



## Cambridge IGCSE Accounting (0452)

### International Accounting Standards (IAS) Guidance for Teachers

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## Introduction

This document is designed to help schools in their delivery of International Accounting Standards (IAS) to learners. Its aims are:

1. To give a definitive indication of the areas learners will need to be aware of in relation to IAS for future Cambridge examinations.
2. To provide illustrative examples for learners and tutors.

The guidance presented in this document is primarily aimed at teachers.

Learners intending to enter for either the Cambridge O Level Principles of Accounts or the Cambridge IGCSE<sup>®</sup> Accounting examinations do **not** require detailed knowledge of the individual IAS. They will **not** be required to name or be familiar with the contents of the individual IAS. The main points of some of the IAS are listed on the following pages: the IAS numbers are shown for teachers' reference purposes only.

Learners are expected to be familiar with the terminology used in connection with financial statements and to understand the application of the main accounting principles.

A list of traditional terminology and the IAS terminology appears in the syllabus booklet for both the Cambridge O Level and the Cambridge IGCSE<sup>®</sup> examinations. The list is also shown in **Appendix 1**.

## Use of this document

The model financial statements included here are provided solely for illustrative and information purposes for you and your learners - they are given to help you and your learners apply the relevant standards, at the relevant level, to a course of study. At this level learners only require knowledge of the main principles of financial statements: detailed knowledge such as cash flow statements are not required.

Examples of acceptable forms of presentation of financial statements for different forms of organisations for this level of learner are provided in **Appendix 2**.

Every effort has been made to ensure that these documents are complete in terms of the relevant requirements of IFRSs and IAS, but the standards are constantly changing and you should review professional documents as they become available in order to maintain current working knowledge of the standards.

## Users of financial statements

Financial statements are used by a variety of groups for a variety of reasons. The framework surrounding IAS identifies the typical user groups of accounting statements. The table below identifies the user groups (stakeholders) and gives likely reasons for the user groups to refer to financial statements:

Main users	Reasons for use
Investors	<ul style="list-style-type: none"><li>• To assess past performance as a basis for future investment.</li></ul>
Employees	<ul style="list-style-type: none"><li>• To assess performance as a basis of future wage and salary negotiations.</li><li>• To assess performance as a basis for continuity of employment and job security.</li></ul>
Lenders	<ul style="list-style-type: none"><li>• To assess performance in relation to the security of their loan to the company.</li></ul>
Suppliers	<ul style="list-style-type: none"><li>• To assess performance in relation to them receiving payment of their liability.</li></ul>
Customers	<ul style="list-style-type: none"><li>• To assess performance in relation to the likelihood of continuity of trading.</li></ul>
Government	<ul style="list-style-type: none"><li>• To assess performance in relation to compliance to regulations and assessment of taxation liabilities.</li></ul>
Public	<ul style="list-style-type: none"><li>• To assess performance in relation to ethical trading.</li></ul>

## Qualitative characteristics

Financial statements are prepared for a variety of reasons. The information provided by them is useful to users. IAS sets out four qualitative characteristics of the financial statements:

- **Understandability** – the information is readily understandable by users.
- **Relevance** – the information may be used to influence economic decisions of users.
- **Reliability** – the information is free from material error and bias.
- **Comparability** – the information enables comparisons over time to identify and evaluate trends.

## Presentation of financial statements

### 1. The purpose of financial statements

'To provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions.'

### 2. The components of the financial statements

A complete set of financial statements comprises:

- statement of financial position
- income statement
- a statement of changes in equity
- a statement of cash flow
- accounting policies and explanatory notes

### 3. Accounting concepts

The statement requires compliance with a series of accounting concepts:

- **Going concern** – the presumption is that the entity will not cease trading in the immediate future. (This is generally taken to mean within the next 12 months.)

