

INTRODUCTION TO FINAL ACCOUNTS

Every year a business needs to know two things

1. How much profit they made?
2. How much is the business worth?

These two questions can be answered by the business preparing two set of accounts. These accounts are called

1. The income statement - This will answer how much profit the company made
2. The Statement of Financial position - this account will answer - how much the business is worth

Together they are known as the final accounts have to be prepare by companies at the end of each financial year

Income Statement ^{Def} This is made up of 3 account - 1. Trading Account, 2. Profit and loss account and the Appropriation account.

Trading Account ^{Def} This section calculate the gross profit (or loss) of the company. This is calculated by taking the cost of good sold from sales

Profit or Loss ^{Def} This is also known as the expense section and is used to calculate the net profit. This is calculated by take the total expenses from the Gross Profit figure

Appropriation Account ^{Def} This section shows how much dividend were given to shareholders and how much reserves (money left over) the company has. It is calculated by taking the dividend away from net profit and them adding on the opening reserves.

THE TRADING ACCOUNT

The layout of the trading is as follows and it needs to be learned off by heart

The Income statement for ABC Ltd for year ended 31/12/2019			
Sales			X
<u>Less cost of Sales</u>			
Opening Stock		X	
Add Purchases		X	
Add Customs Duty		X	
Add Carriage Inwards		X	
COST OF GOODS AVAILABLE FOR SALES		X	
Less Closing Stock		X	
COST OF GOOD SOLD			X
GROSS PROFIT			X

Tip -

1. Divide an A4 sheet of paper into 10 boxes
2. Put each items from the trading account into each box (10 items, one item per box)
3. Colour each box a different colour (link to the colours of the rainbow)
4. Cut the boxes up
5. Try to arrange the boxes in the correct order