



320en17

17

FINANCIAL STATEMENTS : I



Notes

You have learnt the meaning of the financial statements and the need to prepare these statements for the business organisations. You have also learnt the format of these statements and the important items that are recorded in these statements. You would now like to learn how to prepare these statements. You know Trial Balance is the basis of preparation of these statements. Every business organisation prepares two financial statements i.e. Trading and Profit and Loss A/c and the Balance sheet.

In this lesson you will learn the preparation of these statements.



OBJECTIVES

After studying this lesson you will be able to :

- prepare Trading Account and Profit and Loss Account;
- explain the Balance Sheet as per format;
- appreciate the marshalling of Balance Sheet;
- classify the assets and liabilities and
- prepare Balance Sheet.

17.1 PREPARATION OF TRADING ACCOUNT AND PROFIT AND LOSS ACCOUNT

You have already learnt the meaning and format of Trading Account and Profit and Loss Account. You have also learnt how to make journal entries to transfer relevant ledger balances to Trading Account and Profit and Loss Account. Now, you will learn the various steps to be followed in preparing these statements.



Notes

Steps to be followed while preparing Trading Account

A. Debit side

- (i) We post the amount of opening stock (In case of a new firm there will not be any opening stock).
- (ii) We post the amount of purchases. Out of this, purchases returns or returns outward is deducted. Purchases may be cash or credit or both.
- (iii) Then we post the direct expenses such as carriage inward, wages, power, etc.

B. Credit side

- (i) We post sales. Sales return or returns inward is deducted from the sales to get the net sales figure. Sales may be cash or credit or both.
- (ii) Closing stock is the next item.

C. Ascertaining Gross Profit/Gross Loss

Finally, Trading Account is closed by calculating the difference of the two sides. If credit side exceeds the debit side, the difference is written as Gross Profit on the debit side of the Trading A/c. In case debit side is more than the credit side, the difference amount is termed as 'Gross Loss' and is shown on the credit side of the Trading A/c.

Total of Debit column < Total of credit column
 ⇒ Gross profit

Total of credit column < Total of debit column
 ⇒ Gross loss

Steps to be followed while preparing Profit and Loss Account

A. Debit side

- (i) Gross Loss, if any, transferred from Trading A/c is written as the first item.
- (ii) Next all items of revenue expenses and losses are written. These items may be salaries, rent paid, depreciation, etc.

B. Credit side

1. Gross Profit transferred from Trading A/c is the first item.
2. Next all items of revenue incomes and gains are written. These may be interest on investments, discount received, commission received, etc.

C. Ascertaining Net Profit/Net Loss

The next step is to get the balance. If credit side is more than the debit side the difference in amount is shown as Net Profit. If debit side exceeds the credit side, the difference is Net Loss. This amount is transferred to Capital Account.

Total of Debit side < Total of credit side
 ⇒ Net profit
 Total of credit side < Total of debit side
 ⇒ Net loss



Notes

Illustration 1

From the following information of M/s Nand Lal & Bros. for the year ending 31st March, 2014 prepare Trading A/c and Profit and Loss A/c for the year ended 31st March, 2014.

	₹		₹
Stock 1.4.2013	5,800	Sales	72,000
Purchases - cash	42,000	Return Inward	2,000
Purchases - credit	18,000	Interest on Investment	1,500
Freight Inward	1,800	Discount Received	1,200
Wages	4,500	Closing stock (31.3.2014)	7,200
Carriage on Sales	800		
Telephone Charges	1,600		
Electricity Expenses	1,200		
Office Rent Paid	6,000		
Salaries	8,000		
Depreciation	1,400		

Solution :

Books of M/s Nand Lal & Bros.
Trading A/c
for the year ended 31st March, 2014

Dr.

Cr.

