

Chapter 04

Financial Statements of a Business

This chapter discusses the followings.

- 4.1 Introduction to financial statements
- 4.2 Profit or loss statement
- 4.3 Statement of financial position



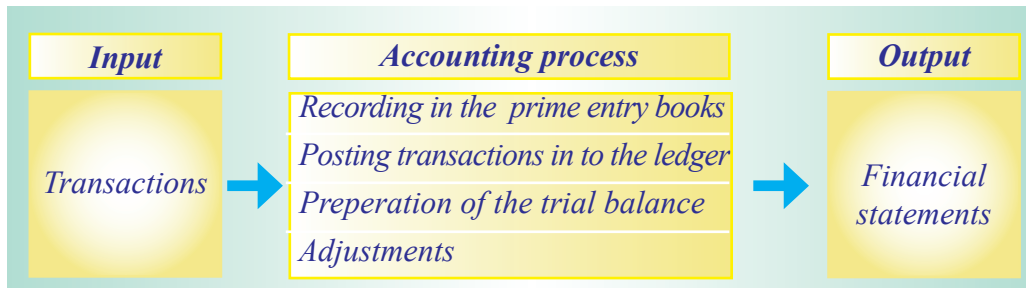
4.1 Introduction to financial statements

In the accounting process, the business transactions are first recorded in to the prime books and then posted in to the ledger accounts. Then the ledger accounts are balanced and taken in to the trial balance. This process has been already discussed in detail in the grade 10 study text.

The objective of any business is to earn profits from their business activities. Therefore it is worthwhile to see whether there is an adequate operational profit to continue the business. Also it is important to see the financial position of the business reflected through the assets, equity and liabilities. Such information assists in making decisions for the future of the business.

Accordingly, to obtain an understanding on the financial performance of the business during a specific period and the financial position as at a particular date of the business, the financial statements need to be prepared. The financial statements are prepared to identify the operational result and the financial position of the business.

Financial Statements of the business are prepared for specified period of time. This is known as the “Accounting Period” and it is generally considered as twelve months period of time. The financial statements are regarded as the output of the accounting process.



The financial statements are prepared for various business organizations. This chapter focuses only on preparing two financial statements for a sole proprietor or sole trader type of business organization.

A sole proprietor business prepares two main financial statements to ascertain the operational results and financial position for a given accounting period as follows;

01. Profit or Loss Statement
02. Statement of Financial Position

4.2 Profit or Loss Statement

Profit or loss statement is prepared by a business organization to calculate the profit or loss earned during a particular accounting period. This statement was also known as the Statement of Income in the past, but now it is known as the Profit or Loss Statement. Calculation of profit or loss of a business is performed in two steps.

01. Calculation of gross profit
02. Calculation of net profit

01. Calculation of gross profit

The gross profit is calculated by deducting the cost of sales from the sales revenue.

Sales revenue

The total of cash sales and credit sales done during a particular accounting period is known as the sales revenue.

Example :-	Rs.
Cash sales	58 000
Credit sales	<u>76 000</u>
Sales revenue	<u><u>134 000</u></u>

Cost of sales

Once the entire stock is sold out the cost of the inventories that was presented for trade is considered as the cost of sales. But a business organization can have some inventories yet to be sold at the end of an accounting period. In such situation the cost of sales is calculated by deducting the value of the closing stock from the cost of the goods that were presented for sales.

When preparing the financial statements the closing stock remaining at the end of the accounting period is considered as an asset and it becomes the opening stock of the next accounting period

Example :-

The same closing stock as at 31.12.2015, becomes the opening stock as at 01.01.2016 in the next accounting period.

There is no opening stock exists for a business in its first year of operation.

In a particular accounting period, a business has to purchase goods to sell as the opening stock of goods is not adequate for the sales to be done during the year. The purchases made in terms of cash and credit, totals for the purchases made during the accounting period.

Example :-

	Rs.
Cash purchases	24 000
Credit purchases	58 000
Total purchases	<u>82 000</u>

Transportation expenses, loading and unloading expenses, etc. has to be incurred when the purchased goods are transported to the business premises. In order to obtain the total cost of the inventories, all the expenses relating to purchases including the costs incurred in bringing stocks in to the current position and condition should be considered.

