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Figure 18 - Decline in profit

	2000	2000	2000	2000	2000	2000
	Actual		Actual		Budget	
	\$	%	\$	%	\$	%
Revenue						
Cash sales	367 125	78.09	351 450	76.83	366 000	76.57
	100		95.73		99.69	
Credit sales	103 000	21.91	106 000	23.17	112 000	23.43
	100		102.91		108.74	
Total revenue	470 125	100	457 445	100	478 000	100
	100		97.3		101.68	

Figure 19 - Decline in profit

	2000	2001	Magnitude and direction	Fav/ Unfav	2002	Magnitude and direction	Fav/ Unfav
NP/OE ROI	80.20%	40.90%	Decrease by 49%	Unfav	45.90%	Increase by 12.2%	Fav
GP/sales							
NP/sales							

Figure 20 - business upwardly values premises

Premises	20 000	
Capital		20 000
Revaluation of premises		

Figure 21a - Balance day adjustments

General journal

30 Jun.	Advertising expense	1 000	
	Prepaid advertising expense		1 000
	Advertising expense allocated to this period		
31 Dec.	Advertising expense	1 000	
	Prepaid advertising expense		1 000
	Advertising expense allocated to this period		



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Figure 21b - Balance day adjustments

General Ledger

Prepaid advertising expense

1 Jan.	Bank	6 000	30 Jun.	Advertising expense	1 000
				Balance	
		6 000			6 000
1 Jul.	Balance	5 000	31 Dec.	Advertising expense	1 000
				Balance	4 000
		5 000			5 000

Advertising expense

30 Jun.	Prepaid advertising expense	1 000	30 Jun.	Profit and Loss a/c	1 000
31 Dec.	Prepaid advertising expense	1 000	31 Dec.	Profit and Loss a/c	1 000

Figure 22 - The accounting period

Expenses

begin	<i>prepaid expenses</i>	begin	<i>accrued expenses</i>
end	BANK	end	PROFIT AND LOSS A/C
end	<i>accrued expenses</i>	end	PREPAID EXPENSES

Revenue

begin	<i>accrued revenue</i>	begin	<i>prepaid revenue</i>
end	PROFIT AND LOSS A/C	end	BANK
end	<i>prepaid revenue</i>	end	ACCRUED REVENUE

Figure 23a - Recording Prepaid expenses

Date	Accounts	Debit	Credit
31 Mar.	Prepaid advertising	900	
	Advertising		900
	Advertising paid in advance		
31 Mar.	Profit and Loss a/c	2 100	
	Advertising		2 100
	Advertising posted to Profit and Loss a/c		
1 Apr.	Advertising	900	
	Prepaid advertising		900
	Reversing entry		



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Figure 23b - Recording Prepaid expenses

In the ledger

Advertising

1 Mar.	Bank	3 000	31 Mar.	Prepaid advertising	900
				Profit and Loss a/c	2 100
		3 000			3 000
1 Apr.	Prepaid advertising	900			

Prepaid advertising

31 Mar.	Advertising	900	1 Apr.	Advertising	900
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Profit and Loss account

31 Mar.	Advertising	2 100			
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Figure 24a - Recording accrued expenses

Date	Accounts	Debit	Credit
31 Mar.	Wages	300	
	Accrued wages		300
	Wages owing		
31 Mar.	Profit and Loss a/c	3 900	
	Wages		3 900
	Wages posted to Profit and Loss a/c		
1 Apr.	Accrued wages	300	
	Wages		300
	Reversing entry		

Figure 24b - Recording accrued expenses

In the ledger

Wages

1 Mar.	Bank	3 600			
	Accrued wages	300		Profit and Loss a/c	3 900
		3 900			3 900
			1 Apr.	Accrued wages	300

Accrued wages

1 Apr.	Wages	300	31 Mar.	Wages	300
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Profit and Loss account

31 Mar.	Wages	3 900			
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Figure 25a - Recording accrued revenue

General journal

Date	Accounts	Debit	Credit
31 Mar.	Accrued rent revenue	400	
	Rent revenue		400
	Rent revenue owing		
31 Mar.	Rent revenue	2 400	
	Profit and Loss a/c		2 400
	Rent revenue posted to Profit and Loss a/c		
1 Apr.	Rent revenue	400	
	Accrued rent revenue		400
	Reversing entry		

