Mini Assessment 1

Profit and Loss Account for **Anson**

For the Year Ended **30th September 2006**

	£	£	£
Sales			367300
less Sales Returns			5234
Net sales			362066
Opening Stock		28000	
Purchases	204678		
Carriage in	4356		
Less Purchase returns	2346		
Net purchases		206688	
		234688	
less Closing Stock		0	
Cost of Goods Sold			234688
Gross profit			127378
add other income, eg:			
Discounts received		5668	
Income from hire of land		8644	
			14312
			141690
less expenses, eg:			
Discounts allowed		2342	
General expenses		26886	
Gas, Water and Electricity		6845	
Carriage Outwards		1045	
Sales Commision		15698	
Bank Charges		3600	
Bad Debts		4322	
Travel Expenses		4466	
Rent of Equipment		5680	
Insurance		6882	
Wages		45880	
		0	123646
Net Profit (Loss)			18044

Balance Sheet for **Anson**

As At **30th September 2006**

	Cost £	Dep'n to date £	Net Book Value £
Fixed Assets			
Loan account, Keppel (5years to 30 Nov 2008)	24000	0	24000
Equipment	76000	22800	53200
Furniture and Fittings	64000	0	64000
Premises	242000	0	242000
	406000	22800	383200
Current Assets			
Stock (closing)		0	
Debtors	78660		
less provision for bad debts	6820		
		71840	
Cash at Bank		30226	
		102066	
less Current Liabilities			
Creditors	82922		
		82922	
Working Capital			19144
less Long Term Liabilities			
Loans			0
NET ASSETS			**402344**

FINANCED BY

Capital		
Opening capital	417700	
add Net Profit (see P&L a/c)	18044	
	435744	
less Drawings	33400	
	402344	0

ZMB Accountants

Memo

To: Anson

From: Suleman Siddique

CC: None

Date: November 20, 2007

Re: Definitions

Dear Anson here are the terms you had asked me to explain toy you. Should you have any problems please contact me back ASAP.

The term Drawings in accounting means assets withdrawn from the business by the owners. These assert is usually cash but can also be goods from the business. These drawings are for the personal use of the business owner/ drawer. An example of this is could be when Anson at the end of the month takes £33400 out of the bank for his salary. This would be classed as a drawing as money has been taken out of the bank for personal use and not for the business. It is also placed in the profit and loss account under financed by section.

The term Discounts allowed means a reduction in the amount of a payment for an invoice or product. This discount can be given or taken. It could be given by Anson to his customers or Anson's suppliers could give him discount. This is called Discount Allowed and is usually given for the prompt payment of an item/invoice. An example of this would be should Anson pay his invoice with a supplier on the 1st December after receiving it on the 29th November the supplier may give him discount but he may also not. Discounts are not shown in any of the accounts as it's an amount given and can vary between orders.

Another Accounting term is Capital. This is the amount of money the business owner has invested into the business. This money is classed in the business eyes as money owned to the owner and so is classed as an entity as Capital. An example of this is Anson put £41777 into the business. This money is classed as Capital and is owed back to Anson. The business shall most likely pay this back in the form of profits it makes. Capital is placed in the balance sheet in the final section financed by this is due to the capital is usually one of the main sources of income for new business but goes down in amount overtime.

Prepayments are an amount paid in advance for a service. This payment is paid during an accounting period. Some companies ask for prepayments where as some do not. At times prepayments are made unintentionally by business also. An example of this would be Anson has already made a prepayment for 2 months for his car insurance. This is classed as a prepayment as he's not currently receiving the service but has paid in advance for it. Prepayments are shown as current assets as we owed that amount until we use that service.

Depreciation is also another accounting tool. Depreciation is the term used to lower the value of an item. This is done to reflect the actual value of an item at a given time. This is important so that the business does not overvalue its assets and provide itself a false image of the company's current financial status. Depreciation can be worked out in 2 methods. One is the straight-line method which is worked out as:

Dpn = (C- R)/ N

where:

Dpn = Annual straight-line depreciation charge

C = Cost of the asset
R = Residual value of the asset
N = Useful economic life of the asset (years)

The other method that can be used is the declining balance method where an asset is multiplied by the factor which is based on the life of the asset. For Anson's accounts I had used the straight line method. An example of this is from the reflected changes for the depreciation of furniture and fittings
"I used the following formula cost of asset (£64000)/100= £640*25% = £16000. I then divided £16000 by the amount of days in the year as I was using the straight line method for depreciation which gave me £16000/365= £43.84. I then multiplied £43.84 by 304 the amount of days it was used that gave me £13326"

Bibliography: Class notes provided used as well as http://www.tutor2u.net/business/accounts/assets_fixedassets_depreciation.asp on the 1st December 06 at 12:00pm

Revised Trading Profit and Loss Account for **Anson**

For the Financial Year Ended **30th September 2006**

	£	£	£
Sales			367300
less Sales Returns			5234
Net sales			362066
Opening Stock		28000	
Purchases	204678		
Carriage in	4356		
Less Purchase returns	2346		
Net purchases		206688	
		234688	
less Closing Stock		**26500**	
Cost of Goods Sold			208188
Gross profit			153878
add other income, eg:			
Discounts received		5668	
Income from hire of land		8644	
Interest from loan		**1200**	
			15512
			169390
less expenses, eg:			
Discounts allowed		2342	
General expenses		26886	
Gas, Water and Electricity		6845	
Carriage Outwards		1045	
Sales Commision		15698	
Insurance		**5735**	
Wages		**49760**	
Travel Expenses		4466	
Rent of Equipment		5680	
Bank Charges		3600	
Bad debts		**3933**	
Depreciation of Furniture and Fittings		**13326**	
Depreciation of Equipment		**15200**	
			154516
Net Profit (Loss)			14874