- **Accrual basis of accounting** – with the exception of the cash flow statement the information is prepared under the accruals concept, income and expenditure is matched to the same accounting period.
- **Consistency** – the presentation and classification of items in the financial statements is to be consistent from one period to the next. Thus the entity uses straight line depreciation one year it must do so for future years.
- **Materiality and aggregation** – classes of similar items are to be presented separately in the financial statements. This would apply to a grouping such as current assets.
- **Offsetting** – this is generally not permitted for both assets and liabilities and income and expenditure. For example it is not permitted to offset a bank overdraft with another bank account not in overdraft.
- **Comparative information** – there is a requirement to show the figures from the previous periods for all the amounts shown in the financial statements. This is designed to help users of them to make relevant comparisons.

## Structure and content of financial statements

IAS 1 identifies in detail how the financial statements should be presented. It also sets out some general principles that must be adopted in those statements:

- a clear identification of the financial statements (Income Statement, Statement of Financial Position)
- the name of the entity (XYZ Limited).
- the period covered by the financial statements (for the year ended, etc.). Note that statements are usually prepared on an annual basis. If this is not the case the reason for the change, say to a short accounting period, must be disclosed, as must the fact that the figures may not be comparable with previous data.
- the currency used (£s, \$s, etc.).
- the rounding used (if the statements are presented in thousands, millions, etc.).

## Income statement

There is certain data which the statement requires to be identified and detailed on the face of the income statement. However, the detail included in the statement can be summarised, rather than detailing every single item.

- revenue
- finance costs
- the charge for taxation
- the after-tax profit or loss for the period from discontinued operations.

The statement ends by showing the profit or loss for the period attributable to the equity holders.

Expenses may be analysed:

- by nature, for example raw materials, employee costs, depreciation and so on. This may be more applicable for a manufacturing company; or
- by function, cost of sales, administration expenses distribution expenses, etc.

Whichever is used will depend on which provides **the more reliable and relevant information**.

## Statement of financial position

IAS 1 specifies the minimum information which must be shown on the face of the statement of financial position. It does not specify the order in which information is to be presented.

The statement requires entities to separate out:

- Non-current assets, the usual sort of non-current assets such as property, plant, equipment, plant and machinery, motor vehicles, intangible assets, goodwill, etc.
- Current assets; inventories, trade receivables, cash and cash equivalents.
- Current liabilities; trade payables, bank overdrafts and taxation.
- Non-current liabilities; bank loans and long term provisions.
- Equity; Share capital, share premium reserves and retained earnings.

**Note:** IAS 1 does not prescribe the format of the balance sheet. Assets can be presented current then non-current, or vice versa, and liabilities and equity can be presented current then non-current then equity, or vice versa. A net asset presentation (assets minus liabilities) is allowed. The long-term financing approach used in UK and elsewhere (non-current assets + current assets - short term payables = long-term debt plus equity) is also acceptable.

## IAS 2

### Inventories

The term inventory refers to the stock of goods which the business holds in a variety of forms:

- Raw materials for use in a subsequent manufacturing process.
- Work in progress, partly manufactured goods.
- Finished goods, completed goods ready for sale to customers.
- Finished goods which the business has bought for resale to customers.

The principle inventory valuation set out in IAS 2 is:

**Inventories should be valued at the lower of cost and net realisable value.**

Notice the exact wording. It is the lower of cost **and** net realisable value, **not** the lower of cost **or** net realisable value.

The term net realisable value can be compared to selling price. Thus if the expected selling price is **lower** than the cost price, then inventory should be valued at their selling price.

Note that stock is never valued at selling price when the selling price is greater than the cost.

#### **EXAMPLE**

The ABC Stationery Company bought 20 boxes of photocopier paper at \$5 per box. Following a flood in their stockroom 5 of the boxes were damaged. They were offered for sale at \$3 per box. All were unsold at the end of the company's financial year.

At what price will they be valued in the annual accounts?

15 boxes will be valued at their cost of \$5 per box, a total of \$75.

5 boxes will be valued at \$3 per box, a total of \$15.

The total stock value will be \$90.

**EXAMPLE**

The Good Look Clothing Company carries a variety of stocks. At their year-end they produce the following data in respect of it:

Item	Cost Price \$	Net Realisable Value \$	Selling Price (when new) \$
New dresses	1 000	1 500	2 000
Children's clothes	2 000	3 000	3 000
Bargain Fashions*	1 200	900	2 000

What will be the total stock value for the accounts?

