

## Study Unit 6: Preparation of Financial Statements

### Learning Objectives

By the time, you have finished the chapter you should be able to

1. Prepare a worksheet Including the adjustment of a trial balance
2. Draw up a set of financial statements from a trial, balance plus additional information.
3. Be able to incorporate the adjustments learnt from the previous chapter

### Introduction

The financial, condition and the results of operations of business enterprises are of a major interest to many groups including owners, managers, creditors, government agencies particularly the tax body,

employees and prospective owners and creditors. The financial statements are the outputs of an accounting system. The principal financial statements, together with supplementary statements and schedules, present much of the needed basic information to make sound economic decisions regarding business enterprises.

In the previous chapters, the main areas of double entry bookkeeping that resulted in the trial balance have been covered. Together with this, we looked at the most frequent end of year adjustments. This chapter will bring together an assimilation of all such information and a full set (except for cash-flow statements) of financial statements prepared.

A complete set of financial statements includes the following components:

- Balance sheet
- Income statement
- A statement showing either:
  - All changes in equity, or
  - Changes in equity other than those arising from capital transaction with owners and distributions to owners. -
- Cash flow statement
- Accounting policies and explanatory notes.

As mentioned earlier, we shall restrict ourselves to the income statement, Statement of changes in equity and the balance sheet for purposes of this paper. The other ones are beyond the scope of this book.

## INCOME STATEMENT

This statement discloses the financial performance of the enterprise during a given year/operating cycle. That is whether the operations of the enterprise resulted in a profit or loss. It is therefore a profitability statement that shows an organization's revenues and expenditures or costs in a particular period ended. This statement is normally prepared before the balance sheet because the ending figure after subtracting expenditures from incomes (net or retained profits/loss) connects the income statement and balance sheet.

Initially it is critical to appreciate that the income statement is part of the double entry book keeping system, whereas the balance sheet is not.

It is easy to be put off by the fact that the income statement is set out in vertical form, whereas other ledger accounts are set out in T account form. However, you must remember that; although not presented as such, the income statement is a 'T' account and the double entry principles apply therein as with any other such account. However, presented, the income statement is simply another 'T' account or ledger account.

The income statement takes the following format.

### **XYX Income statement for the year ended\_\_\_\_\_**

Sales revenue		xxxx
Less: Cost of goods/cost of goods		
Opening inventory	xxx	
Add: purchases.	xxx	
Less: Closing inventory	(xxx)	<u>xxxx</u>
Gross profit		xxxx
Less: Operating expenses e.g		
Rent	xxx	
Electricity	xxx	
Salaries	xxx	
Etc	<u>xxx</u>	<u>(xxxx)</u>

Net profit before finance costs and taxation	xxxx
Finance costs	<u>(xxxx)</u>
Net profit before taxation	xxxx
Taxation	<u>(xxxx)</u>
Net profit for the year	xxxx

The income statement has three components: The trading account that ranges from the sales revenue up to the gross profit, the profit and loss account that ranges from gross profit up to net profit for the year. Manufacturing companies have an additional account called the Manufacturing account or manufacturing cost statement. This statement will be given its due treatment in chapter 12.

However, the Income Statement for service firms like National water and sewerage Corporation are slightly different in format. Thus;

#### **XYX Income statement for year ended\_\_\_\_\_**

Incomes/revenues	xxxx
Less: Expenditures:	<u>xxxx</u>
Net incomes before finance costs and taxation	xxxx
Finance costs	<u>(xxx)</u>
Net incomes/profit before taxation	xxxx
Taxation	<u>(xxx)</u>
Net incomes/profit for the year	xxxx

**Note:** Finance costs include items of Interest on loans, overdrafts, debentures; Lease charges and any other costs incurred in raising finances.

