

## **Chapter - 6**

### **Final Accounts**

#### **Learning Objectives :**

We can learn the following points from this chapter.

- ✓ Meaning and Importance of Final Accounts
- ✓ Format and preparation of Manufacturing Account, Trading Account, Profit and Loss Account and Balance Sheet.
- ✓ Difference between Trail Balance and Balance Sheet.

#### **Meaning and Importance :**

In Accountancy, to calculate profit and loss of business and estimate the financial position of organisation, statements prepared with the help of Trail Balance for Accounting year ending are called Final Accounts. Any business organization, involved in purchase-sale of goods will have to prepare final accounts and also prepare manufacturing account for purchase of raw materials which is to be converted into finished goods for sale. Preparing final accounts is the last step of Dual Entry System.

There are two main objectives of Final Accounts, first to know about the profit and loss of the business from Profit and Loss Account and second to know about the financial position of the business from Balance sheet. Trading and Profit & Loss Account provides information only for one accounting period but Balance Sheet gives information from the beginning to till date of business. These are very useful for management, investors, creditors, bank, employees, associations, government, institutions, researchers, consumer union etc.

Final Accounts provide the information that what is the trend or path of profit and loss of the business of the previous year. Final Accounts provide information regarding direct and indirect expenses, reserves for future uncertainty, different provisions and ratios which are helpful for taking management decisions. It is the base of Management Accounting, without these future estimations are not possible.

#### **Meaning of Manufacturing Account:**

The organisation, which is manufacturing the goods itself, prepares Manufacturing Account to calculate production cost /factory cost. In this they write all manufacturing cost and transfer into Trading Account. It mentions in Trading Account as a stock and calculates gross profit or loss, which is to be transferred to Profit and loss account.

In Manufacturing Account, opening stock of raw materials, purchasing of raw materials, carriage inwards, wages, factory expenses, work in progress etc. are to be written on debit side and on credit side, closing stock of raw materials and closing stock of work-in-progress is mentioned then calculate its amount of difference, which is cost of production. Stock can be adjusted in debit side like

(Opening stock plus purchases) minus closing stock = materials used in production

If it mentions that the goods is manufactured in this firm then Manufacturing Accounts is to be prepared.

**Necessity:** The organisation which is involved in production and marketing, uses it to calculate production cost.

**Objective:** If any organisation is manufacturing products, it is necessary to check production cost. If the production cost is high then it is beneficial to purchase it, and if production cost is lower than purchase of goods, is more beneficial to manufacture.

**Format of Manufacturing Account:**

**Manufacturing A/c for the year ended**

Particulars	Amount ₹	Particulars	Amount ₹
To Opening stock of Work-in-Process		By Closing Stock of Work-in-Progress	
To Opening stock of Raw Material .....		By Closing Stock of Raw Materials	
Add: Purchase of raw material .....		By Sale of waste material	
Less: Closing stock of Raw material .....		By Cost of Production	
<b>Material Consumed</b>			
To Wages			
To Direct Expenses			
To Carriage Inward			
To Cartage			
To Custom Duty			
To Excise Duty			
To Productive Expensive			
To Motive Power			
To Factory Rent			
To Repairs			
To Factory Expenses			
To Consumable Stock			
To Depreciation on Plant			
To Other Production expenses			

**Example:01**

From the following information, prepare Manufacturing A/c at the end of accounting year (31<sup>st</sup> March 2017)

	₹
Opening stock of Raw Material (01.04.2016)	50,000
Opening stock of Work in Progress (01.04.2016)	2,00,000
Sale of waste Material	15,000
Purchase of raw material	10,00,000
Productive Expenses	2,000
Carriage Inwards	5,000
Custom Duty	20,000
Excise Duty	15,000
Depreciation on Plant	50,000
Wages	1,75,000
Repairs	18,000
Factory salary	75,000
Rent & Taxes	10,000
Consumable Stocks	17,000
Direct Expense	20,000
Indirect Expenses	35,000
Closing stock of Raw Material (31.03.2017)	60,000
Closing stock of Work-in-Progress (31.03.2017)	2,50,000

**Manufacturing Account  
for the year ending 31<sup>st</sup> March 2017**

Particulars	Amount ₹	Particulars	Amount ₹
To Work -in-Process	2,00,000	By closing Stock of Work-in-Progress	2,50,000
To opening stock of Raw Material	50,000	By Sale of waste material	15,000
Add:Purchase of raw material	10,00,000	By Cost of Production	13,22,000
Less: Closing stock of Raw material	60,000		
Material Consumed	9,90,000		
To Productive Expenses	2,000		
To Carriage Inward	5,000		
To Excise Duty	15,000		
To Depreciation on plant	50,000		
To Wages	1,75,000		
To Repairs	18,000		
To Factory salary	75,000		
To Consumable Stock	17,000		
To Direct Expenses	20,000		
	<b>15,87,000</b>		<b>15,87,000</b>

## **Capital and Revenue expenditure:**

At the end of Accounting year, Trail balance is prepared from the balances of all business transactions and after that with this, Final Accounts are prepared. All Revenue items are to be shown in Trading and Profit and Loss Account and all Capital items are to be shown in Balance Sheet. So the balances of transactions in Trail balance are Revenue and Capital in nature. Capital Expenditures are those items, whose benefit is continued for more than one year such as – Building, Furniture, Investment, long term loan etc. And Revenue Expenditures are those items, whose benefit will be only for current accounting year. Such Purchase, Sale, salaries etc. Here is the classification of Revenue and Capital on the basis of expense and receiving.

### **Capital Expenses:**

Capital Expenses are those expenses, whose benefit is continued for more than one year. Expenses on expansion of fixed assets, expenses for increase in capacity, power, expenses on increase in efficiency, on new installation etc are in the nature of Capital Expenses. For example, expenses on purchasing of tangible and intangible assets, for reducing the operating cost, converting Petrol car into Diesel car, fee paid for construction of map, stamp duty for purchasing of assets, change in machinery parts for increase in efficiency and any important repairing are considered as Capital Expenses.

### **Revenue Expenses:**

Revenue Expenses are those expenses, whose benefit will be only for current accounting year. These are also called Recurring Expenses. Like purchase of goods, wages, salaries, carriage, insurance expenses, direct and indirect expenses etc. Apart from these, repairing and maintenance of fixed assets, depreciation, expenses on purchasing goods etc are also included in Revenue.

### **Revenue Expenses that may be Capital Expenses:**

From the above explanation it is clear that Revenue Expenses increase the profit of the business and Capital Expenses increase the capacity to earn profit. But in some conditions revenue expenses may be capital expenses, like...

- Repair, wages, legal expenses, brokerage and commission, transportation cost etc which is paid for purchasing of fixed assets. These expenses will be added in fixed Assets cost and considered as capital expenses.
- Raw Materials- if any goods is purchased for selling but some is used in its own fixed Assets, then it is also called Capital expenses.
- Interest on Capital- During work in process of fixed assets, interest on it, will be treated as Capital expenditure.

### **Deferred Revenue Expenditures:**

The Revenue Expenditures, whose benefit will be for many years in organisation and which are of large amount, then expenses will be called Deferred Revenue Expenditure. So whole amount should not be shown in only current year account, it is to be divided in a ratio for all years till the benefit received. A part of this is



to be debited to P&L Account, and remaining amount will be shown on Assets side of Balance Sheet as Fictitious Assets. These expenses include advertisement expense on new product, preliminary expenses for starting of new business, Research & Development Expenses etc. Apart from these, loss for natural disaster like damage of building, machinery, furniture etc due to Earthquakes, are also written off in subsequent years and considered as Deferred Revenue Expenditure.

