

UNIT 5 Final Accounts – Sole Trader

Recommended Prior Knowledge Students should have a thorough understanding of Units 1 to 4 before embarking on a study of this Unit.

Context Final accounts combine the knowledge gained in Units 1 and 4 and a test of this topic conventionally acts as a summary assessment of knowledge acquired earlier. Final accounts are used in examinations and in practice to highlight organisational performance and position.

Outline This Unit concentrates on financial statements which measure performance in terms of gross and net profit and position (what an organisation owns, owes and what is owed to it).

Syllabus Ref.	Learning Outcomes	Suggested Teaching Activities	Online Resources	Other resources
3.1	Candidates should be able to: <ul style="list-style-type: none"> calculate the gross and net profits or losses, based on accounting principles, for a specified period 	<p>Recapitulate on the matching concept and how it affects the following key accounts:</p> <ul style="list-style-type: none"> Trading account Profit and loss account <p>Explain the differences between the two and what each cover. When looking at the role of closing stock, consider introducing the concept of cost or net realisable value.</p> <p>It is helpful to students to show them how the information from the ledgers is transferred by 'closing' say the sales and purchases accounts and taking the balances to the Trading account.</p> <p>A progressive approach assists students in their understanding, for example:</p> <ol style="list-style-type: none"> gross profit = sales less cost of sales (opening stock + purchases – closing stock). including sales returns and purchase returns. 	<p>http://www.staffs.ac.uk/schools/business/bsadmin/staff/s5/accsys/wtwo.htm#1</p> <p>http://teachers.cie.org.uk/teacher_support/pdf/7110_w03_qp_1.pdf</p>	<p>BKA 8 IGSCE 7 BM 30, 31, 32, 33</p> <p>CIE Nov 2003 Paper 1 Q27</p>

Syllabus Ref.	Learning Outcomes	Suggested Teaching Activities	Online Resources	Other resources
3.1		3) including carriage inwards (emphasising carriage outwards does not appear in the trading account) and make adjustments for goods taken by owner for own use		
3.1	<p>Candidates should be able to:</p> <ul style="list-style-type: none"> • calculate the gross and net profits or losses, based on accounting principles, for a specified period 	<p>A progressive approach also helps in understanding the profit and loss account.</p> <p>1) Net profit = gross profit less basic expenses</p> <p>2) including discounts received and allowed (explaining why these are in the profit and loss account and not the trading account) and carriage outwards</p> <p>3) bringing in adjustments (say, including the accruals, prepayments, bad debts, provision for doubtful debts and depreciation from earlier Units).</p> <p>Columnar trading accounts will not be complex in the examination. Practice will help students gain familiarity with them.</p>	<p>http://teachers.cie.org.uk/teacher_support/pdf/7110_w03_gp_2.pdf</p>	CIE Nov 2003 Paper 2 Q1
2.4	<ul style="list-style-type: none"> • prepare simple columnar trading accounts when dealing with a business which has two departments <p>prepare statements of revised profit (after correcting errors)</p>	<p>Students should be taken through the implications of various errors such as capital expenditure being included in the accounts as revenue expenditure. The full double entry and journal corrections should be explained and practiced.</p>		

Syllabus Ref.	Learning Outcomes	Suggested Teaching Activities	Online Resources	Other resources				
3.2	<p>Candidates should be able to:</p> <ul style="list-style-type: none"> • recognise that a balance sheet is a statement of balances of assets and liabilities on a specified date set out in any valid layout • demonstrate knowledge of the meaning, importance and designation of fixed assets, goodwill, current assets, current liabilities, long term liabilities and working capital • comment upon the significance of the inter-relationship of the Balance Sheet items • relate working capital to the liquidity of a business 	<p>Remind students about the accounting equation and use it to illustrate the effect of changes in assets and liabilities. Translate this into an expanded accounting equation using a balance sheet format.</p> <p>This can be shown simply using the Quadrant:</p> <table border="1" data-bbox="848 600 1209 790"> <tr> <td data-bbox="848 600 1028 694">Fixed Assets</td> <td data-bbox="1028 600 1209 694">Capital</td> </tr> <tr> <td data-bbox="848 694 1028 790">Current Assets</td> <td data-bbox="1028 694 1209 790">Current Liabilities</td> </tr> </table> <p>Take students through the implications of a change in one quarter on the other quarters.</p> <p>Working capital is important to a business and a question and answer session with students allowing them to think through what would happen to a business which is short of:</p> <ul style="list-style-type: none"> • Cash • Stock • Ability to obtain credit <p>will help students understand the content and importance of working capital. Students often have difficulty seeing how changes outside current assets and current liabilities can affect working capital. The quadrant may help understanding.</p>	Fixed Assets	Capital	Current Assets	Current Liabilities	<p>http://www.bized.ac.uk/stafsu/p/options/accounting/work02.htm</p> <p>http://www.staffs.ac.uk/schools/business/bsadmin/staff/s5/accsys/wone.htm#l1</p>	<p>BKA 9 IGSCE 7 BM 34, 35</p>
Fixed Assets	Capital							
Current Assets	Current Liabilities							

