Alkan health sciences business and technology

Unit of Competence **Prepare Financial Reports**

Module Title **Preparing Financial Reports**

LG Code: **BUF ACB3 12 0812**

TTLM Code: **BUF ACB3M12 0812**

## INTRODUCTION

Welcome to the module "**Prepare Financial Reports**". This learner's guide was prepared to help you achieve the required competence in "**Accounts and Budget Support Level III"**. This will be the source of information for you to acquire knowledge attitude and skills in this particular occupation with minimum supervision or help from your trainer.

**Summary of Learning Outcomes**

After completing this learning guide, you should be able to:

Lo1:- Maintain asset register

Lo2:- Record general journal entries for balance day adjustments

Lo3:- Prepare final general ledger accounts

Lo4:- Prepare end of period financial reports

**How to Use this TTLM**

- Read through the Learning Guide carefully. It is divided into sections that cover all the knowledge, skills and attitude that you need.
- Read Information Sheets and complete the Self-Check at the end of each section to check your progress
- Read and make sure to Practice the activities in the Operation Sheets. Ask your trainer to show you the correct way to do things or talk to more experienced person for guidance.
- When you are ready, ask your trainer for institutional assessment and provide you with feedback from your performance.

## **LO1**:- Maintain asset register

An Asset is a property of value owned by a business. Physical objects and intangible rights such as money, accounts receivable, merchandise, machinery, buildings, and inventories for sale are common

examples of business assets as they have economic value for the owner. Accounts receivable is an unwritten promise by a client to pay later for goods sold or services rendered.

Assets are generally listed on a balance sheet according to the ease with which they can be converted to cash. They are generally divided into three main groups:

- Current
- Fixed
- Intangible

1. **Current Asset**

A **Current Asset** is an asset that is either:

• **Cash** – includes funds in checking and savings accounts

• **Marketable securities** such as stocks, bonds, and similar investments

• **Accounts Receivables**, which are amounts due from customers

• **Notes Receivables**, which are promissory notes by customers to pay a definite sum plus interest on a certain date at a certain place.

• **Inventories** such as raw materials or merchandise on hand

• **Prepaid expenses** – supplies on hand and services paid for but not yet used (e.g. prepaid insurance)

In other words, cash and other items that can be turned back into cash within a year are considered a current asset.

2. **Fixed Assets**

**Fixed Assets** refer to tangible assets that are used in the business. Commonly, fixed assets are long-lived resources that are used in the production of finished goods. Examples are buildings, land, equipment, furniture, and fixtures. These assets are often included under the title property, plant, and equipment that are used in running a business. There are four qualities usually required for an item to be classified as a fixed asset. The item must be:

- Tangible
- Long-lived
- Used in the business
- Not be available for sale

Certain long-lived assets such as machinery, cars, or equipment slowly wear out or become obsolete. The cost of such as assets is systematically spread over its estimated useful life. This process is called **depreciation** if the asset involved is a tangible object such as a building or **amortization** if the asset involved is an intangible asset such as a patent. Of the different kinds of fixed assets, only land does not depreciate.

3. **Intangible Assets**

**Intangible Assets** are assets that are not physical assets like equipment and machinery but are valuable because they can be licensed or sold outright to others. They include cost of organizing a business, obtaining copyrights, registering trademarks, patents on an invention or process and goodwill. Goodwill is not entered as an asset unless the business has been purchased. It is the least tangible of all the assets

because it is the price a purchaser is willing to pay for a company’s reputation especially in its relations with customers

In a **classified balance sheet,** companies often group similar assets and similar liabilities together using standard classifications and sections. This is because items within the groups have similar economic characteristics. The groupings help users determine: (1) whether the company has enough assets to pay its debts and (2) what claims by short-and long-term creditors exist on the company's total assets.
A **classified balance sheet** generally contains the following standard classifications:

1. **Long-Term Investments**

- Assets that can be converted into cash, but whose conversion is not expected within one year.
- These include long-term assets not currently used within business operations (i.e., land, buildings, etc.) and investments in stocks and bonds of other corporations.

## Lo2:- Record general journal entries for balance day adjustments

The first step in preparing financial statements for service rendering (any type of business organization) is compilation of data. These in accounting are called source documents. The source documents that should be compiled to prepare financial statements could be invoices, bills, payroll sheets e.g.

- ✓ **Financial Statements:** Financial statements show the financial condition of a business. They become a part of the

business permanent records. The report that shows the revenue, the expenses, and the net income or the net loss for a fiscal period is called an Income statement. The *balance sheet* shows the assets, liabilities and Capital on a specific period time.

- ✓ **Need for Financial Statements:** They are sources of information for decision making purposes by users such as owners, Management, employees, government agency; etc. The owner of a business needs the information provided on financial statements to make management decision. Financial statements provide information needed by people considering the investment of some of their money in a business.

The period for an income statement is a fiscal period may be ended in a month or a year. However, for the balance sheet is on that specific period of time on which the balance sheet is prepared.

### *1.1.1The Income Statement*

The income statement shows the revenue, the expense and the net incomes (net loss) of a business over a specific period of time usually at end of fiscal period. The source of data for the income statement is the information summarized in the work sheet.

### *Steps in preparing an Income Statement*

1)**Heading:** write the heading in the three lines; center each item in the heading.

2)**Revenue section**: write the heading of the revenue section of the Income statement, Revenue, on the first line beginning at the vertical line at the left. The other Revenue accounts will list at the bottom of Revenue entering towards the right.

