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*For the students of*

*B.C.A, Sem: II*

*Name of Paper- ACCOUNTING AND FINANCIAL MANAGEMENT  
(Unit I and 2 )*

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## **FINAL ACCOUNTS**

One of the main objects of maintaining Accounts is to find out the profit or loss made by the business during a period and to ascertain the financial position of the business as on a given date. In order to know the profit or loss made by the business trading and profit and loss account is prepared. The position of the business on the last date of the financial year will be revealed by the balance sheet. The trading and profit and loss account and balance prepared by the business man at the end of the trading period are called final accounts.

## **TRADING ACCOUNT**

Trading account is prepared mainly to know the profitability of the goods bought and sold by the business man. It shows the result of trading that is buying and selling of goods called gross profit or gross loss. The difference between sales and the cost of the goods sold is gross profit or gross loss. Trading account is prepared in T form, just like any other account except the Date and Journal Folio Columns are not provided. As the Trading Account shows the results of operation over a period, the heading will be "Trading Account for year (or Period) ended... Opening Stock, Purchases and other direct expenses are taken on the Debit side and Sales and Closing Stock are taken on the Credit Side. The Balance between the two sides is Gross Profit or Gross Loss. The excess of credit side over Debit side is called 'Gross Profit'. And excess of Debit side over Credit side is called 'Gross Loss'. The 'Gross Profit' or 'Gross Loss' is transferred to Profit and Loss Account.

## **PROFIT AND LOSS ACCOUNT**

The profit and loss account is an account which shows the net profit or net loss of a business for a particular period. All indirect expenses such as Administrative or Management Expenses, Selling and Distribution Expenses, Financial Expenses and Other Expenses such as Depreciation and provisions etc are taken on the Debit side. Gross profit and other items of incomes such as Interest received, Discount received etc are taken on the credit side. The difference between two sides is either Net Profit or Net Loss which is transferred to Capital Account. Trading and Profit and Loss account will appear

as follows : **The format of Trading and Profit and Loss Account Trading account and Profit and Loss for the year ending of 31-12-XXXX**

Particulars	Amount	Particulars	Amount
To Opening Stock	xxx	By Sales xxx	
To Purchases xxx		Less Sales Returns xxx	xxx
Less Returns xxx	xxx		
To Wages xxxxxx		By Closing Stock	xxx
To Fuel & Power xxxxxx			
To Carriage xxxxxx			
Inwards To xxxxxx			
Coal, water			
To Octroi xxx			
To Import Duty			
To Manufacturing Expenses			
To factory Lighting			
To Gross Profit	Xxx		xxx
(Transfer to P & L A/C)			
To Gross Loss Xxx		By Gross Profit By	xxx
To Salaries xxxxxxxx		Rent Received xxxxxxxx	
To Rent xxxxxxxx		By Commission Received xxxxxxxx	
To Commission xxxxxxxx		By Interest received	
To Discount xxxxxxxx		By Other incomes	
To Insurance Premium xxxxxxxx			
To Telephone Expenses xxxxxxxx			
To Advertisements xxxxxxxx			
To Audit Fee xxxxxxxx			
To legal Fee xxxxx			
To Interest on Loan			
To Carriage outwards			
To Bad debts			
To Provision for depreciation			
To Printing & Stationary			
To Postage & Telegram			
To General Expenses			
To Packing Expenses			
To Transportation			

## BALANCE SHEET

Balance sheet is prepared to know the financial position of business on a particular date. It is a statement which shows the assets and liabilities of a business as on a particular date. It shows what a business owns and what it owes. This statement is prepared from real and personal account left after the nominal accounts are transferred to Trading and Profit and Loss account. Balance sheet is a "Statement" and not an "Account". It does not have 'Debit' and 'Credit' sides. It is divided into two sides i.e. left hand side and right hand side. The left hand side is called the liabilities side and right hand side is called assets side. All the liabilities and capital are entered on the liabilities side and all properties and assets are entered on the Assets side.