Particulars	Amount ₹	Particulars	Amount ₹
Stock (1.4.2013)	5,800	Sales	72,000
Purchases		Less: Return Inward	<u>2,000</u>
Cash	42,000	Closing stock (31.3.2014)	7,200
Credit	<u>18,000</u>		
	60,000		

MODULE - 3

Financial Statement



Notes

Financial Statements : I

Freight Inward	1,800		
Wages	4,500		
Gross profit transferred to Profit and Loss A/c	5,100		
	77,200		77,200

Profit and Loss A/c for the year ending 31st March, 2014

Particulars	Amount (₹)	Particulars	Amount (₹)
Carriage on sale	800	Gross Profit transferred from Trading A/c	5,100
Telephone charges	1,600	Interest on Investment	1,500
Electricity Expenses	1,200	Discount Received	1,200
Office Rent	6,000	Net Loss transferred to capital A/c	11,200
Salaries	8,000		
Depreciation	1,400		
	19,000		19,000

Illustration 2

Prepare Trading A/c and Profit and Loss A/c of Raman Irani from the following balances for the year ending 31st March, 2014.

	₹		₹
Opening Stock (1.4.2013)	14,600	Trading Expenses	1,450
Purchases	68,700	Discount allowed	1,250
Sales	85,300	Discount Received	800
Return outward	2,200	Bill Receivables	4,500
Carriage Inward	2,100	Debtors	16,800
Capital	50,000	Closing stock (31.3.2014)	28,700
Drawings	12,000		
Insurance	1,600		
Advertisement	2,400		
Salesmen's Salaries	5,200		

Solution :

Books of Raman Irani
Trading A/c
for the year ending 31st March, 2014

<i>Particulars</i>	<i>Amount</i> ₹	<i>Particulars</i>	<i>Amount</i> ₹
Opening Stock	14,600	Sales	85,300
Purchases 68,700		Closing stock	28,700
Less Return outward 2,200	66,500		
Carriage Inward	2,100		
Gross profit transferred to			
Profit and Loss A/c	30,800		
	1,14,000		1,14,000

Profit and Loss A/c

for the year ended 31st March, 2014

<i>Particulars</i>	<i>Amount</i> (₹)	<i>Particulars</i>	<i>Amount</i> (₹)
Insurance	1,600	Gross Profit transferred	
Advertisement	2,400	from Trading A/c	30,800
Salesmen's salaries	5,200	Discount Received	800
Trading Expenses	1,450		
Discount allowed	1,250		
Net Profit transferred to			
capital A/c	19,700		
	31,600		31,600



INTEXT QUESTIONS 17.1

Write the name of the Account (Trading A/c, Profit & Loss A/c) and the side (debit/credit) against the items given below to which these are posted:

- (i) Closing stock
- (ii) Carriage outward



Notes



Notes

(iii) Interest on Investment	.....	.....
(iv) Custom duty	.....	.....
(v) Fuel & Power	.....	.....
(vi) Sales	.....	.....
(vii) Salaries	.....	.....
(viii) Rent from tenant	.....	.....

17.2 BALANCE SHEET

Apart from Trading Account and Profit and Loss Account, Balance Sheet is another financial statement that is prepared by every business firm. Balance sheet is a statement which shows the financial position of a business organisation on a particular date which is generally the last date of the accounting period. Financial position of a business unit is the amount of claims against the resources of business. These resources are cash, stock of goods, furniture, machinery, etc. The claims include the claims of the owner capital and the claims of outsiders such as creditors, bankers, etc. Therefore, it can be stated that Balance Sheet is the statement which shows assets owned by the business and liabilities owed by it on a particular date. Balance Sheet is not an account. It has two sides. (i) Assets side and (ii) the Liabilities side. The Asset side has a list of fixed as well current assets. The liabilities side has a list of items of capital, long term as well as short term liabilities.

Need

1. Balance Sheet is prepared to measure the true financial position of a business entity at a particular point of time.
2. It is a systematic presentation of what a business unit owns and what it owes.
3. Balance Sheet shows the financial position of the concern at a glance.
4. Creditors, financiers are particularly interested in the Balance Sheet of a concern so that they can decide whether to deal with the concern or not.

