

UNIT 10: FINANCIAL ACCOUNTING

**LO2: PREPARE FINAL ACCOUNTS FOR SOLE TRADERS, PARTNERSHIPS AND LIMITED COMPANIES
IN ACCORDANCE WITH APPROPRIATE PRINCIPLES, CONVENTIONS AND STANDARDS**

UNIT 10: FINANCIAL ACCOUNTING

**P4: PRODUCE FINAL ACCOUNTS FOR A RANGE OF EXAMPLES THAT INCLUDE SOLE-
TRADERS,PARTNERSHIPS,OR LIMITED COMPANIES**

FINAL ACCOUNTS FOR SOLE TRADERS

- › The final accounts of a sole trader business include the Income Statement (trading and Profit & loss account) and the balance sheet. Remember that your trial balance is the summary of the balances in all your accounts. Some of these balances (those from your nominal accounts) affect the profit and are transferred to the Income statement; the others (real and personal accounts) are transferred to your balance sheet. The Income Statement and the Balance Sheet are prepared at the end of each financial period to record how well the business operated during that financial period.

FINAL ACCOUNTS FOR SOLE TRADERS

- **Income Statement**

One of the most important financial statements of any business is the Income Statement. It is used to determine the following:

1. how profitable a business is being run; and
2. comparing the results received with the results expected.

FINAL ACCOUNTS FOR SOLE TRADERS

- The Income Statement can be divided into two sections the trading account and the Profit & loss account. The gross profit which is the amount of profit made before the expenses are deducted is calculated in the trading account. The purpose of the trading account is to determine the gross profit made from sales.
- Therefore the accounts that are directly related to buying and selling (trading) will be transferred to the trading account. The accounts directly related to trading are:
 - Sales
 - Purchase
 - Sales Return
 - Purchases Return
 - Carriage Inwards

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FINAL ACCOUNTS FOR SOLE TRADERS

- Gross profit is calculated as:
- $\text{Gross Profit} = \text{Net Sales} - \text{Cost of Goods Sold (COGS)}$
- Along with gross profit the net sales, cost of goods sold (COGS) and the cost of goods available for sale (COGAFS) is also calculated in the trading account:
- $\text{Net Sales} = \text{Sales} - \text{Sales Return (Return Inwards)}$
- Net sales are the total sales figure after allowances have been made for sales returned to the business.
- $\text{COGS} = \text{Cost of goods available for sale (COGAFS)} - \text{Closing Stock}$
- $\text{COGAFS} = \text{Opening Stock} + (\text{Purchases} - \text{Purchases Return}) + \text{Carriage Inwards}$



FINAL ACCOUNTS FOR SOLE TRADERS

- The net profit of your business is calculated in the Profit & loss account. Net profit is the balance of profit after allowance is made for revenue and expenses. It is calculated as:
- $\text{Net Profit} = \text{Gross profit} + \text{Revenue} - \text{expenses}$
- The revenue and expense charged to the Profit & loss account are those that are not directly related to trading but more to do with the running of the business.
- Some of these accounts are:
 - Rent
 - Telephone
 - Carriage outwards
 - Discount allowed
 - Discount received
 - Commission received
 - Commission paid
 - Salary

FINAL ACCOUNTS FOR SOLE TRADERS

- Balance Sheet
- The other half of our final accounts is the Balance Sheet. The Balance Sheet is a financial statement showing the book values of the assets, liabilities and capital at the end of the financial period. It shows what the business owes and what it owns.
- The assets of the business is divided into two categories and recorded as follows
- **1. Non-Current Assets are assets that:**
 - are expected to be of use in the business for long time;
 - are to be used in the business; and
 - were not bought only for the purpose of resale.
- Non-current assets are recorded in the balance sheet starting with those assets that will in the business the longest down to those that will be kept for a shorter period. Example of non-current assets and the order of record are:
 - Land and Buildings.
 - Fixtures and Fittings.
 - Machinery.
 - Motor Vehicles.

FINAL ACCOUNTS FOR SOLE TRADERS

- **2. Current Assets** are recorded next. These are assets will change within the next twelve months. They are recorded as follows:

Stock (goods bought for resale)

- Debtors.
- Cash at Bank.
- Cash in Hand.

