# AS Level 9706

## Formats & Important Concepts

## by Sir ARD

# Books of Prime Entry & Ledgers

| Type of Transaction | Source Document |
|---|---|
| | |
| Sale of Goods / Services on Credit | Sales Invoice |
| Purchase of Goods / Services on Credit | Purchase Invoice |
| Sale / Purchase of Goods on Cash | Receipt |
| Returned Goods by Customer | Credit Note (Issued to Customer) |
| Returned Goods to Supplier | Credit Note (Recevied from Supplier) |
| Recording / Payment of Wages / Salaries | Pay Slip / Wage Sheet |
| Payment to Supplier or any other Expense by Cheque | Cheque Counterfoil |
| Sent Summary of Transactions to Customer | Statement of Account |
| Summary of Transactions received from Bank | Bank Statement |

**Books of Prime / original entry** are the books in which we first record transactions through source documents

| Type of Transaction | Source Document | Book of Original Entry |
|---|---|---|
| | | |
| Sale of Goods / Services on Credit | Sales Invoice | Sales Journal |
| Purchase of Goods / Services on Credit | Purchase Invoice | Purchase Journal |
| Returned Goods from Customer | Credit Notes Issued | Return Inwards Journal |
| Returned Goods to Supplier | Credit Notes Received | Return Outwards Journal |
| Receipt / Payment by Cash or Cheque<br>OR<br>Sales / Purchase by Cash or Cheque | Receipt / Cheque Counterfoil | Cash Book |
| All Other non-routine Transactions<br><br>**E.g.**<br>Bought / Sold NCA on Credit<br>Correction of Errors<br>Drawing of Goods (Stock)<br>Expense Incurred on credit<br>Bad Debt / Provision for Doubtful Debt<br>Depreciation etc. | Invoice etc. | The Journal<br>(General Journal) |

**Nominal Accounts**
They contain All Income Statement Items eg Sales, Purchase, Return Inwards, Return Outwards, Income and Expense etc. These are also known as temporary Accounts.

**Real Accounts**
They contain all statement of financial position items eg Assets, Liablities and Capital etc. Real Accounts are also known as permanent Accounts.

**Ledger:** A Ledger is a collection of Accounts. It is a book containing Accounts

<u>**Types of ledgers**</u>

There are three types of ledgers.

• **Sales Ledger**. This is for customers' / Debtor's personal accounts.

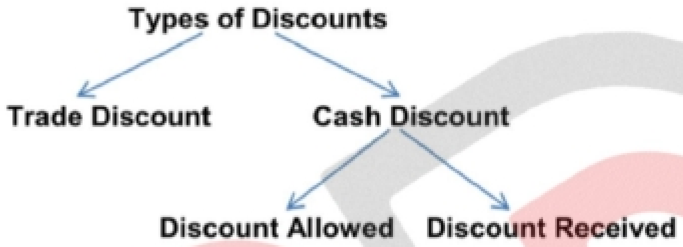
• **Purchases Ledger**. This is for suppliers' / Creditor's personal accounts.

• **General Ledger**. It contains all accounts (other than debtors / creditors) eg. Sales, Purchase, Return Inwards, Return Outwards, Cash, Bank, Assets, Liabilities, Income, Expense, Capital and Drawing etc.

**Effect on Capital**

Capital of the business is affected by following transactions.

| Transaction | Effect of Capital |
|---|---|
| | |
| Introduce Additional Capital | Increase |
| Drawings in Cash / Goods form | Decrease |
| Profit / Gain / Income | Increase |
| Loss / Expense | Decrease |



# Irrecoverable Debts & Provision for Doubtful Debts

**Double Entry**

| | | |
|---|---|---|
| 1) Irrecoverable Debts | XXX | |
| Trade Receivable (Debtor) | | XXX |
| 2) Income Statement | XXX | |
| Irrecoverable Debts | | XXX |

**Creating / increasing the provision**

| | | |
|---|---|---|
| Income statement (Exp) | XXX | |
| Provision for doubtful debts | | XXX |

**Reducing the provision**

| | | |
|---|---|---|
| Provision for doubtful debts | XXX | |
| income statement (Income) | | XXX |

**<u>Bad Debts Recovered</u>**

**Double Entry**

| | | |
|---|---|---|
| 1) Trade Receivable | XXX | |
| Bad Debts Recovered (Income) | | XXX |
| 2) Bad Debts Recovered (Income) | XXX | |
| Income Statement | | XXX |

## Irrecoverable Debts

| | | | |
|---|---|---|---|
| **2015** | $ | **2015** | **$** |
| Mr. A | XX | | |
| Mr. B | XX | | |
| | XXX | Income Statement | XXX |
| **2016** | XX | **2016** | |
| Mr. C | XX | | |
| Mr. D | XXX | Income Statement | XXX |

### Bad Debts Recovered Account (Income)

| | | | |
|---|---|---|---|
| **2015** | $ | **2015** | $ |
| | | Mr. A | XX |
| | | Mr. B | XX |
| Income Statement | XXX | | XXX |

### Provision for Doubtful Debts Account

| | | | |
|---|---|---|---|
| | $ | | **$** |
| | | Balance b/d | XX |
| | | Income Statement (Increase / Exp) | XX |
| Balance c/d | **XXX** | | **XXX** |
| | | Balance b/d | XXX |
| Income Statement (Reduce/ Income) | XX | | |
| Balance c/d | **XXX** | | **XXX** |
| | | Balance b/d | XX |

## INCOME STATEMENT EXTRACT

| | | |
|---|---|---|
| Gross Profit | | XXX |
| Add: Other Income | | |
| Decrease in allowance for doubtful debts | XXX | |
| Bad Debts Recovered | XXX | |
| Decrease in allowance for cash discount | XXX | XXX |
| | | XXX |
| Less: Expenses: | | |
| Bad debts expense | XXX | |
| Increase in allowance for doubtful debts | XXX | |
| Increase in allowance for cash discount | XXX | (XXX) |
| Profit for the year | | XXX |

## STATEMENT OF FINANCIAL POISITON EXTRACT

| | | |
|---|---|---|
| Current Assets | | |
| Trade receivable | | XXX |
| Less: Allowance for doubtful debts | XXX | |
| Allowance for cash discount | XXX | XXX |
| Net Receivables | | XXX |

**Accounting Principle Applicable**

- Matching (Accruals) Concept
- Prudence Concept
- Consistency Concept

# Depreciation

**METHODS OF DEPRECIATION**

**1) Straight Line / Cost Method.**

Straight line method normally used for

1) Furniture
2) Fixtures & Fittings
3) Buildings

$$\textbf{Straight line method} = \frac{\textbf{Cost - Scrap value}}{\textbf{Useful life}}$$

OR

**(Cost - Scrap Value) X Rate%**

Cost = Historical cost / Original cost / Purchase price / List price

Scrap value / salvage value / Residual Value

Useful life / estimated life / Life

**2) Reducing Balance Method / Diminishing Balance Method:**

Reducing Balance normally used for Technological Assets:

1) Machine
2) Equipment / Computers
3) Motor vehicles

Under reducing balance method amount of depreciation decreases year by year.

