LESSON-17
FINANCIAL STATEMENTS: 1

SUMMARY

Trial Balance is the basis of preparation of the financial statements. Every business organisation prepares two financial statements i.e. Trading and Profit and Loss A/c and the Balance sheet.

PREPARATIONM OF TRADING ACCOUNT AND PROFIT AND LOSS ACCOUNT

Steps to be followed while preparing Trading Account

A. Debit side

(i) We post the amount of opening stock (In case of a new firm there will not be any opening stock).

(ii) We post the amount of purchases Out of this, purchases returns or returns outward is deducted. Purchases may be cash or credit or both.

(iii) Then we post the direct expenses such as carriage inward, wages, power, etc.

B. Credit side

(i) We post sales. Sales return or returns inward is deducted from the sales to get the net sales figure. Sales may be cash or credit or both.

(ii) Closing stock is the next item.

C. Ascertaining Gross Profit/Gross Loss

Finally, Trading Account is closed by calculating the difference of the two sides. If credit side exceeds the debit side, the difference is written as Gross Profit on the debit side of the Trading A/c. In case debit side is more than the credit side, the difference amount is termed as 'Gross Loss' and is shown on the credit side of the Trading A/c.

BALANCE SHEET

Balance sheet is a statement which shows the financial position of a business organisation on a particular date which is generally the last date of the accounting period. Financial position of a business unit is the amount of claims against the resources of business.

Need

- Balance Sheet is prepared to measure the true financial position of a business entity at a particular point of time.
- It is a systematic presentation of what a business unit owns and what it owes.
- Balance Sheet shows the financial position of the concern at a glance.
- Creditors, financiers are particularly interested in the Balance Sheet of a concern so that they can decide whether to deal with the concern or not.

Grouping of Assets and Liabilities

All the assets can be categorised in following groups :

- Current Assets
- Liquid Assets
- Non-current Assets
- Tangible Assets
- Intangible Assets

CLASSIFICATION OF ASSETS AND LIABILITIES

Assets

- **Fixed Assets**
- **Current Assets**
- **Tangible Assets**
- **Intangible Assets**
- **Liquid Assets**
- **Wasting Assets**
- **Fictitious Assets**

Liabilities

- **Long term Liabilities**
- **Current Liabilities**
- **Owners' Funds**

PREPARATION OF BALANCE SHEET

Balance sheet has two sides : Assets and Liabilities. On the assets side we present all types of assets such as Cash, Bills Receivable, Stock, Building etc.

On the liabilities side all liabilities, both long term liabilities and current liabilities are presented, such as Bills Payable, trade creditors, bank loan etc. Next we write owners' capital. Net profit is added to it. If there is net loss it is deducted from the capital. Amount of drawings is also deducted from the capital. Finally the two sides are totalled and the totals should agree.

ACTIVITIES

Visit some business firms of your locality, parents of your friends and of your relatives and collect the information about assets which are not common because of the nature of their business and classify them into relevant categories.