

Preparation of Final Accounts - Trading Account

The **Trading Account** is a crucial part of a company's final accounts. It helps determine the gross profit or loss made by a business during a particular accounting period. It shows the results of buying and selling of goods. The main objective of preparing a Trading Account is to find out the gross profit or gross loss.

What is a Trading Account?

A trading account is a financial statement that helps businesses calculate their gross profit or loss from trading activities. Trading operations usually involve buying and selling goods or services. A trading account provides a clear picture of a business's overall gross profit or loss. This information is useful in evaluating a business's buying and selling performance. If a business deals in trading, having a trading account can be very beneficial.

Here's a detailed explanation of the **Trading Account** and its components:

Components of the Trading Account

1. Opening Stock:

- **Definition:** This is the value of the inventory or goods that were unsold at the end of the previous accounting period and carried forward as the starting inventory for the current period.
- **Position:** Appears on the debit side of the Trading Account.

2. Purchases:

- **Definition:** The total amount spent on buying goods for resale during the accounting period.
- **Adjustment:** Includes cash purchases, credit purchases, and any direct expenses related to the purchase of goods, like carriage inward, freight, etc. Purchase returns (or returns outward) are subtracted from total purchases to get **Net Purchases**.
- **Position:** Appears on the debit side.

3. Direct Expenses:

- **Definition:** Expenses that are directly associated with the manufacturing, production, or purchase of goods. This includes:
 - **Wages:** Paid to workers directly involved in production.



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- Carriage Inwards: Cost of transporting goods purchased.
- Freight Inwards: Shipping costs for bringing goods to the warehouse.
- Position: Listed on the debit side of the Trading Account.

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4. Sales:

- Definition: The total revenue generated from the sale of goods during the period.
- Adjustment: Sales Returns (or returns inward) are subtracted from total sales to get Net Sales.
- Position: Appears on the credit side.

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5. Closing Stock:

- Definition: The value of goods that remain unsold at the end of the accounting period.
- Position: Appears on the credit side of the Trading Account.

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6. Gross Profit or Gross Loss:

- Gross Profit: When the credit side (Net Sales + Closing Stock) is greater than the debit side (Opening Stock + Net Purchases + Direct Expenses).
- Gross Loss: When the debit side is greater than the credit side.
- Position: If there's a Gross Profit, it is recorded on the debit side, and if there's a Gross Loss, it is recorded on the credit side of the Trading Account.

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Format of Trading Account

ABC Co. Trading Account For the year ended 31 Dec. 2019			
	\$		\$
Opening Stock	xxxx	Sales	xxxx
Purchases	xxxx	Less: Sales Return	xxxx
Add: Omission	xxxx	Less: Goods Sold on Sale or Return Basis	xxxx
	xxxx	Closing Stock	xxxx
Less: Purchases Return	xxxx	Gross Loss (Transfer to P&L A/c)	xxxx
Less: Private Purchases	xxxx		
Less: Goods Taken Away by the Proprietor	xxxx		
Less: Goods Distributed as Free Samples	xxxx		
Carriage Inwards	xxxx		
Cartage	xxxx		
Freight	xxxx		
Railway Charges	xxxx		
Octroi Duty	xxxx		
Landing and Wharf Charges	xxxx		
Import Duty	xxxx		
Clearing Charges	xxxx		
Dock Charges	xxxx		
Custom Duty	xxxx		
Excise Duty	xxxx		
Motive Power	xxxx		
Gas, Water, Fuel	xxxx		
Coal, Coke	xxxx		
Factory Electricity	xxxx		
Wages	xxxx		
Manufacturing Expenses	xxxx		
Factory Rent, Rates and Insurance	xxxx		
Stores Consumed	xxxx		
Oil, Tallow Grease	xxxx		
Cotton, Waste, Jute, Oilseeds	xxxx		
Raw Material	xxxx		
Royalty	xxxx		
Gross Profit (Transfer to P&L A/c)	xxxx		
	xxxx		xxxx

Explanation:

- **Debit Side:** Includes all the costs and expenses incurred in generating revenue. It starts with the opening stock, then purchases (net of returns), and any direct expenses like wages, carriage inwards, and freight inwards.
- **Credit Side:** Shows the revenue generated from sales (net of returns) and the closing stock at the end of the period.
- **Gross Profit:** If the total on the credit side exceeds the debit side, the difference is the Gross Profit, which is transferred to the Profit & Loss Account.

