IAQS | INSTITUTE OF ACTUARIAL & QUANTITATIVE STUDIES

Subject : Business Finance II

Constructing Accounts

Rules of Accounting

- *<u>Debit what comes in</u> and Credit what goes out*
- *Debit the receiver and <u>credit the giver</u>*
- *<u>Debit – expenses and losses</u> and Credit – Incomes and Gains*

Dual Concept of Accounting mentions that recording a particular transaction should have an impact on two simultaneous accounts but inverse in nature

******* Dr = Cr *******

Structure of Accounting

1. *Journal Entry*

*Example: **<u>A</u>** purchases goods from B payable after 30 days*

Day 0 – Purchase Date 100

Purchase A/c – dr

To B A/c (Trade Payables)

Day 30 – Settlement Date

B A/c – dr (Trade Payables will reduce)

To Cash / Bank

Structure of Accounting

2. Ledger Posting

Purchase Ledger

+100

B A/c (Trade Payables) Ledger

+100 -100

Cash / Bank Ledger

-100

Net Figure - 0

Structure of Accounting

Profit & Loss Statement	Created for a particular time period	
Incomes – Credit	Sold Goods (Sales) – Cr	Sales Returned – **Dr** (Exp)
Expenses – Debit		
Profits – Credit / Debit		

Balance Sheet	As on a Particular Date	
Equity – Credit		
Liabilities – Credit		
Assets – Rs. 10,000 Dr	Assets Increase – 2000 DR	Depreciation – 5000 CR
Cl Bal of Assets – 7000 Dr		

Buying a Machinery

JE: Machinery – dr
To Cash (Asset)

Trial Balance

- The statement of profit or loss and statement of financial position are prepared from the underlying bookkeeping records. All transactions are recorded during the year and are entered into a double entry bookkeeping system. This generates a table called a trial balance.

Component in Trial Balance

	£000	Exps / Income / Asset / Liability / Equity (Dr / Cr)
Administrative expenses	150	Exp (Dr)
Advertising	70	Exp (Dr)
Cash at bank	10	Asset (Dr)
Trade payables (Creditors)	45	Liability (Cr)
Trade receivables (Debtors)	115	Asset (Dr)
Directors' remuneration	75	Exp (Dr)
Interest on long-term loans	4	Exp (Dr)
Inventory at 31 March 20X0	130	----------
Investment income	18	Income (Cr)
Investments (short-term)	350	Asset (Dr)
Long-term loans	200	Liability (Cr)
Ordinary dividend paid	30	Expense (Dr)
Ordinary share capital, issued and fully paid	700	Equity (Cr)
Plant and machinery – cost	210	Asset (Dr)
Plant and machinery – depreciation at 31 March 20X0	95	Asset (Cr) – reducing your Asset Value
Premises – cost	950	Asset (Dr)
Premises – depreciation at 31 March 20X0	20	Dep / Asset (Cr) – reducing your Asset Value
Purchases	600	Expense (Dr)
Retained earnings at 31 March 20X0	236	~~Asset (Dr)~~ ~~Income (Cr)~~ Equity (Cr)
Sales (Revenue)	1,760	Income (Cr)
Shareholder reserves	50	Equity (Cr)
Wages and salaries – administrative staff	160	Expense (Dr)
Wages and salaries – manufacturing staff	190	Expense (Dr)
Wages and salaries – sales staff	80	Expense (Dr)

Debit = Credit

Debit = +ve values
Credit = -ve values
Debit + Credit = 0

Additional information:

1. Inventory at 31 March 20X1 was valued at £185,000.
2. Provision is to be made for administrative expenses owing at 31 March 20X1 amounting to £12,000.
3. Premises are to be depreciated at the rate of 2% on cost, and plant and machinery at 25% reducing balance.
4. Advertising paid in advance at the end of the year amounted to £9,000.
5. Corporation tax based on the year's profit is estimated at £15,000.
6. The company's ordinary share capital is 700,000 £1 ordinary shares, fully paid.

