Financial Statements of Sole Proprietorship

Trading and Profit and Loss Account

Trading and Profit and Loss account is prepared to determine the profit earned or loss sustained by the business enterprise during the accounting period. It is basically a summary of revenues and expenses of the business and calculates the net figure termed as profit or loss. Profit is revenue less expenses. If expenses are more than revenues, the figure is termed as loss. Trading and Profit and Loss account summarises the performance for an accounting period. It is achieved by transferring the balances of revenues and expenses to the trading and profit and loss account from the trial balance. Trading and Profit and Loss account is also an account with Debit and Credit sides. It can be observed that debit balances (representing expenses) and losses are transferred to the debit side of the Trading and a Profit and Loss account and credit balance (representing revenues/gains) are transferred to its credit side.

Relevant Items in Trading and Profit and Loss Account

The different items appearing in the trading and profit and loss account are explained hereunder: Items on the debit side

(i) Opening stock : It is the stock of goods in hand at the beginning of the accounting year. This is the stock of goods which has been carried forward 2020-21 326 Accountancy from the previous year and remains unchanged during the year and appears in the trial balance. In the trading account it appears on the debit side because it forms the part of cost of goods sold for the current accounting year.

(ii) Purchases less returns : Goods, which have been bought for resale appears as purchases on the debit side of the trading account. They include both cash as well as credit purchases. Goods which are returned to suppliers are termed as purchases return. It is shown by way of deduction from purchases and the computed amount is known as Net purchases.

(iii) Wages : Wages refer to renumeration paid to workers who are directly engaged in factory for loading, unloading and production of goods and are debited to trading account.

(iv) Carriage inwards/Freight inwards: These expenses are the items of transport expenses, which are incurred on bringing materials/goods purchased to the place of business. These items are paid in respect of purchases made during the year and are debited to the trading account.

(v) Fuel/Water/Power/Gas : These items are used in the production process and hence are part of expenses.

(vi) Packaging material and Packing charges : Cost of packaging material used in the product are direct expenses as it refers to small containers which form part of goods sold. However, the packing refers to the big containers that are used for transporting the goods and is regarded as an indirect expense debited to profit and loss account.

(vii) Salaries : These include salaries paid to the administration, godown and warehouse staff for the services rendered by them for running the business. If salaries are paid in kind by providing certain facilities (called perks) to the employees such as rent free accommodation, meals, uniform, medical facilities should also be regarded as salaries and debited to the profit and loss account.

(viii) Rent paid : These include office and go down rent, municipal rates and taxes, factory rent, rates and taxes. The amount of rent paid is shown on the debit side of the profit and loss account.

(ix) Interest paid : Interest paid on loans, bank overdraft, renewal of bills of exchange, etc. is an expense and is debited to profit and loss account. (x) Commission paid: Commission paid or payable on business transactions undertaken through the agents is an item of expense and is debited to profit and loss account.

(xi) Repairs : Repairs and small renewals/ replacements relating to plant and machinery, furniture, fixtures, fittings, etc. for keeping them in working condition are included under this head. Such expenditure is debited to profit and loss account.

(xii) Miscellaneous expenses : Though expenses are classified and booked under different heads, but certain expenses being of small amount clubbed together and are called miscellaneous expenses. In normal usage these expenses are called Sundry expenses or Trade expenses.

Items on the credit side

(i) Sales less returns : Sales account in trial balance shows gross total sales(cash as well as credit) made during the year. It is shown on the credit side of the trading account. Goods returned by customers are called return inwards and are shown as deduction from total sales and the computed amount is known as net sales.

(ii) Other incomes : Besides salaries and other gains and incomes are also recorded in the profit and loss account. Examples of such incomes are rent received, dividend received, interest received, discount received, commission received, etc.

