

A Level Accounting

Transition Y11 to A Level Induction/Summer Work Pack



Name.....

Welcome to A Level Accounting at Wyke 6th Form College

We are sure you would like to make a great start to this course so have included some introductory work that covers the basics of Accounting and will prepare you for your studies in September. There are three Accounting teachers at Wyke – Andrea Turner and Gemma Cotson and Nicola Baker. You can email us at andrea.turner@wyke.ac.uk, gemma.cotson@wyke.ac.uk or nicola.baker@wyke.ac.uk.

You should aim to fully complete this booklet for when you start in September. Print it off and fill in.

First, we would like to find out a bit about you.

Name	
School	
Chosen subjects at Wyke?	
Why have you chosen Accounting?	
Future plans?	

Accounting Terms

Below are some commonly used accounting terms. Can you match up the definitions with the accounting terms. You may know some of them already but you can use the internet to determine any you don't know.

Sales (or revenue/turnover) Drawings Investors Accrual
 Trade receivables Profit Carriage outwards Inventory Loss
 Returns outwards Purchases Assets Prepayment
 Capital Returns inwards Irrecoverable debt Carriage inwards
 Trade payables Liabilities

Complete the table using the accounting terms shown above.

Definition	Accounting Term
Resources owned by an organisation	
Represents the debts owed by an organisation	
People (or organisations) that owe money to a business, also known as debtors	
People (or organisations) which the business owes money to, also known as creditors	
Describes how much a business is worth. It represents how much the owners have invested in the business	

Income earned by a business for selling its goods and services	
Items bought which enable a sale to be made	
A debt owing by a customer that is going to be written off, perhaps because the business has ceased trading	
The excess of income over expenditure	
Occurs when expenditure exceeds income	
The withdrawal of resources (cash or goods) from the business by the owner	
A cost incurred when a supplier charges for delivery on the goods purchased	
An expense which a business incurs when it pays for delivery of goods to a customer	
Goods returned by the customer, also known as sales returns	
Goods the business sends back to the supplier, also known as purchase returns	
Stock of goods held for manufacture or resale	
Persons or organisations which have provided money to a business in exchange for a share of the ownership	
An amount paid for in advance for a benefit to the business such as insurance premiums or rent paid for in advance	
An amount unaccounted for yet still owing at the year or period end	

Stakeholders

One of the roles of an accountant is to calculate how much profit a business has made. Various people/institutions will be interested in how much profit a business has made. These people/institutions are called **stakeholders**.

Can you think of some reasons why the stakeholders shown below would be interested in how much profit a business has made?

Stakeholder	Why are they interested in how much profit a business makes?
Business owner	
Bank	
Employees	
HMRC (Her Majesty's Revenue and Customs)	
Customers	
Suppliers	

Gross Profit

Now we are going to have a go at calculating some profit. Opening inventory just means the stock held at the start and closing inventory means the stock held at the end of a particular accounting period (usually a year).

In very simple terms: $\text{Gross Profit} = \text{Sales less Cost of Sales}$

$$\text{Cost of Sales} = \text{Opening inventory} + \text{Purchases} - \text{Closing inventory}$$

Example

Calculate the a) cost of sales b) gross profit given the following figures.

	£
Opening inventory	11 400
Closing inventory	9 800
Sales	65 300
Purchases	45 100

$$\begin{aligned} \text{a) Cost of sales} &= \text{Opening inventory} + \text{Purchases} - \text{Closing inventory} \\ &= 11\,400 + 45\,100 - 9\,800 = \text{£}46\,700 \end{aligned}$$

$$\begin{aligned} \text{b) Gross Profit} &= \text{Sales} - \text{Cost of sales} \\ &= 65\,300 - 46\,700 = \text{£}18\,600 \end{aligned}$$

Now you do some. For each of the following calculate the a) cost of sales and b) gross profit.

1.

	£
Opening inventory	7 200
Closing inventory	4 900
Sales	38 700
Purchases	21 500

2.

	£
Sales	94 750
Opening inventory	15 400
Purchases	62 480
Closing inventory	9 820

3.

	£
Purchases	29 570
Closing inventory	8 390
Opening inventory	12 060
Sales	48 200

4.

	£
Closing inventory	3 980
Sales	36 000
Opening inventory	11 200
Purchases	18 700

5.

	£
Opening inventory	5 910
Closing inventory	8 340
Sales	49 300
Purchases	31 500

6.