#### **Statement of changes in equity**

##### **Illustrative Statement of changes in equity Format Based on IAS 1**

	Share capital	Share premium	Revolution reserve	Translation Reserve	ACC. Profit	Total

Opening balance	x	X	x	X	x	x
Changes in accounting policies	-	-	-	-	x	x
Restated opening balance	x	X	x	X	x	x
Revaluations	-	-	x	-	-	x
Translation differences	-	-	-	X	-	x
Net gains or losses not recognized in income statement	-	-	x	X	-	x
Net profit for the period	-	-	-	-	x	x
Dividends paid	-	-	-	-	(x)	(x)
Issue of share capital	X	X	-	-	-	x
Closing balance	X	X	x	x	x	x

A comparative statement for. the prior period must also be republished.

Adjustments to the opening balance figures for changes in accounting policy appear first. The correction a fundamental error would appear in the same position. The order of the remaining items is significant. The order to remember is;

- Revaluations
- Subtotal of net gains and loses not recognized in the income statement
- Net profit/loss for the period
- Dividends paid in the period
- Issues or reductions of share capital.

**Note:** Illustrative examples will. appear simplified indeed for purposes of this book.

### **BALANCE SHEET:**

This statement shows the financial position of an organization at a particular date. The balance sheet satisfies the Accounting equation of ASSETS =

OWNER'S EQUITY ÷ LIABILITIES. The balance sheet is much more akin to the trial balance, being a balance of the ledger accounts after double-entry has been completed, and requiring that debits thereon must equal credits. It is an ordered list of all the ledger account balances remaining once the income statement has been prepared.

As a minimum, the face of the balance sheet should include the items which present the following amounts.

1. Items of property, plant and equipment eg. Land, Buildings, fixtures and fittings, Machinery, etc.
2. Intangible assets like Good will, Patents and trademarks, Development costs, etc.
3. Financial assets (excluding amounts shown under 4,6 and 7)
4. Investments
5. Inventories
6. Trade and other payables like creditors etc
7. Cash and cash equivalents
8. Trade and other receivables eg. Trade debtors
9. Tax liabilities and assets as required by IAS 12: Income taxes e.g. Corporation tax payable
10. Provisions
11. Non-current interest bearing borrowings
12. Minority interest
13. Issued capital and reserves

**The balance sheet can take the following format.**

**XYZ Balance sheet as at \_\_\_\_\_**

### **ASSETS**

Tangible Non-current assets:	Cost	Acc. Depn.	Net book value
Land	xxxx	nil.	xxxx
Motor vehicles	<u>xxxx</u>	<u>xxxx</u>	<u>xxxx</u>
Equipment	<u>xxxx</u>	<u>xxxx</u>	xxxx
Intangible assets			xxxx
financial Assets			xxxx
Investments			xxxx

**Current assets:**

Inventories	xxxx	
Trade and other receivables (net of bad debts)	xxxx	
Prepayments	xxxx	
Cash and cash equivalents	<u>xxxx</u>	<u>xxxx</u>
<b>TOTAL ASSETS</b>		<b><u>xxxx</u></b>

**EQUITY AND LIABILITIES**

## Capital and reserves:

Share capital.	xxxx	
Accumulated profit (net of drawings if any)	xxxx	
Other reserves.	<u>xxxx</u>	<u>xxxx</u>
Minority Interests**		<u>xxxx</u>

**Non current Liabilities:**

Bank Loans	xxxx	
Debentures	xxxx	
Preference shares (redeemable)	<u>xxxx</u>	xxxx

**Current liabilities:**

Trade and other payables e.g. creditors	xxxx	
Short term borrowings e.g. overdrafts		xxxx
Taxation	<u>xxxx</u>	<u>xxxx</u>

<b>TOTAL EQUITY AND LIABILITIES.</b>		<b><u>xxxx</u></b>
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\*\*\*This item is dealt with at another level in your study.

**THE WORKSHEET:**

The most significant output of the end-of-period procedures is the financial statements. To assist the accountant in accumulating data for the statements, a worksheet is often used. The worksheet provides a convenient means of accumulating essential data verifying arithmetical accuracy, and arranging data in a Logical form.

