



AAT

Final Accounts Preparation

Pocket Notes

These Pocket Notes support study for the following AAT qualifications:

AAT Advanced Diploma in Accounting – Level 3

AAT Advanced Certificate in Bookkeeping – Level 3

AAT Advanced Diploma in Accounting at SCQF Level 6

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Contents

	Study Text Chapter	Page Number
A guide to the assessment		1
Chapter 1 Sole trader accounts	1	5
Chapter 2 Partnership accounts	2	23
Chapter 3 Incomplete records.....	3	43
Chapter 4 Financial reporting and ethical principles	4	67
Index		I.1

Preface

These Pocket Notes contain the key points you need to know for the exam, presented in a unique visual way that makes revision easy and effective.

Written by experienced lecturers and authors, these Pocket Notes break down content into manageable chunks to maximise your concentration.

Quality and accuracy are of the utmost importance to us so if you spot an error in any of our products, please send an email to mykaplanreporting@kaplan.com with full details, or follow the link to the feedback form in MyKaplan.

Our Quality Co-ordinator will work with our technical team to verify the error and take action to ensure it is corrected in future editions

The background features several overlapping, curved, light pink lines that sweep from the bottom left towards the top right, creating a sense of movement and depth.

A guide to the assessment

Overview of the assessment

The assessment

Final Accounts Preparation (FAPR) is the second of two financial accounting assessments at the Advanced Diploma level of the AAT qualification. We recommend that the Advanced Bookkeeping (AVBK) unit is studied and taken before FAPR.

Examination

FAPR is assessed by means of a computer based assessment (CBA). The CBA will last for 2 hours and will consist of 6 tasks.

In any one assessment, learners may not be assessed on all content, or on the full depth or breadth of a piece of content. The content assessed may change over time to ensure validity of assessment, but all assessment criteria will be assessed over time.

Learning outcomes & weighting

- | | |
|---|------|
| 1. Distinguish between the financial recording and reporting requirements of different types of organisation | 10% |
| 2. Explain the need for final accounts and the accounting and ethical principles underlying their preparation | 7% |
| 3. Prepare accounting records from incomplete information | 27% |
| 4. Produce accounts for sole traders | 31% |
| 5. Produce accounts for partnerships | 20% |
| 6. Recognise the key differences between preparing accounts for a limited company and a sole trader | 5% |
| Total | 100% |

Pass mark

To pass a unit assessment, students need to achieve a mark of 70% or more

This unit contributes 15% of the total amount required for the Advanced Diploma in Accounting qualification.

Note on the Conceptual Framework

The Conceptual Framework for Financial Reporting 2010 identifies one assumption underlying the preparation of financial statements – the going concern assumption. However, the AAT have confirmed that the unit specification for Final Accounts Preparation departs from this and states that there are two underlying assumptions; going concern and the accruals basis.

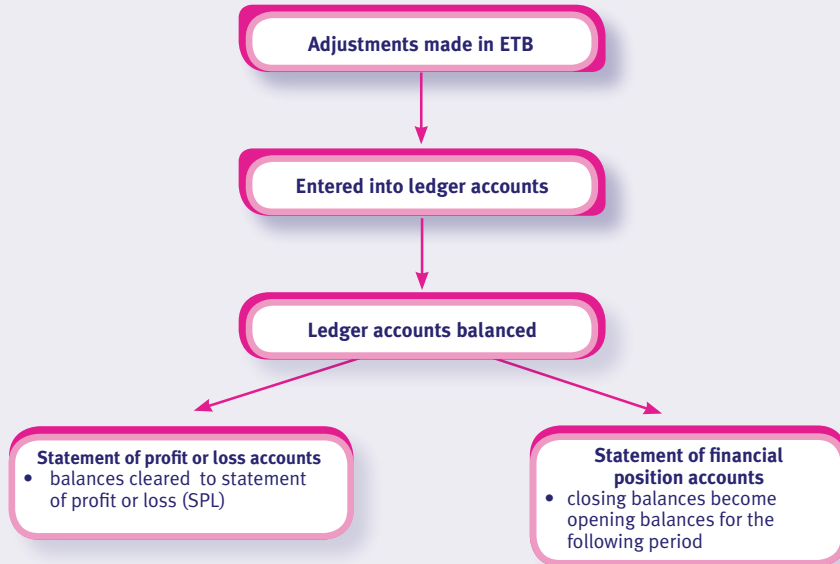
chapter

1

Sole trader accounts

- Closing off ledger accounts.
- Drawings.
- Preparing final accounts from an extended trial balance.
- Preparing final accounts from an initial trial balance.

