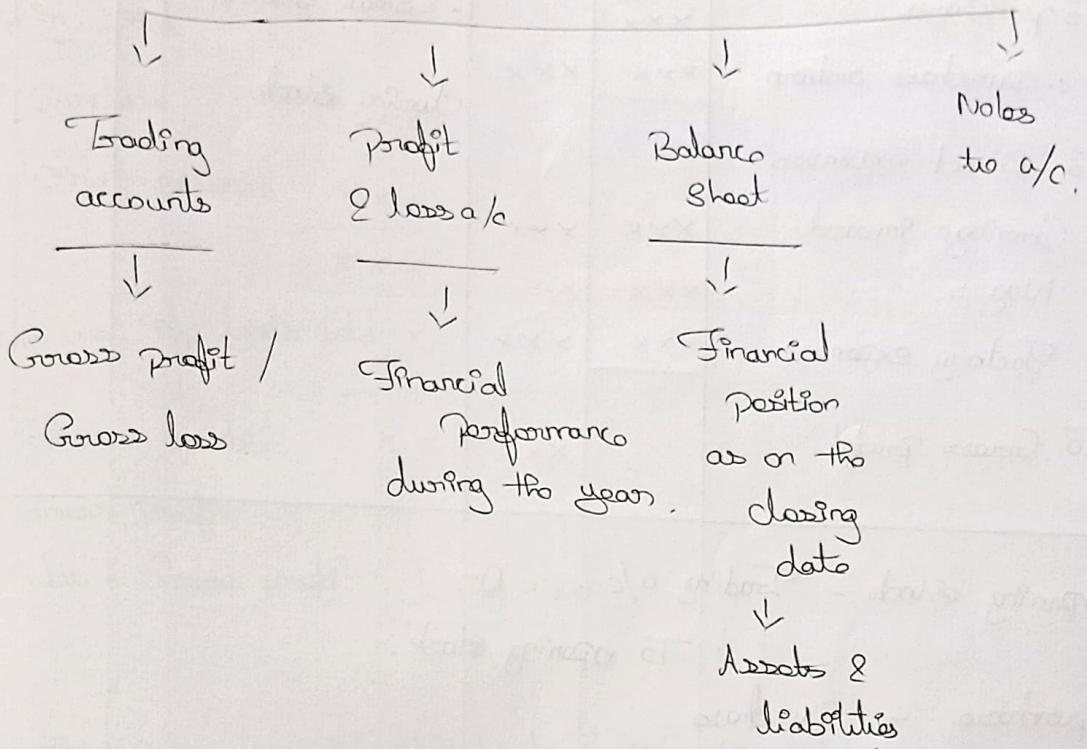


# Final Accounts

Final Accounts  $\Rightarrow$  Preparation of Financial statements



## TRADING A/c

Trading A/c  $\Rightarrow$  primary revenue generating activities





# closing stock



always calculated on last day

31<sup>st</sup> March

opening stock	x x
+ Purchase	x x
+ Direct expenses	x x
	<hr/>
	x x

less: Cost of goods sold x x



Given in question x x

Gross profit .) ↑

(Sales - Gross profit) closing stock

## Illustration :- 2

In the books of M/s. ABC Traders

Trading A/c for the year ended 31<sup>st</sup> March, 2022

Particulars		₹	Particulars		₹
opening Inventory.		1,00,000	By Sales.	11,00,000	
To Purchases.	6,72,000		(-) Return inward.	1,00,000	6,00,000
(-) Return outward.	42,000	6,00,000	By closing inventory.		2,00,000
To Carriage inward.		30,000			
To Wages.		50,000			
To Gross profit.		4,20,000			
		<hr/>			
		12,00,000			12,00,000

Journal proper in the books of  
M/s. ABC Traders (closing entries).

Particulars	₹	₹
Return outward A/c To purchase A/c. [Being the transfer of return to purchase A/c]	Dr 12,000	12,000
Sales A/c To Return inward A/c. [Being the transfer of return to sales A/c]	Dr 10,00,000	10,00,000
Sales A/c To Trading A/c. [Being the transfer of balance of sales A/c to trading a/c]	Dr 10,00,000	10,00,000
Trading A/c To opening inventory To Purchase To Carriage inward To wages	Dr 1,80,000	1,00,000 6,00,000 30,000 50,000
Closing inventory A/c To Trading A/c	Dr 8,00,000	8,00,000
Trading A/c To Gross & profit A/c	Dr 4,20,000	4,20,000
Gross profit A/c To profit & loss A/c	Dr 4,20,000	4,20,000



# PROFIT AND LOSS ACCOUNT

Profit & Loss a/c for the year ended

Particulars	Amt (₹)	Particulars	Amt (₹)
To Gross loss b/d	xxx	By Gross profit b/d	xxx
<u>Administrative expenses</u>		<u>Indirect incomes</u> :-	
To Salary expenses	xxx	By Commission received	xx
To Rent expenses	xxx	By Rent Income a/c	xx
To Printing and Stationery	xxx	By Interest Income a/c	xx
To Audit fees	xxx	By Profit on sale of asset	xx
To electricity charges	xxx	By Profit on sale of investment	xx
<u>Selling expenses</u>		By Net Loss	
To Commission expenses	xxx	(transfer to Capital A/c)	
To advertisement expenses	xxx		
<u>Financial expenses</u>			
To Interest on loan			
To Bank charges			
To Discounting allowed			
To Bad debt expenses			
To Provision for Bad debts	xxx		
To loss on sale of asset	xxx		
To loss by fire	xxx		
To Net profit			
(transfer to Capital A/c)			

Administrative expenses :- Business expenses that are not related to the cost of goods or sales.

