M1 Compare the final accounts of two organisations explaining the similarities and differences

Similarities and differences between the sole trader and the limited accounts

Both of the companies have the same structured profit and loss account but they are still different. If we have a look at the profit and loss account we will see that they both have sales, opening stock, and purchases, less return until it is reached by the overheads. This also shows that they also have different currencies, the subway Groningen deals with the Euros and the subway LLC deals with American dollars but in millions as subway Groningen dealing only with thousands. Not forgetting that the subway in Groningen is a franchising company and the subway in America is LLC. Groningen subway only does it profit and loss account for its own company and the subway in America is for the whole subways that are franchised. What is also different is that the profit and loss account from the subway LLC is that they have a share of profits; this means that this company has shareholders which are them. Profits are usually distributed to shareholders in the form of a dividend some profits may be retain by the business as working capital which will be seen in the balance sheet. Subway Groningen doesn't have that because all the money will goes straight to the sole trader and he will have to pay subway LLC for the franchising of subway and the rest of the money will end up going into the business. As we look all the overheads from Groningen subway they have a lot of fixed cost to pay such as, rent and rates, heating and lighting, telephone and general expenses this is because they are running a business and is dealing with customers, now the subway LLC you can say is the head office of the subway industry, they more have office supplies and vehicles and the equipment which I would guess sells to the franchising companies. Both they both has depreciation on their vehicles which shows that they choose it quite often. Since subway Groningen belongs to a sole trader, the sole trader will eventually put everything in the profit and loss account so that he or she can see where the money is going and coming from.

If we have a look at the balance sheet now it is also structured the same, they have the same fixed assets and current assets, but if we look at the depreciation from the subway in Groningen it is much higher than the subway LLC, I would say is because the subway Groningen probably have one vehicle while the subway LLC have a few so the depreciation will be less because they are using more than one truck. If you also notice in the balance sheet is that subway Groningen pays tax and subway LLC don't because a sole trader their business income is counted alongside any other personal income they have for tax purposes, so accounting is relatively straightforward. Their tax is calculates via the annual self assessment process. So which means the sole trader will have to pay tax on their profits. But for subway LLC does not offers its shares for sale to the public but they must be registered at the Companies House and, at Present. This is a form of different rules and regulations for both companies. And which will be discussed her below.

Identify the main legislations that determine how both the sole trader and the partnership accounts are presented and submitted.

For a sole trader they will need to keep careful records, they must define personal transactions, for example taking stuff from your own stock and if working from home, they must be careful about apportioning what is for the business and what is for private use for example he utilities bill. It's good for a sole trader to keep a log book to keep detailing the business; these records will be useful when filling in tax return. If a sole trader has almost complete control over how the business is run, they can make a decision as long as they are legal without interference. The administration costs of running a business are small. They will always need to keep records for Inland Revenue and also for VAT if they are VAT registered, but there are no other legal requirements.

A partnership is a business run by two or more people together. There should be a written agreement detailing this arrangement. Profits are usually shared between partners according to the agreement. Although profits may be share unequally, liabilities which arise are shared jointly. This is something that everyone involved should be very clear about. A partnership is a very risky business to because of the potential conflicts. A partnership business will have to keep records for Inland Revenue but there are no other legal requirements, each partner pays tax individually.

Both of these types of company should always have final accounts such as the profit and loss account and the balance sheet. The profit and loss account should be produced for 12 months sales which can be covered by any 12 consecutive months. The profit and loss accounts shows the income of the business has received from selling activities over the last 12 months, and all the money is has spend performing these business activities over the same 12 months. Profit and loss accounts are said to give a historic view. Both it is not mandatory for a sole trader or a partnership to make an profit and loss account, because when they will full in their tax return form and supply they have already given them a profit and loss account. But it's always good for them to make one for the company, so if they want to take a loan out in the future it's good to show how the business was doing over the last pass years. A balance sheet is also a final account a business should provide. A balance sheet is like the picture of what a business owns, owed and is owed at a specific time. They are drawn up on a specific dates, normally the last day of a business financial year and the contents of the balance sheet are a picture of the firms situation on that date. On the balance sheet we see the building the business owns, the equipment it uses, the stock it holds, we show how much money the business is owed and how much money the business owes. We also see where the money is come from to buy all their assets of the business. A sole trader do not have to prepare a balance sheet either but it is good for them to see what is being owed, owes and it has been financial but a partnership company should make one so it can be submitted to the Companies House and shareholders.

