount of gross profit.
Formula	Gross profit = Net Sales – Cost of Goods Sold	Net Profit = Gross Profit + Other Incomes – Indirect expenses and Losses

Distinction between Balance Sheet and Trial Balance
The given below are points of distinction between Balance Sheet and Trial Balance.

Basis of	Balance Sheet	Trial Balance

Difference		
Motive	It represents the financial position at the end of an accounting year.	It represents the arithmetical accuracy of the accounts prepared in the ledgers.
Nature of Accounts	Real & personal account balances and net profit or loss are considered to prepare this statement.	Real, nominal and personal account balances are considered to prepare this.
Financial Statement	It is one of the financial statements prepared by an organisation.	It is not a financial statement.
Duration	It is generally prepared yearly at the end of an accounting period.	It can be prepared for any period as per the need of the management such as, monthly, quarterly or half-yearly.
Sequence	It is prepared after preparing Trading and Profit & Loss Account.	It is prepared before preparing Trading and Profit and Loss Account. Rather, Trading and Profit and Loss Account are prepared with the help of the Trial Balance.
Heads	It has two heads namely, Assets and Liabilities. Liabilities are shown on the left-hand side and assets are shown on the right-hand side.	It has two sides namely, Debit Side and Credit Side. Debit side is shown on the left-hand side and Credit side shown on the right-hand side.
Closing Stock	Closing stock is shown in the Balance Sheet.	Generally, Closing stock is not shown in the Trial Balance. It is given outside the Balance Sheet.
Opening Stock	Opening Stock is not shown in the Balance Sheet.	Opening Stock is shown in the Trial Balance.
Essential	This statement is essential to be prepared.	Trial Balance is not essential to be prepared.
Accounts	It is prepared with the help of Trial Balance	It is prepared with the help of the balances of all ledger accounts.

Distinction between Profit and Loss Account and Balance Sheet
The given below are points of distinction between Profit and Loss Account and Balance Sheet

Basis of Difference	**Profit and Loss Account**	**Balance Sheet**
Purpose	It is prepared to ascertain the net profit or net loss during the year.	It is prepared to reveals the financial position of the business at the end of the year.
Account/Statement	It is an account.	It is a statement.
Nature of Account	This records only nominal account balances.	This record the personal and real account balances.
Recording	All incomes and expenses are recorded in this account.	All assets and liabilities are recorded in this statement.
Sides	Left-hand side records all the expenses and losses and right-hand side records all the incomes and gains.	Left-hand side records all the liabilities and right-hand side records all the assets.

Balancing	The two sides, i.e., debit and credit sides are not equal to each other and the balancing figure either reveals net profit or net loss.	The two sides, i.e., assets and liabilities are always equal to each other and thus it does not reveal any balancing figure.
~~Nature of Items~~	It records the items of revenue nature.	It records the items of capital nature.

Distinction between Tangible and Intangible Assets
The following are some points of difference between Tangible and Intangible Assets.

Basis of Difference	Tangible Assets	Intangible Assets
Existence	These assets have physical existence which can be seen or touched.	These assets do not have any physical existence which cannot be seen or touched.
Nature	These can either be fixed or current assets.	These are generally fixed assets.
Reduction	The reduction in the value of these assets is considered as depreciation.	The reduction in the value of these assets is considered as amortisation.
Risk	These assets are exposed to the risk of loss or destruction by fire or theft.	These assets are not exposed to the risk of loss or destruction by fire or theft.
Security	These assets can be accepted as security against loan taken.	These assets cannot be accepted as security against loan taken.
Examples	Land and Building, Machinery, Furniture, etc.	Patents, Goodwill, Trade Marks, etc.

Distinction between Fixed and Current Assets
The following are some points of distinction between Fixed and Current Assets.