	\$
New dresses	1 000
Children's clothes	2 000
Bargain fashions	<u>900</u>
Total Stock Value	<u>3 900</u>

\*Notice the valuation of the Bargain Fashions. This is the lowest of the three choices. This means that inventory valuation follows the **prudence** concept.



## IAS 8

### Accounting policies

This statement is designed to formalise accounting policies within an organisation. There are a series of definitions and general comments which must be known.

#### 1. Accounting policies

These are defined as:

**‘the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements’.**

Such policies are the specific accounting bases (see below) selected by the directors of the entity. In selecting and applying policies, the statement requires that:

- a) where an accounting policy is given in an accounting standard then that policy must apply.
- b) where there is no accounting policy provided to give guidance then the directors of the entity must use their judgement to give information that is relevant and reliable. They must refer to any other standards or interpretations or to other standard setting bodies to assist them. However, they must ensure that their subsequent interpretation or recommended method of treatment for the transaction does not result in conflict with international standards or interpretations.

#### 2. Accounting principles

These are covered in the statement, although no formal definition is given of them they are regarded as:

**The broad concepts that apply to almost all financial statements. These would include such things as going concern, materiality, prudence and consistency.**

#### 3. Accounting bases

Again, no formal definition is given, but these can be regarded as:

**The methods developed for applying the accounting principles to financial statements. They are intended to reduce subjectivity by identifying and applying acceptable methods.**

Once an entity adopts an accounting policy then it must be applied consistently for similar transactions.

Changes in accounting policies can only occur:

- a) if the change is required by a standard or interpretation.
- b) if the change results in the financial statements providing more reliable and relevant information.

Once any changes are adopted then they must be applied retrospectively to financial statements. Thus, the previous figure for equity and other figures in the income statement and balance sheet must be altered, subject to the practicalities of calculating the relevant amounts.

## IAS 16

### Property, plant and equipment

This statement deals with the accounting treatment of the non-current assets of property, plant and equipment. The issues covered by the statement are:

- the recognition of the assets
- the determination of their carrying amounts
- their depreciation charges
- their impairment losses

As with the other standards, there are a series of definitions:

#### 1. Property, plant and equipment

Tangible assets held for use in the production or supply of goods and services, for rental to others and for administrative purposes, which are expected to be used for more than a period of more than one year.

#### 2. Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

#### 3. Depreciable amount

The cost or valuation of the asset, less any residual amount.

#### 4. Useful life

The length of time, or number of units of production, for which an asset is expected to be used.

#### 5. Residual value

The net amount the entity expects to obtain for an asset at the end of its useful life, after deducting the expected costs of disposal.

#### 6. Fair value

The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

#### 7. Carrying amount

The amount at which an asset is recognised in the statement of financial position, after deducting any accumulated depreciation and impairment loss.

### **Recognition of the asset in the financial statements**

At what point does an entity recognise the asset? The statement provides that an item of property, plant and equipment is to be brought into the financial statements when:

- it is probable that future economic benefits will flow to the entity; and
- the cost of the asset can be reliably measured.

### **Additional costs associated with the asset**

The statement recognises that in addition to the initial purchase price of the asset, other amounts will also be spent on it. The statement provides the following guidelines to assist with the treatment of such expenditure:

1. day to day costs of servicing or repairing the asset should be charged as expenditure in the income statement.
2. Where parts require replacement at regular intervals, say the seats in an aeroplane then these costs can be recognised as part of the carrying amount of the asset – subject to the rules of recognition above.
3. Where the asset requires regular inspections in order for the asset to continue operating then the costs of such inspections can also be recognised in the carrying amount, again subject to the rules of recognition above.

