

THE PROFIT AND LOSS ACCOUNT

- (1) Sales are called "Turnover"
- (2) The calculation of cost of sales (i.e. opening stock + purchases - closing stock) is not shown on the face of the p & l a / c but would be done as a working
- (3) Expenses are grouped into 2 categories : administrative @ distribution

Distribution costs often contain the following items :

- salesmens' salaries and commission
- delivery costs
- advertising and marketing
- depreciation of motor vehicles

Admin. expenses would then contain all other expenses

- (4) Sundry income is known as "other operating income"
- (5) Profits or losses on disposal of fixed assets are given prominence and hence their own heading directly after the operating profit
- ⁶
(6) Interest payable and receivable are given their own headings

- ⁷
(7) A company has its own corporation tax liability

It is paid 9m after the year end

Hence we have a tax charge in the p @ l a / c and a tax creditor in the balance sheet

i.e.	Dr	tax charge (p & l a / c)	X	
		Cr	tax creditor (b / s)	X

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(8) Shareholders are rewarded via dividends paid out of profits

Interim dividends -- paid during year

i.e.	Dr	dividends	X	
		Cr	bank	X

Final dividends -- proposed at the year end

i.e.	Dr	dividends	X	
		Cr	dividend creditor	X

THE BALANCE SHEET

- (1) The breakdown of the individual categories of fixed asset are not shown on the face of the balance sheet
- (2) "Debtors" also includes any prepayments
- (3) Cash at bank and in hand are combined into one heading
- (4) Short and long term liabilities are given different headings but the breakdown of the two categories is not shown on the face of the balance sheet

- (5) A share capital account is set up to record the issue of shares to investors

The shares are in units of £1 , 50p or 25p known as their *nominal value*

- (6) If the shares are issued at a price above their nominal value , the difference goes to the **SHARE PREMIUM A / C**

e.g. 100 £1 shares issued for £1.30 each

Dr	bank	130
Cr	share capital	100
Cr	share premium	30

- (7) There are 2 main types of share :

Ordinary shares -- these are the most common type of share and the holders of the shares are effectively the owners of the company

Preference shares -- these give preferential rights to dividends and on the winding up of the company

- (8) We also have a profit and loss account reserve which is the total of the company's accumulated retained profits

- (9) A revaluation reserve may arise if a company revalues certain of its fixed assets such as land and buildings

e.g. Land bought for £50000 is surveyed at the year end and is found to have a market value of £63000

Dr	land	13000
Cr	revaluation reserve	13000

Profit and Loss Account for the Year Ended 31 December

	£	£
Turnover		X
Cost of Sales		(X)
Gross Profit		<u>X</u>
Distribution Costs		(X)
Administrative Expenses		(X)
Other operating Income		X
Operating Profit		<u>X</u>
Profit on Disposal of Fixed Asset		X
Interest Payable and Similar Charges		(X)
Interest Receivable		X
Profit on Ordinary Activities Before Tax		<u>X</u>
Corporation Tax		(X)
Profit an Ordinary Activities After Tax		<u>X</u>
Dividends		(X)
Retained Profit for the Financial Year		<u>X</u>
Retained Profits Brought Forward		X
Retained Profits Carried Forward		<u><u>XX</u></u>

Balance Sheet at 31 December (Limited Company)

	£	£
Fixed Assets		
Intangible Assets		X
Tangible Assets		X
Investments		<u>X</u>
		X
Current Assets		
Stocks	X	
Debtors	X	
Cash at bank and in hand	<u>X</u>	
	X	
Creditors : Amounts falling due within one year	(X)	
Net Current Assets		X
Total Assets less Current liabilities		<u>X</u>
Creditors : Amounts falling due after more than one year		(X)
		<u>XX</u>
Capital and Reserves		
Share Capital		X
Share Premium Account		X
Profit and Loss Account		X
Revaluation Reserve		X
		<u>XX</u>