### **Capital Receipts:**

Capital Receipts are those receipts, which are received as capital in business, such as loan, and sale of fixed assets. Receipts from capital and loan are Liabilities of firm and sale of assets is Capital Receipt. Capital receipts do not affect loss or profit of business, but increase liabilities and reduce assets, so it is shown in Balance Sheet.

### **Revenue Receipts:**

Revenue Receipts received from operations of business, which is generated from sale of goods and services. It is written on credit side of Trading and P&L Account. For example sales, interest on investment, interest on fixed deposits, received profit, commission, fees, discount, rent, royalties, dividend etc.

### **Difference between Capital Expenses and Revenue Expenses:**

S.No	Basis	Capital Expenses	Revenue Expenses
1	Nature of expenses	In this we consider expenses on purchase of fixed assets like rent, carriage expenses, installation expenses, commission etc.	The expenses on purchase on current assets are called Revenue Expenses.
2	Objective	Purchasing of fixed assets for business.	This is for operations of business.
3	Capacity	Increase earning capacity of the business.	They are spent for earning of profit.
4	Duration	This expense is for more than one year.	This is only for receiving current accounting year profit.
5	Presentation	Shown in Balance Sheet	Shown in Trading and P&L Account.
6	Nature of Account	They are assets of organisation	They are expenses of business

### **Difference between Capital Receipts and Revenue Receipts:**

S.No	Basis	Capital Receipts	Revenue Receipts
1	Nature of receipt	Received from capital and loan, sale of fixed assets.	Received from sale of goods and services.
2	Presentation	Presented in Balance Sheet.	Presented in Trading and P&L Account.
3	Business regulation	It is not generated from operations of business.	It is generated from operations of business.
4	Continuity or non continuity	It is not continued for every year.	It is received every year.

**Example 02:**

From the following transactions, classify Capital Receipts /Expenses and Revenue Receipts/ Expenses with reason.

- i. Expenses on Advertisement for launching a new product in the market ₹ 10 Lakh
- ii. Paid wages for installation of new Machinery ₹ 10,000.
- iii. Paid Insurance Premium of Motor Car ₹ 7,000.
- iv. Paid custom duty on import of New Machine ₹ 50,000.
- v. Expense on A.C. in manager's office ₹ 1,00,000.
- vi. Donation for Flood Relief Fund ₹ 50,000.
- vii. Paid Life Insurance Premium of Trader ₹ 5,000.
- viii. Paid on carriage to transfer production facilities and stock at safer place ₹ 1,00,000
- ix. Paid on License to open new Cinema ₹ 75,000 and distribute 5,000 free tickets ₹ 150 in the First Week of opening.

**Solution:**

- i. The expense on advertisement for launching a new product is Deferred Revenue Expense, because its benefit will be received for many years. So a part of this is to be written-off in ratio or as per business rule and remaining amount is to be shown in Balance Sheet.
- ii. Paid wages on installation of new machine is a Capital expense, because it is paid for new assets and it is to be added to Machinery Cost.
- iii. Expense on repairing of old motor ₹ 20,000 is a Capital Expense. It is an assets cost because it is spent on taking use of assets.
- iv. Legal Charge on misuse of business logo is Revenue Expense, because it is normal expense to regulate the business.
- v. Annual Insurance Premium ₹7,000 of Motor Car is Revenue Expense. Annual Expense is considered as normal expense.
- vi. Paid Custom Duty ₹ 50,000 on purchase of assets is Capital Expense. It will be included in cost of machine, because it is at the time of purchasing.
- vii. A.C. on Manager's office ₹ 1, 00,000 is Capital Expense, because it will be benefited for many years.
- viii. Donation ₹ 50,000 is normal expense, so it is Revenue Expense.
- ix. Life Insurance of Trader is personal expense. So it is not taken in to business expense.
- x. Transfer of business in safer place is a Deferred Revenue Expense, so it is to be written-off in a ratio in every year to P&L Account and remaining to be shown in Balance Sheet.
- xi. Paid on License is Capital Expense and free tickets distribution is Revenue Expense but if its aim to popularise the Cinema then it is Deferred Revenue Expense.

**Trading Account:****Meaning of Trading Account:**

From Trading Account, we can find out gross profit/loss for an Accounting period. Difference between cost of goods sold and net sale value, will be gross profit and loss can be calculated. If net sales is more than cost of goods then there is Gross Profit and if it is less then there is Gross Loss. It can be presented like this:

$\text{Net Sales} - \text{Cost of Goods Sold} = \text{Gross Profit}$

Or

$\text{Gross Profit} + \text{Cost of Goods Sold} = \text{Sales}$

$\text{Gross Profit} = \text{Net Sales} - (\text{Opening Stock} + \text{Purchases} + \text{Direct Expense} - \text{Closing Stock})$

Or

$\text{Net Sale} = \text{Gross Profit} + \text{Opening Stock} + \text{Net Purchases} + \text{Direct Expense} - \text{Closing Stock}$

### **Objective :**

The main objective of Trading Account is to calculate Gross Profit, information of direct expense, closing stock, opening stock, net purchase, net sales and calculation of cost of goods sold. It helps to compare the gross profit rate. If there is gross loss then management can be aware of it and reduce it.

### **Items, which are written on Debit Side:**

- **Opening Stock:** Unsold goods of last year is shown on Balance Sheet's assets side and the same is current year stock which is mention on Debit Side of Trading Account.
- **Purchases:** In Purchases, cash and credit purchases are included. For calculation of net purchase, Purchase Return is deducted from Purchase. Personal use of goods, goods for charity, goods for free sample etc are not included in Net Purchase. If it has been included in Purchases, then it is to be deducted from it. In Balance Sheet it is already deducted. So Goods for free sample, goods for charity is shown in P&L A/c and Drawings is deducted from capital in Balance Sheet. Trading Discount is deducted from Purchase then entered.
- **Direct Expenses:** The expenses for purchase of goods up to delivery to warehouse are called Direct Expense. Similarly the expenses from purchasing of raw material to convert into finished goods are also Direct Expenses. The examples of Direct Expenses are.....
  - Freight, carriage, Cartage etc.: freight on purchasing of goods, carriage, cartage etc are shown in Debit Side of Trading Account. Carriage inwards is also shown in Debit Side of Trading Account.
  - Dock Charges, Custom Duty and Excise Duty
  - Manufacturing Expenses for production of goods, power used in factory, fuel, coal, gas, factory lighting, oil, depreciation on machine etc.
  - Wages, wages & salaries
  - Royalty: Amount which is paid for use of assets.
  - Packing Material and Expenses

### **Items which are written on Credit Side:**

- **Sales:** Sales include cash and credit sales both. Sales Return is deducted from sales to calculate Net Sales. Trade Discount is also deducted from sales and then credited to Sales A/c. If trade discount is mentioned in Trail Balance then it is to be deducted from Sales.
- **Closing Stock:** At the end of the accounting year, if all purchased goods are not sold then remaining goods are called Closing Stock. It is not written in Trail balance, because its calculation is done at the time of final accounts and after the trail balance. Till this time, it is not the part of accounting, so in

Dual Accounting System it is written for two times, first credit side of Trading Account and second at Assets side of the Balance Sheet. Entry-

Closing Stock	A/c	Dr
	To Trading A/c	

(Closing stock transferred to Trading A/c)

But if Closing Stock is written in Trail Balance then it is only shown in assets side of Balance Sheet. It is adjusted before preparing Trail Balance.

