FINAL ACCOUNTS

Meaning :

Final accounts: Are the statement prepared at the end of the accounting period to **show financial performance** during the accounting period and financial position of the business as on that date.

The term "final accounts" includes the **trading account and profit and loss account** (Income statement), and the **balance sheet.** Section 209 of the Companies Act 1956 makes it compulsory for companies to keep certain books of accounts.

Procedure for preparation of Final Accounts :

Sections 209 to 220 of the Indian Companies Act 1956 deal with legal provisions relating to preparation and presentation of final accounts by companies. Section 210 deals with preparation of final accounts by companies, while section 211 deals with the form and contents of the balance sheet and the profit and loss account.

Trading Account

A trading account sheet shows the results of the buying and selling of goods. This sheet is prepared to demonstrate the difference between selling price and cost price. The trading account tally is prepared to show the trading results of the business, e.g. gross profit earned or gross loss sustained by the business.. ..

Profit and Loss Account

This account is prepared to ascertain the net profit/loss of a business during an accounting period. The profit and loss account is a statement that summarizes the revenues and expenses of an accounting period so as to reflect the changes in various critical areas of a firm's operations.

Balance Sheet

The balance statement demonstrates the financial position of a business on a specific date. The financial position of a business is found by tabulating its assets and liabilities on a particular date. The excess of assets over liabilities represents the capital sunk into the business, and reflects the financial soundness of a company.

Purpose Of Preparing

1. Determine Gross Profit and Gross loss.
2. Determine Net Profit and Net Loss
3. Comparison with the Previous year's profit.
4. Details of Indirect Expenses
5. Ascertaining Financial Position.

Difference between Trading Accounts, Profit & Loss Accounts and Balance Sheet .

Distinction between Balance Sheet and Trial Balance

S.No	Basis	Balance Sheet	Trial Balance
1	**Purpose**	The purpose is to portray financial position	To establish arithmetical accuracy
2	**Information about profit**	It provides information as to profitability and financial position of the firm	No such information is possible from trial balance
3	**Necessity**	Essential to prepare Balance Sheet to complete the accounting process	Though desirable ,it may be possible to dispense with its preparation.
4	**Heading**	The two sides are headed as assets and balance sheet	The two sides are headed as debit and credit
5	**Coverage**	Only personal and real account appear in the Balance sheet	All account must be written ;no account can be left out.
6	**Closing Stock**	The account appears in the balance sheet	Normally, closing stock does not appear in the Trial Balance.
7	**Period**	Normally ,it is prepared only at the end of the trading period	can be prepared at any time, even monthly or whenever required
8	**Adjustment**	Balance sheet cannot be prepared without making adjustment for outstanding for outstanding and prepaid items and without taking into accounts all events and transaction for the year.	can be prepared at any stage, without even making adjustment.

Difference between Trading Account and Profit and Loss Account

BASIS	TRADING ACCOUNT	PROFIT AND LOSS ACCOUNT
Relation	It is a part of profit and loss account	it is the main account
Nature	Gross Profit or Gross Loss are ascertain from Trading Account	It is prepared to ascertain net loss or net profit of the business
Transfer Balance	The balance of the Trading Account is transferred to the Profit and Loss	The balance of the Trading Account is transferred to the capital account of the proprietor.

	account.	
Items	Items shown in the trading account are purchases, sales, stock, direct expenses, etc.	Items like indirect expenses related to sales, distribution, administration, finance, etc. are shown in the profit and loss account.

Difference between Profit and Loss Account and Balance sheet		
BASIS	**PROFIT AND LOSS ACCOUNT**	**Balance Sheet**
Nature	it is an account	It is a statement
Period	It is prepared for an accounting period	It is prepared for the last day of the accounting period.
Recording	It record only income and expenses.	It records only assets and liabilities.
Balance	Balance of account is transferred to the capital account in the balance sheet	Balance of this statement becomes the opening balance of the next period.
Accounts	Accounts that are transferred to the profit and loss account are closed.	Accounts that are transferred to balance sheet are not closed.
Profit/Financial Position	It shows how profit is or loss is incurred	It shows the financial position of the business

Adjustments (Only four)

To ensure that the final accounts disclose the true trading results, it is necessary to take into account the whole of the expenses incurred, whether paid or not, and whole of the losses sustained. Likewise the incomes and gains earned, whether actually received or not, during the period covered by the trading and profit and loss account under consideration must also be recorded.
In mercantile system of accounting, it is essential to adjust different accounts before the preparation of final accounts. It is quite common to adjust expenses paid in advance, incomes received in advance, income accrued but not received, bad debts, provision for bad debts depreciation on assets and soon.