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3. Non-current Liability - Sometime referred to as long term liability are those debts that take more than a year to settle. This includes large loans and mortgages.

4. Current Liability - are debts that will be settled in one year or less. This includes creditors and small loans.

Let's now prepare the final accounts from the trial balance on the below

FINAL ACCOUNTS FOR SOLE TRADERS

MDAR Retailer		
Trial Balance as at 31 December 2011		
	Dr.	Cr.
	\$	\$
Discount Allowed	410	
Discount Received		506
Carriage Inwards	309	
Carriage Outwards	218	
Return Inwards	1,384	
Return Outwards		810
Sales		120,320
Purchases	84,290	
Stock 31 December 2010	30,816	
Motor expenses	4,917	
Repairs to premises	1,383	
Pay	16,184	
Sundry expenses	807	
Rates and insurance	2,896	
Premises at cost	40,000	
Motor Vehicle at cost	11,160	
Provision for depreciation motors as at 31 December 2010		3,860
Debtors	31,640	
Creditors		24,320
Cash at bank	4,956	
Cash in hand	48	
Drawings	8,736	
Capital		50,994
Loan from P. Holland		40,000
Bad Debts	1,314	
Provision for bad debts as at 31 December 2010		658
	241,468	241,468

FINAL ACCOUNTS FOR SOLE TRADERS

The following should be considered on 31 December 2011

- 1) Stock \$36,420
 - a) Expenses owing
 - b) Sundry expenses \$62
- 2) Motor expenses \$33
- 3) prepayments
 - a) Rates \$166
- 4) Provision for bad debts to be reduced to \$580
- 5) Depreciation for motors to be \$2,100 for the year
- 6) Part of the premises were let to a tenant who owed \$250 at 31 December 2011
- 7) Loan interest owing to P. Holland, \$4,000

Prepare the Income Statement and Balance Sheet as at 31 December 2011.

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MDAR Retailer			
Income Statement			
for the year ended 31 December 2011			
	\$	\$	\$
Sales		120,320	
Less Sales Returns		1,384	
Net Sales			118,936
Opening Stock		30,816	
Add Purchases	84,290		
Less Purchases Return	810	83,480	
Add Carriage Inwards		309	
COGAFS		114,605	
Less Closing Stock		36,420	
COGS			78,185
Gross Profit			40,751
Add Revenue			
Discount Received		506	
Rent Receivable		250	
Reduction in Provision for Bad Debts		78	834
			41,585
Less Expenses			
Motor Expenses	4,917		
Add Motor expenses owing	33	4,950	
Pay		16,184	
Carriage Outwards		218	
Discount Allowed		410	
Repairs to Premises		1,383	
Sundry Expenses	807		
Add sundry expenses owing	62	869	
Bad Debts		1,314	
Rates and Insurance	2,896		
Less prepaid rates and insurance	166	2,730	
Loan Interest		4,000	
Depreciation: Motor vehicles		2,100	34,158
Net Profit			7,427

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FINAL ACCOUNTS FOR SOLE TRADERS

MDAR Retailer			
Balance Sheet			
as at 31 December 2011			
Non-Current Assets	\$	\$	\$
Premises at cost			40,000
Motor Vehicle at cost		11,160	
Less Depreciation to date		<u>5,960</u>	<u>5,200</u>
			45,200
Current Assets			
Stock		36,420	
Debtors	31,640		
Less Provision for Bad Debts	<u>580</u>	<u>31,060</u>	
Prepaid Expense		166	
Revenue owing		250	
Cash at bank		4,956	
Cash in hand		<u>48</u>	
		72,900	
Current Liabilities			
Creditors	24,320		
Expenses owing	<u>4,095</u>	<u>28,415</u>	
Working Capital			<u>44,485</u>
			89,685

FINAL ACCOUNTS FOR SOLE TRADERS

Financed by			
Balance as at 1 January 2011			50,994
Add Net Profit			7,427
			58,421
Less Drawings			<u>8,736</u>
			49,685
Non-Current Liability			
Loan from P. Holland			<u>40,000</u>
			<u>89,685</u>

FINAL ACCOUNTS FOR PARTNERSHIP

41.9 Frame and French are in partnership sharing profits and losses in the ratio $\frac{3}{5} : \frac{2}{5}$, respectively. The following is their trial balance as at 30 September 20X5.