Example :-

	Rs.
Purchases	82 000
Loading expenses	6 000
Carriage inwards	9 000
Purchases and related expenses	<u>97 000</u>

Therefore, when calculating the cost of the goods sold, following elements are taken into consideration.

- W Opening stock
- W The total cost of the stock including the cash and credit purchases
- W Closing stock

Example :-

A business organization has following information.

	Rs.
Opening stock	15 000
Purchases	82 000
Loading expenses	6 000
Carriage inwards	9 000
Closing stock	22 000

The calculation of cost of sales using the above information is explained below.

	Rs.
Opening stock	15 000
Purchases	82 000
Loading expenses	6 000
Carriage inwards	9 000
The value of stock presented for sale	<u>112 000</u>
Less: closing stock	(22 000)
Cost of sales	<u>90 000</u>

Gross profit

The gross profit is derived from deducting the cost of sales from sales revenue.

$$\text{Gross profit} = \text{Sales revenue} - \text{Cost of sales}$$

The amount of total sales that exceed the total cost of sales is known as the gross profit.

Example :-

If the sales revenue is Rs. 134 000 and the cost of sales is Rs. 90 000, of a business organization, the gross profit is Rs. 44 000.

$$\begin{array}{rclcl} \text{Sales revenue} & - & \text{Cost of sales} & = & \text{Gross profit} \\ 134\,000 & - & 90\,000 & = & 44\,000 \end{array}$$

If the sales revenue is less than the cost of sales, it will result in a gross loss.

Example :-

If the sales revenue is Rs. 134 000 and the cost of sales is Rs. 140 000 of a business organization, the gross loss is Rs. 6 000.

$$\begin{array}{rclcl} \text{Sales revenue} & - & \text{Cost of sales} & = & \text{Gross profit} \\ 134\,000 & - & 140\,000 & = & (6\,000) \end{array}$$

Study how the gross profit or gross loss is calculated by including sales revenue and sales expenses using the example given below.

The following information is given to you from the business of “Thisara” for the accounting period ended 31st December 20xx.

	Rs.
Purchases	75 000
Sales	168 000
Loading expenses	8 500
Carriage inward expenses	9 500
01.01.20xx closing stock	15 000
31.12.20xx closing stock	20 000

Calculation of gross profit for the year ended 31.12.20xx

	Rs.	Rs.
Sales		168 000
Less: cost of sales		
Opening stock	15 000	
Purchases	75 000	
Carriage inward expenses	9 500	
Loading expenses	8 500	
The value of goods presented for sale	108 000	
Less: closing stock	(20 000)	
Cost of sales		(88 000)
Gross profit		80 000



Activity 01

Nisha stationery engages in a retail business of stationeries and the accounting period ends on 31st December 20xx. You are provided with the following information.

	Rs.		Rs.
Cash sales	80 000	01.01.20xx closing stock	15 000
Credit sales	120 000	31.12.20xx closing stock	18 000
Cash purchases	45 000	Loading expenses	6 000
Credit purchases	75 000	Carriage inward expenses	7 000

01. Calculate the following values for the year ended 31.12.20xx;

The cost of stock presented for sale

Cost of sales

Gross profit

02. Indicate the above values in the form of a statement.

02. Calculation of net profit

When the gross profit or loss is calculated, the net profit or loss should also be calculated.

The details of the accounting elements, income and expenses that are used in preparing the profit or loss statement are given below.

Income

Increase in equity other than the introduction of capital by owners is known as income.

All other income earned not included in the gross profit is regarded as the other income. Some examples of other income include the followings.

Example :-

The interest income earned by depositing the excess cash.

The rent income earned by renting a section of the office building.

Dividend income earned through purchasing shares of public companies.

Discounts received, commission income received, etc.

In calculating the relevant net profit or loss of a business organization, all the above income should be considered.



