



## Preparation of Profit & Loss Account and Balance Sheet

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# Stages of Accounting

1. Cash Book

2. Journal

3. Ledger

4. Trial Balance

5. Trading Account

6. Profit & Loss Account

7. Balance Sheet

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graph LR; C1[1. Cash Book] --> D[Double entry Book Keeping]; C2[2. Journal] --> D; C3[3. Ledger] --> D; C4[4. Trial Balance] --> D; C5[5. Trading Account] --> F[Final Accounts]; C6[6. Profit & Loss Account] --> F; C7[7. Balance Sheet] --> F;
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**Double entry  
Book Keeping**

**Final Accounts**

# 3 types of A/c & Rules of double entry

**1. Personal A/c : Debit the receiver & Credit the giver**

**2. Real A/c : Debit what comes in & Credit what goes out**

**3. Nominal A/c : Debit the expenses and losses & Credit the  
incomes and gains**

## Ex: Different accounting treatments

| Transaction             | A/c involved    | Nature of A/c | Debit / Credit |
|-------------------------|-----------------|---------------|----------------|
| 1. Wage paid            | Wages A/c       | Nominal       | Debit          |
|                         | Cash A/c        | Real          | Credit         |
| 2. Dividend received    | Cash A/c        | Real          | Debit          |
|                         | Dividend A/c    | Nominal       | Credit         |
| 3. Building purchased   | Building A/c    | Real          | Debit          |
|                         | Cash A/c        | Real          | Credit         |
| 4. Furniture sold       | Cash A/c        | Real          | Debit          |
|                         | Furniture A/c   | Real          | Credit         |
| 5. Outstanding rent     | Rent A/c        | Nominal       | Debit          |
|                         | Outst. rent A/c | Personal      | Credit         |
| 6. cash received from X | Cash A/c        | Real          | Debit          |
|                         | X A/c           | Personal      | Credit         |
| 7. Capital added        | Cash A/c        | Real          | Debit          |
|                         | Capital         | Personal      | Credit         |

# Stages of Double Entry System

**Stage 1: All transactions are recorded in the Journal (or) Subsidiary books as and when they take place. These books are called the books of original entry (entering).**

**Stage 2: All entries in the journal (or) subsidiary books are posted to appropriate ledger accounts (posting).**

**Accounts are closed at the end of the period to find out its balances and a list of such balances is prepared (trial balance).**

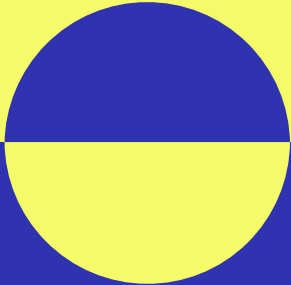
**Stage 3: Final accounts are prepared (Trading, P&L and B/s)**

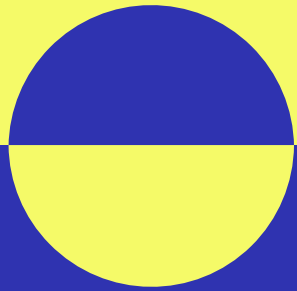


# Trading Account

How to prepare the  
Trading Account ?

# Trading Account

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- It is a statement prepared to highlight the trading result (**gross profit**) made during a particular period.
  - Gross profit arises from **sale & purchase** activity.
  - **Gross profit is not the final profit** as it does not consider all expenses of the business during a period (**other than trade expenses are not covered yet..for example: Insurance premium paid**)



# Trading Account

- Trading account considers **only the direct expenses** and expenses occur before the point of sale.
- **Now what are direct expenses?** Expenses which can be identified with each unit of output are called direct expenses.
- Purchase, transportation, conversion, packing charges all are examples of direct costs.



## Trading Account for the year ended 31-03-2019

| <i>Particulars</i>  | <i>Amount</i> |             | <i>Particulars</i> | <i>Amount</i> |             |
|---------------------|---------------|-------------|--------------------|---------------|-------------|
|                     | <i>Rs.</i>    | <i>P</i>    |                    | <i>Rs.</i>    | <i>P</i>    |
| To opening stock    |               | XXX         | By sales           | XXX           |             |
| To purchases        | XXX           |             | Less: returns      | XXX           | <b>XXX</b>  |
| Less: returns       | XXX           | <b>XXX</b>  | By Closing stock   |               | XXX         |
| To Direct expenses  |               | XXX         | By Gross loss c/d  |               |             |
| To Gross profit c/d |               |             |                    |               |             |
| <b>Total</b>        |               | <b>XXXX</b> | <b>Total</b>       |               | <b>XXXX</b> |

