Accounts! Or A simple spreadsheet that does it all for you.

We all have preconceived ideas about certain things and for some reason "The Accounts" for a Company can fill us all with fear and dread. This fear is amplified by other people's comments and urban myths "only one company has got it correct in the last 5 years!" In fact most companies [eventually] get it correct.

I know that I happen to like spreadsheets, and I am also almost pathologically incapable of reading instructions, I learn by trying. Having said this I recognise that the problems the LEAP Financial Directors are having with the accounts are because our instruction, both at seminars and in the spreadsheet examples cannot be adequate. Therefore I have set out below some simple guidelines that should help.

Why do we have accounts in the LEAP programme? Everyone who ever spends money must keep some record of money in versus money out, or they would be in desperate trouble very quickly. In these days of identity theft it is also very important to check you bank balances and transactions. A Company cannot function without knowing whether or not they have enough money to buy their products and pay wages, rent etc. Therefore we feel it is essential that Accounts are part of the learning exercise of LEAP.

A common method of accounting is called "Double entry book keeping" and a simple explanation of this is given in the Guidance Notes on the first page of the spreadsheet. For this simplified guide, set out below, it is not necessary to know the details, only that "for every account that gives value, another account must receive value".

All the points mentioned below are shown in the Start-up information, and in the Accounts example you can download off the Download page of the LEAP website.

If you use the accounting spreadsheet throughout the year then it will be very easy to prepare the Interim and Final accounts later on. Follow these simple guidelines.

Before you start you need to download the accounts spreadsheet off the download page of the LEAP website, and then enter your Company name on the Cash Book page, it will be automatically copied to all other pages.

I would suggest you also download the accounts example or look at pages 45 to 50 of the Start-up booklet.

First step - Purchases

Go to the Purchases page. Let us say you have purchased some t-shirts. Enter the date of the purchase, and a brief description of the transaction. The money you spent must then be entered in one of three columns "Creditors" [you have not yet paid but owe the money], "Cash" [you paid cash], "Bank" [you wrote a cheque].

When you enter the amount in the appropriate column the spreadsheet will automatically put the balancing amount in the Purchases [Dr] column and the VAT [Dr] column giving the base cost of the goods and the VAT. These amounts will then automatically be filled in throughout the spreadsheet, for example on the Cash Book page it will total all your purchases, on your Extended Trial Balance page the figures will be in the appropriate places. The VAT will also be carried over to the appropriate page.

You do not need to enter purchases anywhere else.

Second step – Sales

Go to the Sales page. Let us say you have sold some t-shirts at school. Enter the date of the sale, and a brief description of the transaction. The money you have received must then be entered in one of three columns "Debtors" [you are still owed the money], "Cash" [you received cash], "Bank" [you received a cheque].

When you enter the amount in the appropriate column the spreadsheet will automatically put the balancing amount in the Sales [Credit for sales] and the VAT [Cr] column giving the base sale price of the goods and the VAT. These amounts will then automatically be filled in throughout the spreadsheet, for example on the Cash Book page it will total all your sales, on your Extended Trial Balance page the figures will be in the appropriate places. The VAT will also be carried over to the appropriate page.

You do not need to enter sales anywhere else.

Third step – Shares and Sponsorship

Go to the Cash Book page of the accounts. You will notice the first line already has automatic entries brought over from your Purchases and Sales. I presume you have already entered your Company name in the appropriate cell at the top of this page.

Let us say you have sold £250 worth of shares. You start by entering this in the Share Capital column, which you will notice has a Cr for credit to share capital. This is where the Double Entry Bookkeeping may seem complicated! I tend to ignore the complexities of is it a Debit or a Credit and let the accountants argue this out. Surprisingly when you received cash in a sale, and entered it in the Sales page, it then shows up in the Debit [Dr] column of cash. Therefore when you receive cash for shares you must now balance your share Capital entry by entering £250 in the Dr column of Cash.

Treat Sponsorship in the same way, a Debit [DR] to Cash or Bank and a Credit [Cr] to share capital, or if you want to Other Income [it does not matter].

I would suggest you ignore the columns marked Production Costs, Stationary, Rent & Hire – all of these are necessary in a real life company so they can see where the money is spent, but for your purposes every purchase is entered in the Purchases page and nowhere else.

Fourth step – LEAP registration fee and Trade Fair fees

You should still be on the Cash Book page. You paid money out to pay the LEAP registration. So as you may have guessed by now, when you paid out money for purchases on the Purchase page, it showed up as a Cr in the Cash [or bank] column of the Cash Book page. Therefore when you pay the £150 registration fee you need to enter it in the Other Expenses [Dr] column and balance it with £150 in the Bank [Cr] column.

Do not get worried about your Debit and Credits you are not aiming to be an accountant, just follow the examples in the Sample spreadsheet.

For simplicity we treat Registration fees and trade fair fees as not having a VAT component.

The same now applies for a Trade Fair fee. A Dr in Other Expenses must be balanced by a Cr in Cash or Bank.

Fifth step – you have made lots of money and you are putting it in the bank.

Wow, what a great Trade Fair! You now have £300 in cash and you put it into the bank. Look at the Sample Accounts example and you will see where to put the entries. You are still on the Cash Book page. This is a Cr to Cash and a Dr to Bank.

Again I say to you do not get worried about Debits and Credits, just follow the example. If you want to really understand the reasons then a) read the guidance notes with the accounts b) go to the Q&A section of the spreadsheet [or page 44 of the 2010 start-up book] and look at Ashley Carr's explanation. He is the accountant who wrote this accounting spreadsheet.

Sixth step – am I doing it correctly?

Go to the Extended Trial Balance page of the spreadsheet [page 48 of start-up booklet 2010].

The two columns under Trail Balance must be equal [Dr and Cr must balance]. This is a very simple check to make sure you have entered the Cash Book entries correctly. If these two figures do not balance then go back to the Cash Book page and check that you have entered the transactions in the correct Dr or Cr columns [see sample spreadsheet or page 45 of the 2010 start-up booklet].

Note: You do not enter any sales or purchases on the cash book page, these are only entered in the Sales and Purchase page and will automatically appear on the other pages correctly.

Seventh step – preparing the accounts for the Report [interim accounts]

I'm sorry to say that we are almost finished. Very little else to do. See – it was not that complicated!

I hope you have been entering your sales and purchases as they have occurred throughout the year. If you have then about the only thing remaining to do is to calculate a value for the unsold stock and enter it in the Extended Trial Balance page in the only cell that allows user entry Profit & Loss Cr [cell F20].

How do you value the stock? There are detailed guidelines in the Guidance notes at the beginning of the accounts spreadsheet which you should read. For the purposes of these simple instructions you should value your stock at cost price, keep it sensible otherwise it will drastically affect your Profit and Loss. If you think you can still sell the stock then the entry here is the realistic sales price [excluding VAT]. If you are liquidating the company then you need to get rid of stock. If you enter a value less than you paid for the stock then yours is not a very good company! Sell it!

When you include the accounts in the Report, make sure you have your teacher or Business Mentor sign them. Judges will check they have been signed, they will check the Extended Trial balance [are the figures the same?], they will look at the VAT owed [calculated automatically by the spreadsheet, VAT on all sales minus VAT on all purchases = money owed to LEAP].

Final step – liquidation

All Companies who finish must finalise their accounts. This is called the liquidation Report.

Your stock should all have been sold, or written off as a last resort, therefore the stock value on the Extended Trial Balance should be zero.

You must pay LEAP the VAT owed and any Corporation Tax owed [10% of net profit, calculated automatically].

Funds must be distributed. Shareholders should be paid back plus any dividend you are paying, or less any loss you have made. Donations might be made to charity and you may decide to pay yourselves any remaining money as a wage or bonus!

The final balance of a liquidated company must be Zero.

LEAP

Students Acquiring Skills - just do it!

One of the Companies asked the following questions:

"I now think I understand how the sheet works, but I can't work out what CR and DR mean! On all the sheets CR refers to money going out (costs, cash - bank transfers etc.) and to money coming in, except for the ETB sheet, where they are reversed. Is this a mistake, or is there something I don't understand?

I am also having difficulty with the ETB sheet in general. For example, what Trial Balance DR column refer to? It would be very helpful if I could get some sort of summary about what each column means in the sheet.

The figure of money I have for cash in the accounts is negative. This seems to be because I have recorded a large transfer of cash to bank, because that is what I did with the share money. But the share capital that I received is not counted as cash, its simply placed into the profit and loss records. It doesn't make any difference to the figures, but I am obviously not in the possession of a negative amount of cash. Is there any way to sort this?"

The answers from the expert Ashley Carr.

As long as the purchase, sales and cashbook sheets are entered correctly, then the ETB (other than closing stock) takes care of itself.

It is accountancy convention that DR stands for Debit, and CR stands for Credit.

To say a CR refers to money going out and a DR refers to money coming in, is a bit misleading, as for all accountancy transactions, there is a DR and a CR entry for each one (double-entry bookkeeping).

For example, if you make a payment from your bank of £20 for stationery, then the stationery account in the profit and loss account will be debited with £20 and the bank will be credited with £20. This is because the debit entry in the P&L is an expense and the credit entry against the bank is a liability (to the bank).

Nothing is reversed on the ETB, the figures in the ETB are simply mapped from the cashbook totals (the spreadsheet does this automatically), so a DR balance in the cashbook is a DR balance in the ETB, and a CR balance in the cashbook is a CR balance in the ETB. The trial balance is a list of all the balances and is **extended** to either the P&L account **or** the balance sheet (hence ETB). The balance sheet shows the assets and liabilities of a company, whereas the P&L account records income and expenditure as a result of the company trading. If the company were to trade for a second year, then the balance sheet balances would be carried forward to the following year, whereas P&L items are written off in the year of taking place.

The following summary will hopefully help in the understanding of what DR and CR mean on the ETB.

Trial balance:	DR	= expense in P&L **or** asset on balance sheet
	CR	= income in P&L **or** liability on balance sheet
Profit and Loss:	DR	= expense
	CR	= income
Balance Sheet:	DR	= asset
	CR	= liability

Unlike a bank balance, that can either be shown as an asset or a liability on a balance sheet, depending on whether the balance is positive or overdrawn respectively, cash always has to have a debit balance. You cannot have a balance of -£5 in your cashbox.

You start of with a cash balance of zero and through the selling of shares and other receipts you build up a debit balance (shown as an asset on the balance sheet) . Any cash to bank transfers will be recorded by crediting your cash balance and debiting your bank balance, all you are doing is decreasing the asset of cash and increasing the asset of bank. Obviously, you cannot transfer more cash than you have got and therefore your cash balance can never show a credit balance. A negative balance indicates that the double-entry has been entered incorrectly somewhere in the cashbook, but should be easy to identify.

Cash to bank transfers do not require any analysis, as this will have been already completed when the cash was received in the first place.

Share capital has nothing to do with the profit and loss account whatsoever, as the double- entry for the sale of shares is debit cash or bank (assets) and credit share capital (a liability to the shareholders).

The DR and CR columns in the cashbook are colour co-ordinated to help with the double-entry bookkeeping.