Activity 02

The income and the cost of sales relating to a business for a given accounting period are given below;

	Rs.
Cash sales	70 000
Credit sales	48 000
Cost of sales	52 000
Dividend income	5 000
Rent income	30 000
Discount received	6 000
Interest income	7 000

Calculate ;

1. The gross profit or loss of the business.
2. The total of other income generated.

Expenses

The other important elements shown in the profit and loss account are the expenses. The decreases in equity other than the drawings of the owner are regarded as expenses. Insurance payments, rent payments, salaries to employees, depreciation of fixed assets, bad debts include as examples for expenses. These expenses are categorized as follows;

01. Distribution expenses
02. Administration expenses
03. Other expenses
04. Financial expenses

A brief explanation about the above categories of expenses are given below;

Distribution expenses

The expenses incurred for selling and distribution of a trading business is categorized as selling and distribution expenses. This includes expenses incurred to sell the inventories, to promote the sales and carriage outwards.

Examples :-

Promotional expenses, salaries to sales employees, bad debts, discount given, depreciation of delivery vehicles, sales commission

Administration expenses

Expenses incurred for administration purposes of the business are categorized under administration expenses.

Examples :-

Rental payment, insurance payments, stationery expenses, depreciation for building, repair expenses, electricity expenses, depreciation for equipments

Other expenses

The expenses and losses that were not classified under above categories are categorized under other expenses.

Examples :-

Losses from cash frauds, losses from fire

Financial expenses

Expenses incurred in a business organization for borrowing of funds and in maintaining bank accounts are known as financial expenses.

Examples :-

Interest for bank loans, Interest for overdraft facilities, Bank charges

**Activity 03**

The following information is given from the Bhanuka's business for the accounting year ended on 31.12.20xx.

Bad debts	Depreciation of the distribution vehicle
Promotional expenses	Stationery expenses
Salaries for sales personnel	Insurance expenses
Interest expenses for bank loan	Bank charges
Electricity expenses	Rent payments
Discount allowed	Losses from cash frauds

Classify the above given expenses to the below given expense categories.

Distribution expenses	Administration expenses	Finance expenses	Other expenses

Study how the net profit is calculated using the example given below.

Examples :-

The following information is obtained from the business of Thimira for the accounting period ended on 31st December 20xx.

	Rs.		Rs.
Gross profit	230 000	Building repair expenses	45 000
Discount received	12 000	Expenses for sales promotions	30 000
Investment income	5 000	Salaries for sales personnel	24 000
Interest income	8 000	Interest for bank loan	12 000
Insurance expenses	16 000	Losses due to cash frauds	8 000
Salaries-administration	32 000		

Calculation of net profit for the year ended 31.12. 20xx

		Rs.	Rs.
Gross profit			230 000
Add: Other income			
Discount received		12 000	
Investment income		5 000	
Interest income		8 000	25 000
			255 000
Less : Expenses			
Distribution expenses			
Expenses for sales promotions	30 000		
Salaries for sales personnel	24 000	54 000	
Administration expenses			
Insurance expenses	16 000		
Salaries - administration	32 000		
Building repair expenses	45 000	93 000	
Other expenses			
Losses due to cash frauds	8 000	8 000	
Finance expenses			
Interest for bank loan	12 000	12 000	(167 000)
Net profit transferred to the capital account			88 000

Preparation of Profit or Loss Statement

You have already studied that the profit or loss statement should be prepared to show the operational results of a business.

Let's study to calculate and present the gross profit and the net profit by preparing the profit or loss statement which was studied in two steps above.

The information presented in profit or loss statement can be presented using a format below.

Business of.....			
Profit or Loss Statement			
For the year ended 31st Dec. 20xx.	Rs.	Rs.	Rs.
Sales			xxxx
Less: cost of sales			
Opening stock		xx	
Purchases		xx	
Loading expenses		x	
Carriage inward expenses		x	
Cost of goods presented for sale		xxx	
Less: closing stock		(xx)	
Cost of sales			(xxx)
Gross Profit			xxx
Add: other income			
Rent income		xx	
Interest income		xx	
Discount received		xx	xx
			xxxx
Less: Expenses			
Distribution expenses			
Promotional expenses	xx		
Salaries for sales personnel	xx		
Discount given	xx		
Bad debts	xx		
Depreciation for distribution vehicle	xx	xx	
Administration expenses			
Electricity expenses	xx		
Insurance charges	xx		
Salaries - administration	xx		
Telephone expenses	xx		
Depreciation for machinery	xx	xx	
Other expenses			
Losses from cash frauds	xx		
Stocks written off	xx	xx	
Finance expenses			
Interest on bank loan	xx		
Interest on bank over draft	xx		
Bank charges	xx	xx	(xxx)
Net profit transferred to the capital account			xx

The example given below explains how to prepare the income statement using the data given in a trial balance.

