Chapter 1: INTRODUCTION TO ACCOUNTING PRINCIPLES

1.1 Aims of a business

The aim of any business is to make profit and ensure it could remain in operation for the long term. Thus, sound management practices shall be an important role, such as the ability to sell the company's products/services, to purchase materials and products wisely, to manage and motivates its staffs and most importantly, to manage its finances properly.

1.2 Types of Business Organisations

Organisations are divided according to their structure and financial make-up. This classification is crucial as it will determine an organisation's legal status and what financial reporting method is required.

- A **Sole Trader** is an individual trading in his/her own name, or under a recognised trading name.
- A **Partnership** is a group of people (minimum 2 and up to a maximum of 20 individuals) which carries on a particular business together with a view of making profits.
- A **Private Limited Company** is a legal entity with at least 2 shareholders where the shareholders' liability is limited to the amount that they have agreed to invest in the company.
- A **Public Limited Company** is a legal entity with also have limited shareholder liability, but unlike private limited company, it can ask from the public to subscribe for shares in its business.

1.3 The importance and need for accounting

The financial statement aims to show the profit or loss that had been made and the financial position of the business. The two most important statements are:

- The income statement – shows the profit/loss of a business
- The statement of Financial Position (SOFP) – shows the financial position of the business (i.e. The assets, liabilities and equities of a business)

The financial statement is an important element as it provides the management team with the essential information in order to make rational decisions and to formulate revised plans when necessary.

Besides the management team of the business, there are other groups who are also interested in the financial statements of the business:

- Government tax authorities
  - Legally required to collect tax such as employees' tax, business tax, sales tax, etc.
- Suppliers (Creditors)
  - To make sure the viability of the business before accepting orders
- Customers (Debtors)
  - To make sure the business is financially stable before making orders
- Employees
  - Get to know about the business's financial status and reputation
- Owner
  - To know whether the business is profitable and the resources available.
- Banks/Borrowers
  - To know the financial standing of the business before issuing any loan or borrowings.
- Investors
  - To know whether it is acceptable to invest in the business

1.4 The objectives of accounting

The primary objective of accounting is to provide information for decision making. For example, each transaction are recorded down (to whom it was sold to, on which date, at what price, and when did the customer make the payment). So, with all these information, the profitability and financial position of the business can be determined and support the decision making of the management.

Let us zoom into how accounting can help with all these aspects:

- Businesses and people
  - Accounting is important for business as we had known by now, however it is equally important for everyone. We use accounting ideas to plan our finances, such as how much to save, spend (budget)
- Recording accounting data
  - Accounting data are an essential part as we will need the raw information as proof of the transactions made, such as cash received and paid out, goods being bought or sold, items bought to be kept for own use instead of selling.
- Classifying and summarising
  - After the data are being recorded, they shall be organised to make it more useful to the business.
- Communicating information
  - With all the data prepared, a person with accounting knowledge will be able to dissect the information available and communicate it to the owners whether the business is performing financially well.

1.5 The accounting equation

ASSETS = EQUITY + LIABILITIES

Assets

Definition: It is a **resource controlled by the entity** as a **result of past events** and from which **economic benefits** are expected to **flow into the entity.**

1. **Non-Current Assets** are assets that have a long-life span, usually bought to be used in the business and not with the intention for resale. (i.e. building, machinery, motor vehicles)
2. **Current Assets** are assets consisting of cash, goods bought for resale or items that have a short life span. (i.e. not more than a year in the SOFP)

- Collection of an asset

Aaron who owed John $1,000, makes a part payment of $500 by cheque on 30 April 20X8. The effect will be reduction on Trade Receivable, and an increase to Cash at bank. The SOFP will become:

John
Statement of Financial Position as at 30 April 20X8

Assets	$
Shop	23,000
Inventory	4,500
Trade Receivables	500
Cash at bank	25,000
	53,000
Less: Trade Payables	(3,000)
	50,000
Owner's equity	50,000

1.7 The equality of the accounting equation

It can be seen that each transactions affects two items. Sometimes it changes two assets by reducing one and increasing another, while in other cases the changes had been different. A table of summary had been tabulated for all the examples of transactions above as follows:

