FINAL ACCOUNTS

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There are a number of stages in putting together an accounting system

1. Preparing and storing original documents – these are the invoices and statements sent and received between buyer and sellers
2. Transfer this information onto a computerised accounting system
3. Prepare financial statements

REASONS FOR FINAL ACCOUNTS

- Businesses prepare final accounts to show a summary of all trading activities during the year.
- Individual records would be too detailed for most people to understand
- Final accounts often have to be available for shareholders, potential buyers, creditors, lenders, HMRC

FINAL ACCOUNTS

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THE LAST STEP IN THE ACCOUNTING PROCESS.

BASIC OBJECTIVE

1. Trading account , Profit & Loss account - to know profit or loss as a result of operations of business during the previous year.
2. Balance Sheet - to know the financial position at the end of the accounting year.

also known as **FINANCIAL STATEMENTS.**

BASIC CONDITION

- Prepared from Trial Balance.
- For this purpose both the sides of Trial Balance must tally.
- If Trial Balance does not tally, Suspense Account must be opened for this purpose and put on the Dr. side or Cr. side(side having short total) as the case may be.

Prepared in the following sequence:

1. Trading Account.
2. Profit and Loss Account.
3. Balance Sheet.

-Collectively called - final accounts.

Trading Account

-**Prepared by** trading concerns i.e., concerns which purchase and sell finished goods,

-To know the gross profit /loss.

-Gross profit /loss is the difference between the cost of goods sold and the proceeds of their sale. If the sale proceeds exceed the cost of goods sold ,the result is gross profit .Other wise, there is gross loss .

Trading Account

Dr.			Cr.
Opening stock Purchases-Returns Wages Wages and Salaries Carriage inwards Other direct expenses Gross profit (trfd. to Profit and Loss)		Sales-Returns Closing Stock Gross Loss(trfd. to Profit and Loss account)	

Financial Terminology – The Trading Account

- Sales – the amount in £s a business sell over the financial year sometimes called turnover.
- Sales returns – goods the business has sold that have been returned by customers because they are unsuitable. They must be deducted from the sales figure in the trading account.
- Purchases – the amount of stock in £s the business buys from suppliers throughout the financial year.
- Purchase returns – the amount of stock in £s the business has bought and returns to the supplier because it is unsuitable. This figure must be deducted from purchases.
- Opening stock – the stock in £s the business has at the start of the financial year. This figure would be found by doing a physical stocktake.
- Closing stock - the stock in £s the business has at the end of the financial year
- Cost of Sales – the cost of the stock that was sold; the figure is deducted from the Sales figure

Profit & Loss Account

Prepared to know the net profit/loss of business during a particular accounting year.

Gross profit or loss is adjusted keeping in view the indirect expenses like administrative, selling and distribution and any other expenses and incomes to find out net profit or net loss.

Profit and Loss account

Dr.			Cr.
To Gross Loss b/d To Adm.expenses To Selling & Dist.expenses To other expenses To Net Profit (transferred to Capital Account)		By Gross Profit b/d By other Incomes By Net Loss (transferred to capital account)	

Balance Sheet

-The last of financial statements .

-**Shows the financial position** of the business at the end of the accounting year i.e. balances of capital, liabilities & assets.

-All nominal accounts are closed by transferring these to Trading & Profit & Loss Account.

- **Only personal & real accounts** are left for Balance Sheet.

Balance Sheet as on……

Capital		*Fixed Assets:*	
Add: Net Profit		Goodwill	
Less: Drawings		Land and Buildings	
Long term Liabilities:		Plant & Machinery	
Long term loan		Etc.	
Public deposits		Loose Tools	
Current Liabilities:		Investments	
Unexpired Income		*Current Assets:*	
Short Term Loans		Closing Stock	
Trade Creditors		Prepaid Expenses	
Bank Overdraft		Etc.	
		Cash at Bank	
		Cash in hand	

Finance Terminology - The Balance Sheet

- Describe the following financial terms:
- **Fixed Assets** - assets used in the day to day running of the business which will be kept for more than one year eg premises, motor van
- **Intangible Assets** - assets which you cannot see or touch eg reputation (goodwill), brand name.
- **Current Assets** - assets that constantly change and can be easily turned into cash. (stock, debtors and cash)
- **Long term Liabilities** - money the business owes over a long period of time - greater than one year (mortgage, bank loan)
- **Current Liabilities** - money the business owes in the short term - within one year (suppliers, overdraft, tax bill)
- **Working Capital** - current assets minus current liabilities. Working capital in the amount of money a business has available to meet it's short term debts.
- **Debtors** - individuals and businesses that owe the business money. Debtors are a current asset.
- **Creditors** - individuals and businesses that the business owes money to. Creditors can be current liabilities (suppliers or overdraft) or long term liabilities (bank loan)