Example :-

The trial balance of the Naveesha's business is given below

Account name	Dr. Rs.	Cr. Rs.
Stock as at 01.01.20xx.	8 000	
Purchases	145 000	
Carriage inward expenses	6 000	
Loading expenses	3 000	
Sales		456 000
10% Fixed deposit	40 000	
Interest income on fixed deposit		4 000
Machine and equipment	140 000	
Discount received		7 000
Discount given	6 000	
Insurance charges	8 000	
Stationery expenses	5 000	
Promotional expenses	20 000	
Salaries to sales personnel	36 000	
Rent expenses	30 000	
Trade debtors	50 000	
Bad debts	2 000	
Cash balance	61 000	
Bank overdraft		20 000
Bank loan at 10%		60 000
Interest on 10% bank loan	6 000	
Interest on bank over draft	1 000	
Capital		20 000
	567 000	567 000

Note: All goods purchased for resale have been sold.

Business of Naveesha
Profit or Loss Statement
For the year ended 31. 12.20xx

	Rs.	Rs.	Rs.
Sales			456 000
Less: Cost of sales			
Opening stock		8 000	
Purchases		145 000	
Loading expenses		3 000	
Carriage inward expenses		6 000	
Cost of sales			(162 000)
Gross profit			294 000
Add: Other income			
Interest income on fixed deposit		4 000	
Discount received		7 000	11 000
			305 000
Less: Expenses			
Distribution expenses			
Sales promotional expenses	20 000		
Salaries for sales personnel	36 000		
Discount given	6 000		
Bad debts	2 000	64 000	
Administration expenses			
Insurance charges	8 000		
Stationary expenses	5 000		
Rent expenses	30 000	43 000	
Finance expenses			
Interest on bank loan	6 000		
Interest on bank over draft	1 000	7 000	(114 000)
Net profit transferred to the capital account			191 000

For your extra reference

There are two forms of presenting the operating results of a business. One way is to present it in the form of a statement that you have already studied above. It is how the operating result is presented according to the current practice.

However, in the past that information were presented in a format of an account.



Though that method is used at times, *only for your extra reference*, it is presented below in a format of an account by using the details of the example given above.

Business of Naveesha Trading and Profit and Loss Account for the year ended 31. 12.20xx

	Rs.	Rs.		Rs.
Opening stock 01.01.20xx		8 000	Sales	456 000
Purchases	145 000			
Loading expenses	3 000			
Carriage inward expenses	6 000	154 000		
Cost of sales		162 000		
Gross profit c/d		294 000		
		456 000		456 000
Distribution expenses			Gross profit b/f	294 000
Sales promotion expenses	20 000		Interest income	4 000
Salaries for sales personnel	36 000		Discount received	7 000
Discount given	6 000			
Bad debts	2 000	64 000		
Administration expenses				
Insurance charges	8 000			
Stationary expenses	5 000			
Rent expenses	30 000	43 000		
Finance expenses				
Interest on bank loan	6 000			
Interest on bank over draft	1 000	7 000		
		114 000		
Net profit transferred to the capital a/c		191 000		
		305 000		305 000



Activity 04

Following figures has been extracted from the business of Malee for the year ended 31.12.20xx.