Closing Stock	A/c	Dr.
To Purchases	A/c	

(Being the closing stock brought into books)

### **Format of Trading Account**

**Trading Account for the year ending.....**

Particulars	Amount ₹	Particulars	Amount ₹
To Ppening stock	.....	By Sales	.....
To Purchase	.....	Less: sales return	.....
Less: Purchase return	.....	By Closing Stock	.....
To Wages and salaries	.....	By Gross Loss transferred to	
To Direct expenses	.....	P&L A/c	.....
To Carriage inwards	.....		
To Freight, Octroi and cartage	.....		
To Gas, Fuel and power	.....		
To Manufacturing expenses	.....		
To Royalty	.....		
To import duty	.....		
To Dock Charge and Clearing	.....		
Charges	.....		
To Factory expenses	.....		
To Gross Profit transferred to			
P&L A/c (Balancing figure)	.....		
	.....		.....

Transfer of transactions related to Trading Accounts to Trading Account is called Closing Entries. This is done like this....

- 178

- If total of debit side of trading account is more than that of credit side then Gross Loss transferred into P&L A/c

### Example 03:

Particulars	Amount ₹	Particulars	Amount ₹
Stock (1.4.16)	400000	Office Rent	50000
Purchases	1500000	Factory Rent	80000
Sales	3800000	Carriage Outward	50000
Freight and Octroi	50000	Carriage Inward	30000
Wages	225000	Return Inward	150000
Factory Lighting	80000	Return Outward	90000
Import Duty	200000	Coal Gas and Water	15000
		Repairs	20000

**Solution :-**

## Trading Account

for the year ending 31<sup>st</sup> March 2017

Dr.			Cr.		
Particulars		Amount ₹	Particulars		Amount ₹
To Opening Stock		400000	By Sales	3800000	3650000
To Purchases	1500000		Less : Return Inward	150000	
Less : Return Outward	90000	1410000	By Closing Stock		550000
To Fright and Octroi		50000			
To Wages		225000			
To Factory Lighting		80000			
To Import Duty		200000			
To factory Rent		80000			
To Carriage Inwards		30000			
To Coal, Gas and Water		15000			
To Gross Profit		1710000			
transferred to P&L A/c					
		42,00,000			42,00000

Note : In Trading Account, only Direct expenses are to be included, so office rent, repairs, carriage outward are not part of trading account.

**Example 04:**

From the following information calculate cost of goods sold.

Particulars	Amount ₹	Particulars	Amount ₹
Opening Stock	80000	Purchases (Net)	350000
Closing Stock	150000	Carriage on Sales	10000
Purchase Return	40000	Direct Expenses	90000
Sales Return	60000	Indirect Expenses	75000
		Sales (Net)	600000

**Solution:**

Cost of goods Sold = Opening Stock + Net Purchase + Direct Expenses – Closing Stock  
 = ₹ 80,000 + 3,50,000 + 90,000 - 1,50,000 = ₹ 3,70,000

Note: Purchase Return and Sales Return is already deducted from Net Purchase and Net Sales so it is not adjusted again in cost of goods sold.

Indirect Expenses are not included in it.

**Example 05:**

Calculate Gross Profit from the following information.

Total purchases during the year ₹ 24,00,000

Purchases Return ₹ 50,000

Direct Expenses ₹ 2,00,000

4/5<sup>th</sup> of Goods sold on ₹ 25,00,000

**Solution:-**

Cost of Goods sold = Total Purchase - Purchase Return + Direct Expenses  
 = ₹ 24,00,000 – 50,000 + 2,00,000  
 = ₹ 25,50,000

4/5 of the goods are sold for ₹ 25,50,000

Cost of 4/5 of the goods sold = ₹ 25,50,000 \* 4/5  
 = ₹ 20,40,000

Gross Profit = Sales – Cost of Sales  
 = ₹ 25,00,000 – 20,40,000  
 = ₹ 4,60,000

**Example 06:**

From the following information calculate the cost of goods sold and closing stock.

Sales ₹ 10,00,000; Sales Return ₹ 30000; Gross Profit ₹ 2,50,000; Opening Stock ₹ 40,000; Purchase ₹ 8,00,000; Purchase Return ₹ 10,000; Carriage Inward ₹ 30,000

**Solution:**

Net Sales	=	Sales – Sales Return = ₹ 10,00,000 – 30,000 = ₹ 9.70,000
Cost of Goods Sold	=	Net Sales – Gross Profit = ₹ 9,70,000 - ₹ 2,50,000 = ₹ 7,20,000
Cost of Goods Sold	=	Opening Stock + Purchase – Purchase Return + Carriage Inward – Closing Stock
	=	₹ 7,20,000 + 40,000 + 8,00,000 – 10,000 + 30,000 - Closing Stock
₹ 7,20,000	=	₹ 8,60,000 – Closing Stock
Closing Stock	=	₹ 1,40,000

**Example 07:**

On 3<sup>rd</sup> Dec 2016 some goods are shown from Mr. A's warehouse. From the following information estimate the cost of goods theft.

	₹
Stock on 1 <sup>st</sup> April 2016	2,50,000
Purchase from 1 <sup>st</sup> April to 3 Dec 2016	20,00,000
Sales from 1 <sup>st</sup> April to 3 Dec 2016	28,00,000
Stock remaining after theft	70,000
Generally gross profit is 40% of sales	

**Solution:**

**Memorandum Trading Account**  
for the period 1st April to 3rd December 2016

Dr.		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹
To Opening Stock	250000	By Sales	2800000
To Purchases	2000000	By Closing Stock	570000
To Gross Profit (40% on Sales)	1120000	(Balancing Figure)	
	3370000		3370000

Closing stock on date of theft	₹ 5,70,000
Stock remaining after theft	₹ 70,000
Estimated cost of goods theft.	₹ 5,00,000

**Note:** In the mid of year with the help of Memorandum trading Account expected amount suspense item.

**Profit & Loss Account-****Meaning:**

In Trading Account with calculation of all direct expense related to purchasing we get Gross Profit. In next step, all indirect expenses are written in P&L A/c. Office and Administrative Expenses and Selling & Distribution Expenses are included in P&L A/c. Difference of account is called Net Profit or Loss and transferred into Capital A/c.



## Objectives-

- **Calculation of Net Profit or Loss-** with the help of total indirect expenses and indirect income, Net Profit or Loss is to be calculated. Gross Profit or Loss is adjusted into total income and expenses to calculate Net Profit or Loss.
- **To control the expenses-** There can be control on expenses by comparing it from previous year to current year.
- **To compare profit from previous years-** with the comparison of last year's net profit with current year's profit get information that what are the business trends.
- **Help in calculation of Income Tax.**

## Items which are shown in Profit & Loss Account

In this account Gross Profit or Loss are transferred from Trading Account and written with indirect expenses.

## Items which are written on Debit Side of Profit and Loss Account:

- **Gross Loss-** If there is gross loss in business, then it is written first on debit side of P&L A/c.
- **Office and Administration Expenses-** The indirect expenses, which are related to office and administrative expenses, are included in it. Like – salaries, wages of office workers, rent of office, lighting, stationary, legal expenses, auditing fee, office furniture and its repairing, insurance of office building etc.
- **Selling and Distribution Expenses-** It is related to selling and distribution work of business, like advertisement, packing, carriage outward, commission, bad debts, insurance of godown, depreciation of vehicles etc.
- **Financial Expenses-** Interest on loan, interest on capital, discount etc.
- **Abnormal Losses-** loss on sale of assets, loss by fire, loss by theft, frauds etc are written on debit side of account.

The following expenses are not written on debit side of P&L A/c because these are personal expenses of trader, so Drawing is deducted from capital:

House hold expenses, withdrawal of cash or goods for personal use, income tax and life insurance premium.

## Items which are written on credit side-

- **Gross Profit** – Gross Profit which is transferred from Trading Account is written on credit side of this account.
- **Other Income-** In this, other income related to business like received commission, profits by joint stock are included. The income which is not related to business, also is written in credit side such as received interest, income from investment, interest on drawings, discount received, profit on sale of assets.