	£
Sales	85 200
Opening inventory	13 800
Purchases	70 900
Closing inventory	16 450

7.

	£
Purchases	14 370
Opening inventory	3 080
Closing inventory	5 250
Sales	25 290

8.

	£
Purchases	38 180
Sales	57 940
Closing inventory	7 430
Opening inventory	9 650

9.

	£
Closing inventory	18 320
Sales	129 300
Purchases	95 800
Opening inventory	14 700

10.

	£
Opening inventory	9 270
Closing inventory	13 100
Sales	42 520
Purchases	28 750

11.

	£
Purchases	183 500
Closing inventory	23 900
Sales	208 540
Opening inventory	27 600

12.

	£
Sales	75 290
Opening inventory	11 560
Closing inventory	12 380
Purchases	58 340

Can you work out the missing amounts by working backwards?

1. Calculate the sales.

	£
Gross profit	24 700
Opening inventory	8 375
Closing inventory	5 490
Purchases	32 600

2. Calculate the closing inventory.

	£
Opening inventory	11 460
Purchases	42 500
Sales	65 400
Gross profit	17 930

3. Calculate the opening inventory.

	£
Sales	91 400
Gross profit	25 700
Purchases	63 100
Closing inventory	12 600

4. Calculate the purchases.

	£
Opening inventory	9 485
Closing inventory	11 790
Sales	58 200
Gross profit	23 650

5. Calculate the sales.

	£
Closing inventory	16 510
Gross profit	39 200
Opening inventory	18 340
Purchases	75 800

The Trial Balance

The basic principle of accounting is the **double entry system** – that for every debit there is an equal credit. Before an accountant produces the final accounts for a business they produce a **trial balance**. This is a way of checking the arithmetical accuracy of the figures because the total of the debits and the total of the credits should be the same. Producing a set of accounts can be time consuming so an accountant would not want to get to the end and find there were errors. A trial balance is a way of identifying errors before producing the accounts. Though you will discover during the course that a trial balance does not identify all errors.

So what is a debit and what is a credit?

	Debit	Credit
Sales		x
Purchases	x	
Capital		x
Inventory	x	
Bank	x	
Cash	x	
Trade receivables	x	
Trade payables		x
Loan		x
Bank overdraft		x
Motor vehicles	x	
Machinery	x	
Equipment	x	
Fixtures & fittings	x	
Wages	x	
Insurance	x	
Rent & rates	x	
Motor expenses	x	
General expenses	x	
Drawings	x	

Example:

The accountant has extracted a list of balances and they are shown in the table below:

	£
Inventory	5 430
Capital	50 000
Trade payables	5 420
Trade receivables	2 610
Motor vehicles	32 000
Motor expenses	980
Wages	17 300
Sales	92 350
General expenses	1 150
Fixtures & fittings	19 000
Bank overdraft	5 980
Purchases	67 280
Drawings	8 000

We can now put these figures into a trial balance. We just need to put the figures in the correct column. Notice how **TOTAL DEBITS = TOTAL CREDITS**.

	Debit	Credit
Inventory	5 430	
Capital		50 000
Trade payables		5 420
Trade receivables	2 610	
Motor vehicles	32 000	
Motor expenses	980	
Wages	17 300	
Sales		92 350
General expenses	1 150	
Fixtures & fittings	19 000	
Bank overdraft		5 980
Purchases	67 280	
Drawings	8 000	
Total	153 750	153 750

1. Using the following extracted balances produce a trial balance.

	£
Trade receivables	975
Motor expenses	600
Purchases	23 500
Cash	4 750
Trade payables	12 400
Loan	30 000
Motor vehicles	10 250
Drawings	4 930
Capital	1 200
Sales	52 000
Wages	16 450
Inventory	4 600
Bank	28 950
Insurance	270
Rent & rates	325

Trial Balance

	Debit	Credit
Total		

2. Using the following extracted balances produce a trial balance.

	£
Sales	72 000
Inventory	8 950
Cash	2 600
Motor vehicles	4 880
Fixtures & fittings	15 400
Wages	5 420
Trade receivables	14 750
Bank overdraft	16 000
Purchases	45 650
Capital	10 000
Trade payables	2 300
Loan	5 000
Rent & rates	3 200
Drawings	1 500
General expenses	2 950