Closing off ledger accounts



e.g

Example

Year ending 31 December 20X5

Accumulated depreciation account

£	£
	1 Jan X5
	Balance b/d 4,000

The accumulated depreciation account has an opening balance as it is a statement of financial position account.

The depreciation charge account at 1 January 20X5 has no opening balance brought forward.

Depreciation charge for the year ended 31 December 20X5 is £1,000.

Solution

Enter the depreciation charge for the year in the ledger accounts:

Depreciation charge account

£	£
31 Dec X5	31 Dec X5
Accum dep'n 1,000	SPL 1,000
1,000	1,000

Accumulated depreciation account

£	£
31 Dec X5	1 Jan X5
Balance c/d 5,000	Balance b/d 4,000
	31 Dec X5
	Depreciation charge 1,000
5,000	5,000
	1 Jan X6
	Balance b/d 5,000

Accumulated account – SFP – balance b/d
\$5,000

Expense account – SPL – year's expense
\$1,000

Sole trader accounts

Drawings

Double entry

- sole trader takes money out of his own business for living expenses = drawings.

Double entry:

Debit Drawings

Credit Cash

- sole trader take goods out of his own business = drawings.

Double entry:

Debit Drawings

Credit Purchases

Accounting treatment

- deduction from capital in the statement of financial position.

Statement of financial position extract

	£
Opening capital	X
Capital introduced in the year	X
Profit/(loss) for the year	X/(X)
Drawings	(X)
	—
Closing capital	X
	—

Preparing final accounts from an extended trial balance

- take final profit or loss column figures and put them into statement of profit or loss account format
- take final statement of financial position column figures and put them in statement of financial position order.

e.g.

Example

Extended Trial Balance

Account name	Trial balance		Adjustments		Statement of profit or loss		Statement of financial position	
	DR	CR	DR	CR	DR	CR	DR	CR
	£	£	£	£	£	£	£	£
Sales		40,000				40,000		
Purchases	20,000				20,000			
Inventory at 1 Oct 20X6	2,000				2,000			
Non-current assets at cost	40,000						40,000	
Accumulated depreciation		18,000		6,000				24,000
Sales ledger control	4,400			400			4,000	
Bank	1,000						1,000	
Purchases ledger control		2,500						2,500
Drawings	10,000						10,000	
Capital		28,100						28,100
Rent	2,400			500	1,900			

Sole trader accounts

e.g

Example

The ETB from the previous page is continued.

Account name	Trial balance		Adjustments		Statement of profit or loss		Statement of financial position	
	DR	CR	DR	CR	DR	CR	DR	CR
Wages	5,600				5,600			
Heat and light	3,200			300	3,500			
Depreciation charge			6,000		6,000			
Accruals				300				300
Prepayments			500				500	
Irrecoverable debts expense			400		400			
Allowance for doubtful debts adjustment			200		200			
Allowance for doubtful debts				200				200
Closing inventory - SFP			2,200				2,200	
Closing inventory - SPL				2,200		2,200		
Net profit					2,600			2,600
	<u>88,600</u>	<u>88,600</u>	<u>9,600</u>	<u>9,600</u>	<u>42,200</u>	<u>42,200</u>	<u>57,700</u>	<u>57,700</u>

e.g

Example

Statement of financial position as at 30 September 20X7

	£	£	£
Non-current assets	Cost	Depreciation	Carrying amount
Machinery	40,000	24,000	16,000
	<u> </u>	<u> </u>	
Current assets			
Inventory		2,200	
Receivables	4,000		
Less: allowance for doubtful debts	(200)		
	<u> </u>		
		3,800	
Prepayments		500	
Bank		1,000	
		<u> </u>	
		7,500	

