



A Level Accounting Induction

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What is Accounting?

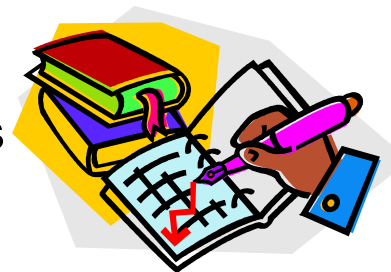
- * Accounting is the process of recording the financial transactions of a business.
- * This includes summarising, analysing and reporting these transactions to different stakeholder groups, such as management, employee, investors and the government.
- * Accounting is one of the key functions for all businesses. It may be handled by a bookkeeper or an accountant at a small firm, or by sizeable finance departments with dozens of employees at larger companies.
- * The accounting reports generated are invaluable in helping management and other stakeholders make informed business decisions.



Branches of Accounting

Financial Accounting

- * Involves recording business transactions and providing the owners of the business with financial information about what has already happened, which can then be passed on to stakeholders.
- * It focuses on:
 - * What the income and expenses are over a period of time, usually a year, so that businesses can see how much profit / loss has been made .
 - * What the **assets** (what's owned) and **liabilities** (what's owed) are so that the business can see what it is worth.



Branches of Accounting

Management Accounting

- * This is where information is gathered and analysed for the benefit of the management of the business to enable them to make sound decisions for the future.
- * An example is a budget which is an estimate of future income and expenditure. A budget looks to the future, to help with planning, whereas financial accounting show the actual results over a past period of time.

Management accounting is for internal use and financial accounting for external use.



Why study accounting?

- * Real life business skills
- * Preparation for an accounting career or to find out if you would be suited to a career in accounting.
- * Understanding the potential of the business you work for or run.
- * Whatever job you do you will be dealing with money, so Accounting can give you the skills to keep track of your own finances or to help with the setting up of your future business empire.



Who would Accounting suit?

Any student who is interested in the financial workings of a business and has an appreciation of current affairs is likely to find the course enjoyable and satisfying. In particular students who like logic and take a methodical approach to their work, whilst questioning that logic to solve problems and offer solutions should be successful in Accounting.

- * In addition, it is essential to have both excellent numerical and written skills and the ability to combine these to offer longer evaluative answers.
- * Such a student is likely to have a Grade 6 in Maths, a grade 5 in English and a further 5 GCSEs at grade 5 or better.

Assessment objectives

	Knowledge
AO1	Demonstrate <u>Knowledge</u> and understanding of accounting principles, concepts and techniques.
AO2	<u>Apply</u> knowledge and understanding of accounting principles, concepts and techniques.
AO3	Analyse and Evaluate <u>Analyse</u> and <u>evaluate</u> accounting data to present information, make judgements and draw conclusions.

What will I study in Accounting?

Year 1

- * The role of the accountant
- * Types of business organisations
- * Double entry bookkeeping
- * Verification of accounting records
- * Accounting concepts
- * Financial statements
- * Evaluation of financial information

Year 2

- * Partnership Accounts
- * Budgeting
- * Costing
- * Capital investment appraisal
- * Incomplete records
- * Accounting for limited companies
- * The impact of ethical considerations

Assessment

- * Assessment is 100% examined with two, three hour exams at the end of the second year.
- * Each exam consists of the following:
 - **Section A** – 10 multiple choice questions and several short answer questions (30 marks total)
 - **Section B** – two structured questions each worth 20 marks (40 marks total)
 - * **Section C** – two extended answer questions each worth 25 marks (50 marks total)

Activity – Costs 1

- * List in the chat all the costs you can think of that would be involved with a business making cupcakes.

Activity – Costs 2

For example:

- * Mixing bowl and spoon
- * Flour,
- * Sugar,
- * Oven,
- * Premises,
- * Van,
- * Computer
- * Frosting,
- * Paper cases
- * packaging

Activity – Costs 3

Cost Classification

In accounting costs are often split into groups according to their characteristics. One way to do this is to classify them as fixed or variable.