**Reducing balance method = (Cost – Accumulated depreciation) x Rate%**

Accumulated depreciation = Total depreciation / Provision for depreciation.

**3) Revaluation Method**

Revaluation method normally used for low cost items such as:

I) Loose tools

2) Laboratory items

3) Crockery

Depreciation = Opening Value + Addition - Disposal - Closing Value

**Policies for Charging Depreciation:**

1) Charge full year's depreciation in the year of purchase of asset but no depreciation in the year of disposal **(Use when required in question or when dates are not given and no other information is given)**

2) Charge depreciation on Pro-rata / Time proportion basis
**(Use when required in question or when dates are given in question)**

**DOUBLE ENTRY FOR DEPRECIATION**

| | | |
|---|---|---|
| Income statement | xxx | |
| Provision for depreciation | | xxx |

(To record the depreciation expenses for the year)

**DISPOSAL ENTRIES**

1) **To write off cost of an asset**

| | | |
|---|---|---|
| Disposal account | xxx | |
| Machine/Vehicle/Equipment | | xxx |

(To write off an assets account on its disposal)

2. **To write off total depreciation charged from the date of purchase to date of sale.**

| | | |
|---|---|---|
| Accumulated Dep / Provision for depreciation | xxx | |
| Disposal Account | | xxx |

(To write off the total deprecation of the asset sold)

3. **To record the cash or cheque receipt on disposal**

| | | |
|---|---|---|
| Cash/Bank/Debtor | xxx | |
| Disposal account | | xxx |

(To record the cash or cheque received on sale)

4. **To record the Gain or loss on disposal Gain Entry**

| | | |
|---|---|---|
| Disposal Account | xxx | |
| Income Statement (Gain) | | xxx |

(To record the gain on disposal)

**Loss Entry**

| | | |
|---|---|---|
| Income Statement (Loss) | xxx | |
| Disposal Account | | xxx |

(To record the loss on Disposal)

**Asset Account (Equipment / Machine / Vehicle / Building)**

| | | | |
|---|---|---|---|
| Opening balance b/d | xxx | Disposal | xxx |
| Bank / Liability (Addition) | xxx | Closing balance c/d | xxx |
| | **xxx** | | **xxx** |
| Opening balance b/d | xxx | | |

**Provision for Dep / Accumulated Dep (Machine / Vehicle / Building)**

| | | | |
|---|---|---|---|
| Disposal | xxx | Opening balance b/d | xxx |
| Closing balance c/d | xxx | Income Statement (Current Year Depreciation) | xxx |
| | **xxx** | | **xxx** |
| | | Opening balance b/d | xxx |

**Disposal Account**

| | | | |
|---|---|---|---|
| (Machine / Vehicle / Building) | xxx | Provision for Dep / AccDep | xxx |
| Income Statement (Gain) | xxx | Bank / Cash / Debtor | xxx |
| | **xxx** | Income Statement (Loss) | xxx |
| | | | **xxx** |

**Income Statement (Extract)**

| | | |
|---|---|---|
| Gross Profit | | XXX |
| Add: Other Income | | |
| Gain on Disposal of Asset | | XX |
| | | XXX |
| Less: Expenses | | |
| Depreciation Building | XXX | |
| Depreciation Equipment | XXX | |
| Loss on Disposal of Asset | XXX | (XXX) |
| Net Profit | | **XXX** |

**Statement of Financial Position Extract**

| Non Current Assets | Cost | Accumulated Dep | NBV |
|---|---|---|---|
| Buildings | XXX | (XX) | XX |
| Equipment | XXX | (XX) | XX |
| Motor Vehicles | XXX | (XX) | XX |
| | | | |
| Total Non Current Assets | | | **XXX** |

## Schedule of Non-Current Assets

(To be included in Company Financial Statements – Notes to the Accounts)

| | **Building** | **Motor Vehicles** | **Equipment** | **Total** |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Cost** | | | | |
| Balance at 1.Jan.2019 | XXX | XXX | XXX | XXXX |
| Addition | - | XX | XX | XX |
| Disposal | - | (X) | - | (X) |
| Balance at 31.Dec.2019 | XXX | XXX | XXX | XXXX |
| | | | | |
| | | | | |
| **Depreciation** | | | | |
| Balance at 1.Jan.2019 | XX | XX | XX | XXX |
| Charge for the year | X | X | X | XX |
| Disposal | - | (X) | - | (X) |
| Balance at 31.Dec.2019 | XX | XX | XX | XX |
| | | | | |
| | | | | |
| **Net Book Value** | | | | |
| As at 31.Dec.2019 | XX | XX | XX | XX |
| As at 31.Dec.2018 | XX | XX | XX | XX |

**Accounting Principle Applicable**

- Matching (Accruals) Concept
- Prudence Concept
- Consistency Concept
- Going Concern Concept

# Accruals & Prepayments

**Accrued Expenses:** Expenses Incurred but not paid for **(Current Liability)**

**Prepaid Expenses:** Expenses paid for but not Incurred **(Current Asset)**

**Accrued Income:** Income Earned but not received yet **(Current Asset)**

**Prepaid Income:** Income Received but not earned yet **(Current Liability)**

**Expense Account**

| | $ | | $ |
|---|---|---|---|
| **P** Balance b/d | XXX | **A** Balance b/d | XXX |
| Bank / Cash | XXX | **Income Statement** | **XXX** |
| **A** Balance c/d | XXX | **P** Balance c/d | XXX |
| | XXX | | XXX |

**Income Account**

| | $ | | $ |
|---|---|---|---|
| **A** Balance b/d | XXX | **P** Balance b/d | XXX |
| **Income Statement** | **XXX** | Bank / Cash | XXX |
| **P** Balance c/d | XXX | **A** Balance c/d | XXX |
| | XXX | | XXX |

