

PROFIT AND LOSS ACCOUNT AND BALANCE SHEET

PETTY CASH BOOK

- o Most payments are made by cheque
- o Small daily payments done through petty cash (£100.00)
- o Looks similar to cash book
- o Columnar petty cash book has a detailed breakdown of headings
- o The IMPREST system
 - Each month is commenced with the same amount as the month before, i.e. opening balance is constant.

- ### PURPOSE OF P&L A/C
- o State of the business
 - o Viability for future business
 - o Idea of cost breakdown
 - o Increase efficiency

STRUCTURE OF P & L A/C

- | | | | |
|---------------------|-----------|---|-----------------|
| o Revenue/Sales | 100000 | } | Trading Account |
| o COGS | (600000) | | |
| o Gross Profit | 400000 | | |
| o SG&A | (190000) | | |
| o Depreciation | (10000) | | |
| o Operating Profit | 200000 | | |
| o Interest Exp | (10000) | | |
| o Profit before tax | 190000 | | |
| o Tax 20% | (38000) | | |
| o Net Income/Profit | 152000 | | |

TRADING ACCOUNT

Sales			11000
Less sales return			(1000)
Net sales/ turnover			10000
Cost of goods			
Opening stock		5000	
Purchases	3000		
Less purchase returns	(1000)		
	2000		
Add carriage inwards	1000	3000	
		8000	
Less closing stock		2000	6000
Gross profit			4000

BAD DEBTS AND BAD DEBT PROVISIONS

- o Debtor account credited with bad debt
- o Bad debt account is debited.

- o P & L Account
- o Bad debt is in the debit column, considered a financial/sales expense.

- o BAD DEBT PROVISIONS (liability)
- o Provision for bad debt credited
- o Bad debt debited
- o Provision for bad debt is always deducted from debtors

DISCOUNTS

- o Discount received is debited in P&L (benefit)
- o Discount allowed is credited in P&L (expense)

- o **PROVISION FOR DISCOUNT ALLOWED**
- o Provision for discount allowed is debited in P&L
- o Discount account is credited.
- o Provision for discount is reduced from the debtors. It is a financial expense.

- o What about provision for discount received. (principle of conservatism/ realization)



DEPRECIATION

- o Straight line method
- o Reducing balance method
 - Fixed percentage
 - double declining

- o Provision for depreciation (expenses) is reduced from gross profit at year end. Charged to P&L a/c
- o Depreciation is reduced from the PP&E in balance sheet



PREPAYMENT AND ACCRUALS

- o Income = Receipts + Accruals – prepayments
- o Expenditure = payments + accruals – prepayments

- o Credit sales account, debit goods in transit
- o Debit sales return, credit goods in transit
- o Debit sales (credit note), credit customer account



EXAMPLE OF P&L

Discount allowed	32
Discount received	267
Gross profit	83497
Salaries	44216
Bank charges	193
Office expenses	1361
Rent	19421
Bad debts	937
Carriage outwards	5971
Plant and machinery	50000
Note. Deprecation of plant is 10%	
Note; rent owing due is 2000	
Note office expense included £250 paid as advance for next year.	



EXAMPLE OF P&L

Gross profit	83497	
Discount received	267	83764
Expenses SG&A		
Salaries	44216	
Bank charges	193	
Office expenses	1361 -250	
Discount allowed	32	
Rent	19421 + 2000	
Bad debts	937	
Carriage outwards	5971	
Depreciation	50000 * 10%	
		78881
Net Profit		4883



Q3 The following list of balances has been extracted from the books of Adrian Phil trader, as at 30 June 2008.

