

**Important Topics Exposition:**

*[The important information of this chapter has been provided here at a glance.]*

**❖ Introduction to Final Accounts:**

The business entities are interested in knowing periodically the results of business operations carried on and the financial soundness of the business. In other words, they want to know the profitability and the financial position of the business. These can be ascertained by preparing the final accounts or financial statements. The final accounts are usually prepared at the end of the accounting period on the basis of balances of ledger accounts shown by the trial balance.

The purposes of preparing the financial statements are:

- i. To ascertain the financial performance of an enterprise and
- ii. To ascertain the financial position of an enterprise.

**❖ Steps for Preparing the Financial Statement:**

According to the International Accounting Standard-01 (IAS-01), we are to prepare a financial statement of which is divided into 5 (Five) parts; the five parts are-

1. The Statement of Comprehensive Income
2. The Statement of Changes in Equity
3. The Statement of Financial Position
4. The Statement of Cash Flows
5. Notes, comprising a summary of significant accounting policies and other Explanatory information provided in the financial statement.

In secondary stage (Class 9 & 10) we are illustrating the concept and process of preparation of first 3 parts of final accounts.

**1. Preparation of the Statement of Comprehensive Income (for a trading concern):**

The Statement of Comprehensive Income is prepared in each year for particular period of time. Net income is ascertained by deducting the expenditures from the income of that year.

Statement of Comprehensive Income is prepared mainly in three stages.

1. **In first stage**, gross profit can be determined by deducting cost of goods sold from sales revenue.
2. **In second stage**, operating profit can be determined by adding indirect operating incomes with gross profit and then deducting operating expenses from that total.
3. **In third stage**, net profit can be calculated by adding net non-operating incomes/expenses (non-operating income – less non operating expenses) with operating profit.

A pro-forma of the Statement of Comprehensive Income is shown below:

**Name of the Organization.....**  
**Statement of the Comprehensive Income**  
**For the year ended on ...../...../.....**

Particulars	Taka	Taka	Taka
Sales (TB- Cr)		xxx	
(+) unrecorded sales (Adj)		xxx	
(-) sales return/unrecorder sales return/return inward (Adj/TB-Dr)		(xxx)	
(-) sales discount/trade discount/business discount (TB-Dr)		<u>(xxx)</u>	
<b>Net Sales =</b>			<b>xxx</b>
<b>Less: Cost of Goods Sold:</b>			
opening stock	xxx		
(-) unused stationery (Adj)	<u>(xxx)</u>		
		xxx	
Purchase			
(+) unrecorded purchase (Adj)	xxx		
(-) purchase return/unrecorder purchase return/return outward (Adj/TB-Cr)	xxx		
(-) purchase discount/trade discount/business discount (Adj/TB-cr)	(xxx)		
(-) goods destroyed by fire (Adj)	(xxx)		
(-) goods distribution of free at cost (Adj)	(xxx)		
(-) goods withdraw by owner (Adj)	<u>(xxx)</u>		
<b>Net Purchase =</b>		<b>xxx</b>	
carriage inward / carriage		xxx	
freight / transportation cost		xxx	
wages		xxx	
import duty / duty & tax		xxx	
dock charge		xxx	
fuel / electricity & water / coal & gas expense		xxx	
ship fare		xxx	
store room rent		xxx	
factory rent		xxx	
office drawing salary		<u>xxx</u>	
<b>Cost of goods available for sale =</b>		xxx	
Less: Closing stock		<u>(xxx)</u>	
<b>Cost of Goods sold</b>			<b><u>xxx</u></b>
<b>Gross Profit =</b>			<b>xxx</b>
<b>Less: Operating Expenses:</b>			
Salaries Expense		xxx	
Rent Expense		xxx	
Supplies Expense		xxx	
Utilities Expense		xxx	
Advertising Expense		xxx	
Telephone Expense		xxx	
Depreciation Expense		xxx	
Uncollectable Expense / Bad debt Expense		xxx	
Travel & conveyance Expense		xxx	
discount allowed		xxx	
Repair Expense		xxx	
Insurance Expense		xxx	
Administrative Expense / office exp. / general exp. / miscellaneous exp. / utility exp.		xxx	
Legal Expense		xxx	
Delivery Expense		xxx	
training expense		xxx	
printing & stationery		xxx	
postage & telegram		xxx	
selling & marketing expense		xxx	

