

## FINAL ACCOUNTS OF SOLE TRADERS

### Introduction :

A Trial Balance marks a definite stage in the preparation of accounts. It indicates that all the transaction for a particular period has been duly entered, posted and balanced. But this it self is not the end of book-keeping work. Its a means to an end, the end being a. to find out the profit or loss made by the business firm in given period and b. to understand the financial position of the business as on a given date. A business man can ascertain these by preparing the final accounts, which is prepared on the basis of the trial balance. The Preparation of final accounts is the last step in the accounting circle. The final account includes manufacturing account, trading accounts, profit and loss account and balance sheet. Even though the balance sheet is a statement, for all practical purposes, it is treated as part of final accounts. We are concerned with trading and profit and loss account and balance sheet and the same are discussed in this chapter.

### Trading Account :

Trading account is prepared mainly to know the profitability of goods bought or manufacture and sold by the business man. The difference between the selling price and cost price of the goods is the gross result. The term „Goods“ means the goods bought for resale. It does not include assets. If sale proceeds are more than the cost of goods sold, gross profit is made. If sale proceeds are less than the cost of the goods sold, gross loss is incurred.

### Format:

Trading Account for the year ended on 31st December			
Dr.	Rs.	Cr.	Rs.
To Opening Stock		By Sales less Return	
To Purchases less Returns		By Closing Stock	
To Wages			
To Freight Charges			
To Dock Charges			
To Excise Duty			
To Octroi			
To Import duty			
To Fuel, Power etc.			
To Store Consumed --			
To Royalty Production Basis.			
To Manufacturing expenses			
To Gross Profit			
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### Manufacturing Account :

A business man purchases finished goods for resale where as a manufacturer buys raw materials, converts them in to finished goods, by incurring certain expenses, and then sells them. Thus, Trading Account is spitted into two-Manufacturing Account and Trading Account. Manufacturing account is the account to show the cost of manufacture or production. On the debit side, opening stock of raw materials, work-in-process, purchase of raw materials, carriage, manufacturing expenses and all other expenses relating to factory are entered. On the credit side,

closing stock of raw materials, work-in-process, are shown and the balance, representing the cost of production of finished goods, is transferred to Trading Account. If one wants to know the cost of manufacturing, then as Manufacturing Account- will have to be prepared.

### **Profit and Loss Account :**

By preparing the Trading Account, its possible to find out the Gross Profit or Gross Loss made during the given period. The next step is the preparation of the Profit and Loss Account to ascertain net profit earned or net lost suffered during a given period of time. The balance of Trading Account is brought down to Profit and Loss Account. Then, the Profit and Loss Account is credited with other incomes and debited with all indirect expenses. Then the Profit and Loss Account may be balance and the balance is Net Profit or Not Loss. to be transferred to capital account, in case of sole trader or partnership firms.

Profit and Loss Account for the year ended 31 <sup>st</sup> December				
	Dr.	Rs.	Cr.	Rs.
To Gross Loss			By Gross Profit	
To Management expenses			By Interest Received	
Office Salaries			By Discount Received	
Rent of Office Building			By Commission	
Office Lighting			By Income from Investment	
Office, Rent and Taxes			By Apprenticeship Premium	
Printing and Stationery			By Rent from tenants	
Telephone Charges			By Reserve for Disc. on Creditors	
Postage			By Interest on Renewal of Bills	
Legal Expenses			By Miscellaneous income	
Audit Fees			By Net Loss	
Insurance -				
General expenses etc.				
To Selling expenses :				
Salesman Salaries				
Traveling expenses				
Advertising				
Bad Debts				
Selling Commission				
Brokerage				
Free Samples				
To Distribution expenses :				
Carriage out				
Warehouse Rent				
Warehouse Insurance -				
Delivery Van expenses				
Packing expenses				
To Depreciation :				
Depreciation of Assets				
Maintenance expenses				
To Finance expenses :				
Discount Allowed				
Interest on Loan -				
Interest on Capital				

Discount on Bills  
 Loss by Fire  
 To Net Profit

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**Balance Sheet:**

A Balance Sheet is a statement of the financial position at a given date. The given date is the date at which the final accounts are prepared. Transactions are first recorded in journal. Entries in the journal are posted to ledgers. Ledger accounts are balanced and the balances are recorded in a Trial Balance. Trial Balance consists of all Accounts – Personal, Real and Nominal. From the Trial Balance, nominal accounts are transferred to Trading or Profit and Loss Account and the remaining balances are taken to Balance Sheet. However, Balance Sheet is a summary of whole of the accounting record. This is because the nominal accounts are transferred to Revenue Accounts, and Revenue account is closed by shifting the balance to the Balance Sheet. Balance Sheet is also known as a Statement of Assets and Liabilities. Balance sheet is the last and the most important link in the chain of Final Accounts and Statements. It describes the financial position of a business in a systematic standard form. It is a mirror of a business. When the assets exceed the liabilities, one can conclude that the business is sound and solvent. The function of the Balance Sheet is to show the picture of the business on a particular date.