Grouping of Assets and Liabilities

All the assets can be categorised in following groups :

1. Current Assets
2. Liquid Assets
3. Non-current Assets
4. Tangible Assets
5. Intangible Assets

MODULE - 3

Financial Statement



Notes

Financial Statements : I

Less drawings	xxx	Investments	xxxx
		Furniture	xxxx
		Plant & Machinery	xxxx
		Land & Building	xxxx
		Goodwill	xxxx
	xxxx		xxxx

(Investments on short term basis are marketable securities; they form part of current assets.)

(b) Permanency order

While following the order of permanency, assets, which are to be used permanently i.e. for a long time and not meant for resale are presented first. For example, Land and Building, Plant and Machinery, furniture etc. are written first. Assets which are most liquid such as cash in hand is written in the last. Order of liabilities is similarly changed. Capital is written first, then the long term liabilities and lastly the short term liabilities and provisions. Specimen of a Balance Sheet that can be prepared in the order of permanency is as follows :

Balance sheet of M/s as at

Liabilities		Amount ₹	Asset		Amount ₹
Capital	xxx		Goodwill		xxxx
Add : Net profit	xxx		Land & Building		xxxx
Less : Drawings	xxx	xxx	Plant & Machinery		xxxx
Loans		xxx	Furniture		xxxx
Sundry creditors		xxx	Investments		xxxx
Bills payable		xxx	Closing stock		xxxx
Outstanding expenses		xxx	Sundry Debtors		xxxx
Bank overdraft		xxx	Bills Receivables		xxxx
			Investments (short term)		xxxx
			Prepaid expenses		xxxx
			Cash at bank		xxxx
			Cash in hand		xxxx
		xxxx			xxxx

[In case of joint stock companies balance sheet is prepared as per schedule VI of the Companies Act 1956]

Illustration 3

From the balances given below prepare Balance sheet of M/s Bharat & Bros as on 31st December, 2014. In (a) liquidity order and, (b) in permanency order.

<i>Particulars</i>	<i>Amount</i> ₹	<i>Particulars</i>	<i>Amount</i> ₹
Capital	50,000	Sundry Debtors	24,000
Loan from Bank	20,000	Bills Payable	8,000
Cash in hand	2,500	Drawings	6,000
Cash at Bank	12,800	Building	25,000
Closing stock	24,700	Furniture	4,500
Sundry creditor	15,000	Investments	15,000
		Net Profit	21,500



Notes

Solution :

A. Liquidity order

**Balance sheet of M/s Bharat & Bros
as on 31st Dec., 2014**

<i>Liabilities</i>	<i>Amount</i> ₹	<i>Assets</i>	<i>Amount</i> ₹
Bills Payable	8,000	Cash in hand	2,500
Sundry creditors	15,000	Cash at Bank	12,800
Loan from Bank	20,000	Sundry Debtors	24,000
Capital	50,000	Closing stock	24,700
Add : Net Profit	<u>21,500</u>	Investments	15,000
	71,500	Furniture	4,500
Less : drawings	<u>6,000</u>	Building	25,000
	65,500		
	1,08,500		1,08,500

B. In permanency Order

**Balance sheet of M/s Bharat & Bros
as on 31st Dec., 2014**

<i>Liabilities</i>	<i>Amount</i> ₹	<i>Assets</i>	<i>Amount</i> ₹
Capital	50,000	Building	25,000
Add Net Profit	21,500	Furniture	4,500
Less drawings	<u>6,000</u>	Investments	15,000
	65,500		



Notes

Financial Statements : I

Loan from Bank	20,000	Closing stock	24,700
Sundry creditors	15,000	Sundry Debtors	240,00
Bills payable	8,000	Cash at Bank	12,800
		Cash in hand	2,500
	1,08,500		1,08,500



INTEXT QUESTIONS 17.2

I. Arrange the following Assets in (i) Liquidity order (ii) Permanency order.

- | | |
|----------------------|------------------|
| (i) Closing stock | (ii) Furniture |
| (iii) Cash in hand | (iv) Investments |
| (v) Bills Receivable | (vi) Goodwill |
| (vii) Building | (viii) Debtors |