packing exp.		xxx	
carriage outward / sales carriage		xxx	
depreciation exp. On furniture / machinery / land & building / office equipment		xxx	
sales commission		xxx	
insurance exp.		xxx	
written off lease assets / goodwill /patent / trade mark		xxx	
entertainment exp.		xxx	
Audit fee		xxx	
Tax & rates		<u>xxx</u>	
<b>Total Operating Expenses =</b>			<b><u>xxx</u></b>
<b>Operating Profit</b>			<b><u>xxx</u></b>
<b>Add: <u>Non-Operating Income:</u></b>			
Interest on bank deposit		xxx	
Dividend received		xxx	
Rent revenue		xxx	
Commission revenue		xxx	
Profit on sale of fixed assets		xxx	
Discount received		xxx	
Interest on investment		xxx	
Apprentice premium		xxx	
Sub-let		xxx	
Cash received from bad debt		xxx	
Interest on drawing		xxx	
Sales old newspaper		xxx	
Interest on bills receivable		<u>xxx</u>	
			<b><u>xxx</u></b>
			<b><u>xxx</u></b>
<b>Less: <u>Non-Operating Expenses:</u></b>			
interest on loan		xxx	
interest on bank overdraft		xxx	
loss on sale of fixed asset		xxx	
interest on debenture / bond / debt		xxx	
accidental loss / sundry loss		xxx	
bank charge		xxx	
commission paid		xxx	
interest on capital		xxx	
Goods destroyed by fire		<u>xxx</u>	
			<b><u>(xxx)</u></b>
<b>Net Profit</b>			<b><u>xxx</u></b>

### ❖ **Balance sheet:**

Balance sheet is a statement which gives the position of assets and liabilities on a particular date. Assets are the resources owned by the business. Liabilities are the claims against the business. After ascertaining the net profit or net loss of the business enterprise, a business person would like to know the financial position of the business. For this purpose, balance sheet is prepared which contains amounts of all the assets and liabilities of the business enterprise as on a particular date.

A pro-forma of the Statement of the Financial Position is shown below:

Name of the Organization.....

**Statement of the Financial Position**

As on ...../...../.....

Particulars	Taka	Taka	Taka
<u>Assets</u>			
<b>Fixed Assets:</b>			
• <b>Office Equipment, Furniture:</b> (Chair/Table/Almirah Etc), <b>Machinery, Land, Building, Premises, Motor Bike, Delivery Van</b>	xxx		
Less: Depreciation	<u>(xxx)</u>	xxx	
• <b>Lease Hold Properties, Goodwill, Patent, Trade Mark, Copyright, License, Brand etc.</b>	xxx		
Less: Written off	<u>(xxx)</u>	<u>xxx</u>	
<b>Long Term Investment:</b>			<b>xxx</b>
10% Investment, Securities, Prize Bond, Savings Certificate, Govt. Securities, Given/Paid Loan etc.			<b>xxx</b>
<b>Current Assets:</b>			
• <b>Cash / Cash In Hand /Cash Fund / Cash Balance</b>			
• <b>Bank Balance / Bank Deposit / Bank Account</b>		xxx	
• <b>Debtors / Accounts Receivable / Book Debt / Sales Ledger Account</b>		xxx	
• <b>Expenses In Advanced / Prepaid:</b> ( <u>Advanced/Prepaid Salary, Wages, Rent, Commission, Apprentice Allowance Etc.</u> )		xxx	
• <b>Accrued / Outstanding / Due / Receivable Revenues:</b> ( <u>Commission Receivable, Outstanding Apprentice Premium, Rent Receivable, Sub-Rent Receivable, Interest on Investment/Bank Receivable Etc.</u> )		xxx	
• <b>Bills Receivable / Note Receivable</b>		xxx	
• <b>Unused Supply/Stationery</b>		xxx	
• <b>Closing Stock</b>		<u>xxx</u>	
<b>Fictitious / Fake Assets:</b>			<b>xxx</b>
Preliminary expense, research expense, business transfer cost, deferred advertisement, salary/commission of share broker, share discount etc.			<u>xxx</u>
<b>Total Assets =</b>			<u>xxx</u>
<u>Owner's Equity &amp; Liabilities</u>			
<b>Closing Owner's Equity:</b>			<b>xxx</b>
<b>Long Term Liabilities:</b>			<b>xxx</b>
10% debenture, Mortgage loan, loan / Bank loan			<b>xxx</b>
<b>Current Liabilities:</b>			
• <b>Due / Accrued / Outstanding Expenses / Expenses Payable:</b> (outstanding wages / salary / rent / commission / stationery, outstanding interest on loan, outstanding apprentice allowed)		xxx	
• <b>Income Made in Advance:</b> (Advance rent received / sub- rent, advance commission received, advance apprentice premium)		xxx	
• <b>Bills Payable / Note payable</b>		xxx	
• <b>Creditors / account payable / purchase ledger accounts Bank overdraft</b>		<u>xxx</u>	<u>xxx</u>
<b>Total Owner's Equity &amp; Liabilities =</b>			<u>xxx</u>

