

Financial Statements – I & II

(Notes based on Focus Area suggested by SCERT for the year 2020 - 2021)

Financial Statements

The firm usually prepares the following financial statements :

1. Trading and Profit and Loss Account
2. Balance sheet

1. Trading and Profit and Loss Account/Income statement

Trading and Profit and Loss account is *prepared to determine the profit earned or loss sustained by the business enterprise* during the accounting period. It shows the financial performance of the business.

Relevant Items in Trading and Profit and Loss Account

Items on the debit side of trading account

1. **Opening stock** : It is the stock of goods in hand at the beginning of the accounting year.
2. **Purchases less returns** : Goods, which have been bought for resale appears as *purchases* on the debit side of the trading account. Goods which are returned to suppliers is termed as *purchases return*. It is shown by way of deduction from purchases and the computed amount is known as *Net purchases*.
3. **Direct Expenses** : These are the amounts spent directly on the purchase/production of goods. The following are some of the direct expenses.
 - (a) **Wages** : Wages refer to remuneration paid to workers who are directly engaged in factory.
 - (b) **Carriage Inwards/Freight inwards** : These expenses are items of transport expenses, which are incurred on bringing materials/ goods purchased to the place of business.
 - (c) **Fuel/Water/Power /Gas** : These items are used in the production process.
 - (d) **Packaging material and Packing charges** : Cost of packaging material used in the product are direct expenses.

Items on the credit side of trading account

1. **Sales less returns** : Sales includes cash sales and credit sales. Goods returned by customers are called return inwards and are shown as deduction from total sales and computed amount is known as net sales.
2. **Closing stock** : Closing stock is *the amount of goods remaining unsold at the end of the accounting year*.

4. The sales returns/return inwards account is closed by transferring the balance to the sales account. The entry is :

Sales A/c Dr.
 To Sales return A/c

5. For transferring gross profit to Profit and Loss A/c.

Trading A/c Dr.
 To Profit and Loss A/c

6. If it is gross loss, the entry is :

Profit and Loss A/c Dr.
 To Trading A/c

7. For transferring the items of expenses and losses to the profit and loss account.

Profit and Loss Account Dr.
 To Each item of expense or loss

8. For transferring the items of incomes and gains to profit and loss account

Each item of income and gain Dr.
 To Profit and Loss A/c

9. For transferring the net profit to capital

Profit and Loss A/c Dr.
 To Capital Account

10. For transferring any net loss to capital, the entry is

Capital Account Dr.
 To Profit and Loss Account

Concept of Gross Profit and Net Profit

Trading Account

The trading account ascertains the result from basic operational activities of the business.

Calculation of Gross Profit

Gross Profit = Net sales - Cost of goods sold

Net sales = Total sales – Sales return

Cost of goods sold = Opening stock + Net purchases + Direct expenses -
Closing stock

Net purchase = Total purchase – Purchase returns

Profit and Loss A/c

Profit and Loss Account is an account prepared to find out the net profit earned or net loss incurred by a business.

Net profit = Gross Profit + Other incomes – Indirect expenses

Format of Trading and Profit and Loss Account

**Trading and Profit and Loss Account
for the year ended March 31, 2021**

Dr.

Cr.

<i>Expenses/Losses</i>	Amount ₹	Revenues	Amount ₹
Opening stock	xxxx	Sales	xxxx
Purchases	xxxx	Less : Returns	xxx
Less: Returns	xxx		-----
	-----	Closing stock	Xxxx
Wages	xxxx		xxxx
Carriage/Freight inwards	xxxx		
Gross Profit c/d	xxxx		

	xxxxx		-----
	-----		xxxxx
Rent/rates and taxes	xxxx	Gross Profit b/d	xxxx
Salaries	xxxx	Commission received	xxxx
Repairs and renewals	xxxx	Discount received	xxxx
Printing and stationery	xxxx	Rent received	xxxx
Postage	xxxx	Interest, dividend etc.	xxxx
Advertising	xxxx		
Insurance	xxxx		
Audit fee	xxxx		
Bank charges	xxxx		
Commission	xxxx		
Carriage outwards	xxxx		
Discount allowed	xxxx		
Bad debts	xxxx		
Depreciation	xxxx		
Net Profit(Transferred to Capital Account)	xxxx		

	xxxxx		-----
	-----		xxxxx
	=====		=====

Balance Sheet

The balance sheet is a statement prepared for showing the financial position of the business.

