

# What are Final Accounts?

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## Final Accounts

As the name suggests they are the **final accounts which are prepared at the last stage of an accounting cycle**. Final accounts show both the financial position of a business along with the profitability, they are used by external and internal parties for various purposes.



**Trading account, Profit and Loss account** and **Balance Sheet** together are called final accounts.

**Final accounts** gives an idea about the profitability and financial position of a business to its management, owners, and other interested parties. All business transactions are first recorded in a journal. They are then transferred to a ledger and balanced. These **final** tallies are prepared for a specific period.

# Trading Account



This account is the first account prepared as a final account, it is prepared to ascertain gross profit or gross loss incurred during an accounting period. On the debit side i.e. the LHS of the trading account items such as opening stock, purchases, and all direct expenses are shown.

**Gross Profit** – If the total of credit side is greater than debit side i.e.  $RHS > LHS$  the excess is called **Gross Profit**. It is transferred to the credit side of Profit and Loss account.

**Gross Loss** – If the total of the debit side is greater than the credit side i.e.  $LHS > RHS$  the excess is called **Gross Loss**. It is transferred to the debit side of Profit and Loss account.

Below is a sample format of trading account

# Profit and Loss Account



After preparation of trading account a profit and loss account also known as an income statement is prepared to ascertain the Net Profit or Net Loss incurred by a business. It begins with Gross Profit or Gross Loss being transferred from the trading account.

On the debit side of a Profit and Loss account **all indirect expenses** such as salary, rent, office and admin, marketing, stationery etc. and loss incurred by the sale of assets or fire/theft etc. are mentioned.

On the credit side of a Profit and Loss account **all indirect incomes** such as interest earned, dividends received on shares, bad debts recovered, profit on the sale of assets etc. are mentioned.

Below is a sample format of **profit and loss account** or **income statement**

| Income Statement or Profit & Loss Account  |        |  |        |
|--|--------|--|--------|
| Particulars                                | Amount | Particulars                                | Amount |
| To Gross Loss (Brought From Trading A/C)   |        | By Gross Profit (Brought From Trading A/C) |        |
| To Salaries (Adjust O/S & Prepaid)         |        | By Rent Received                           |        |
| To Rent, Rates & Taxes                     |        | By Discount Received                       |        |
| To Travelling Expenses                     |        | By Interest Earned (Accruals Adjusted)     |        |
| To Stationery & Printing                   |        | By Bad Debts Recovered                     |        |
| To Postage                                 |        | By Commission Earned                       |        |
| To Audit & Legal Charges                   |        | By Dividends Received                      |        |
| To Telephone Expenses                      |        | By Income From Other Sources               |        |
| To Insurance Premium (Prepaid Adjusted)    |        | By Net Loss (Transferred to Capital A/C)   |        |
| To Marketing & Advertisement               |        |  |        |
| To Interest Paid                           |        |  |        |
| To Discount Allowed                        |        |  |        |
| To Sundry Expenses                         |        |  |        |
| To Carriage Outwards                       |        |  |        |
| To Bad Debts                               |        |  |        |
| To Depreciation                            |        |  |        |
| To Repairs & Renewals                      |        |  |        |
| To Commission                              |        |  |        |
| To Other Expenses                          |        |  |        |
| To Loss by Fire or Theft                   |        |  |        |
| To Net Profit (Transferred to Capital A/C) |        |  |        |
|  |        |  |        |

# Balance Sheet

Both trading account and income statement help to determine the profitability of a business whereas a **balance sheet** is constructed to find out the financial position of the business as on a particular date. The balance sheet consists of capital, assets, and liabilities of a business.

It is a statement and not an account, it has no debit or credit side there "To" & "By" are not used inside a balance sheet. On the LHS of a balance sheet are all liabilities including capital and RHS will be all assets, for a balance sheet liabilities will always be equal to assets.

