BY: DR. SHAILESH KR. SINGH
(GUEST TEACHER)

Ref. No.: ……………. **B.Com. I** **Date:** 20 May, 2020

CORE CONCEPT OF

FINANCIAL ACCOUNTING

Definition

According to M.S. Gosav "Trail balance is a statement containing the balances of all ledger accounts, as at any given date, arranged in the form of debit and credit columns placed side by side and prepared with the object of checking the arithmetical accuracy of ledger postings".

OBJECTIVES OF PREPARING A TRAIL BALANCE

(i) It gives the balances of all the accounts of the ledger. The balance of any account can be found from a glance from the trail balance without going through the pages of the ledger.
(ii) It is a check on the accuracy of posting. If the trail balance agrees, it proves:
(a) That both the aspects of each transaction are recorded and
(b) That the books are arithmetically accurate.
(iii) It facilitates the preparation of profit and loss account and the balance sheet.
(iv) Important conclusions can be derived by comparing the balances of two or more than two years with the help of trail balances of those years.

Trading account is prepared for an accounting period to find the trading results or gross margin of the business i.e., the amount of gross profit the concern has made from buying and selling during the accounting period. The difference between the sales and cost of sales is gross profit. For the purpose of computing cost of sales, value of opening stock of finished goods, purchases, direct expenses on purchasing and manufacturing are added up and closing stock of finished goods is reduced. The balance of this account shows gross profit or loss which is transferred to the profit and loss account.

PREPARATION OF TRADING ACCOUNT

Trading account is a ledger account. It has to be prepared in conformity with double entry principles of debit and credit.

DEFINITION

In the words of Prof. Carter "Profit and loss account is an account into which all gains and losses are collected in order to ascertain the excess of gains over the losses or vice versa."

PREPARATION OF PROFIT AND LOSS ACCOUNT

Profit and loss account starts with gross profit brought down from trading account on the credit side. (If gross loss,on the debit side). All the indirect expenses are debited and all the revenue incomes are credited to the profit and loss account and then net profit or loss is calculated. If incomes or credit is more, than the expenses or debit, the difference is net profit. On the other hand if the expenses or debit side is more, the difference is net loss.

The account showing the disposal of profits is known as **Profit and Loss Appropriation Account.** The balance on Profit and Loss Account is transferred to this Profit and Loss Appropriation Account. Profits available for dividend to shareholders are known as divisible profits.

Trading Account

Particular	Amount	Particular	Amount
To Opening stock		By Sales	
To Purchases		Less : Return inwards	
Less : purchase return		Or	
To Wages		Sales Returns	
To Fuel & Power			
To Carriage inwards		By Closing stock	
To Royalty on production		By Gross loss c/d *	
To Power		(transferred to profit and loss A/c)	
To Coal water, Gas			
To Import duty			
To Consumable stores			
To Factory expenses			
To Gross profit c/d *			
(transferred to profit and loss A/c			