	Balance Sheet as on	
Liabilities	Rs.	Assets
Rs.		
Current liabilities		Liquid assets
Bills Payable		Cash in Hand
Sundry Creditors		Cash at Bank
Bank Overdraft		Cash in Transit
Long Term Liabilities		Floating Assets
Loan from Bank		Sundry Debtors
Fixed Liabilities		Deposits Investments
		Bills Receivable
		Stock in Trade
		Capital Prepaid expenses
		Fixed Assets
		Plant and Machinery
		Buildings
		Furniture & Fixtures
		Land
		Fictitious Assets
		Advertisement
		Miscellaneous expenses
		Profit & Loss
		Intangible Assets
		Goodwill
		Patents
		Patterns
		Copyright

## **Adjustments :**

Following are the Adjustments that are to be considered while preparing final accounts. Each and every adjustment is to be posted in two places. The following is the summary of those two places for each adjustment.

### **1. Closing Stock.**

- i. Trading Account Credit Side, show as an item.
- ii. Balance Sheet Assets Side, show as an item.

### **2. Depreciation**

- i. Balance Sheet Assets Side, deduct from particular asset.
- ii. Profit and Loss Account debit side, show as an item.

### **3. Outstanding Expenses**

- i. Profit and Loss Account Debit side, add with particular expense.
- ii. Balance Sheet Liabilities side show as an item.

### **4. Prepaid Expenses**

- i. Profit and Loss Account Debit side, deduct from particular expense.
- ii. Balance Sheet Assets side, show as an item.

### **5. Accrued Income or Outstanding Income**

- i. Profit and Loss Account Credit side, add with particular income.
- ii. Balance Sheet Assets side, show as an item.

### **6. Income Received in Advance**

- i. Profit and Loss Account Credit side, deduct from particular income.
- ii. Balance Sheet Liabilities side, show as an item.

### **7. Interest on Capital**

- i. Balance Sheet Liabilities side, add with capital.
- ii. Profit and Loss Account Debit side, show as an item.

### **8. Interest on Drawings**

- i. Balance Sheet Liabilities Side, deduct from capital.
- ii. Profit and Loss Account Credit side, show as an item.

### **9. Interest on Loan**

- i. Balance Sheet Liabilities side, add with Loan.
- ii. Profit and Loss Account Debit side, show as an item.

### **10. Interest on Investment**

- i. Balance Sheet Assets Side.
- ii. Profit and Loss Account Credit side, show as an item.

### **11. Bad Debts**

- i. Balance Sheet Assets side, deduct from sundry debtors.
- ii. Profit and Loss Account Debit side, show as an item.

### **12. Provision for Bad debts**

- i. Balance Sheet Assets side, deduct from sundry debtors.
- ii. Profit and Loss Account Debit side, show as an item.

### **13. Provision for Discount on debtors**

- i. Balance Sheet Assets side, deduct from sundry debtors.
- ii. Profit and Loss Account Debit side, show as an item.

### **14. Provision for discount on creditors**

- i. Balance Sheet Liabilities side, deduct from sundry creditors.
- ii. Profit and Loss Account Credit side, show as an item.

### **15. Drawings of Goods by proprietor**

- i. Balance Sheet Liabilities side, deduct from capital.

ii. Trading Account Credit side, show as an item.

**16. Free Samples to customers**

i. Trading Account Credit side, show as an item.

ii. Profit and Loss Account Debit side, show as an item.

**17. Loss of Stock**

i. Trading Account Credit side, show as an item.

ii. Profit and Loss Account Debit side, show as an item.

**18. Manager Commission**

i. Profit and Loss Account Debit side, show as an item.

ii. Balance Sheet Liabilities side show as an item.

