BCM-102

FINANCIAL ACCOUNTING

UNIT-15 FINAL ACCOUNTS-BALANCE SHEET

(B. COM. FIRST YEAR)

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Final Accounts

- The primary objective of preparing the financial statements is to calculate the profit and loss made by the business firm during the year and also to understand the financial position of the business on a given date. Preparation of final accounts from a trial balance includes the preparation of Trading and Profit and Loss Account and the Balance Sheet.

Balance Sheet

- Balance sheet can be described as "a Statement which sets out the Assets and Liabilities of a business firm and which serves to ascertain the financial position of the business on that particular day." Financial position means the ability of the organization to meet its liabilities in time.
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- Financial position can also be described as the position of the value of assets owned as compared to the value of liabilities owed. This statement is prepared at the end of the accounting period after the preparation of the trading and profit and loss account is complete. Almost every transaction affects the financial position of the business but because it is not feasible to draw up a balance sheet after every transaction, therefore it is prepared at the end of a specified period, usually, a year.
- This period of one year is referred to as **accounting period** or **fiscal year** or **financial year**. It is called balance sheet because it is a statement of balances of ledger accounts that have not been closed by transferring them to trading and profit and loss account and are required to be carried forward to the next year. Balance sheet represents the financial position of a business enterprise on a particular date and is valid only until another transaction is carried out by the entity.

Format of Balance Sheet

- Having examined the meaning of the balance sheet, we will now try to discuss the format of balance sheet. There is no prescribed format of balance sheet for the sole proprietorship firms and for the partnership firms. However, Schedule VI Part I of the Companies Act 1956 prescribes the format and the order in which the assets and liabilities of a company should be shown.
- Balance sheet preparation is the systematic arrangement of the assets and liabilities of a firm. On the basis of structure there are two styles (i.e. The American style and the English style) followed for the preparation of Balance Sheet. As per American style, assets are shown on the left hand side and liabilities and capital on the right hand side. The **English style** is just opposite to the American style. i.e., assets are shown on the right hand side of the Balance Sheet and liabilities and the capital on the left hand side. In India, we generally follow the English style.
- Besides the structure of the balance sheet, format of the balance sheet can further be classified into two categories on the basis of order of recording of assets in it i.e.

- Permanency order
- Liquidity order

- In case of permanency order, assets are arranged in the balance sheet in the order of the degree of liquidity enjoyed by each one of them starting with that asset which is the least liquid asset and then other assets are arranged in the order of decreasing degree of permanency. Below given is format of balance sheet where permanency order has been followed for the arrangement of assets.

In Case of Permanency Order

Balance Sheet as on _____

Liabilities	Rs.	Assets	Rs.
Capital		Goodwill	
Mortgage		Patents and Trade Marks	
Bank Overdraft		Furniture and Fittings	
Outstanding Expenses		Plant and Machinery	
Income Received in Advance		Unexpired Expenses	
Creditors		Stock-in-Trade	
Bills Payable		Sundry Debtors	
Loan		Investments	
		Bills Receivable	
		Cash in Bank	
		Cash in Hand	
Total	xxx	**Total**	xxx

In Case of Liquidity Order

Balance Sheet as on _____

Liabilities	Rs.	Assets	Rs.
Current Liabilities		**Current Assets**	
Creditors		Cash in Hand	
Bills Payable		Cash at Bank	
Bank Overdraft		Stock-in-Trade	
Outstanding Expenses		Debtors	
Income Received in Advance		Bills Receivable	
		Prepaid Expenses	
Fixed Liabilities		**Fixed Assets**	
Loan		Furniture and Fixtures	
Mortgage		Plant Machinery	
Capital		Land	
		Goodwill	
Total	xxx	**Total**	xxx

T-account Forms Formats of Balance Sheet

Balance Sheet as on.....

Particulars	Sch. No.	Figures as at the end of the current financial year (Rupees)	Figures as at the end the previous financi year (Rupees)
1	**2**	3	4
I. Sources of funds (a) Shareholders' Funds: (i) Capital (ii) Reserves and surplus (b) Loan funds (i) Secured loans (ii) Unsecured loan **TOTAL** II. Application of funds **(a) Fixed assets:** (i) Gross block (ii) Less: Depreciation (iii) Net block (iv) Capital work-in-progress **(b) Investments:** **(c) Current assets, loans and advances** (i) Inventories (ii) Sundry debtors (iii) Cash and bank balances (iv) Other current assets (v) Loans and advances **Less: Current liabilities and provisions** (i) Liabilities (ii) Provisions Net current assets (d) (i) Miscellaneous expenditure to the extent not written off or adjusted (ii) Profit and loss account **TOTAL**			

Preparation of Balance Sheet

- Balance sheet as discussed earlier is a statement of assets, liabilities and owner's capital. This statement is prepared on the basis of information given in trial balance. As you might have seen earlier, that the trial balance has two sides i.e. debit side and credit side. On each of the two sides, there are two categories of accounts i.e. on the debit side you have account heads of expenses/losses and assets and on the credit side of trial balance you have again two varieties of account heads i.e. Income/gain and Liability. One category of account head from each side i.e. account head related to expense/loss from debit side and income/gains from credit side have already been dealt with and closed by transferring it to trading and profit and loss account. The other category of account heads i.e. Asset heads from debit side and liability heads from credit side of the trial balance are used for the preparation of trial balance.
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- The process of writing the balance sheet will be explained under the following two situations:

1. When there is no adjustment i.e. only trial balance is given

- When there are adjustments i.e. some additional information is given along with the trial balance

Preparation of Balance Sheet (When There is No Adjustment)

- The process of writing the balance sheet in the absence of adjustments is very simple. It is prepared on the basis of the information contained in the Trial Balance and the net result of the income statement. All the accounts of assets, liabilities and capital from the trial balance are shown in the balance sheet. Accounts of capital and liabilities are shown on the left hand side, known as Liabilities. Assets and other debit balances are shown on the right hand side, known as Assets.

Preparation of Balance Sheet (With Adjustments)

- Final accounts are prepared on accrual basis(as already discussed in Unit 14), i.e. only those incomes and expenses are recorded in trading and profit and loss account which actually belong to that period for which the trading and profit and loss account is being prepared. Compliance of accrual basis requires that those expenses which belong to other years (i.e. years other than the year for which trading and profit and loss account is being prepared) should be ignored while preparing the profit and loss account even if they are paid during the current accounting year. Similarly all incomes which belong to other accounting years should be ignored even if they are received during the current accounting year. Further, all those expenses are required to be added, which benefit the current accounting period whether the payment has been made or not. In case of earnings, add all those revenue items which have been earned currently but not yet been received. The above stated corrections in the final account are called Adjustments, which are made with the help of adjusting entries. Adjustments ensure a proper matching of costs and revenue for obtaining correct profit or loss for the given accounting period. The items which usually need adjustments include:
- 1. Closing stock
- 2. Outstanding/expenses and Prepaid/Unexpired expenses
- 4. Accrued income and Income received in advance
- 6. Depreciation
- 7. Bad debts and Provision for doubtful debts
- 9. Provision for discount on debts etc.

Summary

- Balance Sheet is not an account rather it is a statement of assets owned and liabilities owed by a business enterprise on a particular date. It can be prepared in a vertical or horizontal format. Balance sheet helps in understanding the financial position of a business enterprise.

References

- SILM developed by Uttarakhand Open University for BCM-102 (Financial Accounting), Year 2017, ISBN: 978-93-85740-44-2