Transaction number as above	Assets	Equity and liabilities	Effect on SOFP totals
1	+	+	Each side added equally
2	+ -		A plus and a minus on the assets side, cancelling each other out
3	+	+	Each side has equal additions
4	+ -		A plus and a minus on the assets side, cancelling each other out
5	+ -		A plus and a minus on the assets side, cancelling each other out
6	-	-	Each side has equal deductions
7	+ -		A plus and a minus on the assets side, cancelling each other out

Besides the examples being showed above, there are still different types of accounting transactions that can take place, such as:

1. The owner withdraws money from the business for own use

This will reduce the assets (cash in bank) and reduce the equity

2. The owner pays for a business expense personally

This will reduce the liability (trade payable) and increase the equity.

1.8 More detailed presentation of the statement of financial position

This is how the Statement of Financial Position of John as at 30 April 20X8 be presented appropriately.

John

Statement of Financial Position as at 30 April 20X8

	$	$
Non-Current Assets		
Shop	23,000	
		23,000
Current Assets		
Inventory	4,500	
Trade Receivables	500	
Cash at bank	25,000	
Total Assets		53,000
Equity (Note 1)		
Owner's equity	50,000	
Total equity		50,000
Current Liabilities		
Trade Payables	3,000	
Total Liabilities		3,000
Total equity and liabilities		53,000

Note 1: Equity represents the total amount the owner had invested into the business, which is $50,000.

Note 2: The accounting equation is true, i.e. Total Assets ($53,000) = Total Equity ($50,000) + Total Liabilities ($3,000)

Some examples

(a) Which of the items below are assets or liabilities

(i) Loan from supplier
(ii) Inventory
(iii) Cash in bank
(iv) Bank overdraft
(v) Machine used in business
(vi) Loan to Wright
(vii) We owe a trade payable
(viii) Inventory of goods held for sale

(b) Jason is setting up a new business. In order to run the business, Jason had bought a van for $8,000, a computer for $800, some furniture totalling $1,500, and inventory of goods for $5,000 which $2,000 from the inventory was still unpaid to the supplier. Jason has secured a loan from Bailey amounting $10,000. Just before the business starts, Jason has $2,500 in the bank and $1,200 of cash in hand.

Calculate the amount of the equity.

(c) Complete the table

		Account to be debited	*Account to be credited*
(a)	Bought lorry for cash.		
(b)	Paid creditor, T. Lake, by cheque.		
(c)	Repaid P. Logan's loan by cash.		
(d)	Sold lorry for cash.		
(e)	Bought office machinery on credit from Ultra Ltd.		
(f)	A debtor, A. Hill, pays us by cash.		
(g)	A debtor, J. Cross, pays us by cheque.		
(h)	Proprietor puts a further amount into the business by cheque.		
(i)	A loan of $200 in cash is received from L. Lowe.		
(j)	Paid a creditor, D. Lord, by cash.		

Chapter 2: Accounting Concepts and Accounting Standards

2.1 Introduction

At the end of a financial year, organisations prepare their financial statements, i.e. the income statement and statement of financial position. The preparation of these statements are based on rules which are known as the 'accounting concepts'. These concepts has made the preparation of the financial statements more standardised, which enables the information to be more easily understood, reliable and clearer comparisons between different businesses.

2.2 The main accounting concepts

- Accruals concept (matching concept)
  - The accruals concept says that net profit is the difference between revenues and expenses, rather than the difference between cash received and cash paid.
  - Sales are revenues when the goods or services are sold and not when the money is received, which could be at a later date. Purchases are expenses when the goods are bought, not when they are paid.
  - Identifying the expenses used to obtain the revenues is referred as matching expenses against revenue, which is why this concept is also known as the matching concept.

- Business entity concept
  - The business entity concept implies that a business is a separate entity distinct from its owner.
  - Only the activities of the business are recorded and reported in the business's financial statement
  - Any transactions relating to the owner is kept separate from the business's books.

- Consistency concept
  - The consistency concept requires the same treatment to be applied to similar items not only in one period, but all subsequent periods.
  - For example:
    the method of depreciation
    The method of valuing inventory (stocks)
  - This concept is important as it assists in analysis of financial information of the business and decision-making. If the business is constantly changing the methods, it would result in misleading information and inaccurate analysis.
  - However, this does not mean that the business must stick to one particular method, it may make changes when needed and these changes must be declared in the notes to the financial statement.