Below is a sample format of profit and loss account or income statement

**Balance Sheet For Unreal Corp. as on...**

| <b>Liabilities</b>                 | <b>Amount</b> | <b>Assets</b>       | <b>Amount</b> |
|------------------------------------|---------------|---------------------|---------------|
| Capital                            |               |                     |               |
| <i>Less Drawings(85000 -10000)</i> | 75000         | Land and Building   | 100000        |
| Reserves and Surplus               | 25000         | Plant and Machinery | 10000         |
| Outstanding Expenses               | 5000          | Furniture           | 3000          |
| Loans                              | 25000         | Stock               | 10000         |
| Trade Creditors                    | 10000         | Sundry Debtors      | 6000          |
| Bills Payable                      | 10000         | Bills Receivables   | 9000          |
|                                    |               | Misc. Investments   | 2000          |
|                                    |               | Cash                | 10000         |
| www.AccountingCapital.com          |               |                     |               |
| <b>Total</b>                       | <b>150000</b> | <b>Total</b>        | <b>150000</b> |



Prepare trading account from the following ledger balances presented by P. Sen as on 31st March, 2016.

| Particulars      | ₹        | Particulars     | ₹        |
|------------------|----------|-----------------|----------|
| Stock (1-4-2015) | 10,000   | Sales           | 3,00,000 |
| Purchases        | 1,60,000 | Returns inward  | 16,000   |
| Wages            | 30,000   | Returns outward | 10,000   |
| Carriage inwards | 10,000   | Gas and Fuel    | 8,000    |
| Freight inwards  | 8,000    |                 |          |

Additional information:

i. Stock on 31st March, 2016

Rs. 20,000

ii. Outstanding wages

amounted to Rs. 4,000



Dr.

## Trading account for the year ended 31st March, 2016

Cr.

| Particulars           | ₹        | ₹               | Particulars          | ₹        | ₹               |
|-----------------------|----------|-----------------|----------------------|----------|-----------------|
| To Opening Stock      |          | 10,000          | By Sales             | 3,00,000 |                 |
| To Purchases          | 1,60,000 |                 | Less: Returns inward | 16,000   | 2,84,000        |
| Less: Returns outward | 10,000   | 1,50,000        | By Closing Stock     |          | 20,000          |
| To Wages              | 30,000   |                 |                      |          |                 |
| Add: Outstanding      | 4,000    | 34,000          |                      |          |                 |
| To Carriage inwards   |          | 10,000          |                      |          |                 |
| To Freight inwards    |          | 8,000           |                      |          |                 |
| To Gas and fuel       | 8,000    |                 |                      |          |                 |
| Less: Prepaid         | 1,000    | 7,000           |                      |          |                 |
| To Gross profit c/d   |          | 85,000          |                      |          |                 |
|                       |          | <u>3,04,000</u> |                      |          | <u>3,04,000</u> |

From the following particulars presented by Thilak for the year ended 31st March, 2017, prepare profit and loss account.

| Particulars            | ₹        | Particulars                        | ₹      |
|------------------------|----------|------------------------------------|--------|
| Gross profit           | 1,00,000 | Interest received                  | 6,000  |
| Rent paid              | 22,000   | Bad debts                          | 2,000  |
| Salaries               | 10,000   | Provision for bad debts (1-4-2016) | 4,000  |
| Commission (Cr.)       | 12,000   | Sundry debtors                     | 40,000 |
| Discount received      | 2,000    | Buildings                          | 80,000 |
| Insurance premium paid | 8,000    |                                    |        |

Adjustments:

i. Outstanding salaries amounted to Rs. 4,000

ii. Rent paid for 11 months

iii. Interest due but not received amounted to Rs. 2,000

iv. Prepaid insurance amounted to Rs. 2,000

v. Depreciate buildings by 10%

vi. Further bad debts amounted to Rs. 3,000 and make a provision for bad debts @ 5% on sundry debtors

vii. Commission received in advance amounted to Rs. 2,000

## Solution

| Dr.   |        | Profit and Loss Account for the year ended 31st March, 2017 |                              | Cr.    |          |
|---|--------|---|------------------------------|--------|----------|
| Particulars   | ₹      | ₹   | Particulars                  | ₹      | ₹        |
| To Rent   | 22,000 |   | By Gross profit b/d          | -      | 1,00,000 |
| Add: Outstanding<br>(22,000x1/11)                     | 2,000  | 24,000  | By Commission                | 12,000 |          |
|   | 10,000 |   | Less: Received in<br>advance | 2,000  | 10,000   |
| To Salaries   | 4,000  |   |                              | 6,000  | 2,000    |
| Add: Outstanding                                      | 8,000  | 14,000  | By Discount received         | 2,000  | 8,000    |
| To Insurance premium                                  | 2,000  |   | By Interest received         |        |          |
| Less: Prepaid insurance                               | 1,900  | 6,000   | Add: Accrued                 |        |          |
| To Provision for bad and<br>doubtful debts (closing)  | 2,000  |   |                              |        |          |
| Add: Bad debts  | 3,000  |   |                              |        |          |
| Add: Further bad debts                                | 6,900  |   |                              |        |          |
|   | 4,000  |   |                              |        |          |
| Less: Opening provision for<br>bad and doubtful debts |        | 2,900   |                              |        |          |
| To Depreciation on building<br>(80,000x10%)           |        | 8,000   |                              |        |          |
| To Net profit (transferred to<br>capital A/c)         |        | 65,100  |                              |        |          |
|   |        | 1,20,000  |                              |        | 1,20,000 |

