

# 404 AEC Agriculture Accounting

Lecture#2

## Final Accounts and Balance sheet-2

By

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# Final Accounts and Balance sheet

1. Trading Account
2. Agricultural Utilization Account
3. Profit and loss account
4. Manufacturing Account
5. Balance sheet

### 3. Profit and loss account

Profit and Loss Account *considers all expenses which ignored by Trading Account or Agricultural Utilization Account* like other operating expenses incurred by businessman during the course of running the business. Besides this, a businessman may have other sources of income.

Profit and Loss Account considers all such expenses and incomes and *gives the net profit made or net loss suffered* by a business during a particular period.

P&L Account measures net income by matching revenues and expenses according to the accounting principles.

Net income is the difference between total revenues and total expenses.

*A pro-forma of the Profit and Loss Account showing probable items therein is as follows:*

# PROFIT AND LOSS A/C

## FOR THE YEAR ENDING .....

Dr.

Cr.

Particulars	\$	Particulars	\$
To Gross Loss b/d		By Gross Profit b/d	
To <i>Selling and Distribution Expenses:</i>		By <i>Other Income:</i>	
Advertisement		Discount received	
Travellers' Salaries		Commission received	
Expenses & Commission		By Non-trading Interest:	
Go down (stores) Rent		Bank Interest	
Export Expenses		Rent of property let-out الإيجار للغير	
Carriage Outwards		Dividend from shares ارباح اسهم	
Bank Charges		By <i>Abnormal Gains:</i>	
Agent's Commission		Profit on sale of machinery	
Upkeep (maintenance) of Motor Lorries		Profit on sale of investment	

<i>To Management Expenses:</i>	Rent for:
Rent, Rates and Taxes	- Farmland
Heating and Lighting	- Tractor
Office Salaries	- Agricultural equipment and tools
Printing & Stationary	
Postage & Telegrams	
Telephone Charges	
Legal Charges	
Audit Fees	
Insurance	
General Expenses	

To <i>Depreciation and Maintenance</i> :	
Depreciation	
Repairs & Maintenance	
To <i>Financial Expenses</i> :	
Discount Allowed	
Interest on Loans	
Discount on Bills	
To <i>Abnormal Losses</i> :	
Loss by fire (not covered by Insurance)	
Loss on Sale of Fixed Assets	
Loss on Sale of Investments	
To Net profit transferred to Capital A/c	By Net Loss transferred to Capital Account

# Important points in Profit and Loss account

***1. Selling and Distribution Expenses*** These expenses are incurred for promoting sales and distribution of sold goods. Example of such expenses are godown rent, carriage outwards, advertisement, cost of after sales service, selling agents commission, etc.

***2. Management Expenses*** These are the expenses incurred for carrying out the day-to-day administration of a business. Expenses, under this head, include office salaries, office rent and lighting, printing and stationery and telegrams, telephone charges, etc.

***3. Maintenance Expenses*** These expenses are incurred for maintaining the fixed assets of the administrative office in a good condition. They include repairs and renewals, etc.

***4. Financial Expenses*** These expenses are incurred for arranging finance necessary for running the business. These include interest on loans, discount on bills, etc.

***5. Abnormal Losses*** There are some abnormal losses that may occur during the accounting period. All types of abnormal losses are treated as extra ordinary expenses and debited to Profit and Loss Account. Examples are stock lost by fire and not covered by insurance, loss on sale of fixed assets, etc.

Following are the expenses not to appear in the Profit and Loss Account:

- (i) Domestic and household expenses of proprietor or partners.
- (ii) Drawings in the form of cash, goods by the proprietor or partners.
- (iii) Personal income tax and life insurance premium paid by the firm on behalf of proprietor or partners.

**6. *Gross Profit*** This is the balance of the Trading Account transferred to the Profit and Loss Account. If the Trading Account shows a gross loss, it will appear on the debit side.

**7. *Other Income*** During the course of the business, other than income from the sale of goods, the business may have some other income of financial nature. The examples are discount or commission received.

***8. Non-trading Income*** Such incomes include interest on bank deposits, loans to employees and investment in debentures of companies. Similarly, dividend on investment in shares of companies and units of mutual funds are also known as non-trading incomes and shown in Profit and Loss Account.

***9. Abnormal Gains*** There may be capital gains arising during the course of the year, e.g., profit arising out of sale of a fixed asset. Such profit is shown as a separate income on the credit side of the Profit and Loss Account.