II. Arrange the following items of liabilities in (i) Liquidity order and (ii) in permanency order

- | | |
|------------------------|---------------------------|
| (i) Bills Payable | (ii) Sundry Creditors |
| (iii) Loan on Mortgage | (iv) Outstanding Expenses |
| (v) Capital | |

17.3 CLASSIFICATION OF ASSETS AND LIABILITIES

Assets and Liabilities are of various types. These can be classified as under:

Assets

Assets can be classified as follows :

- Fixed Assets :** These are the assets that are purchased on permanent basis i.e. for long term use and help the business to earn revenue. Examples of such assets are Building, Machinery, Motor Vehicle, etc. These assets are not for sale in ordinary course of business but can be disposed off, if no more needed for business use.
- Current Assets :** These are the assets which are acquired by the business either for resale or for converting them into cash. These are normally realised within a period of one year. Examples of such assets are : cash in hand, cash at bank, bill receivable, debtors, stock etc.
- Tangible Assets :** These are the assets that can be seen, touched and have certain volume. Building, Machinery, goods etc. are tangible assets.

- (d) **Intangible Assets :** Assets which can neither be seen nor touched and have no volume are called intangible assets. Patents, trademark, goodwill etc are the examples of such assets.
- (e) **Liquid Assets :** These are the assets which are either in cash or can be easily converted into cash. For example cash, stock, marketable securities etc.
- (f) **Wasting Assets :** These are the assets which exhaust or reduce in value by their use. Mines, quarries etc come under this category.
- (g) **Fictitious Assets :** These are not the real assets. These are the items of such expenses and losses which have not been written off in full. For example, preliminary expenses, underwriting commission, etc.



Notes

Liabilities

Liabilities can be classified as follows :

- (a) **Long term Liabilities :** These are the liabilities which are not payable during the current accounting year. Generally, the funds raised through such means are used for purchase of fixed assets. Examples of such liabilities are loan on mortgage, loan from financial institutions.
- (b) **Current Liabilities :** These are the liabilities which are payable during the current year. These include Bank overdraft, trade creditors, bill payable etc.
- (c) **Owners' Funds :** The amount owing to the proprietor or proprietors is called owners' funds. As per business entity concept this is a liability of the business. Apart from capital it also includes undistributed profits and reserves. Amount of drawings by the proprietor is deducted from it.



INTEXT QUESTIONS 17.3

- I. Write the type of assets against the items given below :
- | | |
|----------------------------|-----------------------|
| (i) Goodwill | (ii) Bills Receivable |
| (iii) Preliminary Expenses | (iv) Mines |
| (v) Furniture | |
- II. Write the type of liabilities against the items given below :
- | | |
|----------------------------|----------------|
| (i) Loan on mortgage | (ii) Creditors |
| (iii) Outstanding expenses | (iv) Capital |

17.4 PREPARATION OF BALANCE SHEET

Balance sheet has two sides : Assets and Liabilities. On the assets side we present all types of assets such as Cash, Bills Receivable, Stock, Building etc.

On the liabilities side all liabilities, both long term liabilities and current liabilities are presented, such as Bills Payable, trade creditors, bank loan etc. Next we write owners' capital. Net profit is added to it. If there is net loss it is deducted from the capital. Amount of drawings is also deducted from the capital. Finally the two sides are totalled and the totals should agree.



Notes

Illustration 4

From the following Trial Balance of M/s Vikram Brothers prepare Trading and Profit and Loss Account for the year ended 31st March 2014 and Balance Sheet as on that date.