- Going concern
  - The going concern concept implies that a business will continue to operate for the foreseeable future and has no plans to cease or liquidate the business.

Chapter 3: Double entry bookkeeping

3.1 Introduction

As mentioned in Chapter 1, the purpose of a business is to make profit and remain in business for the long term. Therefore, it is important that a business is able to sell its goods at a premium from its costs.

Accounting records are important as they have many purposes, such as:

- To record business transactions
- To know the cashflow of the business
- To assess the business's financial condition

3.2 The double entry bookkeeping system

The main purpose of a double entry system is to record each business transaction being made. As we had seen in the previous chapter, each transaction affects two items and every transaction always comes from a **Source Document** (e.g. an invoice, a credit note, a bank in slip, payment receipt, etc.).

And whenever a transaction is held, it will be updated in that particular account of business transaction being made, which shows the history of that business item. For example, if the business had made a purchase of inventory by cheque, it will lead to an increment in the INVENTORY account and a decrease in the BANK account.

A typical "T" account for double entry would look like this, with **Dr** representing the Debit side while **Cr** representing the Credit side:

Dr Title of the account Cr

Date	Details	$	Date	Details	$

Rules for Double Entry

A simple way to look at double entry is by separating the transactions into Assets, Liabilities & Capital, and whether it is an increase or decrease to them.

Accounts	Increase/Decrease	Entry in the accounts
Assets	An increase	Debit
	A decrease	Credit
Liabilities	An increase	Credit
	A decrease	Debit
Capital	An increase	Credit
	A decrease	Debit

Credit Note

Once the supplier decides to provide credit, then a credit note will be issued for the value of the returned goods inclusive of any applicable amount of VAT (sales tax) and the note will be sent to the customer.

Normally, a credit note will be issued in red to differentiate it from the invoice as the details in the credit note may contain similar information as the invoice. This needs to be clearly identified because it will affect the amount owed by the buyer.

[Your Logo] [Your Website]

CREDIT NOTE

Date:
1st October 2015

Credit Note Number:
CN-0001

VAT Number:
GB123456789

[Your Company Name]
[Address 1]
[Address 2]
[City]
[Town]
[Postcode]

[Customer Name]
[Customer Address 1]
[Customer Address 2]
[Customer Town]
[Customer City]
[Customer Postcode]

Description	Quantity	Price	Amount
Wrong product on Invoice INV-0001	1	50.00	50.00
Product #123 - Partial Refund	3	10.00	30.00
		Subtotal	80.00
		TOTAL	**80.00**

Debit Note

Debit note might be issued to a customer by the seller when the customer is being undercharged for some goods. Debit note works the same like an invoice but debit note refers to an original invoice.

Statement of account

A statement of accounts usually contains details of all the customer's transactions during the previous month, starting with the opening balance outstanding from the previous month plus the amounts owing in the current month's invoices. Any amounts that are paid are deducted along with credit note issued.

Upon receipt of the statement of account, the customers shall check the statement by comparing against their own records to ensure the statement agrees.

STATEMENT OF ACCOUNT

[Customer Name]
[Customer Address]
FAO: [Contact Name]

Statement Date: [Date]
Terms: [Payment Terms e.g. 30 days]

Account Reference: [Reference]

[YOUR LOGO HERE]

[Your Business Name]
[Your Business Address]
Telephone: [Number]
Fax: [Number]
Email: [Your Email Address]
Website: [Your Web Address]

Date	Reference	Description	Debit	Credit	Balance
		Balance brought forward:			£0.00
20/06/17	2356	Example Invoice	£100.00		£100.00
20/07/17		Example Payment Received		£80.00	£20.00
21/07/17	1476	Example Credit Note		£10.00	£10.00
		Current Balance:			£10.00
		Amount Overdue:			**£10.00**

If you have any queries about this statement please contact [Name] on: [Phone Number & Extension]

Please make any payment due, by electronic transfer to our bank account:

Bank: [Bank Name]
Sort Code: XX-XX-XX
Account Number: XXXXXXXX
Account Name: [Account Name]

VAT Number: XX XXXX XX

Registered Office: [Your Registered Address]
Registered In England & Wales With Company Number: [Number]
Directors: [Director's Names]

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Cheques

- Receiving cheques
  - Customers, who have received their goods/services, may make payment by cheque. These cheques shall be examined upon receipt for:
    1. The cheque is drawn payable to the receiver
    2. The correct amount is stated both numerically and in words
    3. The cheque is dated correctly and is not out of date or postponed
    4. The cheque is properly signed.