### **The costs which can be included in the statement of financial position when the asset is purchased**

The statement provides that the following can be included as part of the cost in the balance sheet:

- the initial purchase price
- any import duties, taxes directly attributable to bring the asset to its present location and condition
- the costs of site preparation
- initial delivery and handling costs
- installation and assembly costs
- cost of testing the asset
- professional fees; say architects or legal fees

The statement also provides guidance on which costs must be excluded as part of the cost in the statement of financial position:

- any general overhead costs
- the startup costs of a new business or section of the business
- the costs of introducing a new product or service, such as advertising

### **Valuation of the asset**

Once the asset is acquired the entity must adopt one of two models for its valuation:

1. Cost model – cost less accumulated depreciation
2. Revaluation model – the asset is included (carried) at a revalued amount. This is taken as its fair value less any subsequent depreciation and impairment losses. Revaluations are to be made regularly to ensure that the carrying amount does not differ significantly from the fair value of the asset at the date of the statement of financial position.

The statement provides further guidance on the use of fair values in the revaluation model:

- land and buildings: usually determined from a valuation by professional valuers
- plant and equipment – market value

Guidance is also given as to the frequency of the revaluations:

- if the changes are frequent then annual revaluations must be made
- where changes are insignificant then revaluations can be made every three to five years.

If an asset is revalued then every asset in that class must be revalued. Thus, if one parcel of land and buildings is revalued then all land and buildings must be revalued. Any surplus on revaluation is transferred to the equity section of the statement of financial position. Any loss on revaluation is recognised as an expense in the income statement.

### **Depreciation**

The expected life and residual value of the asset are to be reviewed at least annually. If there is a difference from previous estimates this must be recognised as a change in an estimate under IAS 8 (Accounting policies, changes in accounting estimates and errors).

- Depreciation must continue to be charged even if the fair value of an asset exceeds its carrying amount.

- Depreciation need not be charged when the residual value is greater than the carrying amount.
- Depreciation is to be included as an expense in the income statement.

When considering the useful life of an asset the following should be considered:

- expected usage of the asset, its capacity or output
- expected physical wear and tear
- technical or commercial obsolescence
- legal or other limits imposed on the use of the asset

Freehold land is not to be depreciated, other than in the case of a mine or quarry. It is carried in the statement of financial position at cost.

Land and buildings are to be separated out. The element of land is not depreciated but the buildings are.

Allowable methods of depreciation are:

- straight line
- diminishing or reducing balance
- units of output

The entity must choose a method of depreciation which reflects the pattern of its usage over its useful economic life. Ideally, once it has decided on the method this should not be changed. It is possible though to review the method and if a change in the pattern of usage of the asset has occurred then the method of depreciation should be changed to reflect this. Such a change would come under IAS 8.

### **Derecognition**

This occurs when the asset is sold or no further future economic benefits are expected from its use. Any profit or loss on disposal is shown in the income statement.

## IAS 18

### Revenue

This standard sets out the accounting treatment to ensure that the revenue shown in the income statement is correctly shown. Again, it is a statement which contains definitions of items rather than any numerical data. The definitions are shown below.

#### Revenue

'The gross inflow of economic benefits arising from the ordinary activities of an entity.'

This means sales, either of goods or services. It also includes income from interest, say bank interest, dividends received and royalties received. The definition can also be widened to include revenue and gains from non-revenue activities, such as the disposal of non-current assets or the revaluation of assets.

#### Fair value

'The amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.'

Revenue is to be measured at the fair value of the consideration received or receivable. The standard then goes on to set out the rules for the recognition of three types of income:

##### 1. Sale of goods

This is to be recognised when all of the following criteria have been met:

- a) the seller of the goods has transferred to the buyer the significant rewards of ownership.
- b) the seller retains no continual managerial involvement in and no effective control over the goods.
- c) the amount of revenue can be reliably measured.
- d) it is probable that the economic benefits will now flow to the seller.
- e) the costs incurred, or to be incurred in respect of the transaction can be reliably measured.

##### 2. Rendering of services

The sale or rendering of services is to be recognised in the seller's books by reference to the stage of completion of the transaction at the balance sheet date. This is usually regarded as a

percentage of completion. Again, in order for recognition to take place, the following criteria have to be met:

- a) the amount of revenue can be reliably measured.
- b) it is probable that the economic benefits will now flow to the seller.
- c) at the date of the statement of financial position the stage of completion can be reliably measured.
- d) the costs incurred in and the costs to complete the transaction can be reliably measured.