Direct expenses means all expenses directly connected with the manufacture, purchase of goods and bringing them to the point of sale. Direct expenses include carriage inwards, freight inwards, wages, factory lighting, coal, water and fuel, royalty on production, etc. In our example-1, besides purchases, four more items of expenses are listed. These are wages, salaries, rent of building and bad debts. Out of these items, wages is treated as direct expense while the other three are treated as indirect expenses

Gross Profit = Sales – (Purchases + Direct Expenses)

Format Of Trading A/c:

XYZ Company

Trading Account

For the year ended 31st March 2019

Dr (Direct Expenses) Cr (Direct income)

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | Rs | Particulars | Rs |
| To Opening Stock  (1st April, 2018)  To Purchase XX  Less: Purchase Return xx  To Carriage on Purchase  Or Carriage inwards/Carriage  To Custom Duty/Import Duty  To Wages/Productive wages  To Manufacturing wages  To Factory Wages  To Wages & Salaries  To Factory Rent  To Coal, Gas & Water  To Freight & Octroi  To Dock & Clearing Charge  To Royalty  To Heating , Lighting & Power  To Gross Profit (bal. Fig.)  Cr> Dr | XX  XX  XX  XX  XX  XX  XX  XX  XX  XX  XX  XX  XX  XX  XX  20,000 | By Sales XX  Less: Sales Return XX  Or Return inward  Or Return (Dr)  By Closing Stock  By Gross Loss  Dr> Cr | XX  XX  XX |
|  | 1,00,000 |  | XX  1,00,000 |

Cr 1,00,000 Assume

(-) Dr 80,000

Gross Profit 20,000

Illustration 1. Prepare a trading account from the following particulars for the year ended March 31, 2017:

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Opening stock 37,500

Purchases1, 05,000

Sales2,70,000

Wages30,000

Trading A/C

Dr For the year ended March 31, 2017 Cr

|  |  |  |  |
| --- | --- | --- | --- |
| Par.. | Rs | Par.. | Rs |
| To Opening stock  To Purchases  To Wages    To Gross Profit (bal.fig.)  Cr - Dr | 37,500  1,05,000    30,000  97,500 | By Sales a/c | 2,70,000 |
|  | 2,70,000 |  | 2,70,000 |

Cr 2,70,000 income

Dr 1,72,500 expenses

Gross Profit 97,500

Illustration 3.

Prepare a trading account of M/s Anjali from the following information related to March

31, 2017.

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Opening stock 60,000

Purchases 3, 00,000

Sales 7, 50,000

Purchases return 18,000

Sales return 30,000

Carriage on purchases 12,000

Carriage on sales 15,000 (it is recorded on Profit & Loss a/c)

Factory rent 18,000

Office rent 18,000 (it is recorded on Profit & Loss a/c)

Dock and Clearing charges 48,000

Freight and Octroi 6,500

Coal, Gas and Water 10,000

2. Profit and Loss Account:

The indirect expenses are transferred to the debit side of the second part, viz. profit and loss account. All revenue/gains other than sales are transferred to the credit side of the profit and loss account. If the total of the credit side of the profit and loss account is more than the total of the debit side, the difference is the net profit for the period of which it is being prepared. On the other hand, if the total of the debit side is more than the total of the credit side, the difference is the net loss incurred by the business firm. In an equation form, it is shown as follows :

Net Profit = Gross Profit + Other Incomes – Indirect Expenses

Format of Profit and Loss Account

Dr Cr

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | Amount | Particulars | Amount |
| To Gross Loss  To Indirect Expenses (all)  To Office Rent  To Salary  To Salary & Wages  To Printing & Stationery  To Advertisements  To Electricity  To Telephone & Telegram  To Audit fee  To Postage  To Bad Debts  To Discount allowed  To Commission paid |  | By Gross Profit  By Indirect Incomes (all) |  |

Illustration 6

From the following balances obtained from the few accounts of Mr. H. Balaram. Prepare

the Trading Account and Profit and Loss Account.

