

Ali started a retail business on January 1, 2022. The following is the trial balance of Ali Traders, a sole proprietorship based in Pakistan, as of December 31, 2024. Based on this trial balance and the given adjustments, prepare: Profit and Loss Statement (Income Statement) for the year ended 31 December 2024. Statement of Financial Position (Balance Sheet) as at 31 December 2024.

Ali Traders
Trial Balance as at 31 December 2024

Account	Dr (PKR)	Cr (PKR)
Sales Revenue		2,610,000
Purchases	1,500,000	
Opening Stock	150,000	
Sales Returns	30,000	
Purchase Returns		21,000
Rent Expense	90,000	
Salaries & Wages	400,000	
Insurance	30,000	
Electricity & Water Bills	38,000	
Machinery	500,000	
Fixtures & Fittings	200,000	
Debtors (Accounts Receivable)	280,000	
Creditors (Accounts Payable)		141,000
Cash at Bank	225,000	
Drawings	75,000	
Motor Vehicle	250,000	
Carriage Inwards	25,000	
Carriage Outwards	20,000	
Discount Allowed	20,000	
Commission		2,000
Discount Received		4,000
Bank Loan		200,000
Capital		855,000
Total	3,833,000	3,833,000

Adjustments at 31 December 2024

- Closing Stock: PKR 180,000
- Prepaid Insurance: PKR 5,000.
- Outstanding Salaries PKR 20,000
- On October 1, 2024, Ali Traders paid PKR 120,000 for 12 months of office rent (October 2024 to September 2025).
- On June 1, 2024, Ali Traders received PKR 120,000 as advance payment from a customer for bulk product delivery, which will be supplied over the next 12 months (June 2024 to May 2025)

working

(w1)

~~Stock~~
~~Stock~~
Stock = 180,000

add To current (B/s)
Asset

deducted from
COGS (P/L)

w2

Prepaid insurance
5000

add To
current
Asset

Deducted
from insurance exp (P/L)

$$30000 - 5000 = 25000$$

↓
insurance exp
2024

w3

outstanding salaries

7000

Add. to salaries
exp (P/L)

add To current liability

$$400000 + 7000 = 407000$$

↓
current
liab

↓
salaries

(W4)

120,000 → exp for 12 months → Oct 2024 - Sep 2025

company
Year

Jan — Dec 2024

$$\text{Rent exp for one month} = \frac{10000}{12} = 10000$$

Total month in a year ←

$$\text{Rent exp for 2024} = 10000 \times 3 = 30000$$

$$\text{Prepaid exp for 2024} = 10000 \times 9 = 90000$$

only for understanding

Initially 120,000 was recorded as Rent exp. However after reviewing the year end balance and adjustment, we determined that 90,000 represents a Prepayment. Accordingly, we reduce Rent exp by 90,000 and recognize it as a current Asset as Prepaid Rent exp.

Rent exp

→ Prepaid exp

90000 → value from

(90000)

Trial Bal.

Rent exp for 2024

0

WS

120 000 → already recorded as
Rev or sale

Revenue for 12 months → Year { June 2024 To
May 2025 }

Revenue for 1 months → $\frac{120\,000}{12} = 10,000$

Revenue for 2024 → $10\,000 \times 7 = 70\,000$
June - Dec 2024

already
Recorded.

Prepaid Revenue → $10\,000 \times 5 = 50,000$
Jan 2025 -
May 2025

Revenue
or sale

2610,000 → Trial
Bal
value

Prepaid
Revenue

(50 000)

2560,000

current
liability

Total Sale or Revenue
for 2024

we deduct 50000
from revenue in
the Trial balance
bec it's unearned.
This reduces our total
sales for 2024. Since we
haven't yet provided the
goods, we record the
50,000 as a liability
as unearned Revenue

Haroon Hadees
Profit and Loss Statement for the Year
ended 31 Dec 2024

Sales Revenue ^{WS} (2610,000 -
less prepaid
Revenue 50000)

2560 000

Sale Returns

(30 000)

2530000

Net Sales

Less COGS

opening stock

150,000

Purchases

1500,000

Carriage
inwards

25000

Returns outwards

(21000)

Goods Available
for sale

1654000

clo stock

(180 000)

Total COGS

(1474000)

Gross Profit

1056000

Less exp

Rent exp^(W4)

0

(90000 - 90000)

Salaries and
wages ^(W3)

407000

insurance ^(W2)

25000

carriage out
wards

20000

Dis allowed

20000

Total exp

(510000)

op. profit

546000

add other income

Dis Received

11000

commission

2000

6000

net profit for
the year

552000

Maroon Traders

Statement of financial Position as at 31 Dec 2021

Non current Asset

Machinery	500 000
F & Fitting	200 000
Motor vehicle	<u>250 000</u>

Total Non current
Asset

950 000

Current Asset

Debtors	280 000
cash	225 000
Clc Stock	180 000
Prepaid insurance	5 000
Prepaid Rent	<u>9 000</u>

Total current Asset

780 000

Total Asset

1730 000

Equity & Liabilities

capital	855 000
Net Profit	552 000
Drawings	<u>(75 000)</u>

Total Equity

1332 000

N C Liability

Bank loan	200 000
Total N C L	<u>200 000</u>

200 000

C. Liability

A/P	141 000
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Accrued salaries 7 000

Unearned Rev

50 000

Total current
liability

198 000

Total liabilities
and equity

1 730 000