accounts but it is credited to Trading Account and also recorded in the assets side of the Balance Sheet. The value of closing stock is ascertained by means of stock taking and the value is brought in the books by means of an adjusting entry as

Closing Stock Account	Dr.	***	
To Trading Account			***

The closing stock is valued at cost price or market price whichever is less.

Gross Loss: Gross Loss refers to excess of cost of sales over the sales revenue.

Equation of Trading Account

The purpose of preparing the Trading Account is to calculate the Gross Profit or Gross Loss of a concern during a particular period. The following equations are highly useful for determination of Gross Profit or Gross Loss :

Calculation of Gross Profit or Loss

Gross Profit = Sales – Cost of Sales

Sales = Cost of Sales + Gross Profit

(or)

Sales = Stock in the beginning + Purchases + Direct Expenses – Stock at the end + Gross Profit

(or)

Stock in the beginning + Purchases + Direct Expenses + Gross Profit = Sales + Stock at the end

PROFIT AND LOSS ACCOUNT

The determination of Gross Profit or Gross Loss is done by preparation of Trading Account. But it does not reveal the Net Profit or Net Loss of a concern during the particular period. This is the second part of the income statement and is called as Profit and Loss Account. The purpose of preparing the profit and loss account to calculate the Net Profit or Net Loss of a concern. Net profit refers to the surplus which remains after deducting related trading expenses from the Gross Profit. The trading expenses refer to inclusive of office and administrative expenses, selling and distribution expenses. In other words, all operating expenses such as office and administrative expenses, selling and distribution expenses and non-operating expenses are shown on the debit side and all operating and non operating gains and incomes are shown on the credit side of the Profit and Loss Account. The difference of two sides is either Net Profit or Net Loss. Accordingly, when total of all operating and non-operating expenses is more than the Gross Profit and other non-operating incomes, the difference is the Net Profit and in the reverse case it is known as Net Loss. This Net Profit or Net Loss is transferred to the Capital Account of Balance Sheet.

Specimen Proforma of a Profit and Loss Account

The following Specimen Proforma which is used for preparation of Trading, Profit and Loss Account.

Trading, Profit and Loss Account
for the year ending 31st Dec . . . .

Particulars	*Amount Rs.*	*Particulars*	*Amount Rs.*
To Opening Stock	* * *	By Sales	* * *
To Purchases		*Less :* Sales Returns	
Less : Purchases Returns	* * *	By Closing Stock	* * *
To Carriage Inwards	* * *	By Gross Loss c/d	
To Wages			
To Gross Profit c/d			
	* * *		* * *
To Gross Loss b/d	* * *	By Gross Profit b/d	* * *
To Office & Administrative Expenses :	* * *	By Non-Operating Incomes :	* * *
Office Salaries		Interest Received	
Office Rent and Rates		Discount Received	
Printing and Stationery		Dividend Received	
Telephone Charges		Income from Investment	
Legal Charges		Interest on Debenture	
Audit fees		Any other incomes	
General Expenses	* * *	By Net Loss c/d (Transferred to Capital Account)	* * *
To Selling Expenses :			
Advertisement			
Discount Allowed			
Commission Paid			
Salesmen Salaries			
Godown Rent			
Carriage Outward			
Agent Commission			
Traveling Expenses	* * *		
To Distribution Expenses :			
Depreciation on Vehicle			
Upkeep of Motor Van			
Travelers' Salaries			
Repairs and Maintenance	* * *		
To Non-Operating Expenses :			
Discount on Issue of Shares			
Preliminary Expenses			
To Net Profit c/d (Transferred to Capital A/c)	* * *		
	* * *		* * *

Components appearing on Debit Side of the P & L A/c

Those expenses incurred during the manufacturing process of conversion of raw materials into finished goods will be treated as direct expenses which are recorded in the debit side of Trading Account. Any expenditure incurred subsequent to that will be known as indirect expenses to be shown in the debit side of the Profit and Loss Account. The indirect expenses may be classified into: (1) Operating Expenses and (2) Non-Operating Expenses.

(1) Operating Expenses: It refers to those expenses as the day-to-day expenses of operating a business include office & administrative expenses, selling and distribution expenses.