**Income Statement Extract for the year ended 31 Dec 2022**

| | $ | $ |
|---|---|---|
| Gross Profit | | XX |
| **Add: Other Income** | | |
| Rent Receivable | XX | |
| Commission Receivable | XX | XX |
| | | |
| **Less: Expenses** | | |
| Rent Payable | XX | |
| Wages Paid | XX | XX |
| | | |

**Statement of Financial Position Extract as at 31 Dec 2022**

| | $ | $ |
|---|---|---|
| Current Assets | | |
| **Other Receivables** | | |
| Rent Prepaid | XX | |
| Commission Accrued | XX | XX |
| | | |
| Current Liabilities | | |
| **Other Payables** | | |
| Rent Owing | XX | |
| Commission Prepaid | XX | XX |
| | | |

**Accounting Principle Applicable**

- Matching (Accruals) Concept

ARD Traders
Income Statement for the year ended 31 Dec, 2017

| | $ | $ |
|---|---|---|
| Sales | XXX | |
| Less: Return inward / Sales Returns | (XXX) | **XXX** |
| | | |
| **Less: COST OF SALES** | | |
| Opening Inventory | XXX | |
| Add: Purchases | XXX | |
| Add: Carriage Inwards | XX | |
| Add: Custom duty | XX | |
| Less: Return outward / Purchases return | (XX) | |
| Less: Closing Inventory | (XXX) | |
| **Cost of Sales** | | **(XXX)** |
| **Gross Profit** | | **XXX** |
| **Add: OTHER INCOME** | | |
| Discount received | XXX | |
| Commission received | XXX | |
| Reduction in Provision for Doubtful Debts | XXX | |
| Gain on Disposal of NCA | XXX | **XXX** |
| | | |
| **Less: EXPENSES** | | |
| Salaries and wages | XXX | |
| Rent expenses | XXX | |
| Insurance expense | XXX | |
| Heating and Lighting | XXX | |
| Sundry expenses | XXX | |
| Depreciation expense | XXX | |
| Increase in Provision for Doubtful debts | XXX | |
| Discount allowed | XXX | |
| Carriage outward / Carriage on sales | XXX | |
| Bad debt expense | XXX | |
| Financial cost (interest expense) | XXX | |
| Repair and maintenance | XXX | **(XXX)** |
| | | |
| **Profit / (Loss) for the year** | | **XX/(XX)** |
| | | |

ARD Traders
Statement of Financial Position as at 31 December 2017

| **Assets** | $ | $ | $ |
|---|---|---|---|
| **Non-Current Assets** | **Cost** | **Acc Dep** | **NBV** |
| Land | XXX | - | XX |
| Building | XXX | (XX) | XX |
| Equipment | XXX | (XX) | XX |
| | | | XXX |
| | | | |
| **Current Assets** | | | |
| Inventory | | XXX | |
| Trade Receivables / Debtors | XXX | | |
| Less: Provision for doubtful debts | (XXX) | XXX | |
| Prepaid Expense | | XXX | |
| Accrued Income | | XXX | |
| Bank | | XXX | |
| Cash | | XXX | XXX |
| | | | |
| **Total Assets** | | | **XXX** |
| | | | |
| Capital and Liabilities | | | |
| | | | |
| Opening Capital | | XXX | |
| Add Profit for the year / Less (Loss) for the year | | XX/(XX) | |
| Less: Drawings | | (XXX) | XXX |
| | | | |
| **Non Current Liablities** | | | |
| 10% Bank Loan 2020 | | | XXX |
| | | | |
| **Current Liabilities** | | | |
| Trade payables / Creditors | | XXX | |
| Bank O/D (Over Draft) | | XXX | |
| Accrued Expenses | | XXX | |
| Prepaid Income | | XXX | XXX |
| | | | |
| **Total Capital and Liabilities** | | | **XXX** |

**Financial Statements for Service Sector**

## The City School

**Income Statement** for the year ended 31 Dec 2017

| | | |
|---|---|---|
| **Income** | | |
| Fees Income **(w)** | XXX | |
| Gain on disposal of Asset | XXX | |
| Photo Copy Income | XXX | |
| Income from Canteen | XXX | |
| Rent from Auditoriums | XXX | **XXX** |
| | | |
| | | |
| **Less: Expenditure** | | |
| Staff Salaries | XXX | |
| Loss on disposal of asset | XXX | |
| Depreciation of Furniture and Fixtures | XXX | |
| Interest on loan | XXX | |
| Administration Expenses | XXX | |
| Maintenance | XXX | |
| Utilities | XXX | **(XXX)** |
| | | |
| | | |
| **Profit / (Loss) for the year** | | **XX / (XX)** |

**Fees Income Account**

| | $ | | $ |
|---|---|---|---|
| **A** Balance b/d | XXX | **P** Balance b/d | XXX |
| **Income Statement** | **XXX** | Bank / Cash | XXX |
| | | Bad Debts | XXX |
| **P** Balance c/d | XXX | **A** Balance c/d | XXX |
| | XXX | | XXX |

# Departmental Accounts

**Apportionment formula**

$$\frac{\text{Departmental Base}}{\text{Total Base}} \times \text{Total Overhead}$$

| **Expense** | **Basis of Apportionment** |
|---|---|
| | |
| Selling / General Exp / Advertising / Distribution / Carriage Outward | Sales Value |
| Rent and Rates / Other Building Related Expenses | Floor Area |
| Canteen / Employee Related Costs | No of Employees / No of Hrs |
| Power / Heating and Lighting / Gas | Metered Units / Floor Area |
| Insurance | Value of Assets Insured |
| Depreciation | Cost / Book Value of NCA |

ARD Cash n Carry
**Departmental Income Statement**
for the year ended 31 Dec 2015

| | **Food Department** | | **Cosmetics Department** | |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Sales** | | **XXX** | | **XXX** |
| | | | | |
| **Less: Cost of Sales** | | | | |
| Opening Inventory | XX | | XX | |
| Add: Purchases | XX | | XX | |
| Less: Closing Inventory | (XX) | | (XX) | |
| **Cost of Sales** | | **(XXX)** | | **(XXX)** |
| **Gross Profit** | | **XXX** | | **XXX** |
| | | | | |
| **Less: Expenses** | | | | |
| Rent | X | | X | |
| Electricity | X | | X | |
| Heating &Lightning | X | | X | |
| Staff Wages | X | | X | |
| Miscellaneous | X | **(XX)** | X | **(XX)** |
| | | | | |
| **Net Profit / (Loss)** | | **XXX** | | **(XXX)** |

**Departmental Balance Sheet**

Departmental Balance sheet is normally prepared in similar manner except closing inventories for each department are shown separately.