Basis of Difference	Fixed Assets	Current Assets
Nature	These are considered as long-term assets of a firm.	These are considered as short-term assets of a firm.
Motive	These are used for the production or rendering of goods and services.	Current Assets are acquired with the purpose of resale and to generate revenues.
Funds	These are purchased out of the long-term funds.	These are purchased out of the short-term funds.
Valuation	These are valued at cost minus depreciation.	These are valued at 'cost' or 'market price', whichever is less.
Profit on Sale	Profit on sale of these assets is regarded as capital profits.	Profit on sale of these assets is regarded as revenue profits.
Examples	Building, Furniture, Loose Tools, etc.	Debtors, Stock, Bills Receivables, etc.

Presentation of Financial Statements- Horizontal and Vertical

Objectives
After going through this lesson, you shall be able to understand the following two ways of presenting the financial statements.

- Horizontal Format
- Vertical Format

Horizontal Format of Presenting Financial Statements
As per this format financial statements viz. Trading Account, Profit and Loss Account and Balance Sheet are prepared in 'T' form as we have learnt in our previous lessons. Generally, the financial statements are prepared in the horizontal format.

Vertical Format of Presenting Financial Statements
As per this format, the items of Trading Account, Profit and Loss Account and Balance Sheet are shown in one single column. The vertical formats of financial statements are given below.

Vertical Format of Trading Account

Trading Account *for the year ended….*			
Particulars	**Amount** **Rs**	**Amount** **Rs**	**Amount** **Rs**
Sales			
Less: Sales Return or Return Inwards			
Net Sales (I)			
Opening Stock			
Purchases			
Less: Purchase Returns or Return Outwards			
Direct Expenses:			
Wages			

Freight, Octroi and Cartage			
Carriage Inwards			
Custom and Excise Duty			
Gas, Fuel and Power			
Carriage on Purchases			
Heating and Lighting			
Factory Expenses			
Less: Closing Stock			
Cost of Goods Sold (II)			
Gross Profit/Loss (I – II)			

Vertical Format of Profit and Loss Account

Profit and Loss Account *for the year ended….*			
Particulars	**Amount** **Rs**	**Amount** **Rs**	**Amount** **Rs**
(I) Gross Profit/ Gross Loss			
Less: **Operating Expenses**			

1. *Office and Administrative Expenses*			
Salaries and Wages			
Rent (Office)			
Salaries			
General Expenses			
Audit Fees			
Insurance			
Repairs and Maintenance			
Printing and Stationery			
Telephone/Internet Charges			
Legal Charges			
Trade Expenses			
Depreciation			
Postage and Telegrams			
Miscellaneous Expenses			
1. *Selling and Distribution Expenses*			
Advertisement			
Bad Debts			

Carriage on Sales or Carriage Outwards			
Export Duty			
Transportation Cost			
Packing Charges			
Rent of Godown			
Travelling Expenses			
Brokerage			
Commission allowed			
Sales Promotion Expenses			
(II) Total Operating Expenses			
(III) Net Operating Profit/Loss (I – II)			
Add: Non-Operating Incomes			
Interest on Investments			
Rent Received			
Dividend Received			
Commission received			
Discount Received			
Profit on Sale of Fixed Assets			

Less: Non-Operating Expenses			
Interest Allowed			
Loss due to Fire, Accident, etc.			
Loss on Sale of Fixed Assets			
(IV) Net Non-Operating Incomes			
Net Profit/Loss (III + IV)			

Operating Profit
Operating Profit can be defined as the profit earned by carrying the normal business activities. It is computed by subtracting the operating expenses from the gross profit. *Algebraically*, it can be written as
Operating Profit = Gross Profit – Operating Expenses

Gross Profit is the excess of net sales during an accounting period over the cost of goods sold. Operating expenses are the expenses that are incurred during the normal course of business activities. It is consists of administrative and office expenses and selling and distribution expenses, depreciation, bad debts, etc. Operating profit can also be written as-
Operating Profit = Net Sales – (Cost of Goods Sold + Operating Expenses)
or
Operating Profit = Net Profit+ (Non-operating Expenses- Non-operating Incomes)

