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Fundamentals of Accounting Resources

Figure 1 - The Profit and Loss statement example

Profit and Loss statement for the month ending 31 May

Revenue	£	£	£
Cash sales		4 000	
Credit sales		5 900	
			9 900
- Cost of goods sold			6 600
Gross profit			3 300
+ Rent			800
			4 100
- Operating expenses			
Selling expenses			
Advertising	1 700		
Depreciation of motor vehicles	100		
Salaries	1 400		
			3 200
Administrative expenses			
Accounting fees	450		
Supplies	150		
Depreciation of office equipment	200		
			800
Finance expenses			
Discount expense	100		
Legal costs	300		
			400
			4 400
Net Profit and Loss			-300

In the example above the business makes a loss and the loss has to be transferred to the balance sheet. Explain why the business makes a loss yet the balance for bank has increased.



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Figure 2 - Balance sheet example

Balance sheet as at 31 May

	£	£	£
Current assets			
Bank		2 600	
Petty cash		100	
Prepaid advertising		500	
Accrued rent		600	
Stock of supplies		200	
Debtors		6 100	
Stock - May 31		4 200	
			14 300
Non-current assets			
Equipment	10 000		
- Accumulated depreciation of equipment		2 200	
			7 800
Motor vehicles	8 000		
- Accumulated depreciation of motor vehicles		1 800	
			6 200
			14 000
Total assets			28 300
Equities			
Current Liabilities			
Creditors		3 400	
Accrued salaries		300	
Prepaid rent		200	
Loan		4 000	
			7 900
Non-current liabilities			
Loan			16 000
Owners equity			
Capital		10 000	
+ Net profit		300	
		10 300	
- Drawings		4 900	
			5 400
Total equities			29 300

The above reports are not fully inclusive.



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Figure 3 - Example of a Balance Sheet (from full 10 column worksheet)

Balance sheet as at 30 June

Current assets		\$	\$	\$
Prepaid rent			2 000	
Debtors			12 500	
Stock - 30 June			22 000	
				36 500
Non-current assets				
Vehicles	18 000			
- Accumulated depreciation of vehicles			4 700	
				13 300
Equipment	32 000			
- Accumulated depreciation of equipment			11 100	
				20 900
				34 200
Total assets				70 700
Current liabilities				
Bank overdraft			7 600	
Accrued wages			1 000	
Creditors			5 800	
Loan			4 000	
				18 400
Non current liabilities				
Loan				16 000
Owner's equity				
Capital			40 800	
+ Net profit			17 500	
				58 300
- Drawings			22 000	
				36 300
Total equities				70 700



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Figure 4 - Example of a Profit & Loss Sheet (from full 10 column worksheet)

Profit and Loss statement for the six months ending 30 June

Revenue	\$	\$	\$
Cash sales		79 000	
Credit sales		40 000	
			119 000
Less cost of goods sold			40 200
Gross profit			78 800
+ commission			400
			79 200
Less operating expenses			
Selling expenses			
Advertising	3 000		
Sales wages	22 000		
Depreciation of motor vehicles	700		
			25 700
Administrative expenses			
Cleaning	500		
Insurance	4 500		
Office salaries	19 500		
Depreciation of equipment	1 100		
Rent	6 000		
			31 600
Finance expenses			
Interest on loan			4 400
			61 700
Net profit			17 500



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Figure 5 - 10 column worksheet

Accounts	Pre-trial balance		Adjustments		Post trial balance		Profit and Loss statement		Balance sheet	
Advertising	3 000				3 000		3 000			
Acc.depn/equip.		10 000		1 100		11 100				11 100
Acc.depn/motor veh.		4 000		700		4 700				4 700
Bank		7 600				7 600				7 600
Capital		40 800				40 800				40 800
Cash sales		79 000				79 000	79 000			
Cost of sales	40 200			22 000	40 200		40 200			
Credit sales		40 000				40 000	40 000			
Creditors		5 800				5 800				5 800
Debtors	12 500				12 500				12 500	
Cleaning	500				500		500			
Commission		400				400	400			
Drawings	22 000				22 000				22 000	
Equipment	32 000				32 000				32 000	
Insurance	4 500				4 500		4 500			
Interest on loan	4 400				4 400		4 400			
Loan (5 yr inst.)		20 000				20 000				20 000
Motor vehicles	18 000				18 000				18 000	
Office salaries	19 500				19 500		19 500			
Prepaid rent	8 000			6 000	2 000				2 000	
Stock control	22 000				22 000				22 000	
Sales wages	21 000		1 000		22 000		22 000			
	207 600	207 600								
Rent			6 000		6 000		6 000			
Depn of equip.			1 100		1 100		1 100			
Depn of motor veh.			700		700		700			
Accrued wages				1 000	1 000					1 000
Net Profit and Loss							17 500			17 500
					210 400	210 400	119 400	119 400	108 500	108 500



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Figure 6 - Preparation of reports

CASH	PROFIT	WEALTH
For example, statements of receipts and payments	Profit and Loss	Balance Sheet
Cash budget		

31-May	Bank	6 000	31-May	Rent expense	4 000
				Balance	2 000
		6 000			6 000

Figure 7a - Prepaid expenses - General journal

Date	Accounts	Debit	Credit
Jan.-Mar.	Bank	2 000	
	Rent revenue		2 000
	Rent received of \$2 000		
31Mar.	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		

Figure 7b - Prepaid expenses- In the Ledger

Prepaid advertising

1 Jan.	Bank	3 000	31 Mar.	Prepaid advertising	2 100
				Balance	900
		3 000			3 000
1 Apr.	Balance	900			

Advertising expense

31 Mar.	Prepaid advertising	2 100	31 Mar.	Profit and Loss summary a/c	2 100
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Profit and Loss Account

31 Mar.	Advertising expense	2 100			
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Fundamentals of Accounting Resources

Figure 8a - Accrued expenses

General journal

Date	Accounts	Debit	Credit
Jan.-Mar.	Wages	3 600	
	Bank		3 600
	Paid Wages		
31Mar.	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		

Figure 8b - Accrued expenses

In the Ledger
Wages

31 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 9a - Accrued revenue –

General journal

Date	Accounts	Debit	Credit
Jan.-Mar.	Bank	2 000	
	Rent revenue		2 000
	Rent received of \$2 000		
31Mar.	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		



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Figure 9b - Accrued revenue - In the Ledger

In the Ledger

Rent revenue

			Jan.-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

31 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 10a - Prepaid revenue- General journal

Date	Accounts	Debit	Credit
Jan-Mar	Bank	4 000	
	Prepaid commission revenue		4 000
	Commission received		
31-Mar	Prepaid commission revenue	3 500	
	Commission revenue		3 500
	Adjusting entry for commission revenue received in advance		
31-Mar	Commission revenue	3 500	
	Profit and loss a/c		3 500
	Commission revenue posted to profit and loss a/c		

Figure 10b - Prepaid revenue- In the Ledger

Prepaid Commission revenue

31-Mar	Commission revenue	3 500	Jan.-Mar.	Bank	4 000
	Balance	500			
	Balance	4 000	1 Apr.	Balance	4 000

Commission revenue

31-May	Profit and Loss summary a/c	3 500	31 Mar.	Prepaid commission revenue	3 500
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Profit and Loss Account

			31 Mar.	Commission revenue	3 500
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Figure 11a - Depreciation- General Journal

Date	Accounts	Debit	Credit
30 Jun.	Depreciation of vehicles	7 125	
	Accumulated depreciation of vehicles		7 125
	Vehicles depreciated at 15% p.a.		
30 Jun.	Profit and Loss a/c	7 125	
	Depreciation of vehicles		7 125

Figure 11b - Depreciation- In the Ledger

Depreciation of Vehicles

30 Jun.	Accumulated depreciation of vehicles	7 125	30 Jun.	Profit and Loss a/c	7 125
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Accumulated depreciation of vehicles

		1 Jan.	Balance	10 000	
30 Jun.	Balance	17 125	30 Jun.	Depreciation of vehicles	7 125

Profit and Loss Account

30 Jun.	Depreciation of vehicles	7 125			
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Figure 12 - In the balance sheet (extract):

Motor vehicles	100 000
- Accumulated depreciation of vehicles	17 125
	82 875

Figure 13a - General Journal

Preparing the profit and loss summary account

Date	Particulars	Debit	Credit
31 Mar.	Profit and Loss summary account	6 700	
	Cost of goods sold		4 800
	Advertising		500
	Wages		1 000
	Rates		400
	Credit sales	9 000	
	Profit and Loss summary account		9 000
	Closing entries		

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Figure 13b - General Journal

Profit and Loss summary account

31 Mar.	Expenses	6 700	31 Mar.	Revenue	9 000
	Capital	2 300			
		9 000			9 000

Figure 14 - General Journal

Closing and posting entries

31 Mar.	Drawings	6 000	1 Mar.	Balance	20 000
	Balance	16 300	31 Mar.	Profit and Loss summary a/c	2 300
		22 300			22 300

Figure 15a - Closing and posting entries

Capital

			1 Mar.	Balance	20 000
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Bank

1 Mar.	Balance	4 500	31 Mar.	Cash payments	6 500
31 Mar.	Cash receipts	10 000		Balance	8 000
		14 500			14 500

Motor vehicles

1 Mar.	Balance	23 500			
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Debtors

1 Mar.	Balance	8 000	31 Mar.	Bank	7 000
31 Mar.	Credit sales	9 000		Balance	10 000
		17 000			17 000

Creditors

31 Mar.	Bank	4 600	1 Mar.	Balance	5 000
	Balance	6 400	31 Mar.	Stock control	6 000
		11 000			11 000



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Figure 15b - Closing and posting entries

Credit sales

31 Mar.	Profit and Loss summary a/c	9 000	31 Mar.	Rent revenue	9 000
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Cost of goods sold

31 Mar.	Stock control	4 800	31 Mar.	Profit and Loss summary a/c	4 800
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Advertising

31 Mar.	Bank	500	31 Mar.	Profit and Loss summary a/c	500
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Wages

31 Mar.	Bank	1 000	31 Mar.	Profit and Loss summary a/c	1 000
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Rates

31 Mar.	Bank	400	31 Mar.	Profit and Loss summary a/c	400
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Figure 16 - General Journal

Adjusting entry

30-Jun	Depreciation of motor vehicles	2 000	
	Accumulated depreciation of motor vehicles		2 000
	Motor vehicles depreciation at 10% per annum straight line		

Closing entry

30-Jun	Profit and loss account	2 000	
	Depreciation of motor vehicles		2 000
	Depreciation posted to the Profit and Loss a/c		



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Figure 17 - General Ledger

Depreciation of motor vehicles

30-Jun	Accumulated depreciation of motor vehicles	2 000	30-Jun	Profit and Loss a/c	2 000
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Accumulated depreciation of motor vehicles

			01-Jan	Balance	10 000
0 Jun	Balance	12 000	30-Jun	Depreciation of motor vehicles	2 000
		12 000			12 000

Profit and Loss account

0 Jun	Depreciation of motor vehicles	2 000			
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End of Introduction to Accounting Resources