## Working Note:

Debtors : 40,000

Less: Further bad debts : 2,000

: 38,000

Provision for bad and doubtful  
debts at 5% :  $38,000 \times 5\% = \text{Rs.}$   
1,900

From the following balances as on 31st December, 2017, prepare profit and loss account.

| Particulars      | ₹      | Particulars            | ₹     |
|------------------|--------|------------------------|-------|
| Gross profit     | 50,000 | Rent received          | 2,000 |
| Salaries         | 18,000 | Discount received      | 3,000 |
| Office rent paid | 12,000 | Carriage outwards      | 2,500 |
| Advertisement    | 8,000  | Fire insurance premium | 6,500 |

Adjustments:

i. Rent accrued but not yet received Rs. 500

ii. Fire insurance premium prepaid to the extent of Rs. 1,500

iii. Provide manager's commission at 10% on profits before charging such

**Dr. Profit and Loss Account for the year ended 31st December, 2017 Cr.**

| Particulars                                    | ₹     | ₹             | Particulars          | ₹     | ₹             |
|--|-------|---------------|----------------------|-------|---------------|
| To Salaries                                    |       | 18,000        | By Gross profit b/d  |       | 50,000        |
| To Office rent                                 |       | 12,000        | By Rent received     | 2,000 |               |
| To Advertisement                               |       | 8,000         | Add: Rent accrued    | 500   | 2,500         |
| To Carriage outwards                           |       | 2,500         | By Discount received |       | 3,000         |
| To Fire insurance premium                      | 6,500 |               |                      |       |               |
| Less: Prepaid                                  | 1,500 | 5,000         |                      |       |               |
| To Manager's commission                        |       | 1,000         |                      |       |               |
| To Net profit (transferred to capital account) | -     | 9,000         |                      |       |               |
|  |       | <u>55,500</u> |                      |       | <u>55,500</u> |

## Working note:

$$\text{Manager's Commission} = \text{Net profit before charging commission} \times \frac{\text{Rate of commission}}{100}$$

$$\text{Net profit} = 55,500 - (18,000 + 12,000 + 8,000 + 2,500 + 5,000) = \text{Rs. } 10,000$$

$$\text{Manager's commission} = 10,000 \times \frac{10}{100} = 1,000$$

From the following balances obtained from the books of Siva, prepare trading and profit and loss account.

| Particulars           | ₹      | Particulars                 | ₹     |
|-----------------------|--------|-----------------------------|-------|
| Stock on 01.01.2016   | 9,000  | Bad debts                   | 1,200 |
| Purchases             | 22,000 | Sundry expenses             | 1,800 |
| Sales                 | 42,000 | Discount allowed            | 1,700 |
| Expenses on purchases | 1,500  | Expenses on sale            | 1,000 |
| Bank charges paid     | 3,500  | Repairs on office furniture | 600   |

Adjustments:

i. Closing stock on, 31st December, 2016 was Rs. 4,500

ii. Manager is entitled to receive commission @ 5% of net profit after providing such commission.