So many details are involved in these end-of-period procedures that it is easy to make errors. If these errors are recorded in the journal and in the ledger accounts, considerable time and effort can be wasted in correcting them. Both the journal and the ledger are formal, permanent records. They may be prepared manually in ink or printed by a computer. One obvious way of avoiding such errors in the permanent accounting records and of simplifying the work to be done at the end of the period is to use a worksheet.

The worksheet may be thought of as a testing ground on which the ledger accounts are adjusted, balanced, and arranged in the general form of financial statements. The satisfactory completion of a worksheet provides considerable assurance that all the details of the end-of-period accounting procedures have been properly brought together. After this point has been established, the worksheet then serves as a source from which the formal financial statements are prepared and the adjusting and closing entries are made in the journal.

The preparation of the worksheet can take the following steps;

1. Enter the ledger account balances in the trial balance columns
2. Enter the adjustments in the adjustments columns
3. Enter the account balances as adjusted in the adjusted trial balance columns
4. Extend each amount in the adjusted trial balance columns into the income statement columns or into the balance sheet columns.
5. Total the income statement columns and the balance sheet columns. Enter the net income or net loss as a balancing figure in both pairs of columns, and again compute column totals. The Net profit or loss for the period is determined by computing the difference between the totals of the two income statement columns.

### **Example 1**

#### **An illustration for the worksheet**

##### **Ensinensi Trial Balance for the year ended December 31, 1998**

<b>Account titles</b>	<b>Dr (UGx'00)</b>	<b>Cr. (UGx'000)</b>
Cash	12,540	
Prepaid office rent	8,400	

Prepaid dues and subscription	960	
Supplied on hand	1,300	
Equipment	20,000	
Accumulated depreciation: equipment		1,200
Notes payable		5,000
Unearned consulting fees		35,650
Ordinary share capital		10,000
Accumulated profits, jan,1.1998		12,950
Dividends	7,000	
Consulting fees earned		
Salaries expense	26,900	
Telephone expense	550	
Miscellaneous	2,350	
	80,000	80,000

### Other Information

- i) On Jan.1.1998 the prepaid office rent account had a balance of UGX 2,400,000, representing the prepaid rent for the months from Jan. to June 1998 inclusive. On July 1, the lease was renewed and office rent for one year at UGx.500, 000 per month was paid in advance.
- ii) Dues and subscriptions expired during the year in the total. amount of UGX.710,000
- iii) A count of supplies on hand was made at Dec.31; the cost of unused supplies was UGx.450,000
- iv) The useful life of the equipment has been estimated at 10 years from the date of acquisition.
- v) Accrued interest on notes payable amounted to UGx.100, 000 at year-end. Set up a separate interest expense account.



- vi) Consulting service<sup>9</sup> valued at UGx.32, 550,000 were rendered during the year for clients who had made payment in advance. It is the policy of the company to bill clients only when consulting work is completed or, in the case of prolonged engagements, at six-month intervals.
- vii) Dec.31, engineering services valued at UGx.3, 000,000 had been rendered to clients but not yet billed. No advance payments had been received from these clients.
- viii) Salaries earned by. staff engineers but not yet paid amounted to UGX 200,000 at Dec.31.

**Required:**

Prepare a worksheet for the year ended December 31, 1998.

**Ensinensi Work sheet**  
(amounts in thousands of UGX)

	Trial balance		Adjustments		Adjusted trial balance		Income statement		Balance sheet	
Accounts	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
Cash	12,540				12,540				12,540	
Prepaid office rent	8,400			5,400	3,000				3,000	
Supplies on hand	1,300			850	450				450	
Prepaid dues and subscriptions	960			710	250				250	
Equipment	20,000				20,000				20,000	
Accumulated depreciation-equipment		1,200		2,000		3,200				3,200
Notes payable		5,000				5,000				5,000
Unearned consulting fees		35,650	32,550			3,100				3,100
Capital stock		10,000				10,000				10,000
Accumulated profits, Jan.1.1998		12,950				12,950				12,950
Dividends	7,000				7,000				7,000	

