

UNIT 3 Preparation and Principles of Final Accounts

Recommended Prior Knowledge: Students should be competent in double entry. They should be able to balance off accounts with reasonable accuracy and appreciate why some accounts have a debit balance and some a credit balance.

Context: The main objective of the accounting function is to calculate profit made and to measure growth of a business financially (owner's equity).

Outline: This is a particularly large unit as it involves the preparation of accounts for sole traders, partnerships, clubs and societies and manufacturing businesses. The methods for the preparation of accounts of sole traders, including departmental accounts, partnerships and manufacturing accounts are similar and are probably better studied in that order leaving clubs and societies until later. This unit introduces the concepts of incorporating adjustments in the form of depreciation, doubtful debts and goods the owner of the business takes for his own use. One of the main objectives in preparing Profit and Loss accounts is the emphasis businesses place on calculating Gross Profit margins and Net Profit margins. Clubs and societies are non-profit making organisations and do not prepare Profit and Loss accounts. They are run to further promote the activity of the organisation and consequently prepare Receipts and Payments accounts and Income and Expenditure accounts. They do prepare a Balance Sheet similar to the other organisations but capital is replaced by Accumulated Fund. (Profit and Loss Account)

| | Learning Outcomes | Suggested Teaching Activities | Online Resources | Other resources |
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| 6.1 | <p>To prepare simple Trading and Profit and Loss Accounts and Balance Sheets of a sole trader in horizontal or vertical form.</p> <p>To understand and interpret final accounts when presented in vertical or horizontal forms</p> <ul style="list-style-type: none"> to understand final accounts when presented in vertical form. to prepare simple columnar Trading and Profit and Loss Accounts when dealing with a business which has two departments. | <ul style="list-style-type: none"> The concept of Cost of Goods Sold is often quite hard to grasp – a simple way is to draw a warehouse with Opening Stock adding Purchases to it and then deducting Closing Stock. Some simple prepared cards with amounts on (including COGS) can be used as a ‘fun’ session. For departmental accounts draw a building indicating 2 floors (Dept A & B) and illustrate how overheads would be allocated to calculate how profitable each department is. Good practise is to put a tick by each entry on the Trial Balance to ensure all information is used. | <p>www.bized.ac.uk/stafsup/pizza/stuone.htm</p> <p>www.bbc.uk/gcsebitesize/business/finance/accountsrev2.shtml</p> | <ul style="list-style-type: none"> Individual wipe clean boards as explained previously. Students do not like making mistakes and this method offers them the opportunity to ‘get it right ‘before writing a problem out ‘in good’. <i>IGCSE Accounting</i> chapters 7,9,10,11,19 and 20 <i>Business Accounts</i> chapter 12 Frank Wood chapter 8 0452/03 June 2003 Q2 |

