

W

# BUS7C2

## Finance and Accounting for Business

Taofik Adeosun  
[taofik.adeosun@wrexham.ac.uk](mailto:taofik.adeosun@wrexham.ac.uk)

Prifysgol Wreccsam  
Wrexham University

# Lecture 3: Financial Statement of Sole Trader

Prifysgol Wrexham  
Wrexham University



# Learning Objective

At the end of this lecture; students will:

1. **Critically evaluate** the purpose and key components of the primary financial statements for a sole trader.
2. **Differentiate** between items in a trial balance to correctly allocate them to either the Statement of Profit or Loss or the Statement of Financial Position.
3. **Construct** a Statement of Profit or Loss and a Statement of Financial Position from a given trial balance.
4. **Appraise** the relationship between the Statement of Profit or Loss and the Statement of Financial Position

# SOLE PROPRIETORSHIP



## Sole Trader

Who is a Sole Trader?

What are the characteristics of a Sole Trader?

- **Advantages**

- Easiest to start
- Least regulated
- Single owner keeps all the profits
- Taxed once as personal income

- **Disadvantages**

- Limited to life of owner
- Equity capital limited to owner's personal wealth
- Unlimited liability
- Difficult to sell ownership interest

- ❖ The most common form of business structure
- ❖ Owned by one person
- ❖ All profits of the business are taxed as individual income
- ❖ The owner IS the business, unlimited liability for business debts and obligations.
- ❖ The only money invested in the firm is the proprietor's
- **Cash raised is limited to the proprietor's own personal wealth**

# Preparing Financial Statements

**IAS 1 - "Presentation of Financial Statements"** - is an accounting standard which sets out the overall requirement for how the financial statements should be structured.

The standard requires a complete set of financial statements to comprise of :

- a statement of profit or loss,
- a statement of financial position,
- a statement of changes in equity and
- a statement of cash flows.

We look at the preparation of the following financial statements for a sole trader:

- Statement of profit or loss
- Statement of financial position

**The statement of profit or loss** is a summary of income and expenditure for a period, usually a year, to calculate the profit or loss made.

**The trading account** calculates the gross profit or loss that has been made from trading activities – the buying and selling of goods or the provision of a service.

**The net profit or loss** is arrived at by deducting all expenses of the business from the gross profit.

The **purpose of a statement of profit or loss** is to **enable users, such as the owner(s)**, to evaluate the **financial performance** of a business.



# The Statement of Profit or Loss : Format

Statement of profit or loss for the year ended 31 December 20X1

	£	£
<b>Sales revenue</b>		X
Less: sales returns		(X)
		<hr/>
		X
Opening inventory	X	
Purchases	X	
Purchase returns	(X)	
Carriage inwards	X	
Closing inventory	(X)	
<b>Cost of goods sold</b>	<hr/>	(X)
		<hr/>
<b>Gross profit</b>		X
<b>Add: Sundry income:</b>		
Discount received		X
Interest received		X
Profit on disposal of non-current asset		X
<b>Expenses:</b>		
Discounts allowed	X	
Rent	X	
Carriage outwards	X	
Electricity	X	
Depreciation	X	
Irrecoverable debt	X	
Allowance for doubtful debts adjustment	X	
Stationery	X	
Telephone	X	
<b>Total expenses</b>	<hr/>	(X)
		<hr/>
<b>Net profit (loss) for the year</b>		X
		<hr/>

- Create a profit and loss ledger account** in the nominal ledger to record income and expenses. *The profit and loss ledger account are part of the double entry system*
- Identify all relevant ledger accounts** associated with income and expenses.
- Transfer balances** from these accounts to the profit and loss ledger account using double-entry principles. *Every debit entry must have an equal and opposite credit entry*
- Ensure all balances are moved** so that individual income and expense accounts show nil balance.
- Determine the final balance** of the profit and loss ledger account, **representing the profit or loss for the period.**



# The Statement of Financial Position

- **The statement of financial position** is a summary or list of all assets and liabilities of the sole trader at the end of the accounting period.
- **The profit (or loss)** recorded in the statement of profit or loss increases (or decreases) the net assets shown in the statement of financial position, therefore, providing a link between the financial statements.
- **Non-current liabilities** are those liabilities which will be paid off over a period exceeding one year from the statement of financial position date; an example of this would be long-term bank loans.
- **Non-current assets** are those assets that will be used in the business over a number of years; examples include land and buildings, plant and equipment and motor vehicles
- **Current assets** are those assets which are expected to be realised in the business in the normal course of trading (usually a period of less than one year); examples include inventory and prepayments
- **Current liabilities** are the short-term payables of the business which are due to be paid within twelve months of the statement of financial position date; examples include trade payables and bank overdrafts (not long-term loans).