## Solution

Dr. Trading and Profit and Loss Account for the year ended 31st December, 2016 Cr.

| Particulars                                | ₹      | Particulars         | ₹      |
|--|--------|---------------------|--------|
| To Opening stock                           | 9,000  | By Sales            | 42,000 |
| To Purchases                               | 22,000 | By Closing stock    | 4,500  |
| To Expenses on purchases                   | 1,500  |                     |        |
| To Gross profit c/d                        | 14,000 |                     |        |
|  | 46,500 |                     | 46,500 |
| To Bank charges                            | 3,500  | By Gross profit b/d | 14,000 |
| To Bad debts                               | 1,200  |                     |        |
| To Sundry expenses                         | 1,800  |                     |        |
| To Discount allowed                        | 1,700  |                     |        |
| To Expenses on sale                        | 1,000  |                     |        |
| To Repairs on office furniture             | 600    |                     |        |
| To Manager's commission                    | 200    |                     |        |
| To Net profit (transferred to capital A/c) | 4,000  |                     |        |
|  | 14,000 |                     | 14,000 |

## Working notes:

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

$$\text{Net profit} = 14,000 - (3,500 + 1,000 + 1,200 + 1,800 + 1,700 + 600) = ₹ 4,200$$

$$\text{Manager's commission} = 4,200 \times \frac{5}{105} = ₹ 200$$

From the following particulars,  
prepare the balance sheet of  
Madhu, for the year ended 31st  
March, 2018.

The following adjustments were made at the time of preparing final accounts:

i. Outstanding liabilities:  
Salaries Rs. 10,000; Wages Rs. 20,000; Interest on Bank overdraft Rs. 3,000 and Interest on bank loan Rs. 6,000

ii. Provide interest on capital @ 10% p.a.

iii. Bad debts amounted to Rs. 10,000 and make a provision for bad debts @ 10% on sundry debtors.

iv. Closing stock amounted to Rs. 1,20,000

v. Depreciate vehicles @ 10% p.a.

Net profit for the year amounted to Rs. 96,000 after considering all the above adjustments.

### Solution

**In the books of Madhu  
Balance Sheet as on 31st March, 2018**

| Particulars               | ₹        | ₹        | Particulars                                      | ₹      | ₹        |
|---------------------------|----------|----------|--|--------|----------|
| Capital                   | 2,00,000 |          | Goodwill   |        | 60,000   |
| Add: Net profit           | 96,000   |          | Land and Building                                |        | 50,000   |
| Add: Interest on capital  | 20,000   |          | Vehicles   | 80,000 |          |
|                           | 3,16,000 |          | Less: Depreciation                               | 8,000  | 72,000   |
| Less: Drawings            | 40,000   | 2,76,000 | Investments                                      |        | 20,000   |
| Loan from bank            | 40,000   |          | Stock-in-trade                                   |        | 1,20,000 |
| Add: Interest outstanding | 6,000    | 46,000   | Sundry debtors                                   | 80,000 |          |
| Bills payable             |          | 20,000   | Less: Bad debts                                  | 10,000 |          |
| Sundry creditors          |          | 40,000   |  | 70,000 |          |
| Bank overdraft            | 20,000   |          | Less: Provision<br>for bad and<br>doubtful debts | 7,000  | 63,000   |
| Add: Interest outstanding | 3,000    | 23,000   | Bills receivable                                 |        | 10,000   |
| Outstanding liabilities:  |          |          | Cash at bank                                     |        | 25,000   |
| Salaries                  | 10,000   |          | Cash in hand                                     |        | 15,000   |
| Wages                     | 20,000   | 30,000   |  |        |          |
|                           |          | 4,35,000 |  |        | 4,35,000 |

The following balances were extracted from the books of Thomas as on 31st March, 2018

| Particulars     | ₹        | Particulars     | ₹        |
|-----------------|----------|-----------------|----------|
| Purchases       | 75,000   | Capital         | 60,000   |
| Returns inward  | 2,000    | Creditors       | 30,000   |
| Opening stock   | 10,000   | Sales           | 1,20,000 |
| Freight inwards | 4,000    | Returns outward | 1,000    |
| Wages           | 2,000    |                 |          |
| Investments     | 10,000   |                 |          |
| Bank charges    | 1,000    |                 |          |
| Land            | 30,000   |                 |          |
| Machinery       | 30,000   |                 |          |
| Building        | 25,000   |                 |          |
| Cash at bank    | 18,000   |                 |          |
| Cash in hand    | 4,000    |                 |          |
|                 | 2,11,000 |                 | 2,11,000 |

Additional information:

i. Closing stock Rs. 9,000

ii. Provide depreciation @ 10% on machinery

iii. Interest accrued on investment Rs. 2,000

Prepare trading account, profit and loss account and balance sheet.

