

FINAL BOOK-KEEPING COURSE

LESSON 1

TOPIC: Revision of material from the Intermediate syllabus and Subscription Control Accounts.

INTRODUCTION

It is presumed that every student taking this course has already attained the Intermediate level and has an understanding of the concepts and practical work required at that level. However for some students this may have been done a few years previously, and for most it will be at least a couple of months since they looked at the work for that level. Accordingly in this lesson we will check through the basic principles and the work level that you should have attained. If you find the exercises in this lesson are beyond you then rework the appropriate aspects of the Intermediate syllabus

REASONS FOR KEEPING BOOKS OF ACCOUNT

It must be remembered in all book-keeping that the principle reason for keeping a record of financial information is to assist the manager of the business to run his business with efficiency and to maximise his profit. Keeping books of account is not an end in itself it is merely a means of recording information that is of value to the business. At this final level this aspect of using the bookkeeping information for management purposes assumes a greater importance and emphasis will be laid on understanding what the figures imply as well as the bookkeeping entries themselves.

The ledger is the principal book of record and you must be familiar with the concept of debits and credits, and more importantly remember which are which and for any given entry know which account to debit and which to credit. As a general rule the things we obtain or pay for are the debits, and the liabilities are the credits. Thus expense and asset accounts will have debit balances, and liabilities, capital and borrowing will have credit balances.

The ledger can be laid out in the traditional format of debits on the left and credits on the right, or in the more modern computer list format of a debit column a credit column and a running balance. Consider this, a customer has bought goods from us for £70 on the 4th of the month, bought further goods for £90 on the 7th of the month and paid us for part of the first delivery, an amount of £55, on the 10th of the month.

The ledger account under each of the above layouts would be: -

Date	Detail	FO	£	Date	Detail	FO	£
Apr 4	Sales	SL	70	Apr 10	Bank	CB1	55
Apr 7	Sales	SL	90				

Note that with this layout we would need to 'balance' the account to ascertain the exact amount still owed. The alternative layout shows: -

Date	Detail	FO	Debit	Credit	Balance
Apr 4	Sales	SL	70		70
Apr 7	Sales	SL	90		160
Apr 10	Bank	CB1		55	105

You can expect to find examples of both layouts in practice and may be faced with either in the examination. You should satisfy yourself that you understand that both record the same information and each has advantages.

THE BALANCE SHEET EQUATION

In today's financial world many organisations use the double entry system of accounting. This was developed just over 500 years ago by a monk called Luca Pacioli and was based on the concept that every transaction alters two accounts.

His theory was based on the principle that if you add up the financial value of everything you own, deduct from it the amounts that you owe to other people then whatever is left is your own. In accountancy language this is stated as Assets (the value of what you own) less Liabilities (what you owe others) = Capital (the amount that is your actual net worth)

It follows that a change in any one of the three items must give rise to a change in one of the others, or a compensating change in the item itself. Thus if we buy goods then we gain an asset so our assets increase. If we pay cash for them the asset cash reduces by the same amount as the increase in the goods, but if we buy on credit the assets in total increase but our liabilities also increase by the amount we owe for the goods. The transaction therefore does not increase our net worth.

If we then sell the goods for more than we paid for them, our asset of stock will revert to its original position but when we are paid the money we have will increase by the difference between the amount we paid and the amount we received. This increase must therefore increase our net worth or capital. This increase is termed profit.

One of the principal items in the book-keepers work is to establish whether or not a firm is making a profit. This is normally done at least once a year and to determine the profit the book-keeper prepares a set of 'final accounts' namely a Trading Profit and Loss account and a Balance sheet to show what the current position is on assets liabilities and capital.

MATCHING CONCEPT:- PREPAYMENTS AND ACCRUALS

In order to ensure that the figures reflect the actual situation the bookkeeper checks that the expenses recorded in the profit and Loss account are those incurred, and not merely the amount that has been paid. The book-keeper will therefore adjust the ledger figure which records the amount, to charge the profit and loss account with the amount actually used, and bring down any balance as either an amount prepaid or an amount accrued (i.e. still owed) You should check the detailed notes in the Intermediate syllabus if you are in doubt about these adjustments.

