Principles of A/Ccounts

Chapter 1

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From the Caribbean to the World

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The Case of
ABC Photography Supplies and Services

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ABC Photography Supplies and Services

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ABC Photography Supplies and Services

Aims of the project

This project has four main aims:

1. *To assist Jane Brown in determining the best business type suited for her activities.*
2. *To prepare the source documents, journals and ledger accounts necessary for the recording of transactions for January and February 2009.*
3. *To prepare her balance sheet as at 31 January, 2009; trial balance at 28 February, 2009; income statement for the two months ended 28 February, 2009; and balance sheet at that date.*
4. *To assess the firm's performance over its first two months of operation.*

Description of the Business

ABC Photography Supplies and Services is a small photography business established, owned and operated by Jane Brown. The firm sells photo equipment and accessories but may also provide basic photographic services in the future. Ms. Brown chose to commence business as a sole trader primarily because she would be fully in control of all decision making. In addition, she would retain all profits for herself. The firm is located in the busy financial sector of the city at 84 Main Street, Port of Lane.

Financial Statements

ABC Photography Supplies and Services
Balance Sheet as at 31 January, 2009

	$	$
Fixed Assets		
Computers		4,000
Signage		500
Office Furniture		50,000
		54,500
Current Assets		
Inventory (Stock in Trade)	2,000	
Bank	195,500	197,500
		252,000
Financed by:		
Capital		202,000
Current Liabilities		
Accounts payable (Trade Creditors)		50,000
		252,000

ABC Photography Supplies and Services
Income statement
for the two months ended 28 February,2009

	$	$	$
Sales			1,320.00
Sales returns			240.00
Net Sales			1,080.00
Cost of sales			
Opening stock		2,000.00	
Purchases	490.00		
Purchases returns	98.00		
Net purchases		392.00	
Closing stock		1,600.00	792.00
Gross profit			288.00
Other Income			
Discounts received			19.60
			307.60
Expenses			
Electricity			185.00
Net income			122.60

ABC Photography Supplies and Services
Balance sheet
as at 28 February,2009

	$	$	$
Fixed assets			
Office furniture			50,000.00
Computers			5,500.00
Signage			500.00
			56,000.00
Current assets			
Inventory		1,600.00	
Accounts receivable		960.00	
Bank		194,627.60	
Cash		435.00	
		197,622.60	
Current liabilities			
Accounts payable		51,500.00	146,122.60
			202,122.60
Owner's equity			
At start of the period			202,000.00
Net income			122.60
At end of the period			202,122.60

Analysis of Business Performance

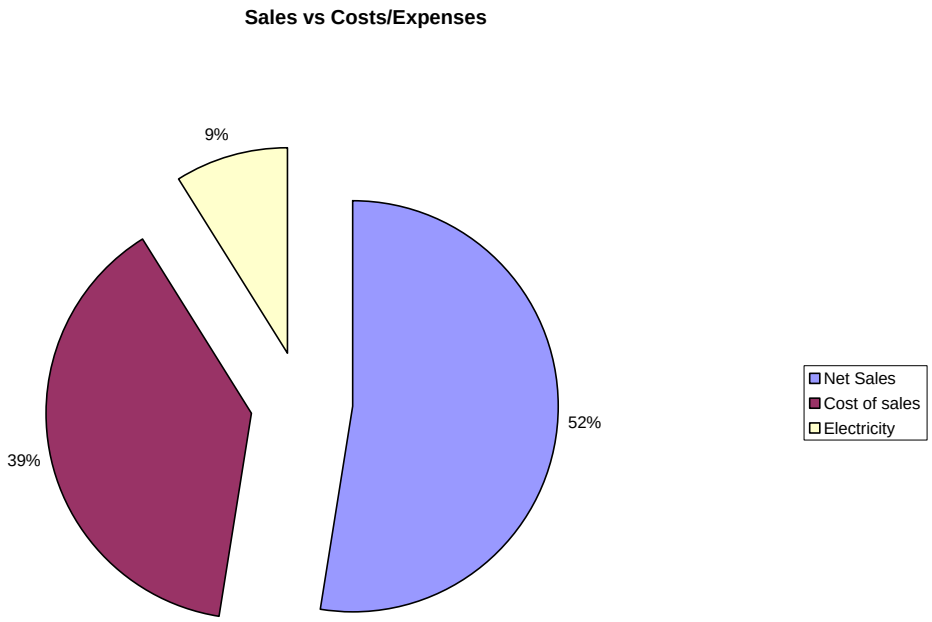
ABC Photography Supplies and Services performed reasonably well in its first two months. It remained very liquid and generated a reasonable return.

