

Final Accounts

Trial Balance

The trial balance is an accounting list that shows the closing balances for all accounts included in the set of books. This Trial Balance makes it possible to see whether or not the total debits for the period are equal with the total number of credits for the same period.

The following Trial Balance was extracted from the books of Nerney Ltd. on 31 May, 1998. The Authorised Share Capital is 350,000 IR£1 ordinary shares.

	DR. IR£	CR. IR£
Purchases and Sales	43,000	195,000
Sales Returns	5,000	
Debtors and Creditors	23,000	12,000
Carriage Inwards	6,400	
Opening Stock 1/6/1997	7,000	
Commission Received		2,000
Dividends paid	37,500	
Machinery	245,000	
Motor Vehicles	66,000	
Cash	1,100	
Insurance	9,000	
Wages	24,000	
Bank Overdraft		4,000
Advertising	7,000	
Issued Share Capital: 250,000 IR£1 ordinary shares		250,000
Reserves (Profit and Loss Balance)		11,000
	474,000	474,000

Assets and Expenses in
Dr (Debit) Column

Liabilities and Gains in
Cr (Credit) Column

You are required to prepare the company's Trading, Profit and Loss and Appropriation Account for the year ended 31 May, 1998 and a Balance Sheet as at that date.

You are given the following information as at 31 May, 1998:

- (i) Closing Stock IR£13,000
- (ii) Carriage Inwards due IR£600
- (iii) Wages due IR£8,000
- (iv) Insurance prepaid IR£3,000
- (v) Depreciation: Machinery 6%; Motor Vehicles 12%. (35)

Adjustments

D. Kelly

Trading Account

The Trading, Profit and Loss and Appropriation A/C of Nerney Ltd for the year ended 31/5/1998

Sales		195000		
less Sales Returns		-5000	190000	
<u>less Cost of Sales</u>				
Opening Stock		7000		
Purchases		43000		
less Purchases Returns		-		
Carriage inwards	6400			
Carriage inwards due	600	7000		
Custom Duties		-		
Cost of Good available for Sale		57000		
less Closing Stock		-13000		
Cost of Sales			-44000	
Gross Profit			146000	
Add:				
Commission Received			2000	
			148000	
<u>Less Expenses and Losses</u>				
Insurance	9000			
Insurance Prepaid	-3000	6000		
Wages	24000			
Wages due	8000	32000		
Advertising		7000		
Depreciation: Machinery		14700		
Depreciation: Motor Vehicles		7920		
			-67620	
Net Profit			80380	
Add: Opening P&L			11000	
			91380	
<u>Less Appropriations</u>				
Dividend Declared 15 %			-37500	
Retained Earnings			53880	

The goal of the Trading Account is to find out if the business made a profit or loss from its buying and selling activities only.

Sales: Amount of products you sold in €. If there are Sales Returns you take them away from the Sales figure, as they reduce the value of your sales. Perhaps you sold faulty goods and they are being returned to you

Cost of Sales: This is a heading. We are trying to find out how much it cost the business to make those sales.

- **Opening Stock:** The amount of stock you have left over from the previous financial year.
- **Purchases:** The amount of stock you purchased during the financial year. If there are purchases returns, you take them away from your purchases figure. Perhaps you purchased faulty goods and you are returning them to your supplier
- **Import Duties/ Customs Duties:** The cost of bringing your purchases into Ireland from outside the EU
- **Carriage Inwards:** The transport costs associated with getting the businesses purchases to their shop/factory etc
- **Cost of Goods Available for Sale:** How much did it cost the business to have its stock for sale to its customers. You get this figure by adding together Opening Stock, Purchases, Import Duties and Carriage Inwards

The business did not sell all of its stock during the financial year. It had some left over and carried this into the next financial year. This is the case with most businesses. They will never have sold all of their stock on the exact last day of their financial year. We call the stock they carry into next year the closing stock. It is found in the adjustments.