Figure 25b - Recording accrued revenue

In the ledger

Rent revenue

			31 Mar.	Bank	2 000
31 Mar.	Profit and Loss a/c	2 400		Accrued rent revenue	400
		2 400			2 400
1 Apr.	Accrued rent revenue	400			

Accrued rent revenue

1 Mar.	Accrued rent revenue	400	1 Apr.	Accrued rent revenue	400
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Profit and Loss account

			31 Mar.	Rent revenue	2 400
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Figure 25c - Recording Prepaid revenue

General journal

Date	Accounts	Debit	Credit
31 Mar.	Commission revenue	500	
	Prepaid commission revenue		500
	Commission revenue owing		
31 Mar.	Commission revenue	3 500	
	Profit and Loss a/c		3 500
	Commission revenue posted to Profit and Loss a/c		
1 Apr.	Prepaid commission revenue	500	
	Commission revenue		500
	Reversing entry		



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Figure 25d - Recording Prepaid revenue

In the ledger

Commission revenue

31 Mar.	Prepaid commission revenue	500	31 Mar.	Bank	4 000
	Profit and Loss a/c	3500			
		4 000			4 000
			1 Apr.	Prepaid commission revenue	

Prepaid commission revenue

1 Apr.	Prepaid commission revenue	500	31 Mar.	Prepaid commission revenue	500
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Profit and Loss account

			1 Mar.	Prepaid commission revenue	500
--	--	--	--------	----------------------------	-----

Figure 26a - Depreciation

General journal

30 Jun.	Depreciation of Pizza Oven	1 500		
	Accumulated depreciation of Pizza Oven			1 500
	Pizza Oven depreciated at straight line for 6 years.			
	Profit and Loss account	1 500		
	Depreciation of Pizza Oven			1 500
	Depreciation posted to Profit and Loss account.			

Figure 26b - Record Prepaid revenue

In the ledger

Depreciation of Pizza Oven

30 Jun.	Accumulated Depreciation of Pizza Oven	1 500	30 Jun.	Profit and Loss a/c	1 500
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Accumulated depreciation of Pizza Oven

			30 Jun.	Depreciation of Pizza Oven	1 500
--	--	--	---------	----------------------------	-------

Profit and Loss account

30 Jun.	Depreciation of Pizza Oven	1 500			
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Financial Accounting Resources

Figure 27 - Sample asset register

Asset - computer

Model number	999 999 999
Make	IBM
Supplier	IBM
Xwell	\$4 000
Purchase date	1.7.2001
Estimated life	3 years
Depreciation rate	0.4
Depreciation method	Diminishing balance
Ledger a/c number	A11
Insurer	Xwell
Policy number	221 221
Sum insured	Replacement value
Estimated disposal value	\$900
New/second hand	New

Date	Details	Depreciation	Accumulated depreciation	Unexpired cost
1.7.2001	Purchase			4 000
30.6.2002	Depreciation	1 600	1 600	2 400
30.6.2003	Depreciation	960	2 560	1 440



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Figure 29a - Bad and doubtful debts

General journal

	\$	\$
Bad debts	200	
Debtors		200
Bad debt recorded against debtors		

Figure 29b - Bad and doubtful debts

General journal

	\$	\$
Period 1 Doubtful debts	500	
Allowance for doubtful debts		500
Allowance created for doubtful debts		
Period 1 Profit and Loss a/c	500	
Doubtful debts		500
Doubtful debts posted to Profit and Loss a/c		

