

Penang Sangam High School

Accounting-Year 11

Strand 4: Measuring Periodic Income 1

Sub-strand: Final Accounts

Week 19

Greetings students

We will move on to our next topic Final accounts

Learning outcome: Prepare financial statements from Trial Balance incorporating balance day adjustments.

Final Accounts

Accounting Reports and its purpose: Financial reports are prepared by the accountants on the basis to help the end users in decision making. Features of a good Accounting Report
Accounting report have several distinctive features.

- Clear heading –accounting reports must have a clear heading showing the name of the business, the title of the report, date and the time period relevant to information in the report.
- Timeliness- accounting information should be made available early enough to allow decisions to be made without undue delay.
- Accuracy – accounting reports must be as accurate as possible to enable correct decisions to be made.
- Simplicity- reports must be simple enough to be understood by the intended users.
- Consistency - accounting reports from one accounting period to next should be prepared on a consistent basis so that the results of one accounting period can be compared with the next.
- Clear presentation- accounting information should be clearly presented in order to be understood.
- Compliance with law and accounting standard –accounting reports must be prepared in accordance with Fiji accounting standards.

Comparative financial statements - are the complete set of financial statements that an entity issues, revealing information for more than one accounting period.

Why Need for Comparative Statements

- Provides a comparison of an entity's financial performance over multiple periods. The statements may also reveal unusual items in the reported information that can indicate the presence of accounting errors.
- Provides a comparison of expenses to revenues and the proportions of various items on the balance sheet over multiple periods. This information can be useful for cost management purposes.
- Useful for predicting future performance.
- When comparing different companies, a comparative statement can show how businesses react to market conditions affecting an entire industry.

Limitations of Traditional Reports

- Does not consider non-financial information.
- Reports are based on historical data reported in the financial statement.
- Pictorial analysis is not commonly practiced under traditional approach.

Preparation of Final Accounts Final Accounts mainly comprises of Statement of Financial Performance and Statement of Financial Position. Traditionally these statements were known as Revenue Statement and Balance Sheet. In reality, firms are mostly using Vertical/ modern/ statement forms to present their Financial Reports.

Trading Account (Component of Statement of Financial Performance)

- Simply shows the gross profit or loss derived by the business on purchases and sales of goods and services.

1. Net Purchases = Total Purchases – Purchase returns (returns outwards)
 2. Net Sales = Total Sales - Sales returns (return inwards)
 3. Goods available for Sale = Opening stock + Net Purchases + Buying expenses
 4. Cost of Goods Sold = Goods available for Sale – Closing stock
 5. Gross profit = Net Sales > Cost of Goods sold (appears on debit side of trading account)
 6. Gross Loss = Net sales < Cost of Goods sold (appears on the credit side of trading account)
- Profit and Loss Account (Component of Statement of Financial Performance)

Shows revenue and expenses together with gross profit or loss to calculate the net Profit/loss. (T Form).

Statement of Financial Performance (Revenue Statement) -is a summary statement of expenses and revenues to calculate net profit or loss.

Classification of Revenue and Expenses in the Statement of Financial Performance

1. **Operating Expenses – are those that incurs in the normal running of the business.**

Selling and Distribution Expenses

- are expenses incurred in connection with selling, delivering, storage, promotion and distribution of goods and services.

Delivery vehicle expenses Depreciation – delivery vehicle Salesman’s wages Depreciation – Plant Depreciation- Storage room Depreciation – equipment’s used in sales Repairs and maintenance- storage, delivery vehicle	Cartage outwards Commission expenses Advertisements Travel expenses Store man’s salary Salesman’s car expenses Depreciation – showroom Warehouse expenses
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Administrative Expenses

- are expenses associated with the overall management of the business.

Rates and taxes Cleaning Telephone Rent Insurance Office expenses Accounting fees Audit fees Printing and Stationery General expenses Salaries and Wages	Lighting and Power Depreciation – Building Depreciation – Fixtures and Fittings Depreciation – Office Equipment Depreciation – Administrative car Repairs and Maintenance Accidents compensation Oil and petrol Legal expenses Bank charges
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