All business should prepare full sets of accounts. Here are numbers of reason why this should be done:

- Legal requirements- this applies to all limited companies. The form and timing of presentation of accounts, laid down by law and by the accounting bodies
- Tax requirements- if a business turnover is more than €15000 then a full set of accounts can be requested by the Inland Revenue.
- To accurately calculate profits, liabilities and assets, only by doing this will the business owners understand how well the business is performing
- Accounts can be used in business planning by the owners to estimate availability of capital for growth or judge the need for borrowing or new investors.
- Accounts will be required if the business is seeking investors or loans. Potential investors will want to see how well the business is performing and the main basis of decisions made will be the firm's accounts. The same goes for the bank managers
- Accounts are useful if credit is required. When buying on credit from a new supplier the supplier may request to view accounts before granting credits.

So hopefully this was clear enough information about main legalisation of accounts for the franchise owners, so that when they produced theirs, it will give them an insight of how their business is operating.

Identify the main accounting concepts that are required in both sets of accounts.

Accounting concepts refers to the basic assumptions and rules and principles which work as the basis of recording of business transactions and preparing accounts. Here you will see the four main accounting concepts for profit and loss account and balance sheet:

Going concern concept

This concept states that a business will continue to carry on its activities for an indefinite period of time. It means that every business entity has continuity of life. So it will not be dissolved in the near future. This is an important assumption of accounting, as it provides a basis for showing the value of assets in the balance sheet for example of company purchases machinery and its life span is 10 years. According to this concept every year some amount will be shown as expenses and the balance amount as an asset. So if an amount is spend on an item which will be used in business for many years, it will not be proper to charge the amount from the revenues of the year in which the item is acquired. Using going concern concept can:

- Facilitates preparation of financial statements
- On the basis of this concept, depreciation of financial statements.
- It is good for investors, because, it assures them that they will continue to get income on their investments
- In the absence of this concept, the cost of a fixed asset will be treated as an expense in the year of its purchase.
- A business is judged for its capacity to earn profits in future.

Accounting period concept.

Says that, all the transaction is recorded in the books of accounts on the assumption that profits on these transactions are to be ascertained for a specific period. This concept requires that a balance sheet and profit and loss account should be prepared at regular intervals. This is necessary for different purposes like, calculation of profit, ascertaining financial position, tax etc. This concept assumes that the life of a business is divided into parts. These parts are known as accounting period. Because it can be of one year, six months, three months, one month, etc. But usually one year is taken as one accounting period which is a financial year. All transactions are recorded in the books of accounts for a specified period of time, such as good purchases and sole during the period, rent, salaries etc. This accounting concept will help the business in:

- Predicting the future prospects of the business
- It helps in calculating tax on business income calculated for a particular time period
- It also helps banks, financial institutions, creditors etc to assess and analyse the performance of business for a particular period.
- It helps the business firms to distribute their income at regular intervals as dividends.

Accrual concept

the meaning of accrual is something that becomes due especially an amount of money that is yet to be paid off received at the end of the accounting period. It means that revenues are recognised when they become receivable. Though cash is received or not received and the expenses are recognised when they become payable, thought cash is paid or not paid. Both transactions will be recorded in the accounting period to which they relate. Therefore, the accrual concept makes a distinction between the accrual receipt of cash the right to receive cash as regards revenue and actual payment of cash and obligations to pay cash as regards expenses. So this means to say that revenue is recognised when realised and expenses are recognised when they become due and payable without regard to the time of cash receipt or cash payments. So accrual concepts help to:

- In knowing actual expenses and actual income during a particular time period
- It helps in calculating the net profit of the business

Accounting cost concept

This states that all assets are recorded in the books of accounts at their purchase price, which include cost of acquisition, transportation or even installation. It means that fixed costs like buildings, plan and machinery, furniture, etc are recorded into the books of accounts. It may be clarified that cost means original or acquisition cost only for new assets and for the used once, cost means original cost less depreciation. The cost concept is also known as historical cost concept. The effect of cost concepts is that if the business entity does not pay anything for acquiring an asset this item would not appear in the books of accounts. So, good will appears in the accounts only if the entity has purchased this intangible asset for a price. To the cost concept:

- Required assets to be shown at the price it has been acquired, which can be verified from the supporting documents.
- It helps in calculating depreciation of fixed assets

- The effect of cost concept is that if the business entity does not pay anything from an asset, this item will not be shown in the books of accounts.