# Bank Reconciliation

**Updated / Revised / Amended Cash Book**

| | | | | |
|---|---|---|---|---|
| Balance b/d | XXX | OR | Balance b/d (Overdraft) | XXX |
| Trader's Credit / Transfer | XXX | | Direct Debit | XXX |
| Interest Credited | XXX | | Standing Order | XXX |
| Dividend Received | XXX | | Bank Charges | XXX |
| Debtor Paid Directly | XXX | | Interest Charged | XXX |
| | | OR | Dishonored / Unpaid Cheque | XXX |
| Balance c/d (Overdraft) | XXX | | Balance c/d | XXX |
| | **XXX** | | | **XXX** |
| Balance b/d | XXX | | Balance b/d (Overdraft) | XXX |

## Bank Reconciliation Statement

| | |
|---|---|
| Bal as per Updated Cash book | XXX |
| Add: Un-Presented cheques | XXX |
| Less: Un-Credited lodgments | (XXX) |
| | |
| Balance as per bank statement | XXX |

## Alternate Format

| | $ |
|---|---|
| Balance as per **Bank Statement** | XXX |
| **Less:** Unpresented Cheques | (XX) |
| **Add:** Uncredited Lodgments | XX |
| | |
| Balance as per **Updated Bank Account** | XXX |

## Sources of Information for control accounts

### Sales Ledger Control Account

| Item | Source of Information |
| --- | --- |
| | |
| **1 Opening Trade Receivables** | **List of Trade Receivables' balances** drawn up at the end of the previous period |
| **2 Credit sales** | Total from the **Sales Day Book** |
| **3 Returns inwards** | Total of the **Returns Inwards Day Book** |
| **4 Cheques received** | **Cash Book**: bank column on received side. List extracted or the total of a special column for cheques which has been included in the Cash Book |
| **5 Cash received** | **Cash Book**: cash column on received side. List extracted or the total of a special column for cash which has been included in the Cash Book |
| **6 Discounts allowed** | From Discount Allowed column in **3 Column Cash book** |
| **7 Closing Trade Receivables** | **List of Trade Receivables' balances** drawn up at the end of the period |

### Purchase Ledger Control Account

| Item | Source of Information |
| --- | --- |
| | |
| **1 Opening Trade Payables** | **List of creditor's balances** drawn up at the end of the previous period |
| **2 Credit Purchases** | Total from the **Purchase Day Book** |
| **3 Returns Outwards** | Total of the **Returns Outwards Day Book** |
| **4 Cheques Paid** | **Cash Book**: bank column on payment side. List extracted or the total of a special column for cheques which has been included in the Cash Book |
| **5 Cash Paid** | **Cash Book**: cash column on payment side. List extracted or the total of a special column for cash which has been included in the Cash Book |
| **6 Discounts received** | From Discount received column in **3 Column Cash book** |
| **7 Closing Trade Payables** | **List of creditor's balances** drawn up at the end of the period |

**Total debtors account or Sales Ledger Control Account (SLCA)**

| | | | | |
|---|---|---|---|---|
| **balance b/d** | xxx | AND /OR | **balance b/d (Cr)** | xxx |
| Sales | xxx | | Cash / Bank (Payment received) | xxx |
| Dishonored/Unpaid/Bounced Chq | xxx | | Discount Allowed | xxx |
| Interest Charged to debtors | xxx | | Return inward / Sales return | xxx |
| Refunds to Debtors (Bank) | xxx | | Bad Debts | xxx |
| | | | Contra - **PLCA** | xxx |
| **balance c/d (Cr)** | xxx | AND /OR | **balance c/d** | xxx |
| Totals | **xxx** | | Totals | **xxx** |
| **balance b/d** | xxx | | **balance b/d (Cr)** | xxx |

**Total Creditors account or Purchase Ledger Control Account (PLCA)**

| | | | | |
|---|---|---|---|---|
| **balance b/d (Dr)** | xxx | AND /OR | **balance b/d** | xxx |
| Cash / Bank (Payment made) | xxx | | Purchases (Credit) | xxx |
| Discount Received | xxx | | Interest Charged by Suppliers | xxx |
| Return Outwards/Purchase return | xxx | | Refunds from Creditors | xxx |
| Contra - **SLCA** | xxx | | | |
| **balance c/d** | xxx | AND /OR | **balance c/d (Dr)** | xxx |
| Totals | **xxx** | | Totals | **xxx** |
| **balance b/d (Dr)** | xxx | OR | **balance b/d** | xxx |

## Treatment of Balances in the Balance Sheet

| | | | | |
|---|---|---|---|---|
| SLCA (Debit) | + | PLCA (Debit) | = | Trade Receivables |
| PLCA (Credit) | + | SLCA (Credit) | = | Trade Payables |

# Reconciliation of control accounts

**Corrected / Revised / Updated Sales Ledger Control A/c**

| | | | |
|---|---|---|---|
| Balance b/d (Given) | XXX | Error(s) / Adjustment | XX |
| Error(s)/ Adjustment | XX | Balance c/d | XX |
| | XXX | | XXX |
| Balance b/d | XX | | |

**CONTROL ACCOUNTS RECONCILIATION STATEMENT**

| | | | |
|---|---|---|---|
| Balance as List / Schedule of Balances | | | XXX |
| Errors / Adjustments | **ADD** | **LESS** | |
| 1) | XX | | |
| 2) | | (XX) | |
| 3) | XX | ____ | XX/(XX) |
| Balance as Per Corrected Control Account | | | XXX |

## Total sales

Total sales = cash sales + credit sales

**Trade Receivables Control Account / SLCA**

| | | | |
|---|---|---|---|
| Balance b/d | XXX | Bank / Cash | XXX |
| | | Discount Allowed | XXX |
| Credit Sales | $\boxed{XXX}$ | Bad Debts | XXX |
| | | Return Inwards | XXX |
| | | Balance c/d | XXX |
| | **XXX** | | **XXX** |

**Alternate way to find Credit Sales**
= [Receipt from Debtors + Discount Allowed + Return Inwards + Irrecoverable Debts + Closing Receivables – Opening Receivables]

**Total purchases**

Total purchases = cash purchases + credit purchases

**Trade Payables Control Account / PLCA**

| | | | |
|---|---|---|---|
| Bank / Cash | XXX | Balance b/d | XXX |
| Discount Received | XXX | | |
| Return Outwards | XXX | Credit Purchases | $\boxed{XXX}$ |
| Balance c/d | XXX | | |
| | **XXX** | | **XXX** |

