1.1 Bookkeeping vs Accounting

- understand and explain the difference between book-keeping and accounting
- explain the role of accounting in providing information for monitoring progress and decision-making.
- state the purposes of measuring business profit and loss

1. Bookkeeping: the process of maintaining up-to-date records of business transactions
2. Accounting: the process of using book-keeping records to prepare financial reports and statements to determine the business' financial health

Book-keeping & Accounting process:

recording transactions → classifying & grouping transactions → summarising financial information → reporting & using financial information

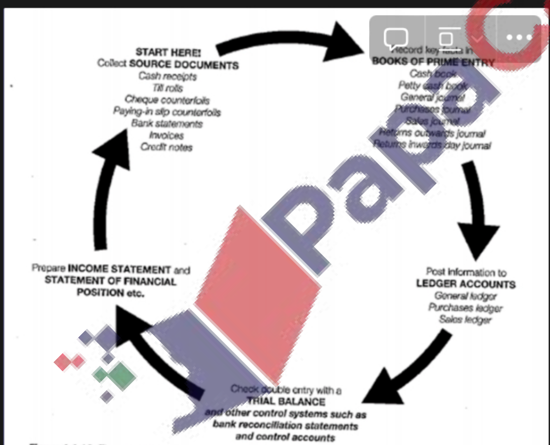

Figure 1.1.1A: The accounting cycle

Comparison Chart

BASIS FOR COMPARISON	DEBIT NOTE	CREDIT NOTE
Meaning	Debit Note is a document which reflects that a debit is made to the other party's account.	Credit Note is an instrument used to inform that the other party's account is credited in his books.
Use of	Blue Ink	Red Ink
Represents	Positive Amount	Negative Amount
Which book is updated on the basis of note?	Purchase Return Book	Sales Return Book
Effect	Minimization in account receivables.	Minimization in account payables.
Exchanged for	Credit Note	Debit Note

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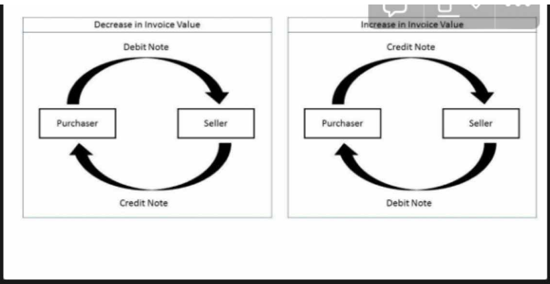
Debit Note	Credit Note
Records the money the client owes to the seller	Records the money the seller owes to a client
Issued by the buyer/ client to initiate a refund from the seller	Issued by the seller in response to the debit note from the buyer to initiate the refund
It is issued when there is a purchase return and reduces receivables	It is issued to initiate a sales return and reduces payables
Indicates upward revision of the purchase invoice	Indicates downward revision of the sales invoice



*seller may issue a Debit Note to purchaser to notify them of their debt obligations

Purpose of keeping financial records:

1. To calculate the firm's profit/loss
2. To determine the firm's value of assets (how much it owns)
3. To determine the firm's liabilities (how much it owes)

Most important financial summaries & reports:

1. Income statement - summarises info about the income & firm's costs and expenses
2. Statement of financial position - summarises financial info about the value of the business

Purpose of measuring profit & loss:

1. To determine whether the firm has reached its profit aim
2. To determine whether the firm can repay its loans & cover its costs
3. Owners of the firm wants to know if their investment has earned a greater profit than it could earn from other uses of the money

People who want the firm's financial statements:

1. Entrepreneurs
2. Suppliers
3. Bank
4. Employees
5. Tax authorities (Government)

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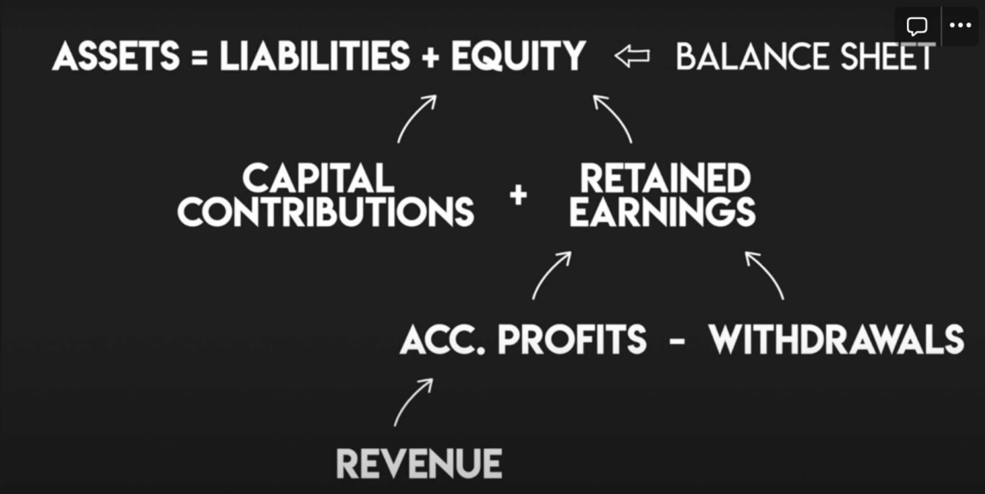
🌷 Profit = Income - Expenses

1.2 Accounting equation

- explain the meaning of assets, liabilities and owner's equity
- explain and apply the accounting equation.



