



St. Lawrence High School



A Jesuit Christian Minority Institution

Study Material 12

Sub: ACCOUNTANCY

Class 11

Chapter: Unit 7: Financial Statements

Date: 25/01/2021

Topic: Final Accounts

Meaning of Financial Statement

Financial Statement is a statement reflects the financial position of a business organization. From the financial data such as accounting information it can be prepared to ascertain the profit of the business as well as to ascertain the position of assets and liabilities.

Four major financial statements are prepared such as

1. Trading Account (to ascertain the gross profit)
2. Profit & Loss Account (to ascertain the net profit)
3. Balance Sheet (to ascertain the position of assets & liabilities)
4. Cash Flow Statement

Objectives of Financial Statements

1. To provide management important information useful for making economic decision.
2. To provide information to those users who have limited authority, ability or money to obtain information and who rely on financial statements as their main source of information.
3. To calculate the tax payable by the entity.
4. To meet the requirement of law.
5. To facilitate the efficient allocation of resources.

Importance of Financial Statements

1. It is not possible to ascertain the effect of all transactions of the entity, during and accounting period, without preparing the financial statements.
2. The earning power of the entity cannot be determined without preparing the financial statements.
3. Financial Statements can be used as a basis for forecasting the future of the business.

4. Different ratios can be calculated from financial statements and these ratios can be utilized for better management of the business.

5. The trends of working capital of the business can be determined by comparing the financial statements of successive years and corrective measures can be taken where necessary.

6. In many cases, financial statements are used for calculating the purchase consideration at the time of sale / purchase of the entity.

7. Financial Statements (e.g., Balance Sheet) provide information regarding the assets owned by the entity and the debt owed to outsiders and indicates the capital of the proprietor /partners/ shareholders.

TRADING ACCOUNT

Meaning of Trading Account

It is an account where all direct expenses and incomes are treated to ascertain the amount of gross profit.

Features of Trading Account

1. It is a nominal account and part of double entry system.
2. It is the first stage of preparation of financial statement.
3. It records only sales and direct cost of goods sold
4. This account does not include any income from other sources.
5. It is often treated as a sub-section of the profit and loss account.

PROFIT AND LOSS ACCOUNT

Meaning of Profit & Loss Account

It is an account which ascertains profit or loss of an accounting period. All incomes are disclosed in credit side and all expenses are disclosed in debit side. The net result of this account is known as net profit.

Features of Profit & Loss Account

1. It is an account of an enterprise's revenues, expenses and profit.
2. It is a link between two consecutive balance sheet.
3. It shows the earning power of the business.
4. It is a critical study of the past happening.

5. It can be used as a basis of forecasting the future of the business.
6. It is the basis of the amount of drawings to be made by the owner.
7. It makes a distinction between trading and non-trading incomes.

Format of Financial Statements

Dr. TRADING AND PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST Cr.

Particulars	Amount	Particulars	Amount
To, Opening Stock	****	By, Sales (less: sales return)	****
To, Purchase (less: purchase return)	****	By, Closing Stock	****
To, Carriage Inward	****		
To, Royalty on production	****		
To, Wages	****		
To, Freight	****		
To, Import Duty	****		
To, Gross Profit c/d	****		
	*****		*****
To, Salaries	****	By, Gross Profit b/d	****
To, Rent	****	By, Discount Received	****
To, Discount Allowed	****	By, Interest Received	****
To, Commission	****	By, Recovery of bad debt	****
To, Bad Debt	****	By, Commission Received	****
To, Depreciation of assets	****	By, Other indirect expenses	****
To, Carriage Outward	****	By, Net Loss (if any)	****
To, Advertisement	****		
To, Taxes & Insurance	****		
To, Selling Commission	****		
To, Provision for bad debts	****		
To, Net Profit (transfer to capital a/c)	****		
	*****		*****

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