A – Level Accounting Year 2

Revision Guide

Unit 3:

1) Incomplete Records:

If asked a question on incomplete records, it will either be an **income statement** or **balance sheet** (or both). It will be for a sole-trader and some of the information you need will be missing. Below are the processes required for these types of questions:

1. **Sales Ledger Control Account:**

Allows you to work out the credit sales. Remember there may be **cash sales** in addition to these.

2. **Cost of Sales Calculation:**

Allows you to work out the **purchases**, **goods for own use** and **closing inventory**. What is meant by this is you will sometimes be able to work back using the COS calculation, for example, if you are given every figure (including the gross profit) but the closing inventory is missing, then you will be able to 'force' out this number by difference.

3. **Purchase Ledger Control Account:**

Allows you to work out the credit purchases. Remember there may be **cash purchases** in addition to these.

4. **Inventory Reconciliation:**

This will allow you to work 'back' or 'to' a closing inventory figure.

5. **Disposal of a NCA Account:**

Gain or loss on disposal. Compare the **sale proceeds** or **part-ex** value to the **NBV (Net Book Value)** of the NCA to work out if it is a gain or loss on disposal.

6. **'Any Income' Account:**

Gives the income statement figure for any income that is either **prepaid** or **accrued**.

7. **Gross Profit Margin:**

'Bottle of pop' technique. Can be used simultaneously with No 2.

8. **Gross Profit Mark-up:**

'Crate of cost' technique.

9. **Inventory Turnover Ratio:**

Can be used to work out any **missing** or **stolen** inventory.

10. **Cash Account:**

This enables you to work out any missing **cash items**, such as cash expenses, stolen cash or unknown drawings.

The Process:

1) **Asset accounts (excluding cash and back) are closed by the realisation account:**

Dr Realisation A/C
Cr Asset A/C

2) **Proceeds from sales of assets are placed in the cash/bank account:**

Dr Cash/Bank A/C
Cr Realisation A/C

3) **If a partner takes over assets, the value will be deducted from the partner's capital account:**

Dr Partner's Capital A/C
Cr Realisation A/C

4) **As expenses are incurred, they are paid from cash/bank account and entered into the realisation account:**

Dr Realisation A/C
Cr Cash/Bank A/C

5) **Trade Payables are paid off:**

    a) **Dr** TP A/C with total
    Cr Realisation A/C with total
    b) **Dr** Realisation A/C with paid value
    Cr Bank with paid value

6) **The balance on the realisation account represents the profit/loss on the realisation and this is transferred to the partners' capital accounts in proportion to the PSR**

Dr Realisation A/C
Cr Partners capital A/C

This is only for a **profit**, if the partnership has incurred a **loss**, the Dr & Cr will be the other way around.

7) **Partners loans are repaid:**

Dr Partners loan A/C
Cr Cash/Bank A/C

8) **Partners current accounts are transferred to capital accounts:**

Dr Current A/C
Cr Capital A/C

- **Money measurement –** only transactions that can be measured in monetary terms shall be included in the statements
- **Historical cost –** all transactions should be recorded using the actual cost of the purchase.

The following considerations should also be taken into account:

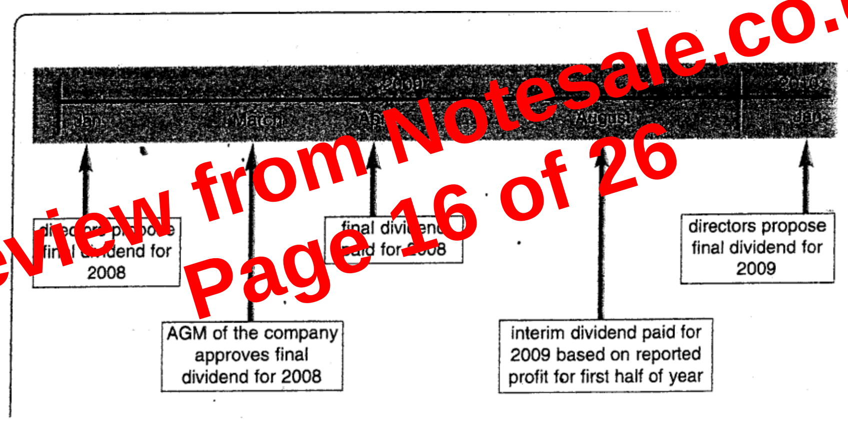
- Incomes and expenses **generally** cannot be offset against each other.
- Assets cannot offset liabilities.
- **Comparative** information from previous years is shown.

Dividends: (also see IAS 10)

Only dividends that **have been paid** will be shown in the financial statements. There are 2 types of dividends and these are as follows:

- **Interim –** these are paid **part-way** through the year on **half-year** profits.
- **Final –** dividends paid on the **whole** years profits. They will actually be paid in the **early part of the next financial period**.

This means that last years **proposed** final dividend (when agreed by shareholders and has been paid) and this year's interim dividend will be paid in the current years financial statements.



DIVIDENDS
note for published accounts for the year ended 31 December 2009

	£000
Amounts recognised as distributions to equity holders during the year:	
• *Final dividend* for the year ended 31 December 2008 of 7.5p per share	375
• *Interim dividend* for the year ended 31 December 2009 of 5p per share	250
	625
Proposed final dividend for the year ended 31 December 2009 of 10p per share	500

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements

The Auditors Report:

18) IAS 38 – Intangible Assets:

This standard says an intangible asset is '**an identifiable non-monetary asset without physical substance**'. Examples are listed below:

- Patents
- Copyrights
- Customer lists
- Licenses
- Marketing rights

The **3** key elements are:

- Able to be **identified**
- Its **controlled** by the business
- It gives **future economic benefits**

An intangible asset will either be **purchased** or **internally generated**. Only an intangible asset that is **purchased** can be recorded in the financial statements, therefore, items such as **goodwill** and **brand names** cannot be recognised. Intangible assets that are recorded are shown in the financial statements as a NCA in the B/S. They are also **amortised** (depreciated) using the **S/L** method.