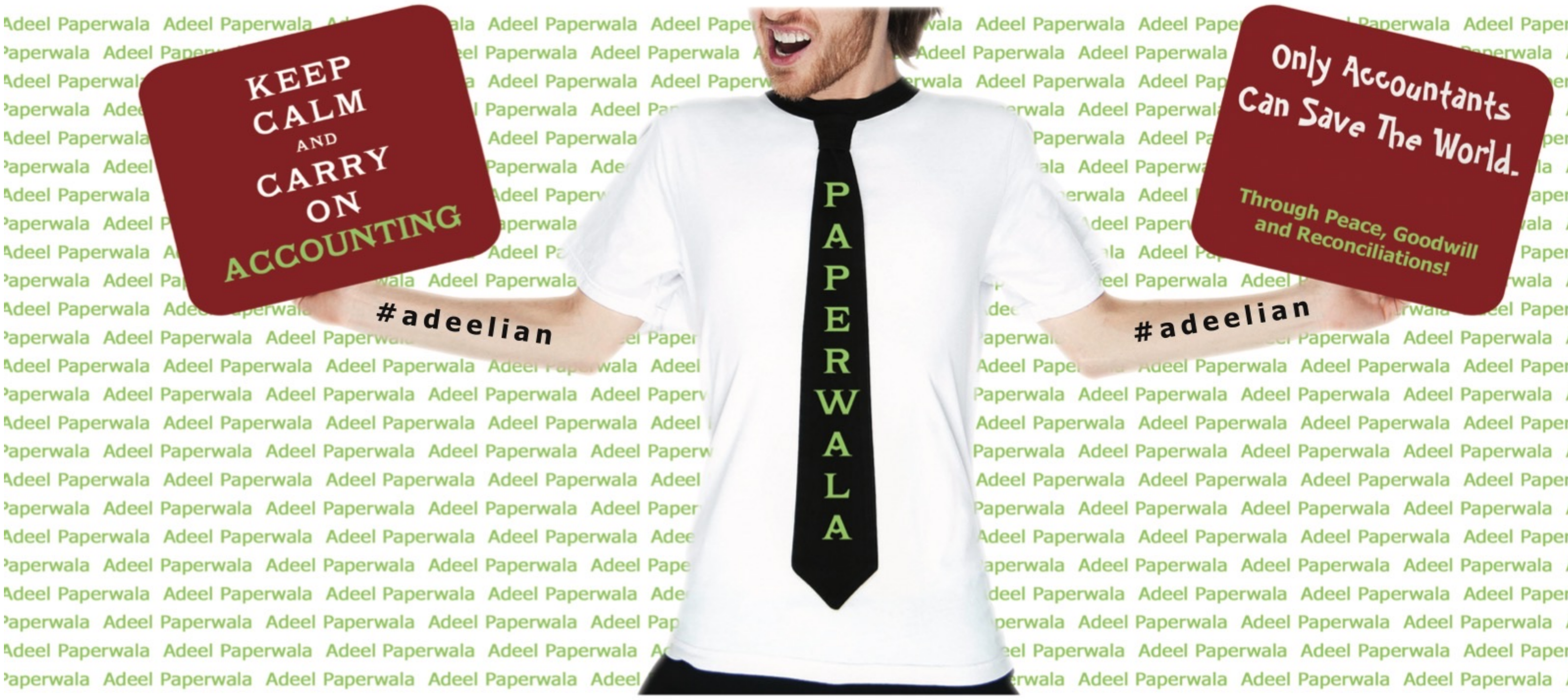
Topic 8



Financial Statements of Sole Trader

Financial Statements of Sole Trader

Forms of Business Organisations

Sole Trader	Partnership	limited Company
•A business activity commenced operated and run by a single owner •All investment is made by a single individual and all profit/loss belongs to him	where 2-20 people merge their financial resources to perform a business activity with an aim of making profit and sharing profit	large scale businesses where finance and capital is raised by issue of shares and in return the shareholders receive dividends.

