

Preparation of Final Accounts - Profit and Loss Account

The Profit and Loss Account (P&L Account) is a crucial part of a company's financial statements. It shows the company's revenues, expenses, and profits or losses over a specific period, typically a fiscal year. The purpose of the P&L account is to determine the net profit or net loss of a business.

Structure of the Profit and Loss Account

The P&L Account is generally divided into two parts:

1. **Income (Credit Side):** This includes all the incomes and gains earned by the business during the accounting period.
2. **Expenses (Debit Side):** This includes all the expenses and losses incurred by the business during the accounting period.

Components of the Profit and Loss Account

1. Revenue

- **Sales Revenue:** Total sales made during the period, both cash and credit sales, after deducting any sales returns.
- **Other Operating Revenues:** Revenue from other regular business activities such as service income.
- **Non-operating Income:** This includes interest income, dividend income, rental income, and any gains from the sale of assets.

2. Cost of Goods Sold (COGS)

- **Opening Stock:** The value of inventory at the beginning of the period.
- **Purchases:** Total purchases made during the period, including freight inwards, import duty, etc.
- **Direct Expenses:** Expenses directly related to the production of goods, such as wages, power, and fuel.
- **Less: Closing Stock:** The value of inventory at the end of the period.

COGS is calculated as:

$$\text{COGS} = \text{Opening Stock} + \text{Purchases} + \text{Direct Expenses} - \text{Closing Stock}$$

COGS is deducted from Sales Revenue to find the **Gross Profit**.



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3. Operating Expenses

- **Administrative Expenses:** Expenses related to the administration of the business, such as office salaries, rent, and insurance.
- **Selling and Distribution Expenses:** Expenses related to selling goods, such as advertising, sales commission, and carriage outward.
- **Depreciation:** Allocation of the cost of tangible assets over their useful lives.
- **Amortization:** Allocation of the cost of intangible assets over their useful lives.

Operating expenses are deducted from Gross Profit to arrive at the **Operating Profit**.

4. Non-Operating Expenses

- **Interest Expenses:** Interest paid on loans and other financial costs.
- **Losses on Sale of Assets:** Losses incurred from the sale of assets.
- **Other Non-Operating Expenses:** Any other expenses not directly related to the main business operations.

Non-operating expenses are deducted from Operating Profit to calculate the **Net Profit Before Tax**.

5. Provision for Taxation

- **Income Tax:** The estimated tax liability for the period.

After deducting the provision for taxation from Net Profit Before Tax, you arrive at the **Net Profit After Tax**.

6. Appropriations

- **Transfer to Reserves:** A portion of the profit is transferred to various reserves.
- **Dividends:** Profit distributed to shareholders.
- **Retained Earnings:** Profit that is retained in the business after all appropriations.



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Example Format of Profit and Loss Account

Profit & Loss Account (For the year ended...)				
Dr.	Particulars	Amount	Cr. Amount	
	To Gross loss b/d	Xxx	By Gross Profit b/d	Xxx
	To Salaries	Xxx	By Discount Received	Xxx
	To Office rent, rates and taxes	Xxx	By Commission Received	Xxx
	To Printing & stationery	Xxx	By Bank Interest	Xxx
	To Telephone expenses	Xxx	By Rent received	Xxx
	To Postage & telegram	Xxx	By Dividend on shares	Xxx
	To Discount Allowed	Xxx	By Interest earned on debentures	Xxx
	To Insurance	Xxx	By Profit on sale of asset	Xxx
	To Audit Fees	Xxx	By Net loss	Xxx
	To Electricity charges	Xxx		
	To Repairs & renewals	Xxx		
	To Depreciation	Xxx		
	To Advertisement	Xxx		
	To Carriage Outwards	Xxx		
	To Bad Debts	Xxx		
	To Provision for Bad debts	Xxx		
	To Selling commission	Xxx		
	To Bank Charges	Xxx		
	To Interest on loans	Xxx		
	To Loss on sale of asset	Xxx		
	To Net Profit	Xxx		
		<u>xxx</u>		<u>xxx</u>

Solved Example on Profit and Loss Account

Question: From the following information, prepare Profit and loss Account of M/s Sahil Bros for the Year ending on 31.03.2012.