# Distinction between trading account and Profit and Loss Account

Profit and Loss Account	Trading Account
Profit and Loss Account is prepared as a main account.	Trading Account is prepared as a part or section of the Profit and Loss Account.
Indirect expenses are taken in Profit and Loss Account.	Direct Expenses are taken in Trading Account.
Net Profit or Net Loss is ascertained from the Profit and Loss Account.	Gross Profit or Gross Loss is ascertained from Trading Account.
The balance of the Profit and Loss Account i.e. Net Profit or Net Loss is transferred to proprietor's Capital Account.	The Balance of the Trading Account i.e. Gross Profit or Gross Loss is transferred to the Profit and Loss Account.
Items of accounts written in the Profit and Loss Account are much more as compared to the Trading Account.	Items of account written in the Trading Account are few as compared the Profit and Loss Account.

## 2. Manufacturing account

The concern which are engaged in the conversion of raw materials into finished goods, are interested to knowing the cost of production of the goods produced. The cost of the goods produced cannot be obtained from the Trading Account. So, it is desirable to prepare a Manufacturing Account *prior to* be preparation of the Trading Account with the object of ascertaining the cost of goods produced during the accounting period.

**The pro-forma of Manufacturing Account is given as under:**

## MANUFACTURING ACCOUNT FOR THE YEAR ENDING .....

Dr.				Cr.
Particulars	\$	Particulars	\$	
To Work-in process (Opening)		By Work-in-process (Closing)		
To Raw Materials consumed:		By Sale of Scrap (old asset)		
Opening Stock		By Cost of Production of finished goods during the period transferred to the Trading Account		
<i>Add</i> Purchases of Raw Materials				
<i>Less</i> Closing Stock of Raw Materials				

To Direct or Productive Wages	
To Factory Overheads:	
Power & Fuel	
Repairs of Plant	
Depreciation on Plant	
Factory Rent	

# Difference between trading account and manufacturing account

Manufacturing Account	Trading Account
Manufacturing account is prepared to find out the cost of goods produced.	Trading Account is prepared to find out the Gross Profit/Loss.
The balance of the manufacturing Account is transferred to the Trading Account.	The balance of the Trading account is transferred to the Profit and Loss Account.
Sale of scrap is shown in the Manufacturing Account.	Sale of scrap is not shown in the Trading Account.
Stocks of raw materials and work-in-progress are shown in the Manufacturing Account.	Stocks of finished goods are shown in the Trading Account.
Manufacturing Account is a part of the Trading account.	Trading Account is a part of the Profit and Loss Account.

## 5- Balance sheet

A Balance Sheet is a statement of financial position of a business concern at a given date. It is called a Balance Sheet because it is a sheet of balances of those ledger accounts which have not been closed till the preparation of Trading and Profit and Loss Account. After the preparation of Trading and Profit and Loss Account the balances left in the trial balance represent either personal or real accounts.

# Characteristics of Balance sheet

- (a) **A Balance Sheet is only a statement and not an account.** It has no debit side or credit side. The headings of the two sides are 'Assets' and 'Liabilities'.
- (b) **A Balance Sheet is prepared at a particular point of time and not for a particular period.** The information contained in the Balance Sheet is true only at that particular point of time at which it is prepared.
- (c) **A Balance Sheet is a summary of balances** of those ledger accounts which have not been closed by transfer to Trading and Profit and Loss Account.
- (d) **A Balance Sheet shows the nature and value of assets and the nature and the amount of liabilities at a given date.**

- Assets and liabilities consists of three categories; current, intermediate, and long term
- Current Assets Current assets are those that can be sold without affecting the productivity of the farm business. In general, current assets will either be sold or used up within a one-year period.

- Intermediate Assets Intermediate assets are the working assets on the farm. They are the ones used to carry on production activities. They will wear out and must be replaced over a two- to ten-year period.
- Long term Assets Land and buildings are the main assets with long life. Land is almost unique to a farm business. It often appreciates in value and seldom depreciates.

A pro-forma of the **Balance sheet** showing as follows:

# BALANCE SHEET

FOR THE YEAR ENDING .....