Revised Balance Sheet for **Anson**

As At **30th September 2006**

	£ Cost	£ Dep'n to date	£ Net Book Value	
Fixed Assets				
Loan account, Keppel (5years to 30 Nov 2008)	24000		24000	
Equipment	76000	**38000**	38000	
Furniture and Fittings	64000	**13326**	50674	
Premises	242000		242000	
	406000	51326	354674	
Current Assets				
Stock (closing)		**26500**		
Debtors	78660			
less provision for bad debts	**6431**			
		72229		
Cash at Bank		30226		
Interest from loan		**1200**		
Prepayments		**1147**		
		131302		
less Current Liabilities				
Creditors	82922			
Accruals	**3880**			
		86802		
Working Capital			44500	
less Long Term Liabilities				
Loans			0	
NET ASSETS			**399174**	
FINANCED BY				
Capital				
Opening capital			417700	
add Net Profit (see P&L a/c)			14874	
			432574	
less Drawings			33400	
			399174	0

Mini Task 2

For the preparation for the Anson Accounts I was required to use the relevant concepts and conventions. One of the concepts I had used was Double Entry, This concept puts the basically has every transaction recorded twice one on the left had side of the account the Credit column and one on the right hand side the debit column. For this concept there are many accounts i.e. one account for sales, one for sales returns, capital account, bank account, rent account etc. For example Anson has just bought £800 worth of stock to one of his suppliers named Brian Inc on credit. With the double entry concept being used we would firstly debit the Purchases account for £800 as this is the account that is receiving the goods. We would then Credit the Creditors account named Brian Inc with £800 as we owe Brian Inc £800 for the goods we have received. This is how the Double Entry concept works.

Another concept used is the Accruals concept. This concept states between a certain time period; the profit is the difference between the revenues earned regardless of if the payment has been received and the total costs incurred in earning these revenues regardless of if the payment has been made. An example of this would be for Anson to sell goods to one of his suppliers and sell it on credit terms on the 30th January. Should the payment be received on the 5th February and the financial year end on the 31st January the payment would still be added onto the financial statement for the 30th January.

I had also used the consistency concept. This concept states should an error be discovered it is immediately corrected. Even if the error has been undetected for a number of accounting periods the accountant should correct this error and regardless of the error not being seen and the accountant and he/she considering not to alter it. An example of this for Anson could be he inspecting his accounts for the past few years and noticing that an asset the business owns for the past few years not being listed in an account for one of the years. Anson would then be expected to tell his accountant and have he error rectified immediately.

Another concept is the prudence concept. This concept means that while preparing financial statement accountants should be pessimistic and not optimistic. It says do not include revenues or profits unless one is sure that they are sure about them. An example of this would be for Anson to say he expects the business to generate

£51000 in revenue but when he actually looks at his data he realises that he is only expected to make around £33,000.

Another concept I had used was the entity concept. This concept is also known as the accounting entity. This concept is basically saying each financial transaction is treated as a separate transaction and is unrelated to the other transactions. An example could be that if Anson was a one man business and he was a sole trader and he took money out of the business as drawings for his personal use. Despite his own his business it has 2 faces to this transactions. One is the business is giving money and the second is that the owner is receiving money from the business.

Another concept used is the realisation concept. This concept helps the accountant to determine at a point at what he feels that a transaction is certain enough to make a profit and is taken into the profit and loss account. The basic rule is that revenue is created at the moment a sale is made, and not when the account is later settled by cheque or by cash or other method used to pay. Profit can be taken to the profit and loss account on the sales made, even though the money has not been collected. The sale is deemed to be made when the goods are delivered, and thus profit cannot be taken to the profit and loss account on orders received and not yet filled. An exception to this rule would be a long term contract that involve payments on account before completion of the work

Another concept is the money measurement concept and is one of the simplest concepts. It simply and clearly states that only those transactions that are true financial transactions may be accounted for. Only those transactions that may be expressed in money values that is of interest to the accountant.

Another concept is the prudent concept otherwise known as conservatism. Basically the concept says that whenever there is a amount the account will choose the one that gives the lower amount of profit or a lower asset value and a higher liability value. Optimism can never be part of the make up of an account. The danger is that if an optimistic view of profits is given then dividends may be paid out of profits that have not been earned. An example of this could be a value for Sales is given by Anson at £30,000 and also £22,000 should the accountant choose the £30,000 figure which results in higher profits then Anson would pay higher deviants to the shareholders then should be given and how much the business can actually afford.

Another concept is the Materiality concept. The materiality concept does not apply while recording cash transactions. So, small amounts cannot be omitted from the cash book on the grounds that they are not material. As a general rule every cash transaction has to be recorded in the cash book - regardless of the materiality of the amount involved. An example of this could for Anson to buy stationary for the business amounting to £5 and take the money from the cash register but not record this transaction as he thinks it's not much of a big transaction. This would be wrong and go against the materiality concept.

Bibliography

For This assignment I have used the following text book;

Financial Accounting for Non-Specialists by Robert Perks.

ISBN 0-07-710414-5 Published by The McGraw Hill Companies

No First Published day has been provided for this book

I had also the following webpage;

http://www.tutor2u.net/business/accounts/accounting_conventions_concepts.htm on the 1st December 2006 at 1:30pm