Assets: resources owned by a business

Liabilities: resources provided by others other than the owner (debts owed by the business)

Owner's equity: money invested into the business by the owners from their own funds

Equity (in simple terms):

1) the net value of an asset after deducting expenses [Equity = Assets - liabilities]

2) net funds invested into a business by owners [Equity = capital]

types of equity:

ENTITY TYPE	SOLE PROPRIETOR	PARTNERSHIP	CORPORATION
CAPITAL CONTRIBUTIONS	OWNER'S EQUITY	PARTNER CONTRIBUTIONS	SHAREHOLDER'S EQUITY

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🌷 Assets = Owner's equity + Liabilities

Resources owned by business = Resources provided by owner + third party

the equation can also be (if no loan is taken out):

🌷 Assets = Owner's equity

2 Sources & recording of data

DATE 31/10/2023

⇒ Accounting cycle:

① collect source doc
* cash receipts
* till rolls
* cheque counterfoils
* bank statements

② record in books of prime entry (BOPE)

③ Post info to ledger a/cs

④ Check double entry with Trial balance & control systems (bank recon/control a/c)

⑤ Prepare IS, SOFP, etc.

Sales journal
* record goods sold on credit
* Trade receivables

Sales returns/Returns inwards journal
* credit notes issued for credit goods returned by customers

→ Sales ledger

Purchases journal
* records goods purchased on credit
* trade payable
* bought for resale

Purchase returns/Return outwards journal
* credit notes received for purchased goods returned to suppliers

→ Purchases ledger

All journals above

Involves cash transactions:

Petty cash book
* for small cash transactions/exp

Cash book
* records all bank acc payments & cash

General journal
* records transactions not entered in BOPE

→ General ledger

	→ Bal b/d
Expense a/c	Dr bal
Capital a/c	Cr bal
Asset a/c	Dr bal
Liabilities a/c	Cr bal
Income a/c	Cr bal

- only Assets & Liabilities a/c need to be balanced
- owner's equity, revenue & exp a/c only need to be totalled

Uses of Journal:
- correct errors found
- recording depreciation
- writing off irrecoverable debts
- creation/adjustment to provision for doubtful debts
- contra entries between sales & purchases ledgers

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Question	Answer	Marks
1(a)	Saira Petty Cash Book	13

Date	Details		Disc Alld	Cash	Bank	Date	Details		Disc Rec	Cash	Bank
			$	$	$	2023			$	$	$
2023											
Jan 1	Balance b/d			110	713	Jan 4	Jai	(1)	7		343
2	Rent receivable	(1)			360	7	Motor expenses	(1)		33	
13	Sales	(1)			395	17	David	(1)	6		194
20	Ivan	(1)	12		388	27	Cash (c)	(1)			150
27	Bank (c)	(1)		150		29	Wages	(1)		124	
						31	Balances c/d			103	1 169
			12	260	1856				13	260	1 856
Feb 1	Balances b/d			103 (1)OF	1169 (1)OF						

3.1 The trial balance

- understand that a trial balance is a statement of ledger balances on a particular date
- outline the uses and limitations of a trial balance
- prepare a trial balance from a given list of balances and amend a trial balance which contains errors
- identify and explain those errors which do not affect the trial balance: commission, compensating, complete reversal, omission, original entry, principle.

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uses of trial balance

Check arithmetical accuracy of ledger accounts

assist in preparation of financial statements

3.2 Errors & correction of errors

DATE

Errors

Errors not affecting trial bal
① Error of commission
② Error of omission
③ Error of principle
④ Compensating error
⑤ Error of original entry
⑥ Complete reversal of entry

Errors affecting trial bal
☆ Incorrect additions in any acc
☆ making entry on only one side of the acc
☆ entering diff amount on credit & debit side of acc

☆ only errors concerning sales & purchases acc will affect profit
☆ errors affecting SOFP will not influence profit

△ correction of errors:

① Journal : don't need to total each column

② Suspense a/c :

suspense			
Diff on trial bal	x	Wages	x
Motor exp	x		x
	x		x

③ Statement to calculate corrected profit

Draft profit	x	
Error 1	x	
Error 2	x	
...		
Corrected profit		x

Errors not affecting trial balance agreement

Error of omission
A transaction is completely omitted or not recorded in the books.

Error of commission
A correct amount has been entered in a wrong person's account.

Error of principle
When an item is entered in the wrong class of accounts.

Compensating error
When errors cancelled out each others.

Error of original entry
The original figure in the double entries is incorrect.

Complete reversal of entry
The correct accounts are used but each item is shown on the wrong side of the account.

4

Correction of Errors:

① Journal
→ don't need to total each column

Rai
Journal

Error number	Details	Debit $	Credit $
1	Wages Suspense	200 (1)	200 (1)
2	Purchases Stella	494 (1)	494 (1)
3	Sales Rent	100 (1)	100 (1)
4	Suspense Motor expenses	75 (1)	75 (1)
5	Jasper Suspense	27 (1)	27 (1)

② Suspense a/c

Rai
Suspense account

Date 2023	Details		$	Date 2023	Details		$
Jan 31	Difference on trial balance	(1)	152	Jan 31	Wages	(1)	200
	Motor expenses	(1)	75		Jasper	(1)	27
			227				227

③ Statement to calculate corrected profit

	$		$	
Draft profit	9 800			
Error 1	(200)	(1)		
Error 2	(494)	(1)	(694)	
			9 106	
Error 4			75	(1)
Corrected profit			9 181	(1)OF

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3.3 Bank reconciliation DATE 16/01/2024

Bank reconciliation statement as
@ 30 Apr 2023

Balance as per bank statement	x
Add: uncredited lodgements	x
Less: unpresented cheques	(x)
Balance as per cash book	x

Reasons to prepare bank reconciliation:

- Timing differences (delay between items being entered in cash book & entry on bank statement)
- Items on bank statement not entered in cash book (bank charges, direct debits etc.)