<i>Particulars</i>	<i>Dr. Balances ₹</i>	<i>Particulars</i>	<i>Cr. Balance ₹</i>
Cash in hand	500	Capital	70,000
Motor car	25,000	Discount Received	2,000
Drawings	48,000	Sales	2,30,000
Legal charges	1,500	Creditors	46,000
Plant & Machinery	60,000	Interest on investment	5,200
Investments	40,000	Purchases Return	3,800
Opening stock	35,000	Bills payable	34,000
Sales Returns	2,500		
Salaries	12,000		
Discount allowed	600		
Carriage Inward	1,800		
Wages	21,000		
Postage	400		
Debtors	60,000		
Interest	1,500		
Insurance Premium	1,200		
Purchases	80,000		
	3,91,000		3,91,000

Closing stock as on 31.3.2014 ₹28,000

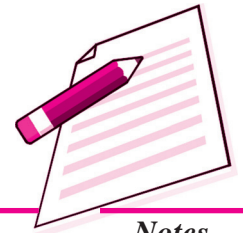
Solution :

Trading A/c
for the year ended 31st March, 2014

Dr.

Cr.

<i>Particulars</i>	<i>Amount</i> ₹	<i>Particulars</i>	<i>Amount</i> ₹
Opening stock	35,000	Sales	2,30,000
Purchases	80,000	Less sales Returns	2,500
Less purchase return	3,800	Closing stock	28,000
Wages	21,000		
Carriage Inward	1,800		
Gross Profit transferred to Profit & Loss A/c	1,21,500		
	2,55,500		2,55,500



Notes

Profit & Loss A/c
for the year ended 31st March, 2014

<i>Particulars</i>	<i>Amount</i> ₹	<i>Particulars</i>	<i>Amount</i> ₹
Salaries	12,000	Gross Profit transferred from Trading A/c	1,21,500
Insurance Premium	1,200	Discount Received	2,000
Discount allowed	600	Interest on Investments	5,200
Postage	400		
Interest	1,500		
Legal charges	1,500		
Net Profit Transferred to Capital A/c	1,11,500		
	1,28,700		1,28,700

Balance Sheet
As on 31st March, 2014

<i>Liabilities</i>	<i>Amount</i> ₹	<i>Assets</i>	<i>Amount</i> ₹
Bills Payable	34,000	Cash in hand	500
Creditors	46,000	Debtors	60,000

MODULE - 3

Financial Statement



Notes

Financial Statements : I

Capital	70,000		Closing stock	28,000
<i>Add</i> : Net Profit	1,11,500		Investments	40,000
	1,81,500		Motor car	25,000
<i>Less</i> : Drawings	48,000	1,33,500	Plant & Machinery	60,000
		2,13,500		2,13,500

Illustration 5

Following is the Trial Balance extracted from the books of Jasmine Enterprises as on 31st March, 2014. Prepare Trading and Profit & Loss A/c from the information given in Trial Balance for the year ending 31st March, 2014. Also prepare the Balance Sheet as on that date.

<i>Particulars</i>	<i>Dr. Amount (₹)</i>	<i>Cr. Amount (₹)</i>
Stock (1.4.2013)	18,500	
Purchases & Sales	78,500	1,54,200
Return Inwards & Return Outwards	2,200	2,500
Debtors & Creditors	16,500	18,000
Bills Receivable & Bills Payable	14,000	21,000
Commission paid	2,000	
Audit fees	1,800	
Building	65,000	
Furniture	12,000	
Salaries	14,000	
Telephone charges	4,200	
Insurance	2,100	
Discount allowed	1,000	
Octroi	1,200	
Wages	16,000	
Freight Inward	2,400	
Bad debts	600	
Depreciation	4,200	
Bank loan		32,000
Cash in hand and at Bank	25,000	

Financial Statements : I

Capital		1,00,000
Drawing	16,500	
Machinery	30,000	
	3,277,00	3,27,700

Stock as on 31.3.2014 ₹ 19,600

Solution :

Trading A/c For the year ended 31st March, 2014

Dr.

Cr.