# How to prepare Profit & Loss A/c?

- It is a statement prepared to know the **net profit** (or) **net loss** occurred in a business during a particular period.
- **Net Profit / Loss = Gross Profit / Loss**
  - (plus) All non trading income
  - (minus) All non trading expenses

# Preparing the Profit & Loss Account (Points to remember)

**Title:** Profit and Loss Account of M/s. X & Co. for the year ended 31-3-2014

**Sides** : Two sides (Debtor & Creditor)

**Expenses** : Shown in the left side (Dr)

**Revenues**: Shown in the right side (Cr)

**To & By** : Dr. side starts with To & Cr. Side starts with By

**Net profit:** If Dr. side total is less than the Cr. Side total, the difference is

called as net profit (credit balance).

**Net loss** : If Cr. side total is less than the Dr. Side total, the difference is

called as net loss (debit balance).

## Profit & Loss Account of M/s X & Co. for the year ended 31-03-2019

*Dr*

*Cr*

| <i>Particulars</i>                               | <i>Amount</i> |             | <i>Particulars</i>                                  | <i>Amount</i> |             |
|--|---------------|-------------|---|---------------|-------------|
|  | <i>Rs.</i>    | <i>P</i>    |   | <i>Rs.</i>    | <i>P</i>    |
| To gross loss b/d (transferred from trading A/c) |               | XXX         | By gross profit b/d (transferred from trading A/c ) |               | XXX         |
| <b>Other office expenses</b>                     |               |             | <b>Other revenues</b>                               |               |             |
| To salary  |               | XXX         | By rent received                                    |               | XXX         |
| To rent  |               | XXX         | By interest received                                |               | XXX         |
| To electricity                                   |               | XXX         | By discount received                                |               | XXX         |
| To postage & telegrams                           |               | XXX         | By commission received                              |               | XXX         |
| To legal charges                                 |               | XXX         | By dividend received                                |               | XXX         |
| To insurance premium                             |               | XXX         | By miscellaneous income                             |               | XXX         |
| To audit fees                                    |               | XXX         | By Net Loss transferred to capital account          |               | XXX         |
| <b>Selling &amp; distribution expenses</b>       |               |             |   |               |             |
| To advertisement                                 |               | XXX         |   |               |             |
| To salesmen salary / TA                          |               | XXX         |   |               |             |
| To godown rent                                   |               | XXX         |   |               |             |
| To carriage outwards                             |               | XXX         |   |               |             |
| <b>Financial expenses</b>                        |               |             |   |               |             |
| To interest paid                                 |               | XXX         |   |               |             |
| To discount given                                |               | XXX         |   |               |             |
| To Net Profit transferred to capital account     |               | XXX         |   |               |             |
| <b>Total</b>                                     |               | <b>XXXX</b> | <b>Total</b>  |               | <b>XXXX</b> |

# How to prepare a Balance Sheet?

- It is a statement prepared **to know the financial position** of a business (i.e., financial strengths & weakness of a business on a given date)
- It is revealed by the **assets & liabilities**
- **Assets:** All tangible and intangible items which have a realisable value
- **Liabilities:** All dues and loans payable
- **Assets (-) Liabilities = Capital**  
(This would show the strength or net worth of the business)

## Preparing the Balance Sheet (Points to remember)

**Title** : Balance Sheet of M/s. X & Co. as on 31-03-2014

**Sides** : Two sides (Liabilities & Assets)

**Liabilities**: Shown in the left side

**Assets** : Shown in the right side

**Total** : Both sides should be equal (if they are not equal, we can understand that the Balance Sheet is not correct)

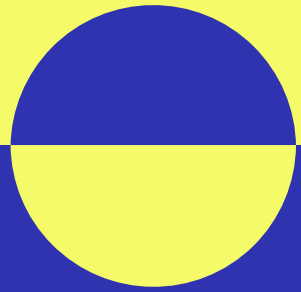
## Balance Sheet of M/s X & Co. as on 31-03-2014

