




# INFOGRAPHIC GUIDE TO ACCOUNTING BASICS

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**Stock, Income, Expenses, Trading A/c, P&L A/c & Balance Sheet**

- ✓ **Bright visuals & infographics** to make learning fun and easy
- ✓ **Simple explanations** of complex accounting concepts
- ✓ **Step-by-step examples** with ABC Company case study

 For Accounting Students

ABC Company Example

# OPENING STOCK

**What is Opening Stock?** Opening Stock refers to the goods/inventory a business has at the beginning of an accounting period. It's the leftover unsold goods from the previous period.

In simple words: It's like the items still sitting on your shop's shelves when you start a new business day!

## Why on the DEBIT side of Trading Account?

- Opening Stock is a cost to the business
- It represents goods available for sale in the current period
- Trading Account follows the rule: **Debit all costs** related to goods

## Example:

Opening Stock = ₹50,000



## OPENING STOCK VISUALIZATION

TRADING ACCOUNT	
DEBIT (Dr.)	CREDIT (Cr.)
<b>DEBIT</b> Opening Stock ₹50,000 (Goods available for sale)	Sales xxxx ...
Purchases xxxx Direct Expenses xxxx	...

## KEY POINTS TO REMEMBER

- Opening Stock always appears on the **debit side**
- It's the **first item** in the Trading Account
- It represents the **value of goods** available at the start
- Think of it as a **starting investment** in goods

# CLOSING STOCK

**What is Closing Stock?** Goods that remain unsold at the end of an accounting period. These goods are still available for sale in the next accounting period.

**Why on Credit Side of Trading A/c?** Closing stock reduces the cost of goods sold because these goods are still in hand and not actually sold.

**Example:** If we purchased 100 items at ₹1,000 but 30 items remain unsold, the value of closing stock is:

**₹30,000**

## Remember:

- Closing stock is an **asset** (appears on Balance Sheet)
- It represents **value still in hand**
- In the next year, it becomes the **Opening Stock**



## CLOSING STOCK VISUAL

End of Year Inventory

**₹30,000**

CREDIT SIDE

## HOW IT WORKS

### TRADING ACCOUNT

#### DEBIT SIDE

- Opening Stock
- Purchases
- Direct Expenses

#### CREDIT SIDE

- Sales
- Closing Stock

### Why on Credit Side?

- 1 Reduces cost of goods sold
- 2 Increases gross profit
- 3 Shows accurate performance

# DIRECT EXPENSES

**What Are Direct Expenses?** These are costs directly related to the production or purchase of goods that a business sells. They are shown on the debit side of the Trading Account.

## Key Features:

- Directly linked to the production process
- Vary with the volume of production/goods purchased
- Recorded on the debit side of Trading Account
- Help determine Gross Profit of the business

## Why It Matters:

- Helps calculate true cost of goods sold
- Essential for accurate pricing decisions
- Directly impacts the Gross Profit calculation

**Remember!** Direct Expenses + Purchases + Opening Stock - Closing Stock = Cost of Goods Sold

## COMMON DIRECT EXPENSES



### Wages

Factory workers' pay

₹15,000



### Freight

Carriage inwards

₹5,000



### Power & Fuel

Factory utilities

₹4,800



### Royalties

Production rights

₹2,200



### Consumables

Factory supplies

₹3,500

## IMPACT ON TRADING ACCOUNT

**Trading Account (Debit Side):** Direct expenses are added to Purchases and Opening Stock

**Calculation:** Helps determine the true cost of goods sold

**Gross Profit Impact:** Higher direct expenses = Lower gross profit

# INDIRECT EXPENSES

**Meaning:** Costs that are not directly related to production or purchase of goods, but are necessary for running the business




## Key Characteristics:

- Cannot be directly traced to specific products
- Related to administration, selling, and distribution
- Shown in Profit & Loss Account (not Trading Account)
- Examples: Office rent, salaries, advertising



## Impact on Financial Statements:

- Reduces Net Profit in the P&L Account
- No impact on calculation of Gross Profit
- Often can be controlled through budgeting
- May remain fixed regardless of production level

## TOP INDIRECT EXPENSES

 <b>Salary</b> Office staff compensation ₹25,000	 <b>Rent</b> Office space payment ₹10,000	 <b>Advertising</b> Marketing promotions ₹6,000
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## ADDITIONAL EXAMPLES

 <b>Office Expenses:</b> Stationery, printing, supplies, etc.	₹4,500
 <b>Electricity:</b> Power consumption for office operations	₹3,500

## EXPENSE CATEGORIES

<b>Administrative</b> Office running costs	<b>Selling &amp; Distribution</b> Marketing & delivery costs	<b>Financial</b> Interest & bank charges
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# DIRECT vs INDIRECT: QUICK COMPARISON

What makes the difference? Understanding where costs belong in accounting.

