

UNIT V

FINANCIAL ACCOUNTING – II

CAPITAL & REVENUE ITEMS IN FINAL ACCOUNTS

- The *expenditure* of the firm has been divided into **Capital expenditure & Revenue expenditure**.
- Items of Revenue expenditure are taken in trading account & Profit & Loss account.
- Items of Capital expenditure are considered in Balance Sheet

CAPITAL EXPENDITURE

- **Capital Expenditure** is an “Expenditure intended to benefit future periods in contrast to the Revenue expenditure, which benefits the current period”.
- The transactions of Capital expenditure give benefits for more than one accounting period such as acquisition and improvements of assets.
- Capital expenditure is non recurring in nature.

REVENUE EXPENDITURE

- “In Accounting revenue expenditure is synonymous with expenses”.
- It is incurred for generating revenue in the current accounting period & its benefits expires within such period.
- Revenue expenditure is recurring in nature.
- Examples of Revenue expenditure:
Production expenses, selling expenses, financial expenses etc.

DEFERRED REVENUE EXPENDITURE

- It is a peculiar type of Revenue Expenditure that spreads more than one accounting periods.
- Example of deferred Revenue expenditure: advertisement

PREPARATION OF FINAL ACCOUNTS

Preparation of final accounts involves following three steps

- **Trading Account**
- **Profit & Loss Account &**
- **Balance Sheet**

TRADING ACCOUNT

- Trading account is prepared at the end of each accounting period to assess the Gross Profit / Loss.
- **Gross Profit = Net sales - COGS**
- Gross Loss = COGS - Net sales
- **Net sales = sales - sales returns**
- COGS or cost of production or cost of goods sold
= opening stock + purchases + direct expenses - closing stock

- **Direct expenses:**

The following are direct expenses

- carriage inwards
- wages
- cartage or freight
- import duty
- excise duty
- coal, fuel, power
- factory expense,
- manufacturing expenses

TRADING ACCOUNT PROFORMA

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To opening stock	Xxxx	By sales	xxxx
To purchases	xxxx	Less: returns	<u>xxx</u> xxxx
Less: returns	<u>xx</u> XxxX	By closing stock	Xxxx
To carriage inwards	xxxx	By goods destroyed by	xxxx
To wages	Xxxx	fire	
To freight/ cartage	Xxxx	By gross loss	
To customs duty	Xxxx	(Transferred to P&L	
To gas, fuel, coal	Xxxx	account)	
To factory expenses			
To other man. Expenses			
To productive expenses			
To gross profit c/d (Transferred to P&L account)			

PROFIT & LOSS ACCOUNT

- It is prepared to ascertain the **Net profit/loss** of the firm for the accounting period.
- **Net profit** can be arrived by deducting the **administrative expenses** from the **Gross profit**.
- By nature **Profit & Loss account** is a **Nominal account** and should not have opening & closing balances

- If the total of **credit column** exceeds the total of **debit column** the difference is called **net profit**, which is transferred to the **capital account** or added to the existing share capital while preparing the balance sheet.
- Net profit will increase the capital and net loss will decrease the capital.

PROFIT AND LOSS A/C OFFOR THE YEAR ENDED.....

Particulars	Amt	Particulars	Amt
To office salaries	xxx	By gross profit b/d	xxx
To rent, rates, taxes	Xxx	By Interest received	xxx
To Printing and stationery	xxx	By Discount received	xxx
To Legal charges	xxx	By Commission received	xxx
To Audit fee	xxx	By Income from investments	xxx
To Insurance	xxx	By Dividend on shares	xxx
To General expenses	xxx	By Rent received	xxx
To Advertisements	xxx		
To Bad debts	xxx		
To Carriage outwards	xxx		
To Repairs	xxx		
To Depreciation	xxx		
To interest paid	xxx		
To Interest on capital	xxx		
To Interest on loans	xxx		
To Discount allowed	xxx		
To Commission	xxx		
<u>To Net profit-----?</u>	xxx		
(transferred to capital a/c)			
	XXXX		XXXX

BALANCE SHEET

- The preparation of Balance sheet is the last and third stage of Final accounts.
- The balance sheet has to be prepared only after the preparation of Trading & Profit & Loss account.
- Trading & Profit & Loss account are prepared for a period of time where as the Balance sheet is prepared on a particular point of time

- “Balance sheet is a Statement prepared on particular date to reflect the financial position of the firm with all the assets and liabilities of the firm”
- Balance sheet is not an account but it is a final statement of the financial position of a business on a closing date.
- Assets are shown on the right side, liabilities including Capital is shown on the left side of the Balance sheet.