(2) Non-Operating Expenses: Those expenses incurred other than operating expenses. Non-Operating expenses which are related to a financial nature. For example, interest payment on loans and overdrafts, loss on sale of fixed assets, writing off fictitious assets such as preliminary expenses, under writing commission etc.

Components appearing on Credit Side of P&L A/c

The following are the components as shown on the Credit Side :

(1) Gross Profit brought down from Trading Account

(2) Operating Income: It refers to income earned from the operation of the business excluding Gross Profit and Non-Operating incomes.

(3) Non-Operating Income: Non-Operating incomes refer to other than operating income. For example, interest on investment of outside business, profit on sale of fixed assets and dividend received etc.

BALANCE SHEET

According to AICPC (The American Institute of Certified Public Accountants) defines Balance Sheet as a tabular Statement of Summary of Balances (Debit and Credits) carried forward after an actual and constructive closing of books of accounts and kept according to principles of accounting. The purpose of preparing balance sheet is to know the true and fair view of the status of the business as a going concern during a particular period. The balance sheet is one of the important statement which is used to owners or investors to measure the financial soundness of the concern as a whole. A statement is prepared to show the list of liabilities and capital of credit balances of the business on the left hand side and list of assets and other debit balances are recorded on the right hand side is known as "Balance Sheet."

The Balance Sheet is also described as a statement showing the sources of funds and application of capital or funds. In other words, liability side shows the sources from where the funds for the business were obtained and the assets side shows how the funds or capital were utilized in the business. Accordingly, it describes that all the assets owned by the concern and all the liabilities and claims it owes to owners and outsiders.

Specimen Form of Balance Sheet

Companies Act 1956 has prescribed a particular form for showing assets and liabilities in the Balance Sheet for companies registered under this Act. There is no prescribed form of Balance Sheet for a sole trader and partnership firm. However, the assets and liabilities can be arranged in the Balance Sheet into

(a) In the Order of Liquidity

(b) In the Order of Performance

(a) In the Order of Liquidity: When assets and liabilities are arranged according to their order of liquidity and ability to meet its short-term obligations, such an arrangement of order is called "Liquidity Order." The Specimen form of Balance Sheet arranged in the Order of Liquidity is given below :

Balance Sheet (I) as on . . . .

Liabilities	*Amount Rs.*	*Assets*	*Amount Rs.*
Current Liabilities :	* * *	**Current Assets :**	* * *
Sundry Creditors		Cash in Hand	
Bills Payable		Cash at Bank	
Bank Overdraft		Sundry Debtors	
Outstanding Expenses		Short Term Investments	
Long-Term Liabilities :	* * *	Stock in Trade	
Loan from Bank		Bills Receivable	
Loan from Mortgage		Prepaid Expenses	
Debenture		Accrued Incomes	
Any other Long Term		**Fixed Assets :**	* * *
Total Liabilities	* * *	Plant and Machinery	
Capital Account :	* * *	Furniture & Fixtures	
Add : Net Profit		Buildings	
Add : Interest on Capital		Loose Tools	
Less : Drawings		Motor Cars	
Reserves and Surplus :	* * *	**Intangible Assets :**	* * *
General Reserve		Goodwill	
Reserve for Contingency		Patents	
Reserve for Sinking Fund		Copy Rights	
		Trade Marks	
		Fictitious Assets :	* * *
		Preliminary Expenses	
		Advertisement	
		Misc. Expenses	
	* * *		* * *

(b) In the order of Performance: This method is commonly used by the companies. The specimen form of Balance Sheet arranged in the order of Performance is given below :

Balance Sheet (II) as on . . . .

Liabilities	*Amount Rs.*	*Assets*	*Amount Rs.*
Current Liabilities	* * *	Current Assets	* * *
Fixed Liabilities	* * *	Fixed Assets	* * *
Long-Term Liabilities	* * *	Fictitious Assets	* * *
Capital, Reserves and Surplus	* * *	Any other Investments	* * *
	* * *		* * *

Classification of Assets and Liabilities

I. Assets

Business assets are resources or items of values owned by the business and which are utilized in the normal course of business operations to produce goods for sale in order to yield a profit. The assets are grouped into:

(1) Fixed Assets

(2) Current Assets or Floating Assets

(3) Fictitious Assets

(4) Liquid Assets

(5) Contingent Assets