Particulars	Amount ₹	Particulars	Amount ₹
Stock (1.4.2013)	18,500	Sales	1,54,200
Purchases	78,500	Less Return Inward	2,200
Less return outward	2,500	Closing stock	19,600
Wages	16,000		
Freight Inward	2,400		
Octroi	1,200		
Gross Profit transferred to Profit & Loss A/c	57,500		
	1,71,600		1,71,600

Profit & Loss A/c for the year ended 31st March, 2014

Particulars	Amount ₹	Particulars	Amount ₹
Salaries	14,000	Gross Profit transferred from Trading A/c	57,500
Telephone Charge	4,200		
Insurance Premium	2,100		
Bad debts	600		
Depreciation	4,200		
Audit fees	1,800		
Discount allowed	1,000		
Commission paid	2,000		
Net Profit Transferred to Capital A/c	27,600		
	57,500		57,500

MODULE - 3

Financial Statement



Notes

Balance Sheet
as at 31st March, 2014



Notes

<i>Liabilities</i>	<i>Amount</i> ₹	<i>Assets</i>	<i>Amount</i> ₹
Bills Payable	21,000	Cash in hand & at Bank	25,000
Sundry creditors	18,000	Bill receivable	14,000
Bank Loan	32,000	Sundry Debtors	16,500
Capital	1,00,000	Closing stock	19,600
Add : Net Profit	<u>27,600</u>	Furniture	12,000
	1,27,600	Machinery	30,000
Less : Drawings	<u>16,500</u>	Building	65,000
	1,11,100		
	1,82,100		1,82,100

Illustration : 6

From the following balances extracted from the books of Hari on 31st March, 2014, prepare his Trading and Profit and Loss Accounts and Balance Sheet :

Trial Balance

	₹		₹
Opening Stock	9,600	Repairs to Plant	160
Wages and Salaries	3,200	Cash in Hand and at Bank	200
Commission on Purchases	200	Debtors	4,000
Freight	300	Income-Tax	550
Purchases <i>less</i> Returns	11,850	Drawings	650
Sales <i>less</i> Returns	24,900	Capital	5,000
Trade Expenses	20	Bills Payable	500
Bills Receivable	600	Loan	900
Rent	200	Discount on Purchases	400
Plant	2,000	Creditors	2,330
Bad Debts	500		

Information : Stock at the end was ₹ 3,500

Solution :

Trading and Profit & Loss Account
for the year ending 31st March, 2014

Dr.

Cr.

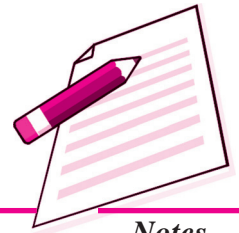
<i>Particulars</i>	₹	<i>Particulars</i>	₹
To Opening Stock	9,600	By Sales <i>less</i> Returns	24,900
To Purchases <i>less</i> Returns	11,850	By Closing Stock	3,500

Financial Statements : I

To Wages and Salaries	3,200		
To Commission on Purchases	200		
To Freight	300		
To Gross Profit <i>c/d</i>	3,250		
	28,400		28,400
To Trade Expenses	20	By Gross Profit <i>b/d</i>	3,250
To Rent	200	By Discount on Purchases	400
To Bad Debts	500		
To Repairs to Plant	160		
To Net Profit transferred to Capital A/c	2,770		
	3,650		3,650

MODULE - 3

Financial Statement



Notes

Balance Sheet of Hari as at March 31, 2014

<i>Liabilities</i>		₹	<i>Assets</i>	₹
Capital			Plant	2,000
Opening Balance	5,000		Stock at the end	3,500
Add: Net Profit	2,770		Debtors	4,000
	<u>7,770</u>		Bills Receivable	600
Less: Income Tax	550		Cash-in-Hand and at Bank	200
Drawing	650	1,200		
	<u>1,200</u>	6,570		
Loan		900		
Bills Payable		500		
Creditors		2,330		
		<u>10,300</u>		<u>10,300</u>



INTEXT QUESTIONS 17.4

Fill in the blanks with appropriate word/words :

- The amount by which credit side of Trading A/c exceeds the debit side is known as
- The amount by which debit side exceeds the credit side of Profit & Loss A/c is shown as
- The totals of the two sides of the Balance sheet should always be
- Bank loan is shown on the side of the Balance sheet.