# The Statement of Financial Position: Format

Statement of financial position as at 31 December 20X1

	Cost	Accumulated depreciation	Carrying amount
	£	£	£
<b>Non-current assets:</b> e.g. land and buildings	X	X	X
	<hr/>	<hr/>	
<b>Current assets:</b> Inventory		X	
Trade receivables	X		
Less allowance for doubtful debts	(X)		
	<hr/>		
Prepayments		X	
Bank		X	
		<hr/>	
Total current assets		X	
<b>Current liabilities:</b> Trade payables	(X)		
VAT (Sales tax)	(X)		
Accruals	(X)		
Total current liabilities	<hr/>	(X)	
Net current assets/(liabilities)			X/(X)
<b>Non-current liabilities:</b> Bank loan 20X5			(X)
			<hr/>
Net assets			X
			<hr/>
<b>Capital:</b> Opening capital			X
Add: Profit/(Loss) for the year			X/(X)
Less: Drawings			(X)
			<hr/>
Closing capital			X
			<hr/>

1. **Transfer** the profit and loss ledger account balance to the **capital ledger account**.
2. **Balance off** asset, liability, and capital nominal ledger accounts.
3. **Organise** items into **non-current and current assets** (total assets).
4. **Ensure** total assets are equal to **capital plus non-current and current liabilities** (total capital and liabilities).



# Preparing Financial Statements : Example

## Trial Balance for the year ended 31 December 20X9 for Rhys, trading as Wrexham Dragon.

	Dr	Cr	SPL or SFP?
	£	£	
Sales revenue		365,200	SPL
Purchases	266,800		SPL
Opening inventory	23,340		SPL
Closing inventory SFP	25,680		SFP
Closing inventory SPL		25,680	SPL
Wages	46,160		SPL
Printing and stationery	13,000		SPL
Motor expenses	3,720		SPL
Bank charges	760		SPL
Receivables ledger control account	17,330		SFP
Payables ledger control account		23,004	SFP
Bank – current account	4,560		SFP
Irrecoverable debts	120		SPL
Allowance for doubtful debts		588	SFP
Discounts allowed	864		SPL
Discounts received		1,622	SPL
Drawings	20,800		SFP
Capital		200,000	SFP
Motor vehicles (MV) at cost	24,000		SFP
MV – Accumulated depreciation		12,240	SFP
Fixtures and fittings (F&F) at cost	28,000		SFP
F&F Accumulated depreciation		16,800	SFP
Land	170,000		SFP
<b>Totals</b>	<b>645,134</b>	<b>645,134</b>	

### Task 1.

For each item on the Trial Balance, will it go into SPL or SFP?

### Task 2.

Prepare the statement of Profit and Loss and the Statement of Financial Position of Rhys from the available information.