BALANCE SHEET OF AS ON

Liabilities		Amt	Assets		Amt
Creditors		xxx	Cash in hand		xxx
Bills payable		xxx	Cash at bank		xxx
Bank overdraft		xxx	Bills receivable		xxx
Loans		xxx	Debtors		xxx
Mortgage		xxx	Closing stock		xxx
Reserve fund		xxx	Investments		xxx
Capital	xxxx		Furniture and fittings		xxx
+ Additional capital	xx		Plant & Machinery		xxx
+ Interest on capital	x		Land & Buildings		xxx
+ Net profit	xxx		Goodwill		xxx
<u>Less</u>			Prepaid expenses		xxx
Drawings	xxx		Outstanding incomes		xxx
Interest on drawings	xx				
Net loss	xxx				

Particulars	Debit Amount	Credit Amount
Capital		87,940
Opening Stock	85,600	
Discount		350
Wages	30,000	
Advertising	4,700	
Plant and machinery	20,000	
Sales		3,60,000
Electricity charges	700	
Return outwards		1,900
Office rent	1,500	
Purchases	2,62,700	
Bills Receivables	2,000	
Cash at bank	6,660	
Furniture and fittings	11,780	
Sundry creditors		8,450
Cash in hand	150	
Rates and taxes	300	
Printing and stationery	500	
Sundry debtors	18,000	
Drawings	12,500	
General expenses	1,230	
Insurance	320	
	4,58,640	4,58,640

ADJUSTMENTS

- (a) Closing Stock Rs. 30,000
- (b) Rates and taxes paid in advance Rs. 30.
- (c) Rent paid in advance Rs.200
- (d) Provide for bad debts Rs.200.

The above are the balances taken on 31st December, 20022 from the books of Mr. R. Sivaji, prepare **Trading and Profit & Loss account and Balance sheet.**

2. The following trial balance of Abhiram was prepared on 31st March 2006.

Prepare, Trading and Profit and Loss A/c and Balance Sheet.

Adjustments

Closing stock was valued at Rs.60,000

Particulars	Dr.	Cr.
Capital		22,000
Opening stock	10,000	
Debtors and creditors	8,000	12,000
Machinery	20,000	
Cash at bank	2,000	
Bank overdraft		14,000
Sales returns and purchase returns	4,000	8,000
Trade expenses	12,000	
Purchases and Sales	26,000	44,000
Wages	10,000	
Salaries	12,000	
Bills payable		10,600
Bank deposits	6,600	
	1,10,600	1,10,600

3. The following are the balances extracted from the books of Z Ltd.
On 31st December 2020:

Z's Capital 30,000
Z's drawings 5,000
Furniture & Fittings 2,600
Bank Overdraft 4,200
Creditors 13,800
Business Premises 20,000
Opening stock 22,000
Debtors 18,000
Rent from tenants 1,000
Purchases 1, 10,000

Discount (Dr.) 1,600
Discount (Cr.) 2,000
Taxes and Insurance 2,000
General expenses 4,000
Salaries 9,000
Commission (Dr.) 2,200
Carriage inward 1,800
Bad debts 800
Sales 1, 50,000
Sales Returns 2,000

Adjustments:

- (a) Closing stock was Rs. 20,060.
- (b) Write off depreciation on Business Premises Rs. 300 Furniture & Fittings Rs. 250
- (c) Make a reserve of 5% on Debtors for doubtful debts.
- (d) Allow interest on capital at 5%

From the above information prepare profit and loss account and balance sheet.

4.

The following is the Trial Balance of Mr. Rajesh as on March 31, 2007. Prepare Trading and Profit and Loss account for the year ended 31.3.2007 and a Balance Sheet as on that date.

Debit Balance	Amount	Credit Balance	Amount
Drawings	72,000	Capital	4,00,000
Buildings	60,000	12% Bank Loan	60,000
Furniture and fittings	30,000	Sales	4,00,000
Motor Van	1,00,000	Commission	30,000
Interest on Bank loan	3,600	Creditors	40,000
Purchases	3,00,000		
Opening stock	1,00,000		
Establishment expenses	60,000		
Wages	8,000		
Insurance	4,000		
Debtors	1,12,400		
Cash at Bank	80,000		
	9,30,000		9,30,000

Adjustments:

- a) Closing stock was Rs. 1,28,000;
- b) Outstanding wages Rs. 2,000 and prepaid Insurance Rs. 1,200;
- c) Allow interest on capital at 10% and charge interest on drawings at 5%.
- d) Depreciate buildings at 5%, Furniture at 15% and Motor Van at 20%.

From the following balances and information received from the books of M/s. Krishna Ltd., on 31-12-2007. You are required to prepare Final Accounts:-

Particulars	Dr (Rs.)	Cr. (Rs.)
Capital		75,000
Sales		4,20,750
Creditors		15,000
Provision for Bad debts		200
Bills Payable		2,000
Cash at Bank	12,500	
Cash in Hand	2,000	
Coal and Gas	1,000	
Opening Stock	45,000	
Purchases	2,25,000	
Plant	75,000	
Trade Expenses	10,000	
Carriage Inwards	2,500	
Carriage Outwards	1,500	
Factory Rent	1,500	
Discounts	350	
Insurance	700	
Debtors	60,000	
Office Rent	3,000	
Printing	600	
General Expenses	2,800	
Advertising	15,000	
Bills Receivable	6,000	
Drawings	6,000	
Salaries	15,000	
Wages	20,000	
Furniture	7,500	
TOTAL	5,12,950	5,12,950

Adjustments

- (i) Prepaid Insurance –Rs. 100
- (ii) Closing Stock –Rs. 35,000
- (iii) Write Off 10% on plant
- (iv) Increase Provision for bad debts to 5%
- (v) Outstanding Factory Rent –Rs. 300
- (vi) Outstanding Office Rent – Rs. 600

END