- * Variable costs are ones that will change directly and proportionately to changes in output, i.e. the total will go up by the same amount with each extra unit made.
- * Fixed costs are ones that will not change with output they will remain constant for a period of time and a range of output.

Activity – Costs 4

Which of these costs are fixed?

- * Mixing bowl and spoon
- * Flour,
- * Sugar,
- * Oven,
- * Premises,
- * Van,
- * Computer
- * Frosting,
- * Paper cases
- * packaging

Activity – Costs 5

Fixed costs

- * Mixing bowl and spoon
- * Oven,
- * Premises,
- * Van,
- * Computer

Variable costs

- * Flour,
- * Sugar,
- * Frosting,
- * Paper cases
- * packaging

Activity – Profit 1

Have you made a profit?

This is an important question for a business, because profit is used to reinvest in the business, reward the owners and a way of measuring success.

Profit is calculated as follows:

$$\text{Total Revenue}^* - \text{Total Costs}^{**} = \text{Profit}$$

- *Revenue = the total amount received from selling products.
- ** Total costs = Fixed Costs + Variable costs

Activity – Profit 2

Have you made a profit?

If a business makes and sells 500 cupcakes a week for £1.50 each, the variable costs are £0.75 per cupcake and the fixed cost are £300 each week, how much profit is made each week?

$$\text{Total Revenue} - \text{Total Costs} = \text{Profit}$$

Activity – Profit 3

Have you made a profit?

If a business makes and sells 500 cupcakes a week for £1.50 each, the variable costs are £0.75 per cupcake and the fixed cost are £300 each week, how much profit is made each week?

$$\text{Revenue} = 500 \times £1.50 = £750$$

$$\text{Total Variable costs} = 500 \times £0.75 = £375$$

$$\text{Total costs} = £375 + £300 = £675$$

$$\text{Total Revenue} - \text{Total Costs} = \text{Profit}$$

$$\text{Profit} = £750 - £675 = £75$$

Activity – Break-even 1

Costs and decision making

When planning for the future it is not always enough for businesses to know how much profit they may make, in uncertain markets they may also want to know how many products they need to sell to cover their costs, this is known as the break-even point.

The calculation is as follows:

$$\text{BEP} = \frac{\text{Total Fixed Costs}}{\text{Unit Contribution}^*}$$

* Unit contribution = Selling Price – Unit variable cost

Activity – Break-even 2

What is the Break-even point?

If a business makes and sells 500 cupcakes a week for £1.50 each, the variable costs are £0.75 per cupcake and the fixed cost are £300 each week, what is their break-even point?

