Class: 10th
Comm. Studies
Lokesh Arora

Tender Heart High School

classmate
Date. 22/7/24
Page 1.

Ch-7 Final Accounts of Sole Proprietorship

Good Morning students,
This lesson is for class 10th for the subject of "Commercial Studies". The topic for today is "Financial statements" which is covered in Chapter 7 titled "Final Accounts of Sole Proprietorship" of your book.
This lesson is being submitted to you on 22.07.24.
All the students now please open page number 69 of your book and listen carefully.

In the previous class, we had prepared trail balance.
Once a trial balance is prepared, a businessman wants to know the profit or loss made during the accounting year and the financial position of the business. In order to ascertain these, the final accounts or financial statements are prepared. These include:-

(1) The Trading Account.
(2) The Profit and Loss Account.
(3) The Balance Sheet.

The Trading Account and the Profit and Loss Account are prepared to ascertain the result of business operations i.e. net profit or net loss, during a given period. Balance Sheet is prepared to know the financial position of the business at the end of the accounting period. These are collectively known as final accounts

Class:- 10th
Comm. Studies
Lokesh Arora

Ch-7 Final Accounts of Sole Proprietorship

because these are prepared at the end of the accounting period.

Trading Account:-

Trading Account may be defined as an account which is prepared to ascertain the gross profit or gross loss of a business concern for a given time period.

Gross Profit as a percentage of sales turnover indicates the business efficiency of the firm. It can be used for making comparisons with the past trading periods so as to measure the progress of a business concern.

Need of Preparing Trading Account:-

(i) Trading Account provides information concerning gross profit. The percentage of gross profits on the amount of sales will show the success of the trading concern.

(ii) With the help of the ratio of gross profit to sales, a trader can compare his performance year after year.

(iii) Ratio of cost of goods sold to sale proceeds is helpful in fixing the reasonable price of the product.

Profit and Loss Account:-

Profit and Loss Account is an account which is prepared to calculate the net profit or net loss of the business for a given accounting period. Profit and Loss Account is prepared for the

Class: 10th
Comm. Studies
Lokesh Arora

classmate
Date 22/7/24
Page 3

Ch-7 Final Accounts of Sole Proprietorship

following reasons:-
(i) Knowledge of Net Profit or Net loss.
(ii) Comparison with profit of previous year.
(iii) Control over expenses.
For explanation refer to page 73 and 74.

Distinction between a Trading Account and a Profit and Loss Account

S.No.	Basis of Distinction	Trading Account	Profit and Loss Account
1.	**Purpose**	To ascertain the Gross Profit.	To ascertain the Net Profit.
2.	**Sequence**	Prepared before the Profit and Loss Account.	Prepared after the Trading Account.
3.	**Main contents**	Contains opeing stock, closing stock, purchases and sales, wages, etc.	Contains Gross Profit, office expenses Salaries, Insurance, discounts, etc.
4.	**Transfer of balance**	Its balance is transferred to the Profit and Loss Account.	Its balance is transferred to the Balance Sheet.

Balance Sheet:-

Balance Sheet is a financial statement which shows the assets and liabilities of a trading or non-trading organisation as on a certain date. It shows the financial position of a going concern at a certain moment. It is called Balance Sheet because it is a sheet of those ledger accounts which have not been closed by transferring to Trading Account and Profit and Loss Account.

Need of Balance Sheet:-

Balance Sheet serves the following functions:-
(i) Balance Sheet shows the financial position of a concern on a particular date to the owner as well as to outsiders.
(ii) It helps the investors to know the

Class: 10th
Comm. Studies
Lokesh Arora

Date 22/7/24
Page 4

Ch-7 Final Accounts of Sole Proprietorship

earning capacity and financial health of the firm.

(iii) Analysis of the Balance Sheet in the form of financial ratios can provide valuable information about the financial strength and repaying capacity of the firm.

Marshalling of Balance Sheet:-

The exact order in which assets and liabilities are arranged in the Balance Sheet is called as Marshalling of Balance Sheet. Assets and liabilities can be arranged in the following two ways:-

(i) Liquidity Preference:-

Liquidity means the readiness with which the assets can be converted into cash. The shorter the time period to convert the assets into cash, the greater is the liquidity and vice-versa. Under it most liquid assets or current assets (e.g. cash, debtors, stock in hand etc) are listed at the top and less liquid or fixed assets (e.g. plant and machinery, land and buildings etc.) are listed thereafter. Similarly the liabilities are shown in the order in which they are payable. Current liabilities are shown first and long term liabilities and capital are shown at the last

Class: 10th
Commerce Studies
Lokesh Arora

CLASSMATE
Date 22/7/24
Page 5

Ch-7 Final Accounts of Sole Proprietorship

(2) Permanence Preference:-

In this method, the most permanent or fixed assets (e.g. goodwill, land and buildings, plant and machinery, etc.) are placed at the top whereas less permanent (e.g. furniture, tools etc.) and current assets (e.g. stock in hand, debtors, cash etc.) are listed thereafter. In other words it is just the opposite of liquidity method. Similarly, capital is listed on the top, long term liabilities are listed thereafter and current liabilities are shown at the last.

Before going further lets take a short break. Write the answers of the following questions during the break.

1. What is Marshalling of Balance Sheet?
2. What are financial Statements?
3. What is need of Preparing a Trading Account?

