

# 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

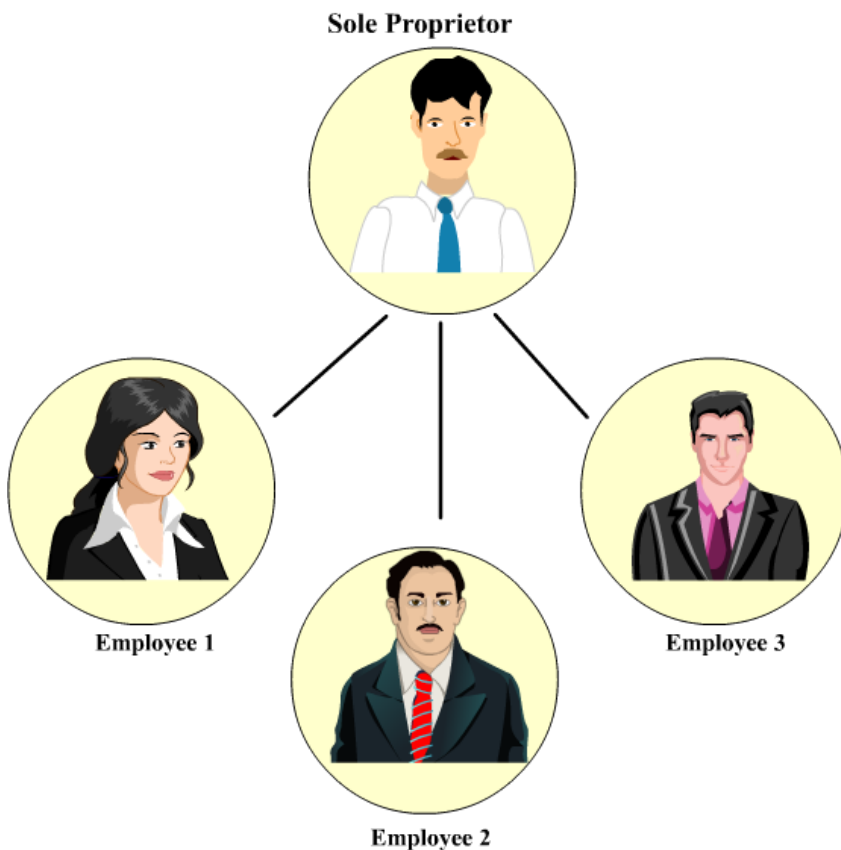
### Introduction

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.



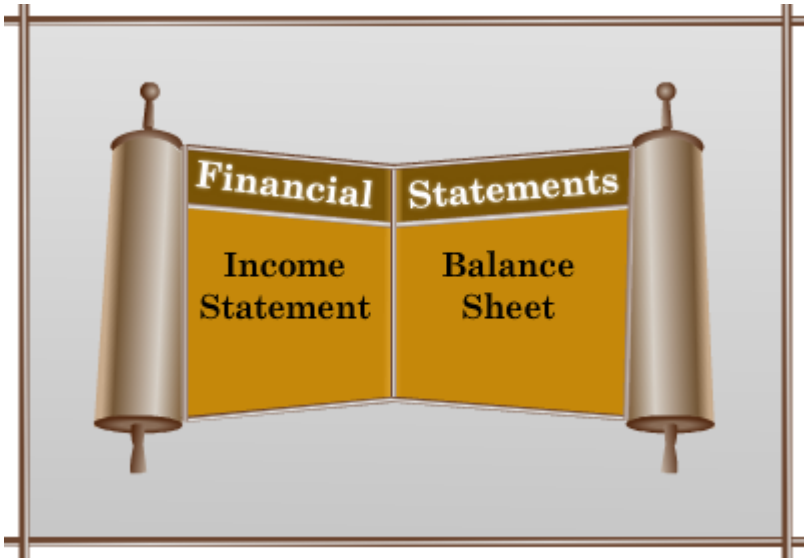
### Meaning of Financial Statements

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 measure 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 to 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

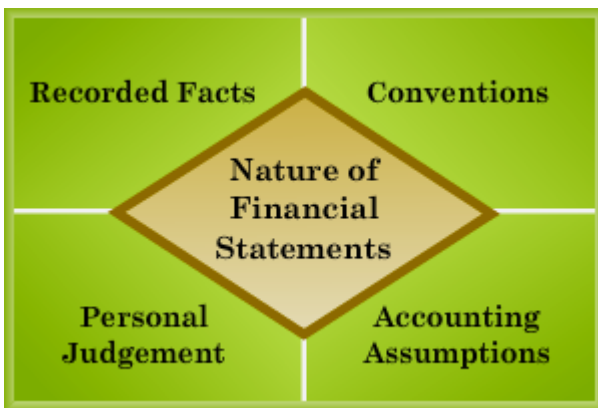
1. **Income Statements**-These statements are popularly known as Trading and Profit and Loss Account. These statements disclose the financial performance of an enterprise. Trading Account records all the direct incomes and expenses and reveals the gross profit earned or gross loss incurred during a particular 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.

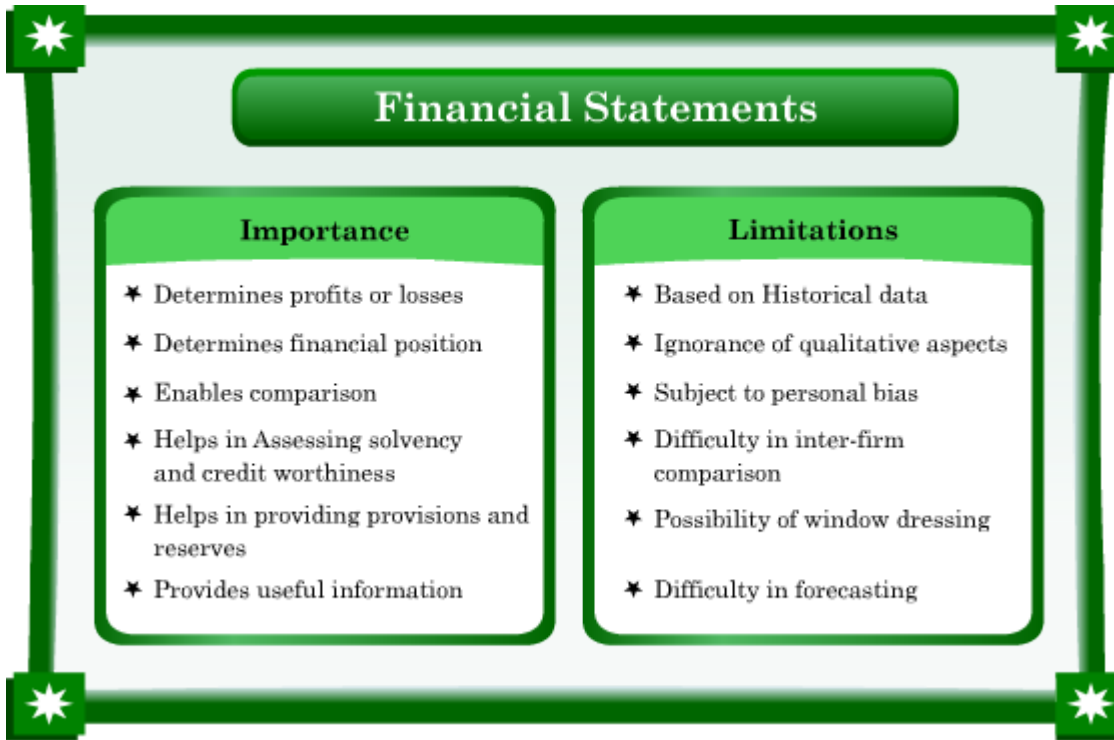
1. **Determining Profits or Losses**-Financial statements helps in finding out the profit earned or loss incurred by a business during an accounting period. This is estimated by preparing the Trading and Profit and Loss Account. With the help of Trading Account gross profit or loss is determined. By 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.