- Paying by cheque
  - When a business makes payment by cheque for goods or services, an authorised signatory must sign it and the person signing must have the approval to do so. Usually, the bank will be notified with the name of the signatory and will carry out procedure to ensure the signatory's identity. The bank are bound to do so in order to prevent fraud or money-laundering activities to happen. Larger businesses would usually insist two authorised signatories.
  - It is important that the business's account have sufficient money to pay before issuing any cheques or else the bank would not process it.
  - The person writing the cheque is known as the **drawer** while the person whom the cheque is paid to is known as the **payee** and the bank is known as the **drawee.**

- Cheque clearing
  - When a cheque is sent from one business to another, it will take time to process (usually 3 to 5 working days). The business receiving the cheque will pass it to its bank who will seek approval from the drawer's bank to transfer the amount shown on the cheque.

Cash

- Receiving cash

- Customers purchasing goods still extensively use cash in the retail business. When cash is involved, there are various risks that the business may face and there are number of ways to prevent it:
  1. Cash shall be counted and checked against any documentation showing the amount to be received
  2. Cash must be stored safely and be taken to the bank as soon as possible
  3. Detection equipment may be needed to prevent counterfeit money
  4. Regular internal checks are required to ensure the person handling the cash is honest and dependable

Remittance advice

When a payment is being made from one party to another, it is important that the receipient has details of the payment. So the business making the payment would usually include a remittance advice accompanied by a cheque when given to the receipient.

REMITTANCE ADVICE

Champion Sports, Fairway
Leeds, LS2 8BD

Tel: 0131 874428

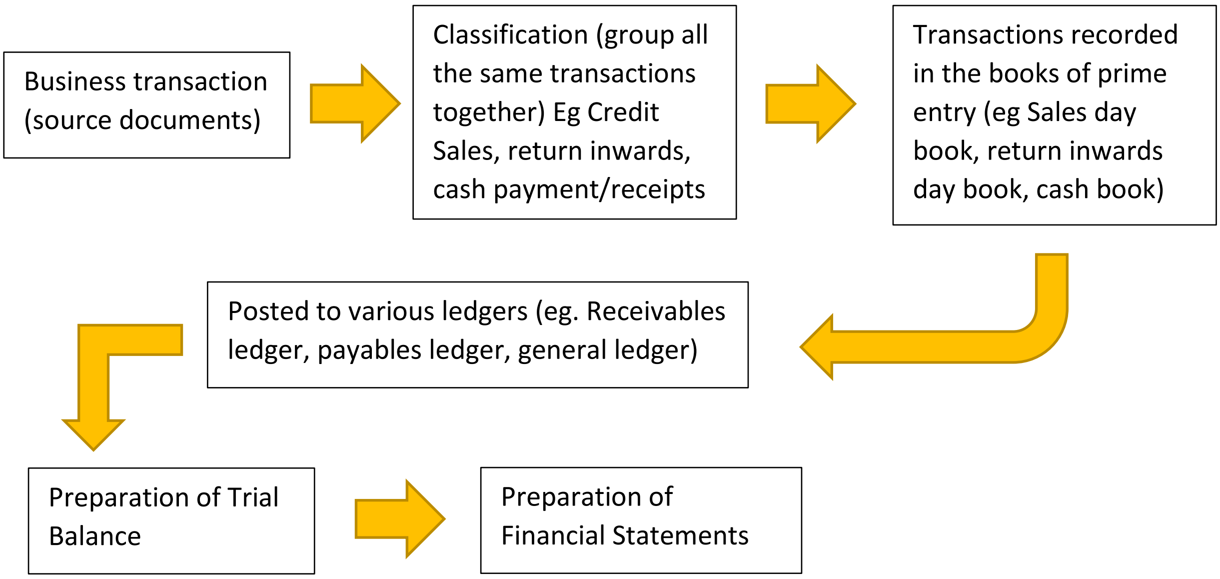
VAT Reg: 811 6571 56
Remittance Advice: 6/151
Date: 5 July 20X5

