

TRADING ACCOUNT

Trading account is prepared for calculating the gross profit or gross loss arising or incurred as a result of the trading activities of a business. In other words, it is prepared to show the result of buying and selling of goods. If the amount of sales exceeds the amount of purchases and the expenses directly connected with such purchases, the difference is termed as gross profit. On the contrary, if the purchases, and direct expenses exceed the sales, the difference is called gross loss. A Trading Account records the amount of purchases of goods and also the expenses which are incurred in bringing that commodity to a saleable state. In other words, all expenses which relate to either purchase of raw material or manufacturing of goods are recorded in the Trading Account. All such expenses are called 'Direct Expenses'. According to J. R. Batliboi :—

“The Trading Account shows the results of buying and selling of goods. In preparing this account, the general establishment charges are ignored and only the transactions in goods are included.”