



Chapter 14

Final Accounts

LEARNING OBJECTIVES

- Trading Account
- Profit & Loss Account
- Balance Sheet

When the trial balance is prepared, the immediate task is to prepare the final accounts. Preparation of final accounts involves the following:

- Preparation of Trading Account;
- Preparation of Profit and Loss Account and
- Preparation of Balance Sheet.

Trading Account is prepared to know the gross profit or loss of the business and Profit and Loss Account discloses net profit or loss of the business. The Balance Sheet shows the financial position of the business on a given date.

Trading Account

A Trading Account shows the result of buying and selling of goods and services. This account shows only the total sales less the Cost of Goods Sold and any changes in the value of Stock. It gives the Gross Profit or Loss of the business. For example, total sales of the business during a particular period is ₹ 1,00,000 and total purchases is ₹ 80,000 and at the end of the period, value of the stock is ₹ 10,000, then the gross profit from the business is ₹ 30,000 (1,00,000 + 10,000 – 80,000).

Specimen of a Trading Account

Dr. Trading A/c of...for the year ended

Cr.

Particulars	Amount	Particulars	Amount
To Opening stock	By Sales	.....
To: Purchases	Less: Return Inwards	.....
Less: Returns outward		
To Wages	By Other Direct Income	.....
To Carriage Inward		
To Freight	By Stock Destroyed (e.g. by fire)	.....
To Royalty on Production		
To Other Direct Expenses	By Closing stock	.....
To Gross Profit c/d		
(Gross Profit transferred)		

Profit and Loss Account

The Profit and Loss Account shows the Net profit or Loss for an accounting period, which is the difference between total income and total expenses. This account shows how successfully and how efficiently the business is being run.

Specimen of Profit and Loss Account

Dr.		Profit & Loss A/c of for the year ended		Cr.
To Salary	.....	By Gross Profit b/d	.....
To Carriage Outward	.....	By Interest earned	.....
To Selling / Trading Expenses	.....	By Discount earned	.....
To Export Duty	.....	By Commission earned	.....
To Packing cost of finished Goods	.....	By Bad Debt Recovery	.....
To Advertisement	.....	By Miscellaneous Income	.....
To Sales Tax	.....	By Profit on Sale of Asset	.....
To Rent, Rates & taxes	.....	By Rent Received	.....
To Stationery	.....		
To Conveyance / Travelling	.....		
To Repairs	.....		
To Interest Paid	.....		
To Bad Debt	.....		
To Depreciation on Assets	.....		
To Discount Allowed	.....		
To Loss on Sale of Assets	.....		
To Miscellaneous / General Expenses	.....		
To Net Loss of Stock	.....		
To Charity/Donation	.....		
To Net Profit	.....		

Example

Prepare a Profit & Loss Account from the following details –

	₹
Salary	5,000
Commission Received.....	1,250
Depreciation	750
Carriage outward.....	1,250
Commission paid.....	2,000
Office Rent	700
Dividend Received	800
Gross Profit	15,000
Bad Debt	100



Ans:

Dr.

Profit & Loss A/c for the year ended.....

Particulars	Amount	Particulars	Amount
To, Salary	5,000	By, Gross Profit b/d	15,000
To, Carriage Outward	1,250	By, Commission Received	1,250
To, Commission paid	2,000	By, Dividend Received	800
To, Office Rent	700		
To, Depreciation	750		
To, Bad Debt	100		
To, Net Profit	7,250		
(Transferred to Capital A/c)	17,050		17,050

Vertical Format of Profit and Loss Account

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

Particulars	Amount (₹)	Amount (₹)
Gross Profit		15,000
Add:		
Commission Received	1,250	
Dividend Received	800	2,050
		17,050
Less:		
Salary	5,000	
Carriage Outward	1,250	
Commission paid	2,000	
Office Rent	700	
Depreciation	750	
Bad Debt	100	9,800
Net Profit		7,250

Balance Sheet

A Balance Sheet is a snapshot of the financial condition of the business. It shows the financial position of a business at a particular moment in time. It is the mirror of the business wherein the business can see its face i.e. its true position.

The major groupings on a Balance Sheet are:

(i) Fixed assets

Fixed assets are the assets which are intended to be kept in the business while they are useful and are generally valued at cost less depreciation.

(ii) Investment

Investments are easily marketable securities and are generally converted into cash within the accounting period. business invests money, which is temporarily idle, to get some return in cash. Example – Share, Fixed Deposit, etc

(iii) Current assets, Loans and Advances

Current assets are the assets of an organization that are constantly changing their form and circulating from cash to goods and back to cash again.