3)**Expense Section:** the heading of the second section of the Income Statement, Expense, is written at the left margin. The titles of the individual expense accounts are listed in the same order in which they are given on the worksheet.

4)**Figure net income (net loss):** A single line is ruled across the second amount column to indicate subtraction of the total expense from the total revenues. The result is written beneath the single ruled line in the second amount column. The words net income/net loss are written at the left margin. The amount of the net income shown on the income statement should agree with the amount of the net income previously calculated and recorded on the worksheet.

5)**Rule the Income Statement:** Double lines are rules across the amount columns to show that all work has been completed and is assumed to be correct.

**ABC car wash company**

**Income Statement step 1 Step 1**

**Step 2 for month ended Aug 31, 2000**

Revenue:

Sales.....1318.50

Expenses:

| | |
|---|---|
| Advertising Expense | 18.00 |
| Full expense | 73.50 |

| | | |
|---|---|---|
| Miscellaneous Expense | 31.50 | |
| Rent Expense | 350.00 | |
| Utilities expense | 68.50 | |
| **Total Expense**..... | | 541.50 |
| **Net Income**..... | | 777.00 |

Step 3

step 4 step 5

1**.2.1 Owners' Equity Statement/Capital statement:** isa summary of change in capital of a business entity that has occurred during a specific period of time, such as a month or a year. The form for this statement is given below assuming it is for the month ended January 31, 2002:

**ABG shopping service**
**Statement of owner's equity**
**For month ended January 31, 2002**

| | | |
|---|---|---|
| ABG , capital, January 2002 ----------Br. XXX | | |
| Add. Net income for the month XXX | | |
| Less with drawl | XXX | |
| Increase in capital | | XXX |
| ABG –capital, January 31, 2002 | | XXXX |

### 1**.2.3 Balance Sheet**

The balance sheet lists all the Assets, the liabilities, and the capital on specific date. The financial condition of business on a particular date is shown by the balance sheet of that date. The source date to prepare the balance sheet is the worksheet.

**Steps of Preparing Balance sheet**

1. *Preparing the heading***:** write the heading on three lines. center each item in the heading
2. *Prepare the asset section:* the titles of the asset accounts are written on the left hand side of the balance sheet in the same order as shown on the work sheet. The total of the left hand side of the balance sheet is written on the same line as the final total on the right hand side.
3. *Prepare the liabilities section:* the liability accounts are written on the right hand side of the balance sheet in the same order shown on the worksheet. A single line is ruled across the amount column under the amount of the last liability.

4. *Prepare the capital section:*

The owner's capital at the end of business on August 31, 2000 as shown on the worksheet consists of two items:

a) the balance in the capital account and
b) the net income the business has earned during these amount are totalled as follows

Beginning balance capital accounts ---------- Br. 4,500.00

Add: the net income for August ---------- 777.00

Ending Capital shown ---------- Br 5, 277.00

5. *Prove and rule the balance sheet:* A single line is ruled across the amount column under the amount of the capital and on the same line across the amount column of the asset section.

**DXR- shopping service**

**Balance sheet**

**On January 31, 2002**

**Assets:**

*Current assets:*

Cash ---------- Br.4085
A/R ---------- 1700
Supplies ---------- 1520
Prepaid rent ---------- 1500
Prepaid insurance ----------1595
Total current assets ---------- Br 10400

*Plant assets:*

Service equipment ----------Br.13500
Less accumulated Depreciation ---------- (200)
13300
Total assets ----------
23,700

**Liabilities and capital:**

Account payable ---------- 1250
Salary payable ---------- 100
Total liability ---------- 1350
Capital ---------- 22,350
Total liability& capital ---------- 23,700

# Lo3:- Prepare final general ledger accounts

## Preparing closing entries and post-closing trial balance

**Closing entries:** Revenues, expenses and drawing /dividend account are temporary accounts used to accumulated effects of some transaction on owner's equity account for a specific period. At the end of the accounting period the balances of revenue and

expense accounts are summarized in one another temporary account called the **income summary**. The balance in the income summary is transferred/closed to the capital (owner's equity) account. The balance on the drawing /divided account is directly closed to the capital (retained earnings account).

The process of transferring balances of temporary accounts to the capital account is called closing entry; and these entries should be posted to the respective ledgers after journalization.This closing of accounts is used to transfer net income or net loss and drawing /dividend to capital/retained earning, account. Moreover; it is used to reduce the balance of temporary accounts to zero so that they will be ready for the next accounting period.To illustrate assume a shopping service named by ABG-shopping service, the closing entries are journalized on the journal and posted to the respective ledgers. The entries to close the temporary accounts are summarized as follows:

Income summary xxxx

Expenses (all by name/list) xxxxx

**This is to close the expenses accounts**

Revenue xxxx

Income summary xxxx

**This is to close the revenue account**

Capital xxxxxxx

Drawing xxxxxx

This is to close the drawing account

Finally the balance on the income summary account will be closed to the capital account either as debit or credit it depending on its balance.

**Post-closing trial balance**: It is a trial balance prepared after all adjusting and closing entries is posted. It is prepared to check the equality of the total debit and the total credit of the balance of the real accounts. It is the last step on the accounting cycle/ process the post-closing trial balance for the ABG-shopping service is prepared and presented as follows. Note that the accounts are assumed ones. This is simply to show you the sample post-closing trial balance college