Notes



WHAT YOU HAVE LEARNT

- To prepare Trading Account, on the debit side we present opening stock, net purchases and direct expenses on the credit we present net sales and closing stock. The difference of the two sides is found out which may be Gross Profit or Gross Loss. The same is transferred to Profit & Loss Account.
- All items of revenue expenditure and losses are shown on the debit side of Profit and Loss Account and on the credit are shown items of revenue receipts and gains. The difference of the two sides is calculated which may be either Net Profit or Net Loss.
- Balance sheet is a statement showing the financial position of a business unit on the last date of the accounting year.
- Balance sheet is a systematic presentation of what a business unit owns and what it owes.
- Balance sheet has two sides Assets and Liabilities.
- Assets and Liabilities may be written in (i) Liquidity order or (ii) Permanency order.
- Assets may be classified as : fixed assets, current assets, tangible assets, intangible assets, liquid assets, wasting assets and fictitious assets.
- Liabilities can be long term liabilities, current liabilities and owners funds.



TERMINAL EXERCISE

1. State the steps for preparing Trading Account.
2. Explain the term Balance Sheet. Also explain the objectives of preparing a Balance sheet.
3. List assets in ‘liquidity order’ and ‘permanency order’ in a Balance Sheet.
4. Explain the following types of assets with two examples each :
 - (a) Intangible Assets (b) Fictitious Assets
 - (c) Fixed Assets (d) Current Assets
5. What are owners’ funds ?
6. From the following information extracted from the books of P. Mukherjee, prepare Trading Account for the year ending 31st March, 2014.

	₹		₹
Opening stock	6,500	Cash	4,500
Purchases	45,000	Office expenses	3,200
Sales	72,000	Office Rent	6,800
Return Inward	1,500		
Return Outward	500		
Carriage on Purchases	1,200		
Wages	4,800		
Fuel & Power	3,200		

Closing stock on 31st March, 2014 was ₹ 8,600

7. From the following information of Rashmi prepare Profit & Loss Account for the year ending 31st March, 2014.

	₹		₹
Gross Profit	64,800	Discount Received	600
Bad debts	1,500	Commission Received	2,100
Depreciation	2,500	Freight outward	1,600
Office rent	4,800	Prepaid Insurance	600
Insurance	3,200	Salary	6,400
Telephone charges	1,700	Stationery	700
Interest on loan	2,400	Furniture	6,000
Building	50,000		

Closing stock as on 31st March, 2014 ₹ 20,000

8. From the following Trial Balance of M/s Krishna Murthi Garments as on 31st March, 2014, you are required to prepare Trading Account, Profit and Loss A/c for the year ended 31st March, 2014 and a Balance sheet as on that date.

**Trial Balance of M/s Krishna Murthi Garments
as at 31st March, 2014**

<i>Particulars</i>	<i>Dr. Balances ₹</i>	<i>Cr. Balances ₹</i>
Cash in hand	2,000	
Bank overdraft		35,000



Notes

MODULE - 3

Financial Statement



Notes

Financial Statements : I

Stock (1.4.2013)	32,000	
Purchases	80,000	
Freight Inward	4,000	
Custom duty	5,500	
Power	6,500	
Machines	40,000	
Furniture	20,000	
Sales		1,65,000
Bills Payable		18,000
Sundry Debtors	28,000	
Sundry creditors		22,000
Salaries	6,500	
Salesmen's commission	7,800	
Rent of Godown	7,200	
Insurance	2,400	
Land & Building	75,000	
Carriage on sales	3,600	
Advertisement	4,500	
Capital		1,00,000
Drawings	15,000	
	3,40,000	3,40,000

Closing stock as on 31st March, 2014 ₹ 38,000

9. Rakesh carries on business as a furniture manufacturer. Prepare his Trading and Profit & Loss Account and Balance Sheet from the following balances as on 31st March, 2014 :

	₹		₹
Capital	6,000	Polishing	500
Withdrawals (Drawings)	1,000	Rates and Taxes	40
Sales	10,000	Bills Receivable	300
Raw material (Purchased)	2,000	Insurance	150

Financial Statements : I

Loan or Mortgage (Cr.)	1,000	Carriage	10
Machinery	1,500	Incidental Expenses	200
Land and Building	2,000	Stock, 1st April, 2013	2,000
Creditors	500	Cash at Bank	1,250
Wages	5,000	Cash in Hand	50
Debtors	1,500		

Stock on 31st March, 2014, ₹ 1,500.

