

Trading and Profit and Loss Accounts: Further Considerations

A business's main objective is to make a profit. In some cases it will make a loss. The financial account that is used to show the owner(s) profits generated or losses incurred is the Income Statement. The Income Statement is also known as the Trading and Profit/Loss account. The income statement is of interest to the tax authorities in addition to the owner(s) because they will use it to calculate the tax owed to the government.

The Income Statement is divided into two parts:

- 1- The Trading Account in which the Gross Profit or Loss is calculated.

$$\text{Gross Profit} = \text{Sales} - \text{Cost of Goods Sold}$$

Cost of Goods Sold = Opening Stock (Inventory) + Purchases – Closing Stock

- 2- The Profit and Loss Account which is what is left of the Gross Profit after additional income has been added and expenses taken away.

$$\text{Net profit} = \text{Gross profit} + \text{any additional income (other operating income)} - \text{other expenses (other operating expenses)}$$

U Shift (Horizontal Trading Account)

Trading & Profit and Loss Account (Income Statement) for the year ended 31.12.X5				
	\$	\$	\$	
Opening Stock	24,514		Sales	67,865
Purchases	47,865	72,379		
Less Closing Stock		34,217		
Cost of Goods Sold		38,162		
Gross Profit Bal. c/d		29,703		
		<u>67,865</u>		<u>67,865</u>
			Gross Profit Bal. b/d	29,703
Less Expenses				
Salaries/wages	8,246			
Rent	3,456			
Utilities	1,897			
Stationary Equipment	965			
Other or Sundry	587			
Interest on loans	1,216	16,367		
Net Profit Bal. c/d		13,336		
		<u>29,703</u>		<u>29,703</u>
			Net Profit Bal. b/d	13,336

The Vertical Trading and Profit and Loss Account Format

The vertical format is laid out in such a way so as to be more user-friendly for non accountants:

U Shift

Trading & Profit and Loss Account (Income Statement) for the year ended 31.12.X5

	\$	\$
Sales		67,865
Less Cost of Goods Sold		
Opening Stock	24,514	
Add Purchases or Inventory	<u>47,865</u>	
	72,379	
Less Closing Stock	<u>34,217</u>	<u>38,162</u>
Gross Profit		29,703
Less Expenses		
Salaries/Wages	8,246	
Rent	3,456	
Utilities	1,897	
Stationary Equipment	965	
Other or Sundry	1000	
Interest on Loans	1,216	<u>16,367</u>
Net Profit		<u><u>13,336</u></u>

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