| <i>Liabilities</i>   |            |          | <i>Assets</i>             |            |          |            |             |
|--|------------|----------|---------------------------|------------|----------|------------|-------------|
|  | <i>Rs.</i> | <i>P</i> |                           | <i>Rs.</i> | <i>P</i> | <i>Rs.</i> | <i>P</i>    |
| <b>Fixed Liabilities</b>   |            |          | <b>Fixed Assets</b>       |            |          |            |             |
| Capital  | XXX        |          | Land                      |            |          |            | XXX         |
| <b>Add:</b> Net Profit transferred from<br>Profit and loss account | XXX        |          | Building                  | XXX        |          |            |             |
| <b>Add:</b> Additional capital                                     |            |          | <b>Less:</b> Depreciation | XXX        |          |            | <b>XXX</b>  |
| <b>Less:</b> Net Loss transferred from<br>Profit and loss account  |            |          | Machinery                 | XXX        |          |            |             |
| <b>Less:</b> Drawings  | XXX        |          | <b>Less:</b> Depreciation | XXX        |          |            | <b>XXX</b>  |
| Term loan from banks & FIs   |            |          | Vehicles                  | XXX        |          |            |             |
| Other LT borrowings / dues   |            |          | <b>Less:</b> Depreciation | XXX        |          |            | <b>XXX</b>  |
| <b>Current Liabilities</b>   |            |          | <b>Intangible Assets</b>  |            |          |            |             |
| Sundry creditors   |            |          | Goodwill                  |            |          |            | XXX         |
| Bills payable  |            |          | Patents                   |            |          |            | XXX         |
| Bank over draft  |            |          | Copyright, etc            |            |          |            | XXX         |
| Outstanding expenses   |            |          | <b>Current Assets</b>     |            |          |            |             |
| Advances received, etc   |            |          | Cash on hand              |            |          |            | XXX         |
|  |            |          | Cash on bank              |            |          |            | XXX         |
|  |            |          | Sundry debtors            |            |          |            | XXX         |
|  |            |          | Bills receivables         |            |          |            | XXX         |
|  |            |          | Closing stock             |            |          |            | XXX         |
|  |            |          | Prepaid expenses          |            |          |            | XXX         |
| <b>Total</b>   |            |          | <b>Total</b>              |            |          |            | <b>XXXX</b> |

**Example 1:** From the following transactions of Woodcraft Company of Mr. Ganesh  
Prepare the **journal entries, ledger postings and trial balance.**

- Sep 1:** Began business by investing cash Rs. 10,000
- 4 :** Paid 2 month rent in advance for a shop Rs. 2000
- 5 :** Bought equipment for Rs.1200
- 7 :** Bought supplies on credit Rs.700
- 10 :** Received payment for remodeling a kitchen Rs. 8600
- 14 :** Paid for newspaper advertisement Rs. 1400
- 17 :** Received payment for furnishing an office room Rs. 11200
- 23 :** Billed customers for work done Rs. 13100
- 25 :** Paid wages to assistant Rs. 1500
- 28 :** Paid electricity bill Rs. 240
- 29 :** Received part payment from customers against 23<sup>rd</sup> bill Rs. 4800
- 30 :** Paid dividend Rs. 2500





# JOURNAL ENTRY

## Journal Entry

| <i>Date</i>   | <i>Particulars</i>   | <i>Amount</i> |          | <i>Amount</i> |          |
|---------------|--|---------------|----------|---------------|----------|
|               |  | <i>Rs.</i>    | <i>P</i> | <i>Rs.</i>    | <i>P</i> |
| 2014<br>Sep 1 | Cash A/c Dr<br>To Share capital A/c<br>(Cash Invested)                                 | 10000         |          | 10000         |          |
| 4             | Prepaid rent A/c Dr<br>To Cash A/c<br>(Rent paid in advance)                           | 2000          |          | 2000          |          |
| 5             | Equipments A/c Dr<br>To Cash A/c<br>(Equipment bought for Cash)                        | 1200          |          | 1200          |          |
| 7             | Supplies A/c Dr<br>To Creditor A/c<br>(Bought supply on credit)                        | 700           |          | 700           |          |
| 10            | Cash A/c Dr<br>To Revenue from services A/c<br>(Cash received for kitechen remodeling) | 8600          |          | 8600          |          |
| 14            | Advt. Expenses A/c Dr<br>To Cash A/c<br>(Paid advt charges)                            | 1400          |          | 1400          |          |