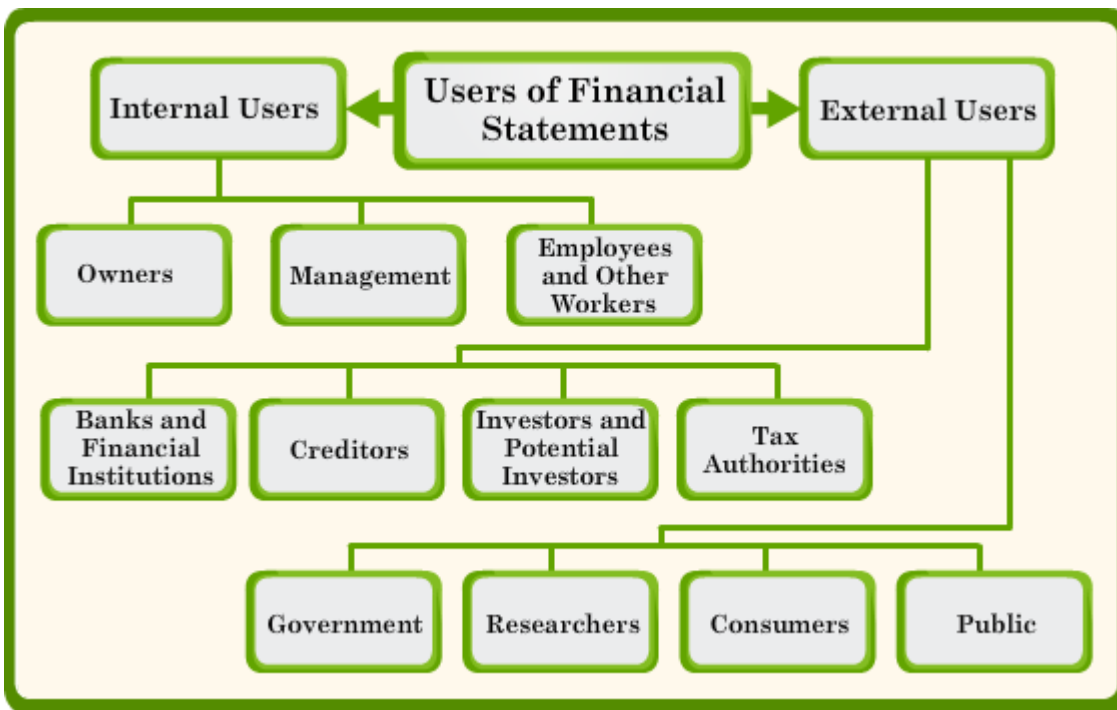


### Users of Financial Statements

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              |  |        |             |     |
|------------------------------|--|--------|-------------|-----|
| <i>for the year ended...</i> |  |        |             |     |
| Dr.                          |  |        |             | Cr. |
| Particulars                  |  | Amount | Particulars |     |
|                              |  | Rs     |             |     |
|                              |  |        | Amount      |     |
|                              |  |        | Rs          |     |
|                              |  |        |             |     |



|  |                                |  |   |                            |  |
|--|--------------------------------|--|---|----------------------------|--|
| Opening Stock                                      |                                |  | Sales   |                            |  |
| Purchases  |                                |  |   | <i>Less: Sales Returns</i> |  |
|  | <i>Less: Purchases Returns</i> |  |   | or                         |  |
|  | or                             |  |   | Returns Inward             |  |
|  | Returns Outward                |  | Closing Stock                                   |                            |  |
| <b>Direct Expenses</b>                             |                                |  | **Gross Loss transferred to Profit and Loss A/c |                            |  |
| Wages and Salaries, or                             |                                |  | <i>(Balancing Figure)</i>                       |                            |  |
| Wages  |                                |  |   |                            |  |
| Gas, Fuel and Power                                |                                |  |   |                            |  |
| Carriage on Purchases                              |                                |  |   |                            |  |
| Carriage Inwards, or                               |                                |  |   |                            |  |
| Carriage   |                                |  |   |                            |  |
| Manufacturing Expenses, or                         |                                |  |   |                            |  |
| Productive Expenses<br>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 |  |  |  |  |
| <i>(Balancing Figure)</i>                         |  |  |  |  |
|   |  |  |  |  |
|   |  |  |  |  |

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

|   |  |                     |  |
|---|--|---------------------|--|
| <p><b>of Sale of Goods.</b></p>   | <p>Debtor/Cash A/c(Depending on cash purchases or credit.)</p> <p>To Sales A/c</p> <p>To Output CGST A/c</p> <p>To Output SGST A/c</p> <p><b>(ii) In case of inter-state Sales</b></p> <p>Debtor/Cash A/c (Depending on cash purchases or credit.)</p> <p>To Sales A/c</p> <p>To Output IGST A/c</p> | <p>Dr</p> <p>Dr</p> | <p>against GST on sales.</p>   |
| <p><b>3) When goods are taken by the proprietor for personal use.</b></p> | <p>Drawings A/c</p> <p>To Purchases A/c (Cost of goods)</p> <p>To Input CGST A/c (Amount of CGST on goods taken)</p> <p>To Input SGST A/c (Amount of SGST on goods taken)</p> <p style="text-align: right;">Or</p> <p>To Input IGST A/c (Amount of IGST on goods taken)</p>                          | <p>Dr</p>           | <p>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.</p>          |
| <p><b>4) Goods given away as Charity.</b></p>                             | <p>Donation / Charity A/c</p> <p>To Purchases A/c (Cost of goods)</p> <p>To Input CGST A/c (Amount of CGST on goods taken)</p> <p>To Input SGST A/c (Amount of SGST on goods taken)</p> <p style="text-align: right;">Or</p> <p>To Input IGST A/c (Amount of IGST on goods taken)</p>                | <p>Dr</p>           | <p>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.</p> |