Steps to prepare:

1. Compare entries in cash book & bank statement
2. Circle items that don't appear in both
3. Circled items in bank statement should be entered in cash book and vice versa.

Benefits:

✓ ensures cash book is up-to-date
✓ helps to detect errors
✓ prevents fraud

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DATE

3.4 Control accounts

△ What is it?

- a/c containing total of all postings made to accounts in a particular ledger
  ↳ E.G. sales ledger control a/c
- ~~total~~ bal on control a/c = total of bal in ledger it controls
- kept in general ledger

△ Reasons to keep control a/c: checks arithmetical accuracy of ledger a/c
identifies errors in ledgers

△ Format:

Sales ledger control a/c

Bal b/d	Bal b/d (minority bal) → customer overpays
Sales	Bank
Interest charged	Discount allowed
Dishonoured cheque	Return inwards
Irrecoverable debts recovered	Irrecoverable debts
Bal c/d	Contra
	Bank - Irrecoverable debts recovered
	Bal c/d (minority bal)

△

Credit bal in SLC	Debit bal in PLC
☆ customer gave additional cash aft a/c has been settled	☆ returned faulty goods to supplier
☆ customer overpaid in error	☆ overpaid supplier
☆ " " overpaid in advance	☆ was allowed additional discount by supplier
☆ customer returns goods	

△ Source of info:

SLC	Source
Op TR	List of TR bal drawn from prev period
Cr sales	Total from Sales Journal
Return inwards	Total of Return Inwards Journal
Cheque & cash received	Cash book
Discount allowed	Cash Book
Irrecoverable debts	General Journal
Cl TR	List of TR bal drawn at end of period

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4.1

CAPITAL EXPENDITURE

- money spent on NCA
- lasts more than 12 months (1 acc year)

REVENUE EXPENDITURE

- money spent on day-to-day expenses
- used up in less than 12 months

⇒ Importance of correct classification of capital & revenue expenditures:

- Understating profit: including capital expenditure in IS
- Overstating profit: including revenue expenditure in SOFP
- Understating NCA: including capital expenditure in IS
- Overstating NCA: including revenue expenditure in SOFP

4.2 Depreciation

Calculation of depreciation

- General rule
  - One month's ownership needs one month's depreciation.
- Specific rule
  - eg. Full year's charge in the year of purchase, none in the year of disposal

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(1) Straight-line method

Depreciation charge for the year

$$= \frac{\text{cost - scrap value}}{\text{useful economic life}}$$

OR

Depreciation charge for the year

= % rate * (cost - scrap value)

(2) Reducing balance method

Depreciation charge for the year

= % rate * net book value

[% rate (cost - acc dep)]

(cost - accumulated depreciation)

(from date of purchase to date of calculation)

Recording dep charge for the year:

Dr Income Statement

Cr Prov for depreciation of NCA

Recording disposal of NCA:

STEPS:

1. Transfer cost of NCA to disposal a/c
   - Dr Disposal of NCA
   - Cr NCA

Disposal: 90 | NCA: | 90

2. Transfer accumulated depreciation to disposal a/c
   - Dr Provision for Depreciation of NCA
   - Cr Disposal of NCA

Prov for dep: 90 | Disposal: | 90

15

STEPS:

3. Record proceeds on disposal of NCA
   - Dr Bank
   - Cr Disposal of NCA

Bank: 90 | Disposal: | 90

4. Calculate profit or loss on disposal of NCA
   - *(if profit)* Dr Disposal of NCA
     - Cr Income Statement
   - *(if loss)* Dr Income Statement
     - Cr Disposal of NCA

With trade in

STEPS:

1. Transfer cost of NCA to disposal a/c
   - Dr Disposal of NCA
   - Cr NCA

Disposal: 60 | NCA: | 60

2. Transfer accumulated depreciation to disposal a/c
   - Dr Provision for Depreciation of NCA
   - Cr Disposal of NCA

19

STEPS:

3. Record *trade-in value* of NCA
   - Dr **NCA**
   - Cr Disposal of NCA

**record balance of payment (Dr NCA, Cr Bank/A/C Payable)*

4. Calculate profit or loss on disposal of NCA
   - (if profit) Dr Disposal of NCA
     - Cr Income Statement
   - (if loss) Dr Income Statement
     - Cr Disposal of NCA

4.4 Irrecoverable debts & Provision for doubtful debts

RECORDINGS

① Irrecoverable debts

Dr ID

Cr TR

Dr IS

Cr ID

② Irrecoverable debts recovered ⇓ Income Cr bal

Dr TR

Cr IDR

Dr Bank

Cr TR

Dr IDR

Cr IS

☆ debt must be reinstated in ledger a/c of TR

☆ to hv detailed history of TR's a/c as guide for granting credit in future

③ Provision for doubtful debts

A) creation

Dr IS

Cr PDD

B) Increase (expense)

Dr IS

Cr PDD

C) Reduction (income)

Dr PDD

Cr IS

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△ Irrecoverable debts & its creation

- → created when goods/ services are sold on credit
- → formed when payment for goods/ services rendered has not materialised
- → firm that owes money : forgets to make payment aft long time
  - goes bankrupt
  - owner passes away
- → firm that is owed money : poor administration to collect debts

△ Avoiding Irrecoverable debts

↳ cannot be prevented

- ★ sell for cash only
- ★ establish credit limit for each customer
- ★ give cash discount for prompt payment
- ★ issue invoices promptly
- ★ charge interest on late payment
- ★ refuse further supplies until outstanding bal is paid

△ Why write off ID?