### Format of Profit and Loss Account:

Dr.		Profit and Loss Account for the year ending.....		Cr.
Particulars	Amount₹	Particulars	Amount₹	
To Gross Loss (transferred from Trading Account)	.....	By Gross Profit (transferred from Trading Account)	.....	
<u>To Office &amp; Administration Expenses</u>				
To Salaries	.....	By Rent	.....	
To Salaries and Wages	.....			
To Rent, Rates & Taxes	.....	By Discount Received	.....	
To Printing & Stationary	.....	By Commission Received	.....	
To Postage and Telegrams	.....	By Interest on Investment	.....	
To Lighting	.....	By Dividend on Shares	.....	
To Insurance Premium	.....	By Bad Debts Recovered	.....	
To Telephone Charges	.....	By Apprentice Premium	.....	
To Legal Charges	.....	(Income from providing training to someone)	.....	
To Audit Fess	.....	By Profit on Sale of Assets	.....	
To Establishment Expenses	.....	By Income from other sources	.....	
To Trade Expenses	.....	By Miscellaneous Receipts	.....	
To General Expenses	.....	By Net Loss (if any)	.....	
<u>To Selling and Distribution Expenses</u>		(Transferred to Capital A/c)	.....	
To Carriage Outward or on Sales	.....			
To Advertisement	.....			
To Commission	.....			
To Brokerage	.....			
To Bad Debts	.....			
To Export Duty	.....			
To Packing Charges	.....			
To Delivery Van Expenses	.....			
To Travelling Expenses	.....			
To Stable Expenses	.....			
<u>To Financial Expenses &amp; Abnormal Expenses</u>				
To Discount Allowed	.....			
To Repairs	.....			
To Depreciation	.....			
To Interest	.....			
To Bank Charges	.....			
To Entertainment Expenses	.....			
To Conveyance Expenses	.....			
To Donation and Charity	.....			
To Loss on Sale of Assets	.....			
To Loss by fire	.....			
To Net Profit (transferred to Capital A/c)	.....			
	.....			.....

**Closing Entries:**

The transaction related to profit and loss, transferred into P&L Account is called Closing Entries.

- 1) Closing entries on Debit side of profit and loss A/c

P & L A/c Dr

To Salaries A/c

To Salaries and Wages A/c

To Rent, Rates and Taxes A/c

To Carriage Outward A/c

To Interest on Loan A/c

To General Exp. A/c

(Debit balance of nominal A/cs transferred to P&L A/c)

Closing entries on Credit side of Profit and Loss

Rent Received A/c Dr.

Discount Received A/c Dr.

Profit on Sales of Asset A/c Dr.

To P&L A/c

(Credit balance of nominal A/cs transferred to P&L A/c)

- 2) Transfer of Net Profit to Capital Account:

P&L A/c Dr.

To Capital A/c

(Net Profit transferred to Capital A/c)

- a3) Transfer of Gross Loss into Capital A/c:

Capital A/c Dr.

To P&L A/c

(Net Loss transferred to Capital A/c)

Profit is divided into Operating Profit and Net Profit. The profit which is generated from the operations of business is called Operating Profit. So in P&L A/c transactions like indirect expenses, gross profit, received commission etc. which is related to business operation are written and difference in debit and credit side is called Operating Profit. After the adjustment of financial expenses and non-business items in this profit, Net Profit is calculated.

**Example 08:**

**From the following information prepare P&L A/c for Year ending 31<sup>st</sup> March 2017**

Particulars	Amount ₹	Particulars	Amount ₹
Gross profit	20,50,500	Unproductive Expenses	30,000
Selling Expenses	51,000	Travelling Expenses	22,000
Office Rent	75,000	Miscellaneous Receipt	5,000
Trade Expenses	20,000	Export duty	20,000
Carriage Outward	90,000	Stable Expenses	10,000
Office Salary	1,50,000	Interest on Loan	20,000
Postage & Telegram	7,000	Discount received	6,000
Legal Charges	2,000	Bad Debts	10,000
Audit Fees	10,000	Commission (Cr)	8,000
Donation	15,000	Lighting	18,000
Sundry Expenses	4,000	Discount (Dr)	25,000
Insurance premium	10,000	Repairs	5,000

**Profit and Loss Account**  
For the year ending 31st March 2017

Dr.		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹
To Selling Expenses	51000	By Gross Profit	2050000
To Office Rent	75000	By Commission	8000
To Trade Expenses	20000	By Discount Received	6000
To Carriage Outward	90000	By Miscellaneous Receipts	5000
To Office Salary	150000		
To Postage and Telegram	7000		
To Legal Charges	2000		
To Audit Fess	10000		
To Donation	15000		
To Sundry Expenses	4000		
To Unproductive Expenses	30000		
To Travelling Expenses	22000		
To Export Duty	20000		
To Stable Expenses	10000		
To Interest on Loan	20000		
To Bad Debts	10000		
To Lighting	18000		
To Discount	25000		
To Repairs	5000		
To Insurance Premium	10000		
To Net Profit transferred to Capital A/c	1475000		
	2069000		2069000

**Example 09:**

**From the following information, calculate Gross Profit, Net Profit and Operating Profit for the year ending 31<sup>st</sup> March 2017.**

Particulars	Amount ₹	Particulars	Amount ₹
Stock (1.4.16)	5,00,000	Office Expenses	9,000
Purchase	40,00,000	Commission paid	6,000
Purchase return	1,50,000	Commission received	15,000
Sales	2,50,000	Interest on Loan	40,000
Sales Return	60,00,000	Dividend on Investment	6,000
wages	1,70,000	Printing and Stationary	9,000
Advertisement	25,000	Loss on Sale on machinery	70,000
Salaries	5,00,000	Carriage on Sales	3,000
Rent and taxes	1,50,000	Carriage on purchase	2,000
Lighting	35,000	Profit on Sale of Building	1,50,000
Travelling Expenses	10,000		
Loss by theft	25,400		
Life Insurance Premium	5,000		

(Closing Stock was valued at ₹ 5,00,000)

**Solution:**

### Trading and Profit and Loss Account

For the year ending 31st March 2017

Dr.

Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Opening Stock	500000	By Sales	6000000
To Purchases	4000000	Less : Sales Return	250000
Less : Purchase Return	150000	By Closing Stock	500000
To Wages	170000		
To Carriage on Purchases	2000		
To Gross Profit	1728000		
(transferred to Profit & Loss A/c)			
	6250000		6250000
To Office Expenses	9000	By Gross Profit	1728000
To Commission Paid	6000	By Commission Received	15000
To Interest on Loan	40000		
To Carriage on Sales	3000		
To Salaries	500000		
To Advertisement	25000		
To Rent & Rates	150000		
To Lighting	35000		
To Travelling Expenses	10000		
To Printing & Stationary	9000		
To Operating Profit C/F	956000		
	1743000		1743000
To Non-Operating Expenses :		By Operating Profit B/F	956000
Loss by theft	25400	By Non-Operating Income :	
Loss on Sales of Machinery	70000	Dividend on Investment	6000
To Net Profit transferred to Capital A/c	1016600	Profit on Sale of Building	150000
	1112000		1112000

Note: Life Insurance Premium is a personal Expense. It is a part of Drawing so not mentioned in the above Trading and P&L A/c.

#### Example 10:

**From the following information, calculate Operating Profit.**

Net Profit ₹ 5,00,000; Rent Received ₹ 40,000; Donation ₹ 15,000; Interest on Loan ₹ 90,000; Gain on Sale of machine ₹ 70,000, and Loss on Sale of Furniture ₹ 10,000.