7.4. DIFFERENCE BETWEEN A BALANCE SHEET AND A TRIAL BALANCE

S.No.	Basis of Distinction	Balance Sheet	Trial Balance
1.	**Purpose**	Its purpose is to show the financial position of the business.	Its purpose is to establish the arithmetical accuracy of the books of account.
2.	**Period**	It is prepared generally at the end of the accounting year.	It may be prepared every month or even shorter period.
3.	**Necessity**	It is essential to prepare a balance sheet to complete the accounting process.	It is desirable but not essential to prepare a trial balance.
4.	**Headings**	Its two sides are headed as assets and liabilities.	Its two columns are headed as debit and credit.

Class: 10th
Comm. Studies
Lokesh Arora

Ch-7 Final Accounts of Sole-Proprietorship

Difference between Balance Sheet and Trial Balance

	Basis of Distinction	Balance Sheet	Trial Balance
5.	Information about profits	It provides information about net profit or net loss.	It does not provide information about net profit or net loss.
6.	Contents	It contains only personal and real accounts.	It contains all types of accounts — personal, real and nominal.
7.	Adjustments	Preparation of balance sheet requires adjustments for outstanding and pre-paid items.	Preparation of trial balance does not require adjustments.
8.	Closing stock	This account always appears in the balance sheet.	Generally, closing stock is shown outside the trial balance.

7.5. DIFFERENCE BETWEEN A BALANCE SHEET AND A PROFIT AND LOSS ACCOUNT

S.No.	Basis of Distinction	Balance Sheet	Profit and Loss Account
1.	Purpose	It is prepared to know the financial position.	It is prepared to ascertain the net profit or net loss.
2.	Period	It is prepared at a particular date.	It presents the results of business for a particular period, usually one year.
3.	Nature	It is a statement.	It is an account.
4.	Headings	Its two sides are called assets and liabilities.	Its two sides are called incomes and expenses.
5.	Contents	It contains all the real and personal accounts.	It contains all the nominal accounts.
6.	Difference	Its two sides are equal in total.	The difference in the totals of its two sides represents the net profit or net loss.
7.	Effect on accounts	The balances of accounts included in balance sheet are brought forward in the next year.	The accounts transferred to it are closed and no balance exists in these accounts.

Classification of Assets and Liabilities.

Asset :-
Asset means anything which will enable the firm to get a cash or benefit in future. Assets are future economic benefits, the rights, which are owned or controlled by an organisation or individual.

Types of Assets :-
(1) Fixed Assets :- These assets are acquired for the purpose of use in business and

Class: 10th
Comm. Studies
Lesson Above

classmate
Date 22/7/24
Page 7

Ch-7 Final Accounts of Sole-Proprietorship

not for the purpose of resale. For example, land and building, plant and machinery, Patents, Goodwill, furniture and fixtures, forests etc. Fixed assets are of the following types:-

(i) Tangible Assets:-
Assets which can be seen and touched are tangible assets. e.g. Plant and Machinery, land and Building, furniture etc.

(ii) Intangible Assets:-
Assets which cannot be seen and touched but only felt are intangible assets. e.g. Patent, Trademark, Copyright, Goodwill etc.

(iii) Wasting Assets:-
The fixed assets which have a limited useful life and which depreciate rapidly are called wasting assets. e.g. forests, mines, quarries etc.

(2) Investments:-
This includes the money invested in various kind of securities. Investment may be for long term and short term.

(3) Current Assets:- These assets are acquired and held for consumption and resale in ordinary course of business These can be converted into cash with in a period of 12 months. e.g cash in hand, cash at bank, stock, debtors, bills receivable etc

Class: 10th
Commerce Studies
Lecturer Arora

classmate
Date 22/7/24
Page 8

Ch-7 Final Accounts of Sole Proprietorship

(4) Liquid Assets:
That part of current assets which are already in cash form or which can be converted into known amount of cash easily and quickly are known as liquid assets. e.g. Cash in hand, cash at bank, short term marketable investments etc.

(5) Fictitious Assets:-
These assets neither have any physical existence nor having any market value. These are expenses of heavy nature which have been incurred to establish a business. Preliminary expenses, discount/loss on issue of shares and debentures etc. are examples of fictitious assets.

Liabilities:-
Liability means the amount which a business firm owes to outsiders. Liability is the money payable to outsiders other than owners. Liabilities are of the following types:-

(i) Fixed Liabilities:
These liabilities are repayable after a long period of time. These are not payable during the operating cycle of the business. e.g. long term loans, debentures etc. are the examples of fixed liabilities.

Class: 10th
Comm. Studies
Lokesh Arora

classmate
Date 22/7/24
Page 9

Ch-7 Final Accounts of Sole Proprietorship

(ii) Current Liabilities!
These liabilities are repayable within a period of one year or in a near future. e.g. Trade Creditors, Bank Overdraft, Bills payable, Proposed Dividend etc.

(iii) Contingent Liabilities! - These liabilities are not liabilities in present but can become liabilities on the happening or non-happening of an event which is uncertain. For example, If our firm has given guarantee for a loan taken by another firm. Our firm shall be liable to pay the loan to the bank only when the other firm does not pay the loan. Liability on bills discounted, disputed claims or liability under a damage suit are ~~exp~~ examples of contingent liabilities
With this, I am ending my topic here, write the answers of the following questions in your note-books.

1. Write two differences between Trial Balance and Balance Sheet
2. What are Current Assets?
3. What are Fixed liabilities? Give example

Last Page