

Guidance Notes for Completion of Company Accounts

These accounts enable you to accurately record the financial transactions of your company. Regularly updating your company's accounts will ensure you are always in a position to review its financial position and performance. Some knowledge of the double entry principle of the recording of financial transactions will further assist in the understanding of these accounts and a brief explanation follows.

In accountancy, for every account that gives value, another account must receive value - obviously one cannot take place without the other. In the recording of financial transactions, this relates to debits (abbreviated to Dr - for debtors) and credits (abbreviated to Cr - for creditors). In effect, the account that has received value becomes in debt (a debtor) to the account that has given value. Conversely, the account that has given value becomes in credit (a creditor) to the account that has received value. The debtor account will have a debit balance, and the creditor account will have a credit balance. Whilst recording entries in your company's accounts, it may help if you can remember the rule - debit the receiver, credit the giver.

To try and put the above into context, we will consider how the company records the initial investment made by shareholders (say £200 cash). Following the principles of double entry, one account must receive value, and one account must give value. It is obvious that the account that has received value is the company's cash account, whilst the account that has given value is the share capital account, which represents the company's liability (what the company owes) to its shareholders. The company's cash account will be debited with £200 and therefore have a debit balance, whilst the share capital account will be credited with £200 and therefore have a credit balance. The following notes give guidance on the completion of each section of the accounts with additional notes to help in the understanding of them.

Cash Book

The cash book is used to record all cash and bank transactions that are not classed as sales or purchases. The cash and bank balances from sales and purchases are automatically brought forward (b/f) onto the first page of the cash book. Entering the company name on this page will complete all such fields throughout the accounts.

To help with the correct recording of cash book transactions, the payments and receipts headings have been colour-coordinated with the corresponding cash and bank entries. To further assist, if the double entry has not been recorded correctly, a warning message will be displayed at the bottom of the page. Regular checks of actual cash in hand and at the bank against the balances recorded in the cash book (most easily obtained by viewing the balance sheet) will help identify any errors caused by the recording of wrong amounts, entering cash to bank transfers the wrong way round or even completely forgetting to record transactions in your company's accounts. It should be noted that the cash book will not highlight any of these types of errors as the debit and credit totals will still equal each other, hence the importance of **regular cash and bank checks**.

Cash to bank transfers are recorded by crediting the amount in the cash column and debiting it in the bank column - no analysis needs to be entered in the payments and receipts columns as this was completed when the money was initially received. On transactions where VAT has been paid or received, the VAT element can be calculated by multiplying the gross amount by 7/47 or 17.5/117.5 (rounded down to the nearest penny). The majority of VAT transactions will occur through sales and purchases where VAT is automatically calculated.

Production costs cover non-material expenditure incurred directly in the manufacturing process of the product. For example, the hire of equipment to carry out work on the product to bring it to its finished state will come under this category and not the rent & hire category. If payment has to be made to somebody for carrying out specialist work on the product, then this cost will also be assigned to production costs. It is important that production costs are correctly identified as, along with purchase costs, they allow a company to determine the eventual sale price, which will obviously include an element of profit.

Purchases

Purchases cover any item bought that is either the product itself or will form part of the finished product. For example, if plain white T-shirts are going to be dyed and have transfers imprinted on them, then the T-shirts, dyes and transfers will all be classed as purchases. Equally, if consumables are used in the provision of a service, such as varnishes for nail painting, then the varnishes will be classed as purchases. The purchase of materials not directly attributable to the finished product or service will be entered directly in the cashbook.

The purchases and VAT amounts are automatically calculated once the gross amount has been entered in the creditors', cash or bank column. A creditor is somebody who has provided your company with goods or services, but has allowed you a period of time to pay. When payment is made to the creditor, the amount in the creditors' column needs to be deleted (assuming full payment is being made) and entered into the cash or bank column (or both if a split payment). The purchases and VAT amounts will remain as before.

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Sales

The sales and VAT amounts are automatically calculated once the gross amount has been entered in the debtors', cash or bank column. A debtor is somebody who your company has provided goods or services to, but who you have allowed a period of time to pay. When payment is received from the debtor, the amount in the debtors' column needs to be deleted (assuming the full amount has been paid) and entered into the cash or bank column (or both if a split payment). The sales and VAT amounts will remain as before.

Extended Trial Balance

The extended trial balance is a list of all the debit and credit balances (the trial balance), either extended into the profit and loss account or the balance sheet in preparation for completion of the Final Accounts. The trial balance establishes whether all credit entries have been matched by debit entries - a further warning message will be displayed if this is not the case. Accounts that have been extended into the profit and loss account represent income (profit) and expense (loss) accounts and are written off to the profit and loss account at the end of the trading year. The remaining accounts are extended into the balance sheet and represent the assets and liabilities of the company. Assets are what the company owns, and liabilities are what the company owes. Asset accounts have debit balances because they have received value from the company, whilst liability accounts have credit balances because they have given value to the company.

For the completion of period end accounts, any unsold stock needs to be entered at cost, or, if lower, at net realisable value (NRV). Cost is the purchase price of the stock excluding VAT, and NRV is the current selling price excluding VAT. Obviously, if NRV is lower than cost, then the company is realising a loss on sales. It is important that stock valuations are accurate, as undervaluation of stock will understate profits, whilst overvaluation of stock will overstate profits. The stock valuation will appear as a debit entry in the balance sheet because stock is an asset of the company. The net profit/loss is the difference between the credit entries (income accounts) and debit entries (expense accounts). A profit will be indicated by a debit entry in the profit and loss account and a credit entry in the balance sheet as it is a liability of the company to its shareholders.

Final Accounts

The Final Accounts consist of the profit & loss account and the balance sheet and are used to review a company's performance and financial position respectively. When submitting your company's Final Accounts, you will need to specify whether it is an interim or final account and the period ending.

The first part of the profit and loss account, which calculates the gross profit, represents the trading activity of the company and, in its own right, is referred to as the trading account. However, the gross profit must then cover the expenses of the company. Once these expenses have been deducted from the gross profit, the company is left with its net profit. At the end of the trading year, the net profit represents the funds available for distribution to the company's shareholders, known as dividends.


The balance sheet represents the financial position of the company and is so called because it balances the company's assets against its liabilities. During the course of trading, the balance sheet can be used to check cash and bank balances, monies owed to the company (debtors) and monies owed by the company (creditors). VAT has been included as both an asset and a liability as during the early stages of trading it may be that more VAT has been paid than has been received, and will therefore be shown as an asset. At the end of the trading year, the only items remaining on the balance sheet should be the assets of cash and bank, matched by the liabilities of any unpaid VAT and monies belonging to the shareholders, consisting of their initial investment of share capital and any profit generated as a result of the company trading.

Liquidation Report

VAT payable to LEAP can be entered in the cash book by debiting the amount in the VAT payments column with the corresponding cash or bank entry. Once entered, VAT receipts and VAT payments will equal each other, leaving a nil balance. The net current assets figure is automatically brought forward from the balance sheet and it is for the shareholders to decide how they wish these funds to be dispersed. Share capital to shareholders represents repayment of the initial investment made by the shareholders, whilst dividends to shareholders represents disbursement of the company's profit.

Other Notes

To maintain account integrity, cells that contain formulae or that do not require data input are protected. As printer settings can vary, before printing use print preview to ensure that pages do not overlap. If adjustment is required, altering the scaling percentage in page setup by 1 or 2% will usually suffice.

Company	LEAP sample accounts					
Extended Trial Balance						
Account	Trial Balance		Profit & Loss		Balance Sheet	
	Dr	Cr	Dr	Cr	Dr	Cr
	£	£	£	£	£	£
Sales		727.94		727.94		
Purchases	516.39		516.39			
Production Costs						
Stationery						
Rent & Hire						
Other Expenses	160.00		160.00			
Other Income						
Debtors	390.00				390.00	
Cash at Bank	200.30				200.30	
Cash in Hand	48.29				48.29	
Creditors		200.00				200.00
Share Capital		350.00				350.00
VAT		37.04				37.04
Stock (Profit & Loss)				120.00		
Stock (Balance Sheet)					120.00	
Net Profit/Loss			171.55			171.55
	1,314.98	1,314.98	847.94	847.94	758.59	758.59

Interim/Final Account for the period ending

Profit and Loss Account

	£	£
Sales		727.94
Purchases	516.39	
Production Costs	0.00	
Less Closing Stock	120.00	
Cost of Sales		396.39
Gross Profit or Loss		331.55
Add Other Income		0.00
		331.55
Less Expenses:		
Stationery	0.00	
Rent & Hire	0.00	
Other Expenses	160.00	
		160.00
Net Profit or Loss		171.55

Balance Sheet

	£	£
Current Assets		
Stock		120.00
Debtors		390.00
VAT		0.00
Cash at Bank		200.30
Cash in Hand		48.29
		758.59
Less Current Liabilities		
Creditors	200.00	
VAT	37.04	
Bank Overdraft	0.00	
		237.04
Net Current Assets		521.55
Financed by:		
Share Capital		350.00
Profit or Loss		171.55
		521.55

Certification of Accounts

I certify that these accounts represent a true and accurate record of the trading activity and financial position of the company at the end of this reporting period.

Company Advisor: _____ (Signature) Date: _____

_____ (Name)

