

## Objectives

At the end of this chapter, students should be able to:

- Identify trading account items;
- Prepare the trading account;
- Determine cost of goods available, cost of goods sold, sales.

### 10.1 Introduction

The final accounts consist of the trading, profit and loss account and the balance sheet. The purpose of the trading account is to show the result of a business at the end of the trading period, that is, to determine the gross profit or loss made for the year.

### 10.2 Terminologies

**I. Opening Stock:** This is stock at the beginning of the trading period and it is also called stock-at-start and it is debited to trading account.

**ii. Closing Stock:** This is stock at end of the trading period and closing stock is valued at cost price or current price. Valuation is carried out by taking physical checking of goods remaining in stock on the last day of the trading period. It is either deducted on the debit side of trading account or credited to trading account.

**iii. Purchases:** This is the total amount of goods bought for the trading period. It is debited to trading account.

**iv. Cost of goods available for sale:** This is opening stock plus purchases.

**v. Cost of goods sold:** This is made up of stock at start plus purchases minus closing stock.

### Example 10.1

	₦
Stock at start	20,000
Add purchases	<u>200,000</u>
Cost of goods available for sales	220,000
Less stock at close	<u>10,000</u>
Cost of goods sold	<u>210,000</u>

**vi. Sales:** this is turnover, that is, the value of goods sold for the trading period.

**vii. Net Sales:** It is total sales less returns inwards.

**viii.Returns Inward:** This is sales returned, which is deducted from total sales.

**ix. Return Outward:** This is purchases returned which is deducted from purchases.

**x. Net Purchases:** This is the total purchase less returns outward.

**xi. Carriage Inwards:** This is carriage on purchases, that is, expenses relating to purchases. It is debited to trading account.

xii. **Gross Profit:** This is excess of sales over cost of goods sold.

xiii. **Gross Loss:** This is excess of cost of goods sold over sales.

### 10.3 Preparation of a Trading Account

A trading account is prepared as follows :

Debit side		Credit side	
	N N		N N
Opening stock	XXX	Sales	XXX
Purchases	XXX	Less return inwards	XXX
Less return outwards <u>xxx</u>	xxx		
Carriage inward	XXX		
	<u>XXX</u>		
Less closing stock	XXX		
Wages	XXX		
Gross profit	<u>XXX</u>		<u>XXX</u>
	<u>XXX</u>		

In preparing a trading account, debit trading account with opening stock, purchases and deduct returns outward, add carriage inward and finally deduct closing stock, wages.

Special items at times debited to the trading account include: wages, sales and marketing expenses e.g. advertising, promotion and outdoor salesman expenses. When the total of credit side exceeds that of debit side the difference is put on the debit as a gross profit.

Credit trading account with sales and deduct returns inwards. When the total of the debit side exceeds that of credit side the difference is put on the credit side as gross loss. Let us see how a trading account is prepared using the example below:

#### Example 10.2

The following information has been extracted from the books of C. Chuks & Sons Enterprises:

	₦
Opening stock	50,000
Purchases	200,000
Returns outward	10,000
Closing stock	25,000
Carriage inwards	15,000
Wages (production)	50,000
Returns inward	15,000
Sales	500,000

From the given data, you are required to prepare the trading account of the business.

### Solution

#### Chuks And Sons Enterprises

#### Trading account for the period ending 31<sup>st</sup> December, 2009

	₦	₦		₦	₦
Opening stock	50,000		Sales	500,000	
Purchases	200,000		Less return		
Less return Outward	250,000		inward		<u>15,000</u>
	10,000				
	240,000				
Less closing stock	25,000				
	215,000				
Carriage inward	15,000				
Wages (production)	50,000				
Cost of sales	330,000				
Wages profit	155,000				
	485,000				<u>485,000</u>

A trading account showing a gross profit

### Example 10.3

The following balances have been taken from the books of Ibukun Enterprises:

N

Opening stock	50,000
Purchases	200,000
Return Outward	10,000
Closing stock	25,000
Carriage inward	15,000
Wages (production)	50,000
Marketing expenses	10,000
Return Inward	15,000
Sales	330,000

## Solution

**Ibukun Enterprises**  
**Trading account for the year ended 2009**

	N	N		N	N
Opening Stock		50,000	Sales		330,000
Purchases		200,000	Less return inward		15,000
		250,000			
Less return outward		10,000			
		240,000			
Less closing stock		25,000			
		215,000			
Carriage inward		15,000			
Wages		50,000	Gross loss		15,000
Marketing expenses		50,000			
Cost of sales		330,000			330,000

A trading account showing a gross loss.

## 10.4 Summary

In this chapter, students have learnt:

- What a trading account is.
- How to identify the various items in trading account.
- How to prepare a trading account.
- How to determine gross profit and gross loss.

## 10.5 Revision Questions

1. A trading account is a \_\_\_\_\_.

- A. monthly account
- B. periodic account
- C. final account
- D. control account

2. A trading account is prepared to determine \_\_\_\_\_.

- A. cost

B. gross profit

C. sales

D. turn over

3. Cost of goods sold is \_\_\_\_\_.

A. purchases plus opening stock

B. opening stock plus closing stock

C. sales less purchase

D. goods available less closing stock

4. Cost of goods sold less sales is \_\_\_\_\_.

A. turnover

B. gross loss

C. gross profit

D. net loss

5. In a trading account, purchases are \_\_\_\_\_.

A. debited

B. added

C. credited

D. deducted

6. (a) What is a trading account?

(b) State the procedures for the preparation of trading account.

7. Define the following in relation to a trading account:

(a) purchases

(b) sales

(c) returns outward

(d) returns inward

8. Study the following information:

	₦
1 <sup>st</sup> January 2008	80,000
Opening stock	20,000
Closing stock	30,000
Goods bought during the year	60,000
Returns inward	5,000
Returns outward	15,000
Sales	250,000

From the above information, calculate:

(a) purchases

(b) available goods for sale

(c) cost of goods sold

(d) gross profit

9. Prepare the Trading Account for S. Walker for the year ended 31<sup>st</sup> Dec., 2006 from the particulars below:

	₦
Opening stock	10,000
Credit purchases	7,000
Cash purchases	270,000
Credit sales	8,000
Cash sales	400,000
Returns outward	15,000
Returns inward	4,000
Closing stock	7,000
10. Returns inward	8,000
Carriage outward	6,000
Purchases	40,000
Value added tax	1,400
Packing expenses	1,500
Wages	8,000
Sales	50,000

The above information was extracted from the books of Kayboy Pariola and Co. Limited. Prepare the business' trading account. 11. Mallam Musa had the following balances in his ledgers. Prepare the trading account of the business.

	₦
Wages	20,000
Carriage outwards	5,000
Purchases	90,000
Opening Stock	20,000
Closing stock	15,000
Sales	110,000