**Alternate way to find Credit Purchase**
= [Payment to Creditors + Discount Received + Return Outwards + Closing Payables – Opening Payables]

**Incomplete Records and Missing Figures**

**Cash Book**

| | Cash | Bank | | Cash | Bank |
|---|---|---|---|---|---|
| Balance b/d | XXX | - | Balance b/d (OD) | - | XXX |
| Cash Sales | XXX | - | Drawings | XXX | XXX |
| Receipt from Trade Receivables | ? | XXX | Payment to Suppliers | XXX | XXX |
| Sale of NCA | XXX | - | Expenses paid | XXX | XXX |
| Balance c/d (OD) | - | XXX | | | - |
| | | | Balance c/d | XXX | |
| Totals | **XXX** | **XXX** | Totals | **XXX** | **XXX** |

**Profit Markup vs. Profit Margin**

**Markup – Cost**
**Margin – Sales**

$\frac{\text{Markup}}{100 + \text{Markup}}$ $\frac{\text{Margin}}{100 - \text{Margin}}$

Profit Markup will be always greater that Profit Margin because Markup is applied on cost which is lower than sales figure. We have to apply greater percentage on lower figure.

**Opening Capital (Net Assets)** = Opening Assets – Opening Liabilities

**Closing Capital (Net Assets)** = Closing Assets – Closing Liabilities

**How to Calculate Profit / Loss if Income Statement cannot be prepared**

| | **$** |
|---|---|
| Opening Capital (Net Assets) | XXX |
| Add: Additional Investment | XX |
| Add: Profit for the year | ?? |
| Less: Drawings | (XX) |
| Closing Capital (Net Assets) | XXX |

# Ratios Analysis

**1). Profitability Ratios**

(i) Gross Profit Margin (Gross profit to revenue) $= \dfrac{\text{Gross Profit}}{\text{Revenue}} \times 100$

(ii) Gross Profit Mark up $= \dfrac{\text{Gross Profit}}{\text{Cost of Sales}} \times 100$

(iii) Percentage of profit to revenue (Net Profit margin) $= \dfrac{\text{Net Profit}}{\text{Revenue}} \times 100$

(iv) Return on Capital Employed (ROCE) $= \dfrac{\text{PBIT}}{\text{Capital Employed}} \times 100$

*[Capital Employed = Issued Share + Reserves + Non-Current liabilities]*

***or***

*[Total Assets – Current Liabilities]*

(v) Return on Equity $= \dfrac{\text{Profit for the year (after Preference dividends)}}{\text{Equity}} \times 100$

(vi) Return on total Assets $= \dfrac{\text{PBIT}}{\text{Total Assets}} \times 100$

(vii) Non Current Asset Turnover $= \dfrac{\text{Net Sales}}{\text{Total NBV of NCA}} \times 100$

(viii) Expenses To Sales Ratio $= \dfrac{\text{Expenses}}{\text{Net sales}} \times 100$

## 2) Liquidity Ratios

(i) Current ratio (Working Capital Ratio) $= \dfrac{\text{Current Assets}}{\text{Current Liabilities}}$

(ii) Quick Ratio (Acid Test / Liquid Ratio) $= \dfrac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$

(iii) Rate of Inventory Turnover (times) $= \dfrac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$ (in times)

OR

Inventory turnover (In Days) $= \dfrac{\text{Average Inventory}}{\text{Cost of Sales}} \times 365$

(iv) Trade Receivable Turnover (Avg Collection Period) $= \dfrac{\text{Trade Receivables}}{\text{Credit Sales}} \times 365$

(v) Trade Payables Turnover (Avg Payment Period) $= \dfrac{\text{Trade Payables}}{\text{Credit Purchases}} \times 365$

# Errors not affecting trial balance

**C**ommission
**O**mission
**P**rinciple
**R**eversal
**O**riginal Entry
**C**ompensating

# Errors and Suspense Account

Suspense account = is the difference of debit and credit side balance.

**Errors which affect trial balance**

- Incorrect additions in any account.
- Transposition error on one side of the account (if both sides it will not affect TB)
- Making an entry on only one side of the accounts, e.g. a debit but no credit; a credit but no debit.
- Entering a different amount on the debit side from the amount on the credit side.

**STATEMENT OF CORRECTED PROFIT**

| | | | |
|---|---|---|---|
| Original Profit | | | XXX |
| Adjustments / Correction | + | - | |
| 1) | XX | (XX) | |
| 2) | XX | ___ | XX/(XX) |
| Revised / Corrected Profit | | | XXX |

ARD Partnership
Appropriation Account for the year ended December 31, 2015

| | | | |
|---|---|---|---|
| | Profit for the year | | XXX |
| **Add** | **Interest on drawings** | | |
| | Mr. A | XXX | |
| | Mr. R | XXX | **XXX** |
| **Less**: | **Interest on capital** | | |
| | Mr. A | XXX | |
| | Mr. R | XXX | **(XXX)** |
| **Less:** | **Salaries / Bonus / Commission:** | | |
| | Mr. A | XXX | |
| | Mr. R | XXX | **(XXX)** |
| | | | |
| | **Residual Profits** | | **XXX** |
| | Mr. A (Remaining profit X share) | XX | |
| | Mr.R (Remaining profit X share) | XX | (XXX) |

**Current Accounts**

| | A | R | | | A | R |
|---|---|---|---|---|---|---|
| **Balance b/d (Dr)** | **XXX** | **XXX** | OR | **Balance b/d** | **XXX** | **XXX** |
| Drawings | XXX | XXX | | Interest on Capital | XXX | XXX |
| Interest on Drawings | XXX | XXX | | Salaries | XXX | XXX |
| Share of Loss | XXX | XXX | | Bonus / commission | XXX | XXX |
| | | | | Profit share | XXX | XXX |
| | | | | Interest on Loan | XXX | XXX |
| **Balance c/d** | **XXX** | **XXX** | OR | **Balance c/d (Dr)** | **XXX** | **XXX** |
| | XXX | XXX | | | XXX | XXX |
| **Balance b/d (Dr)** | **XXX** | **XXX** | OR | **Balance b/d** | **XXX** | **XXX** |

