

Final Accounts of a Proprietary Concern

Introduction:

One of the most important functions of an accounting system is to provide information about the profitability of a business. In accounting 'profit' is used in the sense of net income. Accounting means the numerical qualitative presentation of business transactions of financial nature. As soon as the business transactions take place, the accounting process starts. The process is completed by the drafting of the Final accounts.

Final Accounts:

The Trading account, Profit & loss account and Balance Sheet are collectively called Final Accounts because they are prepared at the close of the accounting period.

The main objects of preparing the Final accounts are:

1. To ascertain the net result of the trading operations for an accounting period, and
2. To assess the financial position of the business at the close of that period.

Preparation of Final Accounts:

Every time a business transaction takes place it is first recorded in the Journal & Subsidiary books. Then these entries are posted to Ledger and at the end of the accounting year the Ledger accounts are balanced and closing balance of each ledger account is determined. With the help of these balances, Trial balance is prepared. Now, in examination questions, you will be given Trial balance and some adjustments with the help of which you will have to prepare Trading account, Profit & loss account and Balance Sheet at the close of that period. The steps may be explained as follows:

1. The following accounts, according to the rules of double entry system show a **debit balance**:
Opening stock, Purchases, Return inwards, Expenses and losses, debtors and Assets.

Their double entry is completed by the following accounts which show a **credit balance**:

Sales, Return outwards, Gains & profits, Creditors and Liabilities including Capital.

2. The accounts which shows a debit balance appear either on the debit side of Trading or Profit and loss account or on the Assets side of the Balance Sheet.
3. The accounts which shows a credit balance appears either on the credit side of the Trading or Profit and loss account or on the Liabilities side of the Balance Sheet.
4. The double entry of all the accounts that appear in the Trial balance is complete that is why all items which appear in the Trial Balance are dealt with only once in the Final accounts i.e. Either Trading or Profit and loss account or Balance Sheet.
5. Sometimes, it is seen that after preparation of trial balance, but, prior to preparation of final accounts, it may be noticed some business transactions have been, completely or partially, omitted to be recorded or entered wrong. Besides this, there are some incomes or expenses, which are related to the next year but have been received or paid during the current year. Before preparing trading and profit & loss accounts, adjustment entries are necessary in these accounts.
6. The double entry of all the adjustments which are appended to the Trial balance is to be completed and that is why all adjustments are dealt with two effects.

The Final accounts include:

1. **Trading Account:** A trading account contains, the transactions of the trader relating to the commodities in which he deals throughout the accounting period. All the expense which are related to either purchase of raw material or production or manufacturing are charged to the Trading A/c. The difference in the Trading A/c shows Gross Profit or Gross loss which are transferred to Profit and Loss A/c.
2. **Profit & Loss Account:** Businessman has to incur various expenses in carrying on the business and in selling and distributing the goods. All such expenses must be taken into account to ascertain the net result of the working of the business which is disclosed by Profit and loss account. The resulting balance of Profit and loss account is either a Net Profit or Net Loss for the period which are transferred to Capital A/c in the Balance Sheet.
3. **Balance Sheet:** Balance Sheet is prepared to ascertain the financial condition of the business at the close of the accounting period. Balance sheet is a statement and not an account so it does not have debit or credit side. The left hand side of Balance Sheet is “Liability side” and right hand side is “Asset side”.

SUMS FOR PRACTICE

Q.1 From the following list of balances you are required to prepare (a) Trial Balance, (b) Trading and Profit & loss account and (c) a Balance Sheet as on 31st March, 2018.

Particulars	Amount(₹)	Particulars	Amount(₹)
Capital	48,000	Wages	15,000
Cash in hand	600	Return outward	4,000
Bank overdraft	3,000	Rent	5,500
Sales	70,000	Stock ,April,2017	13,600
Purchases	37,000	Debtors	8,400
Carriage outward	1,000	Creditors	1,740
Salaries	10,000	machinery	35,640

Q.2 Calculate the Capital

Assets	Amount (₹)	Liabilities	Amount (₹)
Building	40,000	Creditors	20,500
Plant & machinery	10,000	Outstanding salaries	1,450
Debtors	30,000	Bank overdraft	18,000
Furniture	15,000		
Cash	5,000		

Q.3 Calculate the Gross Profit / Gross loss.

Purchase A/c ₹ 20,000, Opening Stock ₹ 5,000, and Purchase return ₹ 5,000

Sales ₹ 33,000 , Closing Stock ₹ 15,000, Carriage inward ₹ 1,200

Q.4 Mr. Anand borrowed Loan from Bank of Maharashtra ₹ 5, 00,000 on 1st October, 2016 at the rate of interest 10% p.a. Calculate the Interest on bank loan for the year 2016-17, assuming that the financial year end on 31st March every year.

Q.5 From the following Trial Balance of Mahavir Traders as on 31st March, 2018, Prepare Trading ,Profit& loss account and Balance Sheet after considering the adjustments given below:

Trial balance as on 31st March, 2018

Particulars	Debit Amount (₹)	Credit Amount (₹)
Machinery	1,10,000	
Furniture	81,000	
Bad debts	1,400	
Debtors	81,600	
Stock(1 st April,2017)	52,000	
Purchases	77,000	
Sales		1,02,000
Returns	400	600
Postage & telegram	4,800	
Rent	6,000	
Advertisement	1,200	
Salaries	18,000	
Insurance(paid for 11 months)	2,200	
Building	84,000	
Capital		3,60,000
Creditors		70,000
R.D.D		8,000
Drawings	14,000	
Interest		1,200
Commission		2,800
Cash	40,000	
Royalty	6,000	
9% Bank loan (1 st Oct, 2017)		40,000
Discount	1,000	
Carriage outward	4,000	
	5,84,600	5,84,600

Adjustments:

1. Closing stock was valued at ₹ 1,00,000.
2. Write off ₹ 2,000 as bad debts and R.D.D @ 5% on debtors.
3. Charge interest on capital @ 2% p.a.
4. Building includes ₹ 24,000 purchased on 1st October, 2017.
5. Depreciate Building by 10% p.a. and machinery is valued at ₹ 1,00,000.
6. Wages of ₹ 12,000 included in the salaries.