**Solution:**

$$\begin{aligned}\text{Operating profit} &= \text{Net Profit- Non Operating income} + \text{Non-operating Expenses} \\ &= \text{Net Profit- Rent received} - \text{Gain on Sale of Machine} + \text{Interest on Loan} + \text{Donation} + \\ &\quad \text{Loss on sale of Furniture} \\ \text{Operating profit} &= 5,00,000 - 40,000 - 70,000 + 15,000 + 10,000 \\ &= ₹ 5,05,000\end{aligned}$$

**Statement of Affairs/Position Statement/Balance Sheet:****Meaning-**

To know the financial position of business, statement of Affairs or Balance Sheet is prepared at the end of the Accounting year, because Trading and P&L Account shows only a single year statement. Trading and P&L Account helps in taking short term decision but for long term decision, we require Balance Sheet. Balances of all Personal and Real accounts are written in Balance Sheet. Debit Balance is written on Assets side and credit balance is written on Liabilities side.

**Objectives:**

- To know proper information of financial position of the business at the end or mid of the year.
- To take information of all types of assets like closing stock, debtors, artificial assets, fixed assets and investments.
- To get information of all type of Liabilities like loan, current liabilities capital etc.
- From the basis of Balance Sheet next year's first entry (opening entries) is completed.
- To get information of solvency of firm. If assets are more than liabilities then business- man is solvent or otherwise he may become insolvent.
- Helps to calculate suspense items before the last date.

**Significance:**

- Trading and P&L Account and Balance Sheet are Final Accounts. Balance Sheet is a statement, which does not show 'To' and 'By'. It is not an account but a statement.
- Balances of Personal and Real Accounts are shown in Balance Sheet. They are not closed like Nominal Accounts, they are transferred to asset and liabilities side of Balance Sheet.
- Bothside should be equal in Balance Sheet otherwise there may be inaccuracy in balance.
- Balance Sheet shows the situation on a particular date but P&L Account shows whole year's financial results.
- Balance sheet is based on 'Going Concern Concept'.
- Trading and P&L Account shows profit / loss for one year and Balance Sheet shows whole financial situation till date which is helpful in future and decision making.

**Items which are shown in Balance Sheet:****Assets-**

- Fixed Assets which are not purchased for re-sale, but to generate the income for organisation. It is used for long time. In this, building, plant and machinery, furniture, motor car etc are included. Apart from this tangible assets and there are some intangible assets, also which generate profit for many years like

good will, patent, logo etc.

- Current Assets are those assets, which can be converted into cash within a year. These come from selling and purchasing process of business. Such as stock, debtors, bills receivables, cash at bank, cash etc.
- Liquid Assets are those current assets, which can be easily converted into cash, part of stock and bills receivables, all current assets are liquid assets.
- All Deferred Revenue Expenses and Debit Balance of profit-loss are Fictitious Assets, these are not convertible into cash. Examples of this are advertisement expenses, primary expenses, debit balance of P&L Account.
- The assets which are destroyable as we use them are called Wasting Assets like mines, oil etc.

#### Liabilities:

- Capital which is required for business. This capital is used for fixed assets.
- Long-Term Liabilities—Bank Loan and others long term loans. Debentures
- Current Liabilities—which are to be converted into payments within a year such as creditors, bills payable, bank overdraft.
- Contingent Liabilities—which can be generated in future like any claim in court on paid bills etc. They are written in last Balance Sheet and not included in total of it because they are expected liabilities.

#### Format of Balance Sheet:

In Trail Balance all personal and real account are written on debit and credit side. There is nothing like legal format of Balance Sheet in Sole Proprietorship and Partnership Firm. But there should be a proper sequence of writing assets and liabilities.

1) **Order of Liquidity**—In this assets are written from liquid to fixed assets form and same in liabilities

### Balance Sheet

as on .....

Liabilities	₹	Assets	₹
Bank Overdraft	.....	Cash in Hand	.....
Bills Payable	.....	Cash at Bank	.....
Outstanding Expenses	.....	Bills Receivables	.....
Sundry Creditors	.....	Sundry Debtors	.....
Loan	.....	Stock in trade	.....
Capital	.....	Stores	.....
	.....	Prepaid Expenses	.....
	.....	Investment	.....
	.....	Furniture	.....
	.....	Plant and Machinery	.....
	.....	Land and Building	.....
	.....	Goodwill	.....
	.....		.....

2) Order of Performance :

### Balance Sheet

as on .....

Liabilities	₹	Assets	₹
Capital	.....	Goodwill	.....
Loan	.....	Land and Building	.....
Creditors	.....	Plant and Machinery	.....
Outstanding Expenses	.....	Furniture	.....
Bills Payable	.....	Investment	.....
Bank Overdraft	.....	Prepaid Expenses	.....
	.....	Stores	.....
	.....	Stock in trade	.....
	.....	Sundry Debtors	.....
	.....	Bills Receivables	.....
	.....	Cash at Bank	.....
	.....	Cash in Hand	.....
	.....		.....

**Example 11: From the following information prepare a Balance Sheet of Mr. A as on 31<sup>st</sup> march 2017**

Particulars	Dr ₹	Cr ₹
Land and Building	30,00,000	.....
Plant and Machinery	35,00,000	.....
Furniture	7,00,000	.....
Investment (short term)	5,00,000	.....
Cash in hand	1,00,000	.....
Cash in Bank	3,00,000	.....
Bank Loan	.....	10,00,000
Debtors and Creditors	15,00,000	8,50,000
Bills Receivable and Bills Payable	5,00,000	3,00,000
Closing Stock	20,00,000	.....
Capital	.....	75,00,000
Drawing	3,00,000	.....
Net Profit	.....	27,50,000
	<b>1,24,00,000</b>	<b>1,24,00,000</b>



## Balance Sheet

as on 31st March 2017

Liabilities	Amount ₹	Assets	Amount ₹
Bills Payable	3,00,000	Cash in Hand	1,00,000
Creditors	8,50,000	Cash at Bank	3,00,000
Bank Loan	10,00,000	Bills Receivable	5,00,000
Capital	75,00,000	Investment (Short Term)	5,00,000
Add : Net Profit	27,50,000	Debtors	15,00,000
Less : Drawing	3,00,000	Closing Stock	20,00,000
	99,50,000	Furniture	7,00,000
		Plant and Machinery	35,00,000
		Land and Building	30,00,000
	1,21,00,000		1,21,00,000

### Example 12:

From the following information, prepare a Balance Sheet of 'A' Ltd as on 31<sup>st</sup> march 2017  
 Cash in hand ₹20,000; Bills Payable ₹ 6,500; Sundry Creditors ₹ 55,000; Bills Receivables ₹ 10,000; Sundry Debtors ₹ 35,000. Furniture and Fixtures as on April 1, 2016 ₹ 40,000 and Depreciation provided for the year ₹ 4,000; Machinery as on April 1<sup>st</sup> 2016 ₹ 1,75,000; and Depreciation provided for the year ₹ 15,000; Closing stock ₹ 30,000; Capital A/c ₹ 2,00,000; Drawing during the year ₹ 15,000. Net profit as per P&L account ₹ 44,500.