Ace Sports
High Street
Manchester
MM1 4TC

Account Number: C 52

Date	*Invoice or credit note no*	*Invoice*	*Credit note*	*Payment*
03/5/X5	Invoice No 3189	480.00		480.00
11/6/X5	Credit Note No 118		86.40	(86.40)
			Total payment	393.60

A normal flow of the accounting transactions would look like this:



5.4 Personal and Impersonal accounts

There are fractions of people that describe all accounts as personal accounts or impersonal accounts.

1. Personal accounts – for debtors and creditors
2. Impersonal accounts, which are further divided to Real accounts or nominal accounts
    - Real account: where assets are recorded, such as building, machinery, inventory, etc.
    - Nominal account: where expenses, income and capital are recorded.

Bank Reconciliation Statement as at 28 February 20X2		
	$	$
Balance in hand as per cash book		350
Add: Unpresented cheque	500	
Bank giro credit	100	
		600
		950
Less: Bank charges	80	
Bank lodgement not in bank statement	400	
		(480)
Balance in hand as per bank statement		470

Bank Reconciliation Statement as at 28 February 20X2		
	$	$
Balance in hand as per bank statement		470
Add: Bank charges	80	
Bank lodgement not in bank statement	400	
		480
		950
Less: Bank giro credit	100	
Unpresented cheque	500	
		(600)
Balance in hand as per cash book		350

6.7 Updating the cash book before doing reconciliation

The easier way to prepare the reconciliation statement is to update the cash book first, by entering all the missing details from the bank statement.

Dr Cash book Cr

20X2		$	20X2		$
Feb 24	Balance b/d	3,000	Feb 24	Balance b/d	2,500
27	Boon	250	25	Jake	300
28	Paul (A)	400	27	Conner (B)	500
28	Bank giro credit	100	28	Bank charges	80
			28	Balance c/d	370
		3,750			3,750
Mar 1	Balance b/d	370			

Bank Reconciliation Statement as at 28 February 20X2		
	$	$
Balance in hand as per cash book		370
Add: Unpresented cheque		500
Less: Bank lodgement not in bank statement		(400)
Balance in hand as per bank statement		470

6.8 Bank Overdrafts

When there is an overdraft, the adjustments needed for reconciliation are the opposite of when the balance is a debit balance.

The following statement shows a cash book with an overdraft. Only the cheque from Tort (A) $88 and the cheque paid to Kelly (B) $100 needs adjustments.

Dr Cash book Cr

20X3		$	20X3		$
May 15	Boon	300	Feb 1	Balance b/d	2,500
27	Paul	250	25	Jake	300
28	Tort (A)	88	27	Kelly (B)	100
31	Balance c/d	2,362	31	Bank charges	100
		3,000			3,000
			Jun 1	Balance b/d	2,362

Date	Bank Statement	Dr	Cr	Balance
20X3		$	$	$
May 1	Balance b/d			2,500 OD
15	Cheque		300	2,200 OD
25	Jake	300		2,500 OD
27	Cheque		250	2,250 OD
31	Bank charges	100		2,350 OD

Bank Reconciliation Statement as at 31 May 20X3		
	$	$
Overdraft as per cash book		2,362
Less: Unpresented cheque		(100)
Add: Bank lodgement not in bank statement		88
Overdraft as per bank statement		2,350

Comparing both situation if it is having balance or overdraft

	Balances	Overdrafts
Balance/Overdraft as per cash book	XXX	XXX
Adjustments		
Unpresented cheques	ADD	(LESS)
Bank lodgements not entered	(LESS)	ADD
Balance/Overdraft as per bank statement	XXXX	XXXX

6.9 Dishonoured cheque

When a cheque is received from a customer and paid into the bank, it is entered into the debit side of the cash book and shown as a deposit on the bank statement. However, later on it may be found that the customer's bank will not pay us the amount due, and the cheque is therefore worthless. This is known as a dishonoured cheque.