Accounting Cycle

Transaction/Event

↓

Books of Original Entries → use for listing of transaction

↓

← T-Account/Ledgers → part of double entry system

Dr Cr

Debit Credit

↓

list of remaining balances on ledger ← Trial Balance

↓

Final Accounts/Financial Statement

Income Statement

↓

to calculate the performance & profitibility of any business organisation

Statement of financial position (Balance Sheet)

↓

to determine the net worth or financial worth of a business

Components of Financial Accounting

1. Assets: Economic resources
2. Liabilities: Financial Obligations/ Amount Payable
3. Capital/ Equity: Investment made by the owner

} Statement of Financial Position

4. Revenue/ Income: Amount generated by providing services or by selling goods
5. Expense: Cost incurred in managing and operating the business

} Income Statement

Income Statement

Trading Section
- To calculate gross profit

Profit/ Loss Section
- To calculate net profit

Gross Profit

Difference between cost price and selling price

Gross Profit = Net Sales (−) Cost of Sales

Net Profit = Gross Profit + Other Income (−) expenses

Net Sales = Sales Revenue (−) Sales Returns/Return Inwards/Returns from customer

Cost of Sales = Opening inventory + Net Purchases (−) Closing Inventory

Net Purchases = Purchases (−) Purchases Returns/ Return Outwards/ Returns to suppliers + Expenses incurred directly (Direct Expenses).

Examples of expenses to be added to purchases:

- transportation costs/ carriage on purchases/ carriage inwards
- freight charges
- import duty/ custom duty
- repacking cost
  - material related
  - labour related

Examples of other income and gains:

1. Rent received
2. Commission received
3. Discount received
4. Interest / Dividend received
5. Profit / Gain on Disposal [sale of asset above netbook value]

	$	
Cost =	200000	
Dep. =	(80000)	[200000 x 20% = 40000 x 2 year]
netbook value =	120000	
sale proceed	130000	
gain / profit on disposal	10000	

6. Bad debts recovered

Bad Debts [Expense]

The credit customers who are unable to settle their debts are called bad debts.

Reasons for bad debts

1. Fraud or untraceable customers
2. Bankrupt or insolvent

Bad debt Recovered

The customers who were previously written off as bad debt if pay the amount are referred as bad debt recovered.

7. Decrease in provision for doubtful debts

Examples of Expenses

Administration expense
Selling and Distribution cost
Carriage outwards / carriage on sales
Advertising cost / marketing costs
wages and Salaries
Rent, Rates and Insurance
Discount Allowed
Bad debt
Increase in provision for doubtful debt* [will be discussed later]
loss on disposal [sale of asset below netbook value]
Interest expense / Finance Cost
Water and Electricity / Power / Heat and light
Telephone expense / communication expense
Depreciation of non current assets* [will be discussed later]
Sundry expenses / Miscellaneous expenses
Bank charges
General expenses

Income Statement

Who? → Adeel

Which? → Income Statement for the year ended 31 December 2020 → When?

	$	$
Sales Revenue		700000
(-) Sales Returns / Return inwards		(30000)
Net Sales		670000
(-) Cost of Sales		
opening inventory	20000	
+ purchases	340000	
+ carriage inwards	2000	
+ freight charges	7000	
+ custom duty / import duty	1000	
+ repackaging cost	5000	
(-) Purchase returns / return outwards	(4000)	
(-) drawings / goods withdrawn	(6000)	
(-) Closing inventory	(35000) →	(330000)
Gross Profit		340000
+ Other Income and gains		
Rent receivable / Rental Income	7000	
Commission received	500	
Interest received	300	
Discount received	700	
Gain on disposal	2000	
Decrease in provision for doubtful debt *	500	
Bad debt recovered	1000 →	12000
		352000

	$	$
(-) Expenses		
Administration expense	22000	
Selling and Distribution cost	30000	
Carriage outwards / Carriage on sales	500	
Advertising cost	10000	
Wages and Salaries	7500	
Rent and Rates	8000	
Discount Allowed	2000	
Bad debt	300	
Increase in provision for doubtful debt *	700	
loss on disposal	14000	
Interest expense	1700	
Electricity	42000	
Telephone expense	2300	
Depreciation :- office fixtures	45000	
motor vehicles	12400	
Sundry expenses	600	
Heat and light	3000	(202000)
Net Profit / ~~(Net loss)~~		150,000

INTRODUCTION TO COST AND MANAGEMENT ACCOUNTING

Cost / Expense:- Outflow of resources.

Business Activities

Trading	Manufacturing	Service
• Businesses involved in buying and selling of goods	• Businesses involved in production of goods	• Businesses involved in providing services and services are intangible.
• Deal only in finished goods	• Purchase raw material • Converts them into finished	• Do not hold any inventory

Stages of Manufacturing

1. Input [raw material] → 2. Process → 3. Output [finished goods]

Process ↓ Conversion Cost → Labour + Overheads

Labour → manual [labour intensive] ; machine operator [capital intensive]

Labour intensive business:- Business organisations dependant on manual labour rather than technology and machinery.

Capital intensive business:- Business organisations which are more dependant on machines rather than manual labour.