Note : While calculating manager commission on Net Profit or Gross Profit due consideration is to be given whether it is based on Profit before charging such commission or after charging such commission

**Preparation of Trading Account**

1. Prepare Trading Account of Miss. Archana for the year ending 31.12.2007 from the following information :

Opening Stock	80,000
Purchases	8,60,000
Freight Inward	52,000
Wages	24,000
Sales	14,40,000
Purchase Returns	10,000
Sales Returns	3,16,000
Closing Stock	1,00,000
Import duty	30,000

**Preparation of Manufacturing Account**

2. The following are the balances in the Ledger of Miss. Bharathi for the year ended 31 st March 2007.

Opening Stock :	
Raw Materials	20,000
Work-in progress	3,000
Finished goods	10,800
Purchase of raw materials	50,000
Sales	2,40,000
Fuel and coal	1000
Wages	32,000
Factory expenses	40,000
Office expenses	30,000
Depreciation on Plant Machinery	3,000
Closing Stock :	
Raw Materials	20,000
Work-in-Progress	4,000
Finished goods	8,000

Prepare manufacturing Account for the year ended 31 st March 2007.

1. The following are the balances in the Ledger of Miss. Chitra for the year ended 31st March 2007

Stock on 01.01.2007	
Raw Materials	10,000
Work-in-process	5,000
Finished goods	20,000
Stock on 31.12.2007	
Raw Materials	5,000
Work-in-process	15,000
Finished goods	30,000
Purchase of Raw Materials	50,000
Direct Wages	10,000
Carriage Charges on purchase of raw materials	5,000
Factory Power	5,000
Depreciation on Factory Machines	5,000
Purchase of Finished Goods.	30,000
Cartage paid on Finished Goods purchased	2,000

### Preparation of Profit and Loss Account

2. From the following balance extracted at the close of the year ended 31 st Dec. 2007, prepare Profit and Loss account of Miss. Devi as at that date.

Gross profit	55,000	Repairs	500
Carriage on sales	500	Telephone expenses	520
Office Rent	500	Interest Dr..	480
General Expenses	900	Fire Insurance Premium	900
Discount to customers	360	Bad Debts	2,100
Interest from Bank	200	Apprentice Premium Cr..	1,500
Traveling expenses	700	Printing & Stationery	2,500
Salaries	900	Trade expenses	300
Commission	300		

1. From the following balances, taken from the Trial Balance of Miss. Ilakkiya, prepare a Trading and Profit and Loss Account for the year ending 31 st Dec. 2007.

	Dr.	Cr.
Stock on 01.01.2007	2,000	
Purchases and Sales	20,000	30,000
Returns	2,000	1,000
Carriage	1,000	
Carriage	1,000	
Rent	1,000	
Interest received		2,000
Salaries	2,000	
General Expenses	1,000	
Discount		500
Insurance	500	

The Closing Stock on 31 st December, 2007 is Rs. 5,000.

### Preparation of Balance Sheet

2. Prepare Balance Sheet of Miss. Farzana as at 31 st December 2007.

Capital	10,00,000
Closing Stock	2,00,000
Fixed Assets	3,10,000
Sundry Debtors	10,00,000
Profit & Loss Account	2,10,000
Sundry Creditors	3,75,000
Liabilities for Expenses	55,000
Drawings	30,000
Cash and bank	1,00,000



**Preparation of Final Accounts with single Adjustment**

1. From the following balances extracted from the books of Miss Gomathi. Prepare a Trading and Profit and Loss Account and a Balance Sheet.

Opening Stock	1,250	Plant and Machinery	6,230
Sales	11,800	Returns Outwards	1,380
Depreciation	667	Cash in hand	895
Commission Cr..	211	Salaries	750
Insurance	380	Debtors	1,905
Carriage Inwards	300	Discount Dr..	328
Furniture	670	Bills Receivable	2,730
Printing Charges	481	Wages	1,589
Carriage Outwards	200	Returns Inwards	1,659
Capital	9,228	Bank overdraft	4,000
Creditors	1,780	Purchases	8,679
Bills Payable	541	Petty Cash in hand	47
Bad Debts	180		

The Value of Stock on 31 st December, 2007 was Rs. 3,700.

**Preparation of Final Accounts with several Adjustments**

2. From the following Trial Balance and additional information for Miss. Hema, you are required to prepare a Profit & Loss Accounts for the year ended 31 December 2007.