### **3. Interest, dividends and royalties**

In each case it is necessary to consider whether it is probable that the economic benefits will flow to the entity and that the amount of revenue can be reliably measured. Provided these two conditions are met, then the amount is to be recognised as follows:

- for interest – using a time basis to calculate the interest.
- for dividends – when the shareholder's right to receive payment is established.
- for royalties - on an accruals basis in line with the royalty agreement.



## Appendix 1 – International standards – terminology

International usage	Previous Cambridge International Examinations/UK usage
Financial statements  Income statement  Revenue Raw materials/ordinary goods purchased Cost of sales Inventory (of raw materials and finished goods) Work in progress Gross profit Other operating expenses Other operating income Investment revenues/finance income Finance costs Profit (before tax) for the year  Balance sheet  Non-current assets Property Plant and equipment Investment property Intangible assets  Current assets Inventory Trade receivables Other receivables Cash (and cash equivalents)  Current liabilities  Trade payables Other payables Bank overdrafts and loans  Non-current liabilities  Bank (and other) loans  Capital or Equity Share capital	Final accounts  Trading and profit and loss account  Sales Purchases Cost of goods sold Stock Work in progress Gross profit Sundry expenses Sundry income Interest receivable Interest payable Net profit  Balance sheet  Fixed assets Land and buildings Plant and equipment Investments Goodwill etc.  Current assets Stock Debtors Prepayments Bank and cash  Current liabilities <i>Or</i> Creditors: amounts due within 12 months Creditors Accruals Loans repayable within 12 months  Long term liabilities <i>Or</i> Creditors: amounts falling due after more than one year Loans repayable after 12 months  Capital Share capital

## Appendix 2 – Financial statements of different forms of organisations

### (a) Financial statements of a sole trader – trading business

<b>Sole Trader (Name)</b>			
<b>Income statement for the year ended .....</b>			
	\$	\$	\$
Revenue			XXXX
Less Sales returns			<u>XXXX</u>
			XXXX
Less Cost of sales			
Opening inventory		XXXX	
Purchases	XXXX		
Less Purchases returns	<u>XXXX</u>		
	XXXX		
Less Goods for own use	<u>XXXX</u>		
	XXXX		
Carriage inwards	<u>XXXX</u>	<u>XXXX</u>	
		XXXX	
Less Closing inventory		<u>XXXX</u>	<u>XXXX</u>
Gross profit			XXXX
Add Other income			
Discount received			XXXX
Rent received			XXXX
Commission received			XXXX
*Profit on disposal of non-current assets			XXXX
**Reduction in provision for doubtful debts			<u>XXXX</u>
			XXXX
Less Expenses			
Wages and salaries		XXXX	
Office expenses		XXXX	
Rent and rates		XXXX	
Insurance		XXXX	
Office expenses		XXXX	
Motor vehicle expenses		XXXX	
Selling expenses		XXXX	
Loan interest		XXXX	
*Loss on disposal of non-current assets		XXXX	
**Provision for doubtful debts		XXXX	
Depreciation of fixtures and fittings		XXXX	
Depreciation of office equipment		XXXX	
Depreciation of motor vehicles		<u>XXXX</u>	<u>XXXX</u>
***Profit for the year			<u>XXXX</u>
* If only one asset was sold during the year only one of these items will appear			
** If the provision reduces, the surplus amount is added to the gross profit: if the provision increases, the amount required is included in the expenses			
*** If the expenses exceed the gross profit plus other income the resulting figure is described as a loss for the year			

