

Trial balance and final accounts of a sole trader

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Introduction:

Three financial accounting-related tasks are included in this assignment. The first task is creating for Smart Grocery a profit and loss account/income statement and a balance sheet/statement of financial position. Task 2 is concerned with setting up ledger 'T' accounts and constructing a trial balance for Jack's pancake company using various transactions. Determining the idea, use, and accounting of depreciation for non-current assets is required for Task 3. These assignments offer relevant insights into accounting's financial analysis and reporting.

Task 1:

Profit and Loss Account in the books of Smart Grocery		
as on 31st Dec 2020		
Particular	Amount	Amount
Sales Revenue	154786	
Net Sales Revenue		154786
Discount Received		320
Cost of Goods Sold		
Opening Inventory	5100	
Purchases	88600	
Less: Closing Inventory	-2400	91300
Gross Profit		63806
Operating Expenses		
Rent	2200-230	1970
Salaries	28400+340	28740
Vehicle Maintenance	615+540	1155
Depreciation: Furniture	1935	
Vehicles	1870	3805
Bad Debt	700-(515-316)	501
Discount Allowed		740
Total OE		36911
Net Profit		26895

The Income Statement, also known as the Profit and Loss Account, is an essential financial statement that compiles a company's income, costs, and net profit or loss for a certain time period. Businesses, investors, and stakeholders frequently utilise it to inform their decisions since it offers insightful information about a company's financial performance.

Profit and Loss Account's Importance

Performance Evaluation: Companies may evaluate their cost control, revenue creation, and overall profitability using the profit and loss account. It aids in assessing the success of price choices, cost-control initiatives, and sales strategies.

Making decisions: The statement supports making well-informed decisions on the allocation of resources, budgeting, potential investments, and strategic planning. It aids in locating strong and weak points so that management may make the necessary adjustments (Răscolean and Rakos, 2019).

Investor Confidence: The Profit and Loss Account gives shareholders and prospective investors important information about the company's financial health and development possibilities. As they evaluate the company's capacity to make profits and maintain business operations, it affects their investment selections.

Tax Calculation: The statement provides a foundation for determining a business's taxable income, assisting in meeting legal and tax compliance duties.

Profit and Loss Account Limitations:

Non-Financial elements: Because it only considers financial transactions, the profit and loss account may not take into account non-financial elements that affect a company's success, such as customer satisfaction, brand reputation, or employee morale.

Subjectivity: The statement contains certain subjective judgements, including estimates for provisions, bad debts, and depreciation techniques. The accuracy of the provided data may be impacted by these estimations, which can vary between businesses (Hasanaj and Kuqi, 2019).

Timing discrepancies may occur between when cash is received or paid and when the revenue or expenditure is recognised since the accrual accounting concept underlies the reporting of revenues and costs in the profit and loss account.

Profit and Loss Account Uses:

Benchmarking: Using the statement, organisations can assess their financial performance in relation to industry norms, other businesses, or earlier time periods. Setting goals for future growth and pinpointing areas that need work is helpful.

Financial Analysis: The Profit and Loss Account supplies essential information for trend analysis and financial ratio calculations, enabling performance evaluation and comparison across various time periods or businesses (Honko et al., 2020).

Communication: The statement is a useful tool for informing internal and external stakeholders, including shareholders, creditors, lenders, and regulatory agencies, about financial outcomes.

Forecasting future revenue and cost trends is made easier by the previous data included in the Profit and Loss Account. It supports goal-setting, financial planning, and budgeting.

Balance Sheet in the Books of Smart Grocery		
as on 31st Dec 2020		
Particular	Amount	Amount
Assets		
Non-Current Assets		
Furniture		7095
Cost	12900	
Accumulated Depreciation	-3870	
Depreciation	-1935	
Vehicles		7480
Cost	13700	
Accumulated Depreciation	-4350	
Depreciation	-1870	
Current Assets		20750
Trade Receivables 14316-316	14000	
Less: Provision for Doubtful Debts 14316*5%	-700	
Bank Balance	4820	
Inventory	2400	
Prepaid Rent	230	
Total Assets		35325
Liabilities		

Trade Payable	6350	
Accrued Salaries	340	
Vehicle Maintenance	540	
Total Liabilities		7230
Equity		
Capital		15000
Retained Earnings: Net Profit	26895	
less: Drawings	-13800	13095
Total Equity		28095
Total Liabilities and Equity		35325

A crucial financial statement that gives a glimpse of a company's financial situation at a certain point in time is the balance sheet. In order to provide stakeholders with a general understanding of the company's financial health and worth, it lays out its assets, liabilities, and shareholders' equity. Businesses, investors, and creditors frequently consult the balance sheet for a number of crucial reasons.

The Importance of the balance sheet

Financial Position: The balance sheet provides information on the company's assets, liabilities, and equity at a specific point in time. It aids in evaluating stability overall, liquidity, and solvency.

Performance Evaluation: Stakeholders can assess a company's financial performance, expansion, and resource management effectiveness by contrasting its assets and liabilities over time.

