

LCBB4001 Iulia Albu

by Iulia Albu

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LEVEL 4¹ ASSESSMENT SPECIFICATION

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Lecturer	Dr Yousuf Kamal	Internal Verifier:	Khaza Ahmed
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Task 1: **Income statement** and **Balance Sheet**: Smart Grocery:

Income Statement:

The income statement is one of the three most important financial statements since it details the gain or loss for a specific accounting period: the balance sheet and cash flow statement round out the crucial financial information. The income statement breaks forth a company's revenue, expenses, gains, and losses during a given period (Bragg, 2021). An organisation may learn a lot about its operations, management efficacy, weak spots, and performance relative to competitors by analysing its income statement, profit and loss (P&L) statement, or sales and cost summary. Below the Income Statement of the smart Grocery has been presented:

Smart Grocery			
Income Statement			
For the year ended 31 December 2022			
Particulars	GBP (£)	GBP (£)	GBP (£)
Sales Revenue:			
Sales		154786	
Less: Discount Allowed		740	
Net Sales			154046
Less: Cost of Goods Sold (COGS)			
Opening Inventory		5100	
Purchase	88600		
Less: Discount Received	320		
Net Purchase		88280	
Cost of Goods Available for Sales		93380	
Less: Ending Inventory		2400	
Cost of Goods Sold (COGS)			90980
Gross Profit			63066
Expenses			

Rent	2200	
Less: Prepaid Rent	230	1970
Salaries	28400	

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Add: Accrued Sales	340	28740
Vehicle Maintenance	615	
Add: Accrued Cost	540	1155
Irrecoverable Bad debts		501
Deprecation cost:		

**Depreciation
Expenses**

Furniture	1935	
Vehicle	1870	
		3805

Total Expenses 36171

Total Operating Profit/ Net Income		26895
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Table 1: Income Statement

Source: (Self-Made)

Workings:

Depreciation Expense of the Furniture = $12900 \times$

= 1935

Depreciation Expense of the Vehicle = $(13700 - 4350) \times$

= 1870

Irrecoverable debts:

Opening Provision for doubtful debts = 515

Less: Irrecoverable Debts = 316

Balance = 199

New Provision for doubtful debts = 700

Less: Balance = 199

Irrecoverable Debts = 501

Particulars	GBP (£)	GBP (£)
Trade Receivable	14316	
Less: Bad Debts	316	
Net Trade Receivable		14000
Provision for bad Debts (5%)		700

¹²
Balance Sheet:

A company's balance sheet lists its assets, liabilities, shareholders' equity, and total debt, among other financial details—an organisation's financial assets and obligations. If businesses want their balance sheet to reflect their financial situation accurately, utilise the formula $\text{assets} = \text{liabilities} + \text{equity}$. According to Kulikova, Garyntsev, and Gafieva (2015), a balance sheet is like snapping a picture of a company's financial health at a specific time. It is often created once each quarter, six months, or a year. Assets and liabilities make up the bulk of a balance sheet. Below, the Balance sheet of the smart Grocery has been presented

Smart Grocery
Statement of Financial Position
For the year 31 December 2022

Table 2: Smart Grocery

Particulars	GBP (£)	GBP (£)
Assets		
Current Assets:		
Bank Balance	4820	
Trade Receivable (14000-700)	13300	
Closing Inventory	2400	
Rent Prepaid	230	
Total current Assets		20750
Non-Current Assets		

Furniture	12900	
Less: Accumulated Depreciation (3870+1935)	5805	7095
Vehicle at cost	13700	
Less: Accumulated Depreciation (4350+1870)	6220	7480

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6	Total Fixed Assets		14575
	Total Assets		35325
	Liabilities and Owner's Equity		
	Current Liabilities		
	Trade Payable	6350	
	Salaries accrued	340	
	Accrued Vehicle Maintenance Cost	540	
	Total Current liabilities		7230
3	Owner's Equity		
	Capital	15000	
	Add: Net Income	26895	
	Less: Drawings	13800	28095
	Total Current Liabilities and Drawings		35325

Source: (Self-Made)

Task 2: Ledger and Trial Balance: Jack Business:

Ledger:

The financial dealings of a company are documented in a ledger. Assets, liabilities, equity items, income types, and spending categories each have their unique entry in the general ledger. A ledger is a book that keeps track of financial transactions using opening and closing balances that are changed using debits and credits throughout an accounting period. A ledger account uniquely identifies each transaction with a transaction number or other

notation, allowing in-depth analysis of each entry's context (Weygandt, Kimmel and Kieso, 2015). Journal entries may be necessary due to routine business activities, such as client invoicing, recording supplier payments, or correcting entries.