## Journal Entry

| <i>Date</i> | <i>Particulars</i>  | <i>Amount</i> |          | <i>Amount</i> |          |
|-------------|---|---------------|----------|---------------|----------|
|             |   | <i>Rs.</i>    | <i>P</i> | <i>Rs.</i>    | <i>P</i> |
| 17          | Cash A/c Dr<br>To Revenue from services A/c<br>(Cash received for office designing) | 11200         |          |               | 11200    |
| 23          | Debtors A/c Dr<br>To Revenue from services A/c<br>(cash received for work done)     | 13100         |          |               | 13100    |
| 25          | Wage A/c Dr<br>To Cash A/c<br>(Paid asst wage)                                      | 1500          |          |               | 1500     |
| 28          | Electricity charges A/c Dr<br>To Cash A/c<br>(Paid elec. bill)                      | 240           |          |               | 240      |
| 29          | Cash A/c Dr<br>To Debtor A/c<br>(Cash received from debtors)                        | 4800          |          |               | 4800     |
| 30          | Dividend A/c Dr<br>To Cash A/c<br>(Paid dividend)                                   | 2500          |          |               | 2500     |



# LEDGER POSTING







### Sundry Debtor A/c

| <i>Date</i>  | <i>Particulars</i>   | <i>JF No</i> | <i>Debit</i> |          | <i>Credit</i> |          | <i>Balance</i> |          |
|--------------|----------------------|--------------|--------------|----------|---------------|----------|----------------|----------|
|              |                      |              | <i>Rs.</i>   | <i>P</i> | <i>Rs.</i>    | <i>P</i> | <i>Rs.</i>     | <i>P</i> |
| Sep 23       | Revenue from service |              | 13100        |          |               |          | 13100          |          |
| 29           | Cash for work done   |              |              |          | 4800          |          | 4800           |          |
| <b>Total</b> |                      |              |              |          |               |          | <b>17900</b>   |          |

### Salary A/c

| <i>Date</i>  | <i>Particulars</i> | <i>JF No</i> | <i>Debit</i> |          | <i>Credit</i> |          | <i>Balance</i> |          |
|--------------|--------------------|--------------|--------------|----------|---------------|----------|----------------|----------|
|              |                    |              | <i>Rs.</i>   | <i>P</i> | <i>Rs.</i>    | <i>P</i> | <i>Rs.</i>     | <i>P</i> |
| Sep 25       | Cash               |              |              |          | 1500          |          | 1500           |          |
| <b>Total</b> |                    |              |              |          |               |          | <b>1500</b>    |          |

### Electricity Bill A/c

| <i>Date</i>  | <i>Particulars</i> | <i>JF No</i> | <i>Debit</i> |          | <i>Credit</i> |          | <i>Balance</i> |          |
|--------------|--------------------|--------------|--------------|----------|---------------|----------|----------------|----------|
|              |                    |              | <i>Rs.</i>   | <i>P</i> | <i>Rs.</i>    | <i>P</i> | <i>Rs.</i>     | <i>P</i> |
| Sep 28       | Cash               |              | 240          |          |               |          | 240            |          |
| <b>Total</b> |                    |              |              |          |               |          | <b>240</b>     |          |

### Dividend A/c

| <i>Date</i>  | <i>Particulars</i> | <i>JF No</i> | <i>Debit</i> |          | <i>Credit</i> |          | <i>Balance</i> |          |
|--------------|--------------------|--------------|--------------|----------|---------------|----------|----------------|----------|
|              |                    |              | <i>Rs.</i>   | <i>P</i> | <i>Rs.</i>    | <i>P</i> | <i>Rs.</i>     | <i>P</i> |
| Sep 30       | Cash               |              |              |          | 2500          |          | 2500           |          |
| <b>Total</b> |                    |              |              |          |               |          | <b>2500</b>    |          |



**Trial Balance, Sep 30, 2014**

| <i>Particulars</i> | <i>Debit</i>  |          | <i>Credit</i> |          |
|--------------------|---------------|----------|---------------|----------|
|                    | <i>Rs.</i>    | <i>P</i> | <i>Rs.</i>    | <i>P</i> |
| Capital            |               |          | 10000         |          |
| Cash               | 25760         |          |               |          |
| Rent               | 2000          |          |               |          |
| Equipment          | 1200          |          |               |          |
| Supplies           | 700           |          |               |          |
| Creditor           |               |          | 700           |          |
| Revenue            |               |          | 32900         |          |
| Advertisement      | 1400          |          |               |          |
| Sundry Debtors     | 8300          |          |               |          |
| Salary             | 1500          |          |               |          |
| Electricity        | 240           |          |               |          |
| Dividend           | 2500          |          |               |          |
|                    | <b>43,600</b> |          | <b>43,600</b> |          |