Current liabilities		
Payables	2,500	
Accruals	300	
	<u> </u>	(2,800)
		<u> </u>
Net current assets		4,700
		<u> </u>
Net assets		20,700
		<u> </u>
Financed by		
Capital		28,100
Profit for the year		2,600
Less: drawings		(10,000)
		<u> </u>
		20,700
		<u> </u>

Sole trader accounts

Alternative presentation format for the statement of financial position:

e.g

Example

Statement of financial position as at 30 September 20X7

	£	£	£
Non-current assets	Cost	Depreciation	Carrying amount
Machinery	40,000	24,000	16,000
	<hr/>	<hr/>	
Current assets			
Inventory		2,200	
Receivables	4,000		
Less: allowance for doubtful debts	(200)		
	<hr/>		
		3,800	
Prepayments		500	
Bank		1,000	
		<hr/>	
			7,500
			<hr/>
Total assets			23,500
			<hr/>

Capital and liabilities:		£
Capital		28,100
Profit for the year		2,600
Less: drawings		(10,000)
		<hr/>
		20,700
Current liabilities:		
Payables	2,500	
Accruals	300	
	<hr/>	
		2,800
		<hr/>
Total capital and liabilities		23,500
		<hr/>

Note that the two formats of the statement of financial position show exactly the same information. In the first format, liabilities have been deducted from assets to arrive at net assets which is equal to proprietor's capital.

In the alternative format, non-current and current assets are totalled to show total assets. This is equal to proprietor's capital plus liabilities.

e.g

Example

Statement of profit or loss for the year ended 30 September 20X7

	£	£
Sales		40,000
Cost of goods sold:		
Opening inventory	2,000	
Purchases	20,000	
Closing inventory	<u>(2,200)</u>	
Cost of goods sold		<u>(19,800)</u>
Gross profit		20,200
Add: Sundry income		X
Less:		
Rent	1,900	
Wages	5,600	

Heat and light	3,500	
Depreciation charge	6,000	
Irrecoverable debt expense	400	
Allowance for doubtful debts adjustment	200	
Total expenses	<u> </u>	<u>(17,600)</u>
Profit (loss) for the year		<u> </u> <u>2,600</u>

Preparing final accounts from an initial trial balance

Step 1

Draft journal entries for any adjustments/errors.

Step 2

Adjust ledger accounts for journal entries.

Step 3

Carry down balances on adjusted ledger accounts.

Step 4

Draw up amended trial balance.

Step 5

Prepare statement of profit or loss and statement of financial position.

e.g.

Example

The initial trial balance of a sole trader at 30 June 20X6:

	£	£
Sales		40,000
Purchases	20,000	
Inventory at 1 July 20X5	2,000	
Non-current assets at cost	40,000	
Accumulated depreciation at 1 July 20X5		18,000
Sales ledger control	4,400	
Bank	1,000	
Purchases ledger control		2,500
Drawings	10,000	

Capital		28,100
Rent	2,400	
Wages	5,600	
Heat and light	3,200	
	<u>88,600</u>	<u>88,600</u>

The following points are also noted:

- (i) Depreciation at 15% straight line is to be charged for the year
- (ii) There is an accrual for electricity of £300
- (iii) There is a prepayment for rent of £500
- (iv) An irrecoverable debt of £400 is to be written off
- (v) An allowance for doubtful debts of 5% of remaining receivables needs to be set up
- (vi) Closing inventory has been valued at £2,200.

Solution

Step 1

Draft journal entries for any adjustments/errors

- (i) Depreciation at 15% straight line is to be charged for the year

Journal

Debit	Depreciation charge	£6,000
Credit	Accumulated depreciation	£6,000
	$£40,000 \times 15\% = £6,000$	

- (ii) There is an accrual for electricity of £300

Journal

Debit	Electricity	£300
Credit	Accruals	£300

Sole trader accounts

(iii) There is a prepayment of rent of £500

Journal

Debit	Prepayments	£500
Credit	Rent	£500

(iv) Irrecoverable debt of £400 is to be written off

Journal

Debit	Irrecoverable debts expense	£400
Credit	SLCA	£400

(v) An allowance for doubtful debts of 5% of remaining receivables needs to be set up