Syllabus Ref.	Learning Outcomes	Suggested Teaching Activities	Online Resources	Other resources
3.2	<p>Candidates should be able to:</p> <ul style="list-style-type: none"> • explain the basis of valuation of assets as follows: <ul style="list-style-type: none"> - fixed assets at cost less accumulated depreciation - stock in trade at cost or net realisable value, whichever is lower - trade debtors at expected collectible amount i.e. after deduction of provisions for doubtful debts and discounts • distinguish between, and show understanding of, capital and capital employed 	<p>Rules, such as those about asset valuation, are often easier to learn by considering examples. Students should be able to explain terms e.g. the meaning of 'cost' or 'net realisable value'.</p> <p>Students can easily become confused by the term capital when used in a different context:</p> <ul style="list-style-type: none"> • Capital • Capital employed • Capital expenditure • Working capital <p>Time is well spent testing students on the differences so that they are clear about the different terms and what they mean.</p>	<p>http://teachers.cie.org.uk/teacher_support/pdf/7110_w03_qp_1.pdf</p> <p>http://teachers.cie.org.uk/teacher_support/pdf/7110_s03_qp_2.pdf</p>	<p>BKA 9 IGSCE 7 BM 34, 35</p> <p>CIE Nov 2003 Paper 1 Q25</p> <p>CIE Jun 2003 Paper 2 Q4</p>
3.1	<ul style="list-style-type: none"> • recognise that net profit (or loss) is the increase (or decrease) in the net value of assets during that period 	<p>Continuing on the subject of capital, illustrate how capital is altered from one year to the next by profit and drawings. Students will find it useful to practice exercises including opening and closing capital and profit initially. Then introduce drawings to increase the complexity.</p>		

Syllabus Ref.	Learning Outcomes	Suggested Teaching Activities	Online Resources	Other resources
4.1	<p>Candidates should be able to:</p> <ul style="list-style-type: none"> • prepare sole trader Trading and Profit and Loss Accounts and Balance Sheets • make adjustments for provision for depreciation - straight line, diminishing (reducing) balance and revaluation • make adjustments for provisions for bad and doubtful debts and for discounts • make adjustments for accruals and prepayments to take account of accrued and prepaid expenses and outstanding and prepaid income • make adjustments for goods taken by owner for own use 	<p>At this stage, students have looked at the individual aspects of the final accounts and balance sheet. Illustrate and provide practice for students to help them see how the individual elements fit together.</p> <p>There should be examples of all of these various adjustments from earlier Units which can be brought in here to again illustrate to students the interconnected nature of the ledger and final accounts and how double entry principles are applied throughout.</p>	<p>http://www.staffs.ac.uk/schools/business/bsadmin/staff/s5/mscproj/defn.htm</p> <p>http://www.askltd.com/askjava/soletrad.htm</p> <p>http://accounting10.tripod.com/content.htm</p> <p>http://teachers.cie.org.uk/teacher_support/pdf/7110_w03_qp_2.pdf</p> <p>http://teachers.cie.org.uk/teacher_support/pdf/7110_s03_qp_2.pdf</p>	<p>CIE Nov 2003 Paper 2 Q6</p> <p>CIE Jun 2003 Paper 2 Q5</p>
2.4	<ul style="list-style-type: none"> • prepare revised balance sheets or extracts (after correcting errors) 	<p>Various adjustments can be illustrated such as the effect of treating the cost of a fixed asset as an expense, omitting transactions and so on.</p> <p>Emphasise the impact of changes with exercises on capital at the end of this Unit for easy comparison with partnerships next.</p>		