**Statement of Financial Position (Extract)**

| | | |
|---|---|---|
| **Equity** | | |
| Capital A/cs – A | XXX | |
| – B | XXX | **XXX** |
| | | |
| Current A/c – A | XX | |
| – B | (XX) Dr | **XX** |
| | | |
| Total Partners Equity / Net Assets | | **XXX** |

## Double Entry for Goodwill

**1. Creation of goodwill:**

Goodwill xxx

Capital A/cs xxx

(Goodwill split in the **old** profit/loss sharing ratio)

**2. Eliminating / Writing off goodwill**

Capital A/cs xxx

Goodwill xxx

(Goodwill split in the **new** profit/loss sharing ratio)

## Double Entry for Revaluation of NCA

**1. Gain on Revaluation**

Property / Building XXX

Capital A/cs XXX

(Gain on Revaluation divided between partners in old ratio)

**2. Loss on Revaluation**

Capital A/cs XXX

Property / Building XXX

(Loss on Revaluation divided between partners in old ratio)

**Capital Account**

| | A | R | | A | R |
|---|---|---|---|---|---|
| | | | **balance b/d** | **XXX** | **XXX** |
| Goodwill (New Ratio) | XXX | XXX | Goodwill (Old Ratio) | XXX | XXX |
| Revaluation (Loss) | XXX | XXX | Revaluation (Gain) | XXX | XXX |
| Transfer to loan | XXX | - | Bank / Assets (New Capital Introduced) | - | XXX |
| | | | Current A/c (Transfer) | XXX | - |
| **balance c/d** | **XXX** | **XXX** | | | |
| | XXX | XXX | | XXX | XXX |
| | | | **balance b/d** | **XXX** | **XXX** |

**Goodwill on withdrawal or death of partners**

**If there was no goodwill account**
if no goodwill account already existed the partnership goodwill should be valued because the outgoing partner is entitled to his share of its value. This value is entered in double entry accounts:

- Debit goodwill account with valuation.
- Credit each old partner's capital account in profit sharing ratios.

**If a goodwill account exists**
**1** If a goodwill account exists with the correct valuation of goodwill entered in it, no further action is needed.
**2** If the valuation in the goodwill account needs to be changed, the following will apply:

<u>Goodwill undervalued</u>
Debit increase needed to goodwill account.
Credit increase to old partners' capital accounts in their old profit-sharing ratios.

<u>Goodwill overvalued</u>
Debit reduction to old partners' capital accounts in their old profit-sharing ratios.
Credit reduction needed to goodwill account.

# Revaluation of partnership assets

**Accounting for revaluation**

**Revaluation account is opened**

**1** *For each asset showing a gain on revaluation:*
Debit asset account with gain.
Credit revaluation account.

**2** *For each asset showing a loss on revaluation:*
Debit revaluation account.
Credit asset account with loss.

**3** *If there is an increase in total valuation of assets:*
Debit profit to revaluation account.
Credit **old** partners' capital accounts in **old** profit and loss sharing ratios.

**4** *If there is a fall in total valuations of assets:*
Debit **old** partners' capital accounts in **old** profit and loss sharing ratios.
Credit loss to revaluation account.

**Revaluation Account**

| | | | |
|---|---|---|---|
| Assets (Decrease in Value) | XX | Assets (Increase in Value) | XX |
| Liabilities (Increase in Value) | XX | Liabilities (Decrease in Value) | XX |
| Capital A/cs<br>(Net Gain on Revaluation) | XX | Capital A/cs<br>(Net Loss on Revaluation) | XX |
| | XXX | | XXX |

**Inventory Adjustment**
Inventory should be valued at Lower of Cost or NRV

NRV (Net Realizable Value) = Fair Value – Cost to Sell

It is an application of prudence concept.

**Unable to value inventory at year end (Reverse working)**

**STATEMENT OF INVENTORY VALUATION**

| | | | |
|---|---|---|---|
| Inventory as at 14 Feb 2016 | | | XXX |
| **Adjustments** | **ADD** | **LESS** | |
| 1) Sales at Cost | XXX | | |
| 2) Purchase | | (XXX) | |
| 3) Return Inwards at Cost | | (XXX) | |
| 4) Return Outward | XXX | | |
| 5) Goods Drawing | XXX | | |
| 6) Others | XXX | (XX) | XX/(XX) |
| Inventory as at 31 Dec 2015 | | | XXXX |

**(w) Calculation of Net Profit after Interest and Tax**

| | | |
|---|---|---|
| | Profit before interest and tax **(PBIT)** | XXX |
| Less: | Debentures / Loan interest (Debentures Amount X Rate %) | (XXX) |
| | Profit before tax **(PBT)** | XXX |
| | Less: Tax | (XXX) |
| | Profit after interest and tax **(PAT)** | **XXX** |

ARD Limited

**Statement of Changes in Equity** for the year ended 31 Dec 2016

| | **Share Capital** | **Share Premium** | **Revaluation Reserve** | **General Reserve** | **Retained Earnings** | **Total Equity** |
|---|---|---|---|---|---|---|
| Balance at Start | XXX | XXX | - | XXX | XXX | XXXX |
| Profit / (Loss) after interest and tax for the year | - | - | - | - | XX(XX) | XX(XX) |
| Dividends paid | - | - | - | - | (XX) | (XX) |
| New Share Issue | XX | XX | - | - | - | XXX |
| Transfer to General Reserve | - | - | - | XX | (XX) | - |
| Assets Revalued | | | XXX | | | XXX |
| Balance at End | XXX | XXX | XXX | XXX | XXX | XXXX |

ARD Limited

**Statement of Financial Position extract**

For the year ended Dec 31, 2015

| | | | |
|---|---|---|---|
| ***Equity & Reserves*** | | | |
| | | | |
| **AUTRHORIZED SHARE CAPITAL:** | | | |
| Preference shares Capital | XXX | | |
| Ordinary Share Capital | XXX | <u>XXX</u> | |
| | | | |
| **ISSUED / CALLED UP / PAID UP SHARE CAPITAL:** | | | |
| Preference share Capital | XXX | | |
| Ordinary Share Capital | XXX | XXX | |
| General Reserves | | XXX | |
| Retained Earnings | | XXX | |
| **Total Shareholder funds** | | | **XXX** |
| Add: Debentures / Bank Loan | | | XXX |
| **Capital Employed** | | | **XXX** |

# Marginal Costing and Breakeven

**Breakeven**

Break-even point refers to a situation where the business is earning neither a profit nor a loss. It occurs where contribution equals fixed costs.

$$\textbf{BE Units} = \frac{\textbf{Fixed Costs}}{\textbf{Contribution / Unit}}$$