The Cost of Sales figure is calculated by **taking away the closing stock** from the **Cost of Goods Available for Sale**. This makes sense. We want to find out how much it actually cost the business to make its Sales. It did not sell its closing stock! It is left over. Therefore we do not include it.

Gross Profit: This is the profit a business makes from its buying and selling activities. It does not include any expenses attached to running the business like wages, light & heat, delivery. How do we get this figure? We have the sales figure (Net Sales). We have the cost of making those sales (Cost of Sales). We subtract one from the other. If Sales are bigger than the Cost of Sales, the business has made a gross profit. If Cost of Sales are bigger than Sales, the firm has made a Gross Loss.

Profit & Loss and Appropriation Account

The business may have incomes other than sales. Perhaps it rents a premises, or earns interest on savings, or gets paid a commission for selling a certain product. These incomes are **added to gross profit.**

The expenses are then outlined. Don't forget that depreciation is included as an expense.

Expenses are totalled and taken away from the gross profit + incomes figure.

The result of this is **Net Profit:** Profit after expenses.

The company may have some reserves from last year. This is profit from last year that was not given to shareholders. It is added to the net profit figure.

Appropriation Account

To appropriate means to divide up. Here is where we take away the **dividend** (profit given to shareholders) to get **Retained Earnings**. If the dividend figure **is in** the Trial Balance, it has already been paid and is entered only in the Appropriation Account. If, in the adjustments, you see "Dividend Declared" it means it has not been paid and must be entered in the Appropriation Account and the Current Liabilities (as it is still owed by the company to its shareholders). Dividend Declared is calculated as a percentage of **Issued** Share Capital.

NB: Always Title and Date your Trading, Profit and Loss and Appropriation Account as in example above

Balance Sheet

A balance sheet is a statement of the total **assets** and **liabilities** of an organisation at a **particular date** - usually the last date of an accounting period.

<u>Fixed Assets</u>	Cost	Depreciation	NBV
Machinery	245000	-14700	230300
Motor Vehicles	66000	-7920	58080
	311000	-22620	288380
<u>Current assets</u>			
Closing Stock	13000		
Debtors	23000		
Bank	-		
Cash	1100		
Insurance Prepaid	3000		
		40100	
<u>Current Liabilities</u>			
Creditors	12000		
Carriage Due	600		
Wages Due	8000		
Bank Overdraft	4000		
		-24600	
Working Capital			15500
Total Net Assets			303880
<u>Financed By:</u>			
	Authorised	Issued	
€1 Ordinary Share Capital	350000	250000	
<u>Long-term Liabilities</u>			
Loan		-	
<u>Reserves</u>			
Retained Earnings		53880	
Total Capital Employed			303880

Part 1

Part 2

The balance sheet of a company will change day to day, as the value of its assets and liabilities change.

The balance sheet is split into two parts:

(Part 1) A statement of **fixed assets, current assets** and the **liabilities** (referred to as "**Total Net Assets**")

(Part 2) A statement showing how the Total Net Assets have been financed

NB: Always Title and Date your Balance Sheet as above, as the balance sheet is a snapshot of a company at any given time.

Fixed Assets

Here we outline the long-term assets of the business. Land, Buildings, Vans, Fixtures and Fittings, Computers, Plant, Machinery. A "fixed asset" is an asset which is intended to be of a permanent nature and which is used by the business to provide the capability to conduct its trade. Do not forget that fixed assets can lose value over time. We call this depreciation. Be sure to depreciate the fixed assets before calculating the Total Fixed Assets figure.

Current Assets

An asset whose value is affected by the normal daily transactions of the business. Their value will change within one year. Always written as follows:

- Closing Stock
- Debtors
- Banks
- Cash
- Expenses Prepaid

Current Liabilities

A debt owed by the business usually to be paid within one year

Working Capital

The money available for the day to day running of the business. You get this figure by subtracting Current Liabilities from Current Assets. If Current Assets are greater than Current Liabilities, the Working Capital is positive. If the Current Liabilities are great than the Current Assets, the Working Capital is negative.

