

CHAPTER 17

FINAL ACCOUNTS (WITHOUT ADJUSTMENTS)

❖ Financial Statements

These statements disclose the financial performance and financial position of an enterprise at the end of an accounting period. The financial performance is disclosed in the form of net profit or net loss, whereas the financial position is depicted by the value of assets and liabilities.

❖ Objectives of Financial Statements

- to ascertain actual profit earned or loss incurred by a business.
- to ascertain the true financial position of a business.
- to assess the performance of the business by inter-firm and intra-firm comparisons.
- to assess the solvency and credit worthiness of the business.
- to provide various provisions and reserves to meet unforeseen future conditions in order to strengthen the financial position of the business.
- to provide vital information to facilitate various users of accounting information in decision making process.

❖ Components of Financial Statements



❖ Trading Account

- ***Need and Importance of Trading Account:***
 - to calculate gross profit earned or gross loss incurred.
 - to estimate the cost of goods sold.
 - to record direct expenses.
 - to measure the adequacy and reasonability of direct expenses incurred.
 - to compare the realised efficiency and performance with the desired or proposed targets.
- ***Performa of Trading Account:***

TRADING A/C as on

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Opening Stock		Sales	
Purchase		Less: Sales Returns	
Less: Purchases Returns		or	
or		Returns inward	
Returns outward		Closing Stock	
Direct Expenses		Gross loss	
		(if any) transferred to	
Wages and Salaries, or		Profit	
Wages		and Loss A/c	
Gas, Fuel and Power		(Balancing Figure)	
Carriage on Purchases			
Carriage inwards, or			

Carriage			
Manufacturing Expenses, or Productive Expenses			
Freight, octroi and cartage			
Royalty			
Import Duty or Custom Duty (on purchases)			
Dock charges and Clearing charges			
Factory Expenses, such as:			
Factory Lighting			
Factory Rent etc.			
Gross Profit (if any)			
transferred to P and L A/c			
(Balancing Figure)			

❖ Profit and Loss Account

- *Need and Importance of Profit and Loss Account:*
 - to calculate net profit or net loss
 - to measure the efficiency of the business in terms of net profit.
 - to measure the adequacy and reasonability of indirect expenses incurred.
 - to compare current year's actual performance with desired and planned performance.

- to provide various provisions and reserves to meet unforeseen future conditions and to strengthen the financial position of the business.

- ***Performa of Profit and Loss Account:***

PROFIT AND LOSS A/c as on.....

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Gross Loss b/d		Gross Profit b/d	
(Transferred from Trading A/c)		(Transferred from Trading A/c)	
Office expenses		Rent (Cr.)	
General Expenses		Rent from Tenant	
Lighting		Discount received	
Salaries		or Discount (Cr.)	
Printing and Stationary		Dividend on Shares	
Salaries and Wages		Interest on Investments	
Rent, Rates and Taxes		Commission Received	
Insurance		Income from other	
Establishment Expenses		Bad-Debts Recovered Sources	
Legal Charges		Miscellaneous Receipts	
Audit Fees		Apprentice Premium	
Telephone Charges		Profit on Sale of Assets	
Postage and Telegram		Net Loss (if any)	
Trade Expenses		Transferred to Capital A/c	
Travelling Expenses			
Selling and Distribution			
Expenses:—			
Carriage Outwards, or			

Carriage on Sales			
Export duty			
Stable expenses			
Brokerage			
Advertisement			
Bad-debts			
Packing Charges			
Delivery Van Expenses			
Commission			
Miscellaneous expenses :—			
Depreciation			
Bank Charges			
Discount			
Donation and Charity			
Repairs			
Interest (Dr.)			
Conveyance Expenses			
Entertainment Expenses			
Loss on Sale of Assets			
Net Profit —			
Transferred to Capital A/c			

❖ Balance Sheet

- ***Need and Importance of Balance Sheet:***
 - Helps in determining the nature and book value of various assets.
 - Helps in ascertaining the nature and amount of various liabilities.

- Discloses important information like, additional capital invested, drawings of the owners etc.
- Helps in assessing the solvency of a business.
- Reveals the true financial position of a business.
- Acts as a basis for maintaining new books for the next accounting period.

❖ **Marshalling of asset and liabilities:** When assets and liabilities are shown in a particular order of liquidity or permanence, they are said to be marshalled.

- ***Performa of Balance Sheet: In the Order of Permanence***

In this method, assets and liabilities are arranged in their reducing level of permanence. The assets and liabilities with higher degree of permanence are recorded first followed by the assets and liabilities with lower degree of permanence.

Balance Sheet as on

Liabilities	Amount Rs	Assets	Amount Rs
Capital – <i>Most Permanent Liability</i> <i>Add</i> Net Profit Or <i>Less:</i> Net Loss <i>Less:</i> Drawings		Goodwill – <i>Most Permanent Asset</i> Land and Building Plant and Machinery Furniture Investment	
Loans Bank overdraft Sundry Creditors		Closing Stock Sundry Debtors Bills Receivable	

Bills Payable (<i>Least Permanent Liability</i>)		Cash at Bank Cash in Hand (<i>Least Permanent Asset</i>)	

• *Performa of Balance Sheet: In the Order of Liquidity*

In this approach, the assets that can be converted into cash in least possible time are recorded first, followed by the lesser liquid assets. In the same way, liabilities that are to be paid first, , are recorded first followed by the lower priority ones.

Balance Sheet as on

Liabilities	Amount Rs	Assets	Amount Rs
Bills Payable— <i>High Priority Liability</i>		Cash in Hand— <i>Most Liquid Asset</i>	
Sundry Creditors		Cash at Bank	
Bank Overdraft		Bills Receivable	
Loans		Sundry Debtors	
Capital— <i>Least Priority Liability</i>		Closing Stock	
<i>Add:</i> Net Profit		Investment	
or		Furniture	
<i>Less:</i> Net loss		Plant and Machinery	
<i>Less:</i> Drawings		Land and Building	

		Goodwill— <i>Least Liquid Asset</i>	

❖ **Grouping of Assets and Liabilities:** Grouping means showing similar assets and liabilities under a single head.

- **Grouping of Assets and Liabilities**