Consulting fees earned		15,200		32,500 +3,000		50,750		50,750		
Salaries expense	26,900		200		27,100		27,100			
Telephone expense	550				550		550			
Miscellaneous expenses	2,350				2,350		2,350			
Rent expense			5,400		5,400		5,400			
Dues and subscription expense			710		710		710			
Supplies expense			850		850		850			
Depreciation expense-equipment			2,000		2,000		2,000			
Interest expense			100		100		100			
Interest payable				100		100				100
Consulting fees receivable			3,000		3,000				3,000	
Salaries payable				200		200				200
Profit for the year							11,690			11,690
<b>Totals</b>	<b>80,000</b>	<b>80,000</b>	<b>44,810</b>	<b>44,810</b>	<b>85,300</b>	<b>85,300</b>	<b>50,750</b>	<b>50,750</b>	<b>46,240</b>	<b>46,240</b>

## Example 2

Another example involving the Worksheet

The following balances were extracted from the books of Elgon Heights Ltd at year end 31 December 2002

Account title	UGX' 000s
Share capital	75,000
Creditors	22,472
Inventory 31.12.2001	41,415
Debtors	28,560

Bank	45,000
Motor vehicles at cost	16,225
Machinery at cost	28,000
Accumulated depreciation-machinery	18,000
Accumulated depreciation-motor vehicle	12,600
Sales	97,500
Purchases	51,380
Motor expenses	8,144
Maintenance	2,308
Utilities	1,076
Wages and salaries	11,372
Directors remuneration	6,200
Retained earnings	6,138
General reserve	8,000

The following information is also relevant to the company for the period for which the balances were extracted.

- i) Stock at December 31 was UGX.54,300,000
- ii) Motor expenses of UGX.445,000 were not paid or recorded anywhere in the books
- iii) Utilities of UGX.500,000 were prepaid
- iv) A dividend of UGX.7,500,000 was proposed on 28th Dec. but is not paid
- v) A transfer of UGX.2,000,000 to the general reserve was approved but not made
- vi) Depreciation on non-current assets to be provided 'at' the rate of 20% rising the reducing balance method.

**Required:**

Prepare Journal entries; adjusted trial balance, Income statement, statement of changes in equity and the balance sheet for the company. Be sure to show your work sheet.

### Elgon Heights General journal showing adjusting entries

i)	Closing inventory	54,300,000	
	Trading account		54,300,000
ii)	Motor vehicle expenses	445,000	
	Accrued motor vehicle expenses		445,000
iii)	Prepaid utilities	500,000	
	Utilities expense account		500,000
iv)	Retained earnings	7,500,000	
	Dividends payable		7,500,000
v)	Retained earnings	2,000,000	
	General reserves		2,000,000
vi)	Depreciation expense-motor vehicle	3,080,000	
	Accumulated depreciation-motor vehicle		3,080,000
	Depreciation expense-machinery	5,400,000	
	Accumulated depreciation- machinery		5,400,000

### Elgon Heights Work sheet (Amounts in thousands of UGX)

	Trial balance		Adjustments		Adjusted trial balance		Income statement		Balance sheet	
Accounts	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Share capital		75,560				75,000				75,000
Creditors		22,415				22,472				22,472
Debtors	28,560				28,560				28,560	
Stock (31/12/2001)	41,415				41,415		41,415			
Bank	16,255				16,255		-		16,255	
Machinery (cost)	45,000				45,000				45,000	

