

Martin Quinn

brilliant

Accounting

Everything you
need to know
to manage the
success of your
accounts



accounting

Forever Flowers Ltd							
Nominal Activity Report		01/01/2009 to 31/12/2009					
Nominal	Type	Ref	Total Gross	Total Net	Vat	Vat Rate	
Creditors Viking Supplies	PAY	1 06-Feb-2009	-120.00	-£100.00	-£20.00	0.20	
Creditors			-£120.00	-£100.00	-£20.00		
Debtors John's Hardware	LOD	1 09-Jan-2009	2,400.00	£2,000.00	£400.00	0.20	
Debtors			£2,400.00	£2,000.00	£400.00		
Miscellaneous Insurance Company	LOD	2 14-Jan-2010	1,000.00	£1,000.00	£0.00	0.00	
Miscellaneous			£1,000.00	£1,000.00	£0.00		
Office Supplies Viking Supplies	PUR	4 23-Jan-2009	-120.00	-£100.00	-£20.00	0.20	
Office Supplies			-£120.00	-£100.00	-£20.00		
Other Expenses Better Supplies	PUR	3 13-Jan-2009	-240.00	-£240.00	£0.00	0.20	
Other Expenses			-£240.00	-£240.00	£0.00		
Purchase for Resale Jans Flowers	PUR	1 07-Jan-2009	-300.00	-£300.00	£0.00	0.00	
Purchase for Resale Marys Flowers	PUR	2 07-Jan-2009	-100.00	-£100.00	£0.00	-2.00	
Purchase for Resale			-£400.00	-£400.00	£0.00		
Rates City Council	PAY	2 31-Jan-2009	-300.00	-£300.00	£0.00	0.00	
Rates			-£300.00	-£300.00	£0.00		
Sales John's Hardware	INV	1 07-Jan-2009	2,400.00	£2,000.00	£400.00	0.20	
Sales Corner stores	INV	2 13-Jan-2009	1,000.00	£833.33	£166.67	0.20	
Sales John's Hardware	INV	3 28-Jan-2009	2,300.00	£1,960.67	£383.33	0.20	
Sales			£5,700.00	£4,750.00	£950.00		
Wages Wages	PAY	3 31-Jan-2009	-350.00	-£350.00	£0.00	0.00	
Wages			-£350.00	-£350.00	£0.00		
Grand Total:			£7,570.00	£6,260.00	£1,310.00		

Figure 3.9 A sales account nominal activity report from SortMyBooks

This screenshot shows the activity on the sales account (highlighted). You can see this is not presented as a typical 'T' type ledger account you've seen so far. Most accounting software developed for businesses tend to use a simplified layout for ledger accounts. What you can see in Figure 3.9 is the total sales figure, the net sales and the VAT. You can also see the breakdown of the total figures into three separate sales invoices. Thus, in effect what you see is an extract from the sales day book and personal ledger account as well as the sales account in the nominal ledger. Quite a lot, but it is presented in a user-friendly way which makes it easier to understand for non-accountants. Now look back to Figure 3.9. You

should also see a 'debtors' heading. Here you can see the money received from John's Hardware, £2,400 as shown in Figure 2.14. Again, this is shown in a simple, easy to understand format.

Trial balance

In any accounting software, the balance on all ledgers accounts is constantly recalculated after each transaction. Closing off accounts is therefore not needed. This means you can run a trial balance at any time. Figure 3.10 shows a trial balance from SortMyBooks.

Forever Flowers Ltd				
Trial Balance, 31 December 2009				
	Opening	Debit	Credit	Balance
Sales	0.00	0.00	5,266.67	-5,266.67
Office Supplies	0.00	100.00	0.00	100.00
Office Expenses	0.00	240.00	0.00	240.00
Purchase for Resale	0.00	400.00	0.00	400.00
Rates	0.00	300.00	0.00	300.00
Wages	0.00	350.00	0.00	350.00
Bank Account 1	0.00	2,400.00	770.00	1,630.00
Bank Account 2	0.00	0.00	0.00	0.00
Cash Account	0.00	0.00	0.00	0.00
Credit Card	0.00	0.00	0.00	0.00
Creditors	0.00	120.00	760.00	-640.00
Debtors	0.00	5,700.00	2,400.00	3,300.00
Owner Funds	0.00	0.00	0.00	0.00
Petty Cash	0.00	0.00	0.00	0.00
Till Account	0.00	0.00	0.00	0.00
Till Rolls	0.00	600.00	0.00	600.00
VAT	0.00	20.00	1,033.33	-1,013.33
	0.00	10,230.00	10,230.00	0.00

Figure 3.10 A trial balance from SortMyBooks

It looks quite like a trial balance prepared manually. You can see the list of accounts on the left, and a debit and credit column which of course total the same amount. There is also a balance column at the left and right. These represent the balance on a ledger account at the beginning and end of the period of the trial balance. The balance column totals zero, which is correct in this example as all the opening balance column is zero, i.e. zero + debits – credits will also equal zero, as debits and credits are the same amount.

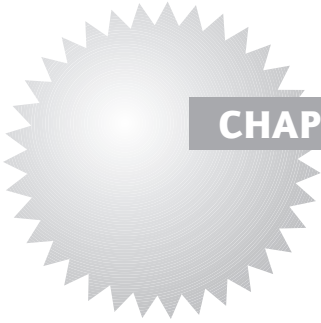
Finally, I should mention that all accounting software has a saving grace in that it is impossible for the trial balance not to balance. This is because

as transactions are entered, the debit and credit elements must be in balance or the software will not permit the transaction to be saved.



brilliant recap

- The double entry system of accounting is used to record all business transactions.
- Transactions are recorded in ledger accounts, which have two sides called debit and credit. These accounts are written up in ledgers, which may be a book, spreadsheet or software.
- There are two ledgers, called the personal ledger and the nominal ledger.
- Each business transaction is recorded in two ledger accounts, one with a debit entry, and one with a credit entry.
- The total of all debits will equal the total of all credits. The trial balance is used to prove this.
- A trial balance is useful in the preparation of the financial statements.



CHAPTER 4

The income statement



If you mean to profit, learn to please.

Winston Churchill

In this chapter you'll learn about the income statement, which shows how much profit or loss a business makes. The income statement is also called the profit and loss account and this term is still widely used. However, in 2005 there were changes throughout the European Union which required public companies (i.e. those quoted on a stock exchange) to adopt a common set of accounting standards. While the term profit and loss account is still used, the term income statement is becoming more common, so I use it here.

You'll first learn about the income statement of a sole trader, and then about some differences if the business is a partnership or the organisation is a not-for-profit one.

What is an income statement?

First, the quote above from Winston Churchill gives us an idea that to profit means to gain in some way. Here's what profit means in accounting:



brilliant definition

Profit is all income less expenses of a business.

The income statement shows the profit or loss of a business for period of time; usually a month or year. It shows all income and expenses of a