<b>Liabilities</b>	<b>\$</b>	<b>Assets</b>	<b>\$</b>
Capital		Goodwill	
<i>Add</i> Net Profit		Land	
<i>Add</i> Interest		Building Less Depreciation	
<i>Less</i> Drawings		Machinery Less Depreciation	
Reserves		New Equipment value Less old Equipment value	
Outstanding expenses		Plant and crops	
Sundry creditors		Fixtures and fittings	
Loans		Loosed tools	
Bills payable		Stock-in-trade	
		Bills receivable	
		Sundry debtors	

# BALANCE SHEET

FOR THE YEAR ENDING .....

<b>Liabilities</b>	<b>\$</b>	<b>Assets</b>	<b>\$</b>
		Investments	
		Cash at bank	
		Cash in hand	

# Illustration

The following balances are extracted from the books of Maher's Co. on 31st March, 2006. You are required prepare the Trading A/C , Profit and Loss Account, and a Balance Sheet as on that date.

	\$		\$
Stock on April, 1	500	Commission (Cr.)	200
<b>Bills receivable</b>	2250	Returns Outwards	250
Supplements Purchases	19500	Trade Expenses	100
Agric. Labor Wages	1400	Office Fixtures	500
Insurance	550	Cash in Hand	250
Sundry Debtors	15000	Cash at Bank	2375
Animal 1-1	25000	Animals 31-12	30000
Crops 1-1	15000	Crops 31-12	20000
Animals Purchases	6000	Sales crops	2500
Official Salaries	6800	Rent Farmland for X com.	3000
Rewards veterinary	5000	Capital	8950
Depreciation of Agricultural Machinery	3500		

	\$		\$
Carriage Inwards	400	Rent & Taxes	550
Commission (Dr.)	400	Carriage Outwards	725
Interest on Capital	350	Crops Sales	25000
Stationary	225	Bills Payable	1500
Returns Inwards	650	Creditors	9825
<b>Totals</b>		<b>Totals</b>	

**TRADING ACCOUNT** (*in case of Trading Activity*)**FOR THE YEAR ENDED 31ST MARCH, 2006**

Dr.		Cr.	
Particulars	\$	Particulars	\$
To Gross Profit transferred to P & L A/c	15300		
	36850		36850

Agricultural Utilization Account (*in case of Agri Activity*)

For the year ending in ...

Particulars	(\$)	Particulars	(\$)
To Gross Profits	15300		
Totals:	55500	Totals:	55500

# PROFIT AND LOSS A/C

Dr.

Cr.

FOR THE YEAR ENDING .....

Particulars	\$	Particulars	\$
Expenses & Commission	400	<b>By Gross Profit b/d</b>	<b>15300</b>
Rent and taxes	550	Commission received	200
Carriage Outwards	725		
Insurance	550		
Stationary	225		
Trade Expenses	100		
Interest on Loans	350		
<b>To Net profit transferred to Capital A/c</b>	<b>12600</b>		
	15500		15500

## BALANCE SHEET

FOR THE YEAR ENDING .....

<b>Liabilities</b>	<b>\$</b>	<b>Assets</b>	<b>\$</b>
Capital --- 8950		Cash in hand	250
<i>Add</i> Net Profit --- 12600	21550	Cash at bank	2375
creditors	9825	Stock	12500
Bills payable	1500	Bills receivable	2250
		Sundry debtors	15000
		Office Fixtures	500
	32875		32875

# Trial Balance as on 31.12.07

<b>Debit Balances</b>	<b>Rs.</b>	<b>Credit Balances</b>	<b>Rs.</b>
Cash in hand	2,000	Capital	2,00,000
Machinery	60,000	Sales	2,54,800
Stock	50,000	Sundry Creditors	40,000
Bills receivable	1,600	Bank overdraft	22,000
Sundry debtors	50,000	Return outwards	3,000
Wages	70,000	Discount received	1,800
Land	40,000	Bills payable	1,800
Carriage inwards	2,400		
Purchases	1,80,000		
Salaries	24,000		
Rent	4,000		
Postage	1,000		
Return inwards	3,200		
Drawings	10,000		
Furniture	18,000		
Interest	600		
Cash at bank	6,600		
	5,23,400		5,23,400

# Trading A/c of Thiru. Venkatachalam as at 31.12.07

Dr.

Cr.