Selling expenses :- The costs that a business incurs in the process of selling products & services

expenses :- any cost that contributes to a company's overall cost of doing business.

## Closing entries :-

### 1) Closing all income a/c

Rent Income a/c ... Dr

Commission Income a/c ... Dr

To Interest Income a/c ... Dr

To Profit & Loss a/c

### 2) Closing all expenses a/c :-

Profit & Loss a/c ... Dr

To Salary expenses a/c

To Rent expenses a/c

To advertisement expenses a/c

To Interest on loan a/c

### 3) Transfer profit/loss to Capital A/c -

Profit :-

Profit & Loss a/c ... Dr

To Capital a/c

Loss :-

Capital a/c ... Dr

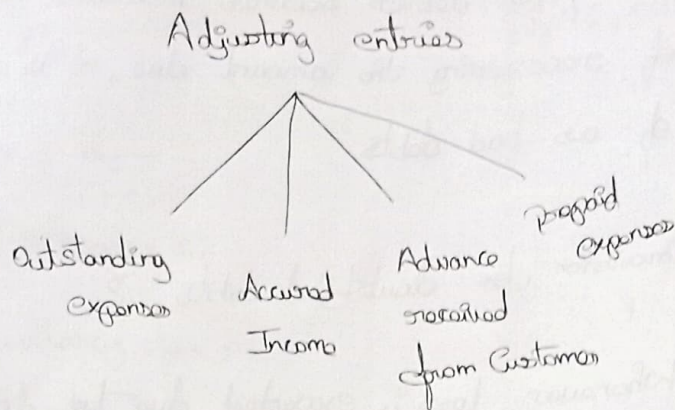
To Profit & Loss a/c





# Adjusting entries

↓ year end entries.



## 3) Outstanding expenses:-

Mr. Ghunghroo - 3 months - 90,000 Salary.

31st March - Salary exp a/c ... Dr 90,000  
To o/s Salary a/c 90,000.  
↓  
Closing Current Liabilities.

5/4 - o/s Salary a/c .... Dr  
To Bank a/c.

## 4) Accrued Income:-

Company invested Rs 1,00,000 in 10% fixed deposit for 3 years on

1st January 2019

	Principal	Interest	Closing balance
1/1/19 =	1,00,000	10,000	1,10,000
2020 =	1,10,000	11,000	1,21,000
2021 =	1,21,000	12,100	1,33,100



Fixed deposit a/c ..... Dr 1,00,000.

To Bank 1,00,000.

2019 - Accrued interest a/c ..... Dr 1,00,000.

To Interest income 1,00,000.

2020 - Accrued interest a/c ..... Dr 11,000

To Interest income 11,000

2021 - Accrued interest a/c ..... Dr 1,21,00

To Interest income 1,21,00.

31/12/21 - Bank a/c ..... Dr 1,33,100

To fixed deposit investment a/c 1,00,000

To Accrued interest a/c 33,100.

9) Advance received from Customer:-

Dr Bank a/c ..... Dr 30,000

To advance received from Customer 30,000

↓  
Current liabilities

New year

Sales - 1,00,000

~~Customer a/c ..... Dr~~

Customer a/c ..... Dr 10,000

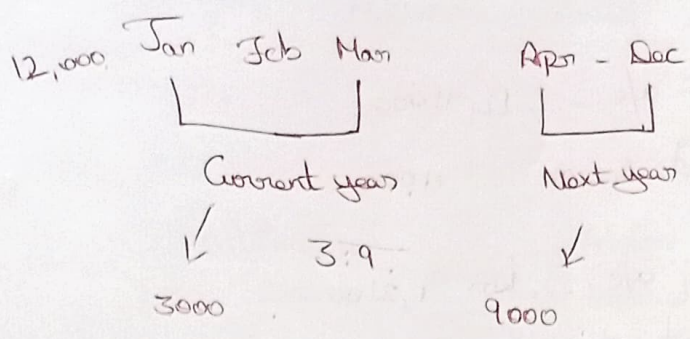
~~To Sales 1,00,000~~

Advance received from Customer Dr = 30,000

To Sales 1,00,000.

iv) Prepaid expenses:

1<sup>st</sup> Jan paid Rs 12,000 for annual fire insurance premium  
Year ending - 31/3.