"A balance sheet is a statement with a view to measure exact financial position of a business at a particular date." ----- J. R. Botliboi

### Format of Balance Sheet:

#### Balance Sheet of Mr. X as on the date of 31-12-XXXX

Liabilities	Amount	Assets	Amount
Capital	xxx	<b><u>Fixed Assets:</u></b>	
(+) Net Profit	xxx	Plant & Machinery (-	
	xxx	) Depreciation	xxx
(-) Net Loss	xxx	Furniture and fixtures (-	
xxx (+) Interest on		) Depreciation	xxxxxxx
Capital xxx		Land & Buildings	
	xxx	(-) Depreciation	xxx xxx
(-) Drawing	xxx	Furniture	
xxx (-) Interest		(-) Depreciation	
on Drawing xxx	xxx	Motor Vehicles	
Reserve	xxx	<b><u>Current Assets:</u></b>	
Long term loans	xxxxxxx	Sundry Debtors	xxx
Bank Over Draft		(-) Bad Debt	xxxxxxx
<b><u>Current</u></b>	xxx	Cash in Hand	xxxxxxx
<b><u>Liabilities:</u></b> Sundry	xxxxxxx	Cash in Bank	xxxxxxx
Creditors Bills Payable		Bills Receivable	
Outstanding Expenses		Closing Stock	
		Prepaid Expenses	
	xxx		xxx

## **Adjustments**

While preparing the Profit and Loss account for a particular period it is essential that expenses, losses and incomes and gains relating only to that period are considered. We know that business is a going concern. It has to be carried on indefinitely at the end of every accounting year. The trader prepares the Trading and Profit and Loss account and Balance Sheet. While preparing these financial statements, sometimes the trader may come across certain problems. The expenses of the current year may be still payable or the expenses of the next year have been prepaid during the current year. In the same way, the income of the current year still receivable and the income of the next year have been received during the current year. Without these adjustments, the profit figures arrived at or the financial position of the concern may not be correct. As such these adjustments are to be made while preparing the final accounts.

The adjustments to be made to final accounts will be given under the Trial Balance. While making the adjustment in the final accounts, the student should remember that "every adjustment is to be made in the final accounts twice i.e. once in trading, profit and loss account and later in balance sheet generally". The following are some of the important adjustments to be made at the time of preparing of final accounts:-

### **1. Closing Stock:-**

- (i) If closing stock is given in Trial Balance: It should be shown only in the balance sheet "Assets Side".
- (ii) If closing stock is given as adjustment:
  - 1. First, it should be posted at the credit side of "Trading Account".
  - 2. Next, shown at the asset side of the "Balance Sheet".

### **2. Outstanding Expenses:-**

- (i) If outstanding expenses given in Trial Balance: It should be only on the liability side of Balance Sheet.
- (ii) If outstanding expenses given as adjustment:
  - a. First, it should be added to the concerned expense at the debit side of profit and loss account or Trading Account.
  - b. Next, it should be added at the liabilities side of the Balance Sheet.

### **3. Prepaid Expenses:-**

- (i) If prepaid expenses given in Trial Balance: It should be shown only in assets side of the Balance Sheet.
- (ii) If prepaid expense given as adjustment:

1. First, it should be deducted from the concerned expenses at the debit side of profit and loss account or Trading Account.
2. Next, it should be shown at the assets side of the Balance Sheet.

#### **4. Income Earned But Not Received [Or] Outstanding Income [Or] Accrued Income:-**

- (i) If incomes given in Trial Balance: It should be shown only on the assets side of the Balance Sheet.
- (ii) If incomes outstanding given as adjustment:
  1. First, it should be added to the concerned income at the credit side of profit and loss account.
  2. Next, it should be shown at the assets side of the Balance Sheet.

#### **5. Income Received in Advance or Unearned Income:-**

- (i) If unearned incomes given in Trial Balance: It should be shown only on the liabilities side of the Balance Sheet.
- (ii) If unearned income given as adjustment:
  1. First, it should be deducted from the concerned income in the credit side of the profit and loss account.
  2. Secondly, it should be shown in the liabilities side of the Balance Sheet.

#### **6. Depreciation:-**

- (i) If Depreciation given in Trial Balance: It should be shown only on the debit side of the profit and loss account.
- (ii) If Depreciation given as adjustment
  1. First, it should be shown on the debit side of the profit and loss account.
  2. Secondly, it should be deducted from the concerned asset in the Balance sheet assets side.

#### **7. Interest on Loan (or) Capital:-**

- (i) If interest on loan (or) capital given in Trial balance: It should be shown only on debit side of the profit and loss account.
- (ii) If interest on loan (or) capital given as adjustment:
  1. First, it should be shown on debit side of the profit and loss account.
  2. Secondly, it should add to the loan or capital in the liabilities side of the Balance Sheet.

#### **8. Bad Debts:-**

- (i) If bad debts given in Trial balance: It should be shown on the debit side of the profit and loss account.

(ii) If bad debts given as adjustment:

1. First, it should be shown on the debit side of the profit and loss account.
2. Secondly, it should be deducted from debtors in the assets side of the Balance Sheet.

