Final Account's

Financial Statements are the systematically organized summary of all the ledger account heads presented in Such a manner that it gives detailed information about the financial position and the performance of the enterprise. As seen above, through categorization of Financial Statements into Income & Position Statement, the profit or Loss is measured at two levels:

(a) Gross Profit or Gross Loss

(b) Net Profit or Net Loss

The profit or loss of the enterprise is obtained through the preparation of Income Statement i.e Trading and Profit & Loss A/c

The financial position of the business enterprise is judged by measuring the assets, liabilities and capital of the Enterprise and the same is communicated to the users of financial statements. Financial position of the enterprise Can be known through the preparation of the Position Statement i.e Balance Sheet.

TRADING ACCOUNT

Points to Remember:-

- The opening inventory and purchases are written on the debt side.
- Sales and the closing inventory are entered on the credit side.
- If there are any direct expenses then they should also be written on the debit side of the Trading account.
- If the balances of credit side is more, the difference is written on the debit side as gross profit. This Amount will also be carried forward to the Profit and Loss Account on the credit side.
- In case of gross loss, i.e., when the debit side of the Trading Account exceeds the credit side, the amount Will be written on the credit side of the Trading Account and transferred to the debit side of the Profit And Loss Account.
- For Fright, However, if any fright or cartage is paid on any asset, like machinery, it should be added to the cost of the asset and not debited to the Trading Account.

If Closing Stock appears in the Trial balance:-

The closing inventory is then not entered in the trading account, it is shown only in the balance sheet. This is because it has already been adjusted to arrive at Cost of Goods Sold.

!!! In case Closing Stock is not mentioned in Trial Balance, then it means Opening Stock and Purchases appearing in Trial Balance include the value of unsold stock. Since, we prepare Our financial statements using matching concept such unsold stock should not form part of cost and Therefore is deducted. Therefore, in this case to compute Cost of goods sold (COGS) we will have to Use:

COGS = Opening Stock +Purchases – Closing Stock – Purchase Returns

PROFIT AND LOSS ACCOUNT

Note:

(i) Gross loss appears in the debit side of the Profit and Loss Account at the top; while Gross Profit on the Credit side.

(ii) Net loss appears in the credit side of the Profit and Loss Account; while Net profit on debit side as Balancing figures.

BALANCE SHEET

The balance sheet may be defined as "a statement which sets out the assets and liabilities of a firm or an Institution as at a certain date." Since even a single transaction will make a difference to some of the assets or Liabilities, the balance sheet is true only at a particular point of time. That is the significance of the word "as *at.". The assets are shown on the right hand side and liabilities and capital on the left hand side*

ARRANGEMENTS OF ASSETS AND LIABILITIES

(1) Assets: Assets may be grouped in one of the following two ways:

(i) **Liquidity**: Under this approach, the asset, which can be converted into cash first, is presented First. Those assets, which are most difficult in this respect, are presented at the bottom

(ii) **Permanence**: Assets, which are to be used, for long term in the business and are not meant to Be sold are presented first. Assets, which are most liquid, such as cash in hand, are presented At the bottom.

2.Liabilities: Liabilities may also be shown according to the urgency with which payment has to be made.One way is to first show the capital, then long-term liabilities and last of all short term liabilities like Amounts due to suppliers of goods or bills payable. The other way is to start with short-term liabilities And then show long term liabilities and last of all capital.

CLASSIFICATION OF ASSETS AND LIABILITIES

Assets are basically of two types:

1.Current Assets: - these assets are meant to be converted into cash as quickly as possible. Generally within one Year. For Example:- Cash in hand, Cash at Bank, Trade receivables, Inventories.

2.Long Term Assets: - Those that are meant to be used by the firm over a long period and not sold the former Type of assets is also called fixed assets. For Example Machinery, Building, Long term Investment.

3.Intangible Assets: - the assets which have no physical existence and cannot be seen or touched are called as Intangible Assets. For example Patents, Copyrights etc..

Liabilities to outsider will be of two types:

1.Current Liabilities: - this liability must be settled in one year or less. It is also called as short term liability. For Example:- Creditors, Bills Payable etc.

2.Long Term Liability: - those liabilities which exists for more than one year are Long term liabilities. For example Long term loans from banks. Of course, it will include undistributed profits also.

PROVISIONS AND RESERVES

Provision means "*any amount written off or retained by way of providing for depreciation, renewal or diminution In the value of assets or retained by way of providing for any known liability of which the amount cannot be Determined with substantial accuracy*". A provision is a liability which can be measured only by using a substantial Degree of estimation.

Thus, a provision may be either in respect of loss in the value of an asset provided or written off on the basis of An estimate or the one in respect of a liability for expenses incurred in respect of a claim which is disputed i.e. When it is a contingent liability. On the occurrence of a diminution in asset values due to some of them having Become irrecoverable or Inventory items are lost as a result of some natural calamity, amounts contributed or Transferred from profit to make good the diminution also are described as provision.