DEPRECIATION

When items are bought by an organisation the accountant classifies them as either: -

A Purchase which is an item bought with the express intention of reselling that item;

An Expense which is an item bought for use in the business where the whole value will be used within an accounting period or an Asset where the benefit will accrue over a number of accounting periods.

Expenses and Purchases are charged to the final accounts each year, but the assets have to have their cost charged over the periods that benefit from their use. This charge is known as making a provision for depreciation.

The accountant uses a variety of methods for calculating the provision, and in the Intermediate syllabus you should have learnt how to calculate both the straight line method and the reducing balance method, from the data of cost, expected life and residual value of the asset. If in doubt about these check the appropriate part of the Intermediate syllabus.

IMPORTANT NOTES

1. If there is an expected scrap value of the asset at the end of its expected life, this figure should be deducted from the cost of the asset prior to calculating the annual depreciation charge, when the straight line method of depreciation is used.

Scrap value is ignored with regard to the reducing balance method.

2. Depreciation is based on the business' year rather than the calendar year.

EXERCISE 1

Throughout this course you will be presented with certain pieces of work that Diane Deacon was asked to do in her employment. These are typical of the work that a book-keeper in his situation could be requested to handle and as such are a guide to the practical work you may have to do in your employment.

In each case the answer to the exercise will be shown at the end of the lesson. It is important that you work through the exercise on your own and only when you have completed all that you can do should you look at the specimen answer. Merely copying the answer out will not achieve anything by way of checking your understanding of the work involved.

On Monday Diane received a note from her employer which read:

“I have just received the attached Trial balance from one of our small clients. On checking his file I find that we agreed with him to depreciate the furniture and fittings by 10% per annum based on cost, but to depreciate the machinery by 25% per annum on the reducing balance method. His buildings are not depreciated at all.

Can you take out a first draft of his final accounts and let me have them as soon as possible.”

TRIAL BALANCE FOR JONATHON SMALLHOLDINGS

as at 31st March 200X

Sales		263560
Purchase	187345	
Stock as at 1/4/19-4	15476	
Machinery at cost	75400	
Furniture and fittings at cost	35450	
Wages	18430	
Owners Drawings	15200	
Creditors		16240
Debtors	23405	
Bank balance		950
Cash in hand	27	
General expenses	8734	
Depreciation on machinery		23750
Depreciation on furniture and fittings		7540
Advertising	2345	
Postage and stationery	3150	
Power, light and heat	5143	
Repairs and renewals	4985	
Buildings	85750	
Loan interest paid during the year	1200	
Owners Capital		150000
Loan on property at 8%		20000
	482040	482040

The stock at 31st March 200X was valued at a cost price of £16,430. Advertising accrued amounted to £256 and wages accrued to £1,050 whilst Power and Light included a prepayment of £475.

When you have worked out the answer compare it with the answer at the end of this lesson. If you differ from the answer in any aspect then check the workings carefully and make sure you understand the reason for the discrepancies. If need be check back to the Intermediate syllabus to ensure that you can handle these questions in the examination.

CLUB ACCOUNTS & SUBSCRIPTION CONTROL ACCOUNTS

Clubs are organisations where the principle aim is to provide a service to their members rather than to make any profits. Their accounts are kept in exactly the same way as those of a trader though the terminology is slightly different. A profit becomes a surplus, a loss becomes a deficit and the profit and Loss account is called an Income and expenditure account.

However the other principle difference is that their income will come mainly from subscriptions. These can cause problems for the bookkeeper as you may have prepayments and accruals on the same account at the same time. In other words at the year-end some members may be in arrears on their subscription whilst others have paid next year as well.

You should read through your notes on club accounts and make sure you understand subscription accounts and then tackle exercise 2.

SUBSCRIPTIONS

As the major source of income of most clubs and societies is subscription. The treasurer will be expected to report on these in details to the committee and the members at the Annual General meeting.

Some members will prepay for the next financial year while others may be late in paying or indeed may never pay. This latter action will result in their membership ceasing and the subsequent write off as bad debt must be in accordance with the rules of membership approved by the members.