## Solution

In the books of Thomas

Dr. Trading and Profit and Loss Account for the year ended 31st March, 2018 Cr.

| Particulars                                | ₹      | ₹        | Particulars                       | ₹        | ₹        |
|--|--------|----------|-----------------------------------|----------|----------|
| To Opening stock                           |        | 10,000   | By Sales                          | 1,20,000 |          |
| To Purchases                               | 75,000 |          | Less: Returns inward              | 2,000    | 1,18,000 |
| Less: Returns outward                      | 1,000  | 74,000   |                                   |          |          |
| To Freight inwards                         |        | 4,000    | By Closing stock                  |          | 9,000    |
| To Wages                                   |        | 2,000    |                                   |          |          |
| To Gross profit c/d                        |        | 37,000   |                                   |          |          |
|  |        | 1,27,000 |                                   |          | 1,27,000 |
| To Depreciation on machinery               |        | 3,000    | By Gross Profit b/d               |          | 37,000   |
| To Bank charges                            |        | 1,000    | By Accrued interest on investment |          | 2,000    |
| To Net profit (transferred to capital a/c) |        | 35,000   |                                   |          |          |
|  |        | 39,000   |                                   |          | 39,000   |

Given below are the balances extracted from the books of Nagarajan as on 31st March, 2016.

| Particulars                | ₹      | Particulars         | ₹      |
|----------------------------|--------|---------------------|--------|
| Purchases                  | 10,000 | Sales               | 15,100 |
| Wages                      | 600    | Commission received | 1,900  |
| Freight inwards            | 750    | Rent received       | 600    |
| Advertisement              | 500    | Creditors           | 2,400  |
| Carriage outwards          | 400    | Capital             | 5,000  |
| Cash                       | 1,200  |                     |        |
| Machinery                  | 8,000  |                     |        |
| Debtors                    | 2,250  |                     |        |
| Bills receivable           | 300    |                     |        |
| Stock on 1st January, 2016 | 1,000  |                     |        |
|                            | 25,000 |                     | 25,000 |

Prepare the trading and profit and loss account for the year ended 31st March, 2016 and the balance sheet as on that date after adjusting the following:

i. Commission received in advance Rs. 400

ii. Advertisement paid in advance Rs. 150



iii. Wages outstanding Rs.  
200

iv. Closing stock on 31<sup>st</sup>  
March 2016, Rs. 2,100

## Solution

**In the books of Nagarajan**  
**Dr. Trading and Profit and Loss Account for the year ended 31st March, 2016 Cr.**

| Particulars                                | ₹   | ₹      | Particulars               | ₹     | ₹      |
|--|-----|--------|---------------------------|-------|--------|
| To Opening stock                           |     | 1,000  | By Sales                  |       | 15,100 |
| To Purchases                               |     | 10,000 | By Closing stock          |       | 2,100  |
| To Wages                                   | 600 |        |                           |       |        |
| Add: Outstanding                           | 200 | 800    |                           |       |        |
| To Freight inwards                         |     | 750    |                           |       |        |
| To Gross profit c/d                        |     | 4,650  |                           |       |        |
|  |     | 17,200 |                           |       | 17,200 |
| To Advertisement                           | 500 |        | By Gross profit b/d       |       | 4,650  |
| Less: Prepaid advertisement                | 150 | 350    | By Commission received    | 1,900 |        |
| To Carriage outwards                       |     | 400    | Less: Received in advance | 400   | 1,500  |
| To Net profit (transferred to capital a/c) |     | 6,000  | By Rent received          |       | 600    |
|  |     | 6,750  |                           |       | 6,750  |

### Balance Sheet as on 31st March, 2016

| Particulars                    | ₹     | ₹      | Particulars           | ₹ | ₹      |
|--------------------------------|-------|--------|-----------------------|---|--------|
| Capital                        | 5,000 |        | Machinery             |   | 8,000  |
| Add: Net profit                | 6,000 | 11,000 | Stock in trade        |   | 2,100  |
| Creditors                      |       | 2,400  | Debtors               |   | 300    |
| Commission received in advance |       | 400    | Bills receivable      |   | 2,250  |
| Outstanding wages              |       | 200    | Advertisement prepaid |   | 150    |
|                                |       | 14,000 | Cash                  |   | 1,200  |
|                                |       |        |                       |   | 14,000 |