Reserves

The portion of earnings, receipts or other surplus of an enterprise (whether capital or revenue) appropriated by The management for a general or a specific purpose other than a provision for depreciation or diminution in the Value of assets or for a known liability is known as reserves. The reserves are primarily of two types: capital Reserves and revenue reserves. Also provisions in excess of the amount considered necessary for the purposes These were originally made, are to be considered as reserves. *It is thus evident that provisions are a charge Against profits, while reserve is an appropriation of profits*. Also provisions that ultimately prove to be in Excess of amounts required or have been made too liberally are reserves. Such a distinction is essential for Disclosing truly in the Balance Sheet the amount by which the equity of shareholders has increased with the Accumulation of undistributed profits

Reserve Fund: It signifies the amount standing to the credit of the reserve that is invested outside the business In securities which are readily realisable e.g., when the amounts set apart for replacement of an asset are Invested periodically, in government securities or shares. The account to which these amounts are annually Credited is described as the Reserve Fund.

Final Account’s Of Manufacturing Entities

The manufacturing entities generally prepare a separate Manufacturing Account as a part of Final accounts in Addition to Trading Account, Profit and Loss Account and Balance Sheet. The objective of preparing Manufacturing Account is to determine manufacturing costs of finished goods for assessing the cost effectiveness Of manufacturing activities. Manufacturing costs of finished goods are then transferred from the Manufacturing Account to Trading Account.

- Trading account shows Gross Profit while Manufacturing Account shows cost of goods sold which Includes direct expenses.
- Manufacturing account deals with the raw materials, and work in progress while the trading account Would deal with finished goods only.

Raw Material Consumed = Opening inventory of Raw Materials + Purchases – Closing inventory of Raw Materials

DIRECT MANUFACTURING EXPENSES

Direct manufacturing expenses are costs, other than material or wages, which are incurred for a specific product Or saleable service.

Examples of direct manufacturing expenses are (i) Royalties for using license or technology if based on units Produced, (ii) Hire charge of the plant and machinery used on hire, if based on units produced, etc.When royalty or hire charges are based on units produced, these expenses directly vary with production.

INDIRECT MANUFACTURING EXPENSES OR OVERHEAD EXPENSES

These are also called Manufacturing overhead, Production overhead, Works overhead, etc. Overhead is defined As total cost of indirect material, indirect wages and indirect expenses.

Overhead = Indirect Material + Indirect Wages + Indirect Expenses

Indirect material means materials which cannot be linked directly with the units produced, for example, stores Consumed for repair and maintenance work, small tools, fuel and lubricating oil, etc.

Indirect wages are those which cannot be directly linked to the units produced, for example, wages for Maintenance works, holding pay, etc.

Indirect expenses are those which cannot be directly linked to the units produced, for example, training Expenses, depreciation of plant and machinery, depreciation of factory shed, insurance premium for plant and Machinery, factory shed, etc

Accordingly, indirect manufacturing expenses comprise indirect material, indirect wages and indirect expenses Of the manufacturing division.

BY-PRODUCTS

In most manufacturing operations, the production of the main product is accompanied by the production of a Subsidiary product which has a value on sale. For example, the production of hydrogenated vegetable oil is Accompanied by the production of oxygen gas and the production of steel yields scrap. The subsidiary product is Termed as a by-product because its production is not consciously undertaken but results out of the production of The main product. It is usually very difficult to ascertain the cost of the product. Moreover, its value usually forms A very small percentage of the main product.

By-product is a secondary product. This is produced from the same raw materials, which are used for producing The main product and without incurring any additional expenses from the same production process in which the Main product is produced. Some examples of by-product are given below:

(i) Molasses is the by-product in sugar manufacturing;

(ii) Butter milk is the by-product of a dairy which produces butter and cheese, etc.

By-products generally have insignificant value as compared to the value of main product. They are generally Valued at net realizable value, if their costs cannot be separately identified. It is often treated, as “**Miscellaneous Income**” but the correct treatment would be to credit the sale value of the by-product to Manufacturing Account So as to reduce to that extent, the cost of manufacture of main product.

Manufacturing Account

Particulars	Units	Amount	Particulars	Units	Amount
		₹			₹
To Raw Material Consumed:			By By-products at net realizable value		
Opening inventory					
Add: Purchases	.... .		By Closing Work-in- Process		
Less: Closing inventory	.....		By Trading A/c		
To Direct Wages	.....	......	Cost of production		
To Direct expenses:	......				
Prime cost		......			
To Factory overheads:					
Royalty	.....				
Hire charges	.....				
To Indirect expenses:	.....				
Repairs & Maintenance	.....				
Depreciation	.....	....			
Factory cost		....			
To Opening Work-in-process		....			