Making Investment Decisions: Prior to making an investment or a loan, creditors and investors evaluate a company's financial health and stability using the balance sheet. It aids in determining the company's capacity to produce returns and fulfil its responsibilities (Fridson and Alvarez, 2022).

Capital Allocation: Using the balance sheet, management may decide how much money to put towards things like buying new assets, paying down debt, or giving dividends to shareholders.

Compliance and Reporting: The Balance Sheet is essential for adhering to accounting standards and regulatory regulations. It guarantees accountability and openness in financial reporting.

Limitations of the balance sheet:

Historical Snapshot: The ¹¹balance sheet offers a static snapshot of the business's financial standing at a particular period. It does not take into account current changes or future developments that could have an influence on the financial condition.

The Balance Sheet uses historical cost accounting, which may not fully reflect the current market worth of the assets. It is possible that some assets, such as intellectual property or brand value, are not recorded as assets on the balance sheet (Robinson, 2020).

Subjectivity: The calculation and judgement required to value some items, such as provisions, depreciation, or asset impairments, can differ significantly between organisations and have an influence on the veracity of reported data.

Balance Sheet Applications:

Financial Analysis: For financial measures including liquidity ratios, solvency ratios, and profitability ratios, the balance sheet offers crucial information. It aids in evaluating a company's risk profile and financial performance.

Potential investors and creditors assess a company's financial standing, risk exposure, and ability to pay back loans using the balance sheet. Making wise financing and investing selections is aided by it (Wahlen et al., 2022).

Stakeholder Communication: A balance sheet is a crucial tool for informing shareholders, management, employees, and other stakeholders about financial information. It offers a thorough analysis of the company's financial situation.

Making Decisions: The Balance Sheet helps management decide on strategic actions like capital investments, M&A deals, or reorganisation plans. It aids in evaluating how these choices will affect the financial health of the business.

Task 2:

Cash A/c					
Date	Particular	Amount	Date	Particular	Amount
09-May	Receivables	3000	02-May	Advertising	500
15-May	Receivables	2600	07-May	Drawing	700
			31-May	Bal c/d	4400
31-May	Total	5600	31-May	Total	5600
01-Jun	Bal b/d	4400			
Bank A/c					
Date	Particular	Amount	Date	Particular	Amount
01-May	Bal b/d	27000	03-May	Payables	2500
			11-May	Petrol	350
			18-May	Insurance	450
			30-May	Purchase A/c	1200
			31-May	Bal C/d	22500
31-May	Total	27000	31-May	Total	27000
01-Jun	Bal b/d	22500			
Receivables A/c					
Date	Particular	Amount	Date	Particular	Amount
01-May	Bal b/d	15000	09-May	Cash A/c	3000
21-May	Sales A/c	2400	15-May	Cash A/c	2600
			31-May	Bal c/d	11800
31-May	Total	17400	31-May	Total	17400
01-Jun	Bal b/d	11800			
Payables A/c					
Date	Particular	Amount	Date	Particular	Amount
03-May	Bank a/c	2500	01-May	Bal b/d	5000
			20-May	Purchase	1200
31-May	Bal c/d	3700			
	Total	6200		Total	6200
			01-Jun	Bal b/d	3700
Advertising A/c					
Date	Particular	Amount	Date	Particular	Amount
02-May	Cash a/c	500			
			31-May	Bal c/d	500

31-May	Total	500	31-May	Total	500
01-Jun	Bal b/d	500			
Drawings A/c					
Date	Particular	Amount	Date	Particular	Amount
07-May	Cash A/c	700			
			31-May	Bal c/d	700
31-May	Total	700	31-May	Total	700
01-Jun	Bal b/d	700			
Petrol A/c					
Date	Particular	Amount	Date	Particular	Amount
11-May	Bank A/c	350			
			31-May	Bal c/d	350
31-May	Total	350	31-May	Total	350
01-Jun	Bal b/d	350			
insurance A/c					
Date	Particular	Amount	Date	Particular	Amount
18-May	bank a/c	450			
			31-May	Bal c/d	450
31-May	Total	450	31-May	Total	450
01-Jun	Bal b/d	450			
Purchase A/c					
Date	Particular	Amount	Date	Particular	Amount
20-May	payables	1200			
30-May	bank a/c	1200			
			31-May	Bal c/d	2400
31-May	Total	2400	31-May	Total	2400
01-Jun	Bal b/d	2400			
Sales A/c					
Date	Particular	Amount	Date	Particular	Amount
			21-May	Receivables	2400
31-May	Bal c/d	2400			
31-May	Total	2400	31-May	Total	2400
			01-Jun	Bal b/d	2400

For organising and analysing specific transactions, T accounts are a helpful accounting tool. They assist maintain account balances and offer a visual depiction of the flow of transactions. T accounts

are split into two sides, with the account name inscribed on top, the debit side on the left and the credit side on the right. The Importance of T accounts

T accounts offer an organised and unambiguous depiction of transactions relating to certain accounts. They make it simpler to spot mistakes or inconsistencies by assisting accountants and bookkeepers in keeping track of debits and credits.