	Dr £	Cr £
Buildings (cost £210,000)	160,000	
Fixtures at cost	8,200	
Provision for depreciation: Fixtures		4,200
Debtors	61,400	
Creditors		26,590
Cash at bank	6,130	
Stock at 30 September 20X4	62,740	
Sales		363,111
Purchases	210,000	
Carriage outwards	3,410	
Discounts allowed	620	
Loan interest: P Prince	3,900	
Office expenses	4,760	
Salaries and wages	57,809	
Bad debts	1,632	
Provision for doubtful debts		1,400
Loan from P Prince		65,000
Capitals: Frame		100,000
French		75,000
Current accounts: Frame		4,100
French		1,200
Drawings: Frame	31,800	
French	28,200	
	<u>640,601</u>	<u>640,601</u>

Required:

Prepare a trading and profit and loss appropriation account for the year ended 30 June 20X9, and a balance sheet as at that date.

- Stock, 30 June 20X9, £74,210.
- Expenses to be accrued: Office Expenses £215; Wages £720.
- Depreciate fixtures 15 per cent on reducing balance basis, buildings £5,000.
- Reduce provision for doubtful debts to £1,250.
- Partnership salary: £30,000 to Frame. Not yet entered.
- Interest on drawings: Frame £900; French £600.
- Interest on capital account balances at 5 per cent.

FINAL ACCOUNTS FOR PARTNERSHIP

- › In order to get the reduction in the provision of Bad Debt the method to be used is as follows:
- › There is a provision for bad debt in the trial balance of \$1400 (on the credit side)
- › Therefore: $\$1400 - \$1250 = \$150$

appropriate to give him a salary commensurate with such work, plus a share of the profits.

- (d) *Interest on capital:* Whatever is decided about profit-sharing, it would seem appropriate for each of the partners to be given interest on their capitals before sharing the balance of the profits.

41.9 **Frame and French**
Trading and Profit and Loss Account for the year ended 30 September 20X5

Sales			363,111
Less Cost of goods sold:			
Opening stock	62,740		
Add Purchases	<u>210,000</u>		
	272,740		
Less Closing stock	<u>74,210</u>	198,530	
Gross profit		<u>164,581</u>	
Add Reduction in provision for doubtful debts		150	
		<u>164,731</u>	
Less Salaries and wages (57,809 + 720)	58,529		
Office expenses (4,760 + 215)	4,975		
Carriage outwards	3,410		
Discounts allowed	620		
Bad debts	1,632		
Loan interest	3,900		
Depreciation: Fixtures	600		
Buildings	<u>5,000</u>	<u>5,600</u>	<u>78,666</u>
Net profit			<u>86,065</u>
Add Interest on drawings: Frame		900	
French		<u>600</u>	<u>1,500</u>
			<u>87,565</u>
Less Interest on capitals: Frame	5,000		
French	<u>3,750</u>	8,750	
Salary: Frame		<u>30,000</u>	<u>38,750</u>
Balance of Profits			<u>48,815</u>
Shared: Frame		29,289	
French		<u>19,526</u>	<u>48,815</u>

Balance Sheet as at 30 September 20X5

<i>Fixed assets</i>	<i>Cost</i>	<i>Depn</i>	
Buildings	210,000	55,000	155,000
Fixtures	<u>8,200</u>	<u>4,800</u>	<u>3,400</u>
	<u>218,200</u>	<u>59,800</u>	158,400
<i>Current assets</i>			
Stock		74,210	
Debtors	61,400		
Less Provision for doubtful debts	<u>1,250</u>	60,150	
Bank		<u>6,130</u>	
Less Current liabilities		140,490	
Creditors	26,590		
Expenses owing	<u>935</u>	<u>27,525</u>	
Net current assets			<u>112,965</u>
			<u>271,365</u>
Less Loan from P Prince			<u>65,000</u>
			<u>206,365</u>
<i>Financed by</i>			
Capital Accounts: Frame		100,000	
French		<u>75,000</u>	175,000
Current Accounts	<i>Frame</i>	<i>French</i>	
Balance 1.10.20X4	4,100	1,200	
Add Interest on capital	5,000	3,750	
Salary	30,000	–	
Balance of profit	<u>29,289</u>	<u>19,526</u>	
	68,389	24,476	
Less Drawings	31,800	28,200	
Interest on drawings	<u>900</u>	<u>600</u>	
	<u>35,689</u>	(4,324)	<u>31,365</u>
			<u>206,365</u>