BEP =

$$\text{BEP} = \frac{\text{Total Fixed Costs}}{\text{Unit Contribution}^*}$$

* Unit contribution = Selling Price – Unit variable cost

Activity – Break-even 3

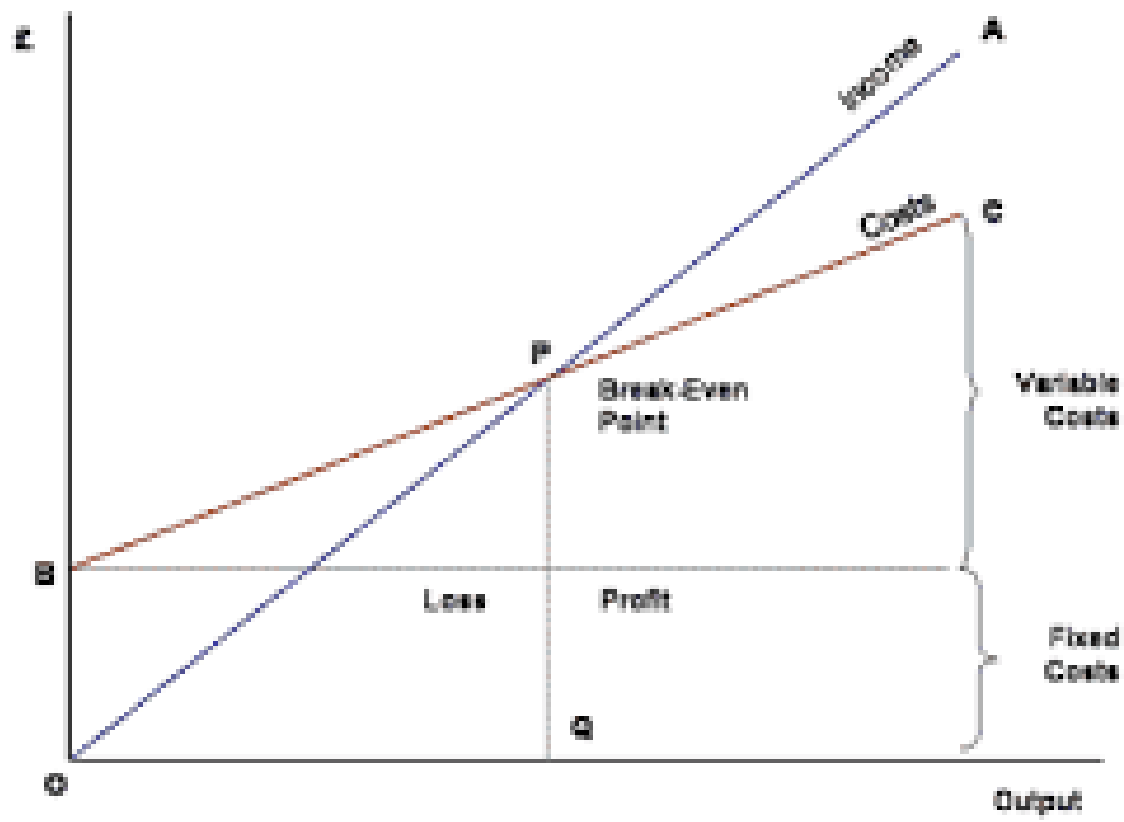
What is the Break-even point?

If a business makes and sells 500 cupcakes a week for £1.50 each, the variable costs are £0.75 per cupcake and the fixed cost are £300 each week, what is their break-even point?

$$\text{BEP} = \frac{\text{£300}}{\text{£1.50} - \text{£0.75}} = 400 \text{ Cupcakes}$$

$$\text{BEP} = \frac{\text{Total Fixed Costs}}{\text{Unit Contribution}^*}$$

* Unit contribution = Selling Price – Unit variable cost



Exam – Section A - Example

0 5

A sole trader received an order from a credit customer on the last day of the financial year 31 May 2016. No entries were made in the accounting records for the sale of goods until the invoice was raised on 3 June 2016.

Which accounting concept is being applied?

- A consistency
- B going concern
- C prudence
- D realisation

[1 mark]

0 6

Which of the following correctly lists items to be shown in a partnership appropriation account?

- A drawings, interest on drawings, partnership salaries
- B interest on drawings, interest on a partner's loan, shares of residual loss
- C interest on capital accounts, interest on drawings, partnership salaries
- D interest on a partner's loan, partnership salaries, shares of residual profit

[1 mark]

Exam – Section B - Example

The following trial balance has been extracted by the book-keeper of James Jenkins, who runs a patisserie and coffee lounge, as at 30 June 2009:

	Dr £	Cr £
Capital		36 175
Drawings	19 050	
Purchases and sales	105 240	168 432
Inventory at 1 July 20-8	9 427	
Trade Receivables and Trade Payables	3 840	4226
Bad debts recovered		210
Returns	975	1 237
Commission received		2350
Discounts	127	243
Wages and salaries	30 841	
Vehicle Expenses	1 021	
Rent and Rates	8 796	
Heating and Lighting	1 840	
Telephone	355	
General Expenses	1 752	
Bad debts written off	85	
Vehicle at cost	8 000	
Provision for depreciation on vehicle		3 500
Shop fittings at cost	6 000	
Provision for depreciation on shop fittings		2 400
Provision for doubtful debts		150
Cash	155	
Bank	21 419	
	218 923	218 923

Notes at 30 June 2009

- Inventory was valued at £11 517
- Vehicle expenses owing £55
- Commission income owing £160
- Rent prepaid £275
- Depreciate the vehicle at 25% per annum, using the reducing balance method
- Depreciate shop fittings at 10% per annum, using the straight-line method
- The provision for bad debts is to be equal to 2.5% of Trade Receivables