Net Profit
Net Profit can be defined as a difference between the gross profit and operating as well non-operating expenses of a business. It is calculated by subtracting both operating and non-operating expenses from the operating profit after considering non-operating incomes as well. *Algebraically*, it can be written as-
Net Profit = Gross Profit – Operating Expenses – Non-operating Expenses + Non-Operating Incomes

Non-operating expenses are those expenses that are not directly related or incurred for carrying the business activities. It consists of loss on sale of fixed assets, interest on loan, loss due to accident, etc. In the same way, non-operating incomes are those incomes that are not directly generated from the main business activities of a business. It consists of profit on sale of fixed assets, income received from investments, etc. Net profit can also be calculated with the help of operating profit by using the given below formula-
Net Profit = Operating Profit + Non-Operating Incomes – Non-Operating Expenses

Vertical Format of Balance Sheet

Balance Sheet

as on…

Particulars	**Amount** **Rs**	**Amount** **Rs**	**Amount** **Rs**
(I) Fixed Assets			
Land and Building			
Machinery			
Furniture and Fixtures			
Business Premises			
Live Stock			
Loose Tools and Equipment			
Goodwill			
Patents			
Long-Term Investments			
Total Fixed Assets			
(II) Current Assets			
Stock or Inventory			
Sundry Debtors			
Bills Receivables			

Prepaid Expenses			
Accrued Income			
Cash in Hand			
Cash at Bank			
Total			
(III) Current Liabilities			
Sundry Creditors			
Bills Payable			
Outstanding Expenses			
Income Received in Advance			
Total			
Working Capital (II – III)			
Net Assets Employed			
Financed by:			
Capital			
Add: Net Profit			
Add: Additional Capital Introduced			

Less: Net Loss			
Less: Drawings			
Reserves			
Long-Term Liabilities			
Total			

NOTE: In case the question is silent about the format of presenting the Financial Statements, Horizontal Format is followed.

Example: Given below is the Trial Balance of M/s Mahesh. You need to prepare Trading and Profit and Loss Account and the Balance Sheet for the year ended March 31, 2013.

1. In Vertical Format
2. In Horizontal Format

Trial Balance *as on March 31, 2013*			
Particulars	**Amount** **(Rs)**	**Particulars**	**Amount** **(Rs)**
Stock at the beginning	6,350	Cash Sales	77,500
Return Inwards	1,400	Credit Sales	55,000
Purchases	40,000	Return Outwards	1,700
Custom Duty	4,350	Dividend	3,100
Octroi	6,450	Bad Debts recovered	2,600
Salaries	6,400	Bank Loan	10,000

General Expense	1,050	Capital	1,25,000
Printing and Stationery	1,100	Bank Overdraft	14,350
Repairs	900	Creditors	7,150
Rent and Taxes	1,800		
Insurance Premium	950		
Internet Charges	1,450		
Advertisement Expenses	2,300		
Carriage on Sales	3,450		
Bad Debts	700		
Godown Rent	2,400		
Loss due to Fire	2,850		
Interest on Loan	2,450		
Goodwill	22,500		
Building	46,000		
Long-term Investments	78,300		
Cash in Hand	17,350		
Debtors	26,150		
Prepaid Insurance	9,050		

Drawings	10,700		
	2,96,400		**2,96,400**

Additional Information- Stock at the end valued at Rs 8,150.

Solution

Vertical Format

Trading Account *for the year ended March 31, 2013*			
Particulars	**Amount** **Rs**	**Amount** **Rs**	**Amount** **Rs**
Cash Sales		77,500	
Credit Sales		55,000	
Less: Return Inwards		(1,400)	
Net Sales **(I)**			1,31,100
Opening Stock		6,350	
Purchases	40,000		
Less: Return Outwards	(1,700)	38,300	
Direct Expenses:			
Custom Duty		4,350	

Octroi		6,450	
		55,450	
Less: Closing Stock		(8,150)	
Cost of Goods Sold **(II)**			47,300
Gross Profit/Loss (I – II)			**83,800**