|  |  |   |  |
|--|--|---|--|
| <p><b>5) Goods given as sample</b></p>   | <p>Sample Expense or Advertisement A/c</p> <p>To Purchases A/c (Cost of goods)</p> <p>To Input CGST A/c (Amount of CGST on goods taken)</p> <p>To Input SGST A/c (Amount of SGST on goods taken)</p> <p style="text-align: right;">Or</p> <p>To Input IGST A/c (Amount of IGST on goods taken)</p>   | <p>Dr</p>   | <p>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.</p> |
| <p><b>6) Goods purchased on the last day of the year and also received</b></p> | <p><b>(i) In case of intra-state Purchases</b></p> <p>Purchases A/c</p> <p>Input CGST A/c</p> <p>Input SGST A/c</p> <p>To Cash/Creditor (Depending on cash purchases or credit.)</p> <p><b>(ii) In case of inter-state Purchases</b></p> <p>Purchases A/c</p> <p>Input IGST A/c</p> <p>To Cash/Creditor (Depending on cash purchases or credit.)</p> | <p>Dr</p> <p>Dr</p> <p>Dr</p> <p>Dr</p> <p>Dr</p> <p>Dr</p> | <p>Considered as purchases as they may not have been accounted for at the time of purchase.</p>  |
| <p><b>7) Goods purchased but are in transit.</b></p>                           | <p><b>(i) In case of intra-state Purchases</b></p> <p>Goods in Transit A/c</p> <p>Input CGST A/c</p>   | <p>Dr</p> <p>Dr</p> <p>Dr</p>                               | <p>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.</p>                                   |



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

**Example 1:**

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

| <b>Particulars</b>   | <b>Amount<br/>(Rs)</b> |
|----------------------|------------------------|
| 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***

| <b>Trading Account</b>                               |          |               |                      |          |               |
|--|----------|---------------|----------------------|----------|---------------|
| <b>for the year ended 31<sup>st</sup> March 2013</b> |          |               |                      |          |               |
| <b>Dr.</b>   |          |               | <b>Cr.</b>           |          |               |
| <b>Particulars</b>                                   |          | <b>Amount</b> | <b>Particulars</b>   |          | <b>Amount</b> |
| 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        |  |                 |
|   | <b>4,50,000</b> |  | <b>4,50,000</b> |
|   |                 |  |                 |

**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.

| <b>Particulars</b>   | <b>Amount<br/>(Rs)</b> |
|----------------------|------------------------|
| 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***

|  |  |
|--|--|
| <b>Trading Account</b>                               |  |
| <b>for the year ended 31<sup>st</sup> March 2013</b> |  |
|  |  |

| 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           |   |         |                 |
|                        |          |                 |   |         |                 |
|                        |          | <b>1,63,850</b> |   |         | <b>1,63,850</b> |
|                        |          |                 |   |         |                 |

**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.

| <b>Particulars</b>     | <b>Amount<br/>(Rs)</b> |
|------------------------|------------------------|
| 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**

| <b>Trading Account<br/>for the year ended March 31,2013</b> |         |               |                    |         |               |
|---|---------|---------------|--------------------|---------|---------------|
| <b>Dr.</b>  |         |               | <b>Cr.</b>         |         |               |
| <b>Particulars</b>  |         | <b>Amount</b> | <b>Particulars</b> |         | <b>Amount</b> |
| 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        |  |               |
|   | <b>91,000</b> |  | <b>91,000</b> |
|   |               |  |               |

**Example 4:**

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

| <b>Particulars</b>   | <b>Amount<br/>(Rs)</b> |
|----------------------|------------------------|
| 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         |              |        |               |
|   |               |              |        |               |
|   | <b>20,000</b> |              |        | <b>20,000</b> |
|   |               |              |        |               |

**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

| <b>Profit and Loss Account</b><br><i>for the year ended....</i> |              |              |              |
|---|--------------|--------------|--------------|
| Dr.   |              |              | Cr.          |
| Particulars   | Amount<br>Rs | Particulars  | Amount<br>Rs |
| Gross Loss  |              | Gross Profit |              |

|   |  |                                       |  |
|---|--|---------------------------------------|--|
| (transferred from Trading A/c)            |  | (transferred from Trading A/c)        |  |
| <b>Office Expenses-</b>                   |  | 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                       |  |                                       |  |
| <b>Selling and Distribution Expenses-</b> |  |                                       |  |
|   |  |                                       |  |

|                               |  |  |  |
|-------------------------------|--|--|--|
| Carriage Outwards, or         |  |  |  |
| Carriage on Sales             |  |  |  |
| Export duty                   |  |  |  |
| Stable expenses               |  |  |  |
| Brokerage                     |  |  |  |
| Advertisement                 |  |  |  |
| Bad Debts                     |  |  |  |
| Packing Charges               |  |  |  |
| Delivery Van Expenses         |  |  |  |
| Commission                    |  |  |  |
| <b>Miscellaneous Expenses</b> |  |  |  |
| 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   |
|---|--|-----|---|
| <b>1) When goods purchased have been destroyed by fire.</b> | <b>i) Goods not insured.</b><br>Loss by Fire A/c(Cost of goods + GST paid)<br>To Purchases A/c(Cost of goods)<br>To Input CGST A/c (Amount of CGST on goods taken)<br>To Input SGST A/c (Amount of CGST on goods taken)<br>Or<br>To Input IGST A/c (Amount of CGST on goods taken) | Dr. | The entry at the time of purchases is reversed because the goods no longer exist so the accounts have to be closed. |
|   | <b>ii) Goods insured</b><br>Insurance Co. A/c(Cost of goods + GST paid)<br>To Purchases A/c(Cost of goods)   | Dr. |   |

|  |  |  |   |
|--|--|--|---|
|  | <p>To Input CGST A/c (Amount of CGST on goods taken)</p> <p>To Input SGST A/c (Amount of CGST on goods taken)</p> <p>Or</p> <p>To Input IGST A/c (Amount of CGST on goods taken)</p> |  |   |
| <b>2) Insurance paid to cover the risk of loss to an asset</b> | 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.

| <b>Particulars</b>      | <b>Amount (Rs)</b> |
|-------------------------|--------------------|
| 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***

|   |
|---|
| <b>Profit and Loss Account</b>                              |
| <b><i>for the year ended 31<sup>st</sup> March 2013</i></b> |

| 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         |  |               |
|            |               |  |               |
|            | <b>59,800</b> |  | <b>59,800</b> |
|            |               |  |               |

**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.

| <b>Particulars</b>     | <b>Amount<br/>(Rs)</b> |
|------------------------|------------------------|
| 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***

|  |               |                    |               |
|--|---------------|--------------------|---------------|
| <b>Profit and Loss Account</b>                       |               |                    |               |
| <i>for the year ended 31<sup>st</sup> March 2013</i> |               |                    |               |
| <b>Dr.</b>   |               | <b>Cr.</b>         |               |
| <b>Particulars</b>                                   | <b>Amount</b> | <b>Particulars</b> | <b>Amount</b> |
|  |               |                    |               |

|                          |       |                         |       |
|--------------------------|-------|-------------------------|-------|
| 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   |                         |       |
|                          |       |                         |       |

|  |              |  |              |
|--|--------------|--|--------------|
|  |              |  |              |
|  | <b>7,420</b> |  | <b>7,420</b> |
|  |              |  |              |