- → total TR wld be overstated
- → CA wld be overstated
- → total assets wld be overstated
- → capital wld be overstated

△ Factors to consider when setting provision for doubtful debts:

(prudence principle)

- ★ experience of late/ non- payment
- ★ length of ~~time~~ debts outstanding
- ★ state of local economy

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4.5 Valuation of Inventory

DATE 08/02/2024

⇨ Inventory stated @ LOWER OF COST & NRV (net realisable value)

*NRV: the actual or estimated selling price less costs to completion & costs incurred } cost of putting into saleable condition

NRV = Expected selling price − expected additional selling expenses

Valuing inventory @ lower of historic cost & NRV

principles of
⇨ Realisation
⇨ Matching
⇨ Prudence

[NRV = ESP − EASE]

5.1 Sole Trader

Selva
Income statement for the year ended 31 Mar 2023

Trading a/c sect

	$	$	$
Revenue			81 741
Less: return inwards			(100)
Net revenue / Turnover			81 641
Less: cost of sales			
Opening inventory		9 270	
Purchases (61 700 – 500)	61 200		
Less: Return outwards	(200)		
	61 000		
Carriage inwards	100		
Import duty	250		
Insurance and freight charges	150		
Wages	2268	63 768	
		73 038	
Less: closing inventory		8 410	64 628
Gross profit			17 013
Rent received (750 + 100)			850
Discount received			300
Irrecoverable debts recovered			150
Profit on disposal of motor van			300
			18 613
Less: Expenses			
Rent and rates (880 – 20)		860	
Light & Heat (246 + 140)		386	
Salaries		6000	
Irrecoverable debts (247 + 160)		407	
Prov for doubtful debts		69	
Insurances (176 – 100)		76	
General expenses		800	
Motor expenses (861 + 100)		961	
Discount allowed		200	
Stationery (130 + 20 – 35)		115	
Carriage outwards		200	
Depreciation – Motor Van		800	
Depreciation – Premises		200	11 074
Profit from operations			7539
Finance cost			
Loan interest (200 + 300)			(500)
Profit for the year			7039

← cost of goods available for sale

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Selva

Statement of financial position as at 31 Mar 2023

	$	$	$
Non-current assets	Cost	Acc dep	NBV
Motor Van	7 000	(3800)	3200
Freehold premises	10 000	(200)	9800
	17 000	4000	13 000
Current assets			
Inventory		8410	
Trade receivables	7 900		
Less: Provision for doubtful debts	(395)	7505	
Other receivables: Prepaid expense (20 + 35)		55	
Accrued income		100	
Bank		11 235	
Cash		850	28 155
Total assets			41 155
Capital and liabilities			
Capital			20 471
Add: profit for the year			7 039
			27 510
Less: Drawings			(2577)
Capital			24 933
doesn't include interest bcuz interest is paid every year			
Non-current liabilities			
Loan (only record principle amount)			10 000
Current liabilities			
Trade payables		5662	
Other payables (Accrued expenses): Light & heat	140		
Motor expenses	100		
Loan interest	300		
Stationery	20	560	6 222
Total capital and liabilities			41 155

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5.2 Partnership

Partnership DATE 19/11/2023

- ★ formed when 2 or more ppl carry on a business tgt with profit intentions
- ★ more than 1, max 20 ★ owners = partners
- ★ more than 20: companies

Δ characteristics: unlimited liability

ADV	DISADV
★ access to more capital	★ less independence than sole traders ↳ decisions hv to be agreed by everyone
★ partners can contribute diverse knowledge, experience & skills	★ partners may be frustrated by other partners' plans for bs
★ can offer more services	★ partner may be legally liable for acts of other partner
★ other partner can cover when 1 partner is gone	

Δ partnership agreement: amount of capital to be contributed by each partner
ratio of profits & losses shared
amounts of partner's salaries
rate of interest on partners' capitals AND drawings
deter partners from overdrawing

If none

- ★ no interest on capital
- ★ no int on drawings
- ★ no salaries
- ★ P&L shared equally
- ★ loan provided r entitled to 5% pa interest

(3 No's)

Profit & loss appropriation acc

	Dr	Cr
PFTY		
Add: interest on drawings		
– Jake		
– Jay		
Less: appropriation		
Interest on capital		
– Jake		
– Jay		
Partner's salaries – Jay		
Share of profits		
– Jake		
– Jay		

fixed capital:

Capital

	Jake	Jay		Jake	Jay
Bal c/d	50	60	Bal b/d	50	60
	50	60		50	60

Current account

	Jake	Jay		Jake	Jay
Int on drawings			Bal b/d		
Drawings			Loan interest		
Bal c/d			Int on capital		
			Partner's salaries		
			Share of profits		
			Bal c/d		
Bal b/d (overdrawn)			Bal b/d		

*residual profit = share of profit

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Typo

Bari and Nada
Draft Statement of Financial Position at 31 December 2018

	$	$	$
Non-current assets			
Premises (100 000 + 120 000)			220 000
Other NCA			92 650
			312 650
current assets			
Trade receivables		25 500	
Less: Provision for doubtful debts		(510)	
Other receivables		910	
Bank		21 890	47 790
Total assets			360 440
capital and liabilities			
capital accounts			
- Bari		150 000	
- Nada		100 000	250 000
current account	Bari	Nada	
Balance b/d	950	(150)	
Interest on capital	7 500	5000	
Partner's salary - Bari	20 000	-	
Share of profit	2718	1812	
	31 168	6662	
Interest on drawing	(660)	(780)	
Drawing	(11 000)	(13 000)	
	(10 340)	(13 780)	
	19 508	(7 118)	12 390
			262 390

