

Trading Account Trading account shows gross profit or gross loss for the end of a given accounting period. Gross profit or gross loss is the excess of sales revenue over the cost of goods sold.

$$\text{Gross profit} = \text{Net sales} - \text{Cost of goods sold.}$$

If the cost of goods sold is more than the sales revenue, it results in gross loss.

Items to be considered in trading account are:

- opening stock
- purchases less purchase returns (returns outwards)
- wages
- carriage inwards
- fuel and power
- sales less sales returns
- any other direct expenses such as freight, spent on raw materials
- closing stock given as additional information (adjustments)

While preparing trading account for a manufacturing concern, consider only such factory expenses that increase the cost of goods manufactured, such as fuel and power, heating and lighting, etc. In other words, gross profit is arrived at after considering all factory expenses.

The format of trading account is as follows:

Trading Account for the year ending

Dr. Particulars		Amount	Particulars	Amount	Cr.
To opening stock		xxx	By sales	xxx	
			Less: sales returns	xxx	xxx
To purchases	xxx		By closing stock		xxx
Less: purchase returns	xxx	xxx			
To wages		xxx			
To carriage inwards		xxx			
To fuel and power		xxx			
To direct expenses		xxx			
To gross profit transferred		xxx			
to profit and loss account		xxx			xxx

Example 4 From the following extract of trial balance, from the books of Kamal, for the year ending December 31 2002, prepare a trading account.

From the gross profit (or gross loss) transferred from trading account, deduct all expenses relating to office, selling and distribution departments. Add all non-operating income such as commission or rent received, interest received etc.

Profit and loss account considers only revenue expenditure such as those incurred in:

- maintaining the capital asset
- running business from time to time
- selling and distributing the goods of the business they deals in

The details of expenses and incomes entered in profit and loss account are furnished in the following format of profit and loss account: The format shows the accounting treatment also.

Profit and Loss Account for the year ending

Dr.		Amount	particulars	Cr.
To salaries		xxx	By gross profit	xxx
To rent		xxx	By discount received	xxx
To insurance		xxx	By commission received	xxx
To carriage outwards		xxx	By reduction in provision for bad debts	xxx
To telephones		xxx	By profit on sale of fixed asset	xxx
To provision for depreciation		xxx		
To bad debts written off	xxx			
Add: increase in bad debts	xxx	xxx		
To cost of samples		xxx		
To advertising		xxx		
To heating and lighting		xxx		
To interest on loan		xxx		
To discount allowed		xxx		
To net profit transferred to capital account		xxx		
		xxx		xxx

To put it this brief, Net Profit = Gross Profit + Other Income – Expenses. Here all expenses relating to office, selling and distribution are considered.

Example 5 Prepare (a) trading account and (b) profit and loss account from the following Bharath's trial balance for the year ending 31/3/200X

Balance Sheet

Balance sheet is a statement of assets and liabilities of a business as on a given date. It shows a true and fair view of financial position of a business as on a given date.

Balance sheet is a statement. (It is not an account. Hence, it does not have debit side or credit side). It has two sides: Liabilities side and Assets side. Balance sheet portrays accounting equation wherein $\text{Assets} = \text{Equity (owner's equity or capital and creditors' equity or outside liabilities)}$. In other words, under double-entry system, assets must always be equal to capital and liabilities.

The format of balance sheet is given below:

Dr.

Cr.

<i>Liabilities</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>	<i>Rs.</i>
Long-term liabilities:	xxx		Fixed Assets:		
Owner's capital	<u>xxx</u>		Plant and machinery	xxx	
Add: net profit from profit			Less: provision for	xxx	
and loss account	<u>xxx</u>	xxx	depreciation		xxx
Less: drawings					
Bank overdraft		xxx	Furniture and fixtures	xxx	
			Less: provision for	xxx	
			depreciation		xxx
Current Liabilities:			Current Assets:		
Sundry creditors		xxx	Stock		xxx
Bills payable		xxx	Sundry debtors		
			Less: provision for bad and	xxx	xxx
			doubtful debts		
Outstanding expenses		xxx	Bills receivables		xxx
			Cash at bank		xxx
			Cash in hand		xxx
			Prepaid expenses		xxx
Total		xxx	Total		xxx