Liquidity

The firm was very liquid over the period, registering healthy current (3.95:1 and 3.84:1) and quick ratios (3.91:1 and 3.81:1). Merchandise moved relatively slowly (every 26.4 days) but this is understandable since the business has only just begun operations. It is anticipated that this will pick up in a short time.

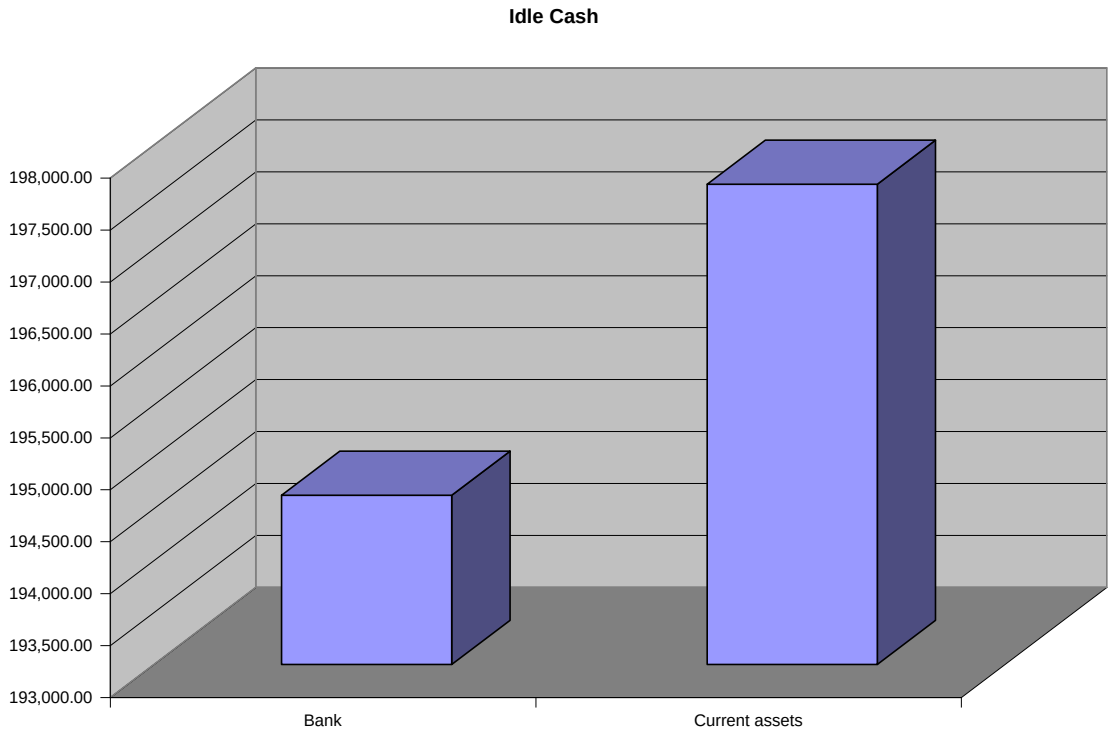
Profitability

ABC was profitable over the two-month. The gross margin (27%) as well as the net profit percentage (11.4%) reflected good control of costs and expenses. These contributed to an ROCE of 0.06%, a sign of overall prudent management of the business.



Suggestions/Recommendations

Greater emphasis needs to be placed on cash management. Presently, there is too much tied up in idle cash ($194,628) representing 98% of total current assets and 77% of total assets. Jane can look to investing excess cash in short – term investments.