All such adjustments must be reconciled in the Income and Expenditure account. The subscription figure to be recorded is what *should have been received*.

The best method of recording this is through a Subscription Control Account. To prepare this type of account follow a few simple rules:

- 1) Debit Balance brought down (opening) subscriptions owing from the previous year
- 2) Credit Balance brought down (closing) prepaid subscriptions last year
- 3) All monies received during the year are shown on the credit side
- 4) Bad debts written off are shown on the credit side
- 5) Refunds are shown on the debit side
- 6) Subscriptions in advance received for the following year will be shown as a balance carried down on the debit side
- 7) The balancing figure of the account represents the transfer to the income and expenditure account which will show the subscription figure that should have been received in that year.

EXERCISE 2

Diane Deacon has just been elected the Treasurer of the local sports club. She has found that the accounts are in a bit of a mess as the previous treasurer had no experience in bookkeeping at all. Diane has decided she will need to redraw the accounts for the last three years.

She has started with the position on subscriptions and has found the club rules state the following.

"Any member whose subscription is in arrears shall pay the amount due within the next financial year. If at the end of the financial year following that in which the subscription was due he has not paid, nor made a satisfactory explanation to the club management then his membership shall be cancelled, and the outstanding amount shall be deemed a bad debt. If the individual wishes to rejoin he shall pay the full arrears plus an administration fee of £20"

She has found the following details: -

The membership in each of the last four years is as follows:

Year 1	120	Year 2	125
Year 3	130	Year 4	130

The subscription payable in each year is £75.

She has also established that the number of members did not take into account those affected by the above rule.

At 31.3.*1 there were two subscriptions prepaid for the year ending 31.3.*2; and five members had not paid their subscriptions for the year ending 31.3.*1. All subscriptions for the year ending 31.3.*0 had been received. At the end of March year *2 four members had paid for year 2 and year 3; 114 had paid for year 2 only, and four had paid year 1 and year 2. The remaining subscription from year 1 was deemed a bad debt under the above rule.

At 31.3.*3 122 had paid for year 3 and two for year 3 and year 4. At 31.3.*4 no one had paid for year 5 and there were two subscriptions owing for year 4 but none for previous years.

Diane decides to write up the subscriptions account for the period to show the transfers to the Income and Expenditure account and the amount of cash received each year.

LESSON 11: ACPD Assignment 1

You can, if you wish, send this assignment to your ACPD tutor for marking.



Diane Deacon came into work on the 1st September 200X to find the following memorandum on her desk

MEMO

Sorry to cause you problems but the following has just arrived and is wanted urgently. Joe is an old friend of mine and I remember that I promised to help him with his sports club (Southshire Tennis Club) accounts. He telephoned last night to ask if I had completed them as the A.G.M. is tonight. I have not had time to look at them and cannot do them today. Can you try and make sense of these and get me a set of accounts for the club together with any notes you feel would be appropriate for the Treasurer on points that might lead to questions or which he should highlight.

When you get that completed you remember Silas Marine sold out to one of our client companies on 1st February this year. Silas Marine had assets which were transferred at book value and the asset schedule is attached. The problem is that Silas Marine depreciated on the straight line basis for their machinery, and the new owner depreciates his machinery at 20% on the reducing balance method. They both provide a full years depreciation in the year of purchase and none on the year of sale. Our client has asked me to calculate the extra depreciation he should charge on the machinery taken over to bring the provision for depreciation in line with their own policy. I have attached Silas Marine's notes, can you work out the excess charge to be made.

Thank you

p.s. By the way, Silas Marine's financial year ends on 31st March.