Capital account					
Date	Transaction	Amount	Date	Transaction	Amount
		£			£
31 May	Balance c/d	50,000	1 May	Balance b/d	50,000
		<u>50,000</u>			<u>50,000</u>
			⁴ 1 June	Balance b/d	50,000

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Vehicles					
1 May	Balance b/d	39,000	31 May	Balance c/d	39,000
		<u>39,000</u>			<u>39,000</u>
⁴ 1 June	Balance b/d	39,000			

Bank					
1 May	¹ Balance b/d	27,000	2 May	Advertising	2,500
9 May	Receivables	3,000	3 May	Payables	500
15 May	Receivables	2,600	7 May	Drawings	700
			11 May	Petrol	350
			18 May	Insurance	450
			30 May	Purchases	1,200
			31 May	Balance c/d	26,900
		<u>32,600</u>			<u>32,600</u>
1 June	Balance b/d	26,900			

Receivables					
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1 May	Balance b/d	15,000	9 May	Bank	3,000
21 May	Sales	2,400	15 May	Bank	2,600
			31 May	Balance c/d	11,800
		<u>17,400</u>			<u>17,400</u>
4 1 June	Balance b/d	11,800			

Payables					
3 May	Bank	500	1 May	Balance b/d	5,000
			20 May	Purchases	1,200
31 May	Balance c/d	5,700			
		<u>6,200</u>			<u>6,200</u>
			8 1 June	Balance b/d	5,700

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Sales					
31 May	Balance c/d	2,400	21 May	Receivables	2,400
		<u>2,400</u>			<u>2,400</u>
			1 June	Balance b/d	2,400

Purchases					
20 May	Payables	1,200	31 May	Balance c/d	2,400
30 May	Bank	1,200			
		<u>2,400</u>			<u>2,400</u>
1 June	Balance b/d	2,400			

Insurance					
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18 May	Bank	450	31 May	Balance c/d	450
		<u>450</u>			<u>450</u>

1 June	Balance b/d	450
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Petrol expenses

11 May	Bank	350	31 May	Balance c/d	350
		<u>350</u>			<u>350</u>

1 June	Balance b/d	350
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Advertising expenses

2 May	Bank	2,500	31 May	Balance c/d	2,500
		<u>2,500</u>			<u>2,500</u>

1 June	Balance b/d	2,500
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Drawings

7 May	Bank	700	31 May	Balance c/d	700
		<u>700</u>			<u>700</u>

1 June	Balance b/d	700
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Trial Balance:

A company's trial balance is a historical representation of the company's general ledger accounts. A trial balance is an accounting document that details a company's assets, liabilities, equity, revenue, expenses, profits, and losses across all relevant accounts. Its principal purpose is to detail the sum of all debits and credits as of a specific date, as shown in the general ledger. The trial balance not only catches mistakes; it also sets businesses up to correctly update the main books. Once the correcting entries have been submitted, it is recomputed to confirm that the debits and credits still add up to zero (Power, 2020). There is no legal standing for this document to be considered a financial report. It is intended for internal use and is rarely shared with those outside the organisation.

Table 3: Trial Balance

Jack's Business Trial Balance 31 May 2023			
Serial Number	Description	Debit	Credit
1.	Capital		50,000
2.	Drawings	700	
3	Vehicles	13,000	
4.	Bank	26,900	
5.	Receivables	11,800	
6.	Payables		5,700
7.	Sales		2,400
8.	Purchases	2,400	
9.	Advertising	2,500	
10.	Petrol expenses	350	
11.	Insurance	450	
		<u>58,100</u>	<u>58,100</u>

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Source: (Self-Made)

Task 3: Concept of Depreciation in accounting and how is it calculated in accounting:

Concept of Depreciation and the Reason for Depreciation in Business:

The term "**depreciation**" describes the expected loss in value of a company's fixed assets over a fiscal year. Investments in real estate, machinery, and other vehicles typically need substantial quantities of money. Wear and tear (from actual usage) and obsolescence both work to reduce the value of these assets after they have been purchased. The depreciation figure estimates how much an asset's value has dropped over a specific accounting period (Weygandt, Kimmel and Mitchell, 2020).

The value of an asset is calculated over a more extended period, known as its projected useful life. Thus, businesses cannot deduct the total purchase price in the year of purchase according to generally accepted accounting principles. The asset's value on the balance sheet is decreased whenever the corresponding expense is shown in the income statement. This process keeps going until either the asset is entirely written off or it is sold and replaced. The accounting concept of depreciation attempts to estimate this deterioration over time. It facilitates balancing a company's income and expenses, including those of revenue-generating assets (Power, 2020).