Figure 29c - Bad and doubtful debts

General journal

	\$	\$
Period 2 Bad debts	450	
Debtors		450
Bad debt recognised for debtors		
Period 2 Allowance for doubtful debts	450	
Bad debts		450
Doubtful debts posted to Allowance for doubtful debts		



Financial Accounting Resources

Figure 29d - Bad and doubtful debts

General ledger

Doubtful debts

Period 1	Allowance for doubtful debts	500	Period 1	Profit and Loss a/c	500
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Allowance for doubtful debts

Period 2	Bad debts	450	Period 1	Doubtful debts	500
----------	-----------	-----	----------	----------------	-----

Debtors

			Period 2	Bad debts	450
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Bad debts

Period 2	Debtors	450	Period 2	Allowance for doubtful debts	450
----------	---------	-----	----------	------------------------------	-----

Figure 30 - The cash budget

Cash budget for the month ending 31 May

Bank balance 1 May		2 100
+ estimated cash receipts		
Cash sales	4 000	
Debtors	5 000	
Capital	2 500	
Loan (received)	3 000	
Sale of equipment	1 000	
		15 500
		17 600
- estimated cash payments		
Cash purchases	2 400	
Expenses (paid)	3 600	
Drawings	2 000	
Loan (repaid)	1 000	
Vehicles	6 000	
		15 000
Bank balance 31 May		2 600



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Figure 31 - Debtors ageing analysis

Debtors	Age of debt			
	0-30 days	30 - 60 days	60 - 90 days	+ 90 days
	\$	\$	\$	\$
Noosa	2 000	10 000		
Gladstone	20 000	8 000	3 000	
Bundaberg			2 000	5 000
%	44%	36%	10%	10%

Figure 32a - Improve debt collection

Month	Credit sales	October	November	December
August	30 000	9 000	6 000	
September	40 000	20 000	12 000	8 000
October	60 000		30 000	18 000
November	50 000			25 000
December	70 000			
Total		29 000	48 000	51 000

Figure 32b - Improve debt collection

Month	Credit sales	October	November	December
August	30 000			
September	40 000			
October	60 000			
November	50 000			
December	70 000			
Total				



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Figure 34 - Cash variance analysis

	Budget	Actual	Variance	Favourable (F)/ Unfavourable (UF)
	\$	\$		
Bank balance - 1 Jan.	4 000	4 000		
+ Cash receipts				
Cash sales	18 800	16 800	-2000	UF UF
Debtors	4 000	7 600	+ 3 600	F F
Capital	11 600	23 000	+ 11 400	F F
Total cash received	38 400	51 400	+ 13 000	F F
- Cash payments				
Advertising	800	300	500	F F
Sales commission	500	200	300	F F
Vehicles	10 000	12 000	- 2 000	UF UF
Wages	8 000	10 000	- 2 000	UF UF
Creditors	3 000	2 000	+ 1 000	F F
Drawings	5 000	4 000	+ 1 000	F F
Loan	5 000	6 500	- 1 500	UF UF
Rent	1 000	1 100	-100	UF UF
Total cash payments	33 300	36 100	- 2 800	UF UF
Bank balance - 31 Dec.	5 100	(15 300)	10 200	F F

Figure 35 - Bad debts

Date	Account	Debit	Credit
15 Nov.	Bad debts	450	
	Debtors		450
	Debtors account written off as not recoverable		

Figure 36 - Sales returns

General journal

Date	Account	Debit	Credit
25 Feb.	Sales return	120	
	Debtors control (Stewart)		120
	Goods returned by Stewart		



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Figure 37 - Examples of cash flow items

OPERATING	INVESTING	FINANCING
cash inflow	cash inflow	cash inflow
cash sales/cash fees	selling of a non-current asset; e.g. motor vehicles	additional cash capital
cash received from debtors for goods and services		loan received
cash outflow	cash outflow	cash outflow
cash purchases	buying non-current asset; e.g. equipment	cash drawings
cash payments to creditors		loan repaid
cash payment of expenses		

