Rule of Double Entry

	DEBIT	CREDIT
Assets	↑	↓
Liability	↓	↑
Capital	↓	↑
Expense	↑	↓
Income	↓	↑

↑ Increase

↓ Decrease

Accounting Equation

- Asset = Capital + Liability
- Capital = Asset – Liability = **NET ASSETS**

Business Equation

- Profit (P) = Increase or Decrease in Net Assets (I) + Drawings (D) – Capital (C)

Statement of Comprehensive Income

- Income
- Expense

Income – Expense = Profit / (Loss)

Statement of Financial Position

- Asset
- Liability
- Capital

Asset = Liability – Capital

Statement of Financial Position

	$	$	$
Non Current Asset			
Property Plant & Equipment	xxx		
less: Accumulated depreciation	(xxx)	xxx	
Land and Building	xxx		
less: Accumulated depreciation	(xxx)	xxx	
Current Asset			
Closing Inventory	xxx		
A/c Receivable	xxx		
less: Allowance for Rece.	(xxx)		
Cash / Bank	xxx		
Accrued Income	xxx		
Advance Expense	xxx	xxx	xxx
less: Non Current Liabilities			
Bank Loan			(xxx)
less: Current Liabilities			
Bank Overdraft	xxx		
A/c Payable	xxx		
Accrued Expense	xxx		
Advance Income	xxx		(xxx)
**Capital employed / Net Asset / Closing Capital			**xxx**
Capital & Equity			
Opening Capital	xxx		
Add: Net Profit	xxx		
Additional Investment	xxx		xxx
less: Drawings			(xxx)
** Same			**xxx**

Statement of Comprehensive Income

	$	$	$
Sales		xxx	
less: Sales Return		(xxx)	xxx
less: COGS			
Opening Inventory	xx		
Purchases	xx		
Carriage Inwards	xx		
less: Purchase Discount	(xx)	xxx	
less: Closing Inventory		(xxx)	(xxx)
GROSS PROFIT			**xxx**
Add: Discount / Rent Received		xx	
Add: Gain on Sale of NCA		xx	
Decrease in Allowance for Rece.		xx	xxx
			xxx
less: Expense			
Carriage Outwards		xx	
Sales Discount		xx	
Bad Debt		xx	
Increase in Allowance for Rece.		xx	
Provision for Depreciation of NCA		xx	
Loss on Sale of NCA		xx	
Heating and Lighting		xx	
Rent and Insurance		xx	(xxx)
NET PROFIT			**xxx**

Sales Tax

- Output Tax on Sales
- Input Tax on Purchases

Net Amount + Sales Tax = Gross Amount

100% + 17.5% = 117.5%

Control Account (T)

Receivable Ledger Control A/C

Bal b/f	xx	Sales Return	xx
Cr. Sales	xx	Discount Allowed	xx
Refund	xx	Cash Received	xx
Interest dues from customers	xx	Bad Debts	xx
		Contra Set off	xx
		Bal c/d	xx
	xx		**xx**
Bal b/d	xx		

Payable Ledger Control A/C

Discount Recevied	xx	Bal B/d	xx
Cash Paid	xx	Cr. Purchases	xx
Purchase Return	xx		
Contra Set off	xx		
Bal c/d	xx		
	xx		**xx**
		Bal b/d	xx

Trail Balance

Debit = Credit

ASSET	LIABILITY
EXPENSE	INCOME
	CAPITAL

Errors

- Error of Principle
- Error of Commission
- Error of Transposition
- Error of Omission
- Compensation Errors

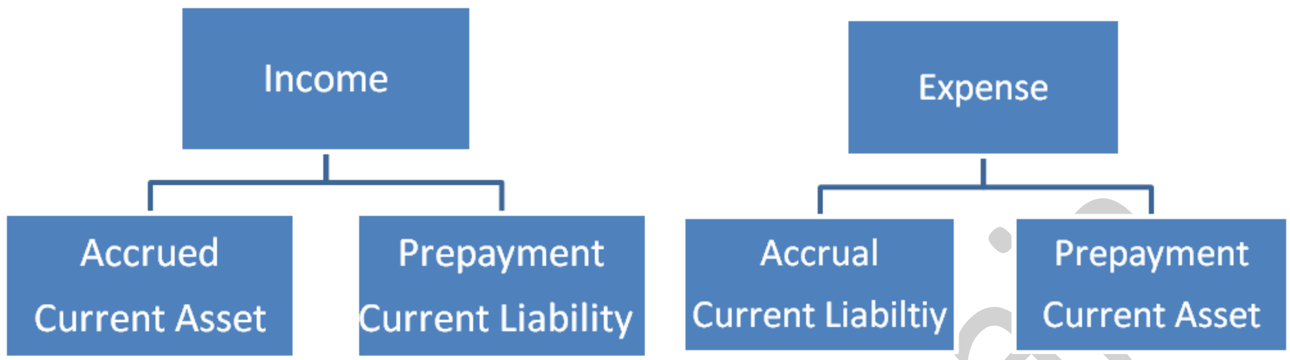
Errors Revealed by the Trail Balance

- Error of partial omission (single entry)
- Error of Transposition
- Both entries posted to either Dr. or Cr.
- Wrong amount on one entry