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

| <b>Particulars</b>          | <b>Amount<br/>(Rs)</b> |
|-----------------------------|------------------------|
| 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***

|   |               |                    |               |
|---|---------------|--------------------|---------------|
| <b>Trading Account</b>                                      |               |                    |               |
| <b><i>for the year ended 31<sup>st</sup> March 2013</i></b> |               |                    |               |
| <b>Dr.</b>  |               | <b>Cr.</b>         |               |
| <b>Particulars</b>  | <b>Amount</b> | <b>Particulars</b> | <b>Amount</b> |
|   |               |                    |               |

|                        |         |                 |                    |          |                 |
|------------------------|---------|-----------------|--------------------|----------|-----------------|
| 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          |                    |          |                 |
|                        |         |                 |                    |          |                 |
|                        |         | <b>1,52,250</b> |                    |          | <b>1,52,250</b> |
|                        |         |                 |                    |          |                 |

|  |               |                    |               |
|--|---------------|--------------------|---------------|
| <b>Profit and Loss Account</b>                       |               |                    |               |
| <i>for the year ended 31<sup>st</sup> March 2013</i> |               |                    |               |
| <b>Dr.</b>   |               | <b>Cr.</b>         |               |
| <b>Particulars</b>                                   | <b>Amount</b> | <b>Particulars</b> | <b>Amount</b> |
|  |               |                    |               |

|                             |               |                           |               |
|-----------------------------|---------------|---------------------------|---------------|
| 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        |                           |               |
|                             |               |                           |               |
|                             | <b>81,900</b> |                           | <b>81,900</b> |
|                             |               |                           |               |

**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         |
| <b>Total</b>    | <b>40,00,000</b> | <b>40,00,000</b> |

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                  |   |           |     |                         |
| <b>To Gross Profit c/d<br/>(Transferred to Profit &amp; Loss<br/>A/c)</b> | <b>4,20,000</b>         |   |           |     |                         |
|   | <b><u>19,50,000</u></b> |   |           |     | <b><u>19,50,000</u></b> |
|   |                         |   |           |     |                         |

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

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

## 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 Format 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

| <b>Balance Sheet</b><br><i>as on year ended...</i> |                        |                             |                        |
|--|------------------------|-----------------------------|------------------------|
| <b>Liabilities</b>                                 | <b>Amount<br/>(Rs)</b> | <b>Assets</b>               | <b>Amount<br/>(Rs)</b> |
| Capital  |                        | <b>Fixed Assets</b>         |                        |
| *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                 |                        |
| <b>Fixed Liabilities</b>                           |                        | Freehold/Leasehold Premises |                        |

|                                |  |                              |  |
|--------------------------------|--|------------------------------|--|
| Long-term Loans                |  | Business Premises            |  |
| Mortgage                       |  |                              |  |
| Loan from Bank                 |  | Neon Sign                    |  |
|                                |  | Investments (Long-term)      |  |
| <b>Reserves and Provisions</b> |  |                              |  |
| Reserve Funds                  |  | <b>Current Assets</b>        |  |
| 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            |  |
| <b>Current Liabilities</b>     |  | Investments (Short-term)     |  |
| Sundry or Trade Creditors      |  | Prepaid Expenses             |  |
| Bills Payable                  |  | Accrued Income               |  |
| Bank Overdraft                 |  | Loans Granted                |  |
| Outstanding Expenses           |  |                              |  |
| Income Received in Advance     |  | <b>Fictitious Assets</b>     |  |
| 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.

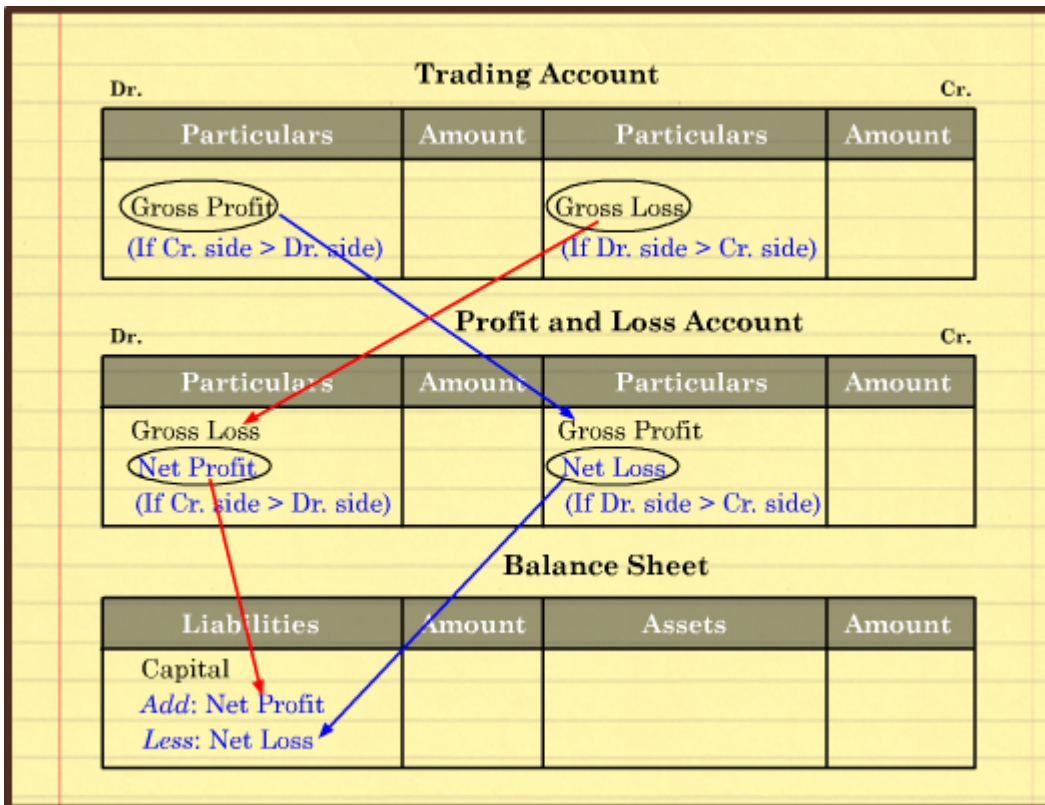
#### *Items appearing on the Liabilities Side of the Balance Sheet*