Profit and Loss Account

for the year ended March 31, 2013

Particulars	**Amount** **Rs**	**Amount** **Rs**	**Amount** **Rs**
(I) Gross Profit			83,800
Less: **Operating Expenses**			
1. *Office and Administrative Expenses*			
Salaries	6,400		
General Expense	1,050		
Printing and Stationery	1,100		
Repairs	900		
Rent and Taxes	1,800		

Insurance Premium	950		
Internet Charges	1,450	13,650	
1. *Selling and Distribution Expenses*			
Advertisement Expenses	2,300		
Carriage on Sales	3,450		
Bad Debts	700		
Godown Rent	2,400	8,850	
(II) Total Operating Expenses			22,500
(III) Net Operating Profit/Loss (I – II)			61,300
Add: Non-Operating Incomes			
Dividend	3,100		
Bad Debts Recovered	2,600	5,700	
Less: Non-Operating Expenses			
Loss due to Fire	2,850		
Interest on Loan	2,450	(5,300)	
(IV) Net Non-Operating Incomes			400
Net Profit/Loss (III + IV)			**61,700**

Balance Sheet

as on March 31, 2013

Particulars	Amount Rs	Amount Rs	Amount Rs
(I) Fixed Assets			
Goodwill		22,500	
Building		46,000	
Long-term Investments		78,300	
Total Fixed Assets			1,46,800
(II) Current Assets			
Cash in Hand	17,350		
Debtors	26,150		
Closing Stock	8,150		
Prepaid Insurance	9,050	60,700	
(III) Current Liabilities			
Bank Overdraft	14,350		
Creditors	7,150	21,500	
Working Capital (II – III)			39,200

Net Assets Employed			**1,86,000**
Financed by:			
Capital		1,25,000	
Add: Net Profit		61,700	
Less: Drawings		(10,700)	1,76,000
Bank Loan			10,000
Total			**1,86,000**

Horizontal Format

Trading Account *for the year ended March 31, 2013*					
Dr.			**Cr.**		
Particulars		**Amount**	**Particulars**		**Amount**
Opening Stock		6,350	Cash Sales	77,500	
Purchases	40,000		Credit Sales	55,000	
Less: Return Outwards	(1,700)	38,300	*Less*: Return Inwards	(1,400)	1,31,100
Custom Duty		4,350	Closing Stock		8,150

Octroi	6,450		
Gross Profit transferred to Profit and Loss A/c	83,800		
	1,39,250		**1,39,250**

Profit and Loss Account

for the year ended March 31, 2013

Dr.		**Cr.**	
Particulars	**Amount**	**Particulars**	**Amount**
Salaries	6,400	Gross Profit	83,800
General Expense	1,050	Dividend	3,100
Printing and Stationery	1,100	Bad Debts recovered	2,600
Repairs	900		
Rent and Taxes	1,800		
Insurance Premium	950		
Internet Charges	1,450		
Advertisement Expenses	2,300		
Carriage on Sales	3,450		
Bad Debts	700		

Godown Rent	2,400		
Loss due to Fire	2,850		
Interest on Loan	2,450		
Net Profit	61,700		
	89,500		**89,500**

Balance Sheet

as on March 31, 2013

Liabilities		**Amount (Rs)**	**Assets**	**Amount (Rs)**
Capital	1,25,000		**Fixed Assets**	
Add: Net Profit	61,700		Goodwill	22,500
Less: Drawings	(10,700)	1,76,000	Building	46,000
			Long-Term Investments	78,300
Fixed Liabilities				
Bank Loan		10,000	**Current Assets**	
			Cash in Hand	17,350
Current Liabilities			Debtors	26,150

Bank Overdraft	14,350	Prepaid Insurance	9,050
Creditors	7,150	Closing Stock	8,150
	2,07,500		**2,07,500**

Comprehensive Examples

Objective
Till now, we have learnt the preparation of financial statements of a sole proprietor. It includes Trading Account, Profit and Loss Account and the Balance Sheet. In this lesson, we will explore some comprehensive questions regarding the preparation of financial statements. The following are the examples which will help to test your understanding and knowledge that you have grabbed on this topic.
***Example* 1**: From the given below information prepare the financial statements of Mr. XZ.