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Solved Question on Trading Account

Question: ABC Enterprises provided the following details for the year ended 31st March 2023:

- Opening Stock: ₹30,000
- Purchases: ₹2,00,000
- Purchase Returns: ₹10,000
- Wages: ₹20,000
- Carriage Inwards: ₹5,000
- Freight Inwards: ₹3,000
- Sales: ₹3,50,000
- Sales Returns: ₹15,000
- Closing Stock: ₹50,000

Prepare the Trading Account for the year ended 31st March 2023.

Solution:

ABC Enterprises			
Trading Account for the Year Ended 31st March 2023			
Particulars (Debit Side)	Amount (₹)	Particulars (Credit Side)	Amount (₹)
To Opening Stock	30,000	By Sales	3,50,000
To Purchases	2,00,000	Less: Sales Returns	(15,000)
Less: Purchase Returns	(10,000)	Net Sales	3,35,000
Net Purchases	1,90,000		
To Wages	20,000	By Closing Stock	50,000
To Carriage Inwards	5,000		
To Freight Inwards	3,000		
To Gross Profit c/d	1,37,000		
	Total: 3,85,000		Total: 3,85,000

Explanation:

- **Opening Stock (₹30,000):** This is the value of the inventory at the beginning of the accounting period.
- **Net Purchases (₹1,90,000):** Purchases (₹2,00,000) minus Purchase Returns (₹10,000).

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- **Wages (₹20,000), Carriage Inwards (₹5,000), Freight Inwards (₹3,000):** These are direct expenses related to bringing the goods to a condition ready for sale.
- **Net Sales (₹3,35,000):** Sales (₹3,50,000) minus Sales Returns (₹15,000).
- **Closing Stock (₹50,000):** The value of the inventory remaining at the end of the accounting period.
- **Gross Profit (₹1,37,000):** The balancing figure that represents the profit made after subtracting the cost of goods sold and direct expenses from the net sales.

Assignment

Ques 1: Prepare a trading account for the year ended 31st March, 2016 from the following balances. **[Hint: Gross Profit = Rs 3,01,000]**

Account Title	Amt. (Rs.)	Account Title	Amt. (Rs.)
Opening stock	80,000	Purchases return	24,000
Purchases	4,00,000	Sales return	40,000
Sales	10,00,000	Carriage on purchases	16,000
Freight and octroi	13,000	Carriage on sales	20,000
Wages	60,000	Factory rent	24,000
Factory lighting	21,600	Office rent	15,000
Coal, gas and water	4,400	Import duty	64,000

Ques 2: From the following information, prepare Trading account for the year ended 31st March, 2018: **[Hint: Gross Profit = Rs 1,12,500]**

- Adjusted Purchases ₹ 5,50,000;
- Sales ₹ 6,25,000;
- Freight and Carriage Inwards ₹ 3,000;
- Wages ₹ 7,000;
- Freight and Cartage Outwards ₹ 2,500;
- Closing Stock ₹ 50,000.

Ques 3: Prepare the trading Account of Mahesh from the following information:



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	Rs.
Stock on April 1, 1986	36,500
Purchases	3,24,600
Purchases Returns	6,300
Sales	5,62,400
Import Duty	11,000
Freight	21,500
Dock Dues and Clearing Charges	1,800
Sales Returns	7,500
Value of Stock on March 31, 1987	42,100
(Answer: Gross Profit Rs. 2,07,900)	

Ques 4: Prepare Trading Account for the year ending December 31, 1987 from the following figures obtained from the books of Shyamtal. Also give closing entries.

	Rs.
Stock on January 1, 1986	27,400
Purchases	2,36,800
Returns Outwards	8,200
Octroi Duty	1,200
Carriage Inwards	2,400
Sales	3,92,700
Returns Inwards	7,300
Value of Closing Stock	31,500
(Answer: Gross Profit Rs. 1,57,300)	

Ques 5: The following balances were taken from the books of Ramlal on December 31, 1987. **[Hint: Gross Profit = Rs 92,600]**

	Rs.
Stock on January 1, 1987	25,000
Purchases	2,10,000
Carriage Inwards	5,200
Sales	3,15,000
Purchases Returns	6,300
Sales Returns	7,500
The value of stock on December 31, 1987 was Rs. 19,000. Pass the necessary closing entries and prepare Trading Account for the year ended December 31, 1987.	