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<br>(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***

|                             |               |               |               |
|-----------------------------|---------------|---------------|---------------|
| <b>Balance Sheet</b>        |               |               |               |
| <i>as on March 31, 2013</i> |               |               |               |
| <b>Liabilities</b>          | <b>Amount</b> | <b>Assets</b> | <b>Amount</b> |

|                            |          | (Rs)            |                        |  | (Rs)            |
|----------------------------|----------|-----------------|------------------------|--|-----------------|
| Capital                    | 3,90,000 |                 | <b>Fixed Assets</b>    |  |                 |
| Add: Net Profit            | 49,400   |                 | Goodwill               |  | 29,900          |
| Less: Drawings             | (6,890)  | 4,32,510        | Machinery              |  | 70,200          |
|                            |          |                 | Leasehold Land         |  | 1,56,000        |
| <b>Fixed Liabilities</b>   |          |                 | Furniture and Fixtures |  | 32,500          |
| Loan from Bank             |          | 15,730          | Patents                |  | 41,600          |
|                            |          |                 | Investments            |  | 52,000          |
| <b>Current Liabilities</b> |          |                 |                        |  |                 |
| Trade Creditors            |          | 11,700          | <b>Current Assets</b>  |  |                 |
| 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          |
|                            |          |                 |                        |  |                 |
|                            |          | <b>5,11,550</b> |                        |  | <b>5,11,550</b> |
|                            |          |                 |                        |  |                 |

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

| <b>Particulars</b>               | <b>Amount<br/>(Rs)</b> |
|----------------------------------|------------------------|
| 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**

| <b>Balance Sheet</b>        |          |                        |                     |                        |
|-----------------------------|----------|------------------------|---------------------|------------------------|
| <i>as on March 31, 2013</i> |          |                        |                     |                        |
| <b>Liabilities</b>          |          | <b>Amount<br/>(Rs)</b> | <b>Assets</b>       | <b>Amount<br/>(Rs)</b> |
| Capital                     | 2,52,000 |                        | <b>Fixed Assets</b> |                        |
| 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                 |
| <b>Fixed Liabilities</b>    |          |                        |                     |                        |
| Bank Loan                   |          | 36,000                 |                     |                        |

|                            |                 | <b>Current Assets</b>    |                 |
|----------------------------|-----------------|--------------------------|-----------------|
| <b>Current Liabilities</b> |                 | 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          |
|                            |                 |                          |                 |
|                            | <b>5,13,800</b> |                          | <b>5,13,800</b> |
|                            |                 |                          |                 |

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

| <b>Trial Balance</b>        |                        |                    |                        |
|-----------------------------|------------------------|--------------------|------------------------|
| <i>as on March 31, 2013</i> |                        |                    |                        |
| <b>Particulars</b>          | <b>Amount<br/>(Rs)</b> | <b>Particulars</b> | <b>Amount<br/>(Rs)</b> |
| 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          |  |                 |
|                        |                 |  |                 |
|                        | <b>2,01,860</b> |  | <b>2,01,860</b> |
|                        |                 |  |                 |

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

**Solution**

| <b>Trading Account</b>                   |               |                    |               |               |
|--|---------------|--------------------|---------------|---------------|
| <i>for the year ended March 31, 2013</i> |               |                    |               |               |
| 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        |                    |               |               |
|  |               |                    |               |               |
|  | <b>62,510</b> |                    |               | <b>62,510</b> |
|  |               |                    |               |               |

**Profit and Loss Account***for the year ended March 31, 2013*

| <b>Dr.</b>         |                        | <b>Cr.</b>         |                        |
|--------------------|------------------------|--------------------|------------------------|
| <b>Particulars</b> | <b>Amount<br/>(Rs)</b> | <b>Particulars</b> | <b>Amount<br/>(Rs)</b> |
| 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                  |                    |                        |
|                    |                        |                    |                        |
|                    | <b>22,610</b>          |                    | <b>22,610</b>          |
|                    |                        |                    |                        |

**Balance Sheet***as on March 31, 2013*

| <b>Liabilities</b> | <b>Amount</b> | <b>Assets</b> | <b>Amount</b> |
|--------------------|---------------|---------------|---------------|
|--------------------|---------------|---------------|---------------|

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

## Grouping and Marshalling

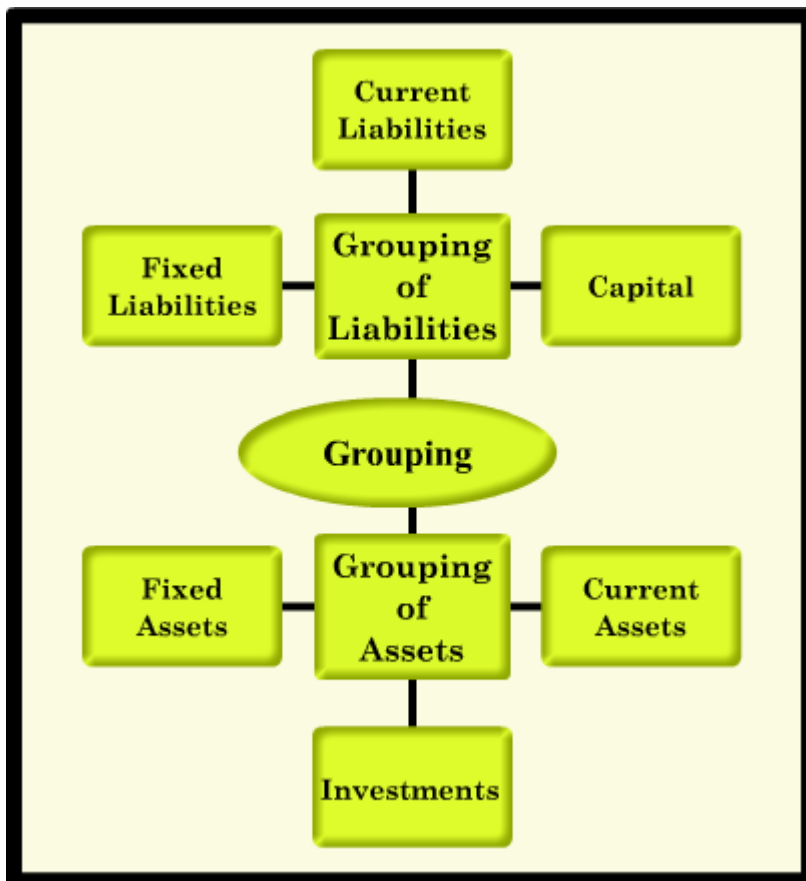
### Objective

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.

| <b>Balance Sheet</b>                          |                      |  |                      |
|---|----------------------|--|----------------------|
| <i>as on year ended...</i>                    |                      |  |                      |
| <b>Liabilities</b>                            | <b>Amount<br/>Rs</b> | <b>Assets</b>                          | <b>Amount<br/>Rs</b> |
| Bills Payable- <b>High Priority Liability</b> |                      | Cash in Hand- <b>Most Liquid Asset</b> |                      |
| 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- <b>Least Priority Liability</b>      |                      | 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- <b>Least Liquid Asset</b> |  |
|  |  |                                     |  |
|  |  |                                     |  |
|  |  |                                     |  |