Trial Balance

	Debit	Credit
Total		

3. Using the following extracted balances produce a trial balance.

	£
Bank	6 760
Trade receivables	15 870
Sales	47 700
Equipment	1 400
Capital	15 000
Inventory	4 500
Trade payables	6 980
Machinery	2 000
Wages	250
Insurance	395
Fixtures & fittings	300
Cash	4 470
Purchases	31 500
Drawings	785
General expenses	1 450

Trial Balance

	Debit	Credit
Total		

5. Using the following extracted balances produce a trial balance.

	£
Trade payables	4 500
Loan	6 000
Capital	37 500
Inventory	15 290
Bank	15 000
Drawings	10 890
Rent & rates	6 500
Motor expenses	650
Cash	3 200
Trade receivables	6 980
Motor vehicles	15 000
Sales	67 850
Purchases	40 870
Wages	470
General expenses	1 000

Trial Balance

	Debit	Credit
Total		

6. Using the following extracted balances produce a trial balance.

	£
Sales	82 650
Purchases	45 600
Capital	4 900
Inventory	12 560
Cash	350
Trade receivables	9 870
Trade payables	4 520
Loan	10 000
Bank overdraft	6 500
Motor vehicles	12 000
Fixtures & fittings	440
Insurance	3 200
Motor expenses	3 260
General expenses	290
Drawings	21 000

Trial Balance

	Debit	Credit
Total		

Final Accounts

The final accounts are made up of two documents. These are the income statement and the statement of financial position. The income statement shows how much profit the business has made and the statement of financial position show the assets, liabilities and capital.

Here is an example of an income statement:

Income Statement

	£	£
Sales		172 500
Less cost of sales:		
Opening inventory	6 590	
+ purchases	126 200	
- closing inventory	<u>(4 800)</u> *	
		<u>127 990</u>
Gross profit		44 510
Less expenses:		
Wages	25 900	
Insurance	2 700	
Rent & rates	5 420	
Motor expenses	1 280	
General expenses	<u>740</u>	
		<u>36 040</u>
Profit for the year		8 470

Notice how there are two types of profit – gross profit and profit for the year. At the start of the booklet you were calculating gross profit. Profit for the year is just gross profit – expenses.

Remember: Sales – cost of sales = gross profit

Profit for the year = gross profit – expenses

* Because we are taking away the closing inventory we put it in a bracket rather than writing “-”.

Here is the statement of financial position for the same business:

Statement of Financial Position

	£	£
Non current assets		
Motor vehicles		26 000
Machinery		35 000
Equipment		20 000
Fixtures & fittings		<u>18 000</u>
		99 000
Current assets		
Closing inventory	4 800	
Bank		
Cash	900	
Trade receivables	<u>4 970</u>	
		10 670
Total assets		109 670 *
Capital account		
Capital at the start		90 000
Add profit for the year		<u>8 470</u>
		98 470
Less drawings		<u>(10 000)</u>
Capital at the end		88 470
Non current liabilities		
Long term loan		8 000
Current liabilities		
Trade payables	11 900	
Bank overdraft	<u>1 300</u>	
		13 200
Total capital and liabilities		109 670 *

* Notice how Total assets = Total capital and liabilities. You may have heard this called a balance sheet - because it balances.

Everything in the trial balance is transferred to **either** the income statement **or** the statement of financial position with the exception of the **closing inventory** which is the only item to appear in **both**.

The **profit for the year** figure comes from the **income statement**.

A business will either have money in the bank or be overdrawn. It is unlikely to have both. In this example the business was overdrawn at the bank.

The statement of financial position is split into 5 sections – non current assets, current assets, capital account, non current liabilities and current liabilities.

Total assets = non current assets + current assets

Total capital and liabilities = capital at end + non current liabilities + current liabilities

Let us go back to the extracted balances from the trial balance example. We know it is arithmetically correct because when we did the trial balance the total debits = total credits.

	£
Opening inventory	5 430
Capital at the start	50 000
Trade payables	5 420
Trade receivables	2 610
Motor vehicles	32 000
Motor expenses	980
Wages	17 300
Sales	92 350
General expenses	1 150
Fixtures & fittings	19 000
Bank overdraft	5 980
Purchases	67 280
Drawings	8 000

We also need to know the closing inventory though as well as the opening inventory (or inventory at the start). **The closing inventory is £7 560.**

Complete the income statement using those figures. Look back at the example to see where the figures go. Show that the gross profit is £27 200 and the profit for the year is £7 770.

