

5.3.2. Proforma of Profit and Loss Account

Profit and Loss Account
for the year ending ...

Dr.

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Particulars	₹	Particulars	₹
To Gross loss-transferred from trading Account		By Gross profit transferred from trading account	
To Salaries or salaries and wages		By Interest received, or	

To Rent, rates and taxes or office rent	Interest (credit), or
To Godown rent or storage, or warehousing	Interest on investment, or
To Office expenses, or establishment	Interest on fixed deposits, or
To Miscellaneous, or sundry expenses	Interest on loans advanced, or
To Insurance	By Rent received, or
To Stationery	Rent (credit)
To Printing and stationery	By Discount received, or
To Postage and telegrams	Discount (credit)
To Telephone expenses	By Commission received
To Law charges, or law cost or litigation expenses, or legal charges	By Dividends received
To Repairs and renewal, or maintenance or upkeep	By Profit from sale of assets
To Distribution expenses	By Refund of tax
To Traveling expenses	By Compensation received
To General expenses	By Income from Investment
To Stable expenses	By Apprenticeship premium
To Selling expenses	By Difference in exchange (credit)
To Carriage, or freight outward	By Interest on drawings
To Carriage on sales	By Discount on creditors
To Indirect or unproductive wages	By Bad debts recovered
To Audit fee	By Miscellaneous receipts
To Indirect paid, or interest (debit) or interest on overdraft, or interest on loans borrowed	By Appreciation or increase in the value of assets
To Discount allowed, or discount on debtors	By Reserve for bad and doubtful debts (old reserve- if not treated at the debit side of P/L Account)
To Bad debts, or bad debts written off	By Net loss-transferred to Capital Account (if debit side exceeds credit side)
To Depreciation	
To Interest on capital	
To Discounting charges	
To Bank charges, or collection charges	
To Export charges	
To Administrative expenses	
To Financial expenses	
To Commission paid	
To Advertisement	
To Charity and donation	
To Sample expenses	
To License fee	
To Delivery charges	
To Brokerage	
To Sales tax paid	
To Loss on sale of assets	
To Loss by fire	
To Freight outward	
To Commission	
To Net profit-transferred to Capital Account (if credit side exceeds debit side)	

5.3.3. Contents of Profit and Loss Account

Some of the items appearing in the profit and loss account are explained below:

- 1) **Salaries:** Salaries paid to employees are debited to the profit and loss account. The item "salaries and wages" is treated as salaries and is debited to the profit and loss account. On the other hand, the item "wages and salaries" is treated as wages and is debited to the trading account.
- 2) **Rent:** The amount of rent paid is shown on the debit side of the profit and loss account. It should be distinguished from the rent received. The amount of rent received is an item of income and it will appear on the credit side of the profit and loss account. Rent of the office, shop or showroom is an indirect expense and is debited to profit and loss account. However, rent of the factory is taken to trading account.
- 3) **Discount:** Discount is of two types:
 - i) **Trade Discount:** It is given on bulk purchases and bulk sales. It is deducted from the amount of purchases and sales before they are recorded in the books. There is no further treatment of trade discount. Consequently, it will not appear in the trial balance.
 - ii) **Cash Discount:** Cash discount is given to encourage prompt payments. When discount is received from creditors, it is an income and is shown on the credit side of the profit and loss account, when discount is allowed to customers; it is regarded as an expense and is debited to the profit and loss account.
- 4) **Bad Debts:** A debt which becomes irrecoverable is known as a bad debt. This is an item of loss for the business and appears on the debit side of the profit and loss account.
- 5) **Carriage Outwards or Freight Outwards:** This is the amount paid by way of transportation charges in respect of goods sold. It is debited to the profit and loss account.
- 6) **Drawings:** Drawings represent the sums of money or goods withdrawn by the proprietor from the business for personal use. This is debited to his capital account (this item relates to the balance sheet).
- 7) **Income-tax:** The treatment of income-tax will depend upon whether one is preparing the final accounts of sole trader/partnership firm or joint stock companies. In the former case, income-tax will be deducted from the capital and will not be debited to the profit and loss account; whereas in the case of joint stock companies, it is debited to the profit and loss account in the form of a provision.
- 8) **Loss by Fire, Theft, etc.:** Such losses are regarded as abnormal losses and are debited to the profit & loss account.
- 9) **Loss or Gain on Sale of Fixed Assets:** Sometimes, a business enterprise may sell the fixed assets such as furniture, machinery, building, etc. in the