Accounting professionals can analyse the effects of transactions on certain accounts by utilising T accounts. It makes it possible to carefully analyse how debits and credits impact the account balance and overall financial status (Palepu et al., 2020).

Preparation of the Trial Balance: The preparation of the trial balance, a crucial phase in the financial reporting process, is based on the T accounts. Before finalising the financial accounts, the trial balance verifies if debits and credits are equal and aids in locating any imbalances or mistakes.

Adjustments and Closing Entries: At the conclusion of an accounting period, T accounts are utilised to record adjusting entries and closing entries. These entries aid in the accurate recognition of revenues and costs as well as the closing out of temporary accounts to the relevant equity accounts.

T accounts' Limitations:

Simplified Representation: T accounts give transactions and account balances in a more straightforward way. The interplay between several accounts or the consequences of accruals and deferrals, for example, are examples of accounting procedures that fail to adequately reflect in terms of complexity and nuance.

Lack of Context: T accounts do not include background information or in-depth justifications for transactions. They don't provide any details about the underlying business activities or motivations for the transactions; they merely display the debits and credits (Hosaka, 2019)

Limited Application: T accounts are frequently used for particular accounts or single transactions. They might not be appropriate for collecting complicated transactions involving many accounts or for conducting in-depth analyses of financial performance.

Trail Balance		
as of 31st May		
Particular	Amount	Amount
Cash A/c	4400	
Bank A/c	22500	
Receivables A/c	11800	
Payables		3700
Advertising	500	
Drawings	700	
Petrol	350	
Insurance	450	
Purchase	2400	
Sales		2400
Capital		50000

Van	13000	
	56100	56100

A financial statement called a "trial balance" shows the general ledger's account balances at a certain period in time. It assists in the creation of financial statements and is a crucial instrument in the accounting process.

Trial balance's Importance:

Identifying Errors: The trial balance's main goal is to make sure that the ledger's total debits and credits balance out. The accuracy of the accounts has been accurately documented if the trial balance is in balance. Before creating the financial statements, an error must be found and fixed if there is any difference or imbalance in the trial balance (Andelina and Santoso, 2021)

The trial balance gives all account balances, which are used as the foundation for creating ²financial statements such as the income statement, balance sheet, and statement of cash flows. As a result, the financial statements always show the correct account balances.

Trial balance Limitations:

No Guarantee of Accuracy: While a balanced trial balance shows that all debits and credits balance out, it does not ensure that each account's balance is accurate. There may still be mistakes, such as transposition errors, compensatory errors, or omission errors, leading to an accurate trial balance (Dewi et al., 2019).

Timing and Recognition Issues: Neither the timing of transactions nor the standards for recognising revenues and costs are taken into account in the trial balance. Because it only displays the balances as of a certain moment in time, some transactions might not yet be registered or recognised.

Task 3:

Depreciation of Non-Current Assets: Concept, Application, and Accounting

A fundamental idea in accounting known as depreciation acknowledges the progressive decline in the value of non-current assets over the course of their useful life. It helps organisations correctly portray the consumption of an item and produce more accurate financial statements by allocating the cost of an asset across the time during which it is anticipated to be used (Hajiyev, 2021)

The idea of depreciation recognises that assets, including structures, vehicles, and machines, succumb to deterioration, obsolescence, and value loss as a result of things like technological improvements. By depreciating these assets, firms may more accurately reflect their financial success by matching the cost of purchasing them with the income produced while using them.

Estimating an asset's useful life and residual value at the end of that time period is necessary for applying depreciation. Useful life specifies how long the asset is anticipated to be valuable to the business, whereas residual value indicates the anticipated value of the asset at the conclusion of its useful life (Nechaev and Rasputina, 2020).

The simplest technique is straight-line depreciation, which allocates the same amount of depreciation expenditure throughout the asset's useful life. By applying a larger depreciation expenditure in the early years and a progressive decrease as the asset matures, reducing balance depreciation applies a higher depreciation expense. Depreciation based on units of production relates the cost to how the asset is utilised, assigning greater depreciation when the asset is used more heavily (Cotter, 2021).

Depreciation is accounted for as a cost on the income statement and concurrently lowers the asset's carrying value on the balance sheet. Businesses are able to stretch out the cost and more accurately represent the asset's contribution to revenue generation since the expenditure is recognised across the asset's useful life (Raximova, 2020).

For firms, depreciation offers a number of advantages. In the beginning, it offers a more precise evaluation of profitability by lining up costs with the income produced by the assets. Second, it aids in determining the book value of an asset and any possible needs for replacement or improvement.

Conclusion

The precise drafting of the profit and loss account and the balance sheet, two crucial financial statements, as well as any necessary revisions and computations, comprised Task 1. Task 2 emphasised the value of ledger 'T' accounts and the subsequent creation of a trial balance, which serve to guarantee the correctness and completeness of financial data. Task 3 concentrated on the idea of depreciation, an essential component in accounting for non-current assets, while also emphasising the constraints and real-world uses of the profit and loss account, balance sheet, and trial balance. In general, this assignment has offered insightful information on financial analysis and reporting within the framework of accounting standards.

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