

24.2 An exercise on the relation between the Income Statement and the balance sheet, and the trial balance

Reconstruct the trial balance on which the Income Statement and balance sheet below are based. (This is a somewhat artificial exercise, but useful for understanding.)

ABC Income Statement for the period ended 30 June 2050		
	£	£
SALES		23 500
purchases	15 000	
opening stock	3 000	
closing stock	(2 500)	
COST of SALES		(15 500)
GROSS PROFIT		8 000
rent	2 200	
electricity	1 350	
salaries	3 450	
		(7 000)
OPERATING PROFIT		1 000
interest receivable		200
interest payable		(300)
NET PROFIT		<u>£ 900</u>

ABC Balance Sheet as at 30 June 2050		
	£	£
ASSETS		
stock		2 500
trade receivables		4 300
finance debtor		1 500
bank		200
		<u>8 500</u>
LIABILITIES		
trade payables	3 600	
finance payable	1 400	
		<u>(5 000)</u>
NET ASSETS		<u>£3 500</u>
CAPITAL		<u>£3 500</u>

Response

Exercise 24.2	Trial Balance	
	DR	CR
sales		23 500
purchases	15 000	
stock	3 000	
rent	2 200	
electricity	1 350	
salaries	3 450	
interest receivable		200
interest payable	300	
trade receivables	4 300	
finance debtor	1 500	
bank	200	
trade payables		3 600
finance payable		1 400
capital		2 600
total	<u>31 300</u>	<u>31 300</u>

Notice how:

1. stock in the trial balance is opening stock,

and

2. capital in the trial balance is before any adjustment for the profit or loss made in the period