Income Statement

	£	£
Sales		
Less cost of sales:		
Opening inventory		
+ purchases		
- closing inventory		
Gross profit		
Less expenses:		
Wages		
Motor expenses		
General expenses		
Profit for the year		

Now complete the statement of financial position on the next page.

Remember:

- The closing inventory will go in the statement of financial position as well as the income statement.
- The profit for the year will be transferred from the income statement to the statement of financial position.

Statement of Financial Position

	£	£
Non current assets		
Motor vehicles		
Fixtures & fittings		
Current assets		
Closing inventory		
Cash		
Trade receivables		
Total assets		
Capital account		
Capital at the start		
Add profit for the year		
Less drawings		
Capital at the end		
Non current liabilities		
Current liabilities		
Trade payables		
Bank overdraft		
Total capital and liabilities		

The statement of financial position should balance at £61 170.

Now you are going to have a go at producing some accounts yourself. You will be given a set of extracted balances. Look back at the example income statement and statement of financial position to see where the figures go.

1. Produce an income statement and statement of financial position using these balances.

	£
Trade receivables	975
Motor expenses	600
Purchases	23 500
Cash	4 750
Trade payables	12 400
Long term loan	30 000
Motor vehicles	10 250
Drawings	4 930
Capital at the start	1 200
Sales	52 000
Wages	16 450
Opening inventory	4 600
Bank	28 950
Insurance	270
Rent & rates	325

The closing inventory is £2 370.

[You should get a gross profit of £26 270, a profit for the year of £8 625 and the statement of financial position will balance at £47 295]

2. Produce an income statement and statement of financial position using these balances.

	£
Sales	72 000
Opening inventory	8 950
Cash	2 600
Motor vehicles	4 880
Fixtures & fittings	15 400
Wages	5 420
Trade receivables	14 750
Bank overdraft	16 000
Purchases	45 650
Capital at the start	10 000
Trade payables	2 300
Long term loan	5 000
Rent & rates	3 200
Drawings	1 500
General expenses	2 950

The closing inventory is £1 450.

[You should get a gross profit of £18 850, a profit for the year of £7 280 and the statement of financial position will balance at £39 080]

3. Produce an income statement and statement of financial position using these balances.

	£
Bank	6 760
Trade receivables	15 870
Sales	47 700
Equipment	1 400
Capital at the start	15 000
Opening inventory	4 500
Trade payables	6 980
Machinery	2 000
Wages	250
Insurance	395
Fixtures & fittings	300
Cash	4 470
Purchases	31 500
Drawings	785
General expenses	1 450

The closing inventory is £2 650.

[You should get a gross profit of £14 350, a profit for the year of £12 255 and the statement of financial position will balance at £33 450]

4. Produce an income statement and statement of financial position using these balances.

	£
Purchases	2 360
Opening inventory	450
Cash	4 570
Wages	640
Insurance	2 450
Sales	17 000
Rent & rates	2 100
Motor expenses	340
Drawings	3 900
Trade receivables	6 980
Trade payables	8 450
Motor vehicles	260
Equipment	7 550
Capital at the start	6 500
General expenses	350

The closing inventory is £300.

[You should get a gross profit of £14 490, a profit for the year of £8 610 and the statement of financial position will balance at £19 660]

5. Produce an income statement and statement of financial position using these balances.

	£
Trade payables	4 500
Long term loan	6 000
Capital at the start	37 500
Opening inventory	15 290
Bank	15 000
Drawings	10 890
Rent & rates	6 500
Motor expenses	650
Cash	3 200
Trade receivables	6 980
Motor vehicles	15 000
Sales	67 850
Purchases	40 870
Wages	470
General expenses	1 000

The closing inventory is £500.

[You should get a gross profit of £12 190, a profit for the year of £3 570 and the statement of financial position will balance at £40 680]

6. Produce an income statement and statement of financial position using these balances.

	£
Sales	82 650
Purchases	45 600
Capital at the start	4 900
Opening inventory	12 560
Cash	350
Trade receivables	9 870
Trade payables	4 520
Long term loan	10 000
Bank overdraft	6 500
Motor vehicles	12 000
Fixtures & fittings	440
Insurance	3 200
Motor expenses	3 260
General expenses	290
Drawings	21 000

The closing inventory is £12 000.

[You should get a gross profit of £36 490, a profit for the year of £29 740 and the statement of financial position will balance at £34 660]