(iv) Current Liabilities and Provisions

Current liabilities are amount owed by a business to other organizations and individuals that should be paid within one year from the balance sheet date. This is usually taken to mean that it will be settled prior to the next balance sheet following the one in which it appears.

(v) Capital

Capital is the fund of a business unit that has been provided by its owner. Therefore, it is that part of the overall value of a business unit which is attributable to its owner, i.e. its total assets less its total liabilities. It is calculated as follows:

Capital Opening Balance	****
Add: Capital introduced	****
Add: Net profit / (Loss)	****
Less: Drawings	****
Capital Closing Balance	****

Format of Balance Sheet

The format of balance sheet is as follows:

Balance Sheet as at 31.3.2015					
Liabilities	₹	₹	Assets	₹	₹
Share Capital		1,000,000	Fixed Asset		
Reserve and Surplus			Computer	600,000	
Profit and Loss	250,000		Less : Depreciation	360,000	240,000
Reserve	100,000	350,000	Office Equipment	500,000	
Loan Fund			Less : Depreciation	50,000	450,000
Secured Loan		500,000	Furniture and Fixture	800,000	
Current Liabilities and			Less : Depreciation	80,000	720,000
Provision :			Current Asset, Loan and		
Sundry creditors	400,000		Advances		
Sundry Expenses	300,000	700,000	Stock	220,000	
			Debtors	700,000	
			Cash at Bank	207,250	
			Cash at hand	12,750	1,140,000
		2,550,000			2,550,000



Example

Trial Balance of Mr. Parimal as on 31st March, 2015 is as under –

	₹	₹
Trial Balance of Mr. Parimal as on 31st March, 2015 is as under –	44,000	1,64,400
Capital and Drawings	56,000	
Opening Stock		50,000
Secured Loans		1,12,000
Sundry Creditors	5,600	
Misc. Expenses	2,400	
Office Expenses	6,000	
Interest on Loans	1,200	
Commission	2,400	
Insurance	3,600	
Office Rent	18,000	
Salaries	18,000	
Wages		1,28,000
Sales		72,000
Purchases		8,000
Goods returned		5,000
Travelling Expenses		900
Bad Debts		52,000
Cash at Bank		3,000
Cash in Hand		1,06,300
Sundry Debtors		14,000
Furniture		20,000
Buildings		20,000
Plant & Machinery		

Additional Information -

1. Closing stock was valued at ₹ 88,000;
2. Bad Debts written off during the year ₹ 1,200.

8. Depreciation to be provided –

Furniture & Fixture – 10%, Plant & Machinery – 10% and Building – 2.5%

Prepare Trading and Profit & Loss Account for the year ending 31st March, 2015 and Balance Sheet as on the date.

Dr.

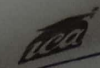
Mr. Parimal

Trading and Profit & Loss Account for the year ending 31st March, 2015

Particulars	₹	₹	Particulars	₹	₹
To, Opening Stock		56,000	By, Sales	1,28,000	
To, Purchases	72,000		Less: Returns		
Less: Returns	4,000	68,000	By, Closing Stock	8,000	1,20,000
To, Wages		18,000			88,000
To, Gross Profit c/d		66,000			
		2,08,000			
To, Salaries		18,000	By, Gross Profit b/d		2,08,000
To, Office Rent		3,600			66,000
To, Bad Debts		1,200			
To, Travelling Expenses		5,000			
To, Insurance		2,400			
To, Commission		1,200			
To, Interest on Loan		6,000			
To, Office Expenses		2,400			
To, Misc Expenses		5,600			
To, Depreciation –					
On Building	500				
On Plant & Machinery	2,000				
On Furniture	1,400	3,900			
To, Net Profit		16,700			
(Transferred to capital)		66,000			66,000

Balance Sheet as on 31st March, 2015

Liabilities	₹	₹	Assets	₹	₹
Opening Capital	1,64,400		Fixed Assets		
Add: Net Profit	16,700		Buildings	20,000	
	1,81,100		Less: Depreciation	500	19,500
Less: Drawings	44,000	1,37,100	Plant & Machinery	20,000	
Secured Loans		50,000	Less: Depreciation	2,000	18,000
Current Liabilities			Furniture	14,000	
Sundry Creditors		1,12,000	Less: Depreciation	1,400	12,600
			Current Assets		
			Stock-in-trade		88,000
			Sundry Debtors	1,06,300	
			Less: Bad Debts	300	1,06,000
			(1,200 – 900)		
			Cash at bank		52,000
			Cash in Hand		3,000
		2,99,100			2,99,100



Example

From the following Trial Balance as on 31.3.2015, prepare Trading and Profit & Loss Account and a Balance Sheet as on that date –