Particulars	**Amount (Rs)**
Stock at the Commencement	30,000
Purchases	1,57,500
Sales	2,46,000
Drawings	18,000
Dock Charges	75,000
Factory Expenses	12,000
Carriage	2,250
Purchases Return	7,500

Sales Return	6,000
Law Charges	750
Internet Expenses	7,570
Incidental Expenses	10,500
Advertising	3,000
Dividend Received	1,570
Capital	1,50,000
Motor Vehicles	60,000
Cash Balance	36,000
Bills Receivables	15,000
Bills Payable	18,000
Bank Overdraft	10,500
Loan granted to Mr. Ravi (Short-term)	33,500
Short-term Loan taken from Ballu	21,750
Building	26,500
General Reserve	38,250

Additional Information- Stock at the end at cost Rs 21,750 (Market Price Rs 23,250).

Solution

Trading Account					
for the year ended …					
Dr.					**Cr.**
Particulars		**Amount (Rs)**	**Particulars**		**Amount (Rs)**
Opening Stock		30,000	Sales	2,46,000	
Purchases	1,57,500		*Less*: Sales Return	(6,000)	2,40,000
Less: Purchases Return	(7,500)	1,50,000	Closing Stock		21,750
Dock Charges		75,000	Gross Loss		7,500
Factory Expenses		12,000			
Carriage		2,250			
		2,69,250			2,69,250

Profit and Loss Account			
for the year ended …			
Dr.			**Cr.**
Particulars	**Amount (Rs)**	**Particulars**	**Amount (Rs)**

Gross Loss	7,500	Dividend Received	1,570
Law Charges	750		
Internet Expenses	7,570		
Incidental Expenses	10,500	Net Loss	27,750
Advertising	3,000		
	29,320		29,320

Balance Sheet

as on...

Liabilities		**Amount (Rs)**	**Assets**	**Amount (Rs)**
Capital	1,50,000		**Fixed Assets**	
Less: Drawings	(18,000)		Motor Vehicles	60,000
Less: Net Loss	(27,750)	1,04,250	Building	26,500
Current Liabilities			**Current Assets**	
Bank Overdraft		10,500	Closing Stock	21,750
Bills Payable		18,000	Bills Receivables	15,000
Loan taken from Ballu		21,750	Cash	36,000

Reserves and Provisions		Loan granted to Mr. Ravi	33,500
General Reserve	38,250		
	1,92,750		1,92,750

Note: According to Conservatism Accounting Practice, closing stock is valued at 'Cost' or 'Market Value', whichever is less. Therefore, in the Trading Account, closing stock is shown at its cost i.e. Rs 21,750 which is less than its market price of Rs 23,250.

***Example 2*:** The given below information has been extracted from the books of Ms. Sundari. Using this information, prepare the final accounts for the year ended March 31, 2013.

Particulars	**Debit Amount (Rs)**	**Credit Amount (Rs)**
Purchases and Sales	55,000	66,000
Returns	1,210	1,650
Manufacturing Expenses	3,600	
Manufacturing Wages	1,240	
Import Duty	8,360	
Export Duty	8,250	
Charity	2,640	
Income Tax	3,300	
Legal Charges	1,320	

Audit Fees	17,732	
Trade Expenses	825	
Establishment Expenses	1,650	
Petty Expenses	2,860	
Apprentice Premium		4,015
Stock at the Beginning	8,426	
Capital and Drawings	5,500	71,500
Debtors and Creditors	7,975	42,947
Goodwill	13,750	
Cash in Hand	5,940	
Bank Overdraft		36,850
Provision for Taxation		5,916
Loose Tools	44,550	
Neon Sign	40,000	
Outstanding Expenses		5,250
	2,34,128	2,34,128

Additional Information- Closing Stock valued at Rs 30,800

Solution

Trading Account

for the year ended March 31, 2013

Dr.					Cr.
Particulars		**Amount (Rs)**	**Particulars**		**Amount (Rs)**
Opening Stock		8,426	Sales	66,000	
Purchases	55,000		*Less*: Sales Return	(1,210)	64,790
Less: Purchases Return	(1,650)	53,350	Closing Stock		30,800
Manufacturing Expenses		3,600			
Manufacturing Wages		1,240			
Import Duty		8,360			
Gross Profit		20,614			
		95,590			95,590

Profit and Loss Account

for the year ended March 31, 2013

Dr.	Cr.