### **9. Interest on Drawings:-**

(i) If interest on drawings given in Trail balance: It should be shown on the credit side of the profit and loss account.

(ii) If interest on drawings given as adjustments:

1. First, it should be shown on the credit side of the profit and loss account.
2. Secondly, it should be deducted from capital on liabilities side of the Balance Sheet.

### **10. Interest on Investments:-**

(i) If interest on the investments given in Trail balance: It should be shown on the credit side of the profit and loss account.

(ii) If interest on investments given as adjustments:

1. First, it should be shown on the credit side of the profit and loss account.
2. Secondly, it should be added to the investments on assets side of the Balance Sheet.

**Example 1:**

Trail Balance of Bharatis given below. Prepare the Trading Account and Profit and Loss Account for the year ending 31<sup>st</sup> December, 2005 and Balance Sheet as on that date

Particulars	Debit Rs.	Credit Rs.
Drawings and Capital	10,550	1,19,400
Plant & Machinery	38,300	
Sundry Debtors and Creditors	62,000	59,360
Wages	43,750	
Purchases and Sales	2,56,590	
Opening Stock	95,300	
Salaries	12,880	
Insurance	930	
Cash at Bank	18,970	
Interest on Loan	14,370	
Discount allowed	4,870	
Furniture	12,590	
Loan Payable		79,630
Land & Buildings	43,990	
	6,15,090	6,15,090

Closing Stock was Values at Rs. 90,000

(Feb-08, set-2, Q7)

**Solution:**

**Trading and Profit and Loss Account of Mr. Bharat at the end of the year 31<sup>st</sup> December, 2005**

Dr.

Cr.

Particulars	Amount	Amount	Particulars	Amount	Amount
To Opening Stock		95,300	By Sales		3,56,430
To Purchase		2,56,590			
To Wages		43,750	By Closing Stock		90,000
To Gross Profit (Transfer to P & L A/c)		50,790			
		4,46,430			4,46,430
To Salaries		12,880	By Gross Profit		50,790
To Insurance		930			
To Interest on Loan		14,370			
To Discount		4,870			
To Net Profit (Transfer to Balance Sheet)		17,740			
		50,790			50,790

**Balance Sheet of Mr. Bharat as on the date of 31-12-2005**

<b>Liabilities</b>	<b>Amount</b>	<b>Amount</b>	<b>Assets</b>	<b>Amount</b>	<b>Amount</b>
Capital	1,19,400		<b>Fixed Assets:</b>		
(+) Net Profit	<u>17740</u>		Plant & Machinery		38,300
	1,37,140		Furniture		12,590
Drawing	<u>10,550</u>		Land & Buildings		43,990
		1,26,590			
Loan Payable		79,630	<b>Current Assets:</b>		
			Sundry Debtors		62,000
<b>Current Liabilities:</b>			Cash in Bank		38,300
Sundry Creditors		59,360	Closing Stock		90,000
Suspense A/c		270			
		2,65,850			2,65,850

**Example 2:**

The following are the particulars of Ledger Account balances taken from the books of Bhaskar for the year ending 31<sup>st</sup> March 2005. You are required to prepare Trading Account and Profit and Loss Account and Balance Sheet as on that date

<b>Particulars</b>	<b>Debit Rs.</b>	<b>Credit Rs.</b>
Capital		1,00,000
Bills receivables and Bills Payable	4,00,000	7,00,000
Sundry Debtors and Creditors	75,000	50,000
Cash	15,000	
Bank	25,000	
Business Premises	2,50,000	
Loan Payable		25,000
Opening stock	40,000	
Purchase & Returns	60,000	8,000
Sales & Returns	37,000	2,75,000
Wages	35,000	
Salaries	65,000	
Rent, Taxes and rates	15,000	
Depreciation	5,000	
Furniture	78,000	
Advertisement	58,000	
	11,58,000	11,58,000

**Adjustments:**

1. Closing Stock was Values at Rs.80,000
2. Write off Bad Debts of Rs. 5,000 out of sundry debtors
3. Prepaid Insurance amounted Rs.1,000

(Feb-08, set-3,Q7)

