Financial Statement

Financial Statements

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Profit and Loss Account

Profit and loss account discloses the result of the working of an entity during the accounting year.

Profit and loss account measures the income generated by the entity.

Elements of Profit and Loss Account

- Income
- Expenses

Profit & Loss A/c (Simple Format)

Particulars	Amount
Sales	XX
Cost of Goods Sold	(XX)
Gross Profit	XX
Other Expenses	(XX)
Tax	(XX)
Net Profit	XX

	Particulars (format as per revised schedule VI)	Year Ended 31st Mar 2019	Year Ended 31st Mar 2018
I.	Revenue from Operations	-	-
II.	Other Incomes	-	-
III.	Total Revenue (I + II)	-	-

IV.	Expenses:		
	Cost of Materials Consumed	-	-
	Purchases of Stock-in-Trade	-	-
	Changes in Inventories of Finished Goods, Work-in-Progress and Stock-in-Trade	-	-

	Employee Benefit Expenses	-	-
	Finance Costs	-	-
	Depreciation and Amortization Expense	-	-
	Total Expenses	-	-
V.	Profit before Exceptional and Extraordinary Items and Tax (III - IV)	-	-

VI.	Exceptional Items	-	-
VII.	Profit before Extraordinary Items and Tax (V - VI)	-	-
VIII.	Extra Ordinary Items	-	-
IX.	Profit before Tax (VII - VIII)	-	-

X.	Tax Expense:		
	(1) Current tax	-	-
	(2) Deferred Tax	-	-
XI.	Profit/ (Loss) for the period from Continuing	-	-
	Operations (IX - X)		
XII.	Profit/Loss from Discontinuing Operations	-	-

XIII.	Tax Expense of Discontinuing Operations	-	-
XIV.	Profit/(Loss) from Discontinuing Operations (after Tax)	-	-
	(XII - XIII)		
XV.	Profit/ (Loss) for the Period (XI + XIV)	-	-

Income

Income is the increase in economic benefits during the accounting period in the form of inflows or enhancement of asset or decreases of the liability.

The definition of income encompasses revenue and gains.

- Revenue is an income that arises in

the ordinary course of activities.
e.g. sales

- Gains are income, which may or may not arises in the ordinary course of activities.
e.g. profit on sale of fixed asset

Expenses

Expense is the decrease in economic benefits during the accounting period in the form of outflows or depletion of asset or incurrence of the liability.

- Expense arises in the ordinary course of activities.
  e.g. wages

- Losses may or may not arises in the ordinary course of activities.
  e.g. loss on sale of fixed asset

Entity Concept

The Entity concept of an accounting practice states that the business enterprises is a separate identity apart from its owner.

- Business transaction are recorded in the books of business books of accounts and owners transaction in his personal books of accounts.
- This concept helps in keeping

business affairs free from the influence of the personal affairs of the owner.

◊ Entity concept means that enterprises are liable to owner for capital investment made by the owner.

◊ Since the owner invested capital, which is also called risk capital he claim on the profit of the enterprise.

Accrual Basis of Accounting

- Transaction are recognised as soon as they occur, whether or not cash is actually received or paid.
- Accrual basis ensures better matching between revenue and cost of the enterprise during an accounting period.
- Accrual means recognition of revenue and cost as they are earned or

incurred and not as money is received or paid.

- Revenues may not be realised in cash.

Cash may be received simultaneously or before/after revenue is created.

Expense may not be paid in cash.

Cash may be paid simultaneously or before/after expense is made.

Matching Concept

The matching concept is an accounting practice whereby expenses are recognized in the same accounting period when the related revenues are recognized.

The matching concept thus helps avoid misstating earnings for a period. Reporting revenues for a period without reporting the costs of producing those revenues would result in overstated profits.

Prepaid and outstanding Expenses:

Matching concept is based on the accrual concept as it considers the occurrence of expenses and income and do not concentrate on actual inflow or outflow of cash. This leads to adjustment of items like prepaid and outstanding expenses.

Realisation Concept

Any change in the value of an asset is to be recorded only when the business realise it. When an asset is recorded at its cost of Rs. 15 Lakhs and even if its current cost is Rs. 45 Lakhs such change is not counted unless there is certainty that such change will materialise.

However, we follow a more conservative path. We try to cover all probable losses but do not count any probable gain. That is to say, if we anticipate decrease in value count it, but if there is increase in value ignore it until it is realised.

Profit & Loss A/c (Detailed Format)

Particulars	Amount
Sales	XX
Operating Expenses	(XX)
Operating Profit	XX

Particulars	Amount
Non-Operating Income	XX
Non-Operating Expense	(XX)
Profit before Interest and Tax	XX
Interest	(XX)
Profit before Tax	XX
Tax	(XX)
Profit after Tax	XX

Operating Profit

Operating activities are principal revenue producing activities of the enterprise.

Operating profit is the figure obtained after subtracting personnel, depreciation and other expenses.

Operating profit is the surplus generated by the operations.

Profit before Interest & Tax

The company irrespective of method of financing, earns this amount. The only other expense to be met at this stage, is the interest expense.

This is the measure of the operational efficiency of the company. This is usually referred as Earnings before Interest and Tax.

Profit before Tax

Profit before Tax is the surplus after meeting all expenses, including interest.

This is the profit available to company as a result of both its operating as well as financing performance.

Profit after Tax

Profit after Tax is the net amount of surplus earned by the company during the accounting period.

This is the amount available to the company for appropriation. This amount can either distributed to owners or retained in the business as retained earning. Not distributing the profit to owners increases the owners investment in the business.

Exercise 1

In Padmanabham and co. following transaction took place during year 2019-20.

- Goods costing Rs.140000 purchased for cash.
- Padmanabham paid General expenses of Rs. 4800.
- Salaries of Rs. 25500 paid to office staff.

- Padmanabham sales on credit for two month. Total credit sales during year is Rs.140500 (cost:90000) and remaining goods were sold at cash to retail traders for cash at Rs. 69000.
- Printing and stationary expense were Rs.5000 and Telephone expenses were Rs.18000
- Padmanabham paid salary of Apr 2019, Rs.2000 in advance to one employee.

- Padmanabham paid Rs.50000 towards Bank of Baroda loan, of which Rs.5000 was interest component.
- Rs. 3000 paid as tax.

Prepare profit and loss A/c from the given information of year 2019-20.

Profit and Loss A/c for year ended 31 March 2020

Particulars	Amount
Cash Sales	69000
Credit Sales	140500
Total Sales	209500
Cost of goods sold	(140000)
Operating Profit	69500
General Expenses	(4800)

Particulars	Amount
Salary Expenses	(25500)
Printing and Stationary Expenses	(5000)
Telephone Expenses	(18000)
Profit Before Interest and Tax	16200
Interest	(5000)
Profit Before Tax	11200
Tax	(3000)
Net profit after Tax	8200