**Sole Trader (Name)**  
**Statement of financial position at .....**

	\$	\$	\$
<b>ASSETS</b>			
<b>Non-current assets</b>	<b>Cost</b>	<b>Depreciation to date</b>	<b>Book value</b>
Land and buildings	xxxx		xxxx
Fixtures and fittings	xxxx	xxxx	xxxx
Office equipment	xxxx	xxxx	xxxx
Motor vehicles	<u>xxxx</u>	<u>xxxx</u>	<u>xxxx</u>
	<u>xxxx</u>	<u>xxxx</u>	xxxx
<b>Current assets</b>			
Inventory		xxxx	
Trade receivables	xxxx		
Less Provision for doubtful debts	<u>xxxx</u>	xxxx	
Other receivables		xxxx	
* Cash equivalents (Bank)		xxxx	
Cash		<u>xxxx</u>	<u>xxxx</u>
<b>Total assets</b>			<u>xxxx</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity (Capital)</b>			
Opening balance		xxxx	
**Plus Profit for the year		<u>xxxx</u>	
		xxxx	
Less Drawings		<u>xxxx</u>	<u>xxxx</u>
<b>Non-current liabilities</b>			
Loan			xxxx
<b>Current liabilities</b>			
Trade payables		xxxx	
Other payables		xxxx	
Prepaid income		xxxx	
*Bank overdraft		<u>xxxx</u>	<u>xxxx</u>
<b>Total equity and liabilities</b>			<u>xxxx</u>

\* If the business has only one bank account only one of these items will appear

\*\* If there is a loss for the year this will be deducted rather than added

**(b) Financial statements of a sole trader – service business**

<b>Sole Trader (Name)</b>		
<b>Income statement for the year ended .....</b>		
	\$	\$
Fees received		XXXX
Commission received		XXXX
Rent received		XXXX
Discount received		XXXX
*Profit on disposal of non-current assets		XXXX
**Reduction in provision for doubtful debts		<u>XXXX</u>
		XXXX
Less Expenses		
Wages and salaries	XXXX	
Office expenses	XXXX	
Rent and rates	XXXX	
Insurance	XXXX	
Office expenses	XXXX	
Motor vehicle expenses	XXXX	
Selling expenses	XXXX	
Loan interest	XXXX	
Bad debts		
*Loss on disposal of non-current assets	XXXX	
**Provision for doubtful debts	XXXX	
Depreciation of fixtures and fittings	XXXX	
Depreciation of office equipment	XXXX	
Depreciation of motor vehicles	<u>XXXX</u>	<u>XXXX</u>
***Profit for the year		<u>XXXX</u>
<p>* If only one asset was sold during the year only one of these items will appear</p> <p>** If the provision reduces the surplus amount is added to the gross profit: if the provision increases the amount required is included in the expenses</p> <p>*** If the expenses exceed the gross profit plus other income the resulting figure is described as a loss for the year</p>		

The **statement of financial position** of a sole trader in the service sector is presented in the same format as the statement of financial position of a sole trader involved in a trading business.

**(c) Financial statements of a partnership business**

The income statement of a partnership business follows the same format as that of a sole trader. The only difference is that interest on a loan from a partner may be included in the expenses.

It is necessary to prepare an appropriation account to show the distribution of the profit for the year (net profit) between the partners.

<b>Partnership (Name)</b>			
<b>Profit and loss appropriation account for the year ended .....</b>			
		\$	\$
Profit for the year			XXXX
Add Interest on drawings – Partner A			XXXX
Partner B		<u>XXXX</u>	<u>XXXX</u>
			XXXX
Less Interest on capital - Partner A	XXXX		
Partner B	<u>XXXX</u>	XXXX	
Partner’s salary - Partner A		<u>XXXX</u>	<u>XXXX</u>
			XXXX
*Profit shares - Partner A		XXXX	
Partner B		<u>XXXX</u>	<u>XXXX</u>

\* Residual profit is shared in the ratio stated in the partnership agreement

The first section of the **statement of financial position of a partnership** is similar to a sole trader. The second section shows the capital and current account of each partner. Where the full details of the partners’ current accounts are **not** required the ‘Equity and liabilities section’ of a partnership statement of financial position could be presented as follows:

<b>Partnership (Name)</b>			
<b>Extract from statement of financial position at .....</b>			
	\$	\$	\$
<b>EQUITY AND LIABILITIES</b>			
	<b>Partner A</b>	<b>Partner B</b>	<b>Total</b>
<b>Capital accounts</b>	XXXX	XXXX	XXXX
* <b>Current accounts</b>	<u>XXXX</u>	<u>XXXX</u>	<u>XXXX</u>
	<u>XXXX</u>	<u>XXXX</u>	<u>XXXX</u>
<b>Non-current liabilities</b>			
Loan			XXXX
<b>Current liabilities</b>			
Trade payables		XXXX	
Other payables		XXXX	
Prepaid income		XXXX	
Bank overdraft		<u>XXXX</u>	<u>XXXX</u>

**Total equity and liabilities**

XXXX

\* Where a balance is a debit balance it is shown in brackets and deducted rather than added.