SOUTHSHIRE TENNIS CLUB

Assets and Liabilities at 30th June 200X

Club House at valuation		£15000
Sports Equipment at cost	5600	
LESS three years depreciation at £560 per year	1680	3920
Subscriptions owed 5 members		400
Balance at Bank		375
Owed to Local Authority for rent on courts		(240)
Members Subscriptions paid in advance 4		(320)
Net Accumulated Fund		£19135

Bank Account for year ending 30th June 200X

Balance at 1/7/200X		375
Subscriptions year 8	400	
Subscriptions year 9	9520	
Subscriptions year 10	160	
Income from sponsored walk	1435	
Total		11890
Expenditure		
New Equipment	1500	
Rent for year 200X	240	
Rent for year 200X	4250	
Cost of sponsored walk publicity etc	350	
Secretarial expenses	674	
Power, Light and Clubhouse	478	
Wages for Groundsman	3500	
Members subscriptions refunded	80	
Treasurers expenses	<u>124</u>	<u>11196</u>
Balance in bank at 30/6/200X		694

Notes. The subscription refunded was to a member who paid on 1st July and was transferred by his employer to a different area on 15th July. Apart from him the club had 122 members and the annual sub has remained unchanged at £80. At the year end the club owed wages to the groundsman of £140

The Club house is in need of an extensive repair. Estimates of the cost involved have been received and indicate a cost of £4,250 apart from the need to redecorate afterwards. No contract has yet been placed.

LESSON 11: ACPD Assignment 2

SILAS MARINE

MACHINERY SCHEDULE

Date Bought	Purchase	Expected Life	Expected Scrap	Date sold	Amount Received
1/6/19*4	2400	6 years	300		
1/9/200X	3200	4 years	500	01/02/200X	1200
1/1/200X	4600	5 years	Nil		
1/5/200X	2400	8 years	Nil		
1/8/200X	3650	6 years	650		

The book value on transfer showed a net figure of £7790.

SOLUTION

EXERCISE 1

TRADING AND PROFIT AND LOSS ACCOUNT Year Ending 31st March 200X

Sales			263560
LESS Opening stock		15476	
PLUS Purchases		187345	
		202821	
Closing Stock		16430	186391
Gross Profit			77169
LESS			
Wages	18430		
Due	1050	19480	
Repairs		4985	
Advertising	2345		
Due	256	2601	
General Expenses		8734	
Power, Light and Heat	5143		
LESS Prepaid	475	4668	
Postage and Stationery		3150	
Loan Interest	1200		
PLUS due	400	1600	
Depreciation on Machinery		12912	
Depreciation on Furniture		3545	61675
Net Profit			15494

BALANCE SHEET
as at 31st March 200X

	Cost	Depreciation	Net
Land and Buildings	85750		85750
Machinery	75400	36662	38738
Furniture and Fittings	35450	11085	24365
	196600	47747	148853
Current Assets			
Stock	16430		
Debtors	23405		
Cash in Hand	27		
Prepaid	475	40337	
LESS Current Liabilities			
Creditors	16240		
Bank Overdraft	950		
Accruals	1706	18896	21441
			170294
LESS Loan			20000
			150294
Capital			150000
PLUS Profit			15494
			165494
LESS Drawings			15200
			150294

SOLUTION

EXERCISE 2

SUBSCRIPTIONS ACCOUNT

Date	Detail	£	Date	Detail	£
1/4/-1	Balance b/d (5 x 75)	375	1/4/-1	Balance b/d (2 x 75)	150
31/3/-2	Income/Expense (125 x 75)	9375	31/3/-2	Bank:	
	Balance c/d	300		4x75 (yr2) 300	
				4x75 (yr3) 300	
				115x75 (yr2) 8625	
				4x75 (yr2) 300	
				4x75 (yr1) 300	9825
				Bad Debt yr 1	75
		10050			10050
31/3/-2	Income/Expense (130 x 75)	9750	1/4/-02	Balance b/d (4x75)	300
			31/3/-3	Bank:	
				122x75 (yr3) 9150	
				2x75 (yr3) 150	
				2x75 (yr4) 150	9450
31/3/-3	Balance c/d 2x75	150		Balance c/d 2x75	150
		9900			9900
1/4/-3	Balance b/d	150	1/4/-3	Balance b/d	150
31/3/-4	Income Expense (130 x 75)	9750	31/3/-4	Bank	
				126 x 75 (yr4)	9450
				2x75 (yr3)	150
			1/4/-3	Balance c/d	150
		9900			9900