

ILLUSTRATION 5. (Preparation of balance sheet)

From the following trial Balance, draft the balance sheet of Alpina Garments, Barnala as on 31st March, 2008 :

Name of Accounts	Balance Dr.	Balance Cr.
	₹	₹
Land and building	50,000	—
Plant and machinery	21,000	—
Furniture	5,000	—
Motor vehicle	12,000	—
Closing stock	30,000	—
Debtors and creditors	8,000	10,000
Cash in hand	3,000	—
Bank overdraft	—	35,000
Drawings and capital	19,000	70,000
Investments	6,000	—
Net profit	—	39,000
Total	1,54,000	1,54,000

SOLUTION.

Balance Sheet

as on 31st March, 2008

Liabilities	Amount ₹	Assets	Amount ₹
Bank overdraft	35,000	Cash in hand	3,000
Creditors	10,000	Investments	6,000
Capital :		Debtors	8,000
Opening Capital	70,000	Closing stock	30,000
Add : Net profit	39,000	Furniture	5,000
	1,09,000	Motor vehicle	12,000
Less : Drawings	(19,000)	Plant & machinery	21,000
	90,000	Land & building	50,000
Total	1,35,000	Total	1,35,000

PREPARATION OF FINAL ACCOUNTS

It is essential to understand the following important points for preparing final accounts:

- (1) Balances of accounts given in the trial balance are once shown in trading account or profit & loss account or balance sheet, but adjustment given outside the trial balance are shown twice in final accounts to complete double entry.
- (2) Items appearing on the debit side of trial balance are to be shown either on the debit side of trading account or profit & loss account or on the assets side of balance sheet.
- (3) Items appearing on the credit side of trial balance are to be shown either on the credit side of trading account or profit & loss account or on the liabilities side of balance sheet.
- (4) All goods and nominal accounts are shown in trading and Profit and loss account. If expenses are incurred while purchasing the goods or manufacturing it, are shown in trading account and remaining expenses are to be shown in profit & loss account.
- (5) If 'Factory Rent' and 'Factory Lighting' are clearly given in the question, it will be shown in trading account. If 'Rent' or 'Lighting' is given, it will be shown in profit & loss account.
- (6) If it is not clearly mentioned in the question whether a particular item is expense or income, it will be assumed as expense such as rent, discount, commission or brokerage, etc.
- (7) All balances of personal and real accounts are always shown in balance sheet. If account is having debit balance, it should be shown on the assets side and having credit balance, it should be shown on the liabilities side.
- (8) Both sides of balance sheet must agree.

Note : If trial balance is not given in the question, first it should be prepared in proper form and if fails to agree, the difference will be transferred to suspense account and this account will be shown in the balance sheet.

ILLUSTRATION 6. (Preparation of final accounts)

From the following trial balance prepare trading and profit & loss A/c for the year ending 31st March, 2003 and balance sheet as on that date. The closing stock on 31st March, 2003 was valued at ₹ 7,000.

Debit Balance	₹	Credit Balance	₹
Stock (01-04-2002)	6,800	Sundry creditors	10,000
Interest on Loan	300	Purchases return	1,500
Purchases	66,000	Sales	1,10,000
Sales Returns	8,000	Discount	500
Carriage in ward	1,000	Capital	30,000
Wages	2,000	Loan	9,500

Bad debts	500	Bills payable	
Advertising	3,500	Miscellaneous income	2,000
Carriage outward	2,500	Rent received	700
Salaries	9,000		200
Rent and Insurance	3,000		
General Expenses	3,400		
Cash in hand	2,000		
Bills receivable	6,000		
Sundry debtors	20,000		
Land and building	12,000		
Motor Vehicles	10,000		
Drawings	5,000		
Cash at Bank	3,500		
Total	1,64,500	Total	1,64,500

SOLUTION.

(BCA 2003)

Trading and Profit & Loss Account
for the year ended 31st March, 2003

Dr.

Particulars	Amount	Particulars	Amount
	₹		₹
To Opening stock	6,800	By Sales	1,10,000
To Purchases	66,000	Less : Sales returns	(8,000)
Less: Purchases returns	(1,500)	By Closing stock	7,000
To Carriage inward	1,000		
To Wages	2,000		
Sub-Total (Dr.)	74,300	Sub-Total (Cr.)	1,09,000
To Gross profit c/d	34,700		
Total	1,09,000	Total	1,09,000
	₹		₹
To Interest on Loan	300	By Gross profit b/d	34,700
To Bad Debts	500	By Discount	500
To Advertising	3,500	By Miscellaneous Income	700
To Carriage outward	2,500	By Rent Received	300
To Salaries	9,600		
To Rent & Insurance	3,000		
To General Expenses	3,400		
Sub-Total (Dr.)	22,200	Sub-Total (Cr.)	36,200
To Net profit transferred to Capital A/c	14,000		
Total	36,200	Total	36,200

Balance sheet
as on 31st March, 2003

Liabilities		Amount	Assets		Amount
		₹			₹
Bills payable		2,000	Cash in hand		2,000
Sundry creditors		10,000	Cash at Bank		3,500
Loan		9,500	Bills receivable		6,000
Capital :			Sundry debtors		20,000
Opening Capital	30,000		Closing stock		7,000
Add : Net profit	14,000		Motor vehicles		10,000
	44,000		Land & building		12,000
Less : Drawings	(5,000)	39,000			
Total		60,500	Total		60,500

Note : (1) Usually the heading "Trading and Profit and Loss Account" is put together but it is divided into two parts—first part is termed as 'trading account' and second part 'profit & loss account'. Thus, trading account is part of profit & loss account.

(2) Carriage in ward being direct expenses has been shown in trading account.

Difference between Trading Account and Profit & Loss Account