Where full details of the current accounts are required the "Equity and liabilities section" of a partnership statement of financial position could be presented as follows.

**Partnership (Name)**  
**Extract from statement of financial position at .....**

	\$	\$	\$
<b>EQUITY AND LIABILITIES</b>	<b>Partner A</b>	<b>Partner B</b>	<b>Total</b>
<b>Capital accounts</b>	xxxx	xxxx	xxxx
<b>Current accounts</b>			
*Opening balance	xxxx	xxxx	
Interest on capital	xxxx	xxxx	
Partner's salary	xxxx		
**Profit shares	<u>xxxx</u>	<u>xxxx</u>	
	xxxx	xxxx	
Less Drawings	<u>xxxx</u>	<u>xxxx</u>	
*Closing balance	<u>xxxx</u>	<u>xxxx</u>	<u>xxxx</u>
			<u>xxxx</u>
<b>Non-current liabilities</b>			
Loan			xxxx
<b>Current liabilities</b>			
Trade payables		xxxx	
Other payables		xxxx	
Prepaid income		xxxx	
Bank overdraft		<u>xxxx</u>	<u>xxxx</u>
<b>Total equity and liabilities</b>			<u>xxxx</u>

\* Where a balance is a debit balance it is shown in brackets and deducted rather than added

\*\* Where there is a loss to share out it is shown in brackets and deducted rather than added

**(d) Financial statements of a manufacturing business**

A business which manufactures goods must prepare a manufacturing account to show the calculation of the cost of manufacture, whatever the ownership of the business. The manufacturing business could be a sole trader or a partnership.

Name of manufacturing business		
Manufacturing account for the year ended .....		
	\$	\$
Cost of material consumed		
Opening inventory of raw material	XXXX	
Purchases of raw material	XXXX	
Carriage on raw material	<u>XXXX</u>	
	XXXX	
Less Closing inventory of raw material	<u>XXXX</u>	XXXX
Direct wages		XXXX
Direct expenses		<u>XXXX</u>
Prime Cost		XXXX
Add Factory overheads		
Indirect wages	XXXX	
Factory rent and rates	XXXX	
Factory insurance	XXXX	
Factory fuel and power	XXXX	
Factory general expenses	XXXX	
Depreciation of factory machinery	<u>XXXX</u>	<u>XXXX</u>
		XXXX
Add Opening inventory of work in progress	<u>XXXX</u>	
		XXXX
Less Closing inventory of work in progress	<u>XXXX</u>	
Production cost of goods completed		<u>XXXX</u>

The **income statement of a manufacturing business** follows the same format as that of any other form of business, except that the trading account section includes the production cost of goods completed. The profit and loss section includes only office, selling and financial expenses

Name of manufacturing business		
Income statement for the year ended .....		
	\$	\$
Revenue		XXXX
Less Cost of sales		
Opening inventory of finished goods	XXXX	
Production cost of goods completed	XXXX	
Purchases of finished goods	<u>XXXX</u>	
	XXXX	
Less Closing inventory of finished goods	<u>XXXX</u>	<u>XXXX</u>
Gross profit		<u>XXXX</u>

The **statement of financial position** of a manufacturing business follows the same format as that of any other business; however there may be three inventories rather than one.

**(e) Financial statements of a non-trading organisation**

A summary of the cash book, known as a **receipts and payments account**, is prepared by the treasurer of a non-trading organisation. All money received is shown on the debit side and all money paid out on the credit side. It is balanced in the same way as a cash account. An **income statement** (trading account section) may be prepared if a shop or café etc. is operated by the organisation.

