## FORMAT OF THE TRADING ACCOUNT

KAFUMISIS
TRADING ACCOUNT
FOR THE PERIOD ENDED 31/12/2011

| | SHS | SHS | SHS |
|---|---|---|---|
| Sales | | | Xxxx |
| Less sales Returns | | | XX |
| Net sales | | | XXX |
| Less cost of sales | | | |
| Opening stock /inventory | | XXX | |
| Add purchases | XXX | | |
| Less purchases returns | XX | | |
| Net purchases | XXX | | |
| Carriage inwards | X | | |
| Wages | XX | | |
| | | | |
| Cost of Goods available for | | XXX | |
| sales | | XXXX | |
| Less closing stock | | XXX | |
| Cost of sales | | | XXXX |
| Gross profit /loss | | | XXXX |



EXAMPLE ONE

On 31st December 2014 ,the books of Masolo show the following balances:

| | $ |
|---|---|
| Openning stock | 1000 |
| Purchases | 2600 |
| Sales | 9000 |
| Retur outwards | 200 |
| Return inwards | 450 |
| Carriages inwards | 40 |
| Warehouse worker wages | 200 |

Closing stock was valued at $400

Required : from the above information ,prepare the trading account

Note: Gross profit is $5310

PROFIT AND LOSS ACCOUNT

Expenses and income items are transferred from the double –entry accounts to the profit and loss Account.

“Profit and loss Account is an account into which all gains and losses are collected ,in order to ascertain I the excess of gins over the losses or vice-versa”

Why profit and loss account is made?

## BALANCE SHEET

Balance sheet is a statement which shows the financial position of of the business on a particular day.

“the Balance sheet is a statement at a particular date showing on one side the company’s property and possessions ( ASSETS) and on the other hand the liabilities and capital.

Thus we can say that.

- Balance sheet is a statement not an account
- It is prepared to show the financial position of the business
- It records all the assets and liabilities of the business
- It shows the financial position on a particular day not for a period of time.

Need and importance of preparing a balance sheet.

A balance sheet serves the following purposes :

- ✓ The true financial position of the business can be ascertained at a particular point of time
- ✓ Reveals the amount of assets owned by the business for example machinery, cash ,debtors and so on
- ✓ Show the liabilities of the business such as total creditors ,Bank loans , etc
- ✓ To judge whether the firm is solvent or not.
- ✓ Opening entries for the next financial year are based on the balance sheet of the previous year



Items appearing on a balance sheet

Assets

Assets of a business are what it owns. They can be classified as

Fixed assets /non –current ASSETS: all those assets which are allowed by the business and last for more than an accounting year. Examples include Land, machinery ,vehicle ,furniture and fixtures and the like.

Current assets: it includes all those assets which either in the form of cash or can be easily converted in to cash with in one accounting period. Current Assets include cash ,debtors/ Accounts Receivables and stock /inventory.

Liabilities

Liabilities represent what the business owes to outside persons other than owners. These liabilities are classified on basis of time period of repayment.