Capital	300 000	Discount given	5 000
Sales	650 000	Bad debts	9 000
Discount received	12 000	Administrative salaries	40 000
Bank loan	80 000	Sales promotional expenses	60 000
Stock as at 01.01.20xx	15 000	Interest expense on bank loan	6 000
Commission income	6 000	Bank charges	2 000
Purchases	200 000	Trade debtors	45 000
Carriage inward expenses	5 000	Buildings	280 000
10% Fixed deposit	60 000	Stationery expenses	8 000
Insurance expense	12 000	Cash balance	301 000
Fixed deposit income	6 000	Losses from cash frauds	2 000

All the goods purchased have been sold

01. Calculate the following separately

- | | |
|--------------------------|----------------------------|
| 1. Cost of sales | 5. Administration expenses |
| 2. Gross profit | 6. Other expenses |
| 3. Other income | 7. Financial expenses |
| 4. Distribution expenses | 8. Net profit |

02. Prepare the Profit or Loss Statement for the year ended 31.12.20xx.

4.4 Statement of Financial Position

After preparing the income statement, the trail balance is only left with the balances of the accounts of Assets Liabilities and Equity. The statement that is prepared to include the balances of assets, liabilities and equity is called the Statement of Financial Position. This is also was called as the Balance Sheet in the past. This shows the business organization's financial strength and ability.

The information given in the Statement of Financial Position will be helpful for the economic decision making of the stakeholders of the organization like owners, creditors, and financial institutions.

The elements of the financial position

As at a particular date, the assets liabilities and equity a company posses can also be expressed by the accounting equation which has been already discussed. The accounting equation can be depicted as follows;

$$\text{Assets} = \text{Equity} + \text{Liabilities}$$

The values summarized for the assets, liabilities and equity are shown in the Statement of Financial Position on a rational basis.

The statement of financial position includes three main elements

- P Assets
- P Equity
- P Liabilities

Assets

An asset is a resource controlled by the business as a result of a past transaction and from which future economic benefits are expected to flow to the business.

In grade 10 study text you have already discussed about the assets that a business owns and the fact that they can be divided in to two as non-current assets and current assets. Go through the example given below to see the categorization of assets in the Statement of Financial Position.

Example :-

The accounting period for Nadeeka's business is from 01.01.20xx to 31.12.20xx. As at 31.12.20xx the following assets existed.

Closing stock 31.12.20xx	Rs. 30 000	Machinery	Rs. 60 000
Land and buildings	Rs. 280 000	Delivery motor vehicle	Rs. 400 000
Furniture	Rs. 20 000	Cash in hand	Rs. 80 000
Trade debtors	Rs. 45 000	Fixed deposit (5 years)	Rs. 50 000
Cash at bank	Rs. 15 000	Fixed deposit (6 months)	Rs. 20 000

Business of Nadeeka

Statement of Financial Position as at 31st December 20xx (extracts)

	Rs.	Rs.
Non-current assets		
Land and buildings	280 000	
Furniture	20 000	
Machinery	60 000	
Motor vehicles	400 000	
	760 000	
Fixed deposit (5 Years)	50 000	810 000
Current assets		
Closing stock	30 000	
Trade debtors	45 000	
Fixed deposits (6 months)	20 000	
Cash at bank	15 000	
Cash in hand	80 000	190 000
Total assets		1 000 000

The assets of a business are presented in the order of liquidity in a statement of financial statement. The ability convert an asset to cash with minimum losses in a short period of time is defined as the liquidity. The assets with the less liquidity are shown first.

Examples :-

The stocks are regarded as having less liquidity, and it is shown first under the current assets while the most liquid asset, cash in hand (which is regarded as having 100% liquidity) is presented last. Same is followed in presenting the non-current assets as well.



Activity 05

The accounting period of the Sunimal's business starts on 1st January 20xx and ended on 31st December 20xx. As at 31.12.20xx the following balances are extracted.

	Rs.
Machinery and equipments	185 000
Furniture	25 000
Closing stock (31.12.20xx)	65 000
Trade debtors	52 000
Cash in hand	65 000
Motor vehicles	340 000
Cash at bank	40 000
Income receivable	16 000

Show the categorization of assets as current and non-current in an extract of a Statement of Financial Position.

Equity

Once organizations use its assets to settle its external liabilities, the residual is called as Equity which belongs to the owners of the business. The part of asset that belongs to owners of the business is termed as equity. Equity is increased as a result of net profit and new capital introduction it is decreased as a result of net losses and drawings. In a sole proprietorship, capital account presents the total equity belonging to the owner.