Conclusion

1. *Jane Brown was assisted in determining that the best business type suited for her activities and size is the sole trader form.*
2. *Her source documents, journals and ledger accounts necessary for the recording of transactions for January and February 2009 were prepared.*
3. *Her balance sheet as at 31 January, 2009; trial balance at 28 February, 2009; income statement for the two months ended 28 February, 2009; and balance sheet at that date were prepared.*
4. *Based on the financial results, the firm performed well over its first two months of operation.*

Appendix

Source documents

ABC Photography Supplies and Services
84 Main Street,Port of Lane
Phone 056-4532

Invoice#R541

Date 12 February, 2009

Customer Janet Shepherd
34 Sap Drive
Treeland Heights
Phone 123-4567

Quantity	Description of goods/services supplied	Price per unit	Total
		TT$	TT$
10	Cases film	120	1,200.00
			0.00
	Total amount due		1,200.00
	Total amount received		0.00
	Balance receivable		1,200

Terms:5% discount if paid within 15 days. Net due in 30 days.

Signs R Us Ltd
14 Main Street,Port of Lane
Phone 019-3245

Receipt# A345

Date: 8 January, 2009

Received from Jane Brown

For the sum of Five hundred

TT$500.00

Signature P. Laird

ABC Photography Supplies and Services
84 Main Street,Port of Lane
Phone 056-4532

CN#1

Date 16 February, 2009

Customer **Janet Shepherd**
34 Sap Drive
Treeland Heights
Phone 123-4567

Quantity	Description of goods/services supplied	Price per unit	Total
2	Cases film	TT$ 120	TT$ 240.00
	Total credit granted		240.00

Big Bank Ltd
52 Davidsbrook Ave, Broadwalk

ABC Photography Supplies and Services
84 Main Street, Port of Lane
Phone 056-4532

Cheque# 002

Date: 31 January, 2009

Payee **LapTop Village**

For the sum of **Four thousand** **Dollars**

TT$4,000.00 **160-345-678** **Signature** *H.Rambally*

Teaching note: Any four source documents will be sufficient.

Journals

Cash Book

Date	Details	Discounts Allowed	Cash	Bank	Date	Details	Discounts Received	Cash	Bank
2009		$	$	$	2009		$	$	$
Jan 1	Capital			200,000	Jan 8	Signage			500
					31	Computers			4,000

					31	Balance c/d		195,500
			200,000					200,000
Feb 1	Balance b/d		195,500		Feb 3	Cash		500
2	Sales	120			11	Big Electronics	19.60	372.4
Feb 3	Bank	500			27	Electricity	185	
					28	Balance c/d	435	194,627.60
		620	195,500				620	195,500

Sales Journal

Date	Customer name	Folio	Invoice #	Amount
2009 Feb 12	Janet Shepherd		R541	1,200
	Total credit sales			1,200

Purchases Journal

Date	Supplier name	Folio	Invoice #	Amount
2009 Feb 4	Big Electronics		X43	490
	Total credit purchases			490

Returns Outwards Journal

Date	Supplier name	Folio	Cr. note #	Amount
2009 Feb 5	Big Electronics		CNX3	98

	Total returns			**98**

Returns Inwards Journal				
Date	**Supplier name**	**Folio**	**Cr. note #**	**Amount**
2009 Feb 16	**Janet Shepherd**		**CN1**	**240**
	Total returns			**240**

JOURNAL				
2009		Folio	Dr. $	Cr. $
Jan 1	Bank		200 000	
	Capital			200 000
	To record the start of Jane Brown's business			
Jan 8	Signage		500	
	Bank			500
	To record the supply and installation of a wall sign			
Jan 15	Office Furniture		50,000	
	Furniture Guys Ltd.			50,000
	To record credit purchase of office furniture.			
Jan 22	Inventory		2,000	
	Capital			2,000
	To record owner's increased investment.			
Jan 31	Computers		4 000	
	Bank			4 000
	To record the purchase of a laptop			
Feb 25	Computers		1,500	
	Charles and Sons			1,500
	To record the purchase of colour printer.			
Feb 28	Sales		1,320	
	Income Statement			1,320
	To close the sales a/c.			
Feb 28	Returns outwards		98	
	Income Statement			98
	To close returns outwards a/c.			
Feb 28	Income Statement		490	
	Purchases			490
	To close the purchases a/c.			
Feb 28	Income Statement		240	
	Returns inwards			240
	To close returns inwards a/c.			
Feb 28	Income Statement		2,000	
	Inventory			2,000
	To record opening inventory.			
Feb 28	Inventory		1,600	
	Income Statement			1,600
	To record closing inventory.			

