

Module 3. Trial balance , bank reconciliation, depreciation and final accounts

Lesson 15

INTRODUCTION AND PREPARATION TRADING ACCOUNT

15.1 Trading Account

Trading Account is prepared to know profitability of business by buying and selling or manufacturing and selling. It shows the profit from the main business; buying and selling other than the business isn't included in Trading Account. It is one kind of ledger account.

NAME OF THE FIRM
TRADING ACCOUNT
for the year ended on 31st December

Dr. Cr.

Particulars	Amount	Particulars	Amount
To Opening stock		By Sales less Returns	
To Purchase less return		By Closing Stock	
To Wages		Balancing figure	
To Carriage		Gross loss (transferred to P and L A/c)	
To Freight			
To Fuel			
To Stores consumed			
To Royalty			
To Manufacturing Expenses			
To Profit and Loss A/c			
Balancing figure			
Gross Profit (transferred to P and L A/c)			

Items Debited to Trading Account

Opening stock

It consists of stock of raw material, work in process, finished goods in hand. The valuation is done based on cost or market price whichever is lower. It is taken from Trial Balance.

Purchase

Purchase is debited to the Trading Account after deducting from Purchase Return. Purchase of raw material, work in process, finished goods is only shown here other purchases are not taken into consideration.

Another way is $\text{Net stock} = \text{Opening} + \text{Purchase} - \text{Closing}$

15.2 Direct Expenses

It includes those expenses which have been made for bringing or manufacturing goods ready for sale.

e.g. Wages ,Carriage, Freight, Import duty, Fuel, Power ,Light, Storage charges.

Items Credited to Trading Account

15.3 Sales

Sales of goods manufactured /brought is only included after deducting sales return.

15.4 Closing Stock

Closing Stock consist unsold goods which are manufactured or brought for sale.

15.5 Advantage of Trading Account

1. The various items of trading can be known separately.
2. Over stocking or under stocking can be known
3. The result of trading can be known separately.
4. The progress can be studied on the basis of gross profit ratio, year by year

Illustration:

The following appeared in the trial balance of a firm:

Particulars	Amount
Opening stock :Raw material	20000
Finished Goods	35000
Purchase	90000
Sales	175000
Returns: Purchase	2500
Sales	1500
Wages	32500
Factory Expenses	22500
Freight : In wards	5000
Out wards	7500
At the period of the concerned period the stock on hand were:	17500
Raw Material	5000
Work in progress	27500
Finished Goods	

Prepare the Trading Account of the firm.

Answer

Particulars	Amount (Rs)	Particular	Amount (Rs)
To Opening Stock:	20000	By Sales: 175000	173500
Raw Material	35000	Less :Return 1500	17500
Finished goods	87500	By Closing Stock:	5000
To Purchases 90000	32500	Raw Materials	27500
Less Return 2500	22500	Work in process	
To Wages	5000	Finished goods	

To Factor Expenses	21000		
To Freight Inwards			
To Gross Profit			
Total	223500		223500