FINAL ACCOUNTS FOR LIMITED COMPANIES

45.10 You are to draw up a trading and profit and loss account for the year ending 31 December 20X2, and a balance sheet as at that date from the following trial balance and details of Partido Ltd:

	<i>Dr</i> £	<i>Cr</i> £
Bank	8,100	
Debtors	321,219	
Creditors		237,516
Stock at 31 December 20X1	290,114	
Buildings at cost	800,000	
Equipment at cost	320,000	
Profit and loss account as at 31 December 20X1		136,204
General reserve		120,000
Foreign exchange reserve		20,000
Authorised and issued share capital		800,000
Purchases	810,613	
Sales		1,606,086
Carriage inwards	2,390	
Carriage outwards	13,410	
Salaries	384,500	
Business rates	14,800	
Office expenses	9,100	
Sundry expenses	2,360	
Provisions for depreciation at 31 December 20X1:		
Buildings		80,000
Equipment		96,000
Directors' remuneration	119,200	
	<u>3,095,806</u>	<u>3,095,806</u>

Notes at 31 December 20X2:

- (i) Stock £317,426.
- (ii) Business rates owing £1,700; Office expenses owing £245.
- (iii) Dividend of 15 per cent proposed.
- (iv) Transfers to reserves: General £70,000; Foreign exchange £30,000.
- (v) Depreciation on cost: Buildings 5 per cent; Equipment 15 per cent.

45.10

Partido Ltd

Trading and Profit and Loss Account for the year ending 31 December 20X2

Sales		1,606,086
Less Cost of goods sold		
Opening stock	290,114	
Add Purchases	810,613	
Add Carriage inwards	<u>2,390</u>	
	1,103,117	
Less Closing stock	<u>317,426</u>	<u>785,691</u>
Gross profit		820,395
Less Expenses		
Salaries	384,500	
Business rates	16,500	
Carriage outwards	13,410	
Office expenses	9,345	
Sundry expenses	2,360	
Depreciation: Buildings	40,000	
Equipment	48,000	
Directors' remuneration	<u>119,200</u>	<u>633,315</u>
Net profit		187,080
Add Unappropriated profits from last year		<u>136,204</u>
		323,284
Less Appropriations		
Proposed dividend	120,000	
General reserve	70,000	
Foreign exchange	<u>30,000</u>	<u>220,000</u>
Unappropriated profits carried to next year		<u>103,284</u>

45.10 (*cont'd*)**Balance Sheet as at 31 December 20X2**

<i>Fixed assets</i>	<i>Cost</i>	<i>Depn</i>	<i>Net</i>
Buildings	800,000	120,000	680,000
Equipment	<u>320,000</u>	<u>144,000</u>	<u>176,000</u>
	<u><u>1,120,000</u></u>	<u><u>264,000</u></u>	<u><u>856,000</u></u>
<i>Current assets</i>			
Stock		317,426	
Debtors		321,219	
Bank		<u>8,100</u>	
		<u>646,745</u>	
<i>Less Current liabilities</i>			
Creditors	237,516		
Expenses owing	1,945		
Proposed dividend	<u>120,000</u>	<u>359,461</u>	
Net current assets			<u><u>287,284</u></u>
			<u><u>1,143,284</u></u>
<i>Financed by:</i>			
Share capital: authorised and issued			800,000
Reserves			
Foreign exchange		50,000	
General reserve		190,000	
Profit and loss		<u>103,284</u>	<u>343,284</u>
			<u><u>1,143,284</u></u>

REFERENCES

- › Trader. (2019). Final Accounts for Sole Trader. Retrieved from <http://poaonline.blogspot.com/p/final-accounts-for-sole-trader.html>
- › Frank Wood's Business Accounting 1. (2019). Retrieved from https://books.google.com/books/about/Frank_Wood_s_Business_Accounting_1.html?id=-DgLEheXqv4C