

Acad Week 6 Trading Account

Definition of Terms

Trading is the activity of buying and selling goods and services.

A **trading account** is prepared to determine the gross profit or loss in a particular business period.

Items On the debit side of the trading account include;

- Opening stock
- Add Net purchases (purchases less return outwards)
- Less stock at close
- Equal to the cost of goods sold

Items On the credit side of the trading account are

- Sales
- Less returns inwards
- Credit side less debit side
- Equal to gross profit or gross loss.

Important Contents of Trading Account

- **Opening Stock:** The opening stock is usually the stock at the beginning of the period.
- **Closing Stock:** This represents the stock not used up at the end of the business period.
- **Returned outward:** These are goods bought but return to the owner for one reason or the other e.g. Detective or substandard product.
- **Returned inward:** These are goods sold to customers but returned due to one reason or the other e.g. wrong type of goods or defects.
- **Carriage inward:** This is the cost of carrying goods bought into the organization.
- **Cost of goods available for sales:** This is the summation of opening stock, purchases, carriage inward, and deductions of goods returned.
- **Cost of goods sold:** This is the addition of opening stock, purchases, and less closing stock.
- **Gross profit:** This represents the excess of sales over the cost of goods sold.
- **Net sales:** This is the sales less return inward.

Simple Layout of Trading Account

Trading Account

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Opening Stock.	x	Sales	x	
Add purchases.	x	less sales returns		x
Less returned outward	x	Net sales		xx
Cost of goods available	x			
Less closing stock.	x			
Cost of goods sold.	x			
Gross profit C/d	x			
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Xx	xx			
=====		=====		