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| | <p>To make adjustments for provision for depreciation: straight line and reducing balance methods.</p> <ul style="list-style-type: none"> • to make adjustments for depreciation by the revaluation method <p>To make adjustments for accruals and prepayments.</p> <ul style="list-style-type: none"> • to make provision for doubtful debts <p>To make adjustments for bad debts</p> <ul style="list-style-type: none"> • to make adjustments for goods taken for own use | <ul style="list-style-type: none"> • Adjustments need 2 ticks (one for entry to the Profit and Loss account and one for adjustment on the Balance Sheet) | | <ul style="list-style-type: none"> • 0452/01 June 2003 Q30 • <i>Business Accounts</i> chapter 14 • Frank Wood chapters 26/27 • <i>Business Accounts</i> chapter 15 • Frank Wood chapter 28 • <i>Business Accounts</i> chapter 13 • Frank Wood chapter 29 • 0452/03 June 2003 Q4(b) |
| 6.2 | <p>Partnership</p> <p>To prepare simple Trading and Profit and Loss Accounts, appropriation Accounts and Balance Sheets.</p> <ul style="list-style-type: none"> • to draw up partners' current and capital accounts in ledger account form • to prepare the accounting entries for goodwill on admission of a new partner <p>To show the treatment of the division of the balance of profit or loss, interest on capital, partners' salaries, interest on loans and on drawings.</p> <p>To make the other adjustments as detailed under 6.1</p> | <ul style="list-style-type: none"> • As an introduction to Partnerships a general debate could take place on the advantages/disadvantages of a partnership. • Follow this debate by asking students what they would expect if they were given the opportunity join/form a partnership. • Advantages of fixed and fluctuating capital a/cs • Goodwill- the concept should be explained thoroughly: why it arises, how partners benefit etc. • Goodwill and the concept of prudence- treatment if it is shown and if it is not in the books of accounts. | www.bized.ac.uk/stafsup/options/accounting/work07.htm | <ul style="list-style-type: none"> • A flip chart for advantages/disadvantages • <i>IGCSE Accounting</i> chapter 17 • <i>Business Accounts</i> chapter 23 • Frank Wood chapter 36 • 0452/03 November 2002 Q4 |
| 6.3 | <p>Incomplete Records</p> | <ul style="list-style-type: none"> • Revise accounting equation • Teach equation: Closing | | <ul style="list-style-type: none"> • <i>IGCSE Accounting</i> chapter 15 |

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| | <p>To prepare opening and closing statements of affairs.</p> <p>To calculate net profit or loss from changes in Capital over time.</p> <p>To calculate sales, purchases, gross profit, debtors and creditors.</p> <p>To prepare Trading and Profit and Loss accounts and Balance Sheets.</p> | <p>capital= Opening capital capital + profit - drawings</p> <ul style="list-style-type: none"> Number cards with figures for assets/liabilities and ask students to prepare Balance Sheet. Eliminate some numbers and ask students to complete the gaps. Probably a good idea to have more than one set of cards depending on the size of the group. It can be run as a competition between groups. The game could also be used to calculate closing debtors/creditors or purchases/sales for the year. | | <ul style="list-style-type: none"> 0452/01 June 2003 Q33/34 0452/02 June 2003 Q5 <i>Business Accounts</i> chapter 21 Frank Wood chapter 33 0452/01 June 2003 Q32 |
| 6.4 | <p>To apply the following techniques to arrive at missing figures – mark-up, margin, and stock turnover.</p> <ul style="list-style-type: none"> Clubs and Societies: <ul style="list-style-type: none"> to distinguish between Accounts of Profit making businesses and non-profit making businesses. To prepare accounts for the following: <ul style="list-style-type: none"> receipts and payments, revenue generating activities e.g. refreshments, subscriptions. To prepare Income and Expenditure Accounts and Balance Sheets. To calculate the Accumulated Fund. To make other adjustments as detailed under 6.1 as appropriate. | <ul style="list-style-type: none"> Subscriptions prepaid / overdue can cause problems – understanding that a member who has paid subscriptions in advance is a liability to the organisation and a member who is overdue with his subscriptions is a debtor. Explanations should take the form of ‘what would actually happen to these subscriptions prepaid / overdue if the club were to close down’. Students should be introduced to the concept of costing goods to get | | <ul style="list-style-type: none"> Access to local societies accounts. Golf clubs are usually a good source. National Trust Accounts in the U.K. 0452/03 November 2002 Q3 0452/03 June 2003 Q5 <i>Business Accounts</i> chapter 22 Frank Wood chapter 34 <i>Business Accounts</i> chapter 26 |

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| | <ul style="list-style-type: none"> • To prepare Manufacturing Accounts drawn up to show cost of materials consumed, prime cost and production cost. • To prepare trading and Profit and Loss Accounts of a manufacturing business. | <p>them into saleable condition as opposed to the total costing of goods – with overheads included (the difference between direct costs and overheads)</p> | | <ul style="list-style-type: none"> • Frank Wood chapter 35 • IGCSE Ch 18 |
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