**\*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.

| <b>Balance Sheet</b>                     |                      |                                       |                      |
|--|----------------------|---------------------------------------|----------------------|
| <i>as on year ended...</i>               |                      |                                       |                      |
| <b>Liabilities</b>                       | <b>Amount<br/>Rs</b> | <b>Assets</b>                         | <b>Amount<br/>Rs</b> |
| Capital- <b>Most Permanent Liability</b> |                      | Goodwill- <b>Most Permanent Asset</b> |                      |
| 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- <b>Least Permanent Liability</b> |  | Sundry Debtors                             |  |
|   |  | Short-Term Investment                      |  |
|   |  | Bills Receivable                           |  |
|   |  | Cash at Bank                               |  |
|   |  | Cash in Hand- <b>Least Permanent Asset</b> |  |
|   |  |  |  |
|   |  |  |  |
|   |  |  |  |



## *Marshalling of Assets and Liabilities*

*It is basically recording of various assets and liabilities in a particular order*

### *In Order of Liquidity*

### *In Order of Permanence*

#### *Assets*

#### *Liabilities*

#### *Assets*

#### *Liabilities*

- ◆ *Most liquid assets are shown first.*
- ◆ *Least liquid assets are shown in last*

- ◆ *High priority liabilities are shown first*
- ◆ *Least priority liabilities are shown in last*

- ◆ *Most permanent assets are shown first*
- ◆ *Highly liquid assets are shown in last*

- ◆ *Most permanent liabilities are shown first.*
- ◆ *Least permanent liabilities are shown in last*

### **Order of Liquidity Vs. Order of Permanence**

| <b>Basis of Difference</b>         | <b>Order of Liquidity</b>   | <b>Order of Permanence</b>  |
|------------------------------------|---|---|
| <b>1) Use</b>                      | 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.   |
| <b>2) Placement of Assets</b>      | 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.                          |
| <b>3) Placement of Liabilities</b> | 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

| <b>Particulars</b>     | <b>Amount<br/>(Rs)</b> |
|------------------------|------------------------|
| 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**

| <b>Balance Sheet</b>        |          |                      |                        |  |                      |
|-----------------------------|----------|----------------------|------------------------|--|----------------------|
| <i>as on March 31, 2013</i> |          |                      |                        |  |                      |
| <b>Liabilities</b>          |          | <b>Amount<br/>Rs</b> | <b>Assets</b>          |  | <b>Amount<br/>Rs</b> |
| 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               |
|                             |          |                      |                        |  |                      |
|                             |          | <b>2,33,620</b>      |                        |  | <b>2,33,620</b>      |
|                             |          |                      |                        |  |                      |

## 1. *In Order of Permanence*

| <b>Balance Sheet</b>        |          |                      |                        |                      |
|-----------------------------|----------|----------------------|------------------------|----------------------|
| <i>as on March 31, 2013</i> |          |                      |                        |                      |
| <b>Liabilities</b>          |          | <b>Amount<br/>Rs</b> | <b>Assets</b>          | <b>Amount<br/>Rs</b> |
| 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               |
|                             |          |                      |                        |                      |
|                             |          | <b>2,33,620</b>      |                        | <b>2,33,620</b>      |
|                             |          |                      |                        |                      |

### **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 organisation.                                     |
| 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 |
|----------|---------------|---------------|
|----------|---------------|---------------|

| <b>Difference</b>   |   |   |
|---------------------|---|---|
| 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

| <b>Basis of Difference</b> | <b>Profit and Loss Account</b>  | <b>Balance Sheet</b>   |
|----------------------------|---|--|
| 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

| <b>Trading Account</b>                           |                      |                      |                      |
|--|----------------------|----------------------|----------------------|
| <i>for the year ended....</i>                    |                      |                      |                      |
| <b>Particulars</b>                               | <b>Amount<br/>Rs</b> | <b>Amount<br/>Rs</b> | <b>Amount<br/>Rs</b> |
| Sales  |                      |                      |                      |
| <i>Less: Sales Return or Return Inwards</i>      |                      |                      |                      |
| Net Sales (I)                                    |                      |                      |                      |
|  |                      |                      |                      |
| Opening Stock                                    |                      |                      |                      |
| Purchases  |                      |                      |                      |
| <i>Less: Purchase Returns or Return Outwards</i> |                      |                      |                      |
|  |                      |                      |                      |
| 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                  |  |  |  |
|                                   |  |  |  |
| <i>Less:</i> Closing Stock        |  |  |  |
| Cost of Goods Sold (II)           |  |  |  |
| <b>Gross Profit/Loss (I – II)</b> |  |  |  |
|                                   |  |  |  |

***Vertical Format of Profit and Loss Account***

|                                     |               |               |               |
|-------------------------------------|---------------|---------------|---------------|
| <b>Profit and Loss Account</b>      |               |               |               |
| <i>for the year ended....</i>       |               |               |               |
| <b>Particulars</b>                  | <b>Amount</b> | <b>Amount</b> | <b>Amount</b> |
|                                     | <b>Rs</b>     | <b>Rs</b>     | <b>Rs</b>     |
| <b>(I) Gross Profit/ Gross Loss</b> |               |               |               |
| <i>Less: Operating Expenses</i>     |               |               |               |
|                                     |               |               |               |

|  |  |  |  |
|--|--|--|--|
| 1. <i>Office and Administrative Expenses</i> |  |  |  |
| 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. <i>Selling and Distribution Expenses</i>  |  |  |  |
| 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                        |  |  |  |
| <b>(II) Total Operating Expenses</b>            |  |  |  |
| <b>(III) Net Operating Profit/Loss (I – II)</b> |  |  |  |
| <i>Add: Non-Operating Incomes</i>               |  |  |  |
| 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          |  |  |  |
| <b>(IV) Net Non-Operating Incomes</b> |  |  |  |
| <b>Net Profit/Loss (III + IV)</b>     |  |  |  |
|                                       |  |  |  |

### 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

$$\text{Operating Profit} = \text{Gross Profit} - \text{Operating Expenses}$$

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 consists of administrative and office expenses and selling and distribution expenses, depreciation, bad debts, etc. Operating profit can also be written as-

$$\text{Operating Profit} = \text{Net Sales} - (\text{Cost of Goods Sold} + \text{Operating Expenses})$$

or

$$\text{Operating Profit} = \text{Net Profit} + (\text{Non-operating Expenses} - \text{Non-operating Incomes})$$

### 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-

$$\text{Net Profit} = \text{Gross Profit} - \text{Operating Expenses} - \text{Non-operating Expenses} + \text{Non-Operating Incomes}$$

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-

$$\text{Net Profit} = \text{Operating Profit} + \text{Non-Operating Incomes} - \text{Non-Operating Expenses}$$

### Vertical Format of Balance Sheet

|                      |
|----------------------|
| <b>Balance Sheet</b> |
|----------------------|

as on...