There may be several reasons why a dishonoured cheque will appear:

- The figure and the wordings of the cheque doesn't match (i.e., $1,000 written as one thousand and one hundred)
- The year on the cheque is wrongly written (i.e., 20X1 written as 20X2). Normally banks do not process cheques which are considered 'stale' which is 6 months after the date on the cheque.
- The drawer (the person paying) simply does not have enough funds in his/her bank account.

For example, Jonas made payment of $6,000 via cheque on 15 June 20X1. We banked the cheque, but on 20 June 20X1, the bank returned us the cheque.

When Jonas made payment to us, the entry would be:

Dr Jonas Cr

20X1		$	20X1		$
Jun 1	Balance b/d	6,000	Jun 15	Bank	6,000

Dr Bank Cr

20X1		$	20X1		$
Jun 15	Jonas	6,000			

After the cheque is dishonoured:

Dr		Jonas			Cr
20X1		$	20X1		$
Jun 1	Balance b/d	6,000	Jun 15	Bank	6,000
20	Bank: Dishonoured cheque	6,000			

Dr		Bank			Cr
20X1		$	20X1		$
Jun 15	Jonas	6,000	Jun 20	Jonas: Dishonoured cheque	6,000

This would make Jonas owing us $6,000 again.

6.10 Other reasons for differences in balance

Some other reasons in difference between business's cash book and the bank statement

1) Direct debits – Whereby the business gave permission to an organisation to collect amounts owing by the business directly from its bank account. (i.e. paying mortgages, loans, etc). The receiving company is the one making the initiation.
2) Standing orders – Whereby the business gave instructions to the bank to pay a certain amount on a regular basis to a third party.

Both of these payments are made by the bank on behalf of the business, therefore the business could not update its cash book until the bank statements are received by them.

There is a computerised payment system called the **Bankers' Automated Clearing Service (BACS)** which is a very popular method of paying wages, salaries, and creditors. Which also does not appear in the cash book until the bank statement are received.

Practice

The following are the extracts from the cash book and bank statement of Larry:

Dr		Cash book			Cr
20X9		$	20X9		$
Aug 1	Balance b/d	8,718	Aug 8	Bane	582
12	Catherine	620	19	Darren	708
21	Eddy	935	28	Gin	410
25	Jordan	382	31	Balance c/d	9,530
31	Mickey	575			
		11,230			11,230
Sept 1	Balance b/d	9,530			

Date	Bank Statement	Dr	Cr	Balance
20X9		$	$	$
Aug 1	Balance b/d			8,718 Cr
8	Bane	582		8,136 Cr
12	Cheque		620	8,756 Cr
21	Cheque		935	9,691 Cr
25	Cheque		382	10,073 Cr
28	Gin	410		9,663 Cr
29	BGC: Dyson		317	9,980 Cr
31	Credit transfer: Danny		150	10,130 Cr
31	Bank charges	200		9,930 Cr

(a) Update the cash book, and state the new balance as on 31 August 20X9.

(b) Draw up a bank reconciliation statement as on 31 August 20X9.

Chapter 7: Payroll

7.1 Introduction

All businesses keep records of the basic personal details of employees and the payments made to them by the business. This record is called the payroll and the business must ensure that it is **accurate**, **confidential** and **secure.**

The role of personnel department

The main responsibilities of the personnel department are:

- The recruitment of new employees
- Preparing, updating, and keeping the employee's personal details

The personnel department and payroll department are usually two different functions and are kept separate. It is common that payroll is a part of the personnel department as both functions share the same type of information (i.e., the rate of pay, total hours worked, contributions.

However, the separation of personnel and payroll department will maintain a degree of control as it enables records to be compared, such as:

- Ensuring that employees who have left the organisation are not being paid after termination.
- To prevent the payroll department on committing fraud by creating 'dummy employees.'

7.2 Methods of calculating pays

Payments to employees are made in the form of **salaries** or **wages.**

Salary is a fixed amount of pay which is paid to an employee over the course of one year. Employers seeking to recruit employees will usually include in the job advertisement the salary p.a. (per annum/per year). Sometimes **wages** can also be a fixed amount, but this amount is paid weekly instead of monthly.