△ Problems that may arise if working capital of partners is inadequate:
① unable to repay debts when they fall due
② cannot take adv of cash discounts
③ cannot take adv of business opportunities when they arise

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5.3 Limited Companies

5.3 Limited companies

an organisation owned by shareholders (owners)

☆ the company has separate legal entity from shareholders

☆ liabilities of shareholders limited to amount invested (limited liability)

ADV	DISADV
→ unlimited ownership (shareholders)	→ complicated & expensive to set up
→ limited liability	→ complex financial statements
→ separate legal entity to its owners	

Shares → issued to raise money (capital)

Equity/ Ordinary shares
- ☆ ~~owners of the company~~
- ☆ entitle to vote on proposals made by directors
- ☆ receives share of profit (dividends)
- ☆ paid only after payment to preference shareholders
- ☆ not entitled to fixed rate of dividend

Preference shares
- ☆ ~~family & at most public~~
- ☆ no voting rights
- ☆ right to fixed rate of dividend

* order of payment: creditors → preference shareholders → ordinary shareholders

Authorised Share Capital
- Issued share capital: the amount of capital raised through the issue of shares
  - ~~called-up share capital~~: the part of the issued ~~capital which the holders~~ of the shares are required to pay
    - ~~paid-up share capital~~: the actual amount of ~~money~~ paid by shareholders on the called-up capital
    - unpaid-up share capital
  - ~~uncalled-up share capital~~
- Unissued share capital

* Debentures:
- → long-term loans (NCL)
- → form of capital by borrowing
- → debenture holders are providers of loan capital NOT owners
- → entitled to fixed rate of interest
- → can take legal action against company if interest not paid when due (only creditors can make ltd go bankrupt)

(1)

DATE

Bounty Limited
Income Statement

Less: Expenses		
Director's salaries/fees	x	
Auditors' fees	x	
Loss on disposal of NCA	x	(x)
Profit from operations		x
Finance costs		
Loan interest/ Debenture interest		(x)
Profit before tax		x
Tax		(x)
Profit for the year / Profit after tax		x

(2)

Statement of changes in equity for the year ended ..

	Share capital	General reserve	Retained earnings	Total equity
Bal @ 1 Nov 2022	x	x	x	x
PFTY			x	x
Final dividend paid (for year ended 31 Oct 2022)			(x)	(x)
Interim dividend paid (for year ended 31 Oct 2023)			(x)	(x)
Transfer to general reserve			(x)	
Bal @ 31 Oct 2023	x	x	x	x

~~paid during~~ EOY (this year pay last yr) ← Final dividend

→ paid during ~~the~~ year ← Interim dividend

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3

SOFP as @ 31 Oct 2023

NCA ...		
CA ...		
Total assets		
Equity and liabilities		X
Equity		X
Share capital		X
General reserve		X
Retained earnings		X
Total equity		
Non-current liabilities		
Loan	X	
Debentures	X	X
Current liabilities		
Trade payables	X	
other payables	X	
Tax payable	X	
Bank overdraft	X	X
		X
Total equity and liabilities		

* General reserve: a reserve fund created by keeping aside a part of the profit earned

* Retained earnings: the profit left over after paying direct costs, indirect costs, income taxes and dividends to shareholders

* Debentures: a loan paid over a long period with fixed interest rate

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5.4 Clubs & Societies

DATE 06/01/2024

★ non-profit making organisations
★ Objective: to provide service to members
facilities for members
opportunity for ppl to meet & further common interest
★ req diff form of financial statement than trading organisations

receipts & payments a/c + cash book | SOFP | Income & expenditure a/c (instead of IS)

☐ Receipts & payments a/c → also bank a/c

- summary of the cash book usually prepared
- summarises all money received & payments made for a period

receipts & payments a/c
for the year ended

Receipts	Payments
Bank/cash bal b/d	Wages
Subscription received	Groundsmen's wages
Sale of dinner & dance tickets	General expenses paid
Entrance fees	Dinner & dance expenses
Donations	Bank/cash bal c/d

☐ Subscriptions a/c

- not all subscriptions are paid in an accounting period
  ↳ hence resulting in subscriptions in arrears / advance
  (accrued) (prepaid)

★ Exp: POOP
Inc: OPPO

Subscriptions in arrears	Subscriptions in advance
★ treated as asset	★ treated as liability → cuz now the firm owes their service

(revenue a/c)
subscriptions account

Arrears b/d [O]	Advance b/d [P]
Income & expenditure a/c	Bank
Advance c/d [P]	irrecoverable debts Arrears c/d [O]

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↗ from acc surpluses
☐ Accumulated Fund

- similar to capital acc for sole traders
- accumulated fund = assets − liabilities

☐ SOFP

- similar to that of bs organisation
- BUT no TR cuz customers normally buy on cash basis

N2021/13/11/23 & N2021/12/25

√ **23** A sports club was formed on 1 August 2020. During the year ended 31 July 2021 the club purchased equipment costing $5000, paying by cheque.

