

	<b>TOTAL</b>	521330000	521330000
--	--------------	-----------	-----------

## **D- FINANCIAL STATEMENTS القوائم المالية**

Financial statements are the final outputs for applying the accounting cycle which supply with creditable (المصدقية), relevant (الملائمة), and timely financial information to take rational economic decision.

These statements contain both debit and credit balances of all ledger accounts. The debit balances of a Trial balance represent either: assets or losses or expenses, and the credit balances of a trial balance represent either Liabilities or Gains.

Financial statements consist of trading account profit and loss account and balance sheet. All the amounts from trial balance are taken to prepare these statements.

The financial statements for commercial firms are split into three statements:

- 1- Trading A/c which shows Trading Profit (Gross Profit) or Gross Loss.
- 2- Profit and Loss A/c which shows the Net Profit or Loss incurred.
- 3- Balance Sheet which is a statement of Assets and Liabilities. This statement reflects the financial position of the business.

### **1- TRADING ACCOUNT حساب المتاجرة**

This account is a nominal account. It shows the results of buying and selling of goods. It shows how much gross profit the business has earned. The difference between sales and cost of goods

sold is gross profit. The purpose of preparing the trading account is to find gross profit or gross loss.

<b>Cost of goods sold = Opening Stock + Purchases + Direct Expenses on purchases - Closing Stock</b>
--

### Trading A/c

Particulars	Amount IQD	Particulars	Amount IQD
To Opening Stock	xxx	By Sales	xxx
To Purchases	xxx	By Purchases Returns	xxx
To Sales Returns	xxx	By Closing Stock	xxx
To Freight-in	xxx	By P. & L. A/c	
To P. & L. A/c		[Gross Loss c/d (If there is a loss)]	xxx
[Gross Profit c/d (if there is a profit)]	xxx		
	xxx		xxx

The balance of this account shows gross profit or gross loss which is transferred to Profit and Loss Account. The entries in journal book are recording as follow:

#### Closing entries for Trading Account:

Explanation	Entry	Dr	Cr
(1) For Transfer of Opening Stock, purchases, Sales returns and direct expenses to Trading A/c:	Trading A/c Dr	xxx	
	To Opening stock		xxx
	To purchases		xxx
	To sales returns		xxx
(2) For Transfer of Sales , and Purchases returns to Trading A/c	To freight in		xxx
	Sales Dr	xxx	
	Purchases returns Dr	xxx	
	To Trading A/c		xxx
(3 )For Transfer Closing	Closing stock A/c Dr	xxx	

Stock to Trading A/c	To Trading A/c		xxx
----------------------	----------------	--	-----

If the total of credit side for trading account is more than total of debit side gross profit realized, and the closing entry is:

Explanation	Entry	Dr	Cr
<b>For transferring gross profit to P&amp;L A/c</b>	<b>Trading A/c Dr To profit and loss A/c (Close the gross profit)</b>	xxx	xxx

If the total of credit for trading account is less than total of debit side gross loss incurred, and closing entry is:

Explanation	Entry	Dr	Cr
<b>For transferring gross Loss to P&amp;L A/c</b>	<b>Profit and Loss A/c Dr To trading A/c (Close the gross loss)</b>	xxx	xxx

Some of authors show to subtract (deduct) sales returns and allowances from sales to get net sales; deduct purchases returns and allowances from purchases to find out net purchases.

<b>Cost of purchases = net purchases + other costs of purchases.</b>
--

## 2- PROFIT AND LOSS ACCOUNT حساب الأرباح والخسائر

The purpose of this account is to compute net profit or net loss. The Steps for preparing profit and loss account are the following:

- (1) Close the result of gross profit or gross loss.
- (2) Close all expenses by crediting the expenses accounts and debit profit and loss account.
- (3) Close other revenues and gains by debiting these accounts and crediting profit and loss account.