Plant	6,000	Sales	75,000
Investments	1,800	Discount Received	1,200
Cash	600	Bank Overdraft	2,700
Debtors	10,500	Capital	15,000
Stock	28,000	Creditors	6,990
Wages	9,600	Bills Payable	3,500
Coolie charges	1,500		
Purchases	36,000		
Returns Inward	300		
Income Tax	150		
Insurance	1,500		
Discount Allowed	1,500		
Repairs	480		
Travelling Expenses	1,500		
Rent	600		
Interest on overdraft	60		
Drawings	1,500		
Advances	2,000		

1,04,390

1,04,390

Adjustments-

Closing Stock ₹ 10,500; Write off bad debts ₹ 800; Depreciate plant at 10% p.a.;

Solution

In the books of

Dr.

Trading and Profit & Loss Account for the year ending 31st March, 2015

Cr.

Liabilities	₹	₹	Assets	₹	₹
To, Opening Stock		28,800	By, Sales	75,000	
To, Purchases		36,000	Less: Return	300	74,700
To, Wages		9,600	By, Closing Stock		10,500
To, Coolie Charges		1,500			
To, Gross Profit c/d		9,300			
		85,200			85,200
To, Insurance		1,500	By, Gross Profit b/d		9,300
To, Discount Allowed		1,500	By, Discount Received		1,200
To, Repairs		480			
To, Travelling Expenses		1,500			
To, Rent		600			
To, Interest on Overdraft		60			
To, Bad Debts		800			
To, Depreciation –		600			
On Plant		3,460			
To, Net Profit					
(Transferred to Capital A/c)		10,500			10,500

Balance Sheet as on 31st March, 2015

Liabilities	₹	₹	Assets	₹	₹
Opening Capital	15,000		Plant	6,000	
Add: Net Profit	3,460		Less: Depreciation	600	5,400
	18,460		Investments		1,800
Less: Drawings	1,650	16,810	Advances		2,000
(1,500 + 150)			Closing Stock		10,500
Sundry Creditors		6,990	Debtors	10,500	
Bills Payable		3,500	Less: Bad Debts	800	9,700
Bank Overdraft		2,700	Cash		600
		30,000			30,000

Example

Following is the Trial Balance of Mr. Raghu for the year ended 31.3.2014.

You are required to prepare Trading Account, Profit and Loss Account for the year ended 31.3.2014 and a Balance Sheet as on that date.

Particulars	L.F.	Dr. Amount	Cr. Amount
Rent		50,000	
Furniture		60,000	
Salaries		1,10,000	
Freight		30,000	
Sundry Debtors and Creditors		3,00,000	
Purchases and Sales		3,00,000	1,50,000
Returns		30,000	5,00,000
Cash		80,000	10,000
Opening Stock		1,00,000	
Capital			4,00,000
		10,60,000	10,60,000

Additional Information:

- Closing Stock as on 31.3.2014 – ₹1,80,000;
- Outstanding salaries – ₹10,000;
- Write off bad debts – ₹15,000;
- Depreciation on furniture - @ 10% p.a.

Mr. Raghu

Trading and Profit and Loss Account for the year ended 31.3.2014

Dr.	Particulars	₹	₹	Particulars	₹	₹
	To Opening Stock		1,00,000	By Sales	5,00,000	
	To Purchases	3,00,000		Less: Returns	<u>30,000</u>	4,70,000
	Less: Returns	<u>10,000</u>	2,90,000	By Closing Stock		1,80,000
	To Freight		30,000			
	To Gross Profit b/d		2,30,000			
			6,50,000			6,50,000
	To Salaries	1,10,000		By Gross Profit b/d		2,30,000
	Add: Outstanding	<u>10,000</u>	1,20,000			
	To Rent		50,000			
	To Bad Debts		15,000			
	To Depreciation on Furniture (10% on ₹ 60,000)		6,000			
	To Net Profit		39,000			
	(Transferred to Capital Account)					
			2,30,000			2,30,000

The balance sheet may be prepared in one of two forms:

- Horizontal Form and
- Vertical Form

Horizontal Balance Sheet

Balance Sheet as on 31.3.2014

Liabilities	₹	₹	Assets	₹	₹
Capital:			Furniture	60,000	
Opening Balance	4,00,000		Less: Depreciation	6,000	54,000
Add: Net Profit	69,000	4,39,000	Closing Stock		1,80,000
Sundry Creditors		1,50,000	Sundry Debtors	3,00,000	
Outstanding Salaries		10,000	Less: Bad Debts	15,000	2,85,000
		5,99,000	Cash		80,000
					5,99,000