Particulars	Dr. Rs.	Cr. Rs.
Capital		20,000
Sundry Debtors	5,400	
Drawings	1,800	
Machinery	7,000	
Sundry Creditors		2,800
Wages	10,000	
Purchases	19,000	
Opening Stock	4,000	
Bank Balance	3,000	
Carriage Charges	300	
Salaries	400	
Rent and Taxes	900	
Sales		29,000
Total	51,800	51,800

Additional Information :

Closing Stock Rs. 1,200.

Outstanding Rent and Taxes Rs. 100.

Charge depreciation on machinery at 10%.

Wages prepaid Rs. 400.

**Lecture.No: 41****Unit: IV**

1. The following are the Balances extracted from the Books of Miss. Indhu as on December 31,2007.

Capital	2,00,000	Loan @9%	50,000
Drawings	35,000	Salaries	44,000
Buildings	1,00,000	Wages	75,000
Machinery	25,000	Rent	27,500
Furniture & fittings	6,000	Traveling expenses	12,500
Opening Stock	1,25,000	Postage telegrams	1,350
Cycle	4,000	Rates& taxes	900
Purchase	7,50,000	Carriage inwards	25,000
Sales	12,50,000	Carriage outwards	7,500
Sales returns	50,000	Interest paid	3,750
Duty paid on purchase	1,50,000	General charges	9,000
Sundry debtors	1,00,000	Carriage outwards	7,500
Sundry creditors	75,000	Interest paid	3,750
Reserve for Bad & doubtful debts	4,000	General charges	9,000
Reserve for Discount on Debtors	2,000	Bad debts	3,000
Cash in the bank	24,000	Cash in hand	2,500

Provide the following: outstanding Salary Rs.4,000; Rent Rs.2,500; Wages Rs.6,000 and Interest outstanding. Maintain the reserve for doubtful debts at 5% and reserve for Discount on Debtors at 2 ½ %. Provide depreciation for building 2 1/2 % Machinery 10% furniture 6% cycle 15%. Prepare final Accounts.

**Lecture.No: 42****Unit: IV**

1. Prepare Trading and Profit and Loss a/c and Balance Sheet from the following particulars  
Miss. Jaya as on 31-12-2007

Capital		10,000
Cash in hand	1,500	
Bank O.D. @ 5%		2,000
Purchases and Sales	12,000	15,000
Returns	1,000	2,000
Establishment charges	2,500	
Taxes Insurance	500	
Bad debts reserve		1,000
Bad Debts 500		
Sundry Debtors and creditors	5000	1,850
Commission		650
Investments 4,000		
Stock as on 1 st Jan, 1996	3,000	
Drawings	1,500	
Furniture	500	
Bills Receivable and Payable	3,000	2,500
Total	35,000	35,000

Adjustments: Salary Rs.100 and Taxes Rs.400 are outstanding but Insurance Commission amounting to Rs.100 has been received in advance. Interest accrued on investment Rs.210. Bad Debts Reserve is to be maintained at Rs.1,000. Depreciation on furniture is to be charged at 10%. Stock on 31 st Dec.1993 was valued at Rs.4,500.

1. From the following Trial Balance of Miss. Kalaivani as at 31 st December 2007. Prepare Trading and Profit and Loss Account for the year ended 31 st Dec.2007 and a Balance Sheet as on that date.

Particulars	Dr. Rs.	Cr Rs.
Capital		80,000
Drawings	6,000	
Machinery	25,000	
Stock 1-1-07	15,000	
Purchases	82,000	
Returns inwards	2,000	
Sundry Debtors	20,600	
Furniture	5,000	
Freight and Duty	2,000	
Carriage outwards	500	
Rent, Rates & Taxes	4,600	
Printing and Stationery	800	
Trade Expenses	400	
Sundry Creditors		10,000
Sales		1,20,000
Return outwards		1,000
Postage and Telegram	800	
Provision for doubtful Debts		400
Discount	800	
Rent Received		1200
Insurance Charges	700	
Salaries and wages	21,300	
Cash in hand	6,200	
Cash at bank	20,500	
	2,13,400	2,13,400

Adjustments: Stock on 31.12.2007 was valued at Rs.14,600. Write off Rs.600 as bad debts. Provision for doubtful debts to be made at 5% on debtors. Create a provision for discount on debtors and on creditors at 2%. Depreciate machinery by 20% and furniture by 5%. Insurance prepaid was Rs.100.