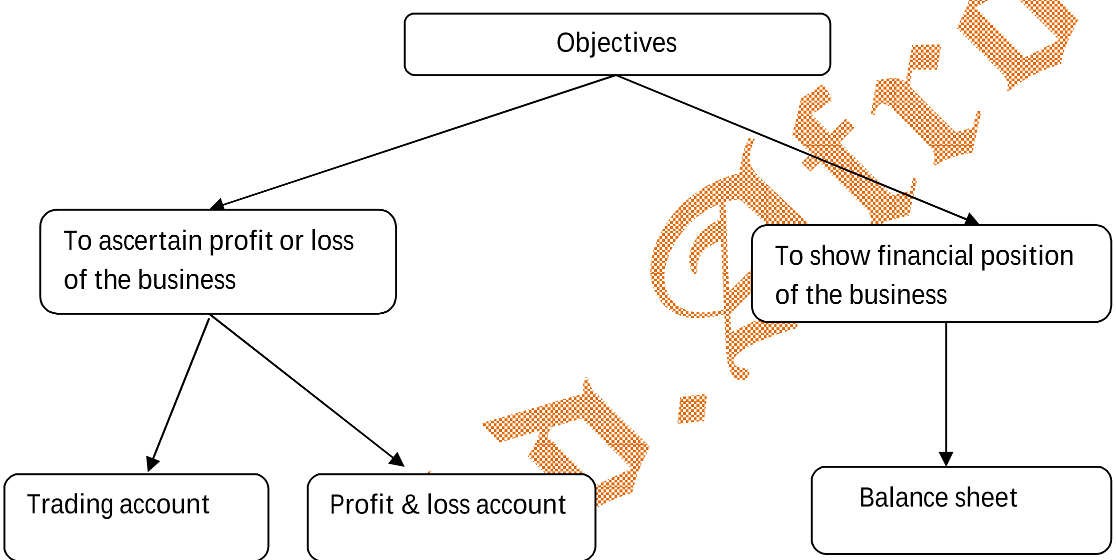
<u>***Basics of Financial statement***</u>

Financial statement is the last stage of accounting process. As we know very well that how financial statement is important for the business? Financial statement shows to the overall financial position and business profit or loss after end of particular period. Financial statement prepare after end of every accounting year.

<u>***Objectives to prepare financial statement:***</u>

Overall financial statement divided into Trading account, Profit & Loss account and Balance sheet. It represent to the overall status of the business.



<u>***Trading account:***</u> It includes to all direct expense and direct revenues of the business. Trading account shows business overall Gross profit or Gross Loss of the business.

GROSS PROFIT/GROSS LOSS = SALES – COGS

COGS = Opening stock + Purchase + wages + freight & octri charges – Purchase return – closing stock

<u>***Profit & Loss account***</u>: It cover to business all indirect expenses and indirect revenues. Indirect expense and indirect revenues are not directly related with the business normal operation. Indirect expenses are revenue expenses. On the other hand indirect revenues do not occur on regular basis. Therefore it shows in profit & loss account.

NET PROFIT / NET LOSS = indirect revenues + gross profit –indirect expenses

<u>***Balance sheet:***</u> It is a sheet which shows to the business Assets and Liabilities at particular point of time. Balance sheet shows to the actual financial position of the business. Balance sheet may be prepared on liquidity basis or fix basis.

Once ledger has been closed and Trial balance has been prepared no further adjustment would be possible. Adjustment is possible at the time of preparation of financial statement only. There may be so many adjustments some of them have been given below:

1. Closing stock
2. Interest on capital
3. Interest on drawing
4. Interest on loan
5. Accrued income
6. Unearned income
7. Outstanding expense
8. Prepaid expense
9. Abnormal losses
10. Managers commission
11. Depreciation
12. Additional bad debts
13. Provision for doubtful debts on debtor
14. Provision for doubtful debts on creditor
15. Provision for discount on debtor
16. Provision for discount on creditor
17. Bad debts written off

In so many cases we found wrong journal entries passed but Trial balance have been prepared. Therefore accounts can't re open. In such type of cases rectification adjustment also made at the time of preparation of financial statement.