

# Plus One Accountancy Notes Chapter 8

## Financial Statements – I & Financial Statements – II

### Summary:

#### Financial Statements:

Meaning and types Financial statements are the statements which present periodic reports on the process of business enterprises and the results achieved during a given period.

Financial statement includes trading, profit & loss account, balance sheet and other statements.

#### Trading and Profit & Loss Account:

Trading and Profit & Loss account is prepared to ascertain the net result of business operations during a given period.

Format of Trading and Profit & Loss Account (In horizontal form):

Trading and Profit & Loss Account for the year ended .....

Dr.		Cr.	
Expenses/Losses	Amt	Revenues/Gains	Amt
Opening Stock	xxx	Sales	xxx
Purchase	xxx	Less Return	xxx
Less Returns	xxx	Closing Stock	xxx
Wages	xxx	Gross loss c/d	xxx
Carriage inward	xxx		
Freight inward/Cartage	xxx		
Fuel/water/power/gas	xxx		
Gross Profit c/d	xxx		
	xxx		xxx
Gross b/d	xxx	Gross Profit b/d	xxx
Salaries	xxx	Interest Received	xxx
Rent/Rate & Taxes	xxx	Commission received	xxx
Insurance	xxx	Bad debts recovered	xxx
Depreciation	xxx		
Interest on capital	xxx		
Bad debt	xxx	Net loss (transferred to capital account)	xxx
Add. Further bad debt	xxx		
Add New Provision	xxx		
Net Profit (transferred to capital account)	xxx		
	xxxxx		xxxx

### Need for Adjustment:

For the preparation of financial statements, it is necessary that all adjustments arising out of the accrual basis of accounting are made at the end of the accounting period. Entries which are given outside the trial balance are called adjustment entries.

### Treatment of various types of adjustments:

Adjustment	Adjustment Entry	Treatment in Trading and Profit and Loss Account	Treatment in Balance Sheet
1. Closing stock	Closing stock A/c Dr. To Trading A/c	Shown on the credit assets side and profit and loss account	Shown on the assets side
2. Outstanding expenses	Expense A/c Dr. To outstanding expense A/c	Added to the respective expense on the debit side	Shown on the liabilities side
3. Prepaid/ Unexpired expenses	Prepaid expense A/c Dr. To Expenses A/c	Deducted from the respective expense on the debit side	Shown on the assets side
4. Income earned but not received	Accrued income Dr. To Income A/c	Added to the respective income on the credit side	Shown on the assets side
5. Income received in advance	Income A/c Dr. To Income received in advance A/c	Deducted from the respective income on the credit side	Shown on the liabilities side
6. Depreciation	Depreciation A/c Dr. To Assets A/c	Shown on the debit side	Deduction from the value of asset
7. Provision for bad and doubtful debts	Profit and Loss A/c Dr. To Provision for doubtful debts	Shown on the debit side	Shown as deduction from debtors
8. Provision for discount on debtors	Profit and Loss A/c Dr. To Provision for discount debtors	Shown on the debit side	Shown as deduction from debtors
9. Manager's commission	Manager's commission A/c Dr. To outstanding commission A/c	Shown on the debit side	Shown on the liabilities side
10. Interest on capital	Interest on capital A/c Dr. To capital A/c	Shown on the debit side	Shown as addition to capital
11. Further bad debts	Bad debts A/c Dr. To Sundry Debtors A/c	Shown on the debit side	Deducted from debtors

### Balance Sheet:

The balance sheet is a statement of assets and liabilities of business enterprises and shows the financial position at a given date. It is not an account. It is only a statement. Assets and liabilities shown in the balance sheet are marshaled in order to liquidity or in order to permanence.

Format of Balance Sheet (In horizontal form)

Balance sheet as on .....

Liabilities		Amt	Assets		Amt
Capital	xxx		Fixed Assets	xxx	
Net Profit/Loss	xxx		Less Depreciation	xxx	xxx
	xxx				
Less Drawings	xx	xxx	Sundry Debtors	xxx	
Long term loans		xxx	Less provision for		
Short term loans		xxx	doubtful debt	xx	xxx
Sundry Creditors		xxx	Closing Stock		xxx
Bills Payables		xxx	Bill Receivables		xxx

Outstanding Exp	xxx	Prepaid Expenses	xxx
Bank Overdraft	xxx	Cash at Bank	xxx
		Cash in hand	xxx
	xxxx		xxxx

The Performa of the income statement and balance sheet in vertical form.

Income Statement for the period ended .....

Particulars	Amt. (Dr)	Amt.(Cr)
Sales (Gross)		
(-) Returns		
Net Sales		
Cost of Goods Sold		
Opening Stock		
Purchase		
(-) Returns		
Carriage Inwards		
Wages		
Cost of Goods Available		
for Sale		
(-) Closing Stock		
<b>Gross Profit</b>		
Operating Expenses		
a) <b>Selling Expenses</b>		
Advertising		
Discount		
Allowances		
Bad Debts and Provisions		
Carriage Outwards		
Total Selling Expenses		
b) <b>General and Administration Expenses</b>		
Salaries		
Rent and Rates		
Insurance		
Depreciation		
Postage		
Repair		
General Expenses		
Total Operating Expenses		
<b>Net Income from Operations</b>		
(Operating Profit)		
<b>Other Income</b>		
(Non-operating Gains)		
Interest Earned		
Commission Earned		
Profit on Sale of Fixed Assets		

(-) Deductions		
(Non-operating Expenses)		
Interest Paid		
Loss by Fire		
Net Non-operating Gains		
Net Income (Net Profit)		

Balance sheet as on.....

Particulars	Amt. (Dr)	Amt.(Cr)
<b>Current Assets</b>		
Cash in Hand		
Cash at Bank		
Bills Receivable		
Accrued Income		
Debtors		
Stock		
Prepaid Expenses		
Total Current Assets		
<b>(-) Current Liabilities</b>		
Bank Overdraft		
Outstanding Expenses		
Bills Payable		
Trade Creditors		
Income Received in Advance		
Total Current Liabilities		
Net Working Capital (Current Assets and Current Liabilities)		
<b>Fixed Assets</b>		
Furniture and Fixtures		
Patents		
Plants and Machinery		
Building		
Land		
Goodwill		
Total Fixed Assets		
Total Assets (After Paying Current Liabilities)		
<b>Capital Employed</b>		
Long Term Liabilities		
Loan		
Mortgage		
Total Long Term Liabilities		
Net Assets (being the difference between total assets and long term liabilities)		
<b>Capital (Proprietor)</b>		
Capital in the Beginning		
(+) Capital Introduced During the Current year		
Interest on Capital, Salary etc Profit for the Current year		

(-) Drawings During the Current Year		
Interest on Drawings		
Loss for the Current Year		
Total Capital of the Proprietor at the End of the Year		

HSS Learner