Journal

Debit	Allowance for doubtful debt adjustment	£200
Credit	Allowance for doubtful debts	£200

(vi) Closing inventory has been valued at £2,200

Debit inventory account – SFP	£2,200
Credit inventory account – SPL	£2,200

Steps 2 and 3

Adjust ledger accounts for journal entries

Carry down balances on adjusted ledger accounts

Accumulated depreciation

	£		£
Balance c/d	24,000	Balance b/d	18,000
		Depreciation charge	6,000
	<u>24,000</u>		<u>24,000</u>
		Balance b/d	24,000

Depreciation charge

	£		£
Accum dep'n	6,000		

Heat and light

	£		£
Balance b/d	3,200	Balance c/d	3,500
Accrual	300		
	<u>3,500</u>		<u>3,500</u>
Balance b/d	3,500		

Accruals

	£		£
		Heat & light	300

Rent

	£		£
Balance b/d	2,400	Prepayment	500
		Balance c/d	1,900
	<u>2,400</u>		<u>2,400</u>
Balance b/d	1,900		

Prepayments

	£		£
Rent	500		

Sales ledger control

	£		£
Balance b/d	4,400	Irrecoverable debt expense	400
		Balance b/d	4,000
	<u>4,400</u>		<u>4,400</u>
Balance b/d	4,000		

Allowance for doubtful debts

	£		£
Balance c/d	200	Allowance for doubtful debt adjustment	200
	<u>200</u>		<u>200</u>
		Balance b/d	200

Sole trader accounts

Irrecoverable debts expense

	£	£
SLCA	400	

Allowance for doubtful debt adjustment

	£	£
Allowance for doubtful debts	200	

Closing inventory – SPL

	£	£
Closing inventory SFP		2,200

Closing inventory – SFP

	£	£
Closing inventory SPL	2,200	

Step 4

Draw up amended trial balance

	£	£
Sales		40,000
Purchases	20,000	
Inventory at 30 June 20X6	2,000	
Non-current assets at cost	40,000	
Accumulated depreciation at 30 June 20X6		24,000
Sales ledger control	4,000	
Bank	1,000	
Purchases ledger control		2,500
Drawings	10,000	
Capital		28,100
Rent	1,900	
Wages	5,600	
Heat and light	3,500	
Depreciation charge	6,000	

Accruals		300
Prepayments	500	
Irrecoverable debts expense	400	
Allowance for doubtful debts adjustment	200	
Allowance for doubtful debts		200
Closing inventory – SFP	2,200	
Closing inventory – SPL		2,200
	<u>97,300</u>	<u>97,300</u>

Step 5

Prepare statement of profit or loss for the year ended 30 June 20X6.

Statement of profit or loss for year ended 30 June 20X6

	£	£
Sales		40,000
Opening inventory	2,000	
Purchases	<u>20,000</u>	
	22,000	
Less: closing inventory	<u>(2,200)</u>	
Cost of goods sold		<u>(19,800)</u>
Gross profit		<u>20,200</u>

Sole trader accounts

Less: expenses		
Rent	1,900	
Wages	5,600	
Heat and light	3,500	
Depreciation charge	6,000	
Irrecoverable debts	400	
Allowance for doubtful debt adjustment	<u>200</u>	
		<u>(17,600)</u>
Profit for year		<u>2,600</u>

Statement of financial position as at 30 June 20X6

	Cost £	Dep'n £	CA £
Non-current assets	40,000	(24,000)	16,000
Current assets:	<u> </u>	<u> </u>	
Inventory		2,200	
Receivables	4,000		
Less: allowance for doubtful debts	<u>(200)</u>		
		3,800	

Prepayments		500
Bank		1,000
		<u>7,500</u>
Current liabilities		
Payables	2,500	
Accruals	300	<u>(2,800)</u>
Net current assets		<u>4,700</u>
Net assets		<u>20,700</u>
Financed by:		
Capital		28,100
Profit for the year		2,600
Less: drawings		<u>(10,000)</u>
		<u>20,700</u>



CBA focus

In the assessment you will be given an extended trial balance or trial balance and you will be expected to prepare the statement of profit or loss and statement of financial position.