**Example 2:** From the details taken from Trial Balance of Mr. Ravi, prepare final accounts for the year ending 31<sup>st</sup> December 2014

| <i>Particulars</i>          | <i>Dr</i> | <i>Rs.</i>   | <i>Cr</i>    | <i>Rs.</i> |
|-----------------------------|-----------|--------------|--------------|------------|
| <b>Stock on 1.1.2014</b>    |           | <b>2000</b>  |              |            |
| <b>Purchase &amp; Sales</b> |           | <b>20000</b> | <b>30000</b> |            |
| <b>Returns</b>              |           | <b>2000</b>  | <b>1000</b>  |            |
| <b>Carriage</b>             |           | <b>2000</b>  |              |            |
| <b>Rent</b>                 |           | <b>1000</b>  |              |            |
| <b>Interest</b>             |           |              | <b>2000</b>  |            |
| <b>Salary</b>               |           | <b>2000</b>  |              |            |
| <b>General expenses</b>     |           | <b>1000</b>  |              |            |
| <b>Discount</b>             |           |              | <b>500</b>   |            |
| <b>Insurance</b>            |           | <b>500</b>   |              |            |

**The closing stock on 31<sup>st</sup> Dec 2014 is Rs.5000**

**Trading Account for the year ended 31-12-2014**

| <i>Particulars</i>  | <i>Amount</i> |              | <i>Particulars</i> | <i>Amount</i> |              |
|---------------------|---------------|--------------|--------------------|---------------|--------------|
|                     | <i>Rs.</i>    | <i>P</i>     |                    | <i>Rs.</i>    | <i>P</i>     |
| To opening stock    |               | 2000         | By sales           | 30000         |              |
| To purchases        | 20000         |              | Less: returns      | 2000          | 28000        |
| Less: Returns       | 1000          | 19000        | By Closing stock   |               | 5000         |
| To Carriage         |               | 2000         |                    |               |              |
| To Gross Profit c/d |               | 10000        |                    |               |              |
| <b>Total</b>        |               | <b>33000</b> | <b>Total</b>       |               | <b>33000</b> |

**From the details taken from Trial Balance of Mr. Ravi, prepare final accounts for the year ending 31<sup>st</sup> December 2014**

| <i>Particulars</i>          | <i>Dr</i>    | <i>Rs.</i> | <i>Cr</i>    | <i>Rs.</i> |
|-----------------------------|--------------|------------|--------------|------------|
| <b>Stock on 1.1.2014</b>    | <b>2000</b>  |            |              |            |
| <b>Purchase &amp; Sales</b> | <b>20000</b> |            | <b>30000</b> |            |
| <b>Returns</b>              | <b>2000</b>  |            | <b>1000</b>  |            |
| <b>Carriage</b>             | <b>2000</b>  |            |              |            |
| <b>Rent</b>                 | <b>1000</b>  |            |              |            |
| <b>Interest</b>             |              |            | <b>2000</b>  |            |
| <b>Salary</b>               | <b>2000</b>  |            |              |            |
| <b>General expenses</b>     | <b>1000</b>  |            |              |            |
| <b>Discount</b>             |              |            | <b>500</b>   |            |
| <b>Insurance</b>            | <b>500</b>   |            |              |            |

**The closing stock on 31<sup>st</sup> Dec 2014 is Rs.5000**

**Profit and Loss Account for the year ended 31-12-2014**

| <i>Particulars</i>                        | <i>Amount</i> |              | <i>Particulars</i>  | <i>Amount</i> |              |
|---|---------------|--------------|---------------------|---------------|--------------|
|   | <i>Rs.</i>    | <i>P</i>     |                     | <i>Rs.</i>    | <i>P</i>     |
| To Rent                                   |               | 1000         | By Gross Profit b/d |               | 10000        |
| To Salaries                               |               | 2000         | By Interest         |               | 2000         |
| To General expenses                       |               | 1000         | By Discount         |               | 500          |
| To Discount                               |               | 1000         |                     |               |              |
| To Insurance                              |               | 500          |                     |               |              |
| To Net Profit taken to<br>Capital Account |               | 8000         |                     |               |              |
| <b>Total</b>                              |               | <b>12500</b> | <b>Total</b>        |               | <b>12500</b> |

*Thanks*