Format of Balance sheet

Balance sheet

As on -----

Liabilities	Amount ₹	Assets	Amount ₹
Bank overdraft	xxx	Cash in hand	xxx
Sundry creditors	xxx	Cash at bank	xxx
Bills payable	xxx	Bills receivable	xxx
Outstanding expenses	xxx	Investment	xxx
Loans	xxx	Sundry debtors	xxx
Capital	xxx	Closing stock	xxx
Add : Net profit	xxx	Prepaid expenses	xxx
Add : Interest on capital	xxx	Furniture	xxx
	-----	Machinery	xxx
	xxx	Premises	xxx
Less : Drawings	xx	Goodwill	xxx

	xxx		
	xxxx		xxxx

Treatment of adjustments in the preparation of Financial Statements

Adjustment	Treatment in Trading and Profit and Loss A/c	Treatment in Balance Sheet
1.Closing stock	Shown on the <i>credit side</i> of Trading A/c	Shown on the <i>assets side</i>
2.Outstanding expenses	<i>Added</i> to the respective expense on the <i>debit side</i>	Shown on the <i>liabilities side</i>
3.Prepaid/ Unexpired expenses	<i>Deducted</i> from the respective expense on the <i>debit side</i>	Shows on the <i>assets side</i>
4.Accrued Income (Income earned but not received)	<i>Added</i> to the respective income on the <i>credit side</i> .	Shown on the <i>assets side</i> .
5.Income received in advance	<i>Deducted</i> from the respective income on the <i>credit side</i> .	Shown on the <i>liabilities side</i> .
6.Depreciation	Shown on the <i>debit side</i>	<i>Deducted</i> from the value of asset

ഫിനാൻഷ്യൽ സ്റ്റേറ്റ്‌മെന്റ്സ് തയ്യാറാക്കൽ

(Trading and Profit and loss A/c and Balance sheet)

- ട്രേഡിങ് ആൻഡ് പ്രോഫിറ്റ് ആൻഡ് ലോസ് അക്കൗണ്ടിന്റെ ഫോർമാറ്റ് വരയ്ക്കുക.
- ആദ്യമായി ഓപ്പണിങ് സ്റ്റോക്ക്(Opening stock) ഡെബിറ്റ് ചെയ്യുക.
- തുടർന്ന് Net Purchases(Purchases less Returns), Direct expenses മുതലായവ ഡെബിറ്റ് ചെയ്യുക .
- ക്രെഡിറ്റ് സൈഡിൽ Sales, Closing stock മുതലായവ കാണിയ്ക്കുക.
- ട്രേഡിങ്ങ് അക്കൗണ്ട് ബാലൻസ് ചെയ്യുക. ക്രെഡിറ്റ് ബാലൻസ് ആണ് കിട്ടുന്നതെങ്കിൽ ഗ്രോസ് പ്രോഫിറ്റ് ആയിരിക്കും. ഡെബിറ്റ് ബാലൻസ് ആണെങ്കിൽ ഗ്രോസ് ലോസ് ആയിരിക്കും.
- ഗ്രോസ് പ്രോഫിറ്റ് പ്രോഫിറ്റ് ആൻഡ് ലോസ് അക്കൗണ്ടിന്റെ ക്രെഡിറ്റ് സൈഡിൽ എടുത്തെഴുതുക(Gross Profit b/d) . ഗ്രോസ് ലോസ് ആണെങ്കിൽ ഡെബിറ്റ് സൈഡിൽ എടുത്തെഴുതുക(Gross Loss b/d) .
- ട്രേഡിങ് അക്കൗണ്ടിൽ രേഖപ്പെടുത്താത്ത എല്ലാ ചെലവുകളും(Indirect expenses) ഡെബിറ്റ് ചെയ്യുക.
- ട്രേഡിങ് അക്കൗണ്ടിൽ കാണിക്കാത്ത എല്ലാ വരുമാനങ്ങളും(Indirect incomes) ക്രെഡിറ്റ് ചെയ്യുക.
- പ്രോഫിറ്റ് ആൻഡ് ലോസ് അക്കൗണ്ട് ബാലൻസ് ചെയ്യുക .
- ബാലൻസ് ചെയ്യുമ്പോൾ കിട്ടുന്നത് ക്രെഡിറ്റ് ബാലൻസ് ആണെങ്കിൽ നെറ്റ് പ്രോഫിറ്റ്(Net profit transferred to capital A/c) ആയിരിക്കും.. നേരെമറിച്ചു , ഡെബിറ്റ് ബാലൻസ് ആണെങ്കിൽ നെറ്റ് ലോസ്(Net loss transferred to capital account) ആയിരിക്കും.
- തുടർന്ന് ബാലൻസ് ഷീറ്റ് വരയ്ക്കുക.

- എല്ലാ ബാധ്യതകളും(Liabilities and Capital) ' Liabilities' സൈഡിൽ കാണിയ്ക്കുക.
- എല്ലാ ആസ്തികളും ബാലൻസ് ഷീറ്റിന്റെ 'Asset' സൈഡിൽ കാണിയ്ക്കുക.
- ബാലൻസ് ഷീറ്റ് ടോട്ടൽ ചെയ്യുക. രണ്ടു സൈഡിലേയും(Liabilities and Assets) ടോട്ടൽ തുക തുല്യമാവണം.

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