Particulars	Amount	Particulars	Amount
To Stock (1.1.07)	50,000	By Sales 2,54,800	
To Purchases 1,80,000		Less Returns 3,200	2,51,600
Less Returns 3,000	1,77,000		
To Wages	70,000	By Closing Stock	1,00,000
To Carriage inwards	2,400		
To Gross Profit C/d (transferred to P&L A/c)	52,200		
	<b>3,51,600</b>		<b>3,51,600</b>

# Profit & Loss A/c of Thiru. Venkatachalam as at 31.12.07

To Salaries	24,000	By Gross Profit b/d (transferred from trading A/c)	52,200
To Rent	4,000		
To Postage	1,000	By Discount received	1,800
To Interest	600		
To Net Profit (Capital A/c)	24,400		
	<b>54,000</b>		<b>54,000</b>

# Balance Sheet of Thiru. Venkatachalam as at 31.12.07

Liabilities		Amount	Assets		Amount
Sundry Creditors		40,000	Cash in hand		2,000
Bank overdraft		22,000	Cash at bank		6,600
Bills payable		1,800	Machinery		60,000
Capital	2,00,000		Bills receivable		1,600
Add: Net profit	24,400		Sundry debtors		50,000
	-----		Land		40,000
	2,24,400		Furniture		18,000
Less: Drawings	<u>10,000</u>	2,14,400	Closing Stock		1,00,000
		<b>2,78,200</b>			<b>2,78,200</b>

Sankar's Capital 30,000 --- Sundry Creditors 4,000 ---- Sales  
30,000 ---- Cash in hand 1,800 ---- Purchases 20,000 ---- Cash  
in Bank 6,000 ---- Interest (Dr) 400 --- Bills Receivables 11,000 --  
- Sales returns 1,000 ----Bills Payable 7,000 ---- Purchases  
Returns 800 ---- Discount earned 800 ---- Sundry Debtors  
15,000 ---- Wages 7,000 --- Commission (Dr) 1,000 ---- Rent 800  
--- Plant and Machinery 8,000 --- Telephone charges 1,000 ---  
Misc. Income 400

**Prepare**

**\* Trial balance**

**\*Trading A/c**

**\*Profit and Loss Account**

**\* Balance Sheet**

# Trial Balance of Mr. Sankar

S.No.	Name of Account	L.F.	Debit Balance		Credit Balance	
			Rs.	P.	Rs.	P.
1.	Sankars' capital A.c				30,000	
2.	Sales A/c				30,000	
3.	Purchases A/c		20,000			
4.	Interest A/c		400			
5.	Sales Returns A/c		1,000			
6	Purchaes Returns A/c				800	
7.	Sundry Debtors A/C		15,000			
8.	Sundry Creditors				4000	
9.	Cash in hand		1,800			
10.	Cash at Bank		6,000			
11.	Bills Receivable A.c		11,000			
12.	Bills Payable A/c				7,000	
13.	Commission A/c		1,000			
14.	Discount Earned A/c				800	
15.	Wages A.c		7,000			
16.	Rent A/C		800			
17.	Plant and Machinery A/c		8,000			
18.	Telephone charges A/c		1,000			
19.	Miscellaneous income A/c				400	
	<b>Total</b>		<b>73,000</b>		<b>73,000</b>	

From the following Trial Balance of Mr. Kamel as on 31st March, 2006, prepare Trading Account, Profit and Loss Account and Balance Sheet.

**Given these information ..**

1. Stock as on 31st March 2006 is valued at \$200 (By Closing Stock, T A/c).
2. Provide depreciation @ 10% on Machinery ( $10 * 800 / 100$ ) and Building. ( $5 * 2000 / 100$ ).
3. Outstanding salaries amounted to \$50 (To Salaries 200+Outstanding Salaries 50=250 appear in P&L A/c).
4. Insurance premium is paid in advance to the extent of \$10. (Prepaid Insurance =  $20 - 10 = 10$ ).
5. Allow interest on Capital @ 6% per annum ( $6 * 2000 / 100$ ).
6. Interest on loan @ 12% per annum is due for one year. ( $12 * 600 \text{ loan} / 100$ ).

Debit Balance	\$ .	Credit Balance	\$ .
Stock on 1 <sup>st</sup> April, 2005	500	Capital	2,000
Purchases	1,500	Sales	3,500
Land and Building	2,000	Sunday Creditors	750
Bills Receivable	300	Commission	50
Wages	300	Bills payable	300
Machinery	800	Loan	600
Carriage Inward	100		
Carriage Outward	100		
Power	150		
Salaries	200		
Discount Allowed	30		
Drawings	100		
Insurance Premium	20		
Cash at Bank	500		
Cash in Hand	100		
Investments	500		
	7,200		7,200