<b>Non-trading Organisation (Name)</b>			
<b>Income statement for the year ended .....</b>			
	\$	\$	\$
Revenue			xxxx
Less Cost of sales			
Opening inventory		xxxx	
Purchases		xxxx	
		<u>xxxx</u>	
Less Closing inventory		<u>xxxx</u>	
Cost of goods sold		xxxx	
Add Shop expenses			
Wages of shop assistant	xxxx		
Shop rent and rates	xxxx		
Depreciation of shop fittings	<u>xxxx</u>	<u>xxxx</u>	<u>xxxx</u>
Profit on shop			<u>xxxx</u>

An **income and expenditure account** is also prepared - the equivalent of the profit and loss account section of an income statement of a business. The expenses of the organisation are deducted from the revenue and the resulting figure is a surplus or deficit, rather than a profit or loss.

<b>Non-trading Organisation (Name)</b>			
<b>Income and expenditure account for the year ended .....</b>			
		\$	\$
Income			
Subscriptions			xxxx
Profit on shop			
Competition – entrance fees		xxxx	
less expenses		<u>xxxx</u>	xxxx
Interest received			xxxx
*Profit on disposal of non-current assets			<u>xxxx</u>
			xxxx
Expenditure			
General expenses		xxxx	
Rates and insurance		xxxx	
Repairs and maintenance		xxxx	
Loan interest		xxxx	
*Loss on disposal of non-current assets		xxxx	



Depreciation of equipment	<u>XXXX</u>	<u>XXXX</u>
**Surplus for the year		<u>XXXX</u>

\* If only one asset was sold during the year only one of these items will appear  
 \*\* If the expenditure exceeds the income the resulting figure is described as a deficit

The first section of the **statement of financial position of a non-trading organisation** follows the same format as that of a sole trader. The second section of the statement of financial position has to be modified so that it shows the accumulated fund and the surplus or deficit.

<b>Non-trading Organisation (Name)</b>			
Extract from statement of financial position at .....			
	\$		\$
<b>Accumulated fund</b>			
Opening balance			XXXX
*Plus surplus for the year			<u>XXXX</u>
			XXXX
<b>Non-current liabilities</b>			
Loan			XXXX
<b>Current liabilities</b>			
Trade payables	XXXX		
Other payables	XXXX		
Prepaid income	XXXX		
Bank overdraft	<u>XXXX</u>		<u>XXXX</u>
			<u>XXXX</u>

\* If there is a deficit this will be deducted from the accumulated fund

#### (f) Financial statements of a limited company

The **income statement** of a limited company follows the same format as for a sole trader, although interest on debentures and directors' remuneration may be included in the expenses in the profit and loss section.

It is necessary to prepare a statement of changes in equity to show the movements during the year.

<b>Limited Company (Name)</b>				
Statement of Changes in Equity for the year ended .....				
	Share Capital	General Reserve	Retained Earnings	Total
	\$	\$	\$	\$
Opening balance	XXXX	XXXX	XXXX	XXXX
Profit for the year			XXXX	XXXX

Dividend paid (final)		(xxxx)	(xxxx)
Dividend paid (interim)		(xxxx)	(xxxx)
Transfer to general reserve	xxxx	(xxxx)	-
Share issue	<u>xxxx</u>		<u>xxxx</u>
Closing balance	<u>xxxx</u>	<u>xxxx</u>	<u>xxxx</u>

The first section of the **statement of financial position** of a **limited company** is similar to that of a sole trader. The second section of the statement of financial position has to be modified to show the share capital and reserves.

<b>Limited Company (Name)</b>			
<b>Extract from statement of financial position at .....</b>			
<b>EQUITY AND LIABILITIES</b>		\$	\$
<b>Equity</b>			
Share capital			
X% Preference shares of \$x each			xxxx
Ordinary shares of \$x each			xxxx
General reserve			xxxx
Retained earnings			<u>xxxx</u>
			xxxx
<b>Non-current liabilities</b>			
Loan notes			xxxx
<b>Current liabilities</b>			
Trade payables		xxxx	
Other payables		xxxx	
Prepaid income		xxxx	
Bank overdraft		<u>xxxx</u>	<u>xxxx</u>
<b>Total equity and liabilities</b>			<u>xxxx</u>

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