Particulars	Amount (Rs)	Particulars	Amount (Rs)
Export Duty	8,250	Gross Profit	20,614
Charity	2,640	Apprentice Premium	4,015
Legal Charges	1,320	Net Loss	10,648
Audit Fees	17,732		
Trade Expenses	825		
Establishment Expenses	1,650		
Petty Expenses	2,860		
	35,277		35,277

Balance Sheet

as on March 31, 2013

Liabilities		Amount (Rs)	Assets	Amount (Rs)
Capital	71,500		**Fixed Assets**	
Less: Net Loss	(10,648)		Goodwill	13,750
Less: Drawings	(5,500)		Loose Tools	44,550

Less: Income Tax	(3,300)	52,052	Neon Sign	40,000
Current Liabilities			**Current Assets**	
Creditors		42,947	Debtors	7,975
Bank Overdraft		36,850	Closing Stock	30,800
Outstanding Expenses		5,250	Cash in Hand	5,940
Reserves and Provisions				
Provision for Taxation		5,916		
		1,43,015		1,43,015

Example 3: From the given below Trial Balance, prepare Trading and Profit and Loss Account and the Balance Sheet.

Trial Balance *as on March 31, 2013*			
Particulars	**Amount (Rs)**	**Particulars**	**Amount (Rs)**
Patents	1,32,000	Bank Overdraft	45,500
Building	19,800	Mortgage Loan	1,00,650
Cash at Bank	4,125	Capital	1,65,000
Live Stock	99,000	Net Sales	8,58,000

Machinery	2,53,935	Rent from Tenant	7,425
Closing Stock	1,25,400	Apprentice Premium	5,610
Furniture	49,500	Creditors	14,000
Drawings	13,200		
Rent and Taxes	19,800		
Stable Expenses	11,550		
Audit Fees	4,455		
Depreciation on Building	1,320		
Entertainment Expenses	5,280		
Donations	3,630		
Conveyance Charges	4,455		
Bank Charges	5,940		
Delivery Van Expenses	5,775		
Insurance	9,900		
Fire Insurance Premium	11,880		
Life Insurance Premium	39,600		
Clearing and Duty Charges	13,200		
Custom Duty	69,300		

Royalty on Purchases	7,260		
Gas and Fuel	3,300		
Commission on Purchases	8,580		
Net Purchases	2,64,000		
Investments	10,000		
	11,96,185		11,96,185

Solution

Trading Account			
for the year ended March 31, 2013			
Dr.			**Cr.**
Particulars	**Amount (Rs)**	**Particulars**	**Amount (Rs)**
Net Purchases	2,64,000	Net Sales	8,58,000
Clearing and Duty Charges	13,200		
Custom Duty	69,300		
Royalty on Purchases	7,260		

Gas and Fuel	3,300		
Commission on Purchases	8,580		
Gross Profit	4,92,360		
	8,58,000		8,58,000

Profit and Loss Account

for the year ended March 31, 2013

Dr.			**Cr.**
Particulars	**Amount (Rs)**	**Particulars**	**Amount (Rs)**
Rent and Taxes	19,800	Gross Profit	4,92,360
Stable Expenses	11,550	Rent from Tenant	7,425
Audit Fees	4,455	Apprentice Premium	5,610
Depreciation on Building	1,320		
Entertainment Expenses	5,280		
Donations	3,630		
Conveyance Charges	4,455		
Bank Charges	5,940		