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Stock on Apr. 01, 2016 : 8,000 Bad debts 1,200

Purchases for the year 22,000 Rent 1,200

Sales for the year 42,000 Discount allowed 600

Purchase expenses 2,500 Commission paid 1,100

Salaries and wages 3,500 Sales expenses 600

Advertisement 1,000 Repairs 600

Closing stock on March 31, 2017 is ` 4,500

TS Grewal Book

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Q. 14. From the following particulars, prepare Balance – sheet as at 31st March 2019.

|  |  |  |
| --- | --- | --- |
|  | Dr (Rs) | Cr (Rs) |
| Capital  Drawings  Debtors  Creditors  Cash in hand  Cash at bank  Plant  Furniture  Net profit  General reserve  Closing stock | 44,000  64,000  3,600  72,000  1,00,000  37,000  ....  .....  1,48,000 | 4,00,000  42,000  16,600  10,000 |
|  | 4,68,600 | 4,68,600 |

Balance – Sheet

As at 31st March 2019.

|  |  |  |  |
| --- | --- | --- | --- |
| Liabilities (Cr) | Rs | Assets (Dr) | Rs |
| Capital 4,00,000  Less, Drawings (44,000)  3,56,000  Add, Net Profit 16,600  General reserve  Outsiders’ Liabilities:  Creditors | 3,72,600  10,000  42,000 | Fixed Assets:  Furniture  Plant  Current Assets:  Debtors  Cash in hand  Cash at bank  Closing stock | 37,000  1,00,000  64,000  3,600  72,000  1,48,000 |
|  | 4,24,600 |  | 4,24,600 |

Liabilities must be equal to Assets Side

Q. 7. Pdf file Trading and Profit and Loss a/c

Dr For year ended 31st March 2017 Cr

|  |  |  |  |
| --- | --- | --- | --- |
| Par.. | Rs | Par.. | Rs |
| To Purchases  To Coal, gas and water  To Factory wages  To Gross Profit (Cr-Dr) | 50,000  6,000  11,000  12,000  79,000 | By Sales 80,000  Less, Sales Return 1,000 | 79,000  79,000 |
| To Salaries  To Rent  To Discount Allowed  To Advertisement  To Net Profit (Cr-Dr) | 9,000  4,000  3,000  5,00  5,00 | By Gross Profit  By Apprenticeship premium | 12,000  5,000 |
|  | 17,000 |  | 17,000 |

Cr 79,000 – Dr 67,000 = Gross Profit Rs 12,000

Cr 17,000 – Dr 16,500 = Rs 500 Net Profit

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Balance – Sheet

As at 31st March 2019.

|  |  |  |  |
| --- | --- | --- | --- |
| Liabilities (Cr) | Rs | Assets (Dr) | Rs |
| Capital 20,000  Less, Drawings ( 1,000)  19,000  Add, Net Profit 5,00  Outsiders’ Liabilities:  Creditors  Bank Overdraft  Loan (taken) - Cr | 19,500    13,000 | Fixed Assets:  Furniture  Plant  Current Assets:  Debtors  Cash in hand  Cash at bank  Closing stock | 37,000  1,00,000  64,000  3,600  72,000  1,48,000 |
|  | 4,24,600 |  | 4,24,600 |

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Illust. 23. From

Trading and Profit & Loss a/c

For the year ended 31st March 2019

Dr Cr

|  |  |  |  |
| --- | --- | --- | --- |
| Par.. | Rs | Par... | Rs |
| To Opening Stock  (1st April 2018)  To Purchases  To Wages  To Carriage inwards  To Gross Profit c/d | 30,000  2,00,000  50,000  33,000  237,000  5,50,000 | By Sales  By Closing Stocks  P/L a/c start from here | 5,00,000  50,000  5,50,000 |
| To Salaries  To Discount allowed  To Advertising  To Office exp.  To Net Profit (Cr-Dr) | 70,000  4,000  50,000  40,000  78,000 | By Gross Profit b/d  By Discount received | 237,000  5,000 |
|  | 2,42,000 |  | 2,42,000 |

Cr 5,50,000 Cr 2,42,000 – Dr 1,64,000 = Net Profit 78,000

Dr 3,13,000

2,37,000 Gross Profit