Accounting Concepts

- Going Concern
- Consistency
- Accruals
- Prudence
- Materiality
- Historical Cost

Accruals & Prepayments



Bank Reconciliation Statement

	Cash Book	Bank Statement
Bal b/f	xxx / (xxx)	xxx / (xxx)
Bank Charges	xxx	
Standing Order Paid / Received	(xxx) / xxx	
Interest Received / Paid	xxx / (xxx)	
Direct Debit	xxx	
Dishounred Cheques	(xxx)	
Credit Transfer by Us	(xxx)	
Dividends Paid / Received	(xxx) / xxx	
Direct Deposit	xxx	
Unpresented Cheques / Outstanding Cheques		(xxx)
Uncredited Deposits / Outstanding Lodgements / Uncleared Cheques		xxx
Bank Errors		xxx / (xxx)
Adjusted Balance	**xxx**	**xxx**

Cost of Goods Sold

	$
Op. Inventory Value	xx
Purchases	xx
less: Closing Inventory	xx
COGS	**xx**

Inventory

- Opening Inventory is inversely proportional to Profit.

  Opening Inventory $1/\propto$ **Profit**
- Closing Inventory is directly proportional to Profit

  Closing Inventory $\propto$ **Profit**
- Inventory should be recorded at lower of cost on NRV – IAS 2

  Net Realizable Value (NRV) = Expected Selling Price – Expected Selling Expense

Inventory Costing

- FIFO (first in first out)
- Weighted Average

Expected Trial Balance

An extended trial balance is used to adjust trial balance figures for:

- Error
- Accruals and Prepayments
- Depreciation
- Bad Debts
- Adjustments to receivables allowance
- Closing Inventory Valuation

Markup

- Cost 100%
- Profit
- Selling Price

Margin

- Cost
- Profit
- Selling Price 100%

Depreciation

WHAT: The loss in the value of Non Current Asset.

WHY: To allocate the cost of Non Current Asset over its useful life.

WHEN: Every year end when SOFP are prepared or during the year it asset is disposed

Depreciation of the year → Statement of Comprehensive Statement

Accumulated Depreciation → Statement of Financial Position

Methods of Depreciation

- Straight Line Method (SLM)
- Reducing Balance Method (RDM)

SLM = Cost – Scrap Value / Useful Life of the Asset

RDM = Net Book Value x Depreciation %

Sole Trader

A sole proprietorship also known as a sole trader or simply proprietorship is a type of entity which is owned and run by one individual and where there is no legal distinction between the owner and the business. All profits and all losses accrue to the owner (subject to taxation). All assets of the business are owned by the proprietor and all debts of the business are their debts and they must pay them from their personal resources. This means that the owner has unlimited liability. It is a "sole" proprietorship in the sense that the owner has no partners.

Partnership

- When two or more individuals engage in an enterprise as co-owners, the organization is known as a partnership.
- Profit / (Loss) sharing → Appropriation A/C
- Partnership agreement

Partner's Current A/C

Bal b/f	xx	Bal b/f	xx
Drawings	xx	Interest on Capital	xx
Interest on Drawings	xx	Salary	xx
		Share of Profit	xx
Bal c/d	xx		
		Bal c/d	xx
	xx		**xx**

Partner's Capital A/C

Withdrawal of Capital	xx	Bal b/f	xx
Drawings	xx	Interest on Capital	xx
Interest on Drawings	xx	Salary	xx
		Share of Profit	xx
Bal c/d	xx	Additional Investment	
		Bal c/d	xx
	xx		**xx**

Profit and Loss Appropriation Account

Net Loss as per P & L a/c		xx	Net Profit as per P & L a/c		xx
Interest on Capital			Interest on Drawings		
	A	xx		A	xx
	B	xx		B	xx
Partner's Salary		xx	Share of Loss		
Share of Profit				A	xx
	A	xx		B	xx
	B	xx			
		xx			**xx**