**Direct:** Costs directly linked to making/buying goods for sale

Examples: Wages, Freight, Power for production

**Goes to Trading A/c**

**Indirect:** Costs related to running the business operations

Examples: Salary, Rent, Office expenses

**Goes to P&L A/c**

Real-world difference:

- Direct expenses are needed to have goods ready to sell
- Indirect expenses are needed to run the business
- Direct impacts Gross Profit; Indirect impacts Net Profit



## DIRECT

Making/bringing goods

Total: ₹30,500



## INDIRECT

Running the business

Total: ₹49,000

## EXPENSE COMPARISON



# DIRECT INCOME

**What is Direct Income?** Money earned directly from your main business activities –what your business primarily exists to do!

## Key Direct Income Sources:

**Sales Revenue:** ₹3,00,000 - Income from selling your main products

**Service Income:** ₹25,000 - Money earned by providing services to customers

**Job Work Charges:** ₹12,000 - Income from performing specific jobs for clients

## Remember:

- Direct income comes from your core business activity
- It is the main source of revenue for a company
- It directly relates to what you sell or provide

## DIRECT INCOME TYPES



### Sales

Main source of income



### Services

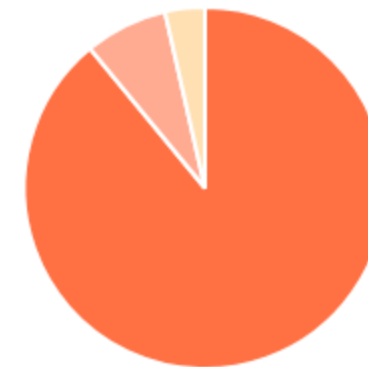
Service fees charged



### Job Work

Contract work income

## INCOME PROPORTION



■ Sales Revenue (₹3,00,000) ■ Service Income (₹25,000)

# INDIRECT INCOME

**Meaning:** Income earned from activities that are NOT part of the main business operations. These are secondary sources of income not directly related to the core business activity.

## Key Characteristics:

**Not Main Business:** Earned from activities outside the core operations

**Occasional:** Often irregular or non-routine in nature

**Accounting Treatment:** Recorded on credit side of Profit & Loss Account

## Real-Life Examples:

- A clothing store earning interest from its bank deposits
- A restaurant receiving commission for promoting local events
- A manufacturer getting discounts from early payments to suppliers

Accounting Basics

## TYPES OF INDIRECT INCOME



## COMMON EXAMPLES



### COMMISSION RECEIVED

Income earned for acting as an agent or middleman

₹8,000



### DISCOUNT RECEIVED

Price reduction received from suppliers

₹3,000



### INTEREST RECEIVED

Interest earned from bank deposits or loans

₹1,500

# PROFIT & LOSS ACCOUNT — THE RULE BOOK

**Meaning:** The Profit & Loss Account shows the financial performance of a business after calculating gross profit from the Trading Account.

**Purpose:** To determine the Net Profit or Net Loss of a business during an accounting period

**Inputs:** Gross Profit/Loss from Trading Account + Indirect Incomes – Indirect Expenses

## Key Rules to Remember:

- All Indirect Expenses are recorded on the **Debit side**
- All Indirect Incomes and Gross Profit are recorded on the **Credit side**
- If Credit side > Debit side = **Net Profit**
- If Debit side > Credit side = **Net Loss**
- Net Profit gets added to Capital in Balance Sheet