Figure 38a - historical cash flow statement table

Profit items	Cash/profit items	Cash items
Depreciation	Credit sales/debtors	Drawings
Bad/doubtful debts	Credit purchases/creditors	Loans
Discounts	Incurred/paid expenses	Buy/sell non-current assets
Stocks	Earned/received revenues	Bank
Stock loss/gain		Capital
Profit/loss on sale of non- current assets		



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Figure 38b – Sample Cash flow statement

Alligator Supplies

Cash flow statement for the year ending 30 June, 2000

Operating activities		
Cash inflow		
Cash sales	30 000	
Receipts from debtors	59 200	
Rent revenue	1 600	
Cash outflow		
Cost of sales	(30 000)	
Expenses	(27 000)	
Payments to creditors	(15 000)	
Net cash inflow from operations		18 800
Investing		
Cash outflow		
Buying of equipment		(10 000)
Financing		
Cash inflow		
Capital	5 000	
Cash outflow		
Drawings	(18 000)	
Loan repayment	(1 000)	
Net cash inflow from financing		(14 000)
Total net cash inflow		(5 200)
Bank balance 1 January		5 000
Bank balance 31 December		-200

In preparing the cash flow statement in the examination it is likely that some of the following accounts will need to be reconstructed:

- debtors control account
- creditors control account
- prepaid expenses
- accrued expenses
- prepaid revenue
- accrued revenue
- disposal of asset
- capital account
- bank account



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Figure 39- Classification

General journal

Drawings	200	
Cleaning		200
Correcting entry		

Figure 40a - Perpetual stock recording

Stock control

Date	Particulars	\$	Date	Particulars	\$
1 Nov.	Balance	2 000	30 Nov.	Drawings	50
30-Jan	Cost of sales	100		Creditors	100
	Creditors	6 000		Cost of sales	4 500
				Stock loss	50
				Balance	3 400
		8 100			8 100

Cost of goods sold

30 Nov.	Stock control	4 500	30 Nov.	Stock control	100
				Profit and Loss a/c	4 400
		4 500			4 500

Creditors/Bank

30 Nov.	Stock control	100	30 Nov.	Stock control	6 000
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Drawings

30 Nov.	Stock control	50			
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Stock loss

30 Nov.	Stock control	50	30 Nov.	Profit and Loss a/c	50
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Credit/Cash sales

30 Nov.	Profit and Loss a/c	9 000	30 Nov.	Debtors/Bank	9 000
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Debtors/Bank

30 Nov.	Credit/Cash sales	9 000	30 Nov.	Sales returns	200
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Sales returns

30 Nov.	Debtors/Bank	200	30 Nov.	Profit and Loss a/c	200
---------	--------------	-----	---------	---------------------	-----

Stock control

30 Nov.	Cost of goods sold	4 400	30 Nov.	Sales	9 000
	Stock loss	50			
	Sales returns	200			
	Gross profit	4 350			
		9 000			9 000



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Figure 40b - Perpetual stock recording

Perpetual

Profit and Loss statement for the month ending 30 November

	1/7/2002	30/6/2003
Sales	9 000	
Less sales returns	200	
Net sales		8 800
Less cost of goods sold		4 400
Gross profit		4 400
Less stock loss		19-Feb
Adjusted gross profit		4 350

Figure 41 - 'lower of cost' and 'net-realisable value' (NRV) rule

Item	Cost	NRV	Quantity	Value
Printers	450	490	10	4 500
Modems	150	120	6	720
Scanners	300	400	20	6 000
Total				11 220

Figure 42 - Distinguishing between FIFO and identified cost

January	10 smoke detectors at \$15 each
May	20 smoke detectors at \$17 each
August	15 smoke detectors at \$18 each
November	20 smoke detectors at \$20 each

Figure 43 - Calculation

FIFO	= \$400 (20 x \$20) + \$90 (5 x \$18) = \$490
Identified cost	= \$45 (3 x \$15) + \$170 (10 x \$17) + \$90 (5 x \$18) + \$140 (7 x \$20) = \$445



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Depreciation Case Study

Calculations:

Straight line

- = $\$15\,000 - \$3\,000 = \$12\,000 / 6 \text{ years} = \$2\,000 \times 9/12 = \$1\,500$

In this first calculation the asset has only been in the possession of the business for 9 months **and this has to be factored into the calculation.**

- = $\$15\,000 - \$3\,000 = \$12\,000 / 6 \text{ years} = \$2\,000$

Diminishing balance

- = $\$15\,000 \times .25 \times 9/12 = \$2\,813$
- = $\$15\,000 - \$2\,813 = \$12\,187 \times .25 = \$3\,047$

Note: It is unlikely that you will have irregular figures as per the diminishing balance calculations above.

You may be asked why the amount of depreciation for diminishing balance is greater in the second year than in the first. The answer is that in the first year the business only had the asset for 9 months of that time.

You will note that the straight line method takes into account residual value whilst the diminishing balance method ignores that amount for purposes of calculation.

Straight line

General journal

30.6.2002	Depreciation of Pizza Oven	1 500	
	Accumulated depreciation of Pizza Oven		1 500
	Pizza Oven depreciated at straight line for 6 years.		
	Profit and Loss account	1 500	
	Depreciation of Pizza Oven		1 500
	Depreciation posted to Profit and Loss account.		

It is important to include the name of the asset in the title - should a student simply use the term 'depreciation, there would be a one mark deduction.



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General ledger

Depreciation of Pizza Oven

30.6.2002	Accumulated Depreciation of Pizza Oven	1 500	30.6.2002	Profit and Loss a/c	1 500
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Accumulated depreciation of Pizza Oven

			30.6.2002	Depreciation of Pizza Oven	1 500
--	--	--	-----------	----------------------------	-------

Profit and Loss account

30.6.2002	Depreciation of Pizza Oven	1 500			
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Entries will be identical in both the general journal and general ledger for the second year of the straight line and for the two years of diminishing balance - only the dollar amounts will be different.

Look at other examples for how to deal with accumulated depreciation when an opening balance is provided.

Straight line

Profit and Loss for year ended 30.6.2002		
	\$	\$
Sales		8 000
less Expenses	4 000	
+ Depreciation of Pizza Oven	1 500	
Total Expenses		5 500
Net profit		2 500

Straight line

Profit and Loss for year ended 30.6.2003		
	\$	\$
Sales		8 000
less Expenses	4 000	
+ Depreciation of Pizza Oven	2 000	
Total Expenses		6 000
Net profit		2 000



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Diminishing balance

Profit and Loss for year ended 30.6.2002		
	\$	\$
Sales		8 000
less Expenses	4 000	
+ Depreciation of Pizza Oven	2 813	
Total Expenses		6 813
Net profit		1 187

Diminishing balance

Profit and Loss for year ended 30.6.2003		
	\$	\$
Sales		8 000
less Expenses	4 000	
+ Depreciation of Pizza Oven	3 047	
Total Expenses		7 047
Net profit		953

You will notice that the diminishing balance charges more to depreciation in the first two years. In 2002 it is \$1313 greater and in the year 2 003, \$1047 more. This reduces profit by those amounts in the first two years.

Balance sheet extracts - 30.6.2002

	Straight line	Diminishing balance
Pizza Oven	15 000	15 000
less accumulated depreciation	1 500	2 813
Carrying cost	13 500	12 187

Balance sheet extracts - 30.6.2003

	Straight line	Diminishing balance
Pizza Oven	15 000	15 000
less accumulated depreciation	3 500	5 860
Carrying cost	11 500	9 140

CC = carrying costs

The accumulated depreciation represents the amount of the cost of an asset allocated as an expense added up over a number of accounting periods.

CC represents that portion of the total cost of a non-current asset not yet allocated as a cost. It also includes the residual value.