Delivery Van Expenses	5,775		
Insurance	9,900		
Fire Insurance Premium	11,880		
Net Profit	4,21,410		
	5,05,395		5,05,395

Balance Sheet

as on March 31, 2013

Liabilities		**Amount (Rs)**	**Assets**	**Amount (Rs)**
Capital	1,65,000		**Fixed Assets**	
Add: Net Profit	4,21,410		Patents	1,32,000
Less: Drawings	(13,200)		Building	19,800
Less: Life Insurance Premium	(39,600)	5,33,610	Live Stock	99,000
Current Liabilities			Machinery	2,53,935
Bank Overdraft		45,500	Furniture	49,500
Creditors		14,000	Investments	10,000

Fixed Liabilities		**Current Assets**	
Mortgage Loan	1,00,650	Cash at Bank	4,125
		Closing Stock	1,25,400
	6,93,760		6,93,760

***Note*:** When the closing stock is given inside the Trial Balance, then it implies that it is already adjusted in the purchases. So, in this case, closing stock is not shown in the Trading Account. It is shown only on the Assets Side of the Balance Sheet.

***Example 4*:** From the given below Trial Balance, prepare the financial statements for Guddu for the year ended March 31, 2013.

Trial Balance *as on March 31, 2013*			
Particulars	**Debit Amount (Rs)**	**Particulars**	**Credit Amount (Rs)**
Cash Purchases	68,350	Cash Sales	1,00,900
Credit Purchases	46,050	Credit Sales	1,65,500
Opening Stock:		Discount	7,360
Raw Materials	7,150	Bad Debts Recovered	6,080
Finished Goods	13,490	Profit on Sale of Furniture	5,760
Productive Expenses	10,880	Capital	2,02,240

Unproductive Expenses	8,064	Loan	49,600
Commission on Purchases	10,720	Reserves	19,700
Commission on Sales	7,680	Drought Fund	20,000
Works Expenses	8,800	Rent received in Advance	5,300
Excise Duty	5,120		
Bad Debts	2,656		
Brokerage	20,320		
Travelling Expenses	3,040		
Export Duty	4,160		
Entertainment Expenses	2,560		
Postage and Telegrams	1,120		
Life Insurance Premium	3,200		
Leasehold Land	72,000		
Business Premises	96,320		
Short-Term Investments	32,000		
Equipment	22,400		
Furniture	12,960		
Loan	11,200		

Bills Receivables	67,200		
Advertisement Suspense	24,500		
Profit and Loss Account	20,500		
	5,82,440		5,82,440

Additional Information- Closing Stock valued at Rs 39,680.

Solution

Trading Account *for the year ended March 31, 2013*					
Dr.					**Cr.**
Particulars		**Amount (Rs)**	**Particulars**		**Amount (Rs)**
Opening Stock			Cash Sales	1,00,900	
Raw Materials	7,150		Credit Sales	1,65,500	2,66,400
Finished Goods	13,490	20,640			
Cash Purchases	68,350		Closing Stock		39,680
Credit Purchases	46,050	1,14,400			
Productive Expenses		10,880			
Commission on Purchases		10,720			

Works Expenses	8,800		
Excise Duty	5,120		
Gross Profit	1,35,520		
	3,06,080		3,06,080

Profit and Loss Account

for the year ended March 31, 2013

Dr.			Cr.
Particulars	**Amount (Rs)**	**Particulars**	**Amount (Rs)**
Unproductive Expenses	8,064	Gross Profit	1,35,520
Commission on Sales	7,680	Discount	7,360
Bad Debts	2,656	Bad Debts Recovered	6,080
Brokerage	20,320	Profit on Sale of Furniture	5,760
Travelling Expenses	3,040		
Export Duty	4,160		
Entertainment Expenses	2,560		
Postage and Telegrams	1,120		