Particulars	Amount (₹)
Gross Profit	97,000
Discount allowed to customers	2,000
Printing and stationery	2,000
Office rent	5,000
Repair	2,400
Insurance Premium	5,100
Telephone Charges	1,000
Discount received from Creditors	3,000
Interest earned during the year	5,000

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Solution:

Profit and Loss Account of M/s Sahil Bros for the Year Ending on 31.03.2012			
	Dr.		Cr.
Particulars	Amount (₹)	Particulars	Amount (₹)
To Discount Allowed to Customers	2,000	By Gross Profit b/d	97,000
To Printing and Stationery	2,000	By Discount Received from Creditors	3,000
To Office Rent	5,000	By Interest Earned during the Year	5,000
To Repair	2,400		
To Insurance Premium	5,100		
To Telephone Charges	1,000		
To Net Profit Transferred to Capital A/c	87,500		
Total	1,05,000	Total	1,05,000

Explanation:

1. **Gross Profit** of ₹97,000 is brought down on the credit side of the Profit and Loss Account.
2. **Discount Allowed to Customers** (₹2,000), **Printing and Stationery** (₹2,000), **Office Rent** (₹5,000), **Repair** (₹2,400), **Insurance Premium** (₹5,100), and **Telephone Charges** (₹1,000) are listed as expenses on the debit side.
3. **Discount Received from Creditors** (₹3,000) and **Interest Earned** (₹5,000) are listed as income on the credit side.
4. The **Net Profit** is calculated by subtracting the total expenses from the total income, which is then transferred to the capital account. Here, the Net Profit is ₹87,500.

Assignment

Ques 1: From the following information, prepare Profit & Loss Account of M/s Sarthak Traders for the year ending on 31.03.2012

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	₹
Gross Profit	43,000
Discount allowed to customers	7,000
Salaries	45,000
Interest paid on loan	13,000
Postage	2,400
Discount received from creditors	6,000
Commission received	1,000
Sales expenses	10,000

Ques 2: From the following information, prepare Profit and loss Account of M/s Sahil Bros for the Year ending on 31.03.2012

Particulars	Amount (₹)
Gross Profit	97,000
Discount allowed to customers	2,000
Printing and stationery	2,000
Office rent	5,000
Repair	2,400
Insurance Premium	5,100
Telephone Charges	1,000
Discount received from Creditors	3,000
Interest earned during the year	5,000

Ques 3: Prepare a Trading Account and Profit & Loss Account for the year ending March 31, 2022, from the following particulars:

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Particulars	Amount (₹)
Opening Stock on April 1, 2021	30,000
Cash Purchases	80,000
Credit Purchases	1,20,000
Purchases Returns	5,000
Cash Sales	90,000
Credit Sales	1,50,000
Sales Returns	10,000
Wages	15,000
Carriage Inward	2,500
Freight Charges	3,000
Import Duty	4,000
Closing Stock on March 31, 2022	40,000
Salaries	25,000
Rent and Rates	10,000
Printing and Stationery	5,000
Office Expenses	4,500
Telephone Charges	3,000
Discount Allowed	2,500
Commission Received	6,000
Interest Earned	4,000
Insurance Premium	3,500
Depreciation on Furniture	2,000



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Ques 4: From the following prepare Trading Account and Profit and Loss Account. Stock was valued at 30,000.

Debit Balances:	₹	Debit Balances (Contd.):	₹
Machinery	3,50,000	Rent	45,000
Debtors	2,70,000	Sundry Expenses	20,000
Drawings	90,000	Carriage	15,000
Purchases	9,50,000	Credit Balances:	
Wages	5,00,000	Capital	10,00,000
Bank	1,50,000	Creditors	1,40,000
Opening Stock	2,00,000	Sales	14,50,000

Ques 5: From the following balances of Anand, prepare Trading Account and Profit and Loss Account as at 31st March, 2019. Values of goods on hand (31st march, 2019) was Rs 1,43,000.

Credit Balances:	₹	Debit Balances (Contd.):	₹
Capital	3,60,000	Postage	2,730
Creditors	87,200	Bad Debts	2,870
Bills Payable	25,270	Interest	12,950
Sales	7,81,820	Insurance	4,170
Bad Debts Recovered	1,750	Machinery	1,00,000
Loan	1,20,000	Stock (Opening)	99,450
Debit Balances:		Purchases	6,20,920
Debtors	38,850	Wages	43,000
Salaries	40,000	Building	2,37,800
Discount	10,000	Selling Expenses	1,750
		Fixtures and Fittings	1,61,550

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