

Chart of Difference between the Trading and Profit & Loss account

Basis	Trading Account	Profit and Loss Account
Meaning	Trading account is prepared to find out the gross profit of the business for the particular accounting period	Profit and loss account or Income statement is prepared to find out the Net Profit/loss of the business for the particular accounting period.
Timing	Trading Account is prepared before the P&L account	Profit/Loss Account is prepared after the Trading account
Purpose	To get know Gross profit or loss of the business.	To get know Net profit or loss of the business
Stage	It is the first stage of the final account.	it is the second stage of the final account.
Dependency	it is a first statement or final account so it is not dependent on Trial balance.	It is dependent on Trading account.
Accounts	In the trading account, the ledger accounts related to the Direct Expenses and Direct incomes are posted.	In the Profit and Loss account, the ledger accounts related to the Indirect Expenses and Indirect incomes are posted.
Transfer of Balance	The balance (either Gross profit or Gross Loss) of Trading account will be transferred to Profit and loss account.	The balance (either Net profit or Net Loss) of Profit and loss account will be transferred to Balance Sheet.
Treatment in the balance sheet	Trading account is not treated directly in the balance sheet. The Balance of Trading account is transferred to Profit and loss account only. than combine effect of both accounts are posted in the balance sheet either by Net profit or by the Net loss.	Profit and loss account is treated directly in the balance sheet by adding or subtracting from the capital. Tutor'sTips.com