Motor vehicle (cost)	28,000				28,000				28,000	
Accumulated depreciation – machinery		18,000		5,400		23,400				23,400
Accumulated depreciation- motor vehicle		12,600		3,080		15,680				15,680
Sales		97,500				97,500		97,500		
Purchases	51,380				51,380		51,380			
Motor expenses	8,144		445		8,589		8,589			
Maintenance	2,308				2,308		2,308			
Utilities	1,076			500	576		576			
Wages and salaries	11,372				11,372		11,372			
Directors' remuneration	6,200				6,200		6,200			
Retained earnings		6,138	7,500+		3,362		3,362			
			2,000							
General reserve		8,000		2,000		10,000				10,000
Accrued motor vehicle expenses				445		445				445
Prepaid utilities			500		500				500	
Dividends payable				7,500		7,500				7,500
Depreciation expense- motor vehicle			3,080		3,080		3,080			
Depreciation expense- machinery			5,400		5,400		5,400			
Closing stock								54,300	54,300	
Profit for year							18,118			18,118
<b>Totals</b>	<b>239,710</b>	<b>239,710</b>	<b>18,925</b>	<b>18,925</b>	<b>251,997</b>	<b>251,997</b>	<b>151,800</b>	<b>151,800</b>	<b>172,615</b>	<b>172,615</b>

## Elgon Heights

### Income Statements for the year ended 31.12.2002

**(Amounts in UGX'000s)**

Sales		97,500
Less: Cost of sales		
Opening stock	41,415	
Add: Purchases	<u>51,380</u>	
Goods available for sale	92,795	
Less: Closing stock	<u>(54,300)</u>	
Cost of goods sold		(38,495)
Gross profit		59,005
Less: Operating expenses		
Motor expenses	8,589	
Maintenance	2,308	
Utilities	576	
Wages and salaries	11,372	
Directors' remuneration	6,200	
Depreciation: Motor vehicle	3,080	
Machinery	<u>5,400</u>	(37,525)
Profit for the year		<u>21,480</u>

**Elgon Heights**

**Balance Sheet as at 31.2.2002**

**(Amounts in UGX'000s)**

<b>ASSETS</b>	<b>Cost</b>	<b>Acc. Depn</b>	<b>WDV</b>
Non-current assets:			

Motor vehicle	28,000	15,680	12,320
Machinery	<u>45,000</u>	<u>13,400</u>	<u>21,600</u>
	<u>73,000</u>	<u>39,080</u>	<u>33,920</u>
<b>Current Assets</b>			
Inventory		54,300	
Debtors		28,560	
Prepayments		500	
Bank		<u>16,255</u>	<u>99,615</u>
<b>Total assets</b>			<b><u>133,535</u></b>
<b>EQUITY AND LIABILITIES</b>			
Share capital and reserves:			
Share capital		75,000	
General reserve		10,000	
Retained earnings/accumulated profits		<u>18,118</u>	103,118
<b>Current liabilities</b>			
Trade creditors		22,472	
Accrued motor vehicle expenses		445	
Dividends payable		<u>7,500</u>	<u>30,417</u>
<b>Total equity and liabilities</b>			<b><u>133,535</u></b>

### Elgon heights statement of changes in equity

(Amounts in UGX'000s)

	Share capital	General reserve	Acc. Profit	Total
Opening balance	75,000	8,000	6,138	89,138
Net profit for the period	-	-	21,480	21,480
Transfer to G. reserve	-	2,000	2,000	-
Dividends payable-ordinary			<u>7,500</u>	<u>7,500</u>
Closing balance	<u>75,000</u>	<u>10,000</u>	<u>18,118</u>	<u>103,118</u>

### **Example 3**

The bookkeeper of Mwenge Company prepared the following trial balance at the end of its financial year on 31 December.



**Trial Balance as at 31/12****Dr. (UGX'000)      Cr. (UGX'000)**

Cash at hand	2,000	
Cash at bank	4,000	
Land, cost	100,000	
Motor vehicle cost	10,000	
Accumulated depreciation-motor vehicle		2,000
Equipment, cost	20,000	
Accumulated depreciation- equipment		4,000
Inventory 1/1 (opening inventory)	1,000	
Receivables (debtors)	5,000	
Provision for bad debts		2,000
Trade creditors		3,000
Sales		200,000
Purchases	110,000	
Discount allowed	2,000	
Discount allowed		1,000
Purchases returns (returns outwards)		5,000
Sales returns (returns inwards)	10,000	
Carriage inwards	6,000	
Salaries	8,000	
Salaries payable (Accrued salaries)		15,000
Rent	1,800	
Electricity	7,000	

