1. Work can be shared between several people
2. Easier for reference as same type of accounts are kept together
3. Easier to introduce checking procedures
4. Helps in the summarizing of accounting information.

Advantages and Disadvantages of preparing a trial balance

Advantages	Disadvantages
Check the arithmetical accuracy of the double entry bookkeeping	Only reveals errors affecting trial balance, not errors not affecting trial balance
As a basis for the preparation of financial statements	Does not show the account in which the error might be
	Transactions omitted will not be recorded in the book of accounts

Why does the purchases account have a debit balance?

1. Purchases represents costs to the business
2. Purchases are amounts which reduce profit
3. Purchases are amounts paid by the business

2. Sources and recording of data

Definitions

1. **Book of prime entry**=book where transactions (and other entries) are first recorded
2. **Statement of account**=summary of the account of the customer in the books of the supplier
3. **Dishonored cheque**=cheque which has been returned unpaid by the bank
4. **Imprest system**=At any time the amount paid out of the float plus remaining cash must equal the fixed amount of the imprest

5. **Bank statement**=a copy of the customer's account as it appears in the books of the bank
6. **Bank charges**=the fees charged by the bank for the bank services provided to the customer
7. **Standing order**=an instruction by a customer to the bank to pay fixed amounts at fixed intervals to a named person or firm
8. **Direct debit**=authority gives to the bank to make payments on request by a named person or firm
9. **Credit transfer**=a direct payment into another person's bank account

<u>Advantages of preparing books of prime entry</u>

1. To avoid multiple entries in the ledger
2. Different books of prime entry can be maintained by different people
3. Helps in the gathering and summarizing of accounting information
4. Helps in the auditing process

<u>Purpose of a debit note</u>

- Issued by the customer to request a reduction in the invoice received

<u>Purpose of statement of account</u>

1. To inform / remind the customer of the amount due
2. To confirm settlement terms
3. To make sure that no error has been made by supplier or customer

<u>Reasons for a dishonoured cheque</u>

1. Amount in figures doesn't agree with amount in words
2. Insufficient funds in debtor's bank account
3. Stale cheques

<u>Bank overdraft vs Bank loan</u>

Bank overdraft	Bank loan
Varying amount	Fixed amount
Can be paid back any time	Fixed term

2. Owner's liability is unlimited towards the business organization activities
3. Continuity is uncertain
4. Owner bears all risk
5. Lack of skills and ideas
6. Owner bears all the workload

Disadvantages of raising funds by means of a bank loan

1. Loan interest to pay every year
2. Loan interest to pay irrespective of profits
3. Loan to be repaid by given date

Ways or raising long-term funds

1. Introduce additional capital
2. Borrow from family and friends
3. Convert to a limited company
4. Take a partner

Why is it important for a business to prepare financial statements each year?

1. To calculate profit or loss
2. To compare with other businesses
3. To calculate accounting ratios
4. To know what assets and liabilities the business has
5. To compare with previous years

Capital expenditure vs Revenue expenditure

Capital expenditure	Revenue expenditure
Provides benefit for more than one year	Provides benefit for less than a year
Statement of financial position	Income statement

Equations

Capital employed=Owner's capital + non-current liabilities

Ordinary share dividend is paid after any dividend on Preference shares	Preference share dividend is paid before ordinary share dividend
Ordinary shareholders capital is repaid last in the event of a winding-up	Preference shareholders capital is repaid before ordinary shareholders capital in the event of a winding up

Debentures vs Ordinary shares

Debentures	Ordinary shares
Debenture holders receive interest	Ordinary shareholders receive dividend
Debenture holders are creditors of the company	Ordinary shareholders are members of the company
Carry fixed rate of interest	Carry variable rate of dividend
Debentures are long-term loans	Ordinary shares are part of equity
Debenture holders do not carry voting rights at Annual General meetings	Ordinary shareholders carry voting right at Annual General meetings
Debenture holders are repaid before ordinary share capital in the event of a winding-up	Ordinary share capital is repaid after debentures in the event of a winding-up

Debentures vs Preference shares

Debentures	Preference shares
Carry fixed rate of interest	Carry fixed rate of dividend
Debenture holders are creditors of the company	Non-redeemable preference shareholders are members of the company
Debentures are long-term loans	Non-redeemable preference shares are part of equity
Debenture holders are repaid before preference share capital in the event of a winding-up	Preference share capital is repaid after debentures in the event of a winding-up

How can the issue of debentures affect ordinary shareholders?

	X xxx	X xxx	X xxx
Current Assets			
Closing Inventory - raw materials		X xxx	
work in progress		xxx	
finished goods		xxx	
Trade receivables (closing debtors – closing PDD)		X xxx	
Other receivables (prepaid expenses and accrued income)		X xxx	
Bank		X xxx	
Cash		X xxx	X xxx
Total Assets			X xxx

9.Analysis and Interpretation

Definitions

1. **Profitability ratios**= measure the business' ability to generate profit to justify the risk of capital.
2. **Liquidity ratios**= measure the business' ability to meet short term debts when they fall due.
3. **Rate of inventory turnover**= the number of times a business sells and replaces its inventory in a given period of time.
4. **Inventory turnover**=Length of the period of time that the business takes to sell off its inventory.

*Gross Margin = Gross profit / Net revenue * 100*

- Shows the amount of gross profit earned on each $100 of sales.

*Profit Margin= Profit for the year / Net revenue *100*

- Indicates the proportion of profit that has been earned after overhead expenses have been made.

*Mark-up margin= Gross profit / Cost of Sales *100*

- Amount of gross profit added to the cost of sales to achieve selling price.

*ROCE= Profit from operations / Capital employed * 100*