In which of the club's financial statements did this appear?

	receipts and payments account (cash, cap & rev, receipts items exp)	income and expenditure account (cash, non-cash, rev exp, receipts)	statement of financial position (assets & liabilities)
A	✓	✓	
B	✓		✓
C		✓	✓
D			✓

DATE

Income & Expenditure a/c

non-profit organisation:

- PFTY = surplus of income over expenditure
- loss FTY = excess of expenditure over income

* may hv profit from club bar/restaurant, this statement of profit/loss shld be opened

Receipts & payments a/c	Income & Expenditure a/c
→ includes money received & paid	→ includes income & expenses
→ no adj for accruals & prepayments	→ adj. for accruals & prepayments
→ only hv monetary items	→ includes non-monetary items
→ bal figure represents bank bal	→ bal figure represents surplus/deficit

Income & expenditure a/c
for year ended 31 Dec 2023

Income		
Subscriptions		X
Donations		X
Entrance fees		X
Bar profit		X
profit from dinner & dance		X
		X
Less: expenditure		
Wages	X	
~~Repairs~~	X	
Groundsmen's wages	X	
Loss from dinner & dance	X	
Depreciation – clubhouse	X	
Donations	X	X
Surplus of income over expenditure / Excess of expenditure over inc		X

Bar/restaurant trading a/c

- prepared when society/club runs bar/restaurant to raise additional funds
- P&L generated shld be transferred to income & expenditure acc

(Normal)

bar/restaurant income statement
for year ended 31 Dec 2023

Revenue		X
Less: COS		
Op inv	X	
Purchases	X	
	X	
Less: Cl inv	X	X
GP		X
Less: expenses		
Bar tender's salaries	X	
Depreciation – Bar's equipment	X	X
PFTY		X

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5.5 Manufacturing A/c

5.5 Manufacturing account → manufacturing a/c → IS/ statement of P&L → SOFP

28/01/2024

shows the cost of running & maintaining the factory in which the final product is made

	Direct materials	Prime Cost	Production cost
	Direct labour		
	Direct expense		
Add:	Indirect factory costs (overheads)		

Costs
- Direct
  - ☆ expenditure that can be identified to 1 unit of product
  - ☆ incurred proportionately with level of production
- Indirect
  - ☆ not directly identifiable with final product

☆ Definitions:

☆ direct material – material from which goods are made

☆ direct labour – wages of workers who actually make the goods

☆ direct expense – fixed sum that has to be paid for every unit of good produced

☆ indirect material – all materials purchased for the factory which do not form part of the goods being produced

☆ indirect labour – wages of workers who do not actually make the goods
E.G. factory managers, supervisors, cleaners

☆ work-in-progress (WIP) – partly finished goods

Manufacturing account

Opening inv of raw materials		X	Direct materia
Purchases of raw materials		X	
Less: purchases returns		(X)	
Less: closing inventory of raw materials		(X)	
cost of raw materials consumed		X	
Direct labour		X	
Manufacturing wages		X	
Manufacturing royalties		X	X
Prime cost		X	
Factory overheads: indirect labour	X		
depreciation	X		
Factory heat/light	X		
Supervisor's salary	X		
Factory insurance	X		
Depreciation	X	X	
Add: opening WIP		X	
Less: closing WIP		(X)	
Cost of production		X	

Income statement

Revenue

Less: COS

op inv of finished goods

cost of production

Less: closing inv of finished goods

Gross profit

SOFP

CA:

Inventories

– Raw materials

– WIP

– Finished goods

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5.6 Incomplete Records

DATE 26/11/2023

5.6 INCOMPLETE RECORDS

→ any method of recording transactions that are NOT based on double entry system
→ can also be when invoices, cheque counterfoils & bank statements are kept only

△ factors to consider when keeping double-entry system:
① acc knowledge & skill of owner
② time available to owner
③ cost of employing staff to prepare records

△ Keeping full acc records:

ADV
★ allows financial statements to be prepared anytime / more than once a yr
★ financial statements can be prepared quickly and soon aft year-end
★ reduces errors & possible fraud by workers if prepared regularly
↳ inv losses picked up earlier

DISADV
★ time consuming to maintain FULL acc records
★ cost
↳ exp to purchase comp package
↳ training course to learn
↳ employ specialist

△ Calculating PFTY (when given op & cl capital)
[PFTY = closing cap − op cap − additional cap + drawings]

△ Income statement ⇒ statement to calculate PFTY // or stays the same
SOFP ⇒ statement of affairs

IS	$	$
Capital @ 31 Dec 2023		x
Add: Drawings		x
		xx
Less:		
Additional capital	x	
cap @ 1 Jan 2023	x	(xx)
PFTY		xx

Statement of affairs

TOTAL ASSETS	
NCA	x
Inv	x
TR	x
Bank	x
Cash	x
	xx
Less: TOTAL LIABILITIES	
TP	(x)
Capital	xx

△ STOLEN GOODS / GOODS LOST IN FIRE

Statement to calculate inv lost in fire

Inv @ 1 Jan 2023	x
Purchases	x
	xx
Less: ~~cs~~ sales @ cost	(x)
Inv @ 17 Mar 2023 before the fire	xx

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(b) Advise Haziq whether or not he should maintain a double entry bookkeeping system for his business. Justify your answer with **two** advantages and **two** disadvantages.

ADV	DISADV
→ can reduce possibility of fraud by employees ✓	→ time consuming ✓
→ more detailed references kept for future ✓	→ increases costs, ✓ reducing profit if bookkeeper is needed to maintain

Haziq should maintain double entry bookkeeping system as it allows financial statements to be drawn more easily ✓ and at any time.