A pro-forma of the Statement of Owner's Equity is shown below:

Name of the Organization.....  
 Statement of the Owners Equity  
 For the year ended on ...../...../.....

Statement of Owner equity Or Closing Capital	Taka	Taka
Opening capital	xxx	
(+ )additional capital	xxx	
(+ )interest on capital	xxx	
(+ )net profit	xxx	
(- )net loss	(xxx)	
(-)cash withdraw	(xxx)	
(-)goods withdraw	(xxx)	
(-)interest on drawing	(xxx)	
(-)income tax	(xxx)	
(- )life insurance policy	(xxx)	
(+ )general reserve	<u>xxx</u>	
<b>Closing Owner's Equity =</b>		<u>xxx</u>

❖ **Some expenditure is discussed below:**

- **Cost of goods sold:** Total of the expenses incurred on the goods sold during a period to bring them into saleable condition is called cost of goods sold.  
**Cost of goods sold = (Opening stock + Net purchases + Direct expenses – Closing stock)**  
**Sales – Cost of goods sold = Gross profit**  
**Sales – Gross profit = Cost of goods sold**
  
- **Purchases and purchases returns:** Goods which have been bought for resale are termed as purchases. Goods purchased which are returned to suppliers are termed as purchases returns or returns outward. Purchases include both cash purchases and credit purchases.
- **Direct expenses:** All the expenses incurred on the purchase of goods and for bringing the goods to the go down or place of business and to make them to saleable condition are known as direct expenses.
- **Indirect expenses:** Expenses which are not connected with purchase of goods are indirect expenses, i.e., expenses incurred in administration; office, selling and distribution of goods are indirect expenses.
- **Bad debts:** When it is definitely known that amount due from a customer (debtor) to whom goods were sold on credit, cannot be realized at all, it is treated as bad debts. **In other words, debts which cannot be recovered or irrecoverable debts are called bad debts.** It is a loss for the business and should be charged against profit.
- **Provision for bad and doubtful debts:** **Provision for bad and doubtful debts refers to amount set aside as a charge against profit to meet any loss arising due to bad debt in future.** At the end of the accounting period, there may be certain debts which are doubtful, the amount to be received from debtors may or may not be received. In general, based on past experience, the amount of doubtful debts is calculated on the basis of some percentage on debtors at the end of the accounting period after deducting further bad debts.

<b>Bad Debt Expense</b>
Old bad debt exp. (TB) (+)new bad debt written off (Adjusting) (+)new provision for bad debt [(debtors+unrecorded sales+dishonored bills/cheque-unrecorded sales return-new bad debt) x % of provision] (Adj) (-)old provision for bad debt (TB)

<b>Net/Actual Debtors</b>
Debtors (+) unrecorder sales (+) dishonored cheque (+)dishonored bill (-)unrecorder return inward/unrecorded sales return (-)new bad debt (-)new provision for bad debt (-)discount reserve on debtors