## THE GOLDEN RULE



**DEBIT = EXPENSES**

What the business spends



**CREDIT = INCOME**

What the business earns

## P&L ACCOUNT FORMAT

Dr. (Debit Side)	Cr. (Credit Side)
<p>📄 All Indirect Expenses:</p> <ul style="list-style-type: none"> <li>- Rent, Salary, Insurance</li> <li>- Depreciation, Interest</li> <li>- Office Expenses, etc.</li> </ul>	<p>📈 Gross Profit (from Trading A/c)</p> <p>💰 All Indirect Incomes:</p> <ul style="list-style-type: none"> <li>- Commission Received</li> <li>- Discount Received, etc.</li> </ul>
<p>✅ <b>Net Profit (balancing figure)</b></p>	<p>❌ <b>Net Loss (balancing figure)</b></p>

## STUDENT TIP

Think of the P&L Account like your personal spending: Money going OUT (expenses) vs. money coming IN (income). The difference tells you if you saved money (Net Profit) or went over budget (Net Loss)!

# TRADING & PROFIT & LOSS ACCOUNT

Company: ABC for Financial Year 2025-26

Given Information:

Opening Stock: ₹50,000

Purchases: ₹2,00,000

Direct Expenses: Wages ₹20,000, Freight ₹5,000

Sales: ₹3,00,000

Closing Stock: ₹70,000

Key Results:

- **Gross Profit:** ₹95,000 (Transferred to P&L A/c)
- **Total Indirect Expenses:** ₹49,000
- **Total Indirect Income:** ₹13,000
- **Net Profit:** ₹59,000 (Transferred to Balance Sheet)

ABC Company Financial Year 2025-26

## TRADING ACCOUNT

Dr. Particulars	Amount (₹)	Cr. Particulars	Amount (₹)
To Opening Stock	50,000	By Sales	3,00,000
To Purchases	2,00,000	By Closing Stock	70,000
To Wages	20,000		
To Freight	5,000		
To Gross Profit c/d	95,000		
<b>Total</b>	<b>3,70,000</b>	<b>Total</b>	<b>3,70,000</b>

## PROFIT & LOSS ACCOUNT

Dr. Particulars	Amount (₹)	Cr. Particulars	Amount (₹)
To Salary	25,000	By Gross Profit b/d	95,000
To Rent	10,000	By Commission Received	8,000
To Office Expenses	4,500	By Discount Received	3,000
To Advertising	6,000	By Miscellaneous Income	2,000
To Electricity	3,500		
To Net Profit (transferred to Capital)	59,000		
<b>Total</b>	<b>1,08,000</b>	<b>Total</b>	<b>1,08,000</b>

# ABC — BALANCE SHEET

AS AT YEAR END

LIABILITIES: What the business owes

 Capital	₹2,00,000
 Add: Net Profit	₹59,000
 Owner's Equity	₹2,59,000
 Creditors	₹60,000
 Outstanding Expenses	₹5,000
 TOTAL LIABILITIES	₹3,24,000

ASSETS: What the business owns

 Cash	₹40,000
 Debtors	₹90,000
 Closing Stock	₹70,000
 Furniture	₹50,000
 Plant & Machinery	₹70,000
 Prepaid Expenses	₹4,000
 TOTAL ASSETS	₹3,24,000

 TOTAL ASSETS = TOTAL LIABILITIES

# SUMMARY — YOU'VE GOT THIS!

## Key Takeaways:

- ✓ **Stock Rule:** Opening Stock = Debit, Closing Stock = Credit
- ✓ **Expense Rule:** Direct → Trading Account, Indirect → P&L Account
- ✓ **P&L Rule:** Debit = Expenses, Credit = Income
- ✓ **ABC Example:** Gross Profit ₹95,000, Net Profit ₹59,000
- ✓ **Balance Sheet:** Total Assets = Total Liabilities (₹3,24,000)

Remember: Accounting is just tracking the money flow of a business!

## REAL-LIFE APPLICATION



### Think of a Stationery Shop

Opening Stock = Pens, notebooks at start of year



### Purchases & Sales

Buy more stock, sell to customers



### Expenses to Run Shop

Rent, electricity, staff salary



### Final Accounting

Did we make profit? How much stock is left?

## YOU'RE READY!



**Congratulations! You now understand the basics of accounting!**

These concepts will help you understand any business's financial health and performance. Keep practicing!