Bad debts	1,200	
Capital		26,000
		<u>30,000</u>
Long term Bank Loan	<u>288,000</u>	<u>288,000</u>

You ascertain the following

- Closing inventory at the end of the year was valued at UGX20,000,000
- Salaries of UGX. 2,000,000 accrued or remained outstanding at the end of the year and was not recorded in the trial balance.
- Half of the rent paid is for the forthcoming financial year.
- Depreciate tangible non-current assets by 20% on cost at the end of the year
- 20% of the trade debtors are expected to default; a provision against bad debts needs to be made.

**Required;**

As the company's accountant, prepare Mwenge Company's Income Statement for the year ending 31/12 and the Balance Sheet as at that date. Be sure to journalize adjusting entries.

**Solution;**

**Mwenge company. General journal for the period ending 31/12**

	Dr	Cr
a) Closing inventory	20,000,000	
Trading account		20,000,000
b) Salaries expense	2,000,000	
Salaries payable		2,000,000
c) Rent prepaid	900,000	
Rent expense account		900,000

d) Depreciation expense account (motor vehicle)	2,000,000	
Accumulated depreciation account		2,000,000
Depreciation expense account (equipment)	4,000,000	
Accumulated depreciation account		4,000,000
e) Bad debts expense	1,000,000	
Bad debts provision		1,000,000

**MWENGE COMPANY**  
**INCOME STATEMENT FOR THE YEAR ENDED 31/12**  
**(amounts in thousands of shillings)**

Sales revenue	200,000	
Returns inwards	<u>(10,000)</u>	190,000
Cost of sales:		
Opening inventory	1,000	
Purchases	110,000	
Returns outwards	(5,000)	
Carriage inwards	6,000	
Closing inventory	<u>(20,000)</u>	<u>(92,000)</u>
Gross profit		98,000
Other (miscellaneous) incomes-discount received		1,000
Less: operating expenses		
Depreciation- Motor vehicles	2,000	
Equipment	4,000	
Bad debts (1000+1200)	2,200	

Discount allowed		2,000	
Salaries:	Paid	8,000	
	Accrued	<u>2,000</u>	10,000
Rent:	Paid	1,800	
	Accrued	<u>(900)</u>	900
Electricity		<u>7,000</u>	<u>(28,100)</u>
<b>Net profit for the period</b>			<b>70,900</b>

**MWENGE COMPANY**  
**BALANCE SHEET AS AT 31/12**  
**(amounts in thousands of shillings)**

<b>ASSETS</b>			
Tangible non-current assets:	COST	AGG. DEPN	NBV
Land	100,000	Nil	100,000
Motor vehicle	10,000	4,000	6,000
Equipment	<u>20,000</u>	<u>8,000</u>	<u>12,000</u>
	<u>130,000</u>	<u>12,000</u>	118,000
<b>Current assets:</b>			
Inventory		20,000	
Trade receivables	5,000		
Provision (2000+1000)	<u>(3,000)</u>	2,000	
Prepayments - rent		900	
Cash and cash equivalents (2000+4000)		<u>6,000</u>	<u>28,900</u>
<b>Total Assets</b>			<b><u>146,900</u></b>

<b>EQUITY AND LIABILITIES</b>			
Equality and reserves:			
Capital		26,000	
Accumulated profits		70,900	96,900
<b>Non-current liabilities</b>			
Long term loan			
<b>Current liabilities</b>			
Trade creditors		3,000	
Salaries payable (15,000+2000)		<u>17,000</u>	<u>20,000</u>
<b>Total equity and liabilities</b>			<b>146,900</b>

### Self review question – study unit 6

- Differentiate between income statement and balance sheet.
- The book keeper of Musa & Sons Ltd prepared the following trial balance at the end of its financial year on 31/12/2018.