v) At time of payment

Insurance expenses a/c ... Dr - 12,000  
To Bank a/c ... 12,000

Year end

Prepaid exp a/c ... Dr 9000  
To Insurance exp. a/c 9000

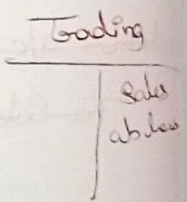
Next year

1/4 Insurance exp a/c ... Dr - 9000  
To Prepaid exp a/c ... 9000

Other adjustments

i) Abnormal loss of goods

Abnormal loss a/c ... Dr 30,000  
To Trading / To Purchase a/c ... 30,000



Insurance claim:

Insurance claim ... Ac Dr 20,000  
To abnormal loss ... 20,000



PEL a/c ... Dr 10,000  
 To Abnormal loss 10,000

Abnormal loss

To trading 30,000	By Insurance claim 20,000
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Commission paid on profit

Commission paid on profit

Before charging such Commission

after charging such Commission

Net profit = 10,00,000  
 Manager = 5%  
 $10,00,000 \times 5\% = 50,000$

After  
 Net profit before Commission = 10,00,000  
 Rate = 5%  
 on profit after Commission  
 $100 \text{ profit after} + 5 = 105$   
 Changing Commission profit before Changing Commission  
 $= 10,00,000 \times \frac{5}{105}$   
 $= 47,619$

Net profit before Commission  $\times$  Commission rate

Commission = Net profit before charging Commission  $\times$  Rate of Commission  
 $\frac{100 + \text{rate}}$

# Balance Sheet

$$\text{Asset} = \text{Capital} + \text{Liabilities}$$

What is asset?

Asset = anything that the Company owns.

Asset

- Current asset = any asset which can give benefit within one financial year
- Non-current asset = asset which gives benefit for more than one financial year

Asset

- Tangible - physical existence
- Intangible - physical existence  
Goodwill, Trademark, patent, Copyright

## Liability

What is liabilities?

Liabilities an obligation of the entity which will result

in an outflow of resources.

Cash, asset

Debtor

- provision for doubtful debts

Asset

- provision for debtor

↓  
reduction in asset.

Contract Asset.

Liability

- Current liability = obligation which paid off in one year
- Non-current liability = obligation which exists for more than one year



# Capital -

What is Capital ?

Capital residual value after deducting liabilities from Asset.

$$\boxed{\text{Asset} - \text{Liabilities} = \text{Capital}}$$

Capital - opening balance      x x  
 + Not profit                      x x  
 - Drawings                        x x

Closing balance

## Reserve & Surplus

General reserve

Investment fluctuation reserve

<u>Provision</u>	<u>Contingent liability</u>	<u>Reserve</u>
Obligation -	Obligation - x uncertain	No
Amount - uncertain	Amount - uncertain	<u>Obligation</u> - x
Provision for doubtful Provision	A $\xrightarrow{\text{Loan}}$ Bank	Any amount kept outside by the Company for future
An amount provided for reduction in value of asset or for providing for any known liability the amount of which is uncertain.	B $\rightarrow$ Guarantees	expansion purpose apart from providing for any reduction in asset is known liability
Provision for expenses	<u>Contingent liability</u>	
Provision for warranty		

	Provision	Reserve
Meaning	An obligation created for a known liability, the amount of which is uncertain	An amount kept outside for strengthening the financial position of the entity.
Nature	Charge against profit It is created whether there is profit / loss	Appropriation of profit. Created only when there is profit.
Presentation	Shown as deduction from asset. Liability side of Balance sheet	Shown on liability side under Capital.

### Two types of reserve.

Capital reserve

Created out of Capital profit

e.g :- Revaluation of asset

Not used for distribution or dividend.

Revenue reserve

Created out of normal operating profit

e.g :- General reserve

Can be used for distribution as dividend



# Format of Balance Sheet

↳ Permanance

↳ Liquidity

Liability	Asset
Capital	Land & Building
Reserve & Surplus	Plant & machinery
Outstanding liability	Furniture & fixtures
Long term loan	Stock
Debtors	Debtors
Investment	Investment
Bank	Bank
Cash	Cash

Liquid.

Liability	Asset
Bills payable	Cash
Debtors	Bank
Long term loan	Investment
Outstanding liability	Debtors
Reserve & Surplus	Stock
Capital	Furniture & fixtures
	Plant & machinery
	Land & Building

# Balance sheet as on .....

Liabilities	₹	Assets	₹
Capital A/c		Tangible fixed Assets	
Balance		Land and Building	
Add :- Not Profit		plant and machinery	
Less :- Not less		Furniture and fixtures	
Less :- Drawings		Vehicles	
Long term loans :-		Intangibles :-	
Term loans		Goodwill	
Other loans		Patent rights	
Short term loans :-		Designs and Brand names	
Cash Credit		Investments :-	
Overdrafts		Long term Investments	
Other loans		Current Assets :-	
Current liabilities :-		Inventory in Trade	
Trade payables		Trade receivables	
Outstanding expenses		Short term Investments	
Advance Taken		Prepayments	
Provision for Bad debts		Advances	
Provision for retirement		Bank balances	
Benefits		Cash in hand	
Provision for Taxation			