Total marks for this question: 12 marks

Sunshine Ltd sells beach buckets and spades.
The forecast information for the six months ending 30 October 2002 is:

	May £000	June £000	July £000	August £000	September £000	Oct £000
Sales	16	20	26	28	24	20
Purchases	12	16	18	14	12	10
Overheads	4	8	8	8	8	4

Additional information

- (1) On average 20% of each month's sales are expected to be for cash. A further 60% will be given one month's credit. The rest will be given two months' credit. All monies should be received when due.
- (2) The increase in overheads arises from the employment of casual staff. The overheads are paid in the month in which they occur.
- (3) Suppliers are expected to allow one month's credit.
- (4) The cash at bank balance as at 1 July 2002 is £7200 overdrawn.

REQUIRED

- (a) Prepare a detailed forecast month by month cash budget for the four months ending 30 October 2002.

Sunshine Ltd
Cash budget for the four months ending 30 October 2002

	July £000	Aug £000	Sept £000	Oct £000
Sales – cash				
- 1 month				
- 2 months				
Purchases				
Overheads				
Net inflow/outflow				
Opening balance				
Closing balance				

Exam – Section C – Example Essay

1 7

The directors of Londro plc, a large holding company, are considering two alternative investment projects. Whichever project is chosen, the company will have to borrow the initial investment at a variable interest rate of 4% per annum

Project A

This project involves the exploitation of mineral resources in an under-developed country. The resources would provide cheap raw materials for other companies in the Londro group. It will result in large numbers of local workers being employed on low skilled jobs, bringing a boost to the country's economy.

Project B

This project is to build a shopping and leisure complex on ex-industrial land in the North of England. The land is available due to the closure of the steel works which was the main employer in the area. The complex would provide significant job opportunities in the retail and leisure sector.

The Finance Director has carried out investment appraisals on both projects and this is summarised below

	Project A	Project B
Initial investment	£80 million	£50 million
Net present value	£950 000	£650 000
Payback period	10 years	15 years
Estimated life of project	15 years	25 years

Net present value was calculated using a discount rate of 9% for both projects. This was based on the current return on capital employed of 5% plus the interest rate of 4%.

1 7 . 1 Assess the **two** projects and recommend to the directors the one they should select.

125 marks

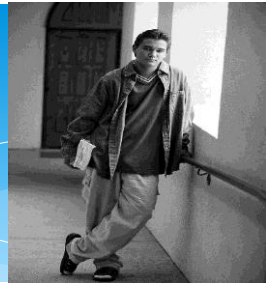
Common Misconceptions

- * It is not boring, most students really enjoy it and find it challenging.
- * It is not just numbers, you will have to write essays as well, although these will contain numbers. These are structured in a similar way to Business essays.
- * There is a lot of new language to learn.
- * Just because you like maths does not mean you will like Accounting, it is more about numeracy, logic and problem solving. Although lessons can be similar in style to maths lessons, learning a new topic then repeating till you get it right.
- * There is no computer Accounting it is all manual.

What to expect in September

- * There will be an introduction to Accounting and the role of the Accountant in the first few lessons, then we will start with Double entry book keeping, the foundation of the accounting system (lots of numbers) very quickly.

Current students views.....



- * You need to practice the skills you learn but with practice you get it in the end, although the topics get harder, it seems easier the further you go as your knowledge builds.!
- * Its very real, you are completing real accounts right from the start
- * Don't do it if you don't like numbers!!!!
- * Everything is related, so if you get stuck on a topic you have to get unstuck straight away.
- * I now know I want to study it further
- * It's a good feeling when it works but rubbish when it doesn't, you are likely to love it or hate it, but if you love it you will really love it.

Summer Preparation – Bridging Task



Progression - Accounting

Contents:

- i. The basics and the expectations
- ii. The companies you really should know
- iii. The reading list for the summer
- iv. The writing styles
- v. The project and final pieces!