**Solution:****Trading and Profit and Loss Account of Mr. Bhaskar at the end of the year 31<sup>st</sup> March, 2005**

Dr.			Cr.		
Particulars	Amount	Amount	Particulars	Amount	Amount
To Opening Stock		40,000	By Sales	2,75,000	
To Purchase	60,000			<u>37,000</u>	2,38,000
Less: Returns	<u>8,000</u>	52,000			
To Wages		35,000	By Closing Stock		80,000
To Gross Profit (Transfer to P & L A/c)		1,91,000			
		<u>3,18,000</u>			<u>3,18,000</u>
To Salaries		65,000	By Gross Profit		1,91,000
To Rent, Taxes and Insurance	15,000				
Less: Insurance	<u>1,000</u>	14,000			
To Depreciation		5,000			
To Advertisements		58,000			
To Bad Debts		5,000			
To Net Profit (Transfer to Balance Sheet)		44,000			
		<u>1,91,000</u>			<u>1,91,000</u>

**Balance Sheet of Mr. Bhaskar as on the date of 31-03-2005**

Liabilities	Amount	Amount	Assets	Amount	Amount
Capital	1,00,000		<b><u>Fixed Assets:</u></b>		
(+) Net Profit	<u>44,000</u>		Furniture		78,000
		1,44,000	Business Premises		2,50,000
Loan Payable		25,000	<b><u>Current Assets:</u></b>	75,000	
<b><u>Current Liabilities:</u></b>			Sundry Debtors	<u>5,000</u>	70,000
Sundry Creditors		50,000	Less: Bad Debts		4,00,000
Bills Payable		7,00,000	Bills Receivable		15,000
			Cash in Hand		25,000
			Pre-paid Insurance		1,000
			Closing Stock		80,000
		<u>9,19,000</u>			<u>9,19,000</u>

**Example 3:**

From the following Trail Balance of Mr.Surya &Co as on 31<sup>st</sup>December 2009. Prepare the Trading Account, Profit and Loss Account and Balance Sheet as on date

Particulars	Debit Rs.	Credit Rs.
Capital		70,000
Purchases	40,000	
Sales		75,000
Returns	1,000	2,000
Opening Stock	20,000	
Wages	1,000	
Coal , Power	1,500	
Carriage Inwards	3,000	
Salaries	2,000	
Sundry Creditors		10,000
Sundry Debtors	15,000	
Bills Payable		5,000
Bill Receivable	10,000	
Plant & Machinery	7,500	
Cash	27,000	
Bank	15,000	
Discount	500	
Discount Received		2,000
Loans		5,000
Bank OD		5,000
Buildings	33,000	
	<b>1,74,000</b>	<b>1,74,000</b>

**Adjustments:**

1. Closing Stock Rs.30,000
2. Bad Debts on Sundry Debtors Rs.1,000
3. Depreciation on Buildings Rs.3,000
4. Outstanding Salaries Rs.500

(Nov-2010, Set-2, Q8)

**Solution:**

**Trading and Profit and Loss Account of Mr. Surya & Co at the end of the year  
31<sup>st</sup>December, 2005**

Dr.

Cr

Particulars	Amount	Amount	Particulars	Amount	Amount
To Opening Stock		20,000	By Sales	75,000	
To Purchase	40,000			<u>1,000</u>	74,000
Less: Returns	<u>2,000</u>	38,000			
To Wages		1,000	By Closing Stock		30,000
To Coal and Power		1,500			
To Carriage Inwards		3,000			
To Gross Profit (Transfer to P & L A/c)		40,500			
		<u>1,04,000</u>			<u>1,04,000</u>
To Salaries	2,000		By Gross Profit		40,500
Less: Outstanding Salaries	<u>500</u>	2,500	By Discount Received		2,000
To Bad Debts		1,000			
To Depreciation		3,000			
To Discount		500			
To Net Profit (Transfer to Balance Sheet)		35,500			
		<u>42,500</u>			<u>42,500</u>

**Balance Sheet of Mr. Surya as on the date of 31-03-2005**

Liabilities	Amount	Amount	Assets	Amount	Amount
Capital	70,000		<b><u>Fixed Assets:</u></b>		
(+) Net Profit	<u>35,000</u>	1,05,500	Buildings	33,000	
			Less: Depreciation	<u>3000</u>	30,000
Loan Payable		5,000	Plant & Machinery		750
Bank OD		5,000	<b><u>Current Assets:</u></b>		
<b><u>Current Liabilities:</u></b>			Sundry Debtors	15,000	
Sundry Creditors		10,000	Less: Bad Debts	<u>1,000</u>	14,000
Bills Payable		5,000	Bills Receivable		10,000
Outstanding Salaries		500	Cash in Hand		27,000
Suspense Account		2,500	Closing Stock		30,000
		<u>1,33,500</u>			<u>1,33,500</u>