**BE Revenue = BE Units x Selling Price / Unit**

OR

$$\textbf{BE Revenue} = \frac{\textbf{Fixed Costs}}{\textbf{C/S Ratio}}$$

$$\textbf{C/S Ratio (Contribution to sales Ratio)} = \frac{\textbf{Contribution}}{\textbf{Sales}}$$

**Target Profit**

After break-even has achieved the business aims for a profit. Once the fixed costs are covered then selling further units will lead to a profit. We can see how many units or revenue is required to achieve the desired level of profits.

$$\textbf{Target Units} = \frac{\textbf{Fixed Costs + Target Profit}}{\textbf{Contribution / Unit}}$$

**Target Revenue = Target Units x Selling Price / Unit**

$$\textbf{Target Revenue} = \frac{\textbf{Fixed Costs + Target Revenue}}{\textbf{C/S Ratio}}$$

**MOS Units = Budgeted Units -- Breakeven Units**

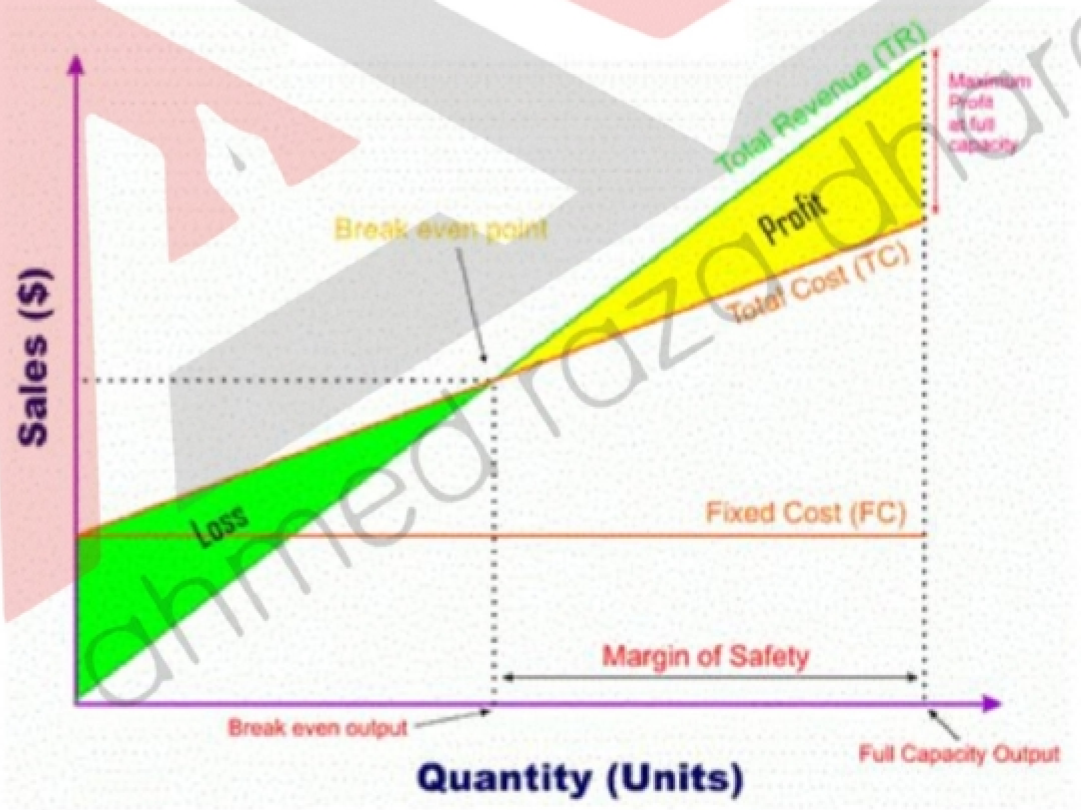
**MOS Revenue = Budgeted Revenue -- Breakeven Revenue**

**MOS as a %age = $\dfrac{\text{Budgeted Units -- Breakeven Units}}{\text{Budgeted Units}}$ x 100**

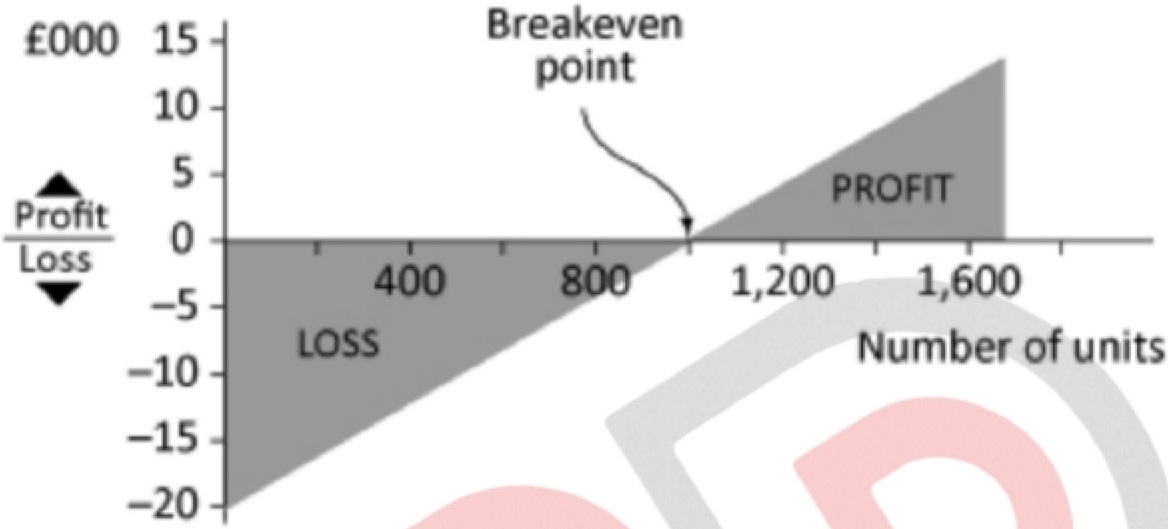
**OR**

**MOS as a %age = $\dfrac{\text{Budgeted Revenue -- Breakeven Revenue}}{\text{Budgeted Revenue}}$ x 100**

## Break-even Chart



## Profit Volume Chart




### Relevant Costs in Decision Making

| Relevant Costs | Irrelevant Costs |
|---|---|
| | |
| Future Costs / Opportunity Costs | Past costs / Historical costs / Sunk Costs |
| Cash Flow | Non Cash Costs e.g. Depreciation, Provisions |
| Variable / Incremental Costs / Differential Costs | Fixed Costs |
| Specific Fixed Costs | General fixed Costs |
| Avoidable Costs | Un-Avoidable Costs |
| Attributable / Directly Attributable Fixed Costs | Absorbed / Allocated / Apportioned Fixed Costs |

| | | |
|---|---|---|
| **Relevant Benefit / Incremental Revenue** | | **XXX** |
| | | |
| **<u>Less: Relevant Costs / Outflows</u>** | | |
| Variable costs | XX | |
| Relevant Fixed Costs | XX | |
| Opportunity costs (if any) | XX | <u>(XX)</u> |
| | | |
| **Net Benefit /(Loss) from special order** | | **<u>XX / (XX)</u>** |