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

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

|                       |  |  |  |
|-----------------------|--|--|--|
| Less: Net Loss        |  |  |  |
| Less: Drawings        |  |  |  |
| Reserves              |  |  |  |
| Long-Term Liabilities |  |  |  |
| <b>Total</b>          |  |  |  |
|                       |  |  |  |

**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

| <b>Trial Balance</b>        |                        |                     |                        |
|-----------------------------|------------------------|---------------------|------------------------|
| <i>as on March 31, 2013</i> |                        |                     |                        |
| <b>Particulars</b>          | <b>Amount<br/>(Rs)</b> | <b>Particulars</b>  | <b>Amount<br/>(Rs)</b> |
| 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          |  |                 |
|          | <b>2,96,400</b> |  | <b>2,96,400</b> |
|          |                 |  |                 |

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

***Solution***

***Vertical Format***

| <b>Trading Account</b>                   |                      |                      |                      |
|--|----------------------|----------------------|----------------------|
| <i>for the year ended March 31, 2013</i> |                      |                      |                      |
| <b>Particulars</b>                       | <b>Amount<br/>Rs</b> | <b>Amount<br/>Rs</b> | <b>Amount<br/>Rs</b> |
| Cash Sales                               |                      | 77,500               |                      |
| Credit Sales                             |                      | 55,000               |                      |
| Less: Return Inwards                     |                      | (1,400)              |                      |
| <b>Net Sales (I)</b>                     |                      |                      | 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 <b>(II)</b>    |  |         | 47,300        |
| <b>Gross Profit/Loss (I – II)</b> |  |         | <b>83,800</b> |
|                                   |  |         |               |

### **Profit and Loss Account**

*for the year ended March 31, 2013*

| <b>Particulars</b>                           | <b>Amount<br/>Rs</b> | <b>Amount<br/>Rs</b> | <b>Amount<br/>Rs</b> |
|--|----------------------|----------------------|----------------------|
| <b>(I) Gross Profit</b>                      |                      |                      | 83,800               |
| <b>Less: Operating Expenses</b>              |                      |                      |                      |
| <i>1. Office and Administrative Expenses</i> |                      |                      |                      |
| 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  |               |
| <i>1. Selling and Distribution Expenses</i>     |       |         |               |
| Advertisement Expenses                          | 2,300 |         |               |
| Carriage on Sales                               | 3,450 |         |               |
| Bad Debts                                       | 700   |         |               |
| Godown Rent                                     | 2,400 | 8,850   |               |
| <b>(II) Total Operating Expenses</b>            |       |         | 22,500        |
| <b>(III) Net Operating Profit/Loss (I - II)</b> |       |         | 61,300        |
| <i>Add: Non-Operating Incomes</i>               |       |         |               |
| Dividend  | 3,100 |         |               |
| Bad Debts Recovered                             | 2,600 | 5,700   |               |
| <i>Less: Non-Operating Expenses</i>             |       |         |               |
| Loss due to Fire                                | 2,850 |         |               |
| Interest on Loan                                | 2,450 | (5,300) |               |
| <b>(IV) Net Non-Operating Incomes</b>           |       |         | 400           |
| <b>Net Profit/Loss (III + IV)</b>               |       |         | <b>61,700</b> |
|   |       |         |               |

**Balance Sheet***as on March 31, 2013*

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

|                            |  |          |                 |
|----------------------------|--|----------|-----------------|
| <b>Net Assets Employed</b> |  |          | <b>1,86,000</b> |
|                            |  |          |                 |
| <b>Financed by:</b>        |  |          |                 |
| Capital                    |  | 1,25,000 |                 |
| Add: Net Profit            |  | 61,700   |                 |
| Less: Drawings             |  | (10,700) | 1,76,000        |
| Bank Loan                  |  |          | 10,000          |
| <b>Total</b>               |  |          | <b>1,86,000</b> |
|                            |  |          |                 |

**Horizontal Format**

|  |         |               |                      |               |
|--|---------|---------------|----------------------|---------------|
| <b>Trading Account</b>                   |         |               |                      |               |
| <i>for the year ended March 31, 2013</i> |         |               |                      |               |
| <b>Dr.</b>                               |         | <b>Cr.</b>    |                      |               |
| <b>Particulars</b>                       |         | <b>Amount</b> | <b>Particulars</b>   | <b>Amount</b> |
| 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)       |
| Custom Duty                              |         | 4,350         | Closing Stock        | 8,150         |
|  |         |               |                      |               |

|   |                 |  |                 |
|---|-----------------|--|-----------------|
| Octroi  | 6,450           |  |                 |
| Gross Profit transferred to Profit and Loss A/c | 83,800          |  |                 |
|   | <b>1,39,250</b> |  | <b>1,39,250</b> |
|   |                 |  |                 |

**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        |  |               |
|                  |               |  |               |
|                  | <b>89,500</b> |  | <b>89,500</b> |
|                  |               |  |               |

### Balance Sheet

as on March 31, 2013

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



|                |                 |                   |                 |
|----------------|-----------------|-------------------|-----------------|
| Bank Overdraft | 14,350          | Prepaid Insurance | 9,050           |
| Creditors      | 7,150           | Closing Stock     | 8,150           |
|                |                 |                   |                 |
|                | <b>2,07,500</b> |                   | <b>2,07,500</b> |
|                |                 |                   |                 |

## 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<br>(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**

| <b>Trading Account</b>        |          |                |                    |          |                |
|-------------------------------|----------|----------------|--------------------|----------|----------------|
| <i>for the year ended ...</i> |          |                |                    |          |                |
| Dr.                           |          |                |                    | Cr.      |                |
| Particulars                   |          | Amount<br>(Rs) | Particulars        |          | Amount<br>(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       |
|                               |          |                |                    |          |                |

| <b>Profit and Loss Account</b> |  |                |             |     |                |
|--------------------------------|--|----------------|-------------|-----|----------------|
| <i>for the year ended ...</i>  |  |                |             |     |                |
| Dr.                            |  |                |             | Cr. |                |
| Particulars                    |  | Amount<br>(Rs) | Particulars |     | Amount<br>(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...*

| <b>Liabilities</b>         |          | <b>Amount<br/>(Rs)</b> | <b>Assets</b>         | <b>Amount<br/>(Rs)</b> |
|----------------------------|----------|------------------------|-----------------------|------------------------|
| Capital                    | 1,50,000 |                        | <b>Fixed Assets</b>   |                        |
| Less: Drawings             | (18,000) |                        | Motor Vehicles        | 60,000                 |
| Less: Net Loss             | (27,750) | 1,04,250               | Building              | 26,500                 |
| <b>Current Liabilities</b> |          |                        | <b>Current Assets</b> |                        |
| 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                 |

|                                |          |                          |          |
|--------------------------------|----------|--------------------------|----------|
| <b>Reserves and Provisions</b> |          | 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.