Net Profit	1,05,120		
	1,54,720		1,54,720

Balance Sheet

as on March 31, 2013

Liabilities		**Amount (Rs)**	**Assets**	**Amount (Rs)**
Capital	2,02,240		**Fixed Assets**	
Add: Net Profit	1,05,120		Leasehold Land	72,000
Less: Life Insurance Premium	(3,200)	3,04,160	Business Premises	96,320
			Equipment	22,400
Current Liabilities			Furniture	12,960
Loan		49,600	**Current Assets**	
Rent received in Advance		5,300	Bills Receivables	67,200
Reserves and Provisions			Short-Term Investments	32,000
Reserves		19,700	Loan	11,200
Drought Fund		20,000	Closing Stock	39,680

		Fictitious Assets	
		Advertisement Suspense	24,500
		Profit and Loss Account	20,500
	3,98,760		3,98,760

***Example 5*:** From the given below Trial Balance, prepare Trading and Profit and Loss Account for the year ended March 31, 2013 and the Balance Sheet as on that date for Mr. Vishvkarma.

Trial Balance *as on March 31, 2013*			
Particulars	**Debit Amount** **(Rs)**	**Particulars**	**Credit Amount** **(Rs)**
Purchases:		Sales:	
Domestic	75,200	Domestic	1,75,340
Foreign	71,680	Foreign	1,03,800
Opening Stock	16,320	Capital	3,57,000
Royalty on Production	53,550	Creditors	20,570
Carriage	5,440	Bills Payable	33,660
Coal and Gas	17,510	Outstanding Expenses	2,210

Transportation Cost	10,370	Advance from Customers	25,100
Godown Rent	6,460	Rebate Received	3,060
Samples	14,280	Miscellaneous Receipts	4,080
Electricity Charges	21,420	Rent from Subletting	1,190
Loss on Sale of Land	3,230		
Distribution Expenses	6,120		
Law Charges	7,820		
Depreciation	3,910		
Drawings	17,000		
Live Stock	30,600		
Debtors	45,050		
Building	52,360		
Cash Balance	6,800		
Investments	1,36,000		
Bills Receivable	30,600		
Trade Marks	69,190		
Motor Vehicles	25,100		

	7,26,010		7,26,010

Additional Information- Closing Stock is Rs 58,070 (Market Value Rs 53,720).

Solution

Trading Account *for the year ended March 31, 2013*					
Dr.					**Cr.**
Particulars		**Amount (Rs)**	**Particulars**		**Amount (Rs)**
Opening Stock		16,320	Sales		
Purchases			Domestic	1,75,340	
Domestic	75,200		Foreign	1,03,800	2,79,140
Foreign	71,680	1,46,880	Closing Stock		53,720
Royalty on Production		53,550			
Carriage		5,440			
Coal and Gas		17,510			
Gross Profit		93,160			
		3,32,860			3,32,860

Profit and Loss Account

for the year ended March 31, 2013

Dr.			Cr.
Particulars	**Amount (Rs)**	**Particulars**	**Amount (Rs)**
Transportation Cost	10,370	Gross Profit	93,160
Godown Rent	6,460	Rebate Received	3,060
Samples	14,280	Miscellaneous Receipts	4,080
Electricity Charges	21,420	Rent from Subletting	1,190
Loss on Sale of Land	3,230		
Distribution Expenses	6,120		
Law Charges	7,820		
Depreciation	3,910		
Net Profit	27,880		
	1,01,490		1,01,490

Balance Sheet

as on March 31, 2013

Liabilities		Amount (Rs)	Assets	Amount (Rs)
Capital	3,57,000		**Fixed Assets**	
Add: Net Profit	27,880		Live Stock	30,600
Less: Drawings	(17,000)	3,67,880	Building	52,360
			Investments	1,36,000
Current Liabilities			Trade Marks	69,190
Creditors		20,570	Motor Vehicles	25,100
Bills Payable		33,660	**Current Assets**	
Outstanding Expenses		2,210	Debtors	45,050
Advance from Customers		25,100	Cash Balance	6,800
			Bills Receivable	30,600
			Closing Stock	53,720
		4,49,420		4,49,420