Go through the example given below to understand how the equity is calculated.

Examples :-

The accounting period starts on 01.01.20xx and ends on 31.12.20xx.

Capital as at 01.01.20xx	150 000
Withdrawals – cash	12 000
Withdrawals – goods	8 000
Net profit for the period	50 000

Calculation of equity as at 31.12.20xx

	Rs.	Rs.
Capital as at 01.01.20xx	150 000	
Add: Net Profit	50 000	
	200 000	
Less: Withdrawals	(20 000)	180 000
Equity as at 31.12.20xx		180 000

Capital of Rs. 180 000 as at 31.12.20xx is the equity of the owner.



Activity 06

On 01.01.20XX, Sudheera started a retail business of kids wear by investing Rs. 240 000 in cash. Further he has invested Rs. 30 000 worth of furniture and Rs. 300 000 worth of his own building for the business.

The business earned Rs. 360 000 worth of income and incurred expenses of Rs. 210 000 for the 06 months ended 30.06.20XX. During this period Sudheera has withdrawn Rs. 18 000 in cash and Rs. 7 000 worth of kids wear from the business.

You are required to calculate the following.

01. Capital as at 01.01.20XX.
02. Profit earned during the period
03. Total withdrawals made within the period
04. Equity of Sudheera as at 30.06.20XX.

Liabilities

Obligations of a business that had arose as a result of past transactions or events could be simply considered as liabilities.

In grade 10 study text you have already discussed about the liabilities and the fact that they can be divided in to two as non-current liabilities and current liabilities.

Go through the example given below to see the categorization of current and non-current liabilities according to the liquidity basis in the Statement of Financial Position.

Examples :-

The liabilities of a business as at 31.12.20xx are given below.
Rs.

Trade creditors	25 000
Rent payable	8 000
Bank loan payable in three years	50 000
Insurance expenses payable	4 000
Loan interest payable	6 000
Mortgage loan payable in two years	30 000

The schedule of liabilities as at 31.12.20xx (extract)

	Rs.	Rs.
Non-current liabilities		
Bank loan	50 000	
Mortgage loan	30 000	80 000
Current liabilities		
Trade creditors	25 000	
Rent payable	8 000	
Insurance expense payable	4 000	
Interest payable	6 000	43 000



Activity 07

Madushan has obtained a bank loan for Rs. 480 000 which is payable annually in 5 years. Further, this business has trade creditors for Rs. 60 000, accrued employee salaries is Rs. 9 000 and accrued telephone expenses of Rs. 4 000.

Show the categorization of liabilities as current and non-current in an extract of a Statement of Financial Position.

Accordingly, to present rationally the assets, liabilities and equity that an organization holds as at a particular date in a Statement of Financial Position following format can be used.

Business of

Statement of Financial Position

As at.....

Non-current assets		
Land & buildings	xxx	
Motor vehicles	xxx	
Furniture & fittings	xxx	
Machinery	xx	xxx
Long term fixed deposit		xx
Current assets		
Closing stock	xx	
Trade debtors	xx	
Income receivable	xx	
Bank	xx	
Cash in hand	xx	xx
Total assets		xxxx
Equity & liabilities		
Capital as at 01.01.20xx	xx	
Add-net profit	xx	
Less-Drawings	xxx (x)	xx
Non-current liabilities		
Bank loan		xx
Current Liabilities		
Trade creditors	xx	
Accrued expenses	xx	
Bank overdraft	xx	xx
Equity and liabilities		xxxx

Examples :-

The accounting period of Maneesha's business starts on 01.01.20xx and ends on 31.12.20xx. Following information given as at 31.12.20xx.

	Rs.		Rs.
Land and buildings	280 000	Cash in hand	90 000
Trade debtors	60 000	Drawings	12 000
Trade creditors	73 000	Closing stocks	55 000
Furniture	30 000	Delivery vehicle	550 000
Fixed deposit (5 years)	120 000	Capital as at 01.01.20xx	600 000
Income receivable	16 000	Profit for the period	325 000
Accrued expenses	15 000	Bank loan (To be paid at the end of 3 years)	200 000

The statement of financial position prepared is given below.