## Limiting Factor Analysis

**Contribution = Sales – All Variable Costs**

Contribution towards covering fixed costs and making profit

| Product | **A** | | **B** | | **C** | |
|---|---|---|---|---|---|---|
| | | | | | | |
| Selling price / unit | | XXX | | XXX | | XXX |
| Less: Variable Cost / Unit | | | | | | |
| Direct Material | X | | X | | X | |
| Direct Labor | X | | X | | X | |
| Direct Exp | X | | X | | X | |
| Variable OH | X | (XX) | X | (XX) | X | (XX) |
| **Contribution / Unit** | | **XX** | | **XX** | | **XX** |
| Divide by | | | | | | |
| **Kgs / Hrs per unit** | | **X** | | **X** | | **X** |
| **Contribution per unit of kg / hr** | | **XX** | | **XX** | | **XX** |
| **Ranking** | | **3** | | **1** | | **2** |

# Absorption Costing

**Example (Inventory Valuation Marginal v Absorption Costing)**

**Unit Cost Card**

| | |
|---|---|
| Direct Material | 10 |
| Direct Labor | 10 |
| Direct Expenses | 10 |
| **Prime Cost** | **30** |
| | |
| Add: Variable Production Overheads | 5 |
| **Variable Production Costs** | **35** |
| | |
| Add: Fixed Production Overheads | 10 |
| **Full Production Cost** | **45** |
| | |
| Add: Non Production Overheads | 5 |
| **Total Cost / Unit** | **50** |

**Steps in Absorption Costing**

**1)** Overhead **Allocation**
(Directly allocate costs to departments to which they are related)

**2)** Overhead **Apportionment**
(Divide common / joint / shared costs amongst all departments that use them)

**3)** Overhead **Re-Apportionment**
(Move overhead from service departments to production departments)

**4)** Overhead **Absorption**
(Absorb overheads to products using some activity)

| **Overhead** | **Basis of Apportionment** |
|---|---|
| | |
| Building related expenses like rent, rates, cleaning, heating, lighting, repairs, depreciation and insurance of building | Cost / Book Value of Buildings or Floor Area |
| Employee related costs like canteen, supervision, personnel, medical and welfare costs | No of workers / employees / Hrs |
| Machine related costs such as repairs, depreciation , insurance | Cost / Book Value of Machines / Machine Hrs |
| Store related costs | No / Value of stores requisitions |
| Power / Electricity costs | Kilo watt hours / power usage |
| Maintenance costs | Maint hours / maint calls / value of assets |

**Overhead Absorption**

$$OAR = \frac{\text{Budgeted Overhead}}{\text{Budgeted Activity}}$$

**Budgeted Activity ?**

Single Product = No of Units
Multiple Products = No of Hrs
Labour Intensive = No of Labour Hrs
Machine / Capital Intensive = No of Machine Hrs

**Other Basis for Absorption (last resort)**

As a %age of Direct Material Costs
As a %age of Direct Labour Costs (Recommended in Costs)
As a %age of Prime Costs etc

$$\textbf{OAR} = \frac{\textbf{Budgeted Overhead}}{\textbf{Budgeted Activity}} \times 100 \quad \textbf{(If base is also in \$ / Costs)}$$

**Over / Under Absorption of Overheads**

Over / Under
Absorption = Actual Overhead Incurred -- Amount Absorbed

Amount Absorbed = OAR x Actual Activity

**Reasons for Over / Under Absorption of Overheads**

1) Difference between budgeted and actual Overheads
2) Difference between budgeted and actual Activity
3) A Combination of both

# Income Statements (Marginal v Absorption)

ARD Textiles

**Income Statement (Marginal Costing) Format**

| | | |
|---|---|---|
| Sales Revenue | | XXX |
| | | |
| **Less: Variable cost of Sales** | | |
| Opening Inventory | XXX | |
| Add: Variable Production Costs | XXX | |
| Less: Closing Inventory | (XXX) | |
| **Variable Production Cost** | **XX** | |
| Add: Variable Non-Production Cost (Selling / Admin etc) | XX | |
| **Total Variable Cost of Sales** | | **(XXX)** |
| | | |
| **Contribution** | | **XXX** |
| **Less: All Fixed Costs** | | |
| Fixed Production Overheads | **XX** | |
| Fixed Non Production Overheads (Selling / Admin / Distribution etc) | **XX** | **(XXX)** |
| | | |
| **Net Profit / (loss)** | | **XX/(XX)** |

ARD Textiles

**Income Statement (Absorption Costing) Format**

| | | |
|---|---|---|
| Sales Revenue | | XXX |
| | | |
| **Less: Production Cost of Sales** | | |
| Opening Inventory | XXX | |
| Add: Variable Production Costs | XXX | |
| Fixed Production Overheads (Actual) | XXX | |
| Less: Closing Inventory | (XXX) | |
| **Production Cost of Sales** | | **(XX)** |
| | | |
| Gross Profit | | **XXX** |
| | | |
| **Less: All Non Production Costs** | | |
| | | |
| Variable Non-Production Cost (Selling / Admin etc) | XX | |
| Fixed Non Production Overheads (Selling / Admin / Distribution etc) | XX | **(XXX)** |
| | | |
| **Net Profit / (loss)** | | **XX/(XX)** |

## STATEMENT OF RECONCILIATION

| | Jan | Feb | Mar |
|---|---|---|---|
| Profit under **Absorption** Costing | XXX | XXX | XXX |
| | | | |
| **Add:** Difference in **Opening** Inventories | XX | XX | XX |
| | | | |
| **Less:** Difference in **Closing** inventories | (XX) | (XX) | (XX) |
| | | | |
| Profit Under **Marginal** Costing | XXX | XXX | XXX |