| <b>Particulars</b>     | <b>Debit Amount<br/>(Rs)</b> | <b>Credit Amount<br/>(Rs)</b> |
|------------------------|------------------------------|-------------------------------|
| 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<br>(Rs) | Particulars        |         | Amount<br>(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. |  |
|-----|--|--|--|-----|--|
|-----|--|--|--|-----|--|

| <b>Particulars</b>     | <b>Amount<br/>(Rs)</b> | <b>Particulars</b> | <b>Amount<br/>(Rs)</b> |
|------------------------|------------------------|--------------------|------------------------|
| 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*

| <b>Liabilities</b> |          | <b>Amount<br/>(Rs)</b> | <b>Assets</b>       | <b>Amount<br/>(Rs)</b> |
|--------------------|----------|------------------------|---------------------|------------------------|
| Capital            | 71,500   |                        | <b>Fixed Assets</b> |                        |
| 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   |
| <b>Current Liabilities</b>     |         |          | <b>Current Assets</b> |          |
| Creditors                      |         | 42,947   | Debtors               | 7,975    |
| Bank Overdraft                 |         | 36,850   | Closing Stock         | 30,800   |
| Outstanding Expenses           |         | 5,250    | Cash in Hand          | 5,940    |
| <b>Reserves and Provisions</b> |         |          |                       |          |
| 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.

| <b>Trial Balance</b>        |                        |                    |                        |
|-----------------------------|------------------------|--------------------|------------------------|
| <i>as on March 31, 2013</i> |                        |                    |                        |
| <b>Particulars</b>          | <b>Amount<br/>(Rs)</b> | <b>Particulars</b> | <b>Amount<br/>(Rs)</b> |
| 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**

| <b>Trading Account</b>                   |                        |                    |                        |
|--|------------------------|--------------------|------------------------|
| <i>for the year ended March 31, 2013</i> |                        |                    |                        |
| <b>Dr.</b>                               |                        |                    | <b>Cr.</b>             |
| <b>Particulars</b>                       | <b>Amount<br/>(Rs)</b> | <b>Particulars</b> | <b>Amount<br/>(Rs)</b> |
| 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*

| <b>Dr.</b>               |                        |                    | <b>Cr.</b>             |
|--------------------------|------------------------|--------------------|------------------------|
| <b>Particulars</b>       | <b>Amount<br/>(Rs)</b> | <b>Particulars</b> | <b>Amount<br/>(Rs)</b> |
| 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*

| <b>Liabilities</b>           |          | <b>Amount<br/>(Rs)</b> | <b>Assets</b>       | <b>Amount<br/>(Rs)</b> |
|------------------------------|----------|------------------------|---------------------|------------------------|
| Capital                      | 1,65,000 |                        | <b>Fixed Assets</b> |                        |
| 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                 |
| <b>Current Liabilities</b>   |          |                        | Machinery           | 2,53,935               |
| Bank Overdraft               |          | 45,500                 | Furniture           | 49,500                 |
| Creditors                    |          | 14,000                 | Investments         | 10,000                 |

| <b>Fixed Liabilities</b> |          | <b>Current Assets</b> |          |
|--------------------------|----------|-----------------------|----------|
| 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.

| <b>Trial Balance</b>        |                          |                             |                           |
|-----------------------------|--------------------------|-----------------------------|---------------------------|
| <i>as on March 31, 2013</i> |                          |                             |                           |
| <b>Particulars</b>          | <b>Debit Amount (Rs)</b> | <b>Particulars</b>          | <b>Credit Amount (Rs)</b> |
| 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**

| <b>Trading Account</b>                   |                    |          |                    |                    |
|--|--------------------|----------|--------------------|--------------------|
| <i>for the year ended March 31, 2013</i> |                    |          |                    |                    |
| <b>Dr.</b>                               |                    |          |                    | <b>Cr.</b>         |
| <b>Particulars</b>                       | <b>Amount (Rs)</b> |          | <b>Particulars</b> | <b>Amount (Rs)</b> |
| Opening Stock                            |                    |          | Cash Sales         | 1,00,900           |
| Raw Materials                            | 7,150              |          | Credit Sales       | 1,65,500           |
| Finished Goods                           | 13,490             | 20,640   |                    | 2,66,400           |
| 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*

| <b>Dr.</b>             |                        |                             | <b>Cr.</b>             |
|------------------------|------------------------|-----------------------------|------------------------|
| <b>Particulars</b>     | <b>Amount<br/>(Rs)</b> | <b>Particulars</b>          | <b>Amount<br/>(Rs)</b> |
| 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<br>(Rs) | Assets                 | Amount<br>(Rs) |
|--------------------------------|----------|----------------|------------------------|----------------|
| Capital                        | 2,02,240 |                | <b>Fixed Assets</b>    |                |
| 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         |
| <b>Current Liabilities</b>     |          |                | Furniture              | 12,960         |
| Loan                           |          | 49,600         | <b>Current Assets</b>  |                |
| Rent received in Advance       |          | 5,300          | Bills Receivables      | 67,200         |
| <b>Reserves and Provisions</b> |          |                | Short-Term Investments | 32,000         |
| Reserves                       |          | 19,700         | Loan                   | 11,200         |
| Drought Fund                   |          | 20,000         | Closing Stock          | 39,680         |
|                                |          |                |                        |                |

|  |          | <b>Fictitious Assets</b> |          |
|--|----------|--------------------------|----------|
|  |          | 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.

| <b>Trial Balance</b><br><i>as on March 31, 2013</i> |                              |                      |                               |
|---|------------------------------|----------------------|-------------------------------|
| <b>Particulars</b>                                  | <b>Debit Amount<br/>(Rs)</b> | <b>Particulars</b>   | <b>Credit Amount<br/>(Rs)</b> |
| 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**

| <b>Trading Account</b>                   |                |               |                |          |
|--|----------------|---------------|----------------|----------|
| <i>for the year ended March 31, 2013</i> |                |               |                |          |
| Dr.                                      |                |               |                | Cr.      |
| Particulars                              | Amount<br>(Rs) | Particulars   | Amount<br>(Rs) |          |
| Opening Stock                            | 16,320         | Sales         |                |          |
| Purchases                                |                | Domestic      | 1,75,340       |          |
| Domestic                                 | 75,200         | Foreign       | 1,03,800       | 2,79,140 |
| Foreign                                  | 71,680         | 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*

| <b>Dr.</b>            |                        | <b>Cr.</b>             |                        |
|-----------------------|------------------------|------------------------|------------------------|
| <b>Particulars</b>    | <b>Amount<br/>(Rs)</b> | <b>Particulars</b>     | <b>Amount<br/>(Rs)</b> |
| 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*

| <b>Liabilities</b>         |          | <b>Amount<br/>(Rs)</b> | <b>Assets</b>         | <b>Amount<br/>(Rs)</b> |
|----------------------------|----------|------------------------|-----------------------|------------------------|
| Capital                    | 3,57,000 |                        | <b>Fixed Assets</b>   |                        |
| <i>Add:</i> Net Profit     | 27,880   |                        | Live Stock            | 30,600                 |
| <i>Less:</i> Drawings      | (17,000) | 3,67,880               | Building              | 52,360                 |
|                            |          |                        | Investments           | 1,36,000               |
| <b>Current Liabilities</b> |          |                        | Trade Marks           | 69,190                 |
| Creditors                  |          | 20,570                 | Motor Vehicles        | 25,100                 |
| Bills Payable              |          | 33,660                 | <b>Current Assets</b> |                        |
| 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               |
|                            |          |                        |                       |                        |