### Solution :

## Balance Sheet

as on 31st March 2017

Liabilities	Amount ₹	Assets	Amount ₹
Capital	2,00,000	Machinery	1,75,000
Add Net Profit	44,500	Less : Depreciation	<u>15,000</u>
Less Drawings	<u>15,000</u>	Furniture and Fixtures	40,000
Sundry Creditors	55,000	Less : Depreciation	<u>4,000</u>
Bills Payable	6,500	Closing Stock	30,000
		Sundry Debtors	35,000
		Bills Receivable	10,000
		Cash in Hand	20,000
	2,91,000		2,91,000

**Example 13:**

**Trail Balance**  
As on 31/03/2017

Particulars	Amount₹	Particulars	Amount₹
Purchases	120000	Capital	250000
Opening Stock	80000	Sales	280000
Plant and Machinery	200000	Purchase Return	2000
Furniture and Fitting	50000	Discount Received	1500
Sales Return	3000	Sundry Creditors	45000
Discount Allowed	1000	Bills Payable	19300
Bank Charges	300	Bank Loan	35000
Sundry Debtors	100000	Commission Received	1000
Salaries	15000		
Wages	20000		
Carriage Inward	2000		
Carriage Outward	2500		
Rent, Rates and Taxes	5000		
Advertisement	10000		
Cash in Hand	10000		
Cash at Bank	15000		
Total	633800	Total	633800

Closing stock was ₹ 75,000. Prepare Trading and P&L Account and Balance Sheet

**Solution:****Trading and Profit and Loss Account**

for the year ending 31st March 2017

Dr.			Cr.
Particulars	Amt. ₹	Particulars	Amt. ₹
To Opening Stock	80,000	By Sales	2,80,000
To Purchases	1,20,000	Less : Sales Return	<u>3,000</u>
Less: Purchases Return	<u>2,000</u>	By Closing Stock	75,000
To Wages	20,000		
To Carriage Inward	2,000		
To Gross Profit	1,32,000		
transferred to P&L A/c			
	3,52,000		3,52,000
To Discount Allowed	1,000	By Gross Profit	1,32,000
		transferred from Trading A/c	
To Bank Charges	300	By Discount Received	1,500
To Salaries	15,000	By Commission received	1,000
To Carriage Outwards	2,500		
To Rent, Rates and Taxes	5,000		
To Advertisement	10,000		
To Net Profit transferred to	1,00,700		
Capital A/c			
	1,34,500		1,34,500

**Balance Sheet**

as on 31st March 2017

Liabilities	Amt. ₹	Assets	Amt. ₹
Capital	2,50,000	Plant and Machinery	2,00,000
Add : Net Profit	<u>1,00,700</u>	Furniture and Fittings	50,000
Bank Loan	35,000	Stock in Trade	75,000
Sundry Creditors	45,000	Sundry Debtors	1,00,000
Bills Payable	19,300	Cash at Bank	15,000
		Cash in Hand	10,000
	4,50,000		4,50,000

**Example 14:**

From the following information, prepare Trading and Profit & Loss A/c Accounts for the year ending 31/03/2017 and Balance Sheet as on that date.

<b>Dr. Balances</b>	<b>Amount ₹</b>	<b>Cr. Balances</b>	<b>Amount ₹</b>
Stock 1.4.16	30000	Discount Received	2200
Purchases	150000	Return Outwards	8000
Wages	6000	Sales	308500
Return Inward	11000	Bills Payable	9500
Carriage on Purchase	7000	Sundry Creditors	16500
Carriage on Sales	2000	Creditors for Rent	1800
Import Duty	8100	Capital	150000
Rent and Taxes	7480	Loan from A	35000
Cash	4320	Commission	3570
Bank Balances	24310		
Bad Debts	1810		
Discount Allowed	1920		
Land and Building	75000		
Drawing	20000		
Interest on A's Loan	5500		
Sundry Debtors	76390		
Commission	4500		
Bills Receivable	10350		
Scooter Repair	2490		
Scooter	20500		
Furniture & Fittings	15500		
Computer	35400		
Life Insurance Premium	3500		
Household Expenses	12000		
	535070		535070

Closing Stock is ₹ 38,900

## Trading and Profit and Loss Account

for the year ending 31st March 2017

Dr.			Cr.
Particulars	Amt. ₹	Particulars	Amt. ₹
To Opening Stock	30,000	By Sales	3,08,500
To Purchases 1,50,000		Less : Returns Inwards	<u>11,000</u>
Less : Returns Outwards <u>8,000</u>	1,42,000	By Closing Stock	3,89,000
To Wages	6,000		
To Carriage on Purchases	7,000		
To Import Duty	8,100		
To Gross Profit transferred to P&L A/c	1,43,300		
	3,36,400		3,36,400
To Scooter Repairs	2,490	By Gross Profit b/f	1,43,300
To Commission	4,500	By Discount Received	2,200
To Bad Debts	1,810	By Commission Received	3,570
To Carriage on Sales	2,000		
To Rent and Taxes	7,480		
To Discount Allowed	1,920		
<u>To Interest on A's Loan</u>	5,500		
To Net Profit transferred to Capital A/c	1,23,370		
	1,49,070		1,49,070

## Balance Sheet

as on 31st March 2017

Liabilities	Amt. ₹	Assets	Amt. ₹
Capital 1,50,000		Land & Building	75,000
Less : Drawings 20,000		Computer	35,400
Less : Life Insurance Premium 3,500		Furniture and Fittings	15,500
Less : Household Expenses 12,000		Scooter	20,500
Add : Net Profit <u>1,23,370</u>	2,37,870	Stock	38,900
Loan from 'A'	35,000	Sundry Debtors	76,390
Creditors for Rent	1,800	Bills Receivables	10,350
Sundry Creditors	16,500	Balances with Bank	24,310
Bills Payable	9,500	Cash	4,320
	3,00,670		3,00,670

### Differences between Trail Balance and Balance Sheet:

Basis	Trail Balance	Balance Sheet
<b>Objective</b>	To check the mathematical accuracy of posting.	To understand financial position of firm.
<b>Aspect</b>	In this there are debit and credit sides.	There are assets and liabilities sides.
<b>Base</b>	It is made by balances of ledger accounts	It is made with the help of Trail Balance.
<b>Compulsion</b>	It is not compulsory.	It is compulsory at the end of accounting year.
<b>Duration</b>	It can be made at any time.	It is made at the end of the year ending.
<b>Nature of account</b>	All types of accounts like personal, real and nominal accounts' balances are written.	Balances of only Personal and Real accounts are mentioned.
<b>Sequence</b>	There is no sequence of writing accounts	There are two methods. Liquidity Method and Permanency Method.
<b>Final Accounts</b>	This is not a part of final accounts.	This is one of the part of final accounts.
<b>Closing of account</b>	There is no need to close the accounts.	All accounts should be closed, before preparing Balance Sheet.
<b>Closing Stock</b>	Closing Stock is not mention in it.	In Balance Sheet closing stock is mention.
<b>Reliability</b>	Trail Balance is not considered in courts of law..	It is considered as legal evidence in courts of law.

**Example 15:**

From the following information prepare Manufacturing, Trading and Profit and Loss Account for the year ending on 31/03/2017 and Balance Sheet as on that date.