# Preparing Financial Statements : Example

## Statement of profit or loss for the year ended 31 December 20X9

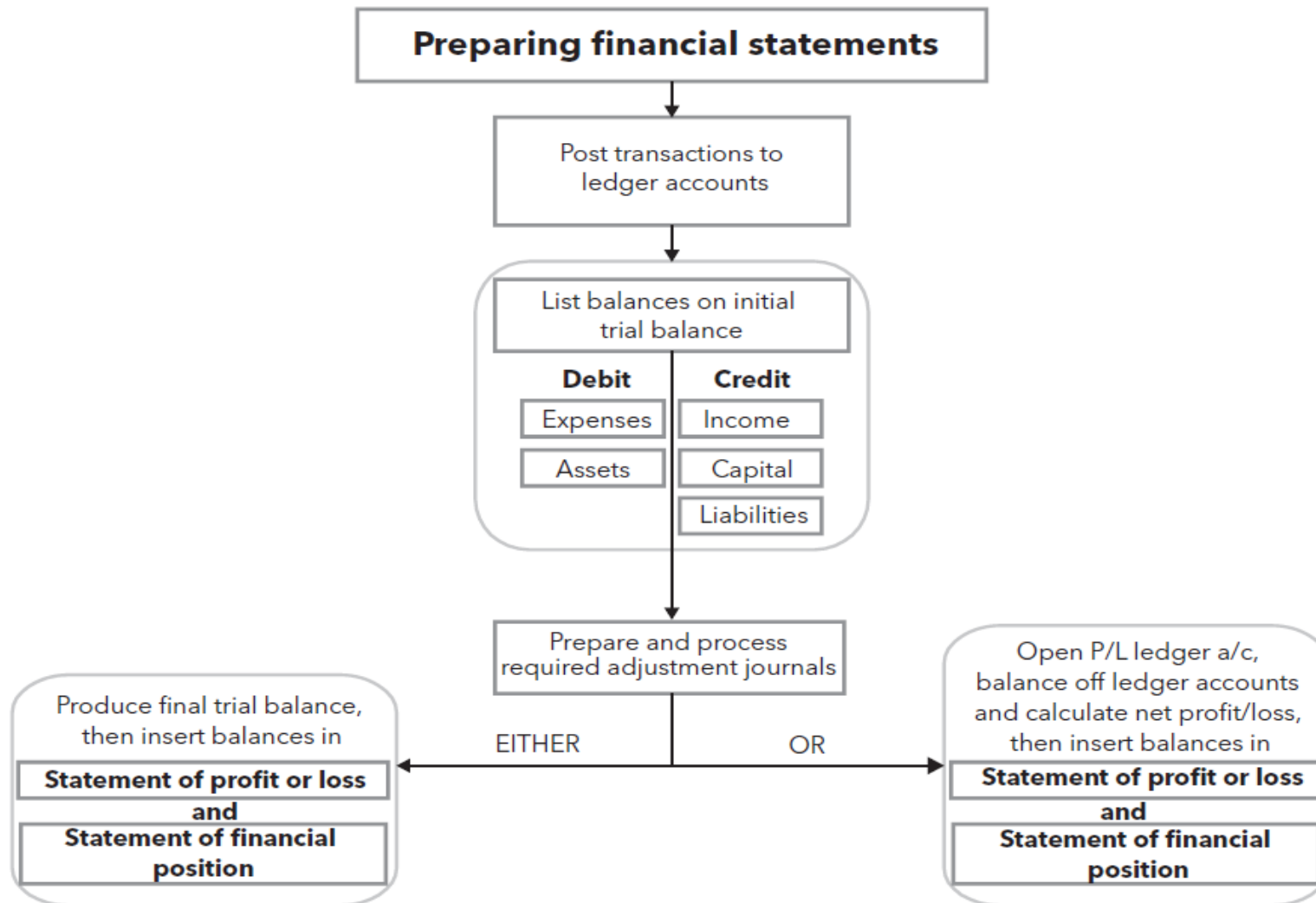
	£	£
<b>Sales revenue</b>		365,200
Opening inventory	23,340	
Purchases	266,800	
Closing inventory	(25,680)	
	<hr/>	
<b>Cost of goods sold</b>		(264,460)
		<hr/>
<b>Gross profit</b>		100,740
<b>Sundry income:</b>		
Discounts received		1,622
		<hr/>
		102,362
<b>Expenses:</b>		
Wages	46,160	
Printing and stationery	13,000	
Motor expenses	3,720	
Bank charges	760	
Irrecoverable debts	120	
Discounts allowed	864	
	<hr/>	
<b>Total expenses</b>		(64,624)
		<hr/>
<b>Net profit/loss for the year</b>		37,738
		<hr/>

# Preparing Financial Statements : Example

## Statement of financial position at 31 December 20X9

	Cost £	Accumulated Depreciation £	Carrying amount £
<b>Non-current assets:</b>			
Land	170,000		170,000
Fixtures & fittings	28,000	16,800	11,200
Motor vehicles	24,000	12,240	11,760
	<u>222,000</u>	<u>29,040</u>	<u>192,960</u>
<b>Current assets:</b>			
Inventory		25,680	
Receivables ledger control account	17,330		
Less: allowance for doubtful debts	(588)	16,742	
		<u>4,560</u>	
Bank			
Total current assets		<u>46,982</u>	
<b>Current liabilities:</b>			
Payables ledger control account	<u>23,004</u>		
Total current liabilities		<u>(23,004)</u>	
<b>Net current assets</b>			<u>23,978</u>
<b>Net assets</b>			<u>216,938</u>
<b>Capital:</b>			
Opening capital			200,000
Add: net profit for the year			37,738
Less: drawings			(20,800)
Closing capital			<u>216,938</u>

# Preparing Financial Statements : Summary



# Thank you, very much!

Any questions?



Prifysgol Wreccsam  
Wrexham University

# References

*ICAEW (2023) Accounting. 17th edn*

Kaplan Publishing (2023) *AAT Level 3 Financial Accounting: Preparing Financial Statements (FAPS) Study Text*. Kaplan UK.