If there is a net profit the closing entry is:

Date	Entry	Dr	Cr
	profit and loss A/c Dr To owner's capital A/c	xxx	xxx

If there is a net loss the closing entry is:

Date	Entry	Dr	Cr
	The owner's capital A/c Dr To profit and loss A/c	xxx	xxx

The Form of Profit and Loss Account

Particulars	IQD	Particulars	IQD
To Salaries (office)	××	By Gross profit (Transferred	
To Rent (office)	××	from Trading A/c)	××
To Stationery	××	By Interest received	××
To Lighting (office)	××	By Commission received	××
To Insurance	××	By Discount (Cr)*	××
To Depreciation	××	By Gains on sale of assets	××
To Repairs	××		
To Postage	××		
To Bank Charges	××		
To Interest	××		
To Audit Fees	××		
To Advertising	××		
To Discount (Dr.)*	××		
To Allowances	××		
To Carriage Outwards	××		
To Loss on sale of assets	××		
To Loss by Fire	××		
To Bad debts	××		
To Capital A/c (Net profit Transferred to Capital A/c)	××		
	×××		×××

\*Some of authors record the discounts of sales and purchases in profit and loss account instead of Trading account, because they consider this accounts not related directly with trading transactions , but its depend on selling policy of the firm. These

accounting treatments of the discounts in trading account are not considered an accounting error.

### 3- BALANCE SHEET الميزانية

The rest of accounts in trial balance after nominal accounts may be represented balance sheet accounts: assets, liabilities, and owner's equity. If the accountant wants to close the accounting books at the end of the year, they should be debit liabilities accounts and owner's equity and credit assets' accounts.

The Balance Sheet presents a photograph (صورة فوتوغرافية) of the investing and financing activities of a firm as of a moment in time. It presents a listing of a firm's assets, liabilities and shareholder's equity.

A Balance Sheet has two sides:

- ☞ The right hand side is Liabilities side.
- ☞ The left hand side is Assets side.



A Balance Sheet may be presented in the following classified form:

### BALANCE SHEET

As on ,.....

Assets	IQD	Liabilities	IQD
Cash in office	××	Accrued creditors	××
Cash at Bank	××	Revenue received in advance	××
Bills Receivable	××	Sundry Creditors	××
Marketable securities	××	Bills Payable	××
Sundry Debtors	××	Loans	××
Closing Stock	××	Capital	××
Prepaid Expenses	××	Add Net Profit	××
Furniture and Fixtures	××	Add Additional Capital	××
Plant and Machinery	××	Add Interest on capital	××
Land and Building	××	Less Drawings	(××)
		Less Interest on Drawings	(××)
		Less Net Loss	(××)
		Reserves	××
<b>Total</b>	<b>×××</b>	<b>Total</b>	<b>×××</b>

Preparation of Balance Sheet as per American System:

Balance Sheet as December 31, 2012

<b>Assets</b>	<b>Amounts IQD</b>
Current Assets:	
Cash	xxx
Sundry Debtors	xxx
Closing stock	xxx
Prepaid Expenses	xxx
Property, Plant and Equipment:	
Property	xxx
Plant	xxx
Equipment	xxx
<b>Total assets</b>	<b>xxx</b>
<b>Liabilities and Shareholder's Equity:</b>	
Current liabilities :	
Sundry Creditors	xxx
Advance from Customers	xxx
Shareholders' Equity	xxx
Common stock	xxx
<b>Total liabilities and Shareholder's Equity</b>	<b>xxx</b>

**Exercise (7)**

The following is a trial balance for Salah-Aldine Company Dec, 31, 2011 (Amounts in thousands):

Names of accounts	Debit IQD	Credit IQD
Opening stock	2000	
Purchases	6000	
Sales		14000
Freight- in	2000	
Sales returns	3000	
Rent expense	1000	
Salaries expense	2000	
Purchases discount		1000
Purchases returns		1000
Gains on sale of fixed assets		500
Creditors (accounts payable)		2000
Freight- out	2000	
Advertising expenses	1000	
Sales discount	500	
Furniture	1000	
Debtors (accounts receivables)	4000	
Cash	5000	
Drawings	2000	
Cars	6000	
Notes receivable	2500	
Notes payable		1500
Capital		????
Totals	40000	40000

Closing stock at cost IQD 4000, at market IQD 5000.