Vertical Balance Sheet

Balance Sheet as on 31.3.2014

Particulars	₹	₹
Fixed Assets		
Furniture		
Less: Depreciation	60,000	54,000
Current Assets	6,000	
Closing Stock		
Sundry Debtors (₹ 3,00,000 – ₹ 15,000)	1,80,000	
Cash	2,85,000	
	80,000	
	5,45,000	
Less: Current Liabilities		
Sundry Creditors		1,50,000
Outstanding Salaries		10,000
Net Capital Employed	1,60,000	3,85,000
Financed by		4,39,000
Owner's Capital		4,39,000
		4,39,000

Note: As per the Companies Act, from 1st April 2011 all the companies are to prepare their Balance Sheet in vertical format only.

Class Exercise

1. The following is the Trial Balance obtained from the books of Mr. B Swaminathan as on 30th June, 2015:

Particulars	Dr (₹)	Cr (₹)
Capital		50,000
Drawings	1,000	
Stock as on 1.7.2014	28,000	
Loose Tools as on 1.7.2014	1,000	

Debtors and Creditors	25,000	15,000
Purchases and Sales	90,000	1,72,000
Returns	750	550
Discounts	250	300
Land and Building	88,000	
Salaries and Wages	33,000	
Carriage Inward	1,200	
Carriage Outward	1,500	
Insurance	1,000	
Commission		18,550
Cash in Hand	1,700	
Bank Overdraft		20,000
Advertisement	2,000	
Bills Receivable and Payable	7,500	5,500
Total	2,81,900	2,81,900

You are required to prepare the Trading and Profit & Loss Account for the period ended 30th June, 2015 and the Balance Sheet as on that date taking into account the following adjustment :

a)	Stock and Loose Tools were valued on 30.6.2015 at ₹25,000 and ₹ 800 respectively;
b)	Depreciation is to be provided on Land and Building @5% p.a.
c)	Bad Debts to be written off amounted to ₹ 900.

2. Following is the Trial Balance of a trader as on 31st December,2014 –

Particulars	Dr (₹)	Cr (₹)
Capital		12,500
Furniture and Fixtures	640	
Vehicles	6,250	
Buildings	7,500	
Bad Debts	125	
Debtors and Creditors	3,800	2,700
Stock on 1.1.14	3,460	
Purchases and Sales	5,475	15,450
Bank Overdraft		2,850
Returns	200	125

BOOK KEEPING

Advertisement		
Interest on Bank Overdraft		
Commission	450	
Cash	118	
Insurance and Taxes		375
General Expenses	650	
Salaries	1,250	
	782	
Total	3,300	
	34,000	34,000

The following adjustments are to be made:

- Closing Stock was ₹ 3,250;
- Depreciate building @5%, Furniture and Fixtures @10% and Vehicles @ 20%;
- Write off a further sum of ₹ 100 as bad debts.

Prepare the Trading and Profit & Loss Account and the Balance Sheet from the above mentioned details.

3. From the following Trail Balance and additional information, prepare the Profit & Loss Account and Balance Sheet of Mr. Ramesh:

Particulars	Dr. Amount	Cr. Amount
Capital		
Debtors		20,000
Drawings	5,400	
Machinery	1,800	
Creditors	7,000	
Wages		2,800
Purchases	10,000	
Opening Stock	19,000	
Bank Balance	4,000	
Carriage charges	3,000	
Salaries	300	
Rent and taxes	400	
	900	
Sales		29,000
	51,800	51,800



Additional information

- i. Closing Stock ₹ 1,200;
- ii. Depreciation on Machinery @10%;

4. From the following Trial Balance prepare Trading, Profit & Loss Account and Balance Sheet as on 31-03-2014.
Trial Balance as on 31-3-2014

Particulars	Dr. (₹)	Cr. (₹)
Cash in hand	1400	
Cash at Bank	2600	
Sundry Debtors	86000	
Stock as on 1-04-2013	62000	
Furniture and Fixture	21400	
Office equipment	16000	
Building	60000	
Motor Car	20000	
Sundry Creditors		43000
Loan from Ram		33000
Purchases	144200	
Sales		232600
Salaries	16500	
Rent, rates and taxes	8400	
Discount received		1600
Drawings	14000	
Printing and Stationery	1800	
Electric charges	7700	
Bad debts	3000	
Bank charges	7200	
Capital Account		162000
	472200	472200

Other Information

1. Closing Stock on 31-03-14 was ₹ 72000.
2. Depreciate – Building by 10% p.a.
Furniture and Fixture by 10% p.a.
Office Equipment by 15% p.a.
Motor Car by 20% p.a.