[5] 5

0452/23/O/N/2020

[Total: 20]

6.1 Analysis & Interpretation

Profitability ratios → the higher, the better

(i) Gross margin

$$\frac{\text{Gross Profit}}{\text{Revenue}} \times 100$$

$$\text{Mark up} = \frac{\text{Gross Profit}}{\text{Cost of sales}} \times 100$$

(ii) Profit margin

$$\frac{\text{Profit for the year}}{\text{Revenue}} \times 100$$

(iii) Return on Capital Employed (ROCE)

$$\frac{\text{Net profit before interest}}{\text{Capital employed}} \times 100$$

[Capital Employed = Issued Shares + Reserves + Non-Current Liabilities]

[Working capital = CA − CL] *not total assets − total liabilities

the ability a firm can pay its debts when it falls due ← **Liquidity ratios**

(i) Current ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ (also known as Working Capital Ratio)

(ii) Liquid (Acid test) Ratio = $\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$ (also known as Quick Ratio)

how fast goods can be sold

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

(iv) Trade Receivables Turnover = $\frac{\text{Trade Receivables}}{\text{Credit Sales}} \times 365$ (answer given in days)

(v) Trade Payables Turnover = $\frac{\text{Trade Payables}}{\text{Credit Purchases}} \times 365$ (answer given in days)

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Liquidity ratios

the ↓, the better

the faster u collect the better (more cash available, ↑ liquidity)

- Trade Receivables Turnover or Average Collection Period

not efficient = high TR turnover

$$\frac{\text{trade receivables}}{\text{credit sales}} \times 365 \text{ days}$$

- Shows the average amount of time (in days) it takes for trade receivables (customers) to pay their debts
- *always round up to the next whole day!*

13.2 days => 14 days

=> charge interest on late payment

=> encourage cash payment by offering cash discount

=> good credit management (up-to-date list of TR & keep track, send reminder)

14

Liquidity ratios

the ↑ the better (to a certain extent)

- Trade Payables Turnover or Average Payment Period

If take too long:

=> bad reputation with supplier

$$\frac{\text{trade payables}}{\text{credit purchases}} \times 365 \text{ days}$$

- Shows the average amount of time (in days) it takes for the business to pay its debts (suppliers)
- *always round up to the next whole day!*

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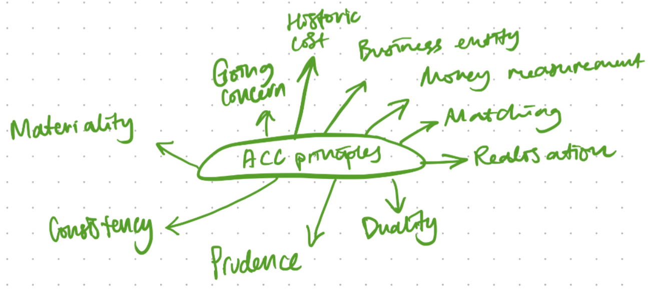
Users of Acc Info

- Internal
  - owners
  - existing shareholders
  - managers
  - workers
- External
  - Banks
  - shareholders/ Investors
  - suppliers
  - customers
  - Gov
  - Local community
  - Trade union

7.1 ACC PRINCIPLES



(1) Going concern:
- assume that business will continue to operate into the foreseeable future & owners have no intention to close down
- assets valued at cost, so ~~sold~~ the value they would fetch if sold is irrelevant

(2) Historic cost:
- actual price paid for asset & expenses should be recorded in accounts
- so value can be checked against amount paid easily
- transactions are recorded at their cost to the business

(3) Business entity
- business is regarded as being separate from owner
- only business' activity should be recorded & reported in its financial statement
- the only time the owner's personal resources are recorded: when they introduce new capital to the business from their own funds

(4) Money measurement
- only transactions that can be expressed in monetary terms are recorded in ledger a/c
- reasons to use money as a form of measurement:
  - ★ widely accepted as a form of payment
  - ★ recognised & accepted measure of value
  - ★ easy to compare the performance of different businesses
- things that cannot be recorded in financial statements (they don't have definite monetary value):
  - ★ skills & motivation of workforce
  - ★ no. of staffs employed
  - ★ loyalty of customers
  - ★ location of business

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DATE

(5) Matching

- Expense must be matched against the revenue earned for the year
- regardless of whether they've been paid or not
- accrued income & expenses are still included in

- ensures correct amount of revenue & expenses for the period are entered in income statement
- revenue & expenses not over/understated
- ensures profitability ratios can be relied upon for decision making

(6) Prudence

- Anticipate all losses, recognise profits only when realised
  when title of goods passes to customer
- Revenues & profits are only included in accounts when they're realised / their realisation is reasonably certain
- Uncertainty: always exercise caution / ensure gains & losses are not overstated / understated
- prudent to include provision for doubtful debts - shows realistic amount
  ↳ in case trade receivables cannot be collected

(7) Materiality

- some expenditures are less significant in business context
- absolute precision in recording such items is not essential (not worth time, cost & effort)
- If the inclusion/exclusion of the info in the financial statement would mislead users, then info is material
- more sensible to list small expenses as sundry expense

(8) Consistency

- transactions of similar nature should be recorded in the same way — depreciation
- In the same accounting period & in all future periods
- ensures that profits/losses of diff periods may be compared meaningfully
- business should only really change its a/c methods if new methods give more appropriate financial results

(9) Duality

- every transaction has 2 aspects & should be recorded in double-entry a/c (as Dr & Cr)
- must be recorded as Dr & Cr bwz:
  ☆ Each transaction will affect assets of business
  ☆ " " capital / liabilities

(10) Realisation

☆ [illegible]
- not the time when order is received / customer pays

Revenue is regarded as being earned when title of goods is passed to customers.