Companies must factor in this depreciating worth when assessing results and estimating the price of manufacturing goods and providing services. This paves the way for them to save for the day when their assets are no longer helpful and replace them with new ones. There are different types of depreciation methods. The following figure represents it:

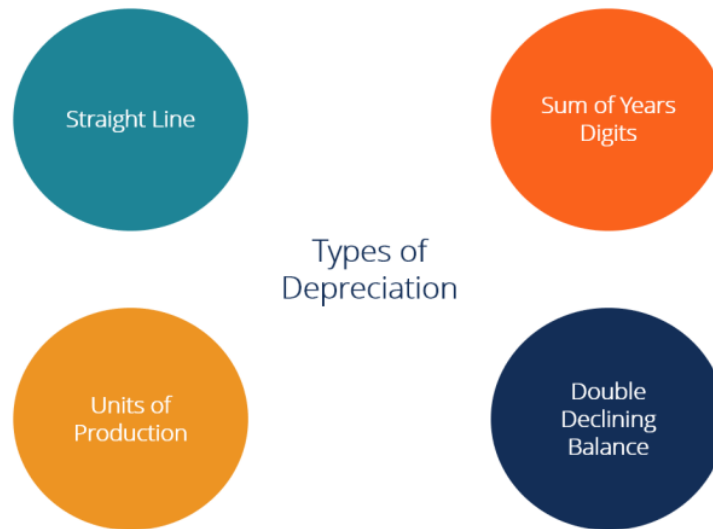


Figure 1: Types of depreciation Method

Source: (corporate finance institute, 2020)

How depreciation is calculated in accounting:

So, a machine tool has been purchased by a firm. A business may choose to depreciate the expense of a machine tool at a rate of 30% per year using the falling balance technique to account for the natural decline in the asset's value over time and the income it generates. It predicts that the machine's output and upkeep needs will increase with age. The income statement will reflect the cost of depreciating the fixed assets to their net book value. Depreciation costs from the prior year will be recorded as a deduction from shareholders' equity or retained earnings. This process will continue until the item is sold or replaced, whichever comes first. Businesses can see how these interconnected financial statement records are depicted in the graphic below.

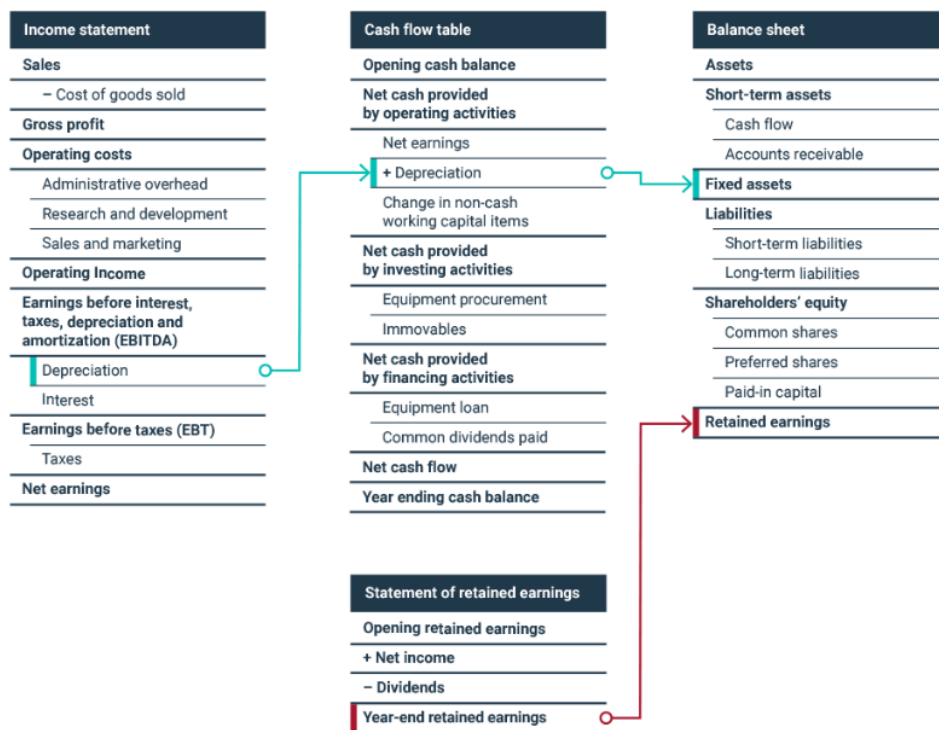


Figure 2: Depreciation in accounting
Source: (Power, 2020)

The value of an item may decrease over time due to depreciation, but no cash is lost. Thus, the depreciation does not impact the company's liquidity because the expenditure has already been incurred. Nevertheless, depreciation costs show up as an expense in the bottom line. This decreases the company's taxable income and, in turn, its pre-tax profits (Bragg, 2021). Companies' performance metrics seldom include intangible costs like depreciation that are not immediately tied to their ability to turn a profit and satisfy their financial obligations.

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