

3. PROFIT AND LOSS ACCOUNT

1. The Profit and Loss Account shows the net result of operations, i.e. Profit or Loss during the period.
2. From the Gross Profit, the other expenses (i.e. Administrative, Selling and Distribution, Financing, Losses, Provisions, etc.) are deducted and the Net Profit / Loss is arrived at.
3. The P&L Account should facilitate the user to make informed decisions. Hence, too much information loading is not warranted. Wherever necessary, separate supporting schedules in respect of various expenses may be added.
4. Capital Expenditure and Personal Expenditure should **not** be debited to this account. However, a suitable share of Deferred Revenue Expenditure written off is debited.
5. Care should be taken to adjust expenses for prepaid / unpaid items. Incomes should also be suitably adjusted for amounts not yet received / amounts received in advance.

3.1 Format of Profit and Loss Account

Profit and Loss Account offor the year ended

Particulars	₹	Particulars	₹
To Gross Loss, if any, b/d from Trading A/c		By Gross Profit b/d from Trading A/c	
To Administrative Expenses (individually)		By Other Income items	
To Selling & Distribution Expenses (individually)		By Net Loss, if any, transferred to Capital A/c	
To Financing Expenses (individually)			
To Depreciation			
To Other Items, Adjustments & Provisions			
To Income Tax			
To Net Profit, transferred to Capital A/c			
Total		Total	

Note: For examples in respect of the above items in P & L A/c, refer next question.

3.2 Items in Profit and Loss Account

Item	Examples
1. Administrative Expenses	<ul style="list-style-type: none"> Salaries of General Office Staff, Executives, etc. Rent, Rates and Insurance for Office Premises, Lighting and Electricity in Office, Printing and Stationery, Postage and Telegrams, Repairs & Maintenance of Office Building / Furniture, Telephone & Mobile Phone Expenses, Books and Periodicals, Legal Expenses (of revenue nature), Audit Fees, etc.
2. Selling and Distribution Expenses	<ul style="list-style-type: none"> Salesmen Salaries and Commission, Agents' and Dealers' Commission, Advertising, Publicity and Sales Promotion, Insurance of Finished Goods Stock and Goods-in-Transit, Fuel, Repairs and Maintenance of Delivery Vans, Vehicles, etc. Carriage / Freight outwards, / Cartage on Sales, Warehousing Expenses, Packing and Forwarding (on Sales), Export Duties, if any, Bad Debts, etc.
3. Financing Expenses	<ul style="list-style-type: none"> Interest paid on Term Loans, Working Capital Loans, Unsecured Loans, etc. Discount on Bills Discounted with Bank. Discount Allowed to Customers (Cash Discount for early payment by Customers.)
4. Depreciation	Depreciation on various assets is generally shown as a separate line item in the P&L A/c. Depreciation on Machinery only, is taken to Manufacturing A/c, if separately given.
5. Other Items, Adjustments & Provisions	<ul style="list-style-type: none"> Adjustments and write-offs in respect of Goodwill, Preliminary Expenses, portion of Deferred Revenue Expenditure, etc. Provision for Bad and Doubtful Debts, Provision for Discount Allowed to Debtors, Provision for Repairs and Renewals, etc. Items like Loss on Sale of Fixed Assets / Investments, Loss (net of Insurance Claim) in respect of abnormally lost goods, etc.
6. Income Tax	See Point No. 6.7 below.
7. Other Income	<ul style="list-style-type: none"> Rent from Properties and Buildings let-out, or sub-let, etc. Interest on Investments in Fixed Deposits, Government Securities, Dividend from Shares, Mutual Funds, etc. Profit / Gain on Sale of Fixed Assets (or) Investments, Discount and Rebate Received from Suppliers / Creditors, Sale of Old Newspapers, Junk Materials, etc. Bad Debts Recovered, if any, Income from specific activities, like Consignment, Joint Venture, etc.

3.3 Closing Entries for Profit and Loss Account

	Transaction	Journal Entry	Remarks
1.	Transfer of Gross Profit from Trading A/c	Trading A/c Dr. To Profit & Loss A/c	The amount of GP is written on the Credit Side of the P & L A/c.
2.	Transfer of Gross Loss, if any, from Trading A/c	Profit & Loss A/c Dr. To Trading A/c	Gross Loss, if any, is written on the Debit Side of the P & L A/c.
3.	Transfer of Indirect Expenses to P&L A/c	Profit & Loss A/c Dr. To Various Expense A/cs individually	Each Expense is shown as a separate line item. However, if the items of expenses are numerous, a separate supporting schedule may be prepared.
4.	Transfer of Indirect Incomes to P&L A/c	Indirect Incomes A/c Dr. To Profit & Loss A/c	Each Income is shown as separate line item in the P&L A/c.
5.	Transfer of Net Profit from P&L A/c to Capital A/c	Profit & Loss A/c Dr. To Capital A/c	If Cr. Side Total > Dr. Side Total, the difference is called Net Profit.
6.	Transfer of Net Loss, if any, from P&L A/c to Capital A/c	Capital A/c Dr. To Profit & Loss A/c	If Dr. Side Total > Cr. Side Total, the difference is called Net Loss.

3.4 Profit and Loss Appropriation Account

1. Appropriation of Profit means utilizations of profit for specified purposes.
2. P & L Appropriation A/c is that segment / portion of the P & L Account wherein the **appropriations** of profit, are expressed, e.g. Transfer to Reserves, Excess Provisions, Dividends, etc.
3. In this account, in addition to the balance of profits brought forward from the previous period, the current year profits / losses are also shown.
4. Appropriation of Profits, e.g. Transfer to Reserves, Interest on Capital, Salaries of Partners or for payment of Dividends in case of a Company, are shown herein.
5. The Closing balance is transferred to Capital Account in case of Sole Proprietor and Partnership Businesses. However, in case of Company, the unappropriated balance is carried forward to the following year and is shown in the Balance Sheet under the head "Reserves and Surplus".

3.5 Above the line and Below the line items

Above the Line	Below the Line
It is the segment of the P & L Account wherein the Net Profit or Loss is determined after – (a) crediting all the Revenues, Gains and Profits, and (b) debiting all the expenses and working charges attributable to the period.	It is the segment of the P & L Account wherein the adjustments, appropriations, utilizations of profit are expressed, e.g. Transfer to Reserves, Excess Provisions, Dividends, etc.
The Manufacturing, Trading and Profit and Loss Account constitute the " above the line " segment.	The Profit and Loss Appropriation Account and P&L Adjustment account, if any, constitute the " below the line " segment.
Provision is a necessary charge against Revenue, and is hence shown "above the line".	Reserve is an appropriation of Profit, hence shown "below the line".