Musa & Sons Ltd

Trial Balance

As at 31/12/2018

Account Title	Dr (shs '000')	Cr (shs '000')
Cash at hand	2,000	
Cash at bank	4,000	
Land, cost	100,000	
Motor vehicle, cost	10,000	
Accumulated depreciation-motor vehicle		2,000

Equipment, cost	20,000	
Accumulated depreciation-equipment		4,000
Inventory 1/1/2018	1,000	
Receivables	5,000	
Provision for bad debts		2,000
Trade creditors		3,000
Sales		200,000
Purchases	110,000	
Discount allowed	2,000	
Discount received		1,000
Purchases returns		5,000
Sales returns	10,000	
Carriage inwards	6,000	
Salaries	8,000	
Salaries payable		15,000
Rent	1,800	
Electricity	7,000	
Bad debts	1,200	
Capital		26,000
Long-term bank loan		30,000
<b>Total</b>	<b>288,000</b>	<b>288,000</b>

#### Additional information

- Closing inventory at the end of the year was valued at shs.20,000.
- Salaries of shs.2,000 accrued or remained outstanding at the end of the year and was not recorded in the trial balance.
- Half of the rent paid is for the forthcoming financial year.
- Depreciate tangible non-current assets by 20% on cost at the end of the year.

- e) 20% of trade debtors are expected to default; a provision against bad debts needs to be made.
- f) The company was required to pay a corporation tax of 30%.

**Required:**

As an Accountant, prepare Musa & Sons Ltd income statement and balance sheet as at 31/12/2018.

**Self-review answer- study unit 6**

- a) The income statement discloses the financial performance of the enterprise during the given year or operating cycle. It shows whether the operations of the enterprise resulted in a profit or loss while the balance sheet shows the financial position of an organization at a particular date.

**Musa and Sons Ltd  
Income Statement  
For the period ended 31<sup>st</sup> December 2019**

Sales revenue		200,00	
Returns inwards		(10,000)	190,000
<b>Cost of sales:</b>			
Opening inventory		1,000	
Purchases		110,000	
Returns outwards		(5,000)	
Carriage inwards		6,000	
Closing inventory		(20,000)	(92,000)
<b>Gross profit</b>			<b>98,000</b>
Other incomes-discount received			1,000
<b>Total operating income</b>			<b>99,000</b>
<b>Less: operating expenses</b>			
Depreciation      Motor vehicle		2,000	
Equipment		4,000	

Bad debts		2,200	
Discount allowed		2,000	
Salaries:      Paid	8,000		
Accrued	2,000	10,000	
Rent:            Paid	1,800		
Prepaid	(900)	900	
Electricity		7,000	(28,100)
Profit before tax			70,900
Tax			21,270
<b>Net profit after tax</b>			<b>49,630</b>

**Musa and Sons Ltd**

**Musa and Sons Ltd**

**Balance Sheet**

**As at 31<sup>st</sup> December 2018**

<b>ASSETS</b>			
<b>Fixed assets</b>	<b>Cost</b>	<b>ACC DEP</b>	<b>NVB</b>
Land	100,000	Nil	100,000
Motor vehicle	10,000	4,000	6,000
Equipment	20,000	8,000	12,000
<b>Total Fixed Assets</b>	<b>130,000</b>	<b>12,000</b>	<b>118,000</b>
<b>Current assets:</b>			
Inventory		20,000	



Trade receivables	5,000		
Provision (2000 + 10000)	(3,000)	2,000	
Prepayments- rent		900	
Cash		2,000	
Bank		4,000	
<b>Total Current Assets</b>			<b>28,900</b>
<b>Total Assets</b>			<b><u>146,900</u></b>
<b>EQUITY and liabilities</b>			
Equity and reserves			
Capital		26,000	
Accumulated profits		49,630	75,630
<b>Non-current liabilities:</b>			
Long term loan			30,000
<b>Current liabilities:</b>			
Trade creditors		3,000	
Salaries payable		17,000	
Tax liability		21,270	41,270
<b>Total Equity and Liabilities</b>			<b><u>146,900</u></b>

(18marks)