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ACCOUNTING POLICIES (7.2 @syllabus)

DATE 17/08/2023

⇒ Overview: 1) Comparability 3) Reliability
2) Relevance 4) Understandability

⇒ To overcome differences in Accounting practices, International Financial Reporting Standards (IFRS) have been enforced. They are developed & issued by the International Accounting Standards Board (IASB).

⇒ Goal of IASB: create global standards in accounting & financial reporting
clear, easy to understand

⇒ Having same acc reqs in every country reduces time & cost to global businesses on preparing their financial statements.

⇒ Role of International Accounting standards:

1) Improve COMPARABILITY of financial statements
- the standards narrow the variety of acc methods (so easier to compare)
- It should be possible to identify similarities or differences between information about the company in a previous period or other companies

2) Improve RELEVANCE of financial statements
- Info should have the ability to influence the economic decision of users of the statement
- provided in time to influence those decisions

3) Improve RELIABILITY of financial statements
- Info is free from bias and complete within the bounds of materiality & prudently prepared
- If these info are not reliable, fewer people will risk their money buying shares

4) Improve UNDERSTANDABILITY of financial statements
- Info should be understood by users with reasonable knowledge of business & accounting
clear ~~well presented~~ clear

⇓

Such users are sometimes called "Economically aware"

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Typo

ACC terms

*terms in **bold** have been asked in previous papers
*terms in *italic* are just for better understanding

1	Bookkeeping	The process of recording data relating to financial transactions in the accounting books
	Accounting	The process of identifying, measuring and communicating economic information to permit informed judgements and decisions by users of that information
	Drawings	Assets taken by owner from the business for own use
3.1	Trial balance	A statement of ledger balances on a particular date
3.4	Control account	Account containing total of all postings made to accounts in a particular ledger
4.1	Capital expenditure	Money spent on non-current assets lasting more than a year
	Revenue expenditure	Money spent on day-to-day expenses used up in less than a year
4.2	Depreciation	An estimate of the loss in value of non-current assets over its useful economic life
4.4	Irrecoverable debts	Created when goods/services are sold on credit and payment for these has not materialised
4.5	Valuation of inventory	Inventory stated at lower of cost and net realisable value
	Net realisable value	The actual or estimated selling price less cost of putting it into saleable condition
5.2	Residual profit	Share of profit
5.3	Limited companies	an organisation owned by shareholders with separate legal entity
	Ordinary shares	people who own these shares are owners of the company entitled to vote on proposals made by directors
	Preference shares	people who own these shares do not have voting rights but have a fixed rate of dividend
	Interim dividend	dividend paid during the year ar
	General reserve	A reserve fund created by keeping aside a part of the profit earned
	Retained earnings	The profit leftover after paying direct costs, indirect costs, income taxes & dividends to shareholders
	Debentures	A loan paid over a long period with fixed interest rate

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5.4	**Accumulated fund**	**Surpluses which accumulate over the years. Also equivalent to capital of a business**
	Subscriptions	**Amount paid by members of a club to use facilities provided by the club**
	Receipts & payments account	**Amount summarising the money received and paid by a club during a financial year**
5.5	Direct material	material from which goods are made
	Direct labour	the wages of the workers who actually made the goods
	Direct expense	Fixed sum that has to be paid for every unit of good produced
	Direct costs	Expenses resulting from the production of goods and services
	Indirect material	All materials purchased for the factory which do not form part of the goods being produced
	Indirect labour	Wages of workers who do not actually make the goods (e.g. factory managers, supervisors, cleaners)
	Overheads/ Indirect costs	Costs that aren't directly related to the production of goods or services, but are necessary for the operation of a business
	Work in progress (WIP)	*Partly finished goods*
6	*Profitability ratios*	*A group of ratios which will help to assess the profitability over a period of time*
	Gross margin	*Shows how much gross profit each dollar of revenue generates*
	Mark-up	*How much the business marks-up its cost of sales to arrive at the selling price*
	Profit margin	*How much profit for the year is generated from revenue*
	Return on capital employed (ROCE)	*The amount of profit in cents in relation to each $1 of capital used within the business*
	Liquidity ratios	*A measure of how well the company is able to pay its day-to-day operations*
	Current ratio/working capital ratio	*Shows the current assets available to pay its current liabilities when it falls due*
	Liquid (acid test) ratio/ quick ratio	*Shows the proportion of liquid assets that is available to pay the current liabilites*
	Rate of inventory turnover	*Shows the number of times the inventory is sold during a financial period*

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	Trade receivables turnover	*Shows the average amount of time (in days) it takes for TR to pay their debts*
	Trade payables turnover	*Shows the average amount of time (in days) it takes for the business to pay its debts*
7	Duality	Every transaction has 2 aspects and shoult be recorded in double-entry account
	Prudence	Anticipate all losses, recognise profits only when realised
	Matching	Expenses matched with revenue earnt for the year
	Realisation	Revenue is regarded as being earnt when title of goods are passed to customers
	Consistency	Transactions of similar nature should be recorded in the same way in the same accounting period & all future periods
	Materiality	Absolute precision in recording items which are less significant in business context is not needed
	Going concern	Assumes that business will continue to operate in its foreseeable future & owners have no intention of closing down
	Historic cost	Transactions should be recorded at their cost to the business
	Business entity	Business is regarded as being separate from owner
	Money measurement	Only transactions that can be expressed in monetary terms are recorded in the ledger accounts

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