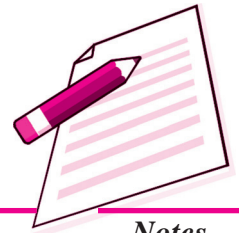
10. The following balances were extracted from the books of Harish Jalal on 31st March, 2014 :

	₹		₹
Capital	24,500	Loan	7,880
Drawings	2,000	Sales	65,360
General Expenses	2,500	Purchases	47,000
Buildings	11,000	Motor Car	2,000
Machinery	9,340	Reserve Fund (Cr.)	900
Stock	16,200	Commission (Cr.)	1,320
Power	2,240	Car Expenses	1,800
Taxes and Insurance	1,315	Bills Payable	3,850
Wages	7,200	Cash	80
Debtors	6,280	Bank Overdraft	3,300
Creditors	2,500	Charity	105
Bad Debts	550		

Stock on 31st March, 2014 was valued at ₹ 23,500.

**ANSWERS TO INTEXT QUESTIONS**

- 17.1**
- (i) Trading A/c credit
 - (ii) Profit & Loss A/c debit
 - (iii) Profit & Loss A/c credit
 - (iv) Trading A/c debit

MODULE - 3*Financial Statement**Notes*



Notes

- (v) Trading A/c debit
- (vi) Trading A/c credit
- (vii) Profit & Loss A/c debit
- (viii) Profit & Loss A/c credit

17.2

I. *Liquidity order*

- Cash in hand
- Bills Receivable
- Sundry Debtors
- Closing stocks
- Investments
- Furniture
- Building
- Goodwill

II. *Liquidity order*

- Outstanding expenses
- Bills payable
- Sundry Creditors
- Loan on Mortgage
- Capital

Permanency order

- Goodwill
- Furniture
- Building
- Investments
- Closing stock
- Sundry Debtors
- Bills Receivable
- Cash in hand

Permanency order

- Capital
- Loan on Mortgage
- Sundry Creditors
- Bill payable
- Outstanding expenses

17.3

- I. (i) Intangible Asset (ii) Current Asset (iii) Fictitious Asset
- (iv) Wasting Asset (v) Fixed Asset
- II. (i) Long term liability (ii) Current liability
- (iii) Current liability (iv) Owner fund

17.4

- (i) Gross Profit (ii) Net Loss (iii) Equal (iv) Liabilities



ANSWERS TO TERMINAL EXERCISE

- 6. Gross profit ₹ 10,300
- 7. Net Profit ₹ 42,700
- 8. Gross Profit ₹ 75,000

Net Profit ₹ 44,000

Total of Balance Sheet ₹ 2,03,000

9. Gross Profit ₹ 1,790

Net Profit ₹ 1,600

Total of Balance Sheet ₹ 8,100

10. Gross Profit ₹ 16,220

Net Profit ₹ 11,270

Total of Balance Sheet ₹ 52,200



Notes



ACTIVITIES

1. Visit some business firms of your locality, parents of your friends and of your relatives and collect the information about assets which are not common because of the nature of their business and classify them into relevant categories.

<i>Name of the firm</i>	<i>Nature of business</i>	<i>Name of the asset</i>	<i>Category of the asset</i>
1.			
2.			
3.			
4.			
5.			

2. Analyse the Balance Sheet of a business enterprise being run by your father/father of your friend or by a relative and check the marshalling of Assets and Liabilities. If these are not in order place them in liquidity order or permanency order. If these are already in liquidity order place them in permanency order and vice-versa.