Cost of Goods Sold

P&L Statement	Qty	Rate	Amount
Sales	25	40	Rs. 1000
Cost of Goods Sold	5	20	Rs. 700
	20	30	
Profit / Loss			**Rs. 300**

Opening Stock (Start of the FY) **5 units @ Rs 20 = Rs. 100**

(+) Purchases **45 units @ Rs 30 = Rs. 1350**

(-) Closing Stock (End of the FY) **25 units @ Rs 30 = Rs. 750**

Cost of Goods Sold (Matching Concept) ***Rs. 700***

Question Set 1

12.1 The following information has been extracted from the accounting records of Aztec plc:

Trial Balance at 31 July 20X5

		£000	*£000s*
Administration costs	G&A Exp	800	
Marketing expenses	S&D Exp	500	
Bank	Current Liability		700
Trade receivables (debtors)	Assets	1,300	
Factory – cost	Asset	23,300	
Factory – depreciation	**(-) Asset**		1,800
Factory running costs	Expense	1,200	
Directors' remuneration	Expense	600	
Interim dividend paid	Distribution	100	
Interest	Expense	1,680	
Long-term loans	Long Term Liab		12,000
Machinery – cost	Asset	15,000	
Machinery – depreciation	**(-) Asset**		8,000
Manufacturing wages	Expense	1,700	
Purchases	Expense	1,600	
Retained earnings at 31 July 20X4	Equity		980
Sales	Income		13,000
Sales salaries	Expense	1,600	
Share capital (50p shares)	Equity		13,000
Inventories at 31 July 20X4	**Op Stock (Not an Asset)**	700	
Trade payables (creditors)	Liability		600
		50,080	*50,080*

Notes: Tax Expense – Dr (Exp); Provision for Tax – Cr (liab)

(a) The corporation tax charge for the year has been estimated at £300,000.

(b) At the year-end the directors had the factory professionally revalued. The valuer's report estimates the value of the property at £25,000,000. This value is to be incorporated into the statement of financial position.

(c) Depreciation for the year is charged at 1% of cost for the factory and at 20% of the reducing balance for the machinery.

(d) Inventories at 31 July 20X5 were valued at £550,000.

(e) After the year-end, an invoice for £100,000 was received for marketing costs incurred in the period 1 April – 31 July 20X5.

Prepare Aztec plc's statement of comprehensive income for the year ended 31 July 20X5 and the statement of financial position as at that date. [20]

Marketing Expense – Dr (Exp); Marketing Exps Payable – Cr (liab)

Question Set 2

ASSETS			
Non-current assets			
	Cost	300,000	
less	depreciation	(90,000)	
			210,000
Current assets			
	Inventories		62,500
	Trade receivables		10,650
	Cash		12,825
			85,975
Total assets			295,975
EQUITY AND LIABILITIES			
	Ordinary share capital		100,000
	Reserves		39,350
Total equity			139,350
Non-current liabilities			
	12% Debenture loan		150,000
Current liabilities			
	Trade payables		6,625
Total liabilities			156,625
Total equity and liabilities			295,975

During 20X1 the following items appeared in the company's accounting records:

	£
Sales	190,750
Increase in cash	3,950
Increase in inventories	9,250
Increase in trade payables	2,250
Decrease in trade receivables	1,700
Rent of factory	30,000
Costs of raw materials	45,000
Salaries and wages	55,000
Miscellaneous expenses	2,750
Purchase of non-current assets	40,000

The non-current assets are being depreciated on a straight line basis over a period of ten years including the year of purchase.

During 20X1 interest was paid on the debenture stock but no dividends were paid on the ordinary share capital.

Assume the rate of corporation tax is 20%, but the company did not pay its tax during 20X1.

Prepare the statement of profit or loss for 20X1 and the statement of financial position as at 31 December 20X1. [20]

Thank You