Total Net Assets

Add the Total Fixed Asset figure to the Working Capital figure (if the working capital figure is negative you subtract it from the fixed asset figure)

Financed By:

This section shows where a company obtained its finances from to run the business.

Share Capital

Authorised Share Capital: The total amount of shares a company has issued.

Issued Share Capital: The amount of shares a company has sold.

Long Term Liabilities: A debt that is not due for repayment within the coming year.

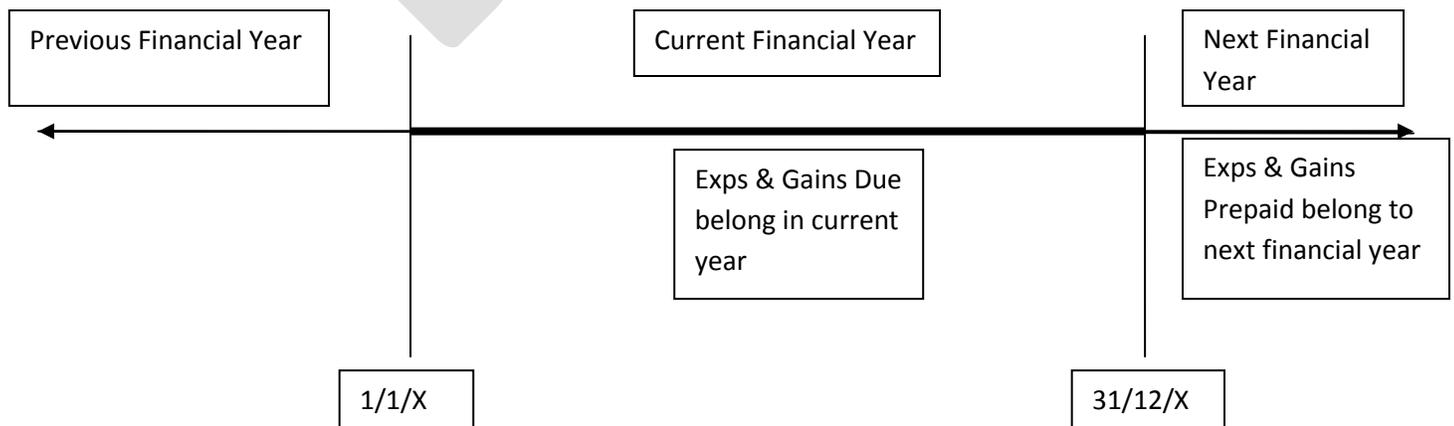
Reserves: The profit or loss from the Trading Profit and Loss is included here

Capital Employed: The total amount of money a company has working for it. Made up of **Issued** Share Capital, plus Loans, plus Retained Profit

Adjustments

The information provided in the Trial Balance show what actually happened during the financial year. It may not always be up to date. In order for the Final Accounts to give a true and fair view of the business, it is necessary to update the information by adjusting some figures. **All adjustments must be entered twice in the final accounts**

Due and Prepaid



When doing the accounts we are only interested in including the figures in final accounts that apply to the financial period we are looking at. If we **include** or **do not include** certain items we will not be giving a true and fair view of the financial position of the company.

Always **add** amounts **due** to the Trial Balance figure. See Carriage Inwards and Wages in example above. Remember, all adjustments must be entered twice.

- Expenses Due are included in Current Liabilities. See example above
- Gains due are included in Current Assets.

Always **subtract** amounts **prepaid** from the Trial Balance figure. See Insurance in example above. Remember, all adjustments must be entered twice.

- Expenses prepaid are included in Current Assets. See Insurance in example above.
- Gains prepaid are included in Current Liabilities.

Dividend Declared must be entered in the Appropriation Account **and** in Current Liabilities

Closing Stock is entered in the Trading Account **and** in Current Assets