Business of Maneesha
Statement of Financial Position
as at 31.12.20xx Rs. Rs.

Non current assets		
Land & building	280 000	
Furniture	30 000	
Delivery vehicle	550 000	860 000
Fixed deposit (5 years)		120 000
Current assets		
Closing stock	55 000	
Trade debtors	60 000	
Income receivable	16 000	
Cash in hand	90 000	221 000
Total assets		1 201 000
Equity and liabilities		
Capital as at 01.01.20xx	600 000	
Add : net profit	325 000	
	925 000	
Less : drawings	(12 000)	913 000
Non current liabilities		
Bank loan		200 000
Current liabilities		
Trade creditors	73 000	
Accrued expenses	15 000	88 000
Total equity and liabilities		1 201 000

For your extra reference

Another method which was used to present assets, liabilities and equity in the past is given below *for only your extra reference* by using the details of the example given above.

Business of Maneesha
Balance Sheet as at 31.12.20xx

Capital as at 01.01.20xx	600 000		Non-current assets		Cost Rs.
Add : net profit	325 000		Land & buildings		280 000
	925 000		Delivery vehicle		550 000
Less : drawings	12 000	913 000	Furniture		30 000
					860 000
Non-current liabilities			Fixed deposit (5 years)		120 000
Bank loan		200 000			
			Current assets		
Current liabilities			Closing stock	55 000	
Trade creditors	73 000		Trade debtors	60 000	
Accrued expenses	15 000	88 000	Income receivable	16 000	
			Cash in hand	90 000	221 000
		1 201 000			1 201 000



Activity 08

According to the accounting equation, shown below is the financial position of Sumudu's business as at 31.12.20xx.

$$\text{Building} + \text{Machinery} + \text{Furniture} + \text{Inventory} + \text{Debtors} + \text{Cash} = \text{Capital} + \text{Bank loan} + \text{Creditors}$$

$$240\,000 + 60\,000 + 20\,000 + 30\,000 + 50\,000 + 80\,000 = 300\,000 + 100\,000 + 80\,000$$

Show the above information in a Statement of Financial Position.



Activity 09

The accounting period of Sarani's business starts on 01.01.20xx and ends on 31.12.20xx. Information given below are provided to you.

	Rs.		Rs.
Capital as at 01.01.20xx	320 000	Cash	24 000
Land and building	340 000	Machinery	40 000
Furniture	92 000	Net profit for the year	140 000
Stocks as at 01.01.20xx	56 000	Bank loan (5 Years)	80 000
Trade debtors	48 000	Trade creditors	80 000
Drawings	15 000	Bank overdraft	35 000
Investment (2 Years)	60 000	Accrued expenses	20 000

01. Write down the relevant items in the 1-5 tables by using the given format below.

1.

Non-current assets	Rs.	Total Rs.

2.

Current assets	Rs.	Total Rs.

3.

Equity	Rs.	Total Rs.

4.

Non-current liabilities	Rs.	Total Rs.

5.

Current liabilities	Rs.	Total Rs.

02. Prepare the Statement of Financial Position as at 31.12.20xx



Activity 10

The accounting period of Bimali's business ends on 31.12.20xx. The trial balance as at 31.12.20xx is given below.

Account name	Debit Rs.	Credit Rs.
Capital		400 000
Trade debtors	34 000	
Trade creditors		45 000
Stocks as at 01.01.20xx	16 000	
Purchases	395 000	
Carriage inwards	15 000	
Sales commission	9 000	
Insurance expenses	12 000	
Rent income		30 000
Discount received		6 000
Sales		650 000
Discount given	3 000	
Machinery and equipment	120 000	
Buildings	500 000	
Bank loan (to be settled after 4 years)		160 000
Interest expenses	16 000	
Bank overdraft		20 000
Cash in hand	155 000	
Bad debts	7 000	
Salaries - administration	25 000	
Bank charges	4 000	
	1 311 000	1 311 000

Assume that the entire stock has been sold out.

Prepare;

01. The profit or loss statement for the year ended 31st December 20xx

02. The Statement of Financial Position as at 31st December 20xx