- **Provision for discount on debtors:** Cash discount is allowed by the suppliers to customers for prompt payment of amount due either on or before the due date. A provision created on sundry debtors for allowing such discount is called provision for discount on debtors.
- **Fixed assets:** Fixed assets are those assets which are acquired or constructed for continued use in the business and last for many years. **According to Finney and Miller,** “Fixed assets are assets of a relatively permanent nature used in the operations of business and not intended for sale.” As the purpose of keeping such assets is not to sell but to use them, changes in their realizable values are ignored and these are always shown in the balance sheet at cost less depreciation. **Fixed assets can be classified into i) Tangible fixed assets ii) Intangible fixed assets.**
  - Tangible fixed assets:** Tangible fixed assets are those which have physical existence or which can be seen and felt. Examples: plant and machinery, building and furniture.
  - Intangible fixed assets:** Intangible fixed assets are those which do not have any physical existence or which cannot be seen or touched.
- **Current assets:** Current assets are those assets which are either in the form of cash or can be easily converted into cash in the normal course of business or within one year. **In the words of Hovard and Upton,** “The current assets are usually defined as those assets which are convertible into cash through the normal course of business within a short time, ordinarily in a year.”
- **Fixed or long-term liabilities:** The liabilities which are to be repaid after one year or more are termed as long-term liabilities. Example: Long-term loans.
- **Current or short-term liabilities:** The liabilities which are expected to be paid within the normal operating cycle or one year are termed as current or short-term.
- **Depreciation:** The decrease in book value of fixed assets due to usage or passage of time is called depreciation. It is a loss to the business. Therefore, it must be written off from the value of asset. Generally, a certain percentage on the value of the asset is calculated as the amount of depreciation.

### CQs for Self-assessment:

1. Mr. Hasan is a trader. His Trial Balance in 2018 is as follows:

**Mr. Hasan  
Trial Balance  
For the year ended 31<sup>st</sup> December 2018.**

Accounts title	Debit Taka	Credit Taka
Cash in hand	32,500	
Fixed assets	70,000	
Drawing and capital	60,000	1,20,000
Purchase and sales	75,000	1,77,000
Debtors and creditors	41,000	21,000
Bills receivable	3,000	
Bills payable		5,500
Insurance premium	15,000	
Apprentice allowance	2,500	
Salaries	10,000	
Trade discount	3,000	2,000
Stock of goods (01-01-2018)	24,500	
Wages	1,500	
Interest on saving Bond		12,500
<b>Total</b>	<b>3,38,000</b>	<b>3,38,000</b>

**Adjustments:**

- i) The cost price of closing stock is Tk. 20,000 and market price Tk. 25,000;
- ii) Unrecorded purchase Tk. 15,000;
- iii) 5% interest on capital should be charged;
- iv) 5% interest on drawing should be charged;
- v) Insurance premium have paid up to 3 months advanced.

**Required:**

- a) What is the amount of prepaid insurance premium?
- b) Find out the non-operating income and expenditure from the above information.
- c) Calculate the gross profit or loss of Mr. Hasan.

2. The Trial Balance of Green Traders of 2018 is as follows:

**Green Traders  
Trial Balance  
for the year ended 31<sup>st</sup> December, 2018**

Accounts Title	Debit Taka	Credit Taka
Goods purchase and sales	2,80,000	3,30,000
Returns	3,000	2,000
Opening stock	17,000	
Import duty	2,000	
Wages	8,000	
Commission		3,000
Salaries (10 months)	20,000	
Bad debt and provision for bad debt	2,000	3,000
Accounts receivable and accounts payable	25,000	20,000
Leasehold property	15,000	
Cash in hand	7,000	
Bank overdraft		40,000
10% Investment	40,000	
Machinery	25,000	
Building	1,00,000	
Interest on investment		2,000
Capital and drawings	36,000	1,80,000
<b>Total</b>	<b>5,80,000</b>	<b>5,80,000</b>

**Adjustments:**

- i) Closing stock cost 30,000 Taka;
- ii) Goods sales on credit 10,000 Tk. Was not recorded.
- iii) Debtors 3,000 Tk. is not recoverable and creates provision for bad debt @ 5% on the rest debtors.

**Required:**

- a) Determine the net amount of Account Receivable.
- b) Calculate net profit or loss, assuming Gross profit of Tk. 45,000.
- c) Prepare the Statement of Financial Position of Green Traders.