Example of salary:

For an annual salary of $24,000, the monthly salary would be:

$24,000/12 = $2,000 per month

Wages on the other hand tend to be paid in cash and has different method of payment:

1) Time rate – Paid upon amount of hours worked per week or per month at a set hourly rate
2) Bonus scheme – Paid upon exceeding its performance target
3) Piece rate – Paid upon the number of units produced or completed

Chapter 11: Depreciation

11.1 Depreciation of tangible non-current assets

Definition: A measure of cost of the economic benefits of the tangible non-current asset that have been consumed during the period.

Tangible non-current assets are long term assets which can be touched, such as machinery, motor vehicles, fixtures, and buildings. These assets do not last forever, and will depreciate overtime. The value can be calculated by taking the cost of buying the asset and deduct the disposal value. For example, if a van is bought for $10,000 and five years later being sold for $2,000, then the value it has depreciated over the period of usage is $8,000. The depreciated value can be calculated accurately only when the business is using the asset in a given year.

All information relating to a non-current asset, except for the accumulated depreciation and the disposal information are recorded in an ASSET REGISTER.

Items commonly recorded in the asset register:

- The asset number (unique code)
- Description of the asset
- Location reference
- Information on the purchase (i.e., dates, price, supplier)
- Useful life of the asset
- Residual value
- Depreciation and accumulated depreciation
- Date of disposal and disposal value

11.2 Depreciation is an expense

Depreciation is part of the original cost of a non-current asset that is utilised during its period of use by the business. It is therefore charged to the profit or loss account every year. The amount being charged is based on an estimate of how much the non-current asset had been utilised during that accounting period.

Depreciation works similarly like a normal expense such as wages, rent or electricity. An amount is paid for using that service, same goes to depreciation, the businesses use the service of the non-current asset to run its business.

For example, a computer costs $1,500 and is expected to be used for 3 years, thus at the end of the first year, the estimation for depreciation would be one third of the computer's useful life which is $500. Therefore, profit would be reduced by $500 and the computer will have its value reduce to $1,000 in the statement of financial position at the end of the year.

The following balances were part of the trial balance of C Cainen on 31 December 20X3:

	Dr	Cr
	$	$
Inventory at 1 January 20X3	2,050	
Revenue		18,590
Purchases	11,170	
Rent	640	
Wages and salaries	2,140	
Insurance	590	
Irrecoverable debts	270	
Telephone	300	
General expenses	180	

On 31 December 20X3 you ascertain that:

(*a*) the rent for four months of 20X4, $160, has been paid in 20X3

(*b*) $290 is owing for wages and salaries

(*c*) insurance has been prepaid $190

(*d*) a telephone bill of $110 is owed

(*e*) inventory is valued at $3,910.

Draw up Cainen's income statement for the year ended 31 December 20X3.

Identifying profits when you only have the opening and closing assets and liabilities

Assets = Equity + Liabilities

Let's look at an example,

At end of December 20X1, Jane had the following Assets and Liabilities:

Assets: Van $6,000; Fixtures $1,800; Inventory $3,000; Trade Receivables $4,100; Bank $4,800; Cash $200

Liabilities: Trade Payables $1,200; Loan from Becky $3,500

At end of December 20X2, she had the following:

Assets: Van (after depreciation) $5,000; Fixtures (after depreciation) $1,600, Inventory $3,800; Trade Receivables $6,200; Bank $7,500; Cash $300

Liabilities: Trade Payables $1,800; Loan from Becky $2,000.

Drawings made during the year 20X2 amounted to $5,200.

With all these information, you are expected to find out how much were the Equity as well as any profits made during the year 20X2. In order to facilitate you to find these figures, you can prepare a **Statement of Affairs** for both the years. SOA is exactly the same like your SOFP just that the name is change because it is prepared specifically for incomplete records.

Jane Statement of Affairs as at 31 December 20X1		
	$	$
Non-current assets		
Van	6,000	
Fixtures	1,800	
		7,800
Current assets		
Inventory	3,000	
Trade Receivables	4,100	
Bank	4,800	
Cash	200	
		12,100
Total Assets		19,900
Equity		XXXX
Non-current liabilities		
Loan from Becky	3,500	
Current liabilities		
Trade payables	1,200	
Total Liabilities		4,700
Total Equity and Liabilities		XXXX + 4,700

In order to find the missing figure for Equity, use your accounting equation
Equity = Assets – Liabilities
Equity = $19,900 - $4,700
Equity = $15,200