Closing Stock :

It represents the unsold stock at the end of the year. Closing stock at the end appears in the balance sheet and is carried forward to the next year. At the end of the next year it appears in the trial balance as opening stock and from there it is taken to debit side of trading account and thus closed.
This is to be valued at cost or market price whichever is lower.
Example:
The value of closing stock shown outside the trial balance on 31.3.2004 is Rs.1,00,000

Adjustment Entry

	Particulars	L.F	Debit Rs.	Credit Rs.
2004 March	Closing Stock A/c Dr.		1,00,000	

31st	To Trading A/c (Being Closing Stock Recorded)			1,00,000

Trading Account for the year ended 31st March,2004

Particulars	Amount Dr.	Particulars	Amount Cr.
		By Closing Stock	1,00,000

Balance sheet as on 31st March,2004

Liabilities	Amount	Assets	Amount
		Closing Stock	1,00,000

Pre-paid Expenses

The, benefit of some of the expenses already spent will be available in the next accounting year also, Such a portion of the expense is called pre-paid expense; since such expenses are already paid, they are also recorded in the books of accounts of that period to which they do not relate. The result shown by the final accounts of a particular period will not be correct because such expenses relate to future periods. Therefore, such prepaid expenses must be adjusted in the books of accounts to arrive at true profit. Generally insurance, taxes, telephone subscriptions, rent etc. are paid in advance, thus requiring adjustment

Example: Trial Balance for the period ending 31st March, 2004 shows Rs.15,000 as insurance premium. Adjustment: Prepaid Insurance premium Rs.7,500.

Adjustment Entry

	Particulars	L.F	Debit Rs.	Credit Rs.
2004 March 31st	Prepaid Insurance Premium A/c Dr To Insurance Premium (Being Insurance Premium paid in advance)		7,500	7,500

Profit & Loss Account for the year ended 31st March,2004			
Particulars	**Amount Dr.**	**Particulars**	**Amount Cr.**
To Insurance Premium A/c 15,000			
Less Prepaid 7,500	7,500		

Balance sheet as on 31st March,2004			
Liabilities	**Amount**	**Assets**	**Amount**
		Prepaid Insurance Premium	7,500

Outstanding Expenses

Certain expenses relating to a particular period may not have been paid in that accounting period. All such expenses which are due for payment in one accounting year but actually paid in future accounting years or payment of which is postponed are all outstanding or unpaid expenses. All such expenses must be accounted for in that accounting year in which they are incurred, irrespective of the fact whether they are paid or not. In other words, all paid and also unpaid expenses must be recorded in an accounting year if they relate to that accounting year only with a view to ascertain true trading results .

Example: Trial balance shows salaries paid Rs.22,000.
Adjustment: Salary for March 2004, Rs.2,000 not yet paid.

Adjustment Entry

	Particulars	L.F	Debit Rs.	Credit Rs.
2004 March 31st	Salary A/c Dr . To Outstanding Salary A/c (Being March Salary outstanding)		2,000	2,000

Profit & Loss for the year ended 31st March,2004			
Particulars	**Amount Dr.**	**Particulars**	**Amount Cr.**
To Salaries 22,000			
Add o/s salary 2,000	24,000		

Balance sheet as on 31st March,2004			
Liabilities	**Amount**	**Assets**	**Amount**
Outstanding Salary	2,000		

Depreciation

The value of fixed assets diminishes gradually with their use for business purposes. Although this decrease in the value happens every day but its accounting is done only at the end of accounting period .

Example: Trial Balance Shows Machinery A/c is 2,00,000
Charge depreciation at 10% p.a on machinery

Adjustment Entry				
	Particulars	L.F	Debit Rs.	Credit Rs.
2004 March 31st	Depreciation A/c Dr. To Machinery A/c		7,500	7,500

	(Being depreciation charged @10% on machinery)			

Profit & Loss Account for the year ended 31st March,2004			
Particulars	**Amount Dr.**	**Particulars**	**Amount Cr.**
To Depreciation on Machinery A/c	20,000		

Balance sheet as on 31st March,2004			
Liabilities	**Amount**	**Assets**	**Amount**
		Machinery 2,00,000	
		Less: Depreciation 20,000	1,80,000

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