Particulars	Amt. ₹	Particulars	Amt. ₹
Stock (1.4.16) :		Sale of Finished Goods	2,00,000
Raw Materials	40,700	Office Lighting	5,000
Work-in-Progress	30,540	Motive Power	2,400
Finished Goods	40,300	Depreciation :	
Purchases :		Factory Building	4,000
Raw Materials	1,60,600	Plant and Machinery	2,000
Finished Goods	40,400	Office Building	400
Carriage Inwards	4,600	Office Furniture	1,600
Productive Wages	20,000	Cash in hand	18,000
Stones Consumed	16,400	Sundry Debtors	80,000
Factory Lighting	2,000	Sundry Creditors	70,000
Office Building	50,000	Factory Building	1,20,000
Discount Received	2,340	Furniture	30,000
Factory Insurance	4,000	Plant and Machinery	1,60,000
Repairs Plant	2,000	Capital	5,82,200
Repairs Factory Building	3,000		
Repairs Office Building	2,600		
Stock (31.3.17) :			
Raw Materials	70,000		
Work-in-Progress	60,000		
Finished Goods	1,00,000		
Sundry Manufacturing Expense	4,000		

(Solution) :

## Manufacturing, Trading and Profit and Loss Account

for the year ending 31st March 2017

Dr.		Cr.	
Particulars	Amt. ₹	Particulars	Amt. ₹
To Work in Progress	30,540	By Work in Progress	60,000
To Material Consumed		By Cost of Production	1,76,240
Opening Stock 40,700			
Add : Purchases			
of Raw Material 1,60,600			
Less : Closing Stock 2,01300			
of Raw Material <u>70,000</u>	1,41,300		
To Carriage Inward	4,600		
To Productive Wages	20,000		
To Stones Consumed	16,400		
To Factory lighting	2,000		
To Factory Insurance	4,000		
To Repairs to Plant	2,000		
To Repairs Factory Building	3,000		
To Depreciation Plant	2,000		
To Depreciation Factory Building	4,000		
To Motive Power	2,400		
To Sundry Manufacturing Expenses	4,000		
	2,36,240		2,36,240
To Opening Stock of Finished Goods	40,300	By Sales of Finished Goods	2,00,000
To Purchase of Finished Goods	40,400	By Closing stock of Finished Goods	1,00,000
To Cost of Production	1,76,240		
To Gross Profit	43,060		
transferred to P&L A/c			
	3,00,000		3,00,000
To Repair to Office Building	2,600	By Gross Profit B/F	43,060
To Office lighting	5,000	By Discount Received	2,340
To Depreciation Office Building	400		
To Depreciation Office Furniture	1,600		
To Net Profit transferred to Capital A/c	35,800		
	45,400		45,400

## Balance Sheet

as on 31st March 2017

Liabilities	Amt. ₹	Assets	Amt. ₹
Capital 5,82,200		Factory Building	1,20,000
Add : Net Profit <u>55,800</u>	6,18,000	Office Building	50,000
Sundry Creditors	70,000	Plant and Machinery	1,60,000
		Furniture	30,000
		Stock :	
		Raw Material	70,000
		Work in Progress	60,000
		Finished Goods	1,00,000
		Sundry Debtors	80,000
		Cash in Hand	18,000
	<u>6,88,000</u>		<u>6,88,000</u>



**Example 16:**

From the following information prepare Trading and Profit & Loss Account for the year ending 31/03/2017 and Balance Sheet as on that date.

Particulars	Amt. ₹	Particulars	Amt. ₹
Opening Stock	1,50,000	Sales	7,95,000
Cash in Hand	10,500	Interest on Bank deposit	4,500
Investment	55,000	Discount received	6,000
Freight and Octroi	13,500	Accounts Payable : X	10,000
Dock Charges	15,000	Y	20,000
Bank deposit	50,000	Z	12,000
Cartage	5,000	Supplier A/c	85,000
Repairs	3,000	Returns Outward	15,000
Electric Power	25,000	Interest on Investment	6,000
Fuel, Gas and Water	15,000	Capital A/c	7,96,000
Motor Vehicle	55,000		
Business Premises	3,50,000		
Telephone Expenses	5,000		
Audit fees	3,500		
Accounts Receivable : A	15,000		
B	25,000		
C	10,000		
Customer's A/c	1,05,000		
Postage and Telegram	6,000		
Patent	50,000		
Income Tax	25,000		
Office Expenses	12,500		
Purchases	6,00,000		
Return Inward	35,000		
Depreciation	10,500		
Furniture & Equipment	1,00,000		
	17,49,500		17,49,500

Closing stock is ₹ 1,90,500

(Solution) :

### Trading and Profit and Loss Account

for the year ending 31st March 2017

Particulars	Amt. ₹	Particulars	Amt. ₹
To Opening Stock	1,50,000	By Sales	7,95,000
To Purchases	6,00,000	Less : Return Inward	<u>35,000</u>
Less : Return Outward	<u>15,000</u>	By Closing Stock	1,90,500
To Fuel Gas & Water	15,000		
To Freight & Octroi	13,500		
To Dock Charges	15,000		
To Cartage	5,000		
To Gross Profit	1,67,000		
transferred to P&L A/c			
	9,50,500		9,50,500
To Office Expenses	12,500	By Gross Profit	1,67,000
		transferred from Trading A/c	
To Repairs	3,000	By Interest on Bank deposits	4,500
To Electric Power	25,000	By Discount Received	6,000
To Telephone Expenses	5,000	By Interest on Investment	6,000
To Audit fees	3,500		
To Postage and Telegram	6,000		
To Depreciation	10,500		
To Net Profit transferred to Capital A/c	1,18,000		
	1,83,500		1,83,500

### Balance Sheet

as on 31st March 2017

Liabilities	Amt. ₹	Assets	Amt. ₹
Capital	7,96,000	Business Premises	3,50,000
Less: Drawings		Furniture & Equipment	1,00,000
(Income Tax)	25,000		
Add : Net Profit	<u>1,18,000</u>	Motor Vehicle	55,000
Supplier's A/c	85,000	Patent	50,000
Accounts Payable :		Investment	55,000
X	10,000	Stock	1,90,500
Y	20,000	Customer's A/c	1,05,000
Z	12,000	Accounts Receivable	
		X	15,000
		Y	25,000
		Z	10,000
		Bank Deposit	50,000
		Cash in Hand	10,500
	10,16,000		10,16,000

**Example 17:**

These are the information of Books of Ram Krisha, Prepare Final Accounts

Particulars	Amt. ₹	Particulars	Amt. ₹
Household Expenses	3,250	Capital	12,28,750
Salaries	35,000	Sales	6,25,000
Leasehold Land	7,75,000	Discount on Purchase	3,500
Motor Car	1,25,000	Returns Out Wards	55,000
Fixed Deposit	1,50,000	Interest on Investment	5,500
Cash in Hand	10,000	Interest on Fixed deposit	12,000
Cash at Bank	15,000	Miscellaneous Receipts	8,500
Patents & Trade Marks	75,000		
Loose Tools	50,000		
Return Inwards	44,000		
Freight Inwards	5,000		
Freight Outwards	6,500		
Productive Wages	19,000		
Unproductive Wages	12,000		
Purchases	4,00,500		
Rent (1/3 Factory, 2/3 Office)	12,000		
Bank Charges	3,000		
Legal Expenses	3,500		
Discount on Sales	4,500		
Fire Insurance Premium	3,500		
Life Insurance Premium	2,500		
Bad Debts	6,000		
Goodwill	35,000		
Depreciation	3,000		
Investment	50,000		
Plant and Machinery	90,000		
	19,38,250		19,38,250

Closing Stock is ₹ 19,050

**Solution :**

## Trading and Profit and Loss Account

for the year ending 31st March 2017

Dr.		Cr.	
Particulars	Amt. ₹	Particulars	Amt. ₹
To Purchases 4,00,500		By Sales 6,25,000	
Less : Return Outward 55,000	3,45,500	Less : Return Inward 44,000	5,81,000
To Freight Inward	5,000	By Closing Stock	19,050
To Productive Wages	19,000		
To Rent 12000 x 1/3	4,000		
To Gross Profit transferred to P&L A/c	2,26,550		
	6,00,050		6,00,050
To Depreciation	3,000	By Gross Profit transferred from Trading A/c	2,26,550
To Bad Debts	6,000	By Discount on Purchase	3,500
To Fire Insurance Premium	3,500	By Interest on Investment	5,500
To Salaries	35,000	By Interest on Fixed Deposit	12,000
To Freight Outward	6,500	By Miscellaneous Receipt	8,500
To Unproductive Wages	12,000		
To Rent 12000 x 1/3	8,000		
To Legal Expenses	3,500		
To Bank Charges	3,000		
To Discount on Sales	4,500		
To Net Profit transferred to Capital A/c	1,71,050		
	2,56,050		2,56,050

## Balance Sheet

as on 31st March 2017

Liabilities	Amt. ₹	Assets	Amt. ₹
Capital 12,28,750		Leasehold Land	7,75,000
Add : Net Profit 1,71,050		Patents and Trade Marks	75,000
Less : House Hold Expenses 3,250		Motor Car	1,25,000
Less : Life Insurance Premium 5,750		Loose Tools	50,000
	13,94,050	Goodwill	35,000
		Plant and Machinery	90,000
		Investment	50,000
		Fixed Deposit	1,50,000
		Stock	19,050
		Cash in Hand	15,000
		Cash at Bank	10,000
	13,94,050		13,94,050

**Summary:**

- Final Accounts, summarises all the business transactions at the end of the Accounting year. So final accounts provide the information regarding profit-loss and financial situation of the business.
- Manufacturing Accounts provide the information regarding the cost of production and Trading and P&L Account, estimate the profit or loss of the trading activities of business.
- All indirect expenses and income is added with gross profit or loss and calculate net profit or loss in P&L Account.
- At the end of year Balance Sheet is prepared to know the financial position of the business.

**Questions for Practice****Multiple Choice Questions**

- 1) Objective of preparing Final Accounts is-
  - a) Gross Profit and Net Profit
  - b) Capital and Net Profit
  - c) Capital and Net Assets
  - d) Net Profit or loss and information of financial position
- 2) Contingent liabilities are written in -
  - a) Liabilities side
  - b) Debit side of profit – loss
  - c) As a note on Balance Sheet
  - d) None of these
- 3) Direct expenses are written in.
  - a) Debit side of Trading Account
  - b) Debit side of P&L Account
  - c) Subtract from sales
  - d) None of these
- 4) Deferred Revenue Expenses are written in...
  - a) Debit side of Trading Account
  - b) Debit side of P&L Account
  - c) Liabilities side of Balance Sheet
  - d) Assets Side of Balance Sheet
- 5) Nature of Trading and P&L Account is -
  - a) As personal Account
  - b) As Real Account
  - c) Nominal and Personal Account
  - d) As memorised Account

### **Very Short Answer Type Questions -**

1. What are Indirect Expenses?
2. What is Net Profit?
3. What is the sequence of assets and liabilities?
4. Write any two differences between Trail Balance and Balance Sheet?
5. Write any two examples of Doubtful Liabilities?
6. In which account result of purchase-sale is written?
7. Write two objectives of Final Accounts?
8. How closing stock is adjusted in Trail Balance? Give the entry -
9. "Profit & Loss account is a statement for one date but Balance Sheet is a statement of time duration." Do you agree with this statement?
10. What is Capital Expense?
11. What is Revenue Expense?
12. Describe the Deferred Revenue Expenses.
13. Write any four items, which are written on debit side of trading account.
14. What is Net Sales and Net Purchase?
15. Wages & Salaries and Salaries and Wages, which is written in Trail Balance. In which side it is mention in trading and P&L Account?
16. What balance is called if total of debit side of Trading account is greater than credit side?
17. If Trail Balance is not equal than Balance Sheet will be equal or not. Describe.
18. Any four items, which are written on credit side of P&L Account.
19. What is the principle of calculation of stock?
20. Any 4 examples of Fixed Assets?

### **Short Answer type Questions -**

1. Point out any two differences between Capital Receipt and Revenue Receipt.
2. Present the assets into Liquidity Sequence.
3. Show Liabilities in Permanency form.
4. Describe manufacturing account.
5. What is Final Accounts? Describe any two objectives.
6. What are the objectives of Trading Account?
7. What are the objectives of P&L Account?
8. What are Final Entries? Describe.
9. What do you mean by Balance Sheet? Write any two objectives.
10. What are Contingent Liabilities? Write a short note on it.
11. Give 2-2 examples of Intangible Assets, Current Assets and Fictitious Assets.
12. What is Operating Profit?
13. Point out any two differences between Revenue Expenses and Capital Expenses.
14. Which items are not adjusted in Operating Profit? Any four.
15. Where Personal, Real and Nominal Account's Balance are written?
16. Where is advertisement expense written? Give the reason also.

17. Describe any 2 differences between Fixed and Current Assets.
18. Give any 4 examples of Indirect Expenses.
19. Give any 4 examples of Direct Expenses.
20. What is the last stage of Accountancy?

### Essay typed Questions

1. What do you mean by Final Accounts? Describe its advantages.
2. What is Last Entries? Describe briefly.
3. Describe briefly of Final Accounts.
4. What do mean by Trading and P&L Account. Which items are written in it.
5. Why is Balance Sheet prepared in Final Accounts? Describe the items which is written in it and format in Liquidity and Permanency Form.

### Numerical Questions-

1. Calculate Gross Profit and Cost of Goods Sold from following information.

- a. Net Sales ₹ 6,00,000      Gross Profit is 20% of cost
- b. Answer: Gross Profit 1,00,000 and Cost of Goods Sold ₹ 5,00,000

2. From the following information calculate Opening Stock

Sale:	Cash 8,00,000	purchase return 25,000
	Credit 33,00,000	Sales return 50,000
Purchase:	Cash 1,50,000	Carriage inward 1,00,000
	Credit 12,00,000	Direct expenses 50,000
Rate of gross profit:	sales rate 25%	Drawing of goods 50,000
Carriage outward :	1,00,000	Closing stock 5,00,000

(Answer: opening stock 21,12,500. Carriage Inward is Indirect Expenses so it deducted from drawings of goods)

3. Calculate Cost of Goods Sold.	₹
Opening stock	50,000
Direct expenses	30,000
Purchase	2, 50,000
Purchase return	20,000
Advertisement expenses	1,00,000
Closing stock	80,000

(Answer: 2,30,000. Advertisement Expenses are indirect Expenses)

4. Calculate the closing stock from the following information	₹
Opening stock	3,50, 000
Net purchase	4,75,000
Wages & salaries	75,000
Sales	7,00,000
Gross loss	50,000
Freight loss	70,000
Freight inward	70,000

Drawing for domestic expenses 10,000

(Answer: Closing Stock 2,20,000. Drawings for domestic Expenses are not included)

5. Calculate the net profit from the following information	₹
Cash sales	4,00,000
Credit sale	5,00,000
Cost of goods sold	6,50,000
Expenses on purchase	35,000
Expenses on sales	40,000

(Answer: Net Profit 2,10,000. Expenses on purchase and sales are not included)

6. Prepare Final Accounts on 31/03/2015

Particular	Dr. (₹)	Cr.( ₹)
Capital		2,50,000
Drawing	25,000	
Furniture	75,000	
Purchase & sales	7,50,000	12,50,000
Debtors & creditors	1,25,000	1,50,000
Returns	17,500	7,500
Bad debts	2,500	
Advertisement	5,000	
Rent rate & taxes	5,000	
Bills receivable & bills payable	75,000	35,000
Discount	1,250	2,500
Plant & machinery	1,12,500	
Carriage on purchase	27,500	
Carriage on sales	3,750	
Opening stock	1,70,000	
Manufacturing expenses	95,000	
Trade expenses	7,500	
Salaries	27,500	
Cash in hand	72,500	
Cash at bank	87,500	
Wages	10,000	
	16,95,000	16,95,000

Closing Stock ₹ 62,5000

(Answer: Gross Profit ₹ 2,50,000. Net Profit ₹ 2,00,000. Balance Sheet Total ₹ 6,10,000)

Multiple Choice Answer 1-D, 2-C, 3-A, 4-D, 5-D