

CHAPTER 5

PREPARATION OF FINANCIAL STATEMENT

LEARNING OBJECTIVE

I. COST OF GOODS SOLD

II. PREPARATION OF FINANCIAL STATEMENTS

III. PRACTICE FOR FINANCIAL STATEMENTS

I. COST OF GOODS SOLD

Cost of goods sold (Dr)= beginning inventory (Dr)+ purchase(Dr)
– ending inventory(Cr)

Entry for cost of goods sold accounts:

1. Purchase account

Dr. Purchase account.....XX

Cr. AP/cash at bank account.....XX

2. Opening inventory account:

Dr. opening inventory account/cost of good sold (in income statement).....XX

Cr. Inventory account (in BS).....XX

3. Closing inventory

Dr. Inventory account (in statement of financial position).....xx

Cr. Closing inventory account/cost of good sold (in the income statement).....xx

II. PREPARATION OF FINANCIAL STATEMENTS

In an earlier chapter a trial balance, extracted from the general ledger was used to draft a simple income statement and statement of financial position.

In practice, adjustments, such as depreciation, accruals and prepayments, irrecoverable debts, closing inventory, and provisions need to be made before the financial positions are produced.

These can be incorporated into an Extend Trial Balance (ETB), a worksheet.

Extended trial balance (ETB)- a worksheet which takes a trial balance, make year end adjustments an produces a draft statement of financial position and income statement.

Simple form of income statement and balance sheet as follows:

ABC COMPANY

Income Statement for the year ended 31 December 20X6

Sale:		xxx
Less: Sales returns		<u>(xxx)</u>
Net Sale.....		xxx
Cost of goods sold:		
Opening inventory	xxx	
Purchase	xxx	
Less purchase return	(xxx)	
Carriage inwards/transportation in	xxx	
Customs duty	xxx	
Less closing inventory	<u>(xxx)</u>	
Cost of goods sold.....		<u>(xxx)</u>
Gross profit.....		xxx
Discount received.....		xxx
Less expenses:.....		<u>(xxx)</u>
Net profit.....		xxx

ABC COMPANY

Statement of Financial Position at 31 December 20X6

Assets			
Non current assets:			
Property, Plant and Equipment			Xxx
Accumulated Depreciation			<u>(xxx)</u>
			xxx
Current assets:			
Inventory		Xxx	
Trade receivables	Xxx		
Allowance for receivable	<u>(xxx)</u>		
		xxx	
Prepayments		Xxx	
Bank and cash		<u>Xxx</u>	Xxx
Total asset			Xxx
Capital and Liabilities			
Capital account:			
Opening capital			Xxx
Net profit for the year			Xxx
Drawing			<u>(xxx)</u>
			xxx
Non-current liability:			xxx
Current liabilities:			xxx
Total Capital and Liabilities			xxx

III. PRACTICE FOR FINANCIAL STATEMENTS

Please see attaching document for preparation of financial statement for ELMDALE company.

Its correct entry for worksheet as follows:

a. Correct entry for closing inventory:

Dr. Inventory account (in statement of financial position).....3,060

Cr. Closing inventory account /cost of good sold (in income statement) 3,060

b. Correct entry:

Before record prepayment –rate 1,260\$ all as rate expense

Dr. Rate expense.....1,260

Cr. Cash.....1,260, **but correct entry as:**

Dr. Prepayment – rates.....1,260

Cr. Cash.....1,260

Dr. Rate expense.....945(1,260/12 x 9)

Cr. Prepayment-rate.....94

Adjustment as follow:

Dr. Prepayment.....315

Cr. Rate expense315

(1,260-1,260/12 x 3=1,260-315)

c. Correct entry

Dr. Electricity expense44

Cr. Accrued electricity.....44

(132/3=44)

d. Correct entry

Dr. Deprecation expense – shop.....190

Cr. Accumulate d Depreciation-shop.....190

(e) Correct entry

First entry:

Dr. Irrecoverable debts.....200

Cr. Receivable.....200

Second entry:

Dr. Allowance for receivable.....173

Cr. Irrecoverable debts.....173