CLASS: J SS 3
SUBJECT: BUSINESS STUDIES
WEEK: 9
TOPIC: TRADING, PROFIT AND LOSS ACCOUNT
What is a trading account?

A trading account refers to an account prepared to indicate profit realized on trading. Profit that is made on trading is called gross profit. **Gross profit** is the difference between sales and cost of sales. Thus:

Gross profit = Sales less Cost of Sales. If the value of sales is greater than cost of sales, a gross profit is made.

What is cost of sales? Opening stock plus purchases made would give the total cost of goods which are available for sale. At the end, some would be left unsold __ closing stock. Thus, the cost of sales would become:

Cost of sales = Opening stock + Purchases – Closing stock.
We can, therefore re-formulate the gross profit equation as:
Gross Profit = Sales – (Opening stock + Purchases – Closing stock).
Example

	#
Sales	33,000
Opening stock	2,400
Purchases	21,500
Closing stock	3,600

From the above data we have:
Gross profit = #33,000 - #2,400 + #21,520 - #3,600) = #12,680.
Assuming that the data in our preceding example related to the year ended 31st

Trading Account for the year ended 31st October, 2023.

	#		#
Opening stock	2,400	Sales	33,000
Purchases	21,520	Closing stock	3,600
Gross profit c/d	12,680		
	#36,600		**#36,600**
		Gross profit b/d	**12,680**

The above form of presentation doesn't show the cost of sales. The form showing the cost of sales is preferred because it enables one to compare sales with cost of sales at a glance. We can prepare it this way:

Trading Account for the year ended 31st October, 2023

	#		#
Opening stock	2,400	Sales	33,000
Add purchases	21,520		
	23,920		
Deduct closing stock	3,600		
Cost of goods sold	20,320		
Gross profit c/d	12,680		
	#33,000		**#33,000**
		Gross profit b/d	12,680

There are two types of returns in relation to trading. These are **returns inwards (sales returns) and returns outwards (purchases returns).**

Note that **discount allowed is an expense while discount received is income**.

Illustration (2)

	#
Opening stock	50,000
Purchases	180,000
Return outward (purchase return)	15,000
Closing stock	20,000
Sales	250,000
Return inward (sale return)	20,000

Solution

JSS 3 trading account for the year ending 31st December, 2023

	#		#
Opening stock	50,000	Sales	250,000
Add purchases	180,000	less return inward	20,000
	230,000		
Less return outward	15,000		
Goods available for sale	215,000		
Less closing stock	20,000		
Cost of goods sold	195,000		
	35,000		
	230, 000		**230,000**