	£	£
Land – cost	90,000	
Premises – cost	10,600	
Vehicles – cost	6,400	
Provision for depreciation		
– premises		3,180
– vehicles		1,280
Stock (1 July 2007)	3,820	
Purchases	17,800	
Sales		36,700
Wages	3,920	
Heating	740	
Insurance	360	
Rent	270	
Rates	1,010	
Admin expenses	1,050	
Debtors	2,400	
Creditors		1,980
Bank	620	
Drawings	11,000	
Capital		106,850
	149,990	149,990

The following additional information is also available:

1. Stock at 30 June 2008 £4,660.
2. At 30 June 2008 wages outstanding £80.
3. At 30 June 2008 insurance expenses prepaid £80.
4. Depreciation for the year to 30 June 2008 is to be provided as follows:
 - premises – 10% on cost
 - vehicles – 20% on net book value (NBV)



Q3 (a) Adrian Phillips. Trading and Profit and Loss Account for the period ended 30th June 2008

	£	£
Sales		36,700
Add: Opening stock	3,820	
Purchases	17,800	
	21,620	
Less: Closing stock	(4,660)	
Cost of goods sold		(16,960)
Gross profit		19,740
Less: Business expenses		
-Wages	4,000	
-Heating	740	
-Insurance	300	
-Rent	270	
-Rates	1,010	
-Admin	1,050	
-Depreciation		
-Premises	1,060	
-Vehicles	1,024	
		(9,454)
Net profit		10,286

Q1 Mrs Phillips has a small jewellery business that she operates in her local area. The following balances have been taken from her books on 30 June 2006.

	£
Capital (1 July 2005)	34,600
Office furniture	1,460
Cash drawings (for personal use)	5,000
Stock (1 July 2005)	14,970
Purchases	168,200
Sales	200,600
Rent	1,450
Lighting and heating	490
Insurance	300
Salaries and wages	6,500
Stationery	740
Telephone and postage	520
General expenses	2,400
Bad debts written off	620
Debtors	18,600
Creditors	7,600
Balance at bank (dr)	6,800
Vehicles	14,750

The following information needs to be taken into account.

(i) Stock at 30 June 2006 was valued at £11,650.
 (ii) Rent owed at 30 June 2006 was £110.
 (iii) Telephone prepaid at 30 June 2006 was £140.
 (iv) Both office furniture and vehicles are to be depreciated by 20% of their book value.

Question 1 (a) Mrs Phillips Trading and Profit and Loss Account for the period ended 30th June 2006

	£	£
Sales		200,600
Opening stock	14,970	
+ Purchases	168,200	
	183,170	
- Closing stock	(11,650)	
Cost of goods sold		(171,520)
Gross profit		29,080
Less: expenses		
Rent	1,560	
Lighting and heating	490	
Insurance	300	
Salaries & wages	6,500	
Stationery	740	
Telephone & postage	380	
General expenses	2,400	
Bad debts	620	
Depreciation		
- office furniture	292	
- vehicle	2,950	
		(16,232)
Net profit		12,848

BALANCE SHEET

- o Asset = Liability + Equity (Capital)
- o Assets are probable current and future economic benefits
- o Liabilities are probable future sacrifices of economic benefit. Obligations, transfer of assets in the future.

	£	£	£
Fixed Assets			
Land	90,000	---	90,000
Premises	10,600	(4,240)	6,360
Vehicles	6,400	(2,304)	4,096
	107,000	(6,544)	100,456
Current assets			
Stock		4,660	
Debtors		2,400	
Prepayments		60	
Cash - bank		620	
		7,740	
Current liabilities			
Creditors	1,980		
Accruals	80	(2,060)	
Working capital		5,680	
Net Assets		106,136	
Financed by:			
Capital (01-07-07)	106,850		
Add: net profit	10,286		
	117,136		
less: drawings	(11,000)		
		106,136	

Mrs Phillips Balance Sheet as at 30th June 2006

	£	£	£
Fixed Assets			
- Office furniture	1,460	(292)	1,168
- Vehicle	14,750	(2,950)	11,800
	16,210	(3,242)	12,968
Current assets			
Stock		11,650	
Debtors		18,600	
Cash (Bank)		6,800	
Prepayment		140	
		37,190	
Current liabilities			
Creditors	7,600		
Rent owing	110	(7,710)	
			29,480
			42,448
Financed by:-			
Capital			34,600
Balance at 1 July 2005			12,848
Net profit for the year			47,448
less : cash drawings			(5,000)
			42,448