General Ledger Accounts

Capital a/c

2009			2009		
Jan 31	Balance c/d	202,000	Jan 1	Bank	200,000
			22	Inventory	2,000
		202,000			202,000
Feb 28	Balance c/d	202,000	Feb 1	Balance b/d	202,000

Office Furniture a/c G/L#

2009			2009		
Jan 15	Furniture Guys Ltd	50,000	Jan 31	Balance c/d	50,000
Feb 1	Balance b/d	50,000	Feb 28	Balance c/d	50,000

Inventory a/c

2009			2009		
Jan 22	Capital	2,000	Jan 31	Balance c/d	2,000
Feb 1	Balance b/d	2,000	Feb 28	Income statement	2,000
Feb 28	Income statement	1,600	Feb 28	Balance c/d	1,600
		3,600			3,600

Computers a/c

2009			2009		
Jan 31	Bank	4,000	Jan 31	Balance c/d	4,000
Feb 1	Balance b/d	4,000	Feb 28	Balance c/d	5,500
Feb 25	Charles and Sons	1,500			
		5,500			5,500

Signage a/c

2009			2009		
Jan 8	Bank	500	Jan 31	Balance c/d	500
Feb 1		500	Feb 28	Balance c/d	500

Purchases a/c

2009			2009		
Feb 28	Total for the period	490	Feb 28	Income statement	490

Sales a/c

2009			2009		
			Feb 2	Cash	120
Feb 28	Income statement	1,320	Feb 28	Total for the period	1,200

Discounts received a/c

2009			2009		
Feb 28	Income statement	19.60	Feb 28	Total for the period	19.60

Returns inwards a/c

2009			2009		
Feb 28	Total for the period	240	Feb 28	Income statement	240

Returns outwards a/c

2009			2009		
Feb 28	Income statement	98	Feb 28	Total for the period	98

Electricity expense a/c

2009			2009		
Feb 27	Cash	185	Feb 28	Income statement	185

Accounts Payable Ledger

Furniture Guys Ltd a/c

2009			2009		
Jan 31	Balance c/d	50,000	Jan 15	Office Furniture	50,000
Feb 28	Balance c/d	50,000	Feb 28	Balance b/d	50,000

Charles and Sons a/c

2009			2009		
Feb 28	Balance c/d	1500	Feb 25	Computers	1500

Big Electronics

2009			2009		
Feb 5	Returns	98.00	Feb 4	Purchases	490.00
11	Discount received	19.60			
11	Bank	372.40			
		490.00			490.00

Accounts Receivable Ledger

Janet Shepherd

Date	Details	$	Date	Details	$
2009			2009		
Feb 12	Sales	1,200	Feb 16	Returns	240
			Feb 28	Balance c/d	960
		1,200			1,200
Mar 1	Balance b/d	960			

ABC Photography Supplies and Services
Trial Balance as at 28 February, 2009

GL#		$	$
100	Electricity	185.00	
110	Returns inwards	240.00	
120	Returns outwards		98.00
130	Sales		1,320.00
135	Discounts received		19.60
140	Purchases	490.00	
150	Inventory	2,000.00	
500	Accounts payable		51,500.00
600	Accounts receivable	960.00	
700	Cash	435.00	
800	Bank	194,627.60	
900	Office furniture	50,000.00	
1000	Computers	5,500.00	
1100	Signage	500.00	
1200	Capital		202,000 .00
		254,937.60	254,937.60

Closing inventory at 28 February, 2009 was valued at $1,600.

Ratios

Name of ratio	Calculation	January	February
Stock turnover (Turnover) Ratio	Cost of goods sold ÷ Average stock, where Average stock= (Opening stock + Closing stock) ÷ 2	-	26.4 days
Current (Working capital) Ratio	Current assets ÷ Current liabilities	3.95:1	3.84:1
Acid-test (Quick) Ratio	Current assets (less closing stock) ÷ Current liabilities	3.91:1	3.81:1
Gross margin percentage	(Gross profit ÷ Net sales)x100	-	27%
Net profit percentage	(Net profit÷ Net sales)x100	-	11.4%
Return on capital employed (ROCE)	(Net profit ÷ Capital employed)x100 For an unincorporated business, the capital employed = (Opening Capital + Closing Capital) ÷2	-	0.06%