WEEK 5 - 6 Date…………………….

TOPIC: FINAL ACCOUNTS OF A SOLE TRADER

CONTENTS

1. Contents of the Final Accounts of a Sole Trader
2. The Trading Account - Contents and Preparation
3. The Profit and Loss Account - Contents and Preparation

The Final Accounts of a Sole Trader consist of the following:

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

THE TRADING ACCOUNT

The Trading Account is prepared to ascertain the Gross Profit or the Gross Loss of the business for the trading period.

1. The Gross Profit is the difference between the Sales revenue and the Cost of Goods Sold
2. The Cost of goods sold is derived by adding the Opening Stock to the Net Purchases and deducting the Closing Stock from the ensuing total.
3. Net Purchases is derived by deducting Returns Outwards (i.e. Purchases Returns) from the Purchases figure.
4. Sales revenue (or Net Sales) is derived by deducting Returns Inwards (i.e. Sales Returns) from the Sales figure.
5. It is usual to add the cost of transporting the goods to the trader’s shop i.e. Carriage Inwards to the Purchases figure when deriving the Cost of Goods Sold
6. The Cost of goods sold is also referred to as the Cost of Sales

The Trading Account must have a heading which includes the period of time covered by the statement (or account). It is also usual to include the name under which the business trades. There are two ways in which a Trading Account can be prepared **- horizontal and vertical.**

1. The **horizontal format or T - format** is similar to a traditional ledger account. Using this method, the Sales revenue is shown on the credit side and the Cost of goods sold on the debit side. The difference (or balance) between the two sides equals the Gross Profit or Gross Loss for the period.

The Gross Profit is carried down to the Profit and Loss Account

1. A Trading Account can also be prepared using the **vertical format**. This is the format used by most businesses. A Trading Account prepared using this method contains the same information as in a horizontal format, but looks like an arithmetic calculation.

Illustration:

The following balances were extracted from the books of Tunde Enterprises for the year ended 31st December, 2017.

N

Stock (1st January, 2017) 8,000

Purchases 18,000

Rent 2,000

General Expenses 1,700

Discounts Allowed 158

Advertising 732

Insurance 500

Sales 50,000

Returns Inwards 2,320

Discounts Received 500

Rates 250

Returns Outwards 357

Carriage Inwards 135

Interest on Loan 726

The value of Stock at close on 31st December, 2017 was N9,500

You are required to prepare the Trading Account for the year ended 31st December, 2017.

1. Using the horizontal or T - format:

Tunde Enterprises

Trading Account for the year ended 31st December, 2017

N NN N

Opening Stock 8,000 Sales 50,000

Purchases 18,000 less: Returns Inwards2,320

Add: Carriage Inwards 135 47,680

18,135

Less: Returns Outwards 357

17,778

Cost of goods available for sale 25,778

Less: Closing Stock 9,500

Cost of Goods Sold 16,278

Gross Profit c/d 31,402

47,680 47,680

1. Using the vertical format:

Tunde Enterprises

Trading Account for the year ended 31st December, 2017

N N N

Sales 50,000

Less: Returns Inwards 2,320

47.680

Cost of goods sold :

Opening Stock 8,000

Purchases 18,000

Add: Carriage Inwards 135

18,135

Less: Returns Outwards 357

17,778

25,778

Less: Closing Stock 9,500

16,278

Gross Profit 31,402

EVALUATION

1. List three features of the Trading Account
2. State three components of the final accounts of a sole trader.

THE PROFIT AND LOSS ACCOUNT

The Profit and Loss Account is concerned with profits and losses, gains and expenses. Its purpose is to calculate or ascertain the Net Profit or Net Loss for the period.

The formula for calculating net profit is : Net Profit = Gross Profit + other income – Expenses

The Profit and Loss Account must have a heading which includes the period of time covered by the statement. It is also usual to include the name under which the business trades.

As with a Trading Account, a Profit And Loss Account can be prepared using either the **horizontal** or the **vertical** method. Using the horizontal format, the gross profit and any other income are shown on the credit side and the expenses are shown on the debit side. The difference (or balance) between the two sides equals the Net Profit or Net Loss for the year.

The Net Profit /Net Loss is transferred to the Capital Account.

Illustration: Using the list of balances shown in the earlier illustration, prepare the Profit and Loss Account for the year ended 31st December, 2017.

1. Using the horizontal format:

Tunde Enterprises

Profit and Loss Account for the year ended 31st December, 2017

N N

Rent 2,000 Gross Profit b/d 31,402

General Expenses 1,700 Discounts Received 500

Discounts Allowed 158

Advertising 732

Insurance 500

Rates 250

Interest on loan 726

Net Profit 25,836

31,902 31,902

1. Using the vertical format:

Tunde Enterprises

Profit and Loss Account for the year ended 31st December, 2017

N N

Gross Profit 31,402

Add: Discounts Received 500

31,902

Less: Expenses

Rent 2,000

General Expenses 1,700

Discounts Allowed 158

Advertising 732

Insurance 500

Rates 250

Interest on loan 726 6,066

Net Profit 25,836

EVALUATION

1. List four features of the Profit and Loss Account
2. List three similarities and two differences between the Trading Account and the Profit and Loss Account

READING ASSIGNMENT

1. Simplified and Amplified Financial Accounting Page 180 – 187
2. Business Accounting 1 Page 49 – 57

GENERAL EVALUATION QUESTIONS

1. List five source documents that are used in preparing the Cash Book
2. State five advantages of using the Imprest system to keep petty cash transactions
3. List five benefits of keeping accounting records
4. State ten uses of the General Journal
5. List eight contents of the Trading Account of a sole trader.

WEEKEND ASSIGNMENT

1. Carriage inwards as an expenses of a business is treated in the ………..…(a) Trading Account (b) Profit and Loss Account (c)Balance Sheet (d) Appropriation Account.

Use the following information to answer question 2 to 5

N

Purchases 168,000

Sales 183,400

Opening Stock 20,100

Closing Stock 48,900

Carriage Outwards 2,400

Carriage Inwards 5,000

Return Inwards 10,000

Expenses 15,000

Return Outwards 8,000

1. The gross profit is………. (a) N47,200 (b) N42,200 (c) N37,200 (d) N19,800
2. The net profit is…………(a) N42,200 (b) N37,200 (c) N19,800 (d) N47,200
3. The cost of goods sold is ………..(a) N185,100 (b) N139,200 (c) N136,200 (d) N131,200
4. The cost of goods available for sale was........... (a) N188,100 (b) N173,000 (c) N193,100 (d) N190,700

THEORY

1. List three uses of each of the following financial